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Factor Influncing the Demand of Life Insurance Policy

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Abstract: ***This paper aims to investigate factors influencing life insurance purchase and what factors significantly affect customers towards the purchase of life insurance policies in Rupandehi district. Primary data have been collected through structured questionnaire out of 350 life insurance policyholder's resident of Rupandehi district of Nepal. Sample was selected by Convenience sampling method. The paper has used regression models to analyze the relationship between dependent and independent variable. The result of the study reveals that level of education, age factor and people attitude and awareness has significantly associate with life insurance demand whereas income, family size, gender and health status has no significantly associate with life insurance demand.***

Keywords: ***Life Insurance Demand, Socio-Demographic Determinants, Rupandehi District.***

1. INTRODUCTION

Insurance is a type of economic organization that, through the use of a two-party contract, allows the transfer of financial risk from a single person to a diverse group of risks. For a smaller but certain payment, the insured party obtains a specified amount of coverage against an uncertain event. Insurers may provide fixed, specified coverage or replacement coverage, which accounts for the increased cost of restoring the structure to its original state. Furthermore, the insurance industry's products and services have numerous obvious benefits for both individuals and society. In insurance, there are two major categories: life insurance and non-life insurance(Solomon Fadun, 2013).

Nepalese life insurance has a forty-year history, while non-life insurance dates back 65 years. Established in 1947, the initial general insurance company was called "Nepal Insurance and Transport Company" and is presently recognized as Nepal Insurance Company. Rastriya Beema Sansthan is a composite company that offers both life and non-life insurance. It was founded in 1968 and began offering non-life insurance in the same year. It began offering life

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insurance in 1972. There are currently 25 insurance companies, comprising 1 composite, 8 life, and 16 non-life(Ghimire, 2013).

In the event that the primary earner is hurt, suffers damages, or dies too soon, people can now feel safe. As a result, the main reason for buying life insurance is to provide financial security for the family. Life insurance is a way for people to pool their resources to seek protection against a range of potential future dangers associated with their lives. Not only does life insurance give risk coverage, but it also provides investment, tax savings, credit facilities, and so on. Insurance companies strive to provide prospective customers with a diverse range of insurance goods and policies in order to meet their diverse needs. Life insurance companies have recognized the need to improve customer service by employing a people-oriented strategy as opposed to a profit-oriented approach. Because clients are becoming more demanding and knowledgeable, the insurance industry must identify the factors influencing demand for life insurance policies(Goet, 2022).

We will compare which policies customers will gravitate toward if they are introduced to and given a basic understanding of purchasing policies as part of this study. Naturally, this will vary depending on the culture of the customers as well as sociodemographic factors like age and gender, marital status, professional status, income level, and subjective interpretations of utility. Thus, the goal of this study is to look into what factors affect the demand for life insurance policies. There are still gaps in the body of knowledge regarding life insurance despite the large number of studies conducted on the subject, particularly with regard to the relationship between respondents' socio demographic characteristics and demand for life insurance. The Rupandehi district serves as the backdrop for this investigation, which looks into the relationship between respondents' socio demographic characteristics and the demand for life insurance.

The data used in this paper is restricted to a sample of Rupandehi district customers. Additionally, the demand for life insurance among customers is examined in this paper in relation to their demographic characteristics. The various traits and consequences of administrative and organizational factors influencing customers were also left out of this paper. Finally, the study excludes the impact of additional macroeconomic factors on consumers' decisions to purchase life insurance policies.

Objectives of the Study

The following are the study's primary objectives:

- To investigate the variables influencing life insurance purchases in connection to their demographic variables.

- To determine the elements that have a major impact on consumers' decisions to purchase life insurance policies.

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2. RELATED WOEKS

SATROVIC and MUSLIJA (2018)results showed that economic and demographic factors are the two main determinants of life insurance demand.. The demand for life insurance is positively correlated with both factors in a statistically significant way. Standardized regression coefficients show that the economic component has a greater influence on the demand for life insurance than do demographic factors. Jnawali and Jaiswal (2019)studied the elements that affect buying life insurance. The study finds that, but not with age, religion, or marital status, respondents' gender, degree of education, occupation, economic class, family size, and monthly income are strongly correlated with the demand for life insurance in terms of premiums paid. Mahdzan and Victorian(2013)Using one way ANOVA and multiple regression, we examined the relationship between life insurance demand and demographic factors, saving intentions, and financial literacy. The results show that while financial literacy has no impact on life insurance demand, demographic factors and saving motivations are strongly correlated with life insurance demand. Meko et al. (2019)used a random effect model to investigate the elements impacting the need for life insurance. The results show that the demand for life insurance in Ethiopia is not significantly influenced by GDP per capita or insurance costs, at the 1% and 5% significance levels, real interest rates, life expectancies, age dependency ratios, urbanization, and inflation all have positive and significant effects. Negi and Sing(2012) discovered a correlation between the respondents' demographic traits and five key determinants that impact the decision to buy a life insurance policy: customer amiability, dedication, brand loyalty, and product quality and image. Product quality and brand image were determined to be the most crucial factors, with brand loyalty ranking as the least significant one. It has also been observed that these factors vary significantly among the different demographic characteristics of the respondents. Ullah and Bagh(2019)373 respondents were selected using a three-stage multiple random sampling technique. Descriptive tools and an econometrics model (binary logit model) were used for data analysis. The study's findings showed that there is a low level of life insurance awareness and demand in the communities. In addition, the study found statistically significant variables that influence the communities' propensity to buy life insurance, including age, educational attainment, income level, occupation, number of dependent family members, size of family, knowledge, awareness, institutional factors, perception, and religion. Sianipar and Hutagalung(2021)investigated the Bataknese community's decision to purchase life insurance in Medan. The findings indicated that the Batak ethnic group in Medan possessed personal life insurance due to factors such as credit card limit utilization, age, social gathering clan membership, education, ownership status of their residence, and bequest motivations. It was discovered that socioeconomic and demographic factors have an impact on the life insurance owned by Bataknese people. Burnett et al.(1965) the research examined different psychographic and demographic traits and their associations with different life insurance ownership levels. Large life insurance holders are better educated, have larger families, make more money, don't hold political office, live in stable areas, take more risks, aren't concerned with prices, don't look for information, don't have high self-esteem, aren't brand loyal, and value community involvement—all without heavily depending on the government. They

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carried out a thorough investigation using Multiple Classification Analysis. Their study revealed the significance of psychographic and demographic factors as predictor variables.

3. METHODOLOGY

Descriptive and casual-comparative research designs were used in this study to evaluate the variables influencing the demand for life insurance. Convenience sampling was used in this investigation to collect primary data. Convenience sampling, also called availability sampling, is a particular kind of non-probability sampling technique that depends on gathering information from members of the population who are willing and able to participate in research whereby information about a sample of 350 policyholders for life insurance was gathered. A structured questionnaire was used to collect data for the study from primary sources. The first section consists of 8 questions about the respondents' demographics, and the second section consists of 28 items scored on a 1-5 Likert Scale, where '1' indicates strongly disagree with the statement and '5' indicates strongly agree with the statement, and which measure the determinant of life insurance policy. The third section of the questionnaire contains questions about the dependent variable. A Google form was used to distribute the questionnaire electronically. The data collected from the questionnaire was summarized using descriptive statistics. Inferential Statistics, such as correlation and regression analysis, are also used in the study to demonstrate the relationship between independent and dependent variables. The data was analyzed using the statistical software package Statistical Package for Social Sciences (SPSS).

Theorical Framework

The theoretical framework of the research is designed to discover the relationship between independent variables and dependent variables. Income, Family Size, Level of Education, Age, Gender, Health Status, and People Attitude and Awareness are the independent variables, while Life Insurance Demand is the dependent variable.(Yaari, 1965) explained The life cycle model predicts the demand for life insurance. According to the Yaari framework, the desire to leave money to dependents and provide income for retirement is what drives the demand for life insurance. According to this framework, demand for life insurance is a function of wealth, expected lifetime income, interest rate levels, the cost of life insurance policies (administrative costs), and the assumed subjective discount rate for current consumption over future consumption. Modern empirical research on the consumption of life insurance demand is based on the theoretical work of (Yaari, 1965), (Modigliani & Ando, 1963), (Friedman, 1957), and many other theoretical frameworks, and has represented an upgraded version for the investigation of factors of life insurance demand. Income and life insurance demand have a positive and significant relationship. There is a link between family size and demand for life insurance. Larger families frequently have more financial responsibilities and dependents who rely on the income of the primary breadwinner. As the number of dependents grows, so does the need for life insurance to provide financial protection and support in the event of the insured's untimely death. Furthermore, empirical studies revealed that different researchers discovered various factors that influence the demand for life insurance. Education level was discovered to have a positive and significant

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relationship with life insurance demand. Similarly, the demand for life insurance is influenced by the respondent's age as people get older. The demand for life insurance is also related to respondents' gender, because in countries like ours, the breadwinner of the family is mostly male, so their demand for life insurance is higher than females. People's attitudes toward risk can influence their interest in life insurance, so there is a positive relationship between health status and demand for life insurance. People's attitudes toward risk can also influence their demand for life insurance. Because risk-averse people are more likely to understand the value of life insurance, the demand for insurance policies is rising. People may think about purchasing life insurance as a risk management strategy if they are aware of possible financial risks and uncertainties.

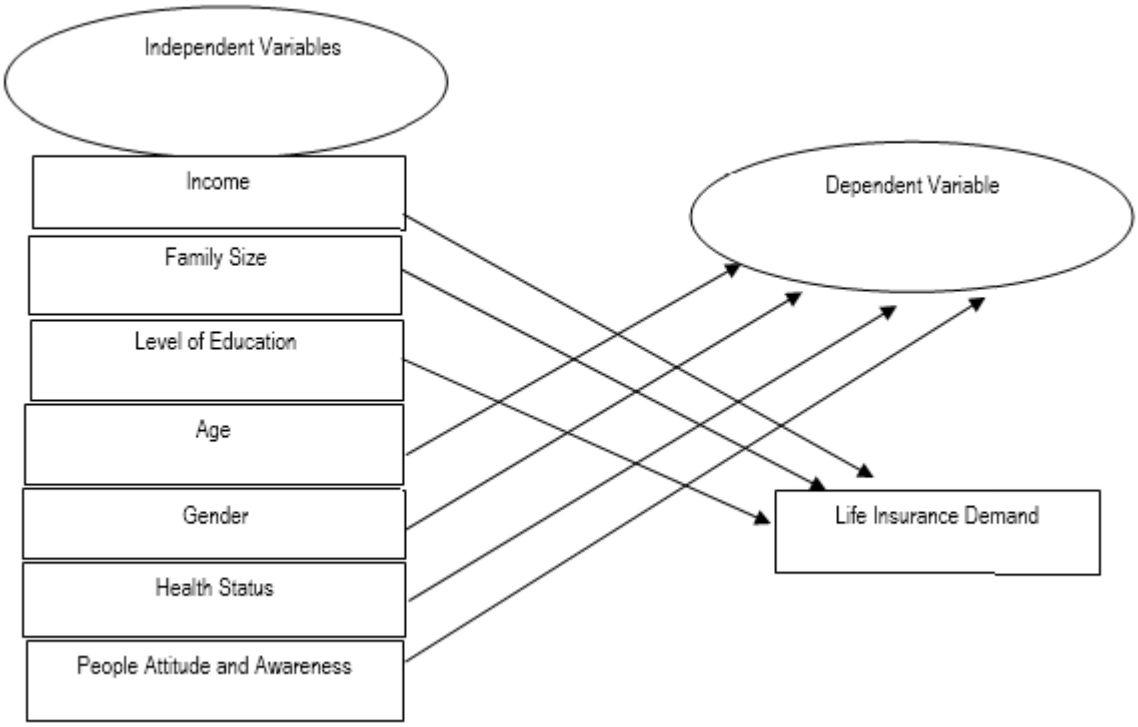

Figure 1: Theorical Framework

Hypotheses

H_1: Income has a major impact on the demand for life insurance.
H_2: The demand for life insurance is significantly impacted by family size.
H_3: The demand for life insurance is significantly impacted by educational attainment.
H_4: Age has a major impact on the demand for life insurance.
H_5: Gender has a major impact on the demand for life insurance.
H_6: Health status has a major impact on the demand for life insurance.
H_7: The demand for life insurance is significantly impacted by people's attitudes and levels of awareness.

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4. RESULTS AND DISCUSSION

Descriptive Analysis

In general, descriptive statistics is used to measure the position of different variables and components for a given time period. This study examines the number of observations, as well as the independent and dependent variables' minimum, maximum, mean, and standard deviation which is presented in Table 1.

	N	Minimum	Maximum	Mean	Std. Deviation
Income	350	1.00	5.00	3.0943	.91953
SOF	350	1.00	5.00	3.3333	1.12759
Education	350	1.00	5.00	3.4340	1.14135
Age	350	1.00	5.00	3.4264	1.00080
Gender	350	1.00	5.00	3.0377	1.11307
HS	350	1.00	5.00	3.0692	.94362
PAA	350	1.00	5.00	3.3522	1.02827
LID	350	1.00	5.00	3.1887	1.03300

'*N*' indicates the total number of observations.

The above table shows that the Education has the highest mean value of 3.434 (SD=1.14135) within the determinant of life insurance policy which implies that on an average education is higher influencing factor for life insurance demand with the variation of 1.14135.Similarly, Age, People Attitude and Awareness(PAA), Family Size(SOF), Income, Health Status(HS) and Gender has the mean value of 3.4264, 3.3522,3.3333, 3.0943,3.0692 and 3.0377 respectively with the standard deviation of 1.00080, 1.02827, 1.12759, .91953, .94362 and 1.11307 respectively. While the mean value of life insurance demand (LID) is 3.1887 and standard deviation is 1.033 which indicates variation in life insurance demand.

Correlation Analysis

In this paper, Income, SOF, LOE, Age, Gender, HS and PAA is used as explanatory variable to analyze life insurance demand. The linear correlation between dependent and independent variables is measured by the Pearson's correlation coefficient. Hence, this section attempts to explain the relationship between the dependent and independent variables using correlation coefficient. Table 5 presents the value of correlation coefficient between dependent and independent variables.

Table 2 Relationship between Dependent and Independent Variables

	Income	SOF	Education	Age	Gender	HS	PAA	LID
Income	1	.690**	.755**	.728**	.502**	.498**	.535**	.729**
SOF		1	.814**	.740**	.440**	.553**	.675**	.752**
Education			1	.762**	.474**	.494**	.625**	.812**
Age				1	.627**	.678**	.723**	.838**
Gender					1	.617**	.456**	.585**

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HS						1	.659**	.601**
PAA							1	.758**
LID								1
Note. Number of Observation(N) is 350 **. The correlation is significant at the 0.01 level (two-tailed).								

The correlation in income and LID was found to be 0.729 which has high degree of positive correlation at one percent level of significance. Similarly, Family Size (SOF), Education, Age, People Attitude and Awareness (PAA) was also found to be high degree of positive correlation with LID at 1 percent level of significance. But it was found that Gender and Health Status was found to be moderate level of positive correlation with LID at one percent level of significance.

Regression Analysis

In this study,a regression model was applied to explain the relationship between dependent and independent variables. The regression result is obtained using the regressive procedure in SPSS. Table 6 summarizes regression results of life insurance demand i.e dependent variable and explanatory variables i.e Income, family size, level of education, Age, Gender, Health Status and People Attitude and Awareness.

Table 3 Summary of Multiple Regression Analysis Results

Constant	Income	SOF	LOE	Age	Gender	HS	PAA	R2	F	Sig
-0.234	0.104	0.019	0.282*	0.289*	0.111	-0.069	0.282*	0.818	27.603	0.00
	(0.420)	(0.871)	(0.027)	(0.046)	(0.196)	(0.544)	(0.011)			
	(2.969)	(3.582)	(4.344)	(4.398)	(1.966)	(2.457)	(2.618)			

Note. Figure in the parentheses indicates p values and VIF respectively.*shows that the results are significant at the 5% level and **shows that the results are significant at the 1% significance level.

The regression model in Table 6 shows the relationship between independent variable and Life insurance demand. The result presented in the table shows that Sig (P-Value) of F statistics (F= 27.603, Sig=0.000) which suggests that the model as a whole is significant at the five percent significance level. Coefficient of Determination (R^2) is 81.8 percent which implies that 81.8 percent of variation in life insurance demand is explained by independent variables and rest other variation is explained by other factors. The finding shows that Level of education, Age and People Attitude and Awareness has positive and significant relation with life insurance demand. Whereas Income, Family Size, Gender and Health Status has positive but insignificant relation with life insurance demand. The level of education has

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positive Beta coefficient of 0.282 it implies that 1 unit increases in level of education would lead to increase the life insurance demand by 0.282 unit. The beta coefficient of Age is 0.289 which means that 1 unit increase in Age factor would lead to increase the demand of life insurance policy by 0.282 unit. Similarly, the People Attitude and Awareness has positive Beta coefficient of 0.282 it means that 1 unit increase in PAA would lead to increase the life insurance demand by 0.282 unit.

5. CONCLUSIONS

The purpose of the study is to evaluate the factors that determine demand for life insurance and the significant correlation that exists between independent and dependent variables. Sociodemographic factors including income, family size, education level, age, gender, health status, and people's attitudes and awareness are included in the study along with how they relate to the demand for life insurance. The results showed that the demand for life insurance is correlated with the following factors: age, education level, and people's attitudes and awareness. The demand for life insurance was found to be correlated with age and educational attainment (Truett & Truett, 1990). However, the demand for life insurance is unaffected by factors such as income, family size, gender, or health.

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Normality Test of Residual

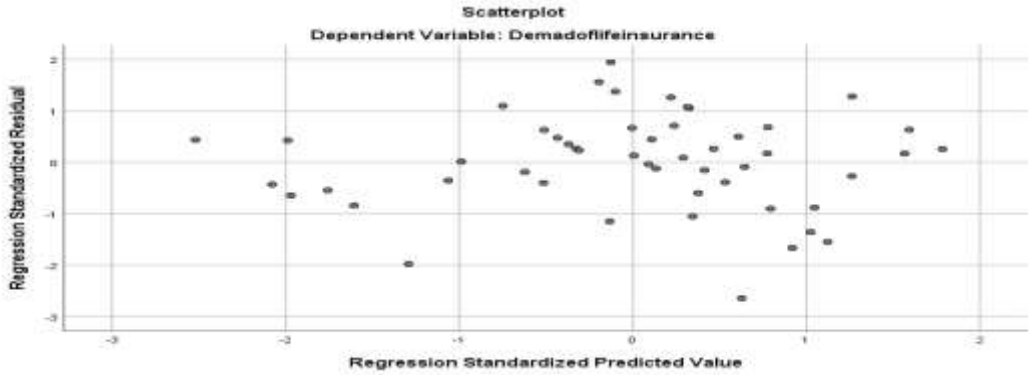
	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	**df**	**Sig.**	**Statistic**	**df**	**Sig.**
Unstandardized Residual	0.068	348	.200*	0.982	348	0.648

Note.*. This represents a lower limit on the actual significance.
a. Correction of Lilliefors Significance, Since P> 0.05 so, the data is normal.

Reliability Test

Variables	Cronbach's Alpha	No. of Items
Income	0.813	5
Family Size	0.919	5
Level of Education	0.954	5
Health Status	0.713	3
Personal Attitude and Awareness	0.856	3
Life Insurance Demand	0.887	4

Homoscedasticity Test



Test of Multicollinearity

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Model	Collinearity Statistics	
	Tolerance	**VIF**
Income	0.337	2.969
SOF	0.279	3.582
Education	0.23	4.398
Age	0.227	4.398
Gender	0.509	1.966
HS	0.407	2.457
PAA	0.382	2.618