

The competency management as a determinant of life insurance companies development

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Abstract

The aim of this article is to show the empirical relation between the insurance agents' competencies and the efficiency of life insurance companies in context of market changes and possibilities of future development, basis on research survey with 846 insurance agents and 265 life insurance managers in Poland and Lithuania.

Introduction

Every economic activity in present reality operates in conditions of uncertainty which cause various random events. These mentioned conditions are consequence of existing threats, including risks, which organization is unable to avoid and foresee in the strategy schedule¹. However there is the possibility of protection oneself before financially negative results of realization such events. In present social-market relations, particularly these leaning on market mechanism, there are two ways of possible conducts: to accumulate financial means on covering financial losses caused with realization of risks² or transfer on specialized, qualified company³.

The part of society at an unproductive age, can not relay on desirable financial protection from the government, so they purchase insurance policies, first of all life and pension ones, therefore insurance business become unusually important social device, enabling solution for many problems of the aging societies. There is high probability, according to existing demographic prognoses, that the situation mentioned above, in the coming years relates to Poland. In references to the necessity of executing the operating activity by insurance companies driving through the mediators, from which clients on Polish insurance market, require higher and higher qualifications, and competencies. That causes many problems to gain over the men's co-operation with desirable competencies.

1. Law conditions for the operational activity in insurance in Poland

1.1. Origins of insurance law

As the origin of insurance law one should understand the form in which it manifests the range of matters of relating insurances. In such just formal context are considered and represented

¹ See E.Masłyk-Musiał, Nowe paradygmaty zarządzania rozwojem umożliwiające sprawne wdrażanie zmian, in A. Barcik, R. Barcik (eds.), Rozwój lokalny i regionalny po wejściu Polski do Unii Europejskiej. Wydawnictwo ATH Bielsko-Biała, 2006, vol. 1, p. 13

² Random events

³ T. Sangowski, Vademecum ubezpieczeń gospodarczych, Poznań, Saga Printing 2000, p. 27

sources of individual branches of law, including one of complex branches - the economic insurances law.

The economic roots of insurance law, in contrast to majority of basic branches, is not written, its sources are in numerous government files⁴. Among them the insurance activity law⁵ takes the special place as well as the civil code since 1964. Moreover, the insurance mediation law⁶ defines the principles of executing in range of personal and property insurances, and insurance mediation.

1.2. The insurance mediation

The insurance mediation depends on executing by mediator for reward of actual actions or the legal connected form including actions or the realizing the contracts of insurance. Insurance mediation can be realized by insurance agents exclusively or insurance brokers understood as economic activity in the articles of law⁷. Insurance mediator realizes: the action on behalf of insurance company, named "agency actions", including: the logging the customers, doing the preparatory aiming to the contracts of insurance actions, the contracts of insurance as well as the participation in managing and realizing the contracts of insurance, also in matters about damages, and also on organizing, the supervising of the agency actions; the action on behalf of the customer looking for the insurance protection, called "the broker's actions", including: containing or the bringing to inclusion of insurance contracts, doing the preparatory actions to inclusion of insurance contracts as well as the participation in management and the realizing the contracts of insurance also in matters about damages.

The executing on basis of the agency included contract agency, activity from institution of insurances company is the insurance agent written to the insurance agents' register. Agency actions can be realized by the natural person exclusively, who fulfils conditions defined legally⁸.

2. Distribution channels using by life insurance companies

The insurance companies must sell their services with the following channels of distribution: *the direct sales*⁹, *agency sales*¹⁰, *brokerage*¹¹.

Schedule 1. The service distribution channels of insurance companies, section 1 in 1998-2005 [in %]

Specification	1998	1999	2000	2001	2002	2004	2005
Direct sales	50,73	44,54	42,37	40,33	41,61	50,26	52,46
Agent sales	38,78	50,81	53,09	55,67	55,47	46,3	43,73
Brokerage	10,48	4,65	4,49	3,94	2,91	1,51	1,78
Others	-	-	0,05	0,06	0,01	1,93	2,03

Ref.: Committees of Supervision Insurances and Pension Funds, Agenci Ubezpieczeniowi, Sprawozdanie za lata 1996-2002, Departament pośrednictwa i akwizycji, Warszawa 2003

⁴ First of all in laws, the decrees and the instructions

⁵ Ustawa z dnia 22 maja 2003 r., Dz. U. Nr 124, poz. 1151, rdz. 2, art. 6 pkt. 3.

⁶ Ustawa z dnia 22 maja 2003 r. o działalności ubezpieczeniowej, Dz. U. 2003 Nr 124, poz. 1151

⁷ Ustawa z dnia 22 maja 2003 r. o pośrednictwie ubezpieczeniowym, Dz. U. 2003 Nr 124, poz. 1154

⁸ Ustawa z dnia 19 listopada 1999r. Prawo działalności gospodarczej, Dz. U. 1999 Nr 101, poz. 1178

⁹ Provided by "fulltime workers"

¹⁰ Sales by insurance agents

¹¹ The sales provided by insurance brokers

The direct sale by workers of insurance companies, although it characterizes the considerable quantitative volume, does not reflect the efficiency of sales - the actions of mediation is realized by - except the people working for insurance companies - bank employees, travel agents, and even the postmen. However, that channel of distribution, will stay the least expensive source of gaining over sale of insurances¹², insurance agents' part of the whole distribution of life insurance products is very high¹³.

3. Life insurance policy as a service product - relationship marketing implications for organizational development

The style of management and the organizational culture are essential and decisive for market position of company. In case of service firms, with high level of contact¹⁴, the most important factor that determines efficacy of sales processes are positive relations as the derivative of influence of insurance agents' competencies. This contact, or differently saying the Carlzon's "moment of truth"¹⁵ decides about possibility to rise of solid relation among service provider and the consumer. In case of services, especially the "high – contact", the customers remember first of all the parts played by the first contact personnel¹⁶.

Writing about special role of employees in services, R. Norman, uses metaphor ladled with bulls' fights identifying toreador with worker, and customer with the bull. The service organization can affect on his course in small degree in track of the customer's contact with the provider's representative. Author shows the fact, that it does not distinguish the service activity nor the intensive utility of capital, nor the even intensive utility of personnel, but intensity of commitment of the workers' testifying the service personalities¹⁷.

The Authors of well-known marketing of services book V. A. Zeithaml, M. J. Bitner focus on the key part of personnel in process of service and emphasize the preference meaning defining this workers' group as¹⁸:

- these which are service
- these which are the organization in the customer's eyes
- these which are marketers.

In many cases, the contact employee is the service – there is nothing else, in most personal services the contact employee provides the entire service single-handedly. The offering is the employee. Thus, investing in the employee to improve the service parallels making a direct investment in the improvement of a product. It is also important to show the emotional character of service process. Contact employees are named the personnel which work requires emotional commitment – “emotional labour” - this concerns workers which express in

¹² The agent should be paid commission, even 90% of the first year premium

¹³ Economization is important when running an insurance business, particularly when it is life insurance. According to statutory provisions, insurance companies, in order to distribute products, are obliged to use the services of insurance brokers. So it is the quality of the agents' work, stemming from their competences, that constitutes the chief effectiveness factor for life insurance companies, seen both in economic and social terms. Therefore the factors conditioning the effectiveness of actions conducted as part of operational activity of life insurance companies may be factors which are a set of elements constituting economy's potential and its organizational efficiency, as well as psychosocial factors.

¹⁴ For example, the life insurance companies

¹⁵ J. Carlzon, Moments of Truth, Cambridge, Ballinger Books, 1987

¹⁶ The notion of service is understood as " the work undertaken on order service to aim enrichment the personal values or the volume of usable ones, what customer has at his disposal", see K. Rogoziński, Usługi rynkowe, Wyd. Akademii Ekonomicznej w Poznaniu, Poznań 1993, p. 14

¹⁷ R. Norman, Service Management, Strategy and leadership in service business, John Wiley and Sons, 1984, p. 9-10

¹⁸ V.A. Zeithaml, M.J. Bitner, Service Marketing, The McGraw – Hill Companies, INC, 1996, p. 304

services process indicated, desirable emotions¹⁹. It is particularly important in case of medical personnel, teachers, insurance agents.

Considering the contact employee approach it is noticed, that he stays in the report both with representatives of interior of company, as and the external customers. Analysing in detail, it is possible to find the linear worker's internal relations with different contact workers, the representatives of subsidiaries as well as the management. Relations among first line employees often accept the form of competition.

That formulation shows clear differences among workforce of productive enterprises and the ones of service organizations. In second case employees task is, in support about contact with customer and mutual commitment, to shape the achieved by customer bundle of advantage. The concentration in productive enterprises on process of production and the care about realization of product peaceably with norm is the main function of productive worker activity. K. Irons writes that the role the manager of service firm is similar to the manager of a soccer team: until the game does not begin, he has the possibility of working, for instance: across change of competitors, training, the tests, when the game starts, the majority of events stay apart from his control²⁰.

The customer's service is at service organizations doubtlessly the most important function, yet the contact personnel responsible for service is the most important group of workers. This finds its reflection in affirming²¹, that then contact employees coming in interactions with customers, creates the top of organizational hierarchy²².

The results of investigations over quality of services with the customer's perspective as well as the perception the quality of product show the mutual correlation of employees resources and the internal processes. This marks, that in organizations, at which workers valued the high environment of work, the customers also estimated the high quality of testified services. B. Schneider and D. Bowen have got confirmation of such statement proving, that climate for service as well as concern about climate for employee well – being, are strongly correlated with general opinion of quality of services with customer's perspective²³.

4. Significance of insurance agents' competencies for life insurance companies effectiveness and development

According to T. Kotarbiński opinion the only organizations that can develop there are the most effective ones²⁴. Leading operating activity enterprises make the analysis of efficiency using the considerable number of coefficients (e.g. ROE, ROA, ROCE, EPS, EBIT, EBITD²⁵). The plurality and the variety of applying in practice individual indicators is determined with the legal recipient of reporting²⁶.

¹⁹ Ch. Lovelock Ch., S. Vendermerve, B. Lewis B.: Services Marketing, an European Perspective, Financial Times, Prentice Hall, 1999, p. 546.

²⁰ K. Irons, The World of Superservice. Creating profit through a passion for customer service, Addison-Wesley, 1997, p. 2, 45

²¹ K. Rogoziński, Nowy marketing usług, Wyd. Akademii Ekonomicznej, Poznań, 2000

²² Including supplies and operating system

²³ B. Schneider, D. Bowen, Organizational Dynamics, Spring 1993, in: Zeithaml V.A., Bitner M.J., Service Marketing, The McGraw – Hill Companies, INC, 1996, p. 305

²⁴ T. Kotarbiński, Traktat o dobrej robocie, Ossolineum, Wrocław 1982, p. 111-112

²⁵ ROE- return on equity; ROA- return on assets; ROCE-return on capital invested; EPS – earnings per share; EBIT – earnings before income taxes; more: W. Samuelson, Ekonomia Menedżerska, PWE, Warszawa 1998; E.F. Brigham, Zarządzanie Finansami, PWE, Warszawa 2000; C. Drury, Rachunek Kosztów, PWE, Warszawa 2000

²⁶ Reporting for banks, the treasury office as well as the stockholders representing the efficiency of activity of enterprises they make up the object of considerations of financial accountancy as well as the CEO's

The following indicators of insurance companies efficiency, can be characterized additionally, related indirectly or directly with volume of premium referring to the sale of life insurances²⁷:

1. Market shares of life insurances - understood as relation of volume gathered insurance premium of company to note of premium with totality
2. Premium per one insurance agent - the value of average premium of insurance contracts inclusion, divided by the insurance agents' number²⁸
3. Average premium of single life insurance contract
4. Unity cost of sale coefficient
5. Level of administrative costs coefficient

Schedule 2. Operating activity efficiency of life insurance companies in 2005

Coefficient	Life insurance company			
	CU	AIG	NN	PZU
Market share ²⁹ [%]	15,43	8,67	7,78	4,7
Premium per one insurance agent [PLN]	632137,50	787366,27	408486,89	66932,27
Average premium of individual insurance contract [PLN]	3511,87	4374,26	3404,06	929,62
Number of active agents ³⁰	2398	1201	2011	8785
Total premium [mln PLN]	15,17	0,95	0,82	0,59

Ref.: Committees of Supervision Insurances and Pension Funds - www.knuife.gov.pl

The market of life insurances in Poland was dominated by 4 competitors: Commercial Union, AIG Amplico Life, Nationale Nederlanden as well as PZU Life. The coefficient of concentration for insurance companies mentioned above, carries out 78,9 % - the rest of shares of life insurance market is divided by 34 different institutions.

As the result of conducted research of the insurance agent's competencies³¹, there is affirmed existence of positive correlation of insurance agent competencies profile and his efficacy. The difference of assimilating the individual competencies between agents reaches even 46%³². Moreover, agents estimated the weight of their competencies in realization of organizational strategy on 49%, in the managers' opinion (45,5%). Additionally 18% of agents population ignores the basic principles formulated by managers and 68% accept the company strategy acknowledgements only in part favourably correlated with their individual aims³³.

²⁷ In support of the mentioned indicators, the financial standing of life insurance companies is evaluated-were got from materials of own Committees of Supervision Insurances and Pension Funds -www.knuife.gov.pl.The construction of coefficients (showed in schedule 2) is from "praxeology theory" by T. Kotarbiński (ibidem) and relationship approach by K. Rogoziński (ibidem)

²⁸ The qualitative coefficient

²⁹ It concerns on life insurances with capital fund

³⁰ Under notion "active professionally agent" is inferred the individual, who contained minimum 50 new insurance contracts in year 2005

³¹ The notion of "competency" is understood as combined knowledge, skills, abilities and attitude that allows an individual to be effective at work [A. Rakowska, A. Sitko-Lutek, Doskonalenie kompetencji menedżerskich, PWN, Warszawa 2000, str. 17]. There are other "competency"approaches, for example: sociological one [P. Sztomka, Socjologia. Analiza społeczeństwa, Znak, Warszawa, 2004, p. 415]; psychological one [G. Bartkowiak, Psychologia zarządzania, AE Poznań, 1999, p. 181]; pedagogical one [W. Okoń, Nowy słownik pedagogiczny, Żak, Warszawa, 2004, p. 184]; legal one [Kodeks Cywilny, art. 96-109]

³² Between agents working for the most effective insurance company and noneffective ones

³³ Led in frames of dissertation: "The insurance agents' competencies and the efficiency of life insurance companies"; sample: 864 agents of the most effective life insurance institutions in Poland and Lithuania; 265 sales managers. The competencies were grouped in three structures: professional ones (expectation of client's needs, monitoring and having the use of opportunities in competitive environment, marketing knowledge, the acquaintance of office technique and administration procedures, data accumulating and analysis, IT, regularity); social ones (communicativeness, stress handling, effective negotiations, influencing clients, assertiveness, change attitude, self motivation);

Processing competency management, that is emphasized to find the optimal relation between costs and effects, applying “praxeology theory” principles and interests both the internal³⁴ and external³⁵ clients. The competency management can be perceived as an essential part of human resources management³⁶.

Schedule 3. Human resource management and competency management

HRM function	Complete compatibility to competency management	Solid correlations with competency management	Weak or no correlations with competency management
The creation of personnel strategy and policy		X	
Distribution of work, creation of organizational structure, outsourcing		X	
Classification, onomastics and requirements of competencies for the job positions	X		
Employment and work costs planning		X	
Recruitment		X	
Team creation and development		X	
Social/occupational adaptation	X		
Identification with organization and its aims		X	
Motivating and gratifying		X	
Job and employee evaluation		X	
Occupational development of employees	X		
Management developing	X		
Successions, allocations of employees (promotions, degradations)		X	
Improving the work effectiveness		X	
Interpersonal communications		X	
Creation of ethics and organizational culture	X		
Analysis, statistics, and internal and external reporting related to HRM			X
Employment administrating			X
Social service for employees, healthcare, stress and job burnout counteraction			X
Cooperation with worker unions and corporate negotiations		X	
Cooperation with external partners and public relations		X	

Ref.: T. Oleksyn, Zarządzanie kompetencjami. Teoria i praktyka, Oficyna Ekonomiczna, Kraków 2006, p. 188

referring to organization ones (acquaintance of business characteristics of organization and its products, creating the positive image of organization, taking care about the good relationship with clients, sales level management)

³⁴ Share holders and employees of insurance companies

³⁵ Individuals who purchased life insurance policies

³⁶ T. Oleksyn, Zarządzanie kompetencjami. Teoria i praktyka, Oficyna Ekonomiczna, Kraków 2006, p. 187

According T. Oleksyn opinion, it is authorized to say that the competency management is the principal determinant of life insurance companies development.

5. The future perspectives of life insurance companies development - conclusions

This was the legal interdiction for operating activity through foreign life insurance companies in Poland till the year 1990 – that is probably the reason of PZU Życie S.A. superiority. The data analysis from 1991-2004 as well as the results of conducted research, implies the conclusion that the loss of 85% shares of life insurances market in considered period by PZU Życie S. A. on behalf of Nationale Nederlanden, Commercial Union and AmplicoLife, seems to be the derivative of lack of competencies both institution and the agents and disadvantageous foresight³⁷ for its future development. On territory of Lithuania, where the operating activity of PZU Życie S. A. is not the subject of the government protection, CU gained 17% of life insurances market shares for five years and the dependent company from PZU Życie S.A. - 4%.

³⁷ See E. Okoń – Horodyńska, Foresight w rozwoju regionalnym, in: A. Barcik, R. Barcik (eds.), *Rozwój lokalny i regionalny po wejściu Polski do Unii Europejskiej*, Wydawnictwo ATH Bielsko-Biała, 2006, vol. 1, p. 44-67