Advertisement Marketing of Alien Insurers in American Market

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Abstract. This paper tries to find out whether alien insurers spend more on advertising than nonalien insurers in the American local insurance market. We built two models to identify different effects of advertising expenses on alien insurers and non-alien insurers, and on the underwriting performance of both insurers. The data from 1996 to 2014 was chosen to conduct regression analysis. The results show that there is no significant difference in advertising expenses between alien and non-alien insurers. Moreover, belonging to a group, young ages (newer-built companies not more than 5 years) and different product lines play significant roles in the insurers’ advertising expenses. The significant influencing factors on the performance (loss ratio) of insurers include assets, different lines of business share and commission expenses, as well as the interaction item of alien insurers and advertising expenses. Our findings indicate that alien insurers with more advertising expenses would achieve better performance than non-alien insurers in the American market.

Introduction

With the coming of digital era, information flows faster and more easily by way of online or offline channels. Therefore, consumers can get more access to insurance and know more on insurance by online review, advertisement, word-of-mouth, rating by the third authority, etc. Among them, advertising is proved to be a more effective tool than others for marketing insurance according to marketing theory.

In practice, in recent years, all insurance companies are faced with competitions from outside and challenges from the local American market. To achieve a better sale in insurance policies, they spend a lot of money on advertising other than increasing the premium rate. E.g., GEICO spends more on advertising $1.18 billion in 2013-than any other property & casualty insurers and has been the biggest spender for years (SNL, a website supported by S&P Global Market Intelligence) \cite{1}; and, compared to advertising expenditures, its premium written also ranks the top. In the first quarter of 2015, its premium written is $5,886 million, an increase of 10.2 percent than that in 2014. GEICO ranks the second largest private passenger auto insurer, behind State Farm, in the United States in terms of premium volume in 2013 by SNL. Based on data in 2013 from A.M. Best, the five largest automobile insurers account for a combined market share of 52 percent, while the market share for GEICO is approximately 10.4 percent.

Therefore, there is a quite fierce competition in the US insurance market. For the situation about alien insurers, according to SNL, there are only not more than 30 alien insurers in the US (Table 1), which are from different countries such as England, Japan, German, Canada etc. Their operation life ranges from 1 year to 135 years with an average of 37 years. Among these alien insurers, some of them disappear after being built for years, such as Cadian Union Insurance Co. of American (1996-1997) and Tokio Marine & Nichido Fire insurance company (1955-2013), others continue their businesses until now, such as Sunderland Marine Insurance Co Ltd. (1882 to now).

Compared to domestic insurers, alien insurers are domiciled in one country and do business in another country and conform to its regulations as the domestic insurers. E.g., a German insurance company operates in the US is called an alien insurance company in the US market.
Because of the fierce competition with domestic insurers in the local market, alien insurers need to take more efforts in their business especially in marketing strategies. How can they behave in advertising to adapt to this situation? Our paper will discuss this problem and try to find out the special characteristics of alien insurers.

Table 1. The quantity of insurers in different ownership structures in 2015.

| Ownership structure          | Frequency | Percent | Valid Percent | Cumulative Percent |
|-----------------------------|-----------|---------|---------------|--------------------|
| Valid Lloyds Organization   | 61        | .7      | .7            | .7                 |
| Mutual Company              | 2604      | 28.2    | 28.2          | 28.9               |
| Reciprocal Exchange         | 65        | .7      | .7            | 29.6               |
| Stock Company               | 6476      | 70.1    | 70.1          | 99.7               |
| US Branch of Alien Insurer  | 29        | .3      | .3            | 100.0              |
| Total                       | 9235      | 100.0   | 100.0         |                    |

Related Work

From the above, it seems that the more expenditure spent on the advertising, the more sales on insurance products can be gained. Scholars have agreed on this viewpoint based on previous literature. But there are few researches on the effect of advertising on the firm performance in the insurance industry. Insurance is a kind of special service different from other products and it has been proved by the analysis that advertising is necessary to sell insurance products.

The Effect of Advertising on Sales

Research on the effect of advertising on sales shows that the effectiveness of advertising does not generate sales in the short term, as non-service advertising. However, in the long run, insurance advertising is more effective. Duncan, James & Henley demonstrated that insurance advertising was no less effective at generating sales in the short run than automobile advertising. In the long run, insurance advertising is more effective in that its carryover is of longer duration than for automobile advertising [2]. Aduloju, Odugbesan and Oke carry out an empirical investigation using questionnaires, interviews, and field observation as major research instruments to prove that advertising exerts a significant impact on sales volume, which can improve the public image in the Nigerian insurance industry [3].

The Effect of Advertising on Consumers

Relatively large number of researches have been conducted on consumers' psychological response about advertisement, such as decision making, perceived effect, awareness etc. Tooraj, Masoomeh and Seyed indicate that advertisements of Persian Insurance Company have been successful from the both perspectives of communication impact and consumer response to advertising [4]. Suman and Mansi analyze the effectiveness of advertising on consumer decision making in Indian insurance company, and their findings indicate that effective advertising has a great impact on the decision-making process of the consumers. For this purpose, the advertising must be effective to leave a lasting impact on the consumers’ mind and help them make correct decisions [5]. Abbas, Vahid, Mohammad and Behnam present the effect of marketing advertisements and price promotion on brand equity in insurance industry in Iran. The results of the present study show that marketing advertisements can have a positive effect on perceived quality, brand awareness, brand image and brand loyalty; price promotion has a negative effect on perceived quality but has a positive effect on brand image. Brand awareness also has a positive effect on brand image [6].

Aliakbar et al. clarify the effectiveness of the media advertisement on the insurance companies to encourage insurance customers and improve Insurance penetration rate [7]. Samira and Kambiz analyze the impact of advertising on car insurance in Parsian insurance firm in Guilan province and the results show the hierarchy of influence of advertising on customers’ purchase of insurance in...
terms of process model AIDA [8]. Kathirvel studies the awareness of life insurance advertisements in media and finds the respondents in Coimbatore city preferring life insurance policy the most. It is a kind of consumer's cognition to the advertisement and shows the penetration of life insurance advertisement [9].

It can be seen from the literature that advertising plays an important role in the insurers' operation and it has different influence either on insurers or non-insurers, but little literature focuses on the alien insurers in an international market and evaluates their competitive behavior. Our objective in this paper is to analyze whether alien insurers spend more advertising expenses than non-alien insurers in the American market; and to identify the possible influencing factors of alien insurers’ advertising expenses.

Method

The Accesses to Alien Insurers for Consumers

Because of the special characteristics of insurance, as a kind of service, it needs marketing. Insurance companies try all kinds of promotion methods to attract consumers' attention and hope to grasp the consumers' eyes to make them purchase their products. When exposed to too much marketing information, modern consumers were found that their attention is becoming more and more difficult to control. They are inclined to search for information about products from their trustworthy information sources instead of listening to the advertisements and swallowing the hype [10].

From consumers' perspective, there are three common ways to get insurance products, as shown in Fig. 1.

The First Access

The first access is through the evaluation from consumers' families, friends, peers, relatives, and neighbors etc., who belong to their familiar reference group; and their mutual communication about products or services are commonly referred to as word-of-mouth [11-13].

![Figure 1. Approaches in which consumers can gain access to insurance.](chart)

For alien insurers, they are strange to or unfamiliar with local consumers. Just like local investors' "home bias" [14], the local consumers prefer insurers in their own country and do not easily trust foreign sellers. Especially when they know nothing about the companies. Except that the local consumers have purchased products from the alien insurers and thus have some experience; they are willing to communicate with and give suggestions to their friends, relatives, peers etc. in the local positions/areas. Only from this aspect, the alien insurers can attract the attention of consumers. So, there is no significant marketing effect for alien insurers to exploit this distribution.

The Second Access

The second one is by learning about reviews offered by the third-party rating agencies such as AM Best, Standard Poor, Moody's etc. Consumers can get the comprehensive information about the financial statement, operation state and reputation about the companies. This information can help
consumers to make an evaluation for the insurance companies and decide whether to trust them, even to purchase products from them. However, this kind of marketing approach requires consumers to own special financial knowledge. Only for those consumers with higher education can they understand clearly policies issued by these institutions, which will lead to the limitation of the scope of the target marketing. If alien insurers can get the good ratings from these famous rating agencies, their reputation will increase, and they will be easily accepted by the forgoing local consumers. It will improve their adverse position in the local competitive insurance market.

The Third Access

The third one is by means of advertising released in all kinds of media, including newspaper, TV, magazine, website, vehicle etc., which is a kind of quite traditional promotion method. We suggest that it should be a main marketing strategy for alien insurers if they want to improve their brand popularity and reputation in a very strange place to expand the market and familiarize local consumers. For most consumers, they do not have much knowledge about alien insurers, so the advertisement maybe the most important channel to approach them.

The Hypotheses Development

Based on previous literature and the above analysis, alien insurers would take active strategies on advertising to absorb local consumers. Compare to non-alien insurers, they may need to invest more on advertisement. So, it is hypothesized that:

H1: Alien insurers spend more on advertising expenses than non-alien insurers.

If an insurer belongs to a group, because the strength and competition capability of a group is greater than a single insurance company, we propose that the insurer in a group can rely on the group to invest more on advertising than one not in a group. Therefore, it is hypothesized that:

H2: Insurers in a group spend more on advertising than insurers not in a group.

Assets are often used to explain the strength of a company. The more assets an insurer owns, the more risks that it can take. If an insurer with more assets needs to issue the advertisement about its products, it may offer more support to advertising than other insurers with less assets. So, it is hypothesized that:

H3: Insurers with more assets put more expenses on advertising than those with less assets.

Because when insurers enter a new market for the first several years, they will face different types of difficulties and challenges such as regulations, resistance from original insurers, unacceptability of consumers etc. They need not only satisfy the demands of regulations and take scientific competition strategies to deal with competitors, but also advocate their companies and products to consumers by advertisements. As newcomers, they may spend more on advertising than older insurers. Therefore, the following hypothesis is established:

H4: New insurers with experience not more than 5 years spend more on advertising than old insurers.

For different lines of business, previous literature shows that product lines are very important influencing factors of costs [15]. While advertising expenses as one part of expenses, we posit that different lines of business have different effects on advertising expenses. Because homeowner’s insurance and auto insurance are two kinds of products with more underwriting premiums than other lines of business, these two kinds of products are chosen to analyze their effects. The hypothesis is the following:

H5: Different lines of business by underwriting premiums have different effects on advertising expenses.

We identify the determinants of advertising expenses as aliens, ages, group, assets etc. The following model (1) denotes the relationship of these variables.

$$advexp_i = a + \beta_1\text{Alien}_i + \beta_2\text{group}_i + \beta_3\ln\text{asset}_i + \beta_4\text{agesnew}_i + \beta_5\text{howners}_i + \beta_6\text{auto}_i + \varepsilon_i$$ (1)
advexp.; the ratio of advertising expenses to expenses paid for insurer i; alieni, groupi, and agesnewi: binary variables (0,1) for insurer i; lnassetsi: logarithm of assets adjusted by CPI index for insurer i; howneri: home-owners insurance’s direct premiums written percentage for insurer i; autoci: auto insurance’s direct premiums written percentage for insurer i.

Moreover, we try to testify the effect of advertising expenditure on the profitability of insurers. Loss ratio is used to denote the performance of insurers as a dependent variable as in other researches [16].

First, if alien insurers want to survive and develop well, they may perform better than non-alien insurers in the decreasing of loss or increasing of profit, or they will encounter competitions from local insurers and fail to stay in the market. They have a strong willing to operate insurance business at least. Hence, one hypothesis is proposed: there is a difference on the performance between alien and non-alien insurers (H6).

Second, based on literature, a hypothesis is established: advertising expenses influence the performance of insurers significantly (H7).

Third, commission expenses are spent on rewarding agents or brokers. The objective is to improve sales volume which are commonly under the control of agents. In this case, advertising expenditures can be considered as a substitute for the effort of agents in soliciting business [17]. Therefore, commission and advertising expenses are all useful ways to sell insurance products. So, it can be hypothesized that:

H8: Commission expenses have a significant influence on the performance of insurers.

Different lines of business may have different influence on the performance of insurers. We set up premiums in marine and other lines as two factors to analyze their effects. We observe data and find that most of alien insurers focus on marine lines, so we change the lines of business from homeowners and auto in model 1 to marine and other lines in model 2. The following is the hypothesis:

H9: Marine and other lines of business have significant effects on performance of insurers.

The following model (2) is proposed according to the above analysis.

\[
\ln \text{lossratio}_i = \alpha + \beta_1 \text{Alieni} + \beta_2 \text{advexp}_i + \beta_3 \text{commission}_i + \beta_4 \ln \text{assets}_i + \beta_5 \text{marine}_i + \\
\beta_6 \text{otherlines}_i + \beta_7 \text{leverage}_i + \beta_8 \text{alien} \times \text{advexp}_i + \beta_9 \text{alien} \times \text{commission}_i + \epsilon_i
\]  

(2)

Inlossratioi: logarithm of loss ratio; alieni: binary variables (0,1); advexpi: the ratio of advertising expenses to expenses paid for insurer i; Commissioni: the ratio of commission expenses to expenses paid for insurer i; lnassetsi: logarithm of total assets; marinei: marine line’s net premiums written percentage; otherlinesi: other lines’ net premiums written percentage; leveragei: liabilities divided by surplus; alien×advexpi: interaction item; alien×commissioni: interaction item;

The Data

We use data on P&C insurance companies in the SNL website from 1996 to 2014. After the screening, we get 9235 valid observations by dropping off minus, 0 and blank data. The descriptive statistics for variables are shown in Table 2. Regression analysis is used to test the relationship among the variables in model (1) and model (2).
Table 2. Descriptive statistics.

| Items        | N   | Minimum | Maximum | Mean | Std. Deviation |
|--------------|-----|---------|---------|------|----------------|
| alien        | 9235| 0       | 1       | .00  | .056           |
| group        | 9235| 0       | 1       | .84  | .365           |
| advexp       | 9235| .0000   | 9.8202  | .013754 | .1450086 |
| lnassets     | 9235| 6.6497  | 18.9512 | 12.277149 | 1.7792734 |
| agesnew      | 9232| 0       | 1       | .22  | .413           |
| howners      | 9235| .000000 | 101.886734 | 20.36953284 | 18.691260516 |
| auto         | 9235| .000031 | 116.516373 | 35.0323347 | 27.739480372 |
| marine       | 9235| .0000   | 1.0540  | .047902 | .1139205 |
| commission   | 9235| .0001   | 326.8496 | .580448 | 5.8031424 |
| lnlossratio  | 9235| .7886   | 5.8309  | 4.001862 | .2709230 |
| leverage     | 9235| -.7909  | 52.7800 | 1.855893 | 1.4004110 |
| otherlines   | 9235| -.1630  | 1.1228  | .492162 | .2895727 |
| alien×advexp | 9235| .0000   | .0024   | .000001 | .0000401 |
| alien×commission | 9235| .0000 | 16.1463 | .002943 | .1699531 |
| Valid N (listwise) | 9232 |  |  |  |  |

The Results of Regression Analysis

Regression results are shown in Table 3 for model (1) and Table 4 for model (2). In model (1), the ratio of advertising expenses is influenced significantly by group, assets, new-built insurers’ ages and auto insurance’ premiums. In model (2), assets, marine lines’, and other lines’ premiums as well as the interaction item of alien and advertising expenses are the influencing factors of loss ratio. Although the impact of alien, as a binary variable in model (2), on the advertising expenses is less significant than that of non-alien insurers, the interaction item of alien and advertising expenses ratio has the greatest coefficient (231.62). This shows the significant impact of the advertising expenses of alien insurers on the loss ratio.

Findings and Conclusion

Findings

This paper is to identify the factors which could have any influence on the alien insurers’ advertising expenses and the effect of advertising expenses on the performance of alien insurers. From model (1), the following findings can be obtained: The insurers belonging to a group spend more advertising expenses than those not belonging to a group; There’s no significant difference in the advertising expenses between alien and non-alien insurers; There’s a negative significant relationship between the index-adjusted assets and advertising expenses; The newer insurers (ages<5) spend significantly more advertising expenses than older insurers; Homeowners insurance’s direct premiums written percentage doesn’t exert significant impact on the advertising expenses; but auto insurance’s direct premiums written percentage has a significant effect. From model (2), it can be found that: The significant influencing factors on the performance of insurers include assets, different lines of business and commission expenses. The advertising expenses do not have significant influence on loss ratio, but the interaction item: alien×advexp have a significantly positive effect on loss ratio. This explains that compared to non-alien insurers, alien insurers’ advertising expenses have more significant influence on the performance of insurers.
Table 3. Regression results for model (1).

| Coefficient a | Model | Nonstandardized Coefficient | Standardized Coefficient | t     | Sig.  |
|----------------|-------|-----------------------------|--------------------------|-------|-------|
| (constant)     | 1.383 | .838                        | 1.651                    | .099* |       |
| group          | .592  | .258                        | .018                     | 2.291 | .022**|
| alien          | .006  | 2.162                       | .000                     | .003  | .998  |
| lnassets       | -.127 | .055                        | -.018                    | -2.324| .020**|
| agesnew        | .807  | .252                        | .022                     | 3.201 | .001***|
| howners        | .007  | .004                        | .011                     | 1.534 | .125  |
| auto           | .011  | .003                        | .024                     | 3.443 | .001***|

a. Dependent variable: advexp

Note: * denotes the 10% confidence level; ** denotes the 5% confidence level; *** denotes the 1% confidence level.

Table 4. Regression results for model (2).

| Coefficient a | Model | Unstandardized Coefficients | Standardized Coefficients | t     | Sig.  |
|----------------|-------|-----------------------------|---------------------------|-------|-------|
| (Constant)     | 3.874 | .19                         |                           | 203.836| .000***|
| alien          | .054  | .058                        | .011                      | 2.324 | .020**|
| adv/expensespaid | -.064 | .046                       | -.035                    | -1.181| .238  |
| commission/expensespaid | -.001 | .001                      | -.030                    | -1.181| .238  |
| lnassets       | .020  | .002                        | .134                     | 13.101| .000***|
| marine         | -.381 | .024                        | -.160                    | -15.596| .000***|
| otherlines     |-.205  | .010                        | -.220                    | -21.333| .000***|
| alien/advexp   | 231.620 | 109.737                      | .035                     | 2.111 | .035**|
| alien/commission | -.025 | .023                      | -.016                    | -1.096| .273  |

a. Dependent Variable: lnlossratio

Note: ** denotes the 5% significant level; *** denotes the 1% significant level.

**Conclusion**

We mainly test influencing factors of advertising expenses as well as its impact on performance. By empirical analysis, it can be concluded that alien insurers spend not significantly more advertising expenses than non-alien insurers. But alien insurers’ advertising expenses do have more significant influence on loss ratio than non-alien insurers. This partly verifies our hypothesis. Both advertising and commission expenses do not have significant effects on loss ratio, and this means that these two expenses are not important costs in the insurance company. In fact, the main cost in an insurance company is underwriting loss, i.e. reimbursement. Our conclusion is not contradictory to it. Our findings point out the important meaning of advertising strategy for other countries’ insurance companies to enter the American market. Alien insurers may seek other effective measures except advertising to absorb local consumers to buy insurance to improve their performance. In addition, we will continually work on data to confirm the research outcome’s robustness and reliability in the future.

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