

**Andrzej Janowski, PhD**  
**Błażej Balewski, PhD**  
**WSKM Konin**

## **The life insurance agents' competencies as a main criterion of life insurance companies effectiveness-the impact of human factor**

### **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.

**Key words:** competency, effectiveness, human resources, insurance agent, management

### **Introduction**

Life insurance reflects one of the best parts of human beings; caring for others. One buys life insurance because he or she loves their spouse and children. There are benefits while living but the real reason is to make sure others are financially taken care of.

One of the first records of life insurance was in Rome. There, groups came together called *Fratres* (burial clubs). These were set up by the poor to pay for the funerals of the members and to help the surviving family members financially.

The middle ages had guilds for the various types of highly skilled labor. There are accounts that show that these guilds helped their members with various types of insurance including life insurance and disability insurance.

Life insurance came into its own in England in the late 1600's and became popular from that time on. During this time period Lloyd's of London was growing. Lloyd's whose name came from Lloyd's Coffee House where insurance was transacted by ship owners with the underwriters (backers) who met to put together insurance contracts and other shipping and merchant related business<sup>1</sup>.

Similar to the mutual life insurance companies are fraternal life insurance companies which were started by the various fraternal orders to assist their members. Today the insurance business has evolved to a multi-faceted business with various programs and numerous distribution methods. The internet and the insurance industry is in its infancy with most insurance companies having a web site and now with web sites able to do life insurance quotes online such as [www.lifeinsure.com](http://www.lifeinsure.com) which also has educational pages where it is possible to learn about the

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<sup>1</sup> The first life insurance company in the United States started in 1735. This company was started for the benefit of Presbyterian ministers' families. Some people think of insurance as gambling. It really isn't gambling even though it has the similarities of probability and odds. Insurance serves a public good of sharing the financial risks of existence and life and death among many to serve those who have experienced a loss.

Life insurance was originally dominated by the mutual life insurance companies. These are life insurance companies that are owned by the policyholders and thus those policy owners receive their pro-rata share of the company's profits. There are also stock life insurance companies where the profits are made for the benefit of the stockholders.

types of life insurance including whole life insurance, term life insurance, return of premium life insurance and survivorship life insurance (also known as joint and survivor life insurance or second to die life insurance).

There are choices today that differ greatly from the choices of even a few years ago. The internet has made information on life insurance accessible just as any subject. But the appropriate knowledge is the main factor during purchasing the life insurance contract. That may come from a qualified insurance agent<sup>2</sup>.

## **Law conditions for the operational activity in insurance in Poland**

### **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 only formal context are considered and represented sources of individual branches of law, including one of complex branches - the economic insurances law.

The economic root of insurance law, contrary to majority of basic branches, is not written, its sources are in numerous government files<sup>3</sup>. Among them the insurance activity law<sup>4</sup> takes the special place as well as the civil code since 1964. Moreover, the insurance mediation law<sup>5</sup> defines the principles of executing in range of personal and property insurances, and insurance mediation.

### **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 law<sup>6</sup>. 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 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 executive, on basis of the agency included contract agency, is the insurance agent written to the insurance agents' register. Agency actions can be realized by the natural person

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<sup>2</sup> The part of society at an unproductive age, can not rely on desirable financial protection from the government, that is why 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 prognosis, that the situation mentioned above, in the coming years relates to Poland as well as the other European countries. 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 overcome the men' co-operation with desirable competencies.

<sup>3</sup> First of all in laws, the decrees and the instructions

<sup>4</sup> Ustawa z dnia 22 maja 2003 r., Dz. U. Nr 124, poz. 1151, rdz. 2, art. 6 pkt. 3.

<sup>5</sup> Ustawa z dnia 22 maja 2003 r. o działalności ubezpieczeniowej, Dz. U. 2003 Nr 124, poz. 1151

<sup>6</sup> Ustawa z dnia 22 maja 2003 r. o pośrednictwie ubezpieczeniowym, Dz. U. 2003 Nr 124, poz. 1154

exclusively, who fulfils conditions defined legally<sup>7</sup>.

### **Distribution channels using by life insurance companies**

The insurance companies must sell their services with the following channels of distribution: the direct sales<sup>8</sup>, agency sales<sup>9</sup>, brokerage<sup>10</sup>.

Table 1. The service distribution channels of insurance companies, in 1998-2006 [in %]

Specification	1998	1999	2000	2001	2002	2004	2005	2006
Direct sales	50.73	44.54	42.37	40.33	41.61	50.26	52.46	28,2
Agent sales	38.78	50.81	53.09	55.67	55.47	46.3	43.73	59,42
Brokerage	10.48	4.65	4.49	3.94	2.91	1.51	1.78	3,45
Others	-	-	0.05	0.06	0.01	1.93	2.03	8,93

Source: Committees of Supervision Insurances and Pension Funds, Agenci Ubezpieczeniowi, Sprawozdanie za lata 1996-2006, Departament pośrednictwa i akwizycji, Warszawa 2008

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 insurances<sup>11</sup>, insurance agents' part of the whole distribution of life insurance products is very high<sup>12</sup>.

### **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 contact<sup>13</sup>, 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" (Carlzon, 1987) decides about possibility to rise of solid relation between 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 personnel (Rogoziński, 1993, pp. 14)<sup>14</sup>.

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

<sup>7</sup> Ustawa z dnia 19 listopada 1999r. Prawo działalności gospodarczej, Dz. U. 1999 Nr 101, poz. 1178

<sup>8</sup> Provided by "fulltime workers"

<sup>9</sup> Sales by insurance agents

<sup>10</sup> The sales provided by insurance brokers

<sup>11</sup> The agent should be paid commission, even 90% of the first year premium

<sup>12</sup> 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.

<sup>13</sup> For example, the life insurance companies

<sup>14</sup> 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"

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, 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 personalities (Norman, 1984, pp. 9-10).

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 as (Zeithaml, Bitner, 1996, pp. 304):

- 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, is the 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 who express in services process indicated, desirable emotions (Lovelock, Vandermerv, Lewis, 1999, pp. 546). 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 bundle of advantage by customer. 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 control (Irons, 1997, pp. 2, 45).

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. That finds its reflection in affirming (Rogoziński, 2000), that then contact employees coming in interactions with customers, creates the top of organizational hierarchy (Schneider, Bowen, 1996, pp. 305). 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. That marks, that in organizations, at which workers valued the high environment of work, the customers also estimate 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 perspective (ibidem).

### **Significance of insurance agents' competencies for life insurance companies effectiveness**

According to T. Kotarbiński opinion the only organizations that can develop there are the most effective ones (Kotarbiński, 1982, pp. 111-112). Leading operating activity enterprises make the analysis of efficiency using the considerable number of coefficients (e.g. ROE,

ROA, ROCE, EPS, EBIT, EBITD<sup>15</sup>). The plurality and the variety of applying in practice individual indicators is determined with the legal recipient of reporting<sup>16</sup>.

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 insurances<sup>17</sup>:

- Market shares of life insurances - understood as relation of volume gathered insurance premium of company to note of premium with totality
- Premium per one insurance agent - the value of average premium of insurance contracts inclusion, divided by the insurance agents' number<sup>18</sup>
- Average premium of single life insurance contract
- Unity cost of sale coefficient
- Level of administrative costs coefficient

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

Coefficient	Life insurance company			
	CU	AIG	NN	PZU
Market share <sup>19</sup> [%]	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 <sup>20</sup>	2398	1201	2011	8785
Total premium [mln PLN]	15.17	0.95	0.82	0.59

Source: Committees of Supervision Insurances and Pension Funds - [www.knuife.gov.pl](http://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 competencies<sup>21</sup>, there is af-

<sup>15</sup> ROE- return on equity; ROA- return on assets; ROCE-return on capital invested; EPS – earnings per share; EBIT – earnings before income taxes; more: (Samuelson, 1998); (Brigham, 2000); (Drury, 2000)

<sup>16</sup> 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

<sup>17</sup> 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](http://www.knuife.gov.pl). The construction of coefficients (showed in schedule 2) is from "praxeology theory" by Kotarbiński (ibidem) and relationship approach by Rogoziński (ibidem)

<sup>18</sup> The qualitative coefficient

<sup>19</sup> It concerns on life insurances with capital fund

<sup>20</sup> Under notion "active professionally agent" is inferred the individual, who contained minimum 50 new insurance contracts in year 2005

<sup>21</sup> The notion of "competency" is understood as combined knowledge, skills, abilities and attitude that allows an individual to be effective at work (Rakowska, 2000, pp. 17). There are other "competency" approaches, for example: sociological one (Sztomka, 2004, pp. 415); psychological one (Bartkowiak, 1999, pp. 181); pedagogical one (Okoń, 2004, pp. 184); legal one [Civil Code, art. 96-109]

firmed existence of positive correlation of insurance agent competencies profile and his efficiency. The difference of assimilating the individual competencies between agents reaches even 46%<sup>22</sup>. 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 aims<sup>23</sup>.

Processing competency management, that is significant to find the optimal relation between costs and effects, applying "praxiology theory" principles and interests both the internal<sup>24</sup> and external<sup>25</sup> clients. The competency management can be perceived as an essential part of human resources management (Oleksyn, 2006, pp. 187).

Table 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		

<sup>22</sup> Between agents working for the most effective insurance company and non effective ones

<sup>23</sup> 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); 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)

<sup>24</sup> Share holders and employees of insurance companies

<sup>25</sup> Individuals who purchased life insurance policies

Successions, allocations of employees		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	

Source: (Oleksyn, 2006, pp. 188)

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

### **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, imply 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 foresight (Okoń-Horodyńska, 2006) 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%.

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