The Commercial Usage of Internet by Insurance Companies in Malaysia

Chapter 1. Introduction

The insurance industry has relied upon the agency force as the delivery system for its products since its inception in Malaya. However, other delivery systems, such as the use of banks and financial institutions, or the direct mailing system, have been utilized too but in less significant ways.

The industry has long been aware of the importance of having to strive for an efficient and productive agency force in order to keep the acquisition costs of policies to within manageable levels. At this moment, the industry is still relying on the agency force as the main delivery channel of selling insurance in the country. Having to rely on the agency system means that the industry has to continually bear a large item of expenditure, namely, the payment of commissions to agents for policies written.

One of the characteristics of the new millennium is the increasing pace of change that has been brought about by the advent of Internet technologies. Information technology is the key enabler of this change. A new expression *Internet years* has been created to denote the increased pace of change. With the advent of Information Technology, Internet becomes another viable channel of delivery for the insurance industry.

Nowadays, to survive, you will need to introduce change into your products and processes several times a year. Everyday new businesses appear, challenging the established companies with innovative approaches using the Internet. More and more people are using the Internet to research what is available on the market and businesses are beginning to see the large cost savings that can come from trading with business partners online. Being accessible via the Internet is quickly becoming a pre-requisite to doing business today.

The rest of the Financial Services industry is at the vanguard of this change, while the insurance sector is just now starting to realize the potential for using Internet to manage its relationships with both the broker and the insured to reduce the costs of claims. To date, most of the focus for Insurer development on the Internet has been on acquisition. This may range from being able to request a quotation to a fully interactive service enabling the purchase to be completed online. The impact of the Internet has not yet been fully felt, or taken advantage of by the insurance industry. A survey conducted by Accenture and LOMA (Loma 2000) on over 200 financial services executives worldwide, indicates that the Internet will significantly influence every aspect of the insurance industry, including distribution channel, customer servicing and pricing.

"The question is no longer whether the Internet will change the insurance marketplace," said Barry L. Rupert, the Accenture's Financial Services partner leading the firm's research team. "Rather, the focus is on how quickly the changes will occur, how the industry will be affected, and how financial services companies can best position themselves to take advantage of new e-commerce opportunities".

"Insurance companies are well positioned to win this battle by leveraging their enterprise strengths", said Jerry Cole, general manager, IBM Global Financial Services Sector. "The fundamental laws of the free market have not changed. Today we simply have new weapons and the challenge is putting them to work".

1.1 Objectives:

1. *To determine, and describe the current Internet usage by these insurance organizations*

   Many developed countries already using the Internet to conduct commercial transactions of their businesses. For example, American insurers like Prudential are using Internet as one of the channel to sell their life insurance offerings. But in Malaysia, the insurers are predominantly information-based (BNM 2000a). It is therefore decided to take a study on Malaysia's current Internet usage.

2. *To determine, and describe the primary factors that influence the usage of Internet by the Malaysia's insurance organisations*

   Many e-Commerce consultants in United States (Internet Security Alliance 2002) have wrote about the obstacles and concerns why business organizations not willing to realize Internet's full commercial potential. Most of the articles talk about security as the number one concern and over the last few years, scientists have responded with many security features that, on paper, it is save to trade via Internet. Even though of the advance in the security features, business people always consider other factors before they made a decision to invest on e-Commerce via Internet; It covers factors like perceived customer readiness, cost, risk, technology and awareness as well. It is therefore decided to gather input from the insurers to confirm on this initial perception.

3. *To determine, and describe the impact of Internet on the existing agency distribution channel*

   Insurance firms use agents to cover the target customers directly, and the agency infrastructure is established and distributed across every corner of the targeted population to provide an in-person selling

approach. Also, insurance companies are some of the most conservative organizations in Malaysia; Even though Internet has been touted the next wave of lifestyle and e-Commerce, but they were not convinced it can serve better than existing agent channel, as the demise of some dotcom companies that failed to sell insurance online (Tapia, 2001). It is therefore decided to be one of the objectives of this survey.

4. *To examine possible relationships between selected demographic variables, and subgroups defined on the basis of their agency size*

Internet provides a virtual place to conduct marketing, sales, support and customer relationship (via facilities like telephone, email and Customer Relationship Management). It is then an equal ground for those insurers with smaller agency infrastructure to reach the mass market. It is therefore decided to gather input from insurers to confirm this initial perception.

5. *To understand how the Insurers view the presence of the global dot.com insurance companies*

There are plenty of customers that don't want to deal with brokers and that by not having to pay commissions, buying via Internet can cut policy costs by 15 percent (Rodriguez, 2001). It has then encouraged the dotcom companies to sell insurance policies online. Fortunately Bank Negara Malaysia does not grant licenses to any dotcom for doing it off the Malaysia base. But in overseas, companies like directline.com and ecoverage.com have established virtual stores to sell insurance policies online. We will like to understand how the local insurers feel about the presence of these dotcoms that operate across borders. It is therefore decided to take a study on this matter.

1.2 Organisation of the Report

Chapter 1: Introduces the study and its objectives

Chapter 2: Presents a literature review on the Malaysia Insurance industries. It covers background of the industry, their offerings and current situation of the Malaysian Insurance sector.

Chapter 3: Presents the development of Malaysia's e-Insurance market, and also guidelines by Bank Negara Malaysia on how the insurers should conduct Internet Insurance.

Chapter 4: Presents the research methodology for this research. It discusses the sample selection employed, the choice and design of the survey instrument, the survey procedure, and the data analysis methods used.

Chapter 5: Presents the results of the study and data analysis. Descriptive statistical analysis of the variables is presented.

Chapter 6: Presents a discussion of the analysis of the results in light with the objectives of the study. The limitations of the present study are outlined and suggestions for future research are presented.