

# The insurance agents' competencies as the determinant of efficiency of life insurance companies – relationship approach

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## Abstract

*The aim of this article is to exhibit the empirical relation between the insurance agents' competencies and the efficiency of life insurance companies in context of market changes ( the end of the existence of PZU monopoly, beginning the activity of foreign institutions of insurances), what executed in years 1990-2005, basis on research survey with 712 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, what organization is unable to avoid. 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 centres on covering financial losses caused with realization of risks (random events) or transfer on specialized, qualified company [15].

The part of society at an unproductive age, can not rely 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 refernece 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 lots of problems to gain over the men's co-operation with desirable competencies.

## 1. LAW CONDITIONS OF EXECUTING THE INSURANCE ACTIVITY IN POLAND

### 1.1. ORIGINS OF INSURANCE LAW

As the origin of insurance law one should understand the form in what it manifests the range of matters of relating insurances. In such just formal context are considered and represented 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 files (first of all in laws, the decrees and the instructions). Among them the insurance activity law [17] takes the special place as well as the civil code since the year 1964. Moreover the insurance mediation law [18] defines the principles of executing in range of personal and property insurances, and insurance mediation.

### 1.2. THE INSURANCE INTERMEDIATION

The insurance mediation institution relates 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 [19]. 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 definite legally [20].

## 2. DISTRIBUTION CHANNELS USING BY LIFE INSURANCE COMPANIES

The insurance companies must sell their services with the following channels of distribution (schedule 1):

- the direct sales (made by "fulltime workers"),
- agency sales - insurance agents,
- brokers,

### 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	50,74	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.: [1]

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 (the agent should be paid commission, even 90% of the first year premium). As mentioned above (schedule 1), insurance agents' part of the whole distribution of insurance products is very high.

### 3. LIFE INSURANCE POLICY AS A SERVICE PRODUCT – RELATIONSHIP MARKETING<sup>1</sup>

The style of management and the organizational culture are the essential and decisive about market position of company. In case of service firms, with high level of contact (eg. the insurance companies), the most important factor that determines efficacy of sales proceses are positive realations as the derivative of influence of insurance agents' competencies. This contact, or differently saying the Carlzon's "moment of truth" [4] 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 personel.

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 on fact, that it does not distinguish the service activity nor the intensive utility of capital, nor the even intensive utility of personel, but intensity of commitment of the workers' testifying the service personalities [11, pp. 9-10].

The Authoress of well-known marketing of services book V. A. Zeithaml, M. J. Bitner focus on the key part of personel in process of service and underlay the preference meaning defining this workers' group as [22]:

- 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 singlehandedly. 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 personel which work requires emotional commitment - "emotional labour" - this concerns workers which express in services process indicated, desirable emotions [10]. It is particularly important in case of medical personel, teachers, insurance agents.

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<sup>1</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", [12]

Considering to 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 difference among work force 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 similiar 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 [8, pp. 45; 2]

The customer's service is at service organizations doubtlessly the most important function, yet the contact personel responsible for service is the most important group of workers. This finds its reflection in affirming [13], that then contact employees (including supplies and operating system) coming in interactions with customers, creates the top of organizational hierarchy.

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. Schnaider 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 [16].

#### 4. SIGNIFICANCE OF INSURANCE AGENTS' COMPETENCIES FOR LIFE INSURANCE COMPANIES EFFECTIVENESS

Leading operating activity enterprises make the analysis of efficiency using the considerable number of coefficients (eg. ROE, ROA, ROCE, EPS,

EBIT, EBITD<sup>2</sup>). The plurality and the variety of applying in practice of individual indicators to be determined with the legal recipient of reporting<sup>3</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>4</sup>:

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' number (the qualitative coefficient)
3. Average premium of single insurance contract
4. Unity cost of sale indicator
5. Level of administrative costs indicator

### Schedule 2

#### Operating activity efficiency of life insurance companies in 2003

Ratio	Zakład ubezpieczeń			
	CU	AIG	NN	PZU
Market share <sup>5</sup> [%]	15,43	8,67	7,78	4,7
Premium per one insurance agent [zł]	632137,50	787366,27	408486,89	66932,27
Average premium of individual insurance contract [zł]	3511,87	4374,26	3404,06	929,62
Number of active agents <sup>6</sup>	2398	1201	2011	8785
Total premium [mln zł]	15,17	9,5	8,2	5,9

Ref.: KNUiFE

<sup>2</sup> ROE- return on equity; ROA- return on assets; ROCE-return on capital invested; EPS – earnings per share; EBIT – earnings before income taxes; more: [14], [3], [5]

<sup>3</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>4</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).

<sup>5</sup> it concerns on life insurances with capital fund

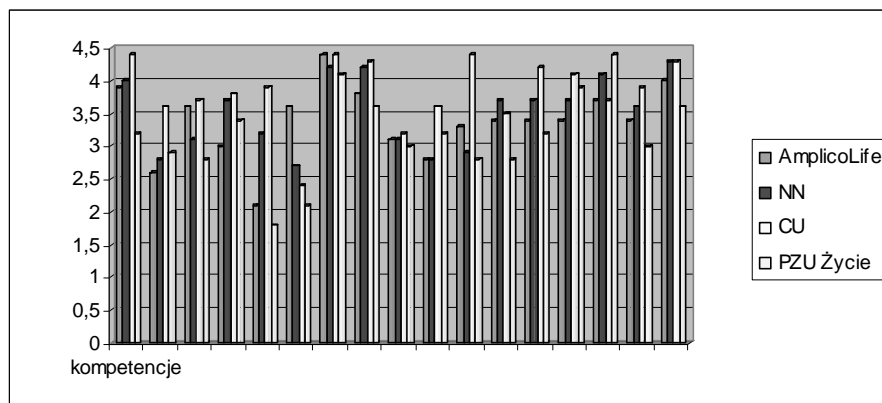
<sup>6</sup> under notion "active professionally agent" is inferred the individual, who contained minimum 50 new insurance contracts in year 2003

The market of life insurances in Poland was dominated by 4 competitors: Commercial Union, AIG Amplico Life, Nationale Netherlanden 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 (schedule 2)

## 5. CONCLUSIONS

As the result of conducted research of the insurance agent's competencies [8], 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% (schedule. 3). 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 favorably correlated with their individual aims.

**Schedule 3**  
Profile 17 competencies of agents



Ref.: research<sup>7</sup>

<sup>7</sup> Led in frames of dissertation: "The insurance agents' competencies and the efficiency of life insurance company"; 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

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 investigations, 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 Netherlanden, Commercial Union and AmplicoLife, seems to be the derivative of lacks of competencies both institution and the agents. On territory of Lithuania, where the operating activity of PZU Życie S. A. is not subject to the protection of government, 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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