

Chapter Two

Literature Review

2.1 Introduction

Numerous books have been written on development and the arithmetic of life insurance industry in Malaysia. This chapter will also discuss the factors that influence the demand for life insurance and the process of determining which insurer operations are losing or making money.

2.2 Literature Review

Hamdan Benaissa (1993) focuses on the insurance industry, with a view towards exploring some of the issues relating to the tradability of service and its implications. It examines the nature of international transactions in insurance, the impact of recent developments in information technology on the tradability of insurance services, including the role of information networks in the industry, and some of the implications for international investment and trade in insurance.

The importance of services as a component of the world economy is now widely recognized. The role of services in the economies of developing countries is growing and will grow further as these countries strive to build up their service industries in order to enhance competitiveness and growth of their economies.

The main objective of this study is to explore the nature of international transactions in insurance services, the extent to which cross-border transactions in insurance have materialized, or are likely to materialize in the near future, and their implications.

The study concluded that the development to date has rendered the insurance business much more competitive than before and to increase tradability. Both of these outcomes, however, may not have a significant impact in the near future. Established companies are reluctant to forge inter-company networks for fear that they may lose market share. It is just that the established actors in the business are yet to comprehend fully the opportunities created by the information-technology revolution. But market forces may eventually force established companies to grasp these opportunities.

Selvamony A/P Muniandy (1994) analyses the structure of the life insurance industry in Malaysia over 10 years, between 1982 to 1991 and attempts to explore the evolution of its structure over this period. This research looks only at the Malaysian operations of the foreign incorporated companies. Owing to lack of literature on this industry, the structure of the industry is analyzed using mainly secondary data from Government agencies. The objective of this research is to predict the probable course of evolution in the life insurance industry in Malaysia in the future, and once the direction of the structural evolution of the life insurance industry in Malaysia is determined, to suggest appropriate business strategies for the industry as a whole. Porter's life cycle analogy was used to identify which stage of life cycle the industry is in. Then, the framework suggested by M.E Porter of his "Competitive Strategy" will be used to identify forces that have shaped the life insurance industry and predict its future direction.

This study concluded that to adapt to the dynamic change in the environment, all the life insurers have to restructure their whole operations, and adopt strategies that will emphasize on best customer service, differentiated products, innovative products, increase in public awareness amongst their agency force, packaging their products more competitively in relation to other financial instruments and trying to reduce forfeiture and surrender, of existing policies. Operating in an ever-changing environment, the industry structure has been evolving in line with the forces that have been driving these changes.

Lee Man Kok (1998) attempts to establish a profile of Information Technology (IT) usage specifically in the life insurance industry in Malaysia and at the same time examine the relationship of two very important organization characteristics with the extent of business processes and technology deployment. The results indicated that the extent of business processes and technology deployment was both independent of the organizational characteristic of size and ownership respectively. Two hypotheses were tested as follow:

- a) H_0 : The extent of information technology usage is positively related to the organization size.
- b) H_0 : Organizations with foreign shareholders tend to have a wider usage of computers than totally local-owned companies.

The questionnaire design was done specifically to collect the necessary data to satisfy the study's objective and to perform the required hypotheses testing. This study focused only on the life insurance industry in Malaysia and was designed to gather data from all the 18 registered life companies in the country. The level of computerization of

the business processes was high as the life insurance industry is quite dependent on IT. For any services industry, like that of life insurance, IT would provide the much needed competitive advantage in areas of marketing and servicing.

Lim Kah Han (1994/95) identified and examined the problems faced by life insurance agents in marketing such as the insurance policies to the public. In addition, the reasons and factors that were considered by the consumers in deciding to purchase life insurance also formed a part of this study. The research methods including the sampling procedures for the life insurance agents and the consumers, the measuring instruments and the statistical tools used to analyze the survey data.

The research showed that the major problems faced by life insurance agents were mainly concentrated in the selling process. Agents were found to face problems in the area of prospecting for clients, getting appointments and closing sales. The major reasons that induce consumers to purchase life insurance were precautionary and protection purposes, self and family needs, and the awareness of the importance of life insurance among the life insurance buyers. On the other hand, the major reasons given by the non-buyers for not taking up life insurance were the long-term commitment of life insurance, insufficient income, and the agents biasness in explaining the policies to the potential prospects. The factors that were considered by consumers before purchasing life insurance include life insurance company profile, agent's knowledge about life insurance types of policies and their suitability, and the attractiveness of the policies. The findings on consumers' attitudes towards life insurance will provide useful information for the agents which might help them in selling life insurance policies.

Paramjit Singh (1998) assessed whether performance management training has had any impact on the sales of John Hancock Life Insurance (M) Berhad. All sales managers in the company underwent compulsory training in performance management. A total of 245 sales managers attended the training. The study showed that performance management training had some impact on the sales in John Hancock. The findings unveil weaknesses in the performance management training, the implementation of the performance management system or the utilization of the performance management tools.

Cynthia Chong Yoke Ying (1995) profiles the productivity characteristics of a life insurance salesperson. Her study explores the commission of these individuals and its dependence on policies the number of lives sold and the total premium production. As such, first year commission was the measure of the salesperson's performance. A randomized survey involved 153 life insurance salespeople from nine life insurance companies in Malaysia. The findings of this study are an initial step in understanding the predictors of sales performance. Some demographic variables seem to have consistent relationship between the sales process and first year commission. The study shows that demographic variables do interact to affect performance. More specifically, the results of this study reveal that marital status, contract status, duration and education level interact with the sales process to affect the practice of sales cycle selling, suggesting that demographic variables in sales studies should not be examined in isolation.

Balarama Chandran Thiruchelvi (1995/96) conducted a survey to identify policy and non-policyholders' perception of the industry, the types of policies purchased and the reasons why policies are purchased or not purchased. To derive reasonable conclusions

from the survey results and to perform significant statistical tests, a sample size of about 130 was targeted. The actual number of positive responses was 117.

An encouraging result from the survey is that policyholders are purchasing policies with the correct objective in mind. The reason cited being as a compensation in the event of the loss of income. A disturbing result from the survey is the low ratings given to agents for after sales service and a low rating given to company's service in general.

The survey results also concluded that policyholders and non-policyholders had the same ranking in prioritizing their decision variables in selecting a policy. This study covers a general overview of the insurance industry, briefly touching on its history, basic principles, concepts of life insurance, and developments of the life insurance industry in Singapore and briefly highlights the presence of a well-regulated industry in Singapore.

The paper concludes that better quality service, focused target market, product development and the enhancing of the company's image are aspects the industry can focus in its stride to face the competition in the next decade.

Lee Keng Soon (1993/94) focuses on Singapore life insurance industry in general and examines the competitive forces at play and the factors, which affect the industry's growth and performance. The study also comments on the recent trends and development in the industry. Lee has summarized the varied and multi-dimensional characteristic, which could impact on the growth development and health of the life insurance industry.

Life Office Management (1998) summarized many factors that affect the demand for a insurance product, such as age, sex, income, race, nationality, education, household composition, marital status, occupation, and life-cycle stage are strong personal factors directly affecting consumer behavior to purchase insurance. In addition, culture and subculture, social class, family, and roles and status are primary social factors influencing consumer behavior to make a decision to buy insurance. On the other hand, psychological factors like motivation, perception, learning, and attitudes are those factors that operate within individuals and that affect consumer purchase decision process. Actually, many consumers recognize that they need insurance, but they do not necessarily seek to buy it. In order to understand consumer behavior, insurers must study the effects of both direct and inferred influences.

Besides that, the study explores sales analysis, expense analysis, and profitability analysis provides valuable information to marketing management. Sales analysis helps insurers determine the effectiveness of its marketing strategies by providing information on how much of products are being sold; to whom it is being sold; where it is being sold; and by whom it is being sold.

Expense analysis helps insurers locate potential performance problems by helping them determine when various functional areas of marketing are incurring excessive expenses in their efforts to generate sales. Functional accounts include accounts for marketing costs such as commissions expenses, management expenses, salaries, training expenses, product development costs, advertising expenses, sales promotion expenses, policy acquisition expenses and marketing research expenses.

Insurers can use profitability analysis to measure the profitability of a region, an agency, an agent, a product, and customer segment. Insurers recognize that many distribution systems, first year expenses typically exceed first year revenues, due to the high costs of acquiring new business. Insurers then use this information to help determine when modify, maintain, expand, reduce, or discontinue any of its marketing activities or operations. It is important to remember, factors such as the insurer's environment, product mix, market segment, distribution systems, persistency, especially service standards that could lead to long-term profitability.