

# CONDITIONS FOR THE GROWTH OF INSURANCE IN DEVELOPING COUNTRIES

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Sales of automobiles in Thailand have surged enormously this year, as the 1997 recession begins to loosen its grip. Auto insurers are of course delighted with the new business which this brings. They have had lots of thinking time since 1997, time to improve their competence in handling this notoriously difficult account which is tempting for its cash flow but frightening for the effect which severe competition has on the ability to charge adequate premiums. The insuring public has also become more sophisticated, and many now look beyond price, to the quality of service.

It is interesting, therefore, to examine some findings of a 1997 survey of auto insurance consumers in Thailand, as these are of relevance to Thai insurers who are preparing themselves to face the even greater competition which liberalization of their industry will bring.

The main features of the survey will be described, followed by presentation of the findings. These will then be discussed, with an exploration of the implications which they have and what could be done.

The survey was conducted in 1997 by undergraduates in the Risk Management Faculty of Assumption University. 1,3750 motor policyholders, chosen at random, completed a questionnaire (each question being followed by a tick-box which allowed for a 5-point scale answer). The themes investigated were:

1. understanding of auto insurance contracts
2. services by insurance companies
3. claims practices of insurance companies
4. services by insurance agents

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5. payments to repair garages
6. auto insurance premiums

The results revealed that although the vast majority of policyholders believe that auto insurance is a necessity, nevertheless:

1. A majority of policyholders do not read nor have a complete understanding of policy coverage and provisions
2. most policyholders and repair garages are not happy with the companies delay in claims payments, and
3. most policyholders feel that the premiums were too high.

The results of the survey are shown in the table below:

• Necessity of auto insurance:	
Auto insurance is necessary	98.80 percent
• Reading the policy:	
Read all provisions of the policy	24.87 percent
Read some or none	75.13 percent
• Dissatisfaction with insurance companies:	
Delay in claims payments	54.10 percent
Services in general	27.35 percent
Premiums too high	64.60 percent

Source: Auto Insurance Policyholder Survey, 1997

The survey conclusions which can be inferred to the insurance industry as a whole that no matter what insurance is needed, are:

- most consumers do not understand much about insurance, and
- they expect the company to pay claims promptly.

These findings should not be any surprise to the insurance industry because these problems have existed for a long period of time. What is surprising is that the industry has not taken any active action to overcome the consumers' perceptions of the business.

The insurance industry is a huge industry in most countries, but it must be the least understood business by the consumers. How can a large industry with very little understanding by the consumers still survive? The very obvious conclusion is that



insurance is a necessity for daily lives. On the other hand, what kind of growth would the industry enjoy if the consumers could understand more about insurance, and if they could be provided with prompt and fair claims service?

Decades ago, while I was working with one of the largest insurance companies in Colorado, I participated in an industry sponsored organization called the Western Insurance Information Service (WIIS). WIIS, organized by the insurance companies and the insurance commissioner offices in a few western states, was charged with the responsibility of providing insurance information to the public. Each member-company encouraged its management personnel to participate in this organization as an insurance speaker. Throughout the year, we went to speak and explain about insurance to various groups. The information given was about insurance products, services, operations and related laws. The target groups include high school students, college students, employees, housewives, and business organizations. This was an active role that the insurance industry has taken to educate consumers and to give them the basic insurance knowledge. The purpose was to educate the public about insurance and to ultimately change the public perception of the industry.

The insurance industry in developed countries like the United States and many European countries has a few advantages over the insurance industry in developing countries. Let us examine these advantages:

- (1) their consumers have a better basic knowledge about insurance, or at least they have more knowledgeable insurance agents to give them advice about their insurance needs,
- (2) their consumers are quite aware of the necessity of insurance in their daily lives, and of financial planning,
- (3) their companies are stringently regulated to assure their financial soundness and their practices (operations), and
- (4) their consumers can depend on the judicial system or the insurance commissioner's office or an Ombudsman to solve their disagreements with the companies

With these advantages, insurance companies still have to take an active role in public relations to bring about a better public understanding of insurance operations. Over the years, they are quite successful in their mission. Today, the public has a better understanding of insurance and a better understanding of their rights and duties under the contract. A steady growth in term of premium volume has been enjoyed by the industry over years.



Without the above advantages, the insurance industry in the developing countries obviously has to work harder to bring about better public understanding of the insurance operations and the ultimate growth of the company and industry, but it is not an impossible task. What the industry needs to do can probably be condensed into a very basic marketing strategy, that is:

- having good products
- making the public understand the products
- providing a fair and equitable claims services

Insurance products, because of their nature, require the company to do more in each of the above functions. The product is 'intangible': it is a promise to perform certain functions upon the contingency of certain events in exchange for premiums. Without the consumer's good understanding of insurance contract and operations the marketing strategy of having good products cannot be fulfilled because good products required customers' understanding and appreciation. Without consumer's understanding, there will be no sales. Fortunately, a large majority of the public feels that insurance is a needed product for their lives and businesses. This is a positive start for insurance. To add on to this, the following factors must be actively pursued to achieve the growth potential, which includes:

- company claim practices
- affordable and equitable products
- readable policy
- knowledgeable and service oriented personnel
- professional agents, and
- laws and regulations

From the survey result we can draw a conclusion that for healthy growth of the insurance industry in the developing countries, each company must concentrate on the following facets of their operations:

- Company Claims Practices:

It is very important for the consumers to believe that the company can deliver the promise, that is to be able to pay claims, on time. As the survey shows, consumers are generally not happy with the insurance industry because of delays in the payment of claims. If all companies would settle their claims promptly, it would certainly create public trust in the industry, and willingness to buy the product. Unfortunately, prompt claim payments are not practiced regularly by many insurance companies in the developing countries. The delay in claim payments could be attributable to:



a. the company's liquidity problem: this problem is encountered by many insurance companies, especially in Asian countries, because of the economic problems in this region in recent years.

b. weak claim settlement practices legislation: most developing countries do not have strong consumer protection legislation, or if they have, they are not enforced vigorously by the insurance authority or the judicial system.

- **Affordable and Equitable Products:**

Insurance premiums must be equitable. This means that premium rate for each homogeneous consumer group must be fairly charged based on sound underwriting principles, such as value of the car, driver age, experience, and territory, etc. for an auto premium rate. Unfortunately, this is not done in many developing countries. For example, the auto premium rate in Thailand has been based solely on the value of the car, there is no other underwriting consideration. This method of premium setting is not equitable because many good policyholders must share the insurance cost of the bad drivers.

Premium rates not only must be equitable as described above, but must also be affordable. This factor is even more important in the developing countries where the average earnings per family are lower than those in the developed countries. Even if consumers feel they need insurance, it is still not in one of the Maslow's hierarchy of needs, which means that insurance needs can be put off if they cannot afford it.

- **Readable Policy:**

An Insurance policy is a contract, and it is generally written in a legal language that can be clearly understood only by lawyers. The policy has been written that way as the insurance product is a legal agreement, and therefore every word has legal significance.

However, as insurance products are sold to the general public, it would be more logical for the policy to be written in a simple language that can be clearly understood by the consumers. With the simple language, the ambiguity in the policy contract is reduced, and consumers clearly understand what is covered and what is not.

- **Knowledgeable and Service-Oriented Personnel:**

Insurance company personnel must be trained to understand that their job is to provide the best service to policyholders. They are there to



help solve policyholders' problems, especially when a claim is made.

Good insurance company personnel must be knowledgeable and responsible persons who treat policyholders' problems as their own.

- **Professional Agents:**

Agents are the most important persons in the insurance company. They are the persons who bring the business and premiums to the company. Unfortunately, many insurance companies in developing countries are not selective of their agents and brokers. These companies treat the agents and brokers only as salespersons, with a narrow focus and an equally narrow responsibility for services.

Agents are the representative of the company. They are the middleman between the company and the policyholders. Whatever they do will reflect the company image. Therefore, the company must be sure that its agency force is "professional." This is a very important factor for the growth of insurance industries in developing countries because consumers' understanding of insurance is less. The agents must bridge the gap and be able to give them advice about the clients' insurance needs.

To be a professional agent, a person must have the following qualifications:

- must be a career insurance agent
- must have insurance products and operations knowledge
- must be willing to improve himself/herself in insurance education
- must be committed to provide good services to the policyholders
- should have a business office preferably with office staff, and
- must be honest to the company and policyholders

- **Laws and Regulations:**

Insurance companies should lobby for strong insurance legislation because insurance laws and regulations will open up and/or expand the market and the new products, and they are also for the public interest. For examples:

- **Auto liability laws:** to enforce the compensation for bodily injury and property damage of the innocent third parties. This is a social responsibility law.



- Passenger liability laws: to enforce the payment of compensation to injured passengers. This is a consumer protection law.
- Workers' compensation laws: to enforce the compensation payment to injured workers on a no-fault basis. This is an employee protection law.
- Employee retirement benefits: to enforce a retirement funding system to ensure safe funding methods to assure the retirement payments when the employees retire. This is an employee benefit law.

The above few examples all can be classified as public interest laws. Because they benefit the public. The law will place the responsibility where it belongs. These laws as well as many other laws that benefits the public should be legislated and enforced for the public interest. Insurance industry exists for the public interest, and it should, therefore, be the advocate for the passage of such legislation. If nothing else, it is a socially responsible thing to do.

All of these laws will benefit society as a whole, and these laws are badly needed in many developing countries. The Insurance industry, of course, will benefit from such laws because the insurance companies are prepared and equipped to provide the coverage and the services required by these laws.

The above-mentioned factors are the basic conditions which must be met for the growth of the insurance industry in the developing countries. This is not a new concept for the insurance industry, but it is a concept that must be put in practice if the industry wants to grow financially and wants to ensure public trust for the insurance business.