

## ***Financial literacy – Are individuals aware of their insurance needs?***

By

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### ***Abstract***

*The financial literacy is worldwide acknowledged as important element of economic and financial stability and development. Financially literate individuals contribute effectively to smooth functioning of financial market (Starcek,Trunk,2013). India had experienced sluggish economic growth in 2012-13 due to overall deteriorating macro economic factors. Declining growth rate of economy, higher inflation rate and slower rate of savings has also impacted insurance sector. The total premium of life insurance sector remained flat and growth of non life insurance declined to 19.10 percent in 2012-13 as compared to 24.19 percent in 2011-12. (IRDA annual report, 2012-13). This study focuses on awareness about need for insurance. Primary data was collected to get the sense of awareness about the need for insurance cover. Independent sample 't' - test was used to analyse the data. It was found that the respondents were aware of the need for insurance cover. But at the same time only 64 percent of the respondent had life insurance cover and majority of them had taken policy from LIC. It was also found that there is association between respondent's occupation and purchasing life insurance policy. Only 22 percent and 18 percent of the respondents have medical and other general insurance policies. These results show that respondents are aware of need for insurance cover but they are not adequately covered. Financial literacy can help in overcoming this gap between being aware of need for insurance cover and having insurance cover.*

*Key words – Financial Literacy, Insurance Cover*

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## **1. Introduction**

GDP growth has been impressive from the time economic liberalization has been adopted by India. This GDP growth should translate into economic prosperity for larger society of India. In terms of income distribution India is the second most unequal country in South Asia. In 2010 the Gini coefficient for India, which measures income distribution, was 33.9 indicating that a large fraction of national income is concentrated among the few and income distribution is heavily skewed towards the rich. Sri Lanka with Gini coefficient of 36.4 was the most unequal South Asian country and Pakistan the most equal with a Gini index of 30.0. Bangladesh and Nepal's Gini coefficients were 32.1 and 32.8 respectively. India's government has made "inclusive growth" a key element of their policy platform, stating as a goal: "Achieving a growth process in which people in different walks in life... feel that they too benefit significantly from the process." (Ahluwalia, 2007). K. C. Chkrabarty, Ex-Deputy Governor of RBI explained inclusive growth as - 'The 'inclusive growth' as a strategy of economic development received attention owing to a rising concern that the benefits of economic growth have not been equitably shared.' Growth is inclusive when it creates economic opportunities along with ensuring equal access to them. Apart from addressing the issue of inequality, the inclusive growth may also make the poverty reduction efforts more effective by explicitly creating productive

economic opportunities for the poor and vulnerable sections of the society. The inclusive growth by encompassing the hitherto excluded population can bring in several other benefits as well to the economy. The concept “Inclusion” should be seen as a process of including the excluded as agents whose participation is essential in the very design of the development process, and not simply as welfare targets of development programmes (Planning Commission, 2007).

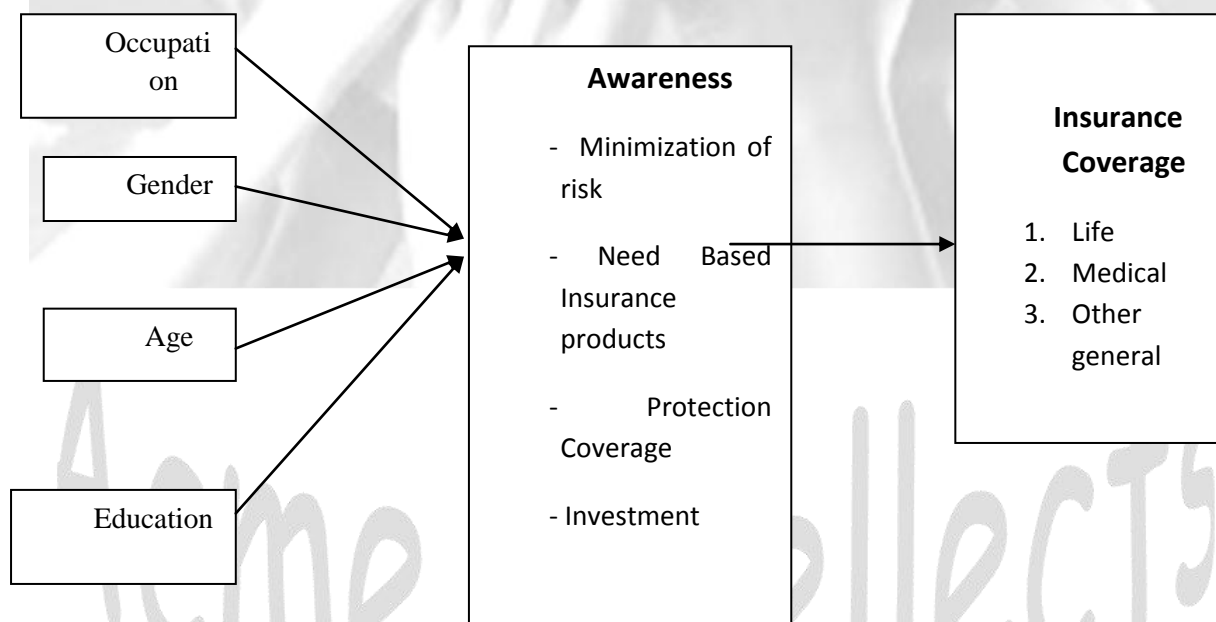
Inclusive growth has the dimensions such as education, health and finance. For a country to achieve inclusive growth, financial inclusion is of paramount importance. Financial inclusion covers banking and financial products. Financial products include debit card, credit card, access to credit and insurance. Insurance as a risk management tool helps individuals and households to sail through the situations which otherwise would have had adverse impact on their economic health.

## 2. Objectives

Development of the insurance sector can be judged based the penetration it has achieved. As per IRDA’s annual report (2012-13), insurance penetration stood at 3.96 percent of gross domestic product in 2012, down from 4.10 percent in 2011, while insurance density stood at \$53.2 for 2012 compared to \$59 in 2011. But at the same India life insurance premium market grew at a compound annual growth (CAGR) rate of 16.5 percent and non-life insurance premium grew at a compound annual growth rate of 14.9 percent. Today demographic changes such as rising disposable income, rising middle class, improving financial literacy etc. indicates that insurance sector poised for higher growth in coming years.

The study aims to analyse and understand the awareness about the need for insurance cover. Which insurance cover is preferred the most and evaluate the association between demographic factors and the insurance cover preferred by the respondents

### Conceptual Framework



Financial literacy means one is able to understand financial information, financial trends, financial products and risks associated with it. Financial literacy helps vulnerable groups in their financial inclusion (Starcek, Trunk; 2013).

National Council of Applied Economic Research (NCAER) conducted survey sponsored by Insurance Regulatory and Development Authority. Financial education is necessary for better financial decisions. Insurance can help to manage the risks the households face. Awareness about various insurance policies can help individual to make wise decisions. The survey covered 29 states and union territories. The study found that large proportion of respondents is not aware of other types of insurance. Uninsured respondents could not estimate the insurance cover which they should have. This fact indicates that they are not interested in insurance. Respondents also have lot of misconceptions about insurance. Agents are the influencing agent both in urban and rural area. The study also revealed that there is no urban and rural differential for most of the indicators on insurance. Majority of the respondents are aware of life insurance but not aware of health insurance. (Pre-launch Survey Report of Insurance Awareness Campaign (2011). Therefore the need was felt understand awareness about need for insurance cover. The study is conducted in Kolhapur district of Maharashtra. It was found that opinion on insurance is closely related to awareness about insurance. Agents are the main source of information and pamphlets, hoardings, friends, radio; bankers are not important source of information. The study states that there is scope to improve awareness about the insurance. To improve awareness the study suggests that advertisements should use simple words, knowledge of agents should be improved so that they can communicate information correctly and appropriately. (Ashok S; Banne and Sarang S Bhola; 2014). Another study conducted in Andhra Pradesh with respect to health insurance also attempted to find awareness about health insurance and the factors affecting awareness. The study states that 66.5 percent respondents were not aware of health insurance. Factors determining awareness were religion, occupation, education and annual income. Higher income and education was positively associated with awareness of health insurance. Jnagati Yellaiah (2012). The study conducted in Pakistan on health insurance found that there is no association between age and education and willingness to buy health insurance but there is medium association between occupation and willing to buy health insurance. Lower level association was found to exist between willingness to buy insurance and monthly household income. (Amir Sarwar, Ahmed Qureshi Hamza; 2013).

From this discussion it was felt to judge the level of awareness in a selected area of Bangalore city. And to enquire whether age, occupation, gender and education has any association with possessing insurance cover. Therefore we frame the following hypothesis to be tested.

- H1: There is no awareness among respondents about need for insurance.
- H2: There is no association between purchase of insurance and occupation
- H3: There is no association between purchase of insurance and gender.
- H4: There is no association between purchase of insurance and age.
- H5: There is no association between purchase of insurance and education.

### 3. Research methodology

The study is descriptive inferential in nature. The study describes the level of awareness of the respondents about the need of insurance and types of policies among the sample respondents. The sampling technique used is convenient random sampling. The samples selected are from Bangalore.

The secondary data was collected to understand various dimensions of the study various news articles from newspapers, research papers from the journals, report by IRDA and NCERT were referred. Structured questionnaire was prepared and was served to the respondents. Two hundred questionnaires were served but could collect 115 appropriately completed questionnaires. The first part questionnaire contained the data demographic details. Second part contained the details on insurance policy and last part of the questionnaire contained the parameters aimed at finding out the understanding need for insurance among the respondents. Likert scale ranking was used to collect the data. Descriptive statistics, t-test for independent sample and chi square test was used to analyse the data. SPSS software was used for the analyzing the data.

### 4. Results and Discussion

The main objective of the papers is to understand the awareness about need for insurance cover. To capture 'awareness about insurance' twelve sentences were framed, for which respondent's opinion was sought. The options provided were five point Likert scale. Independent sample t test was used to test the hypothesis.

Table No: 1  
 Description of Awareness about Insurance

One-Sample Statistics					
Sr.	Parameters	N	Mean	SD	Std. Error Mean
1.	Insurance is necessity of life	115	4.39	1.015	.095
2.	Even with small earnings insurance should be obtained	115	3.83	.993	.093
3.	At least insurance of head of family who is major wage earner should be taken	115	4.00	.879	.082
4.	Insurance minimizes future risk due to loss of earning member	115	3.83	.993	.093
5.	Insurance needs differ from person to person	115	3.77	1.109	.103
6.	Insurance policy comes in numerous types applicable for different purposes	115	3.83	.939	.088
7.	Now a days companies are designing need based insurance combo products	115	3.83	.930	.087
8.	One type of insurance policy may not be suitable for everyone	115	3.63	1.180	.110
9.	The basic insurance plan is known as term plan	115	3.71	.971	.091
10.	Insurance seems to me as purely protection option	115	3.83	1.134	.106
11.	One should obtain different insurance plan required for different purposes. Eg. Term plan, medi-claim, endowment, child plan etc.	115	3.82	1.167	.109
12.	Insurance is a good investment	115	3.90	1.170	.109

Source: Primary Data

The above table shows mean and standard deviation for all the parameters. Mean values range from 4.39 to 3.63. 'Insurance is necessity of life' gets the highest score followed by 'At least insurance of head of family who is major wage earner should be taken'. Since mean value for all the parameters is more than 3.63, which suggests that most of the respondents agree with the parameters. The agreement with the parameters means they are aware of different facets of insurance.

Table :2

Awareness about insurance coverage test of significance

One-Sample Statistics							
Test Value = 3							
Sr.	Parameters	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
						Lower	Upper
1.	Insurance is necessity of life	14.703	114	.000	1.391	1.20	1.58
2.	Even with small earnings insurance should be obtained	8.917	114	.000	.826	.64	1.01
3.	At least insurance of head of family who is major wage earner should be taken	12.206	114	.000	1.000	.84	1.16
4.	Insurance minimizes future risk due to loss of earning member	8.917	114	.000	.826	.64	1.01
5.	Insurance needs differ from person to person	7.486	114	.000	.774	.57	.98
6.	Insurance policy comes in numerous types applicable for different purposes	9.434	114	.000	.826	.65	1.00
7.	Now a days companies are designing need based insurance combo products	9.529	114	.000	.826	.65	1.00
8.	One type of insurance policy may not be suitable for everyone	5.770	114	.000	.635	.42	.85
9.	The basic insurance plan is known as term plan	7.873	114	.000	.713	.53	.89
10.	Insurance seems to me as purely protection option	7.814	114	.000	.826	.62	1.04
11.	One should obtain different insurance plan required for different purposes. Eg. Term plan, medi-claim, endowment, child plan etc.	7.513	114	.000	.817	.60	1.03
12.	Insurance is a good investment	8.292	114	.000	.904	.69	1.12

Source: Primary Data

The above table shows 't' values for all the parameters. At significance level of 5% we reject the null hypothesis(H<sub>0</sub>) - there is no awareness among respondents about need for insurance is and accept alternate hypothesis - there is awareness among respondents about need for insurance is awareness about the need for insurance can be said to be good among the sample group.

Table:3

**Purchase of Insurance policies**

Life Insurance			Medical Insurance			Other Insurance		
Have	Do Not Have	Total	Have	Do Not Have	Total	Have	Do Not Have	Total
<b>74</b> <b>(64%)</b>	<b>41</b> <b>(36%)</b>	<b>115</b> <b>(100%)</b>	<b>25</b> <b>(22%)</b>	<b>90</b> <b>(78%)</b>	<b>115</b> <b>(100%)</b>	<b>21</b> <b>(18%)</b>	<b>94</b> <b>(82%)</b>	<b>115</b> <b>(100%)</b>

Source: Primary Data

The table above (table no.3) the policies purchased by the respondents. Majority of the respondents have purchased life insurance (64%), only 22% of respondents have purchased medical policy and barely 18% of the respondents have purchased other policies.

Table:4

**Chi square Statistics (Life Insurance and Occupation)**

Occupation	Insurance Cover		Total	Chi	P Value
	Yes	No			
Student	14 (54%) (19%)	12 (46%) (30%)	26 (100%) (23%)	15.687 <sup>a</sup>	.003
Agriculture	0 (100%) (11%)	8 (0%) (0%)	8 (100%) (7%)		
Service	36 (80%) (48%)	9 (20%) (23%)	45 (100%) (39%)		
Business	9 (53%) (12%)	8 (47%) (20%)	17 (100%) (15%)		
Other	8 (42%) (11%)	11 (58%) (28%)	19 (100%) (17%)		
Total	75 (62%) (100%)	40 (39%) (100%)	115 (100%) (100%)		

Source: Primary Data

The table (table no 4) shows that 39% of the respondents who are in 'service' sector. Out of these 80% of the respondents are in possession of insurance policy. All respondents (100%) belonging to agriculture category do have insurance policy.

To test the hypothesis association between occupation and possession of insurance coverage (H2), Chi square test for independence is used. At significance level of 5 percent we reject the hypothesis and it can be inferred that 'there is association between occupation and possession of insurance policy

Table:5

Chi square Statistics (Life Insurance and Gender)

Gender	Insurance Cover		Total	Chi	P Value
	Yes	No			
Male	68 (67%) (91%)	34 (33%) (85%)	94 (100%) (89%)	0.835 <sup>a</sup>	.361
Female	7 (54%) (9%)	6 (46%) (15%)	13 (100%) (11%)		
Total	75 (65%) (100%)	40 (35%) (100%)	115 (100%) (100%)		

Source: Primary Data

The above table (table 5) shows 89% of respondents are male and only 11% of the respondents were female. Out of total male respondents 67% of them have insurance cover, whereas out of total of female respondents only 9 percent females have insurance coverage.

Chi square test is used to test hypothesis –there is no association between gender and possession of policy (H3). At significance level of 5%, the hypothesis is accepted. There is no association between gender and possession of life insurance policy.

Table:6

Chi square Statistics (Life Insurance and Age)

Age	Life Insurance		Total	Chi	P Value
	Yes	No			
<30 yrs	47 (59%) (63%)	33 (41%) (83%)	80 (100%) (70%)	5.028 <sup>a</sup>	.081
30 - 50 yrs	13 (77%) (17%)	4 (23) (10%)	17 (100%) (15)		
>50 yrs	15 (83%) (20%)	3 (17%) (7%)	18 (100%) (16%)		
Total	75 (65%) (100%)	40 (35%) (100%)	115 (100%) (100%)		

Source: Primary Data

The table (table no. 6) shows that 70 percent respondents are below the age of 30 years. Among these 59% of the respondents have life insurance policy. 15% respondents are between the age 30 years to 50 years and of these 77 percent of them possess the insurance cover and 16% of the respondents above the age of 50 years and out these 83 percent of them have insurance cover.

Chi square test is used to assess the association between the variables age and possession of life insurance policy (H4). Hypothesis – there is no association between age and possession of life insurance policy is accepted at the significance level of 5%. In other words it means there is no association between age and possession of life insurance policy.

Table:7

Chi square Statistics (Life Insurance and Education)

Education	Life Insurance		Total	Chi	P Value
	Yes	No			
SSLC/PUC	13 (68%)	6 (32%)	19 (100%)	10.948 <sup>a</sup>	.012
	(17%)	(15%)	(17%)		
Commerce/Mgt	35 (73%)	13 (27%)	48 (100%)		
	(47%)	(33%)	(42%)		
Engineering	13 (42%)	18 (58%)	31 (100%)		
	(17%)	(45%)	(27%)		
Other	14 (82%)	3 (18%)	17 (100%)		
	(19%)	(8%)	(15%)		
Total	75 (65%) (100%)	40 (35%) (100%)	115 (100%) (100%)		

Source: Primary Data

The above table (table no.7) shows that 42 percent respondents are from commerce/management educational background. Out of these 73percent of the respondents have insurance cover. 17 percent respondents have studied only up to PUC but 68 percent out of these posses insurance cover.27 percent of the respondents are from engineering background and only 42 percent of them have insurance cover. Other make up 15 percent of the respondents but 82 percent of them have insurance cover.

## 5. Conclusion

The study shows that the respondents are aware of the need for insurance cover. it also gets reflected in 65 percent of the respondents having life insurance cover. Only 22 percent of the respondents have medical cover. The respondents who have medical cover also have life insurance cover. Very small proportion, 21 percent, of the respondents are aware and have other general insurance cover. Occupation and education have association with respondents having insurance cover. The study shows that age and gender has no association with possession of insurance cover. Further the research can be undertaken to understand the reasons for not opting general insurance policies. The study can also be taken up to understand the impact of media on consumer behaviour with specific reference to insurance.



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