Indian Policyholders and Insurance Services : A Critical Study of Consumer Behavior in Life and Term Insurance

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The Indian insurance sector plays a pivotal role in ensuring financial stability and long-term security for individuals and families. Within this sector, life insurance and term insurance products have emerged as two key instruments that attempt to meet diverse customer needs, ranging from savings and wealth creation to protection against unforeseen risks. While life insurance has traditionally been viewed as a combination of investment and protection, term insurance is increasingly recognized for its affordability and focus on pure risk coverage. This study examines the behavior of customers toward life and term insurance, with a particular focus on the factors that shape their decision-making processes. Primary data was collected through structured questionnaires and semi-structured interviews, while secondary data was drawn from the annual reports of insurance companies such as LIC, HDFC Life, ICICI Prudential, and from regulatory bodies like IRDAI. Additionally, relevant academic research and industry studies were consulted to provide a theoretical foundation. The analysis highlights that customer decision-making in insurance is influenced by a combination of functional and emotional factors. Claim settlement ratio and trust in the company emerged as the most critical elements in shaping preferences, confirming the centrality of transparency and reliability in this sector.

Interestingly, the findings reveal generational differences in attitudes toward insurance. While 60% of respondents still preferred life insurance for its dual benefits of savings and investment, 40% opted for term insurance, attracted by its low premiums and pure protection features. Younger respondents, particularly those in the 25–35 age group, demonstrated a greater openness to digital platforms, with 55% preferring online purchase channels over traditional agent-driven models. This aligns with broader industry trends, where digital literacy, social media awareness, and convenience are shaping the buying behavior of India's youth. The results also uncovered gaps in consumer awareness, especially regarding the distinctions between life insurance and term insurance. Many respondents viewed life insurance as a more "secure" product, without fully understanding the cost-benefit advantages of term insurance. This suggests a pressing need for improved financial literacy initiatives and transparent communication strategies from insurance providers. Overall, this research underscores the importance of customer-centric approaches in the insurance industry. Companies that prioritize service quality, transparent claim settlement processes, affordable premiums, and digital ease of access are more likely to build long-term trust and customer loyalty. The findings have both

practical and policy implications, as they call for a balanced strategy that integrates traditional trust-building mechanisms with innovative, technology-driven solutions to cater to evolving consumer expectations.

Key Words : Life Insurance, Term Insurance, Customer Behavior, Service Quality, Insurance Sector.

Introduction:

The history of the insurance sector in India is old, with the Life Insurance Corporation of India (LIC) holding a monopoly for many decades. However, the entry of private companies after 1999 increased competition and provided customers with numerous options. Today, customers are turning to insurance not just for savings but also for risk protection and financial stability. Indian policyholders have gradually evolved in their approach toward life and term insurance. Traditionally, insurance was viewed mainly as a tax-saving tool or a means of long-term savings. However, with growing financial awareness, changing lifestyles, and rising uncertainties, modern policyholders increasingly recognize the importance of insurance as a critical instrument for risk management, wealth protection, and family security. Despite this progress, challenges remain. Many policyholders in rural and semi-urban areas still lack adequate financial literacy and rely heavily on traditional agents rather than exploring digital channels. Mis-selling of policies, lack of transparency in policy features, and low awareness about pure protection plans also affect consumer confidence.

In this context, a critical study of consumer behavior in life and term insurance is essential to understand how policyholders perceive insurance services, what factors guide their decision-making, and how insurance companies can align their strategies with evolving customer expectations. Such insights will help the industry design customer-centric, innovative, and transparent insurance solutions that not only provide financial security but also build long-term trust among Indian policyholders.

Literature Review:

1. Kumar (2019) highlighted that customer trust plays a crucial role in purchasing life insurance policies, as policyholders prefer companies with a strong reputation and reliability.
2. Patil & Singh (2021) found that digital media platforms have increased awareness and curiosity about insurance among the youth, making them more open to exploring life and term insurance options online.
3. John & Smith (2018) emphasized that transparency in claim settlement processes is vital for customer satisfaction and retention, as delays or hidden terms can reduce trust in insurers.
4. Sharma (2020) revealed that service quality, including quick response, grievance redressal, and clear communication, strongly impacts overall customer satisfaction and long-term loyalty in the insurance sector.
5. Rao & Mehta (2017) argued that affordability of premiums and flexible payment

options are critical determinants in customers' decision-making, especially among middle-income groups.

6. Chaudhary (2021) studied the role of financial literacy and found that customers with higher awareness of insurance products could make better decisions, reducing misconceptions between life insurance and term insurance.
7. Gupta & Verma (2019) observed that technological adoption, such as mobile applications and online claim tracking, has improved customer convenience and increased confidence in private insurance companies.
8. Deshpande (2022) noted that brand image and company reputation significantly influence purchasing behavior, as customers perceive established insurers like LIC as safer and more trustworthy compared to newer private firms.

Research Problem:

To what extent do customers understand the difference between life insurance and term insurance? What are the key factors in their decision-making process? How does the service quality of companies affect their satisfaction?

Research Objectives:

1) To study the services of life insurance and term insurance companies.
2) To study customer behavior and perception-making processes.
3) To measure the influence of factors like service quality, premiums, and claim settlement.
4) To examine the relationship between customer satisfaction and company sustainability.

Hypotheses:

- **H1:** Service quality has a significant impact on customer satisfaction.
- **H2:** The claim settlement ratio has a greater influence on customer trust than premium affordability.

Methodology:

This study adopted a descriptive and analytical research design to critically analyze the consumer behavior of Indian policyholders in relation to life and term insurance. The descriptive approach enabled the presentation of actual customer preferences, perceptions, and decision-making factors, while the analytical approach helped identify the strength of relationships among variables such as service quality, claim settlement, and customer satisfaction.

Sample Selection: A total of 300 respondents were selected from Maharashtra (Nashik, Pune, Mumbai), Gujarat, and Delhi to ensure both regional and cultural diversity. The Stratified Random Sampling method was employed to capture representation across various demographic categories such as age groups, gender, occupation, and income levels. This approach ensured that the data was not biased toward a single segment and reflected the heterogeneity of Indian policyholders.

Data Collection:

- Primary Data: Structured questionnaires and personal interviews were administered to customers who had purchased either life insurance, term insurance, or both. The questionnaire included both closed-ended questions and open-ended questions .
- Secondary Data: Collected from credible sources such as IRDAI annual reports, claim settlement reports of LIC and private companies (HDFC Life, ICICI Prudential, SBI Life), published research papers, and industry journals.

Analysis Method : Descriptive statistics, Chi-square test, correlation, and regression analysis.

Results:

Table 1: Customer Behavior Indicating Factors (in Percentage)

Factor	**Percentage (%)**	**Observation**
Preference for Life Insurance	60%	Attraction for savings and investment
Preference for Term Insurance	40%	Affordable premiums and pure protection
Trust and Claim Ratio	72%	Important factor in decision-making
Technology Use (Age 25–35)	55%	Preference for online purchase

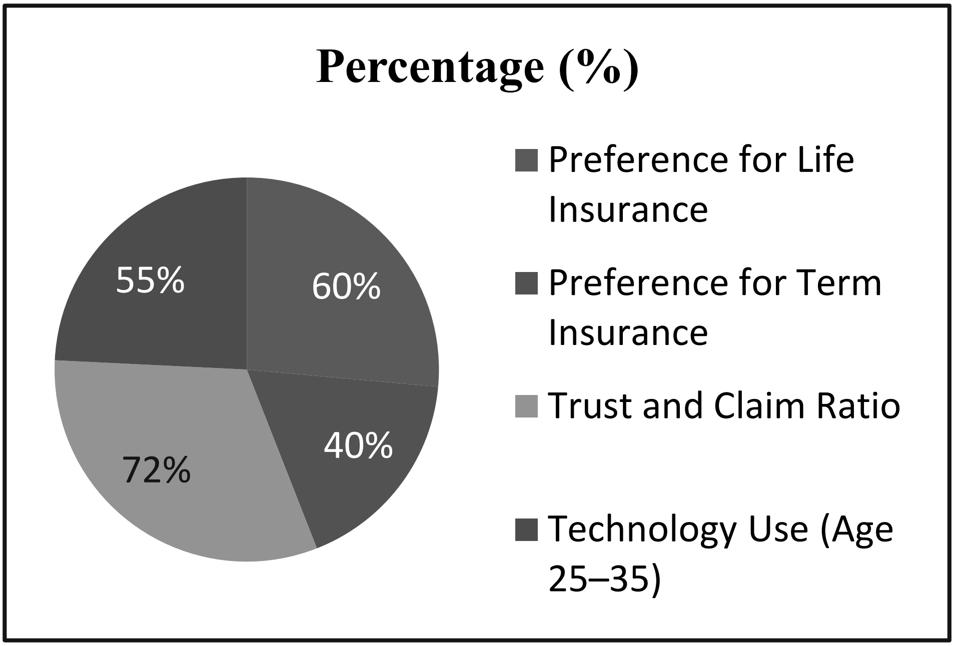
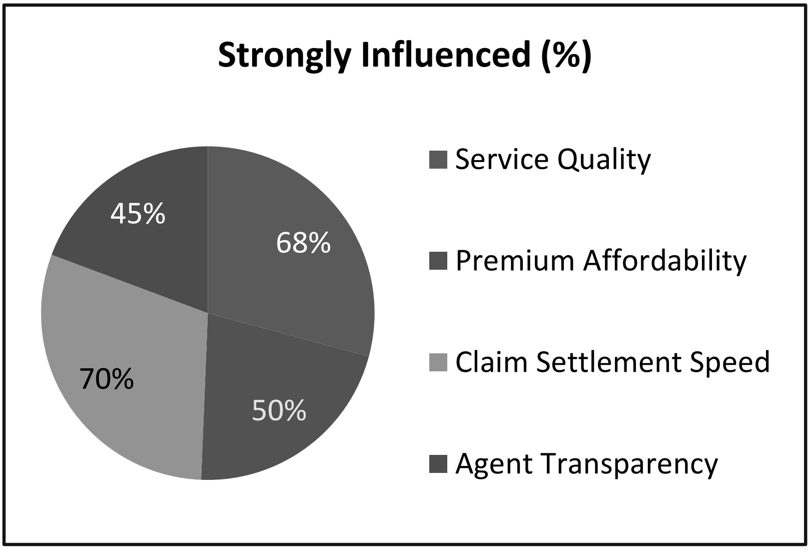


Table 2: Factors Influencing Customer Satisfaction (in Percentage)

Factor	Strongly Influenced (%)	Observation
Service Quality	68%	Directly enhances customer experience and loyalty
Premium Affordability	50%	Important but secondary to trust and service
Claim Settlement Speed	70%	Crucial in building long-term trust and satisfaction
Agent Transparency	45%	Mixed responses; customers seek more clarity



Correlation Analysis:

A high positive correlation (r = 0.68) was found between service quality and customer satisfaction, suggesting that better customer service, quick claim processing, and clear communication directly improve satisfaction levels.

Chi-square Analysis:

The Chi-square test showed a significant association between income level and choice of insurance type. Higher-income groups preferred life insurance, while middle-income groups leaned toward term insurance.

Discussion:

1) As detailed in Table-1,The study highlights key dimensions of consumer behavior in India's life and term insurance sector. A majority (60%) still prefer life insurance as a savings and investment tool, reflecting traditional financial attitudes, while 40% opt for

term insurance due to its affordability and pure protection benefits—showing a gradual shift among younger, financially aware customers. Trust and claim settlement ratios (72%) emerged as the most influential factors, underscoring that transparency and reliability outweigh aggressive marketing. Digital adoption is strong among younger consumers (55% in the 25–35 age group), supporting earlier findings (Patil & Singh, 2021) on the role of digital media. This points to the need for hybrid distribution models that balance digital platforms with personal interaction. Service quality showed a strong positive correlation with customer satisfaction (r = 0.68), reinforcing the idea that responsiveness and transparency shape long-term trust and loyalty (John & Smith, 2018; Kumar, 2019). However, gaps remain in consumer awareness, particularly about the distinction between life and term insurance, highlighting the need for better financial literacy and targeted awareness campaigns.

2) As detailed in Table-2, 68% of respondents felt that high service quality, including timely communication, responsiveness, and empathetic claim handling, directly enhanced their experience and loyalty toward the insurer. This insight emphasizes the need for insurance companies to invest in service training, CRM systems, and post-sale engagement strategies. Claim settlement speed emerged as a dominant satisfaction driver, with 70% of respondents emphasizing its importance. Delays in claim processing often lead to dissatisfaction and erosion of trust. Premium affordability, while important (50% influence), ranks lower compared to trust-related factors. This suggests that customers are willing to pay more if the insurer offers better service and faster claims. Agent transparency received mixed feedback, with only 45% of respondents reporting a positive influence. This indicates a gap in communication and the need for improved training and ethical selling practices among insurance agents.

Conclusion:

This study set out to explore consumer behavior in the life and term insurance market, with a specific focus on the factors that shape decision-making and satisfaction. The results make it evident that while insurance continues to be perceived as both a savings instrument and a risk protection tool, customer choices are heavily guided by trust, service quality, and claim settlement ratios. The research confirms the first hypothesis (H1) that service quality significantly impacts customer satisfaction, as supported by the strong positive correlation (r = 0.68). It also validates the second hypothesis (H2), establishing that claim settlement ratio exerts a greater influence on trust than premium affordability. These findings underline the need for companies to prioritize ethical practices, transparency, and responsiveness over price-based competition alone.

Recommendations:

1. Conduct transparent information and awareness campaigns.
2. Increase financial literacy for rural customers.
3. Maintain a balance between both digital and agent channels.
4. Future research should specifically study the perceptions of rural India and women.

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