

# Assignment 3

## Competing in the Personal Insurance Market

### EDUCATIONAL OBJECTIVES REVIEW

Time Required for Educational Objectives Review:

60 minutes

*Note to Instructor:* This exercise has been designed to help you direct a class discussion of the Educational Objectives (E.O.s) for this assignment. While leading the discussions, be sure to stress the importance of the E.O.s to the students.

Divide the class into groups of three or four, with a leader for each group.

<b>E.O. 1</b>	<b>Describe and analyze the competitive environment in the personal insurance market.</b>
ASK:	Based on the characteristics of perfect competition and imperfect competition, what are the characteristics of the competitive environment for the personal insurance market?
INSTRUCT:	Instruct the participants to refer to Exhibit 3-1 on pages 3-3 to 3-4 in their textbooks. Number the rows appearing in the exhibit from 1 through 5.  Assign the rows in Exhibit 3-1 among the groups. Instruct the groups to describe in their own words the analysis that appears in the right column of their row. If possible, the groups should include an example they have observed in their own environment. (Allow 5 minutes for discussion.)
DEBRIEF:	Instruct the group leaders to present their descriptions. If the students have difficulty with these assignments, review the bulleted list in the text that begins on the bottom of page 3-4 and continues on the top of page 3-5.

**CHECK:** Bring the discussion back to the E.O., and check for understanding of the competitive environment in the personal insurance market.

**E.O. 2 Explain how insurers strategically position themselves within the personal insurance market.**

**ASK:** What goes on in the boardroom when an insurance company's executive staff collects information and determines how to compete against other insurance companies? There are a number of methods for developing competitive strategies. Some strategies are informal and intuitive. The SWOT analysis, which stands for strengths, weaknesses, opportunities, and threats, and is presented in the text, is a formal method of reviewing the environments inside and outside an insurance company. Based on the outcome of the analysis, a competitive strategy becomes clearer.

**INSTRUCT:** Instruct the participants to draw the following table on a sheet of paper. Leave the last column blank at this time.

<b>SWOT Analysis Elements</b>	<b>Internal or External?</b>	<b>Description</b>	<b>SWOT Analysis for:</b>
<b>Strengths</b>			
<b>Weaknesses</b>			
<b>Opportunities</b>			
<b>Threats</b>			

Divide the SWOT elements in the first column among the groups. Instruct the students to complete the second and third columns for their assigned items. In the second column, they should indicate whether the item is an internal or external characteristic. In the third column, they should provide a one-sentence description of the item. (Allow 3 minutes for discussion.)

**DEBRIEF:** Instruct the group leaders to report their group's characteristics and descriptions for the assigned items. The following is a table with suggested completions for the second and third columns.

<b>SWOT Analysis Elements</b>	<b>Internal or External?</b>	<b>Description</b>	<b>SWOT Analysis for:</b>
<b>Strengths</b>	Internal	Characteristics that create competitive advantages.	
<b>Weaknesses</b>	Internal	Characteristics that leave an organization vulnerable to actions by competitors.	
<b>Opportunities</b>	External	A condition that could improve an insurer's competitive situation.	
<b>Threats</b>	External	A condition that could undermine an insurer's competitive situation.	

**INSTRUCT:** Instruct the students to review the market positioning exhibit on page 3-9 in their texts.

Explain that some markets are too large to try to compete with all other companies. Instead, companies determine how they are positioned within a market and how they compete with companies that address similar customer groups.

Explain that companies are plotted in the exhibit by the prices they charge and the services they offer.

Instruct the student to review the exhibit as if automobiles, not insurers, were plotted there. What types of private passenger automobiles would be plotted in each quadrant? Assign the four quadrants among the groups, and instruct the students to identify one private passenger automobile that would be plotted within the assigned quadrant. (Allow 3 minutes for discussion.)

DEBRIEF: Have the group leaders report on the automobile that their group plotted within the assigned quadrant.

The following graph includes suggested responses to help the students.

<p><b>Quadrant 1</b></p> <p>Jeep</p>	<p><b>Quadrant 2</b></p> <p>Mercedes</p>
<p><b>Quadrant 3</b></p> <p>Honda</p>	<p><b>Quadrant 4</b></p> <p>Saturn</p>

DISCUSS: Opinions will obviously vary regarding the placement of particular vehicles within the quadrants. Explain that the point of the exercise is to illustrate that automobile manufacturers with vehicles in Quadrant 3 are not trying to compete with vehicles in Quadrant 2. These two quadrants fill different customer needs. Similarly, automobile manufacturers with vehicles in Quadrant 1 are not trying to compete with vehicles in Quadrant 4. Automobile manufacturers compete with companies filling similar customer needs.

Insurance companies in markets as large as personal automobile or homeowners insurance also compete with those companies filling similar customer needs.

CHECK: Bring the discussion back to the E.O., and check for understanding of strategic positioning in the personal insurance market.

**E.O. 3** **Given a case situation, analyze an insurer’s strengths, weaknesses, opportunities, and threats; describe how an insurer might position its products within the personal insurance market based on that analysis.**

ASK: How do you perform a SWOT analysis and determine market positioning for a personal lines insurance company?

INSTRUCT: Instruct the students to work within their groups and select a personal insurance company with which they are familiar. Instruct the participants to complete the final column of the chart they began in the previous exercise. For this selected insurer, they should also plot the market position for either personal automobile or homeowners insurance products. If students have difficulty with this assignment, instruct them to refer to Exhibit 3-2 as a starting place. (Allow 7 minutes for discussion.)

**DEBRIEF:** Have the group leaders report their group's SWOT analysis for the group's selected insurance companies and the plotting for marketing position.

<b>SWOT Analysis Elements</b>	<b>Internal or External?</b>	<b>Description</b>	<b>SWOT Analysis for:</b>
<b>Strengths</b>	Internal	Characteristics that create competitive advantages.	
<b>Weaknesses</b>	Internal	Characteristics that leave an organization vulnerable to actions by competitors.	
<b>Opportunities</b>	External	A condition that could improve an insurer's competitive situation.	
<b>Threats</b>	External	A condition that could undermine an insurer's competitive situation.	

**DISCUSS:** Based on the leaders' reports, discuss strategies that the insurance companies might apply to improve their competitive advantages.

**CHECK:** Bring the discussion back to the E.O., and check for the students' comfort with applying a SWOT analysis and market positioning when given a case study.

**E.O. 4 Explain how insurers compete on the basis of product features, price, and service.**

**ASK:** Personal lines insurers have three enhancements or strategies that they can use to compete: product features, price, and service. Remember that an insurer must balance any additional product or service with the cost of that service. For any added cost created by product feature or service, the insurer must increase the premiums, reduce expenses, or reduce the profit margin they are willing to

accept. What else do insurers consider as they compete on the basis of product features, price, and service?

**INSTRUCT:** Instruct the participants to draw the following chart on a piece of paper.

<b>Enhancements or strategies</b>	<b>What action can the insurer take?</b>	<b>What are the potential pitfalls?</b>
1. Product features		
2. Price <ul style="list-style-type: none"> <li>• controlling claims and claim expenses</li> <li>• controlling operating expenses</li> </ul>		
3. Service		

Assign the three numbered items among the groups. Instruct the participants to complete the second and third columns for their assigned topics by (1) listing actions an insurer could take and (2) listing pitfalls to avoid in taking these actions. (Allow 5 minutes for discussion.)

**DEBRIEF:** Have the group leaders report their group’s actions and pitfalls. Instruct the students to complete their charts as the leaders report. A completed chart is provided below to help you with any problem areas.

<b>Enhancements or strategies</b>	<b>What action can the insurer take?</b>	<b>What are the potential pitfalls?</b>
1. Product features	<ul style="list-style-type: none"> <li>• Create package policies.</li> <li>• Provide added coverage.</li> <li>• Provide increased limits.</li> </ul>	<ul style="list-style-type: none"> <li>• Other insurers will copy successful ideas if they are easy to duplicate.</li> <li>• Any added or changed feature should fill customers’ needs.</li> </ul>

<p>2. Price</p>	<ul style="list-style-type: none"> <li>• Reduce prices by controlling claims and claim expenses.</li> <li>• Reduce prices by controlling operating expenses.</li> <li>• Merger, acquire, or be acquired.</li> <li>• Create SBUs to determine productivity of units and identify functions that can be outsourced less expensively.</li> </ul>	<ul style="list-style-type: none"> <li>• Reducing prices and remaining profitable is difficult—the insurer must reduce one of the costs associated with the premiums (claims, operating expenses, taxes, dividends, profit).</li> <li>• Staff reductions can cause a loss of expertise.</li> <li>• Centralizing can cause a loss of local presence and expertise.</li> <li>• Reducing budget can cause intolerable reduction in staff or benefits.</li> <li>• SBUs can create more administration and cause conflicts.</li> </ul>
<p>3. Service</p>	<ul style="list-style-type: none"> <li>• Event marketing.</li> <li>• Keep contacts neutral or positive (event contact perspective).</li> <li>• Service recovery.</li> <li>• Call center management.</li> <li>• Team approaches.</li> </ul>	<ul style="list-style-type: none"> <li>• Must address all the levels at which service is provided.</li> <li>• Costs associated with service and training.</li> <li>• When using teams, effective team management is essential to avoid conflict.</li> </ul>

CHECK: Bring the discussion back to the E.O., and check for the students' understanding of how insurers compete on the basis of product features, price, and service.

**E.O. 5 Given a case situation, describe actions that a personal lines insurer could take to compete in the personal insurance market.**

ASK: Using the information that you have identified in your chart, what actions should the personal lines insurer you discussed in the exercise for E.O. 3 take to compete more effectively in the market?

INSTRUCT: Instruct the students to review the SWOT analysis they completed for the insurer they selected. Students should identify (1) actions the insurer should take regarding product features, price, and service, and (2) recommendations for avoiding the pitfalls that can result. (Allow 7 minutes for discussion.)

DEBRIEF: Instruct the group leaders to report their group's actions and recommendations. Encourage the remainder of the students to make suggestions.

CHECK: Bring the discussion back to the E.O., and check for the students' comfort with describing actions that personal lines insurers can take to compete effectively in the personal insurance market.

**E.O. 6 Describe team approaches to improve insurer service and gain efficiencies; describe elements of effective team management.**

ASK: How can a company use teams to improve service and gain efficiencies? What is effective team management?

INSTRUCT: Assign half of the groups the task of identifying the types of teams and their uses. Assign the other half the task of identifying the elements of effective team management. (Allow 3 minutes for discussion.)

DEBRIEF: Instruct the group leaders to report regarding their group's assignments.

CHECK: Bring the discussion back to the E.O., and check for the students' understanding of how insurers use teams to improve service and gain efficiencies, and of how teams are managed effectively.

**E.O. 7 Describe the benefits to an insurer of increasing customer retention and persistency; explain how insurers can increase retention and persistency.**

ASK: Why should an insurer attempt to increase customer retention and persistency?

DISCUSS: As a group, discuss what insurers gain by increasing policy retention. Be sure to include in the discussion the following subjects:

- Lower loss ratio (new policies generate more losses)
- Reduced expenses (maintenance costs are lower than acquisition costs)
- Higher policy count and higher premiums

Also discuss as a group how insurers retain customers. Cover the bulleted list beginning at the bottom of page 3-22 and the Proven Practices in Retaining Policies included in Exhibit 3-8.

CHECK: Bring the discussion back to the E.O., and check for the students' understanding of how insurers increase retention and persistency, and what insurers gain by doing so.

## ADDITIONAL EXERCISES

*Note to Instructor:* These additional exercises have been provided to supplement the material found in this assignment. Students should be encouraged to use these exercises as a review of what they have learned in the assignment.

### TRUE/FALSE EXERCISE

Time Required for True/False Exercise:

5 minutes to complete the exercise; 10 minutes to review the exercise

Indicate with a check whether the following statements are **TRUE** or **FALSE**.

**TRUE**   **FALSE**

- |                          |                          |  |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | 1. Some personal insurers maintain market power because these insurers have gained a recognizable position in the national market.   |
| <input type="checkbox"/> | <input type="checkbox"/> | 2. Insurance products are generally available for most personal insurance needs unless external forces (such as regulation or catastrophe exposure) prevent insurers from generating enough premiums to offer the products profitably. |
| <input type="checkbox"/> | <input type="checkbox"/> | 3. Strengths, as identified in a SWOT analysis, are internal characteristics that give an insurer a competitive advantage  |
| <input type="checkbox"/> | <input type="checkbox"/> | 4. A company with “no clear strategic direction” would identify that characteristic as a weakness in a SWOT analysis.  |
| <input type="checkbox"/> | <input type="checkbox"/> | 5. In the personal automobile insurance market, insurers often compare their market position with competitors solely on the basis of product features.   |
| <input type="checkbox"/> | <input type="checkbox"/> | 6. Within a team, a manager should reward individual exceptional performance through recognition as long as it contributes toward the team’s goals and objectives.   |
| <input type="checkbox"/> | <input type="checkbox"/> | 7. Team members do not require training to work as team. Team interaction is intuitive among small groups of people.   |
| <input type="checkbox"/> | <input type="checkbox"/> | 8. Insurers recognize that the acquisition of new policies is vital to their success because new policies have fewer losses than policies that are retained for more than two years.   |
| <input type="checkbox"/> | <input type="checkbox"/> | 9. Every personal lines insurer should begin any plan to increase policy retention with the goal of retaining 100% of its existing accounts.   |
| <input type="checkbox"/> | <input type="checkbox"/> | 10. A strong correlation exists among customer retention and employee and producer tenure.   |

## COMPLETION EXERCISE

Time Required for Completion Exercise:

5 minutes to complete exercise; 10 minutes to review exercise

Complete each sentence with the appropriate word or phrase.

1. \_\_\_\_\_ is the effort of two or more parties acting independently to secure the business of a third party by offering the most favorable terms.
2. Both personal insurance customers and insurers have \_\_\_\_\_ because customers do not fully understand the insurance product they are purchasing and insurers do not have enough information to price their products with absolute accuracy.
3. Personal lines insurers compete on the basis of \_\_\_\_\_, \_\_\_\_\_, and service.
4. As identified in a SWOT analysis, a \_\_\_\_\_ is a condition external to the insurer that can undermine an insurer's competitive situation.
5. When analyzing market positioning for a personal automobile insurance product, an insurer offering prices and services very close to its competitors can alter \_\_\_\_\_ to create key competitive differences from competitors' products.
6. Of all of an insurer's expenses, any change in \_\_\_\_\_ that can be taken that is even marginally effective has a large effect on an insurer's results.
7. \_\_\_\_\_ teams include members that are not present in the same location. They use common database and electronic correspondence to assist customers, develop products, and interact.
8. The measurement of policies an insurer renews over a long period of time is \_\_\_\_\_.
9. One method of retaining customers is by offering a \_\_\_\_\_ discount at renewal to policyholders who have experienced several years without a claim.
10. Practices that have clearly increased policy retention start with a commitment that begins in an insurer's \_\_\_\_\_.

## MATCHING EXERCISE

Time Required for Matching Exercise:

5 minutes to complete exercise; 10 minutes to review exercise

Match each term with the appropriate definition.

- |  |  |
|--|--|
| A. Strategies                                  | 1. ____ Does not exist in the personal insurance market because customers believe the products are the same        |
| B. A new competitor enters the market          | 2. ____ Example of a weakness in a SWOT analysis   |
| C. Catastrophe management plan implementation  | 3. ____ Example of an opportunity in a SWOT analysis   |
| D. Team approach                               | 4. ____ A significant edge over the competition in dealing with competitive forces                                 |
| E. Perfect competition                         | 5. ____ An action to reduce operating expenses   |
| F. Competitive advantage                       | 6. ____ Large-scale action plans for interacting with the business environment in order to achieve long-term goals |
| G. Centralization and consolidation of offices | 7. ____ A method of improving service and efficiency   |
| H. High expense ratio                          | 8. ____ Example of a threat in a SWOT analysis   |
| I. Brand loyalty                               | 9. ____ Exists when individual buyers and sellers cannot affect the market price                                   |
| J. Complacency among competitors               | 10. ____ An action to reduce claims and claim expenses   |



## ANSWERS TO THE ADDITIONAL EXERCISES

### TRUE/FALSE

1. F
2. T
3. T
4. T
5. F
6. T
7. F
8. F
9. F
10. T

### COMPLETION

1. competition
2. imperfect information
3. product features/price
4. threat
5. product features
6. claims/claim expenses
7. virtual
8. persistency
9. loss-free
10. executive offices

### MATCHING

1. I
2. H
3. J
4. F
5. G
6. A
7. D
8. B
9. E
10. C

## SHORT ANSWER QUESTIONS

	Based on	Text Pages	Possible Answers
1.	E.O. 2	3-5	<ol style="list-style-type: none"><li>1. A SWOT analysis will help an insurer identify and develop competitive advantages.</li><li>2. A SWOT analysis can help highlight the need for innovation and provide an organized approach for encouraging new ideas related to strategies.</li></ol>
2.	E.O. 4	3-11	<p>Other insurers will copy innovative ideas that are successful if the product innovation can be implemented easily. An insurer can sustain an advantage only if a product advantage is difficult for other insurers to copy or if there is some barrier against other insurers applying the innovation.</p>
3.	E.O. 6	3-20	<ol style="list-style-type: none"><li>1. Avoid rewards for individual competence. These are part of basic work force needs, not incentives.</li><li>2. Develop board-based team incentive plans that are based on benchmarks that are measurable and have value to the team.</li></ol>