

Impact of it  
outsourcing within  
insurance companies  
in malaysia business  
essay



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## **Abstract**

Outsourcing has been the topic of great interest within large organizations worldwide. Dictionary defined outsourcing as a practice used by organization to reduce costs by transferring portions of work to outside suppliers rather than completing it internally. Many reliable sources have different definitions of outsourcing and thus, the term is used inconsistently. However, despite this factor outsourcing is often viewed as an act of constricting a business function to an external provider whereby two organizations may enter a contractual agreement involving an exchange of services and payments. The reason behind the decision taken by organizations to outsource is to seek several benefits and that includes the lowering of overall cost of the service to business and also involves reducing the scope, re-pricing and cost restructuring. Organizations also choose to outsource so that they could focus on core business, improve quality by achieving a step change in quality through contracting out the service with a new service level agreement and also to allow them to have an access to intellectual property and wider experience and knowledge. Moreover organization also can gain operational expertise and operational best practice that would be too difficult and time consuming to develop in house. Nevertheless, organization can use external knowledge service providers to supplement limited in house capacity for product innovation to enhance their capacity for innovation.

IT outsourcing in the other hand has also gained popularity almost everywhere around the world and to some extent has received approving responses from big organizations in mostly developed countries like United Kingdom, United States and Denmark. However, there a very few stories or <https://assignbuster.com/impact-of-it-outsourcing-within-insurance-companies-in-malaysia-business-essay/>

only little are known about IT outsourcing in Malaysia and that too that concerns IT outsourcing within insurance companies in Malaysia. This study highlights the research carried out to evaluate the impact of IT outsourcing within Insurance companies in Malaysia.

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## 1 Introduction

### 1.1 Overview

The continuous advancement of technology has increase the intensity of competition between organizations whose operations or core competence is based on information technology. Consequently this has force them to decide to either outsource or insource in order to survive the competition. Information technology (IT) is indeed has been acknowledged that it has become the engine that drives the modern organization. Over the past years, one of the more widespread developments in meeting an organization's IT needs is the practice of outsourcing. IT outsourcing is defined as the process of procuring services or products from sources that are external to the organization (Lankford and Parsa, 1999). The most common IT services outsourced are the application and software developments and as far as the service is concerned, this usually involves the transfer of operational control to the suppliers. Therefore, IT outsourcing is a practice of transferring IT assets, leases, staff and management responsibility for delivery of services from internal IT functions to third-party vendors (Larcity and Hirschheim, 2000).

Many organizations are indeed considering IT outsourcing as one of the contributing factor in meeting the companies IT demands and this definitely had also brought some influence in insurance companies IT needs in sustaining their business. As this paper focuses on IT outsourcing within insurance companies, I would like to showcase the acceptance of IT outsourcing within insurance companies in a broader global perspective which includes insurance companies in United States of America, Australia, Singapore, India, Germany and South Africa before focusing to Malaysia.

## **United States of America**

There are over 80 Insurance companies in United States of America and these are the companies with strong national or regional presence. These companies handles different types of insurance business and that includes annuity, business insurance, dental insurance, general liability insurance, disability insurance, health insurance, life insurance, medi-care, long-term care insurance, travel insurance, supplemental insurance and also property and casualty insurance. I have listed some of the insurance companies in accordance to the different types of insurance business in this table below:

### **Annuity**

Allianz

Aviva

Jackson National Life

ING

Prudential Financial

## **Business Insurance**

Allstate

American Family Insurance

CNA Financial

Wells Fargo

## **Disability Insurance**

Allstate

American Family Insurance

Colonial Life

Standard Insurance Company

## **General liability Insurance**

Allstate

American Family Insurance

Amica

CNA Financial

## **Health Insurance**

Aetna

American Family Insurance

Health Net

Wellpoint

## **Life Insurance**

AIG

Allianz

Allstate

American Family Insurance

Aviva

ING

Jackson National Life

Prudential Financial

## **Long-term care insurance**

Allianz

Allstate

Genworth

John Hancock Insurance

Prudential Financial

## **Medicare**

Aetna

American Family Insurance

Premera

Regence Group

## **Supplemental Insurance**

Aflac

Allstate

Colonial Life

Conseco

Table 1: Insurance Companies in United States of America

## **Australia**

Most of the multinational companies in the insurance business have their operation in Australia. Insurance in Australia is largely guided by the Commonwealth Law. The insurance tax charged in the country is the highest in the world. There are large numbers of companies in the country dealing with insurance business.

## **Major life insurance companies**

AMP Insurance

MLC Insurance

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AXA Insurance

Citicorp Life Insurance

Challenger Life Insurance

Aviva Life Insurance

## **Major Non-Life insurance companies**

QBE Insurance

Promina Insurance

Suncorp Insurance

Zurich Australian Insurance

Westfarmers Insurance

RACQ Insurance

AIG Insurance

Table 2: Insurance Companies in Australia

## **Singapore**

Insurance companies in Singapore and its intermediaries in Singapore are licensed by the Monetary Authority of Singapore under the purview of the Ministry of Finance. The insurance businesses in Singapore are broken to Direct Insurers, Captive Insurers, Professional Reinsurers, Authorised Reinsurers and Reinsurance brokers. General insurance and life insurance

are handled by the Direct Insurers and there are about more than 50 insurance companies in Singapore that manages general and life insurance businesses and here are the lists of some of the companies in Singapore.

## **General Insurance**

Allianz Insurance Company of Singapore Pvt Ltd.

AXA Insurance Singapore Pvt Ltd

InterGlobal Insurance Company Limited

Swisscare Insurance

TM Asia Insurance Singapore Limited

Tokio Marine Pv Ltd

Zurich Insurance Company

## **Life Insurance**

NTUC Income Insurance Co-operative Limited

TM Asia Life Assurance Society Limited

AXA Life Insurance Singapore Pvt Ltd

Great Eastern Life Assurance Pvt Ltd

Manulife Pvt Ltd

Transamerica Life Ltd.

UOB Life Assurance Ltd

## **Composite Insurance**

American International Assurance

Aviva Limited

Great Eastern Life Assurance Company

HSBC Insurance Singapore

NTUC Income Insurance Co-operative

Prudential Assurance Company

## **Captive Insurance**

Alps Insurance Ptd Ltd

Amcor Insurance Ptd Ltd

BG Insurance Company Singapore

Crescent Insurance Ptd Ltd

CSR Insurance Ptd Ltd

LMI Insurance Ptd Ltd

Woolworths Insurance Ptd Ltd

Zinifex Insurance Ptd Ltd

Table 3: Insurance Companies in Singapore

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## **India**

In India, Insurance is a national matter, in which life and general insurance is yet a booming sector with huge possibilities for different global companies to venture. The Indian Insurance sector has gone through several phases and changes, especially after 1999, when the Government of India opened up the insurance sector for private companies to solicit insurance. Since then, the Insurance sector in India is considered as a flourishing market amongst global insurance companies. However, the largest life insurance company in India is still owned by the government.

## **Life Insurance**

Bajaj Allianz Life Insurance Company Limited

Birla Sun Life Insurance Co. Ltd

HDFC Standard life Insurance Co. Ltd

ICICI Prudential Life Insurance Co. Ltd.

ING Vysya Life Insurance Company Ltd.

Life Insurance Corporation of India

Max New York Life Insurance Co. Ltd

Met Life India Insurance Company Ltd.

Kotak Mahindra Old Mutual Life Insurance Limited

SBI Life Insurance Co. Ltd

Tata AIG Life Insurance Company Limited

Reliance Life Insurance Company Limited.

Aviva Life Insurance Co. India Pvt. Ltd.

Shriram Life Insurance Co, Ltd.

Sahara India Life Insurance

Bharti AXA Life Insurance

Future Generali Life Insurance

IDBI Fortis Life Insurance

Canara HSBC Oriental Bank of Commerce Life Insurance

Religare Life Insurance

DLF Pramerica Life Insurance

Star Union Dai-ichi Life Insurance

## **General Insurance (Property & Casualty and Health)**

Agriculture Insurance Company of India

Apollo DKV Insurance (Health)

Cholamandalam MS General Insurance

HDFC Ergo General Insurance Company

ICICI Lombard General Insurance

IFFCO Tokio General Insurance

National Insurance Company Ltd

New India Assurance

Oriental Insurance Company

Reliance General Insurance

Royal Sundaram Alliance Insurance

Shriram General Insurance Company Limited

Tata AIG General Insurance

United India Insurance

Universal Sompo General Insurance Co. Ltd

Table 4: Insurance Companies in India

## **Germany**

In Germany, insurance is compulsory for every citizen. The financial market in the country has grown fast. Insurance business in Germany has also experienced a steady growth in a similar direction. There are around 500 insurance companies operating in Germany. Some of the leading insurance companies in the country are as follows:

## **Leading Life Insurance Companies:**

Allianz Leben Insurance

Aachenmunchener Leb Insurance

DT. Herold Leben Insurance

Victoria Leben Insurance

Debeka Leben Insurance

AXA Leben Insurance

## **Leading Non-Life Insurance Companies:**

Allianz Vers. Insurance

AXA Vers. Insurance

R+V Allgemeine Vers. Insurance

Zurich Vers. AG

Victoria Vers. Insurance

Wurt. Vers Insurance

LVM Sach Insurance

Table 5: Insurance Companies in Germany

## **South Africa**

There is a vast range of insurance companies in South Africa, offering both short and long term insurance. Long term insurance includes Term Life which covers you for a specified period of time, Whole Life which remains in force until death or surrender of the policy and Universal Life which includes an investment component. Provision for retirement and disability insurance also fall under this category. Whereas short term insurance covers against loss, damage and personal liability and that includes household insurance, house owner's insurance, vehicle insurance, personal liability and personal accident insurance. Below is a comprehensive list of Insurance Companies in South Africa, some well known, some fairly newcomers to the market:

### **Long Term Insurance**

1Lifedirect Insurance Ltd

ABSA Life Ltd

Alexander Forbes Life Ltd

Allan Gray Life Ltd

Assupol Life

AVBOB Mutual Assurance Company Ltd

BoE Life Assurance Company

Capital Alliance Life Ltd

Channel Life Ltd

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Charter Life Insurance Company Ltd

Clientele Life Assurance Company Ltd

Discovery Life Ltd

Guardrisk Life Ltd

Hollard Life Assurance Company Ltd

HTG Life Ltd

Investec Employee Benefits Ltd

Investment Solutions Ltd

Liberty Group Ltd

McLife Assurance Company Ltd

Medscheme Life Assurance Company Ltd

Metropolitan Life Ltd

Momentum Group Ltd

Miway

New Era Life Insurance Company Ltd

Old Mutual Life Assurance Company (SA) Ltd

Pinnafrica Life Ltd

Professional Provident Society Insurance Company Ltd

Prosperity Insurance Company Ltd

Regent Life Assurance Company Ltd

Rentmeester Assurance Ltd

Safrican Insurance Company Ltd

Sage Life Ltd

Sanlam Life Insurance Ltd.

## **Short Term Insurance**

ABSA Insurance Company Limited

AIG South Africa Limited

Auto and General Insurance Limited

Alexander Forbes Group (Pty) Ltd

Alexander Forbes Insurance Company Ltd

BoE Insurance Company Ltd

Compass Insurance Company Ltd

Constantia Insurance Company Ltd

Emerald Insurance Company Ltd

Guardrisk Insurance Company Ltd

Hollard Insurance Company Ltd

Lion of Africa Insurance Company Ltd

Lloyd's

McSure Ltd

Monarch Insurance Company Ltd

MUA Insurance Company

National Insurers Ltd

New National Assurance Company Ltd

Nedcor Insurance Company Ltd

Nedinsurance Company Ltd

Nova Risk Insurance Company Ltd

Outsurance Insurance Company Ltd

Pinnafrica Insurance Company Ltd

Rand Mutual Assurance Company Ltd

Renasa Insurance Company Ltd

SA Eagle Insurance Company Ltd

Safire Insurance Company Ltd

Santam Ltd

SASRIA Ltd

Sentrasure Ltd

Stanbic Insurance Ltd

Standard Insurance Ltd

Unitrans Insurance Company Ltd

Unity Insurance Ltd

Unity Insurance Ltd

XL Insurance Company Ltd

Zurich Insurance Company SA Ltd

Table 6: Insurance Companies in South Africa

IT outsourcing is a full transfer or delegation of an organization's facility management functions to an external firm. Pinnacle Systems Inc. quoted that Outsourcing has emerged as an effective tool to revamp strategies and is beneficial to business in a financially viable and proactive manner. IT outsourcing is an effective strategy for gaining and maintaining competitive advantage when it is executed as part of an overall program to build a high performance IT organization (Lankford and Parsa, 1999). Based on the above

insurance company list for the respective countries, I have picked 5 major insurance company in each country to find out their compliance and acceptance for IT outsourcing. Below is the table with the findings:

**Country****Insurance Company****Insurance Type****IT Outsourcing****Yes****No****USA**

Allianz

A

**âˆš**

American Family Insurance

G

**âˆš**

Prudential Financial

L

**âˆš**

ING

L

**âˆš**

Aetna

H

**âˆš**

**Australia**

AMP Insurance

L

**âˆš**

AXA Insurance

L

**âˆš**

QBE Insurance

G

**âˆš**

Zurich Australian Insurance

G

**âˆš**

AIG Insurance

G

âˆš

## **Singapore**

Great Eastern Life Assurance Pvt Ltd

L

âˆš

Aviva Limited

L

âˆš

Allianz Insurance Company of Singapore Pvt Ltd.

G

âˆš

Tokio Marine Pv Ltd

G

âˆš

Alps Insurance Ptd Ltd

C

âˆš

## **India**

Bajaj Allianz Life Insurance Company Limited

L

**âˆš**

ING Vysya Life Insurance Company Ltd.

L

**âˆš**

ICICI Prudential Life Insurance Co. Ltd.

L

**âˆš**

Apollo DKV Insurance (Health)

H

**âˆš**

Reliance General Insurance

G

**âˆš**

**Germany**

Allianz Leben Insurance

L

**âˆš**

Aachenmunchener Leb Insurance

L



**âˆš**

AXA Leben Insurance

L

**âˆš**

Zurich Vers. AG

G

**âˆš**

LVM Sach Insurance

G

**âˆš**

## **South Africa**

Old Mutual Life Assurance Company (SA) Ltd

LT

**âˆš**

Discovery Life Ltd

LT

**âˆš**

Zurich Insurance Company SA Ltd

ST

**âˆš**

AIG South Africa Limited

ST

**âˆš**

National Insurers Ltd

ST

**âˆš**

Table 7 Insurance companies and IT outsourcing acceptance

Insurance Type Legend:

**Annuity**

A

**Captive**

C

**General**

G

**Health**

H

**Life**

L

## **Long Term**

LT

## **Short Term**

ST

### **1. 2 Problem statement**

Although outsourcing is not something new and in fact it is not a recent phenomenon but an evolution due to the global IT growth worldwide, I found that they are lack of theoretical research done on IT outsourcing. Some of the previous researches done are more focused on the financial data and global economic as well as political trends and less known about the theoretical point of view. So far the most relevant research conducted is done by LOMA, which narrated the pros and cons of outsourcing and off-shoring and the main focus of the research is IT outsourcing and off-shoring to IT services companies in United States and India.

Very little are known or researches done in Malaysia regarding IT outsourcing and from my observation many IT industries looking at outsourcing as an economic phenomenon. On 29th July 2009, MalaysiaCo Business Company Information posted the list of companies in Shared Services and Outsourcing (SSO) for its business process operations range from local Malaysian company to Multinational companies and there is about 60 companies altogether including NTT MSC Sdn Bhd, Intel MSC Sdn Bhd, HCL technologies, Fujitsu and Nokia Siemens Network Multimedia Sdn Bhd and amongst these list only one insurance company is listed and that is Prudential Services.

Despite the beneficial factors that lie behind the reason of IT outsourcing, it is still considered as a major problem by employees in most of the developed countries who had to lose their jobs as their jobs were outsourced by their organizations to external parties or vendor or even to relatively cheaper off-shore destinations like India and China. Global outsourcing is a phenomenon that has come up because of increased technology, better communication and information system as well as competition. We cannot blame the companies solely for outsourcing and who knows it could give rise to improved economic conditions and better paying jobs in all countries that take part in it.

### **1. 3 Research objective**

This research aims to empirically investigate the impact of IT Outsourcing on firm level performance metrics that has lead to some success stories behind some of the major insurance companies worldwide and also to especially evaluate the impact of IT outsourcing within insurance companies in Malaysia, describing and analyzing the reason for IT outsourcing.

In addition, this research also aspires to explore the factors to consider before outsourcing, whereby we will be looking at what are the considerations and measures taken by a company before deciding on to outsource their IT to a third party vendors. Nevertheless, this study also will investigate how an organization manages a successful IT outsourcing and the impact of IT outsourcing on an organization which consists of the advantages (benefits) and disadvantages (risks) of IT outsourcing and also providing evidence about outsourcing influences on a firm's cost-efficiency, productivity and profitability.

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## **1. 4 Research question**

The very first question that arises in discussing this topic is what is the level of acceptance of IT outsourcing within insurance companies in global perspective? This question will lead to why does organization and in particular insurance companies outsource their IT?

This two questions will assist this research in finding out what are the impacts of IT outsourcing within Insurance companies especially in Malaysia taking into consideration the reasons and factors for its successful implementation? What are the benefits and differences it made to the organization prior and post of IT outsourcing? And last but not least how does it impact in longer term?

Many organization outsource their IT functions because of management, cost, IT performance, IT resources and corporate strategy and nevertheless change of strategic planning into a more effective and profitable manner. Lacity and Hirschheim (1995) narrated that the outsourcing phenomenon evolves from two trends and firstly, IT has evolved to utility and thus it is easy to obtain good services from specialized vendors and secondly, there is a bandwagon effect on outsourcing due to the fact of early success by Eastman Kodak “ Kodak effect”. This paper is meant to analyze these questions and to evaluate the impact of IT outsourcing in insurance companies.

## **1. 5 Research methodology**

This study will combine both exploratory and descriptive analysis targeted to major insurance companies operating in Malaysia and also targeted to

employees working in this companies and also customers acquiring their services.

Primary data collection method will be used whereby a survey will be conducted using questionnaires. The questionnaire will consist of the characteristics of the company such as industry classification, ownership, total employee, IT staff and revenue and also IT budget for the local organization and also resourcing. It will also include information pertaining to IT components that are outsourced and vendor preference. Respondents are also will be required to state their reasons for IT outsourcing and also covers what are the possible reasons why organizations would outsource their IT services.

This study will also include interviews as form of data collection whereby it includes:

Interviewing the Head of IT in an insurance company;

The line managers who are respectively in charge of their teams which consist production and development; and

The different team leaders who reports to the line managers as they are the assistants and also at the junior management hierarchy.

Figure 1: Research methodology cycle

## **1. 6 Data Collection and Data Analysis**

The questionnaire will be distributed either via email or hands to the head or IT or senior managers with IT responsibilities in the selected insurance

companies in Malaysia. Meanwhile interviews will be conducted face to face with the Head of IT, line managers as well as team leads. Responses and feedback from these respondents will be recorded with their permission and documented for analysis pertaining to the reasons and parameters for outsourcing their IT components.

## **1. 7 Chapter summary**

As per the beginning of this study where I mentioned that there is little or few known about IT outsourcing in Malaysia and leave alone within insurance companies in Malaysia. This definitely had created a great interest in me to analyze and to bring forward the awareness of IT outsourcing and the impact it has created within an organization. Globally, the banking, financial services and verticals are the fastest growing segments in outsourcing whereas insurance companies ranked the slowest in adapting to IT outsourcing.

It is clear that many insurance companies worldwide have adapted to IT outsourcing in order to improvise and enhance their IT business. Many major insurance companies from countries like United States of America, Germany, South Africa, Australia, India and Singapore have adopted IT outsourcing from a third party to manage the IT function as it is a critical part of the business process that requires technical competence beyond the scope of current management.

It is definitely undeniable that the decision to outsource IT processes implies a much heavier reliance on the quality of the services provided by the outsourcer. Many large and renowned organizations in countries worldwide have followed the outsourcing path with spectacular success. A few others

have discovered the hard way that the outsourcing can be a complex process and difficult to adapt. Some of these companies even retreated from outsourcing and tried to bring their systems back in house. They discovered that reversing the process is not simple as they still lack both skills and resources.

This research is attempting to a noble notion in bringing awareness to insurance companies that it is just not merely cost saving but shifting to organization's need to have access to advance technology and expertise. This study is also to help companies to identify major factors that can help to implement a successful IT outsourcing and to show an optimistic approach to insurance companies to experience benefits that will outweighs any potential risks or cost in an IT outsourcing.