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DETERMINANTS OF PERCEPTION TOWARD LIFE INSURANCE AND ITS IMPACT ON INTENTION TO PURCHASE

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ABSTRACT

Life insurance is one of the solutions for managing personal financial risks. It is effective in protecting surviving individuals of families against loss of income resulting from the premature death of bread providers. This study aims to investigate the explanatory factors influencing perception toward life insurance. The research was underpinned by the Perception Formation Model and further supported results of previous findings. Using primary data drawn from respondents up to the age of 35 years old, results based on Variance-based Structural Equation Modelling (SEM) suggested intention to purchase life insurance was related by how people perceive the product itself. As expected, those who favorably perceive life insurance have more inclination to purchase. The resultant outcomes suggested social influence agents, including family members, peers and the Internet significantly explain peoples' perception toward life insurance. The study implicated industry players in terms of the design of marketing mix and shed lights in better understanding of the complexity in the decision-making process with regards to life insurance purchase intention.

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1. INTRODUCTION

At macro level, insurance plays core functions in a country's economy and financial system. At individual level, it is an effective financial tool to protect insureds and their loved ones against financial loss resulting from unforeseen adverse events such as property damage, injury and disability, illness, and even death. Specifically, life insurance policy is critical for a comprehensive personal financial plan because it can provide a lump sum of fund to support the livelihood as well as to settle debt, thus eliminating financial stress from the possibility of foreclosure, to the surviving beneficiaries. Thus, it comes as no surprise that the Bank Negara Malaysia (BNM),

the central bank of Malaysia, has strived to boost life insurance penetration of the country to 75 percent by the end of 2020.

Despite initiatives to promote life insurance ownership, BNM (2018) informed lower than 40 percent of the populations own a life insurance or family takaful policy and at least eight million working-age individuals need life insurance protection. Of these, almost half are from the Bottom 40 (B40) income group. The Star (2019) further reported less than 41 percent of Malaysians own at least one life insurance or equivalent. BNM (2017) indicated there was low marginal growth of life insurance penetration over the reporting years, i.e., at just around 1.1% annually from 2014 to 2017. In term of compounded annual growth rate (CAGR) from 2007 to 2014, Malaysia recorded zero-percentage growth (Vittala and Banu, 2016). For perspective, the CAGR is positive among the following countries like Russia 9.05%, followed by Pakistan 6.42%, Thailand 5.42% Brazil 5.1%, Bangladesh 4.29%. whereas CAGR is negative in countries like India -5.2%, Srilanka -2.25%, South Africa -0.82%, China -0.71%. whereas world penetration increased annually by 6.3% (Vittala and Banu, 2016).

The conclusion that can be drawn from these figures is there is low intention to buy life insurance policy among Malaysians. Compared to peer nations, Malaysia is also trending down. The resultant of lack intention may be due to their perceptions on life insurance products. Since perception development is a complex process, even more so for intangible nature of financial products such as life insurance, identifying relevant factors that can be linked to perception toward life insurance would benefits both players of the industry and policy decision makers.

Thus, the study examined whether there is association between perception on life insurance and the intention to purchase as well as the explanatory variables on the perception of life insurance. The study contribute to the body of knowledge as investigation on life insurance purchase decision making is fragmented and there is no consolidated model for life insurance purchase decision making exists (Ulbinaite, Kucinskiene and Le Moullec, 2014).

2. LITERATURE REVIEW

Decision making process related to personal financial planning is rather complex and based on evidences of Capon, Fitzsimons and Prince (1996), Dulebohn and Murray (2007), Gooding (1975) and McGregor, Slovic, Dreman and Berry (2000), among others, it is inconsistent to the notion of rationality. In the market of personal finance products and services such as life insurance, individuals normally lack perfect information about the financial services and products. Intangible nature of life insurance products is causing more difficulty for individuals to determine the quality and riskiness before making the purchase. As life insurance is normally used for long-term financial plan, the quality and risk are unknown even years after the decision to purchase., According to Diacon and Ennew (2001), these characteristics will increase the perceived riskiness of purchase.

In the study, the intention to purchase is defined as a situation where individuals is likely to purchase life insurance. Within the context of life insurance, favourable perception on life insurance is expected to promote more intention to buy life insurance (Litterer, 1965) because in order to make good decision, individuals need to think properly if life insurance will be beneficial or not. Litterer (1965) posits that

once perception is formed, it is highly likely that these individuals will behave based on their perception toward the specific issue.

Litterer (1965) posits Perception Formation Model (PFM) to explain how the perceptions of individuals on certain issues formed, which consequently affect their behaviours. Accordingly, individuals have the tendency to choose information that they can relate to and their experience significantly affects the interpretation of selected information. Since individuals have different experiences and the capability to interpret information, they form different perceptions even when exposed to the same stimulants. Litterer (1965) further explains that the norms and influence of people surrounding the individuals could implicate their perception too.

The level of knowledge affects the degree to which individuals can process pleasant information (Alba and Hutchinson (1987) and those with more actual financial knowledge have more abilities in understanding, interpreting and connecting financial information (Wang, 2009). As financial products are generally technical in nature with some are more complicated than others, those possess higher level of actual financial knowledge are in better position to identify and select accurate information in perception formation process. Thus, knowledge enhances ones' efficiency to process information which according to Litterer (1965), would subsequently develop much accurate perception on an issue. About life insurance, those who have better financial knowledge can better understanding the roles and how life insurance works, thus likely to have favourable opinion or perception toward life insurance.

Risk propensity is a personal trait characterised by the degree individuals are willing to engage in behaviour that have uncertain consequences. This trait may steady over time (Gerrans, Faff, & Hartnett, 2012) or may change according to experiences or leaning process. Litterer (1965) explains experiences of individuals play vital roles in shaping their perception. Even though life insurance is a risk mitigating tool, some individuals may perceive it as risky 'investment' especially when dealing hybrid life insurance which combines income participating and investment aspects. Thus, risk propensity of individuals is expected to affect their perception on life insurance. Generally, risk-averse individuals may perceive life insurance favourably as life insurance allow them to transfer the uncertainties to insurance companies. This expectation is parallel evidence of Hamid, Rangel, Taib and Thurasamy (2013) that risk seeking individuals tend to be motivated to project actual risky behaviours.

Life insurance purchase is an infrequent activity, and some may even engage in life insurance purchase once in their lifetime. Bandura (1977) explains people are not equipped with innate repertoires of behaviour when dealing with infrequent situations. Thus, individuals must learn them, and the social agents promote learning to take place. In the present social context, people whom one interacts with, physically or virtually, are expected to have an effect on perception formation process and subsequently their behavioural intention. Social agents include family members and peers (Moschis & Churchill, 1978) alongside with Internet products and information. Barber (2013) provides evidence that among others, the Generation Y are affected by their peers, their family especially the parents, and the Internet. People who are more sociable tend to use more Internet (Castells, 2014). The argument forwarded by Castells (2014) is very much relevant nowadays as portable communication devices with Internet capability are becoming accessible and affordable to almost everyone.

The availability of various social networking applications enables people to socialise more frequently and intensely online or offline, with their peers and family members, in all cultures. While interacting, individuals would perceive and rate condition and conduct of their peers or family member as either "strong" or "weak" actions and subsequently be taken persevered in their selection behaviour, while those who described the condition more as "good" and "bad" would integrated to individualistic selection behaviour (Liebrand, Jansen, Rijken, and Suhre, 1986). Individuals incline to interpret values of their peers are family members and hierarchically ordered these values in memory, and they would find chances to employ their principal value in undefined conditions (Ravlin and Meglino, 1987). In other words, these individuals tend to perceive the consequences for that value in conditions that may be defined in several ways.

3. METHODOLOGY

Underpinned by the PFM and drawing variables from other past studies, the study has six hypotheses. As depicted in Figure 1, five predictors for perception and the association between perception and intention to purchase life insurance were examined.

Primary data for the study were sourced using face-to-face survey method. Research instruments were adapted from previous literature. Except for the objective knowledge, all other constructs were operationalised using the Likert-type scales. It is one of the most popular non-comparative scaling techniques in management business research (Kumar, Abdul Talib & Ramayah, 2013) and a common approach utilised to measure a variety of constructs (Kent, 2001). By using this scale, respondents indicate to what extent they are in agreement or disagreement with each of the statements about the stimulus objects (Sekaran, 2003). Respondents were selected using convenience sampling.

The endogenous variable of the research is intention to purchase life insurance. Five items from Grace and O'cass (2005) were adapted to capture the variable. There are five exogenous variables, of which generally classified into three common themes: financial knowledge, social influence, and personal trait.

Objective knowledge refers to actual financial knowledge of respondents. The instruments to measure this variable were adapted from Van Rooij, Lusardi and Alessie (2011). A total of ten multiple choice and true/false questions related to basic financial arithmetic concepts to gauge the level of financial knowledge were included. The attainment of point by respondents are based on the number of correct answers. Each correct answer carries one point, thus, the possible range of score for objective knowledge is 0 to 10. The other exogenous variables were indirectly observed and operationalised using seven-point Likert's scale items. Items for Family Influence and Peer Influence were sourced from Elizabeth and Jorgensen (2015) and instruments for Internet Influence were adapted from Jorgensen and Salva (2010). Meanwhile, items from Dulebohn and Murray (2007) were employed for Risk Propensity. Lastly, four items to measure for Perception towards Life Insurance were from Hoffman, Post and Pennings (2013).

4. STATISTICAL FINDINGS

A total of 288 useable questionnaires were entered for analysis, which was greater than minimum sample size required of 136, computed using Gpower calculator (Faul,

Erdfelder, Lang and Buchner, 2007). Table 1 illustrates profile of respondents. Majority of respondents were female and from the age group of lower than 25 years old. They were mostly single and from the ethnicity of Sabah and Sarawak indigenous. One third of the respondents were unemployed, i.e., being housewives or students.

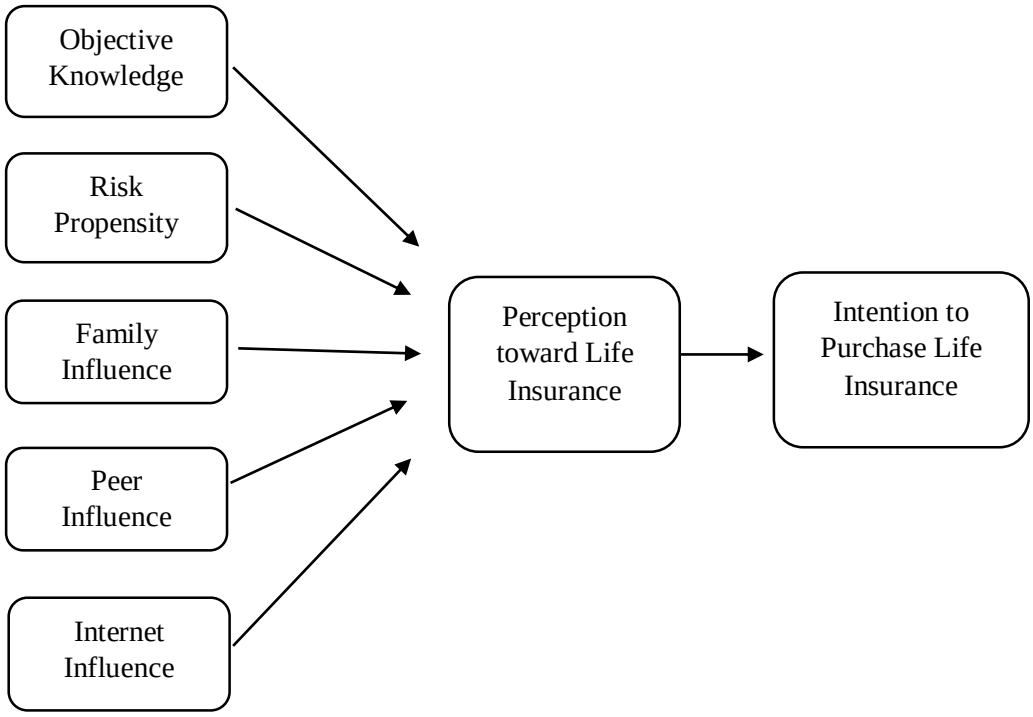

Figure 1: Research framework.

Table 1: Descriptive statistics of respondents.

Variable	Categories	Frequency	Percentage
Gender	Male	62	21.5
	Female	226	78.5
Marital Status	Single	196	68.1
	Married	86	29.9
	Others	6	2
Ethnicity	Malay	58	20.1
	Other Bumiputra	210	72.9
	Chinese	16	5.6
	Indian	56	1.4
Age Group (years)	18-25	188	65.3
	26-30	62	21.5
	31-35	38	13.2
Occupation	Public Sector	52	18.1
	Private Sector	78	27.1
	Self-Employed	56	19.4
	Student/Housewife	102	35.4

Analysis of the level financial literacy revealed respondents were generally lower than the midpoint of 5 (based on 10 financial literacy questions). The mean score is 4.23 with standard deviation of 1.94, while the median score is 4. As indicated in Figure 2, majority of the respondents failed to obtain a financial knowledge score

higher than 5. Thus, it is fair to conclude that the level of financial knowledge is less desirable.

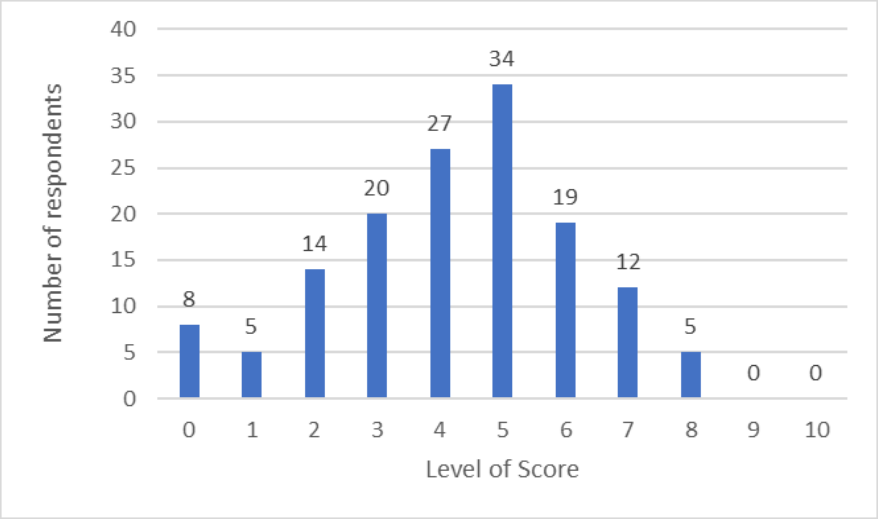

Figure 2: Distribution of financial knowledge score.

Table 2: Measurement model.

Construct	Items	Loadings	AVE	CR	VIF
Intention to Purchase Life Insurance	INT1	0.892	0.781	0.947	
	INT2	0.863			
	INT3	0.840			
	INT4	0.913			
	INT5	0.910			
Perception towards Life Insurance	PERC1	0.957	0.868	0.963	1.000
	PERC2	0.934			
	PERC3	0.963			
	PERC4	0.870			
Risk Perception	RP2	0.870	0.732	0.891	1.180
	RP3	0.861			
	RP4	0.834			
Family Influence	FAM1	0.938	0.859	0.960	1.425
	FAM2	0.938			
	FAM3	0.899			
	FAM4	0.931			
Peer Influence	FREND1	0.902	0.841	0.955	1.443
	FREND2	0.931			
	FREND3	0.917			
	FREND4	0.918			
Internet	INTER1	0.873	0.831	0.952	1.173
	INTER2	0.929			
	INTER3	0.930			
	INTER4	0.913			
Objective Knowledge	-	-			1.048

Factor loadings and average variance extracted (AVE) are used to determine convergent validity. The indicator loadings, AVE, and composite reliability (CR) results of the reflective constructs are provided in Table 2. Item RP1 with loading of 0.155 was dropped due to lower than 0.708 based on Hair et al. (2017). All the six constructs fulfil the threshold cut-off values for AVE and CR of 0.5 and 0.7 respectively, thus, confirming that the constructs meet convergent validity and reliability at the measurement model stage. Discriminant validity is attained based on cross loading analysis, where each indicator was loaded high on its own constructs but low on other constructs. Results using Fornell and Lacker Criterion as shown in Table 3 further confirm that discriminant validity of the measurement model is established.

Prior to investigating the structural model, inner variance inflation factor (VIF) values for the predictor variables are examined. As indicated in Table 2, all VIF values are less than 3.3. This confirms the regression model is free from issues that may be caused by lateral collinearity (Hair et al., 2017).

Table 3: Fornell-Lacker criterion result.

	Family Influence	Intention to Purchase Life Insurance	Internet	Peer Influence	Perception towards Life Insurance	Risk Perception
Family Influence	0.927					
Intention to Purchase Life Insurance	0.301	0.884				
Internet	0.241	0.334	0.912			
Peer Influence	0.498	0.433	0.397	0.917		
Perception towards Life Insurance	0.364	0.774	0.312	0.369	0.932	
Risk Perception	0.301	0.254	0.288	0.256	0.257	0.856

Table 4 summarises the statistical results for hypothesis testing. Three of the five predictors of perception provided supportive results. Objective knowledge (H1) and risk propensity (H2) were tested insignificantly related to perception as evidenced by t-value lower than critical value of 1.645. The remaining three hypotheses (H3-H5), in which all constructs representing the pillar for social values yielded supportive findings. The beta coefficients for H3, H4 and H5 are positive indicating social values have a positive effect on the perception toward life insurance.

With reference to the f-square value, family influence (f-square = 0.10) has small effect size (>=0.02 is small) on the exogenous variables in the model. The effect size of peer influence (f-square = 0.40) and Internet influence (f-square = 0.03) on the endogenous variable is medium (>= 0.15 is medium). Cumulatively, the five constructs are explaining 22.5% of the variance of perception toward life insurance, based on a R-square value of 0.225. Lastly, perception and intention were significantly related and indicated by result of H6. The perception on life insurance is proven to have a positive consequence on the intention to buy life insurance (beta coefficient = 0.774, t-value = 20.180). The f-square value of 0.04 (>= 0.15 is medium) indicates the perception toward life insurance has medium effect size on the intention to purchase life insurance. Meanwhile, the R-square value of 0.60 suggests approximately 60% variance of intention to buy life insurance is explained by respondents' perception toward life insurance. Overall, the model has achieved predictive validity as evidenced by Q-square of 0.172 and 0.422 (> 0 is good).

Table 4: Results for hypothesis testing.

Hypothesis	Relationship	Std Beta	t-value	Decision	R^2	f^2	Q^2
H1	Objective Knowledge -> Perception	0.040	0.548	Not Supported	0.225	0.000	0.172
H2	Risk Propensity -> Perception	0.101	1.229	Not Supported		0.000	
H3	Family Influence -> Perception	0.204	2.252	Supported		0.010	
H4	Peer Influence -> Perception	0.184	2.040	Supported		0.040	
H5	Internet Influence -> Perception	0.180	2.118	Supported		0.030	
H6	Perception -> Intention	0.774	20.180	Supported	0.600	0.040	0.422

5. DISCUSSION AND CONCLUSION

The research has found a significant linkage between perception and behavioural intention toward life insurance, thus establishing an empirical evidence to support the association between perception and decision-making process in the context of life insurance purchase intention. This further confirms perception as a relevant research theme of the Behavioural Finance Theory. It can be inferred from the analysis that there would be more life insurance purchase inclination among Malaysians if the relevant players and authorities could inculcate positivity on how Malaysians perceive life insurance products.

On exactly how to effectively change the perception of the people about life insurance is debatable. However, the results from the study may be used as guidance. Based on the results, the change of perception can be realised by using the three

socialisation agents that have proven significant, namely, peer, family and Internet influences. For example, life insurance companies should frequently showcase their positive stories on the Internet, especially related to work in post-disaster areas, to highlight their worth to society. In addition, insurance companies may make more efforts by working complex policy wordings into easier to understand terminology, so that potential consumers can begin to self-educate on the need for insurance and the power a life insurance policy brings. This recommendation is forwarded in the purview that more people, especially the younger generations tend to self-search information using the Internet and that most of them are found to be lacking in financial knowledge. Thus, it is justifiable to argue that easier to understand terminology would be more attractive for financially illiterate people to explore search for information related life insurance products, which subsequently leading to better understanding and better perception on these products.

The study revealed peer and family influences exert significant effect on perception toward life insurance. For this perspective, it is important for those insurance companies to develop talent among their staffs and agents and to promote excellent pre and post claim services. It is imperative for life insurance players to avoid their clients from experiencing bad encounters while seeking services as a negative story people's perception is almost reinforced and communicated to their peers and family members. On the contrary, when they have a terrific experience with a claim that they may spread positive words of mouths to others, thus, those on the outside will look at life insurance in a more positive light and might be more inclined to purchase life insurance.

The research had identified the predictors for risk perception as well as established linkages between perception toward life insurance and behavioural intention to purchase life insurance, hence, provide further support to validate the PFM and widen its context to life insurance. Based on the extensive (perhaps not exhausted) literature search throughout this study, there seemed to be not much empirical study directly referred to the PFM. If indeed true, this study is a significant contribution to the decision-making theory and behavioural finance theory. The findings and discussions herewith provided to some extent has bridged the body of knowledge and perhaps create impetus for more research undertakings in the future.

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