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## Challenges in Value Creation with BoP Life Insurance Consumers: A Consumption Value Theory Perspective

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## Challenges in Value Creation with BoP Life Insurance Consumers: A Consumption Value Theory Perspective[1]


### Abstract

*Value creation and destruction is relatively less understood with low-income (or BoP) consumers. This paper attempts to unravel the VCC-VCD processes in the life insurance market with low-income consumers, using the consumption value theory perspective. The findings suggest that emotional value and economic value primarily drive the value creation processes, while social value, epistemic value and functional value aspects are destructed in the value creation processes in this industry with low-income consumers. Conditional value plays a situational role, and can help to enhance (or otherwise) the value creation processes. Interesting managerial implications are suggested for the life insurance industry and its regulators, based on the findings of the study.*


### Introduction

Low-income consumers who are often also referred to as base of the pyramid market segment (BoP for short) are known to struggle not only to earn their livelihoods but also to spend a disproportionately large part of their incomes on healthcare, especially medical exigencies, as these consumers are often uninsured or under-insured. Moreover, given the dearth of healthcare delivery in this segment, huge opportunity cost of falling ill along with the mortality associated with medical exigencies, it is expected that BoP consumers may develop a rational choice towards purchase of products such as life insurance. At the same time, life insurance is a complex product to sell in this market segment, given the unclear nature of the value that this product delivers.

Marketing literature suggests that often consumers act as rational actors to balance their costs with benefits while negotiating choices. One can always challenge the assumption of rational decision making by consumers, and it has been often seen that non-rational choices driven by


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hedonic goals and other factors often force consumers to make, 'time inconsistent choices which are contrary to their own long term self-interest (Hoch and Lowenstein 1991; Loewenstein 1996). BoP studies (e.g., Viswanathan et al. 2005) explains that BoP consumers are often likely to show such deviations as their affect, cognition, and motivation are differently shaped. Alternately, the consumers may create ego-defence shields and buy offerings which may be beyond their means. Due to prevalent sense of fate and destiny, their sense of self-control may often be confounded and rationalization may take over, leading to attributions to external factors beyond their own control. These may also lead to loss of self-efficacy to re-shape their life circumstances, a sense of learned helplessness, and yet develop unique coping mechanisms that lead to self-adaptation to extreme environments (Viswanathan et al. 2005).

It can be presupposed that the social realities surrounding the low-income consumers including the notion of health and related concepts may evolve differently than it does for the literate non-BOP customer. Such fundamental dissimilarities drive more intuitive and less deliberative decisions, which may safeguard their immediate interest, but may quite often result in sub-optimal outcomes in future. This may have serious consequences to the extent that such tendencies may impede self-improvement and well-being at individual as well as societal level.

Life insurance (LI for short) as a service has less than 10% overall market penetration in India, and even less in rural markets, and one of the primary reasons for that is the explicitly product-centric push sales based approach of LI firms. A product-centric approach often reduces the focus on the individual consumers, their needs, and beliefs, and thus ignores the life goals and beliefs that shape attitudes and practices in BoP markets (Ranjan et. al., 2021). The LI firms need to take a co-creative view of insurance selling based on the service-dominant logic (SDL) of marketing (Vargo and Lusch, 2004) that encourages active co-participation of consumers, in the multi-actor service ecosystem and thus help to generate complementary resources to develop higher value for the consumers (Lusch et al., 2010).

Life insurance is a complicated and intangible product, which also acts like a social tool to protect against unforeseen circumstances and risks (Komalasari et al., 2018). Given the uncertain characteristics of insurance services, consumers may perceive buying the product as risky (Aldás-Manzano et al., 2009; Byrne, 2005; Harrison et al., 2006). Such a risk of purchase of insurance services is further increased due to low product category knowledge (Srinivasan and

Ratchford, 1991) among low-income consumers. Consumers also have to face the challenge of choosing the appropriate insurance policy which is often made complex in case of low-income consumers due to low access to relevant information (Harrison et al., 2006). From a services marketing literature perspective, life insurance is considered as a high credence service in which future benefits are difficult to prove and thus consumers are often less confident in their ability to judge the value in the product that leads to difficulties in decision making. To make things even more complex, not only are the benefits not clearly visible to the consumer/s in the short term, the incurred costs are also recurring (periodic premiums to be paid by consumers). The recurring cost of the product (annual or semi-annual premiums) compared to one-time payment for most of the usual products may make this product difficult to explain to low-literate consumers living in BoP. Such challenges become salient for BoP consumers as BoP consumers exhibit cognitive predilections (concrete reasoning v/s pictographic thinking), implying that they are less prone to derive meaning from abstract notions (e.g., insurance or life insurance) compared to their more literate counterparts. Other aspects confounding the creation of value in this product category are factors such as differences in consumer decision heuristics (single attribute v/s multiple attributes decisions) and trade-offs (economic value v/s emotional value), and coping behaviors (avoidance v/s confrontation).

The objective of this working paper is to present some preliminary findings from the field about various beliefs of the rural low-income segment of consumers and non-consumers related to life insurance. There are two studies conducted, first is a quantitative survey among rural LI consumers/prospects, and the second study is an in-depth qualitative study done on semi-urban LI consumers/prospects to understand their beliefs and how it shapes value creation, taking the perspective of consumption value theory (Sheth et. al., 1991).  The findings from both studies have interesting implications for LI firms.

***Value creation & destruction and Low income consumers***

In this study, the value created and destructed is explored when low-income consumers interact with sales agents in the marketplace. The perceived value creation and destruction processes are explored through the lens of the lived consumer experiences. We borrow from value theory and lens of disabling marketplace experiences since the research is in the context of low-income consumers who simultaneously face constraints of low-cognitive resources required for information processing (given the complexity of LI as a product), as well as vulnerability that they face in the marketplace given low literacy levels, and low self-efficacy among most consumers in this segment.   Although our respondents are not disabled physically, mentally or emotionally, their lived marketplace experiences can be ‘disabling’ given the vulnerabilities and constraints they face on a daily basis in their marketplace exchanges. Thus the key source of disabling marketplace experiences for low-income and low-literate consumers in the financial marketplaces are the negative experiences (Echeverri and Salomonson, 2019; Higgins,2020). which are very likely in the case of financial products which are complex to understand (given low financial literacy and numeracy faced by such customers), especially life insurance. Thus negative experiences can lead to value destruction, while on the other hand enabling experiences can lead to value creation. e.g., insurance firms when they enable financial literacy by educating low-literate consumers can lead to higher value creation among these consumers, as it can also lead to improvement in their well-being (Johns and Davey, 2019). From that perspective we treat low-literacy, low-income and other resource constraints of the low-income consumers as a disability that can lead to value destruction, as it can lead them further marginalised and disempowered (Beudaert et al., 2017). However, at the same time, the value creation can be enabled by firms through their sales agents and other sales and marketing activities, while also through the enabling role played by consumers’ family and buying pals.

The theoretical lens of the study is value theory which provides a useful perspective to understand how value is created and/or destroyed in marketplaces where consumers may have lesser resources (cognitive and financial) to enter into marketplace exchanges with sales agents and firms while navigating the exchange process to purchase a complex product such as life insurance. Consumer value is a subjective concept and is generally understood as a subjective assessment of consumer’s interactive and relativistic consumption experiences (Holbrook, 2006). Value creation and destruction can go on in a marketplace simultaneously and involves integration or misintegration of resources by key stakeholders in the exchange process, primarily by consumers and service providers in the process of value creation (Prahalad and Ramaswamy, 2004). While value creation for consumers can enhance their well-being (Zainuddin et al, 2013), the value destruction process can often lead to reduction in the consumers’ well-being (Laud et al., 2019; Plé et al., 2010). However, service literature also suggests that value creation(VCC) and value co-destruction(VCD) are not dichotomous in nature and are context dependent and thus the interactional nature of VCC-VCD processes should highlight these nuances in the marketplace. For example, sales agents are likely to push customers to purchase the product that can lead to deviant behaviors, which are not necessarily value destructing. Several deviant behaviors (such as above) may have beneficial consequences such as becoming a starting point for innovations which may be value creating (Plé and Demangeot, 2020; Koskela-Huotari et al., 2016), or can also reduce value creation activities for the actors in the exchange process (Akaka et al., 2013).

Conceptualizing value itself can be problematic. Thus value creation and destruction becomes complex to understand as it is contextual, subjective and depends on from whose perspective it is observed. One actor's value creation can also lead to another actor's value destruction. Value is also multi-dimensional and is said to have the following dimensions from consumption value theory perspective: functional, economic, emotional, social, epistemic, and conditional value (Gordon et al., 2018; Seth et al., 1991; Sweeney & Soutar, 2001). Each of these six dimensions of consumer value are context and consumer dependent and hence would differ from context to context and consumer to consumer. Value creation and destruction largely depends on the resource contribution and integration (or mis-integration) by the actors in the marketplace exchanges, and is interactional in nature (Davey et al., 2020; McColl-Kennedy et al., 2012). Consumers' role can be cognitive, affective or behavioural (Davey et al., 2020; Zainuddin et al, 2013), while the role of seller/service provider can be support/functional, technical, and/or interpersonal in nature (Dagger et al., 2007; Brady & Cronin, 2001; McDougall & Levesque, 1994)

**Method**

There were two studies conducted-Study 1(survey method) and Study 2(qualitative study).

Study 1: To understand the beliefs of low-income consumers towards LI as a service, a survey was conducted across 10,026 low-income rural consumers and non-consumers of life insurance. The respondents were chosen on the basis of convenience sampling from two districts (10 tehsils, and 296 villages) in Madhya Pradesh, India. Several questions related to beliefs in life insurance and other questions including demographics were asked. The survey was conducted by a third party agency that specializes in data collection in the rural markets. The sample consisted of 74% male respondents, and 39% of the respondents were between 18-30 years, 51% in the range 31-55 years and the remaining were more than 55 years old. About 83% of respondents were married. More than 80% of the sample respondents had a family size of more than 3 members. 62% of the respondents were educated until 8$^{th}$ standard of school, and only 8% had qualifications above 12$^{th}$ standard. Almost all respondents were earning less than Rs 15,000 per month. 60% of the sample were farmers, 36% were labourers, and the remaining were small traders. About 40% of the respondents did not own any land, while others owned land ranging between 0.1 acre to 15 acres (1 acre is about 4045 sq meters). Almost 90% of the respondents did not ever buy a life insurance product.

***Study 1 (Quantitative study) Findings***

<u>Finding 1: Rural BoP Consumers have low awareness levels</u>

The survey found that on an average, the category awareness level is about 60%. The awareness increases with levels of education (those with qualifications above 12$^{th}$ standard have 76% awareness level), and income-levels (those with higher income had higher awareness) and occupation (the micro-entrepreneurs had higher awareness than farmers and labourers). Family size had little or no effect on awareness. Female respondents had lower awareness than male respondents. Overall it shows that while 60% category awareness exists, it has resulted in very low trials (less than 10%).

<u>Finding 2: Life Insurance as Investment tool</u>

Almost 50% of respondents think that life insurance (LI for short) is a good investment, while the remaining don't think so. Those with higher education and incomes find LI as an even better investment tool compared to those with less education and incomes. Those with higher land ownership also found LI as a better investment tool compared to those with less land ownership. Thus it shows that although 50% consider LI as a good investment tool, it has not resulted in actual purchase.

<u>Finding 3: Overall perception of LI category</u>

The overall perception of rural low income consumers is not very positive. Less than 50% of the respondents have positive perception while the remaining were not sure. The perceptions became positive with higher education and incomes. Male respondents had more positive perceptions than female respondents. Thus despite 50% positive perceptions, there is still a low % conversion into purchase.

Finding 4: LI needs agents and buying pals

More than 70% of the respondents who bought LI mentioned that their family and/or friends helped them to buy LI. The dependency on friends and family members reduced with increase in education and income. More than 70% of customers bought LI from sales agents. The dependency on sales agents increased for older customers. However, there were about 25% of customers who mentioned that sales agents cheated them while selling LI. Those with higher education were cheated less than those with less education. Female respondents were cheated less than male respondents. About 15% of the customers also expressed post-purchase regrets. Regrets were higher in less-educated respondents compared to higher educated ones.

Finding 5: Perceived Value in LI product

About 75% of customers could perceive benefits in the LI product. The perceived benefits reduced with age and income but increased with education. Female customers perceived value more than male customers in the sample. About 70% of customers were worried whether their family would receive death claims, and it increased with education levels. Male customers were more worried than female customers.

***Study 2(Qualitative study) Findings***

To understand the process of value creation and value destruction in greater detail, a series of in-depth interviews were conducted with low income consumers. Sampling method was purposeful, and sample size was decided based on the basis of theoretical saturation achieved. A total of 17 in-depth interviews were conducted in various cities (Bangalore, Delhi and Ropar), and were audio-recorded, and later translated and transcribed for analysis purposes. Extensive notes were also made by the research investigators.

Analysis of these interviews were carried out through thematic analysis to understand instances of value creation and destruction based on the purchase and consumption experiences of the consumers. The text was analysed to understand how the six dimensions of value i.e., functional, economic, emotional, social, epistemic, and conditional value (Gordon et al., 2018; Seth et al., 1991; Sweeney & Soutar, 2001) were created or destroyed during the purchase and consumption journeys of the consumers. To get a comprehensive picture of the value creation process, interviews of consumers as well as non-consumers were conducted for wider understanding of potential LI consumers.

*Consumer (Mustafa)*

Mustafa is a 43 years old married man who works in a computer hardware retail store on the outskirts of Bangalore city. He managed to earn a diploma to be able to get this job, which earns him around Rs 20,000 (USD 240) per month [1 USD is approximately Rs 83]. Although he owns a modest house, he supports a family of 4 members. He has bought an insurance product, and had come to know about the product through discussion with friends. He thinks that LI would provide security to his family in difficult times ("the terms of money or other…, our family will feel secure."). He bought the product on his name around 9 years ago paying Rs 9000 per year, and does not repent buying it. A sales agent sold him the product. He seems to be quite confident of the benefits that LI can offer to him and his family as he mentions:

"If we age (become old) and retire, we may get money then. If in the middle, we need a loan, we can keep that bond as a collateral and take money for necessities…these benefits."

Mustafa's knowledge and understanding of the product shows that his LI agent managed to create functional, economic and emotional value for his family. He does not feel that the annual premium he pays causes any cash flow hardships for his family, and is convinced that LI is like a "savings". He also is convinced that in time of need, he can lien the insurance policy to take a loan. The emotional and economic value of the consumer(Mustafa) goes hand in hand with his general optimism in life: "I hope good things will happen to me". He seems devoted to his family and that it is his duty to take care of his family: "…because family is dependent on us, including elders. They will instil that feeling of duty in us. And we have to keep up those duties, that's it." His responses also reflect his future-orientation (and not short-term thinking that is so often associated with low income consumers). Mustafa says: " …when we are unable to work, if we get Rs 5 lakhs, it will be of great help. We can deposit it in a bank and use that." He is a God-fearing and religious-minded person and prays regularly: " We are born as humans. God made us. We don't know why he made us. But if we pray, it will be peaceful for our soul. We will get discipline. We will know how to behave in society." His children study in school, and Mustafa is keen that they get a good job when they grow up.

Thus it is also observed that since Mustafa could not recall getting cheated by the sales agent (it was explicitly asked), there was an explicit absence of value destruction. The value creation was largely economic and emotional in nature. The social, epistemic, and conditional dimensions of value were not visibly present in this case.

*Non-Consumer (Venkateshulu)*

Venkateshulu is a 40-year-old male weaver on the outskirts of Bangalore and earns around Rs 12,000 per month. He studied until Class 12th. He neither owns any house nor any land, and lives with his wife and two sons. Like other BoP consumers we spoke to, Ventakeshulu also is aware of life insurance as a product yet lacks sufficient product knowledge ("Yes, I have heard about it. But never had complete depth knowledge about that…") and claims that he knows that, " … in case of any accidents, we can get money from the company." Being low literate in his education and with numerical literacy as a constraint, estimating functional value is of utmost importance yet most fizzy for them, " I am not sure. I think it's good. returns might be low." He has not bought life insurance ever, as he" ..didn't think about it till now." Yet he is also skeptical about the sales agents who sell insurance products, "Any LIC (one of the leading life insurance brands in the market) agent that comes only thinks about the number of policies he can get and the commissions he gets. They are not genuine." Another reason for not being convinced of buying insurance was that, "I may have a good year this time but a bad one next. If I don't pay the instalment next year, my money will get lapsed. I will lose the money paid till then. So, it's very uncertain and loss making." Unfortunately, Venkateshulu thinks savings is a good investment yet his earnings are not sufficient for him to save any money at the end of the month. He is a family-oriented person who worships regularly and wants his children to get educated and obtain a government job.

## Discussion and Theoretical Framework

Based on our in-depth interviews, we found that among the six dimensions of the consumption values, functional values which primarily consists of price, quality, and utilitarian value are fuzzy in nature to be well-estimated by low-income consumers, despite it being among the primary factor influencing consumers' choices (Sheth et al., 1991). Other possible aspects of functional value such as variety or availability is also less salient in life insurance as a credence service. The uncertainty of being able to pay premiums leads to lower economic value, especially since the certainty of payouts (death claims) are also equally difficult to assess by the consumers. However, most consumers were optimistic that their family would receive a decent amount of funds after their death, or on maturity. Social value of buying or consuming an insurance product is also less salient given that it is not a conspicuous consumption item nor is it shared among social entities such as in groups or communities. There is also a very low social image aspect associated with buying LI, and has little or no social class signalling effect. Purchase of life insurance also does not lead to qualification or otherwise in particular social classes. However, life insurance seems to score high on increasing emotional value as it provides an immense sense of security to consumers, as evident in our sample's responses. Life insurance as a cover to protect one's family after his/her death evoked a high affective state in consumers' minds. The phrase "If a person dies, the family gets the money" keeps getting repeated in our respondents' replies to how they perceive value in the product. The high emotional value in the LI product is also due to the nature of the product which is high on intangibility and low on functionality. The epistemic value of the product is expected to be limited since the product has penetrated in consumers' awareness levels, and does not arouse high curiosity any longer these days. The low-income consumers in our sample did not display any variety seeking behavior for brands while choosing to buy LI products for their families. Finally, conditional value of the product is again high since it is context specific and depends on the contingencies on consumers' lives. For example, one respondent says, "Yes I regret not taking a policy. Recently my father passed away and I realize its importance." The respondent, Manikanta realized the conditional value in buying the product given the life contingency he faced, and he realises how it is tied to his duties and familial responsibilities, "as an elder son, after my father, I think it's my responsibility to take care of my family." Thus the LI as a product has a high situational effect on value creation for the consumers. Moreover, the manifested conditional value in the product is probably more transient than enduring in nature (Sweeney & Soutar, 2001).

Our findings seem to suggest that VCC and VCD are neither dichotomous nor have clear boundaries. We also found that the characteristics of markets as well as individual consumer characteristics play a vital role in VCC-VCD processes. Several marketplace and product characteristics impacts the process of value creation (e.g., life insurance product attributes are abstract for low literate consumers to understand that leads to low value creation and possibility of value destruction), the nature of interaction between low-literate consumers and sales agents(sales agents are pushy and do not invest sufficient time and resources to sell the right products to low-income consumers leading to VCD), the level of product knowledge( which is generally low among low-income consumers) to mention a few. There are also product and market limitations that impact value creation in this LI category. e.g., low-literature, low-income consumers face literacy and numeracy related challenges to create higher value for themselves. The resource contributions by the BoP consumers is also generally low given the volatility and uncertainty of their incomes. LI as a product requires regular premiums to be paid unlike purchase of any other products which can be bought by paying only once. Thus the time commitments required to purchase LI as a product reduces the commitments towards resource contributions in terms of their capacity, willingness, and ability which are volatile in nature (most of the BoP consumers earn daily uncertain wages) which in turn impacts the value creation or destruction processes and consumers' own experiences.

Our findings are consistent with previous studies (e.g., Zainuddin et. al., 2024) in terms of unravelling consumer experiences that depend on their own life circumstances, and the marketplace context. While Zainuddin et. al. (2024) was in the healthcare market with disabled consumers, our context is that of low-literate, low-income consumers in rural markets navigating a complex product such as life insurance. Prior literature (e.g., Zainuddin et. al., 2024; Davey et al., 2020; McColl-Kennedy et al., 2012) has also suggested that the variability in consumer activities, and their own willingness, along with service provider contributions impact consumer experiences in the VCC-VCD processes in the marketplace.

Value creation and destruction processes in life insurance industry, especially with low-literate and low-income consumers can be extremely challenging. Prior studies (e.g., Buehler, and Maas, 2018) have suggested that the nature of LI as a service is that there is an uncertain time lag between time of purchase of the product and the time of service fulfilment, and during this time duration, there is a no visible service that the consumers experience. This difference between LI and other services (even within the financial service industry) makes managing the VCC-VCD processes difficult. Most sales agents do not spend sufficient resources during the post-purchase stage (e.g., time spent with consumers) to reduce this uncertainty and performance risk aspects of the value creation. The high complexity of several LI products also increases uncertainty and performance risk associated with value creation. VCC-VCD processes are also affected by the product characteristics and consumer beliefs such as their own risk perceptions (Byrne, 2005), as the outcome of events (e.g., death) is probabilistic, and hence value assessment becomes extremely intangible. Moreover, the pay-outs in LI (death claims) are associated with negative, and unpleasantness (Newholm et al., 2006), and happens in the absence of the consumer (after consumer's death), which reduces the level of consumer engagement with the product.

Based on our findings, we propose the following model of value co-creation and value co-destruction. As the model suggests, the economic value ("I think life insurance is a good investment…and the returns seem to be enough") and emotional value ("I am the head of the family, and it is my duty to take care of my family…to feed and help them .... life insurance. acts as a security.") in the LI product largely determines value in the offering(VCC), while absence of clear functional value, social value and epistemic value leads to value destruction with low-income consumers, given the nature of the product. The conditional value acts like a moderator since it is situational in nature, and based on the situation in consumers' lives it may affect value creation or value destruction, as the circumstances may be ("When someone died and had young children, it became difficult for them. Then I felt bad." ... I am planning on buying one in the near future.")

The double headed arrow between VCC and VCD processes also suggest that VCC-VCD are not two separate silos with clear boundaries, but are interdependent and fluid in nature and VCC can lead to VCD or vice-versa based on the nature of resource integration or mis-integration in the marketplace interactions.

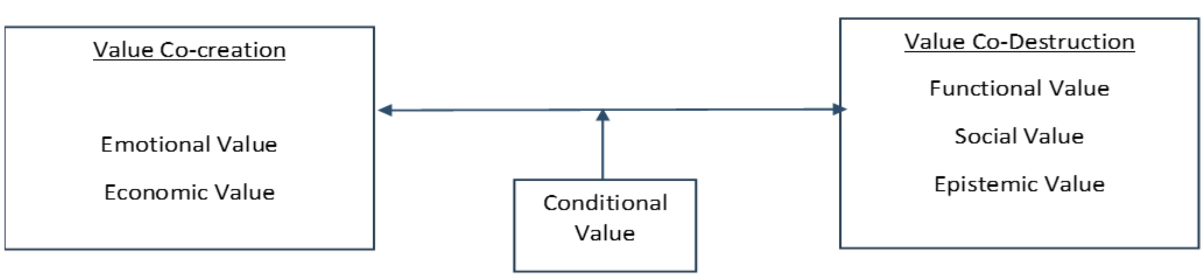

*Figure 1: Theoretical Model of VCC-VCD processes with low-income life-insurance consumers*

**Managerial Implications and Conclusions**

The study suggests several interesting implications for the life insurance industry managers, based on the findings. First, we suggest that sales managers in the LI industry should focus on three aspects of consumer values- functional value, social value and epistemic value which are leading to erosion in the consumer value assessment in the LI as a product. From the innovation perspective, new products can be designed and launched that particularly focuses on enhancing these aspects of consumers' value. These new products that offer higher value can enhance product margins, and new customer acquisitions, and help firms to target new market segments as well. Second, low-income consumers find LI as too abstract from their value assessment perspective. The assessment of economic value is also subjective and fuzzy given the numeracy and literacy constraints of these consumers. Hence firms should try and simplify the communication on assessing the economic returns on LI products. These communications can be designed such that the use of numbers is less and the narrative is instead focused on tangible benefits, given the intangible nature of the product (what they are getting in return for what they are paying). Use of everyday metaphors, and similes to explain the value (returns on the policy) in the product in the form of pictures, stories, and life-incidents can be useful. Third, conditional value being a situational aspect, can be leveraged through use of counterfactual thinking induced among consumers. The LI industry is already using it with literate consumers, and thus without any possible harmful effects, the use of counterfactual thinking in the LI advertisements and communications can enhance the impact of conditional value on value creation among low-income consumers too. LI firms must train their salesforce to help low-literate, low-income consumers to cope with the intangibility and complexity of the product either in terms of demonstrations and narratives connected to their lives, or by making the products simpler (e.g., a low-frills insurance policy) to understand. Insurance regulatory bodies (e.g., IRDA) should also help to relax the strict regulatory constraints currently faced by insurance firms that restrict innovation and creativity in the LI industry. Given the proposed conceptual model, the scope of value creation with the product is already reduced with only two of the six dimensions of the consumer value working for the consumers. Hence, LI firms must re-work on its products, sales interactions, and communications to re-design consumer value creation processes to enhance their experiences, and value delivery in this market segment.

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