Factors Affecting the Demand for Life Insurance

*Dr.Saravanan Devadoss

*Assistant Professor, Department of Management, College of Business and Economics, Addis Ababa University, Addis Ababa

Abstract

The growth of life insurance in Ethiopia is very low compared to the non life class of insurance business. This fact has brought an idea for this research and further exploratory study was conducted to identify the major factors contributing to this low growth. Low awareness, low income, and religious belief of the public were found to be the major three factors affecting the demand for life insurance from the demand side of the business. The objective of the study was to assess whether the three hypothesized factors affect demand for life insurance in Ethiopia.A sample of 400 respondents who do not have life insurance policy whatsoever were selected from 7 areas of the country to gather primary data on awareness, income factor and religious factors affecting life insurance demand. Likert scale items consisting of 18 questions were designed and a 5 point scale, ranging from "strongly disagree" to "strongly agree" was used to gather data.The samples were categorized by the type of religion as Christian, Muslims, and 'Others'. Non probability sampling; convenient sampling method, was used to gather data from the people. SPSS 20 was used to analyze the data, and spearman's rho were used to test the significance correlations. These analysis methods were also used to test the hypotheses developed.The result of the finding shows that there is a strong positive correlation between awareness and demand for life insurance, while negative but moderate correlation found between religious beliefs and demand for life insurance in general. But no correlation was found for christens and 'other' religions. A negative correlation between income and demand for life insurance was found.

Key words: *Awareness, life insurance demand*, *religion*.

Introduction

Insurance has a real effect on the global economy, of course, through the sheer number of people that the sector employs. But it also acts in a complementary fashion with the banking sector, offering easier access to credit, channeling savings into long-term investments and providing greater transparency and liquidity to the markets, thus providing further support and growth to the economy.

Compared to the growth and importance of life insurance business worldwide, the growth trend in Ethiopia is not promising. So many different factors might be responsible for the low growth of life insurance business in Ethiopia. However the number of research works in Ethiopia on this area is very limited compared to the social and economic benefit of life insurance. On this ground, assessing the factors affecting the demand for life insurance and suggesting an appropriate marketing strategy to insurance companies as well as policy makers will enhance the life insurance growth. This thesis paper was designed to assess whether awareness, income, and religion affect the demand for life insurance in Ethiopia.Currently, 17 insurance companies are performing business in the Ethiopian insurance industry. In spite of the increasing number of the companies, the performance of long term insurance/**life insurance sales** is unattractive unlike the general insurance product lines.

Statement of the Problem

In spite of the growth trend of non-life class of insurance business, the life insurance business is not attractive in Ethiopia. The increasing population growth of the country is also an attractive opportunity for this business. However the industry is almost stagnant in this sector. From an international context, so many factors might contribute for the slow growth of life insurance business. Some of the factors rose by different writers and researchers at different time in different countries are lack of knowledge about life insurance product, lower disposable income, and impact of religion.

Regarding the low demand of life insurance in Ethiopia, the researcher has made an exploratory investigation using field interviews on a limited scale with concerned insurance company managers in Ethiopian Insurance Corporation (EIC), with a view to secure greater insight into the practical aspects of the problem. The interviewed insurance company managers raised many reasons like the above factors but they repeatedly focus on three demand side factors namely low disposable income of individuals, low awareness level, and the religion of individuals.

In spite of the large number of researches on factors affecting the demand for life insurance worldwide, the efforts made in our country is very low. The motive behind making this research lies on the low emphasis given to the factors affecting life insurance consumption in Ethiopia. Especially no research was specifically made to assess the effect of religion, income, and awareness on life insurance demand. Because of the dominant of religious thinking in the country and its sensitivity, researchers failed to deeply assess its effect on life insurance.

Objectives of the study

➢ To assess the factors income, awareness, and religion affect the demand for life insurance in Ethiopia
➢ To explore avenues up on which a vibrant insurance market could be developed in order to increase the life insurance consumption.
➢ To suggest appropriate feedback to the policy makers.

Research Hypotheses

From the research objectives, the following hypotheses are formed.

Hypothesis 1- H0: Christianity belief does not affect demand for life assurance in Ethiopia

Hypothesis 2- H0: Islamic belief does not affect demand for life assurance in Ethiopia

Hypothesis 3- H0: Other beliefs do not affect demand for life assurance in Ethiopia

Hypothesis 4- H0: Awareness does not affect demand for life insurance in Ethiopia

Hypothesis 5- H0: Income is does not affect demand for life insurance in Ethiopia.

Review of Literature

Demand for Life insurance

Yaari[1] and Hakansson[2] were the first to develop a theoretical framework to explain the demand for life insurance. Within this framework, the demand for life insurance is attributed to a person's desire to bequeath funds to dependents and provide income for retirement. Lewis[3] extends this framework by explicitly incorporating the preferences of the dependents and beneficiaries into the model.

Personal Income

Showers and Shotick[4] used Tobit analysis to analyze the effect of household characteristics on the demand for total life insurance with data from the Consumer Expenditure Survey in 1987. The dependent variable used was premium expenditures on life insurance products. Çelik and Kayali[5] have studied determinants of demand for life insurance in European countries and concluded that *income* per capita has positive and significant effect on demand for life insurance.

Religious belief

Zeilzer[6] concluded that religion has created a negative perception about life insurance since long time. Religious people, especially, Catholics, Muslims and a few other sects oppose life insurance coverage thinking that it is an insult to the God's power of protection. In similar vein, Wasaw and Hill [7] tested the effect of Islam on life insurance consumption using an international data set. The results of their study indicate that, ceteris paribus, consumers in Islamic nations purchase less life insurance than those in non-Islamic nations.

Awareness and knowledge

According to Oworen[8] awareness and knowledge problem is even made worse by the high level of illiteracy among the citizenry. Khan [9] stated that awareness/knowledge test is used to find out what the consumers are aware of and what they do not know. This is imparted to them by advertising and by other promotional methods.

Figure 1 Framework for factors affecting demand for life insurance
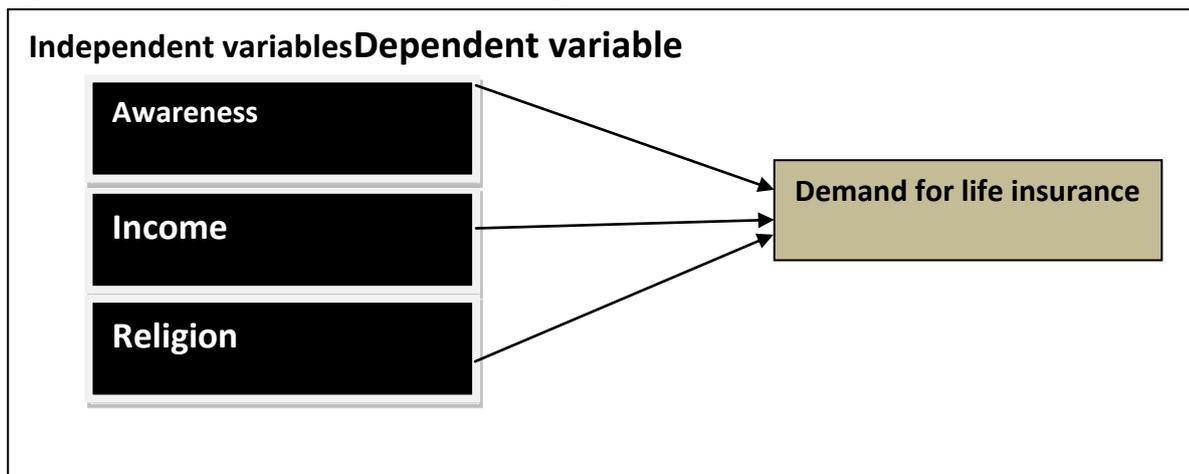
Source: Self extracted from review of literature

Research Methodology

This study has used deductive design approach. The total population for this study is about 51,215,732. Convenient sampling method is used to select the respondents. The major cities in Ethiopia are considered for this study. They are Addis Ababa, Hawassa, Adama, Deredawa, Jimma, Bahirdar and Mekele. Based on sample size determination 391 are selected for this study. The samples are selected based on the percentage of religion in Ethiopia. The researcher has prepared questionnaire and gather data from the respondents. Insurance company's website, reports, journals and books are referred for this study. The questionnaire consists of 25 questions out of which 7 questions seek information about demographic characteristics of respondents, and rest of the 18 questions are designed to gather data on awareness, income, religion and demand for life insurance. Five point Likert scale was used to prepare the questionnaire.

Results and Discussion

Table1: Summary of the total count and percentage of respondents' demographic characters

Gender	Frequency	Percent	Educational level	Frequency	Percent
Male	*260*	*66.5*	*Below grade 10*	*56*	*14.3*
Female	*131*	*33.5*	*Grade 10 up to 12+*	*80*	*20.5*
Religion	**Frequency**	**Percent**	*Diploma*	*138*	*35.3*
Christian	*202*	*51.7*	*Degree*	*109*	*27.2*
Muslim	*136*	*34.8*	*Masters and above*	*8*	*2*
Others	*53*	*2.8*	*total*		*100*
Age category	**Frequency**	**Percent**	**Marital status**	**Frequency**	**Percent**
18-28	*49*	*12.5*	*Single*	*137*	*35*
29-40	*139*	*35.5*	*Married with no children*	*40*	*10.2*
41-54	*146*	*37.3*	*Married with children*	*193*	*49.4*
55-65	*57*	*14.6*	*Divorced*	*21*	*5.4*
Employment status	**Frequency**	**Percent**	**Income category in Birr**	**Frequency**	**Percent**
Business owner	*153*	*39.1*	*Below 4000.00*	*49*	*12.5*
Paid worker	*227*	*58.1*	*From 4000 to 7000*	*129*	*33*
Any other	*11*	*2.8*	*From 7001 to 10000*	*71*	*18.2*
			From 10001 to 15000	*79*	*20.2*
			Above 15,000	*63*	*16.1*

Source: Own survey 2015

From table 1, 51.7% of the respondents are Christians, 34.8% are Muslims, and 13.6% are 'other' types of religions. All subsequent analysis is based on the type of religious belief of the respondent and they are mutually exclusive samples. As it can be observed, from the total of 391 respondents, 66.5% of them are male while the rest 33.5% are female respondents. Regarding their age category, about 37.3% of respondents are within the age of 41-54, taking the largest share followed by age category of 29-40 by 35.5%. From the total of 391 respondents, the largest share in educational level is diploma and it is 35.3% followed by degree, grade 10 up to 12+, and below grade 10, by 27%, 20.5%, and 14.3% respectively. The smallest percentage share is masters and above educational level with a count of eight (8) respondents only.

From the total 391 respondents 49.4% of them are married and have children, while 35% are single individuals. The rest 10.20% and 5.4% are married with no children, and divorced respectively. For the purpose of this study the monthly average income of respondents was classified under five categories. As per the collected data, about 33% of the respondents earn monthly income from Birr 4000 up to 7000. The rest earn below birr 4000, from 7001 to 10,000, from 10,001 to 15,000, and above 15,000 by 12.53%, 18%, 20%, and 18% respectively.

1. Hypothesis 1- H0: Awareness does not affect demand for life insurance in Ethiopia (no significant difference)

Table 2   Correlations table awareness vs. life insurance demand

			Demand for life insurance	Awareness level of life insurance
Spearman's rho	Demand for life insurance	Correlation Coefficient	1.000	.833**
		Sig. (2-tailed)	.	.000
		N	391	391
	Awareness level of life insurance	Correlation Coefficient	.833**	1.000
		Sig. (2-tailed)	.000	.
		N	391	391

**. Correlation is significant at the 0.01 level (2-tailed).   Source: output from SPSS primary data 2015

The output from the above table shows a positive correlation of 0.833 between awareness of life insurance and demand for life insurance. Based on this fact a correlation of *+0.833* indicates a *strong positive relationship* between awareness and demand for life insurance. The P value of *0.00* is less than *0.01* indicating a *significant correlation* between the variables. *We can conclude that, as per the result from this study, 83.3% of the time, awareness is responsible for low demand of life insurance.* That means the higher awareness the more demand for life insurance. <u>hypothesis 1, which says awareness does not affect demand for life insurance in Ethiopia, is rejected.</u>

2.   Hypothesis 2- H0: Income of an individual does not affect demand for life insurance in Ethiopia.

Table 3 Correlation table Income factor vs. demand for life insurance

			Demand for life insurance	Income factor
Spearman's rho	Demand for life insurance	Correlation Coefficient	1.000	.560**
		Sig. (2-tailed)	.	**.000**
		N	391	391
	Income reason for not buying life insurance	Correlation Coefficient	.560**	1.000
		Sig. (2-tailed)	.000	.
		N	391	391

**. Correlation is significant at the 0.01 level (2-tailed). Source: SPSS primary data

The obtained Spearman rank-order correlation coefficient (rho = 0.560, ***p***< .01) indicates that there is a *positive correlation* between income and demand for life insurance. But unlike the awareness, the relationship is not strong. In this case we can say that 5*6* percent of the time, low demand for life insurance is *due to lower income* of the people. The strength of the correlation between income and demand for life insurance is moderate as per this data. *Therefore, the null hypothesis that income does not affect demand for life insurance in Ethiopia is rejected*. A p-value less than α=0.01 indicates that *we have enough statistical evidence to reject the null hypothesis*, and thereby, indirectly accept the alternative hypothesis.

3. Hypothesis 3- H0: Christianity belief does not affect demand for life assurance in Ethiopia (no difference)

Table 4: Spearman's rho correlation statistics for Christianity belief and demand for life insurance

			Demand for life insurance	Christianity belief
Spearman's rho	Demand for life insurance	Correlation Coefficient	1.000	.015
		Sig. (2-tailed)	.	.832
	Christianity belief	Correlation Coefficient	.015	1.000
		Sig. (2-tailed)	.832	.

a. Listwise N = 202   Source: SPSS output of primary data 2015

From this correlation table, we can see that the P-value for Christianity belief is higher than 0.05 and the correlation coefficient is 0.015. *The hypothesis states that, Christianity belief does not affect demand for life assurance in Ethiopia, cannot be rejected.*

4. Hypothesis 4- H0: Islamic belief does not affect demand for life assurance in Ethiopia

Table 5: Spearman's rho correlation statistics for Islamic belief and demand for life insurance

   Correlations[a]

			Demand for life insurance	Islamic belief
Spearman's rho	Demand for life insurance	Correlation Coefficient	1.000	-.438**
		Sig. (2-tailed)	.	.000
	Islamic belief	Correlation Coefficient	-.438**	1.000
		Sig. (2-tailed)	.000	.

Listwise N = 136

 ** Correlation is significant at the 0.01 level (2-tailed).   Source: SPSS output of
 primary data 2015

It can be seen that the correlation between Islamic belief and demand for life insurance is negative and statistically significant (r= -.438, P<0.01). This indicates that for Ethiopian Muslims, 43.8% of the time, the their belief is a reason for not buying life insurance, but the relationship is *not strong because there is a more, 56.2% chance of favoring life insurance*. The hypothesis that Islamic belief does not affect demand for life assurance in Ethiopia is rejected.

The interpretation to these data shows, other things constant, if a marketer works towards increasing awareness of life insurance in Muslims for those who have the buying capacity, the probability of success will be 57%. Or in other words 43 Muslims, out of 100 reject life insurance purchase on the basis of religious ground.

5.   Hypothesis 5- H0: 'Other' beliefs do not affect demand for life assurance in Ethiopia

Table 6: Spearman's rho correlation statistics for 'other' belief and demand for life insurance

Correlations[a]

			Demand for life insurance	'other' belief
Spearman's rho	Demand for life insurance	Correlation Coefficient	1.000	-.144
		Sig. (2-tailed)	.	.305
	Other belief	Correlation Coefficient	-.144	1.000
		Sig. (2-tailed)	.305	.

Listwise N = 53   Source: SPSS output of primary data 2015

We also refer this table, where the p-value is 0.305 and r=-.144. Under this table, spearman's correlation was calculated examining the relationship between 'any other' religious type and demand for life insurance. A weak correlation that was *not significant* was found (r =-.144, p > .05). It indicates that 'Any other' religion has no relation to demand for life insurance. Like the result under Christianity belief, there is no significant relationship between 'any other' type of religion and demand for life insurance. *Therefore,* the null hypothesis**,** 'other beliefs' do not affect demand for life insurance, cannot be rejected. Rather we reject the alternative hypothesis that 'other' belief affects demand for life insurance. In other ways, for a marketer, the probability of facing a challenge on religious ground is very low or nil if the target customers are non-Muslims.

Conclusion

Based on the findings of this study, awareness, income, and religious beliefs have affected the demand for life insurance in Ethiopia. However, the extent of effect for the three factors was found different based on the results of the significance test. While the correlation between demands for life insurance was found positive and strong, the correlation between income factor and demand for life insurance was negative and has moderate strength. Different results were found between religious belief and demand for life insurance. While no relationship between religious belief and demand for life insurance found for Christians and 'others', a negative but moderate correlation between Islamic belief and demand for life insurance was found.

Even though religion is prevalent in the country, its power to influence the purchase of life insurance is found very low in case of non-Muslims. This is an opportunity that should be taken with granted by the industry. A negative moderate correlation between Islamic belief and demand for life insurance was found using spearman's correlation. Awareness was found to be strongly correlated with the demand for life insurance. Insurance companies can exert their effort in increasing awareness and benefit from the expected benefits. As per the result from Spearman's correlation between income factor and demand for life insurance, the correlation found not to be strong. Income reason for not buying life insurance is not a significant factor as per the result of this study.

Recommendations

On the basis of the findings and conclusions reached, the following recommendations were forwarded in order to include and give emphasize in developing the life insurance business in Ethiopia. Insurance companies can focus their strategies on the factors identified and enhance the demand for life insurance.

The findings of this study suggest some major implications for marketing of life insurances business in Ethiopia. Even though religious belief and income factor found to correlate moderately with life insurance demand, as discussed above, awareness was found to be highly positively correlated with. This is an indication of insufficient communication from the insurance industry for its contribution for lack of understanding of its benefit to society. Lack of understanding of life insurance is associated with misunderstanding of life insurance. One of the indications of the misunderstanding of the value and benefit of life insurance is the association of life insurance against religious belief.

References

1. Yaari, Menahem E. 1965. Uncertain Lifetime, Life Insurance, and the Theory of the Consumer, Review of Economic Studies, 32, Pp 137-150.

2. Hakansson, N. H. 1969. Optimal Investment and Consumption Strategies under Risk, and Uncertain Lifetime and Insurance, International Economic Review, 10: Pp 443-466.

3. Lewis, Frank, D. 1989. Dependents and the Demand for Life Insurance, American Economic Review 79, Pp 452-466.

4. Showers, V.E., &Shotick, J.A. 1994. The effects of household characteristics on demand for insurance: A Tobit analysis. Journal of Risk and Insurance, 61: Pp 492-502.

5. Celik, S. and Kayali M. 2009. Problems and Perspectives in Management. 7(3): Pp 32-37.

6. Zelizer, V.A.R.1979. Morals and markets. New York: Columbia University Press.

7. Wasaw, B.and R. D. Hill .1986. The Insurance Industry in Economic Development. New York: New York University Press. Pp 78-79.

8. Khan, M. 2006. Consumer behavior and advertising management. New age international publisher. New Delhi. Pp 105-106.