

## A Study of the Factors Enhancing the Purchase of Life Insurance in Nigeria

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**Abstract:** Nigeria is a country where the average selling or purchase of Life insurance policies is still lower than many western countries. This has led to a considerable unexplored potential of life insurance in Nigeria. With so many life insurance products available, one continues to wonder why the majority of Nigerian population does not have any life policy. This resulted into finding out what factors play very important role in life insurance policies purchase. The objectives of the study were to evaluate the factors underlying consumer perception towards investment in life insurance and to compare the differences in consumer perception of male and female consumers. Total 150 cooperated for this study, item to total correlation was applied to check the consistency of the questionnaire. The measures were standardized through computation of reliability and validity tests. Factor analysis was applied to identify the underlying factors. The z-test was applied to find out the significant differences between male and female investors. The findings of this study provide important insights to the insurance companies in designing their product-mix. Therefore, consumers who intend to buy the insurance products will have a list of factors and thus can take an informed decision in selecting an insurance product. The study will also assist in improving the market share of companies and further help in the development of the insurance sector. The recommendations are that the insurance companies should concentrate on consumers' loyalty, service quality, ease of procedures, satisfaction level, company image and company-client relationship.

**Key words:** Life insurance, investors and investment, z-test, desingning, satistaction, reliability

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### INTRODUCTION

Life is full of risks and uncertainties since, we are social human beings, we have certain responsibilities too to minimize these risks. Nigerians are emotional and rational in their buying decisions. They believe in future rather than the present and desire to have a better and secured future. In this direction, life insurance services have its own value in terms of serving as savings, investment and risk protection.

Literature reviewed has shown that life insurance business has a high growth rate in Nigeria (Oluyemi, 1995) on the other hand, relatively low penetration of the sector (Central Bank of Nigeria, 2004) indicates that there is still a considerable unexplored potential. Increasing awareness and consciousness of Nigerians about life assurance (Oluyemi, 1995) and the developments in the finance sector are the main triggers of the expected future purchases (Outreville, 1996). On the other hand, life insurance companies having a bad reputation in terms of reliability (Oldenboom and Abratt, 2000) and the sociocultural characteristics of Nigerian society such as being fatalistic and relying on family for help in emergencies are the underlying resources of negative attitude towards buying life insurance (Epetimehin, 2002).

Insurance is essentially a cooperative endeavour. Under any insurance arrangement, a large number of persons agree to share a loss which a few of them are likely to incur in future. Such sharing has the advantage that the individual share of loss is relatively small. When the sharing is done amongst a large number of persons, the individual share remains fairly steady from year to year. Such association of persons for sharing anticipated losses may be brought about voluntarily by all participants or may be organized by a few individuals or by an insurance company.

The function of insurance in its various forms is to protect against the heavy financial impact to anticipated misfortune by spreading the loss among many who are exposed to the risk of similar nature. While it is not possible to predict which individuals among the many participants are likely to be the victims of misfortunes. It is often possible to forecast the quantum of the loss which the group as a whole may suffer.

The sharing of such loss amongst the participants ensures that the victims are compensated for the loss suffered by them As a consequence the heavy and uncertain loss to some is neutralized by definite contribution of moderate amount that every participant is required to make. In other words, people who are exposed

to the same risks come together and agreed that if one of the members suffers a loss then others will share the loss and make good the loss to the person who lost.

Life insurance is the business of effecting the contracts of insurance upon human life including any contract whereby the payment of money is assured on death or the happening of any contingency dependent on human life and any contract which is subject to the payment of premiums for a term dependent on human life. However, very little research has been conducted and published on either customer or the supply side of the Nigerian life insurance market. This study focuses on the customer side of the Nigerian life insurance market and their purchasing behaviour.

**Rational for the study:** With the liberalization of the Nigerian economy, functioning of the insurance sector allowed private and foreign insurance companies to increase their cooperation with international insurance standards. The recapitalization of the industry has also led to increase in competition among the operators. They tried to lure customers by good service and flexible products. Thus, insurance marketing is an aggregate function directed at providing service to satisfy customers financial needs and wants more effectively and efficiently than the competitors keeping in view the original objective of insurance (Shanker, 2002). To create and keep a customer means doing lot of things for him so that he would like to continue the business. Company cannot stay in business if it does not attract and hold enough customers: no matter how efficiently it operates (Levitt, 1974).

Thus, satisfaction of the customer needs is prerequisite for existence and survival of insurance company. Drucker (1973) contended that the whole business is the final result of understanding the customer's point of view. Increasing affluence in life style, income levels, changing preferences, exposure to westernized culture and increasing expectations have contributed to a new generation of more demanding customers.

The rising customer awareness and aspiration of quality service and availability of alternative service providers in Nigerian market has made customers more demanding. Thus, an insurance company's ability to attract and retain new customer is a function of not only what it offers but also how it serves its existing customers (Jha, 2000). Since, insurance companies are not different from other industrial organizations with respect to selling of their products, i.e., insurance policies, product differentiation can make an impact. Present study was therefore undertaken with an intention to identify and

explore the factors which customers seek before selecting life insurance products offered through various life insurance companies.

**Literature review:** There are three main types of life insurance policies in actuarial literature (Black and Skipper, 2000) including whole life insurance which provides a death benefit for lifetime; term life insurance that provide a death benefit for a limited number of years and endowment life insurance which is a term life insurance with a saving medium for consumers. It also plays important psychological and social roles.

As Hofstede (1995) stated, the major function of life insurance is to protect against financial loss from loss of human life. Besides covering the risk of death, it also covers the risks of disability, critical illness and superannuation. Life insurance is therefore developed on the economic component of human life. Any event affecting an individual's earning capacity has an impact on the individual's human life value. This event may be premature death, incapacity, retirement or unemployment (Black and Skipper, 2000).

The human life value concept provides the philosophical basis for the life insurance which is a product designed to protect the individual against 2 distinct risks: premature death and superannuation (Browne and Kim, 1993). Thus while death is not a risk, the time of death is. For most people, death at any age may be considered premature when one dies before adequate preparation has been made for future financial requirements of dependents. Life insurance thus becomes the mechanism for one to ensure a continuous stream of income to the beneficiaries (Black and Skipper, 2000). In this regard, life insurance may be regarded as a saving medium, financial investment or a way of dealing with risks (Schoemaker and Kunreuther, 1979).

**Conceptual framework:** Purchase intention is a function of an attitude toward a particular behaviour. Attitude toward behaviour is the degree to which the person has a favourable and unfavourable evaluation of the behavior in question. Purchase intention is influenced by anticipated situational factors. The consumer forms a purchase intention on the basis of such factors as expected family income, expected price, expected benefit from the product.

The consumer is shown as passing through four stages before purchasing an item, they are problem recognition, information search, evaluation of alternatives and buying decision (Nicosia, 1996). Purchase of insurance policy is an offshoot of investment decisions hence, a preview of investment theory. Investment

decisions are based on expectations about the future. The expected rate of return for any asset is the weighted average rate of returns using the probability of each rate of return as the weight. The expected rate of return is calculated by summing the products of the rates of return and their respective probabilities (Fisher, 1930):

$$\Sigma(r) = T$$

$$\sum_{r=1}^t P_r r_i = P_1 r_1 + P_2 r_2 \dots P_t r_t \quad (1)$$

Finally, drawing from the literature and theoretical review, research questions were constituted. Including Eq. 1, reasons for having life insurance policy at the consideration of perceived alternatives attitude towards life insurance, intention to buy life.

**MATERIALS AND METHODS**

**Research methodology:** The study was exploratory in nature and aimed at exploring the factors which formed the basis for selection of life insurance products by individuals with survey method being used to complete the study. The data was collected through personal contacts, the sample frames were individuals who invested in life Insurance policies. Sampling area was Lagos because of its commercial nature consisting largely of people who can afford to purchase a life policy. Purposive sampling technique was used to select the samples while the sample size was 150 respondents, male and female 75 each. Age group between 34 and 55.

Self designed questionnaire was used for the evaluation of factors affecting consumer’s perception towards life insurance. Data was collected on Likert’s type scale where, 1 stood for strongly agree, 2 stood for agree, 3 for strongly disagree, 4 for disagree and 5 for undecided.

**Instrument validity and reliability analysis:** The questionnaire was subjected to quantitative validity and

reliability analysis. This is necessary to ensure an objective validation of the instrument for the study. Content adequacy and reliability were done on the questionnaire using alpha reliability analysis scale while the consistency of the instrument was confirmed through test retest analysis using Pearson correlation coefficient. Under this, correlation of every item with total is measured and the computed value was compared with the standard value (0.1590) if the computed value is found to be less than standard value than whole factor is dropped and will be termed as inconsistent.

None was found inconsistent. The  $\alpha$ -test was 0.905. It can be seen that the factors chosen are quite good and relevant. The questionnaire is highly reliable. The z-test was applied to find out the significant difference between male and female policy holder.

**RESULTS AND DISCUSSION**

**Factor analysis:** Factor analysis was performed to group the consumers and predict their attitudes towards life insurance. Table 1 shows that when the principal components factors were conducted, the following factors were identified.

**Factor analysis**

**Company loyalty:** This factor includes that this is the only company the customer wants to associate himself with in future. He would purchase more policies from the same company, suggest friends and family to purchase policy from the same company, company able to fulfill expectation, policy benefits benchmarks. The highest factor value lies in this factor 30.273. So, it is been considered as the highly contributing factor towards study. Therefore, it is clear that company loyalty plays an important role in investment decisions of investors. Moreover, existing satisfied customers tend to be loyal to the company and pay less attention towards competitive products or organizations.

Table 1: The factors identified by principal components factor

Factors name	Variance (%)	Variable statements	Factor load
Company loyalty	30.273	Only company I want to associate with: Purchase more policies from the same company; suggest friends and family to purchase policy from the same company; company able to fulfill expectation; policy benefits benchmarks	8.818
Service quality	9.753	Hassle free settlements: Employees responsible towards customers; agent respond promptly; investment in life insurance is more secure than stock market; satisfy with relationship to company	2.438
Ease of procedures	7.830	Porvide claims on time: Cooperative and friendly agent; settlement of claims easy and timely; agen is well informed about policies	1.458
Satisfaction level	6.008	Benefits are met by policy: Provide satisfactory servies; fulfill its promise towards policy; provide services on time	0.774
Company image	5.878	Awareness about terms and conditions of policy	1.252
Company client relationship	5.054	Reputaion of the insurance company: Goodwill of the company; selection of highly reputed company Proper reminder of installments by agents: Personal attention on every customer; understand customer’s financial needs	1.219 1.013

**Services quality:** This factor includes hassle free settlements, employees responsible towards customers, agents respond promptly, investment in life insurance is more secure than stock market, satisfy with relationship to company.

As, the factor value for factor service quality is 9.753 which is also a contributing factor towards the study so, it can also be considered as an important factor in the study. It requires a great deal of efforts to induce satisfied customers to switch away from their current company.

**Ease of procedures:** This factor includes the company provides claims on time, cooperative and friendly agent, settlement of claims easy and timely, agent is well informed about policies. As the factor value for ease of procedures is 5.830 which is also a contributing factor towards the study so, it can also be considered as an important factor in the study.

The mode of premium payment is an important factor when the agents take time to collect as at when due and can discuss the benefits of the policies very well. Prompt claims payment is also an important part of risk bearing that every insurance company should be mindful of.

**Satisfaction level:** This factor includes that the suggested benefits of insurance policy should be met to the investors, company provides them satisfactory services, fulfill its promises about life insurance policy, services should be provided on time and awareness of terms and conditions of policies. That the factor value for satisfaction level is 5.008 which is also a contributing factor towards the study. It can also be considered as an important factor in the study. Customer Relationship Management (CRM) has occupied the front position and is being increasingly viewed as a key driving factor for identifying, attracting and retaining customers (Drucker, 1973).

**Company image:** This factor includes that the insurance company should be well known in the industry, insurance provider should have goodwill in market and company of high repute. As the factor value for image is 4.878 which is also a contributing factor. So, it can be considered as an important factor in the study.

**Company client relationship:** This factor includes that the agent reminds about premium installments, pay personal attention on every consumer and understand consumer's financial needs as we can see that the factor value for company client relationship is 4.054 which is also a

contributing factor towards the study. It can also be considered as an important factor in the study. Company cannot stay in business if it does not attract and hold enough customers, no matter how efficiently it operates. One of the determinants of success of relationship, marketing strategies of a firm is how customers perceive the resulting service quality and the perceived service quality is the key driver of perceived value. It is a perceived value which determines life strength of the company customer relationship.

The z-test was applied to find out significant difference between male and female investors perception towards investment in life insurance policies. For applying z-test mean and standard deviation was calculated then values were put in formula to calculate standard error.

Gender	Mean	SD	Sample size	Square of SD
Male	14.104	20.078	75	403.146
Female	14.594	17.701	75	313.348
				Z = 1.58

Since, the value of  $z = 1.5877$  is less than the standard value 1.96 at 5% level of significance, so the null hypothesis is accepted. Therefore, there is no significant difference between the perception of male and female investors towards investment in life insurance policies.

## CONCLUSION

From this study, it is evident that all the factors that have been identified are important but they have been rated differently. The factor considered most important and ranked first was company loyalty and the last was company-client relationship. The ranking that is derived can be of great help to both the service providers and to the consumers. By incorporating these factors in the best proportion, service providers (insurance company) can improve upon the quality of its products and services to attract more consumers and occupy a dominant market share. This study could be of great help to the consumers as it was aimed at finding the important factors that were preferred by the consumers. Hence, prospective consumers who intend to buy the insurance products and avail themselves the services of an insurance company for the first time would benefit from selecting the best service provider that can provide all these factors in most comprehensive way. For any organization to succeed in this competitive world it is necessary to know what its customers need from it and to fulfill the same in best possible manner.

**Limitation:** Finally, given the results of this study, it is noteworthy that the study sample has a geographical

limitation as the data used was collected from Lagos. The expansion of this study by random sampling of consumers nationally will help to overcome the limitation in this study.

### **RECOMMENDATIONS**

Based on the results of this study, any insurance company can design its offerings in such a way as to attract broad based customers and provide them with the best products and services. Insurance services providers will therefore have to introduce proactive strategies that are primarily aimed at educating consumers and encouraging greater usage of life insurance.

Marketing communication objectives should be based on creating awareness, inform of the benefits inherent in life insurance and to reinforce the purchasing decision. The study can also help to evaluate the current offerings of the service providers, find gaps in the same and rectify them.

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