

FACTORS AFFECTING INSURANCE CONSUMPTION: A CASE STUDY IN THE DHAKA CITY

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ABSTRACT

This study examines factors within insurance institutional framework that affect insurance consumption in the Dhaka city. The primary data of the study were collected from 100 insurance consumers randomly drawn from the Dhaka city based 5 insurance companies. The five issues were considered to collect data such as (i) accessibility and prompt payment of claims, (ii) knowledge and awareness of insurance, (iii) activities of insurance marketers, (iv) insurance policy statements and (v) insurance corporate image. The data are analysed using both descriptive and inferential statistics. In this paper, multivariate regression models have been used to focus factors affecting insurance consumption. The socio-economic characteristics of insurance consumers reveal that most of them were literate, mostly public servants, married and still in active ages. In accordance with theoretical framework, the empirical results support the established relationship between insurance consumption and institutional performance. Realising these problems as they affect insurance patronage and development in Bangladesh, the study recommends a general overhauling of insurance framework as a way forward for the development of a vibrant insurance market in Bangladesh.

Keywords: *Factors, Affecting, Insurance, Consumption, Dhaka City.*

1. INTRODUCTION

Since the end of World War II, the insurance companies around the world have been experiencing a remarkable growth. Concurrent with this growth, there have been significant changes within the companies. In Bangladesh, they are also somehow affected by this general growth malady. The growth of multiple line transition, introduction of package policies, the universal banking system, grassroots insurance, the variable annuity, growth of life insurance, universal life insurance policy, changes in regulatory of framework, continued expansion of social security system and the

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involvement of government as a provider of private insurance are all parts of the challenges with which the insurance industry must contend with (Ibok, 2006, Soon, 1996).

Although the future of insurance industry in Bangladesh appears bright, a number of unresolved problems still exist; particularly the insurance marketing system which has affected the consumption of insurance products. In Bangladesh, this problem seems to be even more pronounced because of the level of literacy of the Bangladeshi populace. Insurance has remained one of the least purchased items within the financial market. Records reveal that about only 10% of the Bangladeshi population have insurance of any sort (Mordi, 1990; Wilson, 2004; and Oworen, 1991).

In general, this negative marketability of insurance products has become a problem not only to the insurance industry but also to the economic development. The problem has existed for long and increased somewhat with the sophistication of the Bangladeshi society which has grown knowledgeably in the recent years (Ibok, 2006). However, the increased importance of insurance as a provider of financial services and of investment funds in the capital market is especially pronounced in developed economies whereas insurance consumption in many developing countries is still very low. One does wonder a little what the future of this important industry will be if these problems continue unabated.

1.1. Statement of the Problem

The large variation in insurance consumption across different economies of the world raises some important questions about the causes of this variation and factors affecting insurance consumption. By assessing its role as a major financial intermediary, insurance has become a key source of long term capital, encouraging the growth of capital markets (Catalan et al, 2000; Impavido and Musalem, 2000). Indeed, several studies have found sufficient evidences to suggest the development of insurance industry related to the economic growth (Ward and Zurbruegg, 2000; Webb, 2000; and Soon, 1996). Insurance has taken on an increasing importance as a means for individuals and groups to manage their income risks (Osaka, 1992 and Njogu, 1991).

Empirical studies on changing insurance marketing on one hand, and consumption of insurance products on the other in Bangladesh appears to be inadequate. As Mordi (1990) has rightly pointed out, figures are yet to be available in many activities of insurance. There are even questions of adequacy of such empirical data. Lack of available data and information invariably means lack of awareness and interest on the part of the consuming public. Therefore, despite its apparent role in risk management and transfer, relatively few people in Bangladesh appear to be appreciating this role. Some who buy insurance (especially, the motor vehicle insurance) do so because it is made compulsory by the law.

So far, studies on insurance marketing and consumption in Bangladesh have focused on the entire country. Little effort is made to disaggregate performance across the different states or geopolitical zones of the country to determine if there are location specific problems, differences or regional factors that could influence insurance consumption. This explains why the present study is concerned with identification of the key marketing and consumption inhibitors in Bangladesh with

particular reference to the Dhaka city. It is within this context that this study attempts an empirical investigation of those institutional factors that inhibit insurance consumption in the capital city.

1.2. Objectives of the Study

The general purpose of this study is to identify and examine those factors within insurance framework affecting insurance consumption in the Dhaka city. Thus, the specific objectives include:

- (a) To determine the socio-economic characteristics of insurance consumers in the Dhaka city;
- (b) To examine the institutional factors inherent in insurance marketing framework that may affect insurance consumption;
- (c) To analyse the effect or relationship between the identified factors and insurance consumption;
- (d) To explore avenues upon which a vibrant insurance market could be developed in the Dhaka city.

1.3. Research Questions

This study was designed to provide answers to the following research questions:

- (a) What is the socio-economic characteristic of insurance marketing framework in the Dhaka city?
- (b) Which institutional factors within insurance marketing framework do affect insurance consumption?
- (c) What is the relationship between institutional characteristics and the insurance consumption?
- (d) In what way(s) can insurance marketing and consumption be improved in the Dhaka city in particular and Bangladesh in general?

2. THEORETICAL FRAMEWORK

In this section, an attempt is made to describe the theoretical foundations of the different factors hypothesized to drive the demand for and the supply of insurance as follows:

2.1. Accessibility and Prompt Payment of Claims and Insurance Consumption

Accessibility and prompt payment of claims is hypothesized to be positively related with insurance consumption. The basis for this expectation is that the more consumers are paid of their claims without unnecessary delays and bottlenecks, the more likely they will buy insurance. Akpan (2005) and Ibok (2006) found causal reasons for low insurance penetration as a result of institutional framework and identified factors such as delayed indemnification of risk victims with genuine insurance claims, lopsided distribution of insurance offices, lack of awareness, lack of proper education and fraudulent activities by those selling insurance as some of the factors affecting insurance penetration in the city.

2.2. Knowledge, Awareness and Insurance Consumption

Awareness and knowledge of the uses and importance of insurance is hypothesized to be positively related to insurance consumption. This is because the higher the level of one's awareness of a thing, the more likely the person will appreciate its value. The lack of sophistication or awareness and knowledge of insurance on the part of the consumers has been identified as a major hindrance to insurance consumption. Majority of insurance consumers misunderstand the very purpose of insurance and this misunderstanding creates widespread difficulties for insurance marketing vis-^{uzz}vis consumption. Wilson (2004) observed that much of the dissatisfaction with insurance in Bangladesh is based on a faulty idea of what insurance is and how it operates. With this level of awareness, insurance patronage and consumption becomes a daunting task. This problem is even made worse by the high level of illiteracy among the citizenry (Oworen, 1993). An institutional bottleneck that affects insurance marketing and consumption as argued by Gowon (2004) is insufficient publicity and public awareness campaign by the insurance companies.

2.3. Professionalism and Insurance Consumption

Professionalism constitutes the main force of insurance practice. Hence, it is hypothesized to be positively related with increased consumption. The unique nature of insurance industry should serve as the foundation for a distinctive marketing system in the insurance market (Gibbs, 1975; Nelli and Marshall, 1968; Green, Trieschmann and Gustanison, 1992). The agent is very central in insurance marketing process. While this is true, the relationship between the agent and the company they represent can be and is often varied. Because of the technical complications of the insurance products, it is particularly important that those selling insurance understand the contracts they are supposed to sell. A common problem associated with the agencies is the professional attitude. With little or no qualification, one can become an agent or a broker. Worse still are the unwholesome practices by those selling insurance.

2.4. Policy Statement and Insurance Consumption

Policy Statement is hypothesized to be inversely related to insurance consumption. The assumption is that the higher the technicality involved in policy statement, the less likely consumers will buy insurance. The complex nature of most insurance policy statements are so complex for a literate citizen to understand, talk less of the less privileged and uneducated citizens. Gibbs (1975) suggested that insurance policy statements should be clear and simple, devoid of technical jargons and concise if its desired purpose is in any way to be achieved.

2.5. Corporate Image and Insurance Consumption

The image of anything can be described as the mental picture of that thing or being. Thus, corporate image is hypothesized to be positively related to insurance consumption. The basis for this expectant is that the better the image, the more likely the people to be identified or to do business with the companies. The public image of an individual, an organization or a professional group is, therefore, the character of the person or the body as perceived by the public. Since insurance is a business

that thrives on confidence and integrity, its perception by the public is crucial to its development. However, the continuous call for improvement of the image and of practitioners is basically a cry for greater professionalism (Lijadu, 1988 and Mordi, 1990).

3. METHODOLOGY

This study was carried out in Dhaka, the capital city of Bangladesh. The respondents were insurance consumers, residents in the study area. The primary data of the study were collected with the help of administration through structured questionnaire. Two stage sampling technique was employed in data collection. In the first stage, 5 insurance companies were randomly selected from the list of insurance firms operating in Dhaka. In the second stage, 20 respondents were randomly selected from each insurance firm based on their availability at the time of gathering the data. Altogether, 100 respondents out of 5000 constitute the sample for this study. The data were gathered with the help of insurance personnel administering the questionnaire to respective insurance customers visiting their offices at the time of gathering information. The questions were framed using Likert's scale of measurement ranging from strongly agree with 5 points to strongly disagree with 1 point. Questions eliciting information on respondents' socio-economic characteristics were also asked. Normality, linearity and collinearity were checked by graphical methods. Multiple regression analysis was used to examine the effect of the hypothesized factors on insurance consumption, while descriptive statistics was used to determine the socio-economic characteristics of insurance consumers. The multiple regression technique was explicitly represented in four functional forms such as linear, semi log, double log and exponential functions. The variables of interest with respect to insurance consumption were presented in an equation as follows:

$$Y = b_0 + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + e$$

Where: Y = Insurance Consumption (no. of units)

X₁ = Accessibility and Prompt Payment of Claims

X₂ = Knowledge and Awareness of Insurance

X₃ = Activities of Insurance Marketers

X₄ = Insurance Policy Statement

X₅ = Insurance Corporate Image

b₀ = Intercept

b₁ -- b₅ = Regression Coefficients

e = Error Term

The Linear model, which was the lead equation, was chosen based on the performance of the coefficients of multiple determinations and the number of significant variables.

4. RESULTS AND DISCUSSION

4.1. Socio-Economic Characteristics of Respondents

Table-1 (Appendix-I) shows 6% of the respondents under 30 years of age while 10% of them are 45 years and above. Majority (84.0%) of them are between the ages of 30 to 44. This indicates that

insurance consumption cuts across different age groups; thus, age is not a barrier to buy insurance. Table-1 also indicates that the largest proportion (77%) is married, 15% of them are single, while few (8%) are widow or separated. Table-1 further reveals that 3% of the respondents received no formal education, 11% received primary education, 35% had secondary education, while 33% received tertiary education. The remaining 18% claimed to receive one form of education or the other. This information suggests that both literates and illiterates can be involved in the business of insurance consumption. Majority of the respondents (82%) was male, while 18% was female (Table-1). Furthermore, 60% of the respondents were public or civil servants, 25% traders or farmers, while a very small percentage indicated to be involved in other ventures (15%).

4.2. Institutional Factors Affecting Insurance Consumption

The empirical results shows that access and prompt payment of claims was positively related and statistically significant at the level of 1% of significance, showing that accessibility of insurance companies and prompt payment of genuine claims was a determinant of the amount of insurance bought by the consumers. Akpan (2005) and Ibok (2006) had earlier stressed that insurance consumption and patronage are the functions of insurance location and the company's ability to pay genuine claims as and when due.

Knowledge of the importance of insurance and general awareness created by insurance companies was found to be positively related with insurance consumption and was statistically significant ($p < 0.05$). This is in accord with the views of Wilson (2004), Oworen (1993) and Gowon (2004) who found in their respective studies that insufficient knowledge, awareness and publicity campaign hinders insurance operations.

The level of professionalism exhibited by insurance marketers was statistically significant ($p < 0.05$) and had positive contribution to insurance patronage. This however shows that activities of insurance marketers did influence insurance consumption and patronage. This is in agreement with the opinions of Nelli and Marshall (1968) and Green's et al (1992) that insurance practice calls for a high degree of professionalism, the absence of which has been the bane of the insurance industry.

The insurance policy statement was statistically significant at the level of 1% of significance and was negatively related with the value of -1.809 which implies that an increase of 1% in the complexity of policy statement would generate a decrease in 0.809 in insurance consumption. Gibbs (1975) affirmed that policy statements should be made simple, clear and accurate and should be devoid of technical jargons in order to facilitate patronage as most consumers are not so sophisticated to understand the complex nature of most insurance policy statements.

Insurance image perception had a positive relationship and was statistically significant. The significant nature of this variable suggests that insurance activities, including advertisement should be aimed at building a good corporate image that could promote marketing and consumption. This corroborates the assertion of Lijadu (1988) that the insurance industry should maintain the insured's confidence and also the description of Mordi (1990) as the industry having battered image and calls for managing insurance industry towards a better public image.

5. CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

Based on the findings, the study concludes that there is indeed institutional factors that inhibit consumption in the city and that the apparently low insurance penetration in the city is a result of dissatisfaction arising from the activities of insurance companies with regards to decayed indemnification of genuine claims, poor publicity and awareness campaign, unprofessional attitude of insurance marketers and the very complex and incomprehensible nature of insurance policy statements coupled with poor image perception of the industry by the public.

5.2. Recommendations

Considering the above facts, it is therefore recommended that:

1. Insurance companies must ensure that every genuine claim is paid promptly without unnecessary delay, while also making the whole business of insurance accessible to the consumers.
2. The writing of policy statement is rather too mechanistic. Policy statements must be reduced and written in clear and simple language. Every technical terminology expressed in the policy statement should be simplified, if possible in local languages.
3. Knowledge of the importance and awareness of insurance has been a serious challenge to the insurance industry. Therefore, more insurance education and publicity should be regularly carried out using available local media.
4. Unprofessional and unwholesome activities by those selling insurance has created negative perceptions, thus creating negative image for the entire industry. Therefore, to promote insurance practice and equip them for better customer service, everyone selling insurance must be made to possess standard academic and professional qualifications, with well-established ethics and code of conduct. Adequate enforcement mechanisms set up as a benchmark is the only way the industry can maintain an acceptable professional identity.
5. Finally, to address the problem of better public image, it may be necessary to examine how the practitioners and indeed insurance marketers are perceived. Therefore consumer satisfaction survey is not only necessary but also crucial for the growth of a vibrant insurance market. This is necessary in view of the battered image of the industry among the consumers.

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APPENDIX-I

Table 1: Socio-Economic Characteristics of Insurance Consumers

Characteristics	Frequency	Percentage
Age (years)		
<30	6	6.0
30 – 34	13	13.0
35 – 39	19	19.0
40 – 44	52	52.0
45 and above	10	10.0
Total	100	100
Marital Status		
Married	77	77.0
Single	15	15.0
Widow/Separated	8	8.0
Total	100	100
Level of Literacy		
No formal education	3	3.0
Primary education	11	11.0
Secondary education	35	35.0
Tertiary education	33	33.0
Others	18	18.0
Total	100	100
Sex		
Male	82	82.0
Female	18	18.0
Total	100	100
Main Occupation		
Public/civil servants	60	60.0
Trading/farming	25	25.0
Others	15	15.0
Total	100	100

Source: Field Survey, 2012

APPENDIX-II

Table 2: Estimated Regression Results of Factors Influencing Insurance Consumption

Institutional Factors	Linear Functions	Semi-Log Functions	Double Log Functions	Exponential Functions
Constant	15588.12 (6.043)***	3.310 (2.540)**	5.123 (4.283)***	4.242 (2.987)**
X ₁	0.995 (11.179)***	0.080 (0.091)	4.725 (21.018)***	- 0.004 (3.900)***
X ₂	612.467 (2.819)***	- 0.065 (- 0.765)	- 1.070 (- 1.465)	- 0.019 (- 0.158)
X ₃	1160.23 (3.460)***	0.2950 (2.458)**	0.596 (0.509)	0.0529 (2.786)**
X ₄	- 1.809 (5.724)***	0.190 (0.622)	0.071 (0.697)	0.002 (1.700)
X ₅	660.642 (6.445)***	- 0.486 (- 4.339)**	5.633 (5.867)***	0.037 (6.166)***
R ²	0.49	0.33	0.48	0.45

(Figures in brackets are the t-values)

*, **, and *** indicates probability level at 10%, 5% and 1%, respectively.

Source: Field Survey, 2012