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Prasanna S,

Chairman of Institute of Legal Education

No. 08, Arul Nagar, Seera Thoppu,

Maudhanda Kurichi, Srirangam,

Tiruchirappalli – 620102

Phone : +91 73059 14348 – info@iledu.in / Chairman@iledu.in



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A STUDY ON INDIVIDUALS AVAILING LIFE INSURANCE AND THEIR PURCHASE DECISIONS

AUTHOR – SARAN RAGAVENDAR, STUDENT AT SAVEETHA SCHOOL OF LAW

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ABSTRACT

Factors affecting the intention and premium of purchasing life insurance are investigated in this paper. Results of factor analysis and structure equation model indicate that the extent of worrying about future, economical condition, cognition about life insurance and adventure activities preference have significant positive effects on the intention of purchasing life insurance; economical condition has significant positive effect on the premium of purchasing life insurance; health status has significant negative effect on the premium of purchasing life insurance. Among these factors, Cognition about life insurance has the biggest effect on the intention of purchasing life insurance; economical condition has the biggest effect on the premium of purchasing life insurance. Based on the theoretical results, there are some credible marketing policies for life insurance trade.

KEYWORDS : Life insurance, Purchase Decision, Benefits, Financial Position

INTRODUCTION :

Life insurance has low penetration among Indian households, with insurance premiums accounting for about 2.72 % of GDP⁷. Due to lack of access to formal financial markets and low levels of financial literacy many Indian households do not effectively plan their financial future. With an increasing emphasis by the government towards greater financial inclusion of all sections of the society, it is important to understand how socio-economic and demographic aspects of rural and urban households affect their decisions to acquire or discontinue life insurance coverage. Though life insurance is primarily a means of mitigating financial risks associated with premature death, it is mostly used as a tool for savings and investment through endowment policies in India. Social security or government pension schemes are accessible only to a small part of the population. Indian households often depend on informal social support networks for risk

mitigation rather than the formal life insurance sector. This social support may not be available equally to all sections of the society. Hence, life insurance assumes an important role in ensuring the financial well-being of a large section of the population. One of the interesting aspects of the life insurance industry in India is the prevalence of a wide network of insurance agents, many of them employed by the largest life insurance company (Life Insurance Corporation of India, LIC). These agents are often drawn from within the local Insurance penetration rate is the ratio of the total insurance premium as percentage of the GDP. population and serve a large population of financially unsophisticated customers in pursuing their financial goals. Most life insurance policies sold in India are not term-life policies but rather investment-linked policies, usually with modest returns. Since life insurance is used for risk cover as well as a means of savings and investment, its demand depends on the changing financial resources and needs

of a family. While there is significant mis-selling of life insurance investment linked life insurance policies, do they serve a useful role in Indian society by providing access to investments with a reliable institution, protection of these investment plans and premiums from the exigencies of daily life as well as demands from extended family members. Empirical studies in the research literature of insurance demand in households have typically used cross-sectional data. There are few studies that have looked at the temporal changes in life insurance demand within the same household. Models based on data that track changes in insured status within the same household might avoid the problem of omitted variable bias and provide an insight into the dynamic determinants of insurance demand. With that aim, in this study, we attempt to study the changes in demand for life insurance within the same household over time. We use a short panel dataset from the Indian Household Development Survey which includes 1503 villages and 971 urban neighborhoods across the country, surveyed in 2004-05 and 2011-12. We are interested in both the acquisition as well as the discontinuation of life insurance coverage. We build logistic regression models to estimate the probability of uninsured households acquiring life insurance, and of insured households dropping life insurance coverage.

OBJECTIVES

To identify the factors that influence the purchase decision of life insurance

To identify what they expect from such life insurance

To identify which age group mainly subscribes for life insurance

To identify which benefit of life insurance attracts them the most

REVIEW OF LITERATURE

Yaari (1957) In classical economics theory, the decision to purchase insurance is treated as a rational choice made by consumers who try to maximize their lifetime utility under wealth and

information constraints utility functions which may also have some stochastic component depending on the expected probabilities associated with untimely demise) are optimized to maximize the total lifetime utility **Fischer (1965)** Motives for taking insurance may include risk minimization, investment motives and bequest motives. **Karni and Zilcha (1973)** Lifetime utility is expressed as a function of desired bequest amounts, wish to delay consumption to a later time such as retirement and returns on savings where insurance acts as an investment vehicle **Bernheim & Slovic-eatal (1978)** found that people buy more insurance for a high probability low-loss event than a low probability high-loss event, and do not buy insurance for an event which has a probability below a certain threshold **Auerbach and Kotlikoff (1979)** found that a significant proportion of American housewives had insufficient life insurance coverage **Wekkar et al. and Zimmer et al. (1980)** found that people do not favor default risk in an insurance policy and demand a high reduction in the insurance premium to compensate for the default risk **Kunreuther and Pauly (1982)** found that people do not buy insurance for low probability high loss events even when insurance premiums are actuarially fair **Simon (1982)** suggest that the ability to make rational decisions is limited by (i) the tractability of the problem, (ii) the cognitive ability of human mind and (iii) the availability of time to make the decision **Kahneman and Tversky (1983)** suggests that people are loss-averse and often underestimate large probability and overestimate small probability **Loomes and Sugden (1984)** proposes that when making choices under uncertainty people often experience an emotional response of regret if the desired outcome is not achieved **Wilde (1986)** proposed the risk homeostasis hypothesis that suggests that people are comfortable with a certain level of risk and adjust their behavior according to the risky situation **Wilde (1989)** He argued that individuals maximize their total benefits by

comparing the costs and benefits of their risky and safe choices. **Zelizer (1991)** found that in the early 19th century, life insurance was rejected in American society because of the social view that life insurance is converting a sacred event of death into a commodity. **Burnett and Palmer (1996)** found that fatalism, socialization preferences and religious salience were among the most important determinants of life insurance purchase. **Hsee and Kunreuther (1997)** argued that if an individual has a strong affection for an object, they would be willing to buy more insurance for that object in comparison with any other object **Buzatau (2000)** argued that emotions, personal biases, social norms and financial culture have a strong influence on insurance purchase decisions **Ferber and Lee (2004)** studied life insurance purchase among young married couples. They found that the financial status is the primary determinant of life insurance purchase **Burnett and Palmer (2007)** in a study with consumer panel data of American south western city found that, insurance agent significantly influence the purchase of insurance **Zhang (2012)** in China found that the extent of financial worry, economic condition, health status and knowledge of life insurance have the significant influence on intention to purchase life insurance **Li et al. (2012)** found that a significant proportion of the respondents purchase life insurance as a favor toward the insurance sales agents in **Taiwan Gottlieb**

(2013) analyzed insufficient insurance among working class, excessive insurance among older people and simultaneous holding of life insurance and annuity.

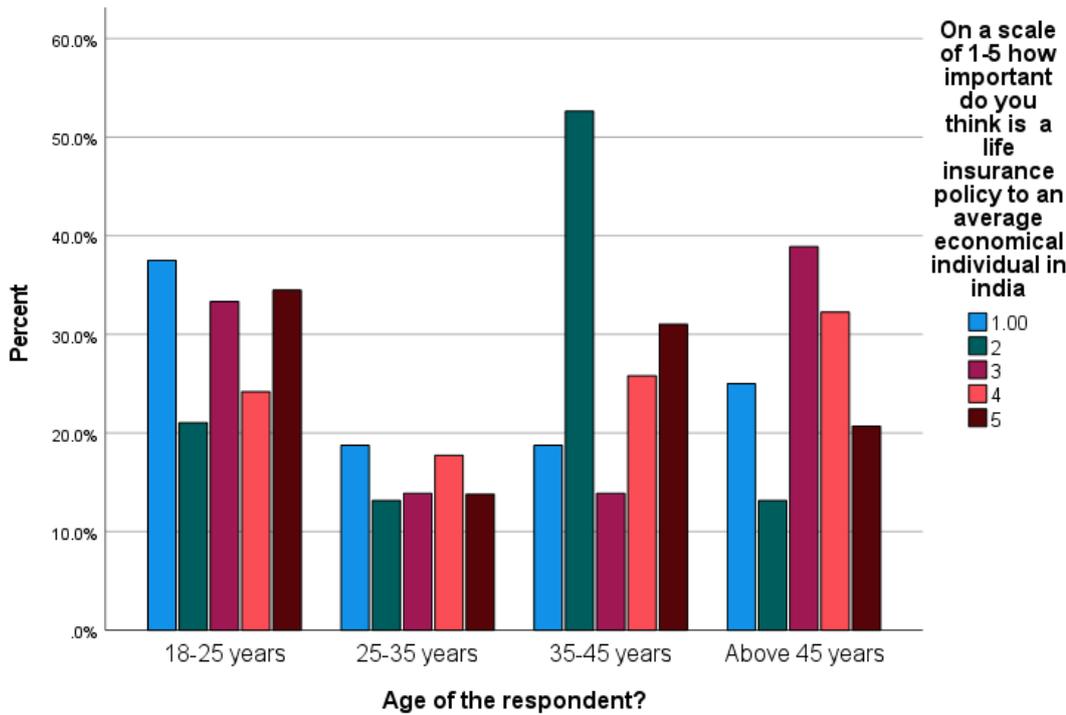
METHODOLOGY

The research method used here is empirical research the total sample collected numbers to 211 sample method followed here is convenient sampling sample frame is picked from various offices and colleges the independent variables present here are the age, gender, occupation and educational qualification the dependent variables present here are as follows On a scale of 1-5 how important do you think is a life insurance policy to an average economical individual in india, What is your opinion on the statement "purchase of life insurance is an essential benefit served to individuals of India", Which major benefit of life insurance influences the purchase decision, What is your opinion on the statement "do all dependants get to avail the benefit of life insurance ", What mainly triggers the purchase of life insurance , What do you think might be the reasons which are regarded for not purchasing life insurance , What is your opinion with respect to the statement " life insurance policy is a major tool procured by the total population of India ", statistical tool that is used here is graphical analysis the research design used here is descriptive design

GRASP - EDUCATE - EVOLVE

GRAPHICAL REPRESENTATION

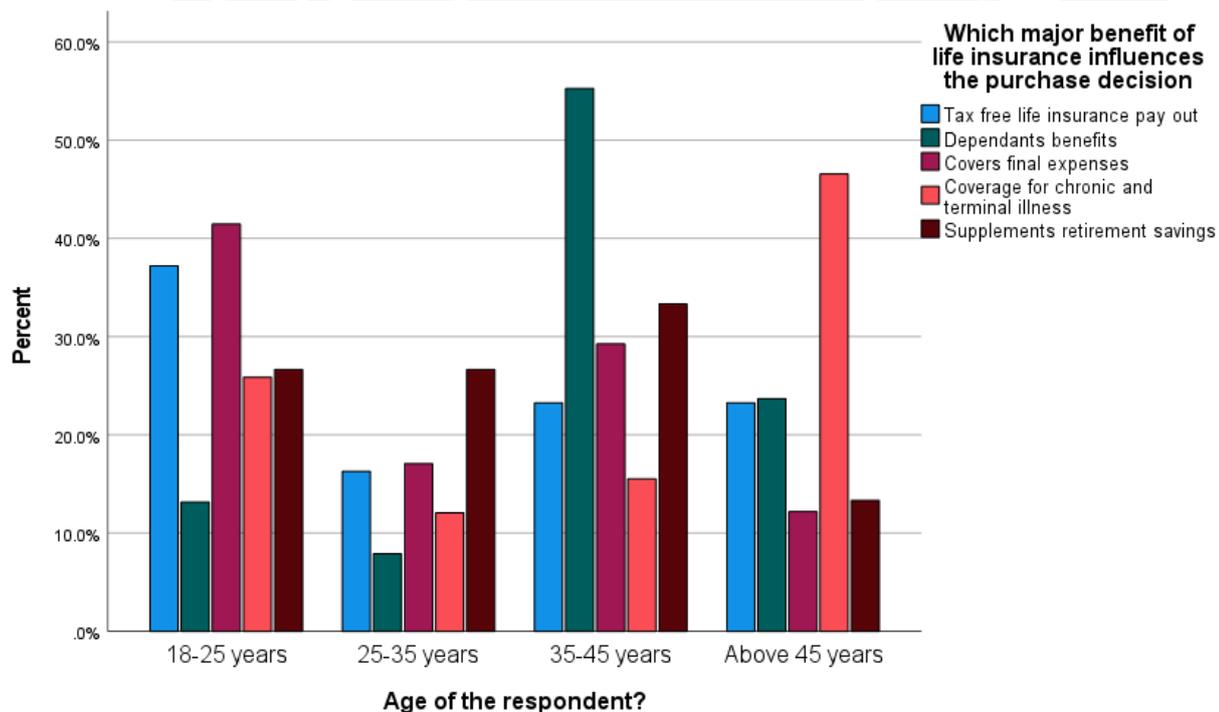
FIGURE 1



LEGEND:

FIGURE 1 represents the opinion on the statement how important do you think is a life insurance policy to an average economical individual in india based on the age of the respondents

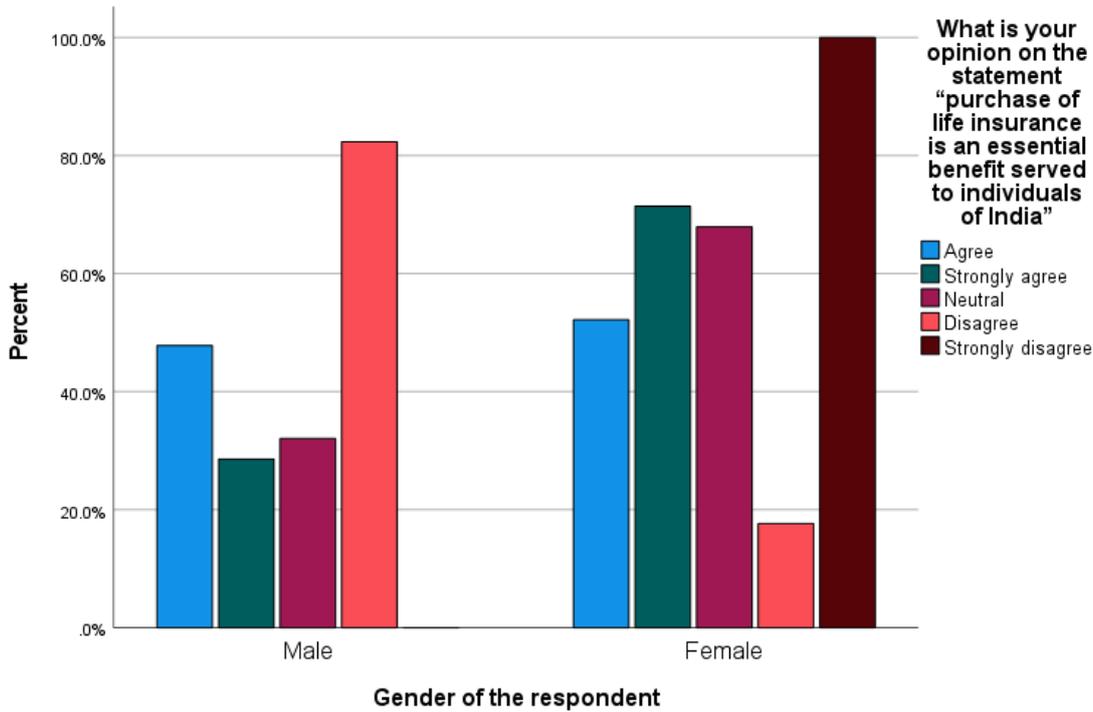
FIGURE 2



LEGEND:

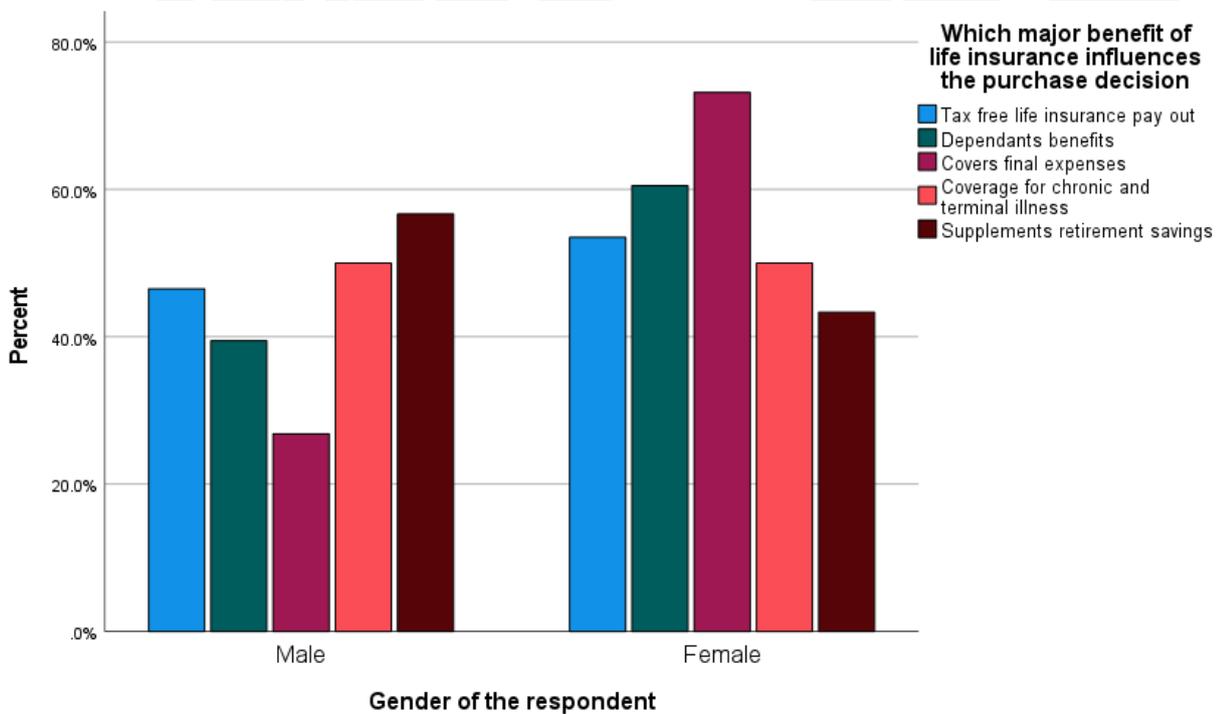
FIGURE 2 represents the opinion of various respondents on the statement which major benefit of life insurance influences the purchase decision

FIGURE 3



LEGEND: FIGURE 3 represents the opinion on the statement purchase of life insurance is an essential benefit served to individuals of india based on their gender

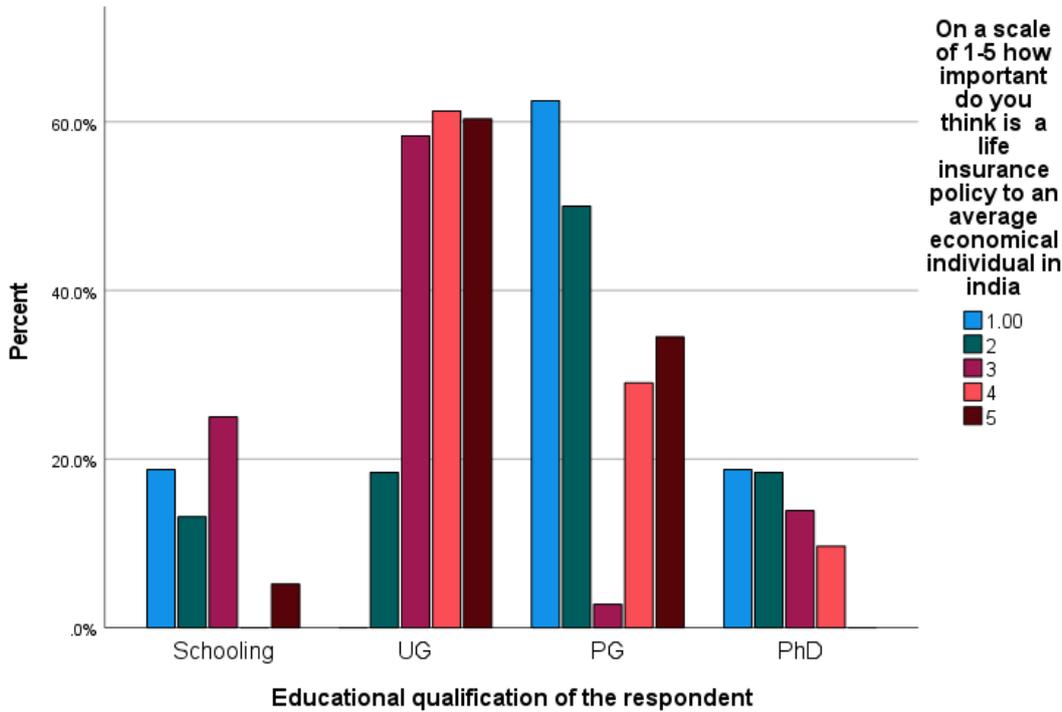
FIGURE 4



LEGEND:

FIGURE 4 represents the opinion of all respondents on the statement which major benefit of life insurance influences the purchase decision based on their gender

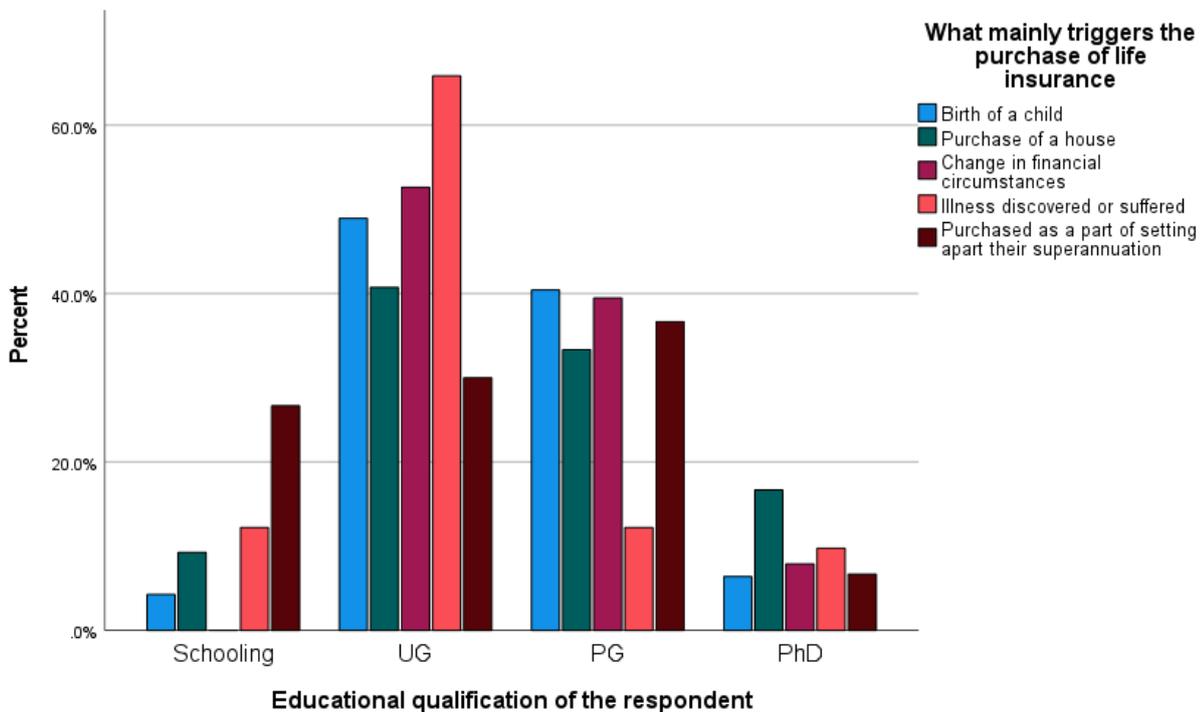
FIGURE 5



LEGEND:

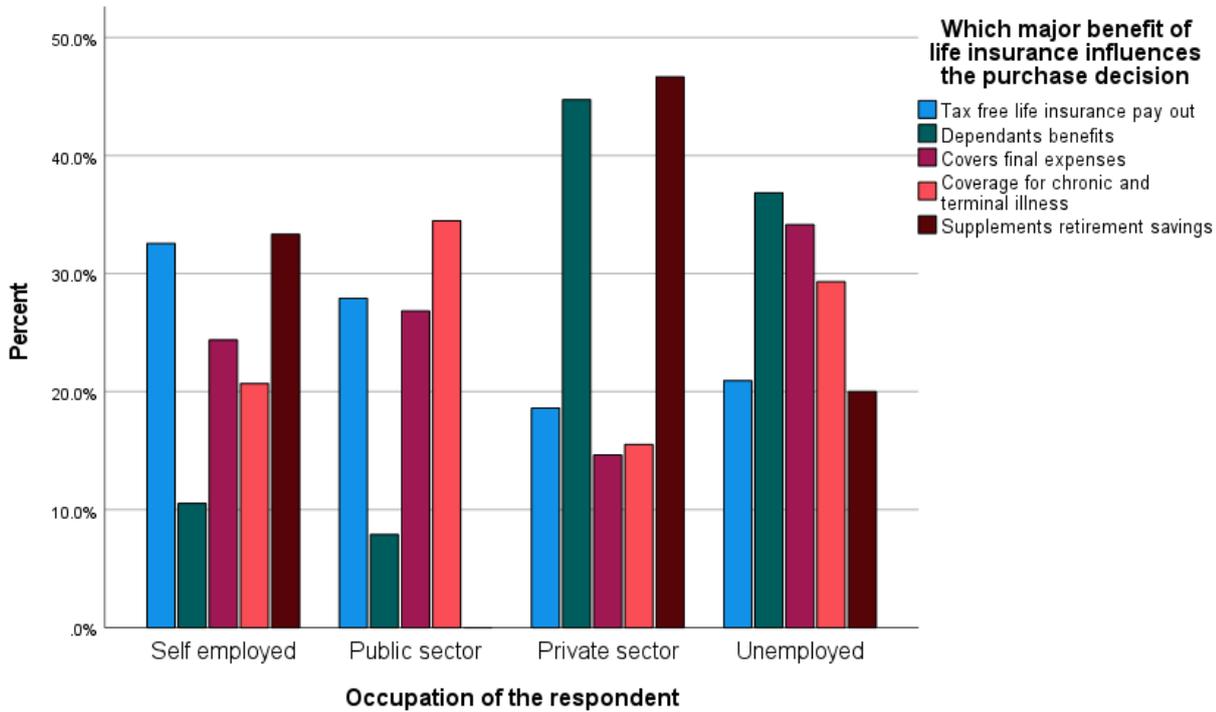
FIGURE 5 represents the opinion of various respondents on the statement how important do you think is a life insurance policy to an average economic individual in india on the basis of educational qualification

FIGURE 6



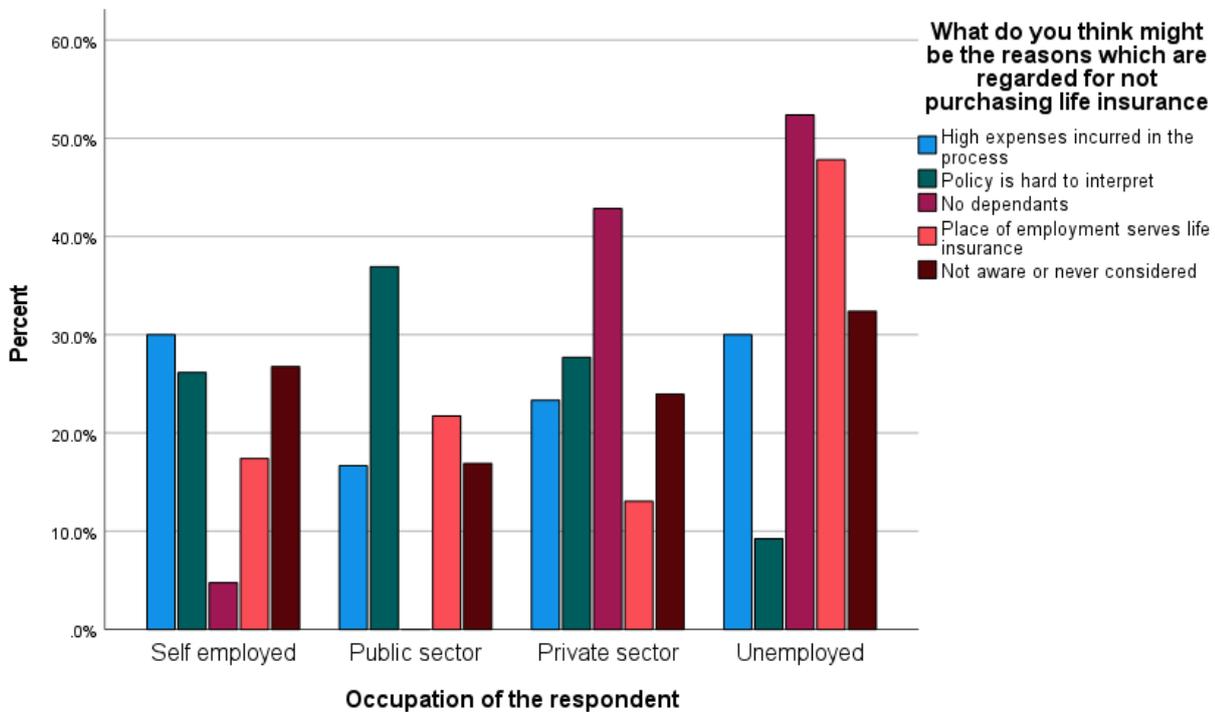
LEGEND: FIGURE 6 represents the opinion of all respondents on the statement what mainly triggers the purchase of life insurance

FIGURE 7



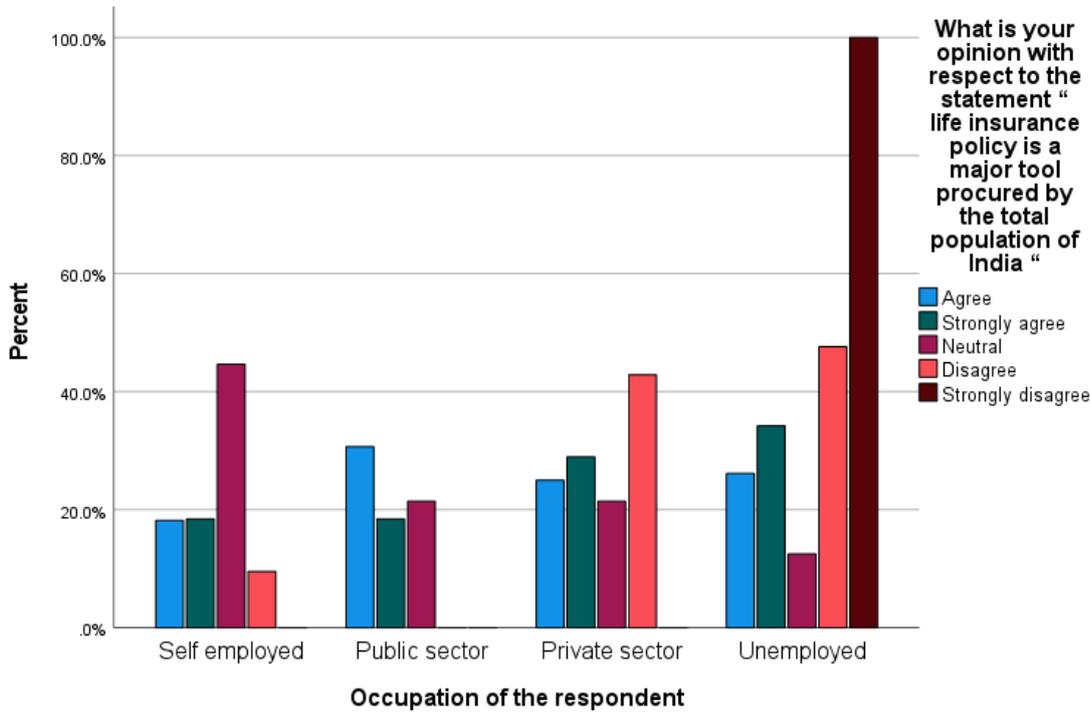
LEGEND: FIGURE 7 represents the opinion on the statement by all respondents regarding which major benefit of life insurance influences the purchase decision

FIGURE 8



LEGEND: FIGURE 8 represents the varied opinion by all respondents on the statement what do you think might be the reason which are regarded for not purchasing life insurance on the basis of their occupation

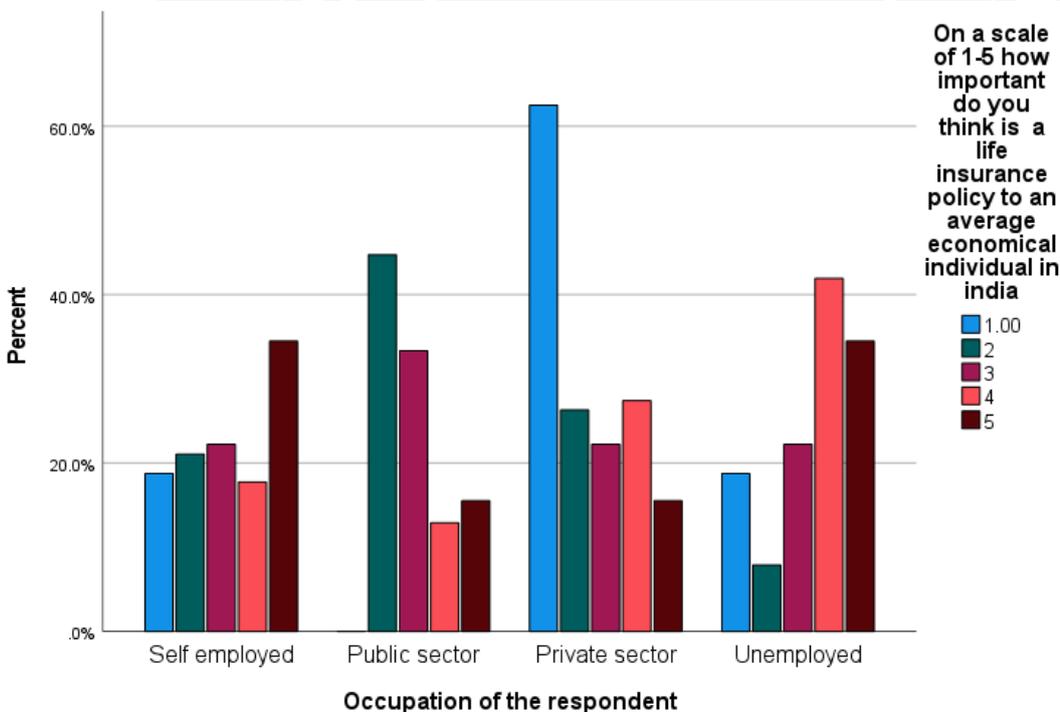
FIGURE 9



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LEGEND: FIGURE 9 represents the response of all respondents with respect to the statement life insurance policy is a major tool procured by the total population of India based on their occupation

FIGURE 10



LEGEND:

FIGURE 10 represents the response of all respondents over the statement how important do you think is a life insurance policy to an average economical individual based on their occupation

RESULT

FIGURE 1 it can be seen that all the respondents above the age of 18-25 years are in agreement with the statement **FIGURE 2** respondents between the age of 18-25 years are attracted towards the tax free life insurance pay out while 25-35 years and 35-45 years and above 45 years are all attracted to common benefits like coverage for chronic and terminal illness and supplements retirement savings **FIGURE 3** both male and female respondents are partially in disagreement with the statement **FIGURE 4** it can be seen that both male and female are attracted towards the tax free life insurance pay out and supplements retirement savings **FIGURE 5** it can be seen that schooling graduates disagree with the statement while UG also seems to be in partial disagreement the pg and phd students are in agreement with the statement **FIGURE 6** it can be seen that all the schooling graduates do not hold much of an opinion while ug and pg graduates have similar point that triggers their purchase while phd graduates are in a position favoring all points **FIGURE 7** it can be seen that the self employed sector and public sector give importance to tax free and public and private sector give importance to dependants benefits **FIGURE 8** self employed are avoiding the purchase of life insurance due to high expenses incurred while public sector finds the policy hard to interpret while the private sector employees are already served with it **FIGURE 9** from figure 9 it is identified that respondents being a part of self employed and public sector and unemployed have procured the life insurance the most **FIGURE 10** it can be observed that self employed public sector and unemployed highly agree with the statement when compared to the private sector.

DISCUSSION

Results of **FIGURE 1** can be understood in the following manner respondents between the age of 18-25 years are not in much agreement or disagreement it can be said that they have taken a neutral reason for this would be the lack

of knowledge and importance with respect to life insurance while those above this age category are in agreement with statement because these respondents have much more experience and know the importance and benefits of life insurance the results of **FIGURE 2** are best understood by stating the concept of maturity though all the age sectors prefer to have a life insurance their reasons are varied respondents between the age of 18-25 years have just started earning and are attracted to all means that save their earnings and all the age category above them can be seen to have a mature and wise planning since their sole purpose to purchase is in order to supplement their retirement savings and cover any chronic illness the results of **FIGURE 3** are best justified in the following manner since the respondents that are targeted are more among the working class and mainly between the age of 18-35 years who do not give much importance to their life and chronic illness that might affect them and do not have complete knowledge regarding the benefits of life insurance therefore they might be in disagreement with the statement the results of **FIGURE 4** can be interpreted in the following manner as mentioned earlier since the targeted respondents here are working class and between the age of 18-35 years so they give more focus and are tend to be attracted towards the benefit that save their income and earnings therefore they are more attracted towards tax free life insurance pay out and supplements retirement savings the above graph **FIGURE 5** and its results can be discussed as follows the schooling graduates may not be in favor with statement because they do not know the importance of a life insurance are not having enough knowledge regarding this matter while ug graduates majorly aim at earning and give less importance to life related matter while pg and phd graduates are wise and mature enough and know the importance of life insurance therefore they are in agreement with the statement **FIGURE 6** schooling graduates do not have much of an

opinion due to their lack of knowledge in the area being discussed while ug and pg graduates share same similar points that trigger their purchase decision that is illness discovered or suffered and birth of a child mainly this might be because their needs at that point of age would be these while phd graduates who are much older in age have different needs at that point of time in this case most of the stated points turn out to be their needs the results of **FIGURE 7** can be best understood in the following manner self employed and public sector focus on tax free as it is their varied need while for private and unemployed they have other varied needs the results of **FIGURE 8** can be best understood in the following manner the self employed are usually the ones who are earning on their own such people try to reduce their expenses and on the other hand public sector employees are those who are not much educated they might not be able to interpret the jargons of insurance policy and the private sector employees are already served with it which gives them no need to purchase it separately **FIGURE 9** the results of figure 9 can be interpreted in the following manner the private sector might not have purchase as much life insurance as that of other sectors this might be because in general private sector companies usually provide life insurance policy for their employees **FIGURE 10** the results of figure 10 can be interpreted in the following manner the public sector unemployed and self employed respondents find that life insurance policy is important for them when compared to the private sector since these employees are already provided with life insurance by their companies itself in general.

LIMITATIONS

The limitation in the research is the sample frame. The samples are obtained in the convenient sampling method and the sample size is 211. We can not determine the opinion of people in India with a small sample size. This is a limitation and a disadvantage to the research. We can not collect samples from the entire population of India.

CONCLUSION AND SUGGESTION

In this paper we have studied several aspects of life insurance demand in India. We were interested primarily in understanding the consumer behavior associated with life insurance purchase decisions in the Indian context. We studied how individuals made a decision about purchasing insurance, how they made choices about the kind of insurance policy they choose and also the reasons behind why some of the insurance owners let their policies lapse. First, in order to get an understanding of the dynamics of insurance demand in India, we were interested in seeing which socioeconomic and demographic factors affect changes in life insurance demand within a household. While there have been several studies that have looked at cross-sectional data to analyse household demand for life insurance – i.e. static models, there have been few studies that have looked at changes in insurance consumption. We used a large household level dataset of 34,885 households based on the Indian Human Development Survey which was conducted in two waves in 2004 and 2011. We were interested in the factors that affect the probability of acquisition of insurance or discontinuation of insurance. For the independent variables, we built a derived variable called SEC class which indicated the socioeconomic class that the household belonged to, based on the level of education of the head of the household and the assets owned. We also built a derived variable that indicated whether a household was poor based on a threshold level of consumption. Separate logistic regression models were built for rural and urban households. Results from these models indicated that variables related to the financial condition of the household (socioeconomic status, the poverty indicator and changes in reported income) were the most important predictors that indicated whether the household would acquire insurance or discontinue coverage. Among the demographic variables we found that family size, the gender and education of the household

head affected the probability of acquiring or discontinuing. In the second study, we were interested in investigating the factors that affect the attitudinal factors that affect consumer behaviour with regard to purchase of insurance. For this part of the study, we used the Theory of Planned Behaviour which proposes that beliefs, attitudes, subjective norms and perceived behavioural control affect behavioural intention which affects the actual behaviour which in this case is the purchase of insurance. Primary data was collected from a sample of 211 respondents using a questionnaire that had several questions designed to measure these latent constructs in the respondents. Confirmatory factor analysis of the questions yielded three independent constructs. Two of these were the attitude and perceived behavioural constructs. Three questions related to beliefs about insurance and three questions related to subjective norms loaded on the same factor. This indicated that the beliefs about insurance are inextricably linked with the subjective norms. A structural equation model indicated that beliefs and subjective norms had a direct effect on attitudes and attitudes in turn affected behavior. Perceived behavioral control also affected the behavior but indirectly through the attitudes.

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