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A STUDY ON THE FACTORS AFFECTING THE INSURANCE COMPANY PREFERENCES OF INSURANCE AGENCIES IN TURKEY

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─Abstract ─

The largest portion of insurance premiums collected in Turkey is provided by insurance agencies. Insurance agencies are required to sign an agency contract with an insurance company within the 6 months they receive official authorization and start writing insurance policies. Insurance agencies are allowed to sign agency contracts with several insurance intermediaries.

This study aims to identify the factors affecting the insurance company preferences for insurance agencies operating in Turkey. Research data was collected from 49 insurance agencies operating in the city center of Çorum using face-to-face interview and survey methods. Results were investigated for factors such as financial aspects, satisfaction and communication. According to the findings of this study, insurance companies' ability to pay the claims of policyholders, financial opportunities provided to the agent, the assistance provided, and the communication level are the main factors affecting the insurance company preferences of insurance agencies.

Key Words: *Insurance, Insurance Distribution Channels, Insurance Agency, Issues Facing Insurance Agencies*
JEL Classification: G22, G23

1. INTRODUCTION

Insurance is a contract made in order to compensate financial damages that might be and to transfer risks to an insurance company (Rejda, 2008: 19). Therefore, it allows for the establishment of an insurance pool of possible damages while redistributing these damages between the members of this pool (Dorfman, 2002: 2). The insurance industry protects natural and legal persons against economic, climate-related, technologic, political and demographic risks ensuring continuity of daily life and operations (Insurance Europe, 2012: 3). In this respect, insurance contributes to the improvement of the capital market in a country with its capacity to create funds (Baltensperger and Bodmer, 2011: 4-5).

Insurance companies are commonly established as mutual insurance companies or joint-stock companies. The purpose of an insurance company is to increase the number of insured parties, i.e. the production. Insurance companies make use of insurance agencies for the marketing to individuals and corporations in order to increase the amount of insurance premiums. Insurance agencies, then, get in touch with the insured persons on behalf of the insurance company and draw up insurance policies in order to collect insurance premiums. Insurance agencies, insurance brokers, banking insurance, and online insurance are among the common insurance intermediaries. The most common, on the other hand, are insurance agencies.

Insurance agencies are natural or legal persons who make transactions on behalf of an insurance company. Insurance agencies are representatives of insurance companies which they are bound with contracts. They are responsible for the advertising and marketing of the products provided by the insurance company they are working for and they act on the instructions of that company. According to the article 14/4 of the Insurance Agencies Legislation, insurance agencies are required to sign an agency contract with an insurance company within the 6 months they received official authorization. Insurance agencies are allowed to sign agency contracts with several insurance intermediaries throughout their careers.

This study aims to identify the factors affecting the insurance company preferences of insurance agencies operating in Turkey. The first section of the study involves information on the insurance industry in Turkey. The second section addresses the findings of a survey carried out with 49 insurance agencies.

2. INSURANCE INDUSTRY IN TURKEY

Assets and financial future of people are subject to unexpected threats and risks. As a means to compensate the damages which might occur as a result of the realization of such threats, insurance encourages people to invest prospectively, contributes to the growth and reduces the vulnerability of crisis as it protects against financial damages and allows for setting viable future expectations (Istanbul Chamber of Commerce, 2008).

According to another definition of insurance; it is a system of risk transfer in which damaged parties are compensated with money collected as a premium payments from persons faced with similar risks. The damages persons and corporations are subject to as a result of risk realization is distributed in return for a small premium payment in the insurance system (Gümüş and Uzun, 2012).

The very first insurance activities in Turkey were commenced by British and French companies by the end of the 19th century. Insurance companies were operating in a totally uncontrolled manner as there were no regulations in relation to the establishment and operation principles of insurance companies in that time period. In this period, insurance companies were trustable in terms of payments of damages as they were aiming for the widespread use of insurance services. The industry had seen the entry of an increasing number of new insurance companies for the following period as insurance operations flourished and the legal gap was still not attended. As a result, insurance companies started to not compensate for damages, leading to a distorted insurance ethics. During this period the first domestic capital insurance company, ‘Ottoman Public Insurance Company’ had commenced operations in the year 1893. By the year 1900, 44 insurance companies had a consensus and set a common fire tariff. As a result of this common fire tariff, the ‘Fire Insurance Companies’ union was established and an audit board was created as an organ for the union which marks the first audit activity in the history of Turkish insurance (Insurance Association of Turkey, 2015).

A regulation on insurance activities took effect in 1908 making collateral provision and tax payments an obligation for insurance companies. By 1939, insurance companies were associated with the ‘Ministry of Trade’ while the ‘Law on Insurance Inspection’ took effect in 1959 and was amended in 1987 which aimed to bring transparency to insurance companies in order to pay the way for financial development. By the year 1990, insurance companies were associated with the Under secretariat of Treasury and ‘engineering insurances, agricultural insurances and accident insurances’ were subjected to liberal tariff (Çekici and İnel, 2013).

In the aftermath of the 1999 Izmit Earthquake, earthquake insurance has become mandatory and 'Natural Disasters Insurances Authority’ was established. ‘Personal Pension Savings and Investment System Law’ came into effect in 2003 while the ‘Agricultural Insurance Law’ was issued in 2005 and 'Agricultural Insurance Pool Corp.' was put in charge. ‘Traffic Insurance Information Center’ which accumulates the policy and damages payment information of all insurance companies involved in traffic insurance commenced its operations in 2003. ‘Insurance Information Center’ was established in 2008 as a result of the Insurance Law No. 5684 issued in 2004. By the end of 2014, 68 insurance companies and 2 reassurance companies were registered with the Insurance Association of Turkey. Among these firms 4 of them operates in life insurance segment, while 18 operates in both life and pension insurance and the remaining operates in other segments (Insurance Association of Turkey, 2015).

‘Regulation on Measurement and Evaluation of the Capital Adequacies of Insurance and Reassurance and Pension Companies’ was published on January 19th, 2008 as part of the integration to the European Union. This regulation aims to have insurance and reassurance and pension companies to have adequate capital in the face of vulnerabilities and risks inherent to the industry. Two methods are applied in capital adequacy calculations. The first method is the use of ‘Solvency I’ as it is a common practice in the European Union. The second method, on the other hand, is the ‘Risk Based Capital Formula’ as it is a common practice in the USA. Nevertheless, insurance companies operating in Turkey are obliged to apply the higher rate calculated using both methods (Kaya et al., 2014).

Insurance industry grows as the awareness and wealth level of the population increases. It is a rapidly growing industry in terms of both local and global resource and employment opportunities it provides. Premium production is realized through insurance companies, insurance agencies, banks and brokers. As of the premiums produced by the insurance industry, insurance agencies account for 60% of the total premiums produced in Turkey between 2012 and 2014 (Insurance Association of Turkey, 2015).

Table 1: Distribution of Insurance Premiums Produced in Turkey per Branch

Sales Channel of the Written Premiums	2012		2013		2014	
	Annual Premium Sum (000)	Sales Channel Dividend	Annual Premium Sum (000)	Sales Channel Dividend	Annual Premium Sum (000)	Sales Channel Dividend
Headquarters	1.338.565	6.75%	1.566.471	6.47%	1.615.940	6.22%
Agent	11.943.292	60.24%	14.496.136	59.83%	15.310.275	58.91%
Bank	4.504.097	22.72%	5.670.226	23.40%	5.868.604	22.58%
Broker	2.040.694	10.29%	2.496.781	10.30%	2.820.210	10.85%
Other	-	-	-	-	374.520	1.44%
Total	19.826.649	100.00%	24.229.615	100.00%	25.989.552	100,00%

Source: http://www.tsb.org.tr/resmi-istatistikler.aspx?pageID=909

As shown in table 2, a total amount of 26 billion TL worth of premiums were produced in Turkey in 2014. Insurance agencies account for the 58.91% of this premium production. On the other hand, banks accounted for the 22.58% of the premiums produced in Turkey in 2014. Having produced more than half of the total premiums produced in Turkey, insurance agencies draw attention as important actors of the insurance industry.

Table 2 includes an international comparison of the Turkish insurance industry.

Table 2: Insurance Industry Statistics for the World and Turkey (2013)

	Premium Production (million $)	Share in World (%)	Premiums/GDP (%)	Premiums Per Capita ($)
World	4.640.941	100	6.28	652
England	329.643	7.1	11.5	4.561
France	254.754	5.49	9.0	3.736
Germany	247.162	5.33	6.7	2.977
EU 28	1.494.318	30.4	7.82	2.680
Turkey	12.700	0.27	1.5	166

Source: Insurance Association of Turkey 2013 Activity Report

The premium production in Turkey was around $12.7 million TL in 2013. When compared to developed countries of Europe such as England, France, Germany this amount might be deemed inadequate. The ratio of premiums per GDP for Turkey is significantly below the World and Europe average. Premium per capita is around $2,680 for Europe while this number is only $166 in Turkey. Premium production is indicative of the development level of the insurance industry. It is clear that Turkey has a way to go when the numbers from World and the European Union were considered. However, the potential for insurance in Turkey, increasing number of mandatory insurances, widespread insurance awareness, and government incentives for Personal Pension, and insurance agencies being bestowed with the personal pension agency authorization, all constitute the strengths of the insurance industry in Turkey.

3. PURPOSE, SCOPE AND METHOD OF THE STUDY

3.1. Purpose

The purpose of this study is to identify the characteristics which insurance agencies registered with the Çorum Chamber of Commerce and Industry and operating in Çorum, place emphasis on, in their preference for insurance companies to work with and to determine the factors behind this preference. This study also aims to contribute to the industry providing data in order to build a competitive insurance market of good quality.

3.2. Scope

The research included 48 individual insurance agencies registered with the Chamber of Commerce and Industry of Çorum as per the list obtained on March, 17th, 2015. Face-to-face interview technique was used in order to increase the reliability of this research and the scope of the research was limited to the city of Çorum considering the time and cost aspects of the research.

3.3. Method

This study applies face-to-face interview technique and the survey method. The survey included three parts with 22 questions. The questions available in the second and third parts of the survey were developed using a 5 point Likert scale with the following answers: '1 - Strongly Disagree, 2 – Disagree, 3 – Undecided, 4 – Agree, 5 - Strongly Agree'. The first part of the survey included 8 questions in order to identify the demographic characteristics of the agent, while the second part involved 6 questions aiming to discover financial factors which may play a role in the agent's insurance company preference and finally the third part consists of 8 questions evaluating the satisfaction obtained from services and communication opportunities insurance companies provide. SPSS v22 software was used in the data analysis of the research.

4. RESEARCH FINDINGS AND ANALYSIS

A reliability analysis was conducted in order to determine the reliability of the 5 point scale used in the second and third parts of the survey. According to the analysis results the Cronbach's Alpha for the internal consistency coefficient was found to be .7666. Social sciences recognized a reliability coefficient of 0.7 or higher to be acceptable research findings (Büyüköztürk, 2014). According to this result, it can be said that the research findings are reliable.

Table 3: Reliability Analysis Results of the Research

Cronbach's Alpha Coefficient	Eligible Sample Size	Number of Questions
.766	48	14

4.1. Findings on the Characteristics of Insurance Agencies

The legal structure, operating period, number of insurance companies they work with, number of technical staff working in the agency are given in Table 4.

Table 4: Operating Structure Distribution of the Insurance Agencies Included in the Research

	Number	Percentage
Legal Structure of the Insurance Agencies		
Natural Person	21	43.8
Legal Person	27	56.2
Total	48	100
Operating Periods of the Insurance Agencies		
1 year and less	3	6.3
1 to 5 years	3	6.3
5 to 10 years	10	20.8
10 years and more	32	66.7
Total	48	100
Number of Insurance Companies Agencies Work for		
1 Insurance Company	3	6.3
2 Insurance Companies	4	8.3
3 Insurance Companies	13	27.1
4 Insurance Companies	5	10.4
5 or More Insurance Companies	23	47.9
Total	48	100
Number of Personnel Working for the Agent		
1 Employee	4	8.3
2 Employees	14	29.2
3 Employees	12	25
4 Employees	10	20.8
5 employees and more	8	16.7
Total	48	100

As shown in Table 4, 56.2% (27 agencies) of the agencies included in the research are legal persons. 43.8% (21 agencies) are natural persons. When the operating period of the insurance agencies are considered, 66.7% (32 Agencies) of the agencies have been operating in this industry for 10 years or more. When the number of insurance companies, agencies work for is investigated it was found that 49.9% (23 agencies) have been working for 5 and more insurance companies. The number of agencies only working for 1 insurance company was 3 (6.3%).

29.2% (14 agencies) of the insurance agencies included in this study employs 2 employees. The number of agencies employing 5 or more employees is 8 (16.7%). Almost 50% of the insurance agencies included in this study work for 5 or more insurance companies. 94% of the agencies work for more than 1 insurance company. Working for more than 1 insurance company can be advantageous in terms of the ability to offer different alternatives to the insured.

The educational status of the owners and directors of the insurance agencies included in this study are shown in Table 5.

Table 5: Educational Status Distribution of the Owner/Director of the Insurance Agency

	Number	Percentage
Education Status		
High school	26	54.2
Undergraduate	12	25
Graduate	10	20.8
Postgraduate	0	0
Total	48	100
Education in Insurance		
Yes	8	17
No	39	83
Total	47	100

When the educational status of the owner and directors of the insurance agencies are considered (Table 5): 54.6% are high school graduates, 25% are undergraduates, and 20.8% are graduates of a 4-years program. The rate of insurance agency owners or directors with no insurance education is 83%. This is a rather high ratio. The ratio of owner or directors of insurance agencies with insurance education in both college and other programs is 17%. It is clear that the persons performing insurance operations are going into business without a formal education.

Distributions per operating volume of the insurance agencies included in this study are shown in Table 6.

Table 6: Distributions per Operating Volume of the Insurance Agencies

	Number	Percentage
Annual Insurance Premium Production Sum		
0-100,000 TL	1	2.1
100,001-250,000 TL	6	12.8
250,001-500,000 TL	8	17
500,001-750,000 TL	9	19.1
750,001- and more	23	48.9
Total	47	100
Monthly Average of Sold Policies		
0-150	11	23.4
151-300	15	31.9
301-450	6	12.8
451-and more	15	31.9
Total	47	100

48.9% of the insurance agencies included in this study collect a total premium of 750,000 or more. 19.1% of the agencies collect a total premium between TL 500,000 – 750,000. With 31.9% of the insurance agencies draw up to 450 or more insurance policies a month. Data shows that the insurance agencies are operating with a high operating volume.

4.2. Findings on the Financial Relationship between Agencies and Insurance Companies

When the answers to the questions with a 5 point Likert scale in the second part of the survey were evaluated, the arithmetic means of the answers were interpreted as follows (Tekin, 2009).

1.00 – 1.80 Strongly Disagree
1.81 – 2.60 Disagree
2.61 – 3.40 Undecided
3.41 – 4.20 Agree
4.21 – 5.00 Strongly Agree

Distributions for the financial factors influencing the insurance company preference of insurance agencies are given in Table 7.

Table 7: Frequency Distributions for Financial Aspect of Agency-Insurance Company Relationship

No.	Survey Questions	Sample	Average	Standard. Dev.	Evaluation
1	Insurance companies' ability to pay the claims of policyholders affects my preference	48	4.44	.796	Strongly Agree
2	Financial opportunities provided to the agent by insurance companies affects my preference	48	4.23	.905	Strongly Agree
3	The interval insurance companies pay agent's commissions affects my preference	48	3.90	1.134	Agree
4	Capital adequacy rates of insurance companies affects my preference	48	3.75	1.139	Agree
5	Insurance commission rates of insurance companies affects my preference	48	3.40	1.047	Undecided
6	Insurance companies being domestic or foreign capital companies affects my preference	48	3.02	1.139	Undecided

According to the insurance agencies insurance companies' ability to pay the claims of policyholders affects their preference (4.44 on average). The monetary opportunities insurance companies offer to their agencies is the second important factor affecting their insurance company preference (4.23 on an average). The interval insurance companies pay agent's commission affects agencies' preference. Capital adequacy rates of insurance companies affect agencies' preference. An insurance companies being domestic or foreign capital companies does not affect agencies' preference. Nevertheless, the insurance commission rates insurance companies' offer does not directly affect agencies' preference.

4.3. Findings on the Satisfaction and Communication Level between Agencies and Insurance Companies

The findings for the satisfaction and communication level affects insurance agencies' preference are given in Table 8.

Table 8: Frequency Distributions of the Satisfaction and Communication Level between Agencies and Insurance Companies

No.	Survey Questions	Sample	Average	Standard. Dev.	Evaluation
1	The assistance provided by insurance company to its customers affects my preference	48	4.38	.703	Strongly Agree
2	Communication level of insurance companies affects my preference	48	4.29	.898	Strongly Agree
3	Working for more than one insurance companies is advantageous	48	4.21	.898	Strongly Agree
4	Superiority and innovation mentality of the insurance company affects my preference	48	4.17	.975	Agree
5	Adequate degree of insurance company's involvement into its agent's issues affects my preference	48	4.13	1.123	Agree
6	Recognition of insurance company affects my preference	48	4.00	.799	Agree
7	Logo of insurance company affects my preference	48	2.73	1.284	Undecided
8	I am not satisfied with the insurance company/companies I work with	48	2.00	.989	Disagree

The assistance provided by the insurance company to its customers affects the preference of insurance agencies (4.38 on average). The communication level of the insurance companies with their agencies affects their preference (4.29 on average). Superiority and innovation mentality of the insurance company affects the preference of insurance agencies (4.17 on average). Recognition of the insurance company and their involvement in their agencies' issues affects the preference of insurance agencies. The company logo of the insurance company does not affect the preference of insurance agencies (2.73 on average).

5. CONCLUSION

Insurance industry in Turkey is developing continuously. Insurance ratios have been increasing due to recent mandatory insurance practices. However, the insurance ratios fall short when it is compared to the annual international premium production. The importance of being cover by insurance is still not a priority in Turkey. Persons and companies do not intend to have insurance contracts as long as it is not mandatory.

Insurance policies are being issued by insurance distribution channels along with the headquarters of insurance companies. Insurance agencies, bank branches, brokers are among the most important actors of the insurance distribution channel. In recent years, 60% of insurance premiums collected in Turkey are provided by insurance agencies. It is the insurance agent who has p2p communication with the insured. The insurance agencies undertake important task such as drawing up a policy, providing consultancy to the insured, and collection of premiums on behalf of the insurance company.

Insurance agencies are required to sign an agency contract with an insurance company within the 6 months they received official authorization. Insurance companies benefit from having a wide distribution network. For example, today they are not using insurance agencies when they are selling agricultural insurance. This is because the Agricultural Bank of Turkey has a wide network of branches. Agricultural insurance is sold through many branches of the Agricultural Bank of Turkey. This kind of an advantage allowed agricultural insurance to become one of the top premium producers.

How do insurance agencies decide on the insurance company they are going to work with? Which factors gain importance for an insurance agency when it comes to being an intermediate for the insurance company? This research investigated such questions and obtained numerous answers and results accordingly.

According to the insurance agencies insurance companies' ability to pay the claims of policyholders affects their preference. The monetary opportunity insurance companies’ offer to their agencies is the second important factor affecting their insurance company preference. The interval insurance companies paying agent’s commission affects agencies’ preference. A capital adequacy rate of insurance companies affects agencies’ preference. Insurance companies’ being domestic or foreign capital companies’ does not affect agencies’ preference. Nevertheless, the insurance commission rates insurance companies’ offer does not directly affect agencies’ preference.

The assistance provided by insurance company to its customers affects the preference of insurance agencies. Communication level of insurance companies with their agencies affects their preference. Superiority and the innovation mentality of the insurance company affect the preference of insurance agencies. Recognition of the insurance company and their involvement in their agencies' issues affects the preference of insurance agencies. Company logo of the insurance company does not affect the preference of insurance agencies.

It is important for insurance companies to know the factors which affect the insurance agencies' preference of the insurance companies. It is only possible for an insurance company to reach out to more insured parties with a wider distribution network.

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