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# An Analysis of the Marketing Practices in North Dakota of Selected Property and Liability Insurance Companies

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# AN ANALYSIS OF THE MARKETING PRACTICES IN NORTH DAKOTA OF SELECTED PROPERTY AND LIABILITY INSURANCE COMPANIES

by

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This thesis submitted by Milton L. Leiran in partial fulfillment of the requirements for the Degree of Master of Arts from the University of North Dakota is hereby approved by the Faculty Advisory Committee under whom the work has been done.

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ABSTRACT

The purpose of this thesis is to do exploratory research into the marketing practices in North Dakota of selected property and liability insurance companies. The data obtained is from a combination of the following sources:

a) personal interviews with representatives of the selected firms;

b) a review of pertinent North Dakota insurance literature; and

c) an analysis of relevant articles and texts of insurance and marketing information.

Since North Dakota statehood in 1889, when the Office of Commissioner of Insurance was created, all insurance companies licensed in the State have been regulated by the insurance laws of the State. Within the bounds of these laws, the companies in the property and liability insurance industry may choose to market their products by any of several methods.

Many changes are taking place in the marketing of property and liability insurance in North Dakota. Large-scale enterprises writing multiple-lines of insurance are in vogue. Agents remain as the major channel of distribution but many of their functions are being taken over by the home and branch offices of the companies they represent. As a

consequence, commission rates are lower and direct-writing agents are gradually superseding general agents.

Increasing competition for the consumer's dollar is prompting innovation in marketing techniques. Closer contact is being established with the public through increased advertising and public relations efforts by insurers. Better coverages and expanded services are being marketed at the lowest possible cost. Tremendous opportunities exist in North Dakota for any property and liability insurance company willing to aggressively market their products.

# CHAPTER I

# INTRODUCTION

## Purpose and Scope

The intent of this thesis is to investigate the marketing practices in North Dakota of selected property and liability insurance companies. As defined by the Committee on Definitions of the American Marketing Association, marketing is "the performance of business activities that direct the flow of goods and services from producer to consumer or user."[1] A recent insurance text describes property and liability insurance as that division of insurance which handles all coverages except life insurance.[2]

Due to its predominence in the insurance industry, an emphasis is placed on automobile insurance in this study. Primary consideration is given to an analysis of the selected companies' present methods of merchandising, their marketing or distribution channels, and their services and service facilities. Merchandising, as used here, is

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[1] The Committee on Definitions of the American Marketing Association, Marketing Definitions, (Chicago: American Marketing Association, 1960), p. 15.

[2] Emerson Cammack and Robert I. Mehr, Principles of Insurance, (3rd ed.; Homewood, Illinois: Richard D. Irwin, Inc., 1961), pp. 8-10.

defined as "the planning and supervision involved in marketing the particular merchandise or service at the places, times, and prices, and in the quantities which will best serve to realize the marketing objectives of the business."[3] According to a dictionary of insurance terms, a premium is "the amount of money which the policyholder agrees to pay to the insurance company for the policy of insurance."[4]

This study also represents an attempt to determine new trends in the property and liability insurance industry as to product lines, competitive pricing techniques, and channels of marketing. In addition, the effects of organizational structural changes on insurance company marketing practices is analyzed.

## Approach

This study is based primarily on a series of interviews with representatives of selected insurance companies in North Dakota. These interviews employed the questionnaire contained in Appendix A. The questionnaire was tested in Thief River Falls, Minnesota before being employed for the study.

Company selections for the study were based entirely on direct premium volumes sold. The direct figures were used as they show the extent to which the company was able to sell its services to the public.

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[3] The Committee on Definitions of the American Marketing Association, p. 17.

[4] Lewis E. Davids, Dictionary of Insurance, (Totowa, New Jersey: Littlefield, Adams and Co., 1965) pp. 164-65.

The companies chosen were partially selected from a series of issues of Best's Review which listed the largest writers of property and liability insurance in the United States and in North Dakota in 1969.[5] The remaining companies were selected from a statistical report issued by the North Dakota Insurance Commissioner. The total number of companies represented is twenty. Their names and the names of their representatives interviewed are listed in Appendix B. The companies chosen are believed to have been a representative cross-section of all insurance companies by type of insurance sold and the channels of marketing employed.

## Limitations

Because of time and expenditure limitations the interviews are limited to the locale of Grand Forks, North Dakota. However, the marketing practices of the companies interviewed are felt to be representative of the industry's marketing practices in the state.

## Organization of the Study

The study is organized in five chapters. Chapter II is a general overview of the property and liability insurance industry. It includes

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[5]"Insurance Premium Distribution," Best's Review, Property/Liability Insurance Edition, LXXI, Nos. 2-5 (1970).

[6]North Dakota, Office of the Commissioner of Insurance, Statistical Report of Insurance Company Information, 1966-1967, by K. O. Nygaard, (Bismarck, North Dakota: 1968), pp. 11-18.

an explanation of the role of insurance in society, its regulation, a listing of the coverages sold in the industry, and a classification of the company types grouped by their organization. It also provides a description of the marketing channels within the industry.

The third chapter is an historical review of the insurance industry on a state, national, and world-wide basis. An analysis of the survey data is contained in Chapter IV. The summary and conclusions are found in Chapter V.

## CHAPTER II

## A GENERAL OVERVIEW OF THE PROPERTY AND LIABILITY INSURANCE INDUSTRY

### The Role of Insurance in Society

Providing relief from fear of loss, or risk, is perhaps the feature of insurance that has the greatest impact on society. An insurance dictionary defines risk as "any chance of loss."[1] Technically, it is the percentage of chance that a given contingency will occur.

Insurance can be considered as an economic or social institution designed to perform certain functions as well as a legal contract between two parties. A definition of insurance which combines both approaches is the following:

> Insurance is an economic institution that reduces risk both to a society and to individuals by combining under one aggregate management a large group of objects so situated that the aggregate losses to which society is subject become predictable within narrow limits. Insurance is usually affected by, and can be said to include, all legal contracts under which the insurer, for consideration, promises to reimburse the insured for any loss suffered during the term of the agreement.[2]

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[1] Davids, 184.

[2] Mark R. Greene, Risk and Insurance, (Cincinnati, Ohio: South Western Publishing Co., 1962), p. 46.

Property and liability insurance companies do not manufacture a commodity or sell a service within the ordinary meaning of the term. They sell contracts called policies whereby the companies, as the insurers, agree to indemnify the buyers, known as the insureds, against certain sustained losses. The purchase price of a policy is called a premium. The premium paid by an assured covers a specified term of months or years, and after the term of the contract expires the company is no longer liable to the insured.

## Regulation of the Insurance Industry

Because of the character of the insurance business and the special type of contracts insurance companies sell, and also because of the vital place the policy contracts occupy in our national economy, the insurance industry is closely supervised and regulated by the fifty states, Puerto Rico, and the District of Columbia. The state regulatory bodies have created a nearly uniform type of annual financial statement for the industry. All insurance companies are required to prepare these statements each year and to submit them to the various authorities, usually known as commissioners of insurance.

## Divisions of Insurance

The insurance industry, like most other industries, is composed of many different business units. If the whole field of insurance today were divided by the nature of the policy coverages, the divisions would include: (1) property, (2) liability, (3) life, and (4) health insurance. Life and health perils are often combined as "personal" insurance based on the insured himself, as opposed to losses involving "property" of the policyholder. Life insurance companies write all life policies and are predominant in the writing of health insurance policies.

Marine, fire, and allied lines of insurance are referred to as property insurance while liability insurance includes public liability, automobile, and workmen's compensation insurance. The combination of property plus liability insurance is termed multiple-line. When property, liability, life, and health insurance is written together by one company, company group, or contract, the result is defined as "all-lines" insurance.[3] In Table 1 is a listing of the more common lines of insurance sold by property and liability insurance companies.

Insurance institutions in the United States have two basic forms of ownership: private and public (also called governmental or social insurance). Private insurance consists of all types of coverages written by privately organized groups, whether they consist of associations of individuals, stockholders, policyholders, or some combination of these. Public insurance includes all types of coverages written or sponsored by governmental bodies--federal, state, and local.

Private and public insurance may be further classified into two

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[3]Davis W. Gregg and John D. Long, Property and Liability Insurance Handbook, (Homewood, Illinois: Richard D. Irwin, Inc., 1965), p. 733.

sub-groups: voluntary and involuntary insurance coverages. A great majority of governmental insurance is involuntary; that is, it is required by law that the insurance be purchased by certain groups and under certain conditions. Most private insurance, however, is voluntary, an exception being automobile liability insurance in some states.

TABLE 1

COMMON PROPERTY AND LIABILITY INSURANCE LINES[a]

| | |
|---|---|
| Fire | Aircraft physical damage |
| Extended coverage | Liability other than auto (B.I.) |
| Other allied lines | Liability other than auto (P. D.) |
| Earthquake | Burglary and theft |
| Growing crops | Boiler and machinery |
| Ocean marine and inland marine | Commercial multiple peril |
| Fidelity | Accident only (individual) |
| Surety | Accident and health (individual) |
| Glass | Hospital and med. expense (indiv.) |
| Auto liability (B.I.) | Group accident and health |
| Auto liability (P. D.) | Workmen's Compensation |
| Auto physical damage | Noncancellable accident and health |

[a]IBM Punched Card Data Processing for Property and Liability Insurance, IBM Sales and Systems Guide (White Plains, New York: IBM, Technical Publications Department), p. 2.

## Insurance Company Types

The insurance industry is made up of many different types of insurers. They may be divided into six classes by ownership arrangements.

### Stock Companies

These are owned and operated by stockholders of the capital funds. State laws regulate the amount of capital required for operation and the amount known as surplus. This is the amount by which assets must exceed liabilities to serve as a fund for the payment of losses and for the protection of policyholder's funds paid in as advance premiums. The provisions in the stock insurance companies' charters vary. In most cases, payment of all profits is to stockholders, but sometimes the amounts that stockholders may receive is limited. Participating stock companies' charters provide that part of the profits may be returned to the policyholders. Stock companies completely dominate the United States market in property and liability insurance.

### Mutual Companies

These are organized in each state as non-profit corporations. The policyholders themselves own the company and receive all excess income as dividends or a reduction in premiums. The policyholders elect a board of directors to manage the company. A mutual is incorporated with a stated amount of capital.

## Reciprocals

Reciprocal or interinsurance organizations are formed by a group of individuals, firms, or corporations. They generally operate for the benefit of their policyholders, and a great many of their operations are similar to mutual property and liability insurance companies. They are unincorporated and operated by an appointed individual or corporation known as an attorney-in-fact. Some states require them to furnish a contingent fund to supply capital.

These reciprocals, or exchanges, are devises whereby persons combine to insure each other. Policies are not issued since the members only "exchange" insurance by helping to "underwrite" coverage for the membership. Underwriting is defined as the process of accepting to insure all or a portion of a particular proposal for insurance.[4] Underwriting may be done by a group of insureds or an outside company or individual. These people are known as underwriters.

## State Insurance Funds

Funds are created by state law to write mainly compensation insurance in the states in which they are formed. These funds operate similarly to mutuals except that generally the funds reduce the cost of insurance in advance by applying advance discounts to the established rates used by private stock and mutual insurance companies writing

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[4]Cammack and Mehr, 829.

this type of insurance.

## Lloyd's Associations

These are organizations of individuals joined together to underwrite risks on a cooperative basis. Each person assumes risks in his own name and does not bind the organization for his obligations. Like the reciprocals, the individual underwriter is an insurer. In a Lloyd's Association he may not always be an insured as in a reciprocal. The underwriter's goal is to make a profit in a Lloyd's Association; in a reciprocal the underwriter is trying to obtain insurance at cost.

## Self-Insurers

Individuals or companies are considered self-insurers when they make a contribution to a fund of a regular periodic premium, scientifically calculated to pay losses when they occur. Self-insurance plans are most prevalent in the areas of workmen's compensation and employee retirement plans in large private industry.

## Internal Company Organizations in Insurance

In insurance companies, the functions performed are organized into several basic departments common to most companies. The first of them, the sales department, or agency department, has the responsibility of recruiting, training, and handling the sales personnel upon whom the continued growth of the company depends.

The function of the sales department of an insurance company is not only to sell the product, but also to produce it. Property and liability companies use two major systems of field sales organizations; the general agency system, and direct-writing. Lesser used methods are sales through the mail by mail-order companies, by brokers representing the insured rather than the insurer, and through vending machines.

## Agency Companies

In this classification are the stock and mutual companies operating under the American and Mutual Agency systems. The agents selling for this group are insurance agency firms representing more than one company. They represent the companies under contracts and deal directly with their assureds. The business belongs to the agents and not to the companies. The agents generally type all policies (new and renewal), bill and collect the premiums, and remit them to the insurance companies on a net basis. National and regional agency companies accounted for 69.7 percent of direct premiums sold in 1969 in the United States.[5]

## Direct-Writing Companies

The companies in this classification operate through their own

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[5] Best's Review, Property/Liability Insurance Edition, No. 2, p. 10.

agents and are commonly known as direct-writers. Each company in this group has its own force of agents, who, being company employees, are not permitted to write for other companies. Company-employed agents do not own the renewal business. The companies in this group generally prepare their own policies. They deal directly with assureds in all transactions other than selling the original policies. Each company bills and collects the premiums directly from the assureds and then pays the agents their commissions. These companies have increased their share of the insurance market by 2 percent since 1967.[6]

Although not as common, other departments are also required by most insurance companies. The underwriting department is responsible for fixing standards of selection of risks and for passing judgement upon all risks. The legal staff performs all the usual legal functions essential to the operation of an insurance company. The investment department has the task of investing and managing the large sums of money paid in annually to an insurer. Another department administers all claims brought against the company and still another handles all the accounting functions. In addition to departmentalizing by those functions, many companies do so by product types and territorial jurisdiction.

The insurance industry has evolved to its present status through many years of change. Present-day forms, coverages, and functions are all a culmination of the events detailed in chapter three.

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[6] *Ibid.*

# CHAPTER III

# THE HISTORICAL DEVELOPMENT OF PROPERTY AND LIABILITY INSURANCE

## Ancient World Insurance

The actual origin of insurance is unknown, but the first known use of anything resembling insurance contracts is found in early records of Babylonian commerce. Thus, the foundations of property and liability insurance date back about five thousand years.

Large Babylonian merchants employed traveling salesmen to assist them in distant lands. The salesmen pledged their property, wife, and children against the merchants wares which they were selling. Upon returning from their journeys, the salesmen were forced to share the income they had attained or lose their pledges. But this arrangement proved unsatisfactory if the salesmen's goods were stolen. By agreement with the merchants, they were freed from their pledge in the case of such events, thereby becoming "insured" against theft. So common was this arrangement that it was included in the Code of Hammurabi which was compiled about 2250 B. C. This practice then spread to Phoenicia, where the principle was applied to all types of shipping. The practice spread from there throughout the ancient world.

## Insurance in the Middle Ages

Although insurance had its origins in the ancient world, the development of insurance forms, as we know them today, did not begin until about the fourteenth century. During the Middle Ages various associations of men with common business interests, called guilds, accumulated funds for insuring the common perils of fire and robbery. In 1310, in Flanders, the first commercial insurance company was chartered to sell policies insuring merchandise against perils of transportation, both on land and on sea. Thus, the insurance industry and policy forms began to take on modern form.

Rules governing the writing of marine insurance began to be devised and, by the fifteenth century, there were highly developed codes of rules concerning marine insurance. In England, in 1574, Queen Elizabeth authorized a bill that created a Chamber of Insurance to sell marine insurance. The first corporation organized to do a marine insurance business was organized in Paris in 1668, but it was unsuccessful and did not remain in business.

Whereas merchants had been writing insurance on a part-time basis to this time, they soon began to be supplanted by full-time underwriters. These men would gather in the London coffeehouses to conduct business and listen for information pertinent to their business. The most popular of these coffeehouses, owned by Edward Lloyd, became accepted as the place for most insurance underwriters to gather and was later known as "Lloyd's of London." From this was developed the present-day Lloyd's organizations.

Fire insurance developed rapidly following the destruction of London by fire in 1666. Several companies were begun to offer insurance against losses to dwellings and business buildings by fire. In 1710, a London promoter began the practice of assuming the fire risk on contents as well as on the building itself. He organized a company which is considered the foundation of modern fire insurance. The company is still in business today bearing the name "Sun Insurance Office."

## Development of Insurance in America

Insurance in the colonies was handled almost entirely by foreign underwriters until after the Revolution. Most of the business was written by English insurers and was in the area of marine insurance. However, by 1760, a substantial volume of marine insurance was being transacted in the American equivalent of Lloyd's Associations in Philadelphia by American underwriters. The greatest disadvantage to American underwriters was their inability to offer a large amount of insurance due to an insufficient amount of capital at their disposal. This disadvantage was finally overcome in 1792 when the Insurance Company of North America was chartered.

While much was being done to prevent fires in the colonies, there was little done towards insuring losses due to fire. In 1752, Benjamin

Franklin was instrumental in the formation of a fire insurance company in Philadelphia. The first commercial company organized to write fire insurance was organized and chartered in 1792. In 1794, the Insurance Company of North America began to write fire insurance and was the first company in America to insure the contents of a building as well as the building itself.

After several bad experiences, smaller companies began to fade from the insurance industry. The period following 1835 was characterized by the growth of large companies writing business throughout the nation. The first state insurance laws were passed in 1849 by New York. In 1866, the fire companies banded together to form the National Board of Fire Underwriters. This organization, which is still in active operation, may have been the first trade association designed to protect the welfare of the public.

Casualty insurance got its start in America in 1863 when the Travelers Insurance Company of Hartford began writing accident insurance policies for travelers. The first automobile liability policy was written in the United States in 1898 by Travelers. In 1899 the first automobile collision policy was written and in 1902 the first automobile property damage policy was written. Workmen's compensation began in 1911. Another important date in more recent times was 1944 when the Supreme Court stated that insurance is interstate commerce, and subject to federal regulation. But Congress left the supervision and regulation of insurance to the states. The Social Security Act, passed by Congress in 1935, gave government insurance protection to millions of persons. Since then, Congress has broadened the law several times to include more people and to increase the benefits. An example of this was in 1965 when Medicare was introduced to provide a health insurance program for the aged.

Early American insurers were small and usually specialized in one class of insurance. In time, state regulations froze this trend into what came to be known as the "American System" of monoline insurance. Some United States insurers, in order to better meet the needs of the public, formed fleets or groups of companies to get around the limitations provided by the monoline legislation. In 1944, an all-industry committee recommended that non-life insurers be permitted to write all lines of insurance except life insurance and annuities. All states have now adopted these recommendations. Also made possible by this change in the laws is the practice of issuing "package policies" on several coverages.

History, tradition, and legal requirements have played important parts in developing insurance in separate compartments, or lines, of insurance. For many years, marine, fire, and life insurance were the titles for the major lines of insurance in the United States. Casualty insurance did not appear until the latter part of the nineteenth century, its most rapid growth occuring in the present century. In recent years, a somewhat different classification is more meaningful, even though laws of the states may still use the traditional groupings. The marine and fire lines have come to be known as property insurance. The casualty coverages, except for health, are now considered as liability insurance. The life and health coverages have also become more closely related.

In the 1960's a great many insurance companies were involved in mergers. Many of the mergers involved not only a change to a multiple line company, but often a combination of two or more multiple line companies into a larger multiple line company. The wide scope of operational changes required by multiple line insurance is significant. Marketing of insurance is tremendously affected by multiple line ideas. Broader contracts are present in almost all insurance markets today. Many adjustments are still continuing.

## Property and Liability Insurance in North Dakota

In 1889, the year North Dakota entered into statehood, the office of Commissioner of Insurance of North Dakota was created by the Constitutional Convention. However, insurance had been thriving in the territory previous to statehood and the new Commissioner took over the duties previously performed by the Territorial Auditor. The total premiums received in North Dakota in 1889 for all insurances was

$518, 725.99.[1]

During the year 1890, one hundred companies were authorized to sell insurance in North Dakota, sixty-seven of which were fire or casualty companies.[2] According to the most recent published report of the Commissioner of Insurance, that number has increased to 636 companies, of which 319 are fire and casualty firms.[3] The total premiums received in North Dakota in 1969 for all insurances excepting life insurances was $70, 076, 000.[4] This represented two-tenths of one percent of the total premiums received in the entire United States for the same period.

In the North Dakota legislative session of 1919, a significant law created the Workmen's Compensation Bureau. A distinctive feature of the bill was that it gave exclusive and compulsory jurisdiction to the state in the field of workmen's compensation.[5] Also passed was a law by which the State of North Dakota became a competitor with private

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[1]North Dakota, Office of the Commissioner of Insurance, First Annual Report of the Commissioner of Insurance of the State of North Dakota, by A. L. Carey (Bismarck, North Dakota: 1890), p. iv.

[2]Ibid., p. v.

[3]North Dakota, Office of the Commissioner of Insurance, Third Biennial Insurance Report of the Commissioner of Insurance of the State of North Dakota, by K. O. Nygaard (Bismarck, North Dakota: 1968), p. 3.

[4]Best's Review, Property/Liability Insurance Edition, No. 2, p. 12.

[5]Agnes Gealan, Fifty Years of Progress, (Bismarck, North Dakota: North Dakota Workmen's Compensation Bureau, 1968), p. 28.

insurance companies in selling protection on all public property against fire and tornado destruction. To accomplish this, the legislature created the State Fire and Tornado Fund, placed under the Commissioner of Insurance, and supervised by an appointed manager. At present, the state requires all private insurers to sell their fire policies with a fifty dollar deductible clause.

A third act, the Hail Insurance Act of 1919, established the Hail Insurance Department of North Dakota, also under the office of Commissioner of Insurance. The first North Dakota State Hail Insurance Law was passed in 1911 and remained in force until 1919. North Dakota was the first state in the Union to engage in the hail insurance business. The main feature of the law was to allow the state to compete with private insurers in selling hail insurance throughout the state. In 1920, the state carried a risk over four times as large as all the private companies together.[6]

In 1947, the State Legislature passed the Fire and Casualty Rate Regulatory laws. It became the duty of the Commissioner of Insurance to administer these laws. This is accomplished by annual reports received from all rating bureaus operating in the state.

An analysis of the marketing practices of selected property and liability insurance firms in North Dakota is contained in chapter four.

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[6]North Dakota, Office of the Commissioner of Insurance, Annual Report of the Hail Insurance Department of the State of North Dakota, 1920, by S. A. Olsness and Martin S. Hansen (Grand Forks, North Dakota: Normanden Publishing Co., 1921), p. 10.

## CHAPTER IV

## AN ANALYSIS OF THE SURVEY DATA

### General Characteristics of the Companies Surveyed

This chapter is an appraisal of the data on marketing practices gathered from interviews of representatives of twenty selected property and liability insurance companies.[1] Differences in marketing practices of these companies are most noticeable when the companies are classified by ownership arrangements, or by the manner in which the sales force is organized.

Classification of the companies by ownership arrangements shows that 11 were stock-owned, 7 were mutuals, and 2 were reciprocals. Two of the companies were domiciled in North Dakota. Classified by sales force organization, there were 11 general agency companies and 9 direct-writers.

Each of the companies in this study has increased or maintained its volume of business at a profit over the past 10 years. The most important factors affecting the growth of these companies in North Dakota, according to their representatives, are listed in Table 2. Several of these factors are discussed later in this chapter.

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[1]See Appendix B.

TABLE 2

PRIME GROWTH FACTORS OF PROPERTY AND LIABILITY INSURANCE COMPANIES IN NORTH DAKOTA

| Growth Factors | Frequency of Responses |
|---|---|
| Favorable Service Record | 15 |
| Package Policies | 10 |
| Expansion of Sales Force | 7 |
| Highly Selective Underwriting | 7 |
| Advertising in Mass Media | 4 |
| Reduction of Number of Classifications for Rating Purposes | 3 |
| Incentives for Field Force | 2 |
| Improved Attractiveness and Readibility of Contracts | 2 |
| Inflated Property Values | 2 |
| More Cars, Accidents, and, therefore, Higher Rates | 2 |
| Merit or Demerit Rating | 2 |
| Reduced Coverage Rates | 1 |
| Company Domiciled in North Dakota | 1 |

These growth factors, being of a specific nature, can be grouped into broader categories relating to the basic marketing functions of North Dakota insurers. These marketing functions are concerned with the product, its price, and its promotion.

A further evaluation of the reasons for the increased volume of business carried on by the North Dakota insurers surveyed is presented in Table 3. This table contains a list of the marketing functions which have had the greatest influence on increasing the business volume of the companies surveyed. The marketing functions listed can be categorized into the following common areas of general marketing interest: market composition, product, promotion, and price.

TABLE 3

MARKETING PRACTICES CONTRIBUTING TO THE INCREASED BUSINESS VOLUME OF NORTH DAKOTA INSURERS SURVEYED

| Marketing Practices | Frequency of Responses |
|---|---|
| Improved Sales Program | 8 |
| Maximum Service | 7 |
| Policy Improvements | 5 |
| Increased Market Size | 4 |
| Improved Advertising | 2 |
| Premium Minimization | 1 |
| Increased Personal Contact | 1 |

<u>The Product and Market of the Insurance Industry in North Dakota</u>

The product of the property and liability insurance companies surveyed is actually a contract, or a policy, of insurance. The insurance contract is a legal document setting forth the obligations and privileges of the insured and insurer. Considerable emphasis is placed on product design to attract consumer interest. Two of the North Dakota insurers surveyed felt that the improved attractiveness and readibility of contracts was a prime growth factor of their company. Nine of the respondents noted a trend toward the marketing of new product innovations, such as package policies, explained below.

All policy coverages of a specified nature comprise a "line" of insurance and a property and liability insurance company may sell one or more of these "lines". Combinations of these coverages may be written into one contract. This concept of coverage is known as a package policy. Package policies were considered to be a prime factor of the growth in premium volume of 10 of the North Dakota insurers surveyed.

Several insurance companies usually join together to jointly handle all possible lines of coverages for their customers, the insureds. This practice is also beneficial to the sales force of these companies, for the same reason. Categorization of North Dakota insurers surveyed, by their degree of specialization of lines, yielded 6 all-line firms, 12 multiple-line companies, and 2 specialty-line organizations. Both of the specialty-line firms were mutuals. One specialty-line company handled automobile insurance and the other handled fire insurance.

The market for insurance policies in North Dakota is largely made up of individual buyers, or insurers. The State is an agricultural area with little industrial activity, and, therefore, contains relatively few potential industrial buyers. The marketing efforts of 11 of the companies surveyed were directed primarily toward the individual, or personal, market; and 4 were evenly divided between the two markets.

The primary lines of insurance, those yielding the greatest direct premium volume, offered in North Dakota by the companies surveyed, are shown in Table 4. These companies are classified by ownership arrangement and sales force organization in the table.

Of the 20 company representatives surveyed in North Dakota, 10 felt their company should carry additional or revised coverages.

TABLE 4

PRIMARY COVERAGES OFFERED BY

NORTH DAKOTA INSURERS SURVEYED

| | Responses of Companies Organized by | | | | | |
|---|---|---|---|---|---|---|
| | Ownership Arrangement | | | Sales Force Arrangement | | |
| Primary Coverages | Stocks | Mutuals | Recip-rocals | General Agencies | Direct-Writers | Total Responses |
| Automobile | 4 | 4 | 2 | 4 | 6 | 10 |
| Fire | 2 | 2 | 0 | 3 | 1 | 4 |
| Fire and Home-owners Pkgs. | 3 | 0 | 0 | 3 | 0 | 3 |
| Commercial Pkgs. | 2 | 1 | 0 | 1 | 2 | 3 |
| Total Companies | 11 | 7 | 2 | 11 | 9 | 20 |

## Pricing the Policy

The act of determining the price of insurance is called rate-making. In most lines of insurance, rate-making organizations have been developed to publish standard rates that are used by the majority of insurers. Standard rates are possible because policies have become standardized as a consequence of custom, law, or industry agreement. Merit or demerit rating plans were used by several North Dakota companies surveyed to adjust the standard rate for a specific risk, based on the experience of the risk. The experience of the risk during a specified period is measured against the average risk represented by the standard rates applicable to the risk.

The price of the policy varies according to the way in which the company decides to market the policies. The cost of marketing the policy is the cost most susceptible to variation among the companies within the property and liability insurance industry. Marketing costs include such items as the cost of distribution, promotion, administrative overhead, and profit. The range and extent of risks covered within a policy also determine the price, or premium, of that policy.

## Marketing Costs of Insurance Premiums

Since the most variable portion of the cost of insurance lies in the area of marketing, the greatest opportunity to reduce insurance rates lies in the area of marketing costs. For example, the reduction of administrative costs, an element of marketing costs, can contribute to the reduction of insurance rates. Group insurance, which was used or being considered for use by 8 of the companies surveyed, is a means of reducing the insurer's administrative costs. This reduction is attained by collecting all the premiums from one source rather than from each insured.

Administrative costs may also be reduced through the effective use of data processing by property and liability insurers. This reduction is accomplished by the automation of manual systems, and by more timely, comprehensive management information. Of the interviewed companies, 19 were using data processing in some manner. With each of these 19 companies, the basic accounting functions, primarily billing, were the most common area of use of the computer. Automating these functions reduced rates indirectly through faster paperwork times and increased accuracy. Eleven companies reported using data processing to make up various summary reports for their agents and 3 companies used computers to print policy face sheets. Although several agents were displeased with the computerized results they were receiving, they did feel that data processing offered a source of marketing cost reduction.

The final rate for a policy of insurance in North Dakota is also affected by promotional costs, such as advertising, and acquisition costs, which include commission rates to the agents. Although commission rates are fairly standardized within the insurance industry in North Dakota, advertising budgets of the companies surveyed seemed to vary substantially, allowing greater differences in rates charged. Branch sales offices were used by 18 companies in the survey so as to eliminate much untimely processing of contracts, thereby reducing marketing costs.

## Extent of Risk Coverages

The provisions of standard policies are modified by endorsements to increase, decrease, or complete the extent of the risk coverage of the contract. The most common of these modifications is the deductible coverage clause. Of the companies surveyed, 13 of the representatives considered the use of deductibles as a significant trend in North Dakota insurance marketing. This clause provides for a reduction in rates if the insured will assume losses below a specified amount, such as in a fifty dollar deductible automobile collision policy. In this example, the insured would pay the first fifty dollars damage for each accident claim against the insurer of that automobile.

## Range of Risk Coverages

The range of risks covered by a policy is determined through an agreement between the insured and the insurer. The determining factors of this agreement are generally the cost to the insured and the underwriting standards of the insurer. The purpose of underwriting is to select risks for insurance, at a profit, and to determine in what amounts and on what terms the insurance company will accept the risks. A common underwriting practice of North Dakota insurers is to place a specific risk within a classification system, whereas the rate is modified by the relativity of the classified risk to the base rated class. This practice is used often as a competitive device to cut rates to secure desirable risks, or to increase rates to discourage unwanted business. In this way, the selectivity of the underwriting departments results in a general determination of the rates of the company. Of the North Dakota insurance company representatives surveyed, 7 felt underwriting selectivity was a prime reason for the premium volume growth of their company.

The range of risks covered within a contract of insurance is generally increased by using package policies. The use of package policies has enabled agents to provide an account with all coverages in one contract, thereby allowing for quantity discounts in the premium rates.

Contrarily, the range of risks covered within a policy may be reduced by the reduction of the number of classifications that a company will accept for rating purposes. This practice normally results in a reduction in the classifications where high losses are being encountered, an increase in the profitability of insuring a given risk, and the lowering of the rate for that risk. The reduction of the number of these classifications for rating purposes was considered a prime factor of growth in premium volumes by 3 of the North Dakota insurance company representatives interviewed.

## Promotion and the Marketing Effort

### Personal Selling

Advertising and personal selling together form the heart of the promotional effort of a property and liability insurance company. Personal selling is the mainstay of the insurance industry. Those companies termed direct-writers use agents (sales representatives) who represent only the direct-writing company. The major advantage of sole representation is that it is the most economical way to sell and service mass markets for personal forms of coverage. The direct-writing companies support their sales force (agents) through training, sales promotion, and advertising.

General agents traditionally represent a number of insurers. The agent is free to place his business with the company best able to serve the needs of the insured. Insurers using this system lack effective control over the sales efforts of their agency force and must generally pay a higher rate of commissions to their agents than do direct-writing companies. This is due, in part, because companies which use general agents provide fewer services such as policy-writing, billing, and collecting for their agents. Although commission rates paid to agents differ among companies, these differences are minimal. None of the insurers interviewed in North Dakota felt that commission rate differences were significant. Retention of the ownership of renewal rights was of greater importance to most agents than was any specific commission rate paid by an insurance company. Moreover, many agents recognized the need for a more competitively priced product and that reduced commission rates were a means to that end.

All companies are responsible for acquiring and then maintaining an adequate, competent, and satisfied group of agents to stimulate new production of insurance coverages, encourage proper servicing of accounts, and prevent any large migration of agents to other companies or businesses. Since growth in sales is a function of the size of the sales force, maintaining an adequate number of agents has been a vital factor in the sales planning of many North Dakota insurers. When an adequate number of agents has been acquired, each company attempts to retain those agents whose performance is above average in service to customers, and in writing insurance policies that produce a high level of premiums and a low loss ratio. The responsibilities of recruiting, selecting, training, and supervising a sales force are much simpler for direct-writing companies than for general agency companies. The basic reason for this is that direct-writers are dealing with agents whose loyalties are to one company.

Several methods are presently employed by the companies surveyed to maintain high quality producers within their sales organizations. These methods are listed in Table 5.

TABLE 5

METHODS EMPLOYED TO MAINTAIN HIGH SALES PRODUCERS BY NORTH DAKOTA INSURERS SURVEYED

| Methods Employed | Frequency of Responses |
|---|---|
| High Commission Rates | 8 |
| Incentive Plans | 6 |
| Agent Education Programs | 3 |
| Dismissal of Low Sales Producers | 3 |
| Strong Staff Assistance | 2 |

Incentive plans which were most common to the North Dakota insurance company representatives surveyed were bonus payments for above average performance of duties by agents, special retirement plans for agents with prolonged records of high performance with the company, and career club appointments and trips granted to high sales producing agents.

Education programs for agency personnel have grown in scope and effectiveness. Company schools, local agents' association educational forums, and correspondence opportunities exist to aid in the training of the sales forces of North Dakota insurers surveyed. Nineteen of the representatives felt that education and incentive programs were the best means of maintaining and stimulating agents.

## Advertising

Advertising of insurance in North Dakota has several objectives, according to those surveyed. The attainment of these objectives was sought by emphasizing one or more of several types of advertising media, promotional displays, and/or publicity. The primary objectives of the advertising efforts of the North Dakota insurers surveyed are listed in Table 6.

TABLE 6

ADVERTISING OBJECTIVES OF
NORTH DAKOTA INSURERS SURVEYED

| Advertising Objectives | Frequency of Responses |
|---|---|
| Searching Out New Markets | 6 |
| Holding Present Market | 5 |
| Creating an Image | 4 |
| Developing Old Markets | 2 |
| Establishing a New Product or Service | 2 |
| Educating the Public | 2 |

Three agents surveyed did not know the advertising objectives of the company they represented, and one company was reported to do no advertising.

For the most part, agents surveyed in North Dakota had small advertising budgets. The general practice of insurance companies operating in North Dakota, according to the company representatives interviewed, was to financially assist their agents for advertising purposes. However, six agents stated that their agencies received no assistance from the companies they represented, but that they carried on their own advertising program. Of these six agents, five were general agents. In contrast, the advertising of one agent was financed totally by the company he represented. The remaining 12 companies, whose representatives were surveyed, contributed to their agents' advertising budgets on an equal basis with these agents.

The communication media most often employed for advertising purposes, by the North Dakota insurers surveyed, are listed in Table 7.

TABLE 7

ADVERTISING VEHICLES USED BY NORTH DAKOTA INSURERS SURVEYED

| Advertising Vehicles | Frequency of Responses |
|---|---|
| Yellow Pages of Telephone Directory | 19 |
| Radio and Television | 14 |
| Trade or Business Periodicals | 11 |
| Displays | 8 |
| National Magazines or Papers | 7 |
| Local Newspapers | 4 |
| Direct Mail | 2 |
| Advertising Specialties | 1 |

Each of the advertising media listed in the preceding table has certain advantages which lead insurers to use it. The yellow pages of the telephone directory offer a quick point of reference for potential customers looking for guidance and are an economical form of promotion. Only one company included in the survey did not use this means of advertising.

Radio is a relatively inexpensive local or regional advertising medium. As insurance is not a visible product, radio is a satisfactory means of communication. Television combines the spoken word with visual effects. Ads on televisions are very expensive, although their impact can be great. Moreover, television appeals to a mass market which would be suitable for some forms of insurance.

Magazines are the principal printed medium which offers selectivity in readership. Some magazines have a general interest, but most appeal to some specific market segment. Magazine ads have longer life than those in the other media.

Newspapers are quite limited in their geographic coverage. Their main readers are adults and their life is short. However, newspaper advertising is inexpensive per reader, and is geographically selective. Direct mail can be directed to specific types of customers, and its results are easy to measure. Mailing lists can be bought that group people according to some relevant characteristic.

Displays are promotional devices such as signs, window decorations, and billboards. Advertising specialties include calendars, pencils, and matches. Displays and advertising specialties are generally inexpensive.

Four North Dakota respondents in the survey knew of attempts by their company to measure the effectiveness of their media advertising, but none of these companies reported the results of the tests. Most of the agents interviewed felt personal contact with their insureds and recommendations of friends brought more prospective customers to them than did media advertising.

## Services to Insureds

The types and quality of services offered to customers are important to insurance companies to aid them in attracting potential customers. These services are generally regarded as conveniences to policyholders. They are offered primarily to advantageously differentiate the product from the products of competitors. In Table 8 is a listing of the services and service facilities available to policyholders of the property and liability insurance companies interviewed in North Dakota.

TABLE 8

POLICYHOLDER SERVICES OFFERED

BY NORTH DAKOTA INSURERS SURVEYED

| Services Offered | Frequency of Responses |
|---|---|
| Claims Adjustment | 18 |
| Installment Payment Plans | 16 |
| Special Risks Coverages | 13 |
| Payroll Deduction Plans | 3 |

Claims adjustment is the process of determining the cause and amount of a loss, the amount of indemnity the insured may recover, and the proportion that each company is required to pay under its contract if there is more than one insurance company involved. The adjuster may be an independent professional man or organization settling claims for insurers on a fee basis. However, 18 North Dakota insurers surveyed offered this service to their customers for free. Drive-in claims service is offered by many insurers to give insureds an opportunity for quick and convenient settlement of automobile physical damage claims.

In years past, a single premium payment at the inception time of a contract of insurance was the only manner in which premiums were calculated. Sixteen of the North Dakota insurers surveyed now offer, as a service to their policyholders, the option of making small regular payments in the place of a single large premium payment. An advantage of such a plan is that insureds are able to carry higher limits of insurance in spite of the high cost of certain coverages.

Special risks coverages are sold by 13 of the North Dakota insurers interviewed. These coverages are considered as special risks since they are not based on true insurance principles. Such coverages are offered more as a convenience to customers than as a normal sale so the insured does not have to divide his coverages among several companies. Most special risk coverages, such as insurance on jewelry, are sold by special risk insurers. Five respondents wanted to have additional specialty risk coverages added to their lines.

Payroll deduction plans require the insured to authorize his employer to deduct from the earnings of employee amounts to cover the premium due on individual insurance policies. These plans generally gain most acceptance in large business establishments where many people are employed and are buying the same type of insurance. Only 3 of the North Dakota insurers surveyed offered this service.

## Chapter Summary

With minor exceptions, the consensus of opinion of the representatives of the companies surveyed was that the marketing practices of property and liability insurance companies in North Dakota are very similar to those in other states. The product these companies are marketing is a contract of risk protection called an insurance policy. The market in North Dakota is primarily made up of individual buyers since the state is largely agricultural. Because of the small amount of industrial activity in North Dakota, there are relatively few potential industrial buyers. The primary coverages offered in the state by the companies surveyed were automobile, fire, commercial packages, and fire and homeowners packages.

The act of determining the price of insurance is called rate-making. Standard rates are published by rate-making organizations. The range and extent of risks covered within a policy, as well as marketing costs, determine the price, or premium, of that policy. In North Dakota, common pricing factors involved the use of merit or demerit rating plans, deductible coverages, package policies, and endorsements to the policy. The reduction of marketing costs by the North Dakota insurers surveyed was attempted by the use of group insurance plans, decreased acquisition costs, and the employment of data processing equipment. The selectivity of the underwriting departments of the North Dakota insurers surveyed resulted in a general determination of the rates of the company.

Promotion within the property and liability insurance industry is a combination of personal selling and advertising. Policies are sold by agents working out of either exclusive or independent agencies. The companies employing these agents are responsible for recruiting, selecting, training, and supervising this sales force. Some of the methods of retaining an adequate number of competent agents by the North Dakota insurers surveyed were such as high commission rates, bonus programs, agent educational programs, and strong staff assistance.

The general practice of North Dakota insurers surveyed was to contribute a certain proportion of the advertising budget of their agents. The primary objectives of the advertising efforts of the North Dakota insurers were searching out new markets, holding the present market, and creating an image for the company. The communication media most often employed for advertising purposes, by the North Dakota insurers surveyed, were the yellow pages of the telephone directory, radio, television, trade or business periodicals, promotional displays, national magazines, and local newspapers. Each of these advertising media has certain advantageous features which lead insurers to use that medium.

Important in the attraction of customers by an insurance company are the types and quality of services offered to customers. These services are generally regarded as conveniences to policyholders. Services offered by North Dakota insurers surveyed included claims adjustment, installment payment plans, special risks coverages, and payroll deduction plans.

## CHAPTER V

## SUMMARY AND CONCLUSIONS

The intent of this thesis was to investigate the marketing practices in North Dakota of twenty selected property and liability insurance companies. Primary consideration was given to an analysis of their present methods of merchandising, their marketing or distribution channels, and their services and service facilities.

Providing relief from fear of loss, or risk, is perhaps the feature of insurance that has the greatest impact on society. Property and liability insurance companies do not manufacture a commodity or sell a service within the ordinary meaning of the terms. The product these companies are marketing is a contract of risk protection called an insurance policy. The purchase price of a policy is called a premium.

Divisions of insurance, determined by the nature of the policy coverages, include: (1) property, (2) liability, (3) life, and (4) health insurance. Marine, fire, and allied lines of insurance are referred to as property insurance while liability insurance includes public liability, automobile, and workmen's compensation insurance. All policy coverages of a specified nature comprise a "line" of insurance and a property and liability insurance company may sell one or more of these "lines". The combination of property plus liability insurance is termed multiple-line. All-lines insurance is the inclusion of all the divisions of insurance.

The earliest recorded foundations of property and liability insurance date back five thousand years. Insurance-like arrangements developed in the ancient world. With the coming of the Middle Ages, various forms of insurance were promoted by the guilds; and in the fourteenth century, the first commercial insurance company was chartered.

From the Middle Ages, the growth of marine insurance was rapid. By the end of the seventeenth century, the marine policy in use today was developed. This century also saw the birth of commercial fire insurance companies and the first modern life insurance.

Domestic insurance in the United States developed slowly, owing to domination by English underwriters. But, after the founding of the Insurance Company of North America, insurance in the United States steadily expanded to put this country in the forefront of insurance-minded nations.

In 1889, the year North Dakota attained Statehood, the Office of Commissioner of North Dakota was created. Sixty-seven fire and casualty companies were licensed to sell insurance in North Dakota at that time. That number increased to 319 in 1967.

The North Dakota legislative session of 1919 created the Workmen's Compensation Bureau and gave exclusive and compulsory jurisdiction to the State in that field. In the same legislative session, the State was granted the right to compete with private insurance companies in selling protection on all public property against fire and tornado destruction. At the same time, the Hail Insurance Department of North Dakota was established, making North Dakota the first state in the Union to engage in the hail insurance business.

The more recent development of insurance in the United States is characterized by several trends. Probably the most significant trend in the American insurance industry was the movement from the "American System" of monoline insurance to multiple-line insurance. More lines of insurance have developed and coverages have expanded to better meet the needs of the public. Merging with, or forming, a large-scale enterprise which writes multiple-lines of insurance has almost become necessary to remain in direct competition for the consumer's dollar.

Of the 20 companies interviewed in North Dakota in the survey, 12 firms were multiple-line companies, another 6 were all-lines firms, and 2 were specialty-line companies. The primary lines of coverages offered in North Dakota were automobile, fire and extended coverages, and homeowners; all in the personal market. In the industrial market, the primary coverage offered was a general commercial package. The market in North Dakota is primarily made up of individual buyers since the state is largely agricultural. Because of the small amount of industrial activity in North Dakota, there are relatively few potential industrial buyers. The coverages of 11 companies were directed primarily at the personal market, 5 toward the industrial, and 4 were evenly divided between them.

Classification by ownership arrangements of the companies whose representatives were surveyed showed that 11 were stock-owned, 7 were mutuals, and 2 were reciprocals. Two of the companies were domiciled in North Dakota. Classified by sales force organization, there were 11 agency companies and 9 direct-writing companies.

With minor exceptions, the consensus of opinion of the representatives of the companies surveyed was that the marketing practices of property and liability insurance companies in North Dakota are very similar to those in other states. One of the most critical problems faced by these insurers currently is that of pricing their policies competitively.

The act of determining the price of insurance is called rate-making. In most lines of insurance, rate-making organizations have been developed to publish standard rates that are used by the majority of insurers. Merit or demerit rating plans are used by several North Dakota companies surveyed to adjust the standard rate for a specific risk. Also, the price of the policy may vary according to the way in which the company decides to market the policy. Marketing costs include such items as the cost of distribution, promotion, administrative overhead, and profit.

The use of group insurance was considered, by 8 of the company representatives surveyed, as an important means of reducing their administrative costs by collecting all the premiums from one source rather than from each insured. Administrative costs may also be reduced through the effective use of data processing. This reduction is accomplished by the automation of manual systems, and by more timely, comprehensive management information. Nineteen of the North Dakota insurers surveyed used data processing in some manner. The basic accounting functions, primarily billing, were the most common area of use of the computer by all 19 of the companies. Various summary reports for agents were produced on computers by 11 of the companies, and 3 of the firms used computers to print policy face sheets.

Promotional costs, such as advertising, and acquisition costs, which include commission rates to the agents, have a bearing on the final rate affixed to a policy of insurance. Although commission rates are fairly standardized within the insurance industry in North Dakota, advertising budgets of the companies surveyed seemed to vary substantially, allowing greater differences in rates charged.

The range and extent of risks covered within a policy also determine the price, or premium, of that policy. The provisions of standard policies are modified by endorsements to increase, decrease, or complete the extent of the risk coverage of the contract. The most common of these modifications is the deductible clause, used by 13 of the company representatives surveyed in North Dakota.

The range of risks covered by a policy is determined through an agreement between the insured and the insurer. The determining factors of this agreement are generally the cost to the insured and the underwriting standards of the insurer. The purpose of underwriting is to select risks for insurance, at a profit, and to determine in what amounts and

and on what terms the insurance company will accept the risks. Of the North Dakota insurance company representatives surveyed, 7 felt underwriting selectivity was a prime reason for the premium volume growth of their company.

The range of risks covered within a contract of insurance is generally increased by using package policies. The use of package policies has enabled agents to provide an account with all coverages in one contract, thereby allowing for quantity discounts in the premium rates.

Contrarily, the range of risks covered within a policy may be reduced by the reduction of the number of classifications that a company will accept for rating purposes. A reduced number of classifications was considered a prime factor of growth in premium volumes by 3 of the North Dakota insurance company representatives interviewed.

Advertising and personal selling together form the heart of the promotional effort of a property and liability insurance company. Direct-writing companies use sales representatives who represent only the direct-writing company. The major advantage of sole representation is that it is the most economical way to sell and service mass markets for personal forms of coverage.

General agents traditionally represent a number of insurers. The agent is free to place his business with the company best able to serve the needs of the insured.

Methods employed by the companies surveyed to maintain high quality producers within their sales organizations were: paying high commission rates; agent education programs; dismissal of low sales producers; and strong staff assistance. The responsibilities of recruiting, selecting, training, and supervising a sales force are much simpler for direct-writing companies than for general agency companies since the direct-writers are dealing with agents whose loyalties are to one company.

The primary objectives of the advertising efforts of the North Dakota insurers surveyed were searching out new markets, holding the present market, and creating an image. The general practice of insurance companies in North Dakota was to assist agents with finances for advertising purposes.

The communication media most often employed for advertising purposes, by the North Dakota insurers surveyed, were the yellow pages of the telephone directory, radio, television, trade or business periodicals, displays, national magazines or papers, local newspapers, direct mail, and advertising specialties. Each of the advertising media has certain advantageous features which lead insurers to use it. Most of the agents interviewed felt that personal contact with their insureds and recommendations of friends brought more prospective customers to them than did media advertising.

The types and quality of services offered to customers are important to insurance companies to aid them in attracting customers. These services are generally considered as conveniences to policyholders and are offered primarily to advantageously differentiate the product from the products of competitors. Policyholder services offered by North Dakota insurers surveyed were claims adjustment, installment payment plans, special risks coverages, and payroll deduction plans.

## Conclusions

Many changes are taking place in the marketing of property and liability insurance. Price consciousness on the part of the insuring public is a vital factor in the insurance market. The future of the present insurance distribution system in North Dakota may depend on the ability of general agency companies to compete with direct-writing companies on a price basis. On the other hand, if competitive pricing is achieved, direct-writers will likely be forced to raise their level of services offered to customers to that offered by general agency companies.

Agents remain as the major channel of distribution in North Dakota but many of their functions are being taken over by the home and branch offices of the companies they represent, as a means of reducing marketing costs. General agents shall continue to be affected more than direct- agents since the commissions of general agents are influenced by their performance of many of those functions being assumed by the company offices. As a consequence, direct-writers are gradually superseding general agents. To meet the challenge of direct-writing, general agents may need to build larger agencies and write insurance for only a select few companies.

In spite of the apparent simplification of the agent's functions, professionalism in the industry shall increase steadily. There will be more specialization, allowing the establishment of specific areas of concentration at which an agent may work. This arrangement shall enable agents to become more adept at handling problems of a technical nature, but only within a limited area of interest. Other agents will handle the problems of the insured in other specialized areas.

Public knowledge of risk and insurance will continue to increase and shall enable buyers to recognize the value of competent advice on insurance matters. Buyers will thus expect high-calibre assistence from sales representatives.

Increasing competition for the consumer's dollar is prompting experimentation in techniques of marketing insurance. Closer contact is being established with the public through expanded advertising and public relations efforts by insurers to better learn the insurance needs and desires of the public. This practice must be extended greatly in North Dakota to realize sales potentials in areas of the State which are currently unexposed.

Adjustment to the changing market is imperative. Leadership in the insurance business will result from the skill with which insurance managers adapt to new conditions. Tremendous opportunities exist in North Dakota for any property and liability insurance company willing to aggressively market their products.

## APPENDIX A

## QUESTIONNAIRE

NAME______________________________DATE______________________________

COMPANY__________________________AGENCY____________________________

POSITION__________________________

### The Product and Lines

I. A. What degree of specialization of lines is followed by the company?
( ) specialty-line ( ) multiple-line ( ) all-lines

B. What is the one primary line of coverage (hand card 1 to the respondent) offered in North Dakota by the company?
( ) automobile ( ) homeowners
( ) fire and extended coverages
( ) hail ( ) accident and health
( ) marine ( ) workmen's compensation
( ) do not know ( ) other____________________

C. Could any coverages be added or changes made to the present coverages of the company to make the line more attractive to the producers or users? ___yes ___no. If yes, what are they?
__________________________________________________
__________________________________________________

D. Is the company's coverages directed primarily towards the individual market, or the industrial market?
( ) individual ( ) industrial

### Distribution

II. A. What, if any, unusual distribution problems has the company encountered in North Dakota? ________________________
__________________________________________________

B. What is the primary distribution system used by the company?
( ) general agency ( ) farm bureau type
( ) direct agency ( ) mail-order
( ) direct-order ( ) other ________________

C. What, if any, unique regulations exist in North Dakota which hinder or aid sales of property and liability insurance?________
________________________________________
________________________________________

## The Firm

III. A. What is the type of company organization?
( ) stock ( ) participating stock
( ) mutual ( ) reciprocal
( ) other ________________

B. What is the nature of the company's direct premium volume sales growth in North Dakota in the last ten years?
( ) gradual increase ( ) decrease
( ) rapid increase ( ) no change

C. Which of the following, in your opinion, (hand card 2 to the respondent) are the three most important factors affecting this company's growth in North Dakota?
( ) expansion of sales force ( ) perpetual contracts
( ) advertising in mass media ( ) merit or demerit rating
( ) installment purchase plans ( ) larger commissions
( ) field issuance of contracts ( ) package policies
( ) incentives for field force ( ) favorable service record
( ) specialization in one line ( ) reduced coverage rates
( ) highly selective underwriting ( ) do not know
( ) liberalization of policy contract provisions
( ) improved attractiveness and readibility of contracts
( ) reduction of number of classifications for rating purposes
( ) payroll deductions plans for purchase of insurance
market factors, such as:
( ) inflated property values
( ) more cars, accidents, and, therefore, higher rates
( ) limited insurance market for certain lines
( ) public is forced to buy the coverage
( ) other ________________

D. Which of these, if any, (hand card 3 to the respondent) is the single outstanding company policy lending to its growth in

North Dakota?

( ) policy improvement
( ) improved sales program
( ) increasing market size
( ) do not know
( ) effective advertising
( ) premium minimization
( ) maximum service
( ) other________________

## Advertising

IV. A. What are the main purposes of the company's present advertising? (hand card 4 to the respondent).

( ) developing old markets
( ) searching out new markets
( ) holding present market
( ) establishing a new product or service
( ) do not know
( ) securing distribution
( ) educational
( ) creating an image
( ) other________________

B. Which of these purposes, if any, were primary ten years ago? (check on above list). ( ) other________________

C. With respect to mass media advertising, is the company's major concern along the lines of:

( ) selling of company name primarily
( ) selling of company services
( ) selling a specific contract, its purposes and costs
( ) selling potential agents on the company

D. Which of the following media have been employed for advertising by the company? (hand card 5 to the respondent).

( ) national magazines or papers
( ) trade or business periodicals
( ) radio, television, or movies
( ) car or bus advertising
( ) billboards, signs, and painted bulletins
( ) yellow pages of telephone book
( ) local newspapers
( ) direct mail
( ) store space
( ) editorial policy
( ) other________________

E. Has there been any attempt to measure the effectiveness of the company's advertising? ___yes ___no. If yes, what was the result? ________________________________

____________________________________________

____________________________________________

F. What is the company's general policy on producer participation in company advertising? ________________________

____________________________________________

____________________________________________

Marketing Management and Services

V. A. Which of these services or service facilities (hand card 6 to the respondent) are available to policyholders of the company?
( ) claims administration assistance
( ) installment payment plans
( ) payroll deduction plans
( ) special risks coverages
( ) other____________________

B. Are any new trends such as the following (hand card 7 to the respondent) being used or considered for use by the company?
( ) group plans ( ) deductible coverages
( ) expansion to multiple-lines ( ) new product innovations
( ) expansion to all-lines ( ) do not know
alternatives to negligence system:
( ) no-fault plan of compensation
( ) periodic installment payment plan of compensation
( ) other____________________

C. Is data processing being used by the company in an attempt to aid the producers? ___yes ___no. If yes, in what areas?____
____________________
____________________

D. How does the company maintain high quality producers?______
____________________
____________________

E. Does the company use branch sales offices? ___yes ___no. Is this practice beneficial? ___yes ___no. Explain.____________
____________________
____________________

General Comments: ____________________
____________________
____________________
____________________

## APPENDIX B

### PROPERTY AND LIABILITY INSURANCE COMPANY

### REPRESENTATIVES INTERVIEWED IN NORTH DAKOTA

Agricultural Group
Harold A. Boe, Local Agent

Allstate Group
Larry Capouch, Agent

American Family Group
Doug Hiney, Agent

American Hardware Mutual Insurance Company
J. J. O'Halloran, Agent

Continental Insurance Company
Orren Anderson, General Agent

C. N. A. Insurance Company
Harold A. Boe, Local Agent

Farmers Insurance Group
Duane Robbins, Agent

Farmer's Union Mutual Insurance Company
Leonard Peterson, Agent

Fireman's Fund American Companies
Winifred Humble, General Agent

Great American Insurance Companies
Winifred Humble, General Agent

Hartford Fire Group
David Vaaler, General Agent

Implement Dealers Mutual Insurance Company
John Tupa, Underwriter

I. N. A. Group
David Vaaler, General Agent

Milbank Mutual Insurance Company
Duane Anderson, General Agent

National Farmers Union Property and Casualty Company
Leonard Peterson, Agent

Nodak Mutual Insurance Company
Dan Rolcznski, Underwriter

St. Paul Insurance Company
Harold A. Boe, Local Agent

State Auto and Casualty Underwriters
John Tupa, Underwriter

State Farm Group
Bill Lamb, Agent

Western Casualty and Surety
David Vaaler, General Agent

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