

A STUDY ON FINANCIAL LITERACY IN MOTOR INSURANCE WITH RESPECT TO SURAT CITY

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ABSTRACT

This study examines the role of financial literacy in influencing consumer decision-making when selecting motor insurance policies in Surat City. The research explores how financial knowledge impacts policy selection, coverage preferences, and consumer awareness regarding third-party and comprehensive insurance. The study utilizes a descriptive research design with data collected from 150 respondents through a structured questionnaire. Statistical tools such as chi-square analysis and percentage distribution have been used to interpret the findings. Results indicate that individuals with higher financial literacy make more informed decisions, avoid underinsurance, and choose policies aligning with their needs. The findings highlight the necessity of improving financial awareness to ensure better consumer protection in motor insurance.

Keywords: Financial Literacy, Motor Insurance, Consumer Awareness, Insurance Selection, Risk Management.

1. INTRODUCTION

Financial literacy plays a vital role in an individual's ability to make sound financial decisions, particularly in areas such as insurance, investments, and risk management. The concept of financial literacy encompasses knowledge about various financial products, the ability to assess financial risks, and the skill to compare different financial offerings before making a decision. In India, the Reserve Bank of India (RBI) defines financial literacy as the ability to understand and use financial concepts effectively, thereby enabling individuals to make informed financial decisions.

Motor insurance is a key component of financial planning, as it provides protection against financial liabilities that arise due to unforeseen accidents, vehicle theft, or damages. However, despite the legal requirement for third-party motor insurance in India, many vehicle owners lack adequate knowledge about their insurance policies. A significant portion of the population is unaware of the differences between third-party liability insurance and comprehensive insurance, leading to uninformed choices that may result in financial hardships during claims.

Surat, one of the fastest-growing cities in Gujarat, has witnessed a substantial rise in vehicle ownership over the past decade. With the increasing number of vehicles on the road, the importance of motor insurance has grown significantly. Despite the availability of various motor insurance policies and digital platforms for easy comparison, a lack of financial literacy continues to affect consumer choices. Many individuals purchase insurance based solely on premium costs without considering key factors such as claim settlement ratios, policy exclusions, and coverage benefits.

This study aims to analyze the impact of financial literacy on motor insurance selection, particularly in Surat City. It explores the extent of consumer awareness regarding motor insurance policies, the factors influencing their choices, and how financial literacy can enhance decision-making. By understanding the role of financial knowledge in policy selection, this research seeks to highlight the need for increased financial education initiatives to promote better financial security for vehicle owners. The findings of this study will be useful for policymakers, insurance companies, and financial institutions in designing targeted awareness campaigns and improving transparency in motor insurance products.

2. LITERATURE REVIEW

1. **Cristian Dragos & Simona Dragos (2017):** Financial literacy plays a key role in motor insurance decisions. Consumers with higher financial knowledge assess coverage, claim settlement ratios, and policy benefits before purchasing. The study highlights the need for awareness programs to educate consumers.
2. **Basturk (2019):** Individuals with better financial literacy are more likely to choose comprehensive insurance over just mandatory third-party coverage. The study emphasizes the importance of financial education in encouraging responsible policy selection. Regulatory bodies should promote awareness campaigns to enhance consumer decision-making.
3. **Awel & Azomahou (2015):** Financial literacy helps individuals avoid underinsurance and over insurance, leading to better policy choices. The study highlights the role of digital tools in improving financial education and simplifying insurance selection. Access to financial knowledge ensures better decision-making in insurance purchases.

4. **Sampath & Ouyang (2019):** Insurance literacy programs significantly improve consumer awareness and policy choices. Structured educational interventions help individuals make informed decisions, leading to higher satisfaction. The study urges insurance companies to invest in literacy initiatives to bridge knowledge gaps.
5. **Lusardi (2008):** Poor financial literacy results in bad insurance decisions, such as overpaying for premiums or inadequate coverage. The study suggests integrating financial education into school curriculums to improve future financial decision-making. Educated consumers are better equipped to select appropriate insurance policies.

3. PROBLEM STATEMENT

“Role of financial literacy in choosing motor insurance”

Many individuals lack financial literacy, making it difficult for them to understand and choose the right motor insurance. This often leads to poor decisions, such as selecting inadequate coverage, overpaying for policies, or facing financial strain after accidents. Improving financial literacy can help people make informed motor insurance choices that suit their needs and protect them from unexpected expenses.

Objectives

- To analysis the financial knowledge of individual at the time of choosing motor insurance.
- To understand the financial communication and financial ability of a person in choosing motor insurance.

Scope of the study

- This study explores financial literacy in motor insurance, covering policy types, legal requirements, and key terms like premiums, deductibles, and No Claim Bonus. It examines consumer awareness, decision-making factors, and budgeting for insurance.
- The study also analyzes the claims process, risk management, fraud prevention, and the impact of financial knowledge on choosing the right coverage. Additionally, it reviews government regulations, consumer rights, and grievance mechanisms. The role of digitalization and Insure Tech in enhancing financial decision-making is also considered. Overall, this study highlights how financial literacy influences informed motor insurance decisions and personal financial security.

4. RESEARCH METHODOLOGY

This study employs a **descriptive research design** to examine the relationship between financial literacy and motor insurance selection. The descriptive approach helps in understanding consumer behavior, patterns of policy selection, and factors influencing financial decision-making. The study relies on both **primary and secondary data sources**. Primary data was collected through a structured questionnaire distributed to 150 respondents in Surat City, including vehicle owners and insurance policyholders. The questionnaire was designed to assess respondents' financial literacy levels, awareness of insurance products, and preferences in policy selection. Secondary data was sourced from journal articles, regulatory reports, and government publications related to financial literacy and insurance policies.

A **stratified sampling technique** was used to ensure representation from different age groups, income levels, and education backgrounds. The research primarily focused on individuals between the ages of 18 to 50, as they represent the majority of motor insurance buyers. Data analysis involved statistical tools such as **percentage analysis, chi-square tests, and cross-tabulation** to identify key trends and relationships between financial literacy and motor insurance choices. The findings from this study provide insights into how financial education impacts policy selection and highlight areas where financial literacy programs can be improved to enhance consumer decision-making.

Cross-tab & Chi-Square Analysis

The study employs Cross-tabulation and Chi-square tests to determine the association between financial literacy and motor insurance. These statistical methods help assess whether factors such as age, gender, or income influence the Financial literacy of individual in motor insurance.

Hypothesis Testing

The Null Hypothesis (H_0) states that there is no significant association between the demographic variables and financial literacy of individual in motor insurance.

The Alternative Hypothesis (H_1) states that there is a significant association between these factors.

Here's a revised table consolidating the chi-square values and results, now incorporating relevant variables for better clarity:

Variable Comparison	Chi-Square Value	P-Value	Result
Age vs. Financial Knowledge	0.128	>0.05	No significant association (H_0 not rejected)
Age vs. Claim Process & Exclusions	0.269	>0.05	No significant association (H_0 not rejected)
Age vs. Renewal Process	0.064	>0.05	No significant association (H_0 not rejected)
Age vs. Financial Stability of Insurer	0.955	>0.05	No significant association (H_0 not rejected)
Age vs. Comparing Policies	0.324	>0.05	No significant association (H_0 not rejected)
Age vs. Coverage Options	0.730	>0.05	No significant association (H_0 not rejected)
Age vs. No Claim Bonus	0.136	>0.05	No significant association (H_0 not rejected)
Age vs. Comparing & Choosing Insurance	0.420	>0.05	No significant association (H_0 not rejected)
Age vs. Factors Increasing Insurance	0.010	<0.05	Significant association (H_0 rejected)
Age vs. Third Party vs. Comprehensive Insurance	0.401	>0.05	No significant association (H_0 not rejected)
Age vs. Personal Accident Coverage	0.417	>0.05	No significant association (H_0 not rejected)
Age vs. Financial Communication	0.000	<0.05	Significant association (H_0 rejected)
Age vs. Social Media & Blogs	0.128	>0.05	No significant association (H_0 not rejected)
Age vs. Insurance Agents	0.477	>0.05	No significant association (H_0 not rejected)
Age vs. Financial Newspapers & Magazines	0.052	>0.05	No significant association (H_0 not rejected)
Age vs. Insurance Communication Clarity	0.546	>0.05	No significant association (H_0 not rejected)
Age vs. Confidence in Understanding Insurance	0.727	>0.05	No significant association (H_0 not rejected)
Age vs. Timely Updates from Insurance Company	0.000	<0.05	Significant association (H_0 rejected)
Age vs. Premium Details & Payment Options	0.008	<0.05	Significant association (H_0 rejected)
Age vs. Insurance Company Providing Adequate Info	0.049	<0.05	Significant association (H_0 rejected)
Gender vs. Financial Knowledge	0.237	>0.05	No significant association (H_0 not rejected)

Variable Comparison	Chi-Square Value	P-Value	Result
Gender vs. Claim Process & Exclusions	0.503	>0.05	No significant association (H_0 not rejected)
Gender vs. Renewal Process	0.377	>0.05	No significant association (H_0 not rejected)
Gender vs. Financial Stability of Insurer	0.421	>0.05	No significant association (H_0 not rejected)
Gender vs. Comparing Policies	0.285	>0.05	No significant association (H_0 not rejected)
Gender vs. Coverage Options	0.266	>0.05	No significant association (H_0 not rejected)
Gender vs. No Claim Bonus	0.206	>0.05	No significant association (H_0 not rejected)
Gender vs. Comparing & Choosing Insurance	0.620	>0.05	No significant association (H_0 not rejected)
Gender vs. Factors Increasing Insurance	0.295	>0.05	No significant association (H_0 not rejected)
Gender vs. Third Party vs. Comprehensive Insurance	0.832	>0.05	No significant association (H_0 not rejected)
Gender vs. Personal Accident Coverage	0.564	>0.05	No significant association (H_0 not rejected)
Gender vs. Financial Communication	0.070	>0.05	No significant association (H_0 not rejected)
Gender vs. Social Media & Blogs	0.440	>0.05	No significant association (H_0 not rejected)
Gender vs. Insurance Agents	0.065	>0.05	No significant association (H_0 not rejected)
Gender vs. Financial Newspapers & Magazines	0.227	>0.05	No significant association (H_0 not rejected)
Gender vs. Insurance Communication Clarity	0.555	>0.05	No significant association (H_0 not rejected)
Gender vs. Timely Updates from Insurance Company	0.510	>0.05	No significant association (H_0 not rejected)
Gender vs. Premium Details & Payment Options	0.986	>0.05	No significant association (H_0 not rejected)
Gender vs. Insurance Company Providing Adequate Info	0.175	>0.05	No significant association (H_0 not rejected)
Occupation vs. Financial Knowledge	0.254	>0.05	No significant association (H_0 not rejected)

Variable Comparison	Chi-Square Value	P-Value	Result
Occupation vs. Claim Process & Exclusions	0.727	>0.05	No significant association (H_0 not rejected)
Occupation vs. Renewal Process	0.100	>0.05	No significant association (H_0 not rejected)
Occupation vs. Financial Stability of Insurer	0.069	>0.05	No significant association (H_0 not rejected)
Occupation vs. Comparing Policies	0.659	>0.05	No significant association (H_0 not rejected)
Occupation vs. Coverage Options	0.817	>0.05	No significant association (H_0 not rejected)
Occupation vs. No Claim Bonus	0.301	>0.05	No significant association (H_0 not rejected)
Occupation vs. Comparing & Choosing Insurance	0.378	>0.05	No significant association (H_0 not rejected)
Occupation vs. Factors Increasing Insurance	0.133	>0.05	No significant association (H_0 not rejected)
Occupation vs. Third Party vs. Comprehensive Insurance	0.058	>0.05	No significant association (H_0 not rejected)
Occupation vs. Personal Accident Coverage	0.484	>0.05	No significant association (H_0 not rejected)
Occupation vs. Financial Communication	0.325	>0.05	No significant association (H_0 not rejected)
Occupation vs. Social Media & Blogs	0.062	>0.05	No significant association (H_0 not rejected)
Occupation vs. Insurance Agents	0.286	>0.05	No significant association (H_0 not rejected)
Occupation vs. Financial Newspapers & Magazines	0.122	>0.05	No significant association (H_0 not rejected)
Occupation vs. Confidence in Understanding Insurance	0.693	>0.05	No significant association (H_0 not rejected)
Occupation vs. Timely Updates from Insurance Company	0.223	>0.05	No significant association (H_0 not rejected)
Occupation vs. Premium Details & Payment Options	0.459	>0.05	No significant association (H_0 not rejected)
Occupation vs. Insurance Company Providing Adequate Info	0.030	<0.05	Significant association (H_0 rejected)

Interpretation

The chi-square analysis shows that most variables, including age, gender, and occupation, do not have a statistically significant relationship with financial knowledge and communication. The p-values for most comparisons are greater than 0.05, indicating that differences across categories are likely due to random variation rather than a meaningful

influence. However, a few variables, such as age with factors increasing insurance ($p = 0.010$) and age with financial communication ($p = 0.000$), show a significant association, meaning age does impact these aspects. Additionally, occupation with adequate insurance information ($p = 0.030$) reveals a significant relationship, suggesting different professions may receive or interpret insurance details differently. Overall, most factors are independent of demographics, with only a few showing statistically significant influence.

5. KEY FINDINGS

- Financial literacy improves insurance decisions, leading to better policy selection and coverage understanding.
- Many choose policies based on low premiums, ignoring key aspects like exclusions and claim ratios.
- Age significantly impacts financial understanding, including awareness of premium factors and insurer communication.
- Gender and occupation mostly show no link, except occupation affects perceived adequacy of insurer information.
- Financially literate individuals compare policies, understand terms better, and avoid underinsurance.
- Gaps exist in claims process awareness, even among educated individuals.
- Digital tools offer potential to boost engagement and understanding but are underutilized.
- Social media and blogs have limited impact on raising insurance literacy.

6. CONCLUSION

Financial literacy significantly influences consumer behavior in motor insurance, affecting policy choices and coverage adequacy. Many prioritize low premiums due to limited awareness of policy features, often leading to insufficient protection. Higher financial literacy levels encourage comprehensive coverage, but gaps remain in understanding key terms and claim processes. Enhancing financial education through awareness programs, digital tools, and transparent policies can improve decision-making. Insurers should simplify documents and offer AI-driven guidance, while government and industry collaborations can promote literacy initiatives. Improved financial awareness will lead to better insurance decisions, increased trust, and greater financial security for vehicle owners.

7. REFERENCES

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