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Determinants affecting the buying of Life Insurance: A case of Kapilvastu District

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Abstract

This paper aims to investigate the determinants that affect the buying of life insurance in Kapilvastu district of Nepal. Primary data have been collected through structured questionnaire out of 384 life insurance policy holders resident of Kapilvastu district of Nepal. Sample was selected by purposive sampling method. The study concludes that life insurance demand in terms of premium paid is significantly associate with gender, level of education, occupation, economic class, family size and monthly income of respondents whereas life insurance demand is not significantly associated with age, religion and marital status. The study further suggests to the life insurance companies to emphasize selling of life insurance policies to the people having more income, more family members, and educated people.

Keywords: life insurance demand, socio-demographic determinants, Kapilvastu district

1. Introduction

1.1 General Background

Insurance is a not a new concept since its development is deep rooted with the development human being. The first life insurance company was started in 1908 by the Canadian, called the Great Eastern Life Assurance Company Limited (Chua & Lim, 2000). Exceptional clauses such as suicide clause that renders the policy null and void in case the policyholder commits suicide during the period of operation of the contract are enshrined in the agreement. Any falsification by the buyer on the application is also a ground for nullification. The face value of the policy is usually the amount paid when the policy matures, even though contracts may offer bigger or smaller sums. There is no obligation on Life insurance companies in the underwriting process or providing life insurance coverage for anyone. Payment of accumulated cash value of life policies is made as a lump sum or on monthly instalment basis and when the company is able to confirm death of the insured, claims are then paid (Mahdzan & Victorian, 2013).

Risk and uncertainty are inevitable in life. Calamities of one kind or the other have befallen man since creation. Thus, we can say, human life is inherently risky so as the society we live in. But the life can be easily collapsed through unexpected demise, sickness or disabilities caused by accidents. Even if such misfortunes may not occur, death is sure to come though none knows when, where, how and at what timing it would come in human life.

No one is economically active for his/her entire life. So, s/he may want to save some money for the upcoming days. The situation becomes even worst when it is the demise or (physical) damage of the breadwinner of the family. This may not only create emotional pain but also brings economic imbalance to the lives of dependent members. Therefore, life insurance works as a medium to transfer this uncertain situation to certain one and provide financial assistance to the insured if s/he is alive till maturity of policy and financial protection to insured's dependent family if s/he dies or get badly injured before policy expires. Life insurance is a protection against financial loss arising on the happening of an unexpected event to the breadwinner of the family (Sarkodie & Yusif, 2015).

In another way, life insurance as a business is an arrangement that redistributes the cost of unexpected losses, that is, the collection of a small premium payment from all exposed and distribution to those suffering losses. Thus, it is a contractual arrangement of risk transfer whereby one party agrees to compensate another party for contingent losses and misfortunes (Agarwal, 2017). Life insurance is different from general insurance in the sense that the subject matter of insurance is life of human being. This insurance provides protection to the family at the premature death. People; especially the policy-holders or insured are the main party of insurance. So, the insurers should give due importance to the policy- holders while discharging their services (Gurung, 2016). With the growing awareness among the people about insurance, various services provided by the companies and availability of insurance facilities across the globe, the insurance sector is emerging very rapidly and there is a need to identify the main factors that affect the customer's demand for life insurance. Insurance industry plays important role for development of both developed and developing economies (Ofoghi & Farsangi, 2013).The most common motive for the demand for life insurance product is safeguarding the economic interest of the insured when he/she dies. The accumulated cash value is used to cover funeral and other expenses. It is also invested to offer return in replacement of the lost earnings (Hakansson, 1969), therefore the breadwinner in the family purchase the life insurance for the better future of his family members.

Developing countries are not only consumers but also suppliers of insurance services. The life insurance sector is small in many developing countries because life insurance may be considered irrelevant or inappropriate for ideological, cultural, or religious reasons, or because economic security is provided through the family (Outreville, 1996).Therefore the demand of life insurance is determined by ideological, cultural, religious and economic factors in developing countries.

Various endeavors to promote the life insurance industry may be undertaken from either the demand or supply side of the market. From the demand side, increased financial literacy may increase society's awareness regarding the benefits of life insurance. From the supply side, increased understanding of consumers' motivations of purchasing life insurance would improve financial services' marketing efforts of increasing life insurance penetration. Despite numerous researches on the issue of life insurance, there are still gaps in the body of knowledge especially in terms of understanding the association between socio-demographic variables of respondents and life insurance demand. This issue is explored in the context of Kapilvastu district where the underlying association between socio-demographic variables of respondents and life insurance demand is investigated.

The main objective of the study is to find out socio demographic determinants that affect the life insurance demand. Rest of the paper is divided in four sections. Second section related to literature review followed by methodology and results and discussion. Final section concludes with major findings and conclusions.

2. Literature Review

Demand for life insurance has usually been explained through the life cycle model (Yaari, 1965) where households or individuals maximize their expected utility of lifetime consumption. It was posited 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 the assumed subjective discount on current over future consumption. According to the Yaari's lifecycle model, an individual having unpredicted life expectancy buys life insurance to boost his/her anticipated utility. Therefore, the demand for life insurance is attributed to a person's desire to bequeath funds for the dependents and provide income for retirement.

Modern empirical research that have investigated the consumption of life insurance demand is based on theoretical work of (Yaari, 1965), (Modigliani & Ando, 1963), (Friedman, 1957) and many other theoretical framework and have represented the upgraded version for the investigation of factors of life insurance demand. Mahdzan and Victorian (2013) found that demographic factors and saving motives have a significant impact on the life insurance demand whereas financial literacy has insignificant impact in determining life insurance demand. Redzuan (2014)

asserted that the level of income, number of dependents and level of education are significant determinants of life insurance demand. Similarly, Hammond, Houston and Melander (1967) found that income, marital status, family size and education positively influence insurance purchase. Ganfoldi and Miners (1996) found that income, age, education, homeownership and family size have impact on consumption of life insurance.

Celik and Kayali (2009) found that income is positively related with life insurance demand whereas education level and inflation affect life insurance consumption in negative way. Sarkodie and Yusif (2015) concluded that higher education positively influences the odds of taking life insurance. Moreover, the empirical studies revealed that different researchers found different factors that determine the demand for life insurance. Redzuan (2014) found that the level of income, number of dependents and level of education are significant determinants of life insurance demand. Mahdzan and Victorian (2013) found that demographic factors and saving motives have a significant impact on life insurance demand whereas financial literacy has insignificant impact on life insurance demand.

Ganfoldi and Miners (1996) studied the relationship between macroeconomic functions and the general outlook of life insurance in the US in the year 1984.Income was found to be the most important bellwether of life insurance consumption. Age, education, home ownership and family size were also found to have impact on consumption of life insurance.

Yakob and Zaidi (2000) evaluated the life insurance demand for a period of twenty-six years beginning 1971 through to 1997; using the quantity of policies an individual has a dependent variable and a number of macroeconomic indicators as independent variables. The findings showed a direct relation between income and life insurance demand whereas statistically positive relationship existed between inflation and the consumption of life insurance.

Beck and Webb (2003) investigated the causes of disparities in life insurance demand from the period of 1961-2000. The study used the variable of consumption, economic demographic and institutional factors. The findings indicated nations that have larger per capita income, relatively steady financial segment development as well as lesser inflation utilizes more life insurance products. Again life insurance demand was revealed as having direct relationships with individual savings along with interest rate. Demographic variables such as education, life expectancy, young and old dependency ratio had no strong effect on life insurance demand.

Furthermore, Celik and Kayali (2009) investigated the determinants of demand for life insurance on cross section of 31 European countries. The authors found that income is the most important variable which affects consumption of life insurance.

Sarkodie and Yusuf (2015) used logistic regression modelling technique and relied their study purely on cross sectional and primary data collected from 256 inhabitants chosen through simple random sampling from the Ayeduase-Kumasi community at Ghana. The findings of this article indicate that life insurance demand increases if people have better perception about insurance firms. Age had a negative relationship with the odds of taking life insurance while number of dependents had positive relationship with the odd of taking life insurance.

Ondruska, Pastorakova and Brokesova (2016) identified that demographic indicators such as age, education and economic indicators savings and employment status are the most robust predictors of the life insurance consumption in Slovak Republic. Suneja and Sharma (2009) found five factors namely promotional activities, image of company, customer convenience, financial and non-financial facilities and premium and procedural formalities that determine the customer's demand for life insurance policies.

Theil (2011) analysed 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 analysed the consumer's judgment towards new class of insurance products. The study revealed 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.

In this paper the following hypothesis has been set:

H_0: There is no any association between socio-demographic variables of the respondents and life insurance demand.

3. Methodology

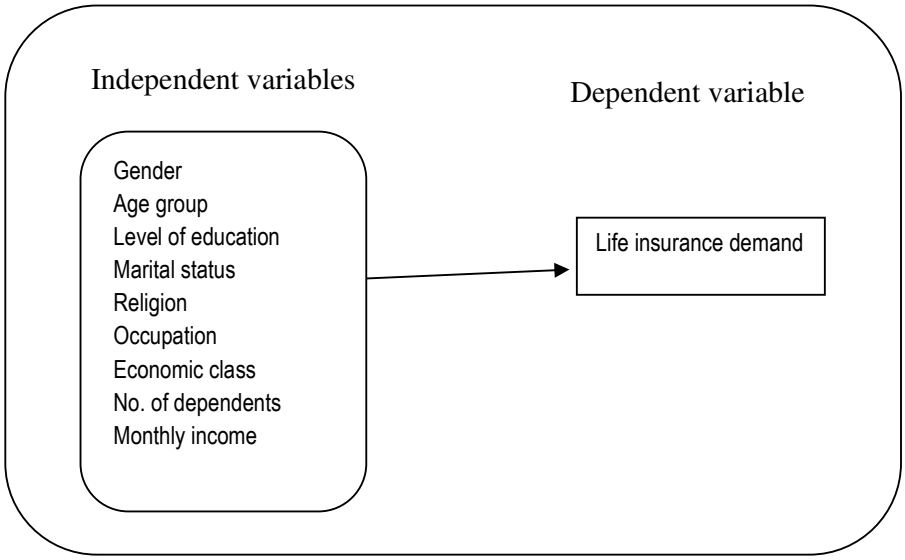
3.1 Population and sample: The population for this study is comprised of life insurance policyholders in Kapilvastu district. Kapilvastu district lies in mid southern part of Nepal and is one of the districts of Province no. 5 of Nepal. The district has six municipalities and four rural municipalities, has population almost 0.6 million population (Central Bureau of Statistics, 2011). The total number of policyholders of Kapilvastu district is difficult to find out so that it is assumed that the population of the study is infinite. According to Krejice and Morgan (1970) 384 samples have been determined and selected using the purposive sampling technique.

3.2 Tools for Data Collection and analysis: Structured questionnaire was used to collect the primary data. The questionnaire consists of two sections: first section investigates demographic information such as gender, age group, education level, main occupation, permanent residency, marital status, economic class and approximate monthly income of the respondents whereas second section includes the questions that explore the different aspects of life insurance. Questionnaire was pre-tested, revised and administered in the field.

The primary data obtained in quantitative form are analysed using the descriptive and inferential statistic.

3.3 Conceptual Framework: The conceptual framework of the study designed as follows. The study tries to explore the association between independent variables like gender, age group, education level, main occupation, permanent residency, marital status, economic class and approximate monthly income of the respondents and dependent variable i.e. annual premium amount paid for the life insurance.

Figure 1: Conceptual Framework



4. Result and Discussion

4.1. Life Insurance Demand and Demographic Characteristics of Respondents

The association between gender, age group, level of education, marital status, religion, occupation, and annual income and life insurance demand in terms of premium has been presented in cross tables. The association

between gender and demand also has been tested using the chi square test and the value has been presented in table 1 to 9. Gender and life insurance demand (annual premium in Rs.) has been exhibited in table 1.

Table1: Gender and life insurance demand

Gender	Premium (Rs.)					Total	
	Below 10,000	10,000-14,999	15,000-19,999	20,000-24,999	25,000 and above		
Male	39	41	29	34	137	280	73%
Female	22	27	14	8	33	104	27%
Total	**61**	**68**	**43**	**42**	**170**	**384**	

p value of chi square test: 0.005

Table 1 shows that majority of the respondents are male paying the annual premium above Rs. 25,000 every year. The table also shows that there is association between gender and life insurance demand because p-value is 0.005 which is less than 0.05.The result can also be interpreted as the demand of life insurance is associated with the gender of respondents because in country like ours the breadwinner of the family is mostly male so their demand for life insurance is higher than female.

Table 2 exhibits association between the premium paid and age group of the respondents.

Table 2: Age and life insurance demand

Age group (years)	Premium (Rs.)					Total
	Below 10,000	10,000-14,999	15,000-19999	20,000-24,999	25,000 and above	
Below 25	14	16	11	6	32	79 (21%)
25-29	17	12	7	17	42	95 (25%)
30-34	17	11	7	6	33	74 (19%)
35-39	7	18	7	5	28	65 (17%)
40 and above	6	11	11	8	35	71 (18%)
Total	**61**	**68**	**43**	**42**	**170**	**384 (100%)**
	(16%)	(18%)	(11%)	(11%)	(44%)	100%

p value of chi square test: 0.138

Table 2 explains that highest number of respondents (25%) belongs to age group 25-29 and highest number of respondents (44%) pay premium Rs. 25,000 and above. The table also shows that there is no association between age group and life insurance demand because p-value is 0.138 which is greater than 0.05 which concludes that age does not matter for the amount of premium to pay for insurance.

The association between insurance premium and level of education has been shown in table 3.

Table 3: Level of education and life insurance demand

Level of education	Premium (Rs.)					Total	
	Below 10,000	10,000-14,999	15,000-19,999	20,000-24,999	25,000 and above		
Primary	38	40	18	12	45	153	-40%
Secondary	15	16	12	19	50	112	-29%
Higher Secondary	5	6	5	3	38	57	-15%
Bachelor	2	5	5	7	30	49	-13%
Masters	1	1	3	1	7	13	-3%
Total	61	68	43	42	170	384	
	-16%	-18%	-11%	-11%	-44%	-100%	

p value of chi square test: 0.001

Table 3 illustrates that highest number (40%) of the respondent's educational level is primary which shows most of the insurance clients have basic education. The association between level of education and premium in range has been found significant since the p-value is less than 0.05. The study concludes that education of respondents and amount of premium has association.

Similarly, the association between marital status and insurance premium has been presented in table 4.

Table 4: Marital status and life insurance demand

Marital status	Premium (Rs.)					Total	
	Below 10,000	10,000-14,999	15,000-19,999	20,000-24,999	25,000 and above		
Married	49	57	28	32	133	288	75%
Unmarried	11	9	11	10	33	74	19%
Widow	1	2	3	0	5	22	6%
Total	**61**	**68**	**43**	**42**	**170**	**384**	**100%**

p value of chi square test: 0.17

Table 4 presents that married respondent's demand for life insurance is higher (75%) than unmarried (19%) and least are widow (6%) respondents. The p-value of chi square test is 0.17 which is greater than 0.05 indicates that the association between marital status and life insurance demand is not significant.

The association between religion and premium amount has been presented in table 5.

Table 5: Religion and life insurance demand

Religion	Premium (Rs.)					Total
	Below 10,000	10,000-14,999	15,000-20,000	20,001-24,999	25,000 and above	
Hindu	59	55	32	39	142	327 (85%)
Muslim	2	13	11	3	28	57 (15%)
Total	**61**	**68**	**43**	**42**	**170**	**384**

p value of chi square test: 0.08

Table 5 exhibits that more than four fifth respondents (85%) follows Hinduism. The p value of the test shows that there is no association between religion and life insurance demand because p-value is 0.080 which is greater than 0.05.

The cross tabulation between occupation and range of insurance premium paid has been presented in Table 6.

Table 6: Occupation and Life insurance demand

Occupation	Premium (Rs.)					Total	
	Below 10,000	10,000-14,999	15,000-19,999	20,000-24,999	25,000 and above		
Agriculture	52	47	21	11	53	184	48%
Business	5	9	10	16	44	84	22%
Govt. Job	1	1	3	4	22	31	8%
Private Job	3	5	4	4	30	46	12%
Developmental Organisation	0	2	1	2	6	11	3%
Other	0	4	4	5	15	28	7%
Total	**61**	**68**	**43**	**42**	**170**	**384**	

p value of chi square test: 0.001

Out of 384 respondents, almost fifty percent (48%) respondents engaged in agriculture, followed by business, private job, government job, other jobs and jobs in developmental organisation. It has been found that there is association between occupation and premium paid for life insurance as the p value is 0.001 which is less than 0.05. The finding concludes that jobholders pay more premium than agriculture-based policyholders.

Economic class of family and life insurance premium has been presented in cross table 7.

Table 7: Economic class and life insurance demand

Economic class	Premium (Rs.)					Total	
	Below 10,000	10,000-14999	15,000-19999	20,000-24999	25,000 and above		
High	0	2	3	1	45	51	13%
Average	15	24	29	32	98	198	52%
Low	46	42	11	9	27	135	35%
Total	**61**	**68**	**43**	**42**	**170**	**384**	100%

p value of chi square test: 0.001

Table 7 shows that majority of the respondents belong to average economic class followed by low and high economic class respectively. The table also shows that there is association between economic class and life insurance demand because p-value is 0.001 which is less than 0.05. The association between the number of dependent family and amount of premium paid has been exhibited in table 8.

Table 8: Number of dependent family members and life insurance demand

Dependent family members	Premium (Rs.)					Total	
	Below 10,000	10,000-14999	15,000-19999	20,000-24999	25,000 and above		
One	8	11	12	4	14	49	13%
Two	7	7	3	7	12	36	9%
Three	18	12	6	8	26	70	18%
Four	18	15	10	12	37	92	24%
Five	6	19	9	6	34	74	19%
Six and above	4	4	3	5	47	63	16%
Total	**61**	**68**	**43**	**42**	**170**	**384**	

p value of chi square test: 0.001

Table 8 exhibits that almost one fourth (24%) of the respondents had four dependents in their family followed by five, three, six or above, zero and two dependents respectively. The p value of chi square testis less than 5% (i.e. 0.001) shows that there is association between number of dependents and life insurance demand because p-value is which is less than 0.05. The association between the monthly income and demand of life insurance (premium) has been illustrated in table 9.

Table 9: Monthly income and life insurance demand

Monthly income (in Rs)	Premium (Rs.)					Total	
	Below 10,000	10,000-14999	15,000-19999	20,000-24999	25,000 and above		
Below 20,000	46	39	9	6	16	116	30%
20,000-29,999	10	22	13	16	58	119	31%
30,000-39,999	1	4	14	10	20	49	13%
40,000-49,999	3	1	5	7	35	51	13%
50,000 and above	1	2	2	3	41	49	13%
Total	**61**	**68**	**43**	**42**	**170**	**384**	

p value of chi square test: 0.001

Table 9 shows that highest number of respondents earned monthly income between Rs. 20,000-29,999. The p value of chi square test is 0.001 which means there is significant association between the income and premium paid. This result implied that those who have higher earnings demanded higher amount of life insurance.

The study concludes that life insurance demand in terms of premium paid is significantly associate with gender, level of education, occupation, economic class, family size and monthly income of respondents whereas life insurance demand is not significantly associated with age, religion and marital status.

5. Conclusions

The study analysed the association between socio-demographic determinants and demand for life insurance in Kapilvastu district. The study includes socio-demographic variables such as gender, age group, level of education, marital status, religion, occupation, economic class, number of dependents (family size) and approximate monthly income and their association with life insurance demand. The findings revealed that gender, level of education, occupation, economic classes, number of dependents and monthly income have association with life insurance demand. Gender has positive relationship with life insurance demand is found by Gandolfi and Miners (1996) similar to the result of the researcher. Similarly, level of education and life insurance demand has relationship(association) was found by (Truett & Truett, 1990).In the same regard life insurance has association with occupation and family size (number of dependents) was found by (Hammond, Houston, & Melander, 1967). Hakansson (1969) found relationship between life insurance demand and monthly income. Economic class and life insurance demand has association is found by (Spencer & Heppen, 1969).

However, age group, marital status and religion have no any association with life insurance demand is found by the researchers. Vince and Shotick (1994) also found no any association between age group and life insurance demand. In the same way Anderson and Nevin (1975) found no relation between life insurance and marital status . Outreville (1996) also found no any association between religion and life insurance demand. However, readers should bear in mind that this research study has some limitations.

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