

## THE EFFICIENCY OF INSURANCE SERVICES SUPPLY CHANNELS

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### ABSTRACT

Globalization processes imply permanent changes, their dynamics, 'unpredictability' and increasing market competition determine the growing flexibility of enterprises, understood and defined as the ability to customise their changeability in the portfolios and to aggravating difficulties in defining the future product, services demand and introduction of extemporaneous solutions.

Individual adaptation of the enterprise activities to the specific characteristics and customer needs is a essential condition to maintain position on the market and economic growth of the enterprise.

**Key words:** efficiency, distribution, insurance services supply channels

### 1 ECONOMIC CONDITIONS FOR BUSINESSES IN THE INSURANCE SECTION

The system transformation made in Poland at the beginning of the 1990s<sup>1</sup> resulted in a complete change of economic conditions for functioning of businesses.

The transformation<sup>2</sup> of the Polish economy was dictated by the necessity of market mechanisms release and their modernisation, that is structure transformation and introduction of modern technological, managing and organisational solutions. This was followed by the dynamic growth of insurance services sector, improvement of

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<sup>2</sup> Ortyński K., Ortyński K., *15 lat ubezpieczeń rynku w Polsce, część II*, [w:] *Wiadomości ubezpieczeniowe*, Nr 11-12, PIU, Warszawa 2007, s. 14

organisational structure and management systems, skills, image, reputation<sup>3</sup> and employment increase will make the employment structure closer to highly developed countries models.

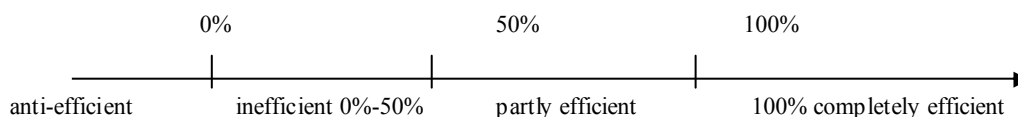
## 2 BASIC DETERMINANTS PROVIDING EFFICIENT OPERATION OF THE INSURANCE SECTOR

Economic life is examined on four levels: micro-level of human behaviour, meso-level of organisation behaviour, macro-level of economy and effectiveness and the global (world) - economy level on a global scale. At all these levels human behaviour determine three dimensions named "triple E": effectiveness, (sometimes defined as efficiency), economy and ethics<sup>4</sup>.

In terms of analysis these dimensions are independent of each other. This means that if we conduct analysis of any action, we can analyse each dimension independently. However, in synthetic sense, that is the quality of human actions, the correlation of the dimensions exists, as each of them represents axiological context of the remaining ones.

The basic determiners of the efficient actions preventing chaotic and unorganized actions:

1. Efficiency<sup>5</sup> ((effectiveness) - means actions, which leads to an intended effect, as to the goal. We can also define 4. as a measure of a probability to reach the intended goal, as the purpose of action (effect of action)).



Condition of effectiveness is the intensity of actions (intensification or concentration of actions in time and space)

2. Advantage (advantage) is the difference between the useful result of W and the cost of actions of K.

In this case we may distinguish :

- a)  $W > K$ - the action is advantageous
  - b)  $W = K$  action is neutral in terms of advantage
  - c)  $W < K$ - activity is unprofitable
3. Economy<sup>6</sup> ((economy) is the ratio of the applicative W and the cost (cost of action (together with unintended results)) K, which the action (the course of action)

<sup>3</sup> Harasim J., *Cross-selling i zarządzanie wizerunkiem w konglomeratach finansowych*, [w:] (red.) Iwanicz-Drozdowska M., Iwanicz-Drozdowska M., *Konglomeraty finansowe*, Polskie Wydawnictwo Ekonomiczne, Warszawa 2007, s. 242

<sup>4</sup> Wykład autorstwa Gasparski W., Centrum Etyki Biznesu IFiS Polskiej Akademii Nauk oraz Wyższej Szkoły Przedsiębiorczości i Zarządzania im L. Koźmińskiego w Warszawie, *O etyce biznesu i etyce nauki*, Letnia Szkoła Zarządzania zorganizowana przez Komitet Nauk o Organizacji i Zarządzaniu Polskiej Akademii Nauk, Wrzesień 2000

<sup>5</sup> Zieleniewski J., *Organizacja zespołów ludzkich*, Polskie Wydawnictwo Naukowe, Warszawa 1972, s. 269

<sup>6</sup> Wankel Ch., Stoner J. A., *Kierowanie*, Polskie Wydawnictwo Ekonomiczne, Warszawa 1994, s. 29

requires:

- a)  $W/K > 1$  - fully economical, the result is higher than costs,
- b)  $W/K = 1$  - neutral in economical sense
- c)  $W/K < 1$  - activity is unprofitable

Increasing the economy of action is called economisation and it can be performed in two ways:

- 1) Maximizing the effects for the given costs level (increase in efficiency) -  $DW < DK$
- 2) Minimising the costs of action for the given results level (increase in saving)-  $DW < DK$

According to T. Kotarbiński the closer the action is to the perfect combination of all the values of the good work in the largest dimension, the more efficiently you act<sup>7</sup>. Apart from economy and advantage of effectiveness the values of good work also include the following skill forms: efficiency, energy, simplicity, skillfulness, accuracy, rationalism, reliability and clarity<sup>8</sup>. As T. Kotarbiński<sup>9</sup> writes - to work more efficiently, is at the same time, the result of the same number of employees- to produce more goods (and provide more services) to the same extent useful to the goals. The efficiency can be defined as the ratio between the intended product of work measured in a way and amount of time the employees spent doing this.

### 3 MEASURES OF DISTRIBUTION INTENSITY DEGREES.

Economical understanding of the institution has evolved and the final agreement does not seem to have been finally settled. The most common research the method used in economy is an approach developed by the representatives of neo-classical philosophy. The basic principles of this school say that economic entities (producer and consumer) aim at maximising its objectives (profit), and the market mechanism regulates all the economic processes. Neo-classical authors using these principles and marginal analysis (use of extreme quantities) have developed a theory, which main components are e.g.: the model of perfect and imperfect competition, theory of fixed and variable costs, average, marginal and the connection of the enterprise balance theory. New institutionalised economy relevant features include:

1. Rejection of the simplified *homo economicus*<sup>10</sup> vision, where the limited rationalism and opportunism play the essential role.
2. The importance of nodal, as analysis unit represents the concept of transaction

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<sup>7</sup> Kotarbiński T., Kotarbiński T., *Traktat o dobrej robocie*, wydanie szóste, Zakład Narodowy imienia Ossolińskich, Wrocław – Warszawa – Kraków – Gdańsk 1975, s. 131

<sup>8</sup> Zieleniewski J., *Organizacja...*, s. 269

<sup>9</sup> Kotarbiński, T., Zieleniewski J., *Wydajność pracy*, [w:] Nauka Polska, 1960, Nr 2, rozzd. VIII, s. 88

<sup>10</sup> *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

- and correspondingly benefits and costs of transaction;
3. Representatives of this trend treat their analysis rather as a complementation, not a main substitute of the mainstream economy.

From the methodological side it means the synthesis of two approaches: theoretically-formal analysis with historical research postulate. What is relevant here, is the belief, that only through empirical research the real costs estimate and advantages of the given connections and state regulations can be done. Therefore, there is need for cooperation within formal, institutional and experimental analysis.

The analysis of the insurance service supply channel has been conducted through the prism of length and width ( the length of distribution channel is determined by the number of levels of the given channel, but the width is determined by realisation of the objective associated with the intensity of specific products distribution, while the intensity is determined by the number of agents on particular levels of the channel), this indicates channel adjustment to the products and buyers. In this case it is also important, how the company copes with distribution costs and cooperation with individual distribution channels. The choice of insurance services supply channel is connected both with the costs covered by the insurance company and its goal realisation.

Measures of distribution intensity<sup>11</sup>:

1. Numerical distribution rate (NWD)

$$NWD = \frac{Pf \times 100}{Pp}$$

where:

Pf- the number of products of the insurance company;

Pp- the number of all insurance companies distributing the specific type of products.

2. Weighted distribution rate (WWD)

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

where:

Df - distribution (quantity or value) of a given type of product in a particular insurance company managing a given insurance product,

Dp - distribution (quantity or value) of a given type of product in all insurance companies managing a given insurance product.

For insurance services analysis the following research can be used:

1. Utility- degree of use by a given distribution tasks channel of the company in order to meet the needs of the managed group of buyers.
2. Effectiveness-the ratio of results and the cost of operation. The so-called objective

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<sup>11</sup> Worked out basing on Warsaw School of Economics materials, Katedra Marketingu, Analiza Marketingowa Strategii Dystrybucji, Warszawa 2008

measures (profit achieved) or relative measures (e.g. channel profitability)<sup>12</sup>. Typical methods of channel usability and efficiency of insurance services channel assessment, are:

1. Heuristic<sup>13</sup> (intuitive) - the so-called method, which creates the situation when the group of experts solve problems by means of mental operations or reference to experience;
2. Quantitative- are the research methods, which define numerical parameters (in suitable units), which are characterised by the analysed phenomenon or research objective:
  - a) Critical point analysis, which can be applied, when we can assume in advance
    - b) the expected distribution size
    - c) and estimate
    - d) the costs involved in its achievement considering different channels,
  - b) When we cannot assume
    - f) identical distribution size in the analysed channels,
    - g) their choice is to be made on the basis of estimation of efficiency ratio  $T_i$ :

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

where:

$D_i$ - estimated distribution size in -this channel

$K_i$ - estimated costs in-this channel,

-when the remaining conditions are the same, select the channel for which the ratio  $T_i$  will be the highest.

- c) Comparative analysis, for instance-
  - d) the cost which is to be invested
  - e) into particular channels,
  - f) the profit to be achieved in comparable channels,
- d) Portfolio analysis- assessment of the channel based on the relative market share and potential market, e.g. assessment of the channel based on relative current and potential market share:

<b>relative market share</b>	
large	small
satisfactory channel	unsatisfactory channel requires fundamental changes
Satisfactory channel	unsatisfactory channel requires fundamental changes

*Scheme 1 Channel evaluation based on a relative current and potential market share.*

<sup>12</sup> Effect (from Lat.) Denotes labor productivity per unit of time, read as: Great Universal Illustrated Encyclopedia, Volume IV, Gutenberg Publishing, Warsaw 1999, p. 175th By contrast, W. Kopaliński says that this is due, result, result, [in:] W. Kopaliński, dictionary of foreign words and phrases in foreign languages, Issue XX, General Knowledge, Warsaw 1990, p. 137th Efficiency in praxiology means effectiveness. However, economic efficiency (Economic efficiency) is defined as a result of economic activity defined by the relation obtained for the effect of the effort factor or combination of these factors

<sup>13</sup> 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

3. Quality methods- are research methods, in which numeral parameters characterising the analysed phenomenon or research object are not specified. Comparative analysis is applied, mostly descriptive of the scope of fulfillment in particular insurance services channels of such requirements as:

- a) Possibility of being in control,
- b) Quality of distribution services,
- c) Possibility of collecting market information.

4. Mixed- analytical-point method:

- a) Establishment of any number of criteria for the selection of insurance service channel and prioritizing them by their weights of importance to achieve the distribution strategy goals;
- b) Fixing of grade-point rating degree of the implementation in each channel
- c) Point rating degree of the specific criteria in each channel (ratio of weight of a given channel and points assessing their implementation degree)
- d) Selecting the insurance service channel/s with the highest number of points.

*Table 1 Selecting insurance service channel with the highest number of points*

Criteria	Importance	Rating (from 1 – 10)	Weighted rating
.....	.....	.....	.....
.....	.....	.....	.....
<b>Total</b>	1,0	X	.....

*Source: Own case study*

*Table 2 Examples of criteria for rating insurance services*

Criteria	Rating (od 1 do 10)
Expected amount of insurance services contracts: a) obligatory, b) voluntary	
Market penetration	
Ability to pay distribution supportive services	
Level of after- sale service	
Efficiency	
Burden of claims	
Other	
<b>Ratio</b>	

*Ratio-average of sub ratings Source : Own case study*

## SUMMARY

Analysis of insurance services channel is made through the prism of length and width, what indicates adaptation of the channel to products and buyers. In this case, it is also important, how the company copes with the costs of distribution and cooperation organisation with particular distribution channels. Insurance services channel selection is connected with specific costs covered by insurance company and its goal implementation.

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