

A COMPREHENSIVE STUDY ON PRODUCT PREFERENCES AND PURCHASE DECISION-MAKING OF LIFE INSURANCE CUSTOMERS

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Abstract: Liberalisation, privatisation and globalization (LPG) environment of Indian economy has brought drastic changes into financial services, particularly life insurance services, by offering diversified product mix from which a customer can have variety of choices to cater their financial needs such as savings, investment and personal risk cover. Since life insurance is a long-term relation between insurers and insureds, a customer takes deep considerations while making decision on purchase a life insurance policy. The factors under this study are Core product factor, Promotional factor, Customer expectation Factor, Risk-return factor and Service factor. This paper studies the preferences of customers towards life insurance products and their purchase patterns. The researchers also cross compare the product preferences between public and private sector customers while purchasing a life insurance policy. It is found that there exists significant correlation between the factors affecting the preferences towards the purchase of a life insurance policy. It is concluded that preferences of LIC customers on a particular attribute is more than that of their counterparts in the private sector while deciding to purchase a life insurance policy. The finding that LIC customers have shown more positive repurchase intention than the private sector customers indicates high level of customer satisfaction in public sector as compared to private sector.

Keywords: Product Preferences, Purchase Decision-making, Life Insurance Customers, Repurchase Intention and Gender.

INTRODUCTION

21st century is marked with a rapid and intensive competition in the life insurance industry across the world. With both LIC and private players in the fray, Indian life insurance market has undergone significant changes recently. There are many innovative customized products, effective distribution channels, new style of service delivery and above all a whole new set of opportunities for employment in this sector. The expectations of today's life insurance customers have drastically changed and so are their preferences towards life insurance products and way of purchase decision-making. This study aims to study product preferences and purchase decision - making of Indian life insurance customers.

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Ever since the financial sector was reformed, there has been substantial transformation and liberalization of the whole financial system (Varma, 1998). In India, insurance sector was opened for private participation with the enactment of the Insurance Regulatory and Development Authority Act (IRDA Act), 1999 and at present there are 24 insurers (1 in public and 23 in private insurers) in life insurance business. Insurance services constitute one of the financial services and its close relationship with the economy adds to its importance. Insurance industry provides social security and promotes individual welfare. Social security is an essential requirement of social justice (Dreze and Sen, 1996). Insurance is the critical input for more secure present as well as future of individuals and their families and hence a unique service that everyone needs (Stott, 1997). Insurance sector is critical to the economic growth of a country.

Life insurance is an instrument to hedge personal risks which directly affect an individual (Rejda, 2004; Srinivasan, 2006). Based on the benefit patterns, life insurance products can be categorised into term assurance, whole life assurance, endowment assurance, annuities and etc (Harrington and Niehaus, 2004; Dorfman, 2005). In the past, customers were satisfied and happy at whatever the insurance companies dished out to them. But in the competitive environment, customers demand diversified benefits and prefer the products which they deem fit into their personal needs. Also the life insurance perception has significantly changed to a risk management device rather than simply a tax saving tool. It plays a major role in every individual's life

LITERATURE REVIEW

The paramount goal of marketing is to understand customers and their buying behaviour. One of the main perspectives of consumer behaviour research analyses buying behaviour from the so-called "information processing perspective" (Holbrook and Hirschman 1982). According to this model, customer decision-making process comprises a need-satisfying behaviour and a wide range of motivating and influencing factors. The process can be depicted in the following steps (Engel, Blackwell, and Miniard, 1995):

- *Need recognition* - Realisation of the difference between desired situation and the current situation that serves as a trigger for the entire consumption process.
- *Search for information* - Search for data relevant for the purchasing decision, both from internal sources (one's memory) and/or external sources.
- *Pre-purchase alternative evaluation* - Assessment of available choices that can fulfil the realised need by evaluating benefits they may deliver and reduction of the number of options to the one (or several) preferred.

- *Purchase* – Acquisition of the chosen option of product or service.
- *Consumption* – Utilisation of the procured option.
- *Post-purchase alternative re-evaluation* – Assessment of whether or not and to what degree the consumption of the alternative produced satisfaction.
- *Divestment* – Disposal of the unconsumed product or its remnants.

Besides the information processing perspective, marketing analyses consumer behaviour by employing a psychologically grounded concept of attitudes (Balderjahn 1988; Luzar and Cosse, 1998). It is consumer attitudes that are usually named as the major factor in shaping consumer behaviour. Bateson (1989) brought out that understanding customer choice behaviour becomes a necessary pre-requisite for firms that need to compete effectively, whether it is in the manufacturing sector or in the services sector. This invariably brings out the need for studying off consumer choice behavior.

The buying intent of a life insurance product by a small investor can be due to multiple reasons depending upon customers risk return trade (Debasish, 2004). He has developed an instrument to study the product preferences of life insurance customers with five dimensions: Core product factor, Promotional factor, Customer expectation factor, Risk-return factor and Service factor. Out of the elements of marketing mix, product, promotional, and service factors have been found to play a role in the purchase of insurance policies (Chow-Chua and Lim, 2000) and hence treated as stimuli influencing the purchase process. Promotional factors include advertisement, agent's recommendations, and friends' or relatives' suggestion. In terms of life insurance policies, product related factors can include expected returns of life insurance policies, range of coverage offered by the policy, fringe benefits offered by the insuring company and brand name (Chow-Chua and Lim, 2000).

Various researchers have highlighted the importance and influence of brand image while purchasing decision-making (Retzloff, 1989; Arora and Stoner, 1996; O'cass and Frost, 2002). Lahiri (2004) stress that brand image is of great importance for an intangible service like insurance. He also states that more than the advertising gimmicks, the utility of the brand to the customers is appreciated as an influencing factor. Country of origin or reputation of company is parts of a multitude of factors affecting perceived product quality (Bilkey and Nes, 1982; Farmer, 1987; Liefeld, 1993). Other factors include regular income, extra coverage, maturity amount, technology, and etc. Since life insurance is a long-term benefit, a customer takes deep considerations while deciding to purchase a life insurance policy.

RESEARCH OBJECTIVES

This study focuses on product preferences and purchase decision-making of life insurance customers in India. Accordingly, the specific objectives of this research study have been set as follows:

- To study the factors affecting customers' preferences towards life insurance products.
- To cross compare the product preferences between public and private sector customers while purchasing a life insurance policy.
- To analyse the purchase decision-making patterns of life insurance customers in India.

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve research problems in a logical well-defined manner. It provides rules and norms for the researcher to evaluate the decisions for chosen approach and implement them in the research. Exploratory research is used to develop the research hypotheses and on the other hand, descriptive Research is to study the variables to describe characteristics or functions. Under this design, data collected was based upon a predetermined research instrument and the objectives developed prior to the research.

Questionnaire contains the questions related to the factors influencing the purchase of life insurance products. Respondents were requested to mark the agreement of each of the items on a 5-point Likert scale ranging from "Strongly Agree = 5" to "Strongly Disagree = 1". The sample base is Delhi and NCR and the target population was life insurance customers who have purchased their policies after the liberalization. A set 1000 customers from both public (500) and private (500) were selected using quota sampling. The repurchase intention of the customers from the same insurance company was measured using a 5-point scale. The hypotheses developed in this study were empirical tested using statistical tools such as paired sample *t*-test, correlation analysis and chi-square test.

Research Constructs

The decision variables for buying a life insurance policy relate to perception, promised return and to the attractiveness of the offer. Even though various researchers have identified and studied different set of attributes to study customers' preferences towards life insurance products, the researchers used the 20 attributes confined into five dimensions used by Debasish (2004) without any modifications. The five dimensions comprising 20 attributes are as under:

Core Product Factor: Awareness of the product, Excellent product feature and Reputation of the company.

Promotional Factor: Advertisement, Agent's recommendation, Friends'/ relatives' suggestion and Brand Name.

Customer Expectation Factor: Risk cover of the Scheme, Tax benefits and conveniently obtainable.

Risk-Return Factor: Performance guarantee, Regular income, Assured return, Extra coverage (Bonus), Maturity amount to be received and Reasonable premium.

Service Factor: Behaviour of executives/agents, Delivery schedule, Transparency and technology.

HYPOTHESES

The preferences and priorities of customers towards the purchase of life insurance products are generally influenced by the product related factors such as Core product factor, Promotional factor, Customer expectation factor, Risk-return factor and Service factor. Following hypotheses regarding customer preferences were formulated and tested.

H1: Public and private sector customers significantly differ in their preferences while purchasing a life insurance policy.

H2: The Factors of Customer Preferences for a life insurance policy buying decision are positively correlated with each other.

To assess whether gender has any significant on purchase decision-making, the following hypothesis was formulated and tested:

H3: Gender influences the decision to purchase of a life insurance policy.

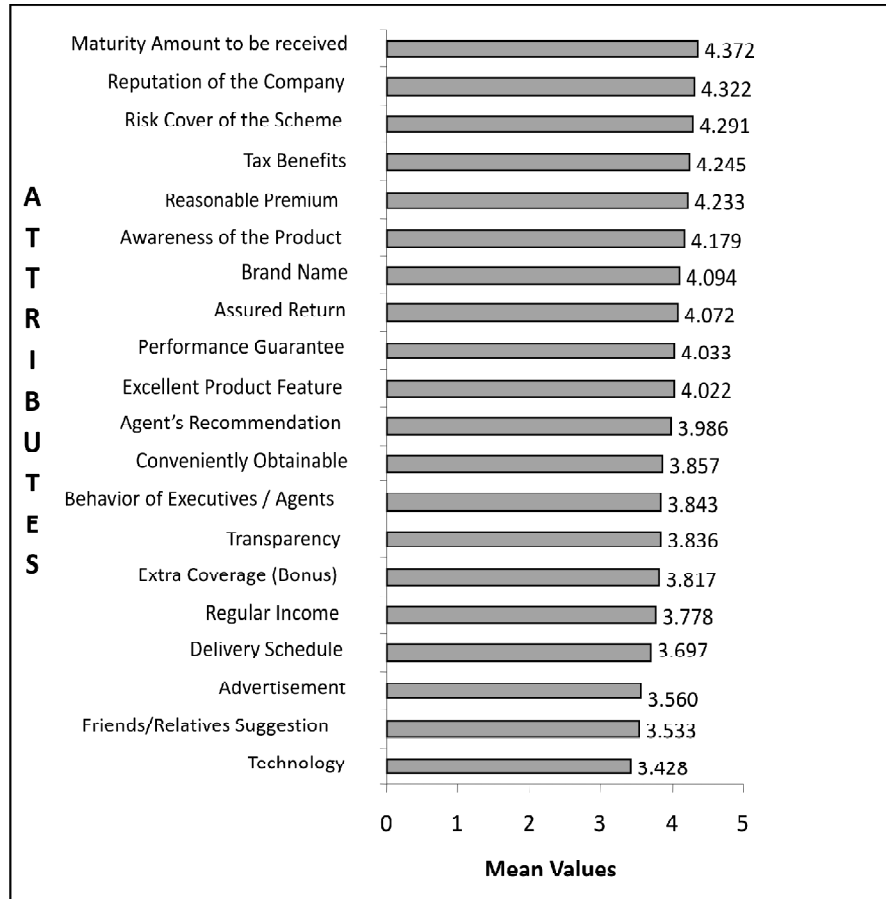
DATA ANALYSIS

Product Preferences

Customers have different preferences while purchasing a life insurance policy. The analysis reveals that "Maturity amount to be received" is the top priority among the life insurance customers with mean value 4.372. Following it, "Reputation of the company" is the second top preference; "Risk cover", "Tax benefit", and "Reasonable premium" are the third, fourth, and fifth important preference. Among the 20 attributes, "Technology" is the least preferred one (mean=3.428), while purchasing a life insurance policy. "Friends/relatives suggestion", "Advertisement", and "Delivery schedule" are the next least important preferences. All variables with their respective mean values are shown in figure 1.

It is to be noted that "Reputation of the company" is the most preferred attribute in case of LIC customers, whereas it is the fourth in case of private sector, while purchasing a life insurance policy. At the same time, for private sector customers, "Maturity amount to be received" is the most preferred one. As compared to private sector customers, LIC customers have given more importance to "Transparency" while purchasing a life insurance policy. However, this research shows that the attributes such as "Delivery schedule", "Advertisement", "Friends/relatives suggestion", and "Technology" are the least preferred variables for both public

Figure 1: Product Preferences–Mean Values



and private sector customers. Among these four variables, “Technology” is at the bottom of the ladder. It shows that “Technology” is still to play its role in insurance sector.

In order to test whether there is any difference between public and private sector customers in preferences of life insurance products while deciding to purchase a policy, a paired sample *t*-test is used. In the table 1, a positive difference indicates that the preference of LIC customers on a particular attribute, while deciding to purchase a life insurance policy, is more than that of their counterparts in the private sector. The *t*-values for Awareness of the product, Excellent product feature, Reputation of the company, Advertisement, Brand name, Tax benefits, Performance guarantee, Assured return, and Transparency indicate significant difference at level $p \leq 0.05$. Therefore H_1 is accepted. This means that on these nine attributes, public and private sector customers significantly differ in their

Table 1
Product Preferences: Public vs. Private – Attributes

<i>Attributes</i>	<i>Mean Public</i>	<i>Mean Private</i>	<i>Mean Difference</i>	<i>t</i>
Awareness of the Product	4.274	4.084	0.190	3.316*
Excellent Product Feature	4.076	3.968	0.108	2.173*
Reputation of the Company	4.454	4.190	0.264	5.577*
Advertisement	3.694	3.426	0.268	3.975*
Agent’s Recommendation	3.962	4.010	- 0.048	- 0.766
Friends/Relatives Suggestion	3.560	3.506	0.054	0.838
Brand Name	4.170	4.018	0.152	3.024*
Risk Cover of the Scheme	4.290	4.292	- 0.002	- 0.039
Tax Benefits	4.350	4.140	0.210	3.661*
Conveniently Obtainable	3.878	3.836	0.042	0.728
Performance Guarantee	4.124	3.942	0.182	3.485*
Regular Income	3.804	3.752	0.052	0.759
Assured Return	4.176	3.968	0.208	3.414*
Extra Coverage (Bonus)	3.844	3.790	0.054	0.863
Maturity Amount to be Received	4.406	4.338	0.068	1.523
Reasonable Premium	4.274	4.192	0.082	1.675
Behaviour of Executives / Agents	3.816	3.870	- 0.054	- 0.886
Delivery Schedule	3.732	3.662	0.070	1.189
Transparency	3.968	3.704	0.264	3.945*
Technology	3.464	3.392	0.072	1.008

* → *t*-values at $p \leq 0.05$ (two-tailed)

preferences while purchasing a life insurance policy. Moreover, the positive sign of the *t*-value indicates that preferences of LIC customers are more than that of private sector customers. Only on three attributes (Agent’s recommendation, Risk cover of the scheme, and Behaviour of executives/agents), the *t*-value is negative which shows that the preferences of private sector customers are more. However, the test failed to show any significant difference between the public and the private sector customers on these three attributes.

Table 2
Product Preferences: Public vs. Private–Factors

<i>Factors</i>	<i>Mean Public</i>	<i>Mean Private</i>	<i>Mean Difference</i>	<i>t</i>
Core Product	4.2680	4.0807	0.1873	4.993*
Promotional	3.8465	3.7400	0.1065	2.951*
Customer Expectation	4.1727	4.0893	0.0833	2.014*
Risk–Return	4.1047	3.9970	0.1077	2.866*
Service	3.7450	3.6570	0.0880	1.855

* → *t*-values (two-tailed) at $p \leq 0.05$

It is observed from the table 2 that the significance test at 5% level rejects the null hypothesis for all factors except Service factor. This means that there is significant difference between the customers of public sector and private sector life insurance companies regarding the preferences of product related factors such as Core product factor, Promotional factor, Consumer expectation factor, and Risk-return factor. Positive sign of the *t*-value for these factors shows that preferences of LIC customers are more than that of private customers.

Correlation Analysis

The factors affecting the preferences towards the purchase of a life insurance product may be correlated between each other. The inter-correlation between five factors is calculated using Pearson's Coefficient of correlation and tested for significance at 1% level. The results are presented in table 3. The result reveals that all significance level are 0.000, which is less than 0.05. This accepts the hypothesis, H_2 . This means that there is significant correlation among the factors affecting the preferences towards the purchase of a life insurance policy. It is also observed that all the correlation coefficients are positive.

Table 3
Correlation between Factors affecting Product Preferences

<i>Factors</i>	<i>Core Product</i>	<i>Promotional</i>	<i>Customer Expectation</i>	<i>Risk-Return</i>	<i>Service</i>
Core Product	1.000				
Promotional	0.211(**)	1.000			
Cust. Expectation	0.412(**)	0.343(**)	1.000		
Risk-Return	0.314(**)	0.214(**)	0.484(**)	1.000	
Service	0.426(**)	0.397(**)	0.399(**)	0.464(**)	1.000

** → Correlation is significant at the 0.01 level (2-tailed).

Purchase Decision-making

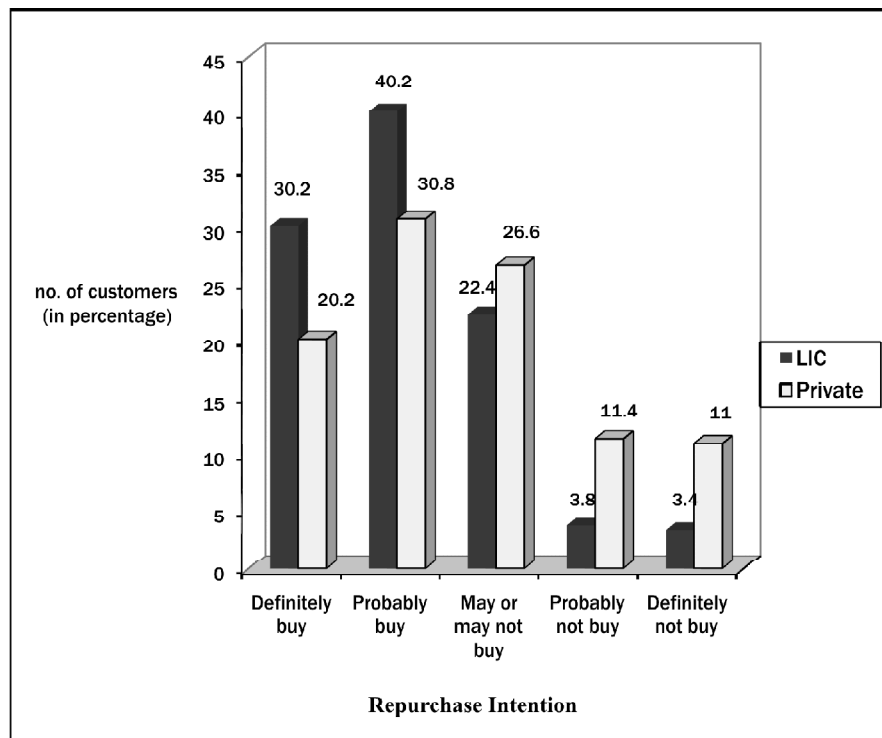
Before purchasing a life insurance policy, customers generally compare the products of several companies and finally select one as their insurer. It has been found that only 40% respondents (401) have made such comparison before purchasing a policy. Among them, 43% (217 of 500) of LIC customers and only 37% (184 of 500) of private customers have made such comparison before purchasing their policy.

Among those who compared different companies, 11% have compared with one company; 29% with two companies, 40% with 3 companies; and remaining customers with more than 3 companies. All respondents were asked to mention whether they compared only policies, companies, or the both. 23% customers have compared only Policies, only 12% compared companies, and the remaining 65% both.

Respondents were given two options to mention the nature of their insurance policy: Unit-Linked Policy and Non-Linked Policy. The overall response shows that 61.9% policies are unit-linked and 38.1% are non-linked. Among LIC customers, 38% customers have purchased unit-linked plans and 62% customers have purchased non-linked plans. Among the private sector customers, 75.8% have purchased unit-linked plans and only 24.2% have gone for the non-linked plans.

The repurchase intention of the customers from the same insurance company was measured using five categories: Definitely buy, Probably buy, May or may not buy, Probably not buy, and Definitely not buy. 25.2% respondents have agreed that they would definitely buy in future from the same company, whereas only 7.2% customers have strongly denied the repurchase from the same company. A comparative analysis (Figure 2) between the public and private sector shows that LIC customers (70.4%) have shown more positive repurchase intention than the private sector customers (51%) and the frequency of customers who have shown negative intention is comparatively more in the private sector (22.4%) than the public sector (7.2%). This may be the reflection of the low customer satisfaction level of the private sector.

Figure 2: Repurchase Intention of customers: Public vs. Private



Among the total respondents, 80.6% are married in which 66.63% are male. They were asked to indicate the decision-maker of the purchase of latest life insurance policy. Among the married people, 48.14% have taken the decision on their own. 14.64% purchases were decided by their spouses and 37.22% purchases were decided by both husband and wife. It is interesting to observe that in case of married male respondents, only 9 per cent purchases were decided by their spouses, but in case of married female respondents, 26% purchases were by the spouse. The association of gender of the married people and decision-making on purchase was statistically tested using chi-square test.

Table 4
 χ^2 -Test: Gender and Purchase Decision-making

Gender	Purchase Decision-making			Total
	By me	By spouse	By both	
Male	302	48	187	537
Female	86	70	113	269
Total	388	118	300	806

$\chi^2 = 60.140$ with $df = 2$, $p = 0.000 \leq 0.05$, Cramer's $V = 0.274$ at $p = 0.000$

Table 4 indicates the relationship between gender of the married people and type of insurance policy selected. The χ^2 -value obtained is 60.140 for 2 degrees of freedom at $p = 0.000$, which is more than the critical value of $\chi^2 = 5.991$ for 2 degrees of freedom at $p = 0.05$ significance level. The null hypothesis, H_0 , is therefore rejected. The results depicts that the purchase decision-making is heavily depending upon the gender of the married customers.

CONCLUSION

It is concluded that while deciding to purchase a life insurance product, customers give more importance to Maturity Amount to be received, Reputation of the company, Risk cover, Tax benefit, and Reasonable premium and the attributes such as Friends/relatives suggestion, Advertisement, Delivery schedule, and Technology are the least important preferences. LIC customers have first priority to "Reputation of the company", while it is "Maturity amount to be received" for private customers. This research also reveals that while prioritising various attributes on purchase public and private sector customers significantly differ on Awareness of the product, Excellent product feature, Reputation of the company, Advertisement, Brand name, Tax benefits, Performance guarantee, Assured return, and Transparency. Before purchasing a life insurance policy, majority of customers have compared both the insurance company and the policy. The comparative analysis between the public and private sector showed that LIC customers have shown more positive repurchase intention than the private sector customers. This

further confirms the conclusion that level of customer satisfaction is more in public sector than that of private sector.

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