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# Examining the Socio-Economic Factors Affecting the Choice of Insurance Products in Nigeria

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## Abstract
*This study examined the socio-economic factors affecting the choice of insurance products in Nigeria. Using the cross-sectional survey design and the convenience sampling technique, a structured questionnaire was administered to 400 participants that had contracted insurance policies in Lagos State, out of which 317 were deemed usable for the study. An analysis was done using the t-test, and from the hypothesis tested, the result revealed that family influence, religion, and income level influenced the choice of insurance policy in Nigeria. Based on the findings, it is recommended that the federal government should continue sensitizing the public on the need for insurance and enact policies that will encourage low-income earners to participate in the purchase of available insurance policies. Insurance companies on their own part should put in place policies which allow for prompt payment of claims, making sure their policies are explicit enough and they have employees with the right attitude.*

**Keywords:** Insurance products, choice, income, family, religion, decision, socio-economic factors.

## 1.0 Introduction
The Nigerian insurance industry is in a very puerile state as a large majority of the citizens do not have any form of insurance policy. For a country with over 180 million people (World Bank, 2016), Nigeria has an insurance gap of 0.94 (Soladoye, 2007) which makes the country grossly underinsured.

Insurance can be defined as the simple mechanism of some individuals who are likely to suffer from similar levels of risks and damage to their properties, agreeing to come together to share the loss sustained by any member (Kavitha, Latha, & Jamuna, 2012). These risks are perilous and they could be caused by accident, fire, floods, and earthquakes among others, which require that a formal agreement that the loss of one or more members should be spread among all for the risks to be less burdensome for an individual.

 

The global insurance industry started experiencing remarkable growth from the end of the Second World War and has been accompanied with significant changes within the industry, perhaps due to the devastating effects of the war. The Nigerian insurance industry is not exempted from this universal growth syndrome (Ebitu, Ibok & Mbum, 2012; Ukpong & Acha, 2017). Some of the prevalent challenges that the insurance industry has gone through are the expansion of multiple line transition package policies, the general banking system, insurance at grassroots, the variable annuity, life insurance, universal life policy, regulatory framework amendments, social security system expansion, and the participation of government as a provider of private insurance (Ukpong & Acha, 2017). The main challenge here is perhaps consumer apathy arising from other factors such as low income levels, religious beliefs and family influence.

Considering the socio-economic factors that may influence the choice of insurance products, the income of the consumers plays a very crucial role as people with higher levels of income are likely to consider the procurement of insurance policies as a necessity (Ibiwoye, Ideji & Oke, 2010). Other socio-economic variables that may influence the choice of insurance products may include literacy, religion, family influence, inflation rate and unemployment (Chukwulozie, 2006).

Isimoya (2013) notes that in the insurance market, people purchase two types of products, namely: statutory insurance and insurance by choice. Statutory requirement makes it mandatory for someone to insure his motor vehicle before driving it. In international trade, it is legally binding to insure goods in transit. Passengers travelling by air and the aircraft are also insured. Thus, for such activities, it is a legal requirement to obtain insurance policies. For example, under the Road Traffic Act, it is a legal offence to drive or permit a vehicle to be driven on the road unless there is an insurance policy covering it. On the other hand, purchase of insurance by choice is when the customer is aware and convinced of the benefits of hedging his/her risks through the procurement of insurance policies.

Generally, there are various means through which insurance products can be purchased and serviced by users, one of which is through the banking system. The participation by banks has made mass merchandizing of insurance products possible. Furthermore, to enrich some of the financial products, banks offer some insurance protection as additional benefits. For example, an investor is promised three or four times the capital amount invested in case of death, payment of benefits in the event of accident, payment of children’s school fees, and insurance cover for goods bought on credit. To meet such obligations, banks apply part of the interest due to the investors to purchase insurance on their behalf from insurance companies. However, this is different from universal banking with implied direct involvement in insurance broking and underwriting.

### 1.2 Statement of the Problem

Although the future of the insurance industry in Nigeria looks bright since the country is grossly underinsured, there still appears to be some unresolved issues, and of particular concern is the insurance marketing system, which is capable of influencing the consumption of insurance products in Nigeria. This problem seems more prominent considering the level of literacy on the consumption of insurance products. For this reason, insurance products are considered as one of the least patronized brands within the Nigerian financial market.

Furthermore, socio-economic variables such as family influence, the level of income, religion seem to be among the factors affecting the choice of insurance products in Nigeria. The current economic situation has not been of much help as people prefer to take care of other needs which they believe are of utmost importance (Chukulozie, 2006; Ehiorobo, 2017; Ibiwoye et al, 2010). Even when forced, people will prefer the cheapest products regardless of the source. Insurance products in Nigeria are numerous and quite asymmetrical as companies seem not to differentiate their products distinctively and this poses a serious challenge for the purchase of the product. Motor vehicle insurance, for instance, has an option for third party and comprehensive insurance options in every registered insurance company. Insurance like this seems to make a choice easy as people obtain these policies without much consideration for the image or reputation of the company offering it. However, there are other insurance products offered by organizations, and despite the appealing offers and the benefits promised, Nigerians seem not to be actually keen on them. Therefore, this study intends to look at how family, religion and income level may influence the choice of insurance products in Nigeria

### 1.3 Aim and Objectives of the Study

The aim of this study is to examine some socio-economic factors influencing the choice of insurance products in Nigeria. More specifically, the study attempts to determine:

i. if family influence affects the choice of insurance products in Nigeria;
ii. whether the choice of insurance products depends on religion;
iii. whether income level influences the choice of insurance products.

 

## 1.4 Research Questions

To address the research objectives, the research questions are as follows:

i. To what extent does family influence affect the choice of insurance products?
ii. Does religion affect the choice of insurance products in Nigeria?
iii. To what extent does income level of individuals determine their choice of insurance products?

## 1.5 Research Hypotheses

i. **Ho1:** Family influence does not significantly influence the choice of insurance products in Nigeria.
ii. **Ho2:** Religion does not significantly influence the choice of insurance products in Nigeria.
iii. **Ho3:** Level of income does not significantly influence the choice of insurance products in Nigeria.

## 2.0 Literature Review

### 2.1 Theoretical Underpinning: Classical Economic Theory

The classical economic theory of choice presupposes rationality in making a purchase decision, a situation whereby the decision maker depends on facts and logic (Plunket & Atner, I986) and the application of this approach to management can be traced to earlier works by Henri Fayol and Chester Bernard (Stoner, Freeman & Gilbert Jr, 2006). The expectancy-value model is another choice rule, Nowlis (1995) argues that consumers intuitively assign scores to two variables, one being the degree of expected pleasurable outcome, the other being the value they attach to a favourable outcome. This model postulates that when a consumer is faced with competing products, he assigns scores to these expectancy-value parameters and, following an informal mental computation, makes a selection on the basis of highest overall score (Hawkins & Coney, 1992).

In reality, things hardly follow these patterns, as the problem of limited resources at the disposal of the decision maker constrains his choice options. A lot of people do not put logic and statistical facts into consideration before making their choices in purchasing items - therefore making the model unrealistic.

A more realistic model of consumer behaviour is that which combines 'gut' feelings or intuition with the rational model. This involves the decision maker intuitively weighing the options and their respective benefits before making a final choice (Plunkett & Atner, 1986) and this model will be the basis of looking at the factors influencing the choice of insurance products in Nigeria.

## 2.2 Theoretical Literature

The story of insurance is probably as old as the story of mankind (Thakur & Gupta, 2011). Ever since the idea of properties commenced, the term 'insurance' has emerged. Insurance implies protecting the insured financially from specified types of risks. For many different cultures, insurance is essential to decrease the potential risks which are uncertain. In other words, the term 'insurance' emerges due to the uncertainties in one's life (Thakur & Gupta, 2011). Uncertainties might show themselves in different forms in one's life such as in the form of money or life duration. Even though no one may guarantee the exact living time, the term of life expectancy is used to ignore the uncertainty. Therefore, people want to insure not only their life but also their properties owing to the uncertainties that might occur (Duska, 1999; Knoppers, Godard, & Joly, 2004; Thakur & Gupta, 2011).

Yusuf, Gbadamosi, and Hamadu, (2009) opine that history reveals how varieties of social insurance long existed in traditional Nigerian society prior to the advent of modern insurance in Nigeria. These social schemes advanced through the existence of the extended family and social associations like age grades, and other unions. The easiest form of the social insurance was adopted by means of making provision for cash donations, materials or at times arranged shared labour to aid members of the extended family and members of social or communal associations who undergo a disaster. The modern insurance schemes function through funds accumulated from levies; or regular dues imposed by an association on its members. The funds are used to support members who may encounter misfortunes such as death, illness, unemployment; or sometimes members may be given financial assistance for marriage and other celebrations. Osoka (1992) argues that even with urbanization and the consequence of loosening family and communal ties, some type of social insurance is still far and wide considered and patronized by community groups as well as segments of middle-class Nigerians.

In line with this, information technology has aided the growth and maintenance of the insurance industry. Rajavardhan, Reddy and Jahangir (2015) allude to the fact that information technology is responsible for the exceptional growth of the Indian insurance sector. The study also submits that demographic and economic variables are extremely influencing and significant towards the choice of insurance services. Similarly, the findings of Owolabi (2018) posit that the use of technology has positively affected the insurance industry in Nigeria, which has led to an increase in purchase of insurance products.

 

Similarly, several studies on what informs customers' choice of insurance products have been well documented in the literature. For instance, Chukwulozie (2006) submits that inadequate income, low level of education, absence of insurance awareness, increase in inflation rate, non-availability of accurate actuarial data for research and undersized financial market had no doubt affected savings for the consumption of life insurance.

Furthermore, in their study of the determinants of the consumption of life assurance in Nigeria, Ibiwoye et al (2010) conclude that Real Gross Domestic Product (GDP), Structural Adjustment Programme (SAP) and Domestic Interest Rates (DIR) significantly affect the consumption of life assurance products in Nigeria.

In a study carried out by Tanjul, Ujjwal, Himanshu, and Subodh (2014), the researchers concluded that age, dependent family members, health status, socio-economic status, personality traits and individual products perception affected health insurance policy subscription in the Lucknow region of India. Also, Dipin and Tripathi (2014) found socio-economic factors to be a major influence on the purchase of insurance products.

In a series of empirical studies conducted on purchase decisions by individuals of health insurance products, it was concluded that income, family size, effects of price, service, product quality, product information, brand image, perceived risk and product satisfaction affected health insurance purchase significantly (Gupta, 2002; McDonald, *et al*, 2013; Rosenman & Wang, 2006). Understanding precisely how consumers make purchase decisions and what they value in products and services, companies can work out optimum levels of attributes that balance customer value expectations as a benchmark for resource allocation, costing and pricing decisions (Oghojiafor *et al.* 2012).

Rajkumari (2007) analyzes the awareness, satisfaction and preferences of customers towards various insurance services. The study examines the various factors and identifies the main customer attitude while purchasing insurance products, and as well suggests to the banking sector various methods for enhancing the sale of insurance products.

Consumers value attributes because they form the basis by which the consumers evaluate the product in terms of the value propositions before deciding whether to buy the product or not. Attributes also serve as a means of comparing a company's products with competitive brands hence marketers can easily differentiate their products by craftily showcasing and matching attributes with the benefits promised (Kotler, 2003).

The value that customers perceive in a product or service may decide what they want to buy, and can range from intangibles such as glamour, ego satisfaction, luxury, or brand image to tangible attributes such as performance, durability, running cost, comfort, re-sale value, payment terms, availability of spare parts, or convenience of sales and service outlets (Kotler, 2003).

Also, understanding the consumer's perception and attitude towards insurance and creating an insurance culture is essential in facilitating the success of insurance services (Tanjul, *et al.* 2014). A better understanding of consumers' behavior through demographic analysis can play an important role in predicting demand for insurance. Emerging new complex financial products and changes in the preferences of people for preventing their risks make it difficult for people to purchase these insurance products.

## 3.0 Research Methods

A cross-sectional survey design was employed to study the participants of the study, without any attempt to manipulate the variables of the study. The population of the study is made up of the entire Nigerian public, hence it is an infinite population. The purposive sampling method was adopted to select members of the public who have one form of insurance policy or another as the target population. According to the World Bank (2016) ninety percent of the Nigerian populace have insurance policies, which brings the population size to 1.5 million. The convenience sampling method was adopted to select a sample of size 400 respondents from the population. This was done by asking each of the selected person whether they had ever contracted any insurance policy. If the answer was 'yes', then the respondent was selected and administered with a copy of the study questionnaire.

The administered questionnaire consists of two parts for respondent's demographic data and a 5-point Likert scale for rating the different listed factors which influence consumer preferences on insurance products. The designed questionnaire was distributed to individuals that had contracted insurance policies in Lagos, while the data collected was analyzed using t-test with the aid of the SPSS version 21 software.

 

## 4.0 Results, Findings and Discussion

Kaiser-Meyer-Olkin (KMO) for measuring of sample adequacy which varies between 0 to 1 and Bartlett's test of sphericity were conducted and the result shown in table 1. A value close to 1 shows the sample is suitable for the analysis while the Bartletts test value must be less than 0.05.

Table 1: KMO and Bartlett's Test

| | | |
|---|---|---|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .830 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 3899.790 |
| | Df | 300 |
| | Sig | .000 |

*Source: Authors' computation (2018)*

Table 2 showing One-sample statistics for the mean and standard deviations

| | N | Mean | Std. Deviation | Std. Error Mean |
|---|---|---|---|---|
| Income influence | 317 | 19.1987 | 3.93961 | .22127 |
| Family influence | 317 | 11.8076 | 3.11959 | .17521 |
| Religious influence | 317 | 8.8233 | 3.89259 | .21863 |

*Source: Authors' computation (2018).*

Table 2 shows the t-test carried out which indicates that income levels have a mean of 19.20 and standard deviation of 3.94; family influence has a mean of 11.81 and standard deviation of 3.12 while religious influence has a mean of 8.82 and standard deviation of 3.89. From this analysis, it is obvious that the income of the consumers has the greatest impact on the choice of insurance products in Nigeria.

 

Table 3 showing One-sample test as Test value = 0

| | t | Df | Sig (2-tailed) | Mean deference | 95% confidence Lower |
|---|---|---|---|---|---|
| Income inf. | 86.766 | 316 | .000 | 19.19874 | 18.7634 |
| Family inf. | 67.390 | 316 | .000 | 11.80757 | 11.4628 |
| Religious inf. | 40.358 | 316 | .000 | 8.82334 | 8.3932 |

*Source: Authors' computation (2018).*

Table 3 shows the t-value of the analysis of the impact of income, family influence and religion on the choice of insurance products in Nigeria.

The result of the hypothesis shows that income levels have the strongest and most significant influence on the choice of insurance products in Nigeria ($t= 86.766$, $P <.05$). Family influence ($t=67.390$, $P < .05$) and religion were found to have significant influence on the choice of insurance product, ($t=40.358$, $P < .05$). These findings are in line with Chukwulozie (2006), who opines that the level of income is important when it comes to saving for insurance. The findings further corroborate the findings of Tanjul, *et al.* (2014), where socio-economic factors were found to have had a significant influence on the choice of insurance product. Dipin and Ashish (2014) also supported the findings and further posited that what the company put in place in terms of services to its customers is a reason why insurance products are purchased.

## 5.2 Conclusion and Recommendations

In conclusion, this study has succeeded in establishing some factors affecting the choice of insurance products in Nigeria. It has shown that each of the factors used has a significant impact on the choice of insurance products, and understanding these factors will assist individuals, insurance companies and government to appreciate how people make their choices.

On the basis of the finding of this study, the following recommendations are made:

- The federal government should put in place a policy that will encourage low-income earners to participate in insurance, as this is a major challenge to Nigerians. People should know what they stand to gain when they purchase insurance products.

- Insurance companies should use more attractive means to deepen insurance penetration through better product marketing strategies.

- Government should make some insurance policies mandatory to benefit the citizens, and follow-up should be made to ensure strict compliance, and not just enacting laws.

- Insurance companies should put in place good policies which allow for prompt payment of claims and making sure their policies are explicit and unambiguous.

**Limitations of the Study**

The results of the study cannot be generalized as the perceptions of the respondents vary according to their socio-economic and cultural characteristics. The factors that are not included in the study may also impact the decision making of the potential insurance policy buyer in deciding the selection of an insurance product.

 

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