DETERMINANTS OF HOME INSURANCE AVOIDANCE: FINANCIAL, PSYCHOLOGICAL, AND TRUST-RELATED FACTORS IN INDIA

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Abstract: Despite the financial security offered by home insurance, a significant proportion of homeowners in India choose not to purchase it. This study investigates the underlying factors influencing such decisions. Using a survey-based approach and statistical factor analysis, six primary determinants were identified: limited financial capacity, perceived risk, lack of trust, reliance on alternative risk management methods, psychological biases, and inadequate awareness. The findings highlight the necessity for targeted policy interventions, enhanced consumer education, and improved transparency in the insurance sector to increase adoption rates.

Keywords: Home insurance, financial limitations, perceived risk, awareness, trust, behavioral factors.

I. INTRODUCTION

Home insurance safeguards property owners against potential losses from events such as fire, burglary, and natural disasters. Despite its importance, uptake in India remains minimal due to multiple socio-economic and psychological factors. Understanding these influences is vital for insurance providers and policymakers seeking to expand market penetration.

RESEARCH OBJECTIVES

1. To assess the current status of home insurance adoption in India.
2. To examine the factors influencing homeowners' decisions to forego home insurance.

II. LITERATURE REVIEW

Prior research indicates that home insurance decisions are shaped by behavioral biases, financial literacy, trust perceptions, digital access, income levels, gender perspectives, alternative financial safety nets, policy interventions, and past experiences with disasters. Studies by Choudhury & Das (2024) and Singh & Patel (2022) emphasize the impact of loss aversion and optimism bias. Gupta et al. (2023) demonstrate a positive link between financial literacy and insurance uptake, while Ramesh & Iyer (2023) and Sharma & Nair (2020) note that low trust and claims skepticism hinder adoption. Other works highlight affordability issues (Kumar & Verma, 2021), the role of digital tools (Mehta & Bose, 2021), and the influence of previous disaster exposure (Rajan & Krishnan, 2018).

III. METHODOLOGY

This research follows a quantitative design. Data were gathered through structured questionnaires from 298 respondents. Factor analysis, supported by the Kaiser-Meyer-Olkin (KMO) test and Bartlett's Test of Sphericity, was employed to identify latent determinants. The KMO value of 0.904 and a significant Bartlett's test ($p < 0.001$) confirmed the dataset's suitability for factor extraction.

Principal Component Analysis (PCA) revealed six key factors explaining 78.36% of the total variance: awareness and knowledge gaps, financial constraints, risk perception, alternative risk strategies, trust issues, and psychological influences. Gender-based t-tests indicated significant differences in perceptions of financial constraints and trust, with women reporting higher concerns in both areas.

IV. DISCUSSION

Findings show that affordability remains a major barrier, particularly for middle-income households. Many participants underestimated potential risks or relied on informal coping mechanisms, diminishing the perceived need for formal insurance. Skepticism toward insurers, driven by concerns over hidden clauses and claim rejections, further discouraged adoption. Addressing these challenges requires affordable policy options, transparent practices, efficient claim handling, and sustained awareness campaigns.

V. CONCLUSION

This study underscores the multifaceted nature of home insurance avoidance in India. Tackling financial, psychological, and trust-related barriers, along with closing knowledge gaps, is essential for increasing adoption. Future research should investigate the combined effect of these factors to inform more integrated intervention strategies.

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