Chapter Four

Marketing

Objectives

- Describe the legal relationship known as agency.
- Describe the responsibilities of the agent and the principal in any agency relationship.
- Summarize the various types of insurance marketing systems and alternative distribution channels.
- Describe typical compensation arrangements for insurance producers.
- Describe advertising methods used by insurers, producers and producer trade associations.
- Describe the various aspects of marketing management.
- Discuss unfair trade practices as they relate to insurance.

Marketing

- **It enables an insurer to determine which products meet customers' needs and then to create, promote, sell and deliver those products to its customers.**
- **An insurer may have the best product at the best price available, but if the customers are not aware of this, the insurer will sell few, if any, policies.**
- **People involved in insurance marketing also assist customers in dealings with insurers after a policy is issued.**
- **Insurers depend on their marketing personnel to keep them informed about the changing needs and desires of customers.**

The legal role of the insurance agent

- The legal relationship known as agency is not limited to insurance. An agency exists whenever one party, the agent, represents or acts on behalf of another party, the principal.
- The principal gives the agent authority to act as its representative within certain guidelines.
- The agency relationship requires a high degree of trust between the principal and the agent because it imposes serious legal obligations on both parties.
- While the agent has authority to act for the principal, the principal has control over the agent’s actions on the principal’s behalf.

Agency

- ***Producer***: **"A person who sells insurance products for one or more insurers."**
- ***Agency***: **"A legal relationship that exists when one party, the agent, represents or acts on behalf of another party, the principal.**
- ***Agent:*** **"In the agency relationship, the party that is authorized by the principal to act on the principal's behalf."**
- ***Principal:*** **"In the agency relationship, the party that authorizes the agent to act on its behalf."**

Creation of the agency relationship

- An agency relationship is usually created by a written contract between the principal and the agent.
- The contract specifies the compensation arrangement between the insurer and the agent.
- Insurance agency contracts usually have no fixed expiration date and remain in force until one party cancels the contract after giving proper notice to the other party as required by the contract.

Creation of the agency relationship

- ***Insurance agent:*** **"A legal representative of one or more insurers for which the representative has a contractual agreement to sell insurance."**
- ***Agency contract, or agency agreement*****: "A written agreement between an insurer and an agent that specifies, among other things, the scope of the agent's authority to conduct business for the insurer."**

Responsibilities of the agent to the principal

- **In an agency relationship, the agent's fundamental responsibility is to act for the benefit of the principal. The laws of agency impose the following duties on all agents, including insurance agents:**

1- Loyalty

2- Obedience

3- Reasonable care.

4- Accounting

5- Relaying information

Responsibilities of the agent to the principal

- In insurance, an agency contract specifically addresses certain rights duties of the agent.
- Insurance agency contracts usually give the agent the right to employ subagents who may act on behalf of the insurer according to the terms of the agency contract.

Responsibilities of the principal to the agent

- Just as the agent owes duties to the principal, the principal legally owes certain duties to the agent.
- The principal's primary duty is to pay the agent for the services performed, whether as a commissions and other specified compensation to the agent for the insurance the agent sells or renews.
- The second duty is to indemnify or reimburse the agent for any losses or damages suffered without the agent's fault but arising out of the agent's actions on behalf of the principal.

Responsibilities of the agent and the principal to third parties

- **The agent's authorized actions on behalf of the principal legally obligate the principal to third parties in the same way as if the principal acted alone. Therefore, from an insured's point of view, little distinction exists between the insurance agent and the insurer.**
- **Because the agent represents the insurer, the law presumes that knowledge acquired by the agent is knowledge acquired by the insurer.**

Authority of agents

- Insurance agents generally have the following three types of authority to transact business on behalf of insurers that they represent:

1- Express authority

2- Implied authority

3- Apparent authority

1- Express Authority

- “It is the authority that the principal specifically grants to the agent.”
- ***<u>Binding authority:</u>*** “An insurance agent’s authority to effect coverage on behalf of the insurer.”
- It is generally granted to the agent in the agency contract and is a form of express authority.
- It usually accomplished by issuing binders.

1- Express Authority

- **<u>*Binder:*</u> " an oral or written agreement to provide temporary insurance coverage until a formal written policy is issued."**

  Binding authority **gives an agent the power to put specified types and limits of coverage in force at once rather than waiting for approval from the insurer.**

1- Express Authority

Binding authority **involves important responsibilities for the agent, and agents are expected to use their binding authority carefully.**

2- Implied Authority

“ It is the authority implicitly conferred on an agent by custom, usage or a principal’s conduct indicating intention to confer such authority.”

- The scope of an agent’s authority can go beyond the terms of the agency contract.

3- Apparent Authority

“ A third party’s reasonable belief that an agent has authority to act on the principal’s behalf.”

- Usually, an insurance agent has broadly defined powers to represent an insurer and to transact the company’s business.

3- Apparent Authority

- Without actual notice or reason to believe otherwise, a third party cannot be expected to know about any unusual limitations, on the agent’s authority.

Insurance Marketing Systems

- Insurers use many types of marketing systems, which are also known as distribution systems, designed to meet their particular marketing objectives.

- Most insurers typically use one or more of the following marketing systems (they are not mutually exclusive, some insurers use a mixed marketing system)

a) Independent Agency System

"A business, operated for the benefit of its owner (or owners) that sells insurance, usually as a representative of several unrelated insurers."

<u>Independent agent:</u> **" A producer who works for an independent agency who can be either the owner or an employee of the agency."**

a) Independent Agency System

Agency expiration list: **" The record of an insurance agency's present policyholders and the dates their policies expire."**

Insurance broker: **" An independent business owner or firm that sells insurance by representing customers rather than insurers."**

a) Independent Agency System

-What company or companies do the producers represent? usually more than one insurer.

-Are the producers employed by the insurer? no, the producers are employed by the agency.

-How are producers usually compensated? Sales commissions and contingent commissions.

-Does the agency or agent own the expiration list(s)? Usually, yes

-What methods of sales are usually used? Personal contact, phone, or internet.

b) Exclusive agency system

Exclusive agent: **" it is an agent that has a contract to sell insurance exclusively for one insurer or a group of related insurers."**

b) Exclusive agency system

-What company or companies do the producers represent? Only one insurer or group of related insurers.

-Are the producers employed by the insurer? Usually no; however some producers begin as employees.

-How are producers usually compensated? sales Commissions (commissions on renewals may be lower than on new business) and bonus.

b) Exclusive agency system

-Does the agency or agent own the expiration list(s)? Usually, no; but the agency contract may provide for the agent’s right to sell the list to the insurer.

-What methods of sales are usually used? Personal contact, phone, or internet

c) Direct Writing System

“ It is a system of insurance marketing that uses sales representatives who are employees of the insurer.”

c) Direct Writing System

-What company or companies do the producers represent? Only the producers' employer.

-Are the producers employed by the insurer? Yes.

-How are producers usually compensated? Salary, bonus, commissions, or a combination.

-Does the agency or agent own the expiration list(s)? No

-What methods of sales are usually used? Personal contact, phone, or internet

d) Alternative distribution channels

-What company or companies do the producers represent? Only the producers' employer.

-Are the producers employed by the insurer? Yes.

-How are producers usually compensated? Salary.

-Does the agency or agent own the expiration list(s)? No

-What methods of sales are usually used? Mail, phone, or internet

d) Alternative distribution channels

(1) Direct response: **" A system of insurance marketing that relies primarily on mail, phone, and/or internet sales, without the services of an agent."**

(2) Internet: **interactions between the insurer, the producer and the customer can range from exchanges of e-mail to multiple quoting, billing and policy issuance.**

d) Alternative distribution channels

(3) Call Centers: **sell insurance products and services through telemarketing. In addition to making product sales, call centers staff can also respond to general inquiries, handle claim processing, answer billing questions and process policy endorsements.**

d) Alternative distribution channels

(4) Group Marketing: it includes:

-Affinity marketing: targets various customer groups based on profession, interests or hobbies.

-Mass marketing: offers insurance to large numbers of targeted individuals or groups.

-Worksite marketing: markets insurance to employees of a particular company or organization.

d) Alternative distribution channels

(5) Financial Institutions: **insurers and producers can also elect to market their products and services through a bank or other financial services institution.**

Mixed Marketing System

“ An insurer’s use of more than one marketing system or distribution channel.”

Producer Compensation

- While some producers receive a salary, commissions provide the primary form of compensation for producers. Producers typically earn two types of commissions:

<u>(1) Sales Commission: </u> **" A percentage of the premium that the insurer pays to the agency or producer for new policies sold or existing policies renewed.":**

Producer Compensation

(2) Contingent Commission:

" A commission that an insurer pays, usually annually, to an independent agency that is based on the premium volume and profitability level of the agency's business with that insurer."

Advertising

- An ***Independent agency*** uses advertising to attract customers to the agency; therefore local advertising often stresses the agency rather than the various insurers it represents.

- On the other hand, many insurers marketing through the independent agency system use national advertising programs intended to enhance the company image.

Advertising

- In the ***exclusive agency*** system, advertising programs emphasize the names of both the insurer and the agent.

- Sometimes an insurer's advertisement lists every agent in the area with a photo of each.

Advertising

- In addition to the traditional types of advertising- television, radio, magazines, newspapers and direct mail- insurers and agents of all types use the internet for advertising.

Marketing Management

- All insurers need some means of managing the activities of producers. This includes systems to supervise and motivate producers, and to provide them with insurance products they can sell.

- Marketing management also involves monitoring agency sales and underwriting results to ensure that both the company's and the agency's sales and profit objectives are met.

Producer Supervision

- Although selling insurance is essentially a one-on-one activity that often occurs away from the producer’s office and the insurer’s home office, insurers do supervise their producers.
- An insurer using independent agents typically employs marketing representatives who visit the independent agents representing the company.

Producer Supervision

Marketing representative: **" An insurer employee who visits agents representing the insurer, develops and maintains sound working relationships with those agents, and motivates the agents to produce a satisfactory volume of profitable business for the insurer."**

Producer Supervision

- Other insurers have *Production underwriter:* " An insurer employee who works in the insurer's office in an underwriting position but also travels to visit and maintain rapport with agents and sometimes clients."

Producer Supervision

- Depending on how an insurer is structured, producer supervision and support can be provided from either the insurer’s home office or a branch or regional office.

Producer Motivation

- Insurers also need to motivate their producers to sell the types of insurance the companies want sold.
- Some producer motivation results from personal relationships and encouragement by marketing representatives, regional managers and other people working in field offices.

Producer Motivation

-The financial incentives that producers receive for selling can effect their sales performance.

- Some insurers may also develop sales contests to encourage specific production activities such as selling a particular type of policy or reaching a particular level of sales activity.

Product Management and Development

- Insurance production is most successful when producers have a desirable product to sell at a competitive price.
- The home office marketing department bases many of its decisions on information provided by producers and by other insurer personnel in the field.

Product Management and Development

- The home office marketing department cooperates with other departments to determine what coverages the insurer's insurance policies should provide, what price to charge and what other services the insurer should offer.

Producer Regulation

Producer regulation occurs primarily through agent and broker licensing laws and other state laws dealing with insurance such as unfair trade practices laws.

a) Licensing laws

- To function legally as an insurance agent, a producer must be licensed by the state or states in which he wants to sell insurance. They change periodically.
- To obtain a state agent's license, a candidate must meet several requirements.

a) Licensing laws

- Usually the candidate must pass an examination and meet other qualifications of the state insurance department to receive a state insurance license

b)Unfair trade Practices Laws

“State law that specifies certain prohibited business practices.”, such as:

1- Misrepresentation and false advertising

2- Tie-in sales

3- Rebating

4- Other deceptive practices

1-Misrepresentation and False Advertising

It is unfair trade practice for insurance agents or other insurance personnel to make, issue or circulate information that does any of the following:

- Misrepresents the benefits, advantages, conditions or terms of any insurance policy.

- Misrepresents the dividends to be received on any insurance policy.

1-Misrepresentation and False Advertising

- Makes false or misleading statements about dividends previously paid on any insurance policy.
- Uses a name or title of insurance policies that misrepresents the true nature of the policies.

2-Tie-In-Sales

It is an unfair trade practice for a producer to require that the purchase of insurance be “tied” to some other sale or financial arrangement – a practice referred to as a tie in sale.

2-Tie-In-Sales

It is also an unfair trade practice for a lender to require that a borrower purchase insurance from the lender or from any insurer or producer recommended by the lender.

Each transaction must stand on its own.

3- Rebating

“ A practice, prohibited in most states, of offering a cash payment or something of value to an applicant as an inducement to buy or maintain insurance.”

4- Other Deceptive Practices

- These laws prohibit an insurer and its producers from making false statements about the financial condition of another insurer.

- An agent for one insurer cannot mislead his client by saying that another insurer has a poor financial rating in the hope of discouraging the client from purchasing insurance from the competing insurer.

4- Other Deceptive Practices

- It is also an unfair trade practice to put false information on an insurance application to earn a commission from the insurance sale.