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RESEARCH ARTICLE

**FACTORS AFFECTING INVESTMENT IN LIFE INSURANCE OF BUSINESS
 POSTGRADUATE STUDENTS**

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Abstract

Individuals are faced in making sound financial decisions such as investment and how to manage different types of risk. They require financial literacy to understand Life Insurance as a form of risk management tool and investment. The purpose of this study was to assess the factors affecting the investment decisions of business postgraduate students in acquiring life insurance. This is to address the issues of having a financial breakdown due to non-establishment of security and emergency funds before putting hard-earned money in riskier forms of investment. The study was conducted on 237 Master of Business Administration (MBA) students of Polytechnic University of the Philippines. Majority of the policyholders perceive that life insurance is a multifaceted investment that functions as an income and savings in the future, a retirement fund and a protection coverage on health.

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Introduction:-

Life Insurance already existed even in Ancient Rome, where members were assisted on funeral expenses and assisted those left by the deceased financially. It was just introduced in the Philippines in 1898 by Sun Life Assurance of Canada and it still exists and continues to evolve in the present time. From “Term Life Insurance” and “Whole Life Insurance” which provides only death benefits, insurance companies are now offering “Variable Universal Life Insurance” which provides living benefits with investment components. Life Insurance is an agreement between two parties in a contract. It is where a policyholder pays a premium for his or her policy and at the same time, the insurer guarantees payment in case of a loss or death of the insured.

Life insurance industry growth can be seen in the “2017 IC Annual Report” of the Insurance Commission. It has reached a net income of P28.10 billion, 58.57% higher compared to 2016 net income of P17.72 billion. It can easily be noticed based on the figures that insured individuals were rising faster each year. In fact, on the “Key Statistical Data 2014-2018” released by the Insurance Commission shown the increase in number of insured individuals from 2014 to 2018, from 22,783,372 to 24,882,872 to 29,645,275 to 34,522,207 to 39,403,013 insured lives each year respectively.

The report of the Insurance Commission in “2018 Premium Income of Life Insurance Companies” Top 10 were as follows; 1. Sun Life of Canada (Philippines), Inc., 2. Philippine AXA Life Insurance, Corp., 3. Philippine American Life & Gen. Ins. Co. (life unit), 4. Pru Life Insurance Corp. of UK, 5. BPI Philam Life Assurance Corp., Inc., 6. Manufacturers Life Ins. Co. (Phils), Inc., 7. Insular Life Assce. Co., Ltd., 8. BDO Life Assce. Co., Inc. (General Pilipinas Life), 9. Allianz PNB Life Insurance, Inc., 10. Manulife Chinabank Life Assce. Corp.

This research study will identify the factors that are responsible for the buying or investing decisions in life insurance of business postgraduate students. These target respondents are equipped with advanced knowledge on various types of investment and risks. The results of this research would help policymakers of different insurance companies to strategize, innovate insurance products and formulate policies appropriate for individual lifestyle needs and expectations.

Related Literature:

Insurance sector development in a country can be determined by insurance penetration. Research on life insurance penetration involving developing countries in the Asian region led by Sen and Madheswaran (2013) says that, Asian developing countries' insurance penetration was below 3 percent, among those were Philippines and Indonesia at .9 percent, and Thailand and Malaysia with 1.8 and 2.8 percent respectively. The penetration on Asian countries was so low compared to American and European countries. American countries have the second highest insurance penetration with Bahamas having a 4.8 percent penetration, U.S. with 3.9 percent and Canada with only 3.1 percent. European countries were leading in insurance penetration with the U.K. having the highest rate of penetration at 14.7 percent, followed by France, Denmark, and Sweden with 6.3, 6.2, and 5 percent respectively reported by the World Bank. The difficulty in penetrating Asian countries was due to the restriction of foreign insurance companies to enter a particular country. Income, inflation, real interest rates, and the youth dependency ratio were also factors that affect life insurance consumption in Asian countries.

Having life insurance is essential to human life as it provides better economic value in the future as suggested by the known father of life insurance education, Solomon S. Huebner (1915). Given the uncertainties in life because of hectic schedule of work, late working hours, different types of pollution, food contamination and fast paced lifestyle, our health is at risk and becomes a major concern of all. In the theory of the economist Menahem E. Yaari (1965), uncertainty was one of the main reasons for consuming life insurance. It has been observed that humans tend to have behavior of attempting to lower the uncertainty and its impact that is why risk aversion was then introduced by Karni and Zilcha (1986) as one factor of purchasing life insurance. Risk averse people will tend to do any means to lower the uncertainties in life and this can be done through education. According to Outreville (1996), individuals with higher levels of education are more aware of risk and the importance of risk management. Thus, education increases the demand of life insurance. But, in a study of "Millennials Not buying Life Insurance", millennial generation is largely avoiding purchasing life insurance (Life Ant 2014) which showed that only 21% of people aged 23-35 are life-insurance owners and appear that only older respondents are more likely to own life insurance policies.

Aside from the uncertainty of life, additional factors were added like income, wealth, interest rates and price as introduced by Nils H. Hakansson (1969). It can also be observed that income, life expectancy and dependency ratio had also a positive effect on demand for taking life insurance (Beenstock et al., 1986). As the family income earner implying that he/she has higher income, there can be a higher loss in the family financially when uncertainty happens compared to those with lower income. Employment income influences life insurance consumption ((Hammond et al., 1967) and Mantis and Farmer (1968)). Life insurance will be more demanded by individuals who are employed compared to unemployed. Household income has a greater impact in purchasing Life Insurance as researchers Brown and Kim (1993) found out that significant factors of obtaining life insurance were income, insurance pricing, inflation, social security by government, dependency ratio and religion.

Methodology:-

This paper used a descriptive method which attempted to describe the factors influencing individuals in investing life insurance. Past studies have been used and the analysis is based on the survey data collected through survey questionnaires. Respondents were 237 Master of Business Administration (MBA) students at Polytechnic University of the Philippines.

Materials used are backed up with statistical data that supported its findings and conclusions. Data were analyzed using statistical software SPSS.

Results And Discussion:-

The results from the data gathered are presented below, consisting of 237 respondents. 150 or 63% of which are currently having life insurance policies and 87 or 37% responded without having any at all. The results presented in this paper came from the 150 respondents who answered "Yes" when asked if they are having any life insurance policies.

Respondents' profile in terms of Age, Gender, Marital Status and Source of Income:

Table 1:- Frequency and Percent Distribution of the Respondents by Age.

Age:

Age	Frequency	Percentage
23 - 25 yrs old	94	62.7
26 - 28 yrs old	34	22.7
29 - 31 yrs old	20	13.3
32 yrs old and up	2	1.3
Total	150	100

As shown in the table, the age range of the respondents who have life insurance policy is within 23-25 years old comprising 62.7%. Seeing this large percentage from the age bracket entails young professionals' awareness of the importance in investing life insurance at an early age. Age is an important factor in determining the amount of premium to be paid when purchasing an insurance. Getting an insurance policy while young and healthy, premium payments are not as expensive when an individual gets it in later time.

Table 2:- Frequency and Percent Distribution of the Respondents by Gender.

Gender:

Gender	Frequency	Percentage
Male	54	36.0
Female	96	64.0
Total	150	100.0

It can be depicted from the table that mainly females, consisting of 96 individuals or 64%, have availed the insurance policy, while male policyholders comprise the remaining 36%. From the 2015 World Bank Financial Capability Survey, it showed that women are more likely to understand the primary purpose of insurance products as a risk management tool, which suggests that women have higher financial literacy than men.

Table 3:- Frequency and Percent Distribution of the Respondents by Marital Status.

Marital Status:

Marital Status	Frequency	Percentage
Single	130	86.7
Married	20	13.3
Total	150	100.0

Table 3 shows that 86.7% life insurance policyholders are single while 13.3% are already married. This significant percentage number of single post-graduate business students illustrates its high financial literacy for this kind of asset. As early as twenties, it is most likely that an individual is still single. According to BPI-PHILAM, the needs of individuals who are still single include securing financial growth through investments, supporting their parents or siblings or covering death-related expenses.

Table 4:- Frequency and Percent Distribution of the Respondents by Source of Income.

Source of Income:

Source of Income	Frequency	Percentage
Employment	142	94.7
Self Employed	6	4.0
Business	2	1.3
Total	150	100.0

The illustration above of table 4 illustrates that 94.7% of the respondents' source of income is mainly coming from their employment or day-to-day jobs. Although the respondents are post-graduate business students, only 4% are self-employed and 1.3% derived income from their businesses. This holds true in reference to PSA's macroeconomic labor and employment statistics of employed persons by class of workers as of July 2018. In its statistical tables, 65.34% are wage and salary workers, 26.19% are self-employed without any paid employee, 3.82% are employers in own family-operated farm or business, and 4.64% are without pay in own family-operated farm or business (unpaid family workers).

Factors Affecting Investment in Life Insurance:

Influence in Buying Insurance and Number of Policies Bought:

Table 5:- Frequency and Percentage Distribution of Influences in Buying Insurance and Number of Policies Bought.

		Frequency	Percentage
Who influenced you to get insured?	Family and friends	93	62.0%
	Insurance Agent	29	19.3%
	Media	28	18.7%
	Other	0	0%
	Total	150	100%
How many insurance do you currently have?	1	90	60.0%
	2	60	40.0%
	3 or more	0	0%
	Total	150	100%

In reference to table 5 above, the primary influences of the respondents in getting life insurance are their family and friends comprising the 62% answer. It was followed by being influenced by an insurance agent (19.3%) and through the media (18.7%). Moreover, the majority of the respondents (60%) only owns one life insurance policy while 40% of them owns two. This reveals a fact that close circles such as family and friends can strongly entice and attest the significance of securing a life insurance policy of at least one.

Policy Type and Payment for Insurance:

Table 6:- Frequency and Percentage Distribution of Policy Types and Payments for Insurance.

		Frequency	Percentage
What kind of Insurance Policy do you have?	Term Life Insurance	66	44.0%
	Whole-life Policy	20	13.3%
	Universal Life Insurance	0	0%
	Variable Life Insurance	0	0%
	Variable Universal Life Insurance	46	30.7%
	Group Life Insurance	18	12.0%
	Survivorship	0	0%
	Other	0	0%
	Total	150	100%
Terms of your Policy	Up to 5 years	22	14.7%
	5 to 10 years	89	59.3%
	10 years up	39	26.0%
	Total	150	100%
How regularly do you pay your premiums?	Monthly	108	72.0%
	Quarterly	31	20.7%
	Semi-Annual	0	0%
	Annually	11	7.3%
	Total	150	100%

As shown in the table above, most respondents have bought Term Life Insurance (44%), followed by Variable Universal Life Insurance (30.7%), Whole Life Policy (13.3%), and 12% has Group Life Insurance. With respect to the duration of these insurance policies, the majority of the respondents have invested in it for 5-10 years (59.3%), 26% of them have invested for 10 years and up, while the remaining 14.7% have it for up to 5 years only. 72% of

these respondents pay their insurance monthly, others prefer to pay it quarterly (20.7%), and 7.3% choose to pay it yearly or annually.

Various Factors Responsible for Investment in Life Insurance:

Table 7:- Ranking of Various Factors Responsible for Investment in Life Insurance .

VARIOUS FACTORS	WEIGHTED MEAN	RANK	VERBAL INTERPRETATION
Income	3.91	1.5	Very Important
Savings	3.91	1.5	Very Important
Retirement	3.73	3.0	Very Important
Health Benefit	3.43	4.0	Very Important
Covering Risk of Life	3.14	5.0	Very Important
Debt Cover	3.11	6.5	Very Important
Future Child Educ.	3.11	6.5	Very Important
Insurance Company Background	2.96	8.0	Important
Insurance Cost	2.86	9.0	Important
Tax Benefit	2.71	10.0	Important

Results shown above indicate that post-graduates in business viewed Income and Savings as both “Very Important” obtaining the highest weighted mean of 3.91, when buying their Life Insurance Plan. These were followed by Retirement (WM=3.73, VI=Very Important), Health Benefit (WM=3.43, VI=Very Important), Covering Risk of Life (WM=3.14, VI=Very Important), Debt Cover (WM=3.11, VI=Very Important) and Future Child Education (WM=3.11, VI=Very Important).

Significant Difference in Respondents’ Assessment on Various Factors Responsible for Investment in Life Insurance:

Table 8:-

Respondents’ Profile	F-value	p-value	Decision	Remarks
Age	28.018	0.000	Reject Ho	Significant
Gender	1.500	0.136	Accept Ho	Not Significant
Marital Status	-4.354	0.000	Reject Ho	Significant
Source of Income	1.792	0.170	Accept Ho	Not Significant

The table above reveals the significant difference in the various factors responsible for investment in life insurance (income, savings, retirement, health benefit, covering risk of life, debt cover, future child education, insurance company background, insurance cost and tax benefits) when grouped according to respondents’ profile. Results of p-value of more than 0.05, the assumed level of significance, the null hypothesis is accepted. Hence, when respondents were grouped according to gender and source of income, their assessment on the various factors responsible for life insurance investment were statistically the same, accepting the null hypothesis.

On the other hand, obtained p-values of less than 0.05, the null hypothesis should be rejected. This implies that when respondents were grouped according to age and marital status, their assessment of these factors differ significantly, rejecting the null hypothesis.

Recommendation:-

1. The high percentage of young adult females inclined in acquiring life insurance policies has to be taken by insurance companies and design insurance policies that will match for their lifestyle needs.
2. Insurance companies should continue to introduce innovative products to offer variety or choices to young adults whom are in early days of their careers. These tailored-innovative products should come up with more return, high risk coverage on health benefits, and low insurance premiums.
3. For greater penetration, insurance companies should formulate marketing strategies in reaching out more potential customers through taking advantage of influence of their family and friends.

Conclusion:-

In today's highly competitive job market, it is imperative to constantly improve one's skills, knowledge and abilities. It has been evident through the increasing awareness of continuing learning after completion of a bachelor's degree and obtaining a post-graduate study. In Philippines, there are emerging numbers of college graduates pursuing a post-graduate degree right after or few years after college graduation.

Under a business-graduate program such as MBA, both theoretical and practical learning from the university has been applied such as financial literacy through acquisition of Life Insurance Policies. According to this study, young adults tend to secure their financial health in the future. Young adult females were identified as the most cognizant in the acquisition of life insurance policies compared to male counterparts. However, about 37% of the respondents still don't have any life insurance policies. The study was focused in identifying the underlying reasons and facts that influence MBA students in purchasing life insurance. Majority of the policyholders perceive that insurance is a multi-faceted investment that functions as an income and savings in the future, a source of additional fund during retirement and protection coverage in health uncertainties. It can be concluded that age and marital status affects greatly in the decision of purchasing life insurance policy.

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