DETERMINANTS OF LIFE INSURANCE PURCHASE DECISION INSIDE KATHMANDU VALLEY

Sujal Malla[1], Dr. Sandeep Kautish[2]
PG SCholar, Lord Buddha Education Foundation, Kathmandu, Nepal
Director (Academics), Lord Buddha Education Foundation, Kathmandu, Nepal

Abstract

Life insurance is one of the tools for risk mitigation for the financial loss that might occur after the death of the bread winner. In a developing country like Nepal where the major source of income of the people is remittance from abroad and tourism, the coverage of life insurance is mostly focused on the urban areas. This research has tried to examine the determinants of life insurance within Kathmandu Valley. For this research factors such as financial literacy, tax saving, risk perception and pandemic situation have been considered. This research has been done using primary data collected from various locations within Kathmandu Valley. The data collected has then been further refined to fit the analysis criteria i.e. people aged between 25 to 55 years and analyzed using Pearson's Correlation and Regression analysis to give a clear picture about the life insurance consumption within Kathmandu Valley. The data analysis shows that females are hesitant to purchase life insurance then men. Further people generating higher level of income do not prefer life insurance as they have enough surplus amount to cover the financial loss when the breadwinner dies. However, in case of lower level of income they have other financial emergencies and cannot afford life insurance. The research concludes that all the determinants used have a positive relationship with the life insurance purchase decision however there is still room for improving the consumption of life insurance by conducting proper awareness of tax saving incentive available on payment of life insurance premium.

Key words: Life insurance, Theory of decreasing responsibility, Tax saving incentive, Pandemic situation, Risk, Insurance purchase

1 Introduction

As death is one of the most uncertain things in the world, the people may die at any time. A family generally suffers from unwanted financial burden when the primary breadwinner dies. To hedge this burden, various kind of financial instruments like life insurance are available in the market. Life insurance contract is considered as a hedging tool for an individual which compensates the insured with the sum insured. There are various type of life insurance plans such as term-plan and endowment plan.

For a developing country like Nepal, banking and insurance industries are the backbone for financial stability and economic development of the people. Gross domestic production (GDP) is used as a measure to evaluate the financial stability and the economic performance of any country and only 1.70% of the total GDP has been contributed by life insurance premium in Nepal (World bank, 2022).

As per the data published by NIA (Nepal Insurance Authority, 2022) life insurance business shows an annual increment of 14.63% based on gross life premium collected. Similarly, the coverage of life insurance in the context of Nepal 38.26% excluding foreign employment. In this research the determinants of life insurance purchase decision inside

Kathmandu Valley have been studied and data for the same has been collected and analyzed.

This research was conducted within Kathmandu valley i.e. Kathmandu, Lalitpur and Bhaktapur districts. The data has been collected from people ranging from 25 to 55 years. This research has only considered financial knowledge of the people, information about the tax saving incentive, impact of the post-pandemic situation, and risk perception as factors on any impact on the purchase of life insurance.

This research has been conducted to meet the following objectives:

i. To understand if financial literacy has an impact on life insurance purchase decision.
ii. To determine whether tax saving incentive increases the life insurance consumption.
iii. To find out whether risk perception of the people affects life insurance purchase decision.
iv. To understand whether pandemic situation has impact on the life insurance purchase decision.

2 Literature Review

As per (Deb et al., 2021), people in India generally see insurance as a tax-saving instrument and are more inclined towards saving due to the coverage of risks and returns by life insurance. Similarly, (Hecht & Hanewald, 2012) also confirmed that socio-demographic factors, market characteristics, tax incentives and education influence the life insurance demand. Further, in research conducted by (Md et al., 2017) the theory of decreasing responsibility explains insurance need are higher for younger people as compared to older people. As per (Masud et al., 2021) the key to influence life insurance purchase are subjective norms, perceived behavioral control, and trust and risk perception. In a research conducted by (Wang, 2010) in China, owning life insurance increases if people have knowledge about it. As per the study conducted in Sri Lanka by (Dodamgoda & Canagasabey, 2019) millennial do not prefer lengthy purchase periods of life insurance as it does not provide living benefits until the death of the person purchasing. (Zakaria et al., 2016) found in their research that purchase of Life insurance is for saving motives of the people. Life insurance demand increases when unforeseen circumstances occur as per the study conducted by (Segodi & Sibindi, 2022). Further, they also found that endowment plans are used as a long-term savings option.

3 Research Methodology

For the study, data was collected from Kathmandu valley within 3 months period where 316 people participated in the survey, among them 23 responses were discarded as they

were not within the age of 25 to 55. The following conceptual framework has been proposed for the study.

The data collected were analyzed using inductive approach to determine the cause and effect relationship between the variables. For data analysis the value for no and yes are 0 and 1 respectively, similarly the questions in Likert scale have been valued from 1 to 5 for strongly disagree, disagree, neutral, agree and strongly agree respectively. These collected data have been exported in Microsoft Excel format and fitted into SPSS for analysis.

4 Research Findings

4.1 Demographic analysis

From the gender-wise analysis females are hesitant to purchase life insurance as compared to male population. Age-wise distribution shows that people aged between 35-45 years and 45-55 year are inclined towards purchasing life insurance. While people ranging from 25-35 are hesitant to purchase life insurance as they have lower dependency rate and savings as compared to older people. Education-wise distribution shows that education plays a vital role in life insurance purchase decision. Similarly, people having lower income purchasing life insurance becomes a luxurious goods as they have less savings and cannot afford to pay insurance premium while for people having higher income other financial instruments give higher return as compared to life insurance returns. So, life insurance is concentrated more in mid-level income earners. Generally married people have higher dependency and are more willing to purchase life insurance as a coverage as compared to unmarried people.

4.2 Reliability test of data

Variables	**Type of variable**	**Cronbach's Alpha**
Financial Literacy	Independent	0.704
Tax saving incentive	Independent	0.737
Risk Perception	Independent	0.883
Pandemic situation	Independent	0.715

As per the table above, all the independent variables have Cronbach's alpha value of 0.7 or higher which means that all the questions asked for each variable are credible. This suggest that the data are highly reliable and have a higher internal consistency with each other. As the data are highly reliable, all the variables have been used for the research analysis.

4.3 Correlation Analysis

Variables	**Type of variable**	**Pearson Correlation**
Financial Literacy	Independent	0.467
Tax saving incentive	Independent	0.177

Risk Perception	Independent	0.660
Pandemic situation	Independent	0.286

The degree of correlation between the variables is described in terms of numbers ranging from +1 to -1. If the value is near ±1, the relationship is said to be perfect correlation as one variable increases, the other variable also increases (in case of positive correlation) or decreases (in case of negative correlation). If the value ranges between ±0.5 and ±1, it is said that there is a high degree of correlation. If the value ranges between ±0.30 and ±0.49, it is said that there is a moderate degree of correlation. If the value is less ±0.29, it is said that there is a small degree of correlation. The Pearson correlation coefficient between Financial Literacy and Life insurance purchase decision is 0.467 which shows that Financial Literacy and Life insurance purchase decision have moderate level of correlation. Further the Pearson correlation coefficient between Tax saving and Life insurance purchase decision is 0.177 which shows that Tax saving and Life insurance purchase decision have low level of correlation. Similarly, the Pearson correlation coefficient between Risk Perception and Life insurance purchase decision is 0.660 which shows that Risk perception and Life insurance purchase decision have high level of correlation. Moreover, the Pearson correlation coefficient between Pandemic Situation and Life insurance purchase decision is 0.286 which shows that Pandemic situation and Life insurance purchase decision have low level of correlation.

4.4 Regression Analysis

Variables	**Type of variable**	**R square value**	**Significance Level**
Financial Literacy	Independent	0.218	0.000
Tax saving incentive	Independent	0.031	0.002
Risk Perception	Independent	0.435	0.000
Pandemic situation	Independent	0.082	0.000

The value of adjusted R square between financial literacy and life insurance purchase decision shows value of 0.216 which represents that about 21.6% the total variation in life insurance purchase decision is explained by financial literacy. Further, the ANOVA test of financial literacy and life insurance purchase decision shows significant value of 0.000 which suggest that the model is statistically significant. The value of adjusted R square between tax saving incentive and life insurance purchase decision shows value of 0.028 which represents that about 2.8% the total variation in life insurance purchase decision is explained by tax saving incentive. The ANOVA test of between tax saving incentive and life insurance purchase decision shows significant value of 0.002 which suggest that the model is statistically significant. The value of adjusted R square between risk perception and life insurance purchase decision shows value of 0.433 which represents that about 43.3% the total variation in life insurance purchase decision is explained by risk perception. The ANOVA test of risk perception and life insurance purchase decision shows significant value of 0.000 which suggest that the model is statistically significant. The value of adjusted R square between pandemic situation and life insurance purchase decision shows value of 0.078 which represents that about 7.8% the total variation in life insurance

purchase decision is explained by pandemic situation. The ANOVA test of between pandemic situation and life insurance purchase decision shows a significant value of 0.000 which suggest that the model is statistically significant.

From the above analysis of the data the alternative hypothesis as proposed is accepted. This concludes that there is significant relationship between the independent variables (financial literacy, tax saving incentive, risk perception and pandemic situation) and dependent variable (life insurance purchase decision).

5 Conclusion

From the above findings, the research concludes that the factors such as financial literacy, tax saving incentive, risk perception, pandemic situation have a positive relationship with life insurance within Kathmandu valley. Life insurance is seen as a risk mitigation tool rather than as an investment tool. Most of the people who purchase life insurance are also unaware of the fact that they can get tax benefit while calculating income tax. After COVID-19 pandemic, the attraction towards life insurance has increased as people realized that life is a fragile thing and the death of the breadwinner puts a lot of pressure on the financial status of the family.

The concept of life insurance as a whole is a difficult thing to sell to younger generation as they have lower dependency on them. However, as they get older and have a family, they are inclined towards purchasing life insurance. People are more attracted towards higher return investments such as capital markets and money markets that provide adequate returns on the investment. Insurance is seen as an expense as the return from the premium paid is only received after the maturity of the insurance and not within its lifetime, if the insured does not die.

To conclude there is still a huge area to work on for increasing the life insurance consumption within Kathmandu valley. The financial benefits a life insurance provides should be glorified to attract newer generations and unmarried people to invest in life insurance as there is very less exposure or consumption of life insurance.

6 Recommendation

The research has been conducted within Kathmandu valley where head offices of the major life insurance companies lie, so the area for increment of life insurance is quite limited. However, this research might be helpful to them to bring out newer products and attract new customers.

The research provides the following suggestions and recommendations to improve the life insurance consumption within the country as a whole.

6.1 Recommendation to Government of Nepal

- To improve the life insurance consumption of Nepal, government should provide continuous support to aware people about insurance as a whole.
- As new insurance act, 2079 has been passed, the related rules and regulations should be formulated to tackle the policy surrender problems.

6.2 Recommendation to Nepal Insurance Authority

- NIA should develop and implement the polices and directives which will encourage to purchase life insurance policies.

- ❖ NIA should also do a promotional campaign regarding tax benefits available to the people engaged in income generation.
- ❖ NIA should conduct awareness campaigns in collaboration with local government, province government and life insurance companies regarding life insurance as risk mitigator.
- ❖ NIA should establish micro life insurance company that focuses on the low-income level people to make the life insurance easily accessible to low-income level as well.

6.3 Recommendation to Life Insurance Companies

- ❖ Life insurance companies should focus on products that provide similar returns to the policyholder as other financial instruments provide.
- ❖ Life insurance companies should conduct agent training programs at rural areas to increase the reach of life insurance.
- ❖ Life insurance companies should have a transparent calculation of the amount payable by the policy holders.
- ❖ Life insurance agents should also think about the customers and suggest those products that best suitable the consumer's financial status and not only about the commission received.

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