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Marketing channel, corporate reputation, and profitability of life insurers: evidence of bancassurance in Taiwan

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Abstract

This paper investigates the impact of marketing channels on the corporate reputation and profitability of life insurers based on the evidence of bancassurance in Taiwan. The empirical result indicates that marketing through bancassurance reduces underwriting service quality and thus negatively affects the insurer's reputation. On the other hand, bancassurance shows an advantage in that it cuts business expenses and consequently contributes to the insurer's profitability. This paper also finds a positive and sustained relationship between corporate reputation and profitability. Furthermore, the impact of bancassurance on service quality, corporate reputation and profitability increases with market maturity. The overall result suggests that life insurers must pay attention to service quality when marketing through bancassurance, as service quality has a sustained effect on corporate reputation and therefore profitability.

Notes

1. 1.
According to Teunissen (2008), the market share of bancassurance in the U.S. is only around 2%.

2. 2.
In this paper “underwriting service quality” means the general service quality in insurance business transactions, which is a broad definition including all services related to insurance product supply. It is different from “underwriting quality," which is more narrowly defined as the fairness of risk selection and classification.

3. 3.
In this paper “underwriting expense” means general business and administration expenses for the insurance business. It does not include the expense for risk selection or claim payment, which is the direct cost of insurance products.

4. 4.
Based on the premiums of new contracts, the market share of bancassurance expanded from 47.8% in

2008 (pre-crisis) to 63.2% in 2009 (post-crisis).

5. 5.
RMIM is the leading insurance magazine in Taiwan, similar to A. M. Best’s Review in the U.S.

6. 6.
Complaints related to claim adjusting (*Coa*) usually result from the disagreement in loss payment. Complaints not related to claim adjusting (*Cona*) usually result from the selling process such as unclear explanation of products.

7. 7.
Roberts and Dowling (2002) use data of “America’s Most Admired Corporation” surveyed by the Fortune magazine to represent corporate reputation.

8. 8.
The ranking score ranges from 0 to 29. The insurer with the worst reputation has a score of 0, and the best has a score of 29

(The number of life insurers in Taiwan was about 28–30 between 2004 and 2013.).

9. 9.
The variables for measuring contract persistency include *p13* and *p25*. However, *p25* is highly related to *p13* and sometimes affected by reasons other than service quality (e.g., changes in financial planning). Therefore, only *p13* is taken for factor analysis

10. 10.
The premium income *lnPNC* has a stronger relation with service quality, corporate reputation and profitability than the variable of asset size. Since the two variables are highly correlated, the latter is not included in the model to avoid multicollinearity.

11. 11.
Since complaints related to claim adjusting (*Coa*) may be caused by product fairness in addition to service quality, this paper also tries to extract the latent variable *Quality* based on *Coa* and *Cona* (complaints not related to claim adjusting), respectively, in order to distinguish the effect of product fairness. The empirical result based on *Cona* only is similar to the current one because most complaints are from *Cona*. The empirical result based on *Coa* only is less significant than that of *Cona*. These results are shown in Appendix 2.

12. 12.
The market share is about 4% for the agency, and 1% for direct mail.

13. 13.
The 3SLS SEMs analysis for the salesperson channel is to provide a comparison with bancassurance. The analyses for agency and mail channels are omitted because their market shares are tiny, and there are few data of insurers that can be applied to the study.

14. 14.
The regression coefficient of *ROA* on *Quality* is reduced from 0.118 (Table 4, model Ib) to 0.070 (Table 6) for salesperson, and from 0.149 (Table 5, Model Ib) to 0.091 (Table 6) for bancassurance. The regression coefficient of *Repute* on *ROA* is reduced from 0.201 to 0.061 for the salesperson and from 0.190 to 0.075 for bancassurance.

15. 15.
According to Table 8, the regression coefficient of *Bank* on *Quality* is reduced from – 0.015 (pre-crisis) to – 0.009 (post-crisis), and the regression coefficient of *Bank* on *Repute* is reduced from – 0.063 to – 0.0392.

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Appendices

Appendix 1

See Table 9.

Table 9 Definitions of variables

Appendix 2

See Table 10.

Table 10 3SLS SEMs for operational performance—Cona

See Table 11.

Table 11 3SLS SEMs for operational performance—Coa

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