A Study of Buying Pattern of Life Insurance Products In India-A Paradigm Shift

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Abstract- *The concept of insurance and life insurance is as old as the story of mankind. The insurance industry in India has seen sea changes. During the early phase, Insurance is used as a financial instrument to secure businesses. In the later phase, the focus was enlarged to secure the immediate needs of the dependants of individuals.*

The basic objective of life insurance is to secure the immediate needs of nominees or beneficiaries in the event of sudden or unfortunate demise of the policy holder. Apart from this basic objective, some life insurance product also caters other needs of the insurer. On the basis of needs and objectives of different kinds of investors; life insurance products are categorized into various categories like; term insurance, money-back, whole life insurance, ULIP, Pension plans etc.

The researcher through this study would like know the inclination of insurer towards various categories of insurance products, influencing factors, and buying behavior of the insurer.

Keywords- Mutual fund, term insurance, money-back, whole life insurance, ULIP, Pension plans IRDA,

I. INTRODUCTION

Insurance has a deep-rooted history in India. Various forms of insurance has been mentioned in the ancient writings such as Manusmriti, Dharmashastra and Arthshastra. The basic purpose of insurance mentioned in those writings is pooling of resources that could be re-utilized in times of calamities such as fire, floods, epidemics and famine. The early references to Insurance in these texts have reference to marine trade loans and carriers' contracts.

Insurance in its current form has its history dating back until 1818, when Oriental Life Insurance Company was started to cater to the needs of European community. In 1870, Bombay Mutual Life Assurance Society became the first Indian insurer. Many insurance companies were founded during initial years of 20th century.

In 1956, the Government of India nationalized Life Insurance sector by absorbing 245 Indian and foreign insurers into one company called as Life Insurance Corporation (LIC). The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector.

During Post liberalization era (i.e. 2000-2014) the insurance industry recorded significant growth. The industry has been spurred by product innovations, vibrant distribution channels, coupled with targeted publicity and promotional campaigns by the insurers. In 2014 FDI limit in Insurance sector was increased from 26% to 49% by government of India.

At present there are 53 insurance companies operating in the country including 24 life insurance companies. These companies are offering innovative insurance policies and financial instruments which not only cater the need to secure the immediate requirements of nominees or beneficiaries in the event of sudden or unfortunate demise of the policy holder, but also cater the other needs such as protection of wealth, tax saving, wealth growth, investment for future use etc. On the basis of needs and objectives of different kinds of investors; life insurance products are categorized into various categories like; term insurance, money-back, whole life insurance, ULIP, Pension plans etc.

a) **Term Insurance Policies**: The basic assertion of a term insurance policy is to secure the immediate needs of nominees or beneficiaries in the event of sudden or unfortunate demise of the policy holder by paying nominal premium. Under this policy, the sum assured is paid to the nominee of policy holder in the event of death of the policy holder. In this type of insurance policy holder neither gets any monetary benefit nor premiums paid by him at the end of the policy term.

b) **Money-back Policies:** Money back policies are basically an extension of endowment plans wherein the policy holder receives a fixed amount at specific intervals throughout the duration of the policy. In the event of the unfortunate death of the policy holder, the full sum assured is paid to the beneficiaries. The terms again might slightly vary from one insurance company to another.

c) **Whole life policies:** A whole life insurance plan covers the insured over his life. The primary feature of this product is that the validity of the policy is not defined so the policyholder enjoys the life cover throughout his life.

d) **Unit-linked Investment Policies (ULIP)**: Like money back policies, ULIP is also an insurance-cum-investment policy where policy holder gets the benefits of both insurance and investment. In this plan some part of the monthly premium pay-out goes towards the insurance cover while the remaining money is invested in various types of funds that invest in debt and equity instruments. ULIP plans are more or less similar in comparison to mutual funds except for the difference that ULIPs offer the additional benefit of insurance.

e) Pension Policies: This basically is a retirement planning investment scheme where the sum assured or the monthly pay-out after retirement entirely depends on the capital invested, the investment timeframe, and the age at which one wishes to retire.

Before the opening of the insurance sector to private companies, the state-owned LIC sold insurance as a tax-efficient savings instrument rather than just offering protection. Most customers were underinsured with little flexibility or transparency in their policies. With the entry of the private insurers, consumers are now turning to the private sector for new innovative products. With the increased competition among major players in the life insurance industry, the companies are launching new products that cater various needs of the policy holder.

At the same time, the profile of Indian consumers is also evolving. Unlike old age, consumers are now more actively managing their financial assets, and are always in search of financial instruments that offers them stability of returns along with more comprehensive protection. Insurance has emerged as an attractive and stable investment alternative that offers total protection for life, health as well as wealth.

Apart from protection for life, insurers are looking for other goals such as financial assets management, protection of health and wealth etc. and this provides a motivation to examine the insurance market in INDIA. This study used survey data to identify key determinants related to Indian consumers' ownership of life insurance and other financial instruments.

II. OBJECTIVES OF STUDY

1. To study life insurance product buying pattern.
2. To study policy holders' preference for various life insurance products.
3. To study policy holders' inclination towards term insurance product in recent years.
4. To study the relationship of Age vis-à-vis ownership of Term insurance policy.

III. LITERATURE REVIEW

The study carried out by Bhagabat Barik (2014) discussed various growth drivers of life insurance industry. He concludes that online policy, regulatory trend, Hybrid distribution channel, claim management, customer servicing etc. are major drivers of life insurance industry.

Debabrata Mitra & Amlan Ghosh (2010), in their study 'Determinants of Life Insurance Demand in India in the Post Economic Reform Era (1991-2008)' revealed that the income, financial development, inflation, interest rates, life expectancy and education are important variables associated with the demand for life insurance in India. Both income and financial development are positively related with the demand for life insurance in India, whereas rate of interest is negatively related and significant. A close observation shows that the life expectancy, inflation and education variables are not consistent in spite of significantly related with the demand for life insurance.

Frank D. Lewis (1989) found that breadwinner's demand for life insurance largely depends on the demographic structure of his or her household. He found that in many households, the insured is the husband and the beneficiaries are his wife and offspring. Their demand for insurance of the husband's life is derived from a life cycle model in which income is uncertain.

1. Truett and Truett (1990), studied in their study **'**The Demand for Life Insurance in Mexico and the United States: A Comparative Study' revealed that age, education, and level of income affect the demand for life insurance and that the income elasticity of demand for life insurance is much higher in Mexico than in the United States.
2. In her research article, "Insurance Marketing- A paradigm shift", the author Dr. M. Senthil (2005) elucidate that the inclination of customers of life insurance is shifting towards term plans. The premium of such products is very low as compared to other plans. However unlike other traditional plans they do not provide anything by way of maturity. The study also reveals that the share of the term plans

in the portfolio is quite negligible but the shift towards the term products is visible.

Fwu-Ranq Chang (2004) found that maximization of beneficiaries' utility is not only the criteria for buying life insurance product. He also found that a selfless breadwinner chooses his own consumption, decides on the amount required by beneficiary in the event of death, and allocates resources to his beneficiary while he is alive. He concluded that age of the beneficiary plays an important role in breadwinner's decision making.

IV. RESEARCH METHODOLOGY

In order to study buying pattern of the life insurance product with reference to demographic variables, type of life insurance product, purpose of buying life insurance product; the relevant questions are included in the questionnaire. A well structured questionnaire is then administered on 287 respondents.

The prime objective of the study was to study the buying pattern of life insurance product among different categories of occupation.

Frequency distribution and binomial test has been applied for the data analysis and to draw conclusions.

V. LIMITATIONS OF THE STUDY

The study has been carried out by considering only two needs of customers' viz. 'risk' and 'investment'. However consumer buying is a complex process in which number of factors like social status, economic factors and psychographic factors influence the buying decision of the consumer.

This is a cross sectional study, to study change in inclination towards various life insurance products a longitudinal study need to be carried out.

Data Analysis and Results:

To study the life insurance product buying pattern and inclination of customers towards various life insurance products; the author had identified five categories of life insurance products. The author had also identified five different attributes that customers give due consideration before buying life insurance product(s).

Table 1 Type of Life Insurance product owned

Money Back Policy (Traditi onal)	Term insurance	ULIP	Whole life Policy	Pension Policy
239	142	129	8	6

Source: Primary Data

Table 2 Period of ownership of Term insurance plan

Less than 1 year	1-3 Years	3-5 Years	More than 5 years	Total
50	69	13	10	142

Source: Primary Data

From the Table 1 it can be observed that the total 239 out of 287 respondents are owning a money back/ traditional policy, 142 of those owned Term insurance policy, 129 owned Unit linked insurance policies and only 8 and 6 are owning whole life policy and pension policy respectively. From this data it is revealed that Money back/ traditional policies are still playing dominant role in the life insurance industry. From table 1 it is also revealed that term insurance policy plays second dominant role in the life insurance industry. Though Term insurance is looks far behind than the tradition life insurance policy but the term insurance policy has gained tremendous popularity among the insurers in the recent years.

Table 2 elucidates that out of 142 respondents who owned term insurance policy, 132 (93%) of the respondents purchased term insurance policy during last 5 years and 119(83%) of them have purchased term insurance during last 3 years. This reveals that term insurance policy has outnumbered the other life insurance products as far as the growth in the recent years is concerned.

To get more insights about the ownership of term insurance policy across various age categories of the respondents, the researcher has included relevant question in the questionnaire. The analysis of the data is presented in the following table:

Table 3

Age	Owned Term insurance policy	
	No	Yes
20-30 Years	11	77
30-40 Years	103	20
40-50 Years	22	36
> 50 Years	9	9
Grand Total	**145**	**142**

Source: Primary Data

From table 3 it can be observed that out of 287 respondents 142 (49.47%) respondents owns term insurance policy from this it can be concluded that there is no significant difference between the numbers of respondents how owns the term insurance policy and the number of respondents how does not owns the same. However among 88 respondents belonging to the age group 20-30 years 77(87.5%) respondents owns term insurance policy. To get more insights about the ownership of term insurance policy across various age categories, the researcher applied binomial test separately for each age categories. The result of the same is presented in the following table:

Table 4

Age	Owned Tem insurance	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)
20-30 Years	No	11	0.125	0.50	0.000
	Yes	77	0.875		
	Total	88	1.0		
30-40 Years	No	103	0.837	0.50	0.000
	Yes	20	0.163		
	Total	123	1.0		
40-50 Years	No	22	0.379	0.50	0.087
	Yes	36	0.621		
	Total	58	1.0		
More than 50 Years	No	9	0.5	0.50	1.000
	Yes	9	0.5		
	Total	18	1.0		

Source: Primary Data

From the Table 4 it can be depicted that out of 88 respondents belonging to the age category 20-30 years 11(12.5%) did not owned term insurance policy and 77 (87.5%) owned term insurance policy; which is contradictory to the null hypothesis that. To check the significance of the difference between the number of respondents owning term insurance policy and the number of respondents not owning the policy the researcher used Binomial test.

The p value of binomial test applied for this category of age is less than 0.05. Hence the null hypothesis ***"There is no significant difference in the number of respondents owning term insurance policy and not owning term insurance policy in the age group of 20 -30 years"*** is rejected by Binomial test at 5% level of significance.

The above discussion confirms that the respondents in the age group 20-30 years are more inclined towards the term insurance plan.

Similarly from the table 4 and binomial test applied for age group 30-40 years; it is confirm that the respondents belonging to this age group prefers traditional money back life insurance policies rather than having term insurance policy.

From the above table it can be observed that in the age group of 40-50 years; 36 (62.1%) out of 58 respondents owns term insurance policy and only 22(37.9%). This reveals that more respondents in this age group prefer term insurance policy. However the result of binomial test revels that the difference between the number of respondents owning and the number of respondents not owning the term insurance is not significant, as p value for this age group is more than 0.05 (0.87). Hence the null hypothesis ***"There is no significant difference in the number of respondents owning term insurance policy and not owning term insurance policy in the age group of 40 -50 years"*** is accepted at 5% level of significance.

This confirms that the respondents in the age group 40-50 years give equal preference to the term insurance plan and traditional life insurance products.

Table 4 also reveals that 9 (50%) out of 18 respondents in the age group more that 50 years owns term insurance policy and 9 (50%) did not owns a term insurance policy. Thus the respondents in this age group give equal preference to term insurance and traditional money back life insurance policies.

Table 5 Cross tabulation of owner ship of Term insurance policy and ownership of other investment scheme.

		Owned investment Scheme		
		Yes	**No**	**Total**
Owned Term Insurance policy	**Yes**	142	0	142
	No	97	48	145
	Total	**235**	**48**	**287**

Source: Primary Data

Table 5 reveals that all (100%) respondents who owns term insurance policy are looking for other financial products that caters their investment needs. On the other hand the 97 (67%) respondents, who do not own term insurance policy, prefer to buy financial products for investment purpose.

VI. DISCUSSION AND CONCLUSIONS

Insurance has a deep-rooted history in India. The traces of the insurance can be found in various ancient writings. The current form of insurance is the result of long time evolution process of the insurance industry. At present there are 53 insurance companies including 24 life insurance companies are offering innovative insurance and insurance cum investment products that caters two main needs of namely 'risk' and 'financial investment' of the insurers. The choice of the insurance product is largely depends on various factors such as need, impact of referral groups etc. Therefore, the study was carried out to understand the life insurance buying pattern.

The study concludes that the traditional Money back policy is still enjoying the leading position among various categories of the life insurance products. The term insurance policy stood second as far as the ownership of the type of the policy is concerned. The study also reveals that, the majority of the respondents (93%) who are owning term insurance policy had purchased the same during last 5 years. This confirms that the term insurance policy had gained popularity during last few years.

Scope for Future Research:

The study can be extended to more number of variables such as different income groups, different education qualification, and different personality traits and lifestyles of consumers. The future studies may further investigate reasons for differences between different consumer groups.

Implications of the study:

This study discusses the buying pattern of life insurance product across different categories of age. Hence this study would be helpful to the companies offering various life insurance products in framing their marketing strategies and promotional efforts can be made more focused. This study would be useful to the various financial institutions who offer various investment schemes.

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