DIMENSIONS OF INSURANCE: A PERCEPTUAL STUDY OF FUTURE MANAGERS

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Abstract

In India, gradually emerging insurance business, as a professional activity, has rendered the awareness of insurance as much essential as trading for the society. Privatization of insurance business has added more significance for the people. Safety, security and investment have become needs of the present society. People now demand insurance as compared to the previous attitude of having to sell insurance to people. They have become selective and practical. The insurance industry has to meet the expectations of the people. The function of insurance is to spread losses over a large number of persons who have previously agreed to cooperate with each other. The risk cannot be averted, but loss occurring due to a certain risk can be distributed among persons who have agreed to share the loss. Thus insurance is a social device to accumulate funds to meet the uncertain losses arising through a certain risk to a person insured against the risk. Prospects of insurance are bright because people accept it as an essential cover for life. Privatization of insurance is likely to introduce additional techniques of business. It is going to create a big job market for young professionals. The present study has been designed with the purpose of assessing the awareness and understanding of future managers about insurance.

Introduction

Risk can be defined as the volatility of an unexpected outcome, where the outcomes can be attached with either numerical probability values or subjective probabilities. It can be characterized as the assessed loss potential (Asante - Duah, 1998). Bernstein (1998) contended that risk is now no more a whim of the Gods, and women and men are not passive before nature. Insurance is an activity through which risk can be managed. It is a social device whereby the uncertain risk of an individual may be combined with that of a group and thus, small periodic contributions by many individuals provide a fund, out of which those who suffer losses may be reimbursed. It is an activity through which

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insurance companies indemnify the losses of the policy-holders in exchange for premiums received by them from the policy-holders. Insurance companies command large accumulated funds which are built up over a period of time as they have to generate reserves for payment to the policy holders in case of occurrence of loss. Policy holders have legitimate claim over these funds, since these funds are built up from the premium collected by the insurer against the commitment to cover the identified losses (Srivastava and Srivastava, 2002).

Research in India has shown that an insurance policy is purchased not to seek cover for life or savings associated with it but to reduce pressure from the seller and gain income-tax benefits provided by the Government for such purchases (Marwah, 2002). It has been found that middle level income groups are much more concerned with maximizing the returns from their limited investments in insurance as compared to the high income group members who have other options at hand. Single investment in insurance gives middle level income groups the benefit of tax planning, making savings and investments and at the same time offers security and thus help in managing risk (Agarwal and Keshri, 2003). The Indian insurance industry has been under strict Government control for the last 45 years. The Government regulations did not focus on the publication of retention figures and, therefore, the Life Insurance Corporation (LIC) did not publish retention figures. With the passing of the IRDA Act in 1999, the insurance industry has been privatized with the objective of improving the performance of the state insurance sector by increasing benefits accruing from competition, in terms of lowered costs, and increased level consumer satisfaction, due to enhanced service quality.

Gale (1994) contended that value is perceived by the customer simply as quality offered at the right price. Perceived quality of a service is the result of an evaluation process in which the consumers compare their perceptions of service delivery and its output against what they expect. Service quality has a direct effect on an organisation's profits, since it is positively related with consumer retention and customer loyalty (Zeithaml and Bitner, 2000). Research has shown that private insurance companies are rated higher on service quality by customers in terms of tangibility, reliability, responsiveness, assurance and empathy (Singh and Arora, 2003). It has been found that the policies of the State Company, LIC, are not flexible according to the customers' needs, whereas the private insurance companies are providing universal life and variable life insurance products that allow the holder flexibility in deciding how premiums are split between protection and savings. New products enable product combinations that allow greater customization, thus providing a variety of products and services to customers to cater to their diversified needs. According to Skipper (2002), if an insurer can differentiate its products from those of its competitors in the minds of its customers, it gains market power and can secure higher profits. Product differentiation exists when buyers prefer one firm's products over those of its rivals.

Outreville (1996) found that the demand for life insurance is a function of the competitive structure of the domestic market and of a country's level of financial development. The role of the State in providing insurance services is a determinant of the demand for life insurance (Beenstock et al, 1986). Douglas and Wildavsky (1982) suggested that demand for life insurance in a country may be affected by the unique culture of the country to the extent that it reflects the population's risk aversion. A high cultural propensity to save can enhance the demand for saving-oriented life insurance products especially when encouraged by the Government (Zelizer,1979). The review of literature has shown that prospects of insurance are bright because people accept it as an essential cover for life. It is likely to create a big job market for young professionals. The present study attempts to assess the awareness and understanding of future managers about insurance.

Methodology

The study: The study is exploratory in nature, undertaken to identify the dimensions of insurance as perceived by the future managers.

The Sample: The sample of the study is constituted of 86 students pursuing Masters' degrees in Business Administration in professional institutions located at Indore, Madhya Pradesh state, India. The elements of the sample were drawn on a random basis. The extraneous variables like age, sex, urban/rural background, stream of education at graduation and other variables were controlled by randomization and elimination.

Tools for Data Collection: After reviewing relevant literature on the subject, certain factors were identified which contribute towards awareness of insurance. Keeping these factors as the basis, an instrument of 36 statements was developed. The inventory was administered to 86 students pursuing the degree of Master of Business Administration. Item-total correlations were computed for all the 36 items to identify the statements which significantly contribute towards the awareness of insurance. In the first iteration, 11 items were found to have critical values of less than .211, and thus, were dropped. In the second iteration, 25 items were subjected to item-total correlation and all the items were found to have critical values of correlation greater than .211. Hence, all the 25 items were accepted for the final measure.

Reliability: The reliability was determined by the split-half method, corrected for full length by applying Spearman-Brown Prophecy Formula on the data collected from the sample of 86 subjects. The reliability coefficient was found to be 0.62.

Validity: Besides face validity, as all items of the measure were related to the concept of insurance awareness, the reliability index was also computed. The index of reliability measures the dependability of test scores by showing how well obtained scores agree

with their theoretically true values (Garrett, 1981). The index of reliability gives the maximum correlation the given scale is capable of yielding in its present form. This is true because the highest correlation which can be obtained between an instrument and second measure is between the scores of the instrument and their corresponding true scores. The latter has indicated high validity on account of being .78740. The correlation between individual item scores and the total score of the scale was also determined. All the 25 items have significant correlation, therefore, all of them were retained (Table 1).

Table 1: Item Total Correlation

1.	Insurance is a device to manage taxes.	.322750
2.	Insurance helps economic progress by protecting the society from huge losses or damage, destruction and death.	.3439697
3.	Insurance provides peace of mind.	.360489
4.	Uncertainty of business losses is reduced through Insurance.	.29197
5.	Life Insurance encourages savings.	.2770506
6.	Insurance provides capital to the society.	.48937
7.	Life Insurance fulfils the readjustment needs.	.277136
8.	Insurance reduces inflation.	.429448
9.	Welfare of employees is ensured through insurance.	.244811
10.	Insurance provides certainty of payments a the uncertainty of loss.	.20837
11.	Insurance eliminates dependency.	.32748
12.	Life Insurance provides profitable investment.	.4269337
13.	Wealth of the society is protected through insurance.	.424487
14.	Life Insurance fulfils the family needs of a person.	.57956
15.	Insurance provides protection against the probable chances of loss.	.31795
16.	Life Insurance can provide funds for the marriage of the dependents.	.614442
17.	Insurance protects mortgaged property.	.523992
18.	Insurance facilitates the economic growth of the country.	.311987
19.	Insurance joins hands with those institutions which are engaged in preventing the losses of the society, because the reduction in loss causes lesser payment to the assured and more saving is possible which will assist in reducing the premium.	.3301012
20.	Life Insurance fulfils the family needs of a person.	.580477
21.	Insurance is a kind of business, because in return of premium, it guarantees the payment of loss.	.406406
22.	Life Insurance fulfils the need for education.	.590117
23.	Insurance facilitates continuation of business.	.333734
24.	Life Insurance fulfils the old age needs of a person.	.482547
25.	Life Insurance fulfils the needs for settlement of dependents.	.486223

Results and Discussion

The raw scores of 25 items were subjected to factor analysis to find out the factors that contribute towards awareness of insurance. In the first order factor analysis, nine factors were identified. Then these nine factors were subjected to second order factor analysis, out of which five dimensions were identified: Protects Current and Future Needs; Encourages Savings; Guarantees Payments; Ensures Growth and Welfare; and Ensures Security Needs (Table 2).

Table 2: Showing Rotated Factor Matrix

	Dimensions				
Factors	**I**	**II**	**III**	**IV**	**V**
1	**.68243**	-.11081	.04396	-.07260	.00452
2	-.08302	.05255	.03322	.04246	**-.97341**
3	-.12571	**-.73974**	.24734	-.05464	.23506
4	-.33804	-.02840	**-.86757**	.19507	.16689
5	**.71042**	-.05158	.03762	.28968	.12760
6	-.28472	**.74105**	.10153	-.13936	.08918
7	-.03690	.10343	.07009	**-.87842**	.10891
8	.16223	.42701	.10050	**.46493**	.27163
9	-.41078	-.17288	**.62870**	.24744	.21631

Dimension I - **Protects Current and Future Needs** This dimension is constituted of two factors, safeguards insured's needs (Factor I), and ensures secure future (Factor 5). This dimension covered 16% of variance. Further, it is a composition facilitates continuation of business (item 23), device to manage risk (item 10), fund for marriage of dependents (item 16), fulfils needs for education (item 22), protects mortgaged property (item17), takes care of old age needs (item 24), and reduces inflation (item 4) in the descending order of their factor loads (Table 3). Shaw and Griffin (1995) wrote that insurance aims to protect people from a low probability catastrophic loss. It assists stable incomes for an insured and improves an insured's position in relation to obtaining credit. It steadies and even stimulates consumption through stability of income. It also reduces the cost of production by stabilizing risks in the long run. This occurs because the producer is indemnified after a loss, which enables him to continue production. If the producer is uninsured, his loss may prevent future production and he may go out of business.

Table 3: Showing Final Statistics of the Dimensions

Dimensions	Eigenvalue	Pct of Var	Cum Pct
1	1.49746	16.6	16.6
2	1.44481	16.1	32.7
3	1.22070	13.6	46.3
4	1.14671	12.7	59.0
5	1.03966	11.6	70.5

Dimension II - **Encourages Savings** This dimension is constituted of two factors, prevents losses (Factor 3) and encourages savings (Factor 6). This dimension covered 16.1% of variance. Further, it is a composition of protection against probable loss (item 15), guarantees payment of loss (item 21), encourages savings (item 5), economic progress (item 2), prevents loss to the society (item 19), in the descending order of their factor loads. Oppen (2002) contended that insurance helps to maintain the dignity and living standard of participants who do not have to depend on the State in the event of a disaster. It encourages self-help and promotes attitudes among participants that are favourable to cooperative efforts generally. It further improves capital formation by giving an incentive for greater risk-taking. Life Insurance is seen by more and more consumers as closely related to other saving products (Santomero, 1997). It ensures money income, contributions to household production, and also influences the purchase of life insurance (Gandolfi and Miners, 1996).

Dimension III - **Guarantees Payment** This dimension is constituted of two factors, profitable investment (Factor 4) and guarantees payment (Factor 9). This dimension covered 13.6% of variance. Further, it is a composition of profitable investment (item 12), uncertainty of business loss (item 4), settlement of dependents (item 25), certainty of payments (item 10) and eliminates dependency (item 11) in the descending order of their factor loads. According to Bakshi (2002), life insurance handles the risk of financial loss because of an unexpected death or the risk that the person may outlive the financial resources. In fact, it transfers a person's risks to another party thereby protecting him/her in the event of an economic loss. It relieves an individual and his family of serious financial risk and is an easy and affordable means of providing financial security to an individual and his family in the event of one's death or inability to earn due to physical disabilities. Karve and Balachandran (2001) opined that if there is no uncertainty about the occurrence of an event, it cannot be insured against. Insurance safeguards the interest of an individual from uncertainties by providing certainty of payment in a given contingency.

Dimension IV - **Ensures Growth and Welfare** This dimension is constituted of two factors, ensures employee welfare (Factor 8), facilitates economic growth (Factor 7). It

covered 12.7% of variance. It is further a composition of welfare of employee ensured (item 9), facilitates economic growth (item 18) and wealth of society is protected (item 13) in the descending order of their factor loads. Kumari (2002) contended that insurance provides relief to the members of society from financial difficulties arising from premature death of the insured or surviving to old age. It mobilizes contractual savings and invests them in various developmental activities. For instance, LIC helps small scale and medium scale industries directly by financing these industries, by subscribing to shares and bonds of state level development agencies e.g., State Financial Corporation. It also helps in social sector investments in roadways, power generation and municipalities. Loans are granted with an emphasis on financing the projects/schemes for the development in rural and urban areas and townships, development of road transport and industrial development. Thampy and Sitharamu (2002) wrote that insurance provides a stable environment thus, increasing the confidence of the people in insurance and to harness the resources generated for nation building activities as determined by the Government. Truett and Truett (1990) have demonstrated that life insurance premium expenditure and national income are positively correlated.

Dimension V - **Ensures Security Needs** This dimension is constituted of only one factor, ensures security needs (Factor 2) covering 11.6 % of variance. It is further a composition of capital to the society (item 6), fulfils family needs (item 20), readjustment needs (item 7) fulfils needs (item 14) and provides peace of mind (item 3) in the descending order of their factor load. Kumari (2002) contended that insurance has played its role as a social security provider with increased coverage and extent for all the sections of the society. The importance of this role of the insurance corporation increases greatly since no other social security system per se exists in India. It relieves an individual to a large extent of the irregular financial burden of providing relief to the members of the family. Its important indirect benefit is income stability, ability to obtain credit that gives the consumer confidence and peace of mind. Browne and Kim (1993) suggested that life insurance is purchased to satisfy the needs of survivors. It is a means of reducing uncertainty in households' future income stream (Sitharamu, 2002).

Conclusion and Implications

The study has revealed that five dimensions are perceived as important by these future insurance managers. These five dimensions are 'protects current and future needs, encourages savings, guarantees payment, ensures growth and security and ensures security needs'. These dimensions are in turn comprised of nine factors.

The future managers think that insurance promotes business efficiency and provides security and safety. They take it as a device to manage taxes, besides encouraging savings and providing peace of mind. Since it reduces the uncertainty of business losses and

provides capital to the society, it reduces inflation, eliminates dependency and protects mortgaged property. It fulfils the need for education, and facilitates the continuation of business, while taking care of old age needs. Thus, the policy makers need to tailor both their assurance and annuity plans to suit the different needs of the various segments of the policy holders if they want to cater to all the categories of people with diverse needs.

In a survey it was found that 80 percent of people in India have no insurance cover, which reveals that the life insurance market in India has tremendous potential. The per capita life premium and life premium as a percentage of GDP and GDS in India is very low as compared to other developed countries. Thus, the insurance industry needs to be promoted not only in the cities but also in the rural areas.

The present study can act as ground work to an understanding that consumers buy goods and services to meet specific needs and they evaluate the outcome of their purchase based on what they expect to receive. People's expectations about services tend to be strongly influenced by their own prior experiences of outcomes with a particular service provider, with competing services in the same industry or with related services in different industries. Thus, the managers need to learn the customer specific requirements providing individualized attention and recognizing the regular customer. Providing superior customer value means that the insurance industry must do a better job of anticipating and reacting to customer needs.

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