



Models for Segmenting Life Insurance Customers: An Analysis

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Abstract

Customers' expectations, needs and desires have changed substantially over the years. A single product or service offered by companies can no longer satisfy their wide array of needs. 'Customization' of products and services is the buzzword of today's businesses which has completely replaced the older concept of 'standardization'. However, it is also impossible to produce customized and distinctly unique products for each and every customer which gives birth to the need of market segmentation. Life insurance being highly intangible in nature is much more complicated and difficult to be perceived than the physical or tangible products. Life insurance has a vast potential market all across the world and our nation. But, the changing socio-cultural dynamics of the population has posed great challenge in front of the life insurance service providers in identifying the needs properly and incorporating the solutions for the same in their products. The present study is a modest attempt to study some selected existing models of market segmentation related to life insurance and propose an easily perceivable and implementable model.

Keywords: Market, segmentation, model, life insurance.

Introduction

As rightly said that gone are those days when enterprises used to serve their customers with homogenous products. The customers' of 21st century demands for innovative and unique products which perfectly fit into their needs. 'Customization' of products and services is the buzzword of today's businesses which has completely replaced the older concept of 'standardization'. However, it is also impossible to produce customized and distinctly unique products for each and every customer. This has led to the emergence of the concept of market segmentation.

Market segmentation consists of taking the total heterogeneous market for a product and dividing it into several sub-markets or segments, each of which tends to be homogeneous in all significant aspects" (S. A. Sherlekar, 2006).

According to Charles W. Lamb and Carl McDaniel (2003, p. 228), the first step in segmenting markets is to "select a market or product category for study". It may be a market in which the firm has already occupied a new but related market or product category, or a totally new one. The second step is to "choose a basis or bases for segmenting the market". This step requires managerial insight, creativity and market knowledge. There are no scientific procedures for selecting segmentation variables. However, a successful segmentation plan must produce market segments which meet the four basic criteria: "substantiality, identifiability, accessibility, and responsiveness". The third step is "selecting segmentation descriptors". After choosing one or more bases, the marketer must select the segmentation descriptors. Descriptors identify the specific segmentation variables to use. The fourth one is to "profile and analyze segments". The analysis should include the segment's size, expected growth, purchase frequency, current brand usage, brand loyalty, and long-term sales and profit potential. This information can then be used to rank potential market segments by

profit opportunity, risk, consistency with organizational task and objectives, and other factors which are important to the company. The fifth step is to "select target markets". This step is not a part of the segmentation process but a natural result of it. It is a major decision that affects and often directly determines the firm's marketing mix. The last one is "designing, implementing and maintaining appropriate marketing mixes". The marketing mix has been described as product, distribution, promotion and price strategies which are used to bring about mutually satisfying relationships with target markets.

Materials and Methods

This study is mainly based on the use of available Books, Articles from journals, Reports, Magazines and Websites. Methods used are analytical and descriptive. Secondary sources of information have been taken for this research article.

Results and Discussions

The present study is a modest attempt to study some selected existing models of market segmentation related to life insurance and propose an easily perceivable and implementable model.

Analysis of Existing Models Many recent studies on market segmentation related to life insurance have focused on psychographic factors like lifestyle and attitude apart from usual demographic factors like age, income, gender, social groups etc.

Craft, Stephen (2004) has shown in his study that in general, customers are willing to pay a premium for a product that meets their needs more specifically than does a competing product. Thus, marketers who successfully segment the overall market and adapt their products to the needs of one or more smaller segments stand to gain in terms of increased profit margins and reduced competitive pressures.

Wells, Chang and Oliveira (2010) in their study presented an idea that benefit sought is more powerful basis of brand choice. They also revealed the idea that demographic attributes are not very effective in case of brand choice and in price selection. The demographic variables of interest were age, gender, household size, occupation, education and level of income. Results of this study show that the demographic influence on choice of life insurance policies is partial with household size, education and income having a significant effect on the choice. This study shows that some of the demographical factors like education, income and household size effect the choice of product and definitely the choice of brands also (Mirza, 2010).

Kamineni (2009) presented the idea that demography has now failed to effective segmentation and only psychography is not sufficient to segment today's complex market in which consumers have a different type of ideology. This study gives an idea about new basis of segmentation that can be applicable with the help of 'enneagram', an ancient technique of personality indicator. This technique has a combination of psyche and spirituality of personality.

Moskowitz, Gabay and Ashman (2009) proposed a model for segmenting customers in life insurance business in their research work entitled "Relationship marketing, mind - set segmentation, optimized messaging for life insurance and typing customers into the segments". The model consists of three segments. The first segment consists of customers who are moderately interested in life insurance, and interested in policy details, ease of use, simplicity, and wealth. The second segment consists of customers who are moderately interested in insurance, but becomes more interested as it assures premiums are waived in case of a permanent disability. The third segment consists of customers who are moderately interested in insurance. Individuals belonging to this segment look for a trusted authority to guide them regard the appropriateness of the insurance and the relevant options. This segment comprises individuals who are emotionally involved and connected. An illustrative table is given below in table 1:

Table 1: Segmentation table proposed by Howard Moskowitz, Gillie Gabay and Hollis Ashman

Segment	Segment Name	Description
Segment- 1	Easy to use and customization seekers	This segment is moderately interested in life insurance, and interested in policy details, ease of use, simplicity, and wealth. Customers belonging to this segment appear to want to control what the policy contains and have plenty of suggestions to include in the policy.
Segment- 2	Assurance seekers	This segment is moderately interested in insurance, but becomes more interested as it assures premiums are waived in case of a permanent disability.
Segment- 3	Peace of mind seekers	This segment is moderately interested in insurance. Individuals belonging to this segment look for a trusted authority to guide them regard the appropriateness of the insurance and the relevant options. This segment comprises individuals who are emotionally involved and connected.

(Howard, Gillie and Ashman, 2009)

C. V. Gopal (2010) proposed a different way of segmenting the customers of life insurance. He believed that family oriented values motivate a member to invest in a life insurance policy. He formulated his model based on certain assumptions, which are as follows:

- Business communities have strong family bonding, which makes them prefer life insurance policies to protect their family's life style, security, commitment and harmony.
- Family values do influence its members, particularly of large families to invest in life insurance policies.
- Any member who wants to have economic independence for himself and for his dependents invests in life insurance.
- A family's economic welfare is assured only when the members have deep family orientation, which is best expressed through life insurance policies.

Family-oriented values are the subsets of cultural values whose function is to bind, bond or even bend but not break the unity, integrity, harmony and happiness of a family. Eight family values were considered for developing segments namely, Love: To enrich the family bonding amongst the members and enhance the longevity of the 'Family', Security: Taking safety measures to protect the 'Family', Responsibility: Taking adequate care of the family members, Capability: To steer the 'Family' in the right direction, Foresight: To preserve the cohesiveness of the 'Family', Harmony: Achieving the family objectives to bring-in all-round happiness among the family members, Beauty: Enhancing the member's perception of beauty in the various stages of family life, and Wisdom: To mould the 'Family' into a successful social unit.

Three clusters were finally created each reflecting: high family-value profile - G1, low family-value profile - G2, moderate family-value profile-G3. Under Group I: Muslims and Hindus formed a cluster based on high family value profile. Under Group II: Sindhis and Nagarathars formed a cluster with low family value profile. Under Group III: Nadars and Jains formed a cluster with a moderate family value profile.

Group I with Hindus and Muslims preferred a nuclear family under the cultural, economic and sociological dimension and an extended family under the psychological dimension. Group II with Nagarathar and Sindhis preferred an extended family under all the four dimensions. Group III with Nadars and Jains preferred a large family under all the four dimensions. The table 2 given below represents the segmentation done: Wilson

(2011) defines that Segmentation is as much an art as it is a science. It's done a million different ways, and there is no right or wrong. Following are bases which may be used to segment customers of life insurance:

1. Life Stage Segments These segments are used to classify target audience into discrete segments, which are mutually exclusive. These may map to a defined business process within organization, like a sales cycle; to relationship with the individual; to the individual's engagement with the brand, such as recency or social media interaction; or other factors.
2. Focused Target Segments Focused target segments are used for very specific targeting campaigns. Typically, these segments are based on a combination of Life Stage Segments, behaviors and demographics. People may move in or out of these segments, depending on changes in behaviors or demographics so the population is constantly changing.
3. Discrete Population Segments Discrete population segments are used to designate a specific group of people the organization want to track or interact with over time. These segments are typically behavioral based and governed by a specific time frame. Therefore, this population does not change overtime. These types of segments are sometimes referred to as "cohorts." The table 3 given below represents the detail segments:

Table 2: Segmentation proposed by C. V. Gopal

Sl. No.	Segments	Description
1	Group I	Muslims and Hindus with high family value profile. They preferred a nuclear family under the cultural, economic and sociological dimension and an extended family under the psychological dimension.
2	Group II	Sindhis and Nagarathars with low family value profile. They preferred extended family.
3	Group III	Nadars and Jains with a moderate family value profile. They preferred large family.

(Gopal. C. V, 2010)

Another interesting classification or segmentation in life insurance is proposed by Fodor and Kocsir (2008). They primarily classified life insurance customers on the basis of lifestyle and value system. According to them Value system and lifestyle can affect human behavior as well as consumer behavior. That can be the reason why the traditional, sociodemographic criteria are not enough for the segmentation of the consumer market and to explore the inner logic of the factors determining consumer behavior based on the marketing practice these days. The conditions of life and value structures are playing a more and more significant role in the formation of consumer preferences so their segmentation role has also been given a greater emphasis. Further on the basis of cluster analysis three distinct segments were formed as follows:

- Family-centered, aiming at security
- Hedonistic and
- Caring well-off

Table 3: Life insurance market segments proposed by Jennifer Wilson

Life Stage Segments	Focused Target Segments	Discreet Population segments
Include every person	Subset of people with behavior(s)/attribute(s)	Describe a specific set of individuals
Mutually exclusive; people only in one segment	No natural relationship within or across segments	Static — people do not move in or out of this segment
Track progression across segments	Track membership (in or out) and profile members	Track behavior over time and compare
Use in combination with focused target segments	Can be used for specific campaigns and offers	Used for retention analysis and seasonal analysis

The first cluster consists of those family-centered aiming at security. They regarded comfortable, calm, balanced life, thriftiness and family happiness more important than the mean sample. At the same time, when compared to the sample, they underestimated exciting, enjoyable life, career, success and hobby. The group is rather characterized by a traditional, clear, classical, mature value system.

The members of the second cluster follow hedonistic values. They prefer enjoyable life rich in adventures and for them financial well-being is more important than average to afford themselves something good. Career, plenty of leisure time and hobby are all the most overestimated factors in this group when compared to the mean of the sample. At the same time, the somehow contradictory things to the instant enjoyment of life, namely, comfortable, calm and balanced life were judged to be less important than average. Those who prefer self remuneration and individual features belong to this group. It is proved by the fact that taking care of others and giving a source of happiness for others are less important than average for this group. In the "caring well-off" cluster those aiming at security and who are socially sensitive are put. The members of the sample have a lot in common with those in the first cluster with a mature value system but, in this group values like the source of enjoyment for others, peaceful, harmonic family life and friendship are significantly overestimated. This is the most socially sensitive cluster. Self remuneration and making individual lifestyle exciting and enjoyable are pushed in the background and communal values are emphasized instead of the individual ones.

The group "Family-centered, aiming at security" is typically made up by families living with a child or children older than 19 years old so adults. Mainly the middle aged group and the representatives of the older generation over 60 make up this segment.

The table 4 given below represents a brief picture of the segmentation.

Table 4: Market segmentation in life insurance by Monika Fodor and A. C. Kocsir

Sl. No.	Segment	Description
1	Family centered	Aims at security, considers comfortable, calm, balanced life, thriftiness and family happiness more important. Under-estimate exciting, enjoyable life, career, success and hobby. The group is characterized by a traditional, clear, classical, mature value system.
2	Hedonistic	Prefer enjoyable life rich in adventures, financial well-being to afford themselves something good, Career, plenty of leisure time and hobby are all the most overestimated factors in this group.
3	Caring well off	Aims at security, socially sensitive, have a lot in common with those in the first cluster with a mature value system but, group values like the source of enjoyment for others, peaceful, harmonic family life and friendship are significantly overestimated. This is the most socially sensitive cluster. Self remuneration and making individual lifestyle exciting and enjoyable are pushed in the background and communal values are emphasized instead of the individual ones.

ING-Vysya instituted a "brand experience process" called "live the brand" to understand the customer segments and innovate their offerings. In order to understand consumer segments and equity, a large segmentation and cluster study based on life stages and market dynamics/behavior mapping was conducted. This study innovatively messed the sociodemographic and psychographic variables with the life stage need states of consumer (IMRB, 2008). They identified some key segments like, The Defensive Insurance Buyers: Those who

Table 5: ING-Vysya's Market segments

<u>Segments</u>	<u>Preference of life insurance policies by the segment</u>
<u>Defensive insurance buyers</u>	<u>Policies which gives security and can be liquidated easily.</u>
<u>High net worth buyers</u>	<u>Prefers traditional policies</u>
<u>The sophisticates</u>	<u>Predisposed towards mutual funds, stocks etc.</u>
<u>The pension savers</u>	<u>Inclined towards safe bonds, traditional offers providing income in later years</u>
<u>The Neophytes</u>	<u>Just started and willing to go for nontraditional policies</u>

would like to buy only those policies which give them security and can be liquidated very easily. These essentially comprised endowment as well as unit linked policies. High Net Worth Buyers: Those who likes traditional policies. The Sophisticates: Those who are predisposed towards mutual funds, stocks through portfolio managers. These include whole life and unit linked money back policies. The Pension Savers: Those who are old and more inclined towards safe bonds, traditional offers providing income in later years. The Neophytes: Those who have just started out, willing to look at non-traditional offers with safety.

Proposed Model

All the above models have concentrated mostly on psychographic and demographic aspects of market segmentation and not on other bases. So, a multiple segmentation model for life insurance consumers is hereby proposed (table 6). Further, it is to mention that the basic concept is derived from the paper entitled 'Advances in Market Segmentation' by William D Neal and John Wurst (2001).

The Table 6 contains 4 factors and 12 sub factors in each axis. These 12 factors if put into a three dimensional figure with X, Y and Z axis would produce 1728 cells. Now, each person of a population can be placed into one such cell. Hence, 1728 such segments can be formed where people with similar psychographic, demographic and behavioral factors are placed together. This would help to find the exact needs and requirements of a customer regarding life insurance services and policies.

Table 6: Proposed model for segmenting life insurance customers

X axis (Psychographic factors relating to life insurance)		Y axis (Demographic factors relating to life insurance)		Z axis (Behavioral factors relating to life insurance)	
Motivation	High	Age and Life Cycle	Young	Marketing Factors Sensibility	Highly Sensitive
	Medium		Adult		Moderately Sensitive
	Low		Old		Non Sensitive
Lifestyle	High	Income	High	Benefit Sought	Advanced
	Medium		Moderate		Moderate
	Low		Low		Adequate or Minimum
Value System	High	Social Class	High	Attitude	Positive
	Medium		Middle		Neutral
	Low		Lower		Negative
Personality	Strong	Occupation	Professional	Loyalty	Hard Core Loyal
	Moderate		Service		Split Loyal
	Weak		Self Employed		Switchers

For example, a working bachelor in early 20's with high motivation, medium life style, high value system, moderate personality, moderate income (considering he/she works in a BPO), middle class family background, occupationally in service, highly sensitive to marketing campaigns, looking for advanced benefits, positive attitude and split loyal can fall into one such segment out of 1728 segments. Whereas, another person with medium motivation, medium lifestyle, medium value system, weak personality, low income (considering him/her to be employed part time), middle class family background, moderately sensitive to marketing campaigns, moderate benefit seeker, neutral attitude and with switching tendency would fall into separate segment.

In the above example, though both the person belongs to same age group but, their needs and requirements would distinctly vary from each other. The first person, being a fully employed person, may prefer unit linked policies with advanced benefits at a moderate premium (unlike high end business man) whereas, the second person, being a partially employed person, may look for traditional policies which provides life risk coverage at a low premium.

Developing customized services for these segments may look complicated apparently but, a closer look reveals that the customizing services may not be a herculean task considering the fact that the segments are interrelated in many aspects and unique in may be only few aspect/s. This means that the core service or policy can remain same and through peripheral adjustments or additional benefits or features the specific needs of individual segments can be satisfied. Hence, the cost of service development would not increase significantly. The rivalry among companies will also minimize, as there will be many segments to cater and thus, each company can have specific segments leading to specialization. Practically, if we divide 1728 segments by 25 life insurance company, it works out to be 69 segments per company.

Conclusion

The concept of life insurance has undergone radical change during recent times. It is no more considered as a mere social provision to make up the unforeseen losses. The ever changing sociocultural dynamics of the population is posing serious challenges in understanding the needs of the customers and incorporating the same in the products which clearly advocates the need for better and more sensitive way of segmenting the market. The present exploratory work has made an attempt to study some selected models of life insurance customer segmentation and propose a better and easily perceivable model for the same.

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