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Influence of the Marketing Strategies on the Mortality Protection Gap of the Life Insurance Policyholders: A Mediation Analysis

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Abstract

Life insurance is the best risk management tool, found to cover the loss of earnings of the breadwinner of the family. According to the Swiss Re Mortality Protection Gap Asia-Pacific Report 2015, the mortality protection gap in India is $ 8,555 billion in the year 2014. According to Lloyd's second underinsurance report 2018, India is the second-most underinsured country in the world, after China. The objective of this paper is to calculate the protection gap and to find the influence of the marketing strategies on the mortality protection gap. For this study, the primary data was collected from the life insurance policyholders and analyzed using mediation analysis. The results showed that the influence of the marketing strategies of the life insurance providers on the mortality protection gap is statistically significant. Based on the findings, suggestions were provided to Insurance providers, policyholders and the Insurance Regulatory and Development Authority of India (IRDAI) to reduce the mortality protection gap in the country.

Disciplinary: Life insurance, Marketing Management

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1 Introduction

Mankind is a precious gift given by God, which is exposed to many hazards like fire, flood, disability and premature death. It is impossible to prevent these things, but the effects of these hazards such as loss of property or earnings can be prevented with the help of insurance. It is the function of the insurance to provide compensation against any unfortunate event by the contribution of many people who are exposed to similar risks. Life insurance may be defined as "a contract, whereby for a stipulated compensation, called the premium, one party (the insurer) agrees to pay the other (the insured), or his beneficiary, a fixed sum upon the happening of death or some other specified event"(Hubener, 1919).

Life insurance is the best risk management tool, found to cover the loss of earnings of the breadwinner of the family. But the question that this research paper wants to address is, are we really covering the risk? Life cover is an important aspect of life insurance, an inadequate life cover will not cover the risk fully. Then the question here is how to have adequate life cover? How to identify the monetary worth of human life?

According to the definition of Huebner(1959), "Human Life Value (HLV) of any person can be measured by the capitalized value of that part of his income or income earning capacity devoted or meant for dependents arising out of economic forces incorporated within his being, like character, health, education, training, experience and ambition".

The formula used for calculating Human Life Value(HLV) is:

$$\text{Human Life Value} = (E - M) \cdot a \cdot n \qquad (1),$$

where

E = Earnings per annum,

M = Self Maintenance charges + Tax paid + Present Life Insurance Premium,

a = Annuity factor at a given rate of discount,

n = The working span (Retirement Age - Present Age).

If an individual is insured less than the Human Life Value (HLV) then the individual should be considered underinsured.

1.1 Mortality Protection Gap

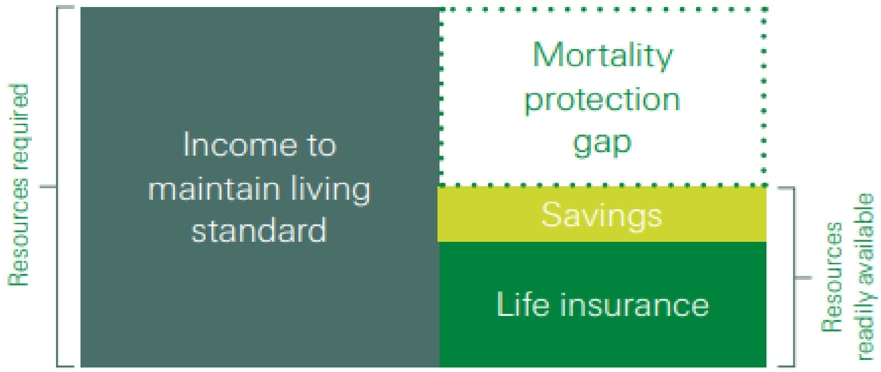

Figure 1: Swiss Re Mortality Protection Gap (Asia-Pacific 2015 Report).

The mortality protection gap is the difference between the resources required to maintain the living standard and the resources readily available through life insurance and savings of the policyholders. This mortality protection gap in India is $8,555 billion in the year 2014, according to the Swiss Re Mortality Protection Gap Asia-Pacific Report 2015. The protection margin which is the ratio between the protection gap and protection needs in India is 92.2%. It means only $7.2 of savings and insurance is available for $100 protection needs, which results in a mortality protection gap of $92.2. The reason for this highest protection gap is the lag in the savings and insurance coverage in India.

When we analyze the reasons for this highest protection gap, there are many reasons like lack of awareness of the customers (Ahmad, 2013), the influence of the insurance advisors/agents (Halan,2013), and preferences of the policyholders (Karimi,2012), marketing strategies of the insurance providers (Dash,2011). In this paper, we are going to analyze the influence of the marketing strategies on the mortality protection gap of the life insurance policyholders using the mediation analysis.

2 Literature Review

Khalid(2012) identified the factors that cause inadequate life insurance coverage in Malaysia. Karou Ishikawa's fishbone diagram is used for analyzing the factors. It consists of four factors namely the men factor, material factor, methodology factor and tool factor. Low financial literacy, attraction towards investment-linked products, not updated life cover, and agents' biased suggestions are specified as a reason for inadequate life cover under the men factor. The author highlighted the variability in these methods is a reason for inadequate life cover and mentioned that the human life value method would be reliable and accurate comparatively.

Yadav(2012) analyzed the factors affecting customer investment in life insurance products. The paper found that there is a significant relationship between demographic factors like age, gender, annual income and customer life insurance purchase decision.

Manimegalai(2014) investigated the serious issues faced by the life insurance policyholders in Erode district, Tamil Nadu in India. The author expressed that the serious issue faced by rural individuals is inadequate life insurance coverage to cover all their liabilities. The paper concluded that the lack of market research for analyzing life insurance needs and the lack of societal marketing have repressed the growth of life insurance in India.

Giri (2018) in his doctoral thesis on the behavioral study of life insurance purchase decision, analyzed various factor which affects the purchase decision of customers. It was found that the financial condition of customers has the highest positive effect on rural and urban life insured status. The thesis found that attitude toward life insurance act as a mediator between belief and subjective norms.

According to Lloyd's second underinsurance report(2018), the global insurance gap is $162.5 billion, where the insurance gap is the value of the assets not covered for damage under insurance. China has the largest insurance gap of $76.4 billion, followed by India with an insurance gap of $27 billion. The report mentioned that the major reasons for this underinsurance are people having little understanding of the value of insurance and a lack of trust in insurance companies. The report suggested governments collaborate with experts in the private sector and build new functional products that promote resilience. The report ended with the most effective statement "Underinsurance helps no one".

According to the above review, many pieces of research have been conducted in the area of inadequate life insurance coverage and the reasons for it. This paper concentrated on calculating the amount of protection gap and the influence of the marketing strategies of the life insurance providers on this protection gap.

3 Method

Objectives of the study are

- To calculate the protection gap of various life insurance policyholders.
- To understand the relationship between income level of policyholders and their protection gap.
- To find the influence of the marketing strategies on the mortality protection gap of the life insurance policyholders.
- To suggest solutions to reduce this protection gap among life insurance policyholders

The study was based on primary and secondary data. The primary data were collected from 400 respondents in the Tiruchirappalli district of Tamil Nadu, India. Secondary data was extracted from insurance reports, journals, and articles related to the life insurance industry. The interview schedule was used as a tool for data collection from the respondents, who are life insurance policyholders in Tamil Nadu, India. The period of the study is from January to June 2021.

The primary data collected were analyzed using correlation analysis and mediation analysis with the help of the Statistical Package for Social Sciences (SPSS). The Human Life Value of the 400 respondents was calculated using Huebner's HLV calculation formula.

3.1 Demographic Analysis

Table 1: Demographic Details of the Respondents

Sl. No	Demographic	Category	Composition
1	Age group	21 -30 yrs	30 %
		31 -40 yrs	36 %
		41-50 yrs	22 %
		51 -60 yrs	12 %
2	Gender	Male	53 %
		Female	47 %
3	Qualification	SSLC	7 %
		HSC	12 %
		Under Graduate	18 %
		Post Graduate	50 %
		Others	13 %
4	Monthly Income	Less than Rs. 10,000	22 %
		Rs. 10,001 to Rs. 20,000	17 %
		Rs. 20,001 to Rs. 30,000	30 %
		Rs. 30,001 to Rs. 40,000	7 %
		Rs. 40,001 to Rs. 50,000	20 %
		More than 50,000	5 %

Table 1 shows that the majority of the respondents (44 percent) belong to the age group of 31-40 yrs. With respect to gender majority, 53 percent are male.

The majority of the respondents (50 percent) are postgraduates and most of the respondents (30 percent) are earning a monthly income between Rs.20,001 to Rs. 30,000. 22 percent of the respondents are earning a monthly income of less than Rs. 10,000 and 20 percent of the respondents are earning a monthly income between Rs. 40,001 to Rs. 50,000.

3.2 Calculation of Human Life Value (HLV)

For the calculation of Human Life Value (HLV), the annual earnings of the respondents, their present age, self-maintenance charges, and present life insurance premium paid annually are obtained with the help of the Interview schedule. The human Life Value of 400 respondents is calculated using Equation (1).

These HLVs are the values for which the respondents should be insured. The difference between the HLV and the actual insured value is the protection gap of the respondents. If the respondents' actual insured value is less than the HLV, then the respondent is classified as Underinsured. If the respondent's actual insured value is more than the HLV, then the respondent is Over insured.

3.3 Protection Gap

The protection Gap of the life insurance policyholders is calculated by subtracting the Actual Sum Assured for which they are insured and the Human Life Value (HLV). The percentage analysis of the protection gap of the respondents is given below.

Table 2: Protection Gap of the Policyholders

Protection Gap	No. of Respondents	Percentage of Respondents
NIL	73	18.37
1 - 1,00,000	0	0
1,00,000 - 5,00,000	27	6.68
5,00,001 - 10,00,000	47	11.69
10,00,001 - 20,00,000	0	0
20,00,001 - 30,00,000	80	20.04
30,00,001 - 40,00,001	33	8.35
40,00,001 - 50,00,000	27	6.68
50,00,001 - 60,00,000	33	8.35
60,00,001 - 70,00,000	27	6.68
70,00,001 - 80,00,000	20	5.01
80,00,001 - 90,00,000	20	5.01
90,00,001 - 1, 00,00,000	13	3.25
Total	400	100

From Table 2, it is inferred that 20.04% of the respondents have a protection gap between 20 lakh rupees to 30 lakh rupees and 11.69% of the respondents have a protection gap between 5 lakh rupees to 10 lakh rupees. Overall the respondents without a protection gap are only 18.37%, and the remaining 81.63% of the respondents are having protection gap, which means they are underinsured.

Table 3: Correlation between Annual Income and Protection Gap

Sl. No	Correlation between	Correlation Coefficient	Significance
1.	Annual Income and Protection Gap	0.690**	P < 0.01 Significant

From correlation Table 3, it is inferred that there is a positive correlation between annual income and the protection gap as the correlation coefficient is 0.690 and the significance level is 0.00 ($P < 0.01$). Hence, there is a significant positive relationship between the Annual income of the policyholders and the Protection Gap. It is inferred that the protection gap of the policyholders is low for lower annual income and the gap becomes higher for most of the higher annual income earning policyholders.

3.4 Mediation Analysis

Figure 2: Mediation Analysis.

The path (direct effect) from monthly income to marketing strategy is positive and statistically significant (b = 0.2070, s.e = 0.732, $p < 0.01$). The path (direct effect) from annual income to protection gap is positive and statistically significant (b = 1.0352, s.e = 0.0857, $p < 0.01$), indicating that the annual income of the respondents is having a higher influence on their protection gap. The direct effect of marketing strategies on the protection gap is positive and significant (b = 0.3550, s.e = 0.581, $p < 0.01$), indicating that the marketing strategies adopted by life insurance providers influence the protection gap of the policyholders.

Table 4: Mediation Analysis

Model	B	SE	t	p	LLCI	ULCI
Annual Income ➔ Marketing Strategies	0.207	0.073	2.828	0.005	0.063	0.351
Annual Income ➔ Protection Gap	1.035	0.086	6.108	0.000	0.867	1.204
Marketing Strategies ➔ Protection Gap	0.355	0.058	6.108	0.000	0.241	0.469

In Table 4, B represents coefficient, SE represents Standard Error, t represents t value, p is p-value, LLCT represents Lower Limit Confidence Interval, ULCI represents Upper Limit Confidence Interval. The indirect effect is tested using non-parametric bootstrapping. If the null of zero falls between the lower and upper bound of the 95% confidence interval, then the inference is that the population indirect effect is zero. If zero falls outside the confidence interval, then the indirect effect is inferred to be non-zero. In this analysis, the indirect effect (IE = 0.0735) and statistically significant at a 95% confidence level with a lower and upper confidence interval of 0.0220 and

0.1316 respectively. Hence, it is inferred that the indirect effect of annual income through marketing strategies on the protection gap of the policyholders is statistically significant.

4 Result and Discussion

From the above analysis, it is inferred that 81.63 percent of the respondents were having a mortality protection gap and there was a positive correlation between the annual income of the respondents and the protection gap. It was also found that low-income respondents were having low protection gap and respondents having a high income were having high protection gap. From the mediation analysis, it was inferred that the indirect effect of annual income through marketing strategies on the protection gap is statistically significant.

To resolve this protection gap issue, steps should be taken by the insurance providers and policyholders to increase the sum assured, whenever the annual income of the policyholder increases. Considering life insurance purchase only as an investment option is the main reason for the protection gap. Banne(2014) also recommended, that adequate importance to the sum assured or the life cover of the policyholders should be given both by the life insurance providers and by the policyholders. Manimegalai (2014) also suggested insurance companies provide need-based products to the customers. The creation of awareness about the human life value and protection gap among the customers by the Insurance Regulatory Authority of India(IRDA) and insurance providers will help to reduce the protection gap in India.

5 Conclusion

In this study, the Human Life Value (HLV) and protection gap of the life insurance policyholders are calculated. It was found that most of the respondents are having protection gap which means that these people are inadequately covered by their life insurance policy. Hence, suggestions are given to reduce the protection gap and underinsurance in India. When we insure our asset, we are insuring for the value it is worth, this research attempted to question the life insurance industry - Why it is not done for humans?

6 Availability of Data and Material

Data can be made available by contacting the corresponding author.

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