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Internet Activities among Malaysian Insurance Companies

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Abstract

Many studies have been conducted to study Internet usage. Most of them focused on SMI/SME, individuals, services organisations including the financial sector. Previous studies on Internet usage in the financial sector in Malaysia were more focused towards the banking institutions. Not much information is available with regards to the Internet usage among insurance companies. Recognizing the potential of the Internet to insurance companies, the Central Bank of Malaysia (Bank Negara of Malaysia) has established guidelines that allow insurers to offer their services online. This study describes the extent of Internet usage among Malaysian insurers. Some insurers have already begun to use the Internet to conduct their daily business transactions, some are in the midst of planning to use and some do not have plan to use at all. Many of them stated that security, customer readiness and cost of initial investment were important considerations when deciding to adopt Internet technologies.

1. INTRODUCTION

In 1999, recognizing the potential of the Internet, the Bank Negara of Malaysia (BNM) allowed a group of insurers to establish the industry?s first interactive insurance website, which enabled policy owners to transact online renewal of their motor policies and payment of premiums. In April 2000, insurers were allowed to offer the full range of life , general and Takaful products for the purchase and/or renewal of policies on the Internet (BNM, 2000). In addition, BNM issued Guidelines on the provisions of Internet Insurance/Takaful by Insurers and Takaful Operators in October 2000. With the guidelines in place, most insurance companies have begun to conduct their transactions online via the Internet. Since its introduction in 2000, there has been little evidence of research conducted to study Internet activities among insurance companies particularly in the Malaysian context. Most of the studies of Internet usage in financial sector concentrates/focuses on banking only (Balachandher et. al., 2000; Suganthi et al., 2001). Moreover, after BNM placed the guidelines it is only appropriate that a study be conducted to find out whether the insurance companies are taking advantage of the ruling. The results of the study can be used by BNM to take further actions in encouraging more insurance companies to go online. This is inline with the vision of the Prime Minister to increase ICT usage among Malaysian companies (MOF, 2003).

This paper aims to describe the extent of Internet activities among the insurance companies in Malaysia. In particular, the study was conducted to achieve two objectives. First, to identify level of Internet activities among the companies and second, to describe variables the companies consider when making decisions whether to adopt Internet in their business or otherwise.

This paper is divided into five main sections. In Section 2, the review of literature pertaining to usage of Internet for insurance is discussed. The methodology is presented in Section 3 while the findings of the research are discussed in Section 4. Finally the implications of the research as well as its limitations are presented in Section 5.

2. LITERATURE REVIEW

Many researches (NPC, 2000; Higgins, 2003; Soliman, 2003; Coltman, 2001) have found that the main use of the Internet in organizations is for effective communication or messaging. Lewis and Cockrill (2002) in their studies discovered that as high as 64% of companies use the Internet for messaging. Communications or messaging via e-mails or messenger allows the organization opportunities to communicate with their customers (Eastman et al., 2002). Internet equipped organizations also have the tendency to communicate with their suppliers as well as partners and for internal communication among their personnel via the Internet (Turban et al., 2002).

Stevens et al. (2002) found that the most common usage of Internet was to obtain general information, followed by ordering products and supplies, obtaining supplier information, obtaining customer information and obtaining competitor information. Among the common applications of the Internet are marketing and advertising, market research, communication and information sharing, and customer service and support, as well online payment. A study of North-eastern US companies reveals that the Internet is utilized for regular business transactions which include online promotion, online sales and purchase, online customer service, and gathering online data about marketing, suppliers and distributors (Fahri and Omar 2001). Internet via individual company?s website allows customers to gain more information about the product and services offered by the companies (Ruquet, 2001).

Besides advertising, for businesses to survive and be effective, they must keep in touch with the market environment, what their competitors are up to and the changing trends of the consumers? taste and preferences (Haynes et al., 1998). Finally, many businesses use the Internet as it provides opportunities for them to gain competitive advantage and improve efficiency (Eastman et al., 2002). This would include providing better customer support service (Parasuraman and Grewal, 2000).

Insurance companies like other businesses have been using Internet to conduct business processes. Mitchell (2000) and Strucker (1999) state that many insurance websites provide and allow customers access to information and services. Generally, many insurers use the Internet for advertising, via their web sites (Reich-Hale, 1999) to increase sales and reach new markets (Meyer and Krohm, 1999). In addition, it also help promotes and enhance the company image. Generally, it can be said that the Internet would help companies to increase their sales (Wirtz and Kam, 2001).

Although the potential of the Internet is evident from the above paragraphs, not all business organizations are adopting it. The most common reasons are pertaining to cost, technology, customer readiness and the amount of risks involved. Grewal (2001) indicated that the Internet can be used to reduce operating expenses. This is however refuted by Wirtz and Kam (2001). They believed that the ongoing operational cost is high, thus it becomes a barrier to Internet adoption. According to Soliman (2003), cost in terms of initial investment and operational cost (maintenance) positively affects Internet adoption. Besides these two expenses, most businesses have to incur cost in training. Many past researches have shown that lack of technical personnel was one of the reasons why companies do not adopt Internet related activities (Lewis and Cockrill, 2002). This implies that if companies were to participate in Internet related activities, substantial amount of money would be required to train the personnel.

In addition, Internet technology standards seem to be a barrier for businesses to adopt Internet related activities. Turban et al. (2002) stated that there is lack of standards pertaining to Internet related activities. Different countries do things differently; there are no universally accepted standards (Ng and Ainin, 2001) although efforts have been made by agencies such as the Overseas Economic Council of Development (OECD).

Zinkewicz (2000) on the other hand, says that businesses do not use the Internet for business because customers do not trust the process involved. In addition, many businesses state that they do not go online because their customers do not use the Internet and moreover, they prefer human interactions (Ainin and Ismawati, 2003). In Malaysia for example, the TNS Interactive ? Global eCommerce Report 2002, has shown that only one percent of the total population and 3 percent of the Internet users buys online.

Finally, in most cases businesses do not adopt Internet technologies because of the risk involved namely operational and security. Operational risks are due to the scalability and accessibility of the websites while security involves authenticity, confidentiality and integrity. In many cases, security is the main factor that determines whether the organization adopts Internet or otherwise (Soliman, 2003; Lawrence et al., 1998; Computimes, Feb 2000).

3. METHODOLOGY

The study focused on Malaysian insurance companies. A list of Malaysia Insurance companies was obtained from BNM. Due to time and budget constraints, the study concentrated on companies involved in life and/or General Insurance businesses. A total of fifty-three companies were identified and approached. The companies were each given a set of questionnaire. The questionnaire was developed based on the literature pertaining to Internet for business (Stevens et al., 2002; Soliman, 2003; Coltman, 2001; Ruquet, 2001 and Mitchell, 2000, among others) discussed earlier. The questionnaire is divided into three main sections. Section 1 contains questions pertaining to the company?s demographic information. The respondents were then required to indicate their Internet activities in the Second Section. Finally in Section 3, they were asked to rate the variables perceived to an important consideration for Internet adoption. A pilot test was carried out mainly to observe whether the respondents would be able to understand the questions.

The questionnaire was hand delivered to IT managers of the insurance companies. However, in some circumstances, whereby the managers were not around to respond immediately to the questionnaire, the questionnaires were left behind and collected at their convenience. After several weeks of distributing the questionnaire, a total of thirty four companies returned the questionnaires (approximately 64 percent). We were not able to obtain full responses due to their unwillingness (citing confidentiality as the main reason) to participate in the survey. The findings of the survey are discussed in the next section.

4. FINDINGS

The findings of the study are illustrated in three parts. First, the demographic profiles of the insurance companies, second, their Internet activities and finally factors that are considered important for internet adoption.

4.1 Demographic Profile

The majority (Table 1) of the surveyed insurers are from General Insurance companies (67.6%) while 14.7% are from Life Insurance companies and 17.6% are companies offering both life and general insurance. The sample percentage is close to the proportion of the entire insurance companies? population. In Malaysia, as per February 2002, the insurance industry has 7 life insurance companies, 37 general insurance companies, 9 life and general insurance companies, 1 life reinsurance company, 9 general reinsurance companies, 1 life and general reinsurance company and 2 Takaful companies (BNM, 2003).

More than two thirds of the surveyed insurers concentrate on the Malaysian market, however there are insurers that have expanded and are covering the Asean Region market (14.7%) and some (17.6%) even have reached beyond Asean region, to countries like China. Perhaps this occurrence has been partly due to the government efforts and incentives for companies to expand especially the China market (Abdullah Ahmad Badawi, 2004).

Half of the surveyed insurers have less than 1000 agents. 23.5% and 14.7% of the surveyed insurers have agents of 1001-5000 and 5001-10,000 respectively. Only 11.8% of the surveyed insurers have more than 10,000 agents. Eighty five percent of the surveyed companies have already established their business for more than 15 years. Only one company has been in the market for less than five years. Most (88.2%) of the insurance companies? headquarters are located in Malaysia while the remainder are based outside the country.

Table 1: Demographic Profile

	Frequency	%
Primary Activity		
Life Insurance	5	14.7
General Insurance	23	67.6
Both	6	17.6
Marketing/Sales Area		
Malaysia Only	23	67.6
Southeast Asia	5	14.7
Global	6	17.6
Number of Agents		
< 1000	17	50.0
1001 - 5000	8	23.5
5001 - 10,000	5	14.7
> 10,000	4	11.8
Years in Operation		
< 5 years	1	2.9
6 - 15 years	4	11.8
> 15 years	29	85.3
Location of Headquarters		
Malaysia	30	88.2
Outside Malaysia	4	11.8

4.2 Internet Activities in Insurance Companies

The insurers were asked about the status of their Information Technology usage in general. Nearly fifty nine percent of them humbly think they are Somewhat Behind, while 29.4% think that they are Close Followers. Only one insurer thinks his company is the Industry Leader and three insurers think they lagged behind the others. The respondents were also asked whether they had any Information Technology plan or blueprint in place. Nearly seven six percent of the surveyed insurers already have an Internet blueprint in place while 11.8% are developing it now. This actually shows the seriousness of the insurance companies in using Information Technology effectively and efficiently in carrying out their daily activities.

The study shows that more than 76.4% of the respondents have been using Internet to conduct business transactions, while 8.8% have no plans to use it at all. The rest of the respondents (14.7%) have not used the Internet but plan to use it by year 2004. The results indicate that percentage of Internet usage among the insurance companies are relatively high and encouraging and it shows that the companies are open to new technologies and are willing to take the risks involved in carrying online business via the Internet. It is also an indicator that the companies are not depending on local marketplace alone. This perhaps is further substantiated in Table 1, whereby there are many companies who have gone into international markets, which can be easily be managed with the use of the Internet.

Besides asking the respondents whether they use Internet, we also asked them whether they use the Internet as a channel to sell their product. Thirty eight percent of them are already leveraging on the Internet to help them in selling their products and services, while 58.8% intend to use it in the future. These figures are encouraging and it clearly shows that the companies are aware of the potential benefits of the Internet. In addition, the study has also indicated that the insurance companies are not using the company?s website only for informational purposes but also for transactional purposes in line with BNM?s direction.

Sixty seven percent of the surveyed insurers feel that Internet will compliment the existing sales channel while 5.9% feel otherwise and think the Internet will replace the existing sales channel eventually. Nearly eighteen percent of the companies think that the existing channel will be affected slightly and 8.8% believe that both existing traditional sales channel and the Internet sales channel will coexist without affecting each other. From these figures, we can observe that most of the insurance companies perceived Internet as an additional medium for them to sell their products and services and traditional medium will continue to take place. This maybe because existing clients are mostly above 40 years of age, many of whom are not internet users. E-insurance would be more appealing to the younger wage earner as they are known to be more technology savvy. We can say that they are being proactive as they foresee that there may be existing and potential customers who are more technology savvy, thus more incline to do transactions from homes or workplaces, without the hassle of travelling back and forth to the insurance companies. In addition, none of the respondents think that the click and mortal dotcom insurance companies will pose any threat to their business. This is perhaps because customers prefer personalised face to face interactions with dealing with services including insurance (Balachandler et. al., 2000).

The respondents were also required to state how they perceived the importance of Internet usage for several business activities. Table 2 illustrates that 47.1 percent of the insurers say Internet is most important to enable the companies increase sales/reach new markets. Forty one percent indicate that Internet is most important in order to keep ahead of their competitors. Again, this implies that the insurance companies are aware of the potential benefits that are associated with Internet adoption. Finally, the Table also illustrates that 32.4 percent of the insurance companies feels that Internet is most important for internal communication and communication with the consumers. This finding is consistent with the existing literature (Higgins, 2003; Soliman, 2003; Coltman, 2001) that indicated the Internet is mainly used for communication. However, it was surprising to observe that communication with supplier/collaborator has the lowest score of (11.8%). Perhaps the reasons may be because their suppliers such as stationeries companies or their collaborators such as car workshops are not yet online. This findings is further substantiated as the study also found that the internet activity most widely used among the insurers was e-mail (75%) compared to web surfing (15%) and participation in forum (10%).

Table 2 : Internet Activities among Insurance Companies (N = 34)

��	Most important	Important	Somewhat important	Not relevant
Employee/Internal Communication	11 (32.4%)	12 (35.3%)	8 (23.5%)	3 (8.8%)
Supplier/Collaborator Partner Communication	4 (11.8%)	18 (52.9%)	9 (26.5%)	3 (8.8%)
Customer Communication	11 (32.4%)	12 (35.3%)	7 (20.6%)	4 (11.8%)
Market Research/Marketing Intelligence	5 (14.7%)	13 (38.2%)	12 (35.3%)	4 (11.8%)
Enhance Corporate Image/Publicity	8 (23.5%)	16 (47.1%)	7 (20.6%)	3 (8.8%)
Increase Sales/Reach New Markets	16 (47.1%)	12 (35.3%)	3 (8.8%)	3 (8.8%)
Keep Ahead of the Competition	14 (41.2%)	13 (38.2%)	4 (11.8%)	3 (8.8%)

4.3 Internet Usage Factors

The respondents were asked to rate factors which they perceived to be important in deciding whether to adopt the Internet or otherwise. The mean scores are presented in Table 3. The ratings were as follows: 1 = Critical Factor, 2 = Important Factor, 3 = Somewhat Important and 4 = Not Important. It must be noted here that because of the way the ratings were formulated, factors with the lower means are considered more important than those with higher means.

From Table 3, we can observe that the main factor that is critical when deciding whether to adopt Internet is security. This is consistent with previous researches (Soliman, 2003; Computimes, 2000; NPC 2000). The second factor is cost of initial investment. Once a company decides to use the Internet, then they would have to incur cost in changing from the existing process to the new ones. Operational risks as well as customers like face to face interactions are also factors that are considered important when companies are making decisions about using Internet for their daily business.

Table 3 : Factors Considered for Internet Usage (N = 34)

��	Most important	Important	Somewhat important	Not relevant
Customer Readiness				
Existing channel serve the customer well	11 (32.4%)	14 (41.2%)	4 (11.8%)	5 (14.7%)
Not enough customer are on the Internet	8 (23.5%)	14 (41.2%)	4 (11.8%)	8 (23.5%)
Awareness	6 (17.6%)	15 (44.1%)	5 (14.7%)	8 (23.5%)
Customers like face to face	14 (41.2%)	11 (32.4%)	6 (17.6%)	3 (8.8%)
Technology				
Lack of commerce standards	7 (20.6%)	13 (38.2%)	9 (26.5%)	5 (14.7%)
Integration difficulties	9 (26.5%)	15 (44.1%)	6 (17.6%)	4 (11.8%)
Network infrastructure not ready	7 (20.6%)	8 (23.5%)	15 (44.1%)	4 (11.8%)
Internet is an unproven technology	2 (5.9%)	5 (14.7%)	14 (41.2%)	13 (38.2%)
Cost				
Cost of initial investment	14 (41.2%)	16 (47.1%)	3 (8.8%)	1 (2.9%)
Cost of E-insurance development	6 (17.6%)	18 (52.9%)	7 (20.6%)	3 (8.8%)
Cost of E-insurance maintenance	7 (20.6%)	16 (47.1%)	8 (23.5%)	3 (8.8%)
Cost of Internet access	1 (2.9%)	11 (32.4%)	16 (47.6%)	6 (17.6%)
Cost of training resources	2 (5.9%)	11 (32.4%)	16 (47.6%)	5 (14.7%)
Risk				
Operational risk	12 (35.3%)	14 (41.2%)	6 (17.6%)	2 (5.9%)
Security risk	22 (64.7%)	11 (32.4%)	1 (2.9%)	0 (0.0%)

5. SUMMARY AND CONCLUSIONS

The Internet provides new business opportunities and potentially many effective ways to improve business activities for the insurers. However, it must be recognised that the Internet?s unique broad access in terms of geography, users, applications, databases and the connectivity of computer systems has created a whole host of new risks besides the existing traditional risks faced by the insurers. As a financial service industry built on customer confidence and trust, it is therefore imperative that the insurance transactions offered on the Internet be implemented in a manner that will continue to support and protect customers? (policy owners?) interest as well as the ability of the insurer to meet its fiduciary obligations to policy owners. This study found that more than two third of the surveyed insurers already have information technology blueprint as a guideline to help them adopt Internet into their business processes. More than two thirds of the respondents are already using the Internet, while 38 percent have been using the Internet as a sales channel. Besides selling online, they are perceived that the Internet is most important to increase sales/reach new markets, keep ahead of the competitors and to enhance communications among employees and with customers.

The respondents have ranked security as the most important factor when deciding to adopt Internet in their businesses. This finding is similar to other research on Internet usage as well as E-Commerce usage (Soliman, 2003; Lawrence et al., 1998; Computimes, Feb 2000). Therefore, efforts must be taken by all parties (insurance companies, BNM and government agencies) to ensure a more secured online environment. In addition, efforts should be taken to illustrate the authenticity, confidentiality and integrity of online transactions so that the customers feel it is safe to transact via the Internet. Another factor that equally influences the decision on Internet adoption is cost of initial investment. Nevertheless, we feel that this should not be an issue among the Insurance companies as the Malaysian government has been aggressively promoting the use of IT for businesses including providing grants to start websites (Eighth Malaysian Plan, 2001).

Customer readiness is seen by the insurance companies as an important factor to be considered when making decision whether to adopt the Internet. It is only appropriate for the companies to worry as investing in the Internet technology is not cheap. Nevertheless, the companies have to remember that there will be customers who prefer to do online transaction especially the younger generation (between 20 to 25 years old). This group of the nation?s population are actually potential customers, as within the next few years they will be joining the workforce. In addition, according to the BNM there is a relatively high percentage of the population who are still not insured, thus the potential market is relatively large. Moreover, the Ministry of Energy, Communications & Multimedia Malaysia stated that the number of Internet subscribers in Malaysia in also growing. At the end of 2001, there were 6.5 million Internet users and it is estimated that by the end of 2003, 40% of population will be Internet users (www.ktkm.gov.my). The country is also expected to have 27 percent Internet penetration by 2006, achieving a compound annual growth rate of 13 percent between 2001 and 2006 (Raman, 2003).

Similarly, BNM reported that consumer insurance transactions on the Internet are projected to reach US$4.1 billion by 2003 worldwide (BNM, 2001). Thus, it is timely for insurers to capitalize the potential of the Internet. The online presence will revolutionise the Malaysian insurance industry and help transform the local insurance companies into a more profitable organisation. It is suggested that future studies be undertaken to look at the impacts of the Internet on the insurance company?s business processes and performance as well to measure their Internet adoption level.

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