

Analyzing the Impact of Social Media Usage on Prospective Customers' Purchase Intention in Life Insurance Products

Pandu Pratama Nur Wicaksana^{1*}, Syarifa Hanoum^{2**}

ABSTRACT

This research explores the impact of social media on purchasing intention in the life insurance industry, specifically the relationship between social media usage and the buying intentions of potential customers. Conducted in East Java, the study distributed surveys to 100 respondents on Instagram, employing purposive sampling and analyzing data through Structural Equation Modeling Partial Least Square. The results highlight a significant and positive correlation between social media activities and the purchasing intention of potential customers. Additionally, noteworthy associations are identified between social media activities, financial literacy, and customer trust. Financial literacy and customer trust, exhibit positive and significant relationships with the purchasing intention of potential customers. This study underscores the influential role of social media in shaping not only purchasing intention but also financial literacy and trust in the life insurance industry

KEYWORDS: Life Insurance, Purchase Intention, Social Media Activities, Structural Equation Modeling Partial Least Square

¹ Interdisciplinary School of Management and Technology, Institut Teknologi Sepuluh Nopember Surabaya, Surabaya, Indonesia

² Department of Business Management, Institut Teknologi Sepuluh Nopember Surabaya, Surabaya, Indonesia

* Corresponding author: pandupratamanur@gmail.com

**Correspondin author: syarifa.hanoum@gmail.com

1. INTRODUCTION

According to data from the Indonesian Life Insurance Association (AAJI), the number of life insurance users in Indonesia is only 7.3% of the total population of 273 million. However, life insurance can play a crucial role in ensuring a family's income in the event of the breadwinner's death, thereby reducing the number of families impoverished due to the loss of their primary breadwinner. Wahono & Leng (2022) found that the decision of the Indonesian population to have life insurance is significantly influenced by financial literacy, particularly regarding insurance itself, and trust in the insurance company.

Recent technological progressions facilitate digital word-of-mouth through platforms like social media. Marketers leverage Internet technology for virtual product presentations, even concluding sales via video call applications like Zoom. Social media plays a growing role in bolstering potential customers' purchasing intent, as evidenced in prior research. For instance, Dina Amalia Putri (2020) study on social media marketing's influence on Sharia insurance purchase intentions in Indonesia revealed a significant positive impact on attitudes and subsequent interest in purchasing. The current inquiry delves into whether social media affects financial literacy, particularly in life insurance, and public trust, both factors influencing heightened potential customer purchase intention.

This study investigates the impact of social media on financial literacy, especially in life insurance, and its influence on customer trust, shaping potential customers' purchasing inclination. The insights gained will aid life insurance companies in Indonesia, highlighting the interconnected factors of social media usage, financial literacy, and customer trust in driving purchasing decisions. Companies can formulate targeted marketing strategies on social media platforms to boost life insurance sales. The research will concentrate on Instagram users in East Java with specified income levels, examining a life insurance product offering cash benefits to beneficiaries in the event of the policyholder's demise during the coverage period.

2. LITERATURE REVIEW

Social Media and Social Media Activities

Today, social media has seamlessly integrated into daily life, serving diverse purposes from communication to community building and forming new connections. Ioanas & Stoica (2014) emphasize its significant impact on purchasing decisions, citing online communities as influential, especially when users share product experiences on forums. Social media facilitates the easy sharing of experiences. Angelyn & Sukardi Kodrat (2021) highlight social media marketing as a strategy for companies to directly or indirectly engage potential customers, enhance brand awareness, and boost sales. This involves content creation, education, interaction, and addressing concerns expressed on social media platforms

Financial Literacy

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Wahono & Leng (2022) define financial literacy as the measure of one's financial knowledge, encompassing four key aspects: basic personal finance understanding, savings and loans, insurance, and investment. Proficiency in personal finance involves discerning distinctions between insurance, banking, and investment, and recognizing insurance as a safety net for family income in case of the policyholder's demise. The study underscores that financial literacy, as per Wahono & Leng (2022) entails comprehending fundamental concepts like the definition, advantages, and distinctions between insurance and other financial instruments, including specific elements like the sum assured.

Customer Trust

According to Amron (2018), customers who receive information based on reality and experience services as promised tend to have high trust in making purchasing decisions. Customer trust in the service industry is related to promises, where the key to the relationship between customers, producers, and distributors is bridged by this trust. This trust is closely linked to honest and transparent information during transactions. Customer trust is the expectation that the service provider is an independent, reliable institution that can fulfill the promises given.

Purchase Intention

According to Guan et al. (2020), purchase intention terms is the intention to purchase or the consumers' tendency to act and behave on goods or services, the concept of purchase intention refers to the chance or probability that a customer will choose a brand of a product category in a certain buying situation, and customers's customer's rating of a product/service which they intend to buy in future. Prior studies have found from Tahir (2021), that purchase intention can be affected by social media activities such as online reviews and customer trust Djoni & Rahardjo (2021). also found that the purchase intention of life insurance products can affected by customer's financial literacy.

3. METHODS

This study adopts a quantitative research methodology with an exploratory approach to elucidate variable positions and relationships between independent and dependent variables. Purposive sampling is employed to collect data from Indonesian individuals aged 28 to 40 using Instagram, with Structural Equation Modeling Partial Least Squares applied for data processing. Social media activity serves as the independent variable, while financial literacy, customer trust, and potential purchasing interest are dependent variables. The study targets individuals in East Java without life insurance from private companies, earning a monthly income between 5,000,000 to 20,000,000 IDR. The unknown population size necessitates non-probability sampling, specifically purposive sampling, selecting respondents based on predefined criteria. The sample size determination follows the Lemeshow formula, as outlined by Wahono & Leng (2022).

$$n = \frac{Z^2 P(1 - P)}{d^2} \quad (1)$$

Explanation:

n = number of samples to be determined

Z = normal table value according to the α value (5% or 1,96)

P = maximum estimation with an ideal value of 50%

d = sampling error (10%)

From the calculation above, the minimum sample required for this study is 96.04 respondents. Rounding up, a minimum of 100 respondents is needed for this research.

The hypotheses to be tested in this study are based on the variables to be investigated shown in Table 1

Table 1. Research Hypotheses

Variables	Hypotheses	Description
Social Media Activities	H ₀	Social media activity does not have a positive relationship or significant influence on financial literacy, trust, and purchasing interest.
	H ₁	Social media activity has a positive relationship or significant influence on financial literacy, trust, and purchasing interest.
Financial Literacy	H ₀	Financial literacy does not have a positive relationship or significant influence on purchasing interest.
	H ₁	Financial literacy has a positive relationship or significant influence on purchasing interest.
Trust	H ₀	Trust does not have a positive relationship or significant influence on purchasing interest.
	H ₁	Trust has a positive relationship or significant influence on purchasing interest.

This study, as per Table 1 hypotheses, will examine associations among social media activities, financial literacy, customer trust, and purchase intention, as well as the links between financial literacy and purchase intention, and customer trust and purchase intention. Quantitative data will be gathered through a questionnaire categorized into social media activity, financial literacy, customer trust, and purchasing interest. The Likert scale (ranging from 1 for strongly disagree to 5 for strongly agree) will measure responses, facilitating the analysis of hypotheses in this research.

Data collected from the questionnaire will undergo processing to derive descriptive values, followed by validation and reliability assessments during the measurement model evaluation or outer model assessment. This study utilizes a path diagram with a combination of reflective and formative indicator types. Validity and reliability of both indicator types will be tested. In the reflective model, testing involves examining Indicator Reliability based on Outer Loadings, Convergent Validity using Average Variance Extracted (AVE) values, Discriminant Validity via Cross Loadings, and Composite Reliability through Cronbach's alpha values. For the formative model, validity testing comprises

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evaluating Indicator Multicollinearity and Statistical Significance of Indicator Weights. Bootstrapping is employed for repeated tests with a large dataset to assess the Statistical Significance of Indicator Weights. Subsequent stages consider outer loadings, with a criterion of 0.5 as the minimum value for retaining indicators. The final phase involves hypothesis assessment, providing insights for insurance companies on optimizing social media activities to boost purchase intention.

4. RESULTS

This testing is conducted using SmartPLS 4.0 software. Before the testing, it is necessary to create a path diagram based on the proposed hypotheses. This path diagram illustrates the relationship between the measurement model and the structural model. The path diagram can be seen in Figure 1.

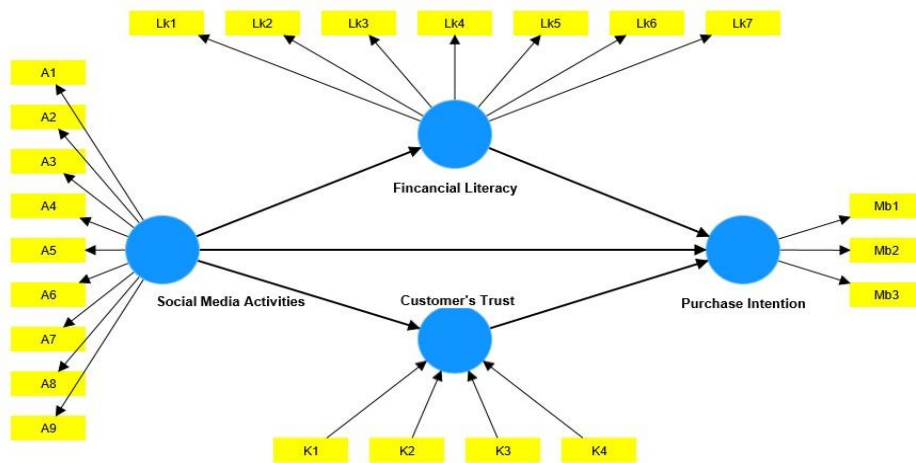


Figure 1. Path diagram

Figure 1 illustrates the research model derived from hypotheses, detailing 9 indicators for social media activities, 7 for financial literacy, 4 formative indicators for trust, and 3 for purchase interest. The questionnaire, distributed online through Instagram and WhatsApp ads, yielded 116 qualifying responses. Descriptive data conclusions are presented in Figure 2 and Figure 3.

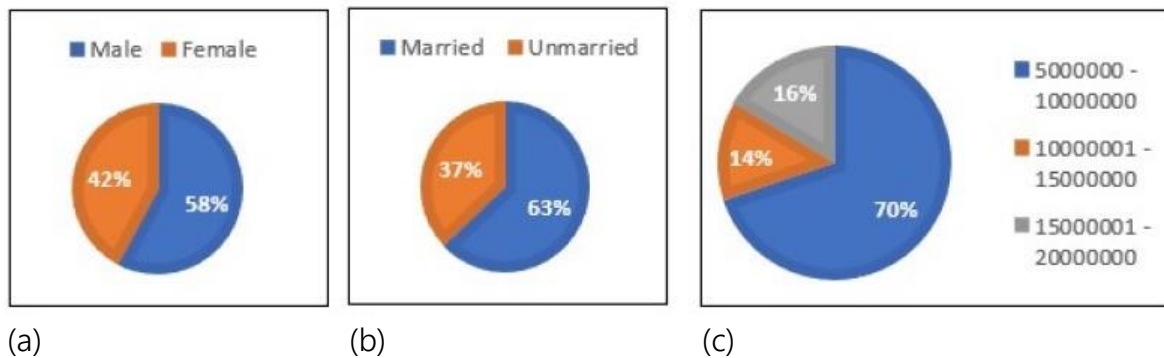


Figure 2. Descriptive analytics results: (a) result per gender; (b) result per marital status; (c) result per income range

Figure 2 shows the descriptive analytics result for gender, marital status, and range of income categories. 58% of the respondents are male and 42% are female. For the marital status, 63% are married and for the range of income, 70% of the respondents have an income of around 5.000.000 to 10.000.000 Indonesian rupiahs. The next categories are education and profession shown in Figure 3.

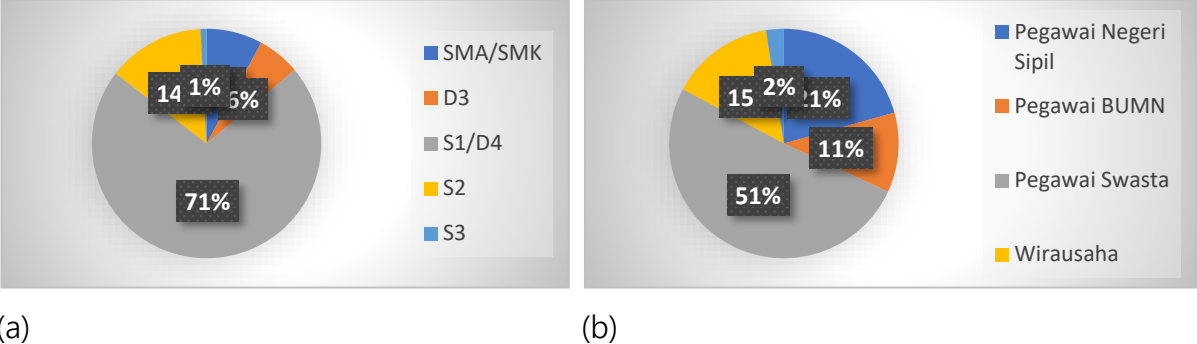


Figure 3. Descriptive analytics results: (a) result per education background; (b) result per profession

Figure 3 indicates that the majority of respondents (71%) possess a bachelor's degree, and 51% are employed. These findings suggest that the research outcomes are primarily associated with male respondents in East Java, aged 28 to 40, married, with Instagram as their main social media platform, earning between 5,000,000 to 10,000,000 Indonesian rupiahs monthly, working as employees, holding a bachelor's degree, and lacking insurance from private companies.

Outer Model Assessment

Initially, the measurement model for reflective indicators yielded unsatisfactory results, leading to the removal of non-compliant indicators due to time and resource constraints. Despite not repeating data collection, the final testing confirmed the validity and reliability of the remaining indicators. Table 2 displays the validated and reliable indicators for the tested variables.

Table 2. Measurement model assessment result for reflective indicators

Indicators	Outer Loadings	AVE	Cronbach's Alpha	Conclusions
A1 <- Social Media Activities	0.873	0.629	0.882	Valid and Reliable
A2 <- Social Media Activities	0.770			Valid and Reliable
A4 <- Social Media Activities	0.806			Valid and Reliable
A5 <- Social Media Activities	0.721			Valid and Reliable
A7 <- Social Media Activities	0.714			Valid and Reliable
A9 <- Social Media Activities	0.862			Valid and Reliable
Lk1 <- Financial Literacy	0.926	0.823	0.893	Valid and Reliable
Lk2 <- Financial Literacy	0.899			Valid and Reliable

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Indicators	Outer Loadings	AVE	Cronbach's Alpha	Conclusions
Lk7 <- Financial Literacy	0.896			Valid and Reliable
Mb1 <- Purchase Interest	0.891	0.781	0.860	Valid and Reliable
Mb2 <- Purchase Interest	0.857			Valid and Reliable
Mb3 <- Purchase Interest	0.903			Valid and Reliable

Based on the measurement results presented in Table 2, it can be observed that there are 6 indicators in the social media activity variable that meet the minimum score of criteria based on Hair et al. (2019) 0.7 for outer loadings, AVE above 0.5, and Cronbach's alpha between 0.7 and 0.9. Additionally, there are 3 indicators in the financial literacy variable and 3 indicators in the purchase interest variable that also meet the minimum score.

After testing the reflective indicators, the examination proceeded to test the formative indicators by assessing the results of VIF, outer weights, and loading factors. The outcomes can be observed in Table 3.

Table 3. Measurement model for formative indicators results

Indicators	VIF	Outer Loadings	P-values Outer Loadings	P-values Outer Weights
K1	2.871	0.927	0.000	0.002
K3	2.551	0.602	0.014	0.296
K4	2.244	0.861	0.000	0.032

Initially, there were 4 indicators for the customer trust variable. According to Hair et al. (2019), the VIF value for indicators should not exceed 5, and all indicators meet this criterion. However, in the outer weight testing, it was required to have values below 0.05, but 2 indicators had values above 0.05. After checking their loading factors, only 1 met the criterion of being below 0.5, and this indicator could be retained. In the end, 3 indicators in the customer trust variable were deemed valid and reliable as shown in Table 3.

After undergoing validity and reliability testing on reflective and formative indicators, the final model results have been obtained. This model will be used in the inner model testing, revealing the outcomes of the proposed hypotheses shown in Figure 4.

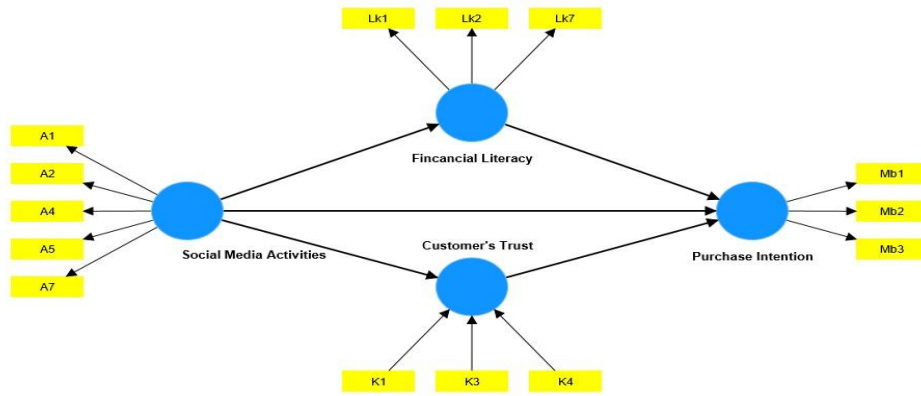


Figure 4. Final model results

Inner Model Assessment

Inner model assessment will be conducted by assessing R^2 , Q^2 , f^2 , path coefficient, and p-values. The results of the R^2 and Q^2 testing can be seen in Table 4.

Table 4. R^2 and Q^2 testing results

Variables	R-Square	Q-Square	Conclusions
Trust (K)	0.216	0.178	Weak
Financial Literacy (Lk)	0.280	0.254	Weak
Purchase Intention (Mb)	0.461	0.268	Average

As per Hair et al. (2019), the R-Square evaluation gauges the model's predictive capability. Table 4 reveals a somewhat weak predictive power for trust and financial literacy variables, while purchase intention shows an average level. Despite this, the acceptable Q-Square value indicates that social media activities can predict outcomes for trust, financial literacy, and purchase intention. The subsequent evaluations, including f^2 , path coefficients, and p-values, are detailed in Table 5.

Table 5. f^2 , path coefficient and p-values testing result

Variables	f -Square	Path Coefficient	P-values
Social Media Activities -> Trust	0.286	0.472	0.000
Social Media Activities -> Financial Literacy	0.402	0.535	0.000
Social Media Activities -> Purchase Interest	0.068	0.235	0.020
Trust -> Purchase Interest	0.148	0.330	0.000
Financial Literacy -> Purchase Interest	0.101	0.284	0.001

As per Hair et al. (2019), the f-square indicates the variable's impact on others, with social media activities displaying varying effects on different variables. Social media's impact is relatively small on trust and purchase interest but significant on financial literacy. Removing social media would minimally affect trust and purchase interest but substantially impact financial literacy. Trust and financial literacy marginally affect purchase intention, implying their removal would modestly influence purchase intention. Path coefficients in Table 5 reveal positive and significant relationships between variables, as indicated by scores above zero and p-values below 0.05.

Hypotheses Assessment

The results of inner model testing are used for hypothesis testing, following H_0 for all independent variables used. If the p-values > 0.05 , then H_0 is accepted however, if the

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p-values < 0.05, then H_0 is rejected. The following are the results of the hypothesis testing in this study in Table 6.

Table 6. Hypotheses results

Variables	Path Coefficient	P-values	Results
Social Media Activities -> Trust	0.472	0.000	H_0 rejected
Social Media Activities -> Financial Literacy	0.535	0.000	H_0 rejected
Social Media Activities -> Purchase Intention	0.235	0.020	H_0 rejected
Trust -> Purchase Intention	0.330	0.000	H_0 rejected
Financial Literacy -> Purchase Intention	0.284	0.001	H_0 rejected

Table 6 indicates the rejection of the null hypothesis (H_0) for variables like social media activity on trust, social media activity on financial literacy, social media activity on purchasing interest, trust on purchasing interest, and financial literacy on purchasing interest, as p-values are < 0.05. This research, with its specific respondent type, establishes a positive and significant relationship between social media activities and financial literacy, purchase intention, and trust. Additionally, trust exhibits a positive and significant relationship with purchase intention, while financial literacy shows a positive and significant connection to purchase intention.

5. CONCLUSIONS

The analysis of data collected from Instagram users in East Java, aged 28 to 40, with incomes between 5,000,000 to 20,000,000, and lacking private insurance, revealed significant findings through structural model and hypothesis testing. Social media activity demonstrated a positive and significant correlation with financial literacy, customer trust, and purchase intention. Notably, the effect size on the relationship with financial literacy was substantial, as indicated by the f^2 value of 0.402, while the impact on customer trust and purchase intention was relatively small. However, the predictive power of financial literacy and customer trust variables was low, emphasizing the need for additional factors to enhance predictive outcomes. Financial literacy and customer trust variables positively and significantly influenced purchase intention, with a modest effect size (f^2 around 0.1). Despite this, the purchase intention variable exhibited substantial predictive strength, explaining up to 40% in this study, while the remaining 60% was attributed to external variables. Managerial implications suggest that targeting the specified Instagram user segment should not solely rely on increasing social media activity. Instead, efforts should focus on enhancing the financial literacy and trust of this audience. To maximize the impact of social media activities, insurance companies can integrate company identity attributes or host exclusive events on their Instagram accounts, engaging the audience and elevating their financial literacy and trust, thereby increasing interest in purchasing insurance products.

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