CONSUMER PERCEPTION TOWARD BUYING INSURANCE

JULIZA BINTI JAAFAR

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ABSTRACT

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By

Juliza Binti Jaafar

Insurance is one of the important needs for every people during their life. Majority of people do not care about the importance of having insurance. Insurance is the transfer of risk by an individual, organization, business, to the insurance company. The issues surrounding the measurement and provisions of service quality in the insurance sector are becoming increasingly important and influence toward consumer purchasing insurance. The purpose of the current study is to identify the factors (service quality) affecting customer satisfaction toward insurance. The study is based on responses of 258 respondents from consumer in Temerloh, Pahang that were collected through a questionnaire. Various statistical tests such as reliability analysis, factor analysis and correlation have been carried out to analyze the result. The most important service quality factor is reliability and responsiveness. In addition, the result also shows that service quality satisfaction will influence the consumer to maintain to use insurance service at the same company.
ABSTRAK

TANGGAPAN PENGGUNA TERHADAP PEMBELIAN INSURANS

Oleh
Juliza Binti Jaafar

I would like to thanks God with the permission to me finish this final year project.

Firstly, thanks to my parents Mr. Jaafar Bin Ibrahim and Madam Hasnah Binti Ismail and also my family because their supportive to finish this final year project. The good deeds be appreciated.

Also thanks to my supervisor Mr. Bakri Bin Abdul Karim on the cooperation, interest, support and encouragement to finish this project and to all staff at Faculty Economics and Business (FEB), third year marketing students program, thanks you with your cooperation to finish the final project.

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Thanks. Wassalam.
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CHAPTER 1:
INTRODUCTION

1.1 Introduction

In Malaysia there are five statutory insurance associations, Persatuan Insurans Am Malaysia (PIAM) of general (non-life) insurers, Life Insurance Association of Malaysia (LIAM), an association of life insurers, Persatuan Insuran Kehangsaan Malaysia (NIAM), which represents locally incorporated insurers with more than 52% Malaysian equity, insurance Broker Malaysian Loss Adjuster (AMLA) and an association of insurance adjusters. The Services sector in Quarterly Balance of Payments Performance April - June 2009 recorded a better performance in this quarter with a turnaround from a negative 0.2 percent to an increase of 1.6 percent. The sub-sectors of Finance and Insurance recorded increase 3.3 percent. Statistic show arithmetic 35 percent only people in country have insurance covered and 65 percent people barer to risk.

In current life, people are always exposed to risks at anywhere and anytime. Insurance is a one way to reduce personal exposure to loss by guaranteeing a specified sum of money when particular event occurs. Insurance is based on two viewpoints; individual’s viewpoint and society’s viewpoint (Chua and Lim, 2000). Insurance is viewed as an economic device whereby an individual pay a premium to protect him against large financial loss from an individual’s viewpoint. The primary
function of insurance is to provide a sense security and the counterpart of risk. The society viewpoint, insurance is an economic device to eliminate or reduce risks by transferring the risks from individual level to the society.

Beside that, insurance means equitable transfer of the risk of the potential loss, from one entity to another, in exchange for a premium and duty of care (Tsoukatos and Rand, 2006). Insurance a way of protecting the policyholders from any costs that may arise from damage to their property or their health. Insurance means of guaranteeing financial protection against various risks.

Insurance is important to protect the family's income, protection of the family business, financial protection during disability, plan of medical or health, plan for the education of children, retirement fund, and measure of the value of self, as a gift for loved ones, part of a comprehensive financial plan and as a support to a friend. Insurance of all kinds and is used to help protect consumers when certain things happen. Insurance have the most part, this protection comes in the form of money, damages, financial loss and provide protection from liability but in the end, it usually comes down to money.

Based on case of automobile insurance, the reason insurance is important is that it protects consumers' from having to pay damages in the event that consumers' are found at fault for the accident. Furthermore, any medical costs that might be associated with an accident wherein consumers' are found at fault. Home owner's
insurance provides minimum coverage level is often determined by the lender. Furthermore, many home owners insurance will add to this level of coverage in order to protecting, such as furniture and other personal items against loss. Besides, coverage usually extends to consumer who may be on the property they encounter an accident and sustain injuries. The other importance of insurance is to protect the owner from legal actions. This is may arise from outside parties as well as to protect the owner from real property damage such as fire. With home owner's insurance, there is often controversy over and also known as flood insurance. The only way to know if consumers' are covered for flooding is to ask the direct question to consumers' insurance company and to read what is in the insurance contract.

In Malaysia, there are many types of insurance. These include life insurance and general insurance, two different policies and covers different aspects in consumers' life. Life insurance to cover that pays out certain amount of money to the insured or their specified beneficiaries upon a certain event such as death of the individual who is insured. Insurance also offered in a Family Takaful plan, this plan a Shariah-based approach to protecting all consumers.

General insurance is basically an insurance policy, which protects consumer against losses and damages other than those covered by life insurance. For more comprehensive coverage, to know about the risks covered to ensure that consumers' are protected from unforeseen losses. Insurance is very important to all people in
country. However, many people do not know about this, because of less confident, disbeliefed and disagree about service of insurance.

The one insurer is in the process of providing Bank Negara Malaysia (BNM) is proposed business plan to restore its margin of solvency (Central Bank of Malaysia, n.d). The considerable consumers' satisfaction with local insurance industry and the number of complaint against insurance companies received by BNM merely confirmed this state of affairs (Central Bank of Malaysia, n.d). In this regard, it is interesting to note that 1325 written complaints received by BNM in 1999, 82.9% were related to general insurance business and 17.1% were related to life insurance business. In 1997, the total number of written complaints totaled 1259 the lowest received by the authority since BNM assumed supervision of the insurance industry in 1998 (Central Bank of Malaysia, n.d).
Table 1.1: Insurance Key Indicators\(^1\) 1990\(^2\), 2005 until 2008

<table>
<thead>
<tr>
<th>Market Structure</th>
<th>1990(^2)</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Licensees</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Direct Insurers</td>
<td>147</td>
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<tr>
<td>Life</td>
<td>57</td>
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<tr>
<td>General</td>
<td>39</td>
<td>26</td>
<td>26</td>
<td>25</td>
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</tr>
<tr>
<td>Life and General</td>
<td>15</td>
<td>9</td>
<td>8</td>
<td>8</td>
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<tr>
<td>Professional reinsurers</td>
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<tr>
<td>Life</td>
<td>-</td>
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<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>General</td>
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<td>5</td>
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<tr>
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<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Insurance brokers</td>
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<td>35</td>
<td>34</td>
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</tr>
<tr>
<td>Adjusters</td>
<td>43</td>
<td>39</td>
<td>38</td>
<td>37</td>
<td>37</td>
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<td>Financial Advisers</td>
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<td>n.a.</td>
<td>2</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>No. of registered agents</td>
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</tr>
<tr>
<td>Life</td>
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<td>78,810</td>
<td>75,340</td>
<td>75,587</td>
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<td>General</td>
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<td>48,088</td>
<td>40,869</td>
<td>39,165</td>
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<td>No. of Offices</td>
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<td></td>
</tr>
<tr>
<td>Insurers</td>
<td>448</td>
<td>720</td>
<td>709</td>
<td>705</td>
<td>729</td>
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<tr>
<td>Insurance brokers</td>
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<td>Adjusters</td>
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<td>157</td>
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<td>174</td>
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<tr>
<td>Financial Advisers</td>
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<td>n.a.</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>No. of resources employed</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Insurers</td>
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<td>19,453</td>
<td>19,740</td>
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<td>20,825</td>
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<td>Insurance brokers</td>
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<td>1,253</td>
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<td>Adjusters</td>
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<td>1,954</td>
<td>1,955</td>
<td>1,924</td>
</tr>
<tr>
<td>Financial Advisers</td>
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<td>n.a.</td>
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<td>43</td>
<td>47</td>
</tr>
<tr>
<td>No. of qualifications held by insurance personnel(^1)</td>
<td>2,091</td>
<td>11,733</td>
<td>12,195</td>
<td>12,816</td>
<td>12,896</td>
</tr>
</tbody>
</table>

Source: Governor Messenger, Central Bank of Malaysia, 2008.
1.2 Problem Statements

Although insurance is important to protect the family’s income, financial protection during disability, liability, damages and planning of medical or health, there have been only small numbers of people purchase insurance and satisfied with insurance service. Thus, in this study we attempt to identify the factors that influence consumers towards purchasing insurance.

To the best of our knowledge, there is no such studies has been conducted on the issue particularly in the case of Temerloh, Pahang and Malaysia. Thus, we hope to partially fill the gap in the literature and to provide recent evidence on consumer perception towards purchasing insurance.

1.3 Research Objective

1.3.1 General Objective

The main objective of this research is to identify or evaluate the factors underlying that influence consumer perception toward buying insurance in Temerloh, Pahang.
1.3.2 Specific Objective

Perception

To identify the perception of consumer include satisfaction in service quality insurance in Malaysia. Dimension of service quality including reliability, responsiveness, assurance, empathy and tangible.

Expectation

To identify the customer expectation toward insurance, these include perceived of service quality such as quality surprise, satisfaction quality and unacceptable quality.

1.4 Research Question

Does the level of tangible influence consumer perception toward buying insurance?

Does the level of reliability influence consumer perception toward buying insurance?

Does the level of responsiveness influence consumer perception toward buying insurance?

Does the level of assurance influence consumer perception toward buying insurance?
Does the level of empathy influence consumer perception toward buying insurance?

1.5 Rationale Research

The importance of this research is to recognize the perception of insurance consumer in Temerloh, Pahang. Service quality is very important to consumer whereas the problem is service quality is less of satisfaction and influence consumer perception toward insurance service. This research can help the insurance companies to improve the quality of services and change the perception of consumer toward insurance service. For example, to improve and provide the policy insurance with good and to do more promotion about insurance which bring advantage and attract consumer to purchase insurance.

In this research, it can help insurance industry to identify factors that influence consumer in purchasing and planning their business strategy. This research also to get knowledge about how effectiveness the service quality influence the consumer purchasing. Therefore, company insurance can use this research to improve their service quality. The other important of this research can give information about service quality and consumer expectation or have a relationship with other.
Besides that, this research aims to establish insurance industry with motive to show that the insurance is important to all consumers. With this, insurance industry at Temerloh, Pahang can fast develop and increase country economy. This research can make for reference resources to researcher in the future to continue build the insurance industry without consider society and background.

1.6 Framework Concept

The major factors that play the role in developing consumer’s perception towards buying insurance are consumer loyalty, service quality, ease of procedures, satisfaction level, company image and company-client relationship. Based on this research, researcher will be focusing to service quality factor only. The best importance performance to assessing service quality in this study are evaluating the quality of their insurance provider are more likely to place more emphasis and importance some criteria than others. An alternative method for assessing service quality based on the importance or performance paradigm has been adapted for this study, because it is believed that individuals evaluating the quality of their insurance provider are more importance on some criteria than others. This study uses the ‘SERVQUAL. MODEL’ that can measure the perception and expectation of consumer about the buying insurance service in Temerloh, Pahang.
Figure 1: The Conceptual Framework: SERVQUAL MODEL

DIMENSION OF SERVICE QUALITY
- Reliability
- Responsiveness
- Assurance
- Empathy
- Tangibles

Word of mouth → Personal need → Past experience

Expected service → Perceived service

PERCEIVED SERVICE QUALITY
1. Expectation exceeded ES<PS (Quality surprise)
2. Expectation met ES=PS (Satisfactory Quality)
3. Expectation not met ES>PS (Unacceptable Quality)

1.7 Research Scope

This study focuses on the population of the local consumers to identify their perception of buying insurance. The purpose of this study is to identify the factors that influence consumer perception and expectation toward purchasing insurance. The sample of the research is collected from the local state in Temerloh, that they have an experience or use the insurance service. 258 respondents at Temerloh, Pahang are chosen randomly to get the probability sample. All the respondents are chosen from variety of gender, age, race, status, occupation, income and education.
CHAPTER 2:
LITERATURE REVIEW

2.1 Introduction

This chapter reviews some concepts relating to the topic of this research based on previous research and studies. It includes history of insurance, type of insurance industry in Malaysia, long term care insurance, reason for purchasing and not purchasing insurance, perception, satisfaction and service quality, consumer behavior, factor affective insurance purchase decision and expectation.

2.2 History of Insurance

Insurance is a concept that dates back to classical times and was already quite a develop industry in the seventeenth century (Chua and Lim, 2000). By the middle of the 14th century, as evidenced by the earliest known insurance contract, marine insurance was practically universal among the maritime nations of Europe. Insurance developed rapidly with the growth of British commerce in the 17th and 18th century. According to Chua and Lim (2000), the first local life insurance company was started in 1908 by a Canadian, called the Great Eastern Life Assurance Company Limited.
The insurance industry has gradually emerged to become an important component of the financial services sector in Malaysia in the past decade (Central Bank of Malaysia, 1994-2005). The insurance industry as an agent of social inclusion continued to increase in importance within the economy (Central Bank of Malaysia, 2004). The positive growth of the insurance industry in year 2004 due to the growing level of risk awareness among Malaysian and rising income levels, demand for medical and health insurance as well as life insurance plans remained strong (Central Bank of Malaysia, 2004). The insurance industry of Malaysia maintained growth in 2005.

2.3 Type of insurance industry in Malaysia

Insurance service is defined as service by conveyance that provides service to the public. Public insurance includes life insurance and general insurance. Life insurance main products are whole life, endowment, term, investment-linked, life annuity plan and medical and health. For the main products of general insurance includes motor insurance, fire insurance, house owners insurance, householders insurance, personal accident insurance, medical and health insurance and travel insurance.

Specifically, the life insurance industry hopes to allow its sales personnel access and connection to the corporate databases in order to reduce the time and costs associated with employees travelling to and from the company and the process
of issuing and transcribing documents (Luarn, et al., 2003). Consumer must buy life insurance because to ensure that consumer immediate family has some financial support after consumer demise, to finance children education, to have a savings plan for the future so that consumer have a constant source of income after retirement and to ensure that consumer have extra income when earnings are reduced due to serious illness or accident.

In general, benchmarking can be viewed as an external focus on internal activities, functions or operations in order to achieve continuous improvement (McNair and Leibfried, 1992). An agency relationship is defined as a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent (Jensen and Meckling, 1976).

When in case of theft or accident, motor insurance is covers consumer vehicle, motorcycle, car or lorry. Three types of motor insurance available is include third party, fire and theft and comprehensive cover. Coverage dictates are level for the claim if consumers’ vehicle sustains loss or damages. More people in Malaysia are using the internet to search for car insurance products. Two-thirds of individuals in the UK searching for insurance online are interested in motor insurance cover (Datamonitor 2001, 2002). One of the most important insurance policies that consumer can buy is home insurance, or houseowner/householder insurance.
Furthermore, home is one of the largest financial investment and very important to protect it. Three main types of policies which consumer can buy to protect their home, this includes basic fire policy, homeowner policy and householder policy. Besides, the basic fire policy provides consumer with coverage for the building only and covers loss or damage by fire, lightning or explosion.

The house owner policy provides additional coverage compared to the basic fire policy. This is includes loss or damage due to flood, burst pipes and others. Over the years the “insurance market” including the FOC (Fire Offices Committee), Fire Prevention Association, Loss Prevention Council and enlightened brokers, has made a major contribution to the fire protection of property (Bill Hirst, 1994). July 1985 saw the demise of the Fire Insurance Tariffs and the partial withdrawal of the “general rules” for conducting fire insurance business.

Besides, householder policy can cover consumer household contents and includes coverage for causing death injury to consumer as the insured. This policy does not cover damage to the house itself. The householders' insurance covers almost identical to houseowners' insurance, but the protection is meant for the contents and not for the building. Furthermore, this policy would also be appropriate to renters as the landlord's policy only covers the building and not the possessions of the renters.

The other type of general insurance is personal accident insurance. Personal accident insurance or known as (PA) insurance is an annual policy which provides compensation in the event of injuries, disability or death caused solely by violent,
accidental, external and visible events. This is different from life insurance and medical and health insurance. The type of coverage normally provided under accident insurance policy include accidental death, permanent disablement, temporary total or partial disablement, medical expenses, corrective surgery, hospitalization benefits and funeral expenses.

For the medical and health insurance (MHI), this insurance policy which is designed to cover the cost of private medical treatment is very expensive, especially with hospitalization and surgery. When emergencies, consumer won’t have to worry about the cost of seeking treatment because MHI can ensures. MHI also provides consumer with an income stream while to do treatment. Three main types of policy is hospitalization and surgical insurance, dread disease or critical illness insurance, disability income insurance and hospital income insurance. The World Health Organization (WHO) defines health as complete physical, mental and social well being, not merely the absence of disease and injury (Parekh, 2003). Accordingly, a country’s health system comprises all the organizations, institutions and resources devoted to produce health services (Gupta, 2006).

The travel insurance coverage is usually limited to the period of consumer travel. Insurance companies may offer various combinations of protection to cater to the specific needs of customers; this is including long term annual policies for a frequent traveler. The travel insurance can be purchased for consumer to insure against travel related accidents, losses or interruptions include personal accident, medical-related expenses, loss of travel or accommodation expenses due to