Analysis of Nepalese Consumers' Insurance Purchase Intention: A Structural Equation Model Approach

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Abstract

In recent years, there has been a spike in the insurance industry in Nepal due to the high risk and financial planning awareness. But when correlated with other nations in South Asia, insurance penetration is low in the country. This research was done to realize the factors that are influencing the buying behavior of insurance in the context of Nepalese consumers. The research used a measurement model executed by reflective measurement model to assess the impact of Agent Influence, Corporate Image, Insurance Technology, Perceived Value, and Service Quality on Purchase Intention. Data for the study was collected through a field survey and online survey consisting of 5- point Likert scale questions. The 301 valid responses were analyzed using descriptive statistics and structural equation modeling to show the casual relationship between the variables. The study reports that Agent Influence, Corporate Image, Perceived Value, and Service Quality all have a significant relationship with Purchase Intention. The most significant factor among them is Agent Influence, which was found to influence Purchase Intention directly and positively. Besides, Service Quality has a direct effect on Purchase Intention. The Corporate Image does not have a direct impact on Purchase Intention, but it creates very huge Perceived Value leading to Purchase Intention. More precisely, Perceived Value significantly enhances Purchase Intention by directly contributing to it. This is strengthened by the impacts of both Service Quality and Corporate Image on purchase intention, through Perceived Value. There is no statistically significant influence found in Purchase Intention for Insurance Technology. Pivotal to the increased intention for insurance are the increasing perceived value and improving quality of service. The study concludes that enhancing perceived value and improving service quality is crucial for increasing purchase intentions.

Keywords: Insurance*,* Financial Planning, Purchases, Intention, Corporate

Introduction

Individuals constantly face risks no matter where they are or what they are doing (Adhikari, 2020). In Nepal, the rise in insurance is supported by a rise in sensibility of risk mitigation and financial planning among consumers (Nepal Insurance Authority, 2022). As of 2021, the gross written premium of the Nepalese insurance market was NPR 138.3 billion (approximately $1.1 billion), and it is expected to achieve a Compound Annual Growth Rate

(CAGR) of more than 13% from 2021 to 2026 (GlobalData, 2024). However, despite the sector's growth, the penetration rate of insurance remains low compared to other South Asian countries, highlighting the need for a deeper understanding of consumer behavior (World Bank, 2020; Peak Re, 2024). The Premium as a percentage of GDP has increased from 0.58% in 2067/68 to 3.60% in 2078/79 (NIA, 2022). This growth outpaces the relatively stable trend of the Domestic Product (%), suggesting that the increase in insurance premiums is driven by factors beyond general economic growth.

Key determinants in insurance purchase intentions would go a long way in helping insurers develop an effective promotional strategy that will lead to customer satisfaction maximization. Empirical studies show the impact of antecedents like service quality, perceived value, corporate image, and recent technological advancements in shaping consumer behavior toward the insurance market (Thamtarana & Sornsaruht, 2024). Building on this foundation, our study employs a comprehensive quantitative approach to explore these factors within the context of Nepal's unique socio-economic landscape.

The study utilizes Structural Equation Modeling (SEM) and descriptive statistical analysis to uncover the casual relationships between agent influence, corporate image, service quality, perceived value, insurance technology and insurance purchase intention. Data from a diverse sample of Nepalese consumers are analyzed to provide valuable insights into the key drivers of insurance purchase intentions and offer practical recommendations for industry stakeholders.

This research is particularly relevant in the post-pandemic era, where consumer behavior has undergone significant transformations. The findings will not only contribute to the academic literature but also provide actionable strategies for insurance companies to adapt to the evolving market dynamics in Nepal. This study aims to enhance the understanding of consumer decision-making processes in the insurance sector and support the development of a more resilient and customer-centric industry.

Despite the growing importance of the insurance industry in Nepal, research into what influences consumer purchase intentions is rather limited. The studies currently available are limited to health insurance or only perception of customers on insurance products, thus creating a gap for other types. Research from other countries, under different rates of penetration and cultural factors, may not apply. This study, therefore, purports to fill the stated gaps, investigating the role of agent influence, corporate image, insurance technology, perceived value, and service quality in influencing the insurance purchase intentions of consumers in Nepal. This holistic approach will provide practical insights on improving insurance adoption in Nepal.

RESEARCH METHODOLOGY

Measurement Theory

Measurement theory outlines the methods for assessing latent variables (Tachhekar and Khadka, 2020). A reflective measurement model is used to model the constructs Agent Influence (AIE), Corporate Image (CIG), Insurance Technology (ITY), Purchase Intention

(PIN), Perceived Value (PVE), and Service Quality (SQY) which is shown in Figure 1. In reflective measurement models, the arrows point from the construct to the indicator variables, suggesting that the construct is responsible for the observed measurements of these indicators ($X1 = \lambda1\ \zeta + \delta1, X2 = \lambda2\ \zeta + \delta2, X3 = \lambda3\ \zeta + \delta3, Xn = \lambda4\ \zeta + \delta n$). The choice between formative and reflective models, as well as between multi-item and single-item measures, is crucial in the development of path models (Coltman et al., 2008; Hair, et al., 2017; Eboli et al., 2017; Tachhekar & Khadka, 2020).

Structural Theory

In structural models, constructs and their relationships are organized based on theoretical foundations or the researcher's expertise and gathered knowledge. Typically, path models are arranged from left to right, with independent variables on the left and dependent variables on the right (Tachhekar & Khadka, 2020). This arrangement indicates that variables on the left predict and precede those on the right. However, some variables can function as both independent and dependent variables (Coltman et al., 2008; Hair, et al., 2017; Eboli et al., 2017; Tachhekar & Khadka, 2020).

Conceptual Framework

Path models in this study are visual representations used to depict hypotheses and the relationships between variables in SEM. These models incorporate reflective measurement methods, including the assessment of latent variables and the measurement of exogenous and endogenous variables (Eboli et al., 2017), as shown in Figure 1.

Figure 1: Schematic Diagram of the Concept
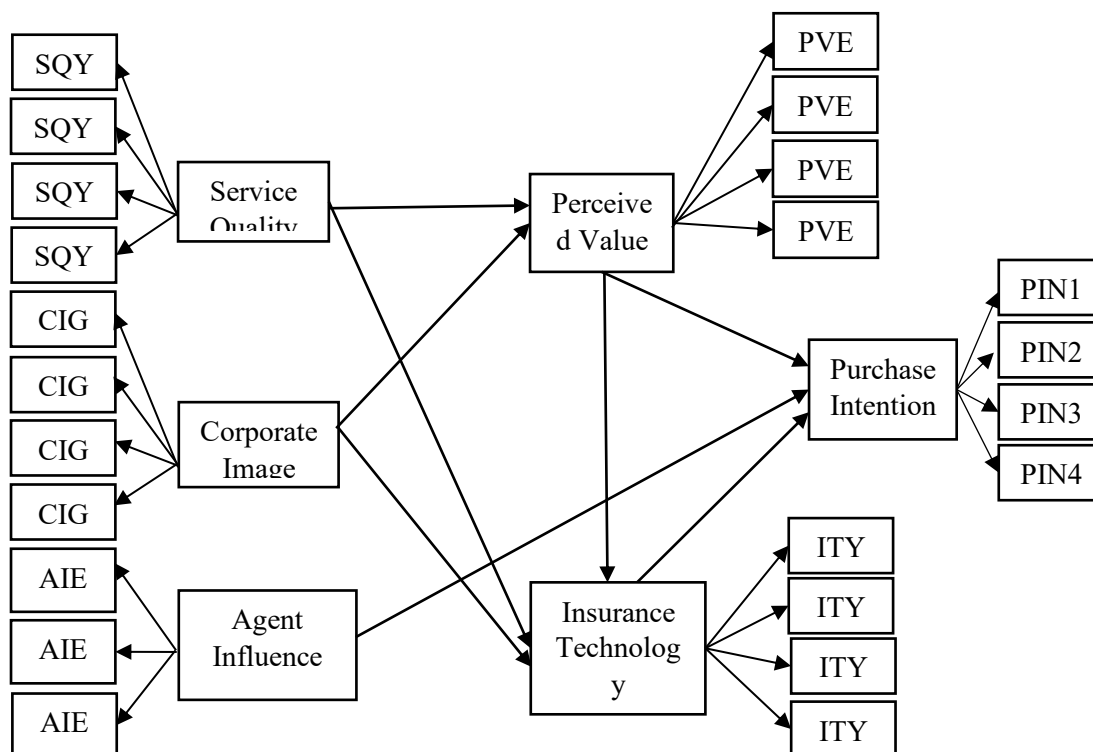
Adapted from Thamtarana and Sornsaruht (2020)

Operational Characterization of Variables

Agent Influence (AIE): It represents the effect of an insurance agent on purchasing insurance of a consumer. Since large proportion of Nepalese insurance market is driven by agent marketing, agent influence is pertinent factor. Items for its measurement have been adapted from reflective latent variable by Dhakal et al. (2023) and Kumar & Singh (2019). It is a reflective latent variable and its indicators are AIE1—Persuasion: The effect of a known agent on the decision to purchase an insurance product, AIE2: Trust—Trust in the insurance agent recommendations, and AIE3: Satisfaction—Satisfaction of how much the insurance agent is aptly advising.

Information Technology (IT) - latent variable representing the modern application of the use of technology to improve insurance services. For instance, mobile applications regarding policy management, AI chatbots related to customer inquiries, modern systems intended for securing data. The items used to measure this will be the reflective latent which have been adapted from Thamtarana and Sornsaruht (2024). Its indicators are ITY1—Technological Innovation: The introduction and use of new, advanced technologies by the insurance company, ITY2—Feeling of Trust: The level of trust customers has in the technology used by the insurance company, ITY3— Safety: The effectiveness of the technology in ensuring the safety and security of customer data, and ITY4—System Performance: The reliability and performance of the technology systems used by the insurance company.

Service Quality (SQY): This corresponds to the total evaluation of the efficiency, reliability, and effectiveness of the services provided by the company. Items reflecting the measure of the construct were adapted from Thamtarana and Sornsaruht (2024) and Nursiana, Budhijono, and Fuad (2020). Its indicators are SQY1— Quickness: The speed at which services are delivered to customers, SQY2— Provided Service: The extent and quality of services offered by the company, SQY3—Reliability: The consistency and dependability of the service performance, and SQY4— Communication: The effectiveness of information exchange between the company and its customers.

Corporate Image (CIG): It is the public's perception of a company, formed by publicity, social corporate image, and CRM practices. Reflective latent constructs borrowed from Thamtarana and Sornsaruht (2024) and Nursiana, Budhijono, and Fuad (2020) were employed for the measurement of these items. Its indicators are CIG1—Advertising: The influence of the company's advertising on public perception, CIG2—Corporate Social Responsibility (CSR): The impact of the company's CSR activities, such as supporting local communities and environmental initiatives, on public perception, CIG3—Corporate Relationship Management (CRM): The effectiveness of the company's CRM practices, including personalized communication and prompt service, and CIG4— Uniqueness: The distinctiveness and unique image of the company in the market.

Perceived Value (PVE): It refers to the customer's evaluation of the benefits and costs of a service, considering its quality, price, and overall utility given by the insurance company. The items that were used to measure this variable have been adapted from Thamtarana and

Sornsaruht (2024). Its indicators are PVE1—Service Price: The reasonableness of the service price, PVE2—Expectations: The extent to which the service meets customer expectations, PVE3—Benefits Offered: The value of the benefits provided by the service, and PVE4—Value: The overall perceived value of the service.

Purchase Intention (PIN): It is a latent variable showing how likely it is that a consumer will buy additional insurance products, renew current policies, and recommend this insurance to others. Thamtarana and Sornsaruht (2024) were used to adapt the items that measure these three variables. Its indicators are PIN1—Intention: Buying additional insurance products, PIN2—Renewal Planning: Renewing existing policies, PIN3—Word-of-mouth/Recommendation: Will recommend it to others, and PIN4— Loyalty:To what extent are you loyal to this insurance product.

Method of Data Collection

Qualitative data were used for this research. For this study, data were gathered from individuals aged 21 and above, as they have typically completed their education, and are financially independent, supporting themselves and their close relationships Thamtarana and Puris Sonsaruht (2024). Self-administered questionnaires were used for the data collection through field and online survey from 16th July to 26th July. Queries of the respondents were addressed through direct communication to ensure that the responses are truly measured.

The survey respondents were members of the general public from Kathmandu, Butwal, and Likhu Rural Municipality in Nuwakot. Primarily, the focus was on employees or individuals with a certain level of income who had subscribed to insurance products, excluding third-party liability vehicle insurance. This exclusion was due to the compulsory nature of third-party liability insurance, which introduced several other variables that would require a separate study. 319 data were collected, among which only 301 were selected for analysis because of their validity.

Model Specification

PLS-SEM was employed to investigate and confirm the causal relationships between the defined variables.

The measurement model for reflective measures was as follows:

$$AIE1 = \lambda_{AIE1} + \epsilon_{AIE1} \qquad AIE2 = \lambda_{AIE2} + \epsilon_{AIE2} \qquad AIE3 = \lambda_{AIE3} + \epsilon_{AIE3}$$

$$CIG1 = \lambda_{CIG1} + \epsilon_{CIG1} \qquad CIG2 = \lambda_{CIG2} + \epsilon_{CIG2} \qquad CIG3 = \lambda_{CIG3} + \epsilon_{CIG3}$$

$$CIG4 = \lambda_{CIG4} + \epsilon_{CIG4} \qquad ITY1 = \lambda_{ITY1} + \epsilon_{ITY1} \qquad ITY2 = \lambda_{ITY2} + \epsilon_{ITY2}$$

$$ITY3 = \lambda_{ITY3} + \epsilon_{ITY3} \qquad ITY4 = \lambda_{ITY4} + \epsilon_{ITY4} \qquad PIN1 = \lambda_{PIN1} + \epsilon_{PIN1}$$

$$PIN2 = \lambda_{PIN2} + \epsilon_{PIN2} \qquad PIN3 = \lambda_{PIN3} + \epsilon_{PIN3} \qquad PVE1 = \lambda_{PVE1} + \epsilon_{PVE1}$$

$$PVE2 = \lambda_{PVE2} + \epsilon_{PVE2} \qquad PVE3 = \lambda_{PVE3} + \epsilon_{PVE3} \qquad PVE4 = \lambda_{PVE4} + \epsilon_{PVE4}$$

$$SQY1 = \lambda_{SQY1} + \epsilon_{SQY1} \qquad SQY2 = \lambda_{SQY2} + \epsilon_{SQY2} \qquad SQY3 = \lambda_{SQY3} + \epsilon_{SQY3}$$

$$SQY4 = \lambda_{SQY4} + \epsilon_{SQY4}$$

The structural model is:

For direct effect analysis,

$$PIN = \lambda_{XPIN}X + \epsilon_{XPIN} \qquad PVE = \lambda_{YPVE}X + \epsilon_{YPVE} \qquad ITY = \lambda_{ZITY}Z + \epsilon_{ZITY}$$

For mediating effect analysis,

$$PIN = \lambda_{YPVE}\lambda_{PVEPIN}\,Y + \epsilon_1 \qquad PIN = \lambda_{ZITY}\lambda_{ITYPIN}\,Z + \epsilon_2$$

X = SQY, CIG, PVE, ITY, AIE

Y = SQY, CIG

Z = SQY, CIG, PVE

λ_k is the path coefficient for path k

ϵ are the respective error terms

Results and Discussions

Demographic Profile of Respondents

The demographic profile of respondents shows that 55% are male and 45% are female, with age distribution as follows: 30% are aged 21-30, 18% are 31-40, 34% are 41-50, 10% are 51-60, and 8% are over 60. Educational levels include 9% with SEE or SLC, 14% with +2 level, 35% with a Bachelor's Degree, and 42% with a Post Graduate degree. Relationship status shows 35% are single, 61% are married, and 4% are divorced or widowed. 28% worked in private companies, 20% in government/state service, 17% as general employees, 13% in personal business, 20% in other occupations, and 2% unspecified. Monthly income distribution is as follows: 16% earn less than 50,000 Rupees, 27% earn 50,001-60,000, 17% earn 60,001-70,000, 9% earn 70,001-80,000, 10% earn 80,001-90,000, and 11% earn above 90,001. Regarding insurance, 58% have life insurance, and 42% have non-life insurance.

Descriptive Statistics

Corporate Image (CIG) indicators show positive perceptions with mean ratings ranging from 3.59 to 3.76, and high internal consistency (Standard Deviation (SD) = 0.862 to 1.097). Insurance Technology (ITY) indicators reflect moderately positive perceptions with mean ratings from 3.31 to 3.58, and moderate to high internal consistency (SD = 0.847 to 1.032). Purchase Intention (PIN) indicators show moderately positive intentions with mean ratings

from 3.13 to 3.55, and moderate internal consistency (SD = 0.990 to 1.057). Perceived Value (PVE) indicators indicate positive perceptions with mean ratings from 3.77 to 3.92, and high to very high internal consistency (SD = 0.760 to 0.981). Service Quality (SQY) indicators show very positive perceptions with mean ratings from 3.68 to 3.94, and high to very high internal consistency (SD = 0.791 to 0.964).

Common Method Variance (CMV)

Since all the variables in this study were gathered from a single source, the findings might be influenced by CMV (Spector, 2006; Al Mamun et al., 2021). To determine if CMV is an issue, Harman's test can be employed. CMV arises when the relationships between constructs are skewed due to being measured using the same method. This bias can occur due to various factors, such as the respondent's mood or a tendency to respond. The test is a widely used method to check for CMV, as suggested by Podsakoff et al. (2003). The first component, which explains the largest portion of the total variance in the dataset, accounts for 36.604% of the variance, significantly less than the 50% threshold. This suggests that there is no influence of CMV (Podsakoff et al., 2003; Spector, 2006).

Structural Equation Modeling

This research utilizes SEM to evaluate parameters within the measurement model and to test hypotheses regarding the structural relationships in the causal model. Both the measurement and structural models are examined in this study. Additionally, to assess the significance of path coefficients and loadings, a bootstrapping method with 5000 resamples is employed.

Assessment of The Measurement Model

For the latent constructs Agent Influence, Corporate Image, Insurance Technology, Perceived Value, Purchase Intention, and Service Quality the reliability was assessed using Crono-Bach (CB) alpha, Composite Reliability (CR), and Average Variance Extracted (AVE) whereas the validity of the model was tested using the Fornell-Larcker Criterion and Loading and Cross-loading Criterion.

The results in Table 2 indicate strong convergent validity for most constructs, with high factor loadings (above 0.7), CB Alpha values exceeding 0.7, CR values above 0.7, and AVE values above 0.5. These metrics confirm good convergent validity, making the constructs suitable for further analysis. The Fornell-Larcker Criterion results show adequate discriminant validity, with diagonal elements (square root of AVE) higher than off-diagonal elements, confirming that each construct is distinct and captures unique aspects of the data.

The Loading and Cross-loading Criterion results in Table 3 and Table 4 shows that each indicator has the highest loading on its respective latent construct compared to its loadings on other constructs. This confirms that the constructs are distinct and well-defined by their indicators, supporting the validity of the measurement model.

Table 1:

Construct Reliability and Validity of Reflective Construct

Latent Construct	Indicator	Loadings	CB alpha	CR (rho_a)	CR (rho_c)	AVE
Agent Influence (AIE)	AIE1	0.906	0.874	0.887	0.992	0.797
	AIE2	0.887				
	AIE3	0.885				

<div align="center">Table 1 Continue</div>

Latent Construct	Indicator	Loadings	CB alpha	CR (rho_a)	CR (rho_c)	AVE
Corporate Image (CIG)	CIG1	0.705	0.753	0.762	0.843	0.573
	CIG2	0.771				
	CIG3	0.765				
	CIG4	0.784				
Insurance Technology (ITY)	ITY1	0.861	0.892	0.894	0.925	0.755
	ITY2	0.882				
	ITY3	0.873				
	ITY4	0.861				
Purchase Intention (PIN)	PIN1	0.831	0.836	0.837	0.890	0.670
	PIN2	0.842				
	PIN3	0.784				
	PIN4	0.817				
Perceived Value (PVE)	PVE1	0.812	0.824	0.825	0.883	0.654
	PVE2	0.816				
	PVE3	0.767				
	PVE4	0.839				
Service Quality (SQY)	SQY1	0.661	0.753	0.772	0.843	0.574
	SQY2	0.799				
	SQY3	0.822				
	SQY4	0.739				

PLSc Algorithm, Smart PLS 4, *Source*: Field and Online Survey, 2024

Table 2: Discriminant Validity of Reflective Constructs-Fronell-Larcker Criterion

Latent Construct	AIE	CIG	ITY	PIN	PVE	SQY
Agent Influence (AIE)	0.893					
Corporate Image (CIG)	0.239	0.757				
Insurance Technology (ITY)	0.108	0.502	0.869			
Purchase Intention (PIN)	0.622	0.404	0.182	0.819		
Perceived Value (PVE)	0.364	0.624	0.359	0.620	0.809	
Service Quality (SQY)	0.339	0.606	0.433	0.623	0.708	0.758

Note: AIE = Agent Influence, CIG= Corporate Image, ITY= Insurance Technology,
PIN= Purchase Intention, PVE= Perceived Value, SQY= Service Quality

Table 3: Discriminant Validity-Loading and Cross-Loading Criterion

Latent Construct	Indicator	AIE	CIG	ITY	PIN	PVE	SQY
Agent Influence (AIE)	AIE1	**0.906**	0.126	0.039	0.451	0.246	0.233

	AIE2	**0.887**	0.288	0.182	0.615	0.445	0.43
	AIE3	**0.885**	0.202	0.049	0.571	0.257	0.218
Corporate Image (CIG)	CIG1	0.249	**0.705**	0.236	0.258	0.45	0.434
	CIG2	0.016	**0.771**	0.511	0.223	0.386	0.435
	CIG3	0.222	**0.765**	0.311	0.404	0.453	0.429
	CIG4	0.236	**0.784**	0.435	0.329	0.582	0.526
Insurance Technology (ITY)	ITY1	0.082	0.421	**0.861**	0.105	0.316	0.361
	ITY2	0.084	0.439	**0.882**	0.14	0.288	0.336
	ITY3	0.123	0.435	**0.873**	0.224	0.325	0.41
	ITY4	0.083	0.447	**0.861**	0.154	0.317	0.392
Purchase Intention (PIN)	PIN1	0.522	0.337	0.134	**0.831**	0.596	0.481
	PIN2	0.439	0.309	0.145	**0.842**	0.524	0.546
	PIN3	0.581	0.313	0.173	**0.784**	0.406	0.429
	PIN4	0.495	0.362	0.144	**0.817**	0.497	0.581
Perceived Value (PVE)	PVE1	0.153	0.438	0.266	0.402	**0.812**	0.615
	PVE2	0.291	0.465	0.324	0.499	**0.816**	0.677
	PVE3	0.422	0.527	0.156	0.665	**0.767**	0.633
	PVE4	0.289	0.578	0.413	0.422	**0.839**	0.684
Service Quality (SQY)	SQY1	0.246	0.312	0.204	0.398	0.421	**0.671**
	SQY2	0.263	0.474	0.419	0.405	0.562	**0.799**
	SQY3	0.297	0.464	0.342	0.551	0.744	**0.822**
	SQY4	0.222	0.555	0.326	0.511	0.662	**0.739**

PLSc Algorithm, Smart PLS 4, *Source*: Field and Online Survey, 2024

Assessment of The Structural Model

To assess the in-sample model fit, the adjusted (R^2) values of the endogenous latent variables in the path model are examined, as presented in Table 4.7. The adjusted (R^2) for ITY is 0.416, indicating that the predictors explain 41.6% of the variance in ITY. For PIN, the adjusted (R^2) is 0.592, meaning the predictors account for 59.2% of the variance. Lastly, the adjusted (R^2) for PVE is 0.679, showing that 67.9% of the variance is explained by the predictors. The (Q^2) values for ITY, PIN, and PVE are 0.394, 0.563, and 0.669, respectively, indicating good predictive relevance for the model. All these (R^2) values are considered moderate to strong.

Hypothesis Testing

The study found significant relationships between several predictors and purchase intentions. AIE significantly impacts PIN (β=0.437, t=9.031, p<0.01, 99% CI). CIG significantly influences ITY (β=0.406, t=4.903, p<0.01, 99% CI) and PVE (β=0.213, t=3.8, p<0.01, 99% CI), but not PIN (β=0.006, t=0.08, p=0.936). PVE significantly affects PIN

(β=0.221, t=2.068, p=0.039, 95% CI). SQY significantly impacts ITY (β=0.293, t=2.719, p=0.007, 95% CI), PVE (β=0.679, t=16.489, p<0.01, 99% CI), and PIN (β=0.333, t=3.624, p<0.01, 99% CI). Significant indirect effects include SQY influencing PIN through PVE (β=0.15, t=1.978, p=0.048, 95% CI). However, ITY did not significantly impact PIN (β=-0.092, t=1.595, p=0.111), nor did PVE significantly influence ITY (β=-0.132, t=1.01, p=0.313).

Hypothesis Testing

Hypothesis	Relationship	t statistics	p value
H1	AIE -> PIN	9.031	0.000
H2	CIG -> ITY	4.903	0.000
H3	CIG -> PIN	0.08	0.936
H4	CIG -> PVE	3.8	0.000
H5	ITY -> PIN	1.595	0.111
H6	PVE -> ITY	1.01	0.313
H7	PVE -> PIN	2.068	0.039
H8	SQY -> ITY	2.719	0.007
H9	SQY -> PIN	3.624	0.000
H10	SQY -> PVE	16.489	0.000
H11	SQY -> PVE -> PIN	1.978	0.048
H12	PVE -> ITY -> PIN	0.731	0.465
H13	CIG -> PVE -> PIN	1.998	0.046

Fig. 2: Structural Model with Path Coefficient and p-values
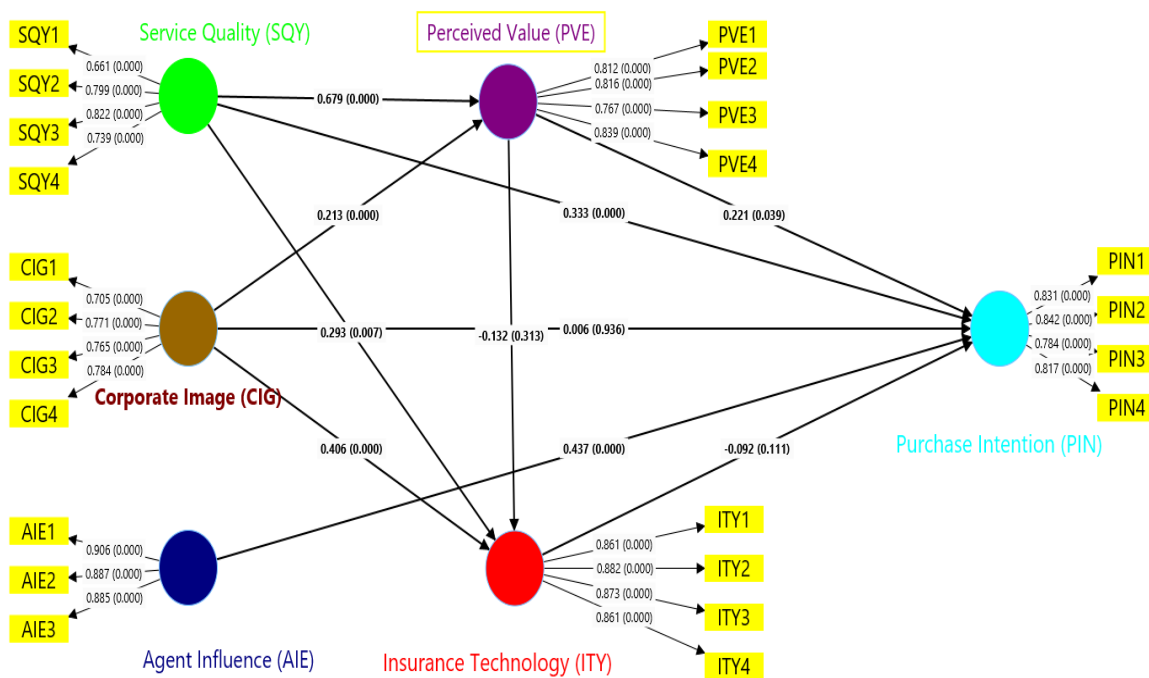
CONCLUSIONS

In conclusion, this study enhances our understanding of the factors influencing the insurance purchase intentions of Nepalese consumers. The research findings investigated agent influence, corporate image, service quality, perceived value, and insurance technology with respect to how these factors might better help in understanding, anticipating, and influencing consumer behavior in the insurance market of Nepal. The study used a comprehensive quantitative approach with a diverse sample size in the identification of meaningful patterns and relationships. In particular, the findings emphasized the critical roles played by agent influence, corporate image, service quality, and perceived value in molding purchase intentions. On this note, SEM analysis further demonstrates that these constructs explain a substantial part of the variance in purchase intention through significant positive impacts from agent influence, corporate image, service quality, and perceived value. Corporate image does not have a significant direct effect on purchase intention, and insurance technology does not have a direct and significant effect on perceived value. The research indicated the urgent need for insurance companies to be very customer-centric and to adapt to changing customer expectations and behavioral changes, especially in the post-pandemic era. Those are some practical implications for policymakers, regulators, and insurance agencies on how best to enhance customer engagement and satisfaction in insurance. This would therefore lay a strong foundation for further research and practical implications within the domain of insurance by indicating the critical role played by perceived value and indirect influence of corporate image and service quality on the consumer purchase intention.

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