

# **Customer Intention to Commit Motor Insurance Fraud: A Literature Review**

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## **Abstract**

Fraud in insurance is becoming an interesting issue nowadays among researchers and parties involved in the industries. Increase in numbers of insurance claim leads to unstable and unpredictable operating profit suffered by insurance companies. These claims are believed to include both bogus and authentic claims. Thus, the aim of this study is to examine customers' intentions in committing motor insurance fraud. The objective is to determine the relationship between individual attitude and subjective norms on intention to commit motor insurance fraud. The sample for this study will be teachers from selected schools in Petaling District, Selangor. Data from the respondents will be collected using questionnaires. Statistical Package for Social Science (SPSS) will be used to analyze the data collected. Specifically, correlation and regression will be used to test the hypothesis. Finding from this study is believed useful for insurance regulator and industry to handle insurance fraud attempts.

## **Keywords:**

Fraud, Insurance, Motor, Motor Insurance, Theory of Reason Action

## **INTRODUCTION**

Insurance industry plays an important role in protecting individuals, businesses and organizations from any financial risks (European Systemic Risk Board, 2015). Many insurance companies, support development of various industries like engineering, marine and automotive by offering variety risk management programs (Edward et al., 2017). Furthermore, the development of the insurance market in a country has been contributed by many factors such as an increase in income, the stability of macroeconomics and financial deepening (Beck & Webb, 2003). Yet, insurance fraud has become a huge threat in the insurance industry profitability (Yusuf & Babalola, 2009). Thus, the aim of this study is to determine the influence of individual attitude and subjective norms on intention to commit motor insurance fraud. It is useful for the insurance regulator and industry to understand it in combatting the rampant issue of fraud in the motor insurance industry.

## **PROBLEM STATEMENT**

From prior research done, at international level, the insurance company is facing billions of dollars of losses every year due to insurance fraud (Yusuf & Babalola, 2009). As for domestic insurance company, Malaysian insurance companies, operating profit for the general insurance industry starting from 2013 until 2017 was reported to be unstable (Bank Negara Malaysia, 2017). The record showed, in the year 2003 alone, there were 437 fraud

cases reported involving a loss of RM10.9 million (Bernama, July 20, 2005). While in 2009, it has increased to RM1.74 billion losses suffered by the insurance industry due to fraud. This amount represents almost 20% of the total claim amount paid in that year. This amount increases rapidly over the next few years. As proof, it was reported that in the year 2013 alone, RM760 million losses were incurred by motor insurance and the takaful industry in Malaysia (Bank Negara Malaysia Online, May 28, 2015). From the observation made by the industry, it was believed that 3% to 5% of total insurance claims in Malaysia have elements of fraud (Berita Harian Online, July 6, 2010). For survival, the insurance companies are transferring all the loss burden to the customer by increasing the premium price (Mudzamir Mohamed, 2013). This provides a clear overview of the importance of addressing fraud issues instantly. Failure to do so, it may affect insurance companies' profits, the growth of insurance firms, national economic growth (Tseng, Kang & Chung, 2014).

## **LITERATURE REVIEW**

### **Theory of Reasoned Action (TRA)**

According to TRA, attitude and subjective norms lead to human intention to perform a certain behaviour. Intention becomes a driver to motivate a person to perform an action (Pavlou & Fygenson, 2006). The higher the intention level, the possibility of an individual to perform the act will become stronger (Ram Al Jaffri & Roszaini, 2014). Thus TRA is deemed suitable to be used as the underlying theory for this research. TRA has been used by many researchers in studying human intention (Ram Al Jaffri & Roszaini, 2014; Sulaiman, Mustafa & Rusni, 2016; and Zhikun & Fungfai, 2009). For example, Ram Al Jaffri and Roszaini (2014), in their research regarding 'zakat' compliance behavioural, have found that attitude and subjective norms influence Malaysian businessman's intention to pay business 'zakat'. Similarly, studies by Sulaiman, Mustafa & Rusni (2016) found that attitude positively influences public behavioural intention to adopt Islamic banking in Uganda.

### **Individual Attitude**

Attitude is the tendency of a person to react to something either in a positive or negative way (Lee, 2012). It is the expression of an individual's behavioural belief (Hassandoust & Perumal, 2010). The creation of feelings depends on an individual's belief (trust) and their evaluations on the expected result of that behaviour (Chang, 1998).

Motor insurance is normally handled by the third party like agent and workshop. Thus, the attitude of the customer towards the third party becomes crucial. People are prone to create a positive intention to a person who he trusts (Aydin & Ozer, 2005). Trust is important since it creates a comfortable environment for the customer to share their personal information (Bianchi & Andrews, 2012). In a motor insurance claim environment, the third parties are trusted to act on behalf of the customer. They deal directly with the insurance company and prepare all the documents needed with the co-operation from the customer (Edward et. al, 2017). The information sharing between customers and third parties is only possible if the trust exists. This is especially when the penalties imposed to the fraudster is serious (Financial Service Act, 2013).

Besides that, confidence can also influence human attitude (Bohner & Wanke, 2002). Customer's engagement with third parties is influenced by the reduction of anxiety and

emotional comfort gained from the services received (Kinard & Capella, 2006); (Patterson & Smith, 2001). Confidence is needed to evaluate the consequences of future action (McDonald & Oates, 2006). In a risky environment like insurance fraud, confidence of success is vital before performing the action. If the level of confidence is high, there is a possibility for the action to be performed (Ajzen, 2012).

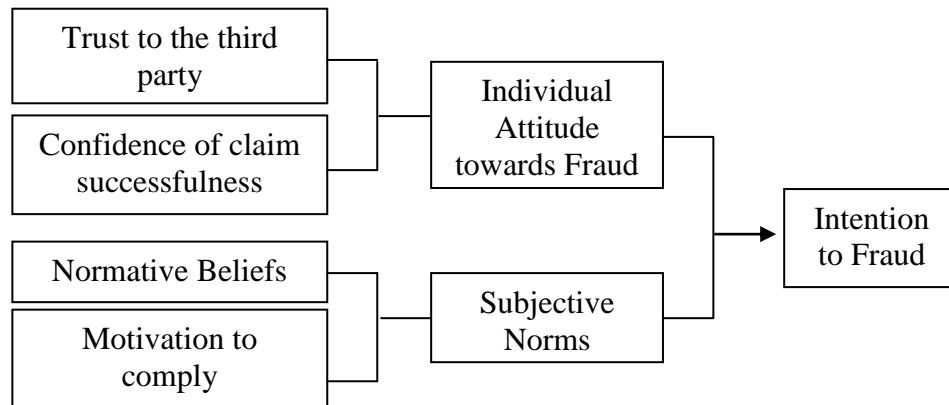
### **Subjective Norms**

Other than customer's attitude, the subjective norm is also affecting individual's intention (Bock et. al, 2005). Subjective norm is created by the combination of normative belief and motivation to comply (Ha & Janda, 2012). Subjective norms is a social pressure perceived by the participant to engage in certain behaviors (Ajzen, 2012). Normally, people are prone to behave in accordance with his social group which comprises of family members, peers and all people in the surroundings (Childers & Rao, 1992). The effects of subjective norms can be clearly be seen if it is tested in a collectivism country like Asian (Aramand, 2012); (Srite & Karahanna, 2006). The Asian country is believed to have a high tendency to make decision-based on intuitive examination of its surrounding and system (Burger & Herstein, 2014). Thus, Malaysians are believed to have a high propensity to trust others in their decision making (Gong, 2009).

Normative beliefs are defined as things which are accepted by social behavior that makes a person do something (Huesmann & Guerra, 1997). The degree of social acceptance on the maladaptive attitudes will influence an individual's intention to perform a behavior (Jurkovic, 2014). From previous research done on insurance fraud by Tennyson (1997 & 2008) and Brinkmann (2005), they found that insurance fraud is not considered as an ethical problem by the public and thus becomes ethically acceptable which could lead to more fraudulent behavior (Tseng & Shih, 2012). On such community perceptions and acceptance of fraud, it can probably initiate a person's intention to commit fraud because it seems normal and allowed by all. This perception actually reduces an individual's sense of guilt when committing offenses.

Meanwhile, motivation can bring effects to human intention since it indicates a person's passion, willingness, and effort on something to perform the behavior (Ajzen, 1991; Organ et al., 2013). According to Wright (2007), fraud is something that relates to economic motivation. Thus, greediness of a person possibly contributes to this issue. This happens especially when a person is in desperate need for money. This situation makes a person creates a belief of entitlement to something (compensation) which is actually not theirs (Freedman et al., 2009). In such desperate situations, people are usually willing to take risks and try to rationalize their unethical behavior. Furthermore, social communication and messages become the main sources of information tools (Aramand, 2012). Since people in a collectivist culture tend to hear and believe in others' opinions, thus, positive or negative perceptions from the community can affect a person's judgment, behavior and also become external motivation to others.

## FRAMEWORK



**Figure 1: Conceptual framework**

The above proposed conceptual framework reveals the relationship between individual attitude and subjective norms as independent (IV) variables and intention to fraud as dependent variables (DV) that would be tested. The framework was adapted from the basic Theory of Reasoned Action (TRA) by Ajzen & Fishben (1980) and Fishben & Ajzen (1975).

## METHODOLOGY

In order to fulfill the research objectives and answer the research questions, a cluster sampling technique will be used for this study. The study will be conducted in five selected schools in Selangor, Malaysia. The state of Selangor will be the chosen state to conduct the study since it recorded the highest number of accident cases. Teachers are selected as the respondents since teachers are highly educated who are usually more ethical (Brokesova & Pastorakova, 2013) and has a high level of integrity compared to the less educated person (Nor Salmi & Lim Hooi, 2011). A self-administered questionnaire will be used to collect the data. Descriptive analysis, factor analysis, reliability measures, correlation and regression analysis will be conducted to analyze the data. The questionnaire will consist of eight parts and the instrument used in developing the questionnaire are from various sources. Demographic questions such as gender, age, education level, individual and household income, ownership of vehicle and type of vehicle owned will also be collected. However, some personal information of the respondents such as name, email address and others will not be asked in the questionnaire to ensure the confidentiality of the respondent. Table 1, indicates the summary of measurements that will be used in this study.

**Table 1: Summary of measurements used for the study**

<b>Author/s &amp; Year</b>	<b>No of Items</b>	<b>Measuring</b>	<b>Cronbach alpha</b>	<b>Scale</b>
Bianchi & Andrews (2012)	4	Trust to the Third Party	0.82 0.77	Likert scale ranging from (1) totally disagree to (4) totally agree.
Chuchinpr akarn (2005)	3	Confident of Claim's Successfulness	-	Likert scale ranging from (1) totally disagree to (4) totally agree.
Vallerand et al. (1992)	4	Normative Beliefs	0.88	Likert scale ranging from (1) very false to (4) Very true
Vallerand et al. (1992)	4	Motivation	0.78	Likert scale ranging from (1) totally disagree to (4) totally agree.
Vallerand et al. (1992)	3	Individual Attitude towards Fraud	0.88	4 point likert scale ranging from: (1) very bad (4) very good (1) stupid (4) intelligent (1) harmful (4) beneficial
Francis et al. (2004)	3	Subjective Norm	-	Likert scale ranging from (1) very false to (4) very true
Calisir, Gumussoy & Bayram (2009)	6	Intention to Fraud	0.89	Likert scale ranging from (1) strongly disagree (4) strongly agree
Benjamin & Samson (n.d)	3		-	

## CONCLUSION

This research article will provide some preliminary understanding of motor insurance fraud issues in Malaysia, using TRA. It is believed that intention to commit fraud depends on two factors which are individual attitude and subjective norms. Finding from this study is believed to be useful for insurance regulator and industrial companies in combatting the rampant issue of fraud in the motor insurance industry. By understanding the cause, an effective strategy could be initiated in overcoming the problem. Thus, the growth of the insurance industry will not be affected and insurance customers will not be victimized by the premium increase.

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