Competitiveness of financial distribution channels in the time of the ongoing crisis

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Abstract

Insurance companies forms the system of channels to provide the insurance services in the most optimal way to achieve they own goals. They allow the potential customers to use the services of channels with which the insurance company distributes its products. Managing customer relationship is an important element of nurture loyalty. However, must be accompanied by appropriate measures to maintain the relationship at every level of organization. The aim of this article is analyze the insurance market in Poland from side of insurance an insurance mediation.

Preliminary issues

The aim of this article is analyze the insurance market in Poland from the side of economic insurance in times of energy and economic crisis, following the COVID-19 pandemic and the war in Ukraine . The distribution of financial services are facing New challenges which are emerging mainly from wide spectrum of modern technologies available for insurance companies, as well as for the growing intensity of competition on this market [Flavian, Guinaliu, Torres, 2005, p. 447]. Bencivenga and Smith (1991), for instance, present a model where the existence of financial intermediaries shifts the composition of assets towards the morerisky one and therefore increases growth. Individuals face uncertainty about their future liquidity needs and therefore hold two types of assets: a liquid one, which is safe but unproductive, or an illiquid one with high productivity and risk. Bank intermediation allows investors to adjust the composition of their assets towards the illiquid growth-enhancing ones. Berthélemy and Varoudakis (1996) introduce a learning-by-doing endogenous growth framework with reciprocal externalities between the financial sector and the real sector. The financial sector channels savings to more productive uses by collecting and analyzing information about investment opportunities. In turn, the expansion of the real sector causes an increased volume of savings. The increased size of the financial market induces more competition and technical efficiency through learning-by-doing in the financial sector. This two-way causality gives rise to a cumulative process, which may exhibit multiple equilibria. Countries with insufficient financial development may be trapped in low growth equilibrium. The role of distribution channels in marketing strategies is increasing because of changes in the environment of insurance companies. Insurance companies, which evidenced their services in an indirect way and direct, are increasingly interested in electronic distribution channels for insurance services. They are investing in network development, call centers and computer operating systems by which many of insurance services has become available to customers from any place and time. The changes cause that the concept of brick and clicks model of servicing insurance services is more important for insurance companies. This model allows to design the insurance services distribution system in way which increased the capabilities, efficiency and complementarily of various distribution channels by linking them to information technical and appropriate adaptation to expectations and requirements of insurance companies customers. The determinant of these changes in the insurance sector was and still is Internet, which is tool of "The New Economy" [Klodt, 2001, pp. 6-12; Delong, Summers, 2001, pp. 8-18] . Model of multi-channel distribution is a combination of stationary and electronic distribution models. The insurance companies would have no ability to function at its current level without the use of information technology [Kister, Mach, 2009, p. 23; Lipsitch, Swerdlow, Finelli, 2020, pp. 1194-1196]. The fact that financial institutions applies newer information solutions, the possibility of ma king more operations in less time is increasing, with much smaller number of Staff involved. Financial systems channel savings to their most productive uses and diversify the risks associated with these activities. Fulfilling these tasks, they increase the probability of successful innovation and the speed of technological progress. The implication is that the [efficiency and quality of the] financial sector is not neutral in the long term – it can affect the long-term sustainable rate of growth. Hence, financial repression can have long-lasting effects [Michalski, Martinez, Przybytniowski, 2020, p. 25].

The channels of insurance services

The channel of provide insurance services should be not equated solely with the distribution channel. Also the distribution channel should be not confused with the channel of sales this services. The person or firm offering the service boosts the ability, resources skills and or experience to offer a balanced satisfaction of client need while at the same time remaining relevant and functional in an economy. Financial services therefore are those services that are offered by the institutions, which deal with the management of money and other factors that relate to the flow of money in an economy. Much empirical support has been found for the "finance promotes growth" view, but time-series evidence is less clearcut than broad cross-section analysis. Some of studies, conclude that finance induces growth in early stages of economic development and vice versa – in more advanced stages [Michalski, Martinez, Przybytniowski, 2020, p.

34].To clarify on this, a service and the financial service provider possess various characteristics that make the service distinct. For instance, the concept of intangibility also referred to as insubstantiality, perishability as regards to time and reversal of a service, inseparability, simultaneity and variability which refers to the distinctiveness or uniqueness of a given financial service [Vitor O.B., Raposo C., 2019, pp. 160-198]. Provide channel of insurance services is a sub-channel of distribution of financjal services. It is related to subjective, functional and systemic terms. Distribution means profit-oriented activity including planning, organizing and controlling the way of movement the final products from place where they were make to place of the sale to final buyers [Kotler, 1994, p. 536; Lehmann, Winer, 2008, pp. 1-18]. Fairly common shall be adopted in that the distribution channel is a chain of cells (companies [Klučka, 2006, pp. 37-41], institutions [Varcholová, Rimarčik, 2003, pp. 703-706] and individuals) involved in the process of product available to customers or users [Mpwanya, Letsoalo, 2019, pp. 69-89; Huy, Pham, 2021, pp. 131-146]. Provision of financial services is therefore a broader concept than just the distribution.

As a starting point in defining the purposes, channels and methods of distribution are expectations and financial capacity of buyers. The task of distribution is to provide the desired final product to the place, where they want to buy it, of course in corresponding time and on agreed terms and accepted price. This task requires from insurance company to decide on the choice of the distribution channel. In the range of subjective term, distribution channel is a set of interdependent organizations, participative in the process of providing product or service to the user or consumer.

The distribution channels are defined to:

Participants who sell and buy products, and therefore transmit and take the ownership of moved products. They are producers, traders, wholesalers, retailers, civil and institutional buyers;

Participants who are not taking over the ownership of the products being distributed but actively support the process of its transmission. They are called agents.

Functional aspect of the channel assumes that distribution channel is a way of connect and the order in which agencies and intermediaries institutions appears [Acha, Udofa, 2018, p. 174-179].

Distribution channels differ in: the type of participants, the number of indirect levels, the number of intermediaries at the same level, a kind of flowing streams, the range of interaction of participants in the channel, the way of coordination between participants in the channel, the property rights of participants of the channel in relations to entitles forming this channel. Achieving the high quality of distribution depends on: the identification of needs and requirements of potential customers, prediction of demand level, short time to placing the product on the market and achieving rapid growth phase of sales, quick meet to customers' needs, good selection of efficient and effective distribution channels.

There are four parameters of the proper conduct of the distribution process; time at which the product must be placed to the customer site, conditions which are result of the product (in case of insurances it is insurance protection), the way of deliver the product (distribution channel), product price (insurance premium).

Criteria for selecting the channel to provide insurance services

The criteria for selecting the channel to provide insurance services can be analyzed from the perspective of insurance company and from perspective of customer. Since they represent the different sides involved in the transfer of insurance risk, the selection criteria are not often the same and may differ in the degree of coherence [Jedynak, 1999, p. 183]. W. J. Keegan [1980, p. 333 and next] to choose distribution channel factors includes:

▪ Characteristics of the recipients – the number of buyers, their geographical location, income, the way of purchasing, the reaction to use the different methods of sales;
▪ Characteristics of the product – the level of standardization, durability, size, maintenance requirements and the prize;
▪ Characteristics of the intermediaries – their output target, the need to associate the interests of suppliers with the interest of the intermediate cells of sale;
▪ Characteristics of the environment – the economic, social and political factors.

In addition, factors which are determining the choice of channels to provide insurance services can be divided into internal and external factors. B. J. Walker i I. B. Haynes includes the processes taking place among the individual channels to internal factors. However, among the external factors, they distinguish the characteristics of the recipients, law and administrative regulations and customers organization activity. At the same time, the authors emphasize that for the choice of the distribution channel the big influence has: a brand, the prize, promotion, the level of trade concentration and competition in the sector.

The distribution channel of insurance services, with support of determination the company`s offer, has influence to three important factors which are creating the value of company: revenues, operating costs and efficiency of financial and fixed capital [Acha, Udofa, 2018, p. 174-179]. In economic dimension of distribution channel of insurance services as a factor of production, determines the capacity limit of production of insurance company, which transfer is possible due to intensive or extensive development of insurance company. The extensive development is associated with an increased factor of production with use of existing technology. However, intensive development means better use of existing distribution channels through the organizational or technological advances. The selection of channels to provide insurance services should be seen by the prism of different purposes of insurance companies[1]. The planning of

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[1] Please note that insurance companies are companies which are operating to gain profit. Therefore, the economic factor in the selection of the channels to provide insurance services is very important.

distribution channels the service company should take into attention the varying effectiveness, the higher stability of adopted solutions and agreement from buyers for the higher price in exchange for better distribution customer care [Mpwanya, Letsoalo, 2019, pp. 69-89; Huy, Pham, 2021, pp. 131-146]. According to Fehéra [2017, pp. 108-120] the long-term vision of the company from point of what the company is going to and who wants to serve defines the value system of organization and its economic and non-economic purposes. The high level of synchronization of economic and other objectives is characterized by the channel selection criteria for the provision of insurance services used by customers. However, they are less formal and have more individual character. In shaping it the important role is playing by insurance education, through which you can build a society aware of the risks [Korzeniowski, 2002, p. 43] and threats that arise in present days.

A chance of development of insurance entered into by the means of communication is:
▪ increasing the number of providers of this type of activity;
▪ extending the offer of insurance other than communication - meeting the needs of the customer and increase the flexibility of operations;
▪ use of other instruments of marketing than the attributes of money;
▪ development of the insurance awareness of potential customers.

An important element in support of security systems are mechanisms for direct sales (direct) through various distribution channels. For direct sales call is used Cent, Internet. In practice, the direct means to use their own distribution channels for insurance services [Przybytniowski, 2019, pp. 63-67; 2022, pp. 71-136]. Direct Insurance is a term used to describe the distribution of insurance products by the media: the most over the phone or the Internet [Rogacki, 2007, pp. 28-29]. These forms can be used both by insurers and insurance intermediaries. Should provide information about new sales opportunities, eg in the form of references and contacts, the results of data analysis. They can also be used for customer education and raising their awareness of insurance.

Methodology own research

Criteria classification for selecting a channel to provide insurance services is based on surveys carried out among customers of insurance companies. Over the years 2019 – 2022 surveys was performed three times. The questionnaire survey in the number of 2000 has been directed to individuals (direct contact, interviewers). The primary criterion of selection was the possession by individuals of the insurance contract. For the research analysis was adopted 1250 surveys (representing 62.5%). However, after a detailed analysis of 410 completed surveys the (28.2%) were excluded from further studies because of incomplete data. Therefore, the study was based on the result of 840 respondents answers.

Used books (both in Polish and foreign languages) includes a compact positions, articles in professional journals, conference materials, Polish and EU legal acts, studies published by Association of Polish Insurance and Reinsurance Brokers, materials of Bureau International des Producteurs d'Assurances & de Reassurances (BIPAR), World Federation of Insurance Intermediaries (WFII), as well as articles, studies and source materials obtained by via the Internet.

Fourth channel selection to provide insurance services on the basis of their own

During the period under review, more than a half of respondents (figure 1) chose insurance agent (52.01%) as an intermediary who helps them to contract the insurance. 17.01% from respondents took advantage of insurance contract by the direct channel, and more than 5.99% used from services provided by insurance broker. At the same time 24.99% of the respondents did not answer for this question.
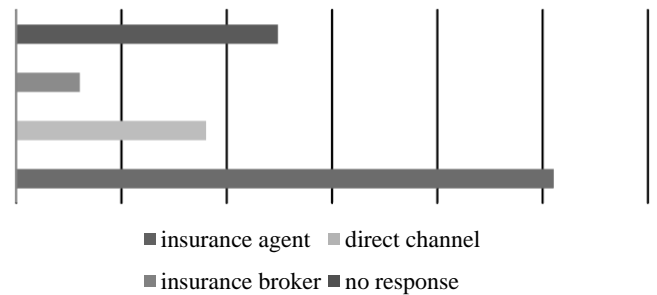

Figure 1 Select a channel to provide insurance services
Source: Own calculations based on survey research

Behind choosing an individual intermediary (figure 2) the respondents were primarily Guidem by convenience (16,13%), then the price of insurance (15,35%) and the time spent to sign the contract (11,02%). At the same time 9,76% of respondents admitted that their relationship with intermediary has decided about his election. For the 7.97% the professionalism of the intermediary was important. For 7,59% the access to insurance company decided to use the insurance agent. Only for 3,07% of the respondents, it was important that intermediary is available and for the same number help in setting the claim.
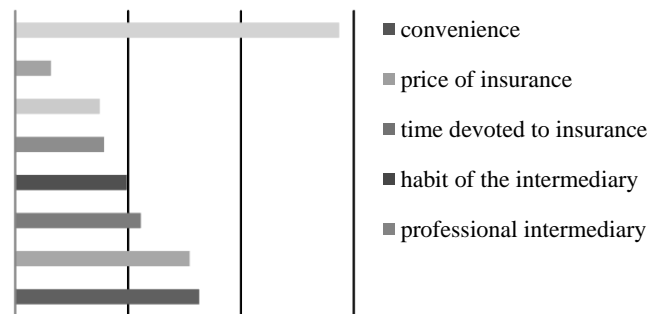

Figure 2 Factors determining the choice of an intermediary insurance
Source: Own calculations based on survey research

In opinion of customers of insurance companies the most important feature of insurance agent is professionalism (92,36%), availability (77,17%) and communication (72,94%). This three features was considered as essential in a survey in 1998. For the customer it was important that the agent was a high-class specialist, who knew well the general conditions of insurance, premium rates, knowledgeable in the insurance market, who can show the differences between similar insurance products – very well prepared to work as intermediary (professionalism) and in the same time very communicative. The client wanted to know that the knowledge of insurance intermediary was passed in clear, factual way and it was adapted to the perceptual capabilities of customers regardless of social status and place of residence.

You can notice the change of customers preferences in relation to previous researches. Studies conducted found that professionalism and availability lose their rank as a decision factor. Professionalism is still regarded by respondents as an important factor but not the essence. However, the availability – the third factor is now the less importance feature. It would be a mistake to assume that these factors are no longer important to customers. A more rational explanation of this change is that this factors are so obvious that they are not subject to discussion.

When respondents are deciding to sign another contract of insurance (figure 3), as the main reasons for this actions they are talking about the convenience and the professionalism and competence of an intermediary (17,65%).

professionalism and competence of an intermediary
convenience

price of insurance

habit of the intermediary

availability to the insurance company
availability of intermediary

freedom and independence of the intermediary's actions
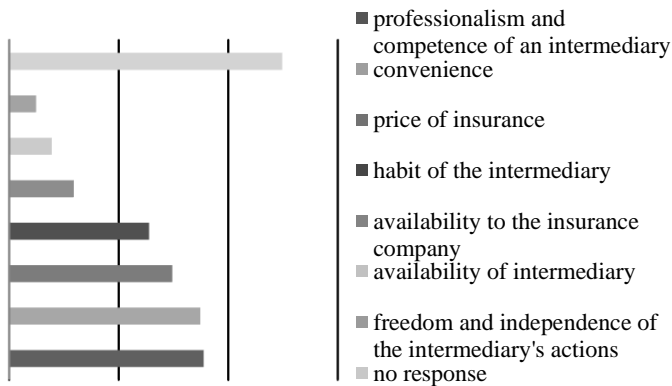no response

Figure 3 Factors to choose an agent to enter into another contract of insurance
Source: Own calculations based on survey research

The research gave a confirmation that the knowledge and professionalism of the insurance agent was third most important factor which determining the choice of insurance company. As a third in terms of decisiveness gave to customers was professionalism of staff (a reliable and comprehensive information about insurance). Moreover, among the top ten factors were extracted courtesy and integrity of employees of an insurance company. At the same time, customers were asked what caused them to change the insurance company? For 8% of respondents the low level of expertise knowledge of insurance agent has been a factor influencing

the change of the insurance company, and for 7% of customers those factor was low-skilled worker`s of insurance company.

Analyzing the factors to choose an insurance agent, factors which decides on successful agreement by chosen intermediary and factors of selection intermediary to sign the next contract, as the most important criterion for these choices is convenience. This criterion is difficult to unambiguously define and depended on highly personalized parameters.

Another factor – the price of insurance is also a parameter independent from insurance intermediary. Among the criteria for selecting insurance intermediary, customers, as most important, administered competence, professionalism and accustomed to the intermediary. Such narrowed the range of factors limits the activities of insurance intermediaries area to continuous improvement of their competence, professionalism and the development of relations.

Studies shows no correlation between the individual channels of providing the insurance services. This condition is most properly due to the different legal and organizational norms regarding to functioning of the individual channels to provide insurance services, and the mutual independence of their functioning. In well organized management process of distribution networks, individual channels to provide insurance services are not mutually conflicting form for themselves. They are carry out the objectives set by insurance companies in specific market areas.

Insurance companies in the customer relationship management [Mati, Ilie, 2014, pp. 1138-1145; Biswamohan, Bidhubhusan, 2012, pp. 2-6; Kimar, Reinartz, 2012, pp. 55-85] implement the concept of individualized customer (CMR). The growing importance of corporate client resulting from changes on market associated with the new approach to the perception of its role in the process of creating companies value associated with the Pareto principle, according to which 20% of customers should make 80% profit, is noted in the area of insurance. This is reflected in expanding offering and increasing the impact of this group of customers in the performance of economic and financial results. The source of the financial profits is the possibility of bundling, creating the potential for high income for cooperation with this group of customers.

Insurance companies shapes the canal system to provide insurance services in most optimal way to achieve their goals. It allows to potential customers to use the services of channels through which the insurance company distributes its product. Customer relationship management is an important element in fostering loyalty. However, they must be accompanied by appropriate measures to maintain relationships at every level of organization.

Summary and conclusions

Insurance companies are shaping the system of channels to provide the insurance services in most optima way to achieve their own targets. They allow to potential customers to use the channels of services through which the insurance company distributes its products.

Conclusions from the study:

▪ Selection of the distribution system depends on the target market of insurance company and from type of products for his market, while its also is shaping the market and product;
▪ Among the criteria for the sign the insurance contract by chosen intermediary and the factor of choice the intermediary who can sign next contract, as a key criterion for these choices is convenience, and the criteria in choosing an insurance intermediary as the most important in customers opinion are competence, professionalism and habituation to an intermediary.

However, while strengthening national financial system helps, the flow of liquidity within financial groups needs pragmatic adjustments to ensure that liquidity risks continue to be managed effectively. Regulators need to address liquidity mismatches through more disclosure, uniform standards, stress tests, and prudent resolution planning. Here are some of the lessons in somewhat generic outline:
▪ Risk management (as is of paramount importance) must also ensure that it is operating effectively from the top down ensuring instant feedback and communication across the institution.
▪ Emphasis on Culture: The financial crisis created distrust to regulators, political leaders, and the public around the globe. The institutional culture led to enormous risks and high misconduct.
▪ Technology Facilitating Compliance: Innovations in regulatory technology allow us to make it faster, simpler and more effective. The recent advances in AI, can harness big data analytics to point to violations or potential risks.

Crisis management requires agility and innovation to meet specific crisis, but at the same time respect for well-established principles to guide decisions in uncharted territories. Therefore, financial market (including insureds) must maintain credible alertness, which would permit to counter at any time any unexpected threat to price stability and so contribute to a solid anchoring of inflation expectations.

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