

## A STUDY ON PERCEPTION OF BORROWERS TOWARDS LOAN PROTECTION INSURANCE

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### ABSTRACT

The unknown is unknown...no science can ever predict the exact time and reason of happening of any event. Yes, as post event activity it may be able to find the reasons for a happening of something, it can predict certain situations and happenings but there is no 100% guarantee of any of these predictions of situations. Especially when the discussion is about life, health, job security, obsolesce, terror attacks, fire, earthquake, things that nature controls, may not be always controllable. As a matter of fact, nothing in this universe is 100% controllable. That's where Insurance plays a role. Insurance is not a preventive measure. Insurance is a cure to a certain happening. Insurance is a contract, a policy, through which an individual or entity gets financial reimbursements against losses from an insurance company.\* Associate Professor, Smt. MMK College of Commerce & Economics, Bandra \*\* Assistant Professor, Nirmala Memorial Foundation College of Commerce & Science, Kandivali (E) Though this is not a very new concept and has been there since almost a decade, however this concept is not yet very popular in India. People are yet to be made completely aware of the concept of Loan Protection Insurance.

**Key Words:** Loan Insurance, Safety and security, Loan Insurance Policies.

### LOAN INSURANCE

Loan payment protection insurance or Loan protection insurance, is a type of payment protection insurance. This type of insurance helps a person protect their monthly loan payments if one becomes unemployed or suffers from accident or sickness. It is a part of General Insurance.

Loan protection insurance is designed to help policyholders by providing financial support in time of need. This insurance helps cover monthly loan payments and protects the insured from default.

In India banks offer loan insurance to help borrowers to repay on time their home loans, car loans, and personal loans regardless of the individual's ability to pay. Loan protection insurance is designed to help policyholders by providing financial support in time

of need. Whether the need is due to disability or unemployment, this insurance can help cover monthly loan payments and protect the insured from default.

To protect a home loan, car loan or even sometimes personal loans Loan protection insurance is an useful way out.

### ORIGIN OF STUDY

With rise in scope of employment and consumerism, India has seen an upsurge in demand for various comforts of life. The things of luxury in the past has seen a changeover to items of necessity. Together with the change in attitude of the consumers, the Government has also encouraged credit facilities provided by various types of financial institutions to common man. Purchasing of house, buying a car has

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become every person's first priority.

However, this has seen a rise in risk of default also. The easy processing and disbursement of loan by various financial institutions have not only made their own stance very vulnerable as lenders but borrowers have become equally vulnerable and more prone to default and bankruptcy.

In this given scenario, where loans and credit facilities are free flowing, the risk of default needs to be address. With this object the concept of Loan Protection Insurance was launched.

### SCOPE OF STUDY

1. This research helps to identify the awareness and perception of the respondents towards Loan Insurance Policy.
2. This research helps to ascertain the factors effecting the behaviour of the respondents towards investing in Loan Insurance Policy.

### OBJECTIVES

1. To ascertain the extent of awareness and perception about Loan Insurance Policy (LIP) amongst educated adult population
2. To determine the factors affecting the acceptance of LIP by respondents

### HYPOTHESES

1. There is no awareness among educated working class of population about Loan Protection Insurance Policy
2. There is no significant association between income of respondents and preference for Loan insurance policy
3. There is no significant association between age of respondents and preference for Loan insurance policy

### LIMITATIONS OF THE STUDY

1. Only working people of certain sector of occupation has been selected due to time constraints
2. The study area is confined only to the Mumbai suburbs (western).
3. The sample size is restricted to one hundred only.
4. The sample size may not

represent the entire population of Indian working people to draw a conclusion due to resource constraints.

### REVIEW OF LITERATURE

The study has been aimed at prima facie reviewing the awareness and perception of people towards Loan Insurance Policy. The concept of Loan Insurance is not a new concept but is yet to be researched and reviewed at a wide scale. The basic Indian culture being conservative, the social status and culture to some extent have a significant impact on the risk taking capacity and risk management approach of Indian working class.

This research is more exploratory in nature as there seems to be very few research or case study done on the topic of Loan Insurance policy. There are debates also brewing in the market whether a loan Insurance Policy is at all the requirement of the day or a term Insurance policy is sufficient to cover the necessary to cover the necessary risk element.

A survey conducted by IRDA - Insurance awareness campaign (2011) showed that most of the insured are salaried, regular wage earners or self-employed. Household with high level of education as opposed to uninsured households which are mostly illiterate. Insured households possess a high level of education as opposed to uninsured households which are mostly illiterate. It also showed that a higher percentage of insured households, as compared to uninsured households, are aware that the purpose of insurance is to compensate for losses due to unforeseen events. More than half of the insured households think that insurance is both a savings and a protection tool.

In the research cared out by Ms. Tnr. Kavitha, and Dr. A. Latha (2012) it was observed that customers were prima facie interested in some basic type of general insurance health and medical insurance, motor/vehicle insurance, fire , theft, accidental insurances, etc. In their research Sachin Dev and Dr. Manish Bansal (2017) observed the most important reason for taking insurance was to assure the financial damages and risks for the family in the



future. Jas Bahadur Gurung in his research showed the main motivators of insurance are insurance agents followed by friends, media, neighbors, self-study and insurance companies respectively. On the opinion of insurance creates

awareness among insured, majority of respondents agreed on this opinion and some respondents strongly agree on the same.

The research will be aimed at prima facie reviewing the awareness amongst people about LIP and study their perception and ideology towards acceptance of the same. The review of literature is carried out to understand the base of the research area. It helps to identify appropriate methodology, research design, methods of measuring concepts and techniques of analysis.

### **GAP ANALYSIS**

Insurance is an important concept for risk management. It is used as tool for hedging future probable risk. However, knowledge about insurance and its products and other intrinsic details, calculations are very complicated and not easy for common people to understand. This is one reason people avoid blocking the premiums into long term insurance policy. Lack of knowledge about basic function of the any insurance policy behaves like a hindrance with investors.

With all this in tow, Loan insurance Policy was another feather in the already crowded crown of insurance for people to perceive and adopt.

This research can throw on light how people perceive this type of insurance and their level of awareness.

### **RESEARCH METHODOLOGY**

#### **Research Design**

The present research is mainly explorative and descriptive type and with the field study it seeks to find out respondents' awareness and preference for Loan Insurance Policy and correlate them with their income, age, qualification, marital status and economic status etc. It also attempts to describe the behavior of educated working class of people with

regards to investment decision making aimed at securing loan liability by opting for Loan Protection Insurance Policy.

#### **Sample Design**

Sample design was determined before data collection was undertaken. For the purpose of present study, data was collected on purposive basis. Non-probability sampling technique were followed for selecting sample of the present study. This study is about the educated working people living in Mumbai suburbs who are working as academician, corporate offices, entrepreneurs, etc. The researcher has taken 125 as a sample size for better accuracy of the results. After rejecting incomplete questionnaires, finally the researcher could get data from 100 of them.

#### **Target Population**

There was no restriction for gender, age, income and marital status. However, the other demographic factors were categorized. The respondents have been particularly taken from either of the three types of organisations i.e. Educational Institutions, Banks and Company. The levels of income has been classified as a) Below Rs.2.50 lakhs, b) Above Rs.2.50 lakhs upto Rs.5 lakhs, c) Above Rs.5 lakhs upto Rs.10 lakhs, d) Above Rs.10 lakhs. As for educational qualification, a basic level of Graduation has been established.

#### **Sampling Method**

Due to lack of sample frame, a non-random sampling method has been chosen. employed is non-probability method of purposive sampling method. The respondents of the survey were chosen on non-probability basis. As we are considering an infinite population, there is no definite sample frame. Hence probability-based sampling methods are not applicable.

### **DATA ANALYSIS & INTERPRETATIONS**

#### **TESTING OF HYPOTHESES**

Hypothesis 1: Ho: There is no awareness among educated working class of population about Loan Protection Insurance Policy H1: There is awareness



among educated working class of population about Loan Protection Insurance Policy This hypothesis aims at understanding whether education of the consumers have an impact on the concept and

awareness building about Loan Insurance Policy amongst the respondents.

Based on the survey conducted through interviews and questionnaires, the following observations have been made:

Effect of Educational Qualification of Respondents on Opting For LOAN PROTECTION Policy

Education qualification	Have you to taken loan protection insurance policy		
	Yes	No	Total
Graduate	3.1%	13.8%	16.9%
Postgraduate	24.6%	9.2%	33.8%
Professional education	30.8%	13.8%	44.6%
Diploma holder	4.6%	0.0%	4.6%
Total	63.1%	36.9%	100.0%

(Source: Field work)

The above data clearly shows that 24.6 % of the Post graduates have opted Loan Insurance Policy and 30.8% respondents having Professional qualification have opted for the said policy. This, in comparison to Diploma holders and graduates is a big change as only 3.8% of the graduates and 4.6% of the diploma holders have opted for Loan Protection Insurance Policy.

TESTING OF HYPOTHESIS

Chi-Square Tests

	Value	Df	Asymp.Sig.(2ided)
Pearson Chi-Square	12.587a	3	.006
Likelihood ratio	13.474	3	.004
Linear-by-Linear Association	7.696	1	.006
N of valid cases	65		

From Table above it is evaluated that the computed value of chi-square is 12.587. The corresponding P-value is 0.006 which is less than 0.05. Hence, Alternative hypothesis (H1): There is awareness among educated working class of population about Loan Protection Insurance Policy. –ACCEPTED

Therefore, from the above observations and tests conducted, it is concluded that following the line of judgement generated by the percentile calculations, where it was observed that respondents with higher educational qualification have opted for Loan Protection policy as compared with respondents with lesser qualification. This has been further justified through statistical analysis: Chi-square testing.

Hypothesis 2:

HO : There is no significant association between age of respondents and preference for Loan insurance policy

H1: There is significant association between age of respondents and preference for Loan insurance policy

This hypothesis aims at understanding whether the age of the consumers have an impact on the preference for Loan Insurance Policy amongst the respondents.

This analysis throws light upon age of the respondent and their opinion about whether Loan takers should opt for Loan Insurance Policy.



Age	Total respondents	Strongly agree	Agree	Total agreed	% Agreed
	Count	Count	Count	Count	
21-30	22	4	8	12	54%
31-40	38	17	12	29	77%
41-50	28	10	12	22	78%
51-60	12	8	1	9	75%
Total	100	39	33	62	

The above analysis shows that around 77% of the respondents i.e. 37 out of 38 respondents belonging to the age group of 31-40 years agree that loan Insurance Policy should be opted for by loan takers to secure their liability. Whereas 78 % i.e. 22 out of 28 respondents belonging to the age group of 41-50 years. This is further supported by 9 out of 12 respondents of age group 51-60 years agree to the same concept that Loan Insurance Policy should be opted for. This however not that case for the age group of 21-30 years where only 12 out of 26

respondents i.e. only 54 % have opted for the choice of Loan Insurance Policy. Therefore, in comparison to the higher percentages of positive response for senior respondents' younger generation are still not preferring to pay an extra amount of premium to secure their liability and their families from unseen and unknown risks.

#### TESTING OF HYPOTHESIS

ANOVA Age & Loan takers should buy Loan Insurance Policy for any and all types of loans.

	Sum of squares	Df	Mean square	F	Sig.
Between groups	14.61397.833	3117	4.871.836	5.825	.001
within groups	112.446	120			
Total					

From Table above it is evaluated that the computed, the corresponding value is 0.001 which is less than 0.05. Hence,

Alternative hypothesis (H1): There is significant association between age of respondents and preference for Loan insurance policy – ACCEPTED

This establishes the fact that age has an impact of the preference of the respondents towards Loan insurance policy.

Hypothesis 3: Ho: There is no significant association between income of respondents and preference for Loan insurance policy. H1: There is significant association between income of respondents and preference for Loan insurance policy.

Preference of Loan Insurance coverage based on Income of Respondents



Income	Total respondents	Strongly agree	Agree	Total agreed	%Agreed
Rs.	Count	Count	Count	Count	
Lessthan2,50,000	15	4	6	10	67%
2,50,001 -5,00,000	21	7	8	15	72%
5,00,001 -10,00,000	28	15	9	24	86%
10,00,001&above	36	18	8	31	86%
Total	100	44	31		

It is evident from above table, that though people in the lower income group i.e. Rs. 2.5 lakhs and below only 67% of the respondents belonging to that income group prefer to invest in Loan Insurance Policy whereas people in the higher income brackets of Rs.5 lakhs and above 55 out of 64 respondents i.e. approximately 86% of the respondents of that income bracket prefer to secure their liability through opting for Loan Insurance Policy. This has been further established through statistical analysis below.

#### TESTING OF HYPOTHESIS

##### ANOVA

Income Per Annum & Loan takers should buy Loan Insurance Policy for any and all types of loans.

	Sum of squares	Df	Mean square	F	Sig.
Between groups	13.175	3	4.392	4.418	.006
Within groups	116.296	117	.994		
Total	129.471	120			

From Table above it is evaluated that the computed, the corresponding value is 0.006 which is less than 0.05. Hence,

Alternative hypothesis (H1): There is significant association between income of respondents and preference for Loan insurance policy – ACCEPTED  
This establishes the fact that income has an impact of the preference of the respondents towards Loan insurance policy.

#### OVERVIEW

Hence, from the above its evident that the demographic factors of age, income and education considered in the research has a very positive impact on the behavioral pattern of the respondents. It is observed that the that people of higher age and income bracket together with higher education has an impact on the preference for opting for Loan Insurance Policy.

#### RECOMMENDATIONS

The Indian insurance market has seen a sea change in the competitive over the last one decade. The expectation of customers is also changing. The General Insurance sector is expanding and big international players have entered into the arena.

They should lay more in bringing about awareness regards the Loan Insurance Policy thus encouraging customers to avail of different credit facilities without any stress and tension for the future.

They should also build confidence amongst customer by bringing in transparency regarding the terms and conditions and thus enlightening the future policy holders to buy the policies hassle free.

The companies should going forward advertise and build awareness of Loan Insurance Policy. They should conduct seminar and workshops, one-to-one talks with agents.



The bank and other financial lending money conditional this that it should be covered LPI. This should not be forced upon customers without prior knowledge of the product.

The product is good but a bit more commercial approach like advertisement in order to built up common consensus and share adequate concept about it with customers so that any sort of ambiguity is eradicated. The below are a few questions the customers to keep in mind before opting for an LPI Policy.

### THE ROAD AHEAD

There is further scope of research to be conducted to build awareness of this insurance product and other innovative general insurance products should be promoted. The insurers should emphasis more on advertising and building brand awareness through different modes of communication thus spreading awareness among public.

Further research could be conducted on the satisfaction level of the customers/policy holders and study the areas of improvising the product and addressing the areas of difficulties. This would in turn facilitate various insurance companies to plug the loopholes and provide better improved customized products.

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