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A Study on Measuring Individual Insurance Literacy with Respect to Surat District

Deepak Patil [1], Dr Taral Patel [2]

[1]B.V. Patel Institute of Management UG Student, Uka Tarsadiya University, Mahuva, Bardoli, Gujarat, India
[2]Assistant Professor, Uka Tarsadia University, Mahuva, Bardoli, Gujarat, India

ABSTRACT:

Through a descriptive research design employing surveys and data analysis, the study reveals varying levels of insurance literacy among 130 respondents, with a prevalent basic understanding and moderate proficiency in certain aspects. Findings indicate higher confidence in discussing and comparing insurance policies, with age emerging as a significant factor influencing specific areas of insurance knowledge. Gender and employment status, however, show no significant impact, while education level correlates with understanding of certain concepts. The research underscores the importance of tailored educational efforts to improve insurance literacy across diverse demographics, ultimately empowering individuals to make informed decisions regarding their insurance needs and contributing to overall financial resilience.

I. Introduction

Insurance literacy refers to an individual's understanding of insurance concepts, products, and the ability to make informed decisions about insurance coverage. It encompasses the knowledge and skills needed to navigate the complexities of insurance policies, terms, and the overall insurance market. A higher level of insurance literacy empowers individuals to make informed choices, adequately protect themselves and their assets, and contribute to their overall financial well-being. Insurance literacy is crucial for individuals to make sound financial decisions, protect their assets, and ensure financial security. Improving insurance literacy can lead to more informed consumers, reduced vulnerability to financial risks, and increased confidence in navigating the complexities of the insurance landscape. It is an essential component of overall financial literacy and contributes to building a financially resilient and secure society.

Financial literacy: Ability to Make Informed Judgements and To Take Effective Decisions Regarding the Use and Management of Money"

Insurance literacy: The Ability to Identify Potential Risks with Full Knowledge of The Facts and Take Effective Insurance Decisions Regarding Their Management.

The study of an individual's insurance literacy level cannot be conducted without understanding the factors that influence its assessment, including age, gender, income, and others. Moreover, it is important to know the circumstances in which everyone grew up and currently lives. A study conducted by Tennyson (2011) in the US showed that the identified pattern of responses suggests that consumers generally know more about health and life insurance than auto and property insurance. However, the outcome of this study is most likely to have been distorted by the fact that, unlike European countries where the right to health is universally guaranteed by state law, in the US, this right is essentially based on the principles of private nature. Therefore, it means that while in Europe, healthcare can be provided to all citizens, regardless of census and income, in the US, the situation is somewhat different. In fact, healthcare is guaranteed only for those who can afford it, as they either are wealthy enough to face high healthcare expenses or have health insurance coverage. This is probably why individuals who responded to the questionnaires of this research exhibit good awareness and understanding of life and non-life insurance products.

II. Literature Review

According to **Weedige Sampath Sanjeewa (2019)**, "**Consumer insurance literacy remains relatively underexplored despite the importance of financial literacy.**" Conducting a systematic literature review using PRISMA guidelines, they analysed 37 studies to identify construct validation criteria. Six knowledge dimensions and skill dimensions were pinpointed for inclusion in an instrument to measure insurance literacy. The study underscores that educators should not assume individuals with suboptimal insurance literacy are entirely insurance illiterate. According to the study conducted by **Neetu Chhillar and Swaranjeet Arora** "Basic Financial Literacy," which examined 326 individuals in the Delhi NCR region using convenience sampling, it was found that there exists a notable discrepancy in basic financial awareness across various age groups. However, the study did not observe significant

differences in basic financial literacy concerning gender, employment status, and education level. The analysis employed non-parametric tests such as Kruskal-Wallis and Mann-Whitney U to derive these findings. According to **Evita Allodi, Enrico Maria Cervellati, and Gian Paolo Stella (2020)**, their study proposes a new definition of insurance literacy, grounded in theoretical frameworks and empirical evidence. They argue that higher levels of insurance literacy could alleviate the issue of underinsurance, benefiting both individuals and societies. Moreover, improved insurance literacy could stimulate greater demand for insurance products, fostering competition within the insurance industry as consumers become more adept at comparing offerings. According to **Tania Driver, Mark Brimble, Brett Freudenberg, and Katherine Hunt (2017)**, insurance literacy in Australia is generally low, compounded by factors such as inadequate product knowledge, distrust of providers, limited awareness of risk mitigation strategies, and behavioural decision-making biases. According to **Tennyson (2011)**, consumers' insurance literacy, as measured by a 10-question quiz, appears to be relatively low. Demographic characteristics show significant variation, but financial education and interest in personal finance are the most significant predictors of literacy. Confidence in insurance decision-making and preferred information sources also play a role, with those relying on informal sources demonstrating lower literacy levels.

III. Research Methodology

For obtaining complete and accurate information, descriptive research is chosen. Descriptive research includes surveys and fact-findings enquiries of different kind. Descriptive research is a type of research that describes a population, situation, or phenomenon that is being studied. Descriptive research designs help provide answers to the questions of who, what, when, where and how associated with a particular research problem. A descriptive study cannot conclusively ascertain answers to why. The research methodology for this study on insurance literacy in Surat district involves clear problem statement and objectives, focusing on individuals' understanding of insurance concepts. Descriptive research design, using surveys, aims to describe the current state of insurance knowledge. Questionnaires are used for data collection, ensuring accuracy. Benefits include targeted focus on insurance literacy, while limitations include potential bias in questionnaire responses and limited generalizability beyond Surat district. Despite limitations, the methodology offers valuable insights into local insurance literacy.

IV. Data Analysis and Interpretation

Understanding Individual Insurance Literacy	Basic understanding	Some familiarity	Moderate proficiency	Advanced knowledge	Expert level
Knowledge of insurance	44	17	31	22	14
Knowledge of insurance premium	27	29	36	28	8
Knowledge of coverage limit or policy limit	29	28	35	23	13
Knowledge of policy holder	31	27	37	26	7
Knowledge of term life insurance	32	25	38	19	14
Knowledge of valid contracts	38	28	27	20	15
Knowledge of insurable interest	40	26	26	19	17
Knowledge of tax benefits	32	33	30	20	13
Knowledge of whole life plan	27	33	27	24	17
Knowledge of children's plan	37	31	22	23	15
Knowledge of annuity/pension plan	38	25	25	17	23

How much influence does your social circle have on your insurance decisions?

	Frequency
Not Influential at all	13
Slightly Influential	17
Moderately Influential	38
Very Influential	29
Extremely Influential	33
Total	130

How often do you discuss insurance-related matters with your friends or family members?

	Frequency
Never	10
Occasionally	18
Sometimes	42
Rarely	27
Frequently	32
Total	130

Have you ever compared insurance policies from different providers before purchasing one?

	Frequency
Yes	80
No	34
Maybe	16

Total	130

How confident do you feel in comparing different insurance policies to make an informed decision?

	Frequency
Not confident at all	12
Slightly confident	14
Moderately confident	43
Very confident	28
Extremely confident	32
Total	130

Interpretation:

The data provided gives insights into individual insurance literacy and decision-making behaviour in Surat district. It shows varying levels of understanding across different aspects of insurance, such as knowledge of insurance terms and types of policies. For instance, most respondents have basic to moderate proficiency in understanding insurance concepts like insurance premium, coverage limits, and policyholders. However, knowledge levels drop when it comes to more complex topics like tax benefits and annuity/pension plans. The data also indicates the influence of social circles on insurance decisions. Most of the respondent's report that their social circle moderately to extremely influences their decisions. Interestingly, despite this influence, discussions about insurance matters with friends or family are not as frequent, with only occasional to sometimes occurrences being reported. Furthermore, a significant portion of respondents have compared insurance policies from different providers before purchasing one, suggesting an active engagement in decision-making. However, confidence levels in comparing policies vary, with a notable portion feeling only moderately confident or less.

Hypothesis

Chi square test results

(a) **Age * Understanding Individual Insurance literacy.**

- H_0: There is no association between the Age and Understanding Individual Insurance Literacy.

- H_1: There is an association between the Age and Understanding Individual Insurance Literacy.

Aspects	Pearson Chi-square			H0 Rejected/Failed to rejected
Understanding Individual Insurance Literacy	X2	Df	p-Value	Remark
Knowledge of Insurance	26.443a	16	0.048	Rejected
Knowledge of Insurance Premium	19.358a	16	0.251	Rejected
Knowledge of Coverage limit or Policy limit	11.376a	16	0.786	Failed to reject
Knowledge of Policy Holder	20.932a	16	0.181	Rejected
Knowledge of Term Life Insurance	16.724a	16	0.404	Failed to reject
Knowledge of Valid Contracts	34.301a	16	0.005	Rejected
Knowledge of Insurable interest	38.417a	16	0.001	Rejected
Knowledge of Tax Benefits	27.337a	16	0.038	Rejected

Knowledge of Whole Life Plan	22.796a	16	0.119	Rejected
Knowledge of Children's Plan	20.138a	16	0.214	Rejected
Knowledge of Annuity/Pension plan	33.215a	16	0.007	Rejected

Interpretation: The above data interprets that knowledge of insurance, valid contracts, insurable interest, tax benefits, and certain insurance plans such as annuity/pension plans displayed significant **associations with age**. Conversely, knowledge of insurance premiums, coverage limits, policyholders, specific insurance plans like whole life and children's plans, and term life insurance **did not show significant associations**. The age may influence certain aspects of insurance literacy, indicating potential areas for targeted education and outreach efforts to enhance understanding across different age groups.

(b) **Gender * Understanding Individual Insurance literacy.**

- H_0: There is no association between the Gender and Understanding Individual Insurance Literacy.

- H_1: There is an association between the Gender and Understanding Individual Insurance Literacy.

Aspects	Pearson Chi-square			H1 Rejected/Failed to rejected
Understanding Individual Insurance Literacy	X^2	Df	p-Value	Remark
Knowledge of Insurance	2.294a	4	0.682	Rejected
Knowledge of Insurance Premium	3.757a	4	0.440	Rejected
Knowledge of Coverage limit or Policy limit	3.485a	4	0.480	Rejected
Knowledge of Policy Holder	2.784a	4	0.595	Rejected
Knowledge of Term Life Insurance	2.272a	4	0.607	Rejected
Knowledge of Valid Contracts	8.651a	4	0.070	Rejected
Knowledge of Insurable interest	4.755a	4	0.313	Rejected
Knowledge of Tax Benefits	3.139a	4	0.535	Rejected
Knowledge of Whole Life Plan	0.447a	4	0.978	Rejected
Knowledge of Children's Plan	1.603a	4	0.808	Rejected
Knowledge of Annuity/Pension plan	3.070a	4	0.546	Rejected

Interpretation: The above data interprets that the gender does not appear to be a significant factor influencing individuals' understanding of insurance concepts such as premiums, coverage limits, policyholders, types of insurance, contracts, insurable interests, tax benefits, or specific insurance plans. as the p-values being above the significance level of 0.05.

(c) **Employment Status * Understanding Individual Insurance literacy.**

- H_0: There is no association between the Employment Status and Understanding Individual Insurance Literacy.

- H_1: There is an association between the Employment Status and Understanding Individual Insurance Literacy.

Aspects	Pearson Chi-square			H1 Rejected/Failed to rejected
Understanding Individual Insurance Literacy	X²	Df	p-Value	Remark
Knowledge of Insurance	2.978ᵃ	4	0.562	Rejected
Knowledge of Insurance Premium	3.643ᵃ	4	0.456	Rejected
Knowledge of Coverage limit or Policy limit	1.562ᵃ	4	0.816	Rejected
Knowledge of Policy Holder	4.370ᵃ	4	0.358	Rejected
Knowledge of Term Life Insurance	3.155ᵃ	4	0.532	Rejected
Knowledge of Valid Contracts	5.994ᵃ	4	0.200	Rejected
Knowledge of Insurable interest	12.23ᵃ	4	0.016	Rejected
Knowledge of Tax Benefits	2.935ᵃ	4	0.569	Rejected
Knowledge of Whole Life Plan	4.036	4	0.401	Rejected
Knowledge of Children's Plan	6.464ᵃ	4	0.167	Rejected
Knowledge of Annuity/Pension plan	4.600ᵃ	4	0.331	Rejected

Interpretation: The above data interprets the tests conducted for each aspect did not find any significant associations between employment status and insurance literacy across any of the aspects examined, as the p-values being above the significance level of 0.05.

Education level * Understanding Individual Insurance literacy.

- H_0: There is no association between the Education level and Understanding Individual Insurance Literacy.

- H_1: There is an association between the Education level and Understanding Individual Insurance Literacy.

Aspects	Pearson Chi-square			H1 Rejected/Failed to rejected
Understanding Individual Insurance Literacy	X²	Df	p-Value	Remark
Knowledge of Insurance	15.245ᵃ	8	.055	Rejected
Knowledge of Insurance Premium	12.228ᵃ	8	.141	Rejected
Knowledge of Coverage limit or Policy limit	8.729ᵃ	8	.366	Rejected
Knowledge of Policy Holder	12.876ᵃ	8	.116	Rejected
Knowledge of Term Life Insurance	7.382ᵃ	8	.496	Rejected
Knowledge of Valid Contracts	16.266ᵃ	8	.039	Failed to reject
Knowledge of Insurable interest	13.199ᵃ	8	.105	Rejected
Knowledge of Tax Benefits	17.471ᵃ	8	.026	Failed to reject

Knowledge of Whole Life Plan	8.886[a]	8	.352	Rejected
Knowledge of Children's Plan	9.071[a]	8	.336	Rejected
Knowledge of Annuity/Pension plan	7.583[a]	8	.475	Rejected

Interpretation: The Above tests conducted interprets for each aspect revealed that knowledge of insurance, insurance premiums, coverage limits, policyholders, term life insurance, whole life plans, children's plans, and annuity/pension plans did not show significant associations with education level. However, knowledge of valid contracts and tax benefits showed significant associations with Education Level of respondents.

V. Findings

The study conducted among 130 respondents reveals varying levels of individual insurance literacy across different aspects. Overall, basic understanding seems to be prevalent, with moderate proficiency being the next most common level of knowledge. Notably, respondents show higher confidence in discussing insurance matters and comparing policies, with a majority having compared insurance policies from different providers before purchasing. Confidence in comparing policies is moderate to high among respondents. Age is found to significantly influence understanding of certain insurance aspects, such as valid contracts, insurable interest, tax benefits, and annuity/pension plans, suggesting potential areas for targeted education across different age groups. However, gender and employment status do not significantly affect individuals' understanding of insurance concepts, while education level exhibits significant correlations with understanding of valid contracts and tax benefits. These findings underline the importance of tailored educational efforts to improve insurance literacy across diverse demographics.

VI. Conclusion

In conclusion, the study highlights the importance of addressing varying levels of insurance literacy among individuals. While basic understanding appears to be prevalent overall, there is an improvement, particularly in fostering moderate to advanced proficiency in insurance concepts. Notably, respondents exhibit confidence in discussing and comparing insurance policies, indicating a willingness to engage with the subject matter. The significant influence of age on certain aspects of insurance knowledge suggests the need for targeted educational initiatives tailored to different age groups. Conversely, gender and employment status seem to have no significant bearing on insurance literacy. However, the correlation between education level and understanding of specific concepts like valid contracts and tax benefits underscores the value of investing in educational programs to enhance individuals' grasp of insurance principles. Ultimately, these findings emphasize the importance of personalized approaches to promote greater insurance literacy across diverse demographic groups, thereby empowering individuals to make more informed decisions regarding their insurance needs.

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