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Purchase Intention of Life Insurance: with Special Reference to Selected Insurance Companies in Batticaloa, Sri Lanka

T. Prabaharan[1]

[1]**Senior Lecturer, Department of Management, Faculty of Commerce and Management, Eastern University, Sri Lanka**
p_thambirajah@yahoo.co.in

Ms. S. Kavishemi[2]

[2]**Assistant Lecturer, Department of Management, Faculty of Commerce and Management, Eastern University, Sri Lanka**
kavishemi1997@gmail.com

Abstract

Insurance plays a significant role in the life of humanity. The necessity and need for insurance is felt when something adverse happens in the life of humans. The objective of this study was to identify the main influence factors of consumer purchase intention of life insurance. This research was carried out to investigate the independent variables which are financial literacy, saving motives, and risk aversion motives that will determine the dependent variable (consumers' purchase intention) of life insurance. The study is mainly considering the primary data. The data were collected through a self-administrated survey method with the use of a closed structured questionnaire from 380 respondents from the selected Insurance Companies in Batticaloa. Further, the researcher used simple random sampling methods to select the sample size. The study used bivariate and linear regression analysis techniques to analyze the collected data.

The Pearson correlation technique was used to determine the relationship between these variables. It showed that all the independent variables (financial literacy, savings motive, and risk aversion motive) have a strong positive relationship with the dependent variable (consumers' purchase intention). Simple regression analysis indicated that financial literacy, savings motive and risk aversion motive have a significant positive impact on consumers' purchase intention. It is recommended that enhanced awareness campaigns, customized products, improved accessibility, superior customer service, and continuous market monitoring to improve life insurance purchase intention in the selected Insurance Companies in Batticaloa.

Keywords: *Consumers' Purchase Intention, Financial Literacy, Risk Aversion Motive, Savings Motive, Consumers' Purchase Intention*

1. Background

Life insurance is one of the important insurances for every person in their financial planning. Generally, it plays a specific role in all phases of the family's economic life cycle. A person with dependents, such as children and a partner relying on their income, and residing in a house with a mortgage, may find life insurance to be a crucial necessity. The primary purpose of life insurance is to protect against the financial repercussions of the loss of human life. Additionally, it serves as a safeguard against the potential risks of disability, critical illness, and retirement uncertainties (Nomi & Sabbir, 2020). Several reasons underscore the importance of life insurance, including ensuring that family members can maintain their standard of living, securing additional funds for children's education, serving as a savings plan for retirement, and providing supplementary income in the face of a critical illness or accident. Unfortunately, a lack of knowledge about insurance stands out as a significant obstacle to the acquisition of life insurance.

Despite its huge market potential, the life insurance industry is suffering from several problems from both the industry and policyholders' end. Lack of risk awareness, low purchasing power, a higher degree of risk in the market, and lack of spontaneity from the company are some barriers that hold back its desired growth. Alongside many human resource management and operational and ethical problems, life insurance has also ripened with marketing problems. Though some private life insurance companies are trying to reduce the existing fallacies among clients about life insurance, the nationalized company is still devoid of innovations and competencies in its propositions. Several existing literatures focused on the problems, prospects, and policy implications of life insurance, business ethical standards of life insurance and customer perceptions toward life insurance companies in developed countries (Ooi et al., 2019).

Life insurance holds particular significance in a country like Sri Lanka, where the informal economy plays a significant role. Given that a substantial portion of the population lacks a safety net to shield them during crises, the current minimal levels of life insurance penetration become a genuine source of concern. Because life insurance is not prioritized by many individuals in Sri Lanka, a prominent portion of these experienced professionals themselves serve as customers. The service levels delivered by advisors, in this context, can play a pivotal role in fostering the growth of loyal, enduring client relationships.

This research has shown some research gaps that warrant further investigation. One such gap is the population gap of cultural and regional distinctions specific to Batticaloa that may play a crucial role in shaping consumer attitudes and intentions toward life insurance. Existing studies often provide a broad overview, and a more granular examination at the local level is needed to uncover unique factors that influence purchasing decisions in this specific geographic context of Batticaloa. In addition to that the factors influencing consumers' purchase intention of life insurance after the severe economic crisis in Sri Lanka can be identified as an under-researched area of interest. Therefore, it clearly shows that there is an empirical gap in this area of study and the present study contributes to filling this population gap and empirical gap to a certain extent by investigating the factors influencing consumer purchase intention of life insurance in Batticaloa.

2. Research Objectives

1) To identify the relationships between financial literacy, savings motive, risk aversion motive and consumers' purchase intention of life insurance in Batticaloa.
2) To examine the impacts of financial literacy, savings motive, risk aversion motive on consumers' purchase intention of life insurance in Batticaloa.

3. Literature review

3.1 Theory of Planned Behaviour (TPB)

The theory of planned behaviour (TPB) was postulated by Ajzen in 1985. The theory states that intention toward attitude, subjective norm, and perceived behavioural control together shape an individual's behavioural intention and behaviour. According to Ajzen (1991), an attitude refers to the degree to which an individual has a favorable or unfavorable assessment of the behavior; subjective norm refers to an individual's perception to perform or not to perform a particular behavior. An individual being is positively or negatively influenced by significant others such as parents, spouse, friends, and teachers. Perceived behavioural control refers to the degree to which an individual perceives ease or difficulty in performing a particular behaviour. It is based on past experiences as well as the future expectation of the occurrence of obstacles (Ajzen, 1991).

3.2 Life Insurance

Life insurance is a financial contract between an individual (the policyholder) and an insurance company, wherein the insurance company agrees to pay a designated sum of money, known as the death benefit, to beneficiaries named by the policyholder upon the insured person's death.

In exchange for this coverage, the policyholder typically pays regular premiums to the insurance company (Hong & Rios-Rull, 2012). Life insurance serves to provide financial protection and support to the beneficiaries, helping them cope with the economic impact of the insured person's death by offering a lump sum payment or periodic income, depending on the terms of the policy. Additionally, certain life insurance policies may include benefits for critical illness, disability, or retirement savings, depending on the specific type of policy chosen (De Vylder & de Vylder, 1997).

3.3 Consumers' Purchase Intention

Consumers' purchase intention refers to the likelihood or inclination of a consumer to buy a product or service in the near or foreseeable future. It reflects the individual's mental state and readiness to make a purchase decision based on various factors such as perceived value, product benefits, brand reputation, marketing influences, personal preferences, and external influences (Mirabi, Akbariyeh & Tahmasebifard, 2015). Consumer purchase intention is a crucial aspect of consumer behavior and marketing research, providing insights into the factors that influence a consumer's decision-making process before committing to a purchase. It is often measured and analyzed by businesses to understand market dynamics, improve marketing strategies, and enhance product or service offerings to align with consumer preferences and expectations (Morwitz, 2014).

3.4 Financial Literacy

Financial literacy refers to an individual's ability to manage their finances efficiently through proper use of savings to accumulate wealth, effective conservation of such wealth against value depreciation and losses, and finally, proper distribution of wealth in later life (Mahdzan & Victorian, 2013).

Several previous studies have also found a link between financial literacy and an individual's demand for life insurance and purchase intention toward life insurance (Zakaria et al., 2016). Financially literate individuals tend to make informed, rational purchase decisions, aligning choices with budgeting, risk awareness, and long-term goals. Increased confidence in managing finances positively influences consumer purchase intention, emphasizing the importance of financial education in shaping thoughtful and goal-oriented buying behavior (Lee, Lee, & Hwang, 2015). Based on these results, the following hypotheses can be drawn:

H_1: Financial literacy has a significant and positive impact on the consumers' purchase intention of life insurance.

3.5 Savings Motive

The savings motive refers to the fundamental desire or intention of individuals to set aside a portion of their income or resources for future needs or emergencies. It reflects the motivation to accumulate financial reserves, provide a buffer against unexpected expenses, achieve specific financial goals, or ensure a secure and stable financial future (Chaudhary, 2017).

The savings motive significantly shapes consumer purchase intention by instigating a mindset of financial prudence. Individuals driven by a savings motive tend to exhibit a deliberate approach to spending, prioritizing future financial goals and emergency preparedness. This influence results in a more cautious and goal-oriented consumer behavior, impacting the types of purchases made (Hasan & Rahman, 2023). The relationship underscores the intricate balance between current consumption and the desire for long-term financial security, guiding individuals toward financially responsible and intentional spending habits (Mahdzan & Victorian, 2013). Based on these results, the following hypotheses can be drawn:

H_2: Savings motive has a significant and positive impact on the consumers' purchase intention of life insurance.

3.6 Risk Aversion Motive

Different people's willingness to take risks varies. Within the same risky situation, people react differently. This proclivity for risk is referred to as risk aversion, and it is associated with anxiety. Individual preference for specific outcomes over probabilistic outcomes (Outreville, 2014).

The relationship between risk aversion motives and consumer purchase intention is characterized by a cautious and deliberative approach to buying decisions (Havrilko, 2016). Individuals driven by risk aversion motives tend to prioritize financial security, avoiding purchases perceived as risky. This inclination can influence consumer purchase intention by leading individuals to opt for safer, more practical choices, delaying discretionary spending, and emphasizing the importance of minimizing financial uncertainties in their purchasing behavior. The desire to mitigate potential risks often shapes a conservative and calculated approach to consumer decisions (Chiu et al., 2014). Based on these results, the following hypotheses can be drawn:

H_3: Risk aversion motive has a significant and positive impact on the consumers' purchase intention of life insurance.

4. Conceptual Framework

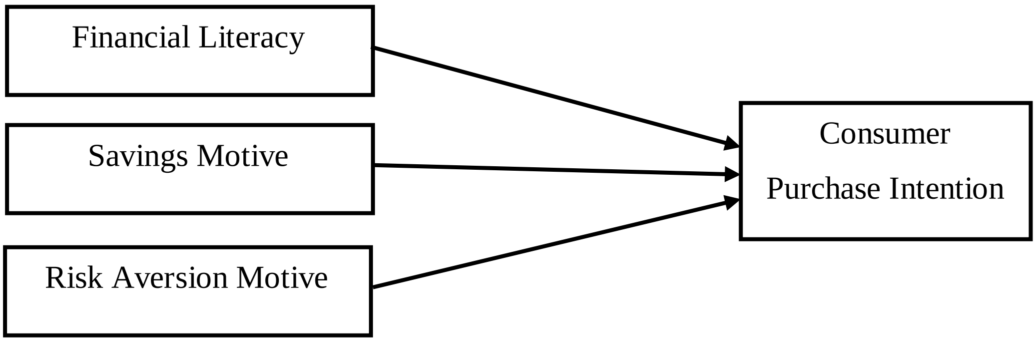

Figure 1: Conceptual Framework

Source: Nomi, & Sabbir, 2020

5. Research Methodology

A quantitative research design was adopted in this study. A study population for this research was identified as consumers of life insurance policy holders in selected six insurance companies in Batticaloa. The sample was selected through simple random sampling. The researcher has taken a sample size of 380 respondents for study purposes.

The data collection method is fully dependent on a close-ended questionnaire. The questionnaire consists of Part I and Part II. Part I is related to personal information and Part II is related to research information. The “Five Point Likert Scale” was used to measure the variables. Part I contains the consumers’ company's name, educational level, gender, and monthly income. The scale in research information consists of five boxes, ranging from "Strongly Disagree" to "Strongly Agree" which was applied in part II of the questionnaire to identify responses. To measure study variables, questions were adopted from Nomi and Sabbir (2020). In this study, Cronbach’s Alpha Coefficient (CAC) has been used for analyzing the reliability of the instrument. To achieve the objectives of the study, this has employed correlation and regression analysis to analyze the collected data in SPSS version 25.0.

6. Results and Discussions

6.1 Reliability Analysis for Overall Variables

Table 1: Reliability Analysis for Overall Variables

Variables	Cronbach's Alpha	No. of Questions
Financial literacy	0.875	05
Saving motives	0.963	05
Risk aversion motives	0.945	04
Purchase intention	0.827	04

Source: Survey Data

Table 1 shows that the Cronbach Alpha for the factors was acceptable at a level of 0.7 or above. Therefore, all items which are considered in this study are to be reliable, which suggests that the internal reliability of the instrument for satisfactory (Hair, Black, Babin & Anderson, 2010).

6.2 Demographic Profile of the Respondents

The demographic profile of the respondents specifies the name of the company in which they are life insurance consumers, among 380 respondents, 28% of respondents are from Insurance Company 1, 21% of respondents are from Insurance Company 2, 16% of respondents are from Insurance Company 3, 14% of respondents are from Insurance Company 4, 12% of respondents are from Insurance Company 5, 9% of respondents are from Insurance Company 6. The educational qualifications of respondents are divided into four categories and according to that, 49% possess Bachelor's Degree, 34.9% of respondents possess G.C.E. A/L qualification, 7.9% possess G.C.E. O/L qualification, and 8.2% possess Master's Degree. Out of the 380 total respondents, 67.2% of the respondents are male and 32.8% of the respondents are female. Age distribution revealed that the majority of respondents fall under the category "between 25-35 years", which denotes 18.9%. Further, 20.7% of the consumers were lied to "between 35-45 years", 39.9% of the consumers were lied to "between 45-55 years" and 20.5% of the consumers were lied to "above 55 years" in Batticaloa. Income distribution indicated that the majority of respondents fall under the category of "above Rs.100000" which denotes 45.5%. 27% of the consumers were lied to "between Rs.50000-Rs.90000 rupees". Further 19.9% of the consumers were lied to "between Rs.26000-Rs.49000 rupees" and 7.6% of the consumers were lied to "between Rs.10000-Rs.25000 rupees" in Batticaloa.

6.3 Data Presentation and Analysis of Research Objectives

6.3.1 Research Objective One

To achieve the study's first objective, the researcher applied Pearson correlation analysis. The Pearson correlation measures the strength of the linear relationship between two variables. It has a value between -1 to 1, with a value of -1 meaning a total negative linear correlation, 0 being no correlation, and + 1 meaning a total positive correlation.

Table 2: Correlation Analysis

Relationships	Pearson Correlation Values	Significance Value	Decision Attributes
Financial Literacy and Consumers' Purchase Intention	0.735	0.000	Strong Positive
Savings Motive and Consumers' Purchase Intention	0.743	0.000	Strong Positive
Risk Aversion Motive and Consumers' Purchase Intention	0.768	0.000	Strong Positive

Source: Survey Data

Table 2 indicates that the correlation (r) between financial literacy and consumers' purchase intention is 0.735 and significance at 0.01 levels (2-tailed). It is concluded that there is a strong positive relationship between financial literacy and consumers' purchase intention. The correlation (r) between savings motive and consumers' purchase intention is 0.743 and significance at 0.01 levels (2-tailed). It is concluded that there is a strong positive relationship between savings motive and consumers' purchase intention. The correlation (r) between risk aversion motive and consumers' purchase intention is 0.768 and significance at 0.01 levels (2-tailed). It is concluded that there is a strong positive relationship between risk aversion motive and consumers' purchase intention of life insurance in selected insurance companies in Batticaloa.

6.3.2 Research Objective Two

To achieve the study's second objective, the researcher applied a Simple Linear Regression statistical tool to examine the impacts of the independent variable on the dependent variable.

Table 3: Simple Regression Analysis

Dependent Variable	Independent Variable	R^2	B	Sig.
Consumers' Purchase Intention	Financial Literacy	0.545	0.743	0.000
Consumers' Purchase Intention	Savings Motive	0.528	0.654	0.000
Consumers' Purchase Intention	Risk Aversion Motive	0.536	0.663	0.000

Source: Survey Data

Table 3 of the simple regression analysis shows that financial literacy positively contributes to consumers' purchase intention ($R^2 = 0.545$, $p < 0.05$, $B = 0.743$). It shows that 54.5% of the variation in consumers' purchase intention is explained by financial literacy. The remaining 45.5% of the variation is explained by other factors which are not taken into consideration. Further, if financial literacy is increased by one unit, consumers' purchase intention will increase by 0.743 units. Similarly, the savings motive positively contributes to consumers' purchase intention ($R^2 = 0.528$, $p < 0.05$, $B = 0.654$). It shows that 52.8% of the variation in consumers' purchase intention is explained by savings motive. The remaining 47.2% of the variation is explained by other factors which are not taken into consideration. Further, if the savings motive is increased by one unit, consumers' purchase intention will increase by 0.654 units. Also, the risk aversion motive positively contributes to consumers' purchase intention ($R^2 = 0.536$, $p < 0.05$, $B = 0.663$). It shows that 53.6% of the variation in consumers' purchase intention is explained by the risk aversion motive. The remaining 46.4% of the variation is explained by other factors which are not taken into consideration. Further, if the risk aversion motive is increased by one unit, consumers' purchase intention will increase by 0.663 units. These results were supported by previous research also. Nomi and Sabbir (2018), Mahdzan, and Victorian (2013), and Khaing (2022) found that financial literacy, savings motive, and risk aversion motive, positively affect consumers' purchase intention of life insurance.

7. Conclusions

The first objective is to identify the relationships between financial literacy, savings motive, risk aversion motive and consumers' purchase intention of life insurance in Batticaloa. The Pearson correlation technique was used to determine the relationship between these variables.

It showed that all the independent variables (financial literacy, savings motive and risk aversion motive) have a strong positive relationship with the dependent variable (consumers' purchase intention).

The study's second and final objective is to examine the impacts of financial literacy, savings motive, and risk aversion motive on consumers' purchase intention of life insurance in Batticaloa. According to the results of the simple regression analysis, financial literacy, savings motive and risk aversion motive have a significant positive impact on consumers' purchase intention of life insurance in the selected insurance companies in Batticaloa.

8. Recommendations

Develop targeted financial literacy programs to enhance consumers' understanding of life insurance, emphasizing its benefits, terms, and long-term financial implications. This can be done through workshops, online resources, or collaborations with educational institutions.

Tailor marketing campaigns to align with diverse savings motives and risk profiles. Utilize consumer segmentation based on financial literacy levels and risk preferences to deliver personalized and relevant messages that resonate with specific target groups.

Create user-friendly online tools that help individuals assess their financial literacy, risk tolerance, and savings goals. Implementing interactive platforms can guide consumers in making informed decisions about life insurance based on their unique financial situations.

Organize workshops focusing on long-term financial planning, where life insurance is presented as an integral component. Empowering individuals to view life insurance as part of a comprehensive financial strategy can enhance their understanding and purchase intent.

9. Directions for Future Study

For increased research reliability, future investigators should encompass responses from all insurance companies within the Batticaloa. This expansion will enable the researcher to garner a more extensive range of opinions through interviews, subsequently enhancing the accuracy, efficacy, and reliability of the collected data.

Given that the current sample size of 380 respondents is insufficient to precisely represent Sri Lankan insurance usage patterns, augmenting it will yield more accurate outcomes. Consequently, a larger sample size will contribute to a more precise depiction of the survey results.

To refine the model further, subsequent researchers should consider integrating additional relevant independent and dependent variables based on the latest literature findings. This approach will ensure the model's alignment with the most recent research developments.

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