



Factors Influencing Purchase Intention on Life Insurance in Low Rate of Urbanization States in Malaysia

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Abstract. In the past five years of 2020, Malaysia's life insurance penetration rate was 54% only and an unfavourable life insurance coverage rate in Malaysia will increase the exposure of financial risk to Malaysians. Some studies suggest a positive relationship between the penetration rate and rate of urbanization which contributes to the rationality for this paper. This paper intends to determine the possible factors that will influence the life insurance's purchase intention of Malaysians in the low rate of urbanization states. This paper used quantitative research with 250 respondents as the sample of study. The results showed that attitudes towards the benefits of life insurance, perceptions from social interaction, benefits relative to the annual premium of life insurance, and assurance of reliability in service quality of life insurance agents have significant positive correlation with life insurance's purchase intention. The findings of this paper are expected to contribute to policy makers and life insurance companies to strategize their planning in future to enhance the penetration rate in Malaysia.

Keywords: Penetration rate · Rate of Urbanizations · Purchase Intention

1 Introduction

Life insurance is a financial product used worldwide. It contributes a function of wealth protection to a single individual or breadwinner of the family during unfavourable circumstances (Budin et al., 2020). To realize the full life insurance penetration rate is challenging globally including Malaysia. The penetration rate is the percentage ratio of total underwritten life insurance premium over national GDP (International Association of Insurance Supervisors, 2017). In past five years of 2020, the penetration rate was 54% only (Kamel, 2020). There are three major reasons that contribute to unsatisfactory penetration rate: 1.) major or minor health issues of individuals (Casna, 2020), 2.) low level of financial knowledge results in ignorance and misinterpret the important financial information, and low awareness on product of insurance to understand the necessary of wealth protection during unfavourable circumstance (Budin et al., 2020), 3.) and thought of stereotypes to life insurance agents with unpleasant past experiences or word of mouth from the society (Majidi, 2019).

Table 1. Percentage for Number of Life Insurance Policy owned by Malaysian in Year 2020

	Percentage
Insured owned single life insurance policy with insufficient coverage	36.90%
Insured owned single life insurance policy with sufficient coverage	4.10%
Insured owned at least two life insurance policies	13.00%
Individual does not cover with life insurance policy	46.00%

Source. Kamel, H. (2020). Social Media to Expedite Life Insurance Penetration Rate. Retrieved from The Malaysian Reserve: <https://themalaysianreserve.com/2020/09/10/social-media-to-expedite-life-insurance-penetration-rate/>

Refer to Table 1, the life insurance coverage for Malaysians is unfavourable and approximately one third of Malaysians are covered with it. Life Insurance Association Malaysia (LIAM) claims Malaysia's life insurance industry aims to achieve a total of 75% of the penetration rate by the end of year 2020. Based on the past statistics, the goal has failed. However, it is an essential target for the industry to work with in upcoming years to benefit the Malaysians. Besides that, the COVID-19 pandemic in 2020 has increased the challenges to the industry. This is because the virus will cause health complications after getting an infection and insurance companies will reject those applicants due to risk concern.

Based on the statistics demonstrated in Table 1, 32.70 million Malaysians are not covered with life insurance and 13.54 million Malaysians have insufficient coverage. It has great potential commercial value to the industry to work with. The industry still consists of 26.28 million Malaysians as the market opportunity. In addition, increasing in the rate of urbanization will enhance the penetration rate (Taruc, 2018). High rate of urbanization states or urban areas in Malaysia is considered saturated in terms of the penetration rate. Hence, the low rate of urbanization or rural areas in Malaysia contributes another potential commercial value to the industry. The potential market opportunity and the rate of urbanization contribute to the rationality of this paper. This paper intends to provide a precise focus for the industry to understand the possible factors driving life insurance's purchase intention of Malaysian in low rate of urbanization states and reduce the penetration rate gap.

2 Literature Review

Purchase intention is the degree of likelihood of one's intention to draw a final decision to purchase a product or service (Amoroso et al., 2016). There is a hypothesis that increasing in the rate of urbanization will drive the demand of life insurance, but the outcome was contrary to the hypothesis whereby there is no relationship in the Middle East and North Africa countries (Noubbigh & Zerriaa, 2016). Few studies demonstrate a result of a positive relationship between rate of urbanization and demand of insurance (Mathew & Sivaraman, 2017; Akhter et al., 2019). Those studies conclude a higher rate of urbanization will increase the individual's likelihood to purchase life insurance; and OECD countries demonstrated greater individual's likelihood to purchase life insurance

compared to Asian countries. This is because a city with a high rate of urbanization has greater industrialization, people in urban areas have better awareness of financial information, and greater life quality. Moreover, individuals with increasing assets will have greater intention to migrate from rural to urban cities. Hence, the low rate of urbanization states or rural areas has greater research value.

2.1 Theory of Reason Action

The theory suggested an individual's behavioural intention could be predicted by attitudes and subjective norms (Ajzen & Fishbein, 1975). Attitudes are measures of dynamics in behavioural beliefs according to his past behaviour and skill of evaluation. The dynamics develop the outcomes of new intentions or decisions. The measurement of attitudes consists of three different types: positively, neutrally or negatively. Next, the subjective norm is perception of an individual collected from social interaction, and develops the outcomes on new intentions or decisions. The perception usually will be influenced by his personal social group. When a certain behaviour has been accepted by the group, he will have greater likelihood to accept and practice the same behaviour. The theory assumes the individual's actions have his own will power and are influenced by his own intentions.

2.2 Attitudes Towards the Benefits of Life Insurance

Attitudes have quality to motivate an individual and results in push-pull effect to the behaviour (Leh et al., 2019). Beliefs on benefits could influence attitudes. Trust developed based on the beliefs on benefits and understanding could increase the favourable attitudes towards the product or service (Gao et al., 2019). Besides that, attitudes are driven by personal cognitive and emotions. Cognitive is the thought of an individual based on past experience and emotions is the feeling of an individual (Ghani et al., 2020). An individual does not necessarily have great purchasing ability, as long he consists of financial resources and literacy, he should have attitudes towards life insurance and hence influence the purchase intention (Nomi & Sabbir, 2020).

H1: Positive attitudes towards the benefits of life insurance will drive the purchase intention.

2.3 Subjective Norms, Perceptions from Social Interactions

Subjective norms consist of peer and supervisor influence, family members, friends, and external parties (Husin et al., 2016). Insurance agents and employers are the important social group to act as personal referents to influence the individual's purchase intention. Insurance agents with great service quality are an important factor to influence highly satisfied customers to appoint them as their personal referent (Leh et al., 2019). Word of mouth is more convincing compared to mass media. This is because individuals will feel human interactions are more reliable compared to digital forms of interactions (Aziz et al., 2017). In contrast, external parties such as information media will magnify the

speed of spreading the information, including financial products and services. Moreover, conventional media is better than personal referent because it is effortless to be used and the information could spread and cover a wider range (Amron et al., 2018).

H2: Gaining perceptions from social interactions will drive the purchase intention.

2.4 Benefit Relative to the Annual Premium of Life Insurance

The individual's purchase intention will increase when the premium cost setting of the insurance company has met their purchasing ability (Esau, 2015). Increasing in the premium cost of insurance will reduce the willingness of purchase intention of individuals who have greater awareness of Takaful products (Schmidt, 2018). Lower purchasing ability's individual have lesser interest on insurance spending compared to higher purchasing ability's individual as they have difficulty to afford the equal premium for the same wealth protection. Besides that, individuals with low purchasing ability in their country will prefer Takaful products. This is because Takaful products have relatively low premium cost compared to conventional products and provide the same value of wealth protection. Takaful products have the nature of profit-sharing which results in the possibility to refund some sharing payment at the year end and hence decrease the premium cost of insurance. Moreover, an increase in premium cost of insurance will increase 16.40% of the possibility of individuals to switch to another competitor (Ghani et al., 2020).

H3: Increasing benefits relative to the annual premium of life insurance will drive the purchase intention.

2.5 Assurance of Reliability in Service Quality of Agents

Evaluation of quality is the difference between perception of thought and expectations of an individual towards the insurance agent (Budhijono et al., 2021). Individuals will expect the agent to provide excellent service quality before, at the time, and after the sales process. The measurement of consistency in performance is a reliable quality which is the major concern of individuals during the decision-making process. Reliable quality demonstrated by insurance agents towards individuals will increase trust and it is the most effective measurement to measure the service quality (Chimedtseren & Safari, 2016).

H4: Assurance of reliability in service quality of life insurance agent will drive the purchase intention.

2.6 Conceptual Framework

See Fig. 1.

Conceptual Framework

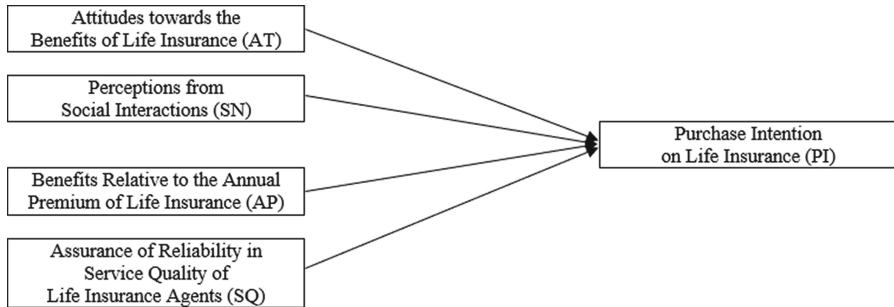


Fig. 1. Research Model

3 Research Methodology

3.1 Sampling Design

Quantitative research will be conducted for this paper. Firstly, the population in the low rate of urbanization states in Malaysia will range from age 18 to 70 as they are the population that consist of basic awareness on life insurance and they have purchasing ability to purchase life insurance. Secondly, the low rate of urbanization state's population will include those respondents in the rate of urbanization lower than 80% (Department of Statistics Malaysia, 2011; Refer to Table 2). 250 respondents will be used as sample size to represent the population.

3.2 Research Procedure

This paper conducts three surveys from the respondents in terms of: screening survey, demographic profile survey and study survey. The questionnaire will be designed as Likert scale by using ordinal measure. For example, "Strongly Agree – 5" > ... > "Strongly Disagree – 1". Construct measurement of the variables will be using the statement of value judgement.

Descriptive analysis and reliability analysis will be conducted. Cronbach's Alpha Reliability Analysis will be chosen to determine the reliability of multiple measurement instruments. Inferential analysis includes: 1.) Friedman's Two-Way Analysis of Variance (ANOVA) to test the relationship between variables to ensure the validity to proceed for further analysis, 2.) Chi-Squared Analysis for Independence Analysis to determine the correlation between variables, and 3.) Goodman and Kruskal's Gamma Analysis to determine the degree of correlation between variables. Due to the nature of data being ordinal and non-parametric, Gamma Analysis will be used.

Table 2. Rate of Urbanization by State, Malaysia in Year 2010

States	Rate of Urbanization (%)
Wilayah Persekutuan Kuala Lumpur	100
Wilayah Persekutuan Putrajaya	100
Selangor	91
Pulau Pinang	91
Melaka	87
Wilayah Persekutuan Labuan	82
Johor	72
Perak	70
Negeri Sembilan	67
Kedah	65
Terengganu	59
Sabah	54
Sarawak	54
Perlis	51
Pahang	51

Source. Department of Statistics Malaysia (2011). Population Distribution and Basic Demographic Characteristic Report 2010 (Updates: 05/08/2011). Retrieved from: https://www.dosm.gov.my/v1/index.php?r=column/cthemByCat&cat=117&bul_id=MDMxdHZjW Tk1SjFzTzNkRXYzcVZjdz09&

4 Data Analysis

4.1 Descriptive Analysis

76% of respondents have at least one life insurance and the remaining have yet to cover with life insurance. 54% of respondents are male and female respondents with 46%. Next, 84% of respondents range from age 21 to 30. (Refer to Table 3).

Table 3. Statistic of Demographic Profile

Number of Policy	Frequency	Percent (%)
More than one	113	45
One	78	31
None	59	24
Gender		
Female	114	46
Male	136	54
Age		
18–20	27	11
21–30	209	84
31–40	7	3
41–50	7	3

4.2 Reliability and Inferential Analysis

4.2.1 Cronbach's Alpha Reliability Analysis

If the Cronbach's coefficient is greater than 0.700, it is considered as acceptable and reliable. Attitudes towards the benefits of life insurance, $\alpha = 0.788$; perceptions from social interactions, $\alpha = 0.879$; benefits relative to the annual premium of life insurance, $\alpha = 0.769$; and assurance of reliability in service quality of life insurance agents, $\alpha = 0.852$ (Refer to Table 4).

4.2.2 Inferential Analysis

Hypothesis of attitudes towards the benefits of life insurance ($H1$) have been supported and consist of relatively strong positive correlation, $\gamma = 0.446$ with the purchase intention at significance level of 1%. Hypothesis of perceptions from social interactions ($H2$) have been supported and consist of strong positive correlation, $\gamma = 0.602$ with the purchase intention at significance level of 1%. Hypothesis of benefits relative to the annual premium of life insurance ($H3$) have been supported and consist of relatively strong positive correlation, $\gamma = 0.449$ with the purchase intention at significance level of 1%. Hypothesis of assurance of reliability in service quality of life insurance agent ($H4$) has been supported and consist of moderate positive correlation, $\gamma = 0.302$ with the purchase intention at significance level of 1% (Refer to Table 5).

Table 4. Cronbach's Alpha Reliability Analysis

Measurement	Cronbach's Alpha	Number of Items
<i>AT</i>	0.788	3
<i>SN</i>	0.879	3
<i>AP</i>	0.769	3
<i>SQ</i>	0.852	5
	After Item has been deleted	
<i>AT1</i>	0.674	2
<i>AT2</i>	0.668	2
<i>AT3</i>	0.795	2
<i>SN1</i>	0.913	2
<i>SN2</i>	0.744	2
<i>SN3</i>	0.810	2
<i>AP1</i>	0.759	2
<i>AP2</i>	0.547	2
<i>AP3</i>	0.761	2
<i>SQ1</i>	0.785	4
<i>SQ2</i>	0.806	4
<i>SQ3</i>	0.841	4
<i>SQ4</i>	0.836	4
<i>SQ5</i>	0.836	4

Table 5. Inferential Analysis

	(1) Chi-Square	(2) Pearson Chi-Square	(3) Gamma
<i>AT</i>	97.235***		0.446***
<i>AT1</i>		112.388***	0.672***
<i>AT2</i>		68.678***	0.253**
<i>AT3</i>		74.264***	0.501***
<i>SN</i>	218.485***		0.602***
<i>SN1</i>		108.302***	0.458***
<i>SN2</i>		198.995***	0.550***

(continued)

Table 5. (continued)

	(1)	(2)	(3)
	Chi-Square	Pearson Chi-Square	Gamma
<i>SN3</i>		202.709***	0.509***
<i>AP</i>	105.551***		0.449***
<i>AP1</i>		56.238***	0.471***
<i>AP2</i>		62.713***	0.665***
<i>AP3</i>		74.578***	0.354***
<i>SQ</i>	93.656***		0.320***
<i>SQ1</i>		29.535***	0.328***
<i>SQ2</i>		28.646***	0.185*
<i>SQ3</i>		17.970***	0.308***
<i>SQ4</i>		31.398***	0.327***
<i>SQ5</i>		61.310***	0.595***

Notes. The table demonstrates the result of Friedman's Two-Way Analysis of Variance (1), Chi-Squared Analysis (2), and Goodman and Kruskal's Gamma Analysis (3). The coefficients represent the result for respective analysis. The significance levels are denoted by * (**) *** and indicates reject null hypothesis at the 10-, (5-), and 1-percent significance levels

5 Conclusion

Attitudes towards the benefits of life insurance, perceptions from social interactions, benefits relative to the annual premium of life insurance, and assurance of reliability in service quality of life insurance agents are significantly proven to influence life insurance's purchase intention of Malaysians in the low rate of urbanization states. Firstly, Malaysians will have favourable attitudes towards life insurance when the product could provide a full amount of pay-out to cover daily expenses and permanent disability care expenses when they are diagnosed with critical illness or permanent disability. Secondly, Relatives in the social group are the best social interactions to induce Malaysians to purchase life insurance. Thirdly, increasing the benefit of the product that will outweigh the purchasing cost will drive the purchase intention. Last but not least, Malaysians will desire the life insurance agents to provide product benefits that suit their financial needs at the time of product implementation.

The findings of this paper will provide some contributions to policy makers and the industry. Policy makers could further increase the annual financial budget to the industry so that most of the insurance companies could adjust the coverage benefits and premium cost to meet the Malaysians attitudes towards life insurance and expectations on the benefit covered. Next, life insurance companies could amend their strategic marketing

planning to focus on training life insurance agents. The training should include the strategy to penetrate the existing client's relatives as potential prospects and enhance the quality service of before, at the time, and after the sales process. Strategies mentioned to policy makers and the industry are very useful to the low rate of urbanization states or rural areas as the results show those areas have potential commercial value to reduce the life insurance penetration rate.

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