

Motives of Demand for Life Insurance: the case of North-Central Province in Sri Lanka

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Introduction

Life insurance is a tool that helps people in meeting their critical needs and leading a comfortable life even when their benefactors are not around. This is because the insurer will pay the beneficiary of policyholder a predetermined sum of money after his/her death, or in the event he/she is bedridden with a critical illness. Life insurance is therefore, more than anything, a form of protection from the uncertainties of life.

With this understanding, during the last few years the life insurance industry has taken several initiatives to develop business by expanding and improving quality of their distribution network. During 2015, the life insurance industry recorded a commendable growth of 20.14% compared to the 7.01% growth recorded in 2014 (IBSL, 2015). This is the highest year-on-year growth recorded by life insurers during the last five years. However, compared to other emerging economies, life insurance penetration levels in Sri Lanka continue to be low with a GDP ratio being 1.09%, and life penetration level as a percentage of GDP has increased only marginally from 0.43 to 0.48 (IBSL, 2015).

As Sri Lanka moves forward to being a middle-income country, with a corresponding increase in GDP, it is imperative that the insurance sector, being one of the pillars of the financial sector of this country, rises to meet the challenges of the future (IBSL, 2015). This underlines the importance of understanding the determinants of the demand for life insurance in Sri Lanka.

As per the literature, motives of life insurance purchasing decisions are among the most discussed research topics of this decade. In the past two decades, many emerging economies have witnessed strong growth in their life insurance industries (Tienyu, and Simon, 2003). Most of these studies have focused on cross-country studies or well-established markets in developed countries. Yet, there has been only limited investigation of the demand for life insurance in less developed countries or emerging economies (Dale and Lila, 1990; Wang, 2010). Academic literature is very scanty with respect to insurance purchase or selection in emerging economies such as Sri Lanka.

The primary purpose of this article is to investigate the motives determining the nature of life assurance demanded on an aggregate basis in NCP of Sri Lanka.

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Aligning with most empirical research on the demand for life insurance, this study also has concentrated on certain population subgroups (i.e. urban individuals in NCP) and utilised cross sectional data.

Methodology

The Theoretical Framework

“Individuals who have purchased a life insurance policy for themselves” is used as the basis to identify the group of respondents. The resulting groups are further characterised based on their demographic variables. Five motives extracted from literature, which are explained below, were used as independent variables.

Demand for insurance = f (PFL, LIH, PDE, AFS, and BPM)(01)

Where:

- PFL = Protecting family and loved ones
- LIH = Leaving an inheritance
- PDE = Paying off debts and other expenses
- AFS = Adding more financial security
- BPM = Bringing peace of mind

Data Collection and Analysis

Primary data were collected from 300 policyholders, drawn purposively from the urban areas in NCP from February to June 2016, using face-to-face interviews directed by a structured and pre-tested questionnaire. The questionnaire contained two sections: sections A and B. Section A contained 15 questions pertaining to the demographic profile of respondents and insurance policy details. Section B aimed to assess the consumers’ principal motives for purchasing life insurance using a 5-point Likert scale ranging from “*strongly disagree*” (1) to “*strongly agree*” (5).

Thirty questions were designed to measure the five motives and they were further broken into subscales that contain an equal number of items (n=6) respectively. Factor analysis, using varimax rotation (Gupta, and Aggarwal, 2013) proposed a four-factor solution for this study. Twelve incomplete questionnaires were excluded and analysis was carried out for the rest using SPSS (Version 20). Cronbach alpha was estimated for each scale to assess internal consistency. The Cronbach’s Alphas of the dimensions were all above 0.6, which indicated high reliability. An analysis of variance (ANOVA) was conducted to compare the means of the samples. Mean scores of five motives were compared using F-test statistics followed by Tukey’s HSD test.

Results and Discussion

Out of 288 respondents, 64% were males and 36% were females. 28% of the respondents were less than or equal to 25 years of age, 48% were between 26 and

39 years, while only 24% were more than or equal to 40 years of age. A majority of the sample (77%) had been educated up to secondary level and 44% indicated that their monthly income is between Rs. 26,000 and Rs. 50,000 (Table 1).

Table 1: Demographic statistics of the sample

Parameter		Frequency	%	Parameter		Frequency	%
Gender	Male	184	63.9	Education	GCE (OL)	38	13.2
	Female	104	36.1		GCE (AL)	220	76.4
Age	≤ 25	80	27.8		Professional	18	6.3
	26-39	130	47.9		Degree	12	4.2
	≥ 40	70	24.3	Income (‘000)	≤ 25	24	8.3
Status	Married	60	20.8		26 - 50	127	44.1
	UM	228	79.2		51 - 100	123	42.7
					≥ 101	14	4.9

The attractiveness of life insurance for respondents was measured in relation to five aspects. Respondents revealed that they would be more attracted to purchase life assurance if it *protects their family and loved ones* ($\bar{x} = 4.19$, $SD = .613$). This is followed by *adding financial security* ($\bar{x} = 4.01$, $SD = .625$), *bringing peace of mind* ($\bar{x} = 3.93$, $SD = .510$), *paying off debts and other expenses* ($\bar{x} = 3.87$, $SD = .520$), and *leaving an inheritance* ($\bar{x} = 3.70$, $SD = .700$).

In order to identify respondent similarities/differences on the basis of demographics and motives for purchasing life assurance, a cross-tabulation was performed (Table 3).

Table 2: Motives for Purchasing Life Insurance

Parameter		Frequency	%	Mean	SD
PEL	Protecting family and loved ones	117	40.6	4.188	.6131
LIH	Leaving an inheritance	48	16.7	3.698	.7002
PDE	Paying off debts and other expenses	19	6.6	3.865	.5204
ASF	Adding more financial security	79	27.4	4.014	.6245
BPM	Bringing peace of mind	25	8.7	3.931	.5099
Overall Mean		2.469			
Overall SD		1.462			

Results reveal that most unmarried male buyers, who belongs to 26-39 years age category, studied up to secondary education, and earning Rs. 51,000 – 100,000 monthly, are concerned about their family, and the protection of loved ones. In contrast, married female buyers who belong to the same age category, studied up to GCE (OL), and earned ≤ Rs. 25,000 monthly, were more concerned about their life insurance adding more financial security to their lives. This shows the different motives of urban individuals for buying life insurance in NCP.

Table 3: Cross Tabulation: Demographics vs. Motives (Percentage)

Parameter		Purchasing Motive					Total
		PEL	LIH	PDE	ASF	BPM	
Gender	Male	57.6	15.2	4.9	15.8	6.5	100.0
	Female	10.6	19.2	9.6	48.1	12.5	100.0
Age	≤ 25	31.3	21.3	6.3	28.8	12.5	100.0
	26-39	49.3	9.4	5.8	35.5	-	100.0
	≥ 40	34.3	25.7	8.6	10.0	21.4	100.0
Education	GCE (OL)	21.1	21.1	5.3	52.6	-	100.0
	GCE (AL)	45.5	17.3	6.8	25.5	5.0	100.0
	Professional	27.8	-	-	16.7	55.6	100.0
	Degree	33.3	16.7	16.7	-	33.3	100.0
Marital Status	Married	36.7	13.3	5.0	33.3	11.7	100.0
	Unmarried	41.7	17.5	7.0	25.9	7.9	100.0
Monthly Income	≤ 25	20.8	-	8.3	70.8	-	100.0
	26 – 50	31.5	22.8	8.7	29.1	7.9	100.0
	51 – 100	55.6	13.7	4.3	21.4	5.1	100.0
	≥ 101	35.0	15.0	5.0	-	45.0	100.0

An analysis of variance (ANOVA) was also conducted to compare the means of the samples. A normality test for these figures also conducted before using ANOVA. Significant variation found between the gender and the motives for purchasing life insurance ($F = 69.429$, $p < .001$).

Conclusion

The principal findings are that gender, age, education, marital status, and level of income affect demand for life insurance in NCP. Results further reveal that the main motive which influences urban people to purchase life insurance products is directly associated with their concerns about protecting their families and loved ones. However, females are found to be more concerned about adding extra financial security than the protection of their families through life insurance.

Keywords: *Life assurance, North-Central Province, purchasing motives*

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