CONSUMER'S PERCEPTION OF PRODUCT ATTRIBUTES, AWARENESS, ATTITUDE AND PURCHASE INTENTION OF LIFE INSURANCE IN KOTA KINABALU, SABAH

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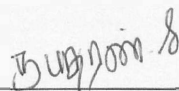
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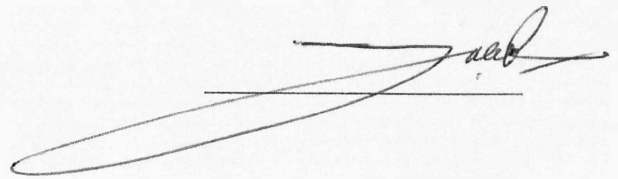
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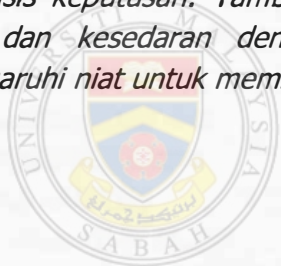   **DR. STEPHEN LAISON SONDOH**

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ABSTRACT

CONSUMER'S PERCEPTION OF PRODUCT ATTRIBUTES, AWARENESS, ATTITUDE AND PURCHASE INTENTION OF LIFE INSURANCE IN KOTA KINABALU, SABAH

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 and business to the insurance company. The issues surrounding the measurement and provisions of perception and awareness are becoming increasingly important and influence towards the intention to purchase life insurance. The main objective of this thesis is to determine the influences of consumer's perception and awareness towards the intention to purchase life insurance with buying attitude as the mediator. This study seeks to broaden the existing literature relating to perception and awareness of our consumers towards life insurance products. The life insurance market in Malaysia is grossly under-tapped and what drives the demand for life insurance in Malaysia is still not well understood. The study is based on responses of 275 respondents from consumer in Kota Kinabalu, Sabah that were collected through a questionnaire. Various statistical tests such as factor analysis, reliability analysis, correlation and regression analysis have been carried out to analyze the result. In addition, the result also shows that perception and awareness with buying attitude as the mediator will influence the intention to purchase life insurance.

ABSTRAK

Insurans adalah salah satu keperluan yang penting bagi setiap orang dalam menjalani kehidupan harian. Kebanyakan orang tidak mengambil berat tentang kepentingan memiliki insurans. Insurans adalah proses pemindahan risiko oleh seseorang individu, organisasi dan perniagaan kepada syarikat insurans. Faktor sekeliling dan peruntukan persepsi dan kesedaran menjadi semakin penting dan pengaruh terhadap niat untuk membeli insurans hayat. Objektif utama projek ini adalah untuk mengenalpasti pengaruh persepsi dan kesedaran pengguna terhadap niat untuk membeli insurans hayat dengan sikap membeli sebagai faktor pengantara. Kajian ini bertujuan untuk meluaskan kajian yang sedia ada yang berkaitan dengan persepsi dan kesedaran pengguna terhadap produk insurans hayat. Pasaran insurans hayat di Malaysia masih belum diterokai sepenuhnya dan faktor yang mendorong permintaan untuk insurans hayat di Malaysia masih tidak dapat dikenalpasti dengan baik. Kajian ini adalah berdasarkan kepada maklum balas daripada 275 responden dari pengguna di Kota Kinabalu, Sabah yang telah dikumpulkan melalui soal selidik. Pelbagai ujian statistik seperti analisis faktor, analisis kebolehpercayaan, korelasi dan analisis regresi telah dijalankan untuk menganalisis keputusan. Tambahan pula, keputusan juga menunjukkan bahawa persepsi dan kesedaran dengan sikap membeli sebagai faktor pengantara mempengaruhi niat untuk membeli insurans hayat.

TABLE OF CONTENTS

CHAPTER 3: RESEARCH FRAMEWORK AND METHODOLOGY

CHAPTER 4: DATA ANALYSIS AND FINDINGS

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1

INTRODUCTION

1.1 OVERVIEW

Insurance, considered as one of the oldest and very well-known personal financing products in the market yet there are still consumers who are shy away from it and would not have the mind or willingness to purchase the insurance. Perhaps the reason is insurance exists as quite complex product and in the Asean society (Yiing Jia Loke *et al.,* 2012), some of the consumers find that it is distasteful to talk about uncertainty event such as death, disability or even sickness. However, given life unfortunates, insurance helps to cushion and minimize the loss that consumers and households incur, in the event of unfortunates incidents.

Even tough, insurance can be considered as one of the ancient financial product, but it remains as a product that many will not take the initiative to purchase unless it is compelled by law such as motor insurance or other relevant insurance in which included in their loan commitment as such fire insurance for mortgage loan and personal accident insurance for personal loan. Personal financing product as life insurance, term life or other relevant life products has not been consumer's preference (Sanmugam Annamalah, 2013)..

Insurance is an invention intended to offer security to people and industries against particular eventualities (Yiing Jia Loke *et al.,* 2012). It also enables the parties involved to have protection of their assets and livelihood. Individual and 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.

Life Insurance has a great impact among the working adults today compare to other kinds of insurance in which lead to the financial decisions. Most of the insurance providers in market have launched variety of plan consists of savings, protection and investment under different plans (Gustina *et al.,* 2012). These multiplicity plans open a window to the consumers to choose what plan suits to their needs and subscribe it accordingly. The plan affordability is very reasonable with the current lifestyle and the consumers had the choice to invest more if they wish to.

Life insurance has taken a more important role as a way for individuals and families to manage financial risk. Their acceptance on the life insurance services especially from the insurance providers will base on the trust or long term relationships with the personnel there. Affiaine Ahmad (*et al.,* 2008) stressed that for the uninsured, they are relying on the public hospital that is highly subsidized by government to seek health treatment, and some will depend on out pocket money to cover their medical expenses by visiting private hospitals and clinic. The waiting period for the treatment from public hospital will be longer as those without life insurance or health plan, will need to visit there.

In the most of the insurance claims cases, life insurance plays a significant role in individuals and families financing lives because it is a border against the loss of income following the death of a wage earner. The use of life insurance is to insure against life time uncertainty resulting for the mortality risk of individuals (Juliza B. J., 2010). Failing to perform so will made the entire family to face the financial loss of the income earner and there is no back up funding for the individuals or families to remain with their lives.

Pan Wei Cheong (*et al.,* 2008) define purchase decision of life insurance shows a mutual relationship between the banks and insurance companies in which the relationship can be amazingly complemented to each other's strength and weakness. Even though the number of insurance providers is increasingly rapidly over these few current years, but their acceptance rate in Malaysia is still low.

2

Today, there is lot of foreign insurance investors are interested to enter the insurance industry as they are aware with the low penetration rate. Their strategy is by merging with our Malaysian's existing insurance companies and establish big in the market.

This paper will identify the real scenario faced by the consumer particularly the working adults while they received an approach from the insurance providers on the promoting their life insurance plans. The approach could be in many ways such as approach within the bank premises while performing banking transactions, approach over the phone by the tele-marketers and approach from insurance agents via cold-calling or leads from their previous clients.

1.2 BACKGROUND OF THE STUDY

The penetration rate of life insurance remains low at 41.22%, said the Life Insurance Association of Malaysia (LIAM) in the Sun Daily, adding that there is still a huge untapped life insurance potential market in Malaysia. Moreover, the life insurance industry saw a 5.9% decline in new business in the second half of each year due most of the festival season falls in that period. During this period, the life insurance industry players will restructure their portfolio to improvise the benefits of the products.

Kwo, representative from LIAM had point out in his earlier released interview article in Sun Daily that the life industry will bounce back after the festive season ends with a positive growth of 2% to 5% in a year. But compare to 41.22% mentioned earlier, the recent bounce back rate did not equalize the low penetration rate. As the number of population grows every year, the penetration rate also will decrease, thus the industry player will have to act quick to conquer the untapped market. The untapped market should be triumph over as this will generate economic development from the insurance industry.

An importance in understanding and measuring the factors influencing life insurance purchase intention has been growing since 1960s. Even after 50 years,

3

the empirical research to identify these factors continues with the latest empirical studies done by Beck and Webb (2003), Hwang and Greenford (2005), Savvides (2006) and Li, Moshirian, Nguyen and Wee (2007). These studies conducted to seeks to broaden the existing literature concerning the demand for life insurance by measuring the key determinants of life insurance consumption in the Malaysia marketplace.

Insurance is a product designed to provide financial security to individuals and businesses against loses caused by uncertainties (Moshirian *et.al,* 2007). In other word, we can presume that a person buying life insurance for him/ her and their families to helps provide some financial security in times of hardship. The money from their policy will be paid to their loved ones when he/ she pass away or suffer a disability or even sickness. Their loved ones will immediately get the fund from the insurance purchased if they had been nominated earlier and their rights are reserved by the Insurance Law.

Life insurance provides individuals with many essential financial freedom services depends on their needs. Besides being an instrument to manage income risk by providing coverage against income loss from death, it is also an investment cycle for long-term savings (Savvides, 2006). The natures of life insurance products offer mechanism of disciplined savings limits the chances of withdrawn fund from the said policy. This disciplined savings considered as long-term benefits for the saver to keep their money in the saver manner.

Therefore, as life insurance became a savings mechanism, in many countries, life insurance has become a valuable tool for promoting a sizeable amount of savings. Life insurance has been converted as fixed savings in which offers the savings benefit comes with the protection element, shield the uncertainty occurs to the individuals and families. Life insurance products facilitate the re-investment of a substantial fund in the ventures of the public and private sector (Beck and Webb, 2003).

4

Salako Taofiki Ajani (2013) explains purchase intention as the number of patrons that has a proposal to buy the products in future and make repetition purchases and contact again to the specific product. Michael Luhnen (2009) explains purchase intention relating four behaviors of consumers including the undoubted plan to buy the product, thinking unequivocally to purchase the product, when someone contemplate to buy the product in the future, and to buy the specific product utterly. This above statement evidently describe that, the intention to purchase exists for the entire product in the market including life insurance.

Meanwhile, Ho Huy Tuu (*et.al,* 2012) explain the phenomenon of purchase intention as the projected behavior of consumers on short basis about the repetition purchase of specific product i.e when some decided to buy the product whenever he/she will visit again to the market. Purchase intention is the implied promise to one's self to buy the product again whenever they need the product for their usage in the future. Purchase intention depicts the impression of customer retention. As for the life insurance industry, customer retention is their main target for two main reasons in which to sell second policy to their clients and communicate often with their customers.

Muhammad Irfan Tariq (*et al.,* 2013) indicates that consumer perception of product is central value to all stages of the process of bringing products to the markets, from design and manufacture to distribution and retail. According to Norma Md. Saad (*et al.,* 2006), perception is the process of selecting, organizing and interpreting sensations into a meaningful whole and consumer perceptions are vital to marketers and often underlie the success or failure of products in the marketplace. The life insurance purchaser at all times desired for a comprehensive plan as this will influence their perception to the product attributes.

Alicia Barroso (*et al.,* 2011) specifies that consumer awareness refers to the knowledge of the product purchased by the consumers in terms of its quality, for example the consumer should know whether the insurance policy is decent and relevant to the financial budget to secure the risks. Consumer awareness is the

practice where consumers are aware of life insurance attributes they are purchasing. Consumers should research the items thoroughly before purchasing them in order to know exactly what they are buying and what to expect from the policy coverage.

1.3 RESEARCH PROBLEM

The medical cost of health care in Malaysia has been increasing over the years and it brings challenges not only for the government but also the insurance providers and individuals. (The Star, February 2010). Health care expenses consume a greater portion of the economic output in the future; thus Malaysian will encounter difficult decision towards health protection and other priorities.

Life insurance plan offered by various insurance providers may confuse the consumers as the benefits of each product would be different. This determination lead the perception on the product attributes turns to negative as the products likewise changes regularly follows the client's needs. Even tough, the awareness of the insurance products been exposed in all the relevant media but the intention to purchase rate still questionable. The ultimate mission of awareness is to remind the consumers on the product attributes and essentially on securing the uncertainties.

Yiing and Yi (2012) narrated over the past decade, as the society becomes more educated and aware of the importance of insurance; the amount of per capita insurance expenses in Malaysia has increased by 128% from RM338 in 2000 to RM771 in 2010. Further, the number of new life insurance policies has also increased by 21% from 1,174,517 policies in 2000 to 1,428,280 policies in 2010. This increment based on the growth of population in Malaysia in which the policy number increment is equally average with the population.

While the insurance industry has grown rapidly, the penetration rate of life insurance remains low at 41%, with an average sum assured of less than RM50,000. Further, in 2010, the GDP for life insurance in Malaysia is low at 2.9% compared to other Asian countries such as Singapore (6.1%) and Japan (7.5%).

These statistics indicate that there is a large untapped life insurance in Malaysia. Though the increased importance of life insurance is well appreciated by consumers in the developed countries, the demand for life insurance in the developing countries such as Malaysia remains low.

To boost up the life insurance sales, bank had diversified its marketing division by introducing telemarketers, to promote life insurances services over the phone. This service is to serve the consumers at their door step without visiting the bank frequently. But, consumers had doubt on this channel as they are not aware about the insurance marketers channel in the bank and they are in the opinion that this type of cold calling should not be happening after the Personal Data Protection Act 2010 (PDPA) has been enforced (The Star, March 2014).

Based on the findings from my interview conducted with a CEO (Chief Executive Officer) of IIB Insurance Brokers Sdn Bhd, Mr. Zainal Azhar Jamaludin, he mentioned that he have been involved in Insurance Industry for the past 45 years covering West Malaysia and East Malaysia. Perception towards the insurance has been a hitch among the working adults in Kota Kinabalu, Sabah. This scenario is different if it's involved the same group in West Malaysia.

On the other hand, Mr Laudin Haji Sundang, retiree from CIMB Bank Berhad who used to be the Area Manager for Kota Kinabalu mentioned that, some groups of their customer are not aware with the services offered by CIMB Bank. The customer only perceived that Bank only conducted banking transaction instead of having the life insurance channel. This renders obstacles to their personnel to give exposures over the time.

Mr Maidin the District Manager, Agency Distribution of AIA Berhad emphasize that he is track to convince his clients to have more than one policy. The reason behind is that Life Insurance has different plans which carries different benefits and features. The process of persuade can't be achieved via single trial but continuous engagement involves.

1.4 RESEARCH QUESTIONS

In order to accomplish the objectives of this research, the following research question are:

a. Does consumer's perception on the product attributes has a significance relationship towards the purchase intention of Life Insurance?

b. Does consumer's awareness on the product attributes has a significance relationship towards the purchase intention of Life Insurance?

c. Does consumer's perception on the product attributes has a significance relationship towards the buying attitude?

d. Does consumer's awareness on the product attributes has a significance relationship towards the buying attitude?

e. Does buying attitude have significance relationship towards the intention to purchase Life Insurance?

f. Does buying attitude mediate the relationship between perceptions on the product attributes towards the intention to purchase Life Insurance?

g. Does buying attitude mediate the relationship between awareness on the product attributes towards the intention to purchase Life Insurance?

1.5 RESEARCH OBJECTIVE

This study is expected to identify the consumer's perception and awareness that determine individual participation in getting the Life Insurance through various channels. The identification could assist the marketers of the company in segmenting and targeting right consumers in order to penetrate the market and retain a large base of network. This allows the marketers to deliver the relevant and sufficient information to the consumer to create awareness on the banking products and services.

Hence, the objectives of the study are:-

a. To study the influence of consumer's perceptions on the product attributes towards the intention to purchase of life insurance.

b. To examine the influence of consumer's awareness on the product attributes towards the intention to purchase of life insurance.

8

c. To investigate the influence of consumer's perceptions on the product attributes towards the buying attitude.

d. To analyze the influence of consumer's awareness on the product attributes towards the buying attitude.

e. To evaluate the influence of buying attitude towards the intention to purchase of life insurance.

f. To investigate the mediating effect of buying attitude on the relationship between perceptions on the product attributes with intention to purchase life insurance.

g. To investigate the mediating effect of buying attitude on the relationship between awareness on the product attributes with intention to purchase life insurance.

In order to sustain in the life insurance industry, insurance providers need to come up with new and innovative marketing tools which help them to sustain in the market as the information age is growing very fast and with the latest technology. These innovations become the insurance provider's core competencies to sustain in the market.

1.6 SCOPE OF STUDY

The scope of this research is focused on the intention to purchase life insurance. Looking at the factors influencing the intention to purchase life insurance, perception and awareness on the product attributes are chosen to evaluate the level of the purchase intention. These two factors have given an impact to intention to purchase as it represents the consumer's interest in getting a life insurance. Mediating effects of buying attitude included in research to support the factors to influencing the intention to purchase life insurance.

The targeted group for the scope of the study will be among the working adults at Kota Kinabalu, Sabah. The reason this group is been selected because they have the buying power and the intention to purchase towards purchasing life insurance for their financial risk. Their response towards the two dimensions which

is perception and awareness on the product attributes are focused which can lead to the intention to purchase.

1.7 SIGNIFICANCE OF THE STUDY

The purpose of this paper is to examine the influence of consumer's perception and awareness on the product attributes towards the intention to purchase life insurance among the working adults at Kota Kinabalu, Sabah. Mediator of buying attitude is used in this paper as to gauge the proportion of each factors contributing to the purchase intention.

By determining which factors most influences the intention of purchase; it can be contributory in helping the insurance providers to design more effective programs for consumers who will purchase the life insurance. The research may guide insurance providers, bank, to understand the factors effects consumer's purchase intention which is perception and awareness on the product attributes.

In addition, this research will identify the exact solution the consumers are looking for as their needs reflected within the dimensions. This will consult prospective of life insurance customer needs before introducing a new product, where research can include by studying client's needs, specific product and size of potential market.

Furthermore, this research will be a strategy for the insurance providers to tackle and penetrate the working adults market at Kota Kinabalu, Sabah. The providers will well-positioned themselves in the industry to obtain the opportunity thrive in the insurance market by analyzing each and every factor. Once the insurance providers have the ability to tackle the consumers with good choices of products, it will create an incredible success to the life insurance industry among the banking sector.

1.8 DEFINITIONS OF TERMS

Table 1.1:

Definitions of Terms

i.	Life Insurance (Nurul Shahnaz Mahdzan *et al.,* 2013)	Life Insurance is plan that provides protection against the economic loss caused by the death of the person insured.
ii.	Insurance Premium (Salako Taofiki Ajani, 2013)	Insurance premium is total premium paid for insurance policy per year by respondents above 18 years old.
iii.	Insurance providers (Norma Md. Saad, *et al.,* 2006)	Insurance providers are a network is a group of healthcare providers that have contracted with a particular managed-care health plan to provide services at a discounted rate.
iv.	Intention to purchase (Ho Huy Tuu, *et al.,* 2012)	Intention to purchase classified as the number of patrons that has a proposal to buy the products in future and make repetition purchases and contact again to specific product.
v.	Perception (Muhammad Irfan Tariq, *et al.,* 2013)	Perception is a central value to all stages of the process of bringing products to the markets, from design and manufacture to distribution and retail.
vi.	Awareness (Alicia Barroso *et al.,* 2011)	Awareness refers to the knowledge of the product purchased by the consumers in terms of its quality.
vii.	Buying Attitude (Abdolrazagh Madahi, *et al.,* 2012)	Buying attitude which are most closely related to preference or to actual purchase decisions are said to be determinant.

1.9 ORGANIZATION OF THE CHAPTERS

The organization of chapters is as follows:

Chapter 1 presents the introductory segment which serves the overall scenario of the study. It starts with some evidence on the intention to purchase of life insurance as the background of the study then followed by problem statement, research questions, objective and the significance of the study. In this segment also

listed some limitation while conducting the study. The last part under the chapter will explain some definitions, keywords and terms that been used in the research.

Chapter 2 focuses on the literature which is relevant and support the study. In this segment, the outline will be the evidence on the influence of perception and awareness on product attributes towards the intention to purchase life insurance among working adults in Kota Kinabalu.

Chapter 3 will describe the methods used in the study. It will explain the research framework, proposed hypothesis to be evaluated, research design, research sample, the instrument and method used for the research purpose for this study.

Chapter 4 presented the data analysis and the result of the findings. Statistical method used to measure the received data from the survey questionnaires. Descriptive statistical analysis, factor analysis, reliability, correlation analysis and multiple regressions are the method used by the researcher by using SPSS.

Chapter 5 will conclude the research by constructing the discussions from previous chapter and conclusion on the research. As well as overall findings and implications of the research will be discussed. Moreover, recommendations to increase the intention to purchase, limitations of the study and suggestion for future research are included.