QUALITATIVE RATING OF INSURANCE AGENCIES: AN ANALYSIS ON TURKISH INSURANCE SECTOR

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Abstract - The main purpose of this study is to make a rating according to qualitative characteristics of insurance agents. To put it more clearly, to create a 5-star agency class based on universal and measurable norms. The aim is to set a single top target point and create an evaluation scale in which some agencies may have a 5-star agency certificate.In the first stage of data collection, semi-structured interviews were conducted with 7 participants consisting of executives of non-governmental organizations, agencies and insurance companies with high representation power. In the light of the information obtained from the interviews, criteria for qualitative scoring and classification of agencies were determined.In the second stage, interviews were conducted with 40 participants with high representative power, high experience, intellectual level, vision and reputation, and were asked to weight the determined criteria. At the end of the study, weighted qualitative categories were established for the authorities. Reference limits are set for these categories. In the light of these data, a scale has been prepared in order to ensure that insurance agencies with a certain quality can have 5-star agency certificate.

Keywords - Insurance Agency; Rating; Insurance

I. INTRODUCTION

The insurance sector, which makes the most fundamental contribution to the economic and social development of today's modern societies, is considered as one of the three pillars of the financial sector. With the globalization without borders, meeting the rapidly increasing security requirement of the states and gradually decreasing the cost-taking power has made widespread use of insurance as a risk transfer technique.The insurance sector plays a key role in the flow of funds to the economy and the healthy and stable growth of capital markets. Therefore, it will not be right to consider insurance as a simple risk transfer mechanism where the losses of damaged units are spread to many actors only due to unfortunate events (Kırkbeşoğlu and Hood, 2018).

The insurance sector mobilizes resources and transfers risk to a large extent, contributing to the efficient allocation of resources and economic growth. In addition, it reduces transaction costs, creates liquidity and creates economies of scale in investments. Thus, it increases the efficiency of the financial system. A strong insurance sector alleviates pressure on the state budget by creating alternative products to the social security system. Life insurances and private pension funds make significant contributions to the national economy with long-term funds, especially in developing societies.

However, it is imperative to establish an effective insurance system in order to meet all these expectations. An effective insurance system requires a scientific infrastructure that is well-defined by laws and regulations. The legislative effect of states on the insurance system creates a competitive insurance market that meets financial expectations, protects the rights and interests of citizens and increases their confidence in the system. The creation of social insurance awareness and demand is only possible with a healthy legal infrastructure (Ererdi, 1998). In this respect, public supervision is of paramount importance for the continuation of insurance activities in a safe and transparent manner.

The trust of the insured in the insurance system and the belief that it protects against risks will continue the success of the system.Insurance intermediaries are the main actors that ensure citizens' involvement in the insurance system and create trust.Insurance and reinsurance intermediaries play a very important role in the insurance industry as it is an activity subject that requires service delivery in terms of its insurance structure. Insurance intermediaries are the most important actors of the insurance sales process as they are the first to establish contact with the insured, provide the products according to their demands, provide the most accurate information for the products, determine the local and regional product expectations, and receive the feedback regarding the insurance sales process.

The fact that insurance intermediaries are the visible face of the insurance sector also places great responsibilities on them. Insurance intermediaries are actors who inform people who have no knowledge of the insurance interest (Kohen, 2009). They are those who act as a bridge between the expectations of the insured and the insurance companies and are sometimes expected to stand by the customer in case of damage. Therefore, it is the organizational structures that the insured care about.As insurance intermediaries are the visible face of the sector, the expectations of both governmental bodies and professional associations are increasing (Kazgan et al., 1998). Like insurance companies, insurance intermediaries must have sufficient professional knowledge and meet technical, financial and physical expectations as required by law. To this end,

numerous legal arrangements are being made in the developing insurance markets.

Insurance agencies constitute the most important distribution network of the insurance sector. In the majority of developed countries, it is seen that more than 50% of total insurance premium production is produced by insurance agencies (OECD, 2018). Therefore, insurance agents are the driving force of insurance premium production. Due to the strategic importance of insurance agents, qualitative development of insurance agents is very important. The more qualified an agent contributes to the development of the insurance system.

The main purpose of this study is to make a rating according to qualitative characteristics of insurance agents. To put it more clearly, to create a 5-star agency class based on universal and measurable norms. The purpose is therefore to distinguish only those agencies that meet these criteria from those who do not. As a result, it is easier for the insured to know and prefer the agencies where they can get more qualified services. The main purpose of this study is not to distinguish agents as good - bad or qualified - unqualified. The aim is to set a single top target point and create an evaluation scale in which some agencies may have a 5-star agency certificate.

II. QUALITATIVE STRUCTURE OF INSURANCE AGENCIES

An agency is an insurance intermediary which is engaged in professional activity under the insurance companies, whose powers and responsibilities are determined by law or contract. The agency is the leading company that provides close contact with the insured. The more qualitatively qualified the agency, the more quality the service will be provided. Insurance companies also tend to conclude authorization agreements with qualified agents. Because qualified agents have less damage frequency, more premium collection ability and customer satisfaction. Therefore, they create a profitable portfolio for insurance companies.

For insurance companies, it is an operational risk to conclude authorization agreements with agents. Because insurance companies are able to sell their products even in small geographies through their agents. So, it is also important to know which agency this agreement is made with. Although almost all insurance companies have certain rules and conditions on this issue, authorization agreements with agencies may be realized in some cases as a result of subjective assessments. When the insurance company authorizes an agency in any location, it can also take on the potential undesirable risks in that area. Therefore, the agency agreement for the insurer is an operational risk and its financial consequences may be positive for certain regions as well as negative for some regions. In today's modern insurance approach, it is a much more important choice to expand the insured portfolio or to add insured people with low risk probability to the portfolio instead of just selling insurance. Although insurance is a risk transfer system, the bad risk for the insurer is the undesired risk.

III. METHODOLOGY

Qualitative research method was used in two stages. In the first stage, semi-structured interviews were conducted with 7 participants consisting of executives of non-governmental organizations, agencies and insurance companies with high representation power. In the light of the information obtained from the interviews, criteria for qualitative scoring and classification of agencies were determined.In the second stage, the institution to which they are attached as an official of the agency in Turkey (TOBB Insurance Directorate) and were aimed to support weighting of the criteria set out in the first stage. In this context, interviews were conducted with 40 participants with high representative power, high experience, intellectual level, vision and reputation, and were asked to weight the determined criteria. In the light of the results of the interviews, a guide scale was established for the competent authorities responsible for the supervision and supervision of the agencies. Weighted scores of each criterion were calculated in the scale and the concrete indicators that these criteria could be evaluated were defined.

IV. ANALYSIS

In the first stage of the data collection process, 6 semi-structured interview questions were asked to the participants. These questions relate to sectoral general structure identification, insurance demand assessment, the role of agencies, qualitative separation of agents, categorization of agencies and their views on 5-star agency implementation. In the light of the data obtained from the first data collection stage, it was concluded that the following criteria will test the quality of agencies. The common discourse is based on the common point and the ones with very weak importance are eliminated.

As a result of the semi-structured interview, the following quality indicators were formed from the common discourses of the seven participants:

1. Education level of the agency owner
2. Education level of agency employees
3. Duration of the agency owner's experience in the sector (years)
4. Duration of the agency's activity (years)
5. Duration of experience of agency employees in the sector (years)
6. Suitability of the physical environment of the agency office for customer acceptance
7. The agency operates in the center of the city or in the strategic locations of the city

8. Foreign language knowledge of agency owner or employees
9. Annual premium production of the agency
10. Number of insurance branches produced by the agency
11. Distribution of the agent's portfolio according to the branches of production
12. Damage / Premium ratio of the Agency
13. Lack of tax debt
14. Dues owed
15. Unpaid debt level of the agency to the insurance company
16. Number of insurance companies where the agency works
17. Various profitability ratios showing the financial adequacy of an agency

In the first stage of the study, 17 criteria were determined and 38 participants were asked to weight in the second stage. As a result of this process, the average scores of 38 participants between 0 and 100 were calculated. The scores given by each participant were then converted to percentages.

V. CONCLUSION

The mean percentages alone are not sufficient in the study. How these percentages should be used is also important. As can be noticed, each criterion requires questioning whether certain limits are met. Therefore, it will be necessary to inquire whether the candidate agency aiming to obtain 5-star agency certification provides the qualification dams. The answer to some criteria is yes / no. However, a qualification reference value should be determined for the majority. For example, how many companies do an agency work with? What are the financial adequacy ratios and what should be the relevant values? What is the criterion? Such questions can be asked. Therefore, the competence reference values of these criteria maybe determined by the competent authority. In the light of this information can be used as follows by clarifying our table. The information to be requested is recommended.

The applicants receive 100 points from each item listed in Table 1. However, this score is multiplied by weighted percentages. As a result of the points to be taken from the criteria, the number of points to be awarded 5-star agency certificate can also be determined by the competent authority. It may also be desirable to provide all of these substances.5-star agency certification maintains the target point to be reached. The categorization of a sustainable and healthy distribution channel is a necessity for the development of the sector. When the results of the rating for the insured are evaluated, it can be expected that qualified service procurement and distribution network will emerge.

	Criteria	Documents to be Requested	Reference Limits	Weighted Coefficients
1	Does the agency owner and partners have undergraduate or postgraduate training?	Undergraduate and graduate diplomas of owners and partners	All employees must have a maximum undergraduate degree	0,0621
2	Do agency employees have undergraduate or graduate training?	Undergraduate and graduate diplomas of employees	All employees must have a maximum undergraduate degree	0,0580
3	What is the period of experience (years) of the agency or its partner with a large share in the sector?	Working time documents showing the work experience of the owner or major shareholder in the insurance sector	Minimum XX Years	0,0646
4	How long has the agency been active?	Official document showing how many years the agency has been operating continuously (name changes, mergers and capital changes are taken into account)	Minimum XX Years	0,0583
5	What is the average experience of agency employees in the sector? (years)	Working time document of technical personnel showing work experience in any part of the insurance sector	Average XX Years	0,0583
6	Compliance of the physical environment of the agency office with customer acceptance	Floor plan showing the physical conditions of the office	Minimum XX m^2	0,0593
7	Does the agency operate in the city center or in the strategic locations of	The official full address of the agency	Yes	0,0522

	the city?			
8	Do the agency owner or employees have foreign grammar to prove it?	Documents showing that every employee (including managers) foreign language exam result (no time limit is required)	Average XX Score	0,0450
9	What is the agency's annual premium production?	Certified document that will be requested from the insurance companies that the agency acts as an intermediary and shows premium production on the basis of all branches	Total XX Dollar	0,0578
10	How many insurance branches does the agency produce?	Certified document that will be requested from the insurance companies that the agency acts as an intermediary and shows premium production on the basis of all branches	Operating in maximum XX branches	0,0665
11	What is the distribution of the agency's portfolio according to the branches of production?	Certified document that will be requested from the insurance companies that the agency acts as an intermediary and shows premium production on the basis of all branches	The share of premium production of automobile insurance in total premium production should be maximum XX%.	0,0663
12	What is the Damage / Premium ratio of the agency?	Approved document that shows the Damage / Premium rate to be requested from the insurance companies with which the agency acts as an intermediary	Damage / Premium ratio is expected to be less than XX% (based on the last XX years)	0,0522
13	Is there a tax debt?	Official document showing that the agency does not have tax debt	No tax debt	0,0566
14	Do you owe dues?	Confirmation by the authority that the agency does not owe dues	No due debt	0,0538
15	Is there any premium debt against the insurance company?	Debt document to be requested by the insurance companies	Related documents	0,0696
16	How many companies does the agency work for?	Official letter showing that authorized agent of the insurance company	It is required to work with a maximum of XX companies.	0,0498
17	Does the agency have capital adequacy financially?	Cost of Services Sold / Net Sales General Management Expenses / Net Sales Trade Receivables / Total Assets Profit / Net Sales Financial Liabilities / Liabilities Total	The relevant ratios are required to be approved by any independent external audit firm and are expected to provide reference values.	0,0697
	TOTAL			1,0000

Table 1: Criteria and Reference Values

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