

PARTICULARITY OF SELLING INSURANCE FOR ROMANIAN INSURANCE COMPANIES

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Abstract: “It is already known that marketing has a very important role for the success of each type business. Insurance sector is an industry with continuously modification towards insured risks, exclusions and quotations. The competition in the Romanian insurance industry is a really tough one, and the insurance companies that will adopt better marketing strategies will be successful and profitable ones. As a part of marketing field, distribution channels in insurance grew in importance in the last decade. In this paper we will present the main distribution channels in insurance field separately for non-life insurance and for life insurance. We will observe some statistics in Europe related to the distribution channels, and we will analyze them. The Romanian insurance companies that take into account the official statistics related to distribution channels in Europe, will be most profitable in the next years.”

Keywords: “insurance, distribution channel, system, broker, agent, banc assurance”

Marketing in insurance is referring to different ways that insurance policies are sold. Even if the insurance companies enhance among the employees actuaries, underwriters, claims, administrative people, without a profitable selling of insurance policies the insurance company will collapse. So, the usage of an efficient policy selling system is a must, in order to assure certain profitability for insurance companies.

There are two different systems for selling insurance policies, divided by the type of the insurance field: life insurance and non-life insurance.

The selling system for life insurance recorded continuously modification in the last years, generating new models. The main marketing systems used in the selling of the life insurance policies are summarized as it follows:

- 1 – The system of individual agency
- 2 – The system of specialized brokers
- 3 – The system of direct answers

The first system of individual agency is a system by which the insurance company set up its own selling force by recruitment, is financing the entire activity, trainings and supervising of all new insurance agents. If we follow the Insurance Romanian Law (and also this mention appears in the insurance laws in most developed countries in the World) the independent insurance agent represents the interest of one insurance company. In case of an insurance agent that works for an insurance broker, he can sell insurance from different insurance companies.

Among these systems 2 are used with preponderance:

- a) The agencies' general system. By this system, the insurance agent is an individual person and represents only the interests of the insurance company. This agent/agency is responsible for a certain territory/market, the recruitment, training and motivation of all agents in his suborder. The main agent receives a commission depending of the entire realization. The insurance companies offer a privileged motivation for this agent – supporting a part of the administrative expenses, recruitment and training expenses for all new agents too.
- b) Managerial system. Using this system, insurance companies establish different regional agencies. The region manager has a clear responsibility for hiring, training of all new insurance agents. The majority of insurance companies prohibit the managers to sell individually insurance policies, but they are paid and recompensed by the team's selling results (so the manager receives a fix salary plus bonus). In this case the insurance companies are supporting the entire amount of administrative expenses, recruitments and trainings.

The second system of specialized brokers is a marketing system by which insurance companies are selling theirs insurance policies using specialized brokers that are already operating in the life insurance market. The insurance companies contact successful agencies in order to sell the policies. These brokers recorded continuously high performances, higher than the average of the market, proven by statistics.

These are hired to sell insurance for a higher commission than the normal one, and there is the possibility for receiving even bonuses. Theirs' only obligation is to sell insurance, and not to establish a selling team. Also there is a mentioned plan to sell a minimum amount of insurance policies for a specified insurance company. Contrarily to an individual agent, the specialized brokers may have collaboration contracts with many insurance companies. Another characteristic of these brokers is the fact that they are supporting all the expenses generated by theirs' activity.

The system of direct answers is a marketing system by which life insurances are sold directly to the clients without any help from insurance agents and brokers. The potential clients are informed about the life insurance products by mass media (radio, TV, mail, email).

For example in Romania there some insurance companies that use telemarketing in order to sell their own policies. Other insurance companies use sometime their web site. After the electronic payment of insurance premium, a policy with a numeric serial is send back to the insured person in the electronic format.

In the moment of completing online the medical questionnaire, the potential insured person offers all the data about his health, on his own responsibility. In case of false declaration, in the moment of an insured event occurrence the insurance company will refuse the claim (only in this moment the insurance company will verify the accuracy of completed information).

Such a system has the advantage that it allows the insurance company to operate into a larger market, the acquisition costs are very low (this fact generate a decrease of percentage insurance quota), and the insurance policies may be sold easier.

As disadvantage we mention the lack of complex insurance policies, because in this case there is needed direct sale persons that must explain in detail the policy and to offer pertinent information to all potential insurance clients.

The main selling systems for non-life insurance are:

- 1 – The system of the independent broker
- 2 – The system of insurance agents
- 3 – The systems of insurance inspectors
- 4 – The system of direct answers
- 5 – The system of multiple distributions

The system of the independent broker is known as American system and has some characteristics. As we mention the broker represents many insurance companies, and the agents of the broker are authorized to sell policies of these insurance companies, and are receiving only commission.

In this case, the insurance brokers held the right to renew the contracts (that usually are 1 year term). In the moment an insurance contract is to expire, and the broker decide to change the insurance company, the transfer of the client may be done very easy without any notification to the former insurance company. This principle is the same with the one existing to every insurance company: if the client decides (no matter the reasons are) to change the insurance company, at the end of the contract he is free to do it without explanation.

We must mention a very important aspect related to this mention. In Romania between 2004 and 2005 there was a mention in the Law of Compulsory Auto Insurance for damages caused to related parties. If a person insured to an insurance

company would have been wanted to choose other insurance company, he should have made a written notification to the actual insurer. The notification must have been done with more than 30 days prior insurance expiration. In case of not respecting this term the client could not choose other insurance company. At the moment of notification, the client received a registration number on the request, and with this confirmation the client could go to other insurance company. Due to a lot of claims of the insured persons the Govern decided to do a modification to the law, and the above mention was eliminated.

Brokers' remuneration is made exclusively by commission; there is a scale of commission for each type of insurance. Traditionally, at the policies' renewing the paid commission should be equal to the one paid for a new policy of the same type. In case of a lower commission, the broker will be facing a potential loss of revenues, and it will transfer the client to other insurance company. Some insurance companies pay to brokers a supplementary commission (bonus), if the loss ratio for the client is a good one at the end of the contract.

Besides selling insurance policies, the brokers are authorized to settle the claims for theirs' clients. Some strong brokers (especially international ones) offer a complex risk management programs for the clients that include risk control. Also the insurance premium is made different. Under the contract between the insurance company and broker, the broker collect insurance premium for their client in the broker' banking account, and at the end of the mentioned period (one month, two weeks) the brokers transfer the premiums minus the commission, in the insurance banking account. In other cases the premium are entirely transferred, and then the insurance company will pay the commission.

The system of insurance agents:

The insurance agents represent in this case the interests of a one insurance company, or group of insurance companies with common shareholders. The agent is restricted by a contract to sell insurance for others insurance companies. In a very few cases, in the moment of expiring of an insurance policy, the insurance agent don't have the right to renew the policy. In the majority of cases, the agents may renew the policies, but in the situation of ending the collaboration with the actual insurance company they loose all the rights related to renewing process. In the contract of collaboration, there is a mention: in case that an agent will end the collaboration with an insurance company, it is forbidden to transfer the clients to other insurance company. This mention has only a psychological aspect, because at the end all must be explained as clients' will. Or the policies will be renewed "theoretically" by other agents of the new insurance company.

In Romania, the insurance agents have the legal right to represent more than one insurance company: the law mentions that the insurance agent must represent only one insurance company for one type of insurance. So theoretically, an insurance agent may sell property insurance for an insurance company, sell casualty insurance or other insurance company and life insurance for other one.

Another difference is made by commission. The agent of this system may receive a lower commission for a renewing policy, than for a new one. This fact makes the agents to continuously prospect the market for new clients. Using this strategy, some insurance companies realized huge increasing of their business and of their market share.

The majority of Romanian insurance companies pay the same commission for renewing the contracts (the same situation to the insurance brokers' one) because in many cases there are tough negotiations between involved parts (the insurance competition may offer better quotation or risk coverings).

Initially, these agents are paid with a fix salary, until they learn all the things about insurance policies, and then are entirely remunerated by commission. So we can conclude that insurance agents have some basic characteristics to all insurance companies, and the details differ from an insurer to other.

The systems of insurance inspectors

In the majority of cases the insurance inspectors are wrongfully assimilated to insurance agents. The insurance inspectors are hired by the insurer; insurance company is supporting all the expenses generated by insurance policies' selling process. Also the insurance company will pay all the legal taxes related to inspectors' salary.

Like the insurance agents, the inspectors represent only the interest of one insurance company. The salary is composed by a fix part, and in case they are exceeding the plan they will receive a bonus. Also in case of not realizing the plan they will support a penalization. The fix part of the salary is generated by a very complex selling plan (different percentage of every type of insurance). The inspectors will be motivated to sell insurance policies with a high level of profitability for the insurer (homeowners' insurance, casualty insurance, workers' compensation).

The insurance inspectors have in theirs suborder the insurance agents, or if we generalize the system of insurance agents. The inspectors have as responsibility the training process of insurance agents and supervising theirs' selling and subscribing activity.

The system of direct answers

This system is similar with the one existing in life insurance – already presented in the paper. It is very easy used for motors and homeowners insurance. The insurance selling process is realized through internet website of an insurer, and after policy payment (before sending the electronic policy) a specialized person from the insurance company is realizing a risk inspection of the insured object.

The casualty insurance, insurance for companies that need complex evaluation can not be sold through internet, but internet is a very good option for advertise these products.

The system of multiple distributions is used by insurance companies in order to increase theirs' profitability. For example in the past years the insurance companies sold insurance only through insurance agents and brokers, in present the insurance companies are using also internet, TV, mailing and even most specialized brokers.

If we take into account the interferences between insurance field and banking system and others financial industries, the insurance companies are selling theirs insurance products also through banks, leasing companies and professional associations.

Using the statistics from the Sigma Center of Swiss, we observe how the percentages of different distribution channels were at the end of 2006 in some important countries in Europe.

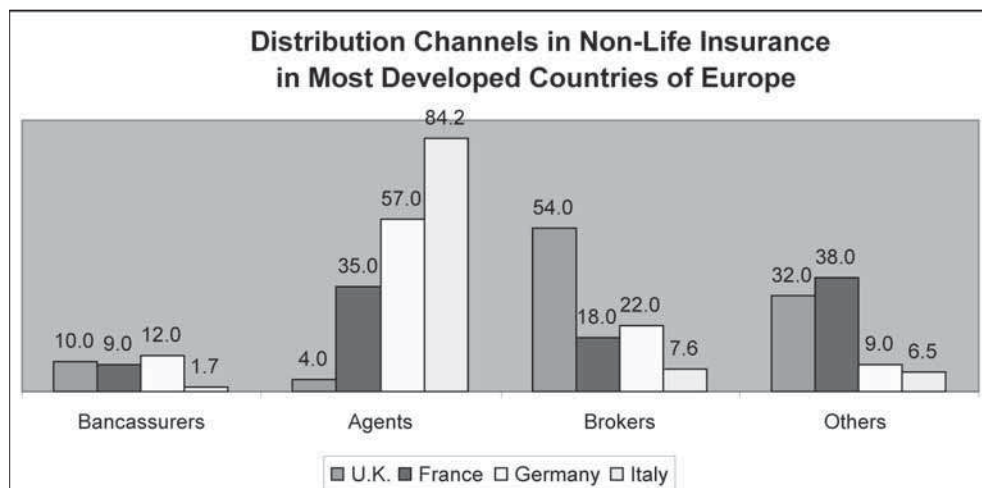
For example the next table shows us the distribution channel for non-life insurance:

	Bancassurers	Agents	Brokers	Others (include direct sales)
United Kingdom	10.0	4.0	54.0	32.0
France	9.0	35.0	18.0	38.0
Germany	12.0	57.0	22.0	9.0
Italy	1.7	84.2	7.6	6.5
Spain	7.1	39.5	28.3	25.2
Belgium	6.1	10.1	65.6	18.2
Portugal	10.0	60.7	16.7	12.6
Poland	0.6	58.2	15.7	25.5
Turkey	10.0	67.5	7.8	14.7

We observe that in all these countries the most important distribution channels are insurance agents and insurance brokers. Excepting United Kingdom and Belgium were the brokers remain the most important distribution channel, all the countries use most insurance agents.

Also, we can notice how important became bancassurance as distribution channel, in countries like Germany, United Kingdom (pioneers of insurance and reinsurance), Portugal and Turkey.

These mentions can be observed also in the next graphic: Distribution Channel in Non-Life Insurance in Most Developed Countries of Europe:

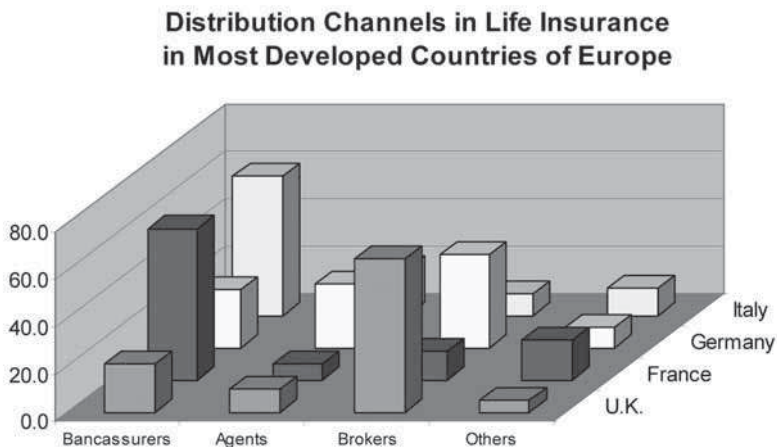


The most important role of the agents is in Italy, Turkey, Portugal, Poland and Germany with more than 50% from the entire distribution channels.

The situation in the life sector in Europe for distribution channels is quite similar. We observe in the next table that United Kingdom, Belgium and moreover Germany in this sector uses preponderantly insurance brokers to sell life insurance policies:

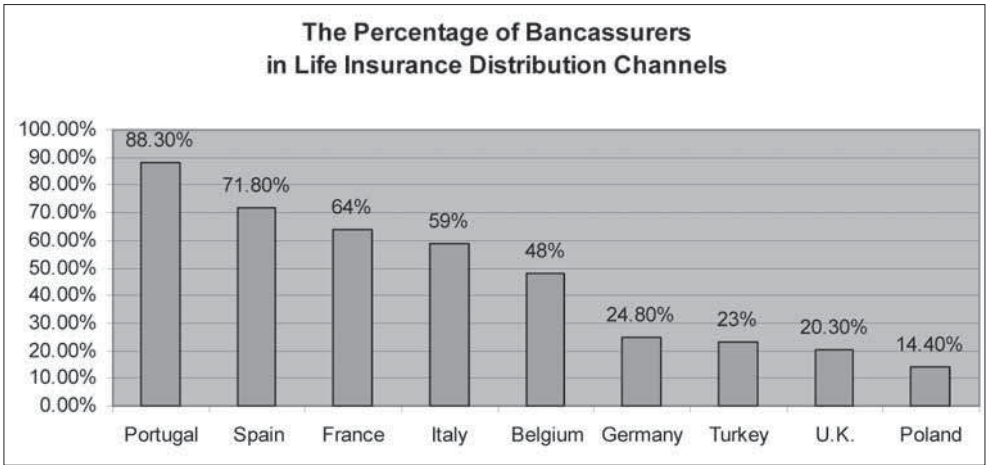
	Bancassurers	Agents	Brokers	Others (include direct sales)
United Kingdom	20.3	~10.0	~65.0	~5.0
France	64.0	7.0	12.0	17.0
Germany	24.8	27.1	39.4	8.7
Italy	59.0	19.9	9.4	11.7
Spain	71.8	15.4	5.4	7.4
Belgium	48.0	3.2	26.5	22.3
Portugal	88.3	6.9	1.3	3.5
Poland	14.4	39.7	4.3	41.6
Turkey	23.0	30.1	0.8	46.2

Also the agents are most important in countries like Turkey, Poland and Germany, and bancassurance is very important in all analyzed countries. We observe these information also in the next graphic: Distribution Channel in Non-Life Insurance in Most Developed Countries of Europe:



The importance of bancassurance may be explained by the strong connections of the insurance market to the banking system. In the moment of according a credit for a person the prudential normative of the banks require a life insurance for the person that will receive the credit. Because the credit market is on a ascendant trend in Europe, the number of life insurance policies that banks are selling is increasing.

We can present a top of the analyzed countries, taking the importance of bancassurance as distribution channels in life insurance sector:



Portugal and Spain is the leaders of this top and we may conclude that life insurance selling system is influenced by the negotiation and the relationship between insurance companies and banking system.

Market share of bancassurance in European life insurance market recorded interesting evolution during the last 6 years. In the most developed countries in Europe the percentage of market evaluated different:

- In France, Germany, U.K. share grew easily every year and
- In Belgium, Italy and Spain the market share decrease almost 0.5% every year

Country	2001	2002	2003	2004	2005	2006
UK	-	-	-	-	20.1%	20.3%
France	60.0%	61.0%	62.0%	62.0%	62.0%	64.0%
Germany	21.5%	22.8%	24.2%	25.3%	25.9%	24.8%
Belgium	50.4%	45.1%	44.2%	43.5%	44.8%	48.0%
Italy	61.2%	56.3%	58.9%	58.6%	60.6%	59.0%
Spain	74.3%	74.2%	68.5%	73.0%	71.9%	71.8%

All these facts must be carefully analyzed by the specialists of the Romanian insurance companies, learn from them and if it is possible to follow them, because the one that will appreciate the good trends is to get important and competitive advantages in the insurance market.

More over, a common system for non-life and life insurance is the group insurance system. By this system each person of a group is insured individually, using an insurance program with lower quotation. This system is benefic and used for big corporations that receive important discounts for them and the members of the group.

We can conclude that because of continuously modification in the insurance markets, in risk exposures, in communication techniques – the insurance companies must develop theirs system of selling insurance and find new techniques in order to get significant advantages toward the competitors.

The efficiency of insurance distribution channels:

The selling process of insurance policies, using multiple distribution channels permits to insurance companies, insurance brokers and agents to improve their activity. This fact allows insurance companies to enter in the new markets. All is based on the initiation and developing of new relations.

The most evident distribution channel in insurance is the insurance agent and the relation between him and every insured client. The insurance agents may not be

treated as a simple intermediary between the insurance company and the potential insured people, because:

- They are meeting with the potential clients,
- They are negotiating the policies quotations,
- They are involving in the claims settling of their clients,
- Sometime they are prospecting the insurance market
- And they are observing the advantages and disadvantages of the insurance policies

Every established relation, every distribution channel may represent an important way to profitability and success. The capacity of insurance agents of creating, maintaining and developing the distribution channel represent a real provocation for them. The usage of multiple distribution channels is a very important thing, but is very hard to realize their coordination in order to get an efficient cooperation.

The distribution channels are usually defined by the preferences of the insurance clients. Some clients are motivated by the quality of an insurance policy, or by the quickness of subscribing process; other take into account the policy price or the operatively of the loss settlement. So, a successful insurance agent will be the one that identify and satisfy efficiently the preferences of the insurance clients.

A satisfied insurance client may action similarly to a distribution channel, because he will recommend the products and the insurance company to the people that get into contact with him. In some negotiations process, the insurance company may offer specific risk coverings and unique services for a client, taking into account his particularities identified by insurance agent.

In order to obtain profitability by using multiple distribution channels, it must be analyzed some factors:

- A fair partnership – it is harder to select an insurance client than to offer an insurance policy. In order to select a client, the insurance agent must know very well his behavior, must identify his flexibility and capacity of understanding the mutual needs on a medium or long time
- Full commitment – inside a distribution channel is not enough to understand only the insurance agent part. It must be analyzed the way that client think about this channel, in order to offer him a continuous satisfaction. The insurance agent must take into account the factors that influence the insurance clients' decisions: their needs, wishes and motivations – in order to develop an indispensable relationship for both parts.
- New development perspectives – it is not enough only to sell the existing insurance products. The managers of distribution channels must think how to sell in the future the existing policies and also the new policies that will appear. They must

identify continuously new opportunities in order to maintain in the future the existing profitability.

- Adequate management structure – the managers of the insurance companies must realize the importance of distribution channels, and understand that the good function of these is a team effort. They must do trainings that should be assimilated as an investment not as an expense. Insurance companies, brokers and insurance agents must invest a lot in trainings, to be sure that the insurance policies are well understood by the insurance agents. Contrary, it may generate a decrease of insurance premiums.
- Proactive management – in distribution channels that identify exactly the motivations, needs and clients wishes it can appear a critical static situation. This situation is not a benefic one, because it can be missed some opportunities that appear only one time. So in case of a proactive management there is a permanent communication between insurance agent and insurance clients. There will be a continuous identification of clients' needs, and the client will be promptly informed about the new insurance products, launched by the insurance company.

Conclusion

The using of multiple distribution channels may generate benefits also for insurance company' shareholders, brokers, agents and not in the end to insured clients, because permit the establishment of strong connections that will bring multiple opportunities for all parts.

If the insurance companies learn how to use and manage distribution channels, they will assure the continuously existence in the insurance market and the future profitability of theirs insurance policies.

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