

Property rights

In the insurance industry:

1. DIRECT WRITERS: have their own sale force that primarily sells the company's products

The insurance company owns **the list of**
policyholders
(client list)

(the agent has no right to renew the insurance policy with a different company)

Property rights

2. NOT DIRECT WRITERS

sell insurance through independent agents and brokers

The independent agent owns the list of
policyholders

(an independent agent can sell the product of any insurance company to his clients)

Property rights

- *I control* → (The insurance company has the residual rights of control)
- *A control* → (The independent agent has the residual rights of control)

Nonintegration has non meaning (it actually coincides with A control)

Property rights

- The agent devotes efforts that is not verifiable (by the insurance company) to acquiring and keeping clients.

(probability of renewing the insurance contract by the client:

Temporary vs persistent clients)

Examples of effort:

- The care with which the agent adapts the initial policy to the client's needs
- The efficiency with which he deals with a claim once the policy is in force.

Property rights

This effort yields dividends in the future.

- For example, a claim dealt with speedily today is likely to induce the client to renew next year and the year after.

Property rights

- **Just one asset** → the list of policy holders
- **Main investment of the company:**
building the list
- **Main investment of the agent:**
delivering persistent clients.

Property rights

ASSIGNMENT 1

WHOLE LIFE INSURANCE

- A life insurance policy involves a long-term contract
- Are renewals sensitive to the agent's actions?

Property rights ASSIGNMENT 1

Which is the most suitable kind of regime?
(the best allocation of the residual rights of control)?
Insurance control or Agent control?

Try to answer and remember that we are talking about
PROPERTY RIGHTS THEORY

Remember:

Marginal benefits of the investment are increasing under
the control

Property rights

ASSIGNMENT 2

AUTOMOBILE INSURANCE OR FIRE INSURANCE

- Insurance policies that may involve short-term contracts
- Are renewals sensitive to the agent's actions?

Property rights

ASSIGNMENT 2

Which is the most suitable kind of regime?
(the best allocation of the residual rights of control)?
Insurance control or Agent control?

Try to answer and remember that we are talking about
PROPERTY RIGHTS THEORY

Remember:

Marginal benefits of the investment are increasing under
the control