A STUDY ON THE MACROECONOMIC FACTORS AFFECTING DEMAND FOR LIFE INSURANCE INDUSTRY IN MALAYSIA

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APRIL 2007

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Hereby, declare that:

This work has not previously been accepted in substance for any degree, locally or

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ABSTRACT

This study investigates the macroeconomic factors affecting demand for life insurance industry in Malaysia. Because the macroeconomic factors have an important influence on life business and this area has not been greatly researched in Malaysia, this study is undertaken to examine the demand for life insurance industry in Malaysia. This study further examines the significant relationship between income, inflation rate and price of insurance as the independent variables with the demand for life insurance industry in Malaysia as the dependent variable. All the data used are in annual basis range from the year 1972 until year 2005. In analyzing the data, Multiple Linear Regression Model is used. The major findings of this study indicate that income, inflation rate and price of insurance show positive insignificant relationship with the demand for life insurance industry in Malaysia. Further research is needed in this respect in order to confirm the relationship between of these three variables.

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1.1 BACKGROUND OF THE STUDY

1.1.1 Brief Introduction of Life Insurance

Life insurance relates to perils associated with human life. It is designed to provide protection against two distinct risks: premature death and superannuation (living too long). As a matter of fact, death at any age is probably premature, and superannuation does not normally strike the individual as an in desirable contingency. From a practical point of view, however, one can, and sometimes does die before adequate preparation has been made for the future financial requirements of ones' dependents. By the same way, a person can, and often does, outlive income-earning ability. Life insurance, endowments and annuities protect the individual and his or her dependents against the undesirable financial consequences of premature death and superannuation.

Life insurance also concerned with events that could happen during a person's life and the probability of such an event actually taking place. The policyholder pays premiums regularly and this ensures payment of an agreed amount if the specified event - such as death or an accident resulting in death or disability - occurs. Premiums collected from all the policyholders are pooled together to form the life insurance fund. This fund is nurtured with the intention of being paid out as and when required to the dependents of those who have contributed to it. Life insurance normally