3 – Insurance Marketing and Distribution

**1 -Property-Casualty Insurer Marketplace**

**Objective**: *Explain how insurers differentiate marketing for different types of customers*

The property-casualty insurance marketplace is the intersection of customer’s needs and insurer’s ability to meet them. But how does an insurer distinguish itself when it has to contend with regulation, unanticipated catastrophic losses, and a competitive landscape in which data-driven personalized service has given consumers and businesses more choices than ever before? One way is through marketing strategies tailored for specific types of customers.

**Five distinguishing characteristics drive consumer demand for insurance products and services:**

* **Insurance Needs**
* **Knowledge of the insurance market**
* **Methods of accessing the insurance market**
* **Negotiating ability**
* **Access to alternative risk financing measures**

These characteristics underlie an insurer’s marketing strategy for each customer group.

**Characteristics of Property-Casualty Insurance Customers**

**Individuals**

Generally, individuals share the same needs for property coverage to protect real and personal property and liability coverages for losses arising out of their personal actions and their ownership and use of property. Because so many individuals have the same insurance needs, insurers can pool individual insured’s loss exposures based on relevant underwriting factors to determine the appropriate premiums for their policies.

Individuals are typically the least knowledgeable about insurance markets and the insurance mechanism. Therefore, they often need to rely on the expertise of a producer to help them decide which coverages, policy limits, and deductible levels are the most appropriate for their particular circumstances.

Aside from retention an insurance, few risk financing alternatives are available to individuals. In addition, they are often required to purchase insurance by mortgagors, and lenders. They must also purchase auto liability coverage to meet state requirements because retention alternatives are financially unfeasible.

Individuals have little negotiating power in insurance transactions. Most personal lines insurance contracts are offered on an as-written basis by the insurer. If an individual is not satisfied with the policy’s terms or price, typically his or her only option is to look to other insurers for coverage.

**Small Business**

Small businesses do not usually have any employees with full-time risk management responsibilities. Often, the owner or a designated partner or a manager with a limited knowledge of insurance markets is responsible for making risk management decisions – including the risk financing decision to purchase insurance. This decision is often made with the help of a local agent or a small broker. Small businesses are not the typical target market for regional or national brokers because such businesses often do not generate sufficient commissions.

**The insurance needs of a small business can usually be covered by a limited number of commercial insurance policies, such as a businessowners policy, a workers compensation policy, and a commercial auto policies**.

*Small businesses have little negotiation power with insurers and a limited number of choices when it comes to risk financing alternatives. Some small businesses have been able to join with similar organizations to form small risk retention groups or purchasing groups as an alternative to the standard commercial insurance market*.

**Middle Markets**

Organizations that can be classified as middle markets are larger organizations with insurance needs that vary considerably according to the products or services they provide. For example, a company that manufactures airplane components has significantly higher products liability insurance need than a company that manufactures greeting cards.

Middle-market organizations are often large enough that their loss histories provide credible statistics for use in projecting future losses. These organizations may have a risk manager to assist with coverage decisions. The risk mangers typically use brokers to access the insurance markets and may be targeted by small (local), regional, or national brokers. They typically have some negotiating power with insurers because they have a more credible loss history, generate more premium income for the insurer, and have broker representation that can assist in their presentation to insurers. Finally, middle-market organizations have increasing access to risk financing alternatives such as large-deductible plans.

**National Account**

The national accounts/large accounts segment includes the largest organizations seeking insurance coverages, such as Fortune 500 companies, chemical and other manufacturing organizations, and large municipalities. By virtue of their size and scope, these organizations have the most complex insurance needs, the most comprehensive knowledge of the insurance market (with a large risk management department and regional or national broker representation), and the widest variety of risk financing alternatives relative to other customer types.

These accounts often generate millions of dollars in premiums annually, giving national account brokers the most negotiating power with insurers. This power can be used to negotiate broader coverages, lower deductibles, higher limits, or premium reductions. Organizations in this category are likely to have complex insurance programs that combine commercial insurance coverages with sophisticated retention plans and captive insurers. The use of captives by large organizations provides them with additional flexibility to bypass the standard commercial insurance market and access reinsurance market directly. Furthermore, unique loss exposures that require extremely high limits or highly specialized underwriting consideration are often insured by a consortium of insurers that work together to provide the necessary insurance program.

**Property-Casualty Insurer Marketing Differentiations**

**Customer Focus**

To be customer focused, an insurer must understand the characteristics of specific customer groups and provide products and services that respond to those characteristics. Customer focus is improved through market intelligence, which provides information relevant to understanding the customer’s current and future needs, preferences, attitudes, and behaviors. The depth of understanding leads to better customer interaction through an intensified customer-market view. Through market intelligence, often augmented by increasingly sophisticated analysis of the massive amount of data available about individual consumers, the insurer understands where its insurance offer fits and discovers untapped or underserved potential markets.

**Products and Services**

Property-casualty insurers can be further differentiated by line (for example, personal or commercial).

**Size**

An important driver of competition is the size of the organization in an industry. For a given number of organizations, the level of competition is usually greater is all organizations are approximately the same size than if there are two or three large organizations and many small ones. The larger companies may dominate the market reducing competition.

An insurer’s size influences it decision regarding the customer groups to whom it chooses to market. If a market is dominated by a large organization, a smaller insurer might select a subsection of the market or a niche market to target and tailor its product to better meet the precisely defined needs of that group.

Similarly, a small insurer might avoid the national account markets, where large written premiums must be reinsured or offset by significant reserve levels, reducing an insurer’s ability to write a substantial number of other accounts. For a small insurer that relies on a single large account, the risk of losing that account can be disproportionate to the benefits of serving a single account.

**Geographic Area**

**Property-casualty insurers are differentiated by the geographic areas they serve. An insurer’s decision regarding geographic area is based on its size, its level of expertise in writing coverage in broader geographic areas, the level of competition in those areas, and its customer focus. An insurer that chooses a regional area for operation can more narrowly focus its marketing intelligence to address customer’s insurance needs in the smaller area. In contrast, writing insurance nationally or internationally requires substantially more marketing intelligence to understand customers and successfully meet a wider range of insurance needs.**

**Distribution System**

An insurer’s choice of marketing system(s) is influenced by its customers’ knowledge of insurance products and the risk financing alternatives available. For example, individuals generally have limited knowledge of insurance products and limited risk financing alternatives that are usually in the form of deductible selections. Insurers focused on mature customers with homes, autos, and valuable personal property may choose a distribution system based on exclusive agents or independent agents, who can assist them with coverage, limits, and deductible selections. Alternatively, an insurer targeting sales of personal auto insurance to young drivers who have a high probability of selecting the lowest priced coverage might choose an internet based or app. based distribution system.

Similar decisions regarding the selection of marketing systems are made for small business, middle market, and national accounts. Small businesses would use an independent agent distribution system. As account grow larger and have risk management staff to make selection decision or work with brokers for coverage selection, broker-based distribution systems might be the selected option.

**2 – Unique Factors in the Property-Casualty Insurer Marketplace**

**Objective**: *Explain how unique economic factors shape the insurance marketplace*

All marketplaces are influenced by changes in the economy. Business cycles, interest rates, rates of unemployment, and changing consumer demographics and social pressures gradually require shifts in operations, products, and distribution systems.

**The property-casualty insurance marketplace is also shaped by *unique economic forces, regulatory controls, and technology demands that set the parameters within which insurers must operate. Underwriting cycles, as well as the financial shock of unanticipated catastrophic losses, further affect it*.** Within this changing environment, insurers adjust to maintain the competitive dynamic required for functioning of the marketplace.

**Economic Forces**

Property-casualty insurers manage a narrow margin of underwriting profitability to remain competitive. Inflation is a factor in increasing the costs of losses and the costs of an insurer’s operations. Similarly, the availability of reinsurance influences the price and cost of insurer operations. *Investment earnings frequently offset high losses and rising costs*. When investment earnings are diminished the prospect of catastrophe losses increases, insurers must raise premiums to sustain risk appropriate rates of return.

**Many companies invest reserve funds to gain investment earnings. The importance of investment earnings to property-casualty insurer’s profitability is a key feature of the industry. Insurer’s operations are frequently dependent on investment earnings because premiums are held competitively low to attract customers**.

**Regulatory Controls**

**State-based insurance regulations stipulate the financial requirements that insurers must sustain to operate within a state and the market conduct to which insurers must adhere. In this way, insurance regulation is a stabilizing control that ensures the sustainability of insurance companies and their ability to reliably provide compensation for insured’s losses and fair treatment to insureds in business practices**.

Insurance regulatory controls are a marketplace feature unique to the insurance industry, creating an environment in which a minimum standard of practice is required for all competitors.

**Demands for Technology**

*The demand for technology is a powerful factor in insurance marketplace because of the computer networks that connect insurers and producers and the technological connections between insurers and customers through the internet. Producer complete applications and access insured’s information through computer networks to facilitate service. Customers obtain coverage information and compare premium quotations through insurers’ websites* or sites that provide quotes from multiple insurers.

**The primary demand for technology in these marketing applications is ease of use. Both producers and customers are drawn to user interfaces that are easy to understand and navigate.** This requires significant engineering to provide point-of-use instructions and easy user operations.

**Underwriting Cycles**

Underwriting cycles, a key feature of the insurance marketplace, create additional competitive shifts to which insurers continuously adapt. Because underwriting cycles have numerous causes, they have varying duration and depth. As a result, insurers must also adapt as the cycle patters reveal themselves to remain competitive.

*Pricing and availability of insurance products fluctuate based on the amount of capital available to the industry. A hard market is characterized by periods of decreased competition, with rising prices and increased insurer’s profitability*.

*A soft market occurs as competition increases and insurers lower premiums to compete, which eventually leads to diminished profitability and the need to increase pricing*. During periods of abundant marketplace capital, protracted soft market conditions can prevail.

**Unanticipated Catastrophic Losses**

Insurers maintain reserves and reinsurance to pay catastrophe losses. However, catastrophes of unanticipated severity can cause losses that exceed maximum anticipated losses. These exceptional losses can result from disasters such as record-breaking hurricane losses, terrorist attacks, and oil spills, or extraordinary tort awards and class action lawsuits. Unplanned losses can result in insurer insolvencies, withdrawal of insurers from geographic markets, and reinsurance shortages.

Every year, insurers are challenged to price products for which loss costs can only be estimated. In years of extraordinary catastrophes, the market must respond with improved catastrophe ratemaking and forecasting that anticipate even greater unforeseen events.

**3 – Insurer Marketing Activities**

**Objective**: *Explain how typical insurer marketing activities are performed and why they are performed*

Marketing is an insurer’s informational portal to insurance customers. Through this portal, insurers gather information about customers, make decisions about segments of customers whose needs they can address, and disseminate information to existing and prospective customers.

An insurer’s marketing activities are focused on information gathering, synthesis, and dissemination. The goal is the development of products for groups of customers with results that meet the insurer’s strategies and objectives.

**Marketing Research**

Marketing research is the systematic gathering and analyzing of data to assist in making decisions. Marketing research cannot guarantee success, but it can improve an insurer’s chances of making correct decisions.

Marketing research is typically done on a project basis with a state objective, research design, data collection, analysis, and formal report. Effective marketing research results include conclusions and implications or recommendations. Ideally, cost-benefit measures are used to track the value of information developed from the various studies. Decisions based on the research are then implemented and evaluated on a cost-benefit basis.

Insurer use increasingly sophisticated marketing research methods to gather meaningful information, such as customer profiles, product preferences, and refinement to improve distribution channels. One important result of this will compete for customers.

Example Marketing Research Projects:

* Test prospecting sources through wholesale clubs to determine if the concept is worthy of prototype development and pilot testing on a larger scale
* Determine why policies lapse or are terminated by policyholders and the cost benefit of implementing a conservation program to retain them
* Examine the insurance purchase behaviors of first-time car owners to determine what actions are needed to attract these customers
* Identify the relationship between a policyholder’s claim experience and retention of the policyholder through subsequent renewals

**Market Research Methods**

The best marketing research is conducted as scientifically as possible. A researcher should strive for objectivity, eliminating preconceptions and bias to the extent possible. The research may consist of qualitative studies, such as focus groups and observer impressions, and quantitative studies that use survey research techniques and statistical analysis of the data included in corporate databases.

**The two broad categories of market data are secondary data and primary data. Research typically begins with secondary data, which is data collected by other parties, because it is immediately available at little or no cost. Many research questions can be answered at minimal expense from secondary data before the more-costly primary data is conducted, requiring the collection of data first-hand by the insurer. Primary data collection is more expensive, but it addresses issues specific to the marketing research product.**

Increasingly, insurers are applying predictive analytics to improve the outcome of market research. The forms of predictive models applied in analytics vary depending on the behavior or event they are predicting.

Most predictive models generate a score, with the higher score indicating a higher likelihood that the given behavior or event will occur. Predictive scores are typically used to measure the risk or opportunity associated with specific customer or transaction. These evaluations assess the relationships between many variables to estimate risk or response.

Predictive analytics models are used in many aspects of marketing. For example, insurers can use models to examine the purchasing patterns of insurance customers and can use the resulting information in increase the marketing function’s hit ratio. An insurer can also use models to answer specific questions, such as, “What characteristics of small businesses result in the most profitable commercial insurance accounts?”. Variables such as premium size, geography, business type, years in business, and form of ownership could affect the profitability of an account. A predictive model would weigh the importance of each relevant variable to provide an estimate of the likely profitability of each characteristic.

Insurers can take advantage of additional applications for predictive analytics in marketing:

* Cross selling
* Target marketing
* Individual customer support
* New agent contracting
* Designing and evaluating marketing campaigns

**Market Segmentation**

*Insurers use market segmentation to differentiate themselves from other insurance providers to meet the needs of customer groups. Target marketing is a practice of more closely defining a group of customers within a market segment. Niche marketing is a well-defined, often small marketing segment of the population that has specific needs*.

*By identifying the characteristics of the various market segments, target market groups, and niches, insurers build a competitive advantage through designing specific marketing strategies to address their needs and characteristics. The more closely a group of customers is defined, the more closely an insurer can develop expertise regarding the customer’s needs and tailor products and services to meet those needs.* As groups are more closely defined, insurers are less likely to encounter competition for that group than in the open market**. Marketers commonly use four bases of segmentation, among others**:

* **Behavioristic segmentation - the division of total consumer market by purchase behavior**
* **Geographic segmentation – the division of market by geographic units**
* **Demographic segmentation – division of markets based on demographic variables, such as age, gender, education occupation, ethnicity, income, family size, and family life cycle**
* **Psychographic segmentation – the division of markets by individuals’ values, personalities, attitudes and lifestyles**

Marketing management defines logical market segments that provide an opportunity for success. Criteria regarding the segments, as well as the external environment and the insurer’s internal environment, are considered in the marketing selection.

*Market Segment Selection Considerations – Each market segment should be Accessible, Substantial and Responsive. Internal marketing environment considers; Technical resources; Type of products sold; Age of product; Product mix; Distribution channels; Corporate ownership; Company size and resources. As well as External marketing environment: Market segment competition; Economic environment; Social environment; Regulatory environment*.

**Market Development**

Market development activities provide leadership when an insurer enters a new market. The new market may be a new territory, a new customer types, or a new product. Other examples of major projects might include new approaches to selling the insurer’s products or delivering web-based applications for insurance policies.

Market development involves actions required to ensure the success of the venture, including development and implementation of a broad range of activities:

* Training programs
* Problem resolution
* Process documentation
* Funding assistance
* Technical assistance
* Public relations campaigns

The market development staff includes project managers who generate and screen ideas. The project managers are also skilled in developing project scope documents, decision grids, task outlines, progress reports and project reports. The project manager usually handles only one or two projects at a time because of the high level or effort and responsibility involved in each project.

**Marketing Information**

Marketing information activities develop and maintain information needed in market planning to support management at all levels in answering specific questions concerning markets, customers, producers, and competitors. The marketing information function serves the company best when it can deliver timely and cost-effective information essential to decision making.

**Marketing information is divided into two major systems: Internal accounting and marketing monitoring;**

* **The internal accounting system provides report and analysis capability based on transactions associated with sales activity. Such of the essential information on productions, retention, and policies in force is available as a by product of the systems that keep track of commissions and billings.**
* **The market monitoring system provides intelligence about the external environment to inform senior management about important developments and changing conditions**. The market monitor should provide current, unfiltered, and unbiased information about customers, producers and competitors. **Customers and producers are monitored to determine their satisfaction level with the service they receive from the insurer, and the resulting information helps the insurer shape decisions related to growth and profitability strategies**. **The market monitor also maintains up-to-date competitive intelligence about the strategies and actions of key competitors. Competitor monitoring also includes benchmark studies of competitors that excel in success factors crucial to a property-casualty insurer.** Benchmark information helps management develop strategies for closing the gap between company performance and key competition.

**Marketing Planning**

Marketing planning provides the tools ad facilitation skills to assist management in developing fact-based marketing plans. This activity also assists in the development and updating of the company’s strategic plans.

**Before introducing a new insurance product or service the insurer completes a comprehensive marketing plan. The plan identifies the product or service to be promoted and the customers to be targeted, and it details the resources and strategies that will be used to create, price, promote, and sell the product or service.** Because marketing plans affect many other insurer functions, representatives from other departments often participate in the creation or review of the marketing plans.

Marketing plans fundamental purpose is to provide “roadmaps” necessary to profitably and effectively acquaint sellers with potential buyers.

* Product proposal and sales goals
* Situational analysis – SWOT (Strengths, weaknesses, opportunities, threats)
* Marketing goals
* Marketing strategies

**Product Development**

An insurer’s management team must decide which insurance products and services will be sold to which markets. There are many product decisions to be made, ranging from what product lines to offer to what coverages, limits, and deductible will be include in the policy. Insurers usually follow a series of steps in product development:

Opportunity Assessment - Step 1 evaluate the insurer’s business strategies and continue the process

* monitor market
* identify opportunity
* relate opportunities to a business strategy
* develop specifications
* secure senior management approval to proceed

Development of Contract, Underwriting, and Pricing – Step 2 this concludes with a tangible product plan

* develop coverage and policy forms
* develop guidelines for underwriting and claims
* develop classifications
* develop pricing structure
* secure approval from functional managers to proceed

Business Forecast – Step 3 product submitted to an assessment of sales potential, establishes benchmarks

* Review the product plan with profit center
* Identify requirements for statistics
* Develop business forecast
* Secure management approval

Regulatory requirement – 4th step State regulators require notification of new policy forms, rating

* File with regulators
* Develop statistical information systems
* Communicate regulatory approval

Distribution Requirements – 5th step the insurer determines distribution requirements

* Develop advertising and sales promotional information
* Develop sales training
* Plan roll out strategy

Introduction – 6th step introducing the product, results are monitored

* Implement sales training and promotion
* Measure and compare results to plan

**Advertising and Promotion**

The advertising function is responsible for managing the company’s communications through mass media with its chosen target markets. The advertising program is developed to be consistent with strategic direction and marketing plans and supportive of distribution system efforts. Advertising is intended to build and reinforce the company’s image as an acceptable choice in the minds of target customers.

The effectiveness of marketing communications can be measured in several ways. For example, an insurer might pilot test advertising to determine it effectiveness or might also show proposed advertising to a focus group to obtain feedback. Sales promotion reinforces the image and positioning created by the insurer’s advertising efforts when carried down to the agency level.

**Customer and Public Relations**

**The customer relations function manages communications with individual customers from the home office. This function area ensures that all written communications seen by customers are understandable and consistent in quality and tone.**

**The customer relations function also provide a forum for communications to the insurer initiated by customers, including complaints, suggestions and questions. Insurers are often asked to respond to state insurance departments, which themselves are responding to consumer complaints about the insurer.** Typically, a complaint is addressed to an insurer’s CEO and must be addressed within a specified period, often 10 working days,

**The customer relations function also provide management with low-cost, high-value information about the evolving wants and needs of policyholders**.

**Sales fulfillment**

Sales fulfillment is the satisfactory delivery of the products and services that result from the product development activity. Fulfillment of a product plan affects many of an insurer’s functional areas. For example, the introduction of policies and services to target high-net-worth individuals as a market segment must include participation by customer service, underwriting, claims and other functional areas. The senior management team must communicate the goals, strategies, and actions plans to all areas of the organization. Each functional area must determine the impact of the plan on operations, budget, and performance standards. Milestones should be established for the functional areas with metrics to periodically check the results of the marketing plan and take action in any area where goals are not met.

**4 – Insurance Distribution Systems and Channels**

**Objective**: *Describe the functions performed by insurance producers*

Insurers are driven by competition to address customer preferences. In this environment, insurers examine the efficiency of their distribution systems and channels.

No single approach to distribution meets the needs of all insurers and all insurance customers. Insurer select one or a combination based on overall business plan, customer needs, and their core products and services.

Insurers use many types of distribution systems based on their organizational structure, business and marketing plans, growth goals, technological capabilities, staffing, and other resources necessary to support the selected system(s). The principal characteristics that distinguish one distribution system from another include the relationship to the insurer and customers, ownership of expirations, compensation methods, and functions performed. These are the main insurance distribution systems:

* Independent agency and brokerage marketing systems
* Exclusive agency marketing system
* Direct writer marketing systems

Mixed marketing systems include more than one distribution system, such as using independent agents for commercial lines and exclusive agents for personal lines. These common distribution channels are used to promote products and services as well as communicate with existing and prospective insureds: Internet; Call Centers; Direct Response; Group Marketing; Financial Institutions.

**Independent Agency and Brokerage Marketing Systems**

The independent agency and brokerage marketing system uses agents and brokers who are independent contractors rather than employees of insurers. These independent agents and brokers are usually freer to represent as many or as few insurers as they want.

**Independent Agents and Brokers**

An independent agency is a business, operated for the benefit of its owner (or owners), that sells insurance, usually a representative of several unrelated insurers.

An insurance broker is an independent business owner or firm that sells insurance by representing customers rather than insurers. Brokers shop among insurers to find the best coverage and value for their clients. Because they are not legal representatives of the insurer, brokers are not likely to have authority to commit an insurer to write a policy by binding coverage, unlike agents who generally have binding authority.

The independent agency or brokerage can be organized as a sole proprietorship, a partnership, or a corporation.

**One of the main distinguishing features between independent agents and brokers and other distribution systems is the ownership of the agency expiration list. If an insurer ceases to do business with an agency, the agency has the right to continue doing business with its existing customers by selling them insurance with another insurer. The ownership of expiration lists is an agency’s most valuable asset.**

Compensation for independent agents and brokers is typically in two forms:

* A flat percent commission on all new and renewal business
* A contingent or profit-sharing commission based on volume or loss ratio goals

**National and Regional Brokers**

National and regional brokers generally represent commercial insurance accounts that often require sophisticated knowledge and service. Large brokerage firms may provide extensive risk control, appraisal, actuarial, risk management, claim administration, and other insurance related services that large businesses need. These brokers are often equipped to provide services that are supported by offices in multiple states.

Large insurance brokers can tailor insurance programs for customers or groups of customers who require a particular type of coverage for multiple locations. The brokers receive negotiated fees for the services they provide, or they receive fees in addition to commissions, subject to state regulation.

**Independent Agent Networks**

*Independent agent networks, also known as agent groups, agent clusters, or agent alliances, consist of independent agencies and brokerages that join together to gain advantages normally available only to large national and regional brokers.* Agent networks operate nationally, regionally, or locally and, in the majority of cases, allow their agent-members to retain individual agency ownership and independence.

**By combining individual agency forces into a single selling, negotiations, and servicing unit, an agent network can offer many benefits to its agent members, including these:**

* **Obtaining access to increased number of insurers**
* **Meeting countersignature law requirements for business in multiple states**
* **Combining premium volume to meet insurer requirements for profit-sharing**
* **Generating additional sales income**
* **Facilitating agency succession planning**
* **Providing expertise in risk management services**
* **Enabling resource sharing and expense reduction**
* **Increasing market share**

**Managing General Agents**

Managing general agents (MGAs), also referred to as management general underwriters (MGUs), serve as intermediaries between insurers and the agents and brokers who sell insurance directly to the customer, similar to wholesalers in the marketing system for tangible goods.

The exact duties and responsibilities of an MGA depend on its contracts with the insurers it represents. MGAs can represent a single insurer, although they more commonly represent several insurers. Some MGAs can be strictly sales operations, appointing and supervising subagents or dealing with brokers within their contractual jurisdiction. A few MGAs cover large multistate territories, although, frequently only for specialty insurance.

An MGA reaps several advantages:

* A low fixed cost
* Specialty expertise
* Assumption of insurer activities

**Surplus Lines Brokers**

Most agents and brokers are limited to placing business with licensed (or admitted) insurers. The circumstances under which business can be placed with an unlicensed (or non-admitted) insurer through a surplus lines broker vary by state. Normally, a reasonable effort to place the coverage with a licensed insurer is required. The agents and broker, who must be licensed to place surplus line business in that state, might be required to certify that a specified number (often 2 or 3) of licensed insurers have refused to provide the coverage.

**Surplus lines brokers have access to insurers that have the capacity to provide the needed insurance, which might not be available from insurers licensed to do business in the state. This provides a system for insuring specific customers or exposures:**

* **A customer that requires high limits of insurance**
* **A customer that requires unusually broad or specialized coverage**
* **An unusual or unique loss exposure**
* **Loss exposures requiring a tailored insurance program**
* **An unfavorable loss exposure, such as poor claim history, or difficult to treat exposures**

Surplus lines brokers work to ensure that coverage is placed only with eligible non-admitted insurers, the customer’s unique or unusual requirements can be met by the prospective surplus lines insurer, and the financial security of the surplus lines insurer is properly evaluated.

**Exclusive Agency Marketing System**

The exclusive agency marketing system uses independent contractors called exclusive agents, who are not employees of insurers. Exclusive agents are usually restricted by contract to representing a single insurer. Consequently, insurer management can exercise more control over exclusive agents than over independent agents.

Exclusive agents are usually compensated by commission. During initial training they might receive a salary, a guaranteed minimum income, or income from a drawing account. Insurers in the exclusive agency system commonly pay one commission rate for new business and another, lower rate for renewal.

Exclusive agents do not own expirations reports. Some do grant limited ownership of expirations. Usually such ownership of expirations applies only while the agency contract is in force. The insurer might be obligate to compensate the agent for the expirations upon termination, however, the agent does not have the option of selling them to anyone other than the insurer.

The exclusive agency insurer handles many administrative functions for the exclusive agent.

**Direct Writer Marketing System**

The direct writer marketing system uses sales agents (also known as sales representatives) who are employees of the insurers they represent. The sales agents sell insurance for the insurer at office locations provided by the direct writer insurer. They may be compensated by salary, by commission, or by both.

Because they are employees of the insurers they represent, they usually do not have any ownership of expirations and usually represent a single insurer or group of insurers under common ownership and management.

**Distribution Channels**

The distributions channels used by insurers and their representatives are conduits for contracting and establishing communications with their customers and prospective customers. Insurers’ increasing the use of omnichannel marketing has been driven by technology and customer preference.

Internet

Call Centers

Direct Response

Group Marketing:

* Affinity marketing is a type of marketing that target various groups based on profession, association, interests and attitudes.
* Mass marketing or mass merchandising – offer to large numbers of targeted individuals
* Worksite marketing or payroll deduction –(or franchise marketing) premiums discounted
* Sponsorship marketing – a trade group sponsors and insurer

**Financial Institutions**

Insurers and producers can elect to market their products and services through a bank or another financial services institution, either exclusively or through additional distribution channels.

*The prospect of diversifying into new markets appeals to many financial institutions. Some financial institutions have expanded into insurance by participating in renewal rights arrangement by which they purchase a book of business and not the liabilities of an agency or insurer.*

Insurers view financial institutions as beneficial strategic partners because of these qualities:

* Strong customer base
* Predisposition to product cross selling
* Strength at processing transactions
* Efficient sue of technology for database mining geared to specific products and services.

Too sustain distribution relationships with financial institutions, insurers must focus on providing saleable products and efficient administrations and support while also protecting their professional presence in financial institutions from competitors.

**Omnichannel Marketing System**

Omnichannel marketing allows insurers to market to customers in multiple channels to meet the needs of customers seeking alternative methods to purchase insurance*. By using an omnichannel approach, insurers can target various market segments using methods such as online, mobile applications, call centers, or other approaches based on the customer’s preferred method of interaction. This approach is supported by developments in data analytics, which assist insurers in using customer data to make netter and more consistent marketing decisions.*

Combining marketing channels requires consideration of several issues.

* Maintaining consistent customer communications
* Providing a consistent customer experience
* Matching the type of insurance with an appropriate channel

**5 – Functions of Insurance Producers**

**Objective**: *Describe the functions performed by insurance producers*.

Functions of insurance producers vary widely from one marketing system to another and from one producer to another within a given marketing system. Although technology has changed the process, producers are often the initial contract with insurance customers and provide expertise and ongoing services. This is particularly true for commercial insurance customers.

Insurance producers represent one or more insurance companies. As a source of insurance knowledge for their customers, producers provide risk management advise, solicit to sell insurance, and provide follow up services as customers’ loss exposures or concerns change.

**Prospecting**

Virtually all producers prospect. Prospecting involves locating persons, businesses, and other activities that may be interested in purchasing the insurance products and services offered by the producer’s principals. Prospects can be located using several methods:

* Referrals from present clients
* Referrals from strategic partners, such as financial institutions or real estate brokers
* Advertising in multimedia and direct mail
* Interactive websites, social media, and mobile marketing
* Telephone solicitations
* Cold canvass

**Risk Management Review**

Risk management review is the principal method of determining a prospect’s insurance needs. The extent of the review varies based on customers and their characteristics.

* Individual or family – might be relatively simple, requiring an interview or completion of an online questionnaire that assists in identifying the prospect’s loss exposures, which are often associated with property ownership and activities. Using the results of the questionnaire, the producer suggests methods of risk control, retention of loss exposures and insurance.
* Businesses - The risk management process for business is likely to be more complex because they have property ownership, products, services, employees, and liabilities that are unique to the size and type of organization Substantial time is required to develop and analyze loss exposure information for a large firm with diversified operations.
  + A review of previous losses, or a “loss run”, can guide the producer in helping the business owner develop a risk management plan, track the results of current risk management efforts, identify problem areas, and projects costs. **Loss runs include, at a minimum, lists of losses and their total cost. For large commercial customers, the producer may work with the customer’s Risk management Department in identifying loss exposures and risk analysis. Based on this analysis, risk treatment decisions, including insurance coverage can be made. The producer can then coordinate further coverage discussions between the customer and the insurer**.

**Sales**

Selling insurance products and services is one of the most important activities of an insurance producer because it is essential to sustaining the livelihood of the agency or brokerage.

**Policy Issuance**

At the producer’s request, insurers issue policies and their associated forms, sending them either directly to the policyholder or to the producer for delivery.

**Premium Collection**

Producers who issue policies may also prepare policy invoices and collect premiums. After deducting commissions, they sent the net premiums to the insurers, a procedure known as the agency bill process. To give the producer some protection against policyholders’ late payments, premiums are usually not due to the insurer until 30-45 days after the policy’s effective date. This delay permits the producer to invest the premiums collected until they are due to the insurer. The resulting investment income can be significant part of the producer’s remuneration.

**Customer Service**

Most producers are involved in customer service. For independent agents and brokers, value added services and the personalization of insurance packages are what differentiate them in the marketplace.

Producers are expected to facilitate contracts between policyholders and the insurer, including these:

* Responding to billing inquiries
* Performing customer account reviews
* Answering questions regarding existing coverage and additional coverage requirements
* Corresponding with premium auditors and risk control representative.

**Claims Handling**

All producers are likely to be involved to some extent in handling claims filed by their policyholders. Because the producer is the policyholder’s principal contact with the insurer, the policyholder usually contacts the producer first when a claim occurs.

Some producers are authorized by their insurers to adjust some of claims. Most often, the authorization is limited to small first-party claims. However, a few large agencies or brokerages that employ skilled claims personnel might be authorized to settle large more complex claims. The producer’s claim handling authority should be specified in the agency contract.

**Claim handling by qualified producers offers two major advantages: Quicker service to policyholder’s ad lower loss adjustment expenses to the insurer**.

**Consulting**

Many producers offer consulting services, for which they are paid a fee. Such services are usually performed for insureds, but they may also e performed for non-insureds or for prospects.

**6 - Selecting Insurance Marketing Distribution Systems and Channels**

**Objective**: Describe the key factors an insurer should evaluate during the distribution system and distribution channel selection process

Any firm that sells a product has a distribution system to carry out some of its marketing functions. Distribution systems for intangible products, such as insurance, are more flexible and adaptable than those for tangible products because they are not constrained by large investments in physical facilities.

An insurer usually selects a distribution system before it begins writing business. Changing distribution systems for existing business can be difficult and expensive because of existing agency contracts and possible ownership of expirations.

*The key factor in selecting distribution systems and channels are based on customer’s needs and characteristics as well as the insurer’s profile*.

Distribution Systems and conduit for insurance marketing:

Distribution systems consist of the necessary people and physical facilities to support the sale of insurance product and services: Independent agency and brokerages, MGAs, surplus lines brokers, exclusive agency, direct writer

Distribution Channels are communication conduits for promoting and servicing products as well as communication with existing and prospective insureds: Internet, call centers, direct response, group marketing, financial institutions

**Customer’ Need and Characteristics**

The needs and characteristics of customers – both existing and those in target markets – are key factors in an insurer’s selection of distribution systems and channels because their satisfaction is what drive their purchase decisions.

* Products and services
* Price
* Response time

**Insurer’s Profile**

**An insurer’s profile – including its strategies and goals, strengths, existing and target markets, geographic location, and the degree of control over producers it needs or desires – frames the business and marketing environments within which it operates. The insurer must evaluate these key factors when selecting distribution systems and channels**.

**Insurer Strategies and Goals**

An insurer’s strategies, defined by high-level organizational goals, provide purposeful direction for the organization. These strategies and goals often address issues regarding market share, sales, service, and the markets in which the insurer competes. They may also relate to acquisitions, strategic alliances, or mergers.

Changes in market strategies or aggressive goals can be a catalyst for an insurer to re-examine its distribution system and channels if current approaches are inadequate to achieve required results.

**Insurer Strengths**

**Organizations evaluate their internal and external environments to assess their strengths and weaknesses compared with external opportunities and threats. Once an insurer determines where its strengths lie, it selects those distribution systems and channels that maximize its opportunities to capture market share and minimize its weaknesses.** In doing so, the insurer may analyze these factors:

* Financial resources – the costs associated
* Core capabilities – abilities of the organizations own staff
* Expertise and reputation of producers

**Existing and Target Markets**

**The characteristics of an insurer’s existing book of business should e considered before any change in distribution system or channel. If agents or brokers own the expirations for current accounts, the insurer must either give up that business and start over or purchase the expirations from producers. Either option might be expensive, depending on the quality of the existing business. The insurer should also consider the possibility that a change in distribution systems and channels could disrupt communication channels, Disruption in communications channels can also result in policyholder dissatisfaction and lost account.**

Customers’ needs and characteristics are driving factors for an insurer that is considering changing its marketing approach or adopting an omnichannel approach for a new target market. To make an optimum choice, the insurer carefully balances the cost of changing its distribution systems and channels with expected benefits resulting from new accounts it will write.

Insurers can apply data analytics approaches to more clearly define customer needs based on existing information regarding purchasing preferences, demographics, coverage needs, and other factors. This analysis can assist in determining appropriate distribution systems or channels for existing business and to target new markets.

**Geographic location**

The geographic location of existing policyholders or target markets is a key concern in selecting distribution system and channels because the insurer’s fixed cost of establishing an exclusive or direct writer agent in a territory are substantial. Exclusive or direct writer marketing systems can be successful only when a sufficient number of prospects exist within a relatively small geographic area.

Because the cost of appointing an independent agent is generally lower than appointing an exclusive or direct writer agent, those systems can be sued in sparsely populated areas or when customers in the target market are widely dispersed.

**Degree of Control Required**

The extent of control the insurer wants to exercise over its marketing operations may influence its choice of distribution system.

* An insurer can exercise the greatest control over producers in the direct writer system. Under that system, the producer is an employee of the company, and the company can exercise control over both the results achieved and the methods used to achieve them.
* Under both the agency and brokerage system and the exclusive agency system, the producers are independent contractors; therefore, the insurer can control only the results they produce, not the methods they use to produce them.
* Producers are not involved in the direct response system. Consequently, the insurer has complete control of tis distribution

Degree of control becomes important in meeting the needs of some customers. For example, pharmaceutical manufacturer requires specialized risk management advise that includes a risk control recovery plan in case a tainted drug or defective medical devise is released to the public. The insurer may wish to control the nature of the risk management alternatives recommended to those insureds, preferring those that foster transparency and immediate response following products liability losses.

Other insurers value discretion in the producers who represent them. For example, an insurer that specializes in church insurance or distributes insurance through religious affinity groups will expect to have some control over the producers’ use of social media. A producer’s indiscretions posted in public forums can cause an insurer to lose accounts. Therefore, the insurer might choose a direct writer distribution system.