

MARKETING ROLE IN MARKET DEVELOPMENT INSURANCE

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ABSTRACT

In world practice, insurance is the main defense mechanism against the manifestations of various adverse events, bringing a significant material damage. Insurance has not been properly developed yet in Russia. The main reasons hindering the insurance market development in Russia are: low level of population income at high prices for insurance services, the lack of population economic literacy, the high level of mutual distrust between policyholders and insurance companies, and most importantly - the Russian "maybe" (perhaps nothing will happen to me!!!). However, the Russian insurance market has a strong potential. In order to promote the insurance mechanism in the system of property interests protection concerning various subjects it is necessary to choose an optimal marketing strategy to detect the presence of potential customers, who differ in their tastes, desires, needs and purchase motivation. In order to achieve the goal of research it is necessary to examine the prospects of Russian insurance market development by improving insurance marketing system. The article justified the selection of an optimal marketing strategy in order to identify the availability of insurance needs and psychographic attributes use preference at the implementation of the insurance market segmentation.

Keywords: damage, insurance, insurance market, marketing, segmentation

INTRODUCTION

During the successful growth of Russian economy and the population living standards improvement, as well as in terms of crisis a great importance should be given to the factors supporting the economic security of citizens, businesses and a state. The main trend of the security system is the creation of a set of measures which may compensate for the material damage caused by various adverse events. Insurance is one of the forms for such threats counteraction [1].

The statistics of accidents during last decade greatly exceeds the corresponding figures for the previous periods of the study. Moreover, the vast majority of occurred disasters (98%) are the climatic ones. According to scientific data, 2.7 billion of people on the planet suffered from natural disasters since 2000s. And it's more than every third inhabitant of the Earth [2].

Russian statistics shows that about 25% of its territory is located in the area of seismic activity. Thus, the population of this part of the country (i.e. about 20 million people) is in danger because of the threat of earthquakes with the magnitude of 7 points or more. In addition to the seismic risks Russian citizens are not protected from other natural disasters. Among the recent disasters are the following ones:

- 2013: flooding in the Far East; the earthquake in Kamchatka; meteorite explosion over Chelyabinsk; flooding in Primorye.
- 2014: flooding in Siberia; forest fires in the Far East and Siberia; the deadliest hurricane in the north of Bashkiria.
- 2015: flooding in Sochi; Sheveluch volcano eruption on Kamchatka.

According to experts, the annual economic loss (direct and indirect one) from emergencies makes 1.5-2% of GDP, which hinders the socio-economic development of the country and its regions [3].

Table 1 considers the dynamics of emergency situations in Russian Federation over the past 13 years.

Table 1 - Dynamics of emergencies in Russian Federation during 2003-2015

Indicators years	Total amount of emergencies (E)			Including			
	Number of emergencies	The victims of the disaster, people	People affected by the disaster	Number of man-made disaster	Number of natural emergency situations	Number of biological and social emergencies	Large terrorist acts
2003	838	1161	15631	518	286	15	19
2004	1134	2459	23182	863	231	28	12
2005	2720	5637	4945523	2464	198	48	10
2006	2847	6043	8150	2541	261	44	1
2007	2693	5199	27335	2248	402	43	-
2008	2154	4491	3756	1966	152	36	-
2009	425	734	2428	270	133	21	-
2010	360	683	2908	178	118	43	21
2011	297	791	23716	185	65	42	5
2012	440	835	100994	229	150	56	5
2013	335	620	211540	166	116	46	7
2014	262	567	129869	186	44	31	1
6 mon. 2015	115	323	9630	77	19	19	0

Compiled by the authors according to the statistics of Russian Federation Emergency Situation Ministry

Many of the reasons considered in the presented table for the application of large-scale material damage to citizens and a state are the risks to be insured, which in many countries appear to be the most effective instrument for the compensation of potential damage to the population and economic entities.

However, the analysis of the Russian insurance market dynamics, confirms the relatively low level of its development, but it should be noted that the domestic and insurance market has a strong potential.

PROSPECTS OF RUSSIAN INSURANCE MARKET DEVELOPMENT THROUGH INSURANCE MARKETING SYSTEM DEVELOPMENT

Currently one of the notable trends is the emergence of the insurance market interests to marketing and the establishment of marketing departments in insurance companies. However, the majority of Russian insurance companies use marketing as the tool for product sales expansion (insurance services), which an

enterprise has. This means that the development of an offers for consumers is carried out "blindly", without taking into account the market requirements and customer needs [4].

During the analysis of the Russian insurance market from the marketing point of view, we have found out that the insurance companies are not fully aware of marketing research, marketing strategy, carry out the pricing policy, the study of consumer market and their preferences ineffectively. It should be noted that marketing can help an insurance company to win not only a certain share of the market, working with an outlined segment, but also to become the market leader in the long run, to start operation into new segments, to develop multivariate insurance products tailored to the specifics of the insurance market, as well as to declare itself as a progressively developing company. A lot of competitive advantages of an insurance company may appear at a proper use of marketing techniques, but it is necessary to understand the nature of insurance marketing, its basic principles, methods, strategies, forms and methods.

STUDY OF MARKETING SPECIFICS IN INSURANCE

Insurance marketing in the broadest sense means the way of an insurance company commercial management within the insurance market on the basis of comprehensive market research [5].

Marketing specifics in insurance is determined, first of all, by the peculiarities of insurance service provision in a particular company. In general, the marketing tools can be expressed by the means of insurance marketing functions (see Fig. 1).

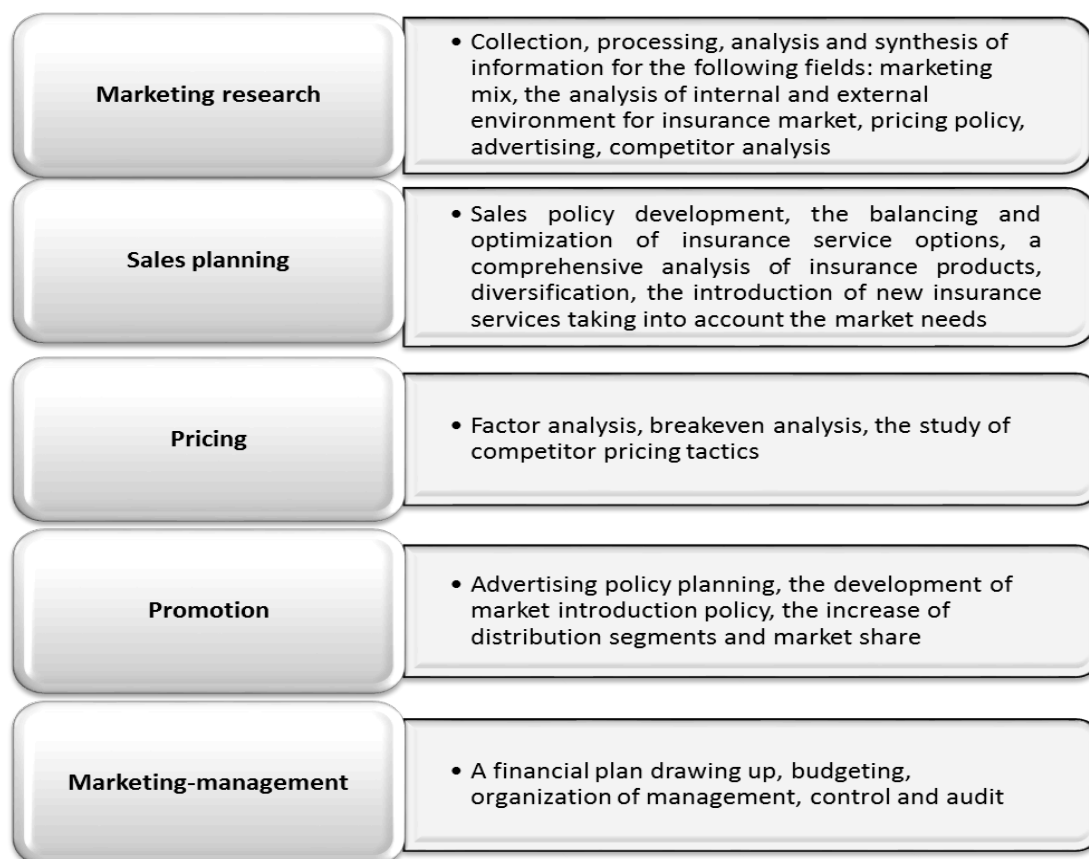


Fig. 1 – Basic marketing tools on insurance market

As we see, each marketing function contains a huge variety of tools, techniques and the methods of market research, competitors, consumers and the potentials of the insurance company. It is important to understand the potential of a company, the things it can achieve, the things which you need to do for it and

the procedure which allows to do this most effectively, to analyze the scope of activities, the availability of the necessary resources.

The market research of any insurance company should begin with the development of a plan for the study of the market composite characteristics (see Fig. 2).

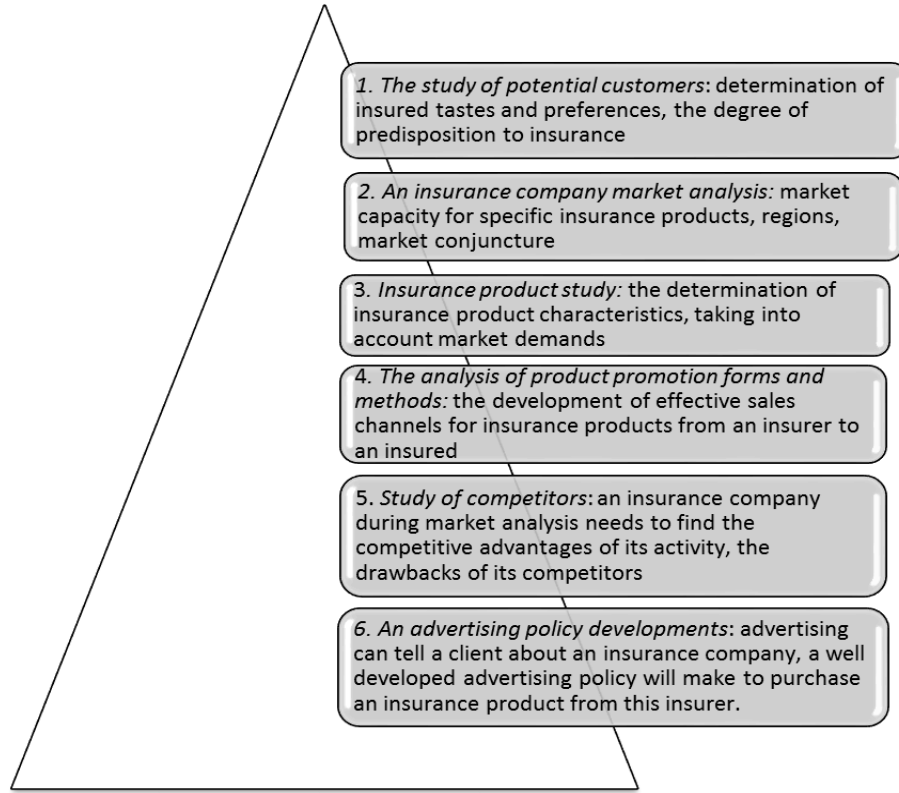


Fig. 2 - Step by step actions of an insurance company used in marketing research

The marketing research of any market, including the insurance market should be started from the steps presented on the figure. At the practical use of these methods an insurance company must clearly identify the motives of their activities, namely the marketing nature in a company.

It is advisable to allocate the marketing principles of an insurer as the realization subject in marketing policy practice (see Table 2).

Table 2 – Insurer marketing principles

A thorough study of the insurance market conditions	The relationship of factors and conditions which provide a rapid insight about the insurance market status at this moment
Insurance market segmentation	It is necessary to allocate the segments of the market or the trends of an insurance company, i.e. it is advisable to select areas of specialization (for example: personal or property insurance)
Flexible response to consumer reaction	Preferences, tastes and consumer needs are constantly changing, and the insurance company

	should be able to consider all these factors in their work
Innovation	Insurance products which are relevant today may be obsolete, inefficient means of policyholder interest protection tomorrow. Therefore, a company needs to improve constantly its range of insurance products, taking into account the insurance market changes.

It is worth noting that the creation of new insurance products or the improvement of existing ones is an important element of an insurance company marketing policy. Each insurer must be able to anticipate all market changes, including the changes in consumer preferences in order to propose promptly a new insurance product and not to lose a client. In this case, an insurance company has to deal with 2 processes:

- The diffusion of innovations (the spread of info outside a company about new insurance products, the description of insurance use possibilities as the part of new insurance products);
- The approval of a new product or a type of insurance by the clients of the insurance company (a customer chooses a new type of an insurance product, which, in his opinion, is the most appropriate means of protection and the company can only take the client's will).

Diffusion of innovations - it is primarily the spread of information among potential customers about the possibility of a new insurance product creation. Many insurers will pay the attention to the innovations of an insurance company or from the position of the interest in a product or due to the prestige of an insurance company, a brand name and other factors. In any case, the creation process of new insurance products, taking into account the market situation and competitor proposals is one of the most effective strategies of a company at the penetration into new segments.

With the introduction of a new insurance product it is important to evaluate its perception by a potential buyer. The stages of a new product perception by an insured:

1. The distribution of information by printing;
2. The placement of information in mass media;
3. The evaluation of an expert or a group of experts;
4. The awareness of an insured about the market condition;
5. The interest of a potential policyholder in new insurance product;
6. The evaluation of a new insurance service;
7. The opinion on a new service;
8. The approval or the rejection of a new insurance service.

An insurance company should be guided by the motives of his client, in other words, that's why insurers prefer this insurance product or buy an insurance product from a particular insurance company.

It is important to emphasize the attention on the determination of the insurance market target segment during market research.

BENEFITS OF INSURANCE MARKET SEGMENTATION

The segmentation of the insurance market is the selection of the most significant groups of customers according to a number of classification criteria (professional, demographic, regional, sectoral, etc.).

In Russian practice the most attention is paid to the analysis of the insurance market demographic segmentation, namely: sex, age, number of family members and income level. On the other hand, in western practice of insurance marketing the first place is occupied by psychogeographic signs of segmentation (life style, personal qualities of an insured, his life principles, goals, etc.).

The study of his competitors is also an important step in the marketing policy development of an insurance company. Half of any company success, including insurance company is the understanding of your competitors and being one step ahead of their actions. In modern conditions an insurance company needs to analyze constantly the policy of their competitors, their tactics and strategy, applying the best practices of competition (see. Fig. 3)

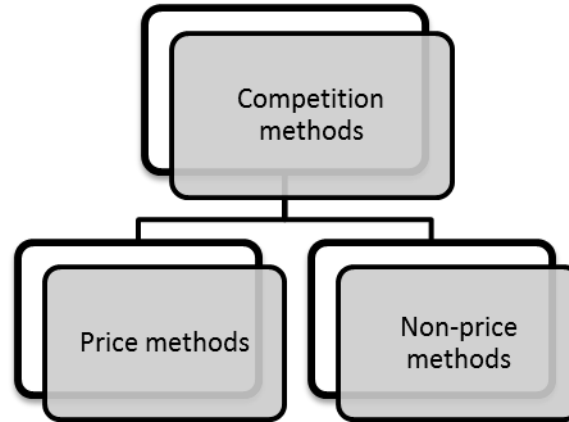


Fig.3 – Competition methods

The pricing methods include, first of all the change in prices or insurance rates, according to which an insurance contract is concluded, however, this method is effective only in the medium term. When you plan the activities of a company, taking into account a long-term development strategy it is necessary to use the non-price methods of competition: advertising, free consultations, bonuses and discounts for regular customers, etc.

The segmentation of consumer market - a laborious and creative process. One of the most difficult and critical moments of its segmentation is the choice of segmentation variables (attributes) which can be performed according to various criteria (objective and subjective ones) [6].

In theory and practice, two groups of segmentation signs (socio-economic and psychological one) are the most widely used. The last ones are focused on the attitudes and the behavior marketing system entities. The first group of segmentation attributes includes the objective evidence and is the basic one for the second group. Therefore, the market segmentation on the basis of the first group of variables is called classical or demographic segmentation. The segmentation of the market used by the second group of attributes - "perfect" or psychographic segmentation. Recently, at the market segmentation, especially at consumer goods segmentation, such features are determined as visual and chronological one. These include the features which characterize a man's, a particular consumer or a group of consumers life cycle.

In practice, during the segmentation of the consumer market, marketers use the combination of features. At that the following guidelines may be referred to the general ones concerning the definition of segmentation variables [7]:

1. The selection of segmentation variables depends on an object of study (final or business buyers) and segmentation purposes. Thus, for example, in order to develop an image of an insurance company it is advisable to divide the retail insurance consumers by psychographic variables. In order to select the target market of an insurance company one may carry out the segmentation according to behavioral variables.
2. The selection of segmentation variables is based on the hypothesis of cause-and-effect relationships between the analyzed characteristics of customers and their requirements for an enterprise goods and services.
3. At the segmentation of the consumer market it is advisable to use the variables of different types. The ignoring of any type of variable may distort the results during the allocation of segments. During the consumer market segmentation they use first the objective variables of segmentation (socio-economic, demographic, geographic ones), and then the subjective segmentation variables (psychographic, behavioral, personal ones).
4. From rather large list of segmentation attributes they usually select one or several of the most important ones. A large number of segmentation variables may lead to an excessive fragmentation of a segment.

By the virtue of the Russian consumer insurance market development, insurance companies, in our view, do not pay a sufficient attention to the market segmentation issues, including the choice of its variables, preferring the simplest and most readily available.

Among the most frequently used segmentation variables of the domestic retail insurance market one may identify such objective attributes as geographic or geodemographic (region, climate, population density, etc.), socio-demographic (gender, age, education, position held, income level, the number of family members and family composition, etc.). There is no doubt that there is the relationship between the level of an individual income and his willingness to be insured [8].

The same situation is with other socio-demographic variables of segmentation. So, age is not always an objective criterion to refer a user to one segment. The level of education and a social position may be a precondition to bring consumers together in a homogeneous segment, but it is clear that people with the same education and social status can have different attitudes to the choice of insurance products and insurance issues in general.

The purpose of the psychographic market segmentation is to develop a marketing program, all elements of which correspond to the majority of the target market.

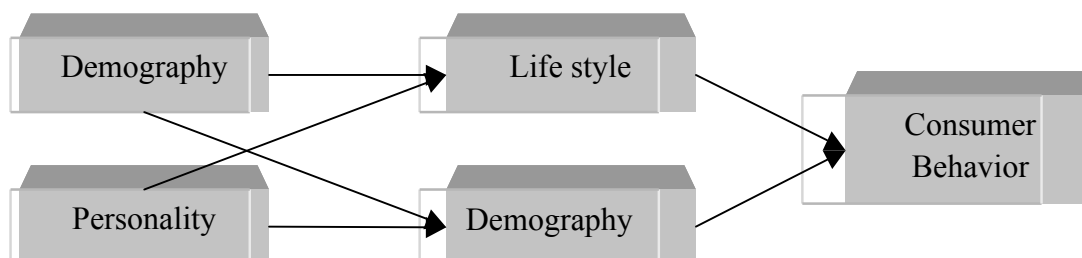


Fig. 4. Relationships of segmentation variables in marketing

A significant contribution to the development of a life style and its practical application was introduced by VALS (values and lifestyles) model [9,10].

The result of the segmentation carried out by VALS method allows to identify the following market segments:

1. Consumers who are guided by their needs. The representatives of this group spend money, focusing on their needs, but not on their preferences. It includes those who "survive" and those who "suffer". In terms of consumer insurance market segmentation the segment of "tolerant" will be an attractive one, because, according to the life style description by VALS method, these consumers are concerned about security, despite their low income and poor education. Thus, certain insurance products may be developed and offered at a reasonable price to meet the security needs.
2. Consumers guided by external factors. This segment, according to statistics, makes up the bulk of market consumers. This group of consumers is concerned what other people will think during shopping. In this segment, the "successful" segment is the most attractive one as the dominant values of this group of consumers are materialism, comfort, and therefore, they should offer insurance products which help to protect the existing assets that will enhance their level of comfort. The market segment "imitating" can become active consumers of insurance services if it becomes fashionable, since "imitation" and "ambitiousness" are the dominant values in this group. Therefore, insurance companies should be actively engaged in the promotion of their services, which will help to attract a sufficiently large group of potential "imitating" customers.
3. Consumers guided by internal factors. This market segment makes a small percentage of population, but this group is characterized by a high level of loyalty to products and services that meet their domestic needs. Despite the fact that their number is insignificant, they can play an important role as trendsetters. The consumers of this group are the catalysts of the needs, the consumer group, which is followed by consumers guided by intrinsic factors. This market segment is growing rapidly, while the number of customers from the first group is reduced and the second group remains a stable one. In this regard, the insurance companies should be actively engaged in the introduction of consumers focused on the internal factors to their products. This will attract the consumers from other market segments [11].

CONCLUSIONS

VALS method is widely used in marketing for the implementation of market segmentation. During the segmentation of the consumer market, this method allows to take into account its socio-demographic component of behavior, describes the lifestyle of a consumer and also characterizes his consumer behavior. However, this method has the objective limitations, as the life style of a consumer is not a "perfectly clean" one. Every consumer tends to make atypical actions which are different from its main lifestyle. Besides, the abovementioned method of segmentation is more typical of American society.

The performed study leads to the conclusion that marketing plays an important role on the insurance market, creating a certain image of a company and increasing its attractiveness. However, in order to achieve some effective results, it is always necessary to find an optimal combination of all marketing policy components: pricing, evaluation of competitors, advertising, product, consumer preferences, etc. The trends of modern insurance market require constant changes from companies and marketing as an operation management system on the market, may help it in this.

Summing up the review of segmentation attributes within insurance service market it should be noted that besides the socio-economic, geographic and demographic characteristics, insurance companies must apply the psychographic segmentation of consumers, which allow to identify the homogeneous groups of consumers equally responsive to the marketing incentives of a company. The conducted market segmentation using the psychographic attributes can simultaneously take into account the traditional signs of segmentation (income level, social groups), as well as such important attributes as a life style and the system of values which will contribute to more accurate understanding of potential consumer needs.

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