The Intention to Purchase Life Insurance: A Case Study of Staff in Public Universities

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Abstract

The last 20 years has seen a drastic increase in the cost of living in Malaysia. This scenario highlighted the value of acquiring proper financial management scheme that will enable the Malaysian citizen to enjoy their retirement years comfortably. Past research revealed that there is lack of understanding and awareness of having life insurance or Takaful plan. Furthermore, since 2014, there has been an increase in fees for medical consultation and procedures. This explains the importance for an individual to be insured, regardless of whether it is through conventional life insurance or Takaful. Having an insurance policy will not only reduce the retirement gap, but it will also help Malaysians to secure financial security for their family and also in meeting outstanding financial obligations. This study hopes to determine the perception of public university's staff in acquire a life insurance or Takaful using self administered survey. Thus, the main objective of this paper is to determine the factors that may influence the staff of public universities to purchase or not purchase a conventional life insurance or TAKAFUL policy. Data collected was analysed using Correlation and Multiple Regression analysis.

1. Introduction

Life insurance or Takaful helps individuals save money while protecting against any personal risks in their life. Other types of insurance also play an essential role in protecting an individual against any unfortunate circumstances in their life. These risks can be in form of their health or even their personal assets such as house or even cars.

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However, it is alarming that the recent statistics shown by the Life Insurance Association of Malaysia (LIAM), that in 2011, only 42% of Malaysian population is insured, regardless of the kind of insurance they have, leaving the other 58% of the population is still uninsured and also facing a huge risk of being permanently stripped away from their future earnings. Most of them are often reluctant to allocate a portion of their funds aside for life insurance investment or even Takaful. They also fail to see the underlying benefit of having any type of insurance as a personal risk management tool. Hence, it is essential for an individual to be well aware of the importance of being insured in today's society in order to avoid unforeseen circumstances in their life and being greatly impact in their life. Furthermore, the high cost of living creates an increase in the retirement gap. Retirement gap is the gap between the actual financial positions of retirees against what they actually need to continue to live comfortably (Stein, 2010).

2. Review of Literature

Life insurance is the most widely used means of family financial security planning in Malaysia. Life insurance helps to ensure the financial security of family members, paying the dependents' support, and also in meeting outstanding financial obligations once the policyholder dies. This explains the reason why individuals and families need to be aware of the benefits, issues, and also the differences in various life insurance plans that are available in the market (Chui and Kwok, 2008). Life insurance programs and Takaful are one of the crucial components of an individual's financial plan. It helps to ease the burden of the affected family members of the policy holder or even the policy holder themselves. Life insurance had always been a crucial part of an individual's life.

Compared to other developed Asian countries, life insurance business in Malaysia only contributes 2.8% of Gross Domestic Product (GDP) as opposed to Singapore and Japan at 6.1% and 7.5% respectively (Mahdzan and Victoria, 2013). Life insurance and Takaful helps to ensure the financial security of family, paying the dependents' support, and also in meeting outstanding financial obligations once the policyholder dies. This explains the reason why individuals and families need to be aware of the benefits, issues, and also the differences in various life insurance plans that have to offer these days (Md Saad, Idris and Edzalina, 2011). Life insurance had always been a crucial part of an individual's financial instrument; hence, it is essential for an individual to be aware of the fact that they are better off being insured than being left uninsured. However, compared to other more developed Asian countries, life insurance business in Malaysia only contributes 2.8% of Gross Domestic Product (GDP) as opposed to Singapore and Japan at 6.1% and 7.5% respectively (Redzuan, Rahman and Aidid, 2011, Mahdzan and Victoria, 2013).

2.1. Financial Literacy

Financial literacy had been described as the ability to plan ones' finances effectively by utilizing savings to accumulate wealth which followed by a careful preservation of such wealth against value depreciation and losses, and finally, the distribution of wealth at a later stage of one's life (Mahdzan and Victorian, 2013). Financial literacy is defined as the knowledge of properly making any form of decisions that may affect an individual's finance, such as real estate, insurance, investing, saving, tax planning, retirement, etc. However, it also involves an individual's knowledge of financial concepts such as compound interest, financial planning, consumer rights, time value of money, and so much more. It is said that individuals with higher financial literacy are more likely to engage in financial planning, which include investing in unit trust and purchasing life insurance, as opposed to individuals with lower levels of financial literacy.

According to Delafrooz and Paim (2011), financial literacy boosts the ability in handling day to day financial matters and therefore, will reduce the negative consequences of poor financial decisions that might otherwise take a longer time to overcome, might even take up to years to overcome them. It is found that people with low financial literacy are less likely to accumulate wealth and also less likely to plan for retirement (Lusardi, Mitchell and Curto, 2010). The absence of financial literacy may lead to an individual's high possibility on making a poor financial decision that can have adverse effects on their financial health. Furthermore, better financial literacy brings about higher participation of individuals in planning their financial activities in investments such as shares, property, and also life insurance (Shafii, Abiddin, and Ahmad, 2009).

2.2. Saving Motives

There are plenty of main aspects when it comes to saving motives. However, according several scholars, there are four established aspects of saving motives. There are precautionary motives (Hubbard et al., 1995), bequest motives (Bernheim et al., 1985), life cycle events (Liebenberg et al, 2012) and wealth accumulation or in other words, profit motives (Canova et al., 2005). Moreover, precautionary motive usually refers to efforts undertaken by individuals in order to reduce or minimize the uncertainties in life. As quoted by Wärneryd (1999, p. 270),

"Insurance is a remedy against the feeling of uncertainty in the sense that there is preparedness for facing the consequences of the ill outcomes that uncertainty may embody". Therefore, it can be posited that the demand for life insurance is influenced by the precautionary motives, as life insurance protects against personal risks such as life, health, and also disability risks".

Some of these major life cycle events are wedding, purchasing a house or a car, for education purposes, etc. This statement was also supported by Liebenberg et al. (2010), which also added that the termination of life insurance is likely to occur when there are other life events such as divorce, death of a spouse, unemployment, and also retirement. Lastly, individuals who save to accumulate capital, or in other words, to make a profit from their savings are also suggested to be one of the four main aspects of saving motives. Tamiya et al. (2011) assessed the changes in wealth accumulation in relation to changes in risk and argued that households will want to conserve more wealth when they are faced with greater uncertainty. Some of the examples are the potential fluctuations in future income and sudden out-of-pocket medical expenses and thus increasing the demand for life insurance.
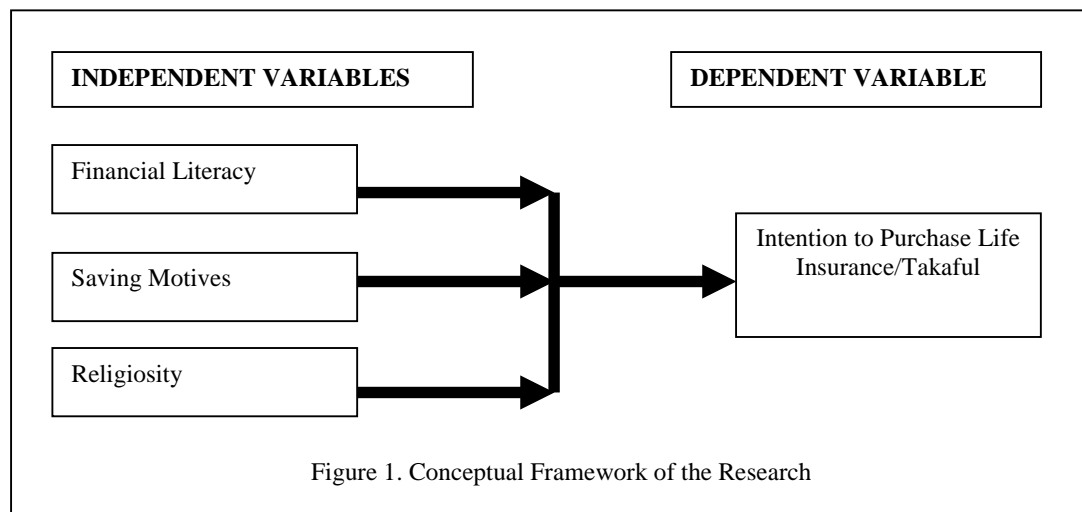
2.3. Religiosity

Religiosity plays a huge role in influencing an individual to purchase an insurance or Takaful. Religiosity can simply be defined as the state of an individual's belief in God, which is characterized by his/her piety and religious zeal. The stronger his piety and religious zeal are, the stronger his belief in God, the higher his religiosity is (Salleh, 2012). Takaful is a type of Islamic insurance, where members contribute money into a pooling system in order to guarantee each other against loss or damage. Takaful is mainly one type of insurance which follows the guidelines from *Sharia* law. Takaful insurance companies were introduced to the public as an alternative to commercial insurance companies, which go against interest (*riba*), gambling (*al-maisir*), and uncertainty principles (*al-gharar*), that are outlawed in *Sharia* principles and regulations. Piety can be defined as a spiritual terminology which is used to define religious devotion, spirituality, or even a combination of both of them. In addition, religious zeal describes a person as being dedicated or even enthusiastic towards something in terms of an individual's specific religion. In today's society, it is inevitable for Muslim consumers to be more aware and sensitive on the type of products and services that they consume in their lives (Shafie and Othman, 2006). Hence, when it comes to purchasing insurance, Muslims would more likely purchase Takaful instead of commercial conventional life insurance. This is due to the fact that Takaful follows the *Sharia* law and they also position themselves in the mind of their Muslim customers and also their potential Muslim customers that they are *Halal*.

Past scholars proposed that an individual's socio demographic factors, financial literacy, saving motives and individual's religiosity may effect a person's attention to purchase either conventional of TAKAFUL insurance policy. However, in this research, we proposed that financial literacy, saving motives and an individual's religiosity as the determinants that may affect the awareness of being insured and intention to purchase conventional or TAKAFUL life insurance. The discussions of the literature review form the basis of the following hypothesis and conceptual framework which is shown in figure 1.

2.4. Conceptual Framework

The conceptual framework of the research is depicted in figure 1.

| **INDEPENDENT VARIABLES** | **DEPENDENT VARIABLE** |

Financial Literacy

Saving Motives

Religiosity

Intention to Purchase Life Insurance/Takaful

Figure 1. Conceptual Framework of the Research

2.5. Research Hypothesis

H1: There is a positive and significant relationship between financial literacy and the Intention to Purchase life insurance or Takaful policy.

H2: There is a positive and significant relationship between saving motives and the Intention to Purchase life insurance or Takaful policy.

H3: There is a positive and significant relationship between Religiosity and the Intention to Purchase life insurance or Takaful policy.

3. Research Methodology

In this section, the methodology used will be discussed based on the research design, selection of population, sampling procedures and data collection method. All the steps are explained and elaborated one by one to give an overview of how the data have been obtained and treated for this research. A correlation research is chosen in order to analyse and identify the relationship between variables. A correlation research design allows this study to determine how two or more things related to one another. This study, we are interested to establish the relationship between the awareness of the importance of being insured with financial literacy, saving motive and religiosity. The research is quantitative in nature. Quantitative method emphasized the objective of measurement and numerical analysis of data collected through questionnaires. This research method focuses on gathering numerical data and generalizing it across groups of people. In this case, the target respondents are staff of public higher learning institutions (PHLI) in Terengganu. The population chosen are the staff of public higher learning institutions in Terengganu. They consist of staffs from all the public higher learning institutions in Terengganu who work at *Universiti Technologi MARA, Dungun and Kuala Terengganu campus, Universiti Malaysia Terengganu, and Universiti Sultan Zainal Abidin, Kuala Terengganu*. Approximately, there are 3000 staffs in all three public universities. The sampling approach that is used for this research is quota sampling. This type of sampling is used since an accurate sampling frame at each university is difficult to obtain. The most suitable sample size for this type of research ranges from 30 to 500, hence a total of 100 respondents were targeted for each university. The questionnaire was distributed randomly to staffs of public higher learning institutions in Terengganu by engaging a representative from each university. After two months, the number of questionnaires that was successfully returned equal to 200 pieces.

3.1. Data Collection Method

In this paper, the authors focus only on primary data and the data was collected by distributing questionnaires to selected respondents from three public universities in Terengganu, Malaysia. It is a very useful and convenient method to be used to cover a wide area in order to collect information from as many respondents as possible. Furthermore, by distributing questionnaires, it also helped in accumulating data from a large number of respondents. Furthermore, collecting data through survey will allow the author to collect data in a shorter time from many different locations. In this research, the survey was conducted at three public universities which include *Universiti Teknologi Mara Dungun*, *Universiti Technologi Mara Chendering* (Kuala Terengganu), *Universiti Malaysia Terengganu*, and *Universiti Sultan Zainal Abidin*.

4. Data Analysis

4.1. Correlation Analysis

Figures shown in Table 1 revealed the correlation between all the independent variables and dependent variables. In this case, the dependent variables are the awareness towards the importance of being insured and the intention to purchase. The independent variables are financial literacy factor, saving motives factor, and the religiosity factor.

Table 1: Correlation between independent and dependent variables

	Financial Literacy	Saving Motives	Religiosity
Saving Motives	.590**		
Religiosity	.542**	.671**	
Intention to Purchase Insurance	.600**	.863**	.707**
** Correlation is significant at the 0.01 level (1-tailed). Number of sample = 200			

The figures in Table 1 reveal that the correlation between the mean awareness of insurance and the mean of financial literacy equals to 0.600. Hence, the relationship between these two variables are said to be moderate. Similarly, the relationship between the mean of awareness of insurance and the mean of religiosity is considered strong as the correlation equals to 0.707. The correlation between the awareness of the importance of insurance and saving motives equals 0.863. Hence, the relationship between these two variables is considered to be very strong. The correlation between the mean of financial literacy and saving motives is 0.590, which is considered to be moderate. The correlation between the mean of financial literacy and Religiosity equals to a value of 0.542, which indicates a moderate relationship between these two variables. In addition, the correlation between the saving motives and religiosity equals to 0.671, which indicates a strong relationship between the variables.

4.2. Multiple Linear Regression Analysis

A multiple regression analysis was conducted to investigate the relationships between the three predictors and awareness on the importance of being insured. The results of multiple regression analysis on the three predictors and the dependent variables are shown in Table 2.

Table 2: Model Summary Regression between Intention to Purchase Insurance and the Independent Variables

R	R Square	Adjusted R Square	Std. Error of the Estimate
.883[a]	.780	.777	.41509

The results of the Model Summary revealed that the R value equals to 0.883, indicating that there is a great deal of variance shared by the independent variables and the dependent variable. In addition, the R Square which is used to describe the goodness-of-fit or the amount of variance explained by a given set of predictor variables equals to. 0.780. This indicates that 78% of the variance in the dependent variable is explained by the independent variables in the model. This means that the three predictors chosen in this study has a strong influence on the awareness and intention to purchase life insurance among staff at the three public universities chosen.

Data in Table 3 reveals the standard regression output indicating the effects of individual predictor variables on the dependent variables. The coefficient values indicate that the increase in the value of the dependent variable for each unit increase in the predictor variable. For instance, the "Unstandardized Coefficient" for financial literacy equals to 0.087, which indicates that for each percentage rise in mean financial literacy, the interest to purchase insurance will increase by 8.7%. The unstandardized coefficients for both saving motives and religiosity are 0.619 and 0.176 respectively. This indicates that for each percentage rise in saving motives and religiosity, the level of interest to purchase insurance will increase by 61.9% and 17.6% respectively. Among the three independent variables, 'Saving Motives has the strongest influence on the intention of higher learning institutions staff to purchase TAKAFUL insurance. This is followed by Religiosity and Financial Literacy. Furthermore, the significant values in Table 3 indicate that all predictors are positively and significantly associated with the dependent variable. These results therefore, prove that there is evidence to accept all three hypotheses stated earlier. As for the *Collinearity* statistics, the tolerance value for financial literacy, saving motives and religiosity, are 0.613, 0.477, and 0.517 respectively. All of them are higher than 0.20, which indicates the absent of *Multicollinearity* effect. Furthermore, the VIF values for all independent variables are 1.631, 2.098, and 1.935 respectively. Since all of the value is lower than 10, all the predictors does not show any sign of *Multicollinearity*.

Table 3: Coefficients of the Dependent and the Independent Variables

Model*	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.607	.193		3.136	.002		
Financial Literacy	.087	.040	.093	2.182	.030	.613	1.631
Saving Motives	.619	.045	.668	13.768	.000	.477	2.098
Religiosity	.176	.039	.208	4.467	.000	.517	1.935

*Dependent Variable: Intention to Purchase Insurance

5. Discussion and Conclusion

Based on the findings, this study proposed that insurance company should offer more sharia compliance products in order to attract more Muslim customers in the east coast of Peninsular Malaysia. The findings revealed that the majority of the IPTA staffs, who are insured, purchased Takaful insurance. Insurance companies, therefore should be offering more Takaful insurance to cater to both Muslim and non-Muslim customers. In addition, the findings of the multiple regression analysis indicate that "saving motives" has the strongest influence in creating a strong purchase intention among the staff of public higher learning institutions. We therefore, proposed that in order to attract those who are yet to be insured, insurance companies should provide better training to their insurance agents in order to equip them with the latest knowledge in the benefits of being insured. In addition, insurance companies

should take the initiative to conduct more innovative and creative road shows or campaigns, promoting the importance of purchasing insurance policy. Furthermore, instead of only focusing more on campaigning in big cities such as Kuala Lumpur, Johor Baharu and Penang, they should also focus on campaigning in the East Coast states such as Terengganu, Pahang, and Kelantan. This strategy would allow the insurance companies to attract those who are in need of life insurance but have insufficient knowledge and awareness of the importance of being insured.

In terms of race, the majority of government staffs in the east coast of peninsular Malaysia are Malay and they are Muslims (Masron et.al 2012). Therefore, the potential to market life insurance products especially Islamic based products such as Takaful products in this region is huge. Our results showed that 30% of the respondents are not insured with Takaful or conventional life insurance. Findings from past research revealed that the Malays were aware of the existence of Takaful, which was highly due to the aggressive promotional efforts of the relevant authorities to promote Islamic finance. Interestingly, even though Takaful was linked to insurance policy, it doesn't necessarily indicate a positive perception. Insurance has always had a negative connotation and that could probably be the reason as to why the Malays are shying away from Takaful. The Malays do not feel that having family Takaful or life insurance is important and were comfortable with the existing insurance plans or savings that they have (Aris, Sahak and Shaadan, 2009). In this respect, we argue that Takaful firms and agents should play a more aggressive role in promoting the benefits of investing in Takaful insurance and the mechanism of how a Takaful plan complies with the standard of Islamic principles and jurisprudence (Syariah).

Acknowledgements

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