

THE ROLE OF INVESTMENT OF LIFE INSURANCE IN FAMILY ECONOMIC GROWTH

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ABSTRACT

The present investigation was aimed to determine the role of life insurance investment in family economic growth. The research was practical in terms of objectives and descriptive-survey in terms of data collection. The research population consisted of 160 employees of insurance companies in Bojnourd who had life insurance. In this regard, 113 of the individuals were chosen as a sample size using Simple Random Sampling Method and Morgan table. Data collection was carried out using a 37-item researcher-made questionnaire. The reliability of the questionnaire was obtained through Cronbach's alpha method, which it was more than 0.7 for all the dimensions and this shows an acceptable reliability for the research instrument. Moreover, content validity was employed in order to assess the validity, which the results indicated the validity of the survey instrument ($AVE > 0.5$). The obtained data was analyzed using Structural Equation Modelling (SEM) and Smart PLS software and the final model was presented. The results indicated proper fit of the conceptual model based on indices of acceptable and significant values for path coefficients, factor loadings, explained variances and GOF index. Moreover, the results demonstrated that dimensions; economic, educational, social and cultural factors, and background factors had impact on life insurance investment, and life insurances provide family economic growth through economic discipline and welfare for families, economic interaction of participants and economic socialization of children.

KEYWORDS: life insurance, family economic, economic socialization, Smart PLS

INTRODUCTION

"Saving" is one of the key and vital factors in the process of economic development. This concept is introduced in two forms of financial and non-financial savings. In financial saving, distributed capital at community levels is spent on purchase of property, such as land, houses, jewelry, etc. On the other hand, the capital is spent on paths such as: purchasing bonds and life insurances with savings features in non-financial savings. The mentioned capital virtually has no excitability in the capital market and development programs financing in financial savings. However, required capacities for implementation of different projects could be provided through non-financial savings (Kaboutari, 2012). Related studies demonstrated that savings ratio to Gross Domestic Product (GDP) was 25% in 14 countries among 20 countries that had the most economic development, but the ratio was 14% in 14 countries among 20 countries that had the least economic development. The issue indicates that GDP has a direct and significant relationship with saving. In the meantime, life insurance and saving are of the most important components in non-financial savings and development of the insurance has an important role in achieving economic development. In addition, life insurance and saving have other macroeconomic performances such as coping with currency depreciation and maintaining the ability to fulfill the obligations of the insurer. Moreover, the insurance provide the possibility of funding for community members and their families, and leads to consolidation of family economy (Salehani, 2013).

Life insurance is a bilateral contract in which one of the parties (the insurer) is committed to pay a capital once or in installments in return for a payment or funds from the other party in the case of certain someone's (the insured) life or death to the person who life insurance contracts concluded in his favor (Ober, 2009). Economic needs of individuals should be described for them initially in the case of life insurances. Any person has economic needs in accordance with his/her time in different periods of life. It will be easier to sell life insurance when the economy needs to be clearly evident to him. A society member don't have adequate motivation to buy a life insurance until he do not know what are his needs and what application life insurance has in his future. Therefore, the first issue in this regard is determination of economic needs through appropriate methods. Lack of protective leverage for our family is like jumping from a height. The world population is rapidly approaching to senescence. On other words, good sanitation, effective treatment and good nutrition lead the society to longer life expectancy. Aging of the population is an economic burden for the society. Generally, life insurance sale makes a series of chain factors in the society (Verma and Bala, 2013).

Statistics indicate that total insurance premium received by 11 countries in Southeast Asia was 680 million dollars and about 440 dollars of it is related to life insurance premium. It means Japanese made possible out of impossible over a period of 30 years. Incidental impacts of investment acquisition returns to insurance companies. Moreover, production and sales investment are chain feedbacks which is generated in the national economy. One of the effects of investment is fighting inflation. If life insurance and savings policy is designed properly (on other words, added values and profit from it should be considered), then it fights inflation (Kardegar, 2007).

Savings for children is an important factor in easing economic concerns. When a child is born in a developed country, the parents buy an insurance and pay about 18,000 dollars in about 15 years. It would be worth 5 million dollars when the person reaches the age of 65. There would be a table attached to his life insurance which determines the value of its cash. It means that the person could have 0.5 million dollars when he reaches the age of 20. It is a kind of economic support of children in developed countries while this is not practical in our country (Verma and Bala, 2013).

There are some investigations conducted in this field which indicate the importance of life insurance. Perdic et al. (2014) studied the life insurance market in Serbia. According to them, development of life insurance industry had significant social and economic impact on development of the country. Increasing incomes, cultural progress in the use of insurance and appropriate response of the market to the investors are important factors in the present research which are together with investment growth in the life insurance industry. Moreover, Zhang (2014) analyzed life insurance market demand in China. According to the author, important social factors such as family culture could have significant impact on the more use of life insurance. It was also emphasized in the research that factors such as plurality of types of insurance and amounts of insurance premium payments are of the most important reasons that can make more money flows into the market and good motivation for more welcoming by the public. De-Paz et al. (2014) studied the impact of time on the amount of use of life insurance and investments in the industry. According to them, success or failure in life insurance industry depends on circumstances and time conditions ruling the country. Time series used in the research to analyze the data indicate the significant impact of time on changes in life insurance. Millo and Carmeci (2014) studied the extent of use of life insurance in Italian families. It was emphasized in their research that following a pattern was the most important stimulus for Italian families in greater use of life insurance. In fact, behavior of families' acquaintances in the use of life insurance motivates the other families to employ the insurance. Hence, the government started a campaign to encourage the public to use the insurance. Eling and Kiesenbauer (2014) investigated the role of marketing in promotion of the German insurance industry. According to them, life insurance is an important socio-economic tool. Moreover, it has an important role in the sustainable economic development of countries. It was emphasized in their research that life and savings insurance have undeniable contribution to economic growth of families because of both meeting the financial needs of the family after the death of its administrator and savings.

Barik and Patra (2014) studied the increasing importance of contractual life insurances. According to them, the insurer plays an important role in the reduction of investment risk of family members, because the insurance will be committed to provide a financial assistance to the family members after their death in exchange for insurance premium. On other words, investment in such an insurance leads to more risk taking in entrance to innovative activities and businesses.

Sen and Madheswaran (2013) concluded from study of investment of life insurance in 12 developing countries in Asia that the industry is placed in a better condition in developed countries and developing countries should move towards more investment in this area. According to them, government support in policymaking is the main success factor in developed countries in this regard. Identification of factors affecting the growth of investment in life insurance is of other important results in their investigation. They believe that these factors are level of income, inflation and real estate industry in countries.

Eventually, it can be expressed that life insurances are of social welfare indices. Any society is developed economically when there is a good growth in life insurance. Life and savings insurances should be classified according to the market demands, because expectations of policyholders of life insurance and savings have been changed from the past. Previously, it was just subsistence but nowadays welfare in aging is considered. For this reason, life and savings insurances are welcomed this much in Southeast Asian countries or countries in Europe and America. On the other hand, state social systems cannot satisfy human needs. It means social security is not adequate not only in our country but also in developed countries. They are responsible for providing the minimum for the insured. Persons who have

worked a lifetime receive retirement pension from the Social Security Administration. The proposed solution could be life and savings insurances which are known as supplementary schemes. Tax exemptions are what the governments apply as Incentive Policy. However, since the supplementary life insurance is not in an investment market, it is not efficient (Kardegar, 2007).

The present investigation was also in this regard and tried to answer to the following question. What is the role of investment in life insurance in economic growth of families? The research hypotheses are mentioned in the following. Moreover, the conceptual model of the research is shown in figure 1.

Main hypothesis

- Life insurance investment has impact on economic growth of families.

Sub-hypotheses

- Economic factors have impact on life insurance investment.
- Cultural, social and educational factors have impact on life insurance investment.
- Underlying and cooperative factors have impact on life insurance investment.
- Life insurance investment has impact on establishment of economic order and welfare in families.
- Life insurance investment has impact on economic interaction between family members.
- Life insurance investment has impact on economic socialization of children.

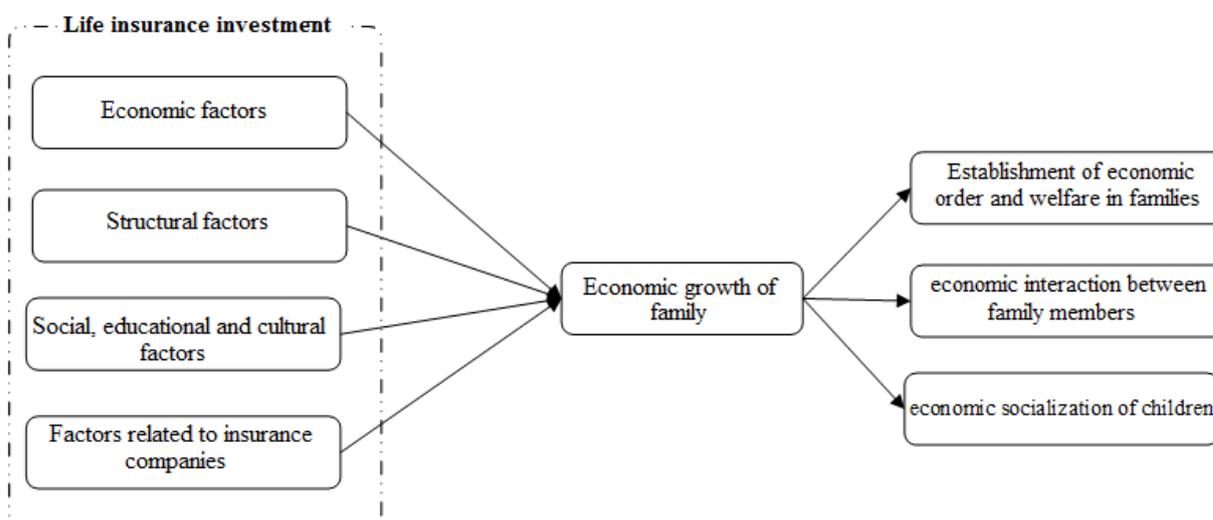


Figure 1. Conceptual model of the research

MATERIALS AND METHODS

The present research was practical in terms of objectives and correlational-descriptive in terms of data collection. The population consisted of all employees in life insurance companies who were covered by life insurance. In this regard, 160 of the employees of insurance companies in Bojnourd who had life insurance were selected among whom 113 individuals were chosen as a sample size using Morgan table and simple random sampling method.

In order to evaluate the variables affecting investment in life insurance, a researcher-made questionnaire consisted of economic factors (5 items), social, cultural and educational factors (4 items), and cooperative and underlying factors (10 items) was used. Moreover, economic growth of the family was measured using a researcher-made questionnaire consisted of three dimensions of economic order and welfare in families (7 items), economic interaction between family members (6 items) and economic socialization of children (5 items). In addition, a five-point Likert scale was employed in the questionnaires. After the initial design and consultation with experts, necessary reforms were done and final form of the questionnaire was determined in order to evaluate the validity of the existing questionnaire.

Table 1. Factor Loadings

Priority	Result	sig	T	Factor loadings	Observed variables	Latent variable
2	Significant	<0.01	27.58	0.849	Q1 Unemployment and poverty	Economic factors
3	Significant	<0.01	19.57	0.7960	Q2 To make the life insurance competitive with other investment activities	
1	Significant	<0.01	42.47	0.0893	Q3 The amount of income	
4	Significant	<0.01	8.73	0.0669	Q4 The amount of inflation	
5	Significant	<0.01	8.59	0.0623	Q5 The amount of family guardianship	
4	Significant	<0.01	31.91	0.0866	Q6 Continuous relationship between insurance companies and universities and educational centers	Cultural, social, educational
1	Significant	<0.01	50.42	0.0913	Q7 Culture change in relation to allocation of a part of household income to purchase life insurance	
3	Significant	<0.01	57.57	0.0897	Q8 Employment of different educational methods in order to enhance awareness and understanding of people about life insurances	
2	Significant	<0.01	57.80	0.0910	Q9 To inform and familiarize the public about the benefits of life insurance and the risks of death of the head of household and insecurity	Cooperative and underlying factors
5	Significant	<0.01	14.64	0.0750	Q10 To provide life insurance adequate income in old ages instead of high social security payments from the government	
3	Significant	<0.01	15.79	0.0764	Q11 Entrance of foreign companies to the life insurance market	
2	Significant	<0.01	20.90	0.0780	Q12 To design new and novel insurance coverage by the insurance companies	
6	Significant	<0.01	1.81	0.0725	Q13 To facilitate the process of sale of life insurance and so on	
9	Significant	<0.01	10.03	0.0640	Q14 To hold continuous training courses for the employees	
8	Significant	<0.01	9.74	0.0654	Q15 To active research and investigation sectors	
7	Significant	<0.01	15.95	0.0724	Q16 Liberalization of insurance premium tariff rate and to give authority to insurance companies in order to stay in the competition	
4	Significant	<0.01	2.72	0.0753	Q17 To retain customers and keep them satisfied by insurance companies	
1	Significant	<0.01	4.02	0.0784	Q18 Diversification of insurance policies' benefits (e.g. cost of treatment, etc.)	
10	Significant	<0.01	3.08	0.0608	Q19 Employment of new sales methods such as internet sales	Economic order and family welfare
2	Significant	<0.01	21.18	0.0791	Q20 Use of facilities and myriad benefits of life insurance (e.g. tax rebates)	
3	Significant	<0.01	15.95	0.0777	Q21 Family risk management	
1	Significant	<0.01	27.5	0.0843	Q22 Important source of income for families	
5	Significant	<0.01	12.25	0.0731	Q23 Expected rate of return to provide policyholders	
4	Significant	<0.01	15.13	0.0751	Q24 To make mental and psychological relaxation	
7	Significant	<0.01	12.99	0.0695	Q25 Providing desired conditions for the relatives in the future	
6	Significant	<0.01	15.42	0.0721	Q26 To create economic foresight insights in the family	Economic socialization of children
2	Significant	<0.01	52.16	0.0914	Q27 To make the children familiar with saving methods and costs and financial management	
4	Significant	<0.01	35.75	0.0887	Q28 Education of necessity of economic endurance in future	
1	Significant	<0.01	108.5	0.0939	Q29 Education of the importance of money and the value of occupation	
3	Significant	<0.01	53.59	0.0907	Q30 To strengthen the sense of economic responsibility and to educate the importance and necessity of economic devotion for the family	
5	Significant	<0.01	29.11	0.0866	Q31 To talk to children and to inform them about disasters and sudden financial problems such as premature death or disability	Economic interaction of members
1	Significant	<0.01	104.4	0.0976	Q32 Family durability and strengt	
2	Significant	<0.01	46.59	0.0897	Q33 To pay attention to consultation with family members about household economy	
3	Significant	<0.01	33.54	0.0873	Q34 To pay attention to the emotional consequences of household economic problems	
4	Significant	<0.01	23.03	0.0831	Q35 To pay attention to the internal and ongoing expense management	
5	Significant	<0.01	13.08	0.0738	Q36 Assistance in solving economic problems rather than lack of participation and expectations of others	
6	Significant	<0.01	6.48	0.0512	Q37 To promote understanding about the necessity of saving and financial support in retirement and disability	

Moreover, structural validity was used to determine the validity of the questionnaires. In order to measure the reliability of the questionnaire, 25 questionnaires were considered as a pre-test firstly and Cronbach's alpha method was used afterwards, which the values for all dimensions of the two constructs were more than 0.7, and the total value of 0.79 showed that the research questionnaire have high reliability. It could be stated according to the results of the confirmatory factor analysis that which indicator has a significant contribution in the measurement of the research constructs and which one has not. The results of the first-order confirmatory factor analysis of the research are briefed in table 1. It could be said based on the results for all dimensions that all indices created a significant weight and could have significant factor loading at 99% confident level (t-statistic is located out of the interval -2.58 to 2.58).

In addition, Table 2 shows the reliability and validity indicators for all the latent variables.

Table 2. Correlation coefficients, and convergent and divergent validity of the research constructs

	1	2	3	4	5	6	7	AVE	CR	Cronbach's Alpha
Economic	0.7726	0	0	0	0	0	0	0.5974	0.8793	0.8274
Life insurance	0.7703	0.8209	0	0	0	0	0	0.6704	0.9030	0.8851
Economic interaction of members	0.5729	0.6215	0.8124	0	0	0	0	0.6696	0.9216	0.8915
Economic socialization of children	0.3278	0.4760	0.3224	0.9066	0	0	0	0.8221	0.9585	0.9459
Cooperative and underlying	0.5251	0.8107	0.5545	0.4399	0.7848	0	0	0.6167	0.8713	0.8403
Cultural, social and educational	0.2901	0.6479	0.3209	0.3594	0.3366	0.8966	0	0.8041	0.9426	0.9187
Economic order and family welfare	0.5433	0.6989	0.5304	0.3771	0.6427	0.4137	0.7596	0.5774	0.9050	0.8779

Average variance extracted (AVE) was used for the convergent validity. Fornell and Larcker proposed using AVE in order to calculate the convergent validity. When the value for AVE is more than 0.5, the indicators have good convergent validity. This means that a latent variable is able to explain more than half of its variance indicators (observed variables). According to the fact that the AVE in the present study is more than 0.5 for all the research variables, convergent validity of the constructs of the model is verified. The last two columns in the table refer to reliability coefficient (CCR) and Cronbach's alpha. As it is shown in the table, all of these coefficients are more than 0.6 and demonstrate the reliability and validity of the measurement tools (Hulland, 1999).

The conceptual model presented in the present research was analyzed through Structural Equation Modelling (SEM) and Smart PLS software.

RESULTS

Study of sub-hypotheses:

Figure 3 shows the structural equation model in the case of standard coefficient determination.

According to standard coefficient and t-statistic, it can be stated that all the sub-hypotheses are confirmed at 99% confidence level, which the details are mentioned in table 3.

All the factor loadings are significant at 99% confidence level according to the results obtained from the t-test, and play a significant role in the measurement of their constructs. Therefore, the results obtained from the factor loadings indicate high validity of the model.

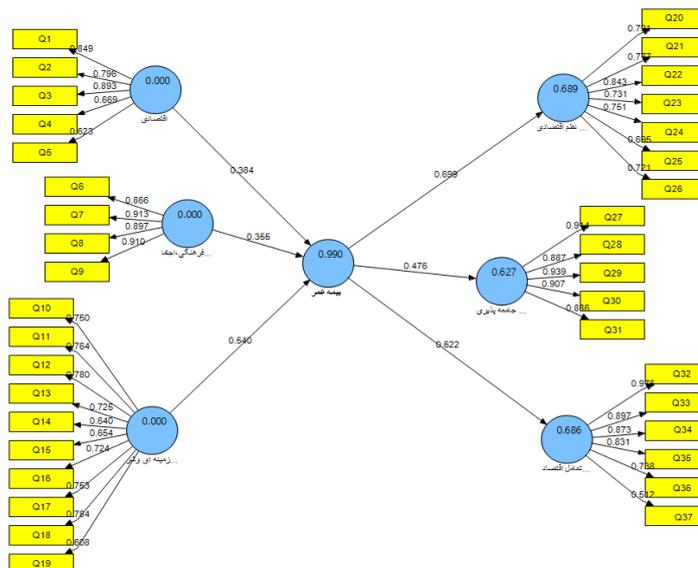


Figure 3. Research model in the case of standard coefficient determination

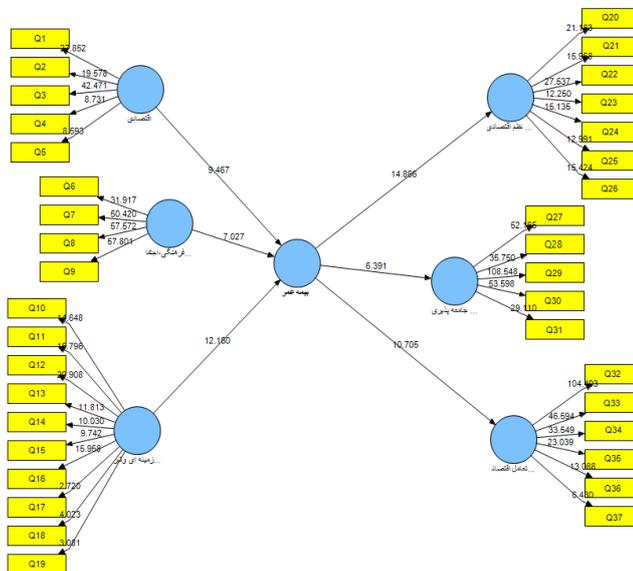


Figure 4. Research model in the case of significant coefficients (t-value)

Figure 5. Research model in the case of standard coefficient determination for the main hypothesis
According to the standard coefficient, it can be stated that the impact of life insurance investment on economy of families is 0.73, which the significance of the relationship (t-statistic is 16.02) is confirmed at 99% confidence level based on figure 6.

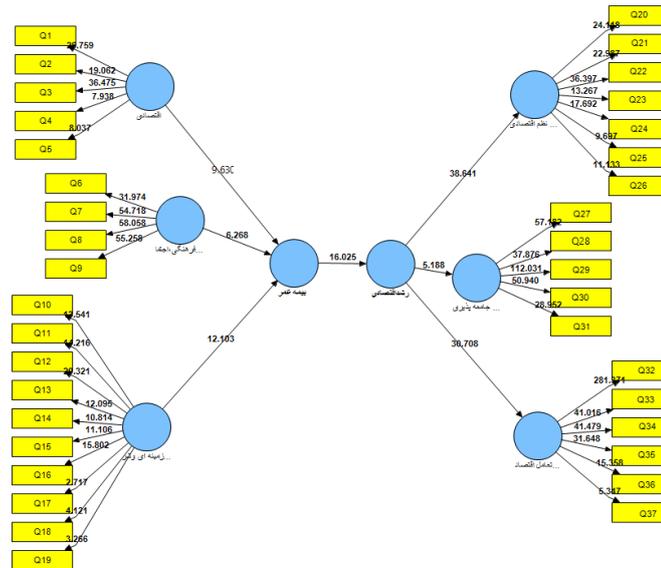


Figure 6. Research model in the case of significant coefficients (t-value) for the main hypothesis
All the factor loadings are significant at 99% confidence level according to the results obtained from the t-test, and play a significant role in the measurement of their constructs. Therefore, the results obtained from factor loadings indicate high validity of the model.

Responding to the hypotheses based on Structural Equation Modeling (SEM)

Another kind of the relationships between hidden variables in Structural Equation Modeling is of kind of direct effect. Direct effect, which is a component of Structural Equation Model, shows a directional relationship between two variables. According to the results of the standard coefficients and t-statistics that are shown in table 3 and in figure 3 and 4 indicate direct and significant impact of all the identified dimensions affecting investment in life insurance and also the impact of investment in life insurance on economic growth of families at 99% confidence level (t-statistic is outside the interval (-2.58, +2.58) and according to positive standard coefficient).

Table 3. path coefficient, t-statistic, the results of the research hypothesis			
The results of the research hypothesis	t-statistic	Path coefficient	Research hypotheses
Approved	16.02**	0.732	Investment in life insurance → Economic growth of the family
Approved	9.46**	0.0384	Economic factors → Investment in life insurance
Approved	7.02**	0.0355	Social, cultural and educational → Investment in life insurance
Approved	12.16**	0.0540	Cooperative and underlying → Investment in life insurance
Approved	14.86**	0.0699	Investment in life insurance → Economic order and welfare of the family
Approved	10.70**	0.0622	Investment in life insurance → economic interaction of members
Approved	6.39**	0.0476	Investment in life insurance → economic socialization of children

** Significant at 99% confidence level

Moreover, PLS can estimate loads of items and the covariance of the residuals at measurement model level in order to fit the research conceptual model. At structural level, path coefficients can estimate the correlation between latent
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variables, explained variance and average variance extracted of latent variables. T statistics for each of the paths and factor loadings could be measured using cross-cutting method or automation. Goodness of Fit (GOF) of the model is realized when the path coefficients are significant, explained variance is acceptable and internal consistency is more than 0.05 for each of the constructs. Acceptable values for factor loadings also indicates GOF of the model. Moreover, GOF index is an index to predict endogenous variables. Three values of 0.01, 0.25 and 0.36 were introduced as weak, average and strong values for GOF (Davoudi and Rezazadeh, 2013, p. 153).

Table 4. Table of communalities

The fitted model in figure 4-8		The fitted model in figure 4-6	
Commonalities	Dimensions	Commonalities	Dimensions
0.5974	Economic	0.5974	Economic
0.3705	Life insurance	0.6704	Life insurance
0.6752	Economic interaction of members	0.6696	Economic interaction of members
0.8222	Economic socialization of children	0.8221	Economic socialization of children
0.4166	Cooperative and underlying	0.6167	Cooperative and underlying
0.8041	Cultural, social, educational	0.8041	Cultural, social, educational
0.5819	Economic order and family welfare	0.5774	Economic order and family welfare
0.4082	Economic growth	0.678	Average
0.584	Average		
0.663	Average R ²	0.748	Average R ²

$$Gof = \sqrt{\text{communalities} \times R^2} =$$

$$Gof_{\text{figure 4-6}} = \sqrt{0.748 * 0.678} = 0.712$$

$$Gof_{\text{figure 4-8}} = \sqrt{0.584 * 0.663} = 0.622$$

Since the calculated values for GOF are greater than 0.36, the model has appropriate fitting. Moreover, all the path coefficients were significant, the explained variance was acceptable and internal consistency of the constructs were more than 0.05 (table 1).

CONCLUSION

Nowadays it is apparent to everybody that productive investments in a society and a direct relationship between economic development and productive investments in the society is a major factor in the economic development of a country. In addition to banks, which are responsible for short-term or medium-term credits of economic entities in our country, insurance is known as a vital source of financing and plays an important role in Iran's economy. Investment in life insurances could have a great impact on family's life and could be as a source of financing and investment. The insurance is economically justified in addition to the advantage of covering the risks of death, disability and failure, because the insurance provides the possibility of creating capital for the society members and leads to strengthening the family economy.

According to the conducted analyses on the population, the results demonstrated that there is a significant and positive relationship between identified dimensions affecting investment in life insurance including economic factors, social, educational and cultural factors, and cooperative and underlying factors, and the impact of life insurance investment on economic growth indices including economic order and family welfare, economic interaction of members and economic socialization of children. It means that strengthening each of the identified criteria leads to improvement of investment in life insurance and economic growth of families.

Economic factors such as macroeconomic indices including rate of inflation, per capita income, the structure of capital markets in the country, the stability of the country's economic policies, balanced or unbalanced development of banking and insurance, savings of households have led the economic factors to play a crucial role in the propensity to life insurance investment among people. Household real income, which is subjected to economic conditions, is one of the most important factors in people's approach to the insurance. Economic strength of the country's public has a bilateral relationship with development of life insurance. It means that higher per capita income leads to more public tendency to

insurance, and greater insurance penetration in a country leads to better economic situation of the public. Inflation is of pests in financial savings, and its existence slows the development of life insurance, sustains reduction of purchasing power and comes with undesired effects, especially in life insurance, all over the world. Therefore, long-term contracts make life insurances precarious and unstable. Unemployment is one of the problems in Iranian society and poverty caused by a combination of two factors: the low level of per capita output and a significant imbalance in the distribution of income are effective in lack of development in the life insurance in Iran. Insurance culture is public familiarization with the types of insurance, use and acceptance of insurance coverage against the coming risks, creating a sustainable and rational interaction between the insurance industry and people, and strengthening a positive faith and attitude toward insurance industry, insurance services and insurance companies. The three factors of social, cultural and educational are related with each other so that employment of appropriate educational methods could lead to changes in social attitudes toward fatalism without effort and action about the future, modification of culture of negligence and indifference toward one's future and lack of proper plan for it, avoidance of tendency to luxury and consumerism, encourage people to use properly, tendency to savings and life insurances. Underlying and environmental factors related to government and policy, structural factors and issues related to the insurance companies have impact on investment in life insurance. Life insurance provides numerous advantages including causes of economic order and prosperity, mental and psychological relaxation, and risk management. Pay attention to investment in life insurances also leads to proper interaction of members and it has impact on internal and ongoing cost management. Eventually, investment in life insurance leads to learning the importance of money and value of occupation, financial and cost management, and importance of future economic tolerance and economic devotion for families. Consultation with your family about investing in life insurance makes the whole family and children aware of sudden financial accidents and problems such as premature death or disability, which this leads to familiarization with savings methods and strengthening the sense of economic responsibility and the importance and necessity of economic devotion for families.

Recommendations

According to what has been mentioned, it is proposed to the authorities to present life insurances with lower premiums and more balanced insurance fund for rural areas and small towns. In this regard, micro life insurance can be mentioned, which can cover low-income individuals. In this regard, appropriate mechanism of group-purchasing insurances should be provided and implemented. This types of insurances could be protection-based, which plays an important role in intellectual security of relatively poor areas. Moreover, designing and presenting different and new insurances, providing facilities and numerous benefits of life insurance, which the life insurance capital could be adjusted according to the prevailing inflation rate at different levels, should be considered. In addition, special attention should be paid to liberalization of insurance premium tariff rate, authority should be given to the insurance companies in order to stay in the competition and compete over insurance premiums and they should be free to choose where they want to invest the received premiums. There should be also special attention to changing tendency of households to purchase life insurance, providing information about life insurance, familiarity with the ways of saving through these insurances, informing the public about the risk of death of the head of household, and old age and disability. Families should provide the requirements for economic interactions of the family members through considering consultation with family members about economic issues, the importance of money and value of occupation, and talking to the children about income and expenses.

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