



Factors Considered while Choosing a Life Insurance Company

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ABSTRACT

This paper evaluates the factors considered for the selection of a Life Insurance Company by individuals. Life Insurance is an important part of one's life, which gives security to the family of that individual future security in the absence of that individual. Many people take a policy on the recommendation of friends or family members, which can prove wrong as that individual doesn't consider the important factors related to the policy, its terms and conditions, etc. So, it is important to consider the factors related to a life insurance company, like the Claim Settlement Ratio of the company, Solvency Margins, Reputation, etc. Therefore, this paper evaluates the behaviour of consumers while selecting a company by way of a survey with a structured questionnaire where people are asked about their choices about a company. The research focuses more on the salaried people, who were the samples for this survey, as they are primarily responsible for protection themselves and their families. The main objective of this research is to check the knowledge of people about different terms associated with life insurance, as well as the importance of these terms, while selecting a life Insurance Company.

Keywords: Life Insurance, Claim Settlement Ratio, Reputation, Selection, Security, Benefits.

1. INTRODUCTION

One of the most crucial aspects of life is insurance. One of the fastest growing industries in India is the insurance sector. The improvement in the insurance sector's trend can be attributed to rising incomes and greater public awareness of the sector. India is the fifth-largest life insurance market in the world, with annual growth rates of 32–34%. Recently, the industry has experienced fierce competition between its rivals, which has sparked the creation of innovative new products. The Insurance Regulatory and Development Authority of India, the insurance industry's regulatory body, issues licences to businesses, and the automatic approach allows up to 26% of foreign direct investment.

In India, there are 58 insurance companies; 24 works in the life insurance industry, and 34 are non-life insurers. The sole organisation in the public sector that offers life insurance is Life Insurance Corporation (LIC). There are five public sector insurers operating in the non-life insurance industry. The only national re-insurer aside from these is General Insurance Corporation of India (GIC Re). Other market actors in India include agents (individual and corporate), brokers, surveyors, and third-party administrators who handle health insurance claims.

The future seems promising for the life insurance market given the numerous legal changes that will further transform how the sector operates and interacts with its customers. Over the next three to five years, it is predicted that the country's life insurance market will expand by 14 to 15% each year. IoT continues to have a significant impact on the Indian insurance industry in addition to telematics and customer risk assessment. In India, there are now more than 110 active Insurtech start-ups. These firms are anticipated to give the sector a significant boost and contribute to a rise in insurance penetration in India, which is essential to the nation's overall development. Through a number of laws and programmes, the Indian government has in the past significantly contributed to expanding the insurance sector's reach. Through programmes like the Pradhan Mantri Fasal Bima Yojana (PMFBY), which offers crop insurance, and the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), which offers affordable life insurance coverage to young people, this tendency will persist in the future. The development of the Indian insurance industry will be aided by programmes like these as well as demographics like the country's expanding middle class, young population who are insurable, and increased awareness of the importance of protection and retirement planning.

History of Insurance: The life insurance sector in India has grown through time with significant input from other countries, particularly England. The Indian life insurance market was founded in 1818 in Calcutta with the establishment of the Oriental Life Insurance Company. But in 1834, this Company went bankrupt. In the Madras Presidency, the Madras Equitable began processing life insurance contracts in 1829. The British Insurance Act was passed in 1870, and the Bombay Mutual (1871), Oriental (1874), and Empire of India (1897) were all founded in the Bombay Residency over the final three decades of the nineteenth century. But during this time, foreign insurance companies like Albert Life Assurance, Royal Insurance, Liverpool, and London Globe Insurance, which did well in India, dominated the industry, making it difficult for Indian insurance offices to compete. In 1914, the Indian government started disseminating data from its insurance firms. The first law to govern the life insurance sector was the Indian Life Assurance Companies Act of 1912. In order to enable the government to compile statistics on the life and non-life insurance activity that was carried out in India by Indian and foreign insurers, including provident insurance societies, the Indian Insurance Companies Act was created in 1928. In order to safeguard the interests of the insurance public, the Insurance Act of 1938 was passed in 1938. This legislation contained substantial mechanisms for efficient oversight over the acts of insurers. It consolidated earlier laws and modernised them. The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were multiple insurance companies, which led to ferocious competition. There were also allegations of unethical commercial practises. The Indian government decided to nationalise the insurance sector as a result. The Life Insurance Corporation was founded in 1956, the same year that the Life Insurance Industry Nationalization Ordinance was passed. The LIC acquired 245 insurance companies, including 154 Indian, 16 non-Indian, and 75 provident societies. The LIC's monopoly on the insurance industry was broken in the late 1990s when the industry was reopened to the private sector.

In this paper the study of consumer preferences while selecting an insurance company for taking Life Insurance Plan is conducted by primary research, where people were asked questions about how they decide in which company they are going to invest. The selection of a good company for Life insurance is important as we cannot risk the future of our family members. So, people should think properly and then only select an insurance company.

2. LITERATURE REVIEW

This section talks about some research being conducted in Insurance sector:

- i. A paper published in 2019 talks about the impact of liberalisation on the life insurance sector. The authors have used Multivariate analysis of variance to find the impact on the basis on marketing mix, service quality, awareness of insurance among different age groups which were further classified in the basis of age, gender, place of residence, etc. from the data generated from the people. The study showed a positive impact of liberalisation in the Life Insurance sector. (Chandrapal, 2019)
- ii. The DEA approach is highlighted as the most advanced method used to examine the financial efficacy of insurance carriers in the literature review and critical evaluation of a paper published in 2022. The efficacy of insurance businesses should be viewed as a non-financial evaluation of how well they performed their primary duties in relation to sales, general customer service, the signing of insurance contracts, and the resolution of claim disputes. The proper evaluation of insurers' performance frequently faces a number of challenges, such as the absence of internal reports on the evaluation of insurance company health and challenging access to the benchmark due to the dearth of information on overall competitive and market assessments. The separate financial reporting that emerges from the particular nature of the business and the results produced from it is another factor that makes it difficult to accurately evaluate how effective the activities of insurance businesses are. Taking into account the aforementioned, the research's objective was to offer the theoretical foundations and show, on the basis of a critical literature analysis, the value of Data Envelopment Analysis (DEA) for evaluating the financial effectiveness of insurance firms. (Smętek et al., 2022)
- iii. Using a sample of OECD nations from 2007 to 2017, an empirical study in 2020 sought to determine the impact of internet use on the demand for insurance. They used a variety of panel data models, accounting for various odd features including heterogeneity. The study adds to the body of knowledge on technical advancements and communication at various phases of the provision and growth of life and non-life insurance activities. The empirical findings indicate that using the internet has a favourable impact on non-life insurance operations. Numerous estimated static and dynamic panel models recognise this conclusion. On the other hand, the empirical study found no evidence of a global influence of internet use on life insurance demand. Last but not least, a review of conventional life insurance models showed that a number of socioeconomic factors had a substantial impact on the life insurance industry. (Benlagha & Hemrit, 2020)
- iv. Research indicates that interest rates influence insurance companies' decision to concentrate their resources on the financial markets. A 2021 study that used a cross-country context suggests that interest rates may have an impact on how much the life insurance market expands. They discovered that the density and penetration of the life insurance market are low in nations with high interest rates using an initial sample made up of the time series of interest rates and insurance market indicators from 34 countries over the period of 1998–2017. They confirmed that the financial and operational earnings are equally beneficial in predicting the net income for life insurance companies that operate in countries with high interest rates by using a second sample of 6,451 observations from insurance businesses operating in the same 34 countries. The research supports past findings that the lack of governmental oversight of public spending affects interest rates and, consequently, the prospects for insurers. (Carvalho et al., 2021)
- v. A study published in 2021 examined the use of feature selection and exploratory data analysis (EDA) techniques to identify important and significant elements that determine whether a claim is accepted or denied in a learning environment. Any nation's ability to continue making economic progress is significantly influenced by the insurance business. A comprehensive claim analysis system is a necessity for today's insurance companies due to the rise in insurance consumers. Insurance firms examine claims to separate legitimate ones from fraudulent ones. In order to better understand the customer strata, claim analysis can be used. The results can then be used to the underwriting and acceptance/denial phases of the insurance enrolment process. Additionally, the datasets are subjected to machine learning algorithms, and the results are evaluated using performance measures. (Rawat et al., 2021)

In this way there are many studies conducted on different dimensions related to the Life Insurance sectors in the recent years.

3. RESEARCH METHODOLOGY

Life Insurance is a very important aspect of one's life as we know that life insurance is a financial protection to our dear and near ones by securing their monetary commitments during the time of loss of income that shall arise due to our demise. Therefore, choosing a right company for buying an insurance plan is essential. So, one must consider some factors before choosing a company for buying a plan so that the protection of family is ensured. Following are the factors which we should consider while choosing a life insurance company:

- i. Reputation of the company
- ii. Service Quality of the company
- iii. Policy customisation
- iv. Products Offered by the company
- v. Reviews and ratings of the company
- vi. Claim Settlement Ratio of the company
- vii. Ease of doing transactions with the company
- viii. Solvency Margins
- ix. Tax Benefits arising after taking insurance
- x. Riders
- xi. Benefit pay-out options
- xii. New techniques for buying insurance

The above factors can be explained as follows:

- i. **Reputation of the company:**
There are many companies offering different life insurance plans. So, we need to consider the reputation of the company for better plans and trust on the company.
- ii. **Service Quality of the company:**
The agent's or the front-line sales staff's professionalism says a lot about the business. It matters if the salesperson sincerely cares about the customer's financial needs and takes the time to patiently listen to and comprehend their wants. Only after being pleased with the sales staff's assistance throughout the early meetings, we should make a final decision about the purchase of the life insurance policy.
- iii. **Policy customisation:**
Not every policy will be suitable for every individual. However, the best term life insurance policy must allow you to customise it with a range of options, including your preferred benefit amount, frequency of premium payments, benefit pay-out options, riders, etc. Today, for instance, it is vital to be able to modify the life coverage level at significant life events in accordance with your stage of life after purchasing the insurance due to changing circumstances. By choosing this option, you can avoid having to buy new insurance for each significant event in your life and make sure that your family's financial future is well-planned. Therefore, it is helpful to take into account the customization possibilities offered when comparing the term plans while making a decision.
- iv. **Products Offered by the company:**
A comparison of insurance policies is offered by companies can assist in making the best choice of a life insurance policy. Payment flexibility, cutting-edge goods, and customised solutions are required. Customers should review the firms' given product features, riders, coverages, and terms and conditions for better decision making.
- v. **Reviews and ratings of the company:**
Reviews and ratings of insurance providers can be quite helpful when selecting the best insurer. A flurry of similar complaints made against a business should not be disregarded because it serves as a gauge of consumer satisfaction, even though some of them may be fraudulent and the work of the competition.
- vi. **Claim Settlement Ratio of the company:**
For finding the most reliable insurance company consideration of the Claim Settlement ratio of the company is of utmost importance. It is an important factor used to find the ability of the company to settle the claims. It represents a percentage of claims paid by the company to claims received during a specific year. A higher claim settlement ratio (CSR) indicates that the company is in a better position to quickly and efficiently settle more and more claims.
- vii. **Ease of doing transactions with the company:**
For greater friendliness of the customer with the company depends on the ease of doing transactions with the company. Everyone wants time saving, hassle free transactions. So, ease of doing transactions should be considered while choosing a company.
- viii. **Solvency Margins:**
Solvency margins are used to assess a company's financial standing and its capacity to pay debts and other financial commitments. IRDAI has specified the minimum solvency margin of 150% for companies. Higher the solvency margin, better is the position of the company. So, we should check for the solvency margins of a company before choosing a plan in that company.
- ix. **Tax Benefits arising after taking insurance:**
For as long as the policy is in effect, a term insurance policy offers the policyholder life insurance protection and income tax benefits. Up to Rs 1.5 lakh in annual premiums for life insurance and health insurance, respectively, are excluded from taxation under Sections 80C and 80D of the Income Tax Act. Under section 10(10D) of the Income Tax Act of 1961, the nominee will also be totally exempt from paying taxes on the death benefit they receive. These exemptions may persuade individuals to purchase life insurance.
- x. **Riders:**
By including riders, which are supplemental insurance policies designed to provide extra security against illnesses, accidents, and other dangers, etc., we can expand the usefulness of our current life insurance policy.

Major riders include those for critical sickness, accident/disability benefits, income benefits, etc.

xi. Benefit pay-out options:

The lump sum death benefit is the sole deciding factor in our decision to purchase life insurance. There must be a range of pay-out options that we can choose from, such as a lump sum payment, a monthly income, or a combination of the two, as this benefit will support our family members while we are away.

xii. New techniques for buying insurance:

More people are using online channels to purchase and renew their life insurance as the focus on contactless transactions grows. Customers should pick businesses that provide superior online functionality and omnichannel systems that are digitally equipped for selecting a plan.

The main aim of considering these all factors is to ease the individual to choose right company and right policy which is as per the needs of the individual. For the study of consumer behaviour while choosing a company, primary research was conducted to study how consumers choose a company. The research was conducted with the help of Google Form where a structures questionnaire was used for the research.

The sample of about 50 people with the age group of 25-60 was selected for the survey, where the people are salaried working with some organisation. The age group of 25-60 is important as the people in this age group are responsible for protection of their family. Therefore, the age group of working people was selected for the survey. The things are analysed on the basis of descriptive research where the facts regarding the topic are presented.

4. ANALYSIS AND OBSERVATIONS

Primary research by way of a google form was conducted to check which of the above-mentioned factors people consider while choosing a plan of life insurance company. In the research a sample of salaried people of age group 25-60 who have taken any life insurance policy was considered and questions regarding the factors which we should consider before choosing a plan were asked. Following observations were noted:

a) Claim Settlement Ratio:

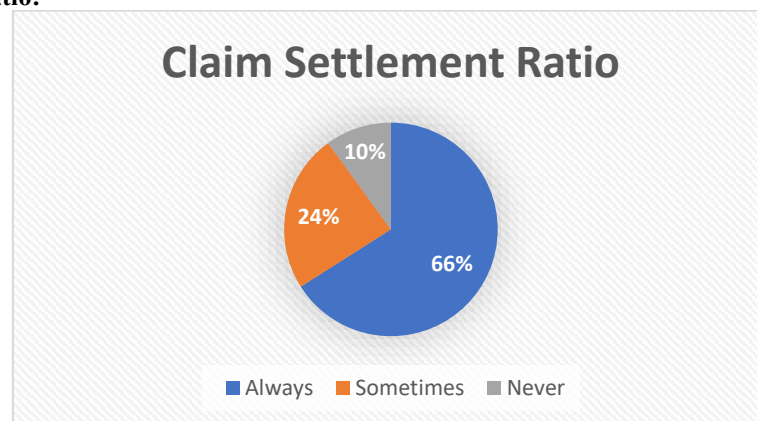


Chart 1: Preference of Claim Settlement Ratio

Out of the samples collected about 66% prefer checking the Claim Settlement Ratio of the company as per **chart 1**. The checking of claim settlement ratio is important as we come to know about the percentage of claim which the company can settle in a year and then we can select the company accordingly. This percentage should be higher as it is one of the most important factors one should consider before choosing a company.

b) Services Quality:

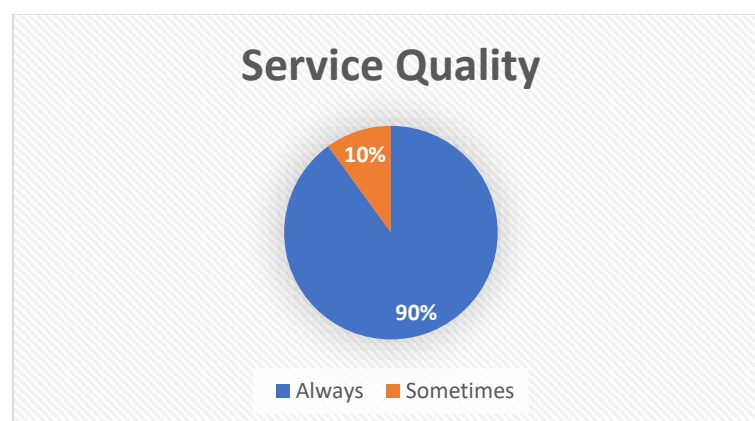


Chart 2: Preference of Service Quality

Chart 2 indicated that the service quality of a company is mostly preferred by people while choosing an insurance company. Customer loyalty generally depends on the service quality offered by the company personnel to people while choosing any plan of the company. Here, role of company personnel is important as they are representing the company. They need to take care about customers' ability and requirements while suggesting various plans.

c) **Products Offered:**



Chart 3: Consideration of other Products Offered

As per the survey conducted and in **chart 3**, we can see many people are considering the various products offered by an insurance company. Consideration of other products offered by a company is important as it can give more better plan to us or we can use the riders offered in other plans to customise our plan. Also, consideration of other plans can help to choose a better plan where additional benefits can be availed by reducing the premium.

d) **Reviews and Ratings:**

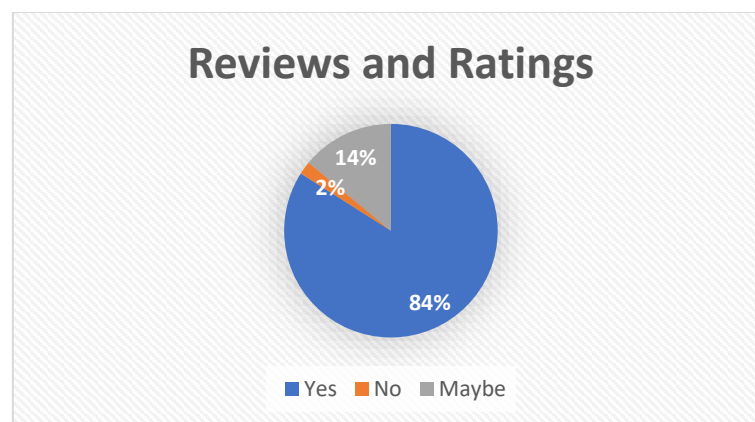


Chart 4: Checking of Reviews and Ratings

As indicated in **chart 4** people in the survey are checking for reviews and ratings of the company but some people are checking reviews and ratings for a specific company only. Checking of reviews and ratings of a company can help consumers to know about the experience of people with the company, time required for claim settlement, overall performance of the company, etc. Therefore, one should check for the reviews and ratings of the company for getting additional information of the company. This percentage should be more as many people are checking reviews for specific company but we should consider the reviews and ratings of the company before taking a plan of a company.

e) **Use of Techno Savvy Companies:**

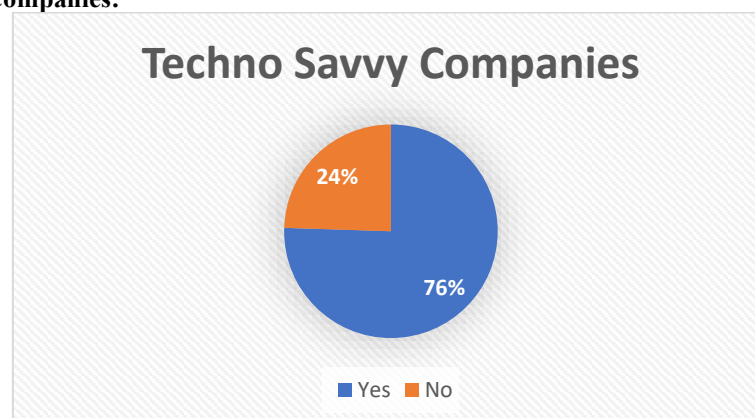


Chart 5: Use of Techno Savvy Companies

Now a days many companies have started providing services regarding life insurance through online platforms where people can buy insurance easily by following some simple steps. These Techno Savvy Companies have eased the process of buying an insurance policy, therefore as per **chart 5** many people have started using online platforms for buying insurance. But there are also people who are preferring to buy an insurance plan through an agent. With more improved features the use of Techno Savvy Companies may increase in near future.

f) Company Preference:

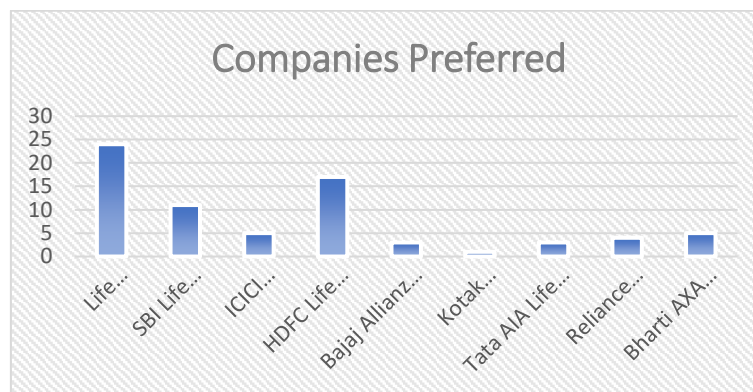


Chart 6: Companies Preferred

The consumer preferences of different Indian life insurance companies are shown in **chart 6**. People most frequently choose the Life Insurance Corporation of India while purchasing term insurance. Since LIC is the only public sector organisation offering life insurance in India, it is often regarded as the best option. After the Life Insurance Corporation of India, the HDFC Standard Life Insurance Co. Ltd. and the SBI Life Insurance Co. Ltd. are also recommended. In comparison to the Life Insurance Corporation of India, the HDFC Standard Life Insurance Co. Ltd., and the SBI Life Insurance Co. Ltd., the percentage of other businesses is significantly lower.

g) Other factors:

In the survey people were asked for any other factors which they consider while choosing an insurance company. There were many such factors which people consider while buying a plan like:

- i. Easy terms and conditions
- ii. Discount offered on premium
- iii. Additional riders offered
- iv. Guaranteed returns
- v. Security of family members
- vi. Transparency in transactions
- vii. Companies with strong financial base
- viii. History of the company
- ix. Policies suggested by agents within friends and family
- x. Instalment
- xi. After sale services, etc.

As per survey these factors are also considered for choosing an insurance company. People feel more secured when the plans are suggested by their close friends and family members which have maximum benefits. Also, people are considering future protection of their family members in which they are benefited by pay-out options. People are concerned about reducing premium, so they are considering the discount options offered in the policy as well as period for which they need to pay the premium. People also require after sale services in case they have any problem regarding policy, premium in future. People are concerned about the risk factor associated with the policy. The history of the company and mergers is also considered while choosing a company.

5. SUGGESTIONS

The survey conducted for analysing the behaviour of people while choosing an insurance company indicated that many people are aware about various terms related to the Life Insurance like Claim Settlement Ratio, Riders, Solvency Margins, etc. This indicates a right decision making of people for the future of their family.

Also, in the survey it was noticed that some people are not considering any above-mentioned factors for selection of a company which indicates that the decision of that individual may be wrong as important factors like company reputation, claim settlement ratio also are not considered.

Also, relying on friends and family members may not always be beneficial. They should have proper knowledge or they should be agent of the company.

Therefore, people should consider above points while choosing an insurance company.

6. CONCLUSION

From the observations collected from the study following points can be inferred about consumer preferences while selecting a Life Insurance Company.

- i. As per the survey conducted of working people, many of the sample population are aware of some technical terms Claim Settlement Ratio, Solvency Margins of a company, Riders, etc. related to life insurance and these terms are considered at the time of decision making.
- ii. Some of the populations have started using the online platforms for the term plans.
- iii. Also, other factors like service quality, other products of the company, reviews and ratings of the company are also considered along with additional factors which were collected at the time of the survey.
- iv. Many people have talked about the terms and conditions of the policy, benefits of the policy which they seem to be important while selecting a company.
- v. As per the preferences given by the sample population, the Life Insurance Corporation of India is the most trusted company in terms of benefits and future security.

Therefore, from the above research we can conclude that most of the population is aware about the considerations related to the selection of Term plan or the Company.

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