

CHAPTER I

INTRODUCTION

1.1 Problem Identification

The development of technology and information at this time is increasing rapidly, it dominated various field of human life. This is very influential in human life in the future, not only in Indonesia but globally the influence will be more pronounced. The most prominent influence is the increasing the need for human beings. In the past, humans only wanted to fulfill three needs, which are clothing, food and shelter. But today, humans not only want to meet these three basic needs, but also want to meet all other needs. As for the needs that are not certain in the future, humans have started to fulfill them from now on. For example, for the needs of the old age, people have prepared savings or pension funds, and the cost of children's education it prepared starting from elementary school to college.

This makes human needs more complex, so humans want all their needs fulfilled. To meet future needs, some people need insurance. Insurance is a yield of human civilization and is a result of an evaluation of human needs which is very essential, namely the need for security and protection, against the possibility of suffering losses. Insurance is a term that refers to actions, systems or businesses that are responsible for compensation for life, property and health from unexpected events such as damage, loss, or death. According to Rianto (2012), insurance is a protection mechanism for the insured against the future risk, the insurer will pay premiums to obtain the compensation from the insurer. In other opinion, insurance is an agreement in which the insured pays insurance premiums to the insurer to be compensated for expected gains, damages or losses and these expectation gains are unlikely occur in the future (Latumerissa,2011). Meanwhile, according to Silvanita (2009), insurance is a request where in which one parties has an incentive to transfer the risk by paying a certain amount of fund to avoid the risk of losing some assets.

There are several benefits of insurance in general. First, insurance provides tranquility because it has the benefit of providing protection from the risk of uncertainty and is believed to be more able to increase self-confidence for individuals. Second, insurance as an investment and savings. Insurance customers will get a guaranteed return on investment at the end of the contract. Third, insurance helps offset losses from unforeseen events that may occur. Because insurance promises to protect the insured from risk faced by individuals and risk faced by companies.

An insurance company is financial institution categorized as non-bank that has a capacity that much dissimilar from a bank, which is arrested in services in order to provide the public in overcoming risks that will arise in the future. The insurance company development in Indonesia has developed quite rapidly below the government issued deregulation around the 1980s and strengthened by the issuance of Law no. 2 of 1992 concerning Insurance Business. With the deregulation, the government made it easier in terms of licensing, thus encouraging the growth of new companies, which in turn would increase national production output.

At this time, the existence of insurance as a non-bank financial institution that operates in the field of coverage is not something new. Insurance is a financial service product that has developed in Indonesia which parallel with the emergence of the national economy. Many benefits of insurance have begun to be felt for individuals, community groups and the business world. The growth and development of this insurance business is supported by the increasing public awareness of the need to prepare for future risks. This is the result of having met various kinds of their basic needs, so that they will prioritize the safety of themselves, their families, and their assets which leads to insurance.

The modern insurance in Indonesia's development began with the increasing number of insurance companies that were established in the early 1980s. Some of them such as Allianz, AIA Financial, CIGNA, Sinar Mas, Avrist AXA Mandiri, and

Prudential Insurance are here and offer a variety of protection products and even investment. This further adds to the alternative options for the community to obtain protection against risks as expected. On the other hand, the government is also more responsive to the community's need for protection, so that starting in 2014 the Social Security Administration for Health and Employment was born as a combination of the functions and roles of Jamsostek and Askes in the previous period.

Compared to any other financial industry, the insurance industry relies more on trust. In redemption premium, the insurance company promised to pay compensation if an adverse event occurs in the future. According to Guiso, Sapienza and Zingales (2008) without trust in insurance it is unlikely that a person will decide to buy insurance. Therefore, understanding the trust in insurance is crucial, because not only does it show the views of insurance companies but also more importantly it helps to explain why people are willing or not willing to buy any insurance.

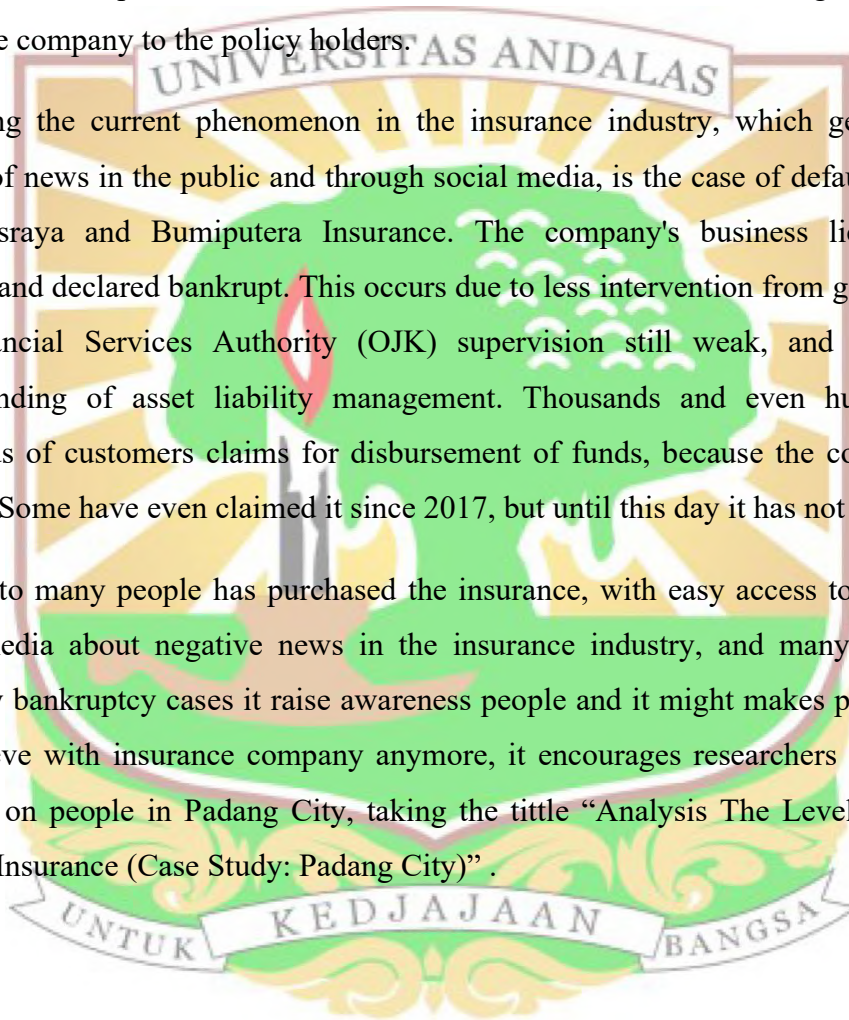
Trust is a belief that people will find what they want in their exchange partners. Trust means that a person is willing to act according to a certain behavior, because they believe that their partner will give them what they want, their hopes and expect that a person usually has those words, promises or statement of other people (Kusmayadi, 2007). According to Muhammad (2009), trust is a condition for one party participating in the exchange of believe in the credibility and integrity of the other parties. In the other words, trust is generated because people believe that the parties involved in the exchange will provide consistent, honest, and responsible quality. This belief will lead to a good relationship between the parties involved in the exchange. Trust is a very important thing for promises and commitment, it can only made when it realized one day. If the consumer believes that the services provider is trustworthy and has a high degree of integrity, then the trust will exist.

Currently the development of insurance is significant. Companies engaged in the insurance service industry offers variety of insurance product like life insurance, health insurance, education insurance and insurance that has savings elements such as

linked insurance. The rise of various product offered by insurance companies is unfortunately not followed by guarantees of legal protection for insurance policy holders. The element of compensation as an important element in insurance, still has not been carried out in accordance with the objectives of insurance policy holders who bind themselves in insurance agreements. One thing that is quite complicated in insurance is the problem of claims which are the sum of assured given by the insurance company to the policy holders.

Seeing the current phenomenon in the insurance industry, which gets a large portion of news in the public and through social media, is the case of default funding on Jiwasraya and Bumiputera Insurance. The company's business license was revoked and declared bankrupt. This occurs due to less intervention from governance, the Financial Services Authority (OJK) supervision still weak, and a lack of understanding of asset liability management. Thousands and even hundreds of thousands of customers claims for disbursement of funds, because the contract had expired. Some have even claimed it since 2017, but until this day it has not been paid.

Due to many people has purchased the insurance, with easy access to news and social media about negative news in the insurance industry, and many insurance company bankruptcy cases it raise awareness people and it might makes people does not believe with insurance company anymore, it encourages researchers to conduct research on people in Padang City, taking the tittle “Analysis The Level of Public Trust in Insurance (Case Study: Padang City)” .



1.2 Problem Statement

Based on the problem identification, the problem statement of this study are:

1. How does public knowledge about insurance affect the public trust in insurance?
2. How does public perception affect the public trust in insurance?
3. How does public insurance experience affect the public trust in insurance?

1.3 General Research Objective

Based on the problem statements, this study purposed to find:

1. Analyzed the effect of public knowledge about insurance against public trust in insurance
2. Analyzed the effect of public perception about insurance against public trust in insurance
3. Analyzed the effect of public insurance experience against public trust in insurance

