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## **Life insurance as an investor in Iraqi stock market**

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### **Abstract**

The study is aimed to investigate the financial literacy level of life insurance policyholders and to link the life insurance policyholder's financial literacy with the intention to invest in the stock market. The data was collected through questionnaire from Iraqi life insurance policyholders and logistic regression was applied to analyze the relationship. Results revealed that there is a strong positive relationship between financial literacy of life insurance policyholders and intention to invest in the stock market. In conclusion, the stock market can collaborate with life insurance companies to enhance the investment flow in the stock market.

**Keywords:** Life Insurance, Financial Literacy, Invest.

# El seguro de vida como inversor en el mercado de valores iraquí

## Resumen

El objetivo del estudio es investigar el nivel de educación financiera de los asegurados de seguros de vida y vincular la educación financiera de los asegurados de seguros de vida con la intención de invertir en el mercado de valores. Los datos se recopilaron a través de un cuestionario de pólizas de seguros de vida iraquíes y se aplicó una regresión logística para analizar la relación. Los resultados revelaron que existe una fuerte relación positiva entre la educación financiera de los asegurados de seguros de vida y la intención de invertir en el mercado de valores. En conclusión, el mercado de valores puede colaborar con las compañías de seguros de vida para mejorar el flujo de inversión en el mercado de valores.

**Palabras clave:** seguros de vida, alfabetización financiera, inversión.

## 1. INTRODUCTION

Most of the life insurance policies are for saving purpose where a lump sum amount is paid to the policyholder irrespective of death. The life insurance company also guarantees a return over the period of time. The marketing staff of life insurance companies launches aggressive door to door and reference-based campaign which leaves no choice for individuals to buy the policy. Another reason to purchase life insurance policy is to get a tax shield where insurance premium could be used as an expense and deducted from taxable income. However, the specific reason to purchase a life insurance policy is still undiscoverable. Prior studies on this issue produced ambivalent results

and limited to developed countries (Campbell, 1980). It is noted that from prior studies people have lower financial knowledge are less motivated to invest in the stock market or financial instruments (Lin et al., 2017). Similarly, Shen et al. (2016) analyzed that, people have a proper retirement plan had prior financial literacy whereas financially illiterate people are not motivated to plan for their retirement. In addition to this Rooij et al. (2011) said that people with lower education level do not explore the formal financial opportunities. Furthermore, the life insurance policy is found to be an exposure to the formal financial instrument which instigates the policyholder to invest in the stock market.

The objective of most of the life insurance companies is to provide investment opportunity to policyholder whereas the real coverage of life risk is a secondary objective. As the life insurance policy gets mature a big lump sum amount is received to a policyholder who increased the propensity level of the policyholder. The better financial position stimulates the policyholder to invest in the stock market and get better returns. The life insurance is considered to be the first formal financial instrument for policyholders. The life insurance policyholders get familiar with financial calculation and get exposure to understand the basic financial concepts while considering and evaluating an investment. The overwhelming literature is focusing on the need for financial literacy for households to motivate to invest their savings in financial markets. The household saving is a big source of investment in the financial market which still has potential. The study introduces the new concept to enhance the financial literacy of households. The life insurance policy may be a better solution to shape the financial literacy of households to motivate to invest in the stock market.

This study builds the argument that life insurance policy holders get knowledge and experience about financial investment therefore considered as financial literate. The financial literacy significantly provokes the policyholders to explore new financial instrument. Therefore, life insurance policyholders are significantly motivated to invest in the stock market. This study contributes in many ways to the existing body of knowledge. At the first level, this study focused to create the link between financial literacy (where financial literacy used as a proxy of life insurance policyholder) and the investment in the stock market. To the best knowledge of the author, this study has a unique position in the existing literature to link the financial literacy of life insurance policy investment with the investment in the stock market. Another aspect of this research is to highlight the issue in Iraqi context whereas most of the studies of life insurance are tilted towards developed nations (Bucherkoenen and Lusardi, 2011; Gutter and Hatcher, 2008). The heterogeneity in social, political and environmental perspective stimulates the author to investigate the issue in the special context of Iraq.

## **2. THEORETICAL FRAMEWORK**

People have turned out to be progressively dynamic in stock markets, and market interest has been going with or even advanced by the appearance of new monetary items. Be that as it may, a portion of these items is intricate and hard to get a handle on, particularly for less educated in financial terms. In the meantime, advertise progression and auxiliary changes to standardized savings and benefits have caused a

continuous move in basic leadership obligation far from the administration and managers and toward private people. In this manner, people need to accept greater accountability for their own financial prosperity. The question arises that whether people are adequately financially literate to make better financial decision making. A few existing investigations demonstrate that finance-related illiteracy is across the board and people need information of even the most fundamental monetary standards (Lusardi and Mitchell, 2007). In the meantime, there are worries that families are not sufficiently planning for future needs and are not taking advantage of financial products (Campbell, 2006). Lusardi and Mitchell (2014) examined that the individuals who are not financially proficient are less inclined to plan for future need and to gather richer. It is found that most households have a lack of fundamental financial knowledge, therefore, rely on conventional financial solutions (Bernheim, 1998). Some studies found that people with financial knowledge at their early school education or have financial literacy training are more likely to invest in the stock market.

It is argued that individuals who acquired life coverage will probably put at a later stage likewise in stock markets, contrasted with people who did not. The argument to support the proposition that a life insurance holder will invest in the stock market is that financial propensity encourages the policyholder to explore other financial products. Moreover, Jappelli and Padula (2013) asserted that investment in life insurance it might be the first encounter with fundamental financial concepts. In this way, life insurance enhances

the knowledge of policyholder regarding basic financial concepts and calculations. Another hidden benefit of a life insurance policy is that it reduces the cost of information associated with financial products, as the individual gradually enhance the financial knowledge and skills. The investment in a life insurance policy has a very low risk and offers a fixed return every year. In this way, the policyholder goes through a natural life cycle from lower risk investment to high-risk investment (stock market investment).

Similarly, Shefrin and Statman (2000) explain that life insurance policy investment is to avoid the poverty and mitigate the future financial needs while the level of propensity increases the investors look forward to making for money in the short time period. Moreover, Laibson (1997) and Gul and Pesendorfer (2004) found that individual's purchases life insurance policy are learned and trained for saving habits and enjoy the benefits of diversification in barter of minimal fee charged by the insurance companies. The process of understanding with the process of making return educates the policyholder to acquire more knowledge about financial innovations and motivates to make more money with high return (shares) financial products. This instigates the author to investigate the life insurance policyholders to gauge the intention to enter into the stock market at a later stage. Therefore, this study probes the argument that:

H1: The life insurance policyholder in Iraq contains sufficient financial literacy.

H2: Individuals purchase life insurance policy is likely to invest in stock market in some future time.

### **3. METHODOLOGY**

The study carried out to investigate the motivation and intention of Iraqi life insurance policyholders towards investment in the Iraqi stock market. For the purpose, we measure the financial literacy of policyholders whereas financial literacy is considered as the outcome of investment in the life insurance policy.

#### **3.1 Instrument and Sampling**

At the first stage, financial literacy was measured by the adapted instrument developed by (Rooij et al., 2011). The questionnaire was then amended keeping in view the level of understanding and educational level of households. The basic financial literacy was examined by asking the questions ranging from interest rate calculation to different types of interest rates and basic understanding with investment in the stock market and mechanics of the market. In the second stage, the intention and motivation of individuals to invest in the stock market were analyzed by recording the responses on instrument adapted from (Rooij et al., 2011). In the last stage, the relationship between financial literacy and the intention to invest in the stock market were examined.

Purposive sampling technique was adopted keeping in view the structure and need of study. Household individuals purchased life insurance policy was contacted to record responses. The data about life insurance policyholders were gathered from different life insurance companies working in the capital city of Iraq. The name of companies and customer's profile was kept secret due to marketing policies of insurance companies. The individuals were asked to answer the questions without using a calculator or consulting other sources of information. Pilot testing for each of the variables in the construct was carried to check the reliability of the instrument. Moreover, convergent validity, discriminate validity and reliability of the instrument were measured. The convergent validity was measured by extracting the values of AVE (average variance extracted) and CR (Construct Validity). Internal consistency was checked by applying Cronbach's alpha. Table 1, 2 and 3 present the values of validity and reliability measures.

Table 1. Convergent Validity of Instrument

Variables	No. of items	CR	AVE	Communality
FL	9	0.961300	0.710481	0.710481
ITI	7	0.96382	0.715162	0.715162

Table 2. Discriminate Validity of Instrument

Variables	FL	ITI
FL	0.84290	
ITI	0.423	0.84567

Variables	No. of items	Cronbach's Alpha
FL	9	0.961300
ITI	7	0.96382

Where; FL stands for Financial Literacy and ITI stands for Intention to Invest. As explained in Table 4 the values of CR and AVE is greater than the standard level given by (Nunnally, 1978). The square root of AVE shown in the diagonal of Table 2 contends that the instrument has a desirable level of discriminate validity. The square root of AVE is greater than the inter-correlation of variables. Table 3 presents the reliability of the instrument by measuring the internal consistency through Cronbach's alpha. The values for each variable is greater than 7.0 as said by (Sekaran and Bougie, 2010).

#### 4. DATA ANALYSIS

These questions designed to measure the basic level of understanding with financial products and calculations described in Table.4. In total 300 household respondents were contacted to record the responses. Out of 300 we succeed to collect complete questionnaires from 249 respondents. The results of respondents on each question are reported in Table 5.

Table 4. Financial Literacy

Sr. No	Question	a	b	c	d
1	You have 1000 IQD in your bank account where 4% interest rate is charged how much would you have after 4 years?	1000 IQD	More than 1000 IQD	Less than 1000 IQD	Do not know
2	If you have 10000 in a saving account and the interest rate is 10%. How much would you have after 5 years?	10000	15530	16105	Do not know
3	If the inflation is 4% and the interest rate on your savings is 3%. What would happen with your purchasing power?	increased	decreased	same	Do not know
4	If you have 1000 today and your friend is expected to inherit 1000 after 3 years. The interest rate is 10% Who is richer?	Me	My friend	No one	Do not know
5	Which financial product is more risky?	Bond	Stock/share	Equally risky	Do not know
6	Which financial product gives more return?	Bond	Stock/share	Equal Return	Do not know
7	If you are advised to invest in different financial assets. The risk you will lose your money?	Increase	decrease	No change	Do not know
8	The stock market brings people who want to buy stocks together with those who want to sell stocks?	correct	incorrect		Do not know
9	Investment in mutual fund is riskier than investment in stock of a company?	correct	incorrect		Do not know

Table 5 presents the results of responses on the financial literacy. The respondents were asked to select the appropriate according to their knowledge.

Table 5. Results of Household Responses

Q. No.	1	2	3	4	5	6	7	8	9	Mean
Correct	85.6	71.1	78.4	72.3	83.6	82	92.5	88.4	74.4	80.92
Incorrect	8.43	17.27	5.22	13.65	9.24	12.45	4.02	6.43	17.27	10.44
Do not know	6.02	11.65	16.47	14.06	7.23	5.62	3.61	5.22	8.43	8.70
Number of correct and incorrect responses										
Q. No.	1	2	3	4	5	6	7	8	9	
Correct	213	177	195	180	208	204	230	220	185	
Incorrect	21	43	13	34	23	31	10	16	43	
Do not know	15	29	41	35	18	14	9	13	21	

The results show that on average 80.92 percent respondents answer the questions correctly. The overall financial literacy rate is high. It is observed that an average of only 10.44 percent respondents was answered in correctly while 8.70 percent respondents refuse to answer the questions. Furthermore, the intention to invest in stock market was measured on likert scale (strongly disagree, disagree, neutral, agree and strongly agree). The results of responses are summarized in Table 6.

Table 6. Intention to Invest

Q. No.		Mean	Standard Deviation
	Intention to Invest	4.364857	0.043043
10	I want to enhance my financial position	4.245	0.0564
11	I expect to invest in equities (stocks/shares) and/or equity mutual funds.	4.532	0.0452
12	I have strong intention to invest in equities	4.411	0.0632

	(stocks/shares) and/or equity mutual funds		
13	If I actually have enough money to invest I will prefer to invest in stock market	4.146	0.0252
14	I feel that the procedures involved in investing in equities (stocks/shares) and/or equity mutual funds are not very complex	4.753	0.0253
15	I feel that investing in equities (stocks/shares) and/or equity mutual funds involves does not involve a lot of expense	4.124	0.0325
16	I feel that investing in equities (stocks/shares) and/or equity mutual funds does not requires a lot of my time	4.343	0.0535

It is evident from the results presented in table 6 that people have life insurance have strong intention to invest in stock market with a mean value of 4.364 and the dispersion in mean value is very low as explained by standard deviation value 0.4304.

**4.1 Regression Analysis**

Regression analysis is useful to explain the relationship between independent and dependent variables. In this study, the life insurance policyholder is examined for financial literacy and the effect of financial literacy is measured for intention to invest in the stock market. This study follows the logistic regression because the responses on financial literacy were divided into two categories (correct and incorrect). Logistic regression is useful when the independent variable is at the ordinal level scale. Preliminary analysis was carried to confirm the validity of results. Homoscedasticity is

checked by Wooldridge test which shows that probability is greater than Chi square (prob > chi2) and significant at 0.00 level.

#### 4.1.1 Econometric Equation

The regression equation is presented below: To measure the impact of internal audit on corporate governance we have used the models, which are given below:

$$ITI = \alpha_0 + \beta_1 FL + \epsilon$$

### 5. RESULTS AND DISCUSSION

The relationship of financial literacy with intention to invest in stock market was analyzed by applying logistic regression. It is observed that intention to invest in stock market is elevated when financial literacy of policyholder is high. Table 7 present the regression results where beta value ( $\beta=1.875$ ,  $p<0.00$ ).

Table 1. Logistic Regression

Dependent Variable ITN	Coefficient	Std. Error	Z-Value
FL	1.875	0.008	2.12
<b>Cons</b>	0.698	0.738	0.623
Prob>Chi2	0.000		
Mean Vf	1.19		

The positive relationship between financial literacy and the intention to invest in the stock market explains that households can be encouraged and motivated to train and literate for the financial term. The easiest way to get household financially train is by motivating to invest in life insurance. The experience and financial well-being will motivate them to invest in the stock market. In this way, households can enhance their wealth by investing in a formal investment where the systems are more transparent than informal investment opportunities. Furthermore, the growth of the financial market will also affect the household saving inflows. The stock market of Iraq has the potential to grow. When investors will households will prefer to invest in the stock market the market functions will elevate. The finding of this study is consistent with existing literature where financial literacy plays an important role to motivate households to invest in the stock market. In the same time, the finding of this study stands innovative by focusing on the life insurance policyholders. This study concludes with the remarks that life insurance policy investment plays an important role in the development of financial literacy in common households which leads to investing in the stock market.

## **6. CONCLUSION**

This study intended to investigate the relationship among financial literacy of life insurance policyholders and their intention to invest in the stock market. First of all the level of financial literacy of life insurance policyholders was measured. It was observed that the

level of financial literacy among life insurance policyholders was very high. Further, logistic regression was applied to regressed intention to invest in the stock market against financial literacy. The results showed a strong and significant positive relationship between financial literacy of life insurance policyholders and their intention to invest in the stock market. The study has a very significant position in the literature by linking the life insurance policy as a device to encourage investors to invest in the stock market. The policymakers can draw guidelines from this study to make a strategy to spread financial literacy through life insurance plans. Also, the stock market can collaborate with life insurance companies to enhance the investment flow in the stock market.

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