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ANALYTICAL RESEARCH OF EUROPEAN PRACTICE OF LIFE INSURANCE SERVICE IMPLEMENTATION

The article analyzes the dynamics of gross life insurance premiums per capita in such EU countries as Belgium, Spain, France, Italy, Portugal, Turkey. The life insurance development dependency from the value of gross premiums per capita was proved. It is argued that further development of life insurance depends on professional approach of insurance companies to the implementation of life insurance services. Life insurance service delivery was analyzed in ten countries of the European Union. The main dominants in life insurance channels are revealed. Two groups of countries are defined according to the structure of life insurance distribution channel. First group of countries are those countries where the main distribution channel of life insurance is performed through intermediaries. Second group of countries – countries where the bancassurance is a leader in distribution services of life insurance. There are five stages of life insurance service implementation defined: search of a client; establishment of a contract; conclusion of a contract; maintenance of the contract; quintessence.

Keywords: life insurance, insurance company, intermediaries, distribution channels.

Urgency of the research.

Business entities engaged in service activities should not disregard insurance implementation and the professional level distribution should become a key aspect of their activities. Since the service is not tangible, the specifics of the sales object, makes it impossible to estimate the consumer value before the purchase or at the time of purchase. By acquiring the service, the buyer agrees to evaluate its consumer value in advance, not right after the receipt pay off, but after a certain period of time, which may last for months or even years.

Target setting.

Taking into account the above mentioned aspects, we actualize the problem of establishing such a sales system which would increase the insurers activity and provide the possibility to involve the maximum number of population in life insurance. The most obvious way is to involve direct selling (on their own) but in this case, they reduce the likelihood of covering the entire mass of potential insurers. Therefore, the cooperation of a life insurance company often involves not only intermediaries, but also banking institutions.

Actual scientific researches and issues analysis.

The problem of insurance services implementation in Ukraine was researched and disclosed in scientific works by Govorushko T.A., Sich E.M., V.Ilchuk V.V., Gavrilenko N.I., Osadets S. S., Skibinsky S. V., Baluk N. R. and other leading researchers in the field of insurance. Gorbunova A. I.¹, Yermoshenko L.², Zaytsev O.³,

¹ Горбунова, А.И. (2014). Переваги та недоліки просування послуг та укладання договорів страхування здоров'я через канал «BANCASSURANCE» в Україні. Економіка. Управління. Інновації, 2. Національна бібліотека України імені В. І. Вернадського <http://nbuv.gov.ua/UJRN/eui_2014_2_20>. (2018, November, 19).

² Єрмошенко, Л., Єрмошенко, А. (2008). Зарубіжний досвід взаємодії страхових і банківських установ. Вісник КНТЕУ, 3, 90-100.

³ Зайцев, О. (2006). Банки и страховой бизнес: необходимость согласования. Банковская практика за рубежом, 9, 53-61.

Malakhova O.¹, Pfyffer V.², Tkachenko N.³, Trinchuk V.⁴, Oliynyk G.⁵ and others studied the possibility of cooperation, advantages and disadvantages of banking institutions and life insurance companies.

Definition of uninvestigated parts of general matters.

However, most studies were theoretical, and predominantly revealed the organizational aspects of the insurance implementation and the possibilities for cooperation. However, the analysis of current practice of life insurance in general and its implementation channels in particular enables the disclosure of certain new features and regularities in terms of the life insurance realization in correlation with the sales channels variation.

The research objective.

The aim of the article is to conduct analytical research of distribution channels of life insurance service in European countries and define their priorities.

The statement of basic materials.

Insurance sector is one of the main components of non-bank financial services market today. Such a situation was achieved by compiling the various factors and performance of all its players in different sectors, spheres and industries. Life insurance is no exception to the insurance market. The life insurance service, along with common insurance market characteristics, has its own, specific – long-term and individuality. Since the minimum term of contracts of this type is 10 years, it automatically postpones the policyholder's opportunity to estimate its consumer value after the specified period. Each life insurance contract is personal because it takes into account the desires and capabilities of a particular individual, and therefore two different people who acquire the same life insurance contract may have different consumer costs and will be able to evaluate it at different times.

Despite the advantages and disadvantages in different EU countries, life insurance is developing rapidly. The subjective factor which contributes to its growth is the public's understanding of the need for self-sufficiency in the future and the willingness to participate independently in the formation of their financial capital. This is confirmed by the dynamics of life insurance premiums per capita (Fig. 1).

According to the data on Figure 1, we note the fact that in different countries population treats insurance differently, but at the same time we observe an logical pattern: the more country is developed in terms of economic development, the greater is the amount of money population spend on life insurance.

To investigate the desired trend, we decided to display the sample in such indicators as: insurance premiums (pr) – x1 (billions of euros), insurance premiums per capita (pr_p) – y (euros), population (people) – x2. The source for the first two indicators was the Expansion website (CountryEconomy.com). The population to a greater extent is also taken from this source, we also considered the Eurostat website as a secondary population source. The sample structure consists of panel data in a set of 10 panels with 11 values. The total sample size is 120 observations.

¹ Малахова, О. (2013). Організаційні основи співпраці комерційних банків та страхових компаній. *Українська наука: минуле, сучасне, майбутнє*, 18, 92-105.

² Пфайфер, В.В. (2012). Проблема взаємодії банків і страхових компаній. *Стратегічні орієнтири* <<http://libfor.com/index.php?newsid=1240>>. (2018, November, 19).

³ Ткаченко, Н.В. (2004). Об'єднання банків і страхових компаній. *Актуальні проблеми економіки*, 2 (32), 105-111.

⁴ Тринчук, В. (2008). Стратегічні пріоритети співпраці банківських установ та страхових компаній. *Вісник Київського національного університету імені Тараса Шевченка*, 105, 33-37.

⁵ Олійник, Г.І. (2012). Маркетингові можливості банків і страхових компаній. *Інвестиції: практика та досвід*, 8, 76-78.

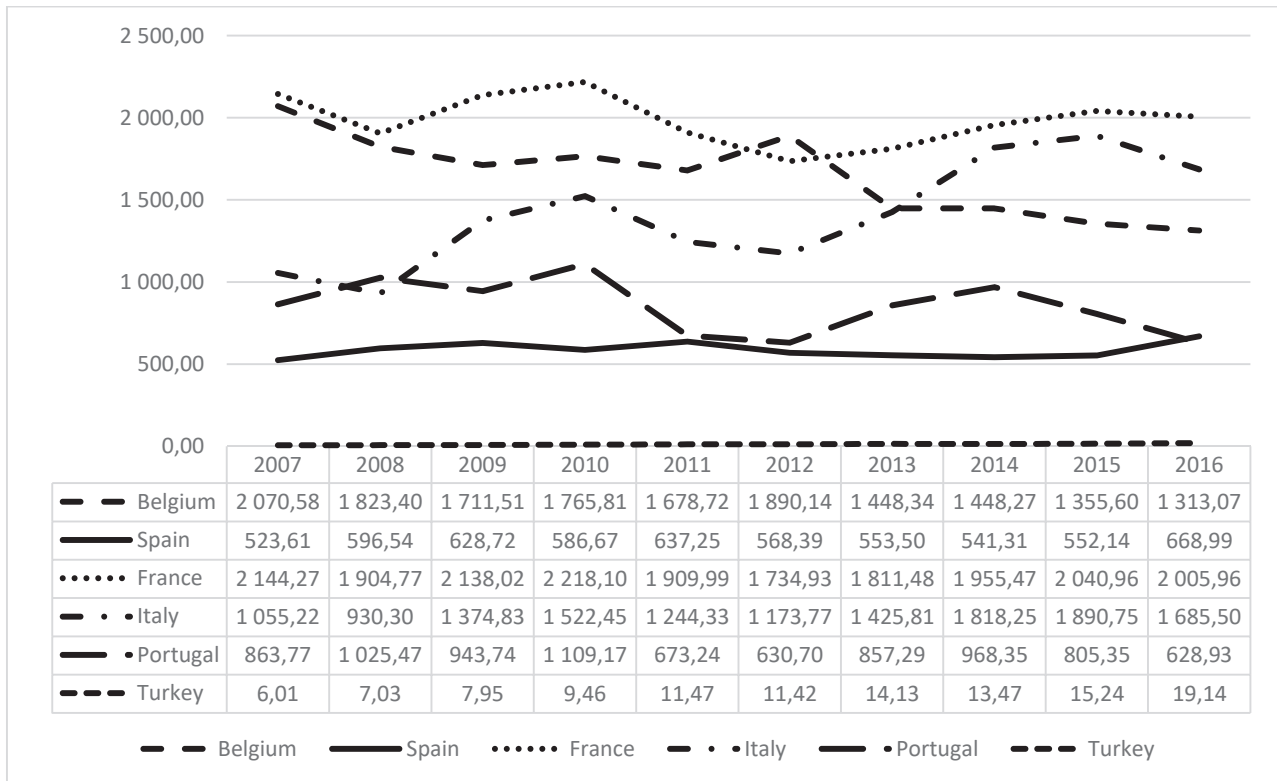


Fig. 1. Dynamics of life insurance premiums per capita in EU countries for 2007-2016, euro^{1,2,3}

All operations and, in particular, the construction of the model itself, were made in the Stata data analysis package.

We assumed that the model will look like:

$$rp_{pit} = pr_{it} + people_{it} + e \tag{1}$$

The data was tested on the compliance with basic requirements for model constructing, we also included normal distribution law. We allowed change for only a single indicator of "insurance premiums", in order to reach maximum proximity to the normal law, we decided to replace it with a logarithmic number.

It is known that panel data has several advantages, specifically the problem of heteroscedasticity practically does not occur in similar samples, but for complete confidence it was decided to make adjustments to standard errors.

The correctness of the functional form was verified by the RESET test which showed that when adding nonlinear components, the model did not improve, therefore we acknowledged that functional form was chosen correctly.

¹ Insurance Europe (2018). *European insurance industry database*. <<https://www.insuranceeurope.eu/insurancedata>> (2018, October, 27).

² Eurostat (2018). *European Commission: Eurostat. Database* <<http://ec.europa.eu/eurostat/data/database>> (2018, October, 29).

³ CountryEconomy.com (2018). *Population* <<https://countryeconomy.com/demography/population>> (2018, October, 25).

The verification for multicollinearity was carried out by a VIF test, the value of which for all factors did not exceed 2.44, which means that there was no multicollinearity.

The problems of heteroscedasticity in this model were not foreseen, which was confirmed by the expected signs with variables and adequate values of the coefficients.

Also we took into account, the right choice of model for panel data confirmed with standard algorithm of choice – a step-by-step comparison of each model among themselves.

The first one we compared were the fixed-effect model and cross-sectional regression, according to the results of the Wald test (p-value = 0.00 < 0.01), the best results were obtained using a fixed-effect model.

Next we compared the model with random effects and cross-sectional regression. According to the results of the Brousha-Pagan test, the best results showed a model with random effects (p-value = 0.00 < 0.01).

The latest comparison we conducted between fixed-effect model and a random-effect model. Hausman's test showed that a model with fixed effects better describes the phenomenon (p-value = 0.0001 < 0.01).

Having evaluated the model we received the following results:

$$pr_{p_{it0}} = 606582.3 pr_{it} - 0.0482 people_{it} \quad (2)$$

$$t(1,91) (-1,31)$$

Only after checking possible problems, we started interpreting the results.

The first indicator is the gross premiums (billion euros), given that it is pre-logged, the conclusion is the following: with a probability of committing an error of 5% (t = 1.91), in order to increase gross premiums by 1%, it is necessary that per capita prizes increase for 606582,3 euros, under other unchanged conditions.

The second indicator is the "population". Given its value t – statistics, namely – 1,31, we couldn't make any conclusions. This led us to an interesting observation that for the specified sample, namely the countries that represent it, the population does not affect the volume and amount of insurance premiums.

Given the results and subsequently a clear awareness that it is the size of the gross premiums of the individual, and not their numbers play an important role in the development of life insurance, we also paid attention to the matter of how the residents of these countries acquire this service. In this context, we noted that all countries could be virtually split into two groups.

The first group consists of the countries where the implementation of life insurance services is dominated by the intermediaries (Table 1).

By acquiring life insurance in countries such as Bulgaria, the Netherlands, Slovenia – residents prefer intermediaries. In Bulgaria more than 80% of life insurance services are bought through intermediaries in recent years, similar is the situation in Slovenia. Exception are the Netherlands, where during the years 2013-2016 intermediaries have lost their dominant position in the realization of life insurance.

The second group is formed by countries such as Austria, Belgium, Spain, France, Italy, Portugal, Turkey, where the implementation of life insurance services is closely involved with banking institutions (Table 2).

Table 2 reveals that in Portugal more than 80% of life insurance contracts were made through banking institutions over 2006-2016. Turkey and Italy are approaching this indicator. The banking institutions of France, as well as the Spanish institutions (the share of banking institutions ranged from 63% to 71%), steadily have leading positions at the level of 60-64% in the structure of life insurance implementation market for the last ten years.

Table 1

Structure of sales channels for life insurance services in EU countries, where the implementation through intermediaries prevails during 2006-2016, %^{1,2,3}

State	Sales channel	Years										
		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Bulgaria	Direct sales	17,4	22,3	13,3	15,4	21,8	16,7	18,7	17,0	15,0	16,0	15,0
	Intermediaries	82,6	77,7	86,7	84,6	78,2	83,3	81,3	83,0	85,0	84,0	85,0
	Banks	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
	Other	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
	Joint	100	100	100	100	100	100	100	100	100	100	100
Netherlands	Direct sales	26,3	28,0	28,0	29,0	25,0	23,0	26,0	30,0	37,0	35,0	33,0
	Intermediaries	56,1	72,0	72,0	71,0	75,0	77,0	74,0	0,0	0,0	0,0	0,0
	Banks	16,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
	Other	0,7	0,0	0,0	0,0	0,0	0,0	0,0	70,0	63,0	65,0	67,0
	Joint	100	100	100	100	100	100	100	100	100	100	100
Slovenia	Direct sales	1,3	2,5	2,2	2,3	2,8	4,4	5,5	4,8	5,0	5,7	14,1
	Intermediaries	70,1	69,2	70,6	69,9	67,3	88,3	86,1	84,4	81,7	80,0	72,4
	Banks	7,9	8,8	6,3	5,1	6,7	7,3	8,3	10,9	13,3	14,3	13,5
	Other	20,7	19,5	20,9	22,7	23,2	0,0	0,1	0,1	0,0	0,0	0,0
	Joint	100	100	100	100	100	100	100	100	100	100	100

Table 2

Structure of life insurance services sales channels in EU countries, where the sales through banking institutions prevails during 2006-2016, %^{4,5,6}

State	Sales channel	Years										
		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Austria	Direct sales	21,7	20,3	20,3	14,3	16,5	23,2	24,6	25,8	24,9	25,3	25,1
	Intermediaries	22,2	21,1	25,3	16,1	17,4	20,7	23,8	21,8	23,5	22,3	21,9
	Banks	50,8	53,9	51,7	64,8	62,6	51,7	45,0	48,1	45,2	47,7	48,2
	Other	5,3	4,7	2,7	4,9	3,5	4,4	6,6	4,3	6,4	4,7	4,8
	Joint	100	100	100	100	100	100	100	100	100	100	100

¹ Insurance Europe (2018). *European insurance industry database*. <<https://www.insuranceeurope.eu/insurancedata>> (2018, October, 27).

² Eurostat (2018). *European Commission: Eurostat. Database* <<http://ec.europa.eu/eurostat/data/database>> (2018, October, 29).

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⁴ Insurance Europe (2018). *European insurance industry database*. <<https://www.insuranceeurope.eu/insurancedata>> (2018, October, 27).

⁵ Eurostat (2018). *European Commission: Eurostat. Database* <<http://ec.europa.eu/eurostat/data/database>> (2018, October, 29).

⁶ CountryEconomy.com (2018). *Population* <<https://countryeconomy.com/demography/population>> (2018, October, 25).

Continuation of the table 2

Belgium	Direct sales	20,7	19,7	19,3	19,0	18,2	17,5	18,3	23,9	21,2	22,1	21,5
	Intermediaries	36,2	37,6	38,4	38,6	38,6	38,6	34,6	43,3	42,8	46,8	45,8
	Banks	43,0	42,7	42,3	42,4	43,2	44,0	47,1	32,8	36,0	31,1	32,7
	Other	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
	Joint	100	100	100	100	100	100	100	100	100	100	100
Spain	Direct sales	7,6	5,5	7,6	10,4	6,8	8,0	9,3	11,7	10,7	10,8	10,7
	Intermediaries	27,0	20,4	27,0	20,8	21,5	19,4	19,6	23,9	25,6	24,4	24,3
	Banks	63,2	72,3	63,7	66,2	69,0	71,4	69,7	63,0	62,6	63,5	63,7
	Other	2,1	1,9	1,7	2,6	2,7	1,2	1,4	1,4	1,1	1,4	1,3
	Joint	100	100	100	100	100	100	100	100	100	100	100
France	Direct sales	15,0	16,0	16,0	16,0	16,0	17,0	16,0	15,0	15,0	15,0	16,0
	Intermediaries	19,0	20,0	22,0	21,0	20,0	19,0	18,0	18,0	17,0	17,0	18,0
	Banks	64,0	62,0	60,0	60,0	61,0	61,0	63,0	64,0	64,0	64,0	63,0
	Other	2,0	2,0	2,0	3,0	3,0	3,0	3,0	3,0	4,0	4,0	3,0
	Joint	100	100	100	100	100	100	100	100	100	100	100
Italy	Direct sales	11,7	11,2	12,5	8,7	7,4	9,5	10,7	8,9	8,0	7,3	8,2
	Intermediaries	20,8	22,5	25,0	16,9	16,3	17,4	17,4	15,3	14,0	13,4	14,9
	Banks	67,5	66,3	62,5	74,4	76,3	73,1	71,9	75,8	78,0	79,3	76,9
	Other	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
	Joint	100	100	100	100	100	100	100	100	100	100	100
Portugal	Direct sales	3,8	3,6	6,3	6,1	5,2	6,7	10,1	8,6	3,3	4,1	6,8
	Intermediaries	11,6	9,1	12,1	11,2	10,6	11,3	12,1	12,7	16,5	16,2	21,4
	Banks	84,5	87,3	81,6	82,7	84,2	82,0	77,8	78,7	80,2	79,7	71,8
	Other	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
	Joint	100	100	100	100	100	100	100	100	100	100	100
Turkey	Direct sales	24,2	13,8	17,3	18,9	11,7	10,5	9,0	8,1	9,9	9,5	7,8
	Intermediaries	34,1	35,6	36,7	24,7	18,8	14,3	13,6	10,7	11,0	11,0	9,3
	Banks	41,7	50,6	46,0	56,4	69,5	75,2	77,4	81,2	79,0	79,5	82,9
	Other	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,1	0,0	0,0
	Joint	100	100	100	100	100	100	100	100	100	100	100

European life insurance practices have certain tendencies and patterns of development, which must be noted by the domestic insurance market players. The implementation of life insurance services is ensured not only by direct sales (directly by life insurance companies) and through intermediaries (agents or brokers), but also by means of life insurance promotion and banking institutions. At the same time, it is necessary to emphasize the attention on the rationale for clients of the sum of insurance payments that would be acceptable to the insured in terms of his individual financial capacity. The study showed that the development of such a segment of the insurance market as life insurance does not depend primarily on the population (potential insurers), but on the gross premiums paid by the person who pays them. In this context, all those involved in the realization of life insurance, or those who potentially have the potential to do this, need to first place the desire and capabilities of the client.

Therefore advisable distinguish five stages implementation of life insurance service (Fig. 2) which give possibility take into account individuality of each potential insurer.

I. Search of the client	II. Establishment of contract	III. Conclusion of a contract	IV. Maintenance of the contract	V. Quintessence
<p>Goal: formation of a base of potential insurers.</p> <p>Tasks:</p> <ul style="list-style-type: none"> - forming a contact list; - description of the list (age, gender, occupation, type of activity); - contact details (phone, e-mail, groups in social networks, etc.). 	<p>Goal: determination on the level of awareness of the needs of life insurance.</p> <p>Tasks:</p> <ul style="list-style-type: none"> - contacting; - financial diagnostics; - conducting medical underwriting; - providing information on life insurance options. 	<p>Goal: signing of an agreement between the insurance company and the insured.</p> <p>Tasks:</p> <ul style="list-style-type: none"> - consulting of fulfilling the insurance contract; - providing advice on registration additional documents (fulfilling medical declaration, preparation of copies of documents, etc.). 	<p>Goal: constant maintenance of contacts with the parties during the entire period of the contract.</p> <p>Tasks:</p> <ul style="list-style-type: none"> - informing the parties about the changes, their explanations; - coordination of actions to respect the rights and obligations of the parties; - participation in resolving disputes. 	<p>Goal: ensure timely and full payment by the insurer of its obligations for insurer.</p> <p>Tasks:</p> <ul style="list-style-type: none"> - consulting the insured in the preparation of documents for payment of insurance indemnity.

Fig. 2. Characteristics of the stages of realization of the life insurance service

Five consistent and complementary stages of implementation life insurance service important to apply by insurer to each citizen in order to make for him status of potential insurer, further in status of insured with guarantee of his compliance with contractual relations throughout the period of the insurance contract.

Collaborating with potential insurers in accordance with these stages, the life insurance company and the insurance intermediary which representing its interests, form life cycle of the life insurance business cycle. The duration of operating cycle is defined as the sum of the duration all business cycles. Including individuality of the implementation life insurance service duration of business cycle for each insurance contract will be different and will depend on many aspects. It is logically to distinguish two main factors: firstly: professionalism of the person who makes implementation of service (whether the insurance company itself, or an insurance agent / broker, or another entity entitled to exercise the life insurance service); and secondly: the subjective financial ambition of the potential insurer.

The person who makes implementation of life insurance service should be not a simple seller but to be the financial advisor. At the second stage of implementation life insurance service the financial advisor should meet with the client in person, discuss his desires and opportunities and only then offer the most affordable alternatives long-term financial investment. It is second stage is more important in implementation of life insurance, and its effectiveness depends on how well a professional and qualitative financial advisor understands a potential client. At this stage is forming understanding of potential insurer principle of long term service which he is buying. Moreover, during the lifetime of the life insurance contact the needs of client may change. And for financial advisor is important also is fourth stage – maintenance of the contract. At any time of lifetime insurance contract client may need advice, financial advice or physiological support. All this in total will give positive impact which will manifest itself in the fact that such a segment of the insurance market as life insurance will cover more and more circle of potential insurers and will ensure its preservation throughout the period of the contract.

As for the second factor – financial ambition of potential insurer who forms the level of awareness of the need in life insurance, should pay attention to financial literacy of the population, in particular, by age of groups, professional suitability. No matter how ideal life insurance is from point of view of organizational mechanism and essence, it will not be developed if population would not define the needs of this service and would not be ready for such kind of savings. This also actualises the second stage of the implementation of the life insurance service, namely the establishment of a contact.

Therefore, respect of the individual approach of choosing a life insurance program, taking into account the financial ambitions of potential insurer, the independence of financial advisor and his beliefs in the necessity to meet the needs of client, rather than simply concluding a specific life insurance contract, continuous monitoring and customer support – all together will ensure completeness of the life insurance service.

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