

Examining ways of increasing penetration of non-compulsory insurance in different areas of property and responsibility in the southern Kerman

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Abstract

The aim of this study is to determine ways of increasing penetration of non-compulsory insurance in different fields of property and responsibility in the southern Kerman. The research method is descriptive-survey and statistical population included all citizens, homeowners, businesspersons, shopkeepers, doctors, engineers, employers of Kahnooj, Jiroft and is Manoujan in 2013. Sampling method of research is simple random. The results showed that prioritizing ways of increasing insurance penetration coefficient in different areas of property and responsibility for citizens are making insurance electronic, adjusting insurance rates, advertising, culture, proper marketing, education and awareness, appropriate pricing, applying franchise and the first loss. Advertising, proper pricing, marketing, applying franchise, first loss, culture, education and awareness of citizens, making insurance electronic, adjustment of insurance rates affect increase of insurance penetration in different areas of the property and responsibility among citizens.

Key Words: ways to increase the penetration of insurance, property insurance, liability insurance

Introduction

service industries have an important and basic role in economic development and growth of the countries and here the role and status of insurance industry as a supporting industry is evident. On the other hand, increasing competition in the insurance industry has made the majority of executives in the industry to think for a remedy for persistent presence in the business arena. Therefore, they have to find ways to increase insurance penetration and citizens' use of it. Among the ways of achieving this is improvement in the quality of insurance services (Abulhasani, 2009: 69). Moreover, in today's competitive world, obtaining a rightful place in the market is difficult and to have a stable position in the market, providing top quality services to the customers, especially in the case of service providers such as the companies in the insurance industry, arises as a durable competitive advantage (Nasehifar and Haghbeyan, 1999: 36).

Customer service depends on the appropriate response to their demands and needs. This service should be organized, systemic, quick, and easy, so that it can be accessible at any time, place, and level in an appropriate way at a low and reasonable cost (Dehnavi, 2009: 127).

Today, insurance is very useful in various fields and assets, and generally, policyholders cover anything that has material or life, etc. value. In this study, the researcher tries to study insurance penetration coefficient in different area of property and liability, where property insurance includes fire, flood, earthquake, etc. and liability insurance includes product and civil liability insurance.

Insurance penetration coefficient (IPC) has been defined as level of insurance industry's share of GDP that is as a quantitative economic indicator. The index, which represents the ratio of production premium to GDP of a country, could imply the congruous or incongruous connection of insurance industry and the economy of a country. Moreover, it is known as an indicator of social welfare and represents growth, progress, and development of insurance in a country (Kazemi et al., 2008: 56). Fire Insurance is one of the oldest type of insurance dating back some 400 years that is of great importance to compensate for the damage to property, assets, human and national capital. In general, areas and sites that are covered by fire insurance can be divided into three categories. Residential units that are places not used for business and used solely for the purpose of residence. Industrial centers that are places where industrial activities are carried out like the leather, footwear, automotive factories and so on. Non-industrial centers that are the centers in which activities other than industrial activities such as stores and so on are done. Fire, earthquake, flood, storm, and hail insurance are of property insurance branches in Iran that the principle of compensation, succession law, the principle of good faith, insurance benefit rule, the rule of capital, and premium rule must rule (Kayani, 2009: 21). Liability insurance is the product of one of the liability insurance types where the insurer is responsible for manufacturers and sellers' defective and harmful products for aggrieved parties. Development of technology and increasing production of industrial, household appliances, food, pharmaceutical, health goods and so on have put the lives of consumers at serious risk that determine the importance of crop insurance and liability insurance. Every moment new phenomena are formed in various fields of human life, and consequently various civic responsibility show up. In this regard, product liability insurance and commodity producers play a role as a way to develop legality, accountability, regulating social relations, the establishment, and maintenance of peace in society (Lotfi, 2008: 68).

Two of the methods through which different insurers try to increase insurance penetration rate and increase the number of clients are the following methods:

1. Applying Franchise (or more correctly the extent of the damage that is for the insurer) for appropriate discounts on premiums, this method causes the insurer not to have responsibility for small losses that require a lot of time the one hand, and on the other side, it strengthens the customer's attention to the rules of safety and firefighting equipment.

2. First loss insurance (or more correctly a certain top amount for any damage): in this method, in most cases, due to the scatter in properties insured the client is ready to pay the top amount for the maximum damage and in return use discount for insurance. This method is applied in some insurance policies for damage caused by fire, flood, earthquake, and so on (Jabbari, 2008: 47).

Upon presentation of material regarding electronic insurance and the effects of the use of information technology in the insurance industry, Karimi (20: 2004) stated hardware and software, network security, creating good communication networks, good culture, expert work force, organizational infrastructure, and legal infrastructure as the requirements of successful execution of electronic insurance. In studying agricultural products insurance request by Montana farmers, Smith and Bukit (2006) concluded that that the rates of insurance are effective on wheat farmers' participation in the insurance project.

Research by Iravanian et al. (140: 2006) showed that the appropriateness and fairness of insurance premium according to income of the farmers and timely payment of compensation to farmers affected could be effective agents for increasing insurance demand among farmers. In their study, Mosayi and Barati (25: 2009) concluded that the most important factors associated with the purchase of earthquake insurance are:

Low levels of household income, denial of insurance as a necessity in life, lack of familiarity and knowledge of the existence of earthquake insurance policies, and the negative mindset of people about the negative background of branches of insurance companies to pay damages.

In a study, Malek Mohammadi and Tajrishi (45: 2011) have shown that proper estimation of the expected flood damage and determining the correct flood insurance rates play an important role in flood insurance program and can ensure successful implementation of the program and proper implementation of flood program is a perfect tool for crisis management in flood times.

In a study, Abbasi and Salehi (150: 2011) showed that the domestic market has a direct impact on customers in the insurance industry. Researchers in recent years have mentioned that making insurance electronic is one of the ways for insurance penetration among citizens (Kazemi et al., 60: 2008).

In a simple definition, the application of information technology and the Internet in the production and distribution of insurance services is called "electronic insurance" and according to the report released, 40 percent of policies are sold online in the world. According to the statistics, in the past 51 years, the insurance industry in Iran has grown 4.5 times more than the entire national economy, but the share of insurance in the world is minimal and it seems that this retardation will be compensated quickly using electronic insurance (Tajgardun , 2011: 78).

According to Fakhim Mohajer (12: 2009), insurance enjoys a special position in the country and comparing IPC in the country before and after the revolution indicates this fact, but it is obvious that maintaining the status and influence of the insurance in society directly depend on the volume of economic activity and its growth and prosperity. It should be noted that, according to them, this growth is not possible without a positive and direct attitude towards the insurance industry. However, in parts of the country, especially in underserved areas IPC is low. Thus, according to the above cases in this study, the authors tries to find ways of increasing IPC in various areas of property and liability in southern Kerman.

Thus, the main question raised in this research is what are the ways of increasing non-compulsory insurance penetration in different areas of property and liability?

Research Methodology

The research method is descriptive-survey and statistical population included all citizens, homeowners, businesspersons, shopkeepers, doctors, engineers, employers of Kahnooj, Jiroft and is Manoujan in 2013.

Sampling method of research is simple random and using Cochran's formula, a sample of 384 has been determined. In this study, a researcher developed questionnaire with 56 questions is used to identify ways of increasing insurance penetration in four types of insurance: fire insurance, earthquake insurance, insurance against flooding, liability insurance and solutions including advertising, proper pricing, marketing, applying Franchise, first loss, culture, education and awareness, making insurance electronic, insurance rates adjustment with the validity and reliability of 0.87 and 0.84 respectively.

Collected data was analyzed using SPSS20 with Friedman test and bivariate regression analysis.

Findings

Description demographic indices are given in Table 1.

Table 1: Distribution of respondents separating separately for each individual variable

Individual features		Frequency	Frequency percent
Sex	Woman	125	32.6
	Man	259	67.4
Education	Illiterate	9	2.3
	Less than diploma	43	11.2
	Diploma	129	33.6
	Associate Degree	65	16.9
	Bachelor	120	31.3
	MA/MS	8	2.1
	PhD	10	2.6
Age	Less than 25 years	71	18.5
	25 to 30 years	165	43
	31 to 40 years	105	27.3
	More than 40 years	41	10.7
Location	City	263	68.5
	Village	121	31.5
Income	Less than 500 thousands toman	143	37.2
	Between 500 thousand to one million toman	185	48.2
	Between one and two million toman	41	10.7
	More than two million toman	15	3.9

Rating the ways of increasing IPC in different areas of property and liability is calculated through the Friedman test. In addition, as the value of p (significance) is less than significant level of 0.000 and $\alpha=0.05$. Hence, the null hypothesis is rejected at this level. As a result, we can say that the solutions to increase IPC in different areas of the property and liability from the respondents' point of view are not the same. The results show that, given the average grade calculated, the priority of ways of increasing insurance penetration in different areas of the property and liability to citizens is as follows: making insurance electronic, insurance rates adjustment, advertising, culture, appropriate marketing, education and awareness, appropriate pricing, applying Franchise, and first loss (determining the ceiling for compensation) (table 2).

Table 2: Friedman test statistics to rank the solutions to increase IPC in different areas of property and liability

Solution	Mean rank	Rank
Advertisement	6.38	3
Proper pricing	4.16	7
Proper marketing	4.85	5
Applying franchise	2.41	8
First loss (determining the ceiling for compensation)	2.19	9
Culture	6.35	4
	Education and awareness	4.23
Making insurance electronic	7.79	1
Insurance rate adjustment	6.64	2
Frequency	384	
Chi square	1555.034	
Degrees of freedom	8	
Significance	0.000	

The effects of advertising, pricing, proper marketing, applying the franchise, first loss, culture, education, and awareness of citizens, making insurance electronic, and adjustment of insurance rates on property and liability IPC in various areas in southern Kerman have been obtained using bivariate linear regression. Based on the results of the regression calculated, p value calculated is less than significant level 0.01, so at this level, H_0 rejected, and linear regression model is significant. This means that advertising, pricing, proper marketing, determining applying franchise, first loss, culture, education and awareness of citizens, making insurance electronic, and adjustment of insurance rate significantly affect IPC in property and liability insurance in southern Kerman (Table 3)

Table 3: Coefficients of the regression model of the effect of advertising, pricing, proper marketing, determining applying franchise, first loss, culture, education, and awareness of citizens, making insurance electronic, and adjustment of insurance rate on IPC in property and liability insurance in southern Kerman

Variable	R ²	R ² _{adj}	Estimating B	SEM	β Standard estimation	The amount of t	P value
Advertising	0.062	0.06	0.069	0.014	0.249	5.033	0.000
Pricing	0.3	0.028	0.052	0.015	0.173	3.44	0.001
Proper marketing	0.028	0.025	0.045	0.014	0.166	3.299	0.001
Applying franchise	0.053	0.05	0.073	0.016	0.229	4.605	0.000
First Loss	0.079	0.077	0.091	0.016	0.281	5.725	0.000
Culture	0.07	0.068	0.061	0.011	0.265	5.378	0.000
Education and awareness of citizens	0.08	0.077	0.074	0.013	0.282	5.752	0.000
Making insurance electronic	0.085	0.082	0.052	0.009	0.291	5.939	0.000
Insurance rate adjustment	0.082	0.08	0.068	0.012	0.286	5.843	0.000

Conclusion

In our country, natural disasters such as floods and storms cause heavy losses every year, and every few years a severe earthquake brought devastation to one region of our vast country. Tens of thousands of innocent people are taken under the soil and makes many homeless and wandering. Indirect consequences of these events are wider and more harrowing than immediate human and financial losses. Poverty and helplessness caused by these events and problems, and social ills that follow them are more difficult than material losses. There is no doubt that human uses reason, wisdom, and ingenuity to cope with these events. However, the quality and intensity of some of them are in a way that the measures will have little effect in preventing them, so efforts and human ingenuity practically realized that with the use of equipment and facilities, the strength and capacity to bear losses increase (Parsamehr, 87: 2002). Cooperation and collaboration in helping to compensate for losses caused by adverse events are the most primitive responses that have been given to this need. As is clear, this need has a vital aspect and not a cultural one and parallel to the development of societies and increase in the risks of living, it develops. However, what is in Iran is that despite this critical need, property insurance does not have great demand.

Today, insurance is very useful in various fields and assets, and generally, policyholders cover anything that has material or life, etc. value. In this study, the researcher tries to study insurance penetration coefficient in different area of property and liability, where property insurance includes fire, flood, earthquake, etc. and liability insurance includes product and civil liability insurance.

The results of the research questions suggest different ways of increasing IPC in the field of property insurance (fire, flood and earthquake) and liability to citizens is as follows: making insurance electronic, insurance rates adjustment, advertising, culture, appropriate marketing, education and awareness, appropriate pricing, applying Franchise, and first loss. The results of the research findings are consistent with the results of Karimi (21: 2004) stating that hardware and software, network security, creating good communication networks, good culture, expert work force, organizational infrastructure, and legal infrastructure as the requirements of successful execution of electronic insurance. Moreover, the findings are also consistent with the results of Smith and Bukit (2006) that see the premium rates as effective on the participation of farmers in crop insurance project. The results are also consistent with the findings of Iravani et al. (144: 2006) and Mosayi, and Barati (65: 2009) all of whom see the offered strategies as effective in increasing IPC.

The results of hypothesis show that factors such as advertising, proper pricing, marketing, applying the franchise, first loss, culture, education and awareness, making insurance electronic, and adjustment of insurance rates are effective on property and liability insurance penetration coefficient in various areas in south Kerman. These findings are consistent with the findings of Iravani et al (144: 2006), Moses, and Barati (65: 2009), Karimi (2004), Smith and Bukit (190: 2006), Malek Mohammadi and Tajrishi (35: 2011) and Abbasi and Salehi (176: 2011). Given the role of advertising in today's world, one of the ways that can be used to expand insurance penetration among the citizens is the right and useful advertising, because by advertising, one can inform in the field of culture, and inform the public awareness about insurance benefits and encourage them to use property insurance. Moreover, reasonable pricing of the insurance, according to the value of goods and property can be very useful in the tendency of people to insurance, as citizens insure their properties with regard to economic benefit and the amount of compensation. In addition, marketing tailored to the cultural and geographical context can be effective in the tendency of citizens to property and liability insurance, because one of the reasons that people do not insure their possessions and goods is the lack of insurance and the capital market, especially in the villages where they live. One useful method applied in IPC is franchise, or more correctly the extent of the damage that the insurer is responsible for the appropriate discounts on premiums. This method causes the insurer not to have responsibility for small losses that require a lot of time the one hand, and on the other side, it strengthens the customer's attention to the rules of safety and firefighting equipment. Among other

useful methods in insurance is first loss (or more correctly determining a certain ceiling for any damages). In most cases, due to the scatter in properties insured the client is ready to pay the top amount for the maximum damage and in return use discount for insurance. Educating and informing the citizens is another factor that is effective in making people aware of the benefits of insurance and insurance products. This can be very effective, especially in rural areas, because usually people in rural areas due to various reasons such as low literacy, information, and relationships are less aware of the advantages and type of insurance. On the other hand, due to the increasing use of the Internet among citizens and lack of time most citizens would like to electronically conduct matters related to insurance. Of the factors that affect people's tendency to use property insurance is reducing insurance rates, this may be one of the reasons that citizens are less willing to insure property against natural and unnatural disasters- high rate of insurance price. Low literacy and illiteracy of some of the respondents to answer the questions of the questionnaire was the main limitations of the study.

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