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## MARKETING IN INSURANCE: THE IMPORTANCE OF EFFICIENT INSURANCE CLAIMS MANAGEMENT

**ABSTRACT:** *Marketing stands as one of the most important business functions for creating customers and generating demand and is of great importance in the insurance industry. Its purpose is greater than in other business areas, as insurance services and vehicles are not only intangible, but also represent a promise of future payment. Trust in insurance and insurers is essential to insurance services offerings. Thus, to achieve business objectives and create consumer confidence it is important to successfully manage marketing mix elements. Adequate management and compensation of claims are the natural extension of marketing functions in the insurance industry. Generally, the only time that a customer/policyholder has occasion to check the “quality” of a service, and thus the insurer an opportunity to fulfil the promise of future payments, is when adverse events occur. Traditional marketing cannot affect the insured’s losing confidence in insurance and in the insurer when an insurer fails to fulfil its promise. All marketing efforts to improve the confidence in such cases are useless. Thus, it is imperative that payment of claims be properly managed so as to reflect the aspiring promise of marketing claims and prevent the sullyng of the insurer’s reputation. In this paper are analyzed the significance of marketing in insurance and the importance of proper claims management used to achieve business objectives and build trust in insurers.*

**KEY WORDS:** *insurance, claims management, marketing.*

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## INTRODUCTION

The success of entrepreneurial activities has always been based on the ability of the management to make decisions that consider different options in terms of risk and yield relations, and this is especially true in insurance. Among the most important decisions are marketing activities, bearing in mind that their main goal is to achieve sales of insurance services. The goal of marketing is to facilitate the satisfaction of insured parties in a way that allows an organization to profit while meeting such demands. Insurance companies must form offers that will meet the needs of potential and existing insured customers and must decide on the best way to present their offerings of insurance coverage, how the insurance service should be distributed, and how to best insure the potential insured. The insurer's aim is to provide the best possible coverage while at the same time achieving maximum profitability and respecting ethical principles (Njegomir, 2006; Njegomir, 2007). A comprehensive concept of marketing must cover all these activities. Insurance companies must always be guided by the famous thesis of Peter Drucker: "Since the basic purpose is the creation of consumers, enterprises have two and only two basic functions: marketing and innovation. Marketing and innovation produce results, everything else are costs."

Marketing comprises individual and organizational activities that facilitate and perform satisfactory exchanges in a dynamic environment through the creation, distribution, promotion, and pricing of goods, services, and ideas. All marketing activities are aimed at achieving maximum customer satisfaction. Marketing is defined as a management process responsible for identifying, anticipating, and meeting consumer demand profitably (CMA, 2017). Marketing styles represent the use of the most appropriate means and techniques for realizing and communicating the basic needs of consumers and through their satisfaction to achieve profit, considering the specifics of marketing insurance services.

The application of modern marketing concepts is a means by which insurance companies can better adapt to market conditions. As marketing connects the insurer with the insured, it is a necessity for

successful business operations. Risk management has always been and will remain the essential business of insurance and reinsurance companies (Njegomir & Miškić, 2018), but to succeed in the dynamic business environment, these businesses must pay proper regard to marketing issues and to the maximum satisfaction of the beneficiaries of their services – those who are insured.

### **THE IMPORTANCE OF CLAIMS MANAGEMENT**

Insurance business is complex and involves the use of terminology that is often incomprehensible to people outside the insurance sector (Njegomir, 2009; Njegomir, 2011). However, there is a term that everyone recognizes, given its significance: claims management. It represents the most exposed aspect of the business of insurance companies to the public and on it depends the survival and development of the insurance market.

Anyone who holds an insurance policy can, once the insured case arises, be involved in the process of assessing and liquidating claims. When something goes wrong in the process, when the claims are challenged, when they are not paid in time or are not paid at all, the insured becomes dissatisfied. In the short term, each situation will likely be reflected in a lowering of the company's reputation, but over the long term, if repeated, the survival of the insurance company may be compromised.

Inadequate treatment of claims may also jeopardize public confidence in insurance itself. Many examples of inadequate claim management by insurance companies in Serbia during the 1990s confirm this, especially in the sector of automobile liability insurance, which have led to a loss of public confidence in insurance.

Each insurance company has a department or other form of organization dealing with issues of the estimation and liquidation of claims. The size and complexity of these claims will typically determine the number of entities that an insurance company will engage. For example, solving claims in life insurance is relatively simple and does not require special expertise outside the insurance company, unlike the

case of catastrophic events, which are usually multidimensional, often provoking the simultaneous reporting of a large number and type of losses.

## **PROBLEMS IN CLAIMS MANAGEMENT**

Problems in insurance claims management are most often caused by deviations in the standard settlement of claims. These problems include: gradually developing claims in liability insurance, quantifying of sub-insurance, complex claims, and conflicts in determining whether an insurance contract was concluded prior to the occurrence of a loss event.

The indemnification of losses is not always easy and without problems, as can be the case when quick payment of claims is required of liability insurance, casco insurance, fire insurance, or in response to catastrophic events.

Some damages can be exercised over an extended period, such as:

- 1) pollution of groundwater due to long term leaks, spillages or other daily activities; or,
- 2) disrupting the health of employees due to poor working practices, safety standards, overtime, use of machinery, or pollution.

In these cases, a claim for losses may be reported well after the primary cause of loss has arisen. In the event of a disruption in the health of an employee, such as in cases involving asbestos pollution, the period of exposure to the occurrence and the eventual submission of a claim may be 20 to 30 years. Problems that arise in such cases can relate to complications in determining the date of the cause leading to the submission of a claim or over which insurance company is responsible if the insurance company that concluded the insurance contract changed its name or ceased to exist, either a cessation of business activities, or by merging with another insurance company. In most insurance contracts, the liability in such situations is stipulated, but if unclear, litigation may be sought to define insurance policies that are not sufficiently clear.

These problems condition the problems of determining insurance premiums and provisions for incurred, but not reported, claims. The determination of premiums must include the possibility of

the development of losses in the past or in the future. which would be conditioned by causes that are not known at the moment of determining premiums, or are not clear enough at the moment of conclusion of the insurance contract. Provisions must take into account all claims for damages that are gradually developing.

A significant problem is the determination of liability for loss. Namely, the first question that an insurance company should determine when reporting a claim is whether the claim is valid under the terms of the insurance policy and whether there is another party that should be held liable for the resulting damage in its entirety.

In the event of an accident, the above problem for an insurance company concerns the following two questions:

1. What scope of coverage was provided by the concluded insurance contract? - Did the insurance contract include damage on the insured's own vehicle or any other amount that the insured or the insurance user required?

2. Who made the loss? If it appears that another party was responsible for loss as a result of a traffic accident, all costs of the compensation claim are then potentially recoverable from a third party or from an insurer. If it is established that the insurer has paid the losses and the liability of a third party, then the insurer has the right to claim compensation from the perpetrator of the loss.

The scope of the insurance coverage and the coverage of a particular event by the insurance policy can be considerably more complex. The exact terms of the insurance contract that has been concluded will be used by the court only if settlement of a claim is sought in the form a court dispute. It is on insurers to specify the scope of coverage as precisely as possible, without ambiguity, as failing to do so may cause harm to both the insured and the insurer.

Sub-insurance is a special problem that affects the complexity of the quantification of the payment of a claim, but also the satisfaction of the insurance beneficiaries. Most insurance contracts clearly indicate the amount of insurance coverage and other limits. It is the responsibility of the insured, or the insurance contractor, to determine whether the insurance amount specified is sufficient or not. If the value at risk is greater than the amount of insurance, in the case of compensation, the

insurer could end up paying the insured an amount relatively lower than the actual amount of the incurred loss, even if the damage was less than the amount of insurance specified in the insurance contract.

Complex losses can require considerable time for the total amount of loss incurred as a whole to be quantified. Also of concern is the assessment of the adequacy of the insurance provisions that need to be established at any time to allow for the payment of complex claims. In the case of liability insurance or accident insurance, the determination of an insurance payment may take several years after the occurrence of an adverse event. The most complex claims often result in litigation, whereby the ultimate amount of insurance compensation is determined by the court.

A long period of time for the quantification of losses may also arise as a result of complex claims in property insurance. Such complexity of quantification occurs may occur in cases of determining the costs for rebuilding a structure and the time needed to complete the work, which might last for months, or even years, especially in the case of historically valuable buildings or buildings where sophisticated engineering has been applied.

Finally, a problem also arises from the underlying goal of insurance itself. It is about compensation, i.e., the returning of value to insurance beneficiaries, or returning the insured element to its previous state; the state before the occurrence of the harmful event. Indemnification involves reimbursement of actual losses. Namely, in the event that an insured person has completely destroyed a car in a traffic accident, the insurance company will not buy the insured a new vehicle, but will indemnify the insured for the amount corresponding to the value of the car at the time just prior to the accident. In the event of minor damages, the insurance company will typically insist on repairs, while in cases of major damage, if the compensation of the total amount of repairs is greater than the payment of the insurance fee without repair, then the write-off of such a vehicle will be insisted upon. The above situations are indicative of problems that may arise in resolving claims through which an insurer attempts to provide a solution that is at the same time acceptable to the insured and in accordance with the terms of the insurance contract.

## EFFECTIVE MANAGEMENT OF CLAIMS IN THE FUNCTION OF MARKETING

Bearing in mind the key characteristics of the services, their immaterial character (imperviousness), their perishability (can't be stored and once missed an opportunity to sell is lost forever, as is the case with, for example, the clock of the lawyer's day), their heterogeneity, the inevitability of the production process, the nature of their consumption, and the lack of ownership intrinsic in the services of the insurance sector, it is clear that when regarding the quality of insurance services, it depends not so extensively on just how well the insurance service is structured, but above all on the perception of quality by the clients; that is, the insured.

This perception is most strongly influenced by word-of-mouth, and due to the above characteristics of services, people are inherently cautious, often acting under the advice of their friends' experience (Ehrlich & Fanelli, 2004). In the case of the insurance sector, the insureds' experience regarding the settlement of claims is crucial in determining their perception of the quality of the service and thus the subsequent spreading of their positive opinion and likely recommendations, thereby creating a competitive advantage for the insurer in attracting new insurance customers and retaining existing ones.

The key to the success of any service company, including insurance companies, is to put consumers in focus rather than the actual functions of the business. This is accomplished through customer relationship management. Customer relationship management is reflected in maintaining and improving relationships and retaining consumers through the increased value of the service and the development of trust, satisfaction, and strong social links (Ljubojević, 2001). To accomplish this, and to maintain existing customers while attracting new ones, every insurance company must endeavor to utilize as precise information as possible regarding its existing and potential insurers, anticipating and adequately responding to their needs.

Creating customer satisfaction can be ensured through the integration of the front and back office functions of insurers, which implies that marketing, as a business function of insurance companies, is

independently unable to “deliver” full value to insured persons without adequate co-operation from assessors, and from the organizational departments whose job it is to process damages and payments. This cooperation is necessary in order to build a culture where exceeding expectations is a norm of everyday business, thus creating as ideal an experience as possible for the insured during and after processing the claims.

Improved management of claims in modern business conditions must be understood as an element that promotes the marketing activities of insurance companies. A study by the insurance group Chubb Group showed that 76% of respondents said that experience with claims in numerous cases plays a crucial role choosing an insurance company (Chubb Group, 2002). Those seeking insurance generally try to avoid those insurance companies that are well-known for their poor reputation in terms of meeting claims. In addition to the always present element of personal recommendations and critiques, the United States has a website created by the National Association of Insurance Commissioners, which provides information to consumers about contested claims (NAIC, 2017).

After Hurricane Katrina, Lloyd's set up a direct, free, telephone line in an effort to offer assistance to vulnerable insurers and thus improve their satisfaction. Following an explosion in Mumbai, in July 2006, Indian insurers agreed to simplify the process of claiming claims by facilitating the payment of insurance benefits (WIR, 2006). There are many similar examples of insurers' efforts to improve the insureds' experience in addressing claims, by improving the efficiency of their resolution, especially after the emergence of catastrophic events that represent an extremely sensitive area of claims management.

## CONCLUSION

Insurance is a matter of trust. Therefore, trust as a key determinant of insurance, as the bridge between the insured and the insurer, is the basis of every such relationship. In this paper, the elements that play a key role in creating trust and good business practices of

insurance companies have been briefly reviewed. These are marketing issues, comprised of the management of marketing mix elements and adequate claims management. The paper also describes the key steps and problems that can arise from claim management. Thus, without a comprehensive approach to marketing and efficient management of claims, insurance companies cannot successfully perform their role of protecting property and persons; that is, they cannot retain existing insurance customers and attract new ones, who most often shape their views about a particular service and insurer on the basis of personal experience and the experiences of their friends. Therefore, this paper represents a small contribution to these issues and serves as a basis for further research regarding the exploration of conditions and the quantification of factors that influence the improvement of business (an increase in insurance sales), primarily in measuring the impact of user satisfaction with efficiently settled claims that determines their repurchase.

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