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"Consumer Behaviour for Life Insurance Industry: An Indian Perspective"

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ABSTRACT

Consumer behaviour is the study of when, why, how, and where people do or do not buy a products/services. It blends elements from psychology, sociology, social anthropology and economics. The study of consumer behavior provides marketers to understand and predict the future market behavior. Life Insurance is the fastest growing sector in India since 2000 as Government allowed Private players and foreign direct investment (FDI) up to 26%. Life Insurance in India was nationalized by incorporating Life Insurance Corporation of India (LIC) in 1956. Life insurance industry in India being in nascent stage has been found very sensitive to myriads of issue particularly when we talk of buying pattern. Consumer choice of one product over other products has been the issue of concern for many of the researcher and for the organization, who has already putted lot of hard work in developing the product. This paper discuss about the effect of demographical element in consumer buying behavior in Life Insurance Industry in India.

Key Words: Consumer Behavior, Purchase Decision, Insurer, Demographic Factor.

INTRODUCTION

Life Insurance is the key to good financial future planning. On one hand, it safeguards our money and on the other, ensures its growth, thus providing us with complete financial well-being**.** Life Insurance can be termed as an agreement between the policy owner and the insurer, where the insurer for a consideration agrees to pay a sum of money upon the occurrence of the insured individual's or individuals' death or other event, such as terminal illness, critical illness or maturity of the policy.

In law and economics, insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. An insurer is a company, selling the insurance; an insured, or policyholder, is the person or entity buying the insurance policy. The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insured will be financially compensated.

Till date, only 20% of the total insurable population of India is covered under various life insurance scheme *(* Source: Center for Insurance Training, Research and Development)*, the penetration rates of health and other non-life insurances in India is also well below the international level. These facts indicate the of immense growth potential of the insurance

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sector in India. At present there are 24 life insurance companies offering different products to suit the different needs of the customers. In India, Insurance Regulatory and Development Authority is the regulator for insurance industry, which is responsible to provide guidelines for the protection of the interest of the policy holders.

The investment preference of the consumers for life insurance is influenced by various demographic factors such as age, gender, occupation, qualification, income size etc. Demographic factors are those factors which has got the maximum of its effect in the purchase decision of the product and especially for life insurance product. Considering this, it is very important to analyze and understand the association between demographics of individual investors and their investment behavior.

Role and Significance of Insurance Regulatory and Development Authority (IRDA) for Life Insurance Industry in India

Insurance in India started without any regulations in the nineteenth century. It was a typical story of a colonial era: a few British insurance companies dominating the market serving mostly large urban centers. After the independence, the Life Insurance Company was nationalized in 1956, and then the general insurance business was nationalized in 1972. Only in 1999 private insurance companies were allowed back into the business of insurance with a maximum of 26 per cent of foreign holding (World Bank Economic Review 2000). The entry of the State Bank of India with its proposal of bank assurance brings a new dynamics in the game. On July 14, 2000 Insurance Regulatory and Development Authority (IRDA) bill was passed to protect the interest of the policyholders from private and foreign players.

IRDA plays an important role in insurance sector giving important guide lines to various companies in the area of insurance. The major roles of IRDA are as follows:

- To protect the interest of and secure fair treatment to policyholders.
- To bring about speedy and orderly growth of the insurance industry for the benefit of the common man, and to provide long term funds for accelerating growth of the economy.
- To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates.
- To ensure that insurance customers receive precise, clear and correct information about the products and services and make them aware of their responsibilities and duties in this regard.
- To ensure speedy settlement of genuine claims, to prevent insurance frauds and other malpractices and put in place effective grievance redressed machinery.
- To promote fairness, transparency and orderly conduct in financial markets dealing with insurance and build a reliable management information system to enforce high standards of financial soundness amongst market players.
- To take action where such standards are inadequate or ineffectively enforced.
- To bring about optimum amount of (self-regulation) in day to day working of the industry consistent with the requirements of prudential regulation.

THE PURCHASE DECISION OF CONSUMERS

Consumers are faced with purchase decisions nearly every day. Some decisions are more complex and some are fairly easy. In general, consumers face four types of purchase decisions:

- **Minor New Purchase:** These purchases represent something new to a consumer but in the consumers mind is not a very important purchase in terms of need, money or other reason (e.g., status within a group).
- **Minor Re-Purchase:** These are the most routine of all purchases and often the consumer returns to purchase the same product without giving much thought to other product options (i.e., consumer is brand loyalty).

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- **Major New Purchase:** These purchases are the most difficult of all purchases because the product being purchased is important to the consumer but the consumer has little or no previous experience making these decisions. The consumer's lack of confidence in making this type of decision often (but not always) requires the consumer to engage in an extensive decision-making process.

- **Major Re-Purchase:** These purchase decisions are also important to the consumer but the consumer feels confident in making these decisions since they have previous experience purchasing the product.

In this purchase decision process, demographic factor is the factor which has got the maximum of its effect in the purchase decision of the product and especially if that product is life insurance product. It is so because these factors incorporate other factors like Economic, Social, Political and legal. These factors can influence the buying decision of the buyers to maximum extent viz. occupational factor (service/business), age factor, gender, marital status factor and income level etc.

It cannot be denied that buying decision of an individual who is unmarried and is into business, having the income level of the range Rs. 2.4 lakh PA, is into the age group of say 25 years will have the entirely different approach towards purchase of the life insurance policy with the individual who is into service and is married, is into the age group of, say 35, and is earning Rs. 30000/- per month.

Considering the above phenomena, it is very clear that demographical factor has got its influence in purchase decision of the life insurance products.

FACTORS INFLUENCING CONSUMER BEHAVIOUR

Consumer behavior refers to the selection, purchase and consumption of goods and services for the satisfaction of their wants. There are lots of factors influencing consumer by decision-making process, such as social, cultural, personal and psychological. The explanations of these factors are as follows:

Social Factor: Social factor divides the society into a hierarchy of distinct classes. The members of each class have relatively the same status and members of other classes have either more or less status. It includes family, group etc.

Cultural Factor: It has potent influences that are brought up to follow the beliefs, values and customs of their society and to avoid behavior that is judged acceptable. Beliefs, values and customs set subculture apart from other members of the same society. Thus sub-culture is a distinct cultural group that exists as an identifiable segment, within a larger, more complex society.

Personal Factor: It is a very important factor. Personal factors also influence buyer's behavior. They include age, income, occupation, life style. They simply direct our outer personality.

Psychology Factor: The buying behavior of consumer is influenced by a number of psychological factors which includes motivation, perception, learning, beliefs and attitude and personality.

REASON FOR BUYING LIFE INSURANCE PRODUCTS

Insurance is designed to protect a person and the family from disasters and financial burdens. There are some important reasons which plays a very vital role in purchase decisions and buying of life insurance products, are as follows:

- Life insurance provide funds to the family, leaves behind a one's and serves as a cash resource, on premature death.

- It can have a savings or pension component that provides during the retirement.

- Some policies have riders like coverage of critical illness or term insurance for the children or spouse.

- Having a valid insurance policy is considered as financial assets which improves the credit rating when one's need health insurance or a home or business loan.

- Term life insurance has double benefits, it protects and one can get their money back during strategic points in their life.

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- It can contribute towards maintaining a family's life style when one contributing partner suddenly dies.

DEMOGRAPHIC FACTORS FOR LIFE INSURANCE INDUSTRY

Demographics are the statistical characteristics of human populations, such as age, income, sex, occupation, education, family size, etc that are used by businesses to identify markets for their goods and services. The explanations of the demographic factors on the customers for life insurance industry are as follows:

Education: It is expected that education has a positive relationship with the demand for insurance. Educated people understand the necessity of protecting dependents from premature death of wage earners and the various types of life insurance products.

Income: Income is one of the most important factors that can affect the demand for life insurance. All previous studies have revealed that family income is positively related to life insurance ownership.

Size of family: It is usually expected that formation of household increase in life insurance purchases, because intensity for bequests tends to increase as people get married or have children. Size of family is expected to have a positive relationship with purchase for life insurance products.

Employment: Employment is expected to be positively related to the life insurance purchase, because life insurance is usually purchased to prevent from uncertainty about wage earners' pre-retirement.

Other factors: Other demographic factors such as sex, race and religious preference were suggested to be meaningful factors that can affect demand for insurance. In addition, psychographic variables also effects on the demand for insurance.

CONCLUSION

With the opening up of insurance sector, so many players entered in the Indian Insurance Industry. This industry has been progressing at a rapid growth. Insurance sector provides some security to the consumer for any type of miss-happening. This study reveals that the demographical factor has the major effect in the purchase decision of the customer. The leadership lies not in getting the maximum policy sold but in understanding the demography of the customer and targeting them in their way. Finally, the success of insurance marketing depends on understanding the social and cultural needs of the target population. It has been found that insurance market is still open for heavy competition. It is recommended that companies dealing in insurance should give emphasis on demographic elements to grab the opportunities available in this sector and flourish in this competitive market.

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