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ASSESSING THE INSURANCE MARKET AND PREDICTING THE SALE OF INSURANCE SERVICES[1]

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ABSTRACT

In order to reach their goals, the insurance companies should provide information about the direction and scope of their activities aimed at researching and meeting the needs and desires of consumers of insurance services on the insurance market.The insurance companies must make the right decision about how and which of their products and services will take place on selected market segments. It is extremely important how the consumer perceives the service and how it treats it in relation to the competitive offer.To build good business and profitable relationships with its customers, the insurance company should first analyze and understand customers' needs and offer them a product as a set of insurance services with greater value than that of competitors.

KEY WORDS: insurance market, insurance services, market potential, sales potential

INTRODUCTION

The insurance company must measure the sales potential of the target market, whether as a business purpose it has chosen the whole market or just part of it. The selected target market must have sufficient sales potential, in order to justify the cost of development and maintenance of one or more marketing mix.

[1]Professional article

The potential of sales can be measured by taking into account several factors, including product, geographical area, time, and level of competition.(1) When it comes to the product (insurance services), the sale is estimated for each individual insurance service or for more services (packages) of the insurance company. It is also necessary to determine the geographical area for which the assessment will be made, and in terms of time, the assessment of potential sales may be short-term, medium-term or long-term.

The level of competition decides whether the sale will be assessed for one area or for an entire branch. The sales potential can also be measured for the entire market or only for the insurance company, and on that basis, sales are envisaged.

MARKET AND SALES POTENTIAL

Whether the insurance company chooses to perform on the whole market or only on a particular segment, the company must be able to determine the market potential and measure the sales potential of the selected market.

Market potential represents the total quantity of products (insurance services) that consumers will buy in a certain time interval due to certain marketing activities at the level of an economic branch, that is, at the level of the insurance activity.(2) Market potential can be expressed in monetary or quantity units and can be applied to the entire market or to a particular segment thereof. Market potential is influenced by economic, social and other factors from the environment. It is very important when analyzing the market potential to determine the time interval, but also the level of marketing activities within an economic activity.

Sales potential is the largest percentage of the market potential that an enterprise (insurance company) expects to achieve for a certain product (insurance service) within an economic activity (insurance activity). There are several factors that have an influence on the sales potential of the company:(3)

• Market potential sets the final limits for the sales potential of the product (insurance service),
• The quantity and intensity of marketing activities in the business branch have an indirect but important impact on the sales potential of the company. These

activities have a direct impact on the size of the market potential.
• The intensity and effectiveness of the company's marketing activities, compared to those of the competition, affect the size of the sales potential of the company. If the insurance company for marketing activities spends twice more than the competition, and if all the funds spent have an influence on enlarging the sales, then the sales potential of that company will be far greater than the sales potential of the competition.

There are two common ways to measure sales potential, a downward and an upward approach. When the first approach is applied, the marketing manager first develops general economic predictions for a certain period of time, and then on the basis of those predictions he estimates the market potential. The sales potential of the insurance company is obtained from the general economic forecasting and the assessment of the market potential. When it comes to the second approach, it begins with estimating how many insurance services will be bought by potential buyers in a given time, at certain points of sale, in a particular territory. Then, the result is multiplied by the total number of potential buyers in that territory. The same estimates are made for each area where the insurance services are sold, and the sum of all areas gives the total market potential of the insurance company.

PREDICTING SALES

The anticipation of sales is the amount of products (insurance services) that the insurance company expects to sell over a certain period of time, under the influence of certain marketing activities. Sales forecasting differs from sales potential: it focuses on what will really be sold under the influence of a certain level of marketing activities, while sales potential estimates what sales could be due to a different level of marketing activities, assuming the existence of certain conditions of the environment.

When predicting sales, the insurance company can choose one of the numerous prediction methods. Some of them are arbitrary, others are more scientific, complex and require more time. The choice of the prediction method depends on the costs associated with their application, the type of product (insurance service), the market characteristics, the timing of the prediction, the accuracy of the previous sales data, the availability of the necessary information as well as the expertise and experience of the persons who carry out a prediction.(4)

Prediction techniques are classified into five categories:(5)

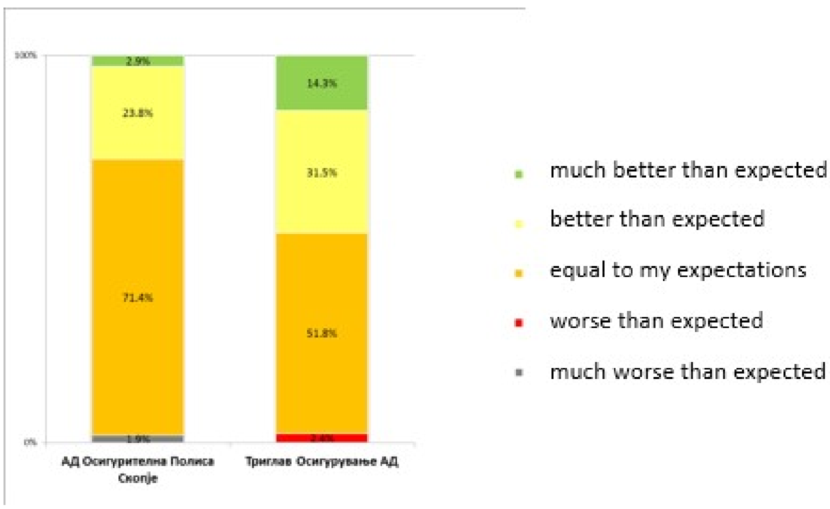
• Management estimates
• Examination
• Time series analysis
• Correlation methods
• Experiments on the market

Management's estimates-sometimes the insurance company predicts its sales only on the basis of management's estimates, which is on the basis of the intuition of one or more of its managers. This approach is explicitly unscientific, but quick and inexpensive. Management estimation works relatively well in situations where demand is relatively stable, and the person who predicts is experienced for the happenings on the market. However, since intuition is heavily influenced by the experience of the assessor, the prediction may be either very optimistic or very pessimistic. Another drawback to the intuitive prediction is that the person who predicts it only makes it based on past experience as a roadmap for deciding the future.

Another form of forecasting sales is **the examination of consumers, sales staff or experts** about their expectations for future sales.

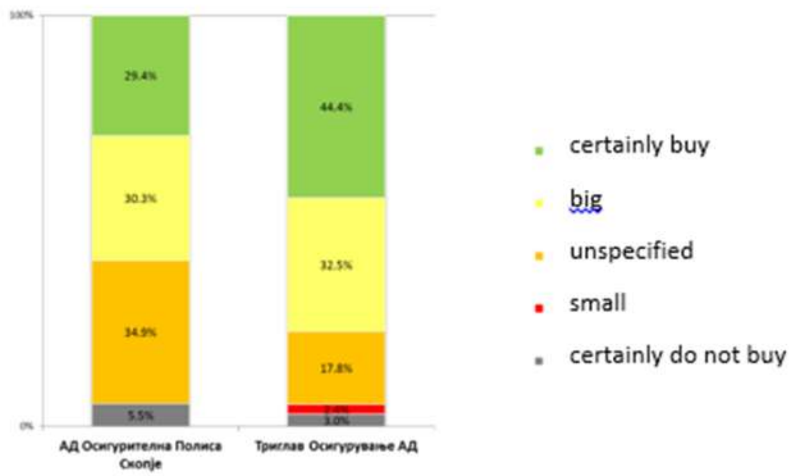
By examining **consumer** forecasts for future sales, marketing experts get answers to questions about the type and quality of insurance policies that buyers intend to buy over the next period as a product of the insurance company. This approach can be useful when it comes to a limited number of buyers. The method of testing the buyers has several drawbacks. Buyers must be able to give, but also must want to give an accurate estimate of their future needs for certain types of insurance services. Sometimes buyers can accurately assess their future needs for a particular product based on the experience and their own sales forecasts, but at the same time there are many buyers who cannot give such an estimate. In certain cases, for various reasons, buyers may not want to participate in such trials, or may give answers that they know are incorrect, which affects the results of the test. Also, only the intentions for purchasing of the consumers are presented by this method, but not the real consumption. Buyers' intentions do not always have to be well-formulated, and even when potential buyers have a strong intention to buy, they do not have to do it. On the one hand this method is long lasting, and on the other hand it is also very expensive.

The research which was conducted in two insurance companies were surveyed their customers in order to be able to successfully predict sales. To this aim, the clients were asked to what extent the services of the insurance company met their expectations.



The results companies responded to the quality of insurance policies that buyers will buy during the next period as a product of the insurance company.

Also, companies are examining the chances that customers can re-buy services in that company so that they can more accurately predict the sale of insurance policies in the future.



When it comes to examining **sales staff** in the insurance company, they are required to make an estimate of sales in their region for a limited time. Then the estimates from all regions are collected and the temporary forecast at the level of the insurance company is obtained. The company can investigate sales staff-agents and brokers for selling insurance policies for many reasons. Most importantly, the agents and brokers are in contact with customers daily and should know the needs of the consumers in the future. Also, if sales agentsand brokers are involved in predicting sales, then it is likely that they will be more engaged to realize this prediction. Another advantage of this method is that forecasts can be made starting from a point of sale to forecasts for the whole territory, i.e. forecasting sales from the smallest geographical unit to the largest.

This method, besides the advantages, has some disadvantages. Namely, people in sales due to their experience may be either too optimistic or too pessimistic. It is also possible to underestimate the sales potential of their territory if they consider that the sales quota will be determined on the basis of their prediction. On the other hand, sales staff do not want to spend a lot of time on administrative matters, because he thinks that he will use that time better if he dedicates it to buyers and sales, which will certainly affect their outcome.

When an insurance company wants to conduct **an expert** examination, it hires experts to help it predict sales, most often being economists, management advisors, executive directors, professors, or other people outside the insurance company who have a solid knowledge and experience on a particular market. Based on their experiences and analysis of the available information about the insurance company and the market, they produce and present their forecasts, or answer the questions related to those predictions. This method is fast and relatively inexpensive. But the negative side is that because the experts are not from the insurance company, they may not be motivated enough to do the job effectively, as is the case with sales staff.

An analysis of time series is a technique by which the person performing the forecast (based on data from the insurance company for the former movement of sales) tries to find some laws in the movement of sales within a certain period of time. This prediction method is based on the assumptions that the pattern of sales from the past will be repeated in the future. The precision and usability of time series analysis depends on the validity of the assumptions.

The analysis of the time series includes four types of analysis:(6)

- analysis of the trend,
- analysis of the cycle,
- analysis of seasonal oscillations and
- analysis of random factors.

The trend analysis focuses on aggregate sales data, such as the volume of the annual sales of the insurance company for a period of several years, in order to determine whether annual sales falls, rises or remains the same.

The cycle analysis is used when investigating the size of the sales (most often used monthly sales data) over a period of three to five years, in order to determine whether the sales oscillate in a consistent, periodic way.

The analysis of seasonal oscillations monitors the daily, weekly and monthly sales volume in order to determine to what extent certain factors influence the sales of insurance services in the insurance company.

The analysis of random factors is applied when it aims to determine the irregularities in the sales movement that occur accidentally, due to certain situations that do not recur or at least do not happen often, such as problems in the power supply, natural disasters, different political turmoil and the like. After the implementation of each of these analyzes, the person performing the forecasts collects the results obtained and on that basis performs the prediction of the future sale.

Time series analysis is an effective method for predicting product sales (insurance services) for which it has a relatively stable demand, but is not appropriate for products (insurance services) with very variable demand.

The purpose of **the correlation method** is to reveal the dependence of sales in the past on one or more variables affecting it, such as the total number of residents, per capita income or gross national income, and the like. In order to determine the existence of interdependence, it is necessary to analyze the changes in sales, and to put in relation to the changes that have occurred on one or more variables-a technique known as the regression analysis. The result of the regression analysis is a mathematical formula that accurately determines the relationship between the sale of the insurance company and one or more variables.

These methods are suitable for use in situations where it is possible to accurately determine the interdependence. However, analysts rarely find perfect interdependence. That method can only be applied only if a sufficient number of sales data in the past is available. That is why the methods of correlation are completely unusable in cases when the sale of new products should be foreseen.

Market experiments involve placing products available to buyers in one or more experimental markets, and then measuring customer reactions, taking into account distribution, promotion, and price. This method can be used more when classical products are concerned, but in some modified form it can also be used for services. Experimental markets may be smaller or larger cities, or the capital cities with their surroundings. Market experiments provide information about the actual purchase of a particular product, and not about the intentions to purchase that product. The scope of the purchase can be related to the marketing activities of the company-propaganda, the promotion of the points of sale, the price, the packaging, the distribution, and the like. Customer responses to the experimental markets serve as a basis for predicting the sales of the product on a wider geographical area.Since it is not based on data on previous sales movements, this method is effective in predicting the sale of new products or already existing products in new markets. This method provides information about the true-real behavior of consumers. The experiment provides an opportunity to check the various elements of the marketing mix. However, the negative side of this method is that it lasts for a long time and causes high costs. In addition, it cannot be said with certainty that consumer reactions represent the entire market or that these reactions will not change in the future.

Although some companies mostly use only one prediction method, most still use several methods. The company is sometimes forced to use multiple prediction methods in conditions when it sells more different product lines. However, even when it comes to a single product line, there may be a need for different ways of predicting if the product is sold in different segments of the market. The time for which sales forecasting is also affecting the need to apply multiple prediction methods. Namely, if a method is used for the short-term forecasting of sales, the same method may not be suitable for long-term forecasting of sales. Sometimes the results that are obtained by applying one method of forecasting sales are checked using another method and comparing their results.(7)

Depending on the size and financial strength of the insurance company, the company decides which of these methods and techniques will apply to anticipate sales of its insurance services. Taking into account both the advantages and disadvantages of each of the methods and techniques, the insurance company makes a certain combination in order to obtain the information requested in the most economical way, but in any case, the examination of consumers, the assessment of the sale of sales staff and the estimates of management, are techniques that every insurance company needs to apply.

CONCLUSION

Taking into account the fact that insurance companies should have knowledge about the direction and scope of their activities in order to achieve the set goals, it is necessary to get to know the needs and wishes of the users of the insurance services, that is, in detail, the insurance market.

When the insurance company will be differentiated as the carrier offer superior value of the selected target markets, then gains a competitive advantage. But, achieving solid market positions require maximum performance and professionalism in fulfilling promises to customers.

The insurance company chooses a marketing offer that will differ from the marketing offer of competition, in order to offer consumers more value than the one offered by competitors.

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