

MAKERERE UNIVERSITY

**CONSUMER ATTITUDES, FINANCIAL LITERACY AND
CONSUMPTION OF INSURANCE IN KAMPALA,
UGANDA**

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2003/HD10/406U

**A RESEARCH REPORT SUBMITTED TO MAKERERE UNIVERSITY IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF MASTERS
OF SCIENCE IN ACCOUNTING AND FINANCE.**

AUGUST, 2011

DECLARATION

I Samuel Kasule, declare that this work is original and has not been submitted for award of a degree in any other institution.

Signed.....Date.....

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APPROVAL

The following Research by Samuel Kasule which has been carried out under the title **“Consumer Attitudes, Financial Literacy and Consumption of Insurance in Kampala, Uganda”**, and has been under my supervision is now ready for submission to Makerere University with my approval.

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Dr. Nabeta Nkote

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Dr. Ntayi Joseph

(Supervisor)

DEDICATION

The researcher dedicates this work to his family and all invaluable friends who seek knowledge as the way to go.

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TABLE OF CONTENTS

Declaration _____	ii
Approval _____	iii
Dedication _____	iv
Acknowledgement _____	v
Table Of Contents _____	vi
Abstract _____	ix
Chapter One: Introduction _____	1
1.0 Background of the Study _____	1
1.2 Statement of the Problem _____	3
1.3 Purpose of the Study _____	4
1.4 Research Objectives _____	4
1.5 Research Questions _____	4
1.6 Scope of Study _____	5
1.7 Significance of the study _____	5
1.8 The Conceptual Framework _____	6
Chapter Two: Literature Review _____	9
2.1 Introduction _____	9
2.2 Consumer Attitudes _____	10
2.3 Financial Literacy _____	19
2.5 Insurance Consumption _____	23
2.6 Consumer Attitudes and Financial Literacy _____	27
2.7 Consumer Attitudes and Consumption Intention _____	28
2.8 Consumption Intention and Consumption of Insurance _____	30
2.9 Consumer Financial Literacy and Consumption of Insurance _____	30
Chapter Three: Research Methodology _____	33
3.1 Introduction _____	33
3.2 Research Design _____	33
3.3 Population and Sample size _____	33
3.4 Sampling design and procedure _____	33
3.5 Data Sources _____	34
3.6 Data Collection Instruments _____	34
3.7 Measure of Research Variables _____	34
3.8 Reliability and Validity of Research Instruments _____	35
3.9 Data Analysis _____	35
3.10 Limitations of the study _____	36
Chapter Four: Data Presentation, Analysis And Interpretation Of Findings _____	37
4.1 Introduction _____	37
4.2 Descriptive analysis _____	37
4.3 Factor Analysis _____	41
4.4 Objective Two: Level of Financial literacy of Insurance Consumers _____	45
4.5 Objective Three: To establish the degree of insurance consumption in Kampala _____	46
Chapter Five: Discussion, Conclusion And Recommendations _____	53

5.1	Introduction	53
5.2	Discussion of Study Findings	53
5.3	Conclusion	57
5.4	Recommendations	58
5.5	Areas for further research	60
REFERENCES		61

LIST OF TABLES AND FIGURES

Page

1.0	Table 1: Insurance Penetration in Uganda and the top 5 countries in Africa.....	2
1.1	Figure 1: Conceptual Model.....	7
3.8	Table 2: Reliability and validity table.....	35
4.2.1	Table 3: Response by age.....	39
4.2.2	Table4: Education level of Respondents.....	40
4.2.3	Table5: Working status of respondents.....	40
4.2.4	Table6: Monthly household income of respondents.....	41
4.2.5	Table7: Ownership of Insurance policy.....	42
4.2.6	Table8: Gender of respondents.....	42
4.3.1	Table9: Rotated component matrix of consumer attitudes towards insurance.....	44
4.4	Table10: Response on Financial Literacy.....	46
4.5	Table11: Rotated component matrix for consumption of insurance	48
4.6	Table12: Pearson Correlation Coefficient.....	50
4.6.2	Table13: Regression Model.....	52

ABSTRACT

The study examined consumer attitudes, financial literacy and consumption of insurance. The purpose was to examine the extent to which consumer attitudes and financial literacy can explain insurance consumption in Uganda insurance industry.

The study was cross sectional and a structured questionnaire consisting of attitude, financial literacy, consumption intention and consumption was used to obtain data from 118 respondents. The data was analyzed using SPSS and regression and correlation analysis was run because of its capacity to indicate precisely what happens to the conceptual model as different predictor variables are introduced.

The findings revealed that consumer attitudes and financial literacy are strong predictors of insurance consumption and they account for 34.2 percent of variance in consumption. However, consumer attitudes explained more of the variance in insurance consumption. The findings show negative attitude towards insurance products as a result of lack of trust and confidence in the insurance firms. Prices of insurance products, Ignoring risks and reliance on family and friends for help in emergencies are the other factors preventing purchase of insurance. The findings further display low financial literacy of consumers.

Findings can help marketers of insurance products in formulation and implementation of relevant marketing strategies towards addressing the nonchalant attitudes of consumers and financial illiteracy to stimulate and boost patronage and perception of insurance services.

CHAPTER ONE

INTRODUCTION

1.0 Background of the Study

In a consumer behavioral perspective, many different psychological models within different disciplines have been proposed to explain consumer's attitudes, motivation and consumption of insurance. The most popular theoretical models applied in products and services consumption studies are the theory of reason action (TRA) and the theory of planned behavior (TPB) (Fishbein & Ajzen, 1975, 1980; Ajzen, 1991), behavioral perspective models Foxall (1990; 1999), and classical attitude-behavior models.

The main advantage of these models is the inclusion of all person-, product-, and related situation factors in explaining variations of insurance consumption frequency.

An attitude is a learned predisposition to respond to a given object or class of objects in a consistently favorable or unfavorable way. The widespread view is that attitudes are complex systems made up of three components. These are; cognitive component referring to the person's thoughts, affective component referring to person's feelings, and the conative component referring to the person's behavioral tendencies (Ajzen and Fishbein, 1980). In marketing context, it is stated that consumers can develop attitudes to any kind of product or service, or indeed to any aspect of the marketing mix, and these attitudes will affect consumption indirectly through intention to consume .(Brassington and Pettitt, 2003).

On addition to attitudes, consumers confront complicated financial decisions (insurance inclusive) in today's demanding financial environment, which require financial literacy to interpret. Financial literacy is the ability to process financial information and make informed decisions involving numeracy, time value of money, interest compounding, and money illusion and inflation aspects of personal finance (Shawn cole & Nilesh Fernando, 2008). Increasingly, individuals are in charge of their own financial security and are confronted with ever more complex insurance policies.

Previous research has shown that both attitudes and financial literacy have significant impact on insurance consumption. However, the conclusions come mainly from the studies in developed countries and Western cultures, whereas preference and financial services choice insurance consumption being one of them is various across situations and cultures (Tajuden 2007). Lewis (1989) defines insurance consumption in terms of Insurance penetration, insurance density and insurance in force to GDP.

Literature reviewed has shown that insurance business has a high growth rate potential in Uganda (UIC, 2008). On the other hand, relatively low penetration of the sector (UIC, 2008) indicates that there is still a considerable unexploited potential. Despite this potential, Uganda is still lagging seriously behind in the African insurance market ranking. Table 1 below shows that the Ugandan insurance industry is far below the performance of the top 5 countries in Africa.

Table 1: Insurance penetration in Uganda and the top 5 countries in Africa

Country	Market Size (USD Billion)	Penetration %
Botswana	0.372	3.905
South Africa	24.678	8.75
Algeria	0.776	0.59
Tunisia	0.68	1.94
Namibia	0.454	7.96
Uganda	0.089	0.56

Source: AIO (2009)

Generally from previous research, insurance consumption is significantly determined by attitudes and financial literacy (Omar, 2005; Annamaria Lusardi, Olivia S. Mitchell & Vilsa Curto, 2009). Risk protection, saving, investment, accessibility Quality (convenience), trust and price are main constructs of cognitive and conative insurance attitudes, determining the consumption of insurance (Omar, 2005; Annamaria Lusardi 2009).

1.2 Statement of the Problem

Despite the growing population and economy, Uganda is still lagging seriously behind in the African insurance market consumption ranking. Uganda occupies the fifteenth position in Africa, with USD 0.089 billion as market size and 0.56% as penetration percentage in the Ugandan insurance market and this penetration has stagnated for the past eight years. (UIC & AIO, 2009). Given the existence of untapped potential in the Ugandan insurance market, this consumption level is worrying. The consumption level has been attributed to a number of factors (UIC, 2009) among them attitudes and financial illiteracy.

1.3 Purpose of the Study

The study sought to establish the structure of consumer attitudes, level of financial literacy and degree of insurance consumption and the relationship between consumer attitudes and financial literacy, consumer attitudes and consumption intention and consumption and financial literacy and consumption intention and consumption of insurance services in Kampala Uganda.

1.4 Research Objectives

- i) To examine the structure of consumer attitudes towards insurance in Kampala, Uganda.
- ii) To examine the level of consumer financial literacy in Kampala, Uganda
- iii) To establish the degree of insurance consumption in Kampala Uganda.
- iv) To establish the relationship between consumer attitudes and financial literacy
- v) To establish the relationship between consumer attitudes and consumption intention of insurance
- vi) To determine the relationship between consumer financial literacy and insurance consumption
- vii) To determine the relationship between consumption intention and Insurance Consumption.

1.5 Research Questions

- i) What is the structure of consumer attitudes towards insurance in Kampala, Uganda?
- ii) What is the level of consumer financial literacy in Kampala, Uganda?
- iii) What is the degree of insurance consumption in Kampala, Uganda?

- iv) What is the relationship between consumer attitudes and financial literacy?
- v) What is the relationship between consumer attitudes and consumption intention of insurance?
- vi) What is the relationship between consumption intention and consumption of insurance?
- vii) What is the relationship between financial literacy and insurance consumption?

1.6 Scope of Study

- **Subject scope**

The study focused on consumer attitudes towards insurance, financial literacy, consumption intention and insurance consumption.

- **Geographical Scope**

The study was carried out in Kampala. Kampala was chosen because it has the headquarters of all registered Insurance firms and is the capital territory of Ugandan.

1.7 Significance of the study

The study shall make the following contributions:

- (i) The study shall contribute knowledge in the area of consumer behavior for insurance firms to identify the nature of consumers' attitudes towards insurance among non-users and their financial literacy so that appropriate marketing strategies can be developed.

- (ii) The study shall contribute to the existing wealth of knowledge in the area of psychological modeling for scholars and thus stimulate further research in consumer behavior.
- iii) The study shall contribute knowledge in the area of consumption of insurance services for consumers by identifying predictors of consumption from a developing country context.

1.8 The Conceptual Framework

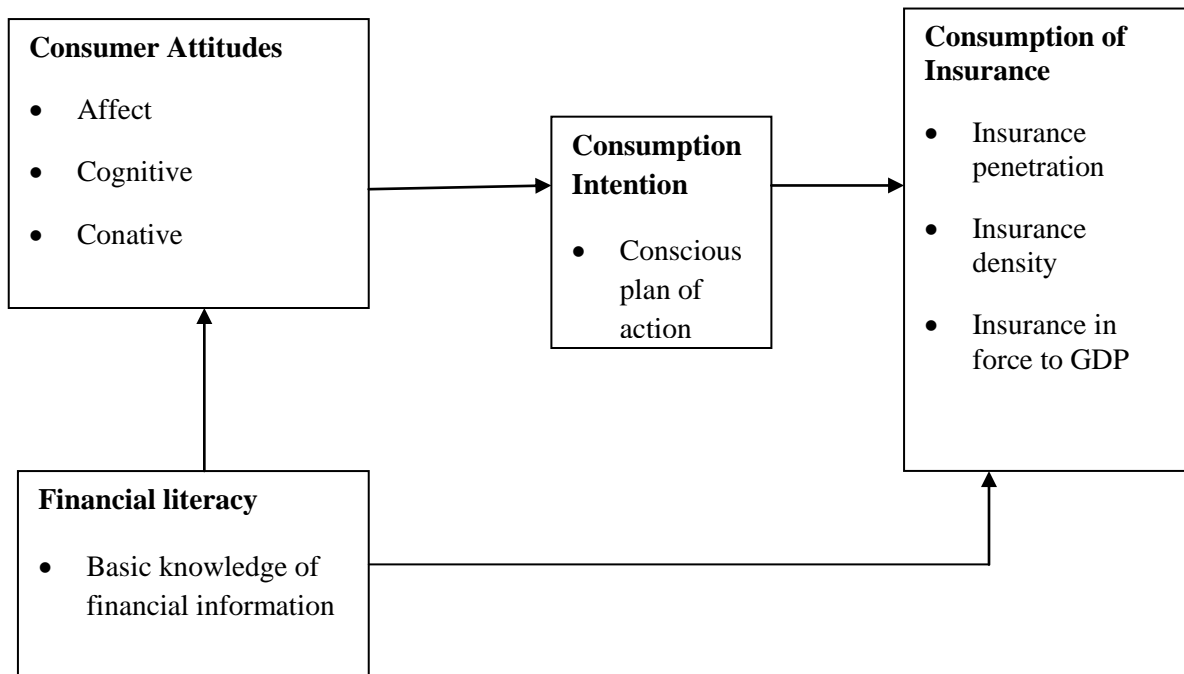
The conceptual framework is based on the theory of reasoned action and planned behavior (TRA & TPB) and extensive review on existing literature on financial literacy and insurance consumption.

In the psychological perspective, many empirical studies have combined a number of interrelated factors to explain the behavior towards financial services choice and consumption. In insurance context, the theories which are most frequently applied are theory of reasoned action and the theory of planned behavior (Omar, 2005; Norman & Conner, 2006; Tajuden, 2007; Verbeke and Vackier, 2005). In general, these applications all showed that choice and motivation towards insurance consumption are driven by attitude toward the service via intentions to purchase the service and financial literacy. This study is a quantitative research in psychological perspective, in which TRA & TPB are used as the basis for the conceptual framework.

The model explains the relationship between the variables under study. Consumption (behavioral) intention is a function of attitude toward the behavior (consumption) and attitudes affect consumption indirectly through intentions. Financial literacy is also

included in the model as an external factor in TPB to affect consumption directly. The dependent variable (insurance consumption) measured in terms of insurance Density, Insurance in Force to GDP and insurance penetration.

Figure 1.1: Conceptual Model



Source: Ajezen (1991), Ajzen & Fishbein (1980), Annamaria Lusardi, Olivia S. Mitchell & Vilsa Curto (2008), Tajudeen Olalekan Yusuf, Ayantunji Gbadamosi & Dallah Hamadu (2009), Ogenyi Ejye Omar (2007).

As showed by figure 1.1, three beliefs can be distinguished as intention, attitude and financial literacy, for driving behavior/consumption. Consumer Attitude influence indirectly on consumption via intention and financial literacy influences consumption directly.

In insurance, three components influence on attitude and are affective, cognitive and conative and are often paid attention via perceived insurance benefits as such risk protection, saving, investment, accessibility, trust and price/cost (Omar, 2005).

Financial literacy is an integral and a fundamental aspect for consumer decision making in insurance consumption. Financial literacy affects financial decision-making from the cognitive capacity of basic but fundamental financial knowledge in numeracy, time value of money, interest compounding, money illusion and inflation (Annamaria Lusardi, 2005).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The abysmal level of insurance culture in developing economies has attracted relative interests among researchers and practitioners alike (Udry, 1994). Some of the problems associated with this level have been marketing insurance in communities with negative attitude and financial illiteracy. For example, Omar (2005) assesses consumers' attitudes towards life insurance patronage in Nigeria and found out that there is lack of trust and confidence in the insurance companies. Other major reason for this attitude is lack of knowledge about life insurance product and financial illiteracy.

In insurance consumption context, the theories which are most frequently applied are Theory of Reasoned Action (TRA-Fishbein & Ajzen, 1975; 1980) and the Theory of Planned Behavior (TPB-Ajzen, 1991). These two theories show that choice and motivation toward insurance consumption are driven by attitude toward the service and financial literacy as an external factor in the model.

The critical assumption of the Theory of Reasoned Action (TRA) is that humans behave under their volitional control. A person will perform a given behavior (Consumption) according to his intention, attitude and beliefs about performance of the behavior. Intention is assumed as the best predictor of behavior. The stronger the intention to engage in the behavior, the more likely should be its performance. Intention is assumed as motivational factors influencing the behavior; it indicates the individual's willing and

effort to perform the behavior (Ajzen 1991). According to TPB, behavioral intention is something like a plan to achieve the behavior. The link between intention and behavior reflects the fact that people tend to engage in behavior they intend to perform.

Within conceptual framework of TRA, beliefs about a given behavior provide the basis for formation of intention toward performing the behavior. Beliefs refer to a person's subjective probability judgments concerning some discriminately aspects of his world; they deal with the person's perception of himself and his environment (Fishbein, 1975).

Behavioral beliefs guide the attitude of individual toward the objects. Attitudes represent a person's general feelings of favorableness or unfavorableness towards some stimulus object (Fishbein & Ajzen, 1975). When a person forms beliefs about an object, he automatically and simultaneously acquires an attitude toward that object. Each belief links the object to some attributes; the person's attitude toward the object is a function of his evaluations of these attributes.

Fishbein and Ajzen (1975, 2005) also mentioned the role of external factors if they are proven to have impact on behavior. A multitude of variables related to social, economic, demographic factors and personal traits could potentially influence the beliefs people hold. The connection between background factors and behavioral, normative, and control beliefs are in indirect way, difficult to know and belong to an empirical question.

2.2 Consumer Attitudes.

Common to all of definitions, attitudes are often considered as an evaluative or cognitive process, and a disposition to behave in certain ways (Jaccard & Blanton, 2005). A broadly accepted definition of attitude is as "a psychological tendency that is expressed

by evaluating a particular entity with some degree of favor or disfavor” (Eagly & Chaiken 1993,). In this definition, attitude is focused on a particular entity or object, rather than all objects and situations with which it is related; and an attitude is a predisposition to like or dislike that entity.

According to the multi-component view of attitude, all responses to a stimulus object are mediated by the person’s attitude toward that object. These responses then are classified into three categories called as three components of attitude. Cognitive component refers to perceptual response and verbal statement of belief (person’s thoughts); affective or emotional component are sympathetic nervous responses and verbal statements of belief (person’s feelings); and behavioral or conative component implies overt actions and verbal statement concerning behavior (behavioral tendencies) (Fishbein & Ajzen, 1975). Although any response can be used to infer a person’s attitude (Fishbein & Ajzen, 1975), a single evaluative score cannot adequately represent the attitude construct in all its complexity (Ajzen & Fishbein, 2005).

According to Fishbein and Ajzen, (1975), general attitude toward an object (e.g. service or product) is formed by salient beliefs. Salient beliefs are defined as “the subjective probability of a relation between the object of the belief and some other object, value, concept, or attribute” (Fishbein & Ajzen, 1975).

2.2.1 Affective or emotional attributes of insurance

Affective or emotional component of attitude are sympathetic nervous responses and verbal statements of belief (person's feelings). The affective component in the theory refers to the individual's general level of positive or negative feelings concerning the issue (Kernan & Trebbi, 1973; Kothandapani, 1971; Ostrom, 1969). In marketing context, it is stated that consumers can develop emotional attitudes perceiving the product as being 'bad or good to buy'; 'foolish or wise to buy'; and 'useless or useful. These attitudes will affect behavior of the consumer (Fishbein & Ajzen, 1975; Ajzen & Fishbein, 2005; Brassington and Pettitt, 2003, Ogyenyi Omar, 2005).

2.2.2 Cognitive or evaluative attributes of insurance consumption

Common to all of definitions, attitudes are often considered as an evaluative or cognitive process, and a disposition to behave in certain ways (Jaccard & Blanton, 2005). A broadly accepted definition of attitude is as "a psychological tendency that is expressed by evaluating a particular entity with some degree of favor or disfavor" (Eagly & Chaiken 1993,). In this definition, attitude is focused on a particular entity or object, rather than all objects and situations with which it is related; and an attitude is a predisposition to like or dislike that entity. According to Fishbein & Ajzen, (1975) and Ajzen & Fishbein, (2005), Cognitive component refers to perceptual response and verbal statement of belief (person's thoughts). The cognitive component consists of the individual's beliefs, judgment or thoughts concerning the issue (Ross Norman, 1975). When the attitude issue is an action or behavior, the relevant cognitive structure is considered to be the individual's beliefs about the instrumental utility of the action for the

attainment or blocking of his or her goals weighted by the value placed on such goals (Fishbein & Ajzen, 1975).

In the insurance context these attributes are; insurance risk protection benefits, insurance as a saving vehicle and insurance as an investment.

Insurance is a way of dealing with risk for consumers and also plays important psychological and social roles (Black & Skipper, 2000). As Hofstede (1995) stated, “the major function of insurance is to protect against financial loss from loss of property and human life. Besides covering loss of property and life, it also covers the risks of disability, critical illness, and superannuation”. Insurance is therefore developed on the concept of property and human life value (Sayin, 2003).

Human life and property value approach focuses on the economic component of human and property life. Any event affecting an individual’s (both business and human) earning capacity has an impact on property and individual’s human life value. This event may be fatal accident, catastrophe, premature death, incapacity, retirement, unemployment or anything that can cause loss of value to both human and property (Black & Skipper, 2000). The human and property life value concept provides the philosophical basis for both life and non-life insurance, which are products designed to protect the individual against three distinctive risks: premature death, superannuation and destruction of property (Brown & Kim, 1993). Thus while death and accident is not a risk, the timing of both is. Insurance thus becomes the mechanism for one to ensure a continuous stream of income to the beneficiaries and property value (Black & Skipper, 2000). In this regard,

insurance may be regarded as a way of dealing with risks (Omar & Owusu Frimpong, 2006).

Omar (2005) found that consumers' perception of life insurance purchase was guarantee of same standards of living for dependants in case of death, ability to maintain same standard of living in case of disability, having lump sum money in case of critical illness and covering of loss or damage on property in case of accident.

Saving in insurance is attained from purchasing life insurance policies providing both death coverage and a saving component and policies serving primarily as saving vehicles (Thorsten Beck & Ian Webb, 2002). These are endowment life insurance policies, which are a term life insurance with a saving component (Black & Skipper, 2000). These policies generally have higher premiums that include an explicitly or implicitly defined saving component (Thorsten Beck & Ian Webb, 2002). These policies are anticipated to help consumers to put from time to time some money aside in a systematic way rather than in an ad-hoc manner (Michal Matul 2005). Holders of these policies serving primarily as saving vehicles anticipate achieving regular saving for the future (Omar, 2006). They also expect from such policies to make long term savings. By buying saving policies consumers also expect not to rely on state pension for future survival (Omar & Owusu Frimpong, 2006). For instance, when one takes a policy that allows him to keep the same premium until the age of say 65, they will have considerable savings when they reach that age. Morduch (1994) identifies weak financial institutions in low-income countries as one of the causes of low savings. He explains that people be sought to

second-best arrangement such as borrowing from neighbors, money lenders and relatives and selling durable assets to cushion the effects of unforeseen tragic circumstances.

People tend to view insurance as an investment, rather than as risk protection. A policy is viewed “as an investment aimed at maximizing claim payments in case the hazard should occur” (Schoemaker, 1980). Because low-probability events are unlikely to happen, there is in fact little chance of getting a payback. Hence, most people prefer to insure against higher probability, low-loss hazards (Kunreuther & Slovic, 1978). By viewing insurance as an investment, consumers want to see some return on their premiums. This leads to a desire to “trade dollars with the insurance company even though it is very costly” (Slovic, 1984).

The additional component of saving in life insurance, typically earns interest and consumers anticipate that the interest will be returned to them in form of policy dividends, cash-values on termination of the policy, or endowment sum on maturation of the policy (Thorsten Beck & Ian Webb, 2002).

In addition to life policies, insurers sell annuity policies (Thorsten Beck & Ian Webb, 2002). Annuities are insurance policies wherein the insurer promises to pay the insured a series of periodic payments, often over the remainder of his/her lifetime, upon payment of a lump sum at the beginning of the period. Consumers buying this kind of policy will anticipate receiving these periodic payments.

Pritchett et al., (1996) observed that Insurance was understood by most people to be critical to a well-functioning economy. By providing payment in the event of unexpected

losses, insurance introduces security into personal and business situation. It also serves as a basis of credit for investment as no financial institution would lend money for purchase of capital goods. Research on life insurance consumption revealed that consumers are compelled to buy life insurance as a result of the perception that they are in doing so making reliable investment on a tax free saving, hoping to achieve higher returns in future and hoping to attain future cash.

Many insurance products couple insurance with a tax shield. The buildup in whole life insurance is not taxed, for example, making that product an excellent vehicle for saving. Health insurance that pays for routine care costs is also a tax dodge, saving the taxation that would be associated with wage and salary payments. The primary motivation for such policies is not the financial risk per se, but the combination of risk reduction and tax rewards (David M & Zeckhauser, 2003).

2.2.3 Behavioral or conative attributes of insurance

Behavioral or conative component of attitude implies overt actions and verbal statements concerning behavior (Ajazen & Fishbein, 2005). It refers to the primary motivational or behavioral consequences of attitudes. In insurance context, consequences or motivational factors of buying insurance are agreed as; accessibility or convenience of insurance services, trust and credibility of insurance firms, price of insurance products or actuarial fairness and knowledge of the service (Omar, 2005).

In modern societies, convenience is perceived as important characteristics in selecting a service or product. According to Gofton (1995), convenience is an outcome of product or service use, and relates to the capacity of consumer to employ a particular resource as well as simple time available. Convenience is a complex concept in marketing literature. Convenience is not only the ease of purchase or quick consumption, it also means saving of time, physical or mental energy at one or more stages of the overall insuring process such as planning and purchase, servicing, settling claims and consumption, (Nguyen, 2007). Furst et al (1996) mentioned time as important component of convenience, and time is often spoken as commodity to be spent and saved. The easy accessibility of insurance is another most coveted insurance benefit that the customers look for and is very important in developing a positive attitude towards consumption (standard bank, 2007). The online access to insurance companies and their policies has made them more lucrative to the customers. In developed economies, customers can search, compare and select their insurance coverage through the click of a mouse from their own residence (Thorsten Beck & Ian Webb, 2002). This has been observed that through online services, the insurance companies have been able to reach more number of customers and consequently their customer base has also mopped up significantly. Online services not only provide convenience of accessibility of insurance services, but also knowledge of the premiums offered and which insurance firms offer them.

Lack of trust in insurance companies to settle claims in case of actual loss (hazard or damage), is one of the most important issues pointed out by researchers on insurance consumption in developing countries. Omar (2005) assesses consumers' attitudes towards

life insurance patronage in Nigeria and found out that there is lack of trust and confidence in the insurance companies. People reject insurance on grounds that insurers do not pay when it comes to claims settlement and that the bureaucracy is too much. Trust in insurance is very volatile, any possible bad experience with insurance that might be easily spread by media or word of mouth, can turn to those neutral into distrustful, thus reducing the market size significantly (Michael Matul, 2005).

Kuhlemeyer & Allen (1999) find out that consumer satisfaction with life insurance products is largely accounted for by the trust they repose in the sales agents in contrast to those who purchase direct from insurance companies. The surveyed population who purchased from sales agents was more satisfied with insurance industry than those who purchased directly from insurance companies. This apparently justifies the view held earlier by Pritchett *et al.* (1996) that “insurance is sold rather than bought”.

The foremost insurance benefit in today’s world is low insurance rate and premium one has to pay (economy watch, 2008). While choosing an insurance policy, every customer looks at the rate first and then to the other associated benefits. The lesser the insurance rate, the more affordable the insurance becomes. Among all the insurance benefits, low insurance rate and premium is the most coveted one (Jonathan Gruber, 2008).

Individuals may be unwilling to purchase insurance if it is not available at an actuarially fair price to the individual (Jonathan Gruber, 2008). Clearly, high prices of insurance are a major cause of un-insurance. Indeed, Chernew *et al.* (2006) estimate that two-thirds of the increase in the number of uninsured over the past decade can be traced to rising health

insurance costs. In a standard model, while rising insurance loads will lead to less insurance; a pure rise in the costs of treating medical illness should lead to fewer uninsured, not more. While Leek *et al* (2000), Honkanen *et al* (1988), and Olsen (2004) reported that price, value for money and household income were not perceived as barrier for insurance consumption, Verbeke and Vackier (2005) found that high price had negative impact on attitude toward consumption.

2.3 Financial Literacy

Within TRA and TPB, Fishbein and Ajzen (1975) and Ajzen (1991) mentioned the external factors such as personal traits, moral norms, past behavior and habits. The authors suggested that the theories are open to inclusion of additional predictors if it can be shown that they capture a significant proportion of the variance in intention or behavior (Ajzen, 1991). From the conceptual and empirical perspectives, several authors found that financial literacy can be a significant predictor of insurance consumption.

2.3.1 Basic Knowledge of Financial Information

Financial literacy is defined as the ability to process basic financial information and make informed decisions involving numeracy, time value of money, interest compounding, money illusion and inflation aspects of personal finance (Shawn cole & Nilesh Fernando, 2008). Financial decisions can be difficult, comparing saving or borrowing, investing or general insurance policy options with different interest rates and term structures can be difficult for those without cognitive ability in financial savvy, even knowledgeable individuals may need to rely on calculators or spreadsheets to make truly informed

decisions (Kondo, Toshio, et. al. 2008). Many households are not knowledgeable, and often receive little assistance when choosing insurance policy options for saving, investment and risk protection. Unlike the decision to visit a restaurant or purchase a particular car, insurance consumers especially in life insurance, in many cases don't receive useful feedback on the value of the insurance product they have purchased, yet these policies involve calculation of interests, time value of money and have inflation impact (Shawn cole & Nilesh Fernando, 2008).

Financial literacy allows people to increase and better manage their earnings, and therefore better manage life events like risk management, education, illness, job loss, or retirement. It also promotes understanding and acceptance of important political reforms, such as health care or pension reforms. While the significance of financial literacy has not yet been fully articulated and recognized by the international development community or by policy makers and practitioners in developing countries measures to promote and improve financial education are becoming more frequent (Shawn cole & Nilesh Fernando, 2008).

In developing countries, the expansion of microfinance, often accompanied by micro insurance and savings products, has vastly increased: a household may have the choice of insurance products for health, livestock, life, and even index-based weather derivatives (Shawn cole & Nilesh Fernando, 2008). Many of these products are complex, and a growing body of evidence suggests that low levels of financial literacy may prevent consumers from making good decisions about financial products. Much of this evidence is from the United States, a country with an unusually wide array of financial products. A

survey of Australian consumers revealed that only 28% were able to correctly calculate compound interest; the figure for American consumers was even lower at 18% (Shawn cole & Nilesh Fernando, 2008).

Research on levels of financial literacy in developing countries remains comparatively slim. However, a small number of studies show even lower levels of financial literacy. A study conducted in Zambia by the Department for International Development showed that only half the adult population knew how to use basic financial products.

There exist very few surveys that provide information on financial literacy. To remedy this lack of data, Lusardi and Mitchell (2006) devised a module on financial literacy for the 2004 US Health and Retirement Study (HRS). Their questions aimed to test basic financial knowledge related to the working of interest compounding, time value of money, the effects of inflation, money illusion and risk diversification.

The literacy questions developed by Annamaria Lusardi and her group tested the knowledge of basic but fundamental financial concepts. The first three questions were referred to as the ‘numeracy’, ‘interest rate’ and ‘inflation’ questions; they tested whether respondents are knowledgeable about inflation, interest rates and possessed basic financial numeracy. The fourth question, on ‘interest compounding’, evaluated respondents’ knowledge on compound interest, a crucial element of an informed investment and saving decisions, the fifth question tested respondents on money illusion basics (Lusardi & Mitchell, 2006, 2008).

2.4 Consumption Intention

Intention is the best predictor of planned consumption, also an unbiased predictor of action (Bagozzi, Baumgartner, & Yi, 1989). Fredricks and Dossett (1983) describe consumption intention as the immediate determinant of overt volitional consumption. Intention can be viewed as the conscious plan to carry out a particular behavior and the motivation to perform it (Patch et al. 2005).

Understanding the fundamental determinants of consumption (behavior) has been a paramount goal for many theorists in the social and decision making sciences (Mei-Fang Chen, 2007). The underlying psychological assumption driving the linkage between intentions and consumption is that most human behavior is under volitional control (Ryan, 1970). Fishbein and Ajzen (1975) have defined intentions as a person's location on subjective probability dimension involving a relation between himself and some action. Intentions are the single best predictor of planned behavior and intentions are also an unbiased predictor of action because they are the conscious plan of action. (Bagozzi, Baumgartner, & Yi, 1989).

2.4.1 Conscious Plan of Action

Intention can be viewed as the conscious plan to carry out a particular behavior and the motivation to perform it (Patch et al. 2005). The construct of intention is often measured in term of will, expect, should, wish/intend, determined or want with the probability estimates such as “unlikely and likely” in social science (Armitage & Conner, 2001) and

also in insurance consumption context (Sparks *et al*, 1992; 1995; Verbeke & Vackier, 2005).

The consumption intention, based on the theory of reasoned action (TRA) (Ajzen & Fishbein, 1980), is basically determined by two factors: the attitude that the person holds towards engaging in the behavior (i.e., consumption attitude) and the degree of social pressure felt by the person with regard to the behavior (i.e., subjective norm).

Intention is proposed as the closest cognitive antecedent of actual consumption performance rather than attitude and attitudes affect consumption indirectly through intention (Fishbein & Ajzen 1975; Gollwitzer, 1993; Triandis, 1977).

2.5 Insurance Consumption

Jaccard and Blanton (2005) defined behavior as “any denotable overt action that an individual, a group of individuals, or some living system (e.g., a business, a town, and a nation) performs. An action has a denotable beginning and a denotable ending and is performed in an environmental context in which the individual or group is embedded”. This definition is probably quoted most frequently in social science and marketing research (Nguyen Tien Thom, 2007).

Behaviors might be measured in forms of dichotomous (e. g., whether a person has bought insurance), discrete (e. g., how many times in the last 10 years the person has bought insurance), and continuous scores (e. g., the number of policies someone buys or is willing to buy in a given time) (Jaccard & Blanton, 2005). The kind of behavioral scores chosen depends on the theories that are adapted. According to Jaccard and Blanton

(2005), when theories are adapted to take into account the multiple attitudes that assumed to underlie the behavior, the quantitative and continuous scores of insurance penetration, density and inforce to GDP are suited for consumption measure.

Yaari (1965) and Hakansson (1969) were the first to develop a theoretical framework to explain the consumption of insurance. Within this framework, the consumption of insurance is attributed to a person's desire to bequeath investment to dependents and provide income for retirement (savings). The consumer maximizes lifetime utility subject to a vector of interest rates and a vector of prices including insurance premium rates. The framework posits the consumption for insurance to be a function of investment, expected income over an individual's lifetime, the level of interest rates, the cost of insurance policies (administrative costs), and the assumed subjective discount rate for current over future consumption. Lewis (1989) extends this framework by explicitly incorporating the preferences of the dependents and beneficiaries into the model. Specifically, he derives the demand for insurance consumption as being Insurance penetration, insurance density and insurance in force to GDP.

2.5.1 Insurance Penetration

Insurance Penetration is defined as the ratio of both life and non-life insurance premium volume to GDP. It measures the importance of insurance activity relative to the size of the economy. Both numerator and denominator are in local currency, with GDP numbers

coming from the International Monetary Fund (IMF)'s International Financial Statistics (IFS).

2.5.2 Insurance Density,

The second indicator of life insurance consumption is Insurance Density, defined as premiums per capita, expressed in international real dollars. It indicates how much each inhabitant of the country spends on average on insurance in real international dollars (Browne and Kim, 1993). To calculate these ratios, we first convert the premium volume into international dollars by multiplying it with Purchasing Power Parity (PPP) conversion factors from the World Bank's World Development Indicators (WDI). The Purchasing Power Parity conversion factor is defined as the number of units of a country's currency required to buy the same amounts of goods and services in the domestic market as one U.S. dollar would buy in the United States. Using PPP conversion factors is preferable to using exchange rates, since the latter are distorted by differences in exchange rate regimes. Furthermore, PPP conversion factors take into account that the price of non-traded goods relative to traded goods increases with the income level of economies.

We then divide the premium volume in international dollars by the population size, also obtained from the WDI and deflate the numbers by the U.S. Consumer Price Index (CPI), obtained from the IFS, to make the indicator comparable over time. Since data on the PPP conversion factor are only available for the period 1980-96, the insurance densities in international real dollars are constrained to this period. Insurance densities using

average-period exchange rates from the IFS are also calculated for the years 1960-1996 for use in the panel estimation. Although both Insurance Penetration and Insurance Density use gross premiums, there remain important differences between both measures with repercussions for cross-country comparisons. Insurance Penetration measures insurance consumption relative to the size of the economy, while Insurance Density compares insurance consumption across countries without adjusting for the income level of the economy.

2.5.3 Insurance in Force to GDP

The third measure of insurance consumption is Insurance in Force to GDP.

It equals the sum of the face amounts plus dividend additions of insurance policies outstanding as a share of GDP. It is a quantity measure of insurance consumption, the quantity being risk underwritten plus savings accumulated. Insurance in force thus contains both the cash value of policies, associated with the savings component of insurance policies and the net amount of risk faced by insurers (Beck, Demirgac-Kunt, and Levine, 2000). Unlike insurance penetration and insurance density, insurance in force to GDP does not include the price and measure only quantity. Since the numerator is a stock and the denominator a flow variable, both variables have to be deflated accordingly. According to Beck, Demirguc-kunt, and Levine (2000), the stock variable is deflated by end-of-year consumer price indices (CPI) and the GDP by the annual CPI. Then the average of the deflated stock variable in year and t-1 is computed and divided by real GDP measured in year t.

2.6 Consumer Attitudes and Financial Literacy

Financial literacy is strongly and positively related to attitudes towards insurance consumption (Lewis, 1989). Specifically, an educated person and whose parents had insurance and retirement savings is about 50 percentage points more likely to know about insurance and risk diversification than a person with less than a high school education and whose parents were not insured and had no retirement savings (Anna-Maria Lusardi & Olivia. S. Mitchell, 2009).

Given that many developing countries have a large number of their population engaged in agriculture, such communities are especially vulnerable to income shocks which result from weather risk and price volatility in the goods they produce. As such, insurance can be critical in allowing households to smooth consumption and support longer-term investments in human and physical capital (Mandell, Lewis. 2004).

While research connecting financial literacy to household attitude towards savings and investment decisions remains limited in developing countries, a rich strand of research exists for developed countries. According to Lusardi (2007), data from the Health and Retirement Study showed that attending employer-sponsored retirement planning seminars is associated with an increase in both financial and total net worth, particularly for families at the bottom of the wealth distribution. The increases were as much as 20% for those coming from a background of low education.

While much of the attention on financial literacy in the US focuses on investment decisions, economists regularly wonder why, for example, S&P 500 index mutual funds

survive in the market, charging relatively high fees, when very low-cost alternatives exist. A consumer may not perceive a big difference between two funds, each earning 7% before fees, but with the ability to understand these nuances can dramatically change the financial well-being of an individual. Such calculations are important in developing countries as well. Inflation risk is often substantial, and financial literacy is required to understand which insurance policies provide protection against inflation.

Similarly, a nuanced understanding of the importance of how the value of various assets correlates with each other can help households diversify risk efficiently (Woodward, Susan E. 2003). Consumer Attitudes towards financial services were found to correlate well with financial literacy, with mean correlations ranging from 0.35 to 0.55 (Woodward, Susan E. 2003).

2.7 Consumer Attitudes and Consumption Intention

Because attitudes are recognized as one major factor that guides human behavior, it is reasonable to expect a relationship between attitudes about insurance and likely consumption of insurance via consumption intentions (behavioral intention) (Sarah A. Nonis & Gauri S. Guha, 2007). Intention is determined by the attitude towards the behavior object in question (consumption)

A person's attitude towards consumption of insurance represents evaluation of the behavior and its outcomes. If a person considers that consumption of insurance will have a favorable outcome, it is more likely that they will consume insurance. Thus his attitude towards insurance will significantly predict consumption intention. Several meta-analyses of the empirical literature have provided evidence to show that intentions can be

predicted with considerable accuracy from measures of attitudes towards the behavior (Armitage & Conner, 2001). Attitudes were found to correlate well with intentions, with mean correlations ranging from 0.45 to 0.60 (Ajzen & Fishbein, 1975).

The construct of attitude to the consumption of one product is akin to the perceptions of the personal desirability of performing a particular behavior. This attitude depends on one's intention to consume subject to expectations of and beliefs in the personal impacts on the outcomes resulting from that consumption. In other words, attitudes influence consumption indirectly through intentions. When attitude is assessed at general level, it is expected to be an appropriate predictor of behavioral (consumption) categories (Fishbein & Ajzen, 1975). However, this relationship is mediated through behavioral intention (Fishbein & Ajzen, 1975; Ajzen & Fishbein, 2005). Empirical evidence in social science and marketing research shows that when the principle of compatibility is met, overall attitude correlates well with intentions, (Ajzen & Fishbein, 2005)

The expectations of the critical outcomes resulting from the behavior are an important antecedent to a behavioral intention. Benefits of investment, saving, risk management, trust and insurance knowledge influence the consumption intention towards insurance. Thus attitudes influence consumption indirectly through intentions and intentions directly influence consumption.

The theorists suggested that a specific behavior could be predicted when the behavioral intention is appropriately measured (Ajzen & Fishbein, 1975; 2005), Many studies have substantiated the predictive validity of behavioral intention.

2.8 Consumption Intention and Consumption of Insurance

A number of theorists have proposed that the intention to perform a behavior (consume), rather than the attitude, is the closest cognitive antecedent of actual behavioral performance (Fishbein & Ajzen, 1975; Fisher & Fisher, 1992; Gollwitzer, 1993). Intention plays an important role in determining the frequency of insurance consumption (Verbeke & Vackier, 2005). As some studies reported a high positive correlation between intention and insurance consumption frequency of around 0.65 (Olsen, 2001; Verbeke & Vackier, 2005). Intention is measured as likelihood that a person is willing to act in insurance consumption (Fishbein & Ajzen, 1975; Ajzen, 1991).

Meta-analyses covering diverse behavioral domains have reported the mean intention-consumption (behavior) correlation of from .44 to .62 (Ajzen & Fishbein, 2005,). The studies in insurance consumption also confirm the important role of intention in determining the behavior frequency. According to the TPB (Ajzen, 1991), when a person's attitude towards engaging in a behavior is positive then he or she is more likely to develop intentions towards that behavior. In other words, when the consumer's attitude to insurance products is positive, he will certainly develop intention to consume and will definitely consume insurance (Omar 2005).

2.9 Consumer Financial Literacy and Consumption of Insurance

Financial literacy allows people to increase and better manage their earnings, and therefore better manage life events like risk, illness, job loss, or retirement (Shawn Cole & Nilesh Fernando, 2008).

One of the most straightforward consequences of limited financial literacy may be limited financial market participation. Households that are not familiar with the workings of a life insurance firm for example, are unlikely to buy life insurance policies, and may instead choose to rely on government pension schemes and friends in case of emergencies (Pasricha, Nicole. 2008).

Field experience suggests that financial literacy is even more important with respect to insurance contracts. Many households considering microinsurance policies are buying insurance for the first time, and may not have a good understanding of the probability that insurable events will occur, or how the payouts will be calculated. Households with greater levels of financial literacy may better understand the advantages and disadvantages of insurance policies, and make better decisions (Shawn Cole & Nilesh Fernando, 2008).

Individuals make many financial decisions each year. These relate to a wide range of financial matters, including decisions on how to hedge risk (insure), how much to spend and to save, where to invest their money, how to manage their financial risks, how much debt they may need to fund their expenditure, and what form that debt should take. These decisions range in complexity, but all require at least a basic level of financial literacy. In a world of escalating financial complexity, there is an increasing need for financial knowledge and at least basic financial skills (Morris 2001). There is an ever increasing diversity of financial products and services, including insurance products and investment opportunities available to the public. While this provides increased benefits, it also entails more complex risks, including risks that are not always readily apparent to the unwary.

Accordingly, the scope and complexity of the financial decisions an individual has to make in managing their financial affairs has grown significantly. Individuals must be able to differentiate between a wide range of financial products and services, and providers of those products and services.

The ability to make well-informed financial decisions plays an important part in the ability of individuals to manage their financial affairs. The outcomes of financial decisions have significant implications for an individual's financial security and standard of living. A person with a good level of financial literacy is likely to be better placed than someone without those skills and knowledge to manage their financial affairs prudently; all else being equal, they are more likely to budget effectively, invest wisely and manage their debt level in a sustainable manner. By contrast, poor financial choices, possibly based on a lack of understanding of financial matters, can result in a number of negative outcomes, including a lower level of financial wealth and imprudent debt levels.

Financial literacy has a clear impact on the ability of households to consume insurance products.

Omar (2007) found that Nigerian's were consuming little insurance due having poor saving culture, with fewer people holding savings accounts. He attributed this to low financial literacy, poor money management skills and low incomes.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The objective of this study was understand the perceived triggers and barriers of consuming insurance among the defined target population in Kampala Uganda and the relationship between the triggers and barriers with consumption.

3.2 Research Design

A cross-sectional research design based on quantitative data from secondary and primary sources was done. Descriptive, correlation and regression was combined with cross-sectional study design to ascertain the relationship between the variables.

3.3 Population and Sample size

The population of interest was people aged 25-65 years (insurable years); belonging to high and middle social classes , and who do not currently have insurance cover in Kampala, agents of insurance and marketing executives in insurance. A total sample of 150 respondents was determined. The choice of Kampala was due to its nature as a metropolitan city where most Ugandan ethnic groups are largely presented.

3.4 Sampling design and procedure

Sampling area was defined as Kampala because is the head quarter of all insurance firms and is the capital territory and Ugandans from all tribes and social class backgrounds are represented in the capital. Similarly, it has a heterogeneous structure. Simple random

sampling method based on demographical variables of age, gender and socio-economic status was used.

3.5 Data Sources

Data was collected from primary sources

- **Primary Data**

Primary data was obtained using self administered questionnaire served to 150 people in Kampala.

3.6 Data Collection Instruments

- **Questionnaire**

Close ended and self administered structured questionnaire were developed out of literature review of the independent and dependent variables attitudes, intentions and financial literacy and consumption. A structured questionnaire consisting of three distinctive but related sections was designed for this investigation. The first part consisted of demographic profile of the respondents; the second part covered the construct of attitudes, intention, financial literacy and consumption.

3.7 Measure of Research Variables

All variables explaining attitudes and intention were operated using the guidelines suggested by (Ajzen; 1991) and were measured with Cronbach-Alpha coefficient by a seven point Likert type scale with ‘strongly disagree’ to ‘strongly agree’ as the anchor points. Financial literacy was measured by a seven point rating scale with answers ranging from wrong to correct, don’t know and refusal.

Insurance consumption (behavior) was measured on a seven likert scale with anchor points being 'totally disagree' and 'totally agree'.

3.8 Reliability and Validity of Research Instruments

The research instrument was reviewed in harmony with the guidelines specified by Sekaran (2000) and pre-tested to check for validity and reliability so as to minimize on ambiguity of the results generated.

Table 2: Reliability and Validity table

	Anchor	Cronbach Alpha	Content Validity Index
Attitudes	7 Point	.919	0.690
Purchase Intentions	7 Point	.962	0.667
Financial Literacy	7 Point	.575	0.600
Insurance	7 Point	.822	0.750

The Content validity index (CVI) was used to measure the level to which the questionnaire measures what constructs it was meant to measure i.e. the validity of instruments. For reliability, the researcher used Cronbach's alpha test to be sure of the internal consistence of the scales used to measure study variables. IN both cases, the CVI and the Cronbach Alpha were above 0.5, indicating that the research instrument was worth taking to the field.

3.9 Data Analysis

Data was analyzed statistically using Microsoft excel and Statistical Package for Social Scientists (SPSS) version 10 following the guidelines of Sekaran (2002). The results of

the analysis were presented in form of tables, graphs and charts for interpretation. Microsoft excel analysis was used to compute the dependent variable's ratios. Attitudes, intention, financial literacy and consumption data was transferred to SPSS to ascertain their relationship.

Factor analysis was performed to group the consumers and predict their attitude and consumption of insurance. This process helped to identify the underlying factors leading to attitude formation and consumption.

Pearson correlation analysis was used to determine the relationship between attitudes, intention, financial literacy and insurance consumption. Regression analysis was used to determine the relationship and impact of Attitudes, intention and financial literacy to insurance consumption.

3.10 Limitations of the study

It is noteworthy that the study sample has a geographical limitation as the data used was collected only from Kampala and on a relatively small sample. Also, the sample might be biased toward those who belong to high and middle social classes and who are aged between 25 and 65, compared to the insurable consumer population in Uganda. The study was also limited by resources and time.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter presents and explains results from the survey data. The variables analyzed were consumer attitudes, financial literacy, purchase intention and consumption of insurance.

The chapter presents descriptive analysis, specific responses on the study variable, factor analysis showing the most important contributing factors to study variables, correlation analysis and regression analysis ascertaining the relationship of the study variables.

4.2 Descriptive analysis

Percentages were used to describe the characteristics of the respondents that have to say age group, levels of education, working status, sex, ownership of insurance policy and income levels.

4.2.1 Age group

The age group was used to establish the respondents' level of competence and insurable age and the results are indicated in table 2 below.

Table 3: Response by Age of Respondents

		Frequency	Valid Percent	Cumulative Percent
Valid	25 - 35 yrs	42	35.6	35.6
	36 - 45 yrs	35	29.7	65.3
	46 - 55 yrs	25	21.2	86.4
	56 - 65 yrs	12	10.2	96.6
	65 yrs & Above	4	3.4	100.0
	Total	118	100.0	

Source: Primary data

Results from table 3 above show that majority of respondents were of insurable age of 25-65 years (96.6 %), while few (3.4%) were of risky insurable age of 65 years and above. Thus since majority respondents (96.6) were between the age of 25-65, this implied that the respondents were of insurable age and were also mature enough to understand what they are doing.

4.2.2 Education Level of respondents

The education level was used to establish the respondents' level of competence and the results are indicated in table 4 below.

Table 4: Education Level of Respondents

		Frequency	Valid Percent	Cumulative Percent
Valid	Primary	1	.8	.8
	Secondary	16	13.6	14.4
	Degree and above	101	85.6	100.0
	Total	118	100.0	

Results from table 4 above show that majority of respondents had a bachelors degree and above (85.6%), while very few (13.6%) had a secondary certificate. Thus since majority of respondents had at least a degree this implied that they were knowledgeable enough and understand what they are doing.

4.2.3 Working status

Working status could help consumers to have income to afford insurance products and also possess insurable assets. Table 5 below shows the results.

Table 5: Working status of respondents

		Frequency	Valid Percent	Cumulative Percent
Valid	Employed	85	72.0	72.0
	Self Employed	25	21.2	93.2
	Retired	4	3.4	96.6
	Unemployed	4	3.4	100.0
	Total	118	100.0	

Source: Primary Data

Most respondents (72%) were employed while a few were self employed (21.2%) and only (3.4%) retired and (3.4%) unemployed. This implied that most respondents possessed insurance purchase decision making capacity. This implied that most respondents had enough income and assets to buy insurance and could provide reliable information for the study objectives.

4.2.4 Monthly household income

The monthly household income was used to determine insurance purchase capacity of respondents.

Table 6: Monthly household income

		Frequency	Valid Percent	Cumulative Percent
Valid	Less than 130,000	2	1.7	1.7
	130,000 - 235,000	3	2.5	4.2
	235,000 - 410,000	5	4.2	8.5
	Over 410,000	108	91.5	100.0
	Total	118	100.0	

Source: Primary data

Results from table 4 show that majority of respondents had income levels above the minimum threshold in Uganda (taxable income) 98%. This implied that respondents had capacity to purchase insurance. 95.3% of respondents who had insurance policies were above the income level of 410,000. This implies that the higher the monthly income levels go, the more respondents were purchasing insurance.

4.2.5 Ownership of Insurance Policy

The ownership of insurance policy was used to determine the level of consumption of insurance services among the respondents.

Table 7: Ownership of Insurance Policy

		Frequency	Valid Percent	Cumulative Percent
Valid	Yes	43	36.4	36.4
	No	75	63.6	100.0
	Total	118	100.0	

Source: Primary data

From table 7 above, majority of the respondents (63.6%) did not have insurance policies; few respondents (36.4%) had insurance policies. This implied that most respondents were not consuming insurance services.

4.2.6 Gender of respondents

Gender dictates insurance purchase responsibility, it is assumed that women are more risk cautious than men.

Table 8: Gender of respondents

		Frequency	Valid Percent	Cumulative Percent
Valid	Female	53	44.9	44.9
	Male	65	55.1	100.0
	Total	118	100.0	

Source: Primary data

Overall, males and females were in the ratio 44.9:55.1 respectively in the sample. This implied that the females had a relatively high percentage among respondents.

4.3 Factor Analysis

Factor analysis was used to extract the factors that measured Consumer Attitudes, and Consumption of insurance using component analysis and Varimax Keiser Normalization methods. Factors with Eigen values (total variance) greater than 1 was extracted and coefficients of less than ± 0.5 were deleted from the matrix tables as they were of less importance.

4.3.1 Objective One: An examination of the structure of Consumer attitudes towards insurance in Kampala Uganda

Factor analysis was performed to understand the underlying patterns of the attitudes of consumers relative to Purchase of insurance products. This process helped to identify the underlying factors leading to attitude formation. The evidence in table 9 shows that when the Principal Component (PC) factors and Varimax rotation were conducted, three underlying factors were identified

Table 9: Rotated Component Matrix for Consumer Attitudes towards insurance in Kampala, Uganda

	Cognitive	Conative	Affective
Insurance helps to Provide same standards of living for dependants in case of death or disability of policy holder	.871		
Insurance provides financial compensation in case of actual loss/hazard/damage	.772		
Insurance Provides security in case of death of policy holder	.840		
Insurance provides an opportunity to receiving lump sum money in case of critical illness to policy holder	.770		
Insurance reduces risks	.806		
Insurance helps policy holders in saving regularly for the future	.747		
Insurance helps policy holders in making a long term saving	.837		
Insurance helps policy holders not rely on state pension for future survival in old age	.808		
Insurance provides opportunity to earn returns on premiums in the future	.702		
Insurance is a reliable investment as it is tax free saving	.708		
Insurance introduce security into personal and business situations	.808		
Insurance firms are easy to trust		.698	
Insurance firms maintain successful customer relations		.756	
Insurance is not expensive		.707	
Buying insurance is good value for money		.887	
Buying insurance is suitable for my budget		.798	
Whenever I consumer Insurance services, I feel Bad			.851
Whenever I consumer Insurance services, I feel Foolish			.762
Whenever I consumer Insurance services, I feel Useless			.617
Eigen Value	8.528	1.3135	1.081
Variance %	58.813	9.058	3.726
Cumulative %	58.813	67.871	71.597

Source: primary data: Extraction method: Principal Component Analysis

The extracted factors as in table 9 were defined by the variables which have high loadings on them, that is, those that are strongly correlated with the factor in question. The key factors were named as ‘Cognitive’ (59%), ‘Conative’ (9%), and ‘Affect’ (3%). The extracted three factors accounted for 75% of the variance within attitudes.

The first factor named Cognitive is represented by risk protection; saving and investment benefits of insurance and these are composed of eleven variables, which have high loadings on its dimension. These variables are ‘maintaining the same standards of living for dependants in case of death of policy holder’ (0.871), ‘providing financial compensation in case of actual loss’ (0.772), ‘providing security in case of death of policy holder’ (0.84), ‘opportunity to receiving lump sum money in case of critical illness’ (0.77), ‘reducing risks’ (0.806), ‘helping policy holders in saving regularly for the future’ (0.747), ‘helping in making long term savings’ (0.837), ‘not relying on state pension’ (0.808), ‘opportunity to earn returns on premiums’ (0.702), ‘introducing security into persons and business’ (0.808) and ‘tax free saving’ (0.708).

The second factor is named as Conative represented by trust of insurance firms and price of insurance and is composed of five variables which have high loadings on its dimension, including ‘firms are easy to trust’ (0.698), ‘firms maintain good customer relations’ (0.756), ‘insurance expensive’ (0.707), ‘insurance good value for money’ (0.887), ‘insurance suitable for budget’ (0.798).

The third factor named Affect is represented by the general attitude, is composed of three factors of emotional expression including ‘feeling bad to buy insurance’ (0.851), ‘feeling foolish to buy insurance’ (0.762) and ‘feeling useless’ (0.617). The results in table 8 shows that factor loading of items are all greater than 0.5. The high factor loadings

indicate that the three factors have successfully explained the variance in direct attitude. These eleven items are important in explaining the factors of Cognitive, Conative and affect consumer attitudes. In general the mentioned eleven variables are the underlying factors in the formation of attitudes towards insurance in Kampala, Uganda.

4.4 Objective Two: Level of Financial literacy of Insurance Consumers

Descriptive analysis was used, where mean and standard deviation were extracted on responses on each of the five literacy questions. The results in table 10 indicate the various elements of financial literacy. The data used for the analysis was coded such that 1 represents the financial literacy while the value of 2 general represents Illiteracy for the element. Standard deviations that were less than 0.5 for all the financial literacy elements indicated that the sample generally conforms to what the mean reflects.

Table 10: Response on Financial Literacy Questions in Kampala, Uganda

Literacy questions	N	Min	Max	Mean	Std. Deviation
Numeracy	118	1.00	2.00	1.27	0.45
Interest Compounding	118	1.00	2.00	1.42	0.49
Inflation	118	1.00	2.00	1.82	0.38
Time Value of Money	118	1.00	2.00	1.59	0.49
Money Illusion:	118	1.00	2.00	1.75	0.43

Source: primary data.

Table 10 reports results from the five questions that measured respondent levels of financial literacy. Results show that there is a general understanding of the Numeracy components (Mean \approx 1.00, Standard Deviations $<$ 0.5) but a low understanding for the

elements of Interest compounding, Inflation, Time Value of Money and Money Illusion (Mean \approx 2.00, Standard Deviations $<$ 0.5)

Most respondents were between the ages of 25 and 55. The sample composed mostly of highly educated (over 80% had at least a higher education) and high-income (almost 95% percent earn Shs.410, 000 or more).

Though the questions tested educated people on basic but fundamental financial knowledge, the large percentage failed the questions, indicating highly low levels of basic financial literacy among consumers. This implies that consumers have difficulty in understanding and interpreting insurance policies especially life insurance which has saving and investment components and thus affecting purchase.

4.5 Objective Three: To establish the degree of insurance consumption in Kampala, Uganda

The study sought to establish the degree of insurance consumption in Kampala, Uganda. Insurance consumption can be measured in terms of Insurance penetration, insurance density and insurance in force to GDP. The constructs of the three measures of insurance consumption were extracted from the seven items as shown in the rotated matrix table 11 below. Factor analysis was performed to group the consumers and predict the consumption of insurance. This process helped to identify the underlying factors measuring consumption. The evidence in table 11 shows that when the Principal Component (PC) factors and Varimax rotation were conducted, three underlying factors were identified.

Table 11: Rotated Component Matrix for Consumption of insurance in Kampala, Uganda

	Penetration	Density	Insurance in Force to GDP
The ratio of total insurance premium volume to GDP in Uganda has been significantly growing in the past years	.665		
The premium volume of life insurance has been significantly growing in the past years	.885		
The premium volume of non-life insurance (non- mandatory) has been significantly growing in the past years	.585		
The level of Ugandan's average spending on insurance in real international dollars has been significantly growing in the past years		.739	
The level of Ugandans average spending on non-mandatory insurance policies has been significantly growing in the past years.		.888	
The ratio of outstanding insurance policies to Uganda's GDP has been significantly growing in the past years			.821
The total of face amounts plus dividend additions of insurance policies outstanding as a share of GDP has been significantly growing in the past years.			.822
Eigen Value	3.894	0.889	0.686
Variance %	55.63	12.699	9.803
Cumulative %	55.63	68.329	78.131

Source: primary data; Extraction method: Principal Component Analysis

The extracted factors as in table 11 were defined by the variables which have high loadings on them, that is, those that are strongly correlated with the factor in question. The key factors were named as ‘‘Insurance Penetration’’ (55%), ‘‘Insurance Density’’ (12%), and ‘‘Insurance in force to GDP’’ (10%). The extracted three factors accounted for 77% of the variance within the data. The first factor named insurance penetration is composed of three variables, which have high loadings on its dimension. These variables are ratio of insurance premium volume to GDP (0.665%), growth of premium volume of

life insurance (0.885) and growth of premium volume of non-mandatory non-life policies (0.585). The second factor is Insurance Density, composed of two variables growth of level of average spending on insurance in dollars (0.739) and growth of spending on non mandatory policies in (0.884). The third factor named Insurance in force to GDP is composed of two variables including ratio of outstanding policies to GDP (0.821) and face amounts plus dividend additions of insurance policies outstanding as a share of GDP (0.822). The results in table 11 shows that factor loading of items are all greater than 0.5. The high factor loadings indicate that the three factors have successfully explained the variance in consumption of insurance. In general the variables are the underlying factors in the measurement of the degree of insurance consumption in Kampala, Uganda.

4.6 Objective Four, Five, Six and Seven: Relationships between attitudes, intention to consume, Financial Literacy and Insurance Consumption.

Objective four was to determine the relationships between attitudes, intention to consume, Financial Literacy and Insurance Consumption. The degree of relationship was determined by Pearson (r) correlation coefficient and the predictability of consumption was determined through regression analysis.

4.6.1 Pearson (r) Correlation Coefficient

Pearson correlation coefficient was used to determine the degree of relationship between Attitudes, purchase intention, Financial Literacy and Insurance Consumption. The relationship was established by running independent variables against the dependent

variable that is affect attitudes, cognitive attitudes, conative attitudes and financial literacy against insurance consumption as shown in table 12 below.

Table 12: Pearson Correlation Coefficient

	1	2	3	4	5	6	7
Affective-1	1.000						
Cognitive-2	.503**	1.000					
Conative-3	.636**	.650**	1.000				
Attitudes-4	.681**	.808**	.849**	1.000			
Consumption Intention-5	.625**	.692**	.926**	.866**	1.000		
Financial Literacy-6	.237*	.326**	.481**	.385**	.545**	1.000	
Insurance Consumption-7	.329**	.528**	.499**	.600**	.494**	.267**	1.000
** Correlation is significant at the 0.01 level (2-tailed).							
* Correlation is significant at the 0.05 level (2-tailed).							

Table 12 above reveals that there was a positive and significant relationship between Affective attitudes and consumption intention ($r = 0.625^{**}$, $p\text{-value} < 0.01$). There was also a positive and significant relationship between purchase intentions and insurance consumption ($r = 0.267^{**}$, $p\text{-value} < 0.01$). This implies that as affect attitudes (emotional feelings) towards insurance improved in consumers, consumers increased intentions to purchase insurance and insurance consumption was achieved.

Consumers of insurance in Kampala had a significant and positive relationship between cognitive attitudes and intention to consume insurance ($r=0.692$; $p\text{-value} < 0.01$).

This implied that as consumers trusted insurance firms to provide the underlying cognitive insurance benefits of risk protection, saving and investment, the intention to consume insurance increased. Hence when insurance firms honor their obligations to

provide the underlying benefits of insurance, consumers develop intentions to consume insurance.

Further, there was a significant and positive relationship between conative attitudes and insurance consumption intention ($r = 0.926^{**}$, $p < 0.01$). This implied that when consumers develop trust in insurance firms, can easily and conveniently access insurance services and the price of insurance products is fair, they actually develop intentions to consume insurance.

Consumers of insurance had a significant and positive relationship between financial literacy and attitudes ($r = 0.385^{**}$, $p < 0.01$). This implied that as the financial literacy of consumers increased, attitude towards insurance products also improved.

Further, there was a significant and positive relationship between financial literacy and consumption of insurance ($r = 0.267^{**}$, $p < 0.01$). This implied that when financial literacy of consumers increase, their consumption of insurance products also increases.

Finally, there was a significant and positive relationship between consumption intention and consumption of insurance ($r = 0.494^{**}$, $p < 0.01$). As noted earlier, attitudes affect consumption indirectly through intentions and intentions directly affect consumption, this implied that as when consumer attitudes towards insurance improved, they developed intention to consume and actually consumed insurance.

Therefore, basing on the different constructs that measured attitudes, financial literacy, and consumption, all results reveal that the relationship between attitudes, financial literacy and consumption is significant and positive. This implied that consumers with a positive attitude towards insurance and financial literacy increase insurance penetration, insurance density and insurance in force to GDP. Thus attitude and financial literacy have great influence on consumption of insurance though also other factors exist.

4.6.2 Regression Analysis

Regression analysis revealed the extent to which Attitudes, Financial Literacy and Intention predicted the consumption of insurance as shown by table 12 below.

Table 12: Regression Model

<i>Magnitude Of the Regression Coefficients</i>		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
Model	(Constant)	.220	.621		.355	.724
	Attitudes	.768	.173	.694	4.439	.000
	Consumption Intention	.102	.109	.160	.931	.354
	Financial Literacy	.223	.212	.098	1.053	.295
Dependent Variable: Insurance Consumption						
	R Square	0.359				
	Adjusted R Square	0.342				
	F Statistic	20.540				
	Sig.	.000				

Results in the regression table 12 above indicate a linear relationship between Consumer Attitudes, Financial literacy, intentions and consumption of insurance.

The Predictors (attitude, financial literacy and intentions) explained 34.2% of insurance consumption, implying that they have capacity to improve or decrease the Insurance consumption by 34.2%. Table 12 further reveals that Consumer attitudes significantly and positively affected insurance consumption (Beta= 0.694, Sig. =0.000), financial literacy is also positively affected insurance consumption (Beta=0.098, Sig. =0.354) and intention also positively affect insurance consumption (Beta=0.160, Sig. =0.295).

However, Consumer Attitudes were the best at explaining Insurance consumption ($t = 4.439$) though it does so indirectly through intentions.

The implication from the regression model is that; if Consumption is to improve by 10,000 Units, 3,420 is a result of Attitudes and financial Literacy.

Generally, study results indicated that Consumer Attitudes, and Financial literacy had an impact on insurance consumption (Adjusted R Square=0.342)

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion, conclusion and recommendations arising out of the research findings in chapter 4 and suggest areas for further study. The study has generated findings several of which are in line with existing literature and previous research findings.

5.2 Discussion of Study Findings

The findings are discussed according to research objectives.

5.2.1 To examine the structure of consumer attitudes towards insurance in Kampala, Uganda.

Basing on the different constructs that explained Consumer Attitudes namely Conative, Cognitive and Affect, the results confirm that risk protection, saving, investment, trust, convenience and price were the underlying factors leading to cognitive conative and affect attitude formation. The findings support the TPB and TRA model, in which consumption is impacted by attitudes through intention (Ajzen, 1991). Intention is a mediator between attitude and behavior.

Results from this research show that lack of trust and confidence in the insurance companies to manage consumers' risks, meeting consumers' saving and investment expectations and financial illiteracy are the foremost reasons for not buying insurance policies in Uganda. Relatively, less influential reasons for not buying insurance is the

price and accessibility of insurance products. Thus, people who are financially literate and have an attitude that is more fearful of loss/hazard/ accidents and premature death are more likely to buy insurance. Almost 63 percent of the respondents do not have any protection against the financial loss that can result from accident or disaster, death, disability or critical illness. The relative frequencies of alternative ways of dealing with risk revealed that the reliance on help from family and/or other relatives and money lenders is higher than the self-retaining method of saving and investing in insurance.

1.2.2 To examine the level of consumers' financial literacy.

Results on financial literacy show very low levels of literacy. Findings showed that consumers most weakness was on knowledge of numeracy interest rate compounding and time value of money.

The large majority did not know or answer correctly the question about numeracy. Moreover, the large majority did not have a good grasp of the power of interest compounding. Of those who got the interest question wrong, most of them undertook a simple interest calculation, thereby ignoring the interest accruing on both principal and interest. These are not comforting findings, especially considering that these respondents have to deal with insurance policies especially life insurance products which have interest rate, numeric, time value of money and inflation computations.

1.2.3 To establish the degree of insurance consumption in Kampala, Uganda.

Results on insurance consumption identified insurance penetration, insurance density and insurance in force to GDP as the underlying factors measuring insurance consumption. Results showed a very low consumption level of insurance, due to the low insurance penetration, insurance density and insurance in force to GDP. These results are supported by Lewis (1989), assertion that consumption measures that assess units of insurance consumption in real dollars (purchasing power parity), premium volume to GDP and the premium volume in international dollars to the population size, are essential to monitor overall insurance consumption. Yaari (1965) and Hakansson (1969) confirm that if the insurance penetration and insurance density margins are low, it is an indication that the overall consumption of insurance is low.

5.2.4 To determine the relationship between consumer attitudes, financial literacy, consumption intention and consumption of insurance.

The general findings show a positive relationship between attitudes, financial literacy, consumption intention and consumption of insurance. All the different constructs of attitudes namely affect, conative and cognitive, and the construct of financial literacy positively correlated to insurance consumption intention and consumption of insurance. The study confirmed that attitude was the strongest predictor of consumption through consumption intention the correlation of attitude and intention and intention and consumption was significant high.

Specifically, the correlation test established significant positive relationships between attitudes and intention and intention with insurance consumption. This is supported by (Fazio, 1990) that, attitudes guide consumption through two ways: either as deliberate (e.g. controlled) or as spontaneous (e.g. automatic) fashion through intentions.

Where the individual is highly motivated and capable of thinking in a controlled fashion, behavior is held to be thoughtfully planned, based on one's attitude toward the behavior (deliberative process). In this mechanism, the influence of attitude on behavior is mediated by the plan (intention) as described by TPB. However, where motivation or opportunity for controlled process is absent, attitudes are held to impact on the behavior in an automatic way (spontaneous process). In the spontaneous process, attitudes toward an object/target are assumed to be strong (highly accessible), and may automatically be activated from the memory to guide consumption directly (Ajzen & Fishbein, 2005; Conner & Armitage, 1998). The customers' behavior of buying insurance may correspond with their prior intention or they may have not prior intention. For both cases, the evaluation of insurance as a good product plays a significant role in determining consumption.

Findings further show that financial literacy had a positive influence on consumption though not significant. This is in line with Annamaria Lusardi (2008), who found out that financial literacy was essential for consumer choice of financial services. Her findings revealed that consumers who possessed capacity to perform numeracy, interest compounding, time value of money, inflation and money illusion were in better position

to understand and appreciate the value of financial products on the market especially retirement schemes, insurance and stock market products.

Generally, the Pearson correlation test established a significant positive relationship between attitudes, financial literacy, consumption intention and consumption of insurance. The relationship is further confirmed in the regression model with attitude, financial literacy and intention established as a significant predictor of consumption of insurance. This is supported by Azjen & Fishbein (1980) that attitude influence behavior (consumption) through intentions. The results are also further supported by the extended TPB (Azjen & Fishbein, 1991), which concludes that external factors (Financial Literacy) if found to have impact on behavior also influence behavior (consumption).

5.3 Conclusion

Attitudes and financial literacy have complicated the insurance business.

Given that attitude and financial literacy are strongly linked to consumption, marketers of insurance services targeting Ugandans are confronted with the challenge of encouraging people to embrace insurance institution and its associated benefits. Based on the findings, this paper confirms negative attitudes of Ugandans towards insurance products and low financial literacy.

Relatively, less influential reasons for not buying insurance is lack of knowledge about insurance products. Thus, people who are financially literate are more fearful of risks arising from accidents and premature death and are more likely to buy insurance. Almost 65 percent of the respondents do not have any protection against the financial loss that

can result from accidents, death, disability or critical illness. The relative frequencies of alternative ways of dealing with risk revealed that the reliance on help from family and/or other relatives is higher than the self-retaining method of saving money with insurance firms. At least 65 percent of respondents will rely on relatives to meet their financial requirements.

As shown again throughout this paper, findings revealed high levels of financial illiteracy. The existence of financial illiteracy should not be taken for granted for insurers as it affects consumption of insurance products. Financial illiteracy is widespread and particularly acute among specific groups, including those with higher education, women, and minorities. Given the increased complexity of day-to-day financial transactions, the evidence of illiteracy raises important questions especially the ability to understand insurance policies.

Therefore, the nature of insurance business and low levels of consumption requires firms to improve on their marketing strategies to counter the problem of poor attitude and financial illiteracy.

5.4 Recommendations

Basing on the study findings, the following recommendations are suggested:

The findings serve as inputs to marketers of insurance services on how they formulate and implement relevant marketing strategies towards addressing the nonchalant attitude of Ugandans to insurance.

1. Specific marketing strategies are required to encourage the young generation below 45 year of age, the divorced/separated, and the less-educated to embrace and appreciate the role of insurance. Since, the basic issue associated with this lack of interest rests mainly in their lack of appreciation of the roles of benefits of insurance services; it is recommended that significant marketing communication activities be targeted more at this set of people highlighted. This will help to kindle their interest in the business and brings the insurance institution to the highly exalted position it belongs in their perception.

Insurance services providers will, therefore, have to introduce proactive strategies that are primarily aimed at educating consumers and encouraging greater usage of insurance.

2. Overall, the peculiar feature of most financial transactions in the developing world has been weak contract certainty which in turn, erodes the trust of the insuring public. This is where the regulatory authority wades in to strengthen regulation and supervision that would further boost the public confidence and trust in the insurance industry. In the case of Uganda specifically, the present government's cardinal program of strict adherence to the rule of law should be extended to the insurance industry where impunity seems to be holding sway at the moment. It is when the public realizes the availability of seeking redress in case of insurance disputes that they can repose confidence and positive attitude to the industry. Nevertheless, the efficacy of marketing-orientation rather than selling by insurers would go a long way in addressing the attitudinal problem

3. Insurance regulatory authority in Uganda (UIC) should help its members by offering basic financial literacy courses to the general public (customers of insurance services).

Students of Financial literacy” do not necessarily have to attend classes at school, but can learn from courses online (or from CDs or DVDs) from their homes. Courses can be customized and tailored to various needs and levels of financial knowledge in insurance business.

5.5 Areas for further research

The study concentrated on only consumer attitudes, financial literacy, intentions and consumption of insurance; however a similar study can be carried out covering all variables of the Theory of Planned Behavior (TPB) to include Subjective Norms (SN) and Perceived Behavioral Control (PBC) because these factors also affect consumption (behavior).

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QUESTIONNAIRE FOR THE STUDY OF THE TOPIC:

CONSUMER ATTITUDES, FINANCIAL LITERACY AND CONSUMPTION OF INSURANCE IN UGANDA

Dear respondent,

You are one of the few chosen to participate in conducting this survey on the topic shown above. This research aims at establishing the relationship between consumer attitudes, financial literacy and consumption of insurance in Uganda, so as to guide insurance firms in coming up with the appropriate marketing strategies.

The survey is for a basic research to fulfill partial requirements of the award of the degree of Master of Science in accounting and finance of Makerere University. I therefore humbly request you to spare a few minutes of your busy schedules to fill in this questionnaire to enable me accomplish this task. Your honest and sincere responses are highly appreciated and shall have confidential treatment. I thank you for your cooperation.

Part i (Demographic Profile)

Please tick or encircle the option that relates/applies to you

1. What is your age group?

25-35

36-45

46-55

56-65

65+

2. What is your highest level of education?

Primary level (1) secondary level (2) Higher education (degree/diploma) (3)

3. What is your working status?

Employed (1) Self employed (2) Retired (3) Unemployed (4)

4. What is your sex?

Female

Male

5. What is your monthly household income (social economic status)?

< SHS 130,000

SHS130, 000-235,000

SHS235, 000-410,000

>SHS410, 000

6. Do you own any insurance policy?

Yes

No

Part ii Attitudes towards insurance consumption								
In the following we would like you to express your feelings towards insurance								
		Totally disagree	Disagree	somehow disagree	Not sure	Somehow agree	Agree	Totally agree
	Affective attitude attributes							
	When I consume insurance, I feel.....							
7	Bad							
8	Foolish							
9	Useless							
	Cognitive attitude attributes							
10	Insurance helps to Provide same standards of living for dependants in case of death or disability of policy holder							
11	Insurance provides financial compensation in case of actual loss/hazard/damage							
12	Insurance Provides security in case of death of policy holder							
13	Insurance Prevents financial hardship to dependants in case of death or disability of policy holder							
14	Insurance provides an opportunity to receiving lump sum money in case of critical illness to policy holder							
15	Insurance reduces risks							
16	Insurance help s policy holders in saving regularly for the future							
17	Insurance helps policy holders in making a long term saving							
18	Insurance helps policy holders not rely on state pension for future survival in old age							
19	Insurance prevents policy holders from borrowing from friends, money lenders and relatives in case of emergencies.							

20	Insurance is an investment aimed at maximizing claim payments in case of hazard occurrence.							
21	Insurance provides opportunity to earn returns on premiums in the future							
22	Insurance provides opportunity to policy holders to series of periodic payments							
23	Insurance serves as a basis of credit for investment							
24	Insurance is a reliable investment as it is tax free saving							
25	Insurance introduce security into personal and business situations							
26	Insurance provides tax rewards to policy holders							
	Behavioral or conative attitude attributes							
27	Insurance is easy to buy							
28	Insurance services are easy to access							
29	It is not difficult to understand policies and premiums offered by insurance firms							
30	Insurance firms are easy to trust							
31	Insurance agents are easy to trust							
32	Insurance firms maintain successful customer relations							
33	Insurance is not expensive							
34	Buying insurance is good value for money							
35	Buying insurance is suitable for my budget							
	Part iii Purchase intention							
36	I plan to buy insurance							
37	I expect to buy insurance							
38	I want to buy insurance							
	Part iv Insurance Consumption.							
39	I have consumed insurance in the past two years							

	Insurance Penetration							
40	The ratio of total insurance premium volume to GDP (Gross Domestic Product) in Uganda has been significantly growing in the past years							
41	The premium volume of life insurance has been significantly growing in the past years							
42	The premium volume of non-life insurance (non-mandatory) has been significantly growing in the past years							
	Insurance Density							
43	The level of Ugandan's average spending on insurance in real international dollars has been significantly growing in the past years							
44	The level of Ugandans average spending on non-mandatory insurance policies has been significantly growing in the past years.							
	Insurance in force to GDP (Gross Domestic Product)							
45	The ratio of outstanding insurance policies to Uganda's GDP has been significantly growing in the past years							
46	The total of face amounts plus dividend additions of insurance policies outstanding as a share of GDP has been significantly growing in the past years.							

Part iv FINANCIAL LITERACY

(In the following questions circle or tick the correct option (Annamaria Lusardi (2005))

(42) Numeracy

Suppose you had shs1, 000,000 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?

- (i) More than Shs1,100,000; (ii) Exactly Shs1,100,000; (iii) Less than Shs1,100,000;
- (iv) Do not know;

(43) Interest compounding

Suppose you had Shs1, 000,000 in a savings account and the interest rate is 20% per year and you never withdraw money or interest payments. After 5 years, how much would you have on this account in total?

- (i) More than Shs2,000,000; (ii) Exactly Shs2,000,000; (iii) Less than Shs2,000,000; (iv) Do not know;

(44) Inflation

Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account?

- (i) More than today; (ii) Exactly the same; (iii) Less than today; (iv) Do not know;

(45) Time value of money

Assume a friend inherits Shs10, 000 today and his sibling inherits Shs10, 000 3 years from now. Who is richer because of the inheritance?

- (i) My friend; (ii) His sibling; (iii) They are equally rich; (iv) do not know

(46) Money illusion

Suppose that in the year 2010, your income has doubled and prices of all goods have doubled too. In 2010, how much will you be able to buy with your income?

- (i) More than today; (ii) The same; (iii) Less than today; (iv) Do not know.

Thank you so much for your time and cooperation