

The Effect of Avoidance of Risk and Uncertainty on Decision-Making to Purchase Insurance

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ABSTRACT

Insurance is one of the of creative and farsighted human achievements to reduce risk and ensure financial and mental security which is associated with a high degree of risk and uncertainty compared with other services and products. Because of this fact, the present study was to investigate the effect of avoiding risk and uncertainty on the decision to purchase insurance. The current study is an applied research that is conducted by descriptive-survey method. The population consists of insurers of Rasht Life Insurance Company, Iran. Non probability sampling method was used for sampling. Questionnaires were used for data collection, and their validity was confirmed using professors and expert ideas and its reliability was measured by Cronbach's alpha. The results indicate that avoidance of risk and uncertainty is effective on individuals' perceptions (risk, transparency, and perceived protection). Risk avoidance is also effective on uncertainty avoidance. Furthermore, perceived transparency is effective on perceived risk and protection. And the perceived risk has a direct effect on purchase decision-making. However, the direct relationship between perceived transparency and protection and purchase decision-making was not confirmed.

KEY WORDS: Risk Avoidance, Uncertainty Avoidance, Perceived Risk, Perceived Transparency, Perceived Protection.

1. INTRODUCTION

Today, insurance industry is an important factor in the development of countries, and the development of insurance is considered an indicator of their development. Insurance has a prominent role along with other economic sectors, and by covering possible losses arising from economic activities, increases investment incentives. Increased investment also has a major role in the development of a country. Among different types of insurance policies, life insurance policies are privileged. Life insurance in the current world is an important economic tool used for many purposes. Of life insurance influences are providing favorable conditions for individuals and their relatives in the future, directing individuals' minor capitals toward appropriate substrates, stimulating economic sectors.

Statistics show that the per capita share of life insurance is very low in relation to non-life insurance in Iran and is at a very low level compared with the world [1]. The most important factors that can help to improve this unfavorable result are proper marketing and understanding consumer attitudes and buying behaviors. In fact, consumers today are divided into different groups; in the market there are different tastes, and these tastes are constantly changing [2]. Every decision that a consumer makes, involves a phenomenon that psychologists call it attitude. The attitude of a person reflects the way he/she thinks, feels, and reacts to his/her surroundings (as to a store, product, or TV program) [3]. In the first encounter, consumers receive information through their senses; at attention phase, they focus on the stimulator and consider a certain capacity to process it. At the understanding phase, they organize and interpret the information to find its meaning [2]. One of the effective factors in the analysis of consumer behavior is knowledge and prediction of consumers' attitude toward various products. In fact, the attitude of consumers play an important role in the analysis of consumers' buying behavior and their decision to purchase [3].

On the other hand, decision-making in the real world influenced by risk and uncertainty is one of the most challenging areas of research. The common goal of this study field is better understanding of consumers' decision-making, and thereby achieving accurate theoretical and practical results [4]. The present research assesses the effect of avoiding risk and uncertainty on decision-making to purchase insurance. This research seeks to answer the following question: Can we, in a causal model, state the effect of risk and uncertainty avoidance on decision-making as Iran Insurance insurers' purchase of life policy?

2. LITERATURE REVIEW

The steps that a buyer pursues to decide what type of products to buy is defined as purchase decision-making process [5]. By definition, according to Chiefman and Kanuk in 2004 decision-making is the selection of a way from two or more options possible. When a person has a choice between buying or not buying, choosing between brand A or brand B, or a choice with respect to spending time to do job A or B, it is said that the person is in a position to decide [6].

2.1. Risk and lack of consumer confidence

Considering the positive correlation between the length of customer relationship and customer's perception of reliability, the need to understand the risk perceived by customers and managing them is felt more in order to reduce risk and attract customers' confidence [7]. Risk and feeling danger plays important roles in the behavior of consumers and are used as valuable factors in explaining consumers' information seeking behavior and purchasing decision-making [4]. In addition, while financial theories suggest that risk and return are positively associated, Diacon and Ennew [8] state that, under certain conditions, the consumer's perceived risk and return are negatively correlated.

Literature review confirms consumers' risk perception associated with emotional feelings in perception of risk and thereby decision-making [4].

2.2. Risk avoidance and factors affecting it

Risk avoidance can be more often considered a reasonable variable, reflecting the concept that consumers rely mostly on their logic rather than emotion [4]. Since almost some of the imagined risk is inherent in all consumers' decisions, individuals should have procedures to help them in making decisions with confidence. An important theory in this regard is that the consumer compare his perception of the risk through a kind of criterion which shows that how much risk is acceptable [6]. Some of the factors that are effective in reducing consumer risk (risk avoidance) are as follow:

A. Perceived quality: some experts believe that the perceived quality is the correspondence rate between the perceived performance and customer expectations. Some other researchers consider perceived quality as the result of satisfaction. The perceived value can be positively affected by the perceived quality [9].

B. Perceived value: perceived value is the first factor influencing the willingness to buy. The importance of the perceived value of a product is focused on the fact that it determines the intensity if consumer willingness to purchase; for example, the greater the perceived value, the more willingness to buy [10]. Marketing activities are mainly based on customer value. Perceived value in marketing is defined as the customer evaluation of the costs and benefits gained from the purchase of a product or service. Results of previous studies show that the perceived value increases customer satisfaction and future purchases. Perceived value is a factor that is addressed after perceived quality, and perceived quality can be considered a precondition variable for value [9].

C. Benefit-based value: Babyn et al., in 1994 suggest that customers know benefit-based value as related to reasonable purchasing behavior and related to the duty which is emanated from conscious results including purposeful purchase [11].

D. The role of confidence in risk reduction: confidence can reduce the level of perceived risk in making purchasing decisions [7]. Social psychologists also consider confidence as the main factor reducing risk [12]. Confidence can be defined as a person's tendency to vulnerability of the other side on the belief that the second side has with respect to the first side's righteous, openness, concerns, and reliability. This definition indicates that confidence is only related to unspecified conditions beyond the control of parties involved in the transaction to acquire each other's knowledge [13].

2.3. Uncertainty avoidance

Uncertainty avoidance is a cognitive variable and includes paying attention to the rules and regulations and knowing details of expenses [4]. Marketers must do more than just exposing consumers to information; they need to force their consumers according to the information. Once the attention occurs, a cognitive capacity is allocated to the stimulus so that the information is consciously processed [6]. Uncertainty is one of the aspects of the external environment which occurs as a result of three contexts:

1. Lack of information on the environmental factors associated with the decision context;
2. Inability to determine possibilities with any degree of confidence
3. Lack of information about the costs associated with a decision or a false action [14].

2.4. The impact of emotions on decision-making process under risk and uncertainty

Research on judgment and decision-making under risk and uncertainty conditions has a basic contribution in theory and empirical aspect. Generally, scientific literature states two cognitive and emotional approaches for assessing human judgment and decision-making under risk and uncertainty. Expected Utility Theory [15, 16] and Behavioral Perspective Theory [17] confirm the importance of a framework for cognitive approach. In both theories, information on values and potential possibility of results is considered based on expectations. Deviation and dichotomy between cognition and feeling is assessed through risk context and the proposition in that context. The behavior of decision-maker is often the result of preferred emotional response to cognitive concerns [4].

2.5. Perceived risk

Perceived risk, as consumer perception of general negativeness of an action process, is defined based on the evaluation of homogeneous negative consequences and the probability of consequences. By definition, the imagined risk is made of two basic negative concepts of a decision and the occurrence probability of these consequences. Huber and Schlager [4] define perceived risk as the possibility of creation of various problems in case of purchasing a product, financial problems after using the product, the loss of large amounts of capital in case of lack of product or service usage,

and creation of serious consequences if the product is malfunctioning. In addition, it should be noted that individuals' perception is not necessarily complete and rational and can be affected and may change.

2.6. Perceived transparency

Today's changing world requires organizations to look for new tools to survive. And one of the tools that can help organizations to meet their goals is organizational transparency [18]. Perceived transparency means a customer's recognition of product or service and its application for him and the reason for the payment of such expenses for the service; in this area, giving sufficient information to consumers would be effective [4].

Balkin (1992) identified three types of transparency (information, participation, and accountability). On the other hand, Hees described transparent organization as follows: public access to all information, whether positive or negative which is publishable legally, accurately, timely, balanced, and without ambiguity to increase the public reasoning ability and organizations accountability in relation to their actions, policies, and practices.

2.7. Perceived protection

Perceived protection is a sense of security that a product or service gives to the consumer. That is how can a product prevent problems and consequences of accidents and protect the consumer [4]. Perceived security is related to threats that occur because of a condition, context, or an event related to economic problems or network resources in the form of destruction, disclosure, modification of data, deprivation of service or fraud, waste, and abuse [14].

Based on the theoretical foundations of the study, the conceptual model of the study as Figure 1:

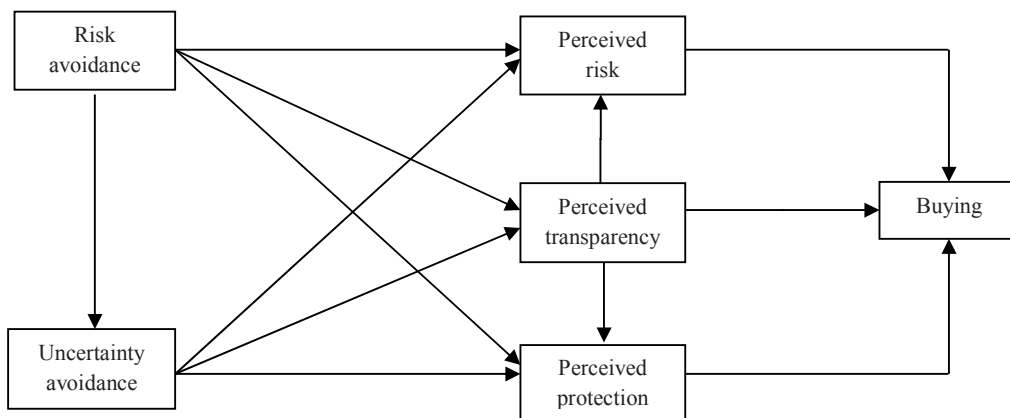


Figure 1: The conceptual model [4]

According to the conceptual model presented in Figure 1, the research hypotheses are as follows:

1. The avoidance of risk impacts perceived risk.
2. The avoidance of risk impacts perceived transparency.
3. The avoidance of risk impacts perceived protection.
4. The avoidance of uncertainty impacts perceived risk.
5. The avoidance of uncertainty impacts perceived transparency.
6. The avoidance of uncertainty impacts perceived protection.
7. The avoidance of risk impacts the avoidance of uncertainty.
8. Perceived transparency impacts perceived risk.
9. Perceived transparency impacts perceived protection.
10. Perceived risk impacts purchase.
11. Perceived transparency impacts purchase.
12. Perceived protection impacts purchase.

3. RESEARCH METHODOLOGY

The present study is an applied research conducted as a descriptive-survey research study. The statistical population consists of all life insurers of Iran Insurance Company in Rasht from 2009 to the end of the first six months of 2014. According to the data, the population size is 5000. An available non-probability sampling method was used and the sample size was determined 384. The questionnaire used in this study comes from the article by Huber and Schlager [4], and questions related to the purchasing variable (dependent variable) is from an article by Rintamaki et al. [18]. Cronbach's alpha coefficient of all variables is above 0.7 and was obtained in an acceptable level, indicating the reliability of the measurement tool.

4. EMPIRICAL RESULTS & DISCUSSIONS

In order to evaluate the analysis of data and test the measurement and structural model of this study, structural equations modeling is used. Analysis of covariance structures or causal modeling is one of the main analysis methods of multivariate complex structures; their main characteristics are the analysis of several independent and dependent variables. This method contains a set of statistical methods for modeling relationships between independent and dependent variables (structural model) and hidden and observable variables (measurement model).

4.1 Survey of research model; path coefficients

In this section, the research conceptual model is evaluated in standard estimation status and path coefficients are determined. Figure 2 shows the research model in the standard estimation state:

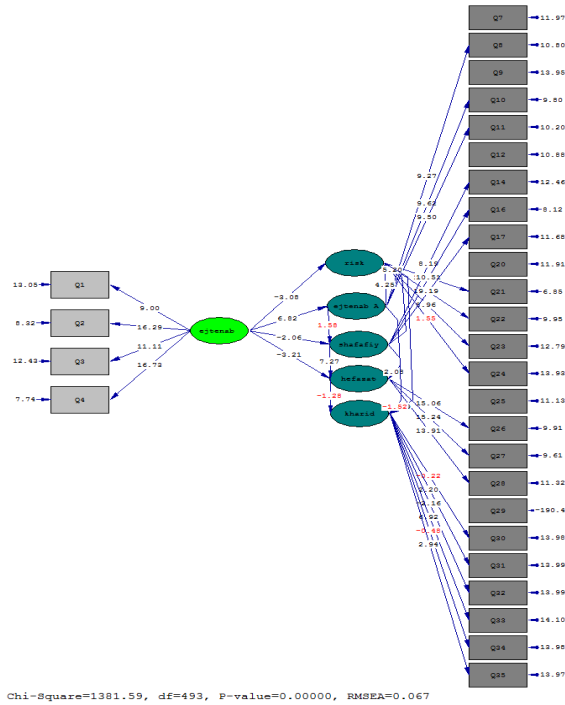


Figure 2: Conceptual model; significant numbers

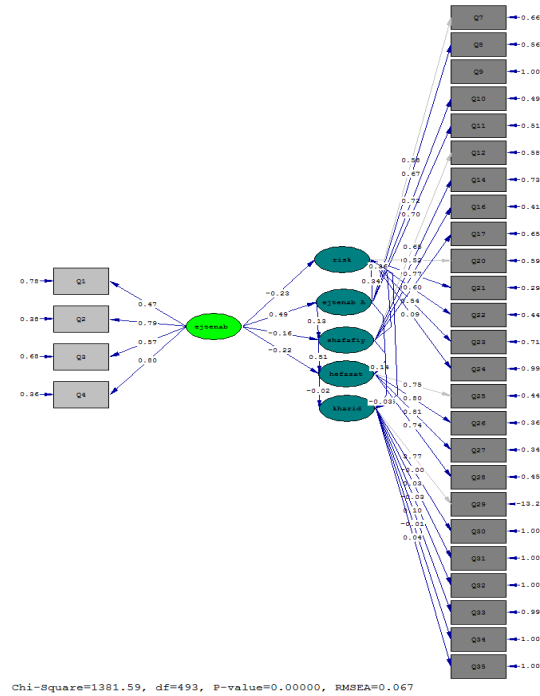


Figure 3: Conceptual model; path coefficients

4.2 Evaluation of model fit

Model fit determines the degree to which sample variance-covariance data support structural equation model. Model fit measurement is presented; in this study, the most important indices of the model are investigated:

Table 1: The results of fit model

CFI	NNFI	NFI	AGFI	GFI	RMSEA	X ² / df	Fit index
Higher than 0.95	Higher than 0.95	Higher than 0.95	Higher than 0.9	Higher than 0.9	Lower than 0.05	Lower than 3	Acceptance range
0.98	0.98	0.96	0.96	0.98	0.067	2.80	Calculated value

All indices show that the research model has a goodness of fit.

4.3 Study hypotheses

The results of the hypotheses are presented separately in the following table according to the research directions:

Table 2: Research hypotheses

Hypothesis	Path		T-statistics	Path coefficient	Hypothesis results	Compared to similar studies
	From	To				
1	Risk avoidance	Perceived risk	-3.08	-0.23	Confirmed	Carin Huber and Tobias Schlager [4]; Diacon and Ennew [8]
2	Risk avoidance	Perceived transparency	-2.06	-0.16	Confirmed	
3	Risk avoidance	Perceived protection	-3.21	-0.22	Confirmed	
4	Uncertainty avoidance	Perceived risk	4.25	0.34	Confirmed	
5	Uncertainty avoidance	Perceived transparency	2.42	0.19	Confirmed	
6	Uncertainty avoidance	Perceived protection	2.08	0.14	Confirmed	
7	Risk avoidance	Uncertainty avoidance	6.82	0.49	Confirmed	
8	Perceived transparency	Perceived risk	5.20	0.36	Confirmed	
9	Perceived transparency	Perceived protection	7.26	0.51	Confirmed	
10	Perceived risk	Buying	2.99	0.02	Confirmed	
11	Perceived transparency	Buying	-1.52	-0.03	Rejected	
12	Perceived protection	Buying	-1.28	-0.02	Rejected	

5. CONCLUSION

With regard to the fact that avoidance of risk had a negative effect on perceived risk (first hypothesis) and perceived risk had a positive effect on willingness to purchase (tenth hypothesis), thus by reducing the amount of risk avoidance, the willingness to buy increases. Therefore, it is recommended that insurance companies explain their customers what problems will be prevented in the future in return of the cost paid for the purchase of life insurance, and what concessions insurance will have for the customers to ensure them that the cost is justified, thereby encouraging the customers to purchase. Considering the fact that avoidance of uncertainty has a positive effect on perceived risk (fourth hypothesis) and perceived risk has a positive effect on the propensity to buy (tenth hypothesis); as a result, by the increase in the avoidance of uncertainty, the willingness to buy also increases. Many customers before buying investigate about life insurance, but due to the lack of access to proper and adequate information or coming up with general information and lack of knowledge about the details, they doubt and even give up purchase. Therefore, it is suggested that insurance companies respond to customers' questions patiently, by presenting brochures containing details, conditions, price, and life insurance benefits, and also by mentioning these points in life insurance contracts reduce uncertainty of customers about the purchase so that they can easily purchase.

Since perceived transparency has a positive effect on perceived risk (eighth hypothesis) and perceived risk has a positive effect on the propensity to buy (tenth hypothesis), hence by increasing perceived transparency, the willingness to buy also increases. Therefore, it is recommended that insurance companies by explaining the benefits and conditions of life insurance and the purchase cost for customers, help them to know about insurance and respond to their questions. Also, by providing simple but attractive brochures containing detailed information about life insurances create a desire in customers.

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