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**THE USE OF THEORY OF REASONED ACTION IN UNDERSTANDING
CUSTOMERS' INTENTIONS TO COMMIT MOTOR INSURANCE
FRAUD**

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THE USE OF THEORY OF REASONED ACTION IN UNDERSTANDING CUSTOMERS' INTENTIONS TO COMMIT MOTOR INSURANCE FRAUD

ABSTRACT

This aims of the study is to examine customers' intentions in committing motor insurance fraud. The objective is to determine the relationship between individual attitudes, subjective norms and tendencies of gender on intentions to commit motor insurance fraud. The sample for this study consisted of 413 teachers from five selected schools in Petaling District. Data from the respondents were collected by using the questionnaire. The differences of customers' intention on committing motor insurance fraud amongst genders were analyzed using t-test. Correlations and multiple regression analysis were used to determine the relationship between independent and dependent variables. Results from the study showed that males have higher intentions to commit motor insurance fraud compared to females. It is also found that there is a significant positive relationship between subjective norms and attitude towards customers' intentions to commit fraud ($r = 0.28$, $p < 0.01$). Findings from this research is important for insurance industry and Bank Negara Malaysia to understand the customers' behavior and to adhere a strategic planning in solving problems relating to motor insurance fraud. Besides, it is also important for the benefits of customers who are indirectly victimized by premium increment, due to insurance fraud issues.





ABSTRAK

Kajian ini bertujuan mengkaji niat pelanggan untuk melakukan penipuan insurans motor. Objektif kajian ini adalah untuk menentukan hubungan antara sikap individu, norma subjektif dan kecenderungan jantina terhadap niat untuk melakukan penipuan insurans motor. Sampel kajian ini terdiri daripada 413 orang guru dari lima buah sekolah terpilih di Daerah Petaling. Data daripada responden dikumpulkan dengan menggunakan soal selidik. Perbezaan niat pelanggan pada penipuan dalam kalangan jantina dianalisis menggunakan ujian-t. Analisis korelasi dan regresi berganda juga digunakan untuk menentukan hubungan antara pembolehubah bebas dan bersandar. Hasil kajian menunjukkan bahawa lelaki mempunyai niat yang lebih tinggi untuk melakukan penipuan insurans motor berbanding wanita. Didapati juga bahawa terdapat hubungan positif yang signifikan di antara norma subjektif dan sikap terhadap niat pelanggan untuk melakukan penipuan ($r = 0.28$, $p < 0.01$). Hasil kajian ini penting dalam membantu industri insurans dan Bank Negara Malaysia memahami tingkahlaku pelanggan dan melaksanakan perancangan strategik dalam menyelesaikan masalah yang berkaitan dengan penipuan insurans motor. Selain itu, ia juga penting demi memelihara kebajikan pelanggan yang secara tidak langsung menjadi mangsa kepada kenaikan premium disebabkan oleh isu-isu penipuan insurans.



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LIST OF ABBREVIATIONS

BNM	Bank Negara Malaysia
DGI	Director General of Insurance
EMIS	Educational Management Information System
IAIS	International Association of Insurance Supervisors
IIRFA	Insurance Information and Ratemaking Forum
JPNS	Jabatan Pendidikan Negeri Selangor
NCD	No Claim Discount
PIAM	Persatuan Insurans Am Malaysia
RTA	Road Transport Act
TRA	Theory of Reasoned Action
TPB	Theory of Planned Behaviour
WOM	Word of Mouth





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CHAPTER 1

INTRODUCTION



1.1 Introduction

Insurance has become a norm in our society. Almost everyone has at least a form of insurance coverage whether it is medical insurance, life insurance, education insurance, vehicle insurance or property insurance. Such coverage is not only subscribed by an individual but also industries to protect their future financial security.

Insurance is a financial protection given by the insurance company, who also known as insurer to the customer who also called as insured, upon any accidental loss happen to the subject matter of insured under the insurance policy (Edward et al., 2017). Under this legal agreement, the insured are responsible to pay for the premium



in order to get the protection. Insurance created by the application of Law of Large Number, whereby, the premium are contributed by many insured and the money will be pooled together by the insurer, to pay losses of a few (Anderson & Brown, 2005).

Insurance is divided into two major categories which are life insurance and general insurance. Life insurance consists of several protections such as whole life insurance, endowment, term insurance, life annuity plan and medical as well as health insurance. On the other hand, general insurance classes include motor insurance, fire insurance, engineering insurance, marine insurance, personal accident insurance and health insurance, travel insurance and many more (Edward et al., 2015).

No doubt, insurance industry plays an important role in protecting individuals, business and organization from any financial risks (European Systemic Risk Board, 2015). Insurance also supports development of a country in various industries such as engineering, marine, aviation, automotive and plantation. The existence of a good risk management control offers by the insurance industry build confident for government, entrepreneur and businessmen to take larger risk in business. Possibility of bankruptcy of an organization could be reduced since insurance providing aid for the company to recover after a loss (Edward et al., 2017). Other than that, insurance also stimulates long terms investments which helps to generate funds for the economy, assisted by good financial and banking systems (Brainard, 2008).

1.1.1 Overview of the Insurance Industry in Malaysia

In Malaysia, the insurance industry generates a lot of income in their operations. Table 1.1 shows the underwriting experience for general insurance for the past four years starting from 2013 until 2016. The highest operating profit was in the year 2016, with the amount of RM 4,497.5 millions after deducting all the expenses and liabilities such as claims, commission, management expenses, capital losses and other outgo.

The second highest operating profit was in the year 2013, with the profit margin of RM 4,048.0 millions. Year 2015 reported the lowest operating profit with the amount of RM 3,709.6 millions. This was due to the high number of net claims incurred in that year which is RM11,897.1 millions.

Overall, the operating profit for the general insurance industry for the past four years fluctuated and was unstable. Despite the fluctuation today, the insurance industry still managed to experience profit for their business (Bank Negara Malaysia, 2017). It is possibly due to insurance companies transferring all the loss burden to the customer by increasing the premium price (Croacker & Morgan, 1998 ; Mudzamir Mohamed, 2013).



Table 1.1

Underwriting and Operating Results for General Insurance

	2013	2014	2015	2016
Earned premium income	18,642.2	19,851.9	20,827.2	20,946.9
Net claims incurred	10,573.5	11,429.2	11,897.1	11,421.5
Commission	2,190.9	2,300.9	2,346.2	2,335.0
Management expenses	3,559.5	3,761.5	4,246.8	4,585.3
Underwriting profit	2,318.3	2,360.3	2,337.1	2,605.1
Investment income	1,428.4	1,486.8	1,631.9	1,771.1
Capital gains	216.6	178.8	159.9	116.9
Other income	309.8	228.2	250.1	246.9
Capital losses	23.3	47.7	54.1	44.2
Other outgo	201.8	177.6	615.3	198.3
Operating Profit	4,048.0	4,028.8	3,709.6	4,497.5

Note. The value is calculated in RM million. *Source.* Bank Negara Malaysia information retrieved on August 15, 2017.

The rapid growth of insurance industry in Malaysia is shown in table 1.2 which indicates that there was an increase in Gross Direct Premiums (GDP) every year, since 2013 to 2016. In 2013, total GDP reported to BNM was RM 23,848.6 millions and this amount was continually increased to RM 26,367.4 millions in year 2016. This shows that the demand on insurance protection had increased for all classes of insurance. It is not limited on motor insurance only, but also the other classes such as medical insurance and liability insurance. The involvement of experts in risk assessment activity from various industries help to lower the premium price. Expertise that they hold enables the risk accessed accurately. Thus, the resources are fully utilized and profit can be maximized (Impavido, Musalem & Tressel, 2001).



Table 1.2

General Insurance: Distribution of Gross Direct Premiums

Year	Marine, Aviation & Transit	Contractors' All Risks and Engineering	Fire	Medical Expenses & Personal Accident	Motor			Liability	Workmen's Compensation & Employer's Liability	Miscellaneous	Total
					'Act'	Others	Total				
RM Million											
2013	2317.8	862.4	3996.8	3290.3	1341.3	9780.5	11121.8	734.3	359.1	1166.2	23848.6
2014	2450.7	895.2	4216.7	3505.6	1464.6	10367.1	11831.6	827	366.9	1231.4	25325.1
2015	2559.4	888.5	4461.9	3507.4	1587.2	10514.2	12101.3	825.4	352.4	1279.6	25975.7
2016	2402.7	951.9	4735.1	3581.2	1678.8	10540.7	12219.5	858.2	334.5	1284.2	26367.4

Note. The value is calculated in RM million. *Source.* Bank Negara Malaysia retrieved on August 15, 2017.



The development of the insurance market in a country was contributed by many factors such as increase of income, stability of macroeconomics and financial deepening. These factors are encouraged by effective regulatory and supervisory environment. Besides, the sophisticated banking sectors and low or moderate inflation levels has also contributed to the development of insurance market (Beck & Webb, 2003).

The increasing popularity of insurance ownership can be seen from the automotive industry. The gradual increase in the number of motor vehicles in Malaysia led to the introduction of the first legislation in governing the use of motor vehicles on the road. The Act passed in 1930 was called the Traction Engines and Motor Cars Ordinance which was later replaced by the Traffic Regulation Ordinance



1935. This act was later changed to the Road Traffic Ordinance 1938.

This particular legislation would enforce a compulsory insurance protection for all vehicles on the road. The aim is to ensure the victim gains compensation upon death or bodily injury pertaining to road accident cases involved with the insured (Lee, Hendon, Rasidah & Arawati, 1994). The act was later replaced by the Road Traffic Ordinance 1941, 1955 and 1958 respectively. The 1958 Act was later replaced by the Road Transport Act 1987 (The Commissioner of Law Revision, Malaysia, 1987) which currently the legislation governing the rules and regulations on motor insurance practice as well as third party risks (Edward, 2004).





In order to standardize the premium charged to the customer, the motor tariff was introduced into the Malaysian insurance market. It was used to set a standard guideline and basic rates for motor insurance. To set up the minimum rate for the tariff, all the statistics regarding the number of vehicles and road accident reports were collected. Nevertheless, insurance companies were still able allowed to charge additional premium for higher level risks. The tariff also contains the standard policy and conditions which can only be altered with approval from Persatuan Insurans Am Malaysia (PIAM).

The Insurance Act 1996 empowers PIAM which is also known as General Insurance Association of Malaysia, to regulate motor insurance businesses and to formulate the motor tariff. The act was approved by the Minister of Finance and requires all general insurers in Malaysia to become members of PIAM. PIAM is responsible to establish a sound insurance structure in Malaysia, collect and circulate information and statistics relating to general insurance business and make rules, regulations, tariff and by-laws in consultation with the Director General of Insurance (DGI) for implementation by the members (Edward et al., 2015).

The motor tariff provides premium rates chargeable for all classes of motor vehicles according to types of covers provided, wordings of policy forms, endorsement and general rules and regulations governing the conduct of motor insurance business in Malaysia. Moreover, the Insurance Act 1996 empowers DGI to take action towards any in compliance of rules and regulations by insurance companies or the insured.





Recently, motor insurance has expanded rapidly. This is portrayed in table 1.3 which shows the increment in Gross Direct Premium received by insurance companies every year. In the year 2013, there was RM 11,121.8 million gross direct premium received by insurance company and this amount increased continuously for the next three years.

Table 1.3

Motor insurance: Distribution of Gross Direct Premiums

Year	Act covers	Others	Total
2013	1,341.3	9,780.5	11,121.8
2014	1,464.6	10,367.1	11,831.6
2015	1,587.2	10,514.2	12,101.3
2016	1,678.8	10,540.7	12,219.5

Note. The value is calculated in RM million. *Source.* Bank Negara Malaysia information retrieved on August 15, 2017.



The growth of motor insurance subscriptions is highly dependent upon the sales of vehicles. This is due to the enforcement made by BNM which obligates all vehicles used on the road to be insured with any authorized insurer. The purpose is to safe guard any possible damage and third party liabilities due to road accidents (RTA, 1987). Thus, hit and run cases could be reduced.

From table 1.4, it shows that the total number of vehicles active on the road had increased five consecutive years from the year 2009 until 2013. In 2013, Wilayah Persekutuan Kuala Lumpur had contributed to the highest ranking with a total number of 4,620,264 in year 2013. This is followed by Johor, with the total of 2,283,489, Pulau Pinang, 1,797,153 and Selangor 1,709,452 respectively. Perlis remained at the lowest ranking with the total amount 71,505 in the same year.





Table 1.4

Number of Vehicles Active on the Road by States, Malaysia, 2009-2013

Year	2009	2010	2011	2012	2013
Perlis	59,831	63,743	66,618	68,853	71,505
Kedah	635,959	671,989	717,393	745,237	781,143
P. Pinang	1,540,529	1,614,307	1,686,521	1,735,367	1,797,153
Perak	1,255,105	1,305,640	1,361,606	1,390,851	1,429,589
Selangor	1,527,221	1,582,587	1,636,011	1,663,026	1,709,452
Wilayah	3,546,433	3,785,566	4,041,587	4,290,989	4,620,264
Persekutuan					
N. Sembilan	507,097	525,097	544,534	553,716	567,574
Melaka	465,696	487,240	509,414	524,690	543,866
Johor	1,912,894	2,003,475	2,105,420	2,185,121	2,283,489
Pahang	542,982	570,653	603,906	619,965	641,885
Terengganu	326,866	351,839	376,449	394,851	414,316
Kelantan	440,088	473,470	505,713	526,996	554,596
Sabah	598,291	649,911	712,093	770,272	784,487
Sarawak	912,578	968,255	1,039,390	1,100,360	1,168,915
TOTAL	14,271,570	15,053,772	15,906,655	16,570,294	17,368,234

Source. Data Terbuka Malaysia retrieved on July 18, 2017.

The increase of motor vehicles in Malaysia is actually paralleled with the increasing number of road accident cases every year. This is proven by the statistics published in Ministry of Transport (MOT) website as shown in table 1.5. From year 2010 until 2015, the highest ranking of road accident cases reported was in Selangor with 787,337 cases. Johor was ranked second with 373,383 cases and Wilayah Persekutuan Kuala Lumpur the third with 366,886 cases. Perlis sustained as the lowest ranking for with the total number of 10,864 cases. Overall, the statistic shows that road accident cases had increased for the past six years.





Table 1.5

Total Road Accidents by States in Malaysia, 2010 – 2015

State	2010	2011	2012	2013	2014	2015	Total	%
Perlis	1,548	1,791	1,881	1,895	1,888	1,861	10,864	0.39
Kedah	17,966	19,699	19,935	20,228	20,159	22,016	120,003	4.33
Pulau Pinang	34,306	37,158	37,851	39,361	38,747	39,856	227,279	8.21
Perak	32,072	33,506	34,714	35,408	35,131	36,736	207,567	7.50
Selangor	115,565	128,876	129,106	135,024	137,809	140,957	787,337	28.44
W.P Kuala								
Lumpur	53,493	58,795	61,872	64,527	63,535	64,664	366,886	13.25
N. Sembilan	19,407	21,157	22,146	23,066	23,748	22,939	132,463	4.78
Melaka	14,110	14,720	15,195	16,083	16,375	17,069	93,552	3.38
Johor	55,381	59,501	62,316	64,600	64,473	67,112	373,383	13.48
Pahang	17,315	19,001	20,554	20,130	19,071	19,635	115,706	4.18
Kelantan	9,707	9,603	9,968	9,748	10,326	9,960	59,312	2.14
Terengganu	10,106	10,684	10,861	10,996	9,383	10,381	62,411	2.25
Sabah	16,192	16,585	17,446	17,438	17,858	17,290	102,809	3.71
Sarawak	17,253	17,964	18,578	18,700	17,693	19,130	109,318	3.95
TOTAL	414,421	449,040	462,423	477,204	476,196	489,606	2,768,890	100.00

Source. Ministry of Transport information retrieved on August 15, 2017.

From the total road accident claims it was reported, RM 7,597.8 million claims were incurred in the year 2013. This amount was continuously increased for the next two consecutive years which is RM 8,074.0 millions in year 2014 and RM 8,424.3 millions in year 2015. However, the amount was decreased to RM 7,829.8 millions in the year 2016. The data is explained in table 1.6.

