CREATION OF THE POLICY FOR DISTRIBUTION OF THE INSURANCE SERVICES

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ABSTRACT

The policy of services distribution in the area of property insurance and personal insurance, or their organization within the marketing instruments wider, occupies a special place. Business decisions for distribution of insurance services basically are strategic decisions that determine the placing holders. They are in general long-term variables, but with extremely high costs, which means a large engagement of capital and human labour. The great importance of the distribution policy for insurance services (in property insurance and personal insurance too) arises from the specifics of the insurance "products" (services) and also from the different characteristics of the insurance subject/object.

The placement of insurance services is always correlated with the creation of the services (or usually the distribution of the services precedes theirs creation), which is one of the characteristics of insurance services. Considering that insurance operates on the principles of reciprocity and solidarity and by using the law of large numbers, it gives special impetus for intensifying the placing of the insurance services.

One of the important aspects of the distribution of insurance services is to equalize the calculative risk, so the policy of services distribution in insurance companies takes a very important place. At the center of attention of the policy of services distribution in insurance and reinsurance of property and persons are the following key questions: which structure of the placing is best to be operationalized? and By which organizational units for insurance and reinsurance services (for property and persons) the placement would be most efficient available for the insured?

This paper elaborates the basic concepts and practical aspects of the policy creation for the distribution of the insurance services.

Key words: *Policy of Distribution, Insurance, Insurance Services, Insurance Services*

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INTRODUCTION

The insurance is specific financial activity that is important for both the insured and the insurer, also for the economy as a whole, and for the entire social community. The insurance market, as is the case with other financial markets, has long been influenced by financial deregulation and liberalization. As a result of this trend, insurance companies face increasing competition not only from other insurance companies, but also from other financial institutions, primarily banks that offer substitutes of life insurance (bank accounts, term deposits and investments in securities) are becoming increasingly oriented towards its customers and their needs. In such a dynamic financial structure one can recognize the direction of financial institutions competing for extra profits in the international market, which led to the transformation of financial institutions in developed and some transition economies. Bank-oriented financial companies dominated by bank function of collecting savings deposits are transformed into market-oriented companies with emphasis on offers from other financial intermediaries such as insurance companies or pension and investment funds.

In these emerging circumstances, insurance companies should not be passive observers of these processes. Their role as financial intermediaries forces competition with other investors, such as pension and investment funds, and the banks that collect deposits from households. Therefore, insurance companies are not only faced with demands for modernization of their products by applying technical innovations, but more importantly, the need for optimization of distribution channels, as would come out ahead of the competition in narrow terms (sector insurance) and a broader sense (financial system). Therefore, the need for re-examining the factors of efficiency and competitiveness of insurance occurs, primarily of reviewing corporate strategy or product strategy and distribution.

DISTRIBUTION WITHIN THE INSURANCE MARKET

Insurance is highly responsible economic and social activity. It shares the fate of the overall social development and standards of the population. The core is in its high degree of correlative dependence on social product and demand or the purchasing power of the population. Its dynamic growth or decline is measured by moving the premium up or down. The increase in gross domestic product increases demand for life and non-life insurance, but in case of its failure, companies and people will give up insurance because it is not urgently needed, and may be delayed for another time, neglecting the effects that may arise on this basis.

Changes in the market structure today are moving faster and deeper than before. New foreign competitors are penetrating national and internationally integrated markets. Current regional and national borders gradually yield to the blows of the competition which is to win the insurers. These eloquently tell us about the evolutionary changes coming from the inner expansion of the European Union. National insurance company representatives, agents and agencies offering services related to insurance must continually assess their initial position and in line with future changes in the insurance market and its surrounding modify their courses in business. Insurers with their expectations in the future will increasingly be a measure of economic performance and business performance of insurance companies than before. We will not be satisfied with the conclusion that the insured is offered something which insurance company believes could easily serve, but what the insured wants and possibly at the lowest cost (Farny, 1994).

The following key strategic issues are those that insurance companies are continually faced with:

- Should they limit their activities to a national market or should they commit to present themselves as an international provider of life and non-life insurance?
- How to implement current competitive advantage by properly positioning the group of contributors, users of insurance services, and their distribution policy?
- How is the current size of the companies setin terms of changes in the national economic system and market of the European Union?
- How trough collaboration in services, insurance and / or distribution can win greater market potential and improve business revenue per insured?

How an insurance company wants to be profiled in future market of life or non-life insurance and reinsurance?

It matters that questions are quickly asked than is possible for them to give accurate answers and arguments.

With the new market conditions a great challenge stands before insurance companies. It provides opportunities and risks with long consequences. The market concept of insurance companies in the first place will find satisfying current and future desires and interests of the insured, but in accordance with the terms governing the insurance market and its surroundings. This for the insurance company would be a real roadmap for building an effective and efficient market competence to resolve the problems of insured and sensitively, but also to respond quickly to extreme changes. Business insurance practice shows that future markets will play a greater role on the needs of the insured and the other in the creation of important competitive advantages. In a very concise form said, this means that there is a question of understanding the insurance market and its surroundings, and even less thinking on the basis of strategic management-marketing of insurance.

IMPORTANCE OF DISTRIBUTION

In the past few years become increasingly apparent that the financial services industry is shaped under the influence of a smaller number of well-defined external initiatives of change, primarily due to increasing consolidation and globalization, social and political changes, changes in the attitudes of customers and rapid development of technology and development in distribution models.

The method of placement of insurance services also changed so that insurance companies today are no longer classical insurance companies with great organizational chart, a large number of employees and physical locations that are situated broadly.

Successful insurance companies respond quickly to adapt its distribution network to modern requirements. Above all, you must take into account the purchase of insurance services by customers that are more and more informed and increasingly expect when it comes to benefits and revenue yielded by the insurance. In addition, legislation going along with the insurance is becoming more flexible and encourages innovation, in particular the possibility for integration of insurance companies with financial and non-financial institutions. Competition in the market for insurance is becoming increasingly more severe and more numerous. Insurance services are offered not only by insurance companies. Insurance of interested customers becomes more accessible with the help of: banks, investment funds, e-brokers chain of hyper and super markets or car manufacturers.

In insurance services, distribution channels exist to complete or facilitate the exchange between the insurer and the customer. In this role, the channels of distribution provide information on service and processes for existing and potential users of services and mutual service options, for example, collection and maintenance of contacts and information of damages for potential customers.

Two generally accepted channels of distribution are possible: direct channel of distribution and indirect distribution channel. It makes sense that the segment of customers that the company wants to conquer is influenced by the design of service system of the company, but in order to find optimally designed system of services we need to find answers to the following questions, (Gilonietal., 2003).

- What services will be offered;
- Which services should be available to different segments of customers;
- Which channel should perform the necessary service for each of the different segments of buyers;
- How to optimally allocate resources to different channels;
- How to gain operational efficiency and effectiveness;
- How to use information technology to carry out service operations in a most efficient way.

Theory and practice in the insurance know many types of distribution channels through which insurance services are placed.

POLICY FOR DISTRIBUTION OF SERVICES IN THE INSURANCE AND SELECTION OF SYSTEM FOR SALE

Policy for distribution of services within the property insurance and personal insurance, or its organization within the marketing instruments in a broader view occupies a special place. First, the distribution policy decisions represent a choice of certain carriers, strategic decision. They are, in general, long-term variables, but with extremely high costs, which means a significant commitment of capital and human labour. Second, the great importance of the policy for distribution of insurance services to personal and property insurance is resulting from the specific insurance "products".

In making its own ranking system of insurance services for personal and property insurance, the first question arises, whether its ranking should be accompanied centralized or directly (strategic level management and leadership) in the insurance and reinsurance companies or through network point of sale (branch, office, representatives, etc.) to be as close as possible to the insured. The empirical results of the business practices of the market in developed countries shows, that most companies for this very important activity are choosing decentralized system of distribution. Mostly less fulfilled are "activities of procurement, many insurers that allows emphasizing the importance of decentralization of distribution alternative provider of this kind.

Regional distribution and proximity of the insured, primarily in personal insurance, is of great importance. Many insurance and reinsurance companies, based on this tendency persist to cover insurance market with spatially dispersed network stimulated distribution. It includes the main Office, Directorate of branch offices, dealers, subsidiaries, representatives and others (Delisel, 1981, pp. 155).

Strict definition or how to set up hierarchical levels between the insured and the central office, the decision can be individually made only from insurance and reinsurance companies.

These issues in organizational structure and bonding of organizational network can be found in a wider step toward realizing the organization of placements for insurance services to individuals and properties. It defines and establishes which things are shifting place and what responsibilities they have. How the insurance and reinsurance of property and persons is higher, so is important to an organization to establish separate hierarchical levels of management or placements. Insured or insurance groups become more and more measures for the organization. The future of insurance and reinsurance of property and individuals will increasingly be filled by demands of technology and management objectives in the formation of the organization, so that they will increasingly dominate the space.

Insurers give special value of communicating with individual agents, but at the facilities of insurance and reinsurance companies. They showed a great interest and not expect to go from employee to employee but have a responsible interlocutor with whom they will interact in insurance companies. These views were supported by the fact that the insurer should have all relevant information about the insured and contracts, and to be able to provide specific information and good suggestions.

Modern technologies of data processing and communications allow companies for insurance and reinsurance of property and individuals, for an acceptable cost to provide business advice to the insured, and on that basis they would acquire a special trust, as well as the internal and the external services. A number of representatives offer cooperation with companies for insurance and reinsurance of property and individuals. However, the expert system is emerging as a tool to ensure high level of quality to provide advice to the insured, but also as a unique tool to efficiently accomplish the tasks of strategic and operational management of the companies for insurance and reinsurance of property and individuals, such as processing and calculation of damages, so that in the future that will play a major role.

TYPES OF DISTRIBUTION CHANNELS

When choosing distribution channels particular impacts have the costs and the satisfaction of the insured by the method of providing insurance service. Channels are divided into traditional and new forms of selling insurance services, whereby the first incur higher expenses (cost), and the second are challenged by the quality of information on insurance (Jeynes, 2002)**.**

TRADITIONAL CHANNELS OF DISTRIBUTION

Insurance companies under the direct channels sell insurance through their own organizational forms directly within the insurance company through insurance agents (representatives), as well as through insurance brokers. Agents (representatives) can be dependent and independent specialists selling certain kind of insurance for the targeted market. Their advantage is that they have good knowledge of the targeted market, and their aggressiveness positively affects the promotion of certain types of insurance. Independent agents in recent years are the most appropriate channel for distribution of life insurance. Brokers are independent from insurance companies and engage occasionally. The direct way of selling has long been the only option for the largest insurance companies, primarily because each company bears the costs, because capital provided for the development of this channel must be drawn directly from the funds of the company, and problems also can occur in the recruitment and retention of quality sales staff.

Direct channel of distribution - means that insurance company in a direct contact with customers is selling their services. By this channel of distribution the insurance companies concentrate on building a direct relationship with its consumers, as opposed to building relationships with insurance agents and insurance brokers. Therefore, this distribution channel is known as a direct marketing relationship (Kotler, 1999, pp. 778).

In order to be successful, a direct distribution channel must first attract the attention of buyers, to describe the service that is being offered, with the ultimate aim to arouse interest or purchase service.

The media used for direct distribution are also used as promotional tools from the company and agents. In that case, direct marketing relationship serves as a support to theother distribution channels. Insurance companies that use this type of distribution are using various types of media that would affect potential buyers. These are:

- Direct mail, printed media;
- Telemarketing (sales over phone or fax);
- Internet and other on-line services;
- Interactive television.

Regardless of whether insurance companies use direct distribution channel as a single channel of distribution or in combination with other types of distribution channels always this kind of distribution offers a multitude of advantages of which the most important are (Kotler, 1999, pp. 778):

- Allows you to distribute services that are not appropriate to be sold through other distribution channels;
- Provides an efficient way to conquer your target market;
- Enables you to be price competitive;
- Allows direct control of the company;
- Improves quality of service and customer relations.

The main disadvantage is the large cost of sales that exist in this way of selling insurance. The reason why insurance companies use this method of distribution primarily derives from the characteristics of the insurance service and target market to which the company is oriented.

Distribution channel trough agents - Insurance agents specialize in certain types of insurance for the specific market that is not always covered by company organizational forms. From the volume of work carried out by the insurance agent depends the amount of commission received. Their advantage is that they know all the good features of established markets and its positive influence of aggressive promotion of a particular type of insurance. Most agents are independent contractors, but they can be employed in any ordinary agency or insurance company.

Distribution channel trough brokers - Although the broker serves as the agent of the insured, he usually receives compensation in the form of a commission by the company. The fact that the broker is the agent of the insurer means that he has no power to bind the company. Broker generally represents business from customers, and then conducts business with the insurer (insurance company). Brokers represent a significant segment of the insurance marketing mechanism, especially in large cities where they control large segments of the market. In some cases, agents act as brokers, providing coverage through agents for the companies they don’t represent.

NEW DISTRIBUTION CHANNELS

The insurance market is experiencing transformation the last ten years, which is caused by the emergence of new distribution channels that made a significant change in the way customers buy their insurance services. The term new distributor to market insurance is used for new, successful distributors who have set out to win new customers thanks to the sale of insurance contracts. As dominant new channels we can mention (Chartier-Kastler, 2001):

- Car manufacturers who no longer want to just sell cars, but services as well;
- Chains of wholesale and retail super and hyper markets which extend its offer of insurance services;
- Integrated financial companies with a large portfolio of clients and a large sales capacity;
- The Internet.

In order to sell to its customer's insurance products, new distributors are using some advantages compared to the traditional insurers: the strength of the brand, the frequency of contacts with customers, marketing knowledge, and commercial knowledge, knowledge to develop and deploy service packs that include insurance. New distributors are often on the market in a different way which means insurance and new services. No price war, but competing in other ways, particularly in the quality of service. These new distributors have the capacity to enter into many agreements on all continents. Of course the insurance activity was not developed by all, but only those who find a way to fully integrate insurance service with the new product or service. New distributors use different models that are integrated to varying degrees.

New channels of distribution can provide greater coverage of the market at lower costs related to insurance, but should also take into account that these distribution channels, which are not an integral part of the insurance companies, cannot be controlled, that can lead to, despite the low prices of distribution, take the risk of its founders. One possible solution for those who want to stay on the market is keeping the traditional channels and the introduction of new channels of distribution, regardless of the initial cost and uncertainty.

Banc insurance - Traditional barriers between banking and insurance are increasingly lost in the last few decades. This phenomenon is a result of deregulation and liberalization of the financial services market, and the emergence of giant financial companies able to provide a wide range of services ranging from conventional banking, investment by working with securities and asset management, all the way up to offering insurance services.

At the same time, there are significant changes in the preferences of customers in banks and reduced participation of classical and savings deposits, which was the traditional core of the potential and profitability of banks that manage their clients' money.

The benefits of Banc insurance for banks can be seen in the increased revenue in the form of commissions or profits (depending on the type of engagement), reducing the high fixed costs of operating branches and the ability to increase employee productivity. Banks through Banc insurance provide additional and stable source of income, as well as perform diversification that reduces reliance only ondifference between lending and deposit interest rates as the main source of income for the bank. Through sales of full range financial services increases the degree of retention of customers, and it is possible to place special services that are “made” by the customer lifecycle.

The benefit of banc insurance for insurance companies is seen by the fact that it allows them to expand their grasp of new clients or customers of the bank, in areas where the insurance company had its presence, and the bank has its business units. Thus the insurance company does not have to build its own network of insurance agents that require a lot of money and time. We should not neglect the specific reasons, such as demographic as customers of banks are completely different population segment (by age, gender, and buying habits) in relation to that insurance company had. Banc insurance enables insurance companies to expand their range of services to offer insurance through bank distribution channels or place their services that are not suitable for traditional distribution channels of the insurance companies. Relationship with the bank provides the insurance company with relatively favorable conditions to reach additional capital, and the development of new insurance services for the insurance company is very efficient if it makes it with the bank as a partner.

Internet distribution- The Internet allows companies to deliver high quality information to a large audience in a way that was previously unimaginable, at relatively low cost. These features make the Internet a powerful channel of distribution. In the financial sector, Internet marketing is facing some difficulties, primarily due to differing national regulations and legislations. A very important aspect is to provide security in Internet transactions, especially in Internet financial transactions because these transactions contain many important and sensitive data. The effect of e-business is subject to intense debate in the insurance sector. New Internet insurers are in the process of implementation of new features for a new way of work provided by the new technology and business models. Many already existing insurance companies are in the process of restructuring their business model towork by establishing new online services that allow the sale of insurance services through the Internet.

DISTRIBUTION CHANNELS IN REPUBLIC OF MACEDONIA

The distribution of the insurance services in Macedonia went through the traditional network of channels, meaning through agents and brokers who continued to be today's largest suppliers of insurance (44%), as in most European countries.

The direct sale in Macedonia takes up 45.69% of the gross insurance policy premium, which is more common in the non-life insurance, because for these products it is the second largest distribution channel by the intermediaries.

Table 1:Distribution channels in Macedonia

Distribution channels	**%** of gross policy premium
direct sales	45,69%
brokerage companies	20,71%
tourist agencies	0,52%
banks	1,00%
insurance companies	4,55%
Car Dealers	0,44%
Insurance agents	23,12%
Other distribution channels	3,97%
Total	100,00%

But unlike the European insurance, in Macedonia the Banking insurance is not represented enough which is most often a channel for life insurance in the EU. The impact of customers demographic features as well as the purchasing power, dictates weak sale of life insurance. However the insurance in Macedonia is unsatisfactory even for the countries of the region, because the growth of the economy is small and therefore the insurance industry itself, despite the steady growth of the life insurance.

DISTRIBUTION CHANNELS IN THE EUROPEAN UNION

The European market for non-life insurance is dominated by intermediaries (agents and brokers). The Banking insurance channel remained at low level in the non-life insurance, but dominates in the life insurance at the markets in Europe. Europe seems to be the most developed in terms of banking insurance in life insurance, but this channel has begun to spread to other areas of the world (Asia, Latin America).

The development of new distribution channels, along with the retention of traditional networks as agents and brokers, imposed the insurance companies with a need for implementing multichannel strategies to attract more customers. These strategies are necessary due to the increasing instability of the purchase by the customer.

In the last years the banking insurance, along with the growth in life insurance is more dominant. However, the UK market, where the purchase instability is generally higher shows that new channels can prevail in many sectors of the insurance market.

INFORMING THE CUSTOMERS AND DISTRIBUTION

Insurance products are sold in different ways and different markets in Europe. From this diversity of the distribution channels customers have benefit that encourage competition to better access the price, quality of products, services and adjusted distribution to contemporary cultures, needs and preferences of the customers in different markets.

Insurance in Europe supports a high level of protection for all customers of insurance products - regardless through which of the channels of distribution they are sold. The best way to protect the customers is the legislation that should be flexible enough to accommodate to the diversity of the EU markets.

Over the last year, the insurance in Europe included a number of initiatives related to customer information and the way insurance products are sold. In the EU there is an insurance intermediary directive (IMD) that was revised in 2012 which stressed the importance of diversity in the insurance distribution and set up high level of principles. It established principles of sale practices for all insurance contracts, which is believed to provide an appropriate level of customer protection, regardless of the distribution channel. These principles cover issues such as fair treatment of clients, tips and analysis of the client’s needs. The insurance intermediaries and direct sale are two very different sales models that require different customer protection, especially in relation to conflicts of interest and transparency in compensation risks. The insurance in Europe supports transparency that allows customers to be informed when making decisions by comparing products and distribution channels. Insurance in EU proposes a set of six sale principles to all insurance products and all distribution channels:

- The sale must be focused on the fair treatment of the clients;
- The distributor should offer advice, on request or on its own initiative when circumstances indicate that there is a need, in order the client to be informed;
- The client should always be informed of the type of services (counseling for sale, advice, fair analysis);
- Where advice is given, which should be based on analysis of the client needs, are based on information provided by the client;
- Each distributor provides information or advice for theinsurance product that must be clear and explained for the key features of the product;
- Before an agreement is concluded, the client should be given information about the insurance product that allows the client to make the right decision.

These principles are embedded in Solvency II at EU level, in order to protect the customer through its information regarding the insurance product and insurance distribution channel in which it is submitted.

In Macedonia, for the legal and efficient functioning at the insurance market, in order to protect the rights of insured holders and beneficiaries of insurance services and increasing financial stability of the country, in 2009 the Agency for Insurance Supervision was established, which is an independent regulatory body with its authorities and powers. The basic principles of the Agency for Insurance Supervision include:

- Responsibility - The agency will respond in a quick and comprehensive manner, and will consistently realize the mission and strategic goals in the area of supervision;
- Expertise - All activities related to the responsibilities of the Agency will be undertaken in a manner that will ensure effective achievement of the strategic objectives, in accordance with the highest standards in the area and reasonably incurred costs;
- Conscientiousness - In conducting its activities the Agency shall be guided by the highest ethical standards in communication and collaboration with all participants in the process of supervision;
- Transparency - Placing quality information for the insurance market as well as providing timely information for the needs of the participants and beneficiaries of the insurance services. (www.aso.mk)

MANAGING DISTRIBUTION CHANNELS

Insurance companies have identified the distribution and the choice of distribution channel for marketing their services as one of their preferred strategies of the early 21st century. Selecting the appropriate distribution channel and its successful management is essential to increase marketing share of the insurance market.

Insurance companies need to decide, through which distribution channel to sell their services, most often when developing a new service or identify new target market to ensure existing services. The main decisions that have to be made by every company are decisions about which channel to use and to determine the number of channels they will use.

There is no best channel through which can be distributed one service. Some channels are appropriate for each service, unlike others, some are appropriate for certain target markets; some better achieve the objectives of the company. Therefore, when choosing distribution channels, the company has to take into account the following factors (Sharon et al., 2003, pp. 381):

- Characteristics of the target customer markets. Since the basic purpose of the distribution is to transfer service from the insurance company to the insured, the main aim is the selection of the channel to meet the needs of the insured. The characteristics of the insured as affecting the choice of channel: the number and types of customer target market; location of purchase of selected target market; complexity of the purchasing needs etc...
- Characteristics of the service. Each service that the company offers also affects the decision on distribution channels. Some services are more suited for a distribution channel than another. If the new service can effectively be distributed through existing distribution channels, the Company may impose additional channel.
- Marketing environment. The environment is also an important determinant in the choice of distribution channel.
- Characteristics of the company. Many of the features of the company affect the choice of distribution channels. These factors include:
  - Financial, technological and human resources;
  - Mission, goals, plans, the company's culture and marketing philosophy;
  - Experience with various types of channels;
  - Channels that are currently used.
- Characteristics of the distribution channel. - Expenses necessary to maintain the channel and control channel on the insurance company wants to have influence on the choice of distribution channel.

CONCLUSION

Growing problems in distribution and higher insurance costs are the challenge that may affect the profitability of insurance companies in the future. Insurance companies are adamant in its distribution strategy, and stick to a few favorite channels, but for a greater competition in the future they have to adopt multi-channel distribution strategy and flexibility in the adoption of modern tools of technology and the Internet, for the expansion of distribution channels. Companies need to adjust their business strategies in line with changing consumer tastes and preferences. Insurance services should be easily accessible to customers when they decide to buy, and with affordable price.

Changing lifestyles and purchasing power among customers, will detect future models of distribution, based on the balance between traditional distribution models, and models that include internet sales. In the future, the agent can still expect a "warm" smile and internet networking as traditional and modern models while successfully work together. In Macedonia, despite low economic growth and thus reduced purchasing power of consumers, the insurance sector in the future should pay attention to the customer in terms of supply through distribution channels, in order to reduce their costs and increase profits and thus assisting in the growth of the economy.

Measures taken to improve the sales are on track but not enough, there is a great need of new distribution models. Servicing customers has big role by constantly informing the client, because the customer expectations is high, they are very specific and they have many choices. Demographics of customers' are changing. Many economic factors such as increased revenue, market performance, interest rates, inflation, savings rate, etc. also contribute to the rapidly changing needs of customers.

Another factor which affects the insurer is the competition which contributes pressure from other insurance competitors. New product contributes to innovation and traction in the market of a competitor, but there is pressure from copying each product. To prevent grabbing a larger share of the market, insurers develop products that are completely unique and have protective features. Insurance in Macedonia should follow global trends in order to promote sales of lower operating costs and greater profits, and insurance companies that would help the development of state economy and improve living standards.

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