

Effectiveness of insurance intermediation serviced through insurance services channels

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Abstract

Economy processes globalization, information and telecommunication technologies development², service sector expansion with limitation of agriculture and industry significance at the same time, influences leaving traditional work model, its organization and corporate work relations. Additionally globalization processes implicate constant changes dynamics and unpredictability as well as growing market competition determine increasing companies elasticity understood as the ability to adjust the activity to changeability in orders portfolio and growing difficulties in defining future demand on company's products and services as well as introducing temporary solutions. Customized companies activities adjustment to specific customers attributes and demands is an essential condition to keep the market's position and economical growth of the company.

Keywords

Insurance market, distribution, insurance intermediation, insurance services distribution channels

Economical conditions of insurance companies functioning

System transformation accomplished in Poland in the beginning of the 90's of twentieth century caused complete economical conditions of companies functioning change. Private enterprise development and commercialization as well as public companies privatization, which were the natural processes of transformation from centrally planned to market economy, radically changed former criterions of companies functioning and their goals. The main motive of companies functioning in markets conditions became effectiveness and profit maximizing.

Polish economy transformation³ was caused by necessity of releasing markets mechanism and its modernization by changing its structure and leading modern technological, managing and organizational solutions. Transformation process changed proprietary structure of economy leading to private sectors significance. Parallel, at the same time, high decrease of employed in public sector appeared⁴. Further increase of private sector meaning in economy, dynamic development of insurance services sector, improving organizational structure, management systems, improving qualifications, image, reputation⁵ and society education level improvement will still bring employment structure in Poland closer to the structures of highly developed countries.

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³ Ortyński K., Ortyński K., *15 lat ubezpieczeń rynku w Polsce, część II*, [in:] *Wiadomości ubezpieczeniowe*, Nr 11-12, PIU, Warszawa 2007, page 14

⁴ Sekuła Z., *Planowanie zatrudnienia*, Wolters Kluwer Polska, Kraków 2001, wyd. 1, ss. 10 i nast.

⁵ Harasim J., *Cross-selling i zarządzanie wizerunkiem w konglomeratach finansowych*, [in:] [red.] Iwanicz-Drozdowska M., Iwanicz-Drozdowska M., *Konglomeraty finansowe*, Polskie Wydawnictwo Ekonomiczne, Warszawa 2007, page 242

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3. Economy⁸ is a relation between useful effect (U) and expenditures (incurred costs with unintentional effects) (C) connected with activity:
- $U/C > 1$ – fully economical activity when the use is higher than costs,
 - $U/C = 1$ – neutral considering economy,
 - $U/C < 1$ – activity is unprofitable.

Improving economy of activities called economization may run two ways:

- By productivity growth – maximizing effects for defined level of costs – $DU > DC$
- By savings growth – minimizing costs for effects level $DU < DC$

According to T. Kotarbiński the activity is more efficient when it is closer to all attributes of good work as far as possible⁹.

Except the economy, efficiency and advantage to mentioned attributes of good work further should be included: productivity, brisker, simplicity, neatness, precision, reasonability, solidity and cleanness¹⁰. According to above mentioned T. Kotarbiński¹¹ – more productive work means production of bigger number of goods (or servicing more) of the same use in the same time with the same number of workers. Productivity may be described as relation of somehow measured product and sum of work times of people employed to produce it.

The intense of distribution measures

Economical meaning of institution evolved and it does not seem that final agreement in this scope is achieved. The most widespread research method used in economy is an approach developed by neoclassical trend representatives. The main assumption of this school are that economical units (producer and consumer) lead to maximize their goals (profit and use) and the markets mechanism regulates all the economical processes automatically. Neoclassical authors basing on this principles using marginal analysis (using marginal values) had worked out a theory where the main ingredients are inter alia: perfect and imperfect competition models, the fixed and variable costs theories, average and marginal costs as well as alternative costs or connection of balance of companies theory with balance of consumer theory.

Definition formed by D.C. North¹² in frames of new institutional economy defines institutions as sets of:

- Behaviors limitations as rules and regulations;
- Procedures serving detecting deviations from rules and regulations;
- Moral and ethical norms of behavior.

⁸ Wankel Ch., Stoner J. A., *Kierowanie*, Polskie Wydawnictwo Ekonomiczne, Warszawa 1994, page 29

⁹ Kotarbiński T., Kotarbiński T., *Traktat o dobrej robocie*, wydanie szóste, Zakład Narodowy imienia Ossolińskich, Wrocław – Warszawa – Kraków – Gdańsk 1975, page 131

¹⁰ Zieleniewski J., *Organizacja...*, page 269

¹¹ Kotarbiński, T., Zieleniewski J., *Wydajność pracy*, [in:] Nauka Polska, 1960, Nr 2, rozdz. VIII, page 88

¹² North D.C., Prologue [in:] *The Frontiers of the New Institutional Economics* (1997), after: Ząbkowicz A., *Współczesna ekonomia instytucjonalna wobec głównego nurtu ekonomii*, *Ekonomista* 2003, Nr 6, s. 818

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This understanding of institution includes formal institutions as well as informal. Institutions decide of occurring of specific stimulus structure, so they are what enable, limit and manage the behavior.

Colloquially institution is the most often identified with organization. In new institutional economy organizations are treated as people connected with institutions they use. The significant attributes of new institutional economy are:

1. Rejection of simplified vision of *homo economicus*¹³, where limited reasonability and opportunism had an important role;
2. Transaction and properly benefits and costs of transaction have a crucial meaning as analysis unit;
3. This trends followers treat their analysis more as supplement than substitute of main trend of economy.

Of the methodical point of view it is a synthesis of two approaches: theoretical-formal analysis with historical research postulate. Belief that only empirical research can give the factual costs and profits calculation of specified solutions and national regulation is essential. Cooperation of formal, institutional and experimental analysis is necessary.

The analysis of insurance services channel is done by prism of its length and width (the length of distribution channel is the number of its links/levels and its width is the number of intermediaries on individual levels of the channel – their number decides of specified products distribution intensity connected with company's goals realization) it shows the channels adjustment to products and buyers. It is also important in this case how the company copes with distribution costs and cooperation with individual distribution channels organization. The choice of insurance services channel is connected with specified costs which are incurred by insurance company as well as with company's goal realization. Measures of distribution intensity¹⁴:

1. Numeric distribution ratio (NDR)

$$\text{NRD} = \frac{P_f \times 100}{P_p}$$

Where:

P_f – the number of products of insurance company

P_p – the number of all insurance companies distributing specified kind of products.

¹³ *Homo economicus* (latin keeping man) conception assuming that human being as reasonably acting aspires to maximize profits and makes decisions according to economical value of the effects. Colloquially homo economicus is a person acting according to this rule. Scientific form of homo economicus was given by Scotch economist Adam Smith in 1776 in Nations wealth nature and causes researches

¹⁴ Worked out basing on Warsaw School of Economics materials, Katedra Marketingu, Analiza Marketingowa Strategii Dystrybucji, Warszawa 2008

2. Weighted distribution ratio (WRD)

$$WRD = \frac{Df \times 100}{Dp}$$

Where:

- Df – distribution (number or value) of specified product in specific insurance company selling the product;
 Dp – distribution (number or value) of specified product in all insurance companies selling the product.

To analyze insurance services distribution further researches can be used:

1. Utility – the degree of use by specific channel of distribution tasks of company on the field of supported group of buyers;
2. Efficiency – relation between effects and functioning costs. So called objective measures can be used (gained profit) or relative measures (e.g. channel's profitability) as well.

Typical methods of utility and efficiency estimation are researches:

1. Heuristic¹⁵ (intuitional) – a method where the group of experts individually solves problems basing on intellectual operations or their experience;
2. Numeric – research methods where number parameters specifying the occurring or research object are defined (in proper units):
 - a) Critical point analysis, which is used when expected value of distribution can be assumed in advance as well as cost connected with this value reaching considering different channels,
 - b) When the same value of distribution can not be assumed in analyzed channels, their choice should be done basing on efficiency ratio estimation T_i :

$$T_i = (S_i - D_i) / K$$

Where:

D_i – assumed distribution value in i. channel,

K_i – assumed costs value in i. channel,

considering that all other conditions are the same the channel with the highest T_i ratio should be chosen.

- c) Comparative analysis, e.g. – incurred costs necessary in specific channels; possible profit in compared channels,
- d) Portfolio analysis – the estimation of a channel basing on relative share in present market and the potential market, e.g. estimation of a channel basing on the share in present and potential market:

¹⁵ Heurism was used in antique by Socrates, it was a popular method among the followers of work school, popularised by teachers who were against giving the students ready tidings

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Diagram 1. The estimation of insurance services channel basing on relative share in present and potential market

		Relative market share	
		big	small
large		satisfactional channel	unsatisfactional channel demanding essential changes
Potential market		satisfactional channel	unsatisfactional channel demanding essential changes
small			

Source: Own study

3. Quality researches – methods where there are not numeric parameters defined to characterise considered occurring or researched object. Comparative analysis is used, the most often describing – in scope of meeting the following requirements by individual channels:

- a) Control possibilities,
- b) Quality of distribution services,
- c) Possibility of collecting market's information,
- d) The use of modern communication techniques.

4. Mixed – analytic-punctual method:

- a) Assignment of any number of criterions to choose insurance services channel and their hierarchy with weights for distribution strategy goals achievement;
- b) Assignment of punctual estimation scale of degree of specified criterions realization in each channel;

Table 1. The choice of insurance services channel(s) with the highest number of points

Criterion	Weight	Rate (1 – 10)	Weight rates
.....
.....
.....
Total	1,0	X

Source: Own study

Table 2. The examples of insurance services channel estimation criterions

Criterion	Rate (1 - 10)
Expected value of insurance agreements: a) Compulsory, b) voluntary a)	
Market's penetration ratio	
The ability to serve distribution supporting services	
After selling service level	
Efficiency	
Losses	
Cooperation tendency	
Access to market's information	
Other	
Rate	

Rate – the average of sub-rates

Source: Own study

Summary

The analysis of insurance services channel by prism of its length and width indicates channel's adjustment to products and buyers. It is also important in this case how the company copes with distribution costs and cooperation with individual distribution channels organization. The choice of insurance services channel is connected with specified costs which are incurred by insurance company as well as with company's goal realization.

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