# CHAPTER 1

# INTRODUCTION

## 1.1    Research Background

Health has become one of the many concerns to many people nowadays especially during this covid-19 pandemic. Not only to ensure the safety and health of an individual, health insurance can also be a part of the larger financial plan which will come in handy in the future event of sickness or even death of the policyholder (Danise, 2021; Nandagopal, 2011). Those human needs itself is supported by Abraham Maslow's Hierarchy of Needs (1943) where there are five main necessities that must be met by human beings in order to ensure their survivability. They are self-actualisation, esteem needs, belongingness & love needs, safety needs, and physiological needs. Out of the five hierarchical level of Maslow's pyramid, the safety and security needs of an individual is placed under the safety needs.

Even after one has assigned himself or herself with a life insurance, it does not rule out the possibility of facing risks on one's life such as falling sick or even losing their lives. Thus, it affects the amount of money needed to be spent on paying off the bill. In case of a non-serious risks, savings may still be sufficient to cover the costs as they may not cost too much. However, this might be quite burdensome for the individual and even his family to cover the bills in case of a serious accident such as surgery as well as long-term treatment. For this reason, insurance can thus be considered as one of the solutions in providing protection (physically and financially) and anticipations to their clients in case of high-risk incidents as they

often require quite amount of money. In other words, applying to an insurance product is the same as investing in their own future (Erlangga, Suhrcke, Ali & Bloor, 2019).

Recently, the whole world was shocked by the occurrence of the Covid-19 pandemic which hit the whole world population causing many deaths across the countries. In Indonesia alone, it is estimated that the death tolls due to the Covid-19 pandemic has reached a staggering figure of 22,138 people in 2020 and 121,317 people as per November 1st, 2021 (CNN Indonesia, 2021; Rizaty & Mutia, 2021). The average cost for the Covid-19 treatment in Indonesia, according to the Indonesian Committee for Covid-19 Handling and National Economic Recovery or KPCPEN (2020), is recorded to be as high as 184 million Rupiah or approximately USD 12,643 in order to cover the bills for a total of 16-days hospitalization (2020).

By equipping oneself with an insurance package, there are a number of privileges which can be of benefit for its policyholder. One of the privileges which the policyholder will get is that they will not be required to settle the whole medical expenses. Instead, the insurance company, where the policyholder has decided to invest their money in, will provide a financial relief to the insured individual by settling a portion of the medical bills. By this, the insured is more likely to be relieved from his or her financial burden compared to the individuals who possess no insurance at their disposal (Azam, 2018). However, the amount of cost which will be covered by the insurance company may vary from one insurance companies to another depending on the premiums at which individual is registered on (Harris, Yelowitz & Courtemanche, 2021). In addition to that, the premium which will be

charged to the insurer for the insurance policy also depends on two components such as the average amount of money that needs to be paid by the insurer to the insurance company after a certain period of time as well as the loading factor which reflects the insurer's cost to operate the plan (Congressional Budget Office, 2021). Therefore, it is safe to say that the cost covered by the insurance company is directly proportional to the premium that needs to be paid by the individual to the insurance company.

Based on the data retrieved by JawaPos from the Indonesian Financial Services Authority or OJK in 2021, it is estimated that the annual average expenditure dedicated for insurance per person in Indonesia is at 1.73 million rupiah. This figure is approximately under the 3% level compared to the nation's gross domestic product (GDP) and this is considered to be very low in comparison to its neighbouring countries in the South East Asian region such as Malaysia, Thailand and Singapore (JawaPos, 2021; Pratama, 2021a). Not only does the individual benefit from the insurance, it has quite a significant role on the national development process of Indonesia as well as contributes to various countries' liquidity, savings and economic growth as a whole (Aziz, Husin, Hussin & Afaq, 2019; OJK, 2015).
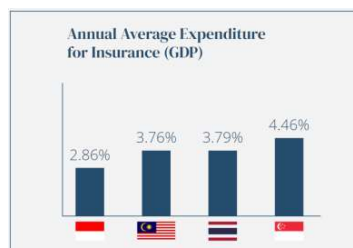


Figure 1.1.　　　Annual Average Expenditure of Insurance (GDP)
Source: JawaPos (2021); Pratama (2021b)

Overall, this research aims to analyse the effect of variables such as financial literacy, income, premium, and purchase intention towards purchase decision where the purchase intention variable acts as an intervening or mediating variable. In addition to that, this research also aims to prove whether financial literacy, income, premium and purchase intention act as important factors in determining whether an individual decides to buy or not to buy a health insurance product. Lastly, this research is different compared any previous or existing research as it is conducted during the Covid-19 pandemic which is also known as the "black swan" period where this event is not predicted to occur before. Also, research of the similar topics is still plenty in numbers and thus this research is hoped to be used as an insight or reference for the health insurance industry in Indonesia.

## 1.2    Problem Statements

According to the selected topic background and title in this paper, therefore it can be concluded that the research problems of this research are as follows:

1. Does Financial Literacy have a positive effect towards Purchase Intention on health insurance products?

2. Does Income have a positive effect towards Purchase Intention on health insurance products?

3. Does Premium have a positive effect towards Purchase Intention on health insurance products?

4. Does Purchase Intention have a positive effect towards Purchase Decision on health insurance products?

5. Does Financial Literacy have a positive effect towards Purchase Decision on health insurance products?

6. Does Premium have a positive effect towards Purchase Decision on health insurance products?

7. Does Income have a positive effect towards Purchase Decision on health insurance products?

## 1.3 Research Objectives

According to the research background and research problems which have been attached above, therefore the aims and objectives of this research are as follows:

1. Investigate whether Financial Literacy has a positive effect on Purchase Intention on health insurance products.

2. Investigate whether Income has a positive effect on Purchase Intention on health insurance products.

3. Investigate whether Premium has a positive effect on Purchase Intention on health insurance products.

4. Investigate whether Purchase Intention has a positive effect on Purchase Decision on health insurance products.

5. Investigate whether Financial Literacy has a positive effect on Purchase Decision on health insurance products.

6. Investigate whether Premium has a positive effect on Purchase Decision on health insurance products.

7. Investigate whether Income has a positive effect on Purchase Decision on health insurance products.

### 1.4 Benefits of the Research

The benefits which can be obtained from this research results are as follows.

#### 1.4.1 Theoretical Benefits

The result of this research is intended to provide additional information and acts as a basis future studies and analysis of the similar topic particularly in the insurance field.

#### 1.4.2 Practical Benefits

The result of this research is intended to provide additional reference for insurance companies on millennials in terms of customer behaviour in order to consider using the best approach accordingly when targeting millennials as their potential target customers during the current Covid-19 pandemic.

### 1.5 Thesis Structure

In order to provide an overview of this thesis content, the structure of this paper is divided into five systematic chapters as follows:

CHAPTER I              INTRODUCTION

This section of the paper contains the discussion of the research background, problem statements, research objectives, benefits of the research and thesis structure

CHAPTER II                      LITERATURE REVIEW

This section of the paper explains the theoretical foundations that are used and are related to the subject matter of the discussion described in the literature review and framework section to support this research paper in order to assist in providing solutions to the existing problems.

CHAPTER III                  RESEARCH METHODOLOGY

This section of the paper describes the research methodology as well as the research techniques, respondent determination techniques, sampling techniques, data collection techniques, data measurement techniques, data analysis, and the framework used in this research.

CHAPTER IV                  RESULTS AND DISCUSSIONS

This section of the paper provides the information regarding the type of research used by the author, results of

this research and discussions of the studied research results.

CHAPTER V           CONCLUSION

This section of the paper provides the conclusions from the obtained research results, analytic tools, limitations of the current research as well as the suggestions for future research.