Social Security Through Life Insurance in Society: A Study on Perceived Risk Mitigation While Buying Insurance Policy

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ABSTRACT

Uncertainties and Risks are the part of Human life and are now aggravated due to the increasing exposure of human being to the world of different uncertain and riskier situations. For a peace of mind and to cover the unforeseen eventualities, Life Insurance plays major role. The Life Insurance buyer purchases the insurance product keeping in mind that it will help in reducing the burden or liability in the case of loss of life and will help the family and survivors and will also cover the risk. While taking decision to buy an insurance policy a lot of questions hover around the mind of the buyer that whether the company from whom the policy to be purchased is trustworthy or the person who is selling the policy is not misleading or concealing the facts about the product and/or company. Whether the reduction of insurance buyers perceived risk and decision to buy the product depends upon the brand of the insurance and the reliability of the agent/company has been examined in this paper. This paper aims to know the categories of Perceived Risks associated with buying of life insurance product and to find out the factors associated with the mitigation of perceived risks and the methods by which the customer might reduce the perceive risk. This paper also examines whether there exist any relationship between the demography of the buyer and decision making to purchase the life insurance product. and also assess the relationship between the demographic characteristics of the buyer of life insurance and the buyer's perceived risk. Suitable statistical methods and tools are used for analyzing the data and for drawing the inferences for better result of the study.

Keywords: *Perceived risk; Uncertainty; Decision; Mitigation; Life insurance.*

1.0 Introduction

The consumer always passes through a decision making process, whenever the situation where there is a payment involved and it becomes more decisive in case of risk coverage or securing the future through insurance. It is obvious that the consumer should assess the situation in front of him/her and take a better decision. Uncertainties and Risks are the part of Human life and are now aggravated due to the increasing exposure of human being to the world of different uncertain and riskier situations. For a peace of mind and to cover the unforeseen eventualities, Life Insurance plays major role. The Life Insurance buyer purchases the insurance product keeping in mind that it will help in reducing the burden or liability in the case of loss of life and will help the family and survivors and will also cover the risk. While taking decision to buy a Life Insurance policy a lot of questions hover around the mind of the buyer, such as: Is the Insurance Company is trustworthy? Will there be hassle-free claim settlement procedure in case of any eventuality? Will the survival benefit or the death benefit will be adequate for the survivors? Is the premium to be paid have any hidden charges included and will the desired sum assured as promised by the Insurance will be disbursed back correctly at the time of maturity to the claimant etc. Consumer awareness on Insurance is not adequate in India and most of the consumers are unaware about the terms and conditions of the Insurance. The consumer also have a fear in mind that the policy document are so lengthy to understand and if, not understood properly at the time of buying the insurance, there will be problem at the later stage. In the study by Kaplan et.al (1974) it was highlighted that there was perceived risk involved in Insurance purchase.

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The information available to consumer was also have association with pre-purchase uncertainty and post-purchase consequences as highlighted in the research by Cox (1967) and in the case of Life Insurance purchase the information regarding the insurance plays a major role as in the pre-purchase scenario the consumer is in the stage of information search and evaluation of information for the best insurance company and policy which to be purchased. In the post-purchase scenario the consumer wants that whatever product he/she has purchased is correct and no mistake has been committed. The perceived risk is there in the both the case and this concept of perceived risk in both pre-purchase uncertainty and post-purchase consequences scenario were highlighted in the research of Bauer.R.A(1969).

According to banking summit report from Indian Chamber of Commerce and PwC India in recent times the customers expect more, trust their peers, are informed, have choices and have a voice (ICI 4th banking Summit, 2012). The customers are expecting a better experience i.e. while purchasing an Insurance product through the Agent (physical) and through the company's website (virtual: Online Insurance). To ascertain the decision of the insurance purchase and to reduce the perceived risk, the customers are listening to their peers for advice as well the experts of Insurance; they are influenced by the peer opinion leaders. The customers are doing online research about the pros and cons of the services and the review published in social media regularly. The comparison available between the Insurance policies/plans offered by various companies and availability of alternatives of services are helping and making the way for more choices for the customer. Customers are raising their voices over internet through social media for any irregularity. The technology enabled services should be directed with more customer centric approach, so that the customer retention will be made easy and the perceived risk of the customer can be reduced. However, many people still locate information on the internet and purchase products offline through traditional agents, conversion rate being very low but there is gradual change. Also there are cases that consumers that initiate an online buying of insurance but sometime unable to clear the doubt about the product and fail to complete the transaction. This paper attempts to provide empirical evidence in understanding consumer perceived risk associated with purchase of Life Insurance product.

2.0 Perceived Risk in Life Insurance Purchase

Life Insurance is being the buzz word now days for securing the future of the family from any eventuality. In one side Life Insurance reduces the tension in the mind of the individual by providing protection guarantee to the Individual's family in case of any eventuality to the head income earner, and on the other side another perceived risk arises in the customer's mind that whether he/she taking the correct Life Insurance Plan from the Right and trustworthy Company. Perceived risk is the uncertainty that consumers face when they cannot foresee the consequences of their purchase decisions (Schiffman et al., 2007). Perceived Risk is especially relevant for services that are difficult to evaluate before purchase and consumption, and the first-time users are likely to face greater uncertainty. The worse the possible outcome and more likely it is to occur, the higher the perception of risk (C.Lovelock et al., 2013). Perceived risk categorized in terms of possible outcomes in Life Insurance Purchase and the types are **Functional or Performance Risk** (unsatisfactory performance outcome i.e. whether the policy purchased be accepted everywhere wherever and whenever the claimant will intended to use it) , **Financial Risk** (Monetary loss, unexpected cost i.e. whether there will be monetary loss if, the policy does not materialized or any discrepancy takes place, in turn causes financial loss.),**Temporal or Time-Loss Risk** (wasting time, consequence of delays i.e. whether there will be time waste if the policy not purchased in time and materialized in time or the claim not settled in time), **Physical Risk** (Loss or Damage to Possession i.e. loss or theft of the policy document and subsequent injury to person while defending the robbery), **Psychological Risk** (personal fears and emotions i.e. will the purchase of Life Insurance Policy upsets the customer and whether the customer will be felt stupid for the act of purchase) and **Social Risk** (how others think and react i.e. what the relatives, friends and colleagues of the customer will feel about the customer engaged in life insurance purchase and purchased inadequate coverage plan/wrong plan)(the categories of perceived risk described by C. Lovelock et al., 2013 and further conceptualized for Life Insurance purchase scenario by the researcher in this paper). Consumer perception of these risks varies, depending on the person, the purchase situation, type of plan, the product category, the buying situation (i.e., traditional agent, online) and also with the culture. Perceived risk also said to influence the consumer's likelihood of trying new life insurance policy from different Insurance Company.

3.0 Objectives of the Research

i. To know the categories of Perceived Risks associated with Life Insurance Product Purchase.
ii. To find out the factors associated with the mitigation of perceived risks and the methods by which the Life Insurance buyer might reduce the perceive risk.
iii. To know is there any association between the experiences of the buyer in terms of no. of different life insurance policy purchased and the buyer's perceived risk.

4.0 Methodology

The study was conducted in Delhi & NCR and data was collected through survey method. A Structured Questionnaire was constructed based on previous studies comprising of all major concerns. Study population consisted of individuals who had at least one Life Insurance product purchased from any company recently i.e, within six months period. Perceived risk reduction methods were measured on 7 point Likert-type scale with '1' indicating 'Completely Agree and '7' indicating 'Completely Disagree'. Personal interviews were conducted on a sample of 80 respondents who were chosen on convenience basis and Structured Questionnaire has been administered to them. Demographic profile of respondents shows that sample consisted of 46 male and 34 female respondents. Majority in the age group of more than 30 years (62) and had minimum education of graduation (65). There were 12 respondents in the income group of <40000, 24 in 40000-50000, 34 in 50000-60000 and 10 in >60000 rupees per month. Around 65 respondents had at least 1-2 years of experience in Life Insurance product buying.

5.0 Analysis and Results

Data was analysed using SPSS package (19.0 version).

5.1 Reliability Coefficient

Internal reliability of the scale was assessed using Cronbach's alpha.

Reliability Statistics

Table-1

Cronbach's Alpha	N of Items
.784	10

Results showed that alpha value was 0.784 which is quite satisfactory.

5.2 Sampling Adequacy

KMO Test

Table-2

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.582

The K-M-O measure of Sampling adequacy shows satisfactory result as the value is >0.5. It also indicates that the factor analysis is appropriate.

5.3 Factor Analysis

Exploratory factor analysis was conducted for 10 Variables using Principal Component Analysis Method. Varimax Rotation method was adopted with Kaiser Normalization. It extracted 3 factors with an Eigen Value greater than 1 which explained 75.92 % of the total variance. The analysis converged in total 4 iterations. In **Table -3** the factors extracted has been named as Factor-1 as Self Confidence & Trust of the customer, Factor-2 as Motivation of the customer and Factor-3 as Precaution adoption. These 3 factors will help the customer in reducing the perceived risk and mitigating the perceived risk.

Table-3 Analysis of Result and assigning the factor names to the components

Factors	**Factors Loading**
Factor-1 : Self Confidence and Trust	
Variables **Description**	
Var00004 : The purchase of life insurance policy is done through reliable and known agent	0.951
Var00005 : The company selling the Life Insurance is having a good reputation	0.948
Var00006 : A strong trust on the Company selling the Life Insurance & the Medium though which it is purchased	0.930
Var00007 : Safe purchase from certified and authorized agency of the company	0.939
Factor-2 : Motivation	
Variables **Description**	
Var00003 : Ready to cope up with the change and future uncertainty/ risk	0.809
Var00008 : Well informed customer about required knowledge about Life Insurance	0.829
Var00009 : Every Experience of purchase will help to take better decision	0.812
Factor-3 : Precaution Adoption	
Variables **Description**	
Var00001 : Strict Adherence to read the terms and conditions of the Life Insurance Policy as advised by the Company	0.783
Var00010 : Keeping evidence and record of the forms submitted to agents for any eventuality.	0.815
Var00002 : To be up-dated with latest information and precautionary measures before deciding to buy the Life Insurance Policy.	0.658

The Factor Analysis reports (Table: 4-7) as generated through SPSS 19.0.

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Table-4 Communalities

Variables	Initial	Extraction
VAR00001	1.000	.838
VAR00002	1.000	.582
VAR00003	1.000	.758
VAR00004	1.000	.918
VAR00005	1.000	.935
VAR00006	1.000	.921
VAR00007	1.000	.933
VAR00008	1.000	.747
VAR00009	1.000	.720
VAR00010	1.000	.805

Extraction Method: Principal Component Analysis.

Table-5 Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.129	41.289	41.289	4.129	41.289	41.289	3.909	39.089	39.089
2	2.232	22.319	63.608	2.232	22.319	63.608	2.441	24.413	63.502
3	1.231	12.309	75.917	1.231	12.309	75.917	1.242	12.415	75.917
4	.918	9.189	85.106						
5	.909	9.087	94.193						
6	.216	2.161	96.354						
7	.209	2.093	98.447						
8	.113	1.123	99.570						
9	.029	.291	99.861						
10	.014	.139	100.000						

Extraction Method: Principal Component Analysis.

Table-6 Component Matrix(a)

Variables	Component		
	1	2	3
VAR00001	.533	.509	.562
VAR00002	-.449	-.402	.478
VAR00003	.438	.746	.070
VAR00004	.889	-.370	-.100
VAR00005	.927	-.230	-.209
VAR00006	.858	-.407	.008
VAR00007	.920	-.315	-.090
VAR00008	.189	.859	-.054
VAR00009	.351	.748	-.218
VAR00010	.403	-.056	.818

Extraction Method: Principal Component Analysis. a 3 components extracted.

Table-7 Rotated Component Matrix(a)

Variables	Component		
	1	2	3
VAR00001	.151	.533	.743
VAR00002	-.335	-.631	.285
VAR00003	.072	.819	.276
VAR00004	.963	.009	.106
VAR00005	.961	.174	.029
VAR00006	.927	-.059	.196
VAR00007	.965	.068	.130
VAR00008	-.170	.859	.102
VAR00009	.054	.852	-.023
VAR00010	.213	-.082	.885

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a Rotation converged in 4 iterations.

5.4 Chi-Square test

A Chi-square test has been conducted to know about if there is any significant association between two variables, namely experiences of the buyer in terms of no. of different life insurance policy purchased and the buyer's perceived risk. The experience of the customer is ranging from 1- 2 years and the perception about safety is ranging in Likert Scale (1 to7 where 1= feel less safe to 7= feel more safe). And hypothesis is drawn for it also.

H0: There is no significance association between the experiences of the buyer in terms of no. of different life insurance policy purchased and the buyer's perceived risk.

H1: There is a significance association between the experiences of the buyer in terms of no. of different life insurance policy purchased and the buyer's perceived risk.

The results are as follows:

V1 : The experience of the customer in terms of no. of policy purchased (Independent Variable)

V2: The perception of the customer about Safety on buying the Life Insurance Product. (Dependent Variable)

V1 * V2 Crosstabulation

Table-8

Count

		V2							Total
		1.00	2.00	3.00	4.00	5.00	6.00	7.00	
V1	1.00	2	5	3	0	0	0	0	10
	2.00	0	2	2	7	0	0	0	11
	3.00	0	1	1	7	21	0	0	30
	4.00	0	0	0	2	10	7	0	19
	5.00	0	0	0	0	0	5	3	8
	6.00	0	0	0	0	0	0	2	2
Total		2	8	6	16	31	12	5	80

Chi-Square Tests
Table-9

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	153.289(a)	30	.000
Likelihood Ratio	130.293	30	.000
Linear-by-Linear Association	59.394	1	.000
N of Valid Cases	80		

a 39 cells (92.9%) have expected count less than 5. The minimum expected count is .05.

Analysis of the Chi-square test is the calculated Value Pearson Chi-square is 153.289 which is larger than the tabulated value 43.773 at 0.05 level of significance and also the significance value (Sig) is 0.00 which is less than 0.05. Hence the Null Hypothesis is rejected and the Alternate Hypothesis is accepted and so it is considered that there is a significance association between the experiences of the buyer in terms of no. of different life insurance policy purchased and the buyer's perceived risk.

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6.0 Mitigation/Reduction of Perceived Risk

From the study of the literatures and from the customers view point also the perceived risk can be reduced by the customer himself through self-confidence & trust , motivation and through precaution adoption while purchasing the Life |Insurance Product. However, the self- confidence to purchase the Life Insurance is more important. To reduce this risk the Companies/agents facilitating the selling of Life Insurance have to provide a guarantee in terms of assurance in written to the customer. Even the role of Government is important here as there is a need for more stringent measures.

7.0 Scope for Future Research

Present study was confined to Delhi & NCR only with a small sample size of 80. Factor analysis with such a small sample may not fetch the overall view. Therefore generalizability of results is limited. Further study may be included only those consumers who had a past experience of more life insurance purchase and it will be better to explore the perceptions of nonusers. As perceptions change over time, longitudinal research may be helpful. Studies with relatively larger sample, derived across India, would be required.

8.0 Conclusion

Life Insurance Business in India is at its nascent stage. In the coming years after the implementation of Govt's Social Security measures and Life Insurance Schemes at a low premium and the usage of the Insurance facility provided by the banks to the large number of beneficiaries especially in rural India the perceived risk may be reduced after mass customization of the life insurance products and more reputed companies enter in to insurance business, which not only increase the trust and confidence among customers and also will motivate them to purchase Life Insurance by adopting suitable precautions. Due to robust growth in broadband internet access to entire population, it may see an explosive growth in future. Most growth drivers are in India's favor – demographics, economy, changing lifestyle, exposure to new ideas. It is just a question of creating a sustainable eco system for insuring the people, which definitely drives the growth of insurance sector in the country. The ability to measure and reduce perceived risk would take Indian Insurance Companies to a great height in maximizing both customer satisfaction and profits. Also as perceived risk tends to decrease with experience of buyer and it is a matter of time that Life Insurance would be a great reliever of financial burden to the family in the case of any eventualities and will also provide social security to the mass population in India.

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