



UNIVERSITI PUTRA MALAYSIA

**AMAL ASSURANCE BHD: DIRECT MARKETING DILEMMA
A CASE STUDY**

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TESIS

AMAL ASSURANCE BHD: DIRECT MARKETING DILEMMA

A CASE STUDY

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ABSTRACT

Over the years, life insurance industry has experienced positive growth. In 1997 when the economic downturn hit our country, the performance of the industry has reduced drastically. Still, they manage to have a positive growth but much lesser than the previous years. This dropped performance is mainly due to the lost in investment in the stock exchange. Although it considered as on paper loss but it gives a great impact to the industry. Thanks to the people awareness on the importance of life insurance, new premium incomes have a steady growth and this actually helps the industry to maintain its position. The effect seems to be effected only on the investment part.

Nevertheless the organizations in the industry are starting to find new ways to develop their business. Research and development are their main focus in order to search for new alternatives to capture larger sales. They are now focusing to meet the customer needs rather than providing services to the customers. One of the potential strategies that were seen is to go direct to the customers without the participation of agents or any other third party. With the advancement of Internet technology and development of database banks, the organizations in the industry are focusing towards this type of channels.

Same like any other organizations in the industry, AMAL Assurance Bhd. Have taken a step in venturing into a new channel which is Direct Marketing. The



decision made to venture into this channel was due to the factors mentioned previously. The needs of the customers. Today's customers are keener to convenience rather than the cost. Therefore, the focus will be on providing hassle free products and according to their needs.

Even though the strategy taken was according to today's customer's trend, it cannot run from the possibility that the strategy chosen will fail. There will always be another element that can influence the environment. Therefore in this case write-up and analysis will look at the Direct Marketing's activities in AMAL Assurance Bhd., the problem that they are facing and the possible solutions to the problems. The case will give the readers a broad view on what actually the main issue in the organization's Direct Marketing channel.



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PART I

CASE WRITE UP



PART I

AMAL ASSURANCE BHD: DIRECT MARKETING DILEMMA

1.0 Introduction

On the afternoon of April 2, 1999, En. Mohamad Salihuddin Ahmad, the Assistant General Manager of Business Development (AGM) was sitting in his office looking at the town view of Kuala Lumpur through his office windows. Rather than admiring the view, he instead was trying to recall the point issue raised by En. Ezamshah Ismail the Chief Executive Officer of AMAL Assurance Bhd (CEO) in the monthly 'Management Committee' (MC) meeting yesterday. According to the En. Ezamshah since the establishment of Direct Marketing unit for the past eight months, the result was not as expected. The CEO further quoted that in the meeting:

"We set up the direct marketing unit as an alternative to the other distribution channels. We have earlier declared that this financial year will be a testing period for Direct Marketing since this concept is still new in our market environment. We have set a RM1 million target worth of premium for Direct Marketing in this testing period. Sad to say, to date we could only close 63 cases which was RM22,550 worth of premium. I don't understand how this could happen. We have done our research on the marketing mix and also the product but this strategy doesn't seem to be working."

Reviewing at the report that he has made earlier and which were presented to the Board of Directors, the methods of research have been carefully chosen and approved by the Board of Directors. Furthermore, the product used are borrowed from Group department's product which is called AMAL's Child Education Scheme (ACE). AMAL's main competitors are doing very well using this distribution channel at their early stage. There are also not many competitors in the industry in-terms of using Direct Marketing as a distribution channel. The Board of Directors has approved this strategy when it was presented by AGM. But within this few months they have been questioning the strategy and the cause behind its current performance.

AGM have been asked to join in the board meeting and brief the board on the current situation of the strategy. What worries him the most is that the meeting will be held in NSTP head Office and the time is only a week from today. AGM have no other choice but to gather as much information as he can from his own analysis to find out the real cause of the problem and the alternative solutions and present it to the board. The decision on whether to scrap the direct marketing unit or turn it as a major distribution channel or department will rely on the outcome of AGM's presentation next week.

2.0 Company Background

AMAL Assurance Bhd is a fully domestic life insurance company with a paid-up capital of RM72 million. AMAL is supported by its holding company The New Straits Times Press (Malaysia) Berhad (NSTP), a media conglomerate and shareholder of Commerce Asset Holding Bhd (CAHB). Starting from 1 October 1999, AMAL Assurance Bhd will be fully owned by CAHB who bought its entire share from NSTP. With assets totaling of RM220 million and supported by the resources of its holding company and its shareholder, AMAL can be seen playing a pivotal role in the life insurance industry.

AMAL started their business in July 1992, whereby at that time NSTP bought the life insurance license from United Oriental Assurance. They were then called Quickmakers Sdn Bhd. After sometimes the board of directors decided to change the name to American Malaysian Life Assurance Sdn. Bhd. In 1997 The name was changed again to AMAL Assurance Bhd as the company have opened their share to the public but still they are not yet listed on the KLSE.

AMAL is piloted by a Chief Executive Officer and five other MC members (Refer Appendix 1-A). The organization is divided into five main divisions whereby the MC themselves heading each main division. From the five main divisions, they are narrowed down into several more departments, which were headed by a

Head of Department. AMAL now have 10 branches nationwide and their operations are supported with 166 staffs.

AMAL initially started off with two distribution channels namely Agency Development and Group Scheme departments and later on expanded into Bancassurance. The latest channel is Direct Marketing which is the focus of not only companies such as AMAL but seen as one of the high prospect distribution channels. Especially to face the challenges in the next millenium whereby the shopping technology such as e-commerce is expanding. Two main factors, which were the Group scheme and Bancassurance, had been the core competencies for the company.

The management committee realized that it is important to prepare the company for the next millenium. Therefore, a lot of efforts have been put to create awareness among staffs. The staffs are made aware of the company's vision statement. As a result of the continuous effort from the staffs, they manage to be the market leader in-terms of Group scheme products. Exhibit 1-a reveals the vision statement for AMAL Assurance.

With the right vision and the sufficient supplies of resources, AMAL aims to be competitive especially to face the challenges in the next millenium.

Exhibit 1-a: Vision Statement of AMAL Assurance Bhd.

AMAL... The Most Progressive Company
Where... In

Business... We Stand Alone
Service... We Thrill
Products... We Are Beyond Imagination
The Way We Do Things... We Reform
In God... We Believe

Source : AMAL Assurance Bhd

3.0 Distribution Channels

As discussed above, there are four type of channels in AMAL Assurance Bhd. Those channels are created to support the total sales of life insurance products.

3.1 Group scheme Department

This department deals with customers who are interested to purchase under a specific database name. For example Cooperatives, Unions, Corporate companies. The products are inclusive of retirement benefits and child education. The products for this scheme are normally cheap and affordable especially for the government service. This department is the company's cash cow as it contributes to the large portion of sales.

3.2 Bancassurance

This department is considered the future "Cash Cow" as it has the advantage of the performance of their sister company. MC feels that Bancassurance have a good future as they provide financial protections for the banks customers. Furthermore, Bancassurance provides only term assurance. They are also planning for future business target for the next financial year.

3.3 Individual Life @ Agency Development.

This department has a tough time entering the market because of the giants or the more established customers than they do. Therefore expected sales growth are lower as compared to the previous channels. The product for these channels are so unique that they only develop the product when there is a demand from the customers. They can design a custom made product up to 99 combinations and this depends to the customer needs.

3.4 Direct Marketing.

This department was supposed to provide hassle free products and services to the customers. The products are also cheap and

are supposed to sell on their own. The establishment of this department is to add the current distribution channel in order to maintain their competitive advantage.

The life insurance market in Malaysia is still at the infant stage especially for Malays. Therefore there are still opportunities for the industry to grow further and automatically become one of the strongest in Malaysia. From the above explanation we manage to understand more information on the product. The group scheme provided the 65 % of the total company revenue. The remainder came from other channels. This year they are too busy picking up business and therefore they will have to work with the remainder of the team to accomplish their goal.

4.0 Sales and Marketing Performance

The sales performance for the last five financial years were summarized in exhibit 1-b as follows:

Exhibit 1-b : 5 years Sales Performance

| Financial Year | Total Sales (Million) | Budget | Achieved Growth % |
|-----------------------|----------------------------------|---------------|------------------------------|
| 1994/1995 | 25.3 | - | - |
| 1995/1996 | 28.1 | 32.9 | 11.07 |
| 1996/1997 | 32.4 | 36.5 | 15.3 |
| 1997/1998 | 38 | 42.1 | 17.28 |
| 1998/1999 | 50.7 | 50.5 | 33.42 |

Source : AMAL Assurance Bhd's Sales Performance Statistic

The total sales recorded for the last five financial years experienced increasing positive growth. However the total sales for the last three years did not meet the budget as expected. The latest total sales have shown an outstanding increased and exceed the total budget at 0.4%. Reasons that effect AMAL's sales performance for this total period are made known as below.

- a. Lack of marketing and promotion programs that resulted in a low sale turn over.
- b. Lack of human resources to support marketing activities.
- c. Limited product design comparing what the market has at that time.

d. Insufficient computer system facilities.

e. Lack of public awareness.

There was no proper marketing or business plan at that time. Even though they have a marketing plan, it is not a detail one and there is no proper control of all the activities that they have done on the project. Thus, AMAL still has a positive trend in growth. It is not giving a true picture when they experienced a positive growth. The profit and loss account shows that they experienced a severe loss due to the economic downturn. In the financial year 1996/1997 AMAL had loss RM21 million and by the financial year 1997/1998 they loss about RM16 million. The comparison of Profit and Loss for the two financial years can be reviewed in Appendix 1-B.

Another thing that effects the profits is the operating costs and the management expenses. The amount of entertainment and other administrative costs normally exceeds, as they have to approach the customers. This is also affected by the lack of promotion on the company itself.

During that down years, i.e. in 1997/1998 financial year, Kuala Lumpur branch had to be closed. The main reason is that the branch is not productive enough to generate profit within Klang Valley area.

5.0 Development of Direct Marketing

Direct Marketing is a new unit established to get the market in which our conventional distribution channels are not able to tap into. In AMAL the concept of Direct Marketing has been used since June 1996 whereby they set-up a Tele-marketing center in the Bancassurance department. To implement this, two direct line telephones have been installed in that department and was monitored by a fresh graduate. The task is to make phone calls to prospect customers and entertain any queries on AMAL's new product. As at that time there is no sufficient resources of database (only the name of BOC's customers), they have to refer to the telephone directory and make a phone call. Few months later the function started to fade and the telemarketing activities was only to receive calls from the customer rather than to be used as a Tele-marketing tools.

In the financial year 1998/1999 the Management have decided to setup a direct marketing unit whereby that year will be a setup period for the initial stage. A candidate was selected and the project started with the budget for Direct Marketing set at RM1 million. The selected candidate was an assistant manager in corporate communication department. The first project that they are supposed to do is the Smartshop Project. The project was launched in September 2 1998. The product was advertised on television and the people

will call Smartshop to buy the policy. This project runs smoothly and expected premium income received until closing can be around RM22,550.

Feeling that the department need to be focused on, a department was set up with two staffs (one HOD and BDE have been appointed) assigned to monitor the channel. The departmental structure for Direct Marketing can be reviewed in Appendix 1-C. Again the budget was given at RM1 million.

6.0 Industry and Competitors Performance

In 1997, the new business premiums of the life insurance sectors recorded a growth of 11.8% to RM1.6 billion, while new sum insured rose to 16.5% to RM 88.6 billion. Even though there is impact from economic downturn, the life insurance industry of business in-force continued to expand with a growth of 14.7% to RM324 billion in sums insured in force and 13.4% to RM6 billion in annual premium in force. This quickening growth of premiums in force reflects an enormous potential for further development in the market.

Obviously AMAL is still considered young in the industry. From the total of 18 companies in the industry, it is at the 17th place in terms of total market share. Prior to that, AMAL is still the leader in the Group Scheme products. Which is their actual strength. The main goal of the Direct Marketing development as one of its distribution channel is to explore another dimension of insurance

marketing without giving so much hassle to the customers and the company's process. Most of AMAL's competitors in the industry have already started to venture in this channel (Please refer Appendix 4). Until today, there is no detail information provided in terms of their market share but the response rate is very encouraging. According to Customer Information Services, a marketing research and database consulting company in Malaysia, response rate of 1 to 2% to every product marketed through direct marketing are considered very successful. There are three companies that are considered very successful to market through Direct Marketing Channel. They are Mayban Assurance, Malaysian Assurance Alliance and American Home Assurance. Maybank Assurance has been establishing their Direct Marketing Department for around five years.

7.0 External Environmental Factors

7.1 Economic Factors

Malaysia's Gross Domestic Product (GDP) growth for 1998 was being revised to a negative growth rate. This was announced by the Deputy Finance Minister on July 13, 1998. Describing the earlier estimated 1998 GDP growth of between 2% and as "clearly difficult to achieve", he had revised the growth estimates for 1998 at between -1% and -2%.

In addition, the total deposits for the finance companies fell by 1.8%, reflecting lower disposable incomes. Per capita GNP is envisaged to decline by 1.6% from RM11817.00 in 1998 to RM11626 in 1999. Bank Negara Malaysia had fixed the ringgit on September 1st 1998 at 3.80 per one US dollar to control and maintains a stable local financial Market.

The performance of the corporate sector in Malaysia had dropped drastically due to the regional economic and financial crisis. This had happen in the second half of 1997. A number of corporations including large companies had face serious financial difficulties. Non-performing loans (NPL) have risen to 8.5% as at end of May 1998 compared with 4.7% at the end of 1997. According to the Deputy Finance Minister, the NPL classified under the six months stood at RM51.8 billion or 8.1% as at September 1998. The Bank Negara Malaysia was expected to announce the maximum base-lending rate of commercial banks and finance companies, which expected to fall to 8.08% and 9.54%.

The government forecasted the inflation rate for 1998 to be 7% to 8%. Last year the inflation rate was 2.7%. The average consumer price index (CPI) for January to June 1998 registers an increase of