

## **Research of the Behavior of Consumers in the Insurance Market**

**Dr.D.Gnanasenthilkumar<sup>1</sup>, S.Malini<sup>2</sup>**

<sup>1</sup>*Professor, Park's College, Tirupur.*

<sup>2</sup>*Assistant Professor, KG College of Arts and Science, Coimbatore.*

---

**Abstract:** *The purpose of this article is to familiarize with research aim, goal of which is to map out consumer behavior in the choice of insurance against death was carried out. This insured risk was chosen because for most insurers in the product offering as one of the key and it occurs within the highly competitive bid. As consumer behavior specification is also taken into account their classifying that can influence potential irrational behavior elements and help to clarify studied dilemma more (e.g. income brackets, age or other demographic information).*

*Results will contribute to decision-making theory enrichment in given specific segment. From view of practice, they will be used in co-operative institution with the aim of a better client comprehension, product optimization and thereby contracts decline prevention and permanent clientele expansion. The results of the research project showed that most consumers under the influence of certain factors act irrationally. These factors include media coverage of the causes of claims discount, offer extension of insurance coverage.*

**Keywords:** *consumer behaviour, decision-making, insurance*

---

### **I. Introduction**

The high degree of globalization of markets, increasing competition and asymmetric information mean new challenges for the participants of the markets, and the insurance market is no exception. In the Czech Republic, the supply side of the insurance market is exposed to pressure for higher commissions for insurance intermediaries, and lower margins calculated on the product. Requirements for quality and levels of provided services increase on the demand side. Because of these new trends, the need for investment in the acquisition of knowledge capital in the consumer behavior increases in importance.

The aim of this article is to analyze consumer behavior in the choice of insurance against death. At consumer behavior specification is also taken into account their classifying that can influence potential irrational behavior elements and help to clarify studied dilemma more. Many insurers in creating and innovating products based on the modernist mindset, which is clear and structured. Modernism assumes that autonomous systems behave according to rational economic models. According to our assumption, one of the factors affecting products demand offered is irrational consumer behavior, which the insurer does not have to count with. Knowledge which helps to identify price and offer a product to the right client, is key to achieve higher profits. Rational people should behave effectively in order of the target, which they pursue at the time of selection, which specifically means that consumers want to maximize their benefit, respectively the benefit arising from consumption, in our case services. The assumption of rational behavior could be challenged for many reasons, including:

- Asymmetric informatics,
- Advertising,
- Reference group,
- Gender, age, education and income group.

The research was conducted in collaboration with one of the most important players on the Czech insurance market. The aim of the research project was to explore consumer behavior in assumption of the offer from one type of insurance coverage (insurance in case of death) in three variants. Insurance against death was selected because it is for most insurers in the product portfolio as one of the key insurance coverage. The main question, the research sought the answer for, is whether, in the case of perfect information the consumer in insurance market behaves rationally or not, and what factors have a significant influence on their decisions.

### **II. Literature Review**

1. Consumer decision making has long been of interest to researchers. Beginning about 300 years ago early economists, led by Nicholas Bernoulli, John von Neumann and Oskar Morgenstern, started to examine the basis of consumer decision making (Richarme, 2005).

2. While this evolution has been continuous, it is only since the 1950's that the notion of consumer behavior has responded to the conception and growth of modern marketing to encompass the more holistic range of activities that impact upon the consumer decision (Blackwell, 2001).
3. This is evident in contemporary definitions of consumer behavior: “consumer behavior..... is the study of the processes involved when individuals or groups select, purchase, use or dispose of products, services, ideas or experiences to satisfy needs and desires” (Solomon, 2006).
4. The advantage of the demand side is the advantage of the client of the insurance company. The advantage lies in the fact that nobody knows their own situation, health condition, technical condition of assets, financial situation, etc. better than the clients themselves who want to be insured. Such a client should therefore logically conclude insurance whenever they think its worthy, i.e. the rate of their future benefit will be higher than if they did not conclude insurance. The client uses their dominance in the information, assuming that the insurance company will pay them more than they pay to insurance company (Marešová, Drahokoupil, 2001).
5. In the decision-making field, a large number of studies have been implemented. These include, for example, consumer behavior in the selection of banking products in Pakistan. shows the results of research objective two and three with the help of Marginal effect of sensitivity analysis. It is significant at 0.05 level of significance The seven influencing factors are rank from the factor analysis and the logistic regression model is ranked as follows:

### **III. Marginal Effects of Customers Switching Behavior.**

<b>Ranking Factors Name</b>	<b>Marginal effect</b>
1 Price	0.16398341
2 Distance	0.10936621
3 Switching Cost	-0.10567336
4 Service Quality	0.07095342
5 Reputation	0.06339969
6 Involuntary Switching	-0.05280674
7 Effective Advertising Competition	0.04025589

Source: (Khan, Ghouri, Siddqui, Shaikh, Ala, 2010)

The marginal effects table illustrates that price factor making the maximum impact on customers bank switching behavior in retail banking of Pakistan. The results show that a unit increase in price results 16.4% probability that a customer will switch banks. Price has the second highest impact maker on customers bank switching behavior. A unit increase in the Distance factor (eg. branch close) results in 10.93% probability of customers switching banks. 10.56% is probability of customer switching in retail banking industry of Karachi, if one unit of Switching Cost decreases. Similarly, Service Quality, Reputation, Involuntary Switching and Effective Advertising Competition are the fourth, fifth, sixth and seventh important factors that impact customers retail bank switching behavior of Pakistan

### **IV. Methodology**

Within the analysis, the method of “test of independence in contingency table“ was used. Under this method, a file is considered, divided according to two statistical features into groups by first character, and s groups according to the second character. On the basis of a random selection of n size, independence of these two statistical characters are tested. When the validity of the hypothesis of independence, the frequency of individual variants  $n_{ij}$ , for  $i = \{1, 2... r\}$ ,  $j = \{1, 2... s\}$  correspond with the values of expected frequency calculated according to the relation (Budíková, Králová, Bohumil, 2010).

### **V. Consumer Decision-Making In The Field Of Insurance Products**

In 2010, in the University of Hradec Kralove in co-operation with a major insurance company in our market, research focusing on the issue of consumer behavior in the choice of insurance against death was carried out. As already mentioned, this insured risk was chosen because for most insurers in the product offering as one of the key and it occurs within the highly competitive bid. The target group was clients of co-operating organization in the age from 30 to 40 years. Clients were first alerted by correspond form that they will be addressed in the research.

Then they were asked by telephone interview, which was ensured by co-workers from call a center company. The responses were recorded in a database created. 640 clients of co-operating organization were contacted, and 501 complete responses were obtained, which equals to a 78% success rate. The questions from

the survey were divided into three areas. In the first area was to determine selected characteristics of respondents such as sex, age, educational attainment, occupation (self-employed or employee), children (yes, no), an insurance in case of death (yes, no). From the selected characteristics was also prepared a price of insurance for each client according to the calculations of actuaries of co-operating institution. This price was given for each option offered in the questions below.

## **VI. Questions:**

1. Imagine that you want to get insured in the event of your death. You can choose from three options, which differs in the scope of insurance coverage, the insured amount and the amount of the price, which has to be paid per month for insurance.

a) insurance against accidental death

Information on insurance claims

In the event that an insured event occurs due to an accident, the insurer shall pay indemnity.

b) insurance against accidental death with double performance in the event of a traffic accident and insurance against sudden death (heart attack, stroke)

Information on insurance claims

In case the insured event (death) occurs due to accident, the insurer shall pay indemnity, if the insured event (death) occurs in a traffic accident, the insurer pays twice more.

In case the insured event (death) occurs on the leading causes of death, therefore heart attack and stroke, the insurer pays the agreed amount.

c) insurance against death

Information on insurance claims

In case the insured event (death) occurs from any cause, the insurer pays the agreed amount. The amount of offered insurance benefits and the cost of various options were calculated for age groups and sex by actuaries of the co-operating organization.

2. What was decisive for you in the choice of insurance options?

a) price of the extent of insurance

b) the amount of insurance coverage

The last part of the questionnaire was aimed to change the client's choice in the case of replacement of options offered due to discount and change in the scope and insurance benefits. To offering discount would mean that consumer would behave differently in the decision, i.e. irrationally.

3. In the event that the option b) ie insurance against accidental death with double performance in the event of traffic accident + insurance in case of sudden death (heart attack and stroke) would be extended by cancer, ie insurance against sudden death would be a heart attack, stroke and cancer, would you choose this option?

a) Yes I would change my decision

b) I would not change my decision

4. In the event that you would be offered a 5% discount when choosing option , ie insurance in case of accidental death with a double performance in the event of traffic accident + insurance in case of sudden death (heart attack, stroke), would you choose this option ?

a) Yes I would change my decision

b) I would not change my decision

## **VII. Analysis Of Respondents Answers**

Within the researched project was a defined circumstance by co-insurance, defining rational and irrational behavior of consumers in their choice of three options offered. It implies that consumer in the transfer of risks to the insurer may consider the offer by three parameters: The extent of insurance coverage (for what is insured and what not = exclusions from insurance), The amount of insurance coverage (the maximum monetary amount provided by insurer when the insured event), Price (the amount of cash given by consumer to insurer to create insurance technical reserves).

Rationally behaving consumer: chooses a bid which ensure transfer of full range risk to insurer, i.e. the extent of insurance coverage closely resembles a insurant against risk. Option C provides 100% coverage range for both men and women. Option B offers a range of 34% coverage for men and 17% for women. Option A

offers a range of 32% coverage for men and 15% for women, chooses a level of insurance performance, which is sufficient to eliminate results from the realized risk, takes into account cost factors for comparison of the advantages of offers from various insurers. (In this research, which offered insurance against death, it was the offer of one insurer and the consumer had a choice of three possible variants of this offer. Price does not in the case of rational behavior any effect). voted for the option C, which offered the widest range of insurance coverage, would not vote for option B, which offered twice of the performance compared to variant C, since the scope of insurance coverage would be significantly reduced and insurance would not fulfill its intended fiction

### **VIII. Summary**

This article mapped consumer behavior in the choice of insurance. There was analyzed some factors of irrational behavior. The clients had to choose one of the insurance options in the questionnaire. The chart 1 showed, that most clients in the first stage of the decision process behaved rationally. Irrational choice, i.e. option A and B were voted by together 240 respondents, which is not a negligible number. The reasons for their choices were analyzed later through the following hypotheses.

H0: The choice of insurance against death is independent due to the income of a client.

H1: The choice of insurance against death is independent due to gender of a client.

H2: The choice of insurance against death is independent due to the level of education of a client.

The results of analysis, of factors influencing the decision of the respondents, showed that the decision on the choice of insurance coverage option is not related to gender and level of education. One effect is the inclusion of respondents to a certain income groups. Clients belonging to the lowest and highest income groups analyzed would choose option C - it is therefore a rational decision, and the remaining respondents would choose the B variant. The fact of the respondents belonging to the highest income group can be explained by that, that they do not address the issue of price of insurance. For the lowest income group that cannot be said, and therefore the circumstances leading to the selection of this option should be subjected to further research.

The second group of those hypotheses was consisted by those, whose the main objective was to determine whether in the case of perfect information, the consumer decides rationally. This fact has been inferred from the hypotheses:

H3: The decision about changing the option of insurance, in relation with discount of the product is not affected by the original rational (option C) or irrational option (option A) of the client.

H4: The decision about changing the option of insurance, in relation with changing scope of benefits is not affected by the original rational (option C) or irrational option (option A) of the client.

Both hypotheses were confirmed. This means that change of decision about the choice of insurance options at a discount and to change the scope of insurance coverage is independent of whether the client initially chose rationally (option C) or irrationally (option A). Rational decision of autonomous systems in one situation does not endorse the model of rational consumer behavior.

The latest ranges of hypotheses are those that specify the circumstances of choice for the irrational option of product (the chosen options A and B) in relation to selected social factors.

H5: Irrational consumer choice in the case of perfect information is independent of the client's gender.

H6: Irrational consumer choice in the case of perfect information is independent of client level of education.

The results of hypothesis testing showed that irrational consumer choice in the case of perfect information in case of accidental death is independent of gender and education level. The results of the hypotheses are summarized in the following table 18. There are factors which affect the client's decision. Effective tools, which can attract customers, are discounts and the change of insurance cover. This attractiveness is strong enough to disrupt people's rational decision (see chapter "Rationally behaving consumer").

### **IX. Conclusion**

The insurance market in the Czech Republic on the supply side is exposed to pressure for higher commissions for insurance intermediaries and lower margins calculated for the product. On the demand side, increasing demands for quality and service levels. One way to achieve higher profits is to gain knowledge capital from the consumer behavior.

Aim of this document was to present a specific research plan implemented, which aimed to map the irrational behavior of consumer choice of insurance products. The results of the research project showed that

most consumers under the influence of certain factors act irrationally. These factors include media coverage of the causes of claims discount, offer extension of insurance coverage.

### **References**

- [1]. Blackwell, R. et al. (2001). *Consumer Behavior*. Orlando: Harcourt
- [2]. Bray, J. (2008). *Consumer Behavior Theory: Approaches and Models*[online]. Date [15.12. 2011]. Retrieved from: [http://eprints.bournemouth.ac.uk/10107/1/Consumer\\_Behaviour\\_Theory\\_Approaches\\_%26\\_Models.pdf](http://eprints.bournemouth.ac.uk/10107/1/Consumer_Behaviour_Theory_Approaches_%26_Models.pdf)
- [3]. Budíková, M., Králová, M., & Maroš, B. (2010). *Průvodce základními statistickými metodami*. Praha: Grada.
- [4]. Daňhel, J. et al. (2006). *Pojistná teorie*. Praha: Professional publishing.
- [5]. Ghouri, A.M., Khan, N.U.R., Siddqui, U.A., Shaikh, A., & Alam, I. (2010). Determinants Analysis of Customer Switching Behavior in Private Banking Sector of Pakistan. *Interdisciplinary journal of contemporary research in business*, 2 (7), 96-110.
- [6]. Ravichandran, K., Bhargavi,K., & Kumar, S.A. (2010). Influence of Service Quality on Banking Customers, *International Journal of Economics and Finance*, 2 (4), 126-132
- [7]. Loudon, D. L., et al. (1993). *Consumer Behavior Concepts and Applications*. US: McGraw Hill.
- [8]. Schiffman, L. G., et al. (2007). *Consumer Behavior*.New Jersey: Prentice Hall.
- [9]. Zinkhan, G.M. (1992). Human Nature and Models of Consumer Decision Making, *Journal of Advertising*, 21 (4), 138-149