

# INTERNATIONAL JOURNAL OF RESEARCH IN COMPUTER APPLICATION & MANAGEMENT

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## A STUDY ON THE PRODUCT FACTORS AFFECTING AN INVESTOR'S PREFERENCE TOWARDS PUBLIC SECTOR LIFE INSURANCE PRODUCTS

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**KOTTAYAM**

### ABSTRACT

*The Insurance sector in India is growing at a very high rate over the last decade. With liberalization, more and more private players have entered the market and taken a huge share from the public sector player, i.e., Life Insurance Corporation. With almost 80% of the Indian Population still not having an insurance policy, there is a huge market available for the taking. With large number of private insurance companies having entered the foray, it is vital to understand the factors which affect the decision of the prospective investor's in selecting a policy. The study tries to find out the product factors which influence the purchase decision of investor's in Kerala, India. The study found out that the various product features have different significance to the investors.*

### KEYWORDS

Investors preference, Insurance companies, Life Insurance, product factors, Public sector.

### INTRODUCTION

The insurance sector in India has experienced a 360-degree journey over a period of more than a hundred years. Its transition from an open competitive sector to nationalization and then back to a liberalized market characterizes this phenomenon. Life insurance has emerged as the fourth basic necessity of the modern world— after food, shelter and clothing. This is a natural consequence of the post- Independence change in the social structure—the time-tested joint family system giving way to nucleus families. Although the history of the life insurance business in India predates Independence and the annals list Oriental (1818) as the earliest life insurance company on Indian soil, its operations were mainly restricted to the coverage of European population in the sub-continent. On September 3, 1870, seven earnest men of Bombay with just seven rupees as initial expense gave shape to a plan of offering insurance to the public. They formed the Bombay Mutual Life Assurance Company.

The Indian Life Assurance Companies Act of 1912 was the first law enacted to regulate the insurance sector in the country. It was followed by the Insurance Act of 1938. These regulations streamlined insurance contracts. But the existence of 256 companies in the market led to malpractices and the customer interest was unprotected.

Recognizing the potential of life insurance in channelizing funds for building infrastructure, the Central government proposed nationalization of life insurance. The Life Insurance Corporation Act of 1956 ensured consolidation of the life insurance industry and formation of one of the premier financial institutions of modern India—the Life Insurance Corporation of India (LIC). The corporation thrived under monopoly and surpassed the expectations of its most ardent critics. The nationalization of the company benefited the customers and the economy.

### IMPORTANCE OF THE STUDY

The study titled 'A study on the product factors affecting an investor's preference towards Public sector life insurance products' is an attempt to find out the product factors that influence the customer's preference towards the life insurance products of public sector insurance company in India. With globalization, large numbers of private players have entered the Indian Insurance market. Though there has been high rate of growth in the Insurance Industry, the penetration of Insurance into the urban as well as the entire rural areas has been very poor. With almost 80% of the Indian Population still not having an insurance policy<sup>11</sup>, there is a huge market available for the taking. With large number of private insurance companies having entered the foray, it is vital to understand the factors which affect the decision of the prospective investor's in selecting a policy. The study tries to find out the product factors which influence the purchase decision of investor's in Kerala, India.

### LITERATURE REVIEW

Most of the studies on insurance aim at studying the decision process of individuals, focusing on the economic, financial and social aspects. Bernoulli (1954) and Yarri (1965) looked into the economic aspects of insurance. Solvic (1977), Kunreuther (1978), Kahneman and Tversky (1979) and Schoemaker (1980) explored aspects of insurance from the viewpoint of decision theorists. Doherty (1977) and Brennan (1976) investigated from the viewpoint of financial theorists. Prashanth Athma and Ravikumar in their study titled *An Explorative Study of Life Insurance Purchase Decision Making: Influence of Product and Non-Product Factors* has brought out the product and non-product factors by taking 100 samples each from the urban as well as the rural sector. The current study focuses only on the product factors affecting the purchase decision in the case of public sector insurance policy holders.

### OBJECTIVE OF THE STUDY

The researcher has formulated the following objective for the study;

- To identify the product features affecting the investment decision of public sector life insurance policy holders.
- To know whether there is significant difference among the product factors perceived by investors while investing

**Ho:** There is no significant difference among the product factors while selecting the Insurance policy of a Public Sector Life insurance Company

### SOURCES OF DATA

The study was conducted using both primary as well as secondary data. The primary data was collected using structured questionnaire. Secondary data was collected through internet, books, journal and other published sources related to Insurance. EBSCO, EMERALD, SAGE Publications, ICFAI University press journals, IRDA website etc are some of the important sources which has been referred.

### SAMPLING

To conduct the study questionnaire was designed for policy holders. The questionnaire was given to 200 LIC investors' from Kottayam, Kollam, Ernakulam, Thrissur, Kozhikode, Kannur, Thiruvananthapuram, Pathanamthitta, Alleppey and Palghat districts of Kerala. From each of the districts, 20 respondents were taken using convenient sampling method. The respondent could have life insurance products of public as well as private sector insurance companies, but the response was taken only for the policy of public sector insurance company. The same was collected and tabulated for the study.

### LIMITATIONS OF THE STUDY

Since the sample is taken entirely from Kerala, the results derived out of this may not be applicable to other parts of the country. The study covers only the product factors influencing the investment decision.

Age group(Yrs)	Respondents	%
Below 21	0	0
21-40	53	26.5
41-60	142	71
Above 60	5	2.5
<b>Total</b>	<b>200</b>	<b>100</b>

FIG. 1

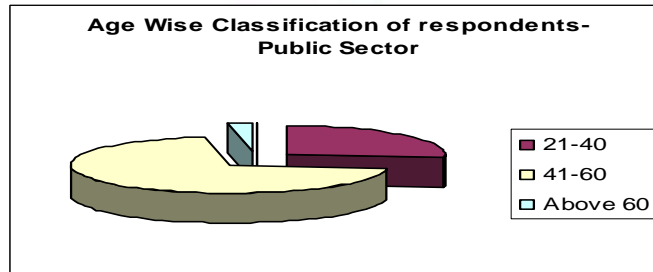


Figure 1 and table 1 shows the age wise classification of public sector life insurance policy holders under the study. 71% of the respondents belonged to the 41-60 category. Almost 27% of the respondents belonged to the 21-40 category. Only 5 out of 200 respondents belonging to the age group of Above 60 had investment in Insurance products of public sector insurance company.

Income category (Rs. PA)	Respondents	Percentage
<1,00,000	49	24.5
100,000-3,00,000	116	58
3,00,001-5,00,000	31	15.5
Above 5,00,000	4	2
<b>Total</b>	<b>200</b>	<b>100</b>

FIGURE 1

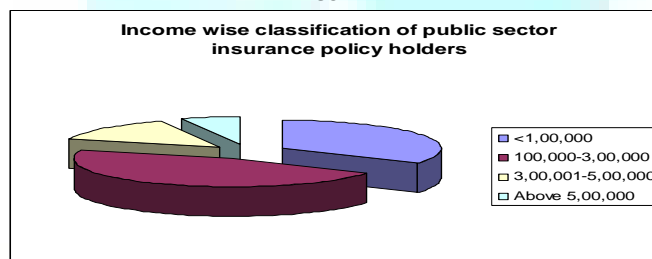
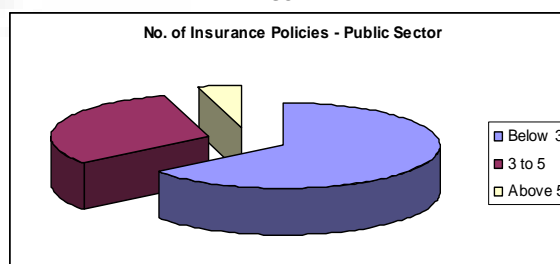


Figure 2 and table 2 shows the income wise classification of public sector insurance policy holders. 58% of the respondents fall in the annual income category of Rs.1,00,000-Rs.3,00,000. 24% of the respondents fall in the lower income category of less than Rs. 1,00,000. 16% of the respondents have an annual income of Rs. 3,00,000-Rs. 5,00,000. Only 2% of the respondents had an annual income of more than Rs. 5,00,000.

No of policies	Respondents	Percentage
Below 3	129	64.44
3 to 5	62	31.11
Above 5	9	4.44
<b>Total</b>	<b>200</b>	<b>100</b>

FIGURE 2



From Figure 3 and Table 3 we can see that 64.44% of the respondents have investment in less than 3 policies. Out of this category, 51% of the respondents have investment in only one life insurance policy. 31.11% of the 200 respondents of public sector life insurance policy holders fall in the category of 3-5 life insurance



policies with them. Only, less than 5% of the respondents have more than 5 life insurance policies with them. It is important to note that policy holders who have more than 5 life insurance policies are having all the policies in the public sector.

#### PRODUCT FACTORS

Following are the Product factors which are considered in this study;

1. Return
2. Fringe Benefits
3. Unit Linked Feature
4. Income Tax savings
5. Lock-in-period
6. Amount of premium

**TABLE 4 - PRODUCT FACTORS AFFECTING THE INVESTMENT DECISION FOR PUBLIC SECTOR INSURANCE COMPANY POLICY HOLDERS**

Factors	Observed	Average Score	Expected	O-E	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
Return	1238	800	1054	184	33795	32.06
Fringe Benefits	1039	800	1054	-15	230	0.22
Unit Linked or not	822	800	1054	-232	53901	51.13
IT savings	1108	800	1054	54	2898	2.75
Lock-in-period	996	800	1054	-58	3383	3.21
Amount of premium	1122	800	1054	68	4601	4.36
	<b>6325</b>					<b>94</b>

Table 4 shows the various product factors which have affected the decision to invest in life insurance policies of Public Sector Life Insurance Company. The frequencies are based on the responses obtained from 200 public sector life insurance company's policy holders. The response was received in a 7 point scale.

Out of the 6 product features rated by the respondents Return has been rated as the most important influencing factor or investing in the life insurance policy of a Public Sector Company. The amount of premium is the second important factor which the investor will look into before taking the decision to invest. Third important factor affecting the decision as per the respondents was the Income Tax Savings offered with the product. Fringe benefits, Lock-in-period and unit linked feature of the policy stands as the fourth to sixth factor affecting their investment decision.

The hypothesis that there is no significant difference among the product factors while selecting the Insurance policy of a Public Sector Life insurance Company was tested using chi square at 95% level of significance. Since the calculated value (94) is greater than the table value (1.145476), we fail to accept Ho. This means that there is significant difference perceived by the investors among the product features of a public sector life insurance company's policy.

#### FINDINGS AND CONCLUSIONS

97 % of the respondents belong to the broad age group category of 21-60. Insurance as a savings instrument or as a risk management instrument has not been of much success among the high income sections of the society. Tax saving options of insurance policies is the biggest reason for the large number of investors from the lower middle class income category (i.e., Rs. 1,00,000- Rs. 3, 00,000). The risk coverage and the investment options which are available with insurance policies are the major attractive factors for the lower income category respondents.

Out of the 200 public sector life insurance policy holders, 187 respondents i.e., 93% of the respondents prefer the public sector life insurance company over the private sector insurance companies. The remaining 7% prefer both the public as well as the private sector insurance companies. But no public sector life insurance policy holder has preferred private sector alone. This could be because of the satisfaction they have by being a public sector insurance policy holder. The performance of Life Insurance Corporation of India over the years has been outstanding and has been giving consistent bonus to its policy holders with almost zero risk. There is significant difference perceived by the investors among the product features of a public sector life insurance company's policy. Return , amount of premium, Income tax savings, fringe benefits, lock –in-period and unit linked features were rated 1 to 6 respectively, as the product factors affecting the investment decision.

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