RESEARCH ARTICLE

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Insurance Literacy and Financial Security: Understanding the Role of Consumer Knowledge in Purchase Decisions

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Abstract

This research examines how consumer knowledge affects decisions towards insurance purchases and provides a relationship between literacy and financial security. By focusing on the effect of financial literacy on insurance buying behavior, this study investigates crucial elements such as consumer awareness, trust, and the decision-making process. A mixed-methods strategy, which integrates both qualitative and quantitative research, is utilized to offer a thorough understanding of the topic. The study targets adults aged 18 and older, sampling 500 participants through stratified random sampling to ensure demographic diversity. Data is gathered using structured questionnaires that concentrate on consumer knowledge about insurance products, levels of financial literacy, and perceptions of financial security. Secondary data from existing research supplements the primary collection to create a theoretical framework. The objective of the study is to provide valuable insights that will enhance consumer education and decision-making in the life insurance sector. The expected findings will offer recommendations for insurers to improve their product offerings and better address consumer requirements. Limitations of the study include its focus on consumers already knowledgeable about insurance and the possibility of self-report biases.

Keywords: Consumer knowledge, insurance purchase decisions, financial literacy, financial security, consumer behavior, insurance products, life insurance.

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Introduction:

Human life is regarded as the most precious asset, and life insurance offers financial security against uncertainties like death or accidents *(Chaudhary, 2016)*. Although death is unavoidable, its timing is unpredictable, making life insurance a vital tool for financial stability. Insurance aids in mitigating the risks linked to unforeseen events, providing individuals and their families with financial assistance in such situations *(Balachandran et al., 2011)*. By shifting the financial burden of loss to an insurer, life insurance allows individuals to participate in activities without the worry of substantial financial distress. The insurance sector plays an essential role in economic advancement as it assists individuals in coping with significant losses from unexpected occurrences. Life insurance enables individuals to ensure the future financial security of their families in case of untimely death, highlighting the importance of assessing financial needs when choosing life insurance policies. *Showers and Shotick (1994)* pointed out the difficulties consumers encounter when determining their financial requirements and selecting an appropriate insurance plan. Likewise, *Ulbinaite, Kucinskiene, and Moullec (2011)* stressed that the decision to purchase life insurance is intricate for both consumers and insurers. Research by *Marco (2008)* illustrated that both life and non-life insurance positively influence economic growth, underscoring the necessity of comprehending consumer preferences when developing insurance products that promote economic progress. The growth of the insurance industry is crucial for economic development, and life insurance is particularly important in providing financial assistance to families during periods of loss. It aids in debt

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repayment, wealth replacement, savings, and income substitution *(Skipper & Black, 2000)*. Grasping consumer behavior is vital for businesses, especially in forecasting how customers make purchasing choices. Analyzing consumer purchase behavior enables companies to customize their marketing approaches to meet customer demands *(Radu, 2022)*. These purchasing decisions are shaped by various economic, psychological, social, and cultural influences, making it necessary for insurers to understand their customers' needs and expectations. In Myanmar, the life insurance market has experienced sluggish growth due to low consumer awareness, affordability challenges, subpar customer service, and a lack of suitable products. The life insurance sector must identify the elements that impact consumer buying decisions in order to enhance its market performance. According to the Myanmar Insurance Industry (2021), life insurance premiums comprised only 17% of the total insurance premium volume in 2019-2020, signifying potential for expansion. This research aims to pinpoint the main factors that influence life insurance consumption in Yangon and assess the role of income in moderating these factors regarding consumer purchasing decisions.

With the advancement of technology and market innovations, the financial sector has become increasingly intricate, providing consumers with a diverse array of complex financial products. Nonetheless, these products necessitate that consumers are knowledgeable and financially savvy to make informed choices. Financial literacy significantly affects individuals' finance management, including making knowledgeable decisions about insurance products. Despite its significance, many consumers lack the essential understanding of insurance, which can obstruct their capability to assess and select suitable policies *(Sustainability, 2019)*. Consumers who possess a higher level of insurance literacy are more inclined to make educated choices, while those with limited knowledge may view insurance as costly, confusing, and challenging to acquire. This study intends to investigate the influence of financial literacy on purchasing behavior related to personal insurance, particularly among literate consumers in India. It will analyze the direct and indirect impacts of insurance literacy on purchasing decisions, emphasizing the importance of specialized education to enhance insurance literacy. The findings of this study are expected to contribute valuable insights into how insurance providers can better meet the needs of consumers and improve their understanding of life insurance.

Literature Review

Previous studies underscore the significance of financial literacy in decision-making processes. Research conducted by *Lusardi and Mitchell (2011)* indicates that individuals who possess greater financial literacy tend to engage in retirement planning and make sound investment choices. When it comes to insurance, consumers with elevated insurance literacy can more effectively evaluate risks and select suitable coverage *(Gutter & Copur, 2011)*. A lack of awareness, complicated product structures, and insufficient communication from insurers are major obstacles to achieving insurance literacy *(Brown & Graf, 2013).* These challenges often lead consumers to acquire inappropriate products or remain inadequately insured. Insurance literacy plays a crucial role in enhancing financial security by enabling consumers to make choices that correspond with their financial objectives and risk profiles *(Hastings et al., 2013)*. On the other hand, inadequate insurance literacy can result in financial instability, especially when unexpected events occur. Educational programs and regulatory measures have been found effective in boosting insurance literacy. For example, simplified product disclosures and specialized financial education initiatives have shown success in improving consumer comprehension *(Willis, 2011)*. *Sanjeewa Weedige, Ouyang, Gao, and Liu (2019)* examined the vital issue of insurance literacy and its effect on the purchasing decisions regarding personal insurance among Sri Lanka's middle-class consumers. The product's design and distribution strategies are uniquely tailored, often involving community-based premium models and intermediary agencies such as NGOs or SHGs. According to *(Mathur, 2012)* micro-insurance targets individuals who are unable to access mainstream insurance due to affordability and awareness constraints. The research emphasized that although financial literacy is broadly acknowledged, it does not inherently equate to insurance literacy, which necessitates more targeted education. The authors discovered that insurance literacy has a direct effect on purchasing intentions and indirectly influences them through factors such as trust, perceived benefits, and positive attitudes toward insurance. The study also identified a notable difference in insurance literacy, trust, and perceived value of insurance between individuals with and without insurance coverage. Through variance-based structural equation modeling, the authors illustrated that cognition-based trust affects purchase intentions solely through its mediators. The results imply that enhancing insurance literacy is essential for encouraging personal insurance as a strategy for achieving financial security and well-being, providing valuable insights for researchers and policymakers *(Sanjeewa Weedige, Ouyang, Gao, & Liu, 2019). Ndhlovu (2020)* examined the effect of financial literacy, attitudes, and digital literacy on intentions to purchase insurance products in South Africa. The findings revealed a positive impact of financial education on financial literacy, which aligns with *Wagner's (2019)* conclusions that individuals who receive financial education tend to perform better in financial literacy assessments. The study also indicated a significant link between financial literacy and the perceived usefulness of company finance blogs, showing that consumers regard company-managed blogs as beneficial. Additionally, there was a positive association between financial literacy and digital literacy, which was statistically significant. While a positive relationship between financial literacy and attitudes toward insurance products was identified, along with purchase intentions, these connections were not statistically significant. *Hasan (2015)* carried out a detailed study to understand how Foreign Direct Investment (FDI) has influenced the insurance sector in India. The study points out that FDI has significantly increased competition in the industry, encouraging domestic companies to improve their capabilities and place greater emphasis on customer-focused services. Conversely, the perceived usefulness of company finance blogs was positively linked to intentions to purchase insurance, consistent with consumer behavior theory. Moreover, the research highlighted that attitudes toward insurance products significantly and positively influenced purchase intentions. However, in contrast to expectations, digital literacy negatively affected insurance product purchases, which contradicted earlier findings and requires further investigation. *Samajpati (2012)* presents a focused case study that looks into how Unit Linked Insurance Plans (ULIPs) have performed in the Indian insurance market. The study takes into account important factors like fund performance, net asset value (NAV) trends, associated costs, and the returns received by policyholders. It highlights that although ULIPs have become popular due to their flexible features and market-linked returns, their overall performance largely depends on how well the funds are managed and how the market behaves. Lastly, the study revealed that digital literacy did not moderate the relationship between financial literacy and insurance product purchases, providing valuable insights for future studies, particularly within the South African context *(Ndhlovu, 2020). Tumengkol and Indrajaya (2020)* investigated the influence of financial literacy on consumer intentions to purchase traditional life insurance products in Indonesia, focusing on the difficulties faced by life insurance firms due to stringent regulations imposed by Indonesia's Financial Services Authority (OJK) on unit-linked insurance offerings.This study fills a research gap by providing insights into how financial literacy influences the purchasing behavior of consumers, particularly in the context of traditional life insurance products.

The researchers introduced a framework for investigation that outlines essential elements including financial literacy, attitudes, subjective norms, and perceived behavioral control, all of which influence consumer purchase intentions. Although the study provides valuable theoretical insights, it indicates a need for additional empirical research, particularly to explore the impact of financial literacy on younger demographics such as Generation Z. The conclusions aim to assist life insurance companies in comprehending consumer behavior as they shift from unit-linked insurance products to traditional life insurance offerings *(Tumengkol & Indrajaya, 2020). Naw (2023)* examined the elements influencing consumer choices regarding life insurance products in Myanmar, emphasizing social factors, insurance awareness, consumer attitudes, financial literacy, and the moderating role of income. The research revealed that social influences, including suggestions from insurance agents and information obtained through social media, played a significant role in shaping purchase decisions. Additionally, both insurance awareness and consumer attitudes had beneficial impacts, with consumers displaying a strong grasp of life insurance and recognizing its advantages.

Nevertheless, financial literacy appeared to have little effect on purchasing choices, indicating that insufficient financial education might limit consumers' comprehension of insurance products. The study determined that income moderated the relationship between the factors and purchase decisions, with increased income levels enhancing the probability of acquiring life insurance. *Naw (2023)* advised that insurance companies should prioritize consumer education, especially through agents and social media, to improve insurance awareness and mitigate the financial literacy shortfall, particularly in rural regions. Furthermore, the study urged for additional research to investigate the effects of demographic factors and the decision-making process following a purchase.

Objectives

- To assess the impact of consumer knowledge on insurance purchase decisions.
- To examine the relationship between literacy and financial security.

Methodology

The study will follow a descriptive research design. This design helps in understanding and explaining the relationships between consumer knowledge, insurance decisions, literacy, and financial security. A mixed-methods approach, combining both qualitative and quantitative research methods, will be used for a more comprehensive understanding.

Population and Sampling

Population:

The target population will include adults aged 18 and above who are potential insurance buyers or have purchased insurance products within the past 12 months.

Sampling Technique:

A stratified random sampling method will be used to ensure representation across different demographics such as age, income level, education, and employment status.

Sample Size:

A sample size of 500 participants has been decided on basis of past studies to ensure reliable results.

Data Collection Methods

Primary Data:

Questionnaires:

A structured questionnaire has been developed to gather quantitative data on the following:

- Consumer knowledge about insurance products (e.g., types of insurance, policy features, costs, etc.).
- Factors influencing insurance purchasing decisions (e.g., cost, trust, literacy, understanding of risks).
- Financial literacy levels (e.g., understanding of financial terms, budgeting skills).
- Perceived financial security and how insurance affects it.

Secondary Data:

Review of existing literature and reports on consumer behavior, insurance purchase trends, and financial literacy has been performed to frame the theoretical context of the study.

Limitations:

- The study will focus on consumers who are already familiar with or have purchased insurance, which may limit the generalizability of findings to non-insured individuals.
- Financial literacy and consumer knowledge levels may vary significantly across regions, so findings may differ depending on the sample's geographical location.
- The study may be influenced by self-report biases,

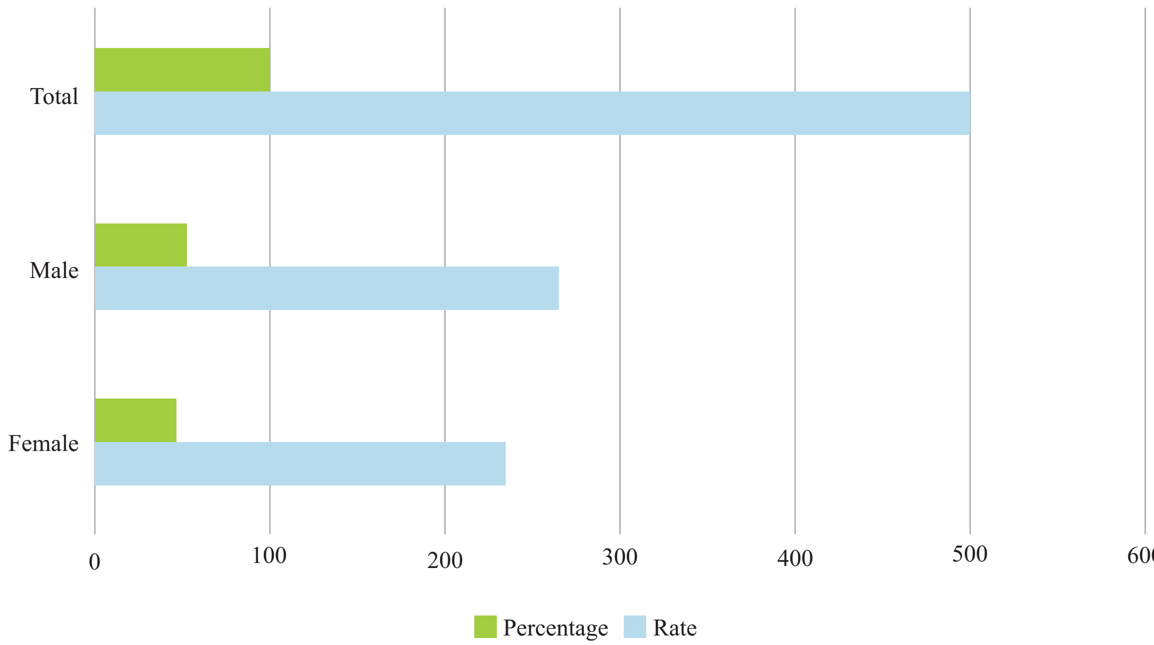
particularly in assessing financial knowledge and security.

Interpretation and Findings

Table 1: Gender Response

Gender	Rate	Percentage
Female	235	47.00
Male	265	53.00
Total	500	100

Graph 1



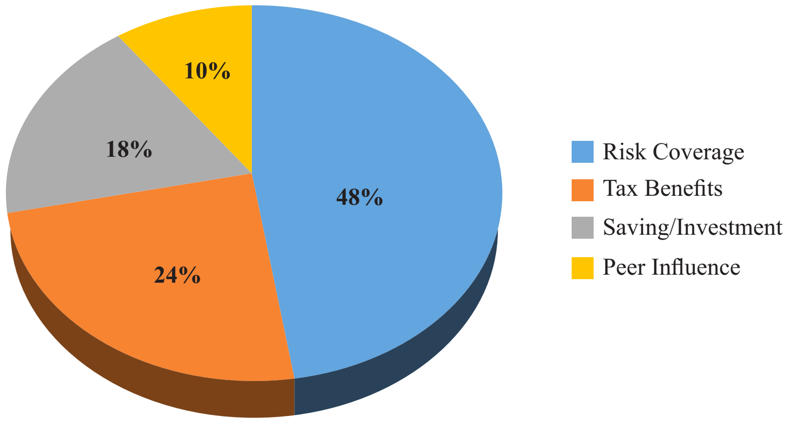
Above Table & charts indicate the gender distribution among the respondents, where males constitute 53.00% (235) and females make up 47.00% (235) of the total participants. This indicates a slightly higher male representation in the study. The above data suggests that both genders were well-represented, ensuring diverse perspectives. Such a distribution helps provide balanced insights into personal insurance buying behaviors.

Impact Of Consumer Knowledge On Insurance Purchase Decisions:-

Table 2: Impact of consumer knowledge on insurance purchase decisions.

Consumer Knowledge on Purchase Decision	Frequency	Percent
Risk Coverage	238	47.6
Tax Benefits	122	24.4
Savings/Investment	90	18.0
Peer Influence	50	10.0
Total	500	100.0

Chart 2



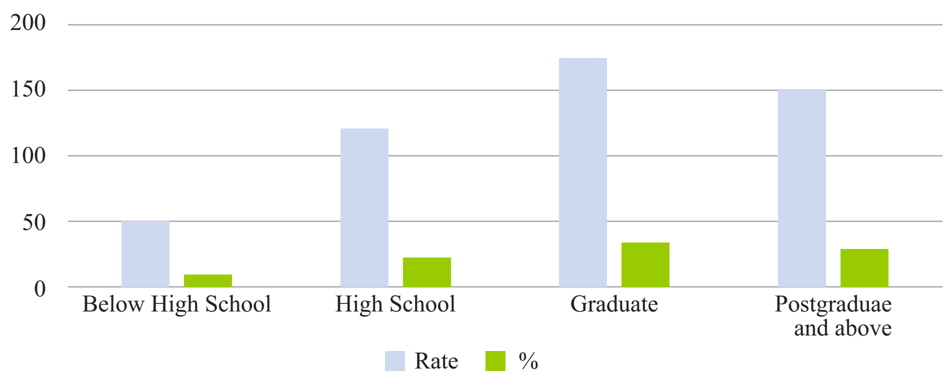
Above data provides information that 47.6% (238) of respondents purchase insurance primarily for risk coverage, followed by 24.4% (122) who are motivated by tax benefits. Savings and investment serve as the primary reason for 18.0% (90) of respondents, while 10.0% (50) are influenced by peer recommendations such as influence of friend circle, advertisement, agent advice, etc. Thus above data provides influence that risk coverage is the most important factor motivating insurance purchases, followed by financial benefits like tax savings also playing a significant role.

Relationship between literacy and financial security: -

Table 3: Literacy rate of respondent

Educational Qualification	Rate	%
Below High School	51	10.2
High School	122	24.4
Graduate	175	35.0
Postgraduate and above	152	30.4
Total	500	100.0

Chart 3



The data above illustrates the statistical trends related to educational attainment, revealing that the largest group consists of graduates (35.0%), followed by individuals with postgraduate or higher qualifications (30.4%). Those who have completed high school represent 24.4%, while 10.2% have education levels below high school. This distribution reflects a predominantly educated sample, with nearly two-thirds holding at least a graduate degree. The variety in educational backgrounds offers significant insights into the impact of education on awareness and preferences regarding insurance.

Conclusion

The research emphasizes the vital importance of consumer awareness and financial literacy in shaping insurance purchasing behaviors and overall financial stability. It shows that individuals mainly acquire insurance for risk protection, while other elements such as tax advantages and saving/investment possibilities also play significant roles. Although peer influence is less significant, it still impacts consumer decisions, highlighting the relevance of external influences like recommendations and marketing. Moreover, the research highlights the link between education levels and financial stability. A significant portion of respondents possessed higher educational qualifications, likely enhancing their comprehension of financial products, insurance included. This improved financial literacy leads to more informed choices and potentially enhanced financial security. People with higher educational levels often report feeling more financially secure, as they are better prepared to handle financial choices and plan for the future.

The results indicate that both formal education and financial literacy initiatives can empower consumers to make superior, more educated decisions regarding insurance. As the insurance sector continues to develop, it is vital to educate consumers on the significance of insurance and the range of options available. This understanding not only assists in the decision-making process but also fosters a heightened sense of financial responsibility and long-term security. In summary, the study illustrates that enhancing consumer knowledge, especially in financial literacy, is crucial for promoting informed insurance choices and ensuring improved financial well-being. Insurance firms and policymakers should explore methods to educate consumers about the advantages and significance of insurance, specifically emphasizing financial literacy to encourage both short-term and long-term financial stability.

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