

Telemarketing in Spain

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The main beneficiaries of new situation are the policyholders, but the lesson that this «war» has taught the market should not be underestimated: new rating criteria have been established, a constant battle against negotiation expenses has been started, systems to increase client loyalty are being developed...

Although “direct sales” companies give the impression that their business is based on the implementation of a recent system, the result of the most advanced techniques in marketing, the use of the telephone - as a sales tool - is a traditional technique in the Spanish insurance market, at least for companies whose distribution system is based on the use of networks of affiliated agents. These direct sales companies have however provided something truly new: they have invigorated the market and broken the balance of power amongst the traditional operators.

The traditional method (it is necessary to consider this as a first step) involves the “sale of the interview” using a database of possible clients, and in our country this continues to be a primary tool (especially in life insurance) which is very successful despite restrictions imposed by privacy laws. These laws have however forced a strategic change in the use of this tool, and its present use (due to the difficulties in using external databases) is mainly based on the use of the company’s client base in search of the “complete customer”, and the setting up of strategic links with companies or associations which have an extensive database of clients or associates.

The traditional system is supplemented with “direct sales” activity and uses the same negotiation techniques as specialised companies, but with the difference that, if it is desired not to compete with one’s own networks of agents, then this sales system may not be publicised nor may different prices be set for this new sales channel. It is therefore an “active” system (it is the company which calls the potential client) and is clearly different from the “passive” system used by direct sales insurers (where it is the possi-

ble client who contacts the company, normally using toll-free or reduced cost calls).

Direct telephone sales, as a progression of the traditional system, has the following differentiating characteristics:

- Specific and exclusive negotiation.

Companies using this system are insurers or groups of brokers, created for this purpose, who do not have a regional network and which operate from a (minimum) absolutely centralised structure.

They have advanced computer systems and are orientated towards the complete telephone handling of the main operating processes.

- Simple and inexpensive products.

Sales have primarily been orientated towards motor insurance, given the fact that this is compulsory, it does not require extensive explanation of cover, and also, due to the level of its premiums, the consumer is very price sensitive.

The expansion of this activity to homeowners’ insurance is foreseen, and there may even be a movement towards some types of life or accident insurance.

The premiums offered to the consumer are appreciably lower than those offered by traditional companies, this is a consequence of the low administration expenses and the absence of intermediary costs.

- Large investment in advertising.

Because of the fact that there is no traditional sales force, communication with potential clients is carried out through television campaigns (periodic but constant) reinforced by press advertisements.



The advertising message is based on the ease of use of the telephone, free calls and lower prices.

What are the disadvantages of this system? None for consumers who do not require personal service which is closer to them and more human (telephone communication is always cold, no matter how well trained the operators are), this fact - given the consumer habits of the majority of the Spanish population - reduces the potential client base to smaller dimensions than might initially have been thought. It is however true that consumer habits are changeable and open to influence, and it is this change which constitutes the great challenge for this type of company.

For the companies which base their strategy on this sales system there are two great disadvantages:

- Creating brand loyalty is more difficult than for traditional companies.

A constant bombardment of advertising is therefore necessary, together with the development of systems to promote client loyalty through structures (perhaps not initially foreseen) which may go on to acquire a significant weight in the company's operations.

- At least in the medium-term, investment in advertising imposes a cost which is equivalent to the cost of a sales structure which is necessary to obtain the premiums through traditional systems.

In practice, this reduces (especially in the first years of activity of the company) the theoretically lower costs of acquiring business.

The invigorating effect of the appearance of this new sales channel on the Spanish market has already been mentioned, and I would not wish to finish these notes without mentioning what - in my opinion -

has been the effect of the appearance of these companies.

Motor insurance is a saturated market per se, as a consequence of the fact that it is compulsory, traditionally few insurers have worked in this sector with a spirit of continuity and specialisation. The constant deterioration of profits for many years, and especially at the beginning of the Nineties, created a continual upward trend in premiums which was only halted - by law - when the compensation costs for personal injuries were stabilised.

This stabilisation produced expectations for profits which, together with the need to acquire market share (in the interests of greater business size) gave rise to the appearance in this segment of the market of operators who had traditionally remained on the sidelines of the sector. Until this time competition was occurring in the field of services to policyholders, and it now moved (timidly) towards a price war.

This scenario gave rise to companies which clearly based their sales on prices and which had very effective advertising campaigns which made consumers even more aware of the cost of their insurance. The consequence of this is the price war which has been raging in the last few years amongst motor insurance companies in the Spanish market.

The direct sales companies are not responsible for the price war, given the fact that this situation is a logical and foreseeable consequence of the maturing of the market, but they were apparently the triggers of the conflict. The main beneficiaries of this situation are the policyholders, but the lesson

that this "war" has taught the market should not be underestimated: new rating criteria have been established, a constant battle against negotiation expenses has been started, systems to increase client loyalty are being developed. A business line which was going through a stage of relative comfort and little innovation is being modernised.

All wars leave victims in their wake, and this war has already produced some, but insurers which have sufficient resistance and the capacity to adapt will emerge stronger.

Direct sales companies are obliging us to learn how to evolve, combining traditional management techniques with competitive situations to which the market was not accustomed, nor - it would seem - was it prepared for them. But markets learn quickly.

**SHARE OF THE DISTRIBUTION CHANNELS IN THE SPANISH INSURANCE MARKET
SALES IN 1996
(Fuente: INESE)**

Distribution channel	Premiums (%)	Policies (%)
Banking/insurance	41.80	21.50
Traditional agents	31.60	50.90
Brokers	15.42	16.02
Telephone sales	0.08	0.09
Direct offices	6.82	6.90
Other channels	4.28	4.59
TOTAL	100.00	100.00