J. of Multi. Fin. Manag. 19 (2009) 273–290

Contents lists available at ScienceDirect

Journal of Multinational Financial Management

journal homepage: www.elsevier.com/locate/econbase

Cultural practices and life insurance consumption: An international analysis using GLOBE scores

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ARTICLE INFO

Article history:
Received 27 October 2008
Accepted 27 February 2009
Available online 14 March 2009

JEL classification:
F2
F3
Z1

Keywords:
Culture
GLOBE
Individualism
Power distance
Life insurance consumption

ABSTRACT

This cross-disciplinary study examines how national culture practice affects cross-country variations in life insurance consumption. To proxy for national culture dimensions, we use the refined measure of the GLOBE project which includes several additional cultural dimensions not included in Hofstede's analysis. Using 1966–2004 data across thirty-eight countries, our analysis reveals a strong relationship between life insurance consumption and the practice scores of in-group collectivism as well as power distance. These relationships continue to hold, even after controlling for other country-level variables such as national income, expected inflation rate, banking sector development, investor protection index, dependency ratio, life expectancy, and religion.

1. Introduction

Despite the fact that the life insurance market has become an increasingly important financial sector in the world economy, there is a large variation in life insurance consumption across countries. We select 32 countries out of our sample of 38 countries and classify these countries, from low (bottom 30%) to high (top 30%), into three groups based on their average Gross Domestic Product (GDP) per

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1042-444X/$ – see front matter
doi:10.1016/j.mulfin.2009.02.001

capita in 2000 constant US dollar calculated over the period from 1985 to 2004.[2] Fig. 1 indicates that although life insurance density increases from low income group to high income group, there is a substantial variation in life insurance density across-country in each income group. Our diagrams suggest that national income is not the only determinant for cross-country variation in life insurance consumption.

Previous studies have identified a set of economic, demographic, and institutional factors to explain the variations in life insurance consumption measured as life insurance density across countries. Using data from 45 countries in years 1980 and 1987, Browne and Kim (1993) suggest that life insurance consumption across countries is positively related to national income, dependency ratio, and government spending on social security, while it is negatively related to the religion (Muslim), inflation, and the policy loading charge. Using data from 48 developing countries in 1986, Francois (1996) also finds that life insurance consumption across countries is positively related to national income and negatively related to inflation rate. In addition, Francois indicates that while life insurance consumption in a country is positively related to financial market development in that country, it is negatively related to the monopolistic market structure in some of the countries in his sample.

Even though the above two studies cover a wide range of countries, their data are collected from one or two particular years. Therefore, the results of these two studies are subject to selection year bias. To alleviate this selection year bias, Beck and Webb (2003) use a panel data for 68 countries over the period from 1961 to 2000 to investigate the determinants of cross-country variation in life insurance consumption. Beck and Webb (2003) document that, out of the eight economic variables, the six demographic variables and the three institutional variables included in their study, national income, inflation, and banking sector development are the most robust determinants of life insurance consumption across countries and over time. In particular, while life insurance consumption is positively related to national income and banking sector development, it is negatively related to inflation.

The aforementioned studies are built on the same theoretical ground which assumes that the decision maker is a rational economic being, aiming to maximize the benefits of his/her dependents after his/her death. In these studies, decision makers are assumed to have the same cognitive machinery for making economic decisions across countries. Therefore, people in different countries may have about the same life insurance consumption when they are faced with similar economic circumstances. These economic circumstances are the decision maker's demographic characteristics, his/her economic situations as well as the institutional environment that he/she is living in. In other words, cross-country variation in life insurance consumption is solely owing to the differences in these economic circumstances across countries. Recently, Henrich (2000) finds experimental evidence indicating that economic decisions are heavily influenced by cultural differences and concludes that "the assumption that humans share the same economic decision-making processes must be reconsidered" (p. 973).

The basic need underlying the purchase of life insurance is to take care of one's dependents after one's death and this basic need is likely influenced by national culture. In an exploratory study using survey data collected from Winnipeg of Canada and Grand Forks of the United States, Wharton and Harmatz (1989) find that the two city groups have different life insurance consumption merely because they have different cultural attitudes toward life insurance. This finding suggests that people in different cultures may have different life insurance consumption even if they have similar constraints. In a recent study using Hofstede's cultural dimensions and data from 1976–2001 across 41 countries, Chui and Kwok (2008) documents that individualism has a significant, positive effect on life insurance consumption while power distance and masculinity/femininity have significant, negative effects.[3]

There is a caveat, however, in the use of Hofstede's cultural dimensions to explain the cross-country variation of life insurance consumption. Hofstede's survey relies on a value-based framework for mea-

[2] We select these 32 countries because these countries have data on life insurance density for at least ten years over the period from 1985 to 2004. This criterion allows us to compare the average life insurance consumption across countries in the diagrams. Our full sample, however, consists of data from 38 countries over the years from 1966 to 2004.

[3] Chui and Kwok (2008) find that the relationship between life insurance consumption and the Hofstede's uncertainty avoidance index is weak. Using a sample consisting of forty-four countries over the years from 1984 to 1998, Esho et al. (2004) also find that the Hofstede's uncertainty avoidance index is not related to the demand of property–casualty insurance across countries.