ASSESSING THE IMPACT OF SOCIOECONOMIC FACTORS ON DEMAND FOR LIFE INSURANCE-EVIDENCE FROM SRI LANKA

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1. Introduction

Although life insurance offers crucial financial stability, Sri Lanka's life insurance market has low density (USD 16 per capita) and penetration (0.5% GDP in 2022). These figures highlight the challenges the country faces in embedding life insurance as a mainstream financial tool. This study explores the influence of socioeconomic factors such as urbanization, GDP per capita, literacy rate, male life expectancy, and savings rate on life insurance demand in Sri Lanka.

2. Research Methodology

The study employs a positivist approach, using secondary data spanning 23 years (2000–2022) from sources like the World Bank and IRCSL. Life insurance density, measured as total life insurance premiums per capita, serves as the dependent variable. An ARIMAX model, suitable for handling time-dependent socioeconomic dynamics, was applied to analyse the data, which was made stationary through the ADF test.

3. Findings and Discussion

The results suggest a significant positive impact on urbanization and GDP per capita, showing the importance of urban expansion and economic development. This indicates that life insurance density in Sri Lanka can greatly increase with urbanization and economic growth. On the other hand, the savings rate, male life expectancy, and literacy rate had less pronounced or non-significant effects, indicating that policies promoting economic growth can increase demand for insurance.

4. Conclusion and Implications

The demand for life insurance in developing countries is greatly influenced by urbanization and GDP per capita. To improve insurance coverage, Sri Lankan policymakers should encourage urbanization and increase public knowledge. Future research should include additional demographic and economic elements to further understand demand drivers.

Keywords: Life Insurance demand, Life insurance density, Socioeconomic factors, Sri Lanka, Urbanization