FACTORS AFFECTING ON BUYING BEHAVIOUR: AN EMPIRICAL STUDY IN LIFE ASSURANCE MARKET IN SRI LANKA

[1]W.W.S.N. Fernando and[2]D.A.M Perera

[1]*Insurance Executive, Janashakthi Insurance PLC*
[2]*Senior Lecturer, Department of Accountancy, Faculty of Business Studies & Finance, Wayamba University of Sri Lanka, Kuliyapitiya,*

Keywords: *Insurance Industry, Buying Behaviour, Company Image, Policy Rewards, Clients' Socio- Economic Conditions*

Introduction

There are immeasurable risks in every sphere of life and everybody is exposed these risks. Generally, people are risk averse and, therefore, they purchase insurance coverage in order to condense their risks. However, considerable evidence suggests that many people for whom insurance is worth purchasing do not have coverage and others who appear not to need financial protection against certain events actually have purchased coverage (Howard & Mark, 2005). The purpose of this study is to investigate the demand for insurance in Sri Lankan context and to examine factors influencing on purchasing insurance coverage, particularly life assurance coverage.

There is a large literature on the demand for life assurance coverage that has been generated by the state-preference approach and the theory of contingent claims developed by Arrow (1953). Life assurance is a sum of money (i.e. premium) paid by the insured in consideration of the insurer's bearings the risk of paying a big sum upon a given unforeseen event. Life assurance, therefore, is universally recognized as a tool to eliminate risk, substitute certainty for uncertainty and guarantee timely assist for the family in the unlucky event of the death of the wage earner. According to the Annual report of Insurance Board of Sri Lanka (IBSL), as reflected in Table 01, the total number of life assurance policies in force was reported as 2,244,245 at the end of year 2010. During the year insurers have issued 503,543 new life assurance policies which indicate an increase of 8.46% compared to 464,249 new policies issued in year 2009. This growth was mainly due to the conducive economic conditions that prevailed in the country, new long term insurance products introduced to the market and strong advertising campaigns carried out by insurers during the year. The penetration of life assurance business as a percentage of the total population was 10.9% (2009: 10.4%), while the penetration as a percentage of total labour force was 27.7% (2009:26.4%).

Table 01: Life Assurance Penetration in Sri Lanka 2004-2010

	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
No. of New Life Policies Issued	304,639	366,132	409,933	527,385	555,886	464,249	503,543
No. of Life Policies in Force (in '000)	1,490	1,629	1,741	1,923	2,104	2,132	2,244
Total Population (in '000)	19,462	19,668	19,886	20,010	20,217	20,450	20,653
Total Labour Force (in '000)	8,061	7,312	7,599	7,489	8,082	8,074	8,108
Penetration as % of the Total Population	7.7	8.3	8.8	9.6	10.4	10.4	10.9
Penetration as % of the Labour Force	18.5	22.3	22.9	25.7	26.0	26.4	27.7

Source: IBSL Annual Report 2010

As given in the table 01, since 2007 the numbers of new life assurance policies issued by the insurance industry in each year are approximately half a million. However the life assurance penetration is still roughly 11% of the total population. During the year 2008 and 2009, the growth of life assurance penetration was zero percent, while that was in 2009 and 2010 just 0.5%. This implies that high life assurance policy lapzation rate exist in Sri Lankan insurance industry. Therefore, it is vital to examine the people's behaviour in life assurance market and identify the important factors affecting on their decision making process.

Insurance affects individuals prior to specific events occurring because the insurer must collect premiums. It then pays people in the event of losses suffered from events covered by the policy. Effective preventive measures on the part of insured people sometimes lower the premium, if the insurer can observe them at low cost (Howard & Mark, 2005; Guillén *et.al.*, 2009). Scholars suggest that buyers respond in particular ways to different stimuli, both marketing and others, after they have 'processed' those stimuli in their minds. These buyers are assumed to maximize a conventional von Neumann–Morgenstern utility function (1947); choices made in accordance with such a function are defined as "rational." Considerable evidence suggests that factors external to the consumer act as a stimulus for behavior, and the consumer's personal characteristics and decision-making process interact with the stimulus before a particular behavioral response is generated. In this study, researchers consider the impact of insurance company image & its goodwill, insurance policy rewards and benefits, clients' socio- economic conditions, people awareness in insurance, and the persuasion of insurance field force on life assurance buying behaviors in Sri Lanka Insurance market.

Methodology
100 respondents were randomly selected for this study from the Western Province. A structured and self-administered questionnaire was used to gather data. The questionnaire was contained two sections: the first section was designed to gather the demographic of the respondents and the second section inquired the respondents feeling of insurance and influence of selected factor on their buying behaviour. Researchers used five-scale lickert, in which 05 denotes the most important or significant while 01 denotes the least important or significant, to measure the respondents' attitudes towards the different stimuli in insurance market.

42% of the respondents in the sample were belonged to 26 - 35 years age category, and it was followed by 36 - 45 years age group (21%). Out of the total sample, almost 70% were male respondents and 58% them were married. When consider their monthly income, 32% confirmed that they earn Rs. 25,000 to Rs. 50,000 per month and 26% accepted that their monthly earnings are beyond Rs. 50,000. 46% of the sample population was passed GCE (A/L) examination and 44% had some sort of professional qualifications.

Discussion and Conclusion
According to the findings, the most influential factor that persuades people to purchase or not to purchase a life assurance product is the potential rewards and benefits promised by the insurer, and the cost of those potential returns for the buyer ($x^- = 4.69$). Particularly, the maturity benefits ($x^- = 4.94$), critical illness coverage and the hospital coverage are found to be a critical ($x^- = 4.90$) factors in buying a life assurance product. This is followed by the insurance company image & its goodwill ($x^- = 4.26$), client socio- economic conditions ($x^- = 4.25$), and the persuasion of insurance field force ($x^- = 4.11$) (see figure 01).

Figure 01.Mean Values of Influencing Factors
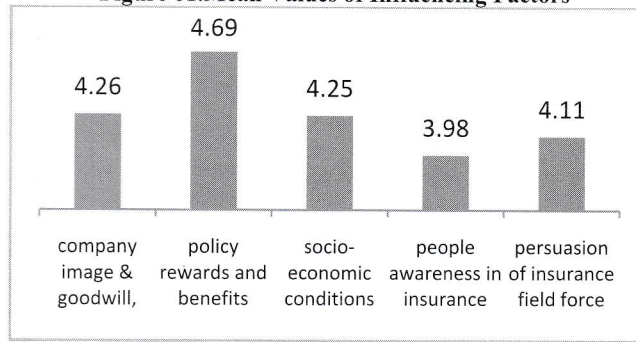
To date, if any, few academic studies have been done in the peoples' behaviour in insurance industry in Sri Lanka. Therefore, results summarized above, provide practical insights of peoples' buying behaviour in Sri Lankan insurance market. These findings provide direction on what aspect that insurance companies should taken into consideration in planning their life assurance products and develop their marketing mix. The main limitation of this study is that the total sample was selected from the Western Province; therefore results cannot be generalized. Further, in this study, only few aspects of consumer behaviour have been taken into consideration. Client's cultural aspects, and their buying process etc, were not been considered.

References

Arrow, K., (1953). Le role des valeur boursieres pour la repartition;la meilleure des risqué, *Econometrie* 11, 41–47, translated and reprinted in 1964 as 'The role of securities in the optimal allocation of risk bearing', *Review of Economic Studies,* 31, .91–96

Guillén, M., Perch-Nielsen, J., Pérez-Marín, A.M., (2009). Cross-buying behaviour and customer loyalty in the insurance sector, *EsicMarket*, 132, 77-105

Howard Kunreuther & Mark Pauly, (2005). Insurance Decision-Making and Market Behavior, *Foundations and Trendsin Microeconomics,* 1(2),.63 –127

IBSL (2010). Annual report of Insurance Board of Sri Lanka