THE IMPORTANCE OF HEALTH INSURANCE POLICY ON PURCHASE INTENTION / CONTINUANCE – AN EMPIRICAL STUDY IN MALAYSIA

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ABSTRAK

Penduduk seluruh dunia menyedari kepentingan polisi insurans kesihatan untuk menangani isu yang tidak diduga kepastiannya pada masa ini. Selain permintaan perlindungan bagi penyakit fizikal, kemalangan dan kecemasan, permintaan perlindungan bencana alam untuk melindungi kesejahteraan manusia dalam kehidupan seharian turut meningkat permintaannya. Walaupun insurans kesihatan adalah mandatori di negara membangun, negara membangun masih belum mengenakan peraturan yang mewajibkan pembelian insurans kesihatan. Di Malaysia, terdapat banyak pembekal insurans kesihatan daripada sektor tempatan dan multinasional tetapi mereka tidak mampu untuk menguasai pasaran sepenuhnya. Apakah punca orang ramai tidak tertarik dengan insurans kesihatan?

Jawapan pada persoalan ini akan membolehkan pembekal insurans kesihatan memahami keperluan dan kehendak pelanggan. Oleh yang demikian, kajian ini memberi tumpuan kepada produk insurans kesihatan, perkhidmatan yang ditawarkan oleh penyedia insurans dan ejen insurans, persepsi pelanggan terhadap insurans kesihatan dan demografi sosial yang mempengaruhi tujuan pembelian / penerusan insurans kesihatan.

Kajian semasa; mengaitkan rangka untuk melihat tujuan pembelian / penerusan pengguna industri insurans kesihatan. Pada masa ini, industri insurans kesihatan di Malaysia sedang melalui tempoh ujian walaupun terdapat banyak peluang pertumbuhan. Tujuan kajian ini adalah untuk mengenal pasti elemen penting dalam pembelian / penerusan insurans kesihatan yang dapat membantu penyedia insurans untuk mengenal pasti saluran yang ada untuk memperbaik industri insurans kesihatan.

Data kajian diambil melalui pengedaran borang soal selidik dan juga temubual dengan pelanggan berpotensi. Keputusan empirikal kajian menunjukkan bahawa pelanggan benar-benar tertarik dengan produk insurans kesihatan dan perkhidmatan yang ditawarkan oleh

penyedia insurans dan ejen insurans. Walau bagaimanapun, pelanggan juga mengutamakan reputasi pembekal insurans kesihatan dan maklumat berkaitan (syarikat tempatan / syarikat multinasional). Berkaitan dengan faktor demografi sosial, hanya faktor jantina yang menjadi penentu yang nyata bagi tujuan pembelian / penerusan polisi insurans kesihatan. Wanita dikenal pasti lebih tertarik kepada produk insurans kesihatan dan ciri-ciri pentingnya berbanding lelaki. Oleh sebab polisi insurans kesihatan merupakan pelaburan perlindungan risiko jangka pendek untuk satu tahun, faktor demografi sosial lain seperti pendapatan, pendidikan dan umur didapati tidak berkaitan dalam kajian ini.

ABSTRACT

People all of over the world realized the importance of health insurance policy as the unforeseen uncertainties has become the order of the day. In addition to the physical illness, accidents and emergency the natural calamity demand for protection of well being of human in our day to day life. Although the health insurance is a mandatory in developed countries, the developing countries is yet to impose regulations on the purchase of health insurance. In Malaysia, there are many health insurance providers from local and multinational sectors but they are not able to capture the full market. What are the underlying reasons people are not attracted towards health insurance?

To answer this question will enable the health insurance providers to understand the needs and wants of the customers. Hence, this study focuses on the health insurance products, service offered by insurance providers and insurance agents, the customer perception on health insurance and socio- demographics that influence the health insurance purchase/ continuance intention.

This present study; connect the framework to investigate the purchase intention / continuance of consumers in health insurance industry. Currently, the health insurance industry in Malaysia is undergoing a testing time although there are plenty of growth potential opportunities. The purpose of this study is to identify the key elements of health insurance purchase/ continuance intention that may help the insurance providers to identify the possible avenues to improve the health insurance industry.

The data collection of the study was taken through questionnaire distribution and also personal interviews with potential customers. The empirical finding of the study shows that

the customers are really attracted with the health insurance products and service offered by insurance providers and insurance agents. However, customers are also concern with the reputation of health insurance providers and particular about the segments (local companies / multinational companies) with regards to socio-demographic factors, only gender is moderating between the elements of health insurance on the purchase/ continuance intentions of health insurance policy. In fact, female are more attracted towards the health insurance products and salient features than males. Since health insurance policy is a short term risk covered investment for one year, other socio-demographic factors like income, education and age are not found to be significance in this study.

Keywords: Health insurance policy, purchase intention / continuance, health insurance products, health insurance services, perception in health insurance, socio-demographics

CHAPTER 1

Introduction

1.1 Introduction

Health insurance has a great impact on people everyday's lives than other kinds of insurance and almost any financial decisions. Malaysia provides a widespread medical coverage that is divided into two forms of healthcare system which are the public and the private system. The public system consists of the public general hospitals, district hospitals, health clinics, mobile clinics and clinic desa. (The Star, February 2010). Public healthcare system takes care of disease prevention, preventive health, environmental health, dental health, food and water quality control and enforcement of standards by giving a minimum cost. This safety net health care is to ensure that there is equitable access of treatment to the poor and elderly, whereby each patient is charged a nominal fee of RM 1 for outpatients clinic visits, RM5 for specialist clinic visits, and maximum RM50 for third-class ward hospitalisation costs. (Ministry of Health, 2010).

The second option is the private system for those who are in illness and accidents able seek medical treatment, either at the primary care level or at the secondary or tertiary care level. In the private system, it is fee for service and many pay from their own pocket. Having a choice to admit to private hospitals to suit individual's preferences and concerns is a good thing, and it has make treatment more pleasant and less traumatic for many people.

Based on statistics, health care expenditure as in private sector (% GDP) have risen from 1.51 in 1997 to 2.65 in 2009. As for the healthcare expenditure public sector (% GDP) was 1.43 in year 1995 and 2.15 in year 2009. Total healthcare expenditure (% of GDP) in Malaysia was 4.81 in year 2009, and the lowest was in 1997 which was 2.98. This rapid increase in health

expenditure spending has brought awareness to the society to look for health financing arrangements that ensure them to access medical treatment. (Health Glance in Asia-Pacific, 2010).

The health expenditure per capita purchase power parity (PPP) (US $) in Malaysia has risen from $620.89 million in year 2008 to $665.32 million in year 2009. This is due to the rising cost of medicine and health treatment, ageing population and as well as growing personal wealth in Malaysia. The key driver of the wealth effect was the rising income levels of society since Malaysia is an emerging market and there is a potential for high growth that leads to increase of purchasing behaviour that is influenced by physiological factors, economics and environment (Kotler, 2003).

There are 7 types of health financing system in Malaysia which are:-

1. General Taxation - tax collected mainly from public sector and from the fees collected by tax expenditure.
2. Out-of-pocket (OOP)
3. Social Security Organization (SOCSO), this social security organization covers only private sector, with employees earning more than RM 2,000 per month.
4. Employees Provident Fund (EPF)
5. Private health insurance
6. Medical Reimbursement Schemes (MRS)
7. Community Financing

Source : (Destanul Aulia and Sri Fajar Ayu, Tinjauan Pustaka, Department of Administration and Health Policy, FKM, USU 2 School of Postgraduate Administration and Health Policy, USU, 2010)

According to the study done by Roemer (1991), there are 3 types of healthcare systems in developed countries. First, the Beveridge system where the state is integrally involved in

healthcare financing and provision secondly is the Bismarck model which is based on social insurance and functions within a corporatist state thirdly is the market-dominated system where private insurance plays a major role.

The cost of health care especially in private sector has been increasing rapidly, moreover the change in demographic has expanded the medical and health insurance sector in Malaysia. Thus, the health insurance industry begins to emerge and now it is estimated that 40% or 10.8 million of Malaysian are medically covered while 16.2 million people are without health insurance policies. Majority are covered by the health insurance by the employers and others have their own self-health insurance. (Article from: International Healthcare Conference and Exhibition, July 2011).

For the uninsured they are relying on the public hospital that is highly subsidized by government to seek health treatment. Some will depend on out of pocket (OOP) money to cover their medical expenses by visiting private hospital or clinics. Malaysian private household out-of-pocket (OOP) spending forms the largest component of the private healthcare expenditure. OOP spending takes up 57.09 percent (RM 10.8 billion) of the total; with some form of private prepaid plans (e.g. insurance) contributing 11.9 to 15.7 percent over the years from 1999 to 2008. (Article: Health and Medical Professional Issues in Malaysia). This value is considered low and it shows that health insurance is still a small market that can be captured.

1.2 Background of Health Insurance Industry in Malaysia

Health insurance is a program designed to covers medical and surgical expenses that are incurred by the insured (person covered). Health insurance can either reimburse to the insured for expenses incurred from illness or injury or pay to the healthcare provider directly (e.g. hospitals).

The issue arise when Council of Medical Malaysian Association (MMA) notice the rise cost of health expenditure and they begin to set up a Committee on Health Insurance in 1983, in order to protect individual and family against incurring costly health expenditure in case of any illness. MMA has recognise that socio-economic changes such as safe water, smaller families, adequate food housing and change in lifestyle have played a prominent role in decreasing morbidity and mortality and increase life expectancy (Report by Health Assurance and Health Insurance for All Malaysian, 1987).

During 1980s and 1990s, with the implementation of the fourth, fifth and sixth Malaysian Plans (MP), Malaysia expanded health care system to ensure Malaysian citizens were made aware of healthy practices and methods of illness prevention. During the seventh MP (1996-2000), emphasis remained on public health awareness and the objective of the program was to achieve "health for all Malaysian by the year 2000".

Sales of Medical and Health Insurance (MHI) policies only surged in the mid 1990s after the introduction of personal income tax relief for the purchase of MHI policies in 1996 and following policy relaxation to allow life insurers to sell standalone MHI policies in 1997. In the past five years, annual premium income generated from yearly renewable MHI policies has increased by an average annual rate of 28% to RM1.5 billion in 2005.

Based on a recent survey conducted by the Bank Negara Malaysia, it is estimated that about 15% of the total population have MHI protection. Demographically, 84% of individuals

covered under MHI policies are below the age of 45 years. Those above 55 years old accounted for less than 4% of the individuals covered, reflecting the relatively young Malaysian population with only 8% of the total population above this age that are covered by health insurance. Relatively the market for health insurance is big but the awareness among individuals is still low. From the Table 1.2.1, it shown that the total health expenditure is increasing every year and customers should be aware on the situation and challenges in accessing medical treatment.

Table 1-1: *The Total Health Expenditure per Capita in Malaysia*

YEAR	2006	2007	2008	2009	2010	2011
Total Health Expenditure Per Capita - US$ per capita	258.7	307.2	353.2	336.4	346	356.9
Private Health Expenditure - % of total health expenditure	55.4	55.5	57.1	55.2	55.2	55.2

Source: 1. Private Health Expenditure: Euromonitor from trade sources/national statistics

2. Total Health Expenditure Per Capita: Euromonitor International from OECD/WHO/national statistics

1.3 Problem Statement

Expenditure on health care in Malaysia has been increasing over the years and it brings a challenge not only for the government but also in insurer's provider and individual. Health care spending consumes a greater portion of the economic output in the future; thus Malaysian will encounter difficult decision towards health protection and other priorities.

Based on World Health Organisation (WHO) statistics it statistics shows that, national spending on health care per capita is increasing. (Table 1-1). There are internal and external factors that trigger the expenditure such as inflation and income. With the rising cost of healthcare it has increase the demand and expectation on financial provider. The reasons of increase of medical cost are the ageing population. First, elderly people are likely to have multiple health problems and require complex treatments. Furthermore, better medicines will be expensive and with the sciences the diseases is treatable and curable.

Moreover, the increasing trends of health care expenditure will simultaneously increase the out of pocket expenditure. Out of pocket payment is considered as least efficient and inequitable in managing financial health care. Based on World Health Organisation (WHO) in year 2009, Malaysian has spent 73.25 % on health care (published in 2010). Relatively, this situation occurs tend to view ourselves invulnerable to hazards. This happens to individual that usually think that they are healthy and do not need medical treatment and they might end up caught in huge financial problem.

Since of the high medical cost customer are burden with the hospital bills and since they do not have any health insurance coverage they need to pay with their own money. The situation will be worst if the medical expense increase to the extend where medical treatment becomes a burden that they need to bare. In order to secure themselves from paying from their own pocket, patients are more likely to transfer the risk to insurance provider. Hence, individual will prefer to purchase health insurance for their financial protection instead of withdrawing from their saving either from bank saving account or Employee Providence Fund (EPF). Based on several studies has found that by having health insurance, individual is likely to increase the visits to heath care and reduce out of pocket spending.

1.4 Research objectives

This study is expected to identify the awareness / importance influencers that determine individual participation in health insurance policy. The identification could assist the marketers of the company and agents in segmenting and targeting customers in order to penetrate the market and retain a large base of customers.

Hence, the objectives of the study are:-

1. To identify the purchase intention / continuance of health insurance (HI) is influenced by health insurance products.
2. To identify the service rendered by insurance providers / agents of insurance company influences the purchase intention / continuance towards health insurance.
3. To examine individual perception on insurance providers influences the purchase intention / continuance towards health insurance.
4. To examine socio –demographic factors (gender, age, income and education) influence the purchase intention / continuance towards health insurance.

In order to sustain in health insurance industry the companies need to come up with new and innovative products 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 companies' core competencies to sustain in the market.

1.5 Research questions

To achieve the objectives of this research, the following research questions are:

1. Health insurance products influence the purchase intention / continuance of health insurance?

2. Services offered by the insurance providers and agents influence the purchase intention / continuance of health insurance?
3. Individual perceptions on insurance providers influence the purchase intention / continuance of health insurance?
4. Effects of socio-demographic factors (gender, age, income and education) influence the purchase intention / continuance of health insurance?

1.6 Significance of the study

The purpose of this paper was to examine the health insurance purchase intention / continuance of individuals in Malaysia. By determining which factors most influence individuals' health insurance purchase decisions can be instrumental in helping the insurance providers to design more effective programs for consumers who will purchase the health insurance. The research may help insurance providers to understand customer's purchase intention / continuance by measuring the product, service quality and perception through its independent variables. Decision researchers and consumer researchers may able to offer new understanding of insurance behaviour to the insurance providers.

In addition, this research also will identify and consult prospective of health insurance customers needs before introducing a new product, where market research can include by studying clients needs, specific product and size of potential market. It would further strengthen the incentive to improved management practices of insurance companies. As such, this insurance companies would be well-positioned to reap the opportunities abound in insurance market. Once the insurance companies are able to tackle the right strategies and tools to attract customers it can create an incredible success to the health insurance industry.

Furthermore, it will encourage and bring concern consumer to about their health condition. They will be more aware and prepare of health future coverage and quality of health service, thus consumer are able to use health service effectively. Customers will able choose the health insurance that gives the right coverage at the affordable price.

1.7 Organization of the remaining chapters

Chapter 2 presents the literature review on health insurance industry and also of literature in relation purchase intention/continuance towards health insurance, health insurance products, health insurance services and perceptions on health insurance, theoretical framework and the hypotheses development.

Chapter 3 will explain the research methodology. This will illustrate the data and variable in term of research design, research method, research instrument, sample collection, measurement of variables, the method of data analysis and expected outcome on the study. Chapter 4 discusses the data analysis and the result of the findings. This will analyzes the results of finding, focusing on statistical analysis, descriptive statistic, factor analysis, correlation analysis, multiple regression analysis and hierarchical regression analysis and the summary of research results.

Lastly, chapter 5 reports the discussion and conclusion on the research. As well as overall findings and implications of the research will be discussed, limitation of the study as well as suggestion for future research and recommendations to increase the performance of health insurance.

CHAPTER 2

Literature Review

2.1 Introduction

Health insurance concept is to create a pool of fund through contributions made by individual who seeks for protection (World Health Organization, WHO). Insurance companies will act as a trustee and if any person suffers a loss, the insurer will compensate out the contribution from the pool of fund. Basically, insurance companies are implementing concept called risk sharing. Risk sharing is a contract between pairs of individual or groups of people that share the same interest. For example, if a person is suffering from illness or injury and need to be hospitalised, the medical bills is covered by the insurance provider using the money from the fund (Genicot and Ray, 2006). The aim is to manage and control the financial risk management issues than dealing with the issues of risk. The objective is to provide a better access within budgetary framework by using social relationship network (Jackson & Wolinsky, 1996).

Health insurance as a health care financing system is finding greater acceptability and presenting greater prospects in the health insurance industry. Health insurance that covers medical treatment cost helps to smooth consumption and reduce new debt and increase quality and improved health. However, the success of this industry and its players depends on the awareness levels of consumers. There are many opportunities in health insurance industry as there is a support from the government in terms of tax exemption and more involvement from the private sector to provide better healthcare facilities and insurance coverage.

Hence, a study of the importance for health insurance is interesting for numerous reasons. The theoretical framework in this empirical research will reflect the main contributor towards the purchase intention / continuance towards health insurance policy.

2.2 Health Insurance Industry in United States

United States has a universal health insurance and it has risen steadily for the last 40 years, from 5% of GDP in 1990 to 16% GDP in year 2007. Health spending per capita in the United States from 1998 until 2003 has increased by 4.6% per year on average and a growth rate comparable to the OECD average is 4.5% per year. Based on the OECD report, average percentage of GDP spent on health care in OECD countries was 8.6%. However, in year 2003 United States was on the highest among the OECD country (an organization of industrialized countries) that spent on health expenditure which is 15% of its GDP.

There were two events that have caused the increment of demand in health insurance industry. The first was the exclusion of tax by government to the employers. It has created strong incentives for employees to receive tax free health insurance from their employer. Second, a programmed called Medicare and Medicaid initiate by the government that helps to finance the senior citizen and poor. Since Medicare was launched it has managed to enrolled individuals from 1.6 million in 1991 to 6.4 million in 1999, while Medicaid has increased from 1.1 million in 1991 to 10.8 million in 1999. Thus, United States has accomplished to provide medical coverage for over 85% of the population of working people, senior citizen and to the poor.

The health care system has increased due to influence by development of medical sciences and technology that has affected the education, training and treatment cost for patients. United States also has made health insurance is compulsory for everyone. The Medicare

program that has been implemented in United States has lead to increase of participation towards health insurance and somehow rising of health care spending (Daniel P. Kessler, John F. Cogan, R. Glenn Hubbard, 2010). Between 1970 and 2007, the share of personal health expenditures in United States that use out-of-pocket money fell from 40 percent to 14 percent. Although the health insurance premiums is affecting their budgets but they are encourage to purchase health insurance to avoid financial burdens and this has lead to the health expenditure growth.

Health Insurance Industry in Europe

There are 31 European countries, including the 27 European Union member states, three European Free Trade Association (EFTA) countries (Iceland, Norway and Switzerland), and Turkey.

All European countries are using a mix of public and private health care financing approach. For example, in Sweden and United Kingdom the government is responsible to finance the medical expenses. National Health Service systems were implemented in Britain during the period of Second World War in conjunction with the Universal Declaration of Human Rights of 1948 and has health care security has extended to all legal residents. This program is funded from general tax revenues. For example France and Germany, it consists of both general government revenues and social insurance funding. On average, the public share of health spending across Europe was 73.6% in year 2008.

As the years goes, the health expenditure continue to rise in all European countries and it increase at a faster rate than economic growth, resulting in a rising share of GDP allocated to health. The health expenditure in Europe varies among European members. In 2008, Europe countries spent, on average, 8.3% of their GDP on health, up from 7.3% in 1998. As such,

health expenditure in Spain grew from 2.3% of GDP in 1970 to 6.0% of GDP in 2006, while Portugal grew from 1.5% to 7.2% o and Greece from 2.3% to 5.9%. This is expected due to increase living standards of population, technology development and demand of medical treatment.

Based on the Figure 2.2.1, it is explaining on the total expenditure of public and private sector in Europe. From the figure, Norway, Switzerland, Luxembourg and Austria were the top rank in spending on health expenditure among the European countries. The lowest healthcare spending were Turkey, Romania, Bulgaria, Poland and Hungary were spending below than European average. There is a big gap between Norway, who are spending EUR4, 300 on health while Poland is only EUR 1041. On the average, the purchase power parity (PPP) in Europe was from 2,500 till 3,500 per person on health expenditure which is 10% to 60% more than the European Union coverage. There are big differences on health expenditure between Northern Europe and Eastern Europe due to Northern Europe is more develop than Eastern or Southern Europe which is still developing. The level of awareness on health care also varies among the countries.

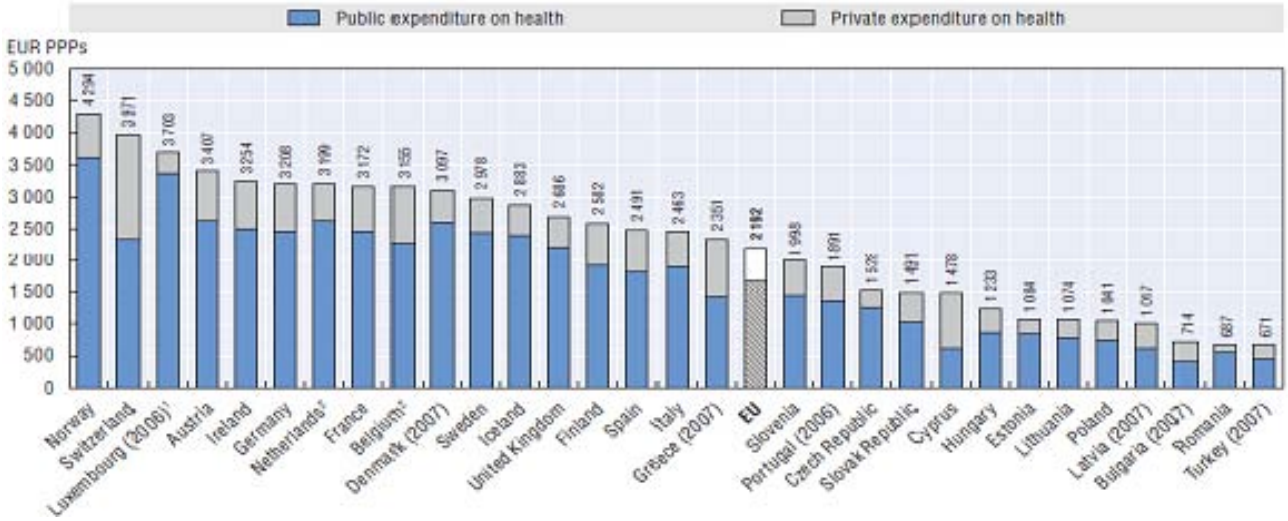

Figure 2.2.1: Total health expenditure per capita public and private, 2008 (Europe)

2.3 Health Insurance Industry in Asia-Pacific

There is variation in health spending level in Asia Pacific ranging from Australia with per capita USD 3.448 PPP (purchasing power parity) until Myanmar with US 24 PPP. The highest share of public spending is Solomon Island (93%), Brunei (80%) and Japan (80.3%), while the lowest is Myanmar (10%).

Between 1998 till 2008, average growth rate per capita health spending was 4.9% per year in Asia. The growth rate for Cambodia, China, Republic of Korea and Vietnam was more rapid almost twice compare Asia Pacific region. The growth rate for Myanmar was the highest with 13.6% although the spending per capita is low.

For the past ten years, health spending growth in Asia has exceeded economic growth and as a result it has increase share of the economy devoted to health care. Health expenditure GDP was 4.3% in year 2008 in Asia region. Usually, the richer country spend more on health however, there is exception for Vietnam and Cambodia that have higher GDP to health even though their GDP per capita is lower than in many other Asian countries. As for Malaysia, although our population is small compare India and China but the health expenditure is higher.

Based on statistics by Malaysia Medical Association (MMA), in 2003 each person spends USD 374 on health expenditure with government contributing USD 218. However, the health expenditure has increase steadily in year 2008 to RM35 billion per year which equivalent as each person is spending around USD 400 (RM 35 billion for 27 million populations, RM1296 per person).

It has been estimated that in 2008, Malaysian government has spent 6.9% of its total expenditure on health services which is 2.2% of the GDP and the private sector is 2.6% of the

GDP spending. In other words, the private sector is contributing RM18.8 billion (53.8%) and public sector healthcare spending is RM 16.2 billion (46.2%) respectively. It shows that more people have been hospitalised and the public sector might not be enough to support them and they might opt for the private sector. In both cases, health insurance will be a saviour to support the medical bills.

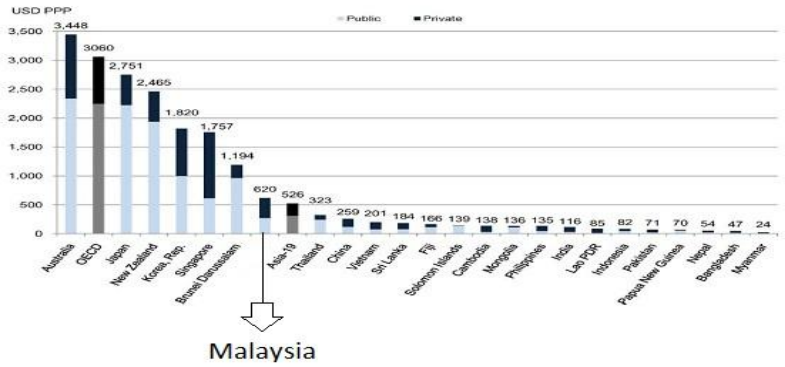

Figure 2.3.1: Total Health Expenditure per capita, public and private 2008 (Asia)

2.4 Health Insurance Industry in Malaysia

Private health insurance play important role in health care financing system developing countries (Pauly, Zweifel, Scheffler, Prekar and and Bassett,2006). Several studies have found health insurance able to increase health system performance and enhance individual responsibility. Health insurance is considered more responsive and efficient in order to overcome future challenges.

By having health insurance it will provide easy access to health care of better quality and protection. Furthermore, it gives financial alternative for individual to have a peace of mind against catastrophic events. Griffin (1992) mentioned that the main concept of insurance is pooling the unforeseeable health care cost risk and it transferred to fixed premium. It also

gives wide range of coverage for individual and as a result it can improve health status and individual well being.

Total expenditure for health in Malaysia has risen by a CAGR of 12.9% from RM8.2 billion in 2000 to RM35.1 billion in 2008 (see Chart Figure 2.4.1). This growth was combination from the public hospitals and private hospitals in Malaysia. The health expenditure growth was due to the increase of populations, ageing, science and technology. Health spending was in the ranged from 2.9%-4.8% of Gross Domestic Products (GDP). In other words, per capita spending on health has also increased from RM381 in 1997 to RM1, 268 in 2008, representing a CAGR of 10.5%.

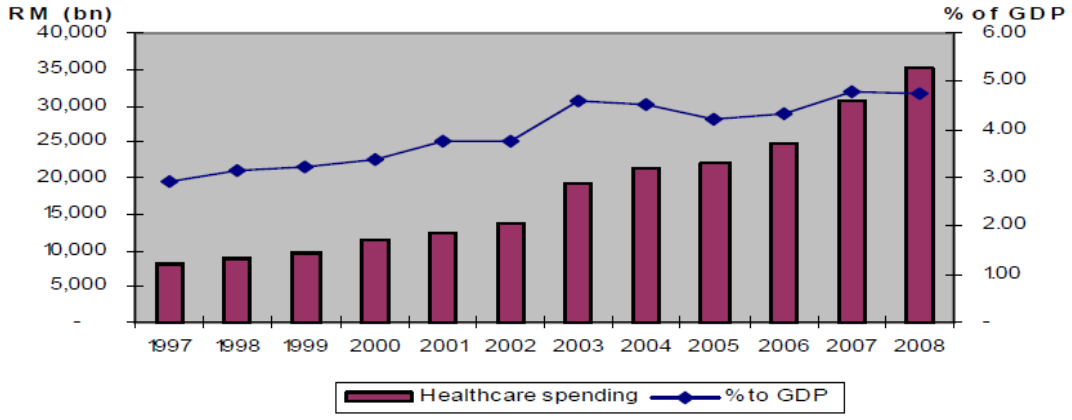

Figure 2.4.1: Total Health Expenditure versus GDP in Malaysia

Source: Ministry of Health, Malaysia, 2010

Moreover, Malaysian private household out-of-pocket (OOP) spending has increase rapidly and has forms the largest component of the private health care expenditure. Between years 1999 to 2008, out of pocket (OOP) spending has gone to 57.09% which is around RM10.8 billion and health insurance only contributing of 11.9% to 15.7% that is consider small amount. This has create a financial burden too many people who seeks help from the private hospitals and this has force them with to withdraw from the Employee Providence Fund

Savings (EPF) or borrowed from friends and relatives and eventually the financial burdens increased.

According to Figure 2.4.2, out-of-pocket health expenditure (% of private expenditure on health) in Malaysia was 75.42 in 2000, highest in year 2005 which was 75.71 and reduces to 73.25 in year 2009. With continuously rising medical and healthcare costs, demand for medical insurance also increase. Medical claims ratio from 2007 till 2009 was at 76.5%, 74.7%, and 73.6% respectively. In the year 2009, medical claims ratio was the second highest, behind motor (80%), and the total ratio was 103%. From the statistics, it has proof that health insurance program is a necessity and luxury for every individuals.

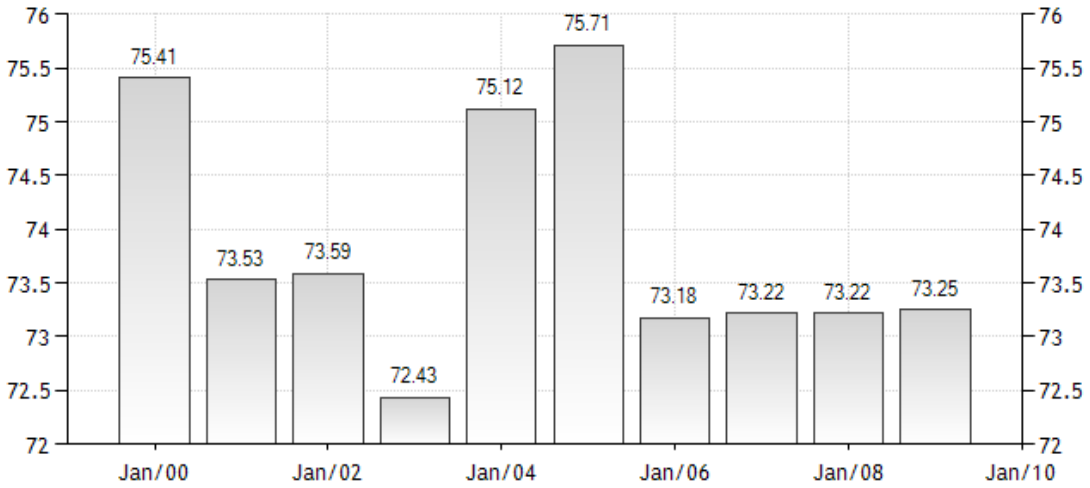

Figure 2.4.2: Out of pocket health expenditure (% of private expenditure on health) in Malaysia
Source: World Bank indicator, Malaysia- Health Services

2.5 List of Health Insurance Companies in Malaysia

There are thirty insurance companies in Malaysia and are listed below:

Table 2.5.1: *List of insurance companies in Malaysia.(Appendix A)*

	Name
1	ACE Jerneh Insurance Berhad
2	American International Assurance Bhd
4	Allianz Life Insurance Malaysia Berhad
5	AmLife Insurance Berhad
6	AXA Affin Life Insurance Berhad
7	Berjaya Sompo Insurance Berhad
8	Chartis Malaysia Insurance Berhad
9	CIMB Aviva Assurance Berhad
10	Danajamin Nasional Berhad
11	Etiqa Insurance Berhad
12	Great Eastern Life Assurance (Malaysia) Berhad
13	Hong Leong Assurance Berhad
14	ING Insurance Berhad
15	Kurnia Insurans (Malaysia) Berhad
16	Lonpac Insurance Berhad
17	MCIS Zurich Insurance Berhad
18	Malaysian Assurance Alliance Berhad
19	Manulife Insurance Berhad
20	MSIG Insurance (Malaysia) Bhd
21	MUI Continental Insurance Berhad
22	Multi-Purpose Insurans Berhad
23	Oriental Capital Assurance Berhad
24	Pacific Insurance Berhad, The
25	Progressive Insurance Berhad
26	Prudential Assurance Malaysia Berhad
27	QBE Insurance (Malaysia) Berhad
28	RHB Insurance Berhad
29	Tokio Marine Life Insurance Malaysia Bhd
30	Uni.Asia Life Assurance Berhad

Source: Bank Negara Malaysia, 2012

2.6 Health Insurance Products

Health insurance product is intangible and it is a combination of services consultation and product. It is measured by consumer expectation on how much they seek to know and how they respond on health insurance product. This research provides literature on health insurance purchase intention / continuance that indicate the attraction on premiums amount, range coverage, fringe benefit, and policy documentation formalities, reduce financial burdens and number of hospitals being covered.

Health insurance provides financial access care and health insurance helps to protect them against high treatment cost. Moreover, health insurance protects households against large out-of-pocket expenses resulting from catastrophic illnesses. Evidence from several low- and middle-income countries suggests that protective effects of insurance in terms of financial protection has been thet best, especially for many illnesses which are of a less catastrophic nature and require ambulatory care (Chankova, Sulzbach, & Diop, 2008; Namibia, 2008; Sepehri, Sarma,& Simpson, 2006; Wagstaff & Yu, 2006; Wang, Yip, Zhang, Wang, & Hsiao, 2005; Yip & Berman, 2001).

Wagstaff and Doorslaer, (2003); Gertler, Levine and Moretti, (2003); Gertler and Gruber, (2002) mentioned that when a person experiences health problems, their medical expenses typically rise and at the same time their contribution to household income and home production (e.g. cooking or childcare) reduces. Based on WHO report in year 2007, around 150 million people experience financial catastrophe, meaning they are required to spend on health care more than 40% of the income and they need to sacrifice in reducing their basic needs.

By expansion on level of coverage on health insurance availability and offering more fringe benefits such as discount, extend benefit to family members and increase in annual coverage limit has successfully induce participation on health insurance. Wolfe et al., (2004); has analyze that by increase the health insurance coverage, the proportion of uninsured population has decreased. That means coverage has attract many individuals to participate in the plan.

Next, the health insurance premium (price) also has effect on individual in purchase of health insurance. Insurance premium correlates with health cost and age. As the cost increase the price coverage will increase too same goes to age. The older the person are , the higher is the premium. Premium elasticises with health care plans offered (Short and Taylor, 1989; Feldman et al., 1989; Royalty and Solomon, 1999; Buchmueller and Feldstein, 1997). Furthermore, with inflation premium insurance is getting more expensive every year. Health insurance premium will increase in range from 5% to 14% per year while wages around 2% to 4% per year. This means that workers have to spend more on their yearly income to maintain the coverage. Low risk person might feel taking insurance is a waste of money (sunk cost). However, is worth purchasing for a high risk person since it gives them security protection, reduce their financial burden and loss of income in future.

Based on the figure 2.6.1, it is explaining the difference of having health insurance and not having health insurance. It shows that without health insurance income and health status affect the health expenditures in both situation micro-level and macro- level. It shows a weak relation towards health expenditures since income is going out from both direction which are from national level and individual too. However, with health insurance there is a strong relation on health expenditures since there is a support and pooling of funds from micro level to macro level. It is able to help individual on their medical expenses and also in national

level in terms of GDP and total health expenditures as national level. Thus, health insurance is important to reduce financial burden. The purpose of health insurance is to remove the individual budget constraint, and to reduce or eliminate the hospital medical treatment bills.

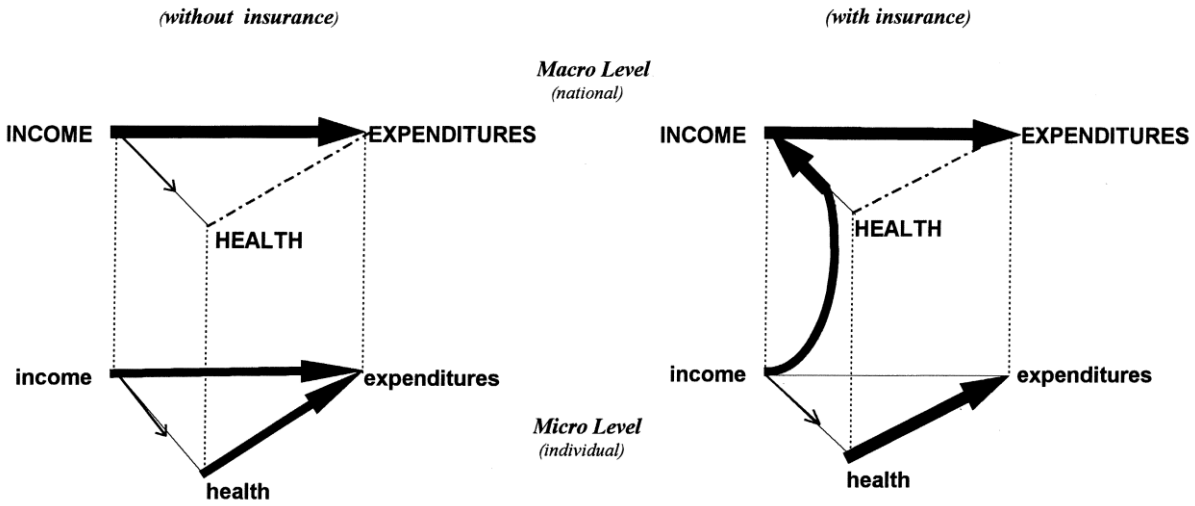

Figure 2.6.1: Micro-level and macro-level health expenditure (Getzen, T.E), 2000

2.7 Services in Health Insurance

Health insurance service sector is one of the most important entities which have been growing in Malaysia. Currently, there are around thirty insurance companies that have been operating in Malaysia. With a greater choice and an increasing awareness, there is a continuous increase in the customers' expectations and they demand for a better service quality (H. S. Sandhu, Neetu Bala, 2011). Hence, in order to sustain in the market, service quality becomes a most critical component of competitiveness for health insurance providers in Malaysia.

In this study, the construct of quality is conceptualized based on perceived service quality (Hishamuddin et al., 2008). Since health insurance is a service industry delivering a good service is an important marketing strategy in winning and retaining customers (Ghobadian et

al., 1994; Zeithaml, 2000). According to Sureshchandar et al. (2001), service quality includes core service or service product; systematization/standardization of service delivery, non-human element such as internet and auto payment machine, human element of service delivery and social responsibility of service quality as critical from customers' point of view to measure service quality.

Insurance agent is the representative of the insurance company that will influence health insurance purchase decision. They are the ones that interact and attract customers towards health insurance. Health insurance policies are complex products for consumer, so they need to spend time in explaining the concept and make the customers understand the facet of the program especially that were related to coverage and claims procedures. Walker and Baker (2000) found that as health insurance agents it is very crucial to understand consumers' expectations and to be able to meet their standard expectations.

This present research is to measure customer attraction towards health insurance service quality in terms of the process, operation, functionality and creditability. It is a challenging task to measure health insurance policy since it is an intangible in nature and difficult to define. (Kandampully, 1997).In the service industry such as insurance, quality of service actually focus on meeting customers' needs and requirements, and how well the service delivered meets customers' expectations. Zeithaml, Berry, and Parasuraman, (1991) has mentioned that the customer's expected delivery-time can be influenced by other factors such as price, word-of-mouth, communications controlled by the company, and prior service experiences.

Gronroos (1984) has mentioned health insurance service industry can be divided into two parts which is technical quality (what is provided) and functionality quality (how is the service been provided). Health insurance services are in terms of the process and operations,

and the service quality is measured under reliability, creditability and integrity behaviour towards the customers.

Thus, the study hypothesis:-

2.8 Perception on Health Insurance

This literature is to measure the customer's perception towards health insurance policy from Malaysian context. Perception is defined as consumers' beliefs on the received or experienced service (Brown and Swartz, 1989; Parasuraman et al., 1988). Individual perception is also based on trust and confidence they have on insurance provider that will associated with purchase decision. In this study, perception is measured through company performance and reputation and recommendation by friend, colleagues and relatives.

Company performance refers to a consumer's global impression on the financial overview on insurance company. While, company reputation refers to product and service quality that has been deliver to meets customer needs (Hartman and Spiro, 2005). Recommendation refers to a strong perception on the product that associated with consumers' minds (Inman et al., 2004). When the trust level of customer is high, it is easier for the agent to convince and make them understand on the health insurance plan.

There are many fraud cases in insurance and it is a serious crime and the problem needs to be encountered. There are many complain and dissatisfaction on the insurance agent or the claiming process from insurance providers. Thus, individual prefers to purchase the health insurance based on trust they have towards company or from positive word of mouth from friends, colleagues or relatives (Blodgett et al., 1993, 1997). Thus, positive recommendations will increase as levels of service recovery increase. Hence, Oliver (1996) concludes that overall satisfaction is actually a combination of all transaction-satisfaction perceptions.

Thus, the study hypothesis:-

2.9 Socio demographic variables (Gender, Age, Education, Income)

The rapid changing of the demographics has brought a paradigm shift of individual attitude who demand for a better quality of life and healthcare. With the current lifestyle and work habits have enhance stress level and poor in managing healthy diet or physical exercise. The rise chronic illness such as hypertension, heart attack, diabetic and cancer has given opportunity for individual to increase the coverage and for health insurance to grow. According to Carson and Fier (2009), with the occurrence of catastrophic events to be a driver of life insurance demand has increased self risk awareness and Carson et al. (2009) has proven that socio demographics play an important role in insurance purchase decisions.

In this study, socio economics is a useful factor in determine the rise of purchase decision by individuals (Hisrich and Peter, 1974; Jarboe and Mcdaniel, 1987; Malhotra, 2004). Socio-demographics play an important role in order to measure the moderating variables that enhance the purchase intention / continuance towards health insurance.

Income can have a different effect in individual's behaviour can be substantially altered by such uncertainty. Income was taken as one of the variables due to previous study mentioned that as the income increase, life insurance becomes more available (Brown & Kim, 1993). At the same time, over the past ten years China economy has been growing rapidly and has the level of income has rise that encourage the purchase of health insurance. (Hwang & Gao; 2003).

Case and Paxson (2005) stated that there are gender differences in health and mortality. It has established that women generally live longer than male. There are various reasons for these gender differences. First, men have higher rates of common fatal diseases, such as heart disease while women have higher rates of disabling non-fatal chronic conditions, like arthritis and osteoporosis. Therefore, Leveille (2000) mentioned that women remain in a disabled