THE ROLE OF RELATIONSHIP MARKETING ON INSURANCE MARKET DURING THE CRISIS PERIODS

Lecturer PhD Cristinel CONSTANTIN
Transilvania University of Brasov

Abstract:
This paper is about a research regarding the implications of present economic crisis on a market created to cover various risks that could affect both individuals and companies. The main objective of the research was to establish the coordinates of the insurance market at the EU countries level in order to find solutions that insurance companies could use for avoiding the negative impact of the crisis and to re-launch the local insurance market. The outcomes of our research have shown a low development of Romanian insurance market, this one being among the lowest developed market in the European Union. Taking into consideration the psychological impact of the crashes recorded by the biggest worldwide insurers, the best solution for local companies is to use the tools of relationship marketing that could develop the confidence of customers in insurance services.

Keywords: insurance market, relationship marketing, direct sales, multilevel marketing, economic crisis

Introduction

Insurance market like the other financial markets has a great importance for the economy of every country, as the insurers have the capacity to concentrate a large amount of the savings made by population and companies in order to be further invested in the economic activities. For our country, the insurance market is more challenging as this one is not enough developed and has recorded huge increasing rates during the last years. Nevertheless, this trend could breakdown due to the financial crisis recorded in the developed countries, which seems to have a negative impact on the worldwide economic trends.

We started our research from a diagnosis of insurance market at the level of EU countries before the crisis, in order to find information about the position of Romanian market inside the internal market of EU. Such information was very valuable for possible solutions of the identified problems.

The research was based on a short literature review and on a statistical analysis of data provided by the member states. The outcomes showed us a low development of Romanian insurance market in comparison with the majority of member states, which is a strong reason both for theoreticians and policy makers to find solutions to overpass the negative effects and to re-launch this market. Beyond the negative effects, the crisis could offer a unique chance for our country to reduce the existing differences from the rest of EU members. In this respect, we found the relationship marketing tools as the best fitted for solving the researched problem at the level of insurance service providers.

Literature review

The insurance activity “is working with the risk”. It tries to protect the insured people against the risks that could occur in their field of activity, even in their life, spreading the liability between the premium payers in order to make the event supportable from financial point of view (Dinu, 2008).

There are many examples of risk: a homeowner faces the possibility of economic loss caused by a house fire, a driver faces a potential economic loss if his car is damaged or if might have to pay for injures caused to a third party in a car accident. Normally, only a small percentage of policyholders suffer losses. Their losses are paid out of the premiums collected from the pool of policyholders. Thus, the entire pool compensates few unfortunates as each policyholder exchanges an unknown loss for the payment of a known premium. (Anderson & Brown, 2000).

Insurance companies deal on the financial market, which has a high level of regulation in many countries. In this respect, European Commission proposed in 2005 a white paper, which contains the EU financial services policy until 2010. According to this one, completing the single market in financial services is recognised as one of the key areas for EU's future growth, essential for EU's global competitiveness. The challenge of this new strategy has been to apply a better regulatory discipline in order to create the best financial framework in the world, with real benefits for the citizens and businesses of Europe through lower capital costs, better pensions and cheaper, safer retail financial products etc.

The regulatory system is necessary because the financial service providers are themselves exposed to risks. Insurers make money in two ways: from premiums charged to customers as payment for accepted risks and from the investment of a part of premiums in various financial and non-financial products. From these incomes they pay the claims of occurred risk and other administration expenses. The investment of money in risky financial products could lead to losses for insurance companies that could affect both the security of their customers and the confidence of these ones. In fact, such a situation happened with American International Group (AIG), the biggest insurer from USA.

The marketing of insurance products are made by the own agents of insurance companies or by intermediaries (independent agents and brokers). Brokers and agents search the market in order to find clients that need insurance (Insurance Information Institute, 2004). Additionally, brokers use their knowledge and access to the insurance marketplace for selecting among insurance products or risk management systems the ones that are best suited to the buyer's needs and desires (Petrescu, 2005).

The employees of brokers and agents often practice relationship marketing, searching their prospects among their friends or relatives. Due to their particularities, the insurance services are very suitable for applying relationship marketing principles.

Research methodology and outcomes

This research started from a very strong problem discovered on the Romanian market as result of the financial crisis that generated a worldwide economic crisis with a negative impact at the level of a great part of the economic sectors. This negative outcomes could affect the Romanian insurance market, which has had an accelerated increasing before the first crashes recorded by the American financial sector.

The research methodology is based on secondary data analysis, using public sources like official statistics provided by European and national institutes. The large majority of data was of quantitative nature, contained in longitudinal and cross-sectional series.

Based on such data, we tried to make a Principal Component Analysis, using many variables related to insurance market, but it cannot be isolated more than one component due to a strong direct correlation between the analysed variables. Therefore we limited the analysis to a bivariate one, taking into account pairs of relevant variables.

The research outcomes showed us a huge discrepancy between the Romanian insurance market and the similar markets of the most developed countries of EU. In the same time, we can find similarities among the newest EU members including Baltic and Central and Eastern European countries.

The main weakness of our research consists in the unavailability of recent data that could reflect the impact of the economic crisis on the insurance market. For this reason, the research should be continued when new data will be available. Such an analysis could give us a complete image of the EU markets and the rearrangements of the trends in every member state.

Coordinates of insurance market in the European Union

The EU's insurance market is one of the largest worldwide, the European insurance groups being the leaders of the world in terms of financial strength and size. All the EU countries are associated to CEA, which is an insurance and reinsurance federation. Other 6 non-EU countries are members of this organisation (Norway, Liechtenstein, Turkey, Croatia, Iceland, and Switzerland).

The insurance market of CEA members generated in 2007 premium incomes of €1122bn, employed almost one million people and invested more than €7 200bn in the economy (CEA, 2008). This market has recorded significant increases in real terms (inflation adjusted) every year since 1995, with a single exception in 2001, when the total premiums dropped with 1.7%. In 2007, in spite of a good economic growth, the insurance sector in Europe recorded only a very slight increase in total premium income of 1.2% in real terms, after two consecutive years with 6.5% increase. (see Figure 1).

In Europe, life insurance accounted for more than 60% of overall premiums in 2007. Non-life insurance products followed closely by health & accident had market shares of respectively 12% and 11% of overall insurance premiums as far as property insurance recorded more than 7%. The dynamic of the main categories of insurance show a higher increase of life-insurance (1.7%) in comparison with just 0.4% recorded by non-life insurance premium in 2007 (CEA, 2008).

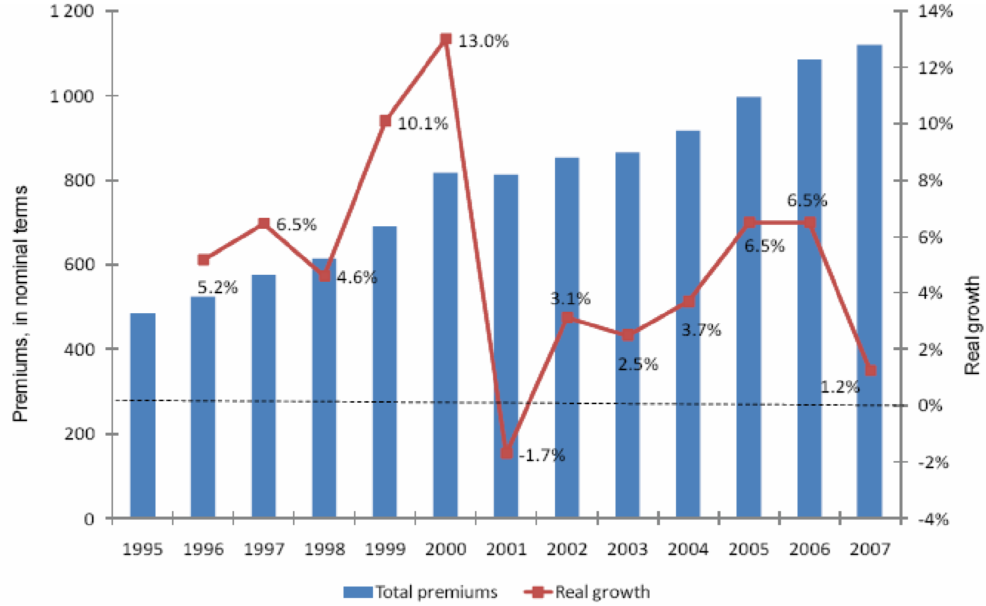

Figure 1. Total premiums in Europe – 1995-2007 (€bn)

Source: CEA –CEA statistics no. 3. European Insurance in Figures, October 2008

Taking into account the figures recorded at the level of EU members (EU-27), we can find that this countries recorded 95% of the total premiums subscribed in 2007 on CEA market. In spite of this fact, there are still high discrepancies among EU countries even at the level of older members. Thus, the countries of Euro zone represented 62% of the total premiums subscribed in EU-27. The gap is huger if we take into consideration that UK, the biggest insurance market of EU, gave 26.3% of total premiums subscribed in the CEA countries in 2007 (CEA Statistics 36-2008).

The analysis of statistical data at the level of EU member states indicates a strong correlation between the total subscribed premiums and the size of population on one hand and between the same variable and the number of insurance companies that activate on every local market on the other hand (see table 1).

Table 1

Correlations between the value of premiums, population and number of insurance companies in EU countries (2007 data)

Data sources: CEA Statistics 36-2008,

		Population (mil. people)	No. of companies	Premiums (mill. Euros)
Population (mil. people)	Pearson Correlation	1	.748**	.825**
	Sig. (2-tailed)	.	.000	.000
	N	28	26	26
No. of companies	Pearson Correlation	.748**	1	.936**
	Sig. (2-tailed)	.000	.	.000
	N	26	26	26
Premiums (mill. Euros)	Pearson Correlation	.825**	.936**	1
	Sig. (2-tailed)	.000	.000	.
	N	26	26	26

**. Correlation is significant at the 0.01 level (2-tailed).

EUROSTAT

In the table above we can see that the Pearson correlation coefficient between the value of premiums and the population size is 0.825 and the same coefficient between the total premiums and the number of companies present on the local markets is 0.936. Both values indicate a direct correlation with a very high intensity. In addition, it can be found a strong direct correlation between the population size and the number of companies that activate on the market (correlation coefficient = 0.748).

If we look at the top 3 countries according to the value of premiums, the correlation is not the same, the association being an inverse one. In this respect, Germany is on the third place, even it has the highest population and UK is on the first place as premium values but on the third place as population (see Table 2).

Table 2

Top 3 countries according premium income

Country	**Population (mil. people)**	**Premium income (€ million)**	**Share of premium (%)**
United Kingdom	60.6	295044.9	28%
France	63.2	194310.0	18%
Germany	82.4	163200.0	15%
Others	280.1	413407.8	39%
Total	486.3	1065962.7	100%

Data sources: CEA Statistics 36-2008, EUROSTAT

In order to identify the relative position of countries both among them and in relation with the main categories of insurance, we placed the EU members in the plane determined by the premiums subscribed in life and in non-life insurance (see Figure 2). For comparability, data regarding the premium subscriptions were reported per capita in order to eliminate the influence of population size.

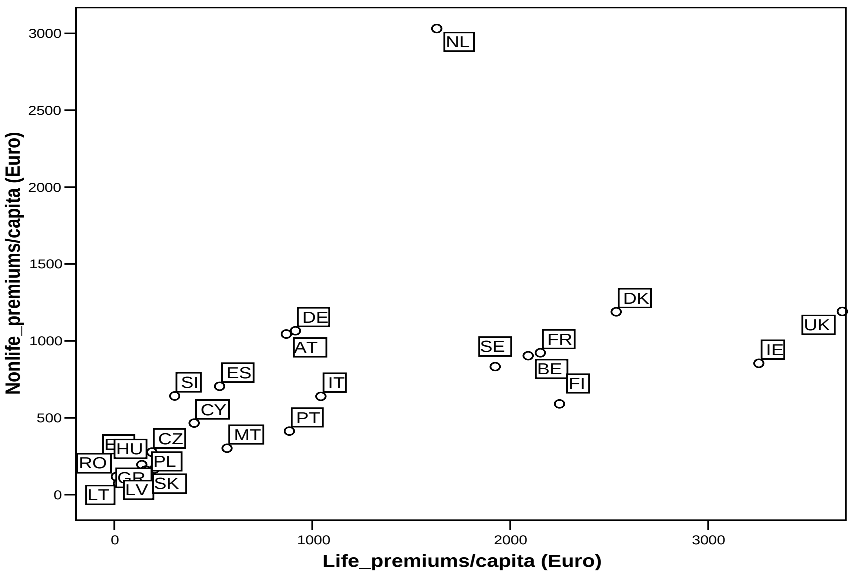

Figure 2. The positions of EU countries according to life and non-life premiums

Data sources: CEA Statistics 36-2008, EUROSTAT

The highest level of life premiums per capita (21862 Euro) was recorded in Luxembourg, which was not placed on the chart from technical considerations. Excepting this country, in the chart above it can be seen the positions of UK and Ireland with the highest levels of life premiums per capita and the position of the Netherlands with the highest level of non-life premiums per capita. Denmark, Finland, France, Belgium and Sweden have also high levels of life premiums per capita. As regards non-life premiums, there is a high homogeneity among the former member countries (EU-15) excepting the Netherlands. All new EU members recorded very low levels of premium subscribed both for life and non-life purposes.

Relationship marketing in the crisis period

The members of the Pan-European Insurance Forum agree that insurance industry is not immune to the effects of the current crisis even if the conventional insurers entered the crisis in a comparatively strong position because the specific characteristics of the insurance business model have protected the industry from the worst impacts of the financial turmoil. The sale of insurance products – in particular unit linked business in life - is expected to fall due to the economic slowdown (PEIF, 2009).

According to the same organisation, a better regulatory system is necessary for the financial system. In this respect, large complex financial institutions have to be supervised in their entirety in order to obtain a much greater transparency for structured financial products. As well, regulators must step up their efforts to achieve convergence in accounting standards.

In our opinion, in addition to the above mentioned issues, the insurers have to take their own anti-crisis measures. Such measures should be oriented mainly towards marketing strategies and activities, which need to be really focused on customer needs. In this respect, relationship marketing principles are the best suited for increasing trustworthiness of customer in the protection power of insurances and in the financial security of insurers.

Generally, in the relationship marketing, companies have to establish strong relationships with their customers, to maintain them and to create a basis of mutual cooperation on long term. Furthermore, consumers desire relationship partners that they can trust. All of these ones are reasons of customer satisfaction that generate additional benefits at the level of companies.

The sale of insurance policies has all the characteristics that make it suitable for relationship marketing. It is well known a joke among insurance sellers, which states that “nobody goes to a supermarket (or other shops) in order to buy an insurance policy”. In this context, the insurer agent has to contact the potential customers, to identify their necessities and to offer them insurance programs that better fit their needs. As relationship marketing technique, the insurer could consider Multi-Level Marketing (MLM), which is still successfully used by some insurance brokers.

Conclusions

Insurance market has a high importance for the entire economy, so that it is necessary to put in practice cumulative measures to avoid as much as possible the negative effect of economic crisis. In these actions, the authorities should have a great implication but it is the insurers’ duty to take their own decisions in the direction of using the relationship marketing tools. As the crisis has a very negative impact on the trustworthiness of customers, the relationship marketing become much more than a fashion, being a powerful tool of trust building with positive effects on re-launching the insurance sales. According to our research outcomes, for the Romanian market, such measures become more necessary as there is a wide gap in its relative position towards the developed countries of European Union. The strong correlation existing between the insurance premiums and the number of population comes with additional arguments of the high potential of local market in spite of the current economic crisis.

Further directions of this research should focus on the statistical data that are to be issued in order to measure the real impact of crisis and the tendencies of these data on medium and long term.

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