INSURANCE INTERMEDIARIES AND BAD FAITH IN INSURANCE: THE CASE OF THE NON-LIFE INSURANCE MARKET IN NORTH MACEDONIA

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PROBLEM

- Insurer-insured mutual (dis)trust:
  - Insurer exposed to information asymmetry (adverse selection and moral hazard)
  - Insured exposed to unequal bargaining power (insurer drafts the contract terms)
- Potential opportunistic behavior:
  - Policyholders may exaggerate losses or submit fraudulent claims
  - Insurers may delay, underpay, or unjustly deny valid claims
- Consequences: rise in legal disputes, escalation in transaction and settlement costs, and damage to their reputational capital
- **Do the intermediaries play a role in mitigating or stimulating good faith or bad faith behavior?**
  - What we know: role in enhancing informational and transactional efficiency, improving service quality, contributing to overall market development; multichannel distribution leads to cost efficiency

THE REASONING

		Disputed/Rejected/ Unresolved claims	Settlement behavior
Brokers	Agency theory: it is difficult for insurers to verify the behavior of brokers • Contingent commissions (-) • Service quality hypothesis (+)	?	+
Agents	Agency theory: monitoring cost to exclusive agents is lower • Less incentive to help their clients (environment with low financial literacy)	+	-
Banks	Agency theory: Acting in the interests of the bank and no mechanism to discipline insurers • the bank typically has little involvement once a claim arises; bank staff are not insurance specialists	0	-

DATA AND METHODOLOGY

DATA

- 11 non-life insurers (Firm-level data); Period 2013-2022
- Method: RE IV 2SLS with group mean centring
- Bad faith measures: The share of the number of disputed claims (on court) to total number of claims at the end of the year
- Settlement behavior measure: The ratio of paid claims to technical premium (different lines)
- Intermediary intensity measure: The ratio of the share of contracts generated via agents/bancassurance/brokers for the insurer to the share of contracts generated via agents/bancassurance/brokers in the country

MODELS

$$BF_{it} = \beta_0 + \beta_1(DIST_{it} - \overline{DIST_i}) + \beta_2\overline{DIST_i} + \phi'(X_{it} - \overline{X_i}) + \delta'\overline{X_i} + d_t + v_{it}$$

RESULTS

VARIABLES	Disputes	Disputes and rejected	Unresolved	Settlement (Accid.)	Settlement (Casco)	Settlement (Prop.)	Settlement (MTPL)
Broker (within)	0.018*	0.018	0.088	0.378	0.164	-0.511	-0.131
	(1.888)	(0.406)	(1.182)	(0.962)	(0.633)	(-1.097)	(-0.773)
Broker (between)	0.029*	-0.027	-0.257***	1.461***	0.333**	-0.877*	0.167
	(1.755)	(-0.672)	(-5.089)	(4.779)	(2.120)	(-1.919)	(1.028)
R-sq.	0.464	0.287	0.736	0.389	0.163	0.0297	0.218
Chi-sq	372.0	132.6	1701	362.7	120.0	139.4	71.75
Agents (within)	0.013	-0.031	-0.018	-1.084	0.133	0.503	0.443*
	(0.679)	(-0.380)	(-0.151)	(-1.249)	(0.290)	(1.242)	(1.801)
Agents (between)	0.002	0.009**	0.003	0.030	0.015	-0.062	-0.008
	(1.558)	(2.019)	(0.313)	(0.671)	(1.554)	(-0.910)	(-0.294)
R-sq.	0.578	0.382	0.736	0.0517	0.233	0.170	0.00519
Chi-sq	991.2	199.4	115.7	616.7	113.6	119.8	26.29
Bank (within)	0.002	-0.011	-0.008	-0.396	0.021	0.215	0.140
	(0.313)	(-0.323)	(-0.190)	(-0.967)	(0.157)	(0.717)	(0.757)
Bank (between)	-0.004	0.008	0.038**	-0.114*	-0.046	0.061	-0.053
	(-1.427)	(0.703)	(2.175)	(-1.684)	(-1.125)	(1.173)	(-1.051)
Obs.	110	110	110	110	110	110	110
#Firms	11	11	11	11	11	11	11
R-sq.	0.659	0.307	0.719	0.179	0.243	0.173	8.63e-05
Chi-sq	238.8	102.1	223.5	515.5	232.5	130.0	16.04

CONCLUSION

- Brokers → more court disputes but fewer unresolved claims (efficient closure)
  - brokers' engagement from claim reporting to settlement curbs clients' opportunistic behaviors and reduces insurers' auditing burdens, yielding a smoother claims experience
- Agents → higher disputed & rejected claims (more contentious handling)
- Brokers & Agents → higher settlement ratios (agents - MTPL; brokers - Accident and Casco) (greater responsiveness).
- Bancassurance → fewer disputes but more unresolved claims (slower processing) and more conservative payout patterns (notably in accident insurance)
  - Bancassurance channels deliver lower distribution costs but must contend with potentially less personalized service

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THANK YOU