An Overview of Demand for Life Insurance in Malaysia

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Abstract

Life Insurance plays an important role in individuals and families financing lives because it is a hedge against the loss of income following the death of a wage earner. The use of life insurance is to insure against lifetime uncertainty resulting for the mortality risk of individuals. The growth of the services sector in the Asian economies, led to substantial changes in the financial sector. The Asian Financial Crisis, affecting the ASEAN economies in particular resorted to more regulatory measures to enhance delivery of products with minimal risks and failures. The countries surrounding the ASEAN economies also went through a phase of economic-restructuring and the most notable event being the impact of China's accession to WTO. Although the regions' insurance industry was not so badly affected by the financial crisis, but reforms started after 1990s. Regulatory changes allowing private and foreign entry have been luring global heavyweight insurance companies to enter these economies. As more and more suppliers enter these markets, the important issue is to examine the factors that enhance demand for insurance products. This research is conducted in order to ascertain the factors that influence the demand on life insurance. This research basically focuses on the walk in customer at Etiqa Insurance & Takaful branches all over Malaysia. The researcher tried to clarify what factors that can influence demand of life insurance. The researcher had narrowed to 100 and randomly chosen respondents as the data sampling in order to get information regarding those factors.

Key Words: Life Insurance, Demand, Purchasing Intention

1.0 Introduction

Insurance is an invention intended to offer security to people and industries against particular eventualities. It also enables the parties involved to have protection of their assets and livelihood. Individual and a group of people now have the assurance in cases of injuries, damages and untimely deaths of the principal earner. Thus, the main reason for the purchase of life insurance is to provide financial security for the family.

Malaysian domestic insurance marketplace is commonly divided into two sectors namely life and general insurance. Life insurance undertakes to provide protection to the insured's family, creditors, or others against the loss of earning capability of the insured in the event of his death or serious injury. General insurance, can categorized into various types, undertakes to indemnify the insured against losses arising out of damage to, or destruction of, the property insured. It also undertakes to pay damages to third parties for acts for which an insured is legally liable. As far as Malaysian Insurance, Etiqa Insurance is one of Malaysia's largest composite insurers and takaful providers. It is considering further merger and acquisition activity going forward to boost its business, both locally and overseas. Hence, Etiqa is a joint venture insurance operation that was formed in 2007 by a merger between Malaysia National Insurance and Takaful Nasional.

The company is 69.05% owned by Maybank, with Ageas Insurance International holding the remaining stake. Etiqa now distributes conventional insurance and Islamic takaful products under a unified brand name. The Malaysian insurance conglomerate wants to become the overall industry leader by 2015 and intend to leverage their position as the country's principal takaful distributor. According to [1], the company understand the need to maintain developing a rapid budding conventional life insurance business to cater to these goals. Etiqa Chief Executive Officer, Hans de Cuyper explained to the press that achieving these main objectives was possible given the Southeast Asian country's increasing need for insurance and investment solutions. Etiqa"s current premium levels put them as the number two insurer in Malaysia after market-leading Great Eastern Life, who project MYR5.6 billion (US$1.77 billion) in gross written premiums for 2011.

Even though behind Great Eastern, Hans de Cuyper told reporters that there was ample space in the Malaysian insurance market to develop further and that the company remained in a solid financial position to aid its growth. In the year 2012, Etiqa intend on getting hold of market share through the development and initiation of multiple new life and family insurance products in Malaysia [1]. In turn this shows that life and family protection is becoming more fashionable in the country as more people prefer cost- effective savings and investment-linked solutions, rather than just general insurance which mirror the overall industry tendency in Malaysia. [1] explained that Etiqa is making advancement on its infrastructure, maximising businesses and implementing daring new marketing approaches to humanize insurance and takaful for a still largely unaware Malaysian populace.

Etiqa Takaful is in control of approximately 45 percent of the domestic takaful market currently and has also established Islamic insurance operations in Brunei, Singapore and even Pakistan. Etiqa Takaful officials mentioned that one of its future endeavours is to make Indonesia as the next likely destination. Indonesia then could become part of their provincial portfolio by 2013. Indonesia is seen as the next ideal market due to its predominantly Muslim population. This would be a natural progression for the company to strengthen its insurance business after gaining almost half of the takaful market share in Malaysia. Hans de Cuyper said that through their affiliation with Maybank, Etiqa consequently gains a broad regional distribution network, to assist in sales of their bank assurance and takaful insurance products. The takaful insurance market has become a significant business arena for multinational insurance companies searching for new areas and opportunities for expansion.

2.0 Literature Review

[2] state that Supply Chain Management can be defined as integrated business method from end user through original providers that supply products, services and information that adds value for customers. A study done by [3] also showed that the purpose of supply chain management is to manage the flows across companies in order to gain key improvements that follow the overall coordination. However, some researcher state that Supply Chain Management should be called Demand Chain Management in order to reflect that the chain should be driven by the market (customer driven), not suppliers [4]. Others say that word "chain" should be replaced by "network" since there are not only one to one relations in a supply chain. According to [5], consumers demand what they want, wherever and whenever they want it, and supply chains cannot meet the customer's demands because they are supply not demand-driven. From the demand chain perspective, the customer is not only seen as the final end of the supply chain, to the contrary, the customer is the start point of the chain. Therefore, managing demand chains is different from managing supply chains. In addition, [6] stated that companies should put the end user as the organizations point of departure and not its final destination. In this way, the atmosphere of creating the right demand chain management will be achieved.

In addition, understanding the consumer's perception and attitude towards insurance and creating an insurance culture is essential in facilitating the success of insurance services [7]. Perception is the method by which organism deduce and categorize sensation to fabricate a significant experience of the world. Perception on the other hand, better describes one's ultimate experience of the world and typically involves further processing of sensory input. In practice, sensation and perception are virtually impossible to separate, because they are part of one continuous process

Thus, perception in humans describes the process whereby sensory stimulation is translated into organized experience or percept. Other than that, the processes of perception routinely alter what humans see. When people view something with a preconceived concept about it, they tend to take those concepts and see them whether or not they are there. This problem stems from the fact that humans are unable to understand new information, without the inherent bias of their previous knowledge. A person's knowledge creates his or her reality as much as the truth, because the human mind can only contemplate that to which it has been exposed. When objects are viewed without understanding, the mind will try to reach for something that it already recognizes, in order to process what it is viewing.

Moreover, [8] explained that insurance demand increases with the husband's future earnings. This claim is strengthen with the evidence provided by the research of [9], [10] and [11] on the positive relationship between life insurance demand and income. It is also supported by other researchers. Other than that work done by[12], has shown the significant positive relationship between the use of life insurance and income level. In addition, [13] states that there is a positive relationship existed between income and expenditures on life insurance premiums. They explained that as income increased the household has a motive to buy more life insurance because life insurance is bought as a function of the income replacement needed, in the event of an unexpected death of the major wage earner. Price is a critically important determinant of insurance demand and supply. The relationship between price of insurance and life insurance demand has been studied in the past [14; 15; 11]. However, the indicator of price of life insurance is not available in the most of the studies because it is difficult to determine the price of insurance with the various customized nature of policies.

Several researchers have studied whether the interest rate variable plays a role in influencing life insurance demand. From the studies, it also helps to know whether consumers are really concerned with the market rates of interest when making decisions to purchase life insurance. The interest rate has shown different results in which some of the studies identified that there is a significant positive relationship between demand and interest rate [16; 17; 18].

3.0 Methodology

The nature and the purpose of this study is Hypothesis Testing. This study used cross sectional research design which is a study based on accumulated data analysis that provide insights to answering the research questions. Relevant literature, a pilot study and the actual design of research are the main procedure to conduct this study in all Islamic banks in Shah Alam, the city of Selangor.

The study conducted by distributing questionnaires to 100 respondents, which were selected by systematic random approach. Besides, information from numerous literature and researches linked to my research to understand the nature of customer's satisfaction, perceived services quality, as well as the relationship among these variables have been collected over a period. In this research, primary data obtained by distributing questionnaires among customers with an account in Islamic banks as well as via emails and survey websites. There are three sections in the questionnaire

> **Section A:** Demographic Profile
> **Section B:** Customer Demand
> **Section C:** Customer Perception
> **Section D:** Economic Factor

Once data collected, it is analysed and summarized in a readable and easily interpretable form. The Statistical Package for the Social Science version 14 is used to analyse the data. The results will be in form of reliability testing, frequency distribution and Pearson Correlation. In addition, reliability is the extent to which a scale produces consistent result if repeated measurements in characteristics. Cronbach Alpha is the method to test the reliability of the data collected by the researcher.

Frequency table is an arrangement of statistical data in a row and column that exhibits the count of responses or observations for each category assigned to a variable. This analysis produces a table of frequency counts and percentile for all the values associated with the variable. Descriptive analysis is the alteration of unrefined data into a form that is comprehensible and manipulates data to present explanatory information.

Furthermore, Pearson correlation coefficient used to measure the relationships that exist between dependent variable and independent variables.

The dependent variable is the degree of customers' satisfaction and the independent variables are reliability, assurance, responsiveness, empathy and tangible. The correlation values are ranged from -1 to 1 which is the perfect negative correlation and the perfect positive correlation. If the value is o, the indication is there is no relationship among variables.

4.0 Result Analysis

4.1 Reliability Analysis

The researcher needs to conduct reliability test in order to calculate the regularity and stability of the variable.

Table 1: Rules of Thumb for Alpha Coefficients, George and Mallery (2003)

Cronbach's Alpha	Coefficients
> 0.9	Excellent
> 0.8	Good
> 0.7	Acceptable
> 0.6	Questionable
> 0.5	Poor
Below than 0.5	Unacceptable

Section B: Customer Demand

Table 2: Reliability Statistics

Cronbach's Alpha	N of Items
.726	5

From the table 2, it shows that the amount of Cronbach's Alpha for customer demand is 0.726. Therefore, reliability is done with the purpose of checking whether the data obtain from the survey is reliable or not for the study [19]. In this section the researcher will ask the respondent whether they demanded or not toward life insurance protection. Most of the respondents are demanded on life insurance products. Thus, from data above the study can be continuing because the data is 0.726 which is more than 0.7. Follow the rules of thumbs the amount which is more than 0.7 which is acceptable relationship.

Section C: Consumer's Perception

Table 3: Reliability Statistics

Cronbach's Alpha	N of Items
.866	5

Refer to table 3 above, it shows the amount of Cronbach's Alpha for consumers' perception (Independent Variable I) is 0.866. Based on the result above, most of the respondent are demanded on life insurance product that offered by Etiqa Insurance & Takaful [20; 21].

Section D: Economic Factor

Table 4: Reliability Statistics

Cronbach's Alpha	N of Items
.834	5

Table 4 shows the amount of Cronbach's Alpha for economic factor (Independent Variable II) is 0.834. In this section, the researcher want to know whether economic factor give effect to the demand of customer to buy life insurance product. The question are designed to know the respondent whether the product are influence by income, price of life insurance and rate of interest.

4.2 Descriptive Analysis

4.2.1 Research Objective 1: To determine the level of customer demand on life insurance.In order to see clearly the level of customer demand on life insurance, the mean for the customer demand (dependent variable) is needed. The level of customer demand can be group under three main classes which are group with low level of customer demand, group with neutral customer demand which means this group neither satisfied nor dissatisfied while last group is a group with high customer demand. This will be illustrated as Table 6 below:

Table 5: Level of Mean

Level Of Satisfaction	Mean Calculation	Mean Range
Low	1 + 1.33 = (2.33)	1.00 to 2.33
Medium	2.34 + 1.33 = (3.67)	2.34 to 3.67
High	3.67 + 1.33 = (5.00)	3.68 to 5.00

Table 6: Descriptive Statistics for Customer Demand

	N	Minimum	Maximum	Mean	Std. Deviation
CUSTOMER DEMAND Valid N (listwise)	100

100 | 2.40 | 5.00 | 4.1160 | .68176 |

According to Table 6 above, mean for dependent variable which is the customer demand is 4.1160. With reference to Table 6, we can see that the level of mean fall into third group with a high level of customer demand since the mean is 4.1160. So, it proven that currently there is a high customer demand on life insurance among all respondents.

4.2.2 Research Objective 2: To investigate what are the most factors that influence customer demand on life insurance toward Etiqa Insurance & Takaful.

Table 7: Descriptive Statistic for Demographic Factor and Economic Factor

Model	Unstandardized Coeeficients		Standardized Coefficients	t	Sig	Ranking
	B	Std. Error	Beta			
1(Constant)	1.214	.239		5.086	.000	
CONSUMERS" PERCEPTION	.462	.106	.530	4.349	.000	1
ECONOMIC FACTOR	.229	.100	.279	2.292	.024	2

From the Table 7 above, we can see that the most influence factor can be rank by the highest beta. In this finding the most influence factor is customers" perception with .530 then the second factor that influences customer demand is economic factor by .279. Consumers" perception is the most factors that influence customer demand on life insurance since they place a value on a benefit according to their perception or expectation.

4.3 Regression Analysis

Table 8: Regression for Dependent Variable

Model	R	R Square	ljusted R Square	Std. Error of the Estimate
1	.782[a]	.612	.604	.42900

R is the square root of R-Squared and is the correlation between the observed and predicted values of dependent variable R-Square is the proportion of variance in the dependent variable (Customer Demand) which can be predicted from the independent variable (customers" perception and economic factor). This value indicates that 61.2% of the customer demand can be predicted from variance of the customers" perception and economic factor. Thus, there has another 38.8% predictor that needs to find out as it influencing the dependent variable.

5.0 Conclusion

Generally, it can be concluded that the factor influence customer demand on life insurance is customers" perception and also economic factor. Under customers' perception, there are several elements that have been studied which are age, education and family size or number of children. For the economic factor, the researcher chooses income, price of insurance and also rate of interest in this study in order to support the factor of economic which will influence customer demand on life insurance. From the data that have been analyzed by the researcher, it can be conclude that among all respondents, there is a high level of customer demand on life insurance. Meaning that, most of them are agreed that life insurance is very important nowadays and they know there are a lot of benefits provided by having life insurance product.

Other than that, from the data that have been analyzed, the customers" perception is the factor that most influence customer demand on life insurance. Consumer's perception and attitude towards insurance and creating an insurance culture is essential in facilitating the success of insurance services. On the other side, from the data that have been analyzed from the economic factor that influence customer demand on life insurance, it can be conclude as for the level of income increases, life insurance becomes more affordable thus it will increase the demand on life insurance protection. In addition from this study, most of the respondent agreed that price also contribute to the demand on life insurance. Lastly, under economic factor, rate of interest plays a role in influencing life insurance demand because most of respondents agreed that they will buy less life insurance as the interest rate increased. From the finding, the researcher concludes that the most factors affecting the customer demand on life insurance toward Etiqa Insurance & Takaful is customers" perception.

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