INTERNATIONAL JOURNAL OF ECONOMIC SOCIAL SCIENCE AND MANAGEMENT LAW
Peer Reviewed, Referred & Indexed Journal
E-ISSN: 3070-0558
VOL.6, NO.3 (2025)

# A STUDY ON FACTORS INFLUENCING INSURANCE POLICY SELECTION

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***ABSTRACT***

*Insurance plays an important role in protecting individuals and families from financial loss caused by unexpected events such as illness, accidents, property damage, or death. In today's uncertain environment, people are more aware of the need for insurance, but choosing the right insurance policy has become a complex decision. This study examines the key factors influencing the selection of insurance policies among individual policyholders. With the growing awareness of financial security and risk management, insurance has become an important tool for personal and family protection. The study focuses on understanding how factors such as premium amount, coverage benefits, claim settlement process, insurer reputation, customer service quality, and agent influence affect policyholders' decision-making. Primary data were collected through a structured questionnaire administered to respondents from different age groups, income levels, and educational backgrounds. Descriptive analysis and simple statistical tools were used to interpret the data. The findings reveal that premium affordability and coverage benefits are the most significant factors influencing insurance policy selection. Trust in the insurance company and ease of claim settlement also play a major role, while advertising and peer influence have a moderate impact. The study highlights the importance of transparent policy terms and effective communication by insurance providers. The results provide useful insights for insurance companies to design customer-oriented products and improve marketing strategies. The study also helps policymakers understand consumer behavior in the insurance sector, thereby supporting better regulation and awareness programs. Overall, the research contributes to a clearer understanding of policyholder preferences and decision-making patterns in insurance selection.*

***Keywords:*** *Insurance policy selection, Consumer behavior, Premium, Risk coverage, Decision-making.*

## I. INTRODUCTION

Insurance plays a vital role in providing financial protection against unforeseen risks such as accidents, illness, property loss, and death. In today's uncertain economic environment, individuals increasingly recognize the importance of insurance as a tool for risk management and long-term financial planning. The insurance sector has expanded rapidly, offering a wide range of products such as life insurance, health insurance, motor insurance, and general insurance to meet diverse consumer needs. As the number of insurance products increases, selecting a suitable insurance policy has become a complex decision for consumers.

Insurance policy selection is influenced by several personal, economic, and psychological factors. Individuals differ in their income levels, risk perception, family responsibilities, financial literacy, and future goals, which shape their insurance choices. Factors such as premium affordability, coverage benefits, policy tenure, claim settlement process, and the reputation of the insurance provider play a significant role in influencing policy selection. In addition, the role of insurance agents, advertisements, peer influence, and past experiences also affects consumer decision-making.

In the Indian context, increased awareness, rising income levels, and supportive government initiatives have contributed to the growth of the insurance market. However, despite this growth, many consumers still face difficulties in understanding policy terms and comparing available options. Mis-selling, lack of transparency, and limited financial literacy often result in inappropriate policy choices. Therefore, it is important to study the factors that influence insurance policy selection to understand consumer behavior more clearly.

This study aims to analyze the key factors that affect the selection of insurance policies and to examine how these factors vary across different demographic groups. The findings of the study are expected to help insurance companies design customer-focused products, improve service quality, and build long-term trust. It also provides valuable insights for policymakers and researchers concerned with consumer protection and financial inclusion in the insurance sector.

## II. NEED OF THE STUDY

The insurance market offers a wide range of policies, making the selection process confusing for many consumers. A clear understanding of the factors influencing insurance policy selection is necessary to ensure informed decision-making. This study is needed to identify the key factors that affect consumer choices, such as premium cost, coverage benefits, claim settlement, and insurer credibility. It helps insurance companies improve product design and marketing strategies based on customer preferences. The study also supports policymakers in promoting transparency, reducing mis-selling, and enhancing financial literacy among consumers, leading to better insurance penetration and customer satisfaction.

## III. OBJECTIVES OF THE STUDY

- To identify demographic, socioeconomic, and psychological factors affecting insurance policy selection.
- To examine the influence of price, coverage, brand reputation, and trust.
- To analyze the role of agents, digital platforms, and information availability.

## IV. SCOPE OF THE STUDY

The scope of the study is limited to analyzing the factors that influence the selection of insurance policies among individual policyholders. It focuses on key aspects such as premium affordability, coverage benefits, claim settlement process, insurer reputation, service quality, and agent influence. The study covers different types of insurance policies, including life, health, and general insurance. It also examines how demographic factors like age, income, education, and occupation affect policy selection. The findings are based on primary data collected through questionnaires and are useful for understanding consumer behavior within the selected study area and time period.

## V. RESEARCH METHODOLOGY

This study adopts a descriptive research design to analyze factors influencing insurance policy selection. It focuses on understanding customer preferences, awareness, income, risk perception, and trust in insurers using systematic data collection and analysis to draw meaningful conclusions.

**Primary Data** Primary data were collected directly from respondents through a structured questionnaire. The survey captured information on demographic profiles, policy preferences, decision-making factors, and satisfaction levels, ensuring first hand and relevant insights for the study.

**Secondary Data** Secondary data were gathered from published research papers, insurance company reports, journals, textbooks, government publications, and reliable websites. These sources helped in understanding industry trends, theoretical background, and supporting the interpretation of primary data findings.

**Sampling Method:-**Convenience Sampling Method was used, selecting respondents who were easily accessible and willing to participate in the survey.

**Sample Size:-**The sample size for the study consists of 150 respondents, chosen to adequately represent individuals involved in insurance policy selection decisions.

**Statistical Tools For study:-** Factor analysis was applied, and KMO with Bartlett's Test confirmed sampling adequacy and data suitability for meaningful factor extraction.

## VI. REVIEW OF LITERATURE

**Jeevitha Elangovan (2025)** Life insurance covers financial risk, and several variables affected the decision to get it. This research uses the Theory of Planned Behaviour to examine life insurance buying intentions. Data from 250 respondents was analysed using SMART PLS. We examined the association between customers' insurance literacy and life insurance purchase intention using

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positive attitude, trustful belief, perceived product advantages, and perceived product risk as mediators.

**Prateeksha Deshpande (2024)** This paper reviews research papers and theses to examine life insurance purchase decision determinants. It also categorises these factors. The research examines several elements that might influence life insurance purchases.

**Hari Prasad Upadhyay (2023)** Life insurance is unique among investments and should be treated accordingly. Life insurance policyholder conduct versus savings and protection. This study examined life insurance purchase intents, awareness levels in Chitwan, and the link between perception, attitudes, awareness, and buying choice.

**SRIRAM (2022)** Life is the most valuable asset, and life insurance is the most significant sort of insurance, protecting a person and his family from unpredictable dangers and harm. Life insurance protects and promotes savings. This exploratory and descriptive research was chosen to determine what variables influence customers' life insurance policy perceptions.

**Maseke, Bernardus (2021)** The report examined customer insurance company selection criteria. Insurance provides peace of mind, but consumers should choose insurers carefully to prevent disappointment. Customers should also beware of bogus agents, deception, fraud, and broker pressure. The major goal of this article was to discover the elements that influence customers' insurance company choices, and the secondary goal was to rank advertising, social, and behavioural aspects.

**D. SNEHA (2020)** Nobody can anticipate the future. Risk exists wherever uncertainty exists. Risk of financial loss is unavoidable, but one may safeguard their loved ones and ensure their future success. Financial loss protection is insurance's fundamental purpose. It relieves property and death loss anxieties. As a savings mobiliser, financial broker, and investment advocate, the insurance business may help a nation prosper economically.

**VIDHI GARG (2019)** Life Insurance Corporation of India, a large public sector, sells its products well (Nena, 2013). Life Insurance Corporation of India should focus on new plans for daily health issues (Senthilkumar&Selvamani, 2016). This research attempts to uncover major variables affecting life insurance premiums in India. It examines factors like Gross National Income.

## VII. DATA ANALYSIS & INTERPRETATION

| KMO and Bartlett's Test | | |
|---|---|---|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .764 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 127.201 |
| | df | 105 |

Received: 24-07-2025 | Accepted: 03-09-2025 | Published: 10-09-2025 | www.ijeml.com

| | | |
|---|---|---|
| | Sig. | .006 |

The Kaiser–Meyer–Olkin (KMO) measure of sampling adequacy is **0.764**, which indicates a good level of sample adequacy. This value is above the minimum acceptable limit of 0.60, showing that the data are suitable for factor analysis. the results of KMO and Bartlett's Test confirm that the data collected for this study are appropriate for applying factor analysis. Therefore, factor analysis can be confidently used to identify the key underlying factors that influence insurance policy selection among respondents.

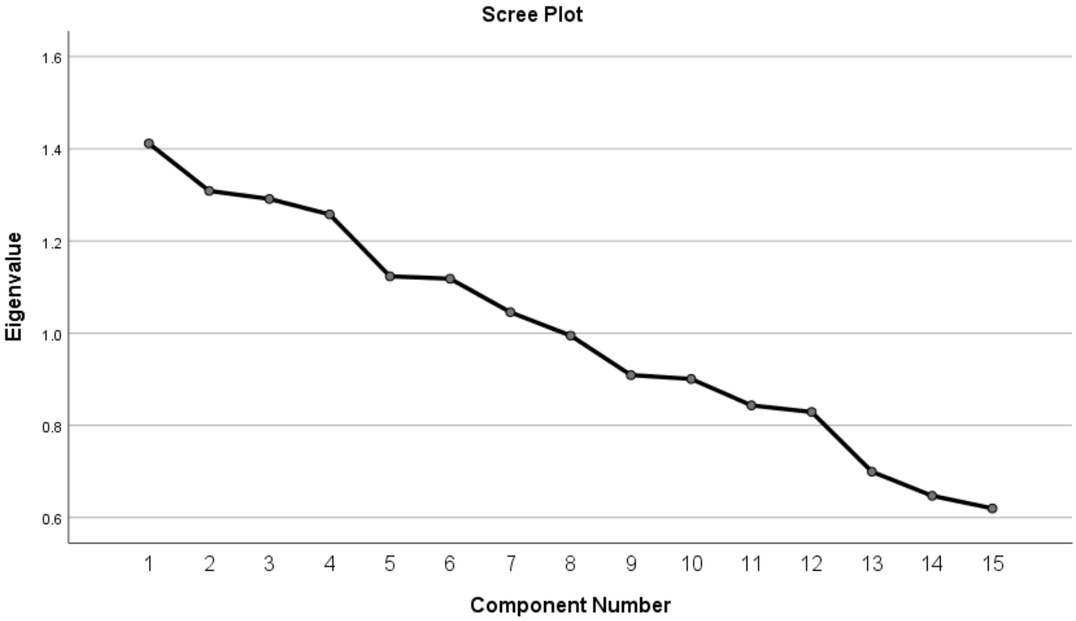
| Communalities | | |
|---|---|---|
| | Initial | Extraction |
| Affordable premium amounts strongly influence my insurance policy selection. | 1.000 | .614 |
| The reputation of the insurance company affects my purchase decision. | 1.000 | .702 |
| Wide coverage benefits are important when selecting an insurance policy. | 1.000 | .601 |
| The claim settlement process influences my trust in an insurance provider. | 1.000 | .487 |
| Recommendations from family or friends affect my insurance policy choice. | 1.000 | .525 |
| Advertisements increase my awareness and interest in insurance policies. | 1.000 | .545 |
| Online availability of insurance information influences my selection decision. | 1.000 | .460 |
| Tax benefits play an important role in my insurance policy selection. | 1.000 | .562 |
| Past experiences with insurance companies affect my future policy choices. | 1.000 | .462 |
| Flexibility in premium | 1.000 | .491 |

| | | |
|---|---|---|
| payment options influences my policy selection. | | |
| Customer service quality impacts my satisfaction with an insurance policy. | 1.000 | .710 |
| Additional riders and add-on benefits influence my policy purchase decision. | 1.000 | .611 |
| Transparency in policy terms and conditions is important to me. | 1.000 | .643 |
| I prefer insurance policies that offer long-term financial security. | 1.000 | .570 |
| I am willing to switch insurance policies if better benefits are available. | 1.000 | .574 |
| Extraction Method: Principal Component Analysis. | | |

The communalities indicate how well the extracted factors explain each variable. The extracted values range from **0.460 to 0.710**, showing that a good amount of variance is explained by the factors. Variables such as customer service quality, company reputation, and transparency show high communalities, while factors like online information and past experience show moderate values. Overall, all variables are adequately represented and suitable for factor analysis.

| Total Variance Explained | | | | | | |
|---|---|---|---|---|---|---|
| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | |
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 1.412 | 9.411 | 9.411 | 1.412 | 9.411 | 9.411 |
| 2 | 1.309 | 8.724 | 18.136 | 1.309 | 8.724 | 18.136 |
| 3 | 1.291 | 8.608 | 26.744 | 1.291 | 8.608 | 26.744 |
| 4 | 1.258 | 8.385 | 35.128 | 1.258 | 8.385 | 35.128 |
| 5 | 1.123 | 7.489 | 42.618 | 1.123 | 7.489 | 42.618 |
| 6 | 1.118 | 7.454 | 50.072 | 1.118 | 7.454 | 50.072 |
| 7 | 1.045 | 6.970 | 57.042 | 1.045 | 6.970 | 57.042 |
| 8 | .995 | 6.631 | 63.673 | | | |
| 9 | .909 | 6.060 | 69.734 | | | |
| 10 | .901 | 6.004 | 75.738 | | | |
| 11 | .843 | 5.623 | 81.361 | | | |
| 12 | .829 | 5.528 | 86.889 | | | |
| 13 | .699 | 4.663 | 91.552 | | | |
| 14 | .647 | 4.315 | 95.867 | | | |
| 15 | .620 | 4.133 | 100.000 | | | |

| Extraction Method: Principal Component Analysis. |
|---|




The total variance explained shows that **seven components** with eigenvalues greater than 1 were extracted using Principal Component Analysis. These seven components together explain **57.04%** of the total variance, which is acceptable for social science research. The first component explains **9.41%** of the variance, followed by the remaining components with gradually decreasing contributions. This indicates that insurance policy selection is influenced by multiple underlying factors rather than a single dominant factor.

**Component Matrix[a]**

| | Component | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Affordable premium amounts strongly influence my insurance policy selection. | -.130 | .483 | -.134 | .101 | -.534 | .214 | .067 |
| The reputation of the insurance company affects my purchase decision. | -.056 | .196 | .408 | -.586 | -.251 | -.023 | .294 |
| Wide coverage benefits are important when selecting an insurance policy. | .350 | -.487 | .239 | .077 | -.083 | .079 | -.407 |
| The claim settlement process influences my trust in an insurance | .013 | .293 | .516 | .324 | -.014 | -.169 | .012 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| provider. | | | | | | | |
| Recommendations from family or friends affect my insurance policy choice. | -.050 | .239 | .521 | .199 | .162 | -.212 | -.288 |
| Advertisements increase my awareness and interest in insurance policies. | .129 | .028 | .053 | .544 | .103 | .309 | .351 |
| Online availability of insurance information influences my selection decision. | .200 | -.027 | .256 | -.487 | .318 | .122 | -.006 |
| Tax benefits play an important role in my insurance policy selection. | .500 | .307 | .010 | -.140 | .295 | .191 | -.273 |
| Past experiences with insurance companies affect my future policy choices. | .488 | .156 | .216 | .238 | -.260 | -.070 | .157 |
| Flexibility in premium payment options influences my policy selection. | .424 | -.406 | -.242 | .178 | -.102 | -.154 | .146 |
| Customer service quality impacts my satisfaction with an insurance policy. | -.169 | -.377 | .316 | .001 | .260 | -.156 | .590 |
| Additional riders and add-on benefits influence my policy purchase decision. | -.194 | -.280 | .120 | -.143 | -.238 | .632 | -.059 |
| Transparency in policy terms and conditions is important to me. | -.075 | .220 | -.034 | .169 | .506 | .536 | .126 |
| I prefer insurance policies that offer long-term financial security. | .277 | .320 | -.457 | -.203 | .215 | -.243 | .190 |
| I am willing to switch insurance policies if | .628 | .010 | .121 | -.149 | -.197 | .214 | .242 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| better benefits are available. | | | | | | | |
| Extraction Method: Principal Component Analysis. | | | | | | | |
| a. 7 components extracted. | | | | | | | |

The component matrix shows how each variable loads on the seven extracted components. Higher factor loadings indicate a stronger relationship between the variable and the component. Variables related to **switching behavior, tax benefits, past experience, and payment flexibility** show strong loadings on Component 1, indicating a factor related to financial decision behavior. Component 2 reflects **premium affordability and long-term security**, while Component 3 is influenced by **claim settlement and recommendations**. Component 4 highlights the role of **advertising and online information**. Component 5 represents **policy transparency and coverage aspects**. Component 6 is mainly influenced by **add-on benefits and transparency**, and Component 7 reflects **customer service quality**. Overall, the results show that insurance policy selection is influenced by multiple interconnected factors.

## VIII. FINDINGS

- The KMO value of 0.764 and a significant Bartlett's test confirm that the data are suitable for factor analysis.
- Factor analysis extracted **seven major factors** influencing insurance policy selection, explaining **57.04%** of the total variance, which is acceptable for social science research.
- **Premium affordability** emerged as one of the most influential factors, showing that customers prefer policies that fit their income levels.
- **Company reputation and trust** play a strong role in policy selection, indicating that customers value reliable and well-known insurers.
- **Coverage benefits and long-term financial security** significantly influence decision-making, reflecting customers' focus on protection and future stability.

## IX. SUGGESTIONS

- Insurance companies should simplify policy terms and conditions to help customers clearly understand coverage, exclusions, and benefits.
- Transparent and quick claim settlement processes should be ensured to build trust among policyholders.
- Premium plans should be made flexible and affordable to suit different income groups.
- Insurance agents should be properly trained to provide honest and accurate information and avoid mis-selling.
- Awareness programs and financial literacy campaigns should be conducted to educate consumers about the importance of insurance.

## X. CONCLUSION

The study concludes that insurance policy selection is influenced by a combination of economic, personal, and service-related factors. Premium affordability and coverage benefits are the most important considerations for policyholders, followed by claim settlement efficiency and insurer reputation. The findings show that clear information and trustworthy service play a major role in consumer decision-making. The study highlights the need for improved transparency, better customer education, and ethical selling practices in the insurance sector. By addressing these factors, insurance companies can enhance customer satisfaction, increase policy adoption, and build long-term relationships with policyholders.

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