

Life Insurance Consumption

Subjects: Business, Finance

Contributor: Maheswaran Srinivasan, Subrata Mitra

Apart from banking, insurance is another significant sector that offers financial services. Like banks, the insurance industry deals with risks and contributes to economic growth. Life insurance (LI) as a service can be described as abstract, complex, and focused on uncertain benefits that may arise in future.

Keywords: life insurance consumption ; insurance

1. Introduction

Apart from banking, insurance is another significant sector that offers financial services. Like banks, the insurance industry deals with risks and contributes to economic growth. According to [Camino-Mogro and Bermúdez-Barrezueta \(2019\)](#), the insurance industry faces different risks compared to banks. However, these risks are connected to individuals and businesses seeking to reduce the chances of asset loss or health-related issues. Insurers play a crucial role in mitigating these risks, ensuring stability in the financial market and contributing to important economic indicators that provide a "sense of peace" ([Oscar Akotey et al. 2013](#)). As highlighted by [Charumathi \(2012\)](#), a mature and advanced insurance industry is beneficial for economic growth, as it provides funding for the infrastructure development of an economy. This allows businesses to maintain their production capacity without worrying about unexpected events. Insurance companies use the law of large numbers to pool insurance risks and this is only effective with a sufficient volume of business. Without growth, insurance firms may struggle to gather the necessary volume and their profitability will heavily depend on their ability to invest and expand ([Greene and Segal 2004](#)).

The success of the insurance industry is not only influenced by specific company traits or small economic factors. More prominent economic factors also play a role. Identifying the key factors related to the insurance sector is important as this information is valuable for insurance companies, government decision makers, and those involved in the monetary system. These factors have an impact on economic growth. Micro- and macroeconomic elements affecting insurance profitability are connected to industry-specific factors, which go beyond a company's market share and concentration index ([Bourke 1989](#); [Athanasoglou et al. 2008](#); [Tipurić et al. 2008](#)). The insurance industry makes significant contributions to sustainable economic development and growth by collecting public funds and acting as a major investor for businesses. Both individuals and organizations face risks, and insurance helps transfer those risks. Insurance policies promise protection for individuals and organizations, offering assurances for future benefits. However, these policies are intangible and complex. According to [Hofstede \(1995\)](#) in 1995, the value of insurance policies depends on how consumers perceive them.

According to [Crosby and Stephens \(1987\)](#), life insurance (LI) as a service can be described as abstract, complex, and focused on uncertain benefits that may arise in future; for consumers, it is difficult to assess it as a service even after purchasing. That ambiguity and unavoidable uncertainty are part of LI consumption. Additionally, while purchasing an LI policy, consumers usually consider the offers, the agent selling the policy, and the brand image of the company. Furthermore, customers may seek culturally derived decision-making guidelines to justify their choices. In the last few decades, demand for LI has experienced phenomenal growth, significantly outperforming worldwide income growth. This development is due to widespread socio-economic changes, in particular, the increase in enrolment rates in tertiary education and life expectancy. Due to this cost of dependence, the demand for LI coverage has increased. Also, developments in the market structure have attributed to the surge in the demand for life insurance. Any increase in foreign direct investments in the insurance sector in many economies ensures a more competitive environment in the marketplace, increasing the popularity of life insurance. Furthermore, [Chui and Kwok \(2008\)](#) suggest that in ageing economies, there is an increased interest in financial savings for retirement, which strengthens the LI demand.

LI offers important financial benefits to both individuals and the economy. Firstly, insurance products can act as a way to save money for the long term, and these savings can be invested in various projects. LI companies have become crucial providers of funds for long-term projects, acting as financial intermediaries and contributing to the development of capital

markets ([Impavido and Musalem 2000](#); [Catalan et al. 2000](#)). Numerous studies have shown that the growth of the insurance sector also contributes to overall economic development ([Ward and Zurbrugg 2000](#); [Soo 1996](#); [Webb 2000](#)). Secondly, the importance of LI has grown as a method to reduce income risks for individuals, families, and communities. This is particularly relevant in response to urbanization and the formalization of economic relationships. LI serves as a way to mitigate financial risks, providing a safety net for individuals and communities.

Although quite a few studies exist on the determinants of LI consumption, many unresolved issues still need attention. To be specific, does the expenditure on social security influence LI demand? Likewise, an increase in life expectancy is related to a rise in LI consumption.

These questions were not addressed adequately by the studies so far concerned with microeconomic factors ([Burnett and Palmer 1984](#); [Fitzgerald 1987](#)) and more to do with the insurance market in the U.S. (for example, [Mantis and Farmer 1968](#); [Chen et al. 2001](#)). Several studies have demonstrated the benefits of analyzing LI demand across different countries. The study by [Beenstock et al. \(1988\)](#) relies on 10 OECD countries focusing on LI demand, covering the years 1970 to 1981, while the remaining studies ([Browne and Kim 1993](#); [Outreville 1996](#)) are a combination of different economies. Developed and developing countries were both considered by ([Beck and Webb 2002](#)) in their sample.

2. Life Insurance Consumption

The demand for LI is typically modeled through a life cycle framework that seeks to optimize the expected lifetime utility of households. According to [Fischer \(1973\)](#) and [Campbell \(1980\)](#), households receive financial support from the insurance firms as per the product proposals in case of the untimely death of the wage-earner.

[Lewis \(1989\)](#), while determining LI demand, incorporated other variables like preferences of the dependents and beneficiaries. LI is used as a financial instrument against the volatility of household consumption. More so, there is much ambiguity on life expectancy, resulting in LI consumption. There are models which suggest that one of the critical factors for LI consumption is risk aversion. The positive relation between risk aversion and LI consumption-related studies has been documented and listed by [Zietz \(2003\)](#). Factors relevant to demographic and psychographic variables that influence LI demand were examined by [Burnett and Palmer \(1984\)](#). Later, [Chen et al. \(2001\)](#) established the impact of gender and the life cycle effect using a cohort analysis. LI acts as a substitute for conventional financial investments like bonds and equities ([Fortune 1973](#)).

Both micro- and macroeconomic factors influence demand for LI. [Beenstock et al. \(1988\)](#) tested the association between the macroeconomic factors and demographic variables of LI consumption in a sample of developed economies. Specifically, a positive and significant relationship between the variables age, income, life expectancy, and LI demand has been established. Further, it has been proved that the level of education is positively related to the demand for insurance ([Truett and Truett 1990](#)). Also, it has been established that the price of the insurance product, an individual's income, and their level of financial development affect the insurance demand ([Outreville 1996](#)). According to [Nesterova's \(2008\)](#) research, the insurance demand is positively related to a higher life expectancy, dependency ratio, and income.

On the other hand, interest rates and inflation are negatively related to the demand for insurance. Later, [Çelik and Kayali \(2009\)](#) verified the determinants of insurance demand and established a positive association between the variables income and population, whereas education level and inflation had a negative association. [Hwang and Gao's \(2003\)](#) study concentrated on demographic and macroeconomic factors on demand for insurance across China. Their study revealed that urbanization, income, and education had a significant positive impact with an insignificant positive impact on inflation. Finally, a study in the MENA region by [Zerriaa and Noubbigh \(2016\)](#) verified that income, inflation, GDP per capita, financial developments, and life expectancy were positively associated with demand for insurance, while social security and the dependency ratio resulted in a negative association.

[Browne and Kim \(1993\)](#) conducted a study on a substantial sample of not only developed, but also developing countries, where they discovered that a country's average LI consumption is a function of factors like national income, social spending, the dependency ratio, and the expected inflation rate. Likewise, [Beck and Webb \(2002\)](#) confirmed that the relationship between income levels for a lifetime and dependence on insurance products is positive. Though most of the studies above focused on the context of the U.S., some studies investigated the insurance demand in Asian and OECD countries. For example, [Li et al.'s \(2007\)](#) study in OECD countries focused on the impact of financial and socio-economic factors on insurance demand. Similarly, a study by [Dragos \(2014\)](#) revealed that urbanization and the level of education were significantly related to insurance consumption in the Asian region.

Several studies in the literature examined how the economic development across nations influences the demand for LI (Beenstock et al. 1988; Outreville 1990, 1996; Ward and Zurbruegg 2000; Arena 2008). Though many studies are available in the extant literature which establish the relationship between insurance demand and the growth of the economy, many studies have concentrated on developed economies (Han et al. 2010; Chang et al. 2014) and Asian developing economies (Horng et al. 2012; Ghosh 2013). Dragos et al. (2017), in their study on LI demand estimation in European countries, proved that the variable distribution of income was not statistically significant, while Yadav and Sudhakar (2018) established, in their study in India, that the correlation between the income level and demand for insurance was statistically significant. Zerriaa et al. (2017) have proved that LI demand increases with financial development in a study carried out in Tunisia. A study in Africa involving 31 African countries using the panel data from 1996 to 2010 verified that health expenditure, financial development, and institutional quality were positively associated with insurance demand. OECD countries are taken as a sample in the related study due to the availability of data and as only a few studies dealt with determining LI consumption in these select countries, considering recent data.

References

1. Camino-Mogro, Segundo, and Natalia Bermúdez-Barrezueta. 2019. Determinants of profitability of life and non-life insurance companies: Evidence from Ecuador. *International Journal of Emerging Markets* 14: 831–72.
2. Oscar Akotey, Joseph, Frank G. Sackey, Lordina Amoah, and Richard Frimpong Manso. 2013. The financial performance of life insurance companies in Ghana. *The Journal of Risk Finance* 14: 286–302.
3. Charumathi, Balakrishnan. 2012. On the determinants of profitability of Indian life insurers—An empirical study. Paper presented at the World Congress on Engineering, London, UK, July 4–6; vol. 1, pp. 4–6.
4. Greene, William H., and Dan Segal. 2004. Profitability and efficiency in the U.S. industry. *Journal of life insurance Productivity Analysis* 21: 229–47.
5. Bourke, Philip. 1989. Concentration and other determinants of bank profitability in Europe, North America and Australia. *Journal of Banking & Finance* 13: 65–79.
6. Athanasoglou, Panayiotis P., Sophocles N. Brissimis, and Matthaios D. Delis. 2008. Bank-specific, industry-specific and macroeconomic determinants of bank profitability. *Journal of International Financial Markets, Institutions and Money* 18: 121–36.
7. Tipurić, Darko, Mirjana Pejić Bach, and Tomislava Pavić. 2008. Concentration of the insurance industry in selected transition countries of Central and Eastern Europe, 1998–2006. *Post-Communist Economies* 20: 97–118.
8. Hofstede, Geert. 1995. Insurance as a product of national values. *The Geneva Papers on Risk and Insurance-Issues and Practice* 20: 423–29.
9. Crosby, Lawrence A., and Nancy Stephens. 1987. Effects of relationship marketing on satisfaction, retention, and prices in the life insurance industry. *Journal of Marketing Research* 24: 404–11.
10. Chui, Andy C. W., and Chuck C. Y. Kwok. 2008. National culture and life insurance consumption. *Journal of International Business Studies* 39: 88–101.
11. Impavido, Gregorio, and Alberto R. Musalem. 2000. *Contractual Savings, Stock, and Asset Markets*. Washington, DC: World Bank Publications, vol. 2490.
12. Catalan, Mario, Gregorio Impavido, and Alberto R. Musalem. 2000. Contractual savings or stock market development: Which leads? *Journal of Contextual Economics–Schmollers Jahrbuch* 120: 445–87.
13. Ward, Damian, and Ralf Zurbruegg. 2000. Does insurance promote economic growth? Evidence from OECD countries. *Journal of Risk and insurance* 67: 489–506.
14. Soo, Hak Hong. 1996. *Life Insurance and Economic Growth: Theoretical and Empirical Investigation*. Lincoln: The University of Nebraska-Lincoln.
15. Webb, Ian Patrick. 2000. *The Effect of Banking and Insurance on the Growth of Capital and Output*. Atlanta: Georgia State University.
16. Burnett, John J., and Bruce A. Palmer. 1984. Examining life insurance ownership through demographic and psychographic characteristics. *Journal of Risk and Insurance* 51: 453–67.
17. Fitzgerald, J. 1987. The effects of social security on life insurance demand by married couples. *Journal of Risk and Insurance* 54: 86–99.
18. Mantis, George, and Richard N. Farmer. 1968. Demand for life insurance. *Journal of Risk and Insurance* 35: 247–56.

19. Chen, Renbao, Kie Ann Wong, and Hong Chew Lee. 2001. Age, period, and cohort effects on life insurance purchases in the U.S. *Journal of Risk and Insurance* 68: 303–27.
20. Beenstock, Michael, Gerry Dickinson, and Sajay Khajuria. 1988. The relationship between property-liability insurance premiums and income: An international analysis. *Journal of risk and Insurance* 55: 259–72.
21. Browne, Mark J., and Kihong Kim. 1993. An international analysis of life insurance demand. *Journal of Risk and Insurance* 60: 616–34.
22. Outreville, J. Francois. 1996. Life insurance markets in developing countries. *Journal of Risk and Insurance* 63: 263–78.
23. Beck, Thorsten, and Ian M. Webb. 2002. *Determinants of Life Insurance Consumption Across Countries* (No. 2792). Washington, DC: World Bank Publications.
24. Fischer, Stanley. 1973. A life cycle model of life insurance purchases. *International Economic Review* 14: 132–52.
25. Campbell, Ritchie A. 1980. The demand for life insurance: An application of the economics of uncertainty. *The Journal of Finance* 35: 1155–72.
26. Lewis, Frank D. 1989. Dependents and the demand for life insurance. *The American Economic Review* 79: 452–67.
27. Zietz, Emily Norman. 2003. An examination of the demand for life insurance. *Risk Management and Insurance Review* 6: 159–91.
28. Fortune, Peter. 1973. A theory of optimal life insurance: Development and test. *The Journal of Finance* 28: 587–600.
29. Truett, Dale B., and Lila J. Truett. 1990. The demand for life insurance in Mexico and the United States: A comparative study. *Journal of Risk and Insurance* 57: 321–28.
30. Nesterova, Daria. 2008. Master of Arts in Economics. Doctoral dissertation, National University of Kyiv-Mohyla Academy of Ukraine, Kyiv, Ukraine.
31. Çelik, Sibel, and Mustafa Mesut Kayali. 2009. Determinants of demand for life insurance in European countries. *Problems and Perspectives in Management* 7: 32–37.
32. Hwang, Tienyu, and Simon Gao. 2003. The determinants of the demand for life insurance in an emerging economy—The case of China. *Managerial Finance* 29: 82–96.
33. Zerriaa, Mouna, and Hedi Noubbigh. 2016. Determinants of life insurance demand in the MENA region. *The Geneva Papers on Risk and Insurance-Issues and Practice* 41: 491–511.
34. Li, Donghui, Fariborz Moshirian, Pascal Nguyen, and Timothy Wee. 2007. The demand for life insurance in OECD countries. *Journal of Risk and Insurance* 74: 637–52.
35. Dragos, Simona Laura. 2014. Life and non-life insurance demand: The different effects of influence factors in emerging countries from Europe and Asia. *Economic Research-Ekonomska Istraživanja* 27: 169–80.
36. Outreville, J. Francois. 1990. The economic significance of insurance markets in developing countries. *Journal of Risk and Insurance* 57: 487–98.
37. Arena, Marco. 2008. Does insurance market activity promote economic growth? A cross-country study for industrialized and developing countries. *Journal of Risk and Insurance* 75: 921–46.
38. Han, Liyan, Donghui Li, Fariborz Moshirian, and Yanhui Tian. 2010. Insurance development and economic growth. *The Geneva Papers on Risk and Insurance-Issues and Practice* 35: 183–99.
39. Chang, Tsangyao, Chien-Chiang Lee, and Chi-Hung Chang. 2014. Does insurance activity promote economic growth? Further evidence based on the bootstrap panel Granger causality test. *The European Journal of Finance* 20: 1187–210.
40. Horng, Min-Sun, Yung-Wang Chang, and Ting-Yi Wu. 2012. Does insurance demand or financial development promote economic growth? Evidence from Taiwan. *Applied Economics Letters* 19: 105–11.
41. Ghosh, Amlan. 2013. Does life insurance activity promote economic development in India: An empirical analysis. *Journal of Asia Business Studies* 7: 31–43.
42. Dragos, Simona Laura, Codruta Mare, Ingrid-Mihaela Dragota, Cristian Mihai Dragos, and Gabriela Mihaela Muresan. 2017. The nexus between the demand for life insurance and institutional factors in Europe: New evidence from a panel data approach. *Economic Research-Ekonomska Istraživanja* 30: 1477–96.
43. Yadav, Chette Srinivas, and A. Sudhakar. 2018. Impact of Socioeconomic Factors on Purchase Decision of Health Insurance: An Analysis. *IUP Journal of Management Research* 17: 35–45.

44. Zerriaa, Mouna, Mohamed Marouen Amiri, Hedi Noubbigh, and Kamel Naoui. 2017. Determinants of life insurance demand in Tunisia. *African Development Review* 29: 69–80.
-

Retrieved from <https://encyclopedia.pub/entry/history/show/125494>