

The Impact of Wealth Management Knowledge on Job Performances: Evidence from Insurance Industry

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Abstract

This study discuss the insurance agent job performance that relative with knowledge of personal financial planning. In this study, questionnaire was used to examine the agents' perception toward wealth management. Through difference analysis, agent gender and education level show no difference in financial knowledge. Those who are older, work longer and have more income possess, however, less professional knowledge with wealth management. Seniority, position and annual income are set for the proxy variables of job performance. It's found that knowledge toward financial products is completely not related to job performance. Wealth management knowledge affects agents' position and income positively while investment knowledge showed negative relation. In this study, the results also showed that formal education and training are not major factors influencing agents' proficiency. Instead, by the stimulus of license system, it can be upgraded.

JEL classification numbers: G22, M53, N25.

Keyword: Wealth management, Insurance industry, Job performance.

1 Introduction

The main structure of financial institution system in Taiwan is financial holding company, FHC. Banks, insurance companies and another financial institutions sale insurance policy, structure notes and funds by integrated marketing under the authorization of government. While selling financial products, advisors and agents have to keep the balance between commission and customers' benefits. Some products offer high commission to agent, yet they might not be the most appropriate to need and create the benefits for customers. It is a problem about moral and profession. Some agents are not capable of assisting customers planning wealth management because of their insufficient ability of the knowledge for personal financial plan. The only thing most agents want is promoting their sales and earn

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commission. Among the insurance products those are sale in Taiwan, the investment insurance policy is associated with the investments of financial products and should be applied to the concept of investing portfolio. Even the complicated structured products are design by finance engineer. However, whether advisors and agents can provide proper suggestions for customers with enough proficient knowledge is a great issue to be discussed. In this paper, sales agents or advisors work with insurance companies are our targeted object in this study. And we discussed about the knowledge of personal financial management that the agents or advisors possess and influences in job performance.

2 Literature Review

For an excellent insurance agent, considering customers' requirements is the priority instead of selling products. Past studies showed that applications of information technology help discovering new knowledge, and customizing customers' needs satisfies their requirements to financial planning [1]. For example, insurance agents or advisors use software to process personal financial planning and structure efficiency portfolio that should be more suited for customer needs on personal risk management and risk attitude.

Agents of insurance companies play roles as financial consultants or advisors, helping customers making financial planning and investment. The proficiency of financial advisors will affect the portfolio construction and customers' requirement return on investment. Kramer (2012) indicated that there is a significant statistically difference between portfolios constructed by advisors and by customers themselves. It is more diversified to accept advisors' suggestions than the other one, and it carries less idiosyncratic risk [5]. That result showed there is a substantial effect of the financial planning suggestion to customers. Nonetheless, under the pressure of sales performance, whether agents can objectively assist personal financial planning is worthy of deliberating. Hackethal, Haliassos and Jappelli(2012) found that the suggested portfolio is only the risk-return tradeoff [3]. The high turnover rate might be related to the commission revenue of agents. Agents create performances by trading cost of customers. Inderst and Ottaviani indicated that the commission structure provided by insurance companies is the incentive to agents for job performances [4]. In order to acquire more commission, agents may be neglected the professional knowledge.

Agents' performance is affected by several factors. According to the researches corresponded, Tian and Li (2011) found that gender, working-time, reward sale and selling ways are the significant factors impacting agents' performance [8]. Outreville and Zins (1987) found that job satisfaction and performance are related [6].

The license system of financial market exists in Taiwan. It is requirement for an insurance agent acquire the licenses before promote insurance products. The professional licenses are not formal education, but necessary for job. Turner (2008) study evidenced that formal education, professional education and training showed no effects on products under the sales performance orientation in insurance industry [7].

3 Methodology

This study was conducted and analyzed by using questionnaire. Professional knowledge of wealth management can be divided into three latent Variables: personal financial planning, financial products knowledge and investment knowledge. To discuss the proficient status of insurance agents or advisors, we established several hypotheses under demographics:

H1: There is no significant difference in the ability of personal financial planning with different gender, age, position, education, amount of licenses, seniority and annual income.

H2: There is no significant difference in the ability of financial products knowledge with different gender, age, position, education, amount of licenses, seniority and annual income.

H3: There is no significant difference in the ability of investment knowledge with different gender, age, position, education, amount of licenses, seniority and annual income.

The source of agent incomes are mainly come from the commission of selling insurance products and the performance will directly affect by the commission income. Bad sale makes low income, and therefore, the agent will quit. Wealthy commission income keeps agents with good performances and stay the position will be higher. Thus, in this study, seniority, annual income and position are viewed as proxy variables. The study hypotheses are built:

H4: Professional knowledge of wealth management has impact on agent's seniority.

H5: Professional knowledge of wealth management has impact on agent's position.

H6: Professional knowledge of wealth management has impact on agent's annual income.

This empirical research used multiple regression models to study the relationship between job performance and capability of professional wealth management planning. Here is the models:

$$Performance = \alpha_0 + \beta_1 WM + \beta_2 FP + \beta_3 IP + \beta_4 age + \beta_5 edu + \beta_6 license + \varepsilon$$

WM represents financial planning knowledge.

FP represents financial products knowledge.

IP represents investment knowledge.

The age represents age; edu represents education level; license represents the amount of licenses that agents hold. The age, education and license holding amount are the control variables of evaluating performance. To explain the influence of wealth management knowledge, this study uses seniority, position and income as the proxy variables of job performance and creates 3 models.

4 Empirical Analysis Result

This study carried on questionnaire with Taiwanese insurance agents. Altogether 182 valid questionnaires were recovered from 190 copies. The effective response rate was 96%. The basic statistic data of sample is showed on Table1.

The KMO value of measure of sample adequacy is 0.93 which means the sample goodness of fit is fine. Bartlett's test is significant p-value $0.00 < 0.05$ which shows the questionnaire is proper to conduct factor analysis. After deleting inappropriate questions, the total variance explained of the three latent variables achieved 70.15%. The factors loadings are respectively 0.83, 0.81 and 0.84. Based on the criterion of factor loadings (Hair et. al., 1998), all the loading factors are over 0.7 in the questionnaire. So the questionnaire is validity and means that the design of the questions properly analyzes the purpose of this study. Cronbach's α coefficient is 0.88 and larger than the criterion 0.7. The α coefficients of the three latent variables are respectively 0.96, 0.95 and 0.93 which show reliability, supporting the conclusion of the study. The data of sample is showed as Table 1.

Table 1: Statistic Data of Sample

Item	Classification	Frequency	%
Position	Under director	126	69.3
	Above director	56	30.7
Gender	Male	66	36.3
	Female	116	63.7
Age	Under 30	76	41.8
	Between 31-45	69	37.9
	Above 45	37	20.3
Seniority	Under 5 years	93	51.1
	6-15 years	70	38.5
	Above 16years	19	10.4
Education	Under college	79	43.4
	University	89	48.9
	Graduate school	14	7.7
Professional License	2	81	44.5
	More 2	101	55.5
Income/year	Under USD40,000	148	81.3
	USD40,000-65,000	26	14.3
	Above USD65,000	8	4.4

4.1 Difference Analysis

A t-test was used to test the null hypothesis of no difference for each latent variable by gender, age, job position, education, licenses holding, seniority and income. The difference analysis results are showed as Table2. Statistically there was no significant difference in personal financial planning knowledge, financial product knowledge and investment knowledge between male and female. The age under 30 tend to score relatively higher averages in three parts, indicating that younger agents have more professional knowledge in wealth management with their self-confidence. This result also

evidence that the agents with lower job position owned higher score relatively and showed difference significantly. The study also found no significant difference when compare with education in two group. But, the agents who own the numbers of professional license discovered a significant difference in personal financial knowledge. This result implies that the license system in Taiwan promote the knowledge effectively. The younger agents with less seniority and income were significantly more professional in wealth management than elder agents. It may be the reason that wealth management and planning are new financial technique and elder agents or advisors too late to learn.

Table2: Differentiation Analysis of Demography

Variables	Sample	Personal Financial Planning			Financial Products Knowledge			Investment Knowledge		
		Avg.	SD	t-value	Avg.	SD	t-value	Avg.	SD	t-value
Gender	Male	65.05	14.45	0.32 (0.75)	55.33	12.39	0.04 (0.07)	30.80	7.10	0.52 (0.61)
	Female	64.46	10.48		55.27	9.81		30.34	5.04	
Age	Under 30	66.71	11.12	2.75*** (0.00)	57.86	9.90	3.94*** (0.00)	31.42	5.57	2.51** (0.01)
	Above 30	61.83	12.74		51.71	11.01		29.24	6.04	
Position	Under Director	67.37	10.46	3.44*** (0.00)	57.96	9.49	3.82*** (0.00)	31.39	5.40	2.28** (0.02)
	Above Director	61.38	13.03		52.04	11.42		29.43	6.23	
Education	Under University	64.60	12.78	-0.87 (0.93)	54.40	11.57	-1.28 (0.20)	30.38	6.34	-0.33 (0.74)
	Graduate School	64.76	11.07		56.46	9.62		30.67	5.20	
Professional licenses holding	1-2	66.57	10.41	2.42** (0.02)	58.09	9.49	4.07*** (0.00)	31.55	5.35	2.75*** (0.00)
	More 3	62.30	13.49		51.80	11.33		29.20	6.22	
Seniority	1-5 years	66.98	10.50	2.57** (0.01)	58.24	9.15	3.73*** (0.00)	31.37	5.25	1.97** (0.51)
	More 6 years	62.46	13.01		52.47	11.51		29.68	6.30	
Income	Under USD 40,000	69.41	10.68	2.59*** (0.01)	60.12	8.72	2.96*** (0.00)	30.74	5.91	0.25 (0.80)
	Above USD40,000	63.58	12.10		54.18	10.93		30.45	5.86	

Note: *, ** and *** indicate 10%, 5% and 1% significance respectively.

4.2 Job Performance Analysis

To examine the factors affecting agents' performance, seniority, position and annual income were used as dependent variables and proxy variables of performance in 3 models respectively; age, education and amount of licenses were control variables in each model. In the first model, where seniority was taken as dependent variable and the result shows agents seniority is positive relation with Personal Financial Planning while negatively with investment knowledge significantly. It indicates that in insurance industry of Taiwan, the higher seniority the agent is, the lower education is possessed and the less investing related knowledge is retained. This might be caused by the low limit entering the industry in early. Education is not the requirement but practical licenses. Therefore, even though entering the industry for long, most of those with lower education did not increase their own knowledge about investment.

Table3: Regression Model Analysis

Independent Variables	Model 1		Model 2		Model 3	
	Coefficient	t-value	Coefficient	t-value	Coefficient	t-value
Personal Financial Planning	0.20	2.54 (0.01)**	0.18	1.87 (0.06)*	0.13	1.21 (0.23)
Financial Product Knowledge	.036	0.37 (0.71)	0.02	0.17 (0.87)	0.21	1.54 (0.13)
Investment Knowledge	-0.24	-2.72 (0.01)***	-0.16	-1.41 (0.16)	-0.27	-2.40 (0.02)**
Age	.65	11.54 (0.00)***	0.55	7.70 (0.00)***	0.41	5.32 (0.01)***
Education	-0.11	-2.16 (0.03)**	0.24	3.58 (0.00)***	0.19	2.58 (0.00)***
Licenses	0.20	3.82 (0.00)***	0.21	3.190 (0.00)***	0.20	2.90 (0.00)***
R ²		0.62		0.38		0.28
Adjusted R ²		0.60		0.36		0.26

Note: The dependent variable of Model 1 is seniority. The dependent variable of Model 2 is position. The dependent variable of Model 3 is income. *, ** and *** indicate 10%, 5% and 1% significance respectively.

In second model where agent position was taken as proxy variable of performance appears that only wealth management knowledge has the positive relation with agent position significantly. It indicates that those in higher position possess much more personal financial knowledge, understanding the procedure and operation method. As for the third model where annual income was the dependent variable, agents with higher income have less investment knowledge, the other two variables being insignificant. All the three models imply that agents' financial products knowledge has no significant relation with job performance. Possibly, insurance agents only dedicate in selling products of their own company; thus, understanding of other financial products does not relate to

job performance. Although insurance policy of investment are associated with portfolios construction and financial products, for example, using different types of fund to construction portfolio, whether agents have the ability of being familiar to the products does not affect their performance. Consequently, once agents possess great skills of selling and communicating, they can successfully sell insurance products, earn commission and acquire the opportunity of promotion.

5 Conclusion and Suggestion

The study results indicate that gender and education shows no difference in personal financial planning knowledge for insurance agents. Insurance agents with younger, more license holding, less seniority and income are more professional in personal financial planning knowledge.

Three different variables were used as proxy of job performance, which were seniority, position and annual income. The outcome shows perception toward financial products is not related to job performance. Wealth management knowledge positively affects agents' position and income. On the other hand, investment knowledge goes negative relationship significantly. Metaphorically, though agents at higher level have higher seniority, position and income, they are comparatively lack of professional knowledge of financial investing. Education and training are needed for agents to promote profession. However, these are not the major factors impact their proficiency. Instead, agents holding more licenses retain higher financial knowledge. Suggestive promotion of license system would be a proper policy to progress agents' knowledge of personal financial planning. In peculiar, financial planning technique and investment knowledge prove job performance and produce better output.

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