

**Factors affecting the demand for
 Insurance in Davangere city: An empirical analysis
 (with special reference to users and non-users of insurance)**

Shruthi.P^[a] , Dr. J.K. Raju^[b] & Asifulla^[c]

Abstract

This paper attempts to find out the factors affecting the demand for insurance customers in Davangere city. The paper identifies the motivating factors for the existing users of insurance policies and the demotivating factors for non-users of insurance. The study is based on primary data collected from 50 users of insurance, 50 non users of insurance in Davangere city. The collected data was analysed using simple statistical techniques such as percentages, mean, Chi-Square tests with the help of Statistical Package for Social Sciences (SPSS). The results of the study shows that the main motivating factor for purchasing insurance is legal factor and the Davangere insurance market is presently being driven by compulsory lines of insurance business such as motor insurance and health insurance for migrants. Attitude of non-users like (non return of premium paid when things goes well, higher premium rate, selfishness) are the main demotivators for purchasing the insurance policies. The providers of insurance in Davangere shall focus on educating the people that the insurance has more benefits and greater returns on their investment.

Key words: Insurance, motivating factors, demotivating factors, affecting factors, Demand, users, Non users.

<p>^[a] Shruthi.P Lecturer Institute OF Management Studies Davangere University Davangere. E-mail Id: shruakki@gmail.com</p>	<p>^[b] Dr. J.K. Raju Associate Professor Institute Of Management Studies Shivagangothri, Davangere University Davangere. E-Mail id: drjavaliraju@hotmail.com Mobile no: +91944823388</p>	<p>^[c] Asifulla A Lecturer Institute OF Management Studies Davangere University Davangere. E-mail Id: asifattar4@gmail.com asifattarmba05@gmail.com Mobile No: 09164346305</p>
--	---	---

1. Introduction

Insurance services play a pivotal role in generating revenue for the development of any economy. The insurance industry mobilizes large funds through the sale of insurance services to a large number of widespread individuals and organizations in the global market. According to Dorfman, insurance can be defined in financial perspective and legal perspective. In financial perspective, insurance is a financial arrangement that redistributes the costs of unexpected losses. In legal perspective, insurance is a contractual arrangement whereby one party agrees to compensate another party for losses. In India, business of insurance is divided into four classes: life insurance, fire insurance, marine insurance and miscellaneous insurance. Life insurance business is nationalized in 1956 by taking over 245 private insurers. The Life Insurance Corporation of India (LIC) is the only public sector life insurer operating the life insurance business. The General Insurance Corporation (GIC) is established in 1972 by taking over the business of 107 insurers. GIC has four subsidiaries namely, National Insurance, Oriental Insurance, New India Insurance and United India Insurance.

Due to LPG (Liberalization, Privatization, Globalization), the importance and potentiality of insurance business have increased and led many private insurance companies (HDFC, ICICI, Metlife, Reliance, Bajaj, etc) are doing best in Indian insurance sector. Although the Indian health insurance market still lags behind other countries in terms of penetration yet the health insurance segment is rising. It continues to be one of the most rapidly growing sectors in the Indian insurance industry with gross written premiums for health insurance increased by 16 per cent from Rs 13,212 crore in 2011-12 to Rs 15,341 crore in 2012-13. The health insurance premium has registered a compounded annual growth rate (CAGR) of 32 per cent for the past eight financial years.

2. History Of Insurance In India

Insurance in India is usually understood as a measure to save the tax for an individual. It is never considered as a medium for investments for a long time. In Indian mentality savings can be done only in banks in terms of fixed deposits and other investment facilities available to them. Some people also like to invest in gold. After the independence, the Life Insurance Corporation was nationalized in 1956, and then the general insurance business was nationalized in 1972. Life Insurance Corporation of India has monopoly over Indian Life Insurance sector. But after the entry of private insurance players having alliance with foreign insurance experts, Indian insurance market has turned into highly competitive market. The Insurance Regulatory and Development Authority Act 1999 (IRDA Act) was passed by parliament of India and in 2000 President of India gave his consent to the act. IRDA consists of a one chairman, five full-time members and four part-time members.

3. Review of Literature

The role of insurance market development in economic growth is well established (Outreville, 1990; Ward and Zurbruegg, 2002). These studies suggest that insurance industry through risk transfer, financial intermediation, and employment, generates economic growth. Other studies further shows link between financial growth and economic growth (Levine and Zervos 1998, Levine 1999, Levine et. al. 2000, King and Levine 1993a, b, and Bech et al., 2000). The findings of these studies show that well functioning financial institutions improve the efficiency of capital allocation, encourage savings, and develop capital formation, ultimately leading to a more productive, growing economy. Early studies highlighted that the demand for life insurance, as a long term consumption decision, is positively related to anticipated income, permanent rather than current income (Yaari, 1965; Hakansson, 1969; Fortune, 1973; Fisher, 1973; Lewis, 1989). Support between income and life insurance consumption has been confirmed (Beenstock et al., 1986; Truett and Truett, 1990; Browne and Kim, 1993; Outreville, 1996). The literature of attitude and perception of life insurance policyholders have largely focused on factors predicting these attitudes (Skinner and Dubinsky, 1984; Kruse and Ozdemir, 2004). Factors such as consumers' perceived value (Smith, 2006) satisfaction (Kuhlemeyer and Allen, 1999) and purchase decision-making responsibility (Barron and Staten, 1995) have been considered as most important. A study conducted by Patil (2003) revealed that the insurance coverage of agricultural groups and agricultural labor is very low. The performance of children-related policies such as Jeevan Kishore, Jeevan Balya, etc., is very poor except the children money back policy, which has also not been contributing significantly. The demonstration of product features by the agents is not satisfactory. Raman and Gayatri (2004) have observed the customers' awareness towards new insurance companies. They found that 53% of the respondents belong to the age group below 30, 24% to the age group 31-40, 2% belong to the age group of 41-50 and the rest of the respondents belong to the group of 'above 50'. In India first Life insurance started so the life insurance premium is more than Non-Life insurance. The Life insurance premium is improved from 2002 to 2012 near to 6 times. It's good revelation in this deceit. Private Non-Life insurance is started after IRDA is incorporated in 2000.

Now in India 24 general insurance companies are in the Indian market. In 2002 to 2012 it's improved 5times.

4. Objective of the study:

- 1) To identify and analyse the motivator factors and demotivation factors of users and non-users of insurance in Davangere city.
- 2) To analyse the purchasing intention of insurance among users and non-users of insurance products.

5. Conceptual Framework of the Study and Hypothesis

The conceptual framework of the study hypothesized that insurance market in davangere is mainly dominated by compulsory lines of business i.e., motor and health. In this study the researcher analyzed the level of importance given by the people of davangere which generally the people consider while purchasing insurance policy. The hypotheses states that insurance market is dominated by compulsory lines of insurance and the main reason for the existing users of insurance to purchase insurance is legal compulsion.

Thus from the given back ground the researcher propose the following hypothesis to be tested in this study.

Hypothesis

From the review of literature the researchers developed the following three hypotheses.

H1: The Davangere insurance market is dominated by the compulsory insurance (Motor and Health insurance)

H2: Legal compulsion is the main reason for purchasing insurance.

H3: There is lack of awareness about insurance products and its benefits to people.

6. Methodology And Data Collection

6.1 Data collection

This study targets the insurance market of Davangere city. The study was conducted on the users of insurance, and non-users of insurance. The study was proposed on sample of 50 users of insurance, 50 non users of insurance. The collected information through questionnaires was analysed through SPSS software.

6.2 Survey Instrument

Questionnaire was used for the purpose of data collection from the each group of respondents i.e., users of insurance and non-users of insurance. The user questionnaire enquired about the reasons for purchasing insurance and what are the issues pertaining to insurance in Davangere city from customer's point of view. The same enquiry was done from the non-users were asked to tell the reason why they didn't purchase insurance. This was to find out what insurance the people of Davangere generally purchase.

7. Results and discussion:

Table No. 01

Reasons for purchasing insurance customers (users)

Reasons	No.	Percentage
Legal compulsion	34	68
Personal security	10	20
Security of family	05	10
Good return on investment	01	02
Total	50	100

Source: Primary data (survey)

Interpretation:

The above table depicts that 68% of customers of insurance have accepted legal compulsion as a major influencing factor to become an insurance user. 20% of respondents accepted insurance as personal security product and 10% of the respondents purchase insurance for the purpose of family security. Only 02% of respondents feel it provides good return on investment.

Table: 02

Reasons for not purchasing insurance- (Non-Users)

Reasons	No.	Percentage
No reasons in fact I may buy it later	08	16
I am aware but I don't need	06	12
I am less aware about insurance products.	10	20
I don't have any such Asset where insurance is compulsory	08	16
I don't have interest in buying insurance.	08	16
Not fully aware of insurance plans	08	16
I have better means of investment that gives higher returns.	02	04
Total	50	100

Source: Primary data (survey)

Interpretation:

The above table depicts that, factors affecting customers to remain non users of insurance. Nearly 36% of respondents are less aware and not aware about insurance products. 16% of the respondents are not interested for insurance products because the premium paid will not be returned back when everything goes well and also they opine premium rates are high. 04% of the respondents feel it will not give higher return, and it's not communicated properly to the customers at large.

Acme Intellects

Table: 03 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
people want lower premium	50	1.00	5.00	2.4000	1.32480
people don't know more about insurance products	50	1.00	5.00	2.3000	1.23305
people want more features in insurance products	50	1.00	5.00	2.3600	1.41075
people do not know about benefits of insurance	50	1.00	5.00	2.4600	1.35842
buying insurance is of waste of money	50	1.00	5.00	3.4400	1.03332
Valid N (listwise)	50				

Source: Primary data

Interpretation: The above descriptive table depicts that, people want more feature in insurance products since Sd is 1.410. st.d 1.35 indicates people do not know about benefits of insurance product and followed by 1.32 indicates people want lower premium, this has led people to remain to be non-users of insurance products in davangere.

7.1 Hypothesis Analysis:

Hypothesis 1: *The Davangere insurance market is dominated by the compulsory insurance i.e., motor and health insurance.*'''

The results of the study show that the Davangere insurance market is mainly driven by the compulsory lines of business i.e., Motor insurance and health insurance. The hypothesis stating 61% of respondents have agreed that, insurance market of Davangere is dominated by compulsory lines of business thus hypothesis is acceptable.

Hypothesis 2: *Legal compulsion is the main motivator for purchasing insurance in Davangere:*

This fact is tested from table 01 and table 02. Table 01 presents the reason why the current users of insurance purchased insurance while in table 02 the same fact is analysed from non-users side. From 50 users of insurance 68% said that they purchased insurance because it is legally compulsory. On two point scales 1 equal to yes and 2 equal to no, Legal compulsion was the main reason for purchasing insurance with 68%. Thus the hypothesis can safely be accepted.

Hypothesis 3: *There is lack of awareness about insurance products and its benefits to people.*

Acme Intellects

Table: 04 One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
There is lack of awareness about insurance products and its benefits to people	50	2.3000	1.23305	.17438

Table: 05 One-Sample Test

	Test Value = 5					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
There is lack of awareness about insurance products and its benefits to people products	-15.483	49	.000	-2.70000	-3.0504	-2.3496

Source: Primary data

Interpretation: Calculated value is less than the table value hence hypothesis H3 is accepted and it indicates that people do not know more about insurance products and its benefits.

8. Finding of the study:

- 1) Majority of the respondents feel that non-return of premium paid when things go well and they don't feel to buy insurance policy.
- 2) Due to the higher premium rates respondents are not willing to buy insurance policies because of family budgeting constraints.
- 3) Selfishness has been found among respondents with regard to buying of insurance policies for family members.
- 4) Majority of the respondents says Agents do not explain the detailed information about the insurance policies. Agents highlight only few benefits which are attracted to the customers.
- 5) Few of the respondents opine that Promises are more in insurance policies but in reality the things are different.
- 6) In the study it has been found that people buy insurance due to legal compulsion but, not for the actual benefits.

9. Recommendations:

- 1) Creating Awareness about insurance products and their benefits are most required activity for insurance companies to sustain for long time in market.
- 2) Companies have to educate people about the features of insurance and convince them with all details of the policy to build confidence among customers.
- 3) Since non users are not interested in investing money in insurance because non users feel it not so important for them, so managers need to consider this as a serious issue and have to solve it by convincing to large public of Davangere city.
- 4) Customers are expecting lower premiums to pay from their earnings, so managers has to introduce innovative and flexible insurance policies by keeping various income level groups of the society.
- 5) Company should develop creative advertisement using fear appeal to create a reasonable fear about the effect of non-insured family of various consequences to attract those who are not interested to buy an insurance policy.

10. Conclusion:

Insurance will soon become a basic need for customers if companies make an effort of communicating people in creating awareness about insurance products and their benefits to the society. In order to create a customer value companies have to provide more benefits to public by providing less premium insurance products and more returns for them.

11. References:

- 1) Kanuk, L.L. and Schiffman, L.G. (2000). *Consumer Behavior*. 9th edition. Prentice Hall, New Jersey, pp. 258.
- 2) Kuhlemeyer, G.A. and Allen, G.H. (1999). *Consumer Satisfaction with Life Insurance: A Benchmarking Survey*, *Financial Counseling and Planning*, 10(2), pp. 35-44.
- 3) Lewis, F. D., 1989, *Dependants and the Demand for Life Insurance*, *American Economic Review*, 79: 452-467.
- 4) Outreville, J. F., 1990b, *The Economic Significance of Insurance Markets in Developing Countries*, *Journal of Risk and Insurance*, 18(3): 487-498.
- 5) Outreville, J. F., 1996, *Life Insurance Markets in Developing Countries*, *Journal of Risk and Insurance*, 63(2): 263-278.
- 6) Yaari, M., 1965, *Uncertain Lifetime, Life Insurance and the Theory of the Consumer*, *Review of Economic Studies*, 32: 137-150.
- 7) Beenstock, M., G. Dickinson, and S. Khajuria, 1986, *The Determination of Life Premiums: An International Cross Section Analysis 1970-81*, *Insurance: Mathematics and Economics*, 5: 261-270.
- 8) Beenstock, M., G. Dickinson, and S. Khajuria, 1988, *The Relationship Between Property- Liability Insurance Premiums and Income: An International Analysis*, *Journal of Risk and Insurance*, 55(2): 259-272.
- 9) Fischer, S., 1973, *A Life Cycle Model of Life Insurance Purchases*, *International Economic Review*, 14(1): 132-152.
- 10) Fortune, P., 1973, *A Theory of Optimal Life Insurance: Development and Tests*, *Journal of Finance*, 28: 587-600.
- 11) Truett, D. B., and L. J. Truett, 1990, *The Demand for Life Insurance in Mexico and the United States: A Comparative Study*, *Journal of Risk and Insurance*, 57(2): 321-328.