



Identifying and Ranking Effectual Factors in Demanding the Life Insurance and Investment On the Insurance Premium Level

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Abstract: *The life insurance is considered as a means for investment as well as to overcome problems resulting from ageing and death of the householder. In many countries, insurance premiums create considerable financial resources which can be used for the development of the insurance industry or other parts and to provide people with much more services. Among the most important indices to assess the insurance industry performance, the amount of insurance premium and its growth could be stated to have the most importance from the aspect of the situation and extension of the insurance industry. The present research aims to assess key factors for demanding life insurance and investment on insurance premium. So, deducing effectual variables in this alternative could be effectual for designing a decision making model especially for manages, brokers and agencies of insurance companies.*

The questionnaire was designed in Likert scale and distributed among 235 residents of Tehran in Iran. Cronbach alpha is calculated as %86, which is well above the minimum desirable limit of 0.70. The study investigates 23 factors and extracts four important ones, which are econometric factors, the marketing performance factors, personal factors, and sociocultural factors. In this paper for analyzing the data, SPSS and Amos software's were used.

Keywords: *life insurance, investment, the insurance premium level*

INTRODUCTION

The importance of life insurances in advanced economies is that the higher level of life insurance share in the total insurance premium could be considered as a development index for each country in comparison to the other insurances. Calmness and having a reliable future without trouble are enumerated as characteristics of modern humans. Humankind is always trying to find solutions to face risks and challenges threaten their life, and when there is no escape from unpleasant situations, they desire to select the “the least damaging” option (Abbasi et al., 2013).

Currently, the life insurance is one of the most important fields in insurance markets of developed and underdeveloped countries. Generally, life insurance is important from two aspects. Firstly, it is responsible for the future of society members or families. Secondly, its saving role could be stated, so that governments use the life insurance as a financial means for investment. The amount of insurance premium and its growth are considered as important indices to assess the performance of insurance industry. In addition, the situation and extension of the insurance industry are of the most importance. According to official statistics

of insurance companies in 2010, due to a 30-70% reduction in the insurance premium tariffs in many fields, the amount of insurance premium in the insurance market had a 25% growth than the last year and it has reached to 57.1 billion Rials, again, the number of sold insurances with a 10% growth was increased about 6.32 million. Altogether, in 2010, the insurance industry has recorded a 25% growth, among which the life insurance growth was 43% separately. So, the life insurance share in the market has reached to 8% that is more than the share of other insurances. Regarding the 8% share of life insurances, it can be concluded that, they have a little share in the portfolio of Iran's insurance market. Anyway, there is no doubt that achieving to pleasant results requires extended changes in informing procedures like advertisement, marketing of insurance companies, legal acts, rating, etc. (Abbasi et al., 2013).

1. Theoretical bases

1.1 The life insurance history

In 1583, the life insurance was first introduced in England. The first insurance company was founded in 1762 and the first scientific research on the life insurance was published in 1812. The first life insurance contract was signed for Mr. William Ginbes. It was a 12-months contract with 80% insurance premium. In 1935, the life insurance was begun by an agency of a foreign insurance company called Victoria in Iran. The agency was dissolved after one year and its portfolio that was comprised of 150 sold insurances was transferred to the newly founded the Iran insurance joint-stock company. The first life insurance issued by the agency was a complex saving one which belonged to a Tabrizian merchant called Jabbar Saleh Nia. At the expiry date, its capital equal to 600 Pounds was paid to the insured. The Iran insurance company was the exclusive company to sell life insurances until 1975, but Melli and Omid joint stock insurance companies started to sell life insurances in 1975 and 1979, respectively. In 1974, the Iran and America international insurance company was established which was exclusively worked on life and accident insurances. It had several large agencies in Tehran and other major cities with the aid of American experts and it was achieved considerable successes to sell life insurances. The activities encouraged the Iran insurance company to found a big agency for the life insurance. Accordingly, in August 1976, it established a complex company called "Iran Omr" in association with an American insurance company. It was succeeded in selling 1238 life insurances in the first year of its activity, while one year later before its establishment in 1976; the Iran insurance joint stock company only issued 920 insurance contracts. After the Islamic revolution, in 1979/06/25- Monday, all insurance companies were nationalized except for Iran insurance company which was a state one. Then, in August 1979, they were merged to form two insurance companies including, Asia and Alborz. The life insurance portfolio of nationalized companies was transferred to the Asia insurance company. Currently, private insurance companies are a pioneer in selling life insurances and they provide new offers and work better than state ones (Hozouri & Mousavi Zadeh, 2016).

1.2. Assessing econometric factors

There are several factors influencing the insurance industry as well as its growth and development. Accordingly, assessing and to gain a comprehensive recognition about them and to act for removing or to control their negative impacts could have a considerable impact on the development of the potential market, especially for life insurances. The existence of some economic variables like inflation or a long-term depression in each country's economy is among most important components. Serious inflation and depression all around the world as well as massive deficit and high interest rates have faced experts and

insurers with the question that, whether the variety of insurances in different times have enough sensitivity and flexibility? Insurers and insured will face lack of liquidity during the inflation period.

So, operation costs of companies will increase as well. Due to serious economical fluctuations and unreliability people prefer to set up short-term investment funds than long-term ones such as many forms of life insurances. The existence of these economic factors obliges insurers to create appropriate coverage in the form offering new products for recent requirements. Again, other economic factors like the quality of supply and demand will also affect the life insurance market (Majed & Madavi, 2011).

The development of life insurances and investment has a direct and irrefragable relation with the economic development of each country. When people's revenue increases and economical justice is developed simultaneous with the economic growth and increased domestic production, selling life insurances proceeded broadly.

Therefore, to sell life insurances not only increased gross domestic production is important but also the distribution of income among different social categories should be done logically and correctly. Moreover, financial fluctuations should be organized to increase the desire to make savings in the society. Using tax supports to develop life insurances is also important. In countries where the government applies tax exemption on life insurances, people express more interest in all kinds of life insurances. It should be noted that, the government economic policy should be conducted to reinforce all saving institutes. The government cannot apply tax exemptions on a specific service or production section, but it needs to pay attention to the country's economy to organize and design its tax policies based on macro economical goals. According to statistics, it is obvious that in 2009, the world per capita insurance premium was around 600 dollars, among which 345 dollars belonged to life insurances and the rest was related to other kinds of insurances (Staib & Bever, 2010).

On other words, about 57% of all the activities of the insurance industry appertain to the life insurance. In the same year, the insurance penetration in the world was 7% averagely, among which 4% belongs to life insurances. Currently, the insurance development and specifically the life insurance is one necessity of industrial and developed communities. Available statistics and information about the life insurance in developed countries show that, the life insurance penetration is around 7.5%. In Iran, the insurance penetration is 8%. The present gap and difference demonstrates tangible backwardness in this field. Since in the Islamic republic, making an effort to provide people with requirements for their welfare and comfort to obtain a good life pattern in all economic, social, cultural and political aspects is considered as a value, so conducting a multilateral study such as the life insurance is of the most importance (Abbasi et al., 2013).

1.3. analyzing the marketing performance factor

Customers resemble the blood flow in an organization. A corporation has neither income nor profit without customers, and accordingly lacks market value. Regarding accomplished studies by the economist in 2002, among 681 executives, 65% have claimed that the customer is considered as the most important factor for their orientations and only 18% of them believed that stockholders are the substantial factor. Interestingly, regardless of highly emphasis on customers, senior executives are still paying more attention to financial indices and criteria. The ambiguity in the definition of the criteria related to the customer and the marketing performance is the main reason (Gupta & Zeithaml, 2006).

About marketing factors, it could be stated that, the life insurance is a product which needs a potential demand for buying. Some factors provide the shopping possibility and the potential demand, but others put

obstacles in the way of selling life insurance. For example, increased income, family size, and decreased inflation affect demand for the life insurance. Indeed, in many countries like Iran, regardless of the existent big families, there is not a considerable demand for the life insurance. Again, appropriate services are resulting from enough demand. Selling life insurance is comprised of three main bases including, insurance companies, marketing and selling system as well as issued insurances (Majed & Mahdavi, 2001).

Another factor which has attracted attention to the research field, is to form multilateral performance evaluation paradigms such as the balanced score card. It states that besides financial variables, other indices should be considered as well. Accordingly, client opinion is one important aspect for the performance assessment. Moreover, accomplished technological alternatives in the domain of communication management with the customer are also important, since information and technological substructures provide corporations with the eventuality for evaluating marketing activities (Kim et al., 2003). Modigliani first declared that, advertisement expenditures as well as research and development costs have a positive impact on company's market value.

They declared that, similar to cash flows, growth, risk and the market share, costs of advertisement as well as research and development expenditures are considered as important criteria for company's market value. Again, it exists in both manufacturing and service markets (Abbasi et al., 2013).

1.4 assessing personal factors

Sociocultural alternations also have influence on the insurance industry development. People with high education level have much more information about the industry and variety of insurance, so they spend their money more rationally and carefully and they try to add up to their savings. Consequently, if people pay more attention to the insurance industry, insurers are obliged to improve the quality of their services and products (Majed & Mahdavi, 2011).

1.5. analyzing sociocultural factor

The life expectancy is a statistical index which shows how much is the average of longevity in a society. On other words, it states that, how many years each society member can live. By improving hygienic and therapeutic indices, the life expectancy will increase; therefore, it is the most important index to assess development or backwardness of countries and it plays a pivotal role in the life insurance. In all the communities, the life expectancy among women is more than men (four years and a half all around the world). Another consequential factor is to train people.

As the life insurance is an intangible product, so people show resistance to it. Therefore, insurance experts need to have a good power of persuasion and to apply following cases:

- Try to make a simple and fluent explain for your customer, so do not use specialized words like “mathematical reserve”, “abbreviated capital” etc. and express them in an understandable form.
- Explain for the customer that the life insurance is a means to supply the future of their family when they need much more money and welfare for themselves and their family (or it is a means to ensure and supply health, money, welfare, security, etc.).
- Instead of training customers to understand the importance of the life insurance, it is necessary to find a place for it to meet all of their requirements. We recommend offering a financial guarantee for the youth, middle age and old age.

- Many customers ask about the legal aspect of life insurance, whether it is true or not? So, to answer the legal ambiguity, you need to tell them that insurance is like other transactions. You pay money called the insurance premium for buying a good called the “risk guarantee”.
- Clearly explain to customers that, as the central insurance company of the Islamic Republic of Iran has also share in issued insurances by insurance companies, so insurances are authentic due to the supervision of the central insurance company.

2. Research methodology:

2.1 Data collection and sample:

This study attempts to find the impact of demanding the life insurance and investment. The proposed study uses factor analysis to extract most influence factors and sample size has been chosen from residents of Tehran. The questionnaire was designed in Likert scale and distributed among 235 persons. To analyze the data, descriptive statistics were used to sort the data in the second part of the data analysis which is performed based on statistical inference. In this paper, for analyzing the data, SPSS and Amos softwares were used. Factor analysis and structural equation analysis of the presumptive test were used.

2.2. Assessing reliability:

The reliability of the measurements in the survey was tested using Cronbach’s alpha. Hair et al. (1998) stated that a value of 0.70 and higher is often “considered the criterion for internally consistent established factors”. Cronbach alpha is calculated as 0/86, which is well above the minimum desirable limit of 0/70. The Cronbach’s alpha coefficients in parentheses indicates the internal consistency reliability of the measures ($\alpha = 0.868$).

There are 23 variables and using factor analysis, we extract four factors where Kaiser-Meyer-Olkin Measure of Sampling Adequacy was 0/72(Approx. Chi-Square= 3.614E3 df=595 Sig.= 0/000), which also confirms the results of our survey.

3. Analysis and results:

The proposed study designs a questionnaire and distributes it among 235 residents of Tehran. Chronbach alpha is calculated as 0/86, which is well above the minimum desirable limit of 0/70. Chronbach alpha has been calculated as 0/86 and table 1 demonstrates the results.

Table 1: Reliability Statistics

CRONBACH'S ALPHA	CRONBACH'S ALPHA BASED ON STANDARDIZED ITEMS	N OF ITEMS
0/868	0/868	32

We extract factors where Kaiser-Meyer-Olkin Measure of Sampling Adequacy was 0/72(Approx. Chi-Square = 3.614E3 df=595 Sig.= 0 / 0 00), which also confirms the results of our survey. Table 2 demonstrates the results.

Table 2: KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.72
Bartlett's Test of Sphericity	Approx. Chi-Square	3.614E3
	Df	595
	Sig.	0/000

4. Interpretation of the results of the factor analysis:

In this section, we present details of our findings on four influencing factors.

4.1. The first factor: econometric factors

The first factor is associated with econometric factors. Table 3 shows details of our survey. As we can observe from the results of Table 3, “Financial fluctuations” is number one priority followed by “Distribution of income between different social classes”, “Financial support” and “Interest rate”.

Table 3: The summary of factors associated with econometric factors

option	Factor weight	Eigenvalues	%of variance	Accumulated
Distribution of income between different social classes	0.798			
Financial fluctuations	0.803	2.433	48.657	48.657

Financial support	0.684
inflation	0.563
Premium rate	0.605
Interest rate	0.664
Household price index	0.623

Cronbach alpha =0.72

4.2. The second factor: sociocultural factor

sociocultural factor is the second important factor and it includes five factors, which are summarized in Table 4 as follows:

Table 4: The summary of factors associated with sociocultural factor

option	Factor weight	Eigenvalues	%of variance	Accumulated
Training people	0/830	2.226	55.643	55.643
Life expectancy	0/689			
Believing in judgment and magnitude	0/692			
The share of social security insurance on demanding the life insurance	0/724			
Individual taste and service price	0.573			

Cronbach alpha =.084

According to the results of Table 4, “Training people” is number one priority followed by “The share of social security insurance on demanding the life insurance” and “Believing in judgment and magnitude”.

4.3 the marketing performance factor

According to the results of Table 5, “Customer satisfaction and attraction” is the most important component in the marketing performance factor followed by “Marketing Budget” and “Advertising in increasing awareness of people”.

Table 5: The summary of factors associated with the marketing performance factor

option	Factor weight	Eigenvalues	%of variance	Accumulated
Marketing Budget	0.752			
Customer satisfaction and attraction	0.881	1.984	66.122	66.122
Use a Customer -centric balanced scorecard	0.584			
R&D activities of the company	0.563			
Advertising in increasing awareness of people	0.635			

Cronbach alpha =0.73

4.4. Personal factors

Personal factors are another important factors with six items summarized in Table 6. According to the results of Table 6, “Married people” is the most important component in personal factors followed by “The gender of people”, “Occupation” and “Age of people”.

Table 6: The summary of factors associated with personal factors

option	Factor weight	Eigenvalues	%of variance	Accumulated
The gender of people	0/802			
Age of people	0/758			
Married people	0.813	1.877	62.551	62.551
Occupation	0.796			

dependents	0/756
Education	0/653

Cronbach alpha =0.76

Regarding the results, we can offer 4 hypotheses that identified by exploratory factor analysis and by the Confirmatory factor analysis they reject and accept and ranking of each of the components of demanding the life insurance and investment. (see tables 7 and 8)

Table 7: The summary of factor associated with the main hypothesis

The main hypothesis	Important coefficient	P-value	Estimate	Result
Econometric factors	0/98	P<0/001	648/1	confirmed
Sociocultural factor	0/89	P<0/001	574/1	confirmed
The marketing performance factor	0/87	P<0/001	480/1	confirmed
Personal factors	0/67	P<0/001	890/1	confirmed

Table 8: The summary of factor associated with Sub Hypothesis

Components	Sub Hypothesis	Important coefficient	P-value	Result
Econometric factors	Distribution of income between different social classes	0/51	P<0/001	confirmed
	Financial fluctuations	0/50	P<0/001	confirmed
	Financial support	0/41	P<0/001	confirmed
	inflation	0/36	P<0/001	confirmed
	Premium rate	0/33	P<0/001	confirmed

	Interest rate	0/32	P<0/001	confirmed
	Household price index	0/58	P<0/001	confirmed
Sociocultural factor	Training people	0/38	P<0/001	confirmed
	Life expectancy	0/32	P<0/001	confirmed
	Believing in judgment and magnitude	0/30	P<0/001	confirmed
	The share of social security insurance on demanding the life insurance	0/58	P<0/001	confirmed
	Individual taste and service price	0/36	P<0/001	confirmed
The marketing performance factor	Marketing Budget	0/34	P<0/001	confirmed
	Customer satisfaction and attraction	0/42	P<0/001	confirmed
	Use a Customer -centric balanced scorecard	0/35	P<0/001	confirmed
	R&D activities of the company	0/57	P<0/001	confirmed
	Advertising in increasing awareness of people	0/56	P<0/001	confirmed
Personal factors	The gender of people	0/40	P<0/001	confirmed
	Age of people	0/30	P<0/001	confirmed
	Married people	0/60	P<0/001	confirmed
	Occupation	0/50	P<0/001	confirmed

	dependants	0/24	P<0/001	confirmed
	Education	0/55	P<0/001	confirmed

5.Conclusions:

Currently, selling life insurances is the main goal of the country’s insurance industry. The selling level of life insurances is very low and it is not comparable with developed countries. The proposed study of this paper has extracted four important factors including econometric factors, the marketing performance factor, personal factors, and sociocultural factor. Critical component of demanding the life insurance and investment is the most important factor in econometric factors (by a factor of 0.98), sociocultural factor (by a factor of 0.89) and the marketing performance factor (by a factor of 0.87) respectively the second and third priorities which can be considered the custodians of this section.

It is hoped that, by offering new alternatives, life insurances find their specific place. So, by considering the obtained results, brokers, agencies and marketers of life insurance are strongly recommended to divide their community target into smaller sections for selling and marketing life insurances and investment. Also, researchers are proposed to assess identified factors and to compare obtained results in the present research by applying other research methods.

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