

Chapter 5



Insurance Marketing

By: Marya sholevar



AGENTS AND BROKERS

A successful sales force is the key to success in the financial services industry. Most insurance policies sold today are sold by agents and brokers.

Agents: An agent is someone who legally represents the principal and has the authority to act on the principal's behalf.

Brokers: A broker is someone who legally represents the insured even though he or she receives a commission from the insurer.

Agents

- An agent has the authority to represent the insurer based on express authority, implied authority, and apparent authority.
- **Express authority** refers to the specific powers that the agent receives from the insurer.
- **Implied authority** means the agent has the authority to perform all incidental acts necessary to exercise the powers that are expressly given.
- **Apparent authority** is the authority the public reasonably believes the agent possesses based on the actions of the principal.

Agents

- Important difference between a property and casualty insurance agent is: A property and casualty agent has the **power to bind the insurer** immediately with respect to certain types of coverage. In contrast, a life insurance agent normally does not have the authority to bind the insurer.
- **Binder** is temporary insurance until the policy is actually written.

Brokers




- A broker legally does not have the authority to bind the insurer.
- Instead, he or she can solicit or accept applications for insurance and then attempt to place the coverage with an appropriate insurer. But the insurance is not in force until the insurer accepts the business.
- A broker is paid a commission by insurers where the business is placed.



Brokers



- Brokers are extremely important in **commercial property and casualty insurance**, Large brokerage firms have knowledge of highly specialized insurance markets, provide risk management and loss-control services, and handle the accounts of large corporate insurance buyers.
 - Brokers are also important in the **Surplus Lines** markets.
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Brokers

- **Surplus** lines refer to any type of insurance for which there is no available market within the state, and the coverage must be placed with a nonadmitted insurer .
- A **nonadmitted insurer** is an insurer not licensed to do business in the state .
- A **surplus lines broker** is a special type of broker who is licensed to place business with a nonadmitted insurer .
- Brokers are important in the area of **Employee Benefits**, especially for larger employers. Large

TYPES OF MARKETING SYSTEMS


- Marketing systems refer to the various methods for selling and marketing insurance products. These methods of selling are also called **distribution systems** .
- An efficient distribution system is essential to an insurance company's survival.

Life Insurance Marketing



Distribution systems for the sale of life insurance have changed dramatically over time.


Major life insurance distribution systems:

- Personal selling systems
 - Financial institution distribution systems
 - Direct response system
 - Other distribution systems
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Life Insurance Marketing




1-Personal Selling Systems: The majority of life insurance policies and annuities sold today are through personal selling distribution systems and include the following:

- **Career agents** are full-time agents who usually represent one insurer and are paid on a commission basis.
 - **Multiple Line Exclusive Agency System,** Under this system, agents who sell primarily property and casualty insurance also sell individual life and health insurance products.
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Life Insurance Marketing




- **Independent property and casualty agents** are independent contractors who represent several insurers and sell primarily property and casualty insurance.
 - **A personal-producing general agent (PPGA)** is an independent agent who receives special financial consideration for meeting minimum sales requirements.
 - **Brokers** are independent agents who do not have an exclusive contract with any single insurer or an obligation to sell the insurance products of a single insurer.
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Life Insurance Marketing



2-Financial Institution Distribution Systems: Many insurers today use commercial banks and other financial institutions as a distribution system to market life insurance and annuity products.

3-Direct Response System: is a marketing system by which life and health insurance products are sold directly to consumers without a face-to-face meeting with an agent. Potential customers are solicited by **television, radio, mail, newspapers, Internet.**




Life Insurance Marketing



Advantages of Direct Response System

- Gain access to large markets;
- Acquisition costs can be held down;
- Uncomplicated products, such as term insurance, can be sold effectively


Disadvantage

- Complex products are often difficult to sell because an agent's services may be required.
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Life Insurance Marketing



4-Other Distribution Systems:

- **Worksite Marketing.** Individual sales interviews on site with employees interested in purchasing life insurance products
 - **Stock brokers** are licensed to sell life insurance products.
 - **Financial Planners** provide advice to clients on investments, estate planning, taxation, wealth management, and insurance.
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Property and Casualty Insurance Marketing

- Independent agency system
- Exclusive agency system
- Direct writer
- Direct response system
- Multiple distribution systems

Property and Casualty Insurance Marketing

1-Independent agency system: has several basic characteristics.

- It is a business firm that usually represents several unrelated insurers .
- It owns the expirations or renewal rights to the business .
- It is compensated by commissions that vary by line of insurance .
- In addition to selling, independent agents perform other functions like **adjust small claims, loss control services, bill the policyholders and**

Property and Casualty Insurance Marketing

- 2-Exclusive Agency System** represents only one insurer or a group of insurers under common ownership.
- They do not usually own the expirations or renewal rights to the policies but independent agency systems have complete ownership of the expirations.
 - They generally pay a lower commission rate on renewal business than on new business but independent agency system typically pay the same commission rate on new and renewal business.
 - They provide strong support services to new agents.

Property and Casualty Insurance Marketing

3-Direct Writer: Technically, a direct writer is an insurer in which the salesperson is an employee of the insurer, not an independent contractor .

4-Direct Response System: Sells directly to the public by television, telephone, mail, newspapers, and other media.

5-Multiple Distribution Systems:(new ways to sell)
To increase profits, many property and casualty insurers use more than one distribution system to sell insurance. These systems are referred to as multiple distribution systems .

GROUP INSURANCE MARKETING



Many insurers use group marketing methods to sell individual insurance policies to members of a group like employers, labor unions, trade associations...


- Life insurers typically sell and service group life insurance products through group representatives.
- Some property and casualty insurers use mass merchandising plans to market their insurance.
- **Mass merchandising** is a plan for selling individually underwritten property and casualty coverages to group members; auto and homeowners insurance are popular lines that are frequently used



Banc Assurance



An arrangement in which a bank and an insurance company form a partnership so that the insurance company can sell its products to the bank's client base. This partnership arrangement can be profitable for both companies. Banks can earn additional revenue by selling the insurance products, while insurance companies are able to expand their customer base without having to expand their sales forces or pay commissions to insurance agents or brokers.



STRATEGIC MANAGEMENT



In general, strategic management is a process of formulating, choosing, and implementing strategy to reach organizations' missions or objective accompanying with the analyses of internal and external factors.



STRATEGIC MANAGEMENT PROCESS



- Strategic management processes begin first with environment scanning where managers scan the external and internal factors that affect the operation of the organization.
- Afterwards, strategy management will be performed in three parts: strategic formulation, strategic implementation, and strategic evaluation.



STRATEGIC MANAGEMENT PROCESS



- After determining the strategy to adopt, managers come to the strategy implementation stage, where the chosen strategy should be actualized. In other words, a series of programs or activities should be defined into detailed actions and movements.
- Strategy evaluation, the final stage of the strategic management process, refers to collect information about the strategy, and to obtain feedback for later improving.



MARKETING STRATEGY

- Marketing is the primary links between companies and their customers. Therefore, marketing positions and market mixes should be seriously considered by managers (Wheelen & Hunger 2008).
- **Market positions:** In order to access to the most profitable customer group, companies adopt the STP process to choose its target customers. The STP process includes three steps: 1) Segmentation : categorize the potential customers 2) Targeting: choose the target customers to serve and 3) Positioning: implement marketing plan to reach the target group.

MARKETING STRATEGY

- The **marketing mix** is the combination of marketing activities that an organization engages in so as to best meet the needs of its targeted market. The Insurance business deals in selling services and therefore due weight age in the formation of marketing mix for the Insurance business is needed. The marketing mix includes the 7 P's of marketing i.e. the product, its price, place, promotion, people, process & physical attraction.

MARKETING STRATEGY

- **PRODUCT:** A product means what we produce. An Insurance company sells services and therefore services are their product.
- **PRICING:** The cost for consumers to receive the goods or service. In the insurance business the pricing decisions are concerned with:
 - 1-The premium charged against the policies
 - 2-Interest charged for defaulting the payment of premium and credit facility
 - 3-Commission charged for underwriting and consultancy activities.

MARKETING STRATEGY

- **PROMOTION:** The activities a market could utilize to provide information about their products and service to attract consumption and increase sales. The insurance services depend on effective promotional measures. Advertising and Publicity, organization of conferences and seminars, incentive to policyholders are impersonal communication.
- **PHYSICAL DISTRIBUTION(place):** Activities that make the product available to target consumers. Distribution is a key determinant of success for all insurance companies.

THIRD PARTY ADMINISTRATOR



Third party administrator insurance is insurance that has been outsourced to an outside company.

Although any company or organization can use a third party organization to handle claims, they are most often used by companies that are self-insured.

The third party insurance organization does not carry any insurance risk, they simply handle paperwork.



THIRD PARTY ADMINISTRATOR

A third party administrator insurance company may handle:

- Claim processing
- Collection of premiums
- Manage workers' compensation
- Disability programs
- Also administer retirement and saving plans for employees