

The Middle Income Groups, How they Mitigate their Risks By Joining Insurance Schemes in Insurance Companies India

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Introduction

As per the latest statistics released by the Insurance Regulatory and Development Authority (IRDA), the life insurance industry collected total new business premium income of Rs 900 billion in the 11-month for the period April 2011 to February 2012.¹ During the same period the weighted premium collections (measured as 10% of single premiums plus 100% of regular premium) were Rs 549.6 billion. LIC is the largest, with at least Rs.13 trillion in assets, which has at least 300 million policies in force and about 250 million people, are covered by LIC in a nation of 1.2 billion people. According to HDFC Life, quarter ended report, March 2012, it had 13% increase in total premium to `102 bn².

Dr. Ganesh Dash and Tulika Sood³ opines that the penetration rates of health and other non-life insurances in India is well below the international level. These facts, on the positive note indicate growth potential of the insurance sector. With more and more private companies coming in to the market, it is expected that the situation may change. They predict that India is the fifth largest life insurance market in the emerging insurance economies globally and is growing at 32-34 per cent annually. They also state, that it is the perception of majority of people in India that life insurance products are meant for death; and they do not perceive insurance scheme as an investment and the same would lead to mitigate risk or these savings would result in positive investment in infrastructural creation in the economy. With this background the present study has been undertaken with the premise that middle income group mitigate risks by taking insurance policies from private sector insurance companies as it provides flexible schemes that suits their requirement. Before we go to the results and discussion it is imperative to understand What

Constitute Middle Income Group

Technical Note prepared by Christian Meyer, Nancy Birdsall of Center for Global Development gives New Estimates of India's Middle Class states that⁴: "India's middle class has been the subject of much debate. With rapid economic growth over the last decade, the income of the average household in urban India has grown by about a third between 1993/1994 and 2009/2010.

¹ <https://timesofindia.indiatimes.com/business/india-business/insurance-penetration-in-india-has-risen-to-3-4-economic-survey-says/articleshowprint/62696220.cms>

² <http://www.thebetterindia.com/90015/nearly-40-crore-indians-unorganized-sector-labour-welfare/>

³ Dr. Ganesh Dash and Tulika Sood, *WHY SHOULD ONE INVEST IN A LIFE INSURANCE PRODUCT? AN EMPIRICAL STUDY* International Refereed Research Journal ■ www.researchersworld.com ■ Vol.-IV, Issue-1(1), January 2013[36].

⁴ https://www.cgdev.org/doc/2013_MiddleClassIndia_TechnicalNote_CGDNote.pdf

In this period, economic growth not only lifted millions of households out of poverty, but also gave rise to an emerging middle class – with new consumption patterns and, potentially, a strong interest in sound and stable political and economic institutions”.

It was noted that India’s National Council of Applied Economic Research (NCAER) has been at the forefront of mooting the above debate. NCAER’s current definition identifies the middle class as comprising of two sub-groups: “seekers” with annual household income between Rs.200,000 and Rs.500,000, and “strivers” with annual household income between Rs. 500,000 and Rs. 1 million at 2001/2002 prices. Assuming an average household size of fivepeople and converting into constant 2005 purchasing power parity (PPP) dollar, these numbers would be about \$8 to \$20 per capita per day for seekers, and \$20 to \$40 per capita per day for strivers.

Keeping the above as the bench mark the present study relates to strivers whose annual income is more than Rs.5.00 lakhs.

We have conducted a survey to understand how professionals like doctors, engineers, lawyers and those who work in the corporate sector plan and mitigate their risks by taking different kinds of insurance schemes offered by the private insurance companies.

Objective of the Study

- The present empirical study has been conducted to understand how the middle income group youth (strivers) mitigate their risks by taking insurance policies from private sector insurance companies.
- Whether the Private Sector insurance companies provide better service that made them to choose the private sector insurance companies.

Scope of the Research

The sole research question (to be answered) in this study is to understand the respondents plan in the insurance activities to mitigate risk by availing the services of the private insurance companies.

The heartthrob of any research activity is the research procedure adopted by the investigator.

Methodology

The factors already discussed above were developed from the reviews of related literatures (wherever available) / were introduced by the researchers. These elements were put through the following statements (as the items in the questionnaire):

I bought this life insurance product, because:

- A1: The scheme provided by the company was attractive and comes within my budgetary constraints
- A2: By opting to the insurance scheme I mitigate risk entailing myself and my family
- A3: By opting to the insurance scheme I also save tax
- A4: I thereby lead a life of security

Formulating Null Hypotheses

As per the objectives set above, the following hypotheses were formulated to be tested in this study:

- H01:** Marital status has no significant impact on the customer preferring particular insurance scheme
- H02:** Level of education has no significant effect on the customers' perceptions on the various insurance schemes offered by the insurance companies.
- H03:** Income level does play a significant role in determining the type of insurance schemes opted by the respondents.
- H04:** Type of occupation has no significant impact on the insurance schemes opted by the respondents.

Further, based on these set hypotheses, the respective sub-hypotheses were developed for each demographic variables and their specific relationship with the various aspects involved with a life insurance product from the customers' point of view during the period of survey to elicit appropriate information for clarity and absurdity of service.

Research Design

This study was focused more on descriptive type of research. Further, we have chosen survey strategy because it seeks the opinion of a set of population who prefer to join insurance schemes offered by private insurance companies like **Bajaj Alliance, Sri Ram, ICICI Prudential, HDFC, Sundaram Finance** etc.

In this type of method, in which the opinions of the sample or population is sought by the researcher, usually with a more objective research instrument, say a structured questionnaire. The Universe for this study includes the following professionals and those works in the corporate sector. **Government sector has not been included as the Government servants are compulsorily covered with one or the other kind of insurance schemes and are mostly covered with gratuity cum pension schemes and thereby assured to lead a secured life while on employment and after retirement:**

Doctors; Engineers; Lawyers; Managers; Executives; Sr.Manager; Jr.Manager

A simple random sampling technique was adopted to select the respondents for the following reasons:

- First the respondents who are mostly professionals and are scattered all over Chennai city, which makes it very difficult to contact everyone.
- The number of sample size was restricted to 25 of each category which will adequately represent the group.
- Again, it is difficult to get the exact number of professionals based at Chennai.
- Third, the researchers are working within the demands of an academic schedule so very limited time and resources are there to conduct the study.

The study focuses on the above group of professionals and those who work in the private sector who maximizes their satisfaction and mitigate their risks by taking popular insurance schemes offered by the private insurance companies such as **Bajaj Alliance, Sri Ram, ICICI Prudential, HDFC and Sundaram Finance** operating in Chennai who attracts customers by providing flexible insurance schemes. As a result of limited

data on the total population, cost and time constraints, a convenient sample size of atleast 25 from each group was planned. The data that was collected through primary sources, through a Structured Questionnaire and Interview method was adopted to collect primary data. The questions were modified to suit the context, and sought the respondents' opinions on the various aspects of insurance products sold by the private insurance companies (**Annexe-II**).

Reliability and Validity

Churchill (1979) has recommended coefficient α to check the internal consistency of items placed under a given factor with Heir et al (2006) suggesting the α value to be 0.6. Again, all the items under the scale were found to be having a loading of more than 0.6. The details of the sample and demographic characteristics are explained in detail in the Table-1

A questionnaire has been specially prepared for this purpose which is attached along with this chapter as (**Annexe-II**) which would indicate about 15 questions were designed to elicit information from the target respondents. The respondents are Doctors, Engineers, Lawyers, Managers, Executives, Sr. Managers and Jr. Managers. It has been decided to meet atleast 25 respondents of each category that would make the population of the study 175 and it would be representative of the samples reflecting Chennai city of the targeted study group. Chennai city is the hub of industries and IT corridor and meeting the respondents will not be a problem.

Due to brevity of the paper, the data so collected are tabulated and shown in a separate integrated single table and graph form (Annexe-III & IV).

The findings are given below:

Engineers in the income group from Rs.25,000 to 35,000 have taken policy under JeevanSuraksha money back and endowment scattering all insurance companies. If we compare the percentage share it is Aviva which is slightly edging over other four companies like Bajaji Alliance, ICICI, KotakMahendra and Cholamandalam.

JeevanSuraksha is life cover and it is found in the study that the engineers are not mitigating their risks with health insurance, fire or burglary.

Higher percentage of respondents from this group opined positively about the services rendered by the Private insurance companies. Perhaps it is for this reason that made the respondents to go with private insurance companies.

Lawyers in the income group from Rs.20,000 to 30,000 have taken policy under JeevanSuraksha endowment and money back in almost all the companies and money back scheme scattering from HDFc, AVIVA and KotakMahendra. That means the respondents choose the insurance companies in accordance with particular need.

JeevanSuraksha is life cover and Aviva is slightly penetrated higher percentage when compared to other insurance companies such as Bajaji Alliance, ICICI, KotakMahendra and Cholamandalam and money back is a financial plan and these group belong to lawyers they are not mitigating their risks with health insurance, fire or burglary.

However, all the respondents from this group opined positively about the services rendered by the Private insurance companies.

Managers in the income group from Rs.20,000 to 30,000 have taken policy under JeevanSuraksha, in almost all the companies listed above and they had taken Money back scheme and Health insurance only with Star Health, HDFC and KotakMahendra. This shows the tendency of the respondents in selecting the insurance products as they are well informed about the product they want to buy.

JeevanSuraksha is life cover and money back is a financial plan and Health Insurance implies for treatment of ailment this group belong to Managers plan well and mitigating their risks with health insurance but they have left fire and burglary insurance and thereby are not mitigating their risks in this regard.

However, all the respondents from this group opined positively about the services rendered by the Private insurance companies.

Executives in the income group from Rs.20,000 to 25,000 have taken policy under JeevanSuraksha, Endowment schemes and money back from all the above insurance companies and money back scheme scattering from Sri Ram and ICICI.

JeevanSuraksha is life cover and money back is a financial plan and Health Insurance implies for treatment of ailment these group belong to Executives plan well and not mitigating their risks with health insurance including fire and burglary insurance and thereby are not mitigating their risks in this regard as well. But they have taken money back policy from two insurance companies Sri Ram, IC&ICI Prudential.

However, all the respondents from this group opined positively about the services rendered by the Private insurance companies.

Sr. Managers in the income group from Rs.25,000 to 35,000 have taken policy under JeevanSuraksha from almost all the insurance companies indicated above and Endowment and money back scheme scattering from Bajaji Alliance, Sri Ram and HDFC.

JeevanSuraksha, endowment and money back is life cover and endowment and money back are financial plans and these group of respondents are not going for health insurance and not mitigating their risks with health insurance including fire and burglary insurance and thereby are not mitigating their risks in this regard also.

Jr. Managers in the income group from Rs.20,000 to 30,000 have taken policy under JeevanSuraksha Endowment and Money back schemes from almost all the companies interestingly they have taken medical insurance as well as endowment plan from HDFC and KotakMahendra.

JeevanSuraksha is life cover and endowment and money back are financial plans and these group of respondents are not going for health insurance and not mitigating their risks with health insurance including fire and burglary insurance and thereby are not mitigating their risks in this regard also.

However, all the respondents from this group opined positively about the services rendered by the Private insurance companies.

The study of doctors among the strivers group are interesting these group are earning income from the range of 20,000 to 45,000 per month. The percentage of income group from 25,000 to 40,000 are on the higher side. But majority of the Doctors have taken policy under jeevansuraksha, money back and endowment life cover only scattering from all the above insurance companies.

JeevanSuraksha is life cover. Interestingly these group belong to doctors are not taking up health insurance policy and thereby surprisingly did not mitigate risks towards this end. Being Doctors perhaps they plan well to take care of their health. They are also not mitigating towards fire and burglary insurance and thereby are not mitigating their risks in this regard also.

However, all the respondents from this group opined positively about the services rendered by the Private insurance companies.

Results and Discussions

The above study indicates that the strivers group consisting of doctors, engineers, lawyers, managers, executives are mitigating their risk towards life cover and some extent health coverage. They are not mitigating risks towards fire or burglary.

It is the conclusion of the study that the private insurance companies are inducing the respondents to take policy in their companies by providing the following user-friendly services:

Private insurance companies honors claims speedily

Private insurance companies are more reliable

Private insurance companies were aggressive in providing quality services such as the following and satisfy the customers

- They provide installment schemes
- They provide easy loan facility
- They provide NEFT facility through Bank a/c
- They provide low rate of interest

They offer

- Protection Plan;
- Health Plan;
- Children Plan;
- Women Plan;
- Retirement Plan,
- Rural and social plan
- Group Plan

The above facilities provided by the Private insurance companies makes the researcher come to a considered conclusion that Private Insurance Companies offers schemes in accordance with the needs of the customers and that induces the customers to take policies in their companies and thus results in mutual understanding.

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NCAER reports 5.0 as the average household size in their 2004/2005 survey. More recent numbers from India's 2011 Census suggest a smaller household size with a median of around 4 members. This would effectively increase the thresholds in per capita terms.

Based on analysis of vulnerability in three countries of Latin America. See Lopez-Calva and Ortiz-Juarez (2011).