Advertising and the Demand for Insurance

Stephen G. Frier
David M. Pooser

*Discussant: Verena Jaeger*
Summary (I/II)

- So far, many studies on the effect of advertising on demand for products and services
  - e.g. Sheldon and Doroodian (1989), Brester and Schroeder (1995), and Zheng and Kaiser (2008)

- Why life insurance market?
  - Ideal setting to explore (long-term) impact of advertising
  - High granularity of data → analysis of time-varying and firm-varying factors possible
  - Lapse activity as indicator for information content of advertising

- Paper provides empirical analysis of
  1. Effect of advertising on demand for life insurance
     - Relation between advertising intensity and demand for insurance
  2. Information content of advertising
     - Differentiation of insurers with individual and commercial focus
     - Relation between changes in advertising intensity and changes in lapse activity
Summary (II/II)

• Results
  – If insurer has **individual focus**: advertising is an effective means of increasing the demand for life insurance.
  – If insurer has **commercial focus**: advertising does **not** influence the demand for life insurance.
  – Lapse activity, however, shows that advertising in life insurance industry is **persuasive** rather than informative.
Comments (I/II)

• Information content of advertising
  – Differentiation between insurers that have individual focus and insurers that have commercial focus
    • If little information is contained: greater relation of advertising and demand for insurance for firms with individual focus
    • However, same should apply if informative advertising is used (firms have better resources to collect valuable information)
    • Differences in “sensitivity to advertising” not necessarily due to information content

  – Lapse activity
    • Policyholders tend to cancel 3 years after the policy is issued
      → all policies or just policies that were sold to individuals?
    • Influence of product rating
      → Is there any relation between “quality” and lapse rate?
Comments (II/II)

- Effectiveness of advertising and insurers with commercial focus
  - Do commercial clients buy insurance coverage mainly for managers?
  - Life insurance might be sold together with other policies (e.g. D&O) → no advertising necessary
  - Sophistication of customer might only be one possible explanation for hypothesis 2

- Advertising channels
  - Newspaper, magazines, journals,…
  - Television, radio broadcasting, motion picture advertising, …
  - Does data allow differentiation between these channels?

- Implications & effectiveness of advertising
  - Is there an optimal amount of advertising expenditures for insurers in terms of profit maximization?
  - Which benchmark should be used?