

## **“Redefining the distribution of insurances”**

A qualitative descriptive study on the (changes in) behaviour of Dutch intermediaries and the consequences for the distribution policy of insurer Company X.

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## Management Summary

Insurance is a complex product because it represents a promise of the insurance company to the insured of which the value of the product is known after an unexpected event occurs (Cummins & Doherty, 2006). Insurance is an agreement that the insurer will pay the customer the cost for an unexpected event (AFM, 2014 a).

Originally, there are three distribution channels for insurances, via: direct writing, banks, and intermediaries. Until recently, the intermediary distribution channel was the standard. However, the insurance industry is changing heavily. As a result, intermediary insurer Company X feels a loss of control on the intermediaries.

The purpose of this research is to find out how the intermediary distribution channel is affected by the developments and how these developments affect the insurance supply chain. Since Company X is a stakeholder of the supply chain, these developments will affect their organization; and thus their distribution policy.

The central research question will be answered: *'How is the intermediary distribution channel developing and what implications do these developments bring for the future distribution policy of insurer Company X?'.* To answer this question, a qualitative descriptive research is conducted. The data is collected via desk-research and semi-structured interviews with four intermediaries. These interviews were conducted to gain a better understanding of the current situation in the industry.

The existence of intermediaries can be explained from three theories: [1] property rights theory, [2] agency theory, and [3] transaction cost theory (Hazeu, 2000). With regard to the property rights theory, it is better to build a relationship on contract instead of mutual trust. Since the AFM is reaching for more transparency, the number of contracts within the industry increased in order to ensure the end-customer of receiving the product as promised at the agreed price and in accordance with the agreed details.

The agency theory is about the conflicting interests between the agent and principal. Within the insurance industry there are two principals, the insurer and customer, and one agent, the

intermediary. Since information asymmetry between the agent and principals exist, abuse of the dominant market position by intermediaries can happen. In order to avoid this from happen, transparency is an important pillar in the legislation and regulation of AFM. Transparency leads to clarity of information: the end-customer is able to address to the wrong behaviour. Since the existence of internet, the information asymmetry declines. Customers become more critical and search for the information themselves. The intermediary as an institution to decrease the information-asymmetry is not always necessary anymore.

Lastly, the transaction cost theory is about costs associated with transactions and institutions that can be of value by reducing these costs. Transactions are characterized by three different dimensions: asset-specificity, uncertainty, and frequency. With regard to glass insurance, the need for intermediaries is low: the costs of intermediaries are not justified in case of simple glass. In case of high volume and specific glass, intermediaries are needed for advice: these products are sensitive for advice. This mainly concerns the commercial market, but the private market may also be interesting in case of high volume.

Due to the developments in the insurance industry a change from an imperfect market, in which intermediaries function in order to reduce transaction costs, to a perfect market, in which the functioning of intermediaries is not necessary anymore because they do not add value in reducing the transaction costs and decreasing the information asymmetry can take place.

The intermediary distribution channel is losing market share, while internet turns from a medium into a new distribution channel and gains high market share. Because the intermediary distribution channel becomes expensive, as a result of transparency, this channel does – in the current role – not always justify the transaction costs anymore. At the same time, the internet considerably reduced the information asymmetry. As for Company X, these developments imply a change in the distribution policy. A change from the intermediary distribution channel as the major channel to the direct writing distribution channel as major channel can be a realistic consideration. These developments also imply a segmentation of the end-customer and a carefully chosen distribution policy per segment.

## Preface

This thesis is the final result of my master thesis project conducted to obtain my master's degree in Business Administration at the University of Twente. Six months of hard work resulted in this report on which I am very proud.

For the Dutch people reading this report, a glossary with translations of several definitions from English to Dutch can be found in Appendix A.

I would like to thank several people who supported me during this project. First, Company X for providing me the opportunity to complete my master's thesis at their organization. Especially my supervisor for keeping me sharp and helping me during the whole process. Secondly, I would like to thank my first supervisor of the University of Twente Henk Kroon for providing me useful feedback during our meetings and thanks to my second supervisor Peter Schuur for his time and help during the final stage of this project. Furthermore, I would like to thank the four intermediaries I interviewed for this research. These interviews provided me a lot of information for this research, but also personal insights.

Finally, special thanks to Edo, my family and my friends for their continuous confidence and support.

Aranka Dullemond

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## List of abbreviations

AFM	Autoriteit Financiële Markten
BGFO	Besluit Gedragstoezicht Financiële Ondernemingen
CRM	Customer Relationship Management
DNB	De Nederlandsche Bank
DVD	Dienstverleningsdocument
SME's	Small and Medium Enterprises
WFD	Wet Financiële Dienstverlening
WFT	Wet op het Financieel Toezicht

# 1 Introduction

Insurance is a contract between a customer and an insurance company. This contract is an agreement that the insurer will pay the cost for unexpected events (AFM, 2014 a). It is a very complex product because it represents a promise of the insurance company to the insured from which the value of the product is known after an unexpected event occurs (Cummins & Doherty, 2006). There are different channels of distribution – the distribution of the insurance from the insurance company to the customer – possible, via: direct writing, banks, and intermediaries (Verbond van Verzekeraars, 2013).

## 1.1 Dutch insurance industry

Within the Dutch insurance industry 238 licensed insurance companies and 7.775 licensed financial service providers are active in 2012. These actors are under supervision of ‘De Nederlandsche Bank’ (DNB) and ‘Autoriteit Financiële Markten’ (AFM) (Verbond van Verzekeraars, 2013). The ‘Wet op het Financieel Toezicht’ (WFT) – active since 1 January 2007 – contains rules with respect to the offering of, mediating in and advising on financial services to consumers and organizations. Requirements on the financial service providers are imposed on six areas: [1] integrity, [2] expertise, [3] operational integrity, [4] financial security, [5] transparency and [6] duty to care. In order to operate, all financial service providers have to be licensed on the basis of the WFT since 1 January 2007 (AFM, 2014 b).

Within the insurance industry, three sectors can be distinguished: property insurances, life insurances, and health insurances. Glass insurance is included in the property insurance line and is part of the sector fire insurance. Glass insurance is mostly an integral part of home insurance, but may also be an individual insurance. Beside these insurance lines, the market can be divided into a commercial market and a private market (Rabobank, 2014).

The number of insurance companies is decreasing. Also the number of financial service providers is decreasing: 561 licenses were ended and 313 new licenses were issued in 2012. Most financial service providers were active on the markets for property insurances – 7.466 providers – and life insurances – 7.032 providers (AFM, 2013 b).

The financial service providers can be categorized into several types, of which most are a mediator – 4.028 providers – and 1.489 provide also other activities such as broker or tax advisor. According to the WFT, a mediator is someone who advises and mediates in financial services. An advisor is only permitted to advise (AFM, 2013 b).

A specific form within the Dutch distribution channel is the use of underwriting agents, called in Dutch ‘volmacht’. Insurance companies are able to give an underwriting agency the authority to perform responsibilities of the insurance company. These are tasks such as the preparation of an insurance tender, the acceptance and mutation of an insurance, keeping the policy administration, handling the claims and take care for the in- and disbursements. Some underwriting agencies have the authority to develop new products and services and bring them on the market. The insurance company remains the risk bearer.

Since a couple of years, the insurance industry in the Netherlands changed heavily. Radical developments in legislation and regulation took place, customers are becoming more assertive and critical, and internet has changed the relationships between stakeholders in the insurance industry. These developments have a large impact on insurance companies and intermediaries. Now that different trends and developments are clear, the stakeholders can use this knowledge in order to anticipate as best as possible.

## **1.2 Company X**

This master thesis is commissioned by Company X, a niche insurance company. Company X is founded in 1919 when retailers decided to collaborate in order to hedge against glass damage. Since the glass insurance became part of the home insurance of private customers, this kind of insurance is a low interest product for this private market. Therefore, the commercial market is the target group of Company X. Important customers in the target group are municipalities, homeowners associations, and small and medium enterprises (SME’s).

It is assumed that only a few individuals on the private market make use of the ‘direct writing’ distribution channel of Company X. Therefore, the starting point of this master thesis

consists of the intermediary distribution channel and commercial market. Since Company X distributes the majority of insurances via the intermediary and the relationship with the end-customer is minimal, the end customer is not considered a unit of analysis in this study. However, as will be described further in this thesis, the end-customer is an important stakeholder in the industry. This research is limited to the Dutch insurance industry, meaning that insurance industry will refer to the Dutch industry.

### **1.3 Problem statement**

Company X is working with intermediaries for a long time since the intermediary is the major distribution channel. Originally, intermediaries sell the products of insurers: insurance companies develop a product and the customer can take out insurance via the intermediary. Since the industry is experiencing a high degree of changeability, Company X feels a loss of this control on intermediaries.

In 2010, Company X contracted an organization in order to conduct a research to form a new marketing plan for that particular year. After implementing these activities the results were disappointing. There still seems to be a minimal interest in the products of Company X. Together with the noticed developments, this is a reason to conduct this research to the intermediary distribution channel.

### **1.4 Goal**

The purpose of this research is to find out how the intermediary distribution channel is affected by the developments and how these developments affect the insurance supply chain. Since Company X is a stakeholder of the supply chain, these developments will affect their organization; and thus their distribution policy.

This study will end up with an advice of how Company X can deal with the developments.

To do so, during this study the central research question will be answered:

*How is the intermediary distribution channel developing and what implications do these developments bring for the future distribution policy of Company X?*

To answer the central research question, three sub questions will be answered:

1. What is the current market in which Company X operates?
  - a. Which stakeholders play a role in the insurance industry?
  - b. What are the reasons of intermediary existence?
  - c. How does the current service concept of Company X look like?
2. Which developments in the insurance industry play an important role and how is the industry affected by these developments?
  - a. What are current trends and developments in the insurance industry?
  - b. What is the influence of the developments on the intermediaries and how do they react on it?
  - c. What changes is the insurance supply chain facing?
3. How can Company X translate the developments in the insurance industry into a sufficient service concept?
  - a. How can Company X affect intermediaries?
    - i. Which factors are of influence on the intermediaries' choice of insurance companies?
    - ii. What are intermediaries' expectations of the role of an insurer?
  - b. Is the service concept of Company X corresponding with the demands and needs of the intermediaries?

## 1.5 Methodology

In order to get an overview of the research conducted, a research design is made following the steps of building and designing a research project of Babbie (Babbie, 2013, p. 113). This section is structured following the research design as given in Figure 1 (on the next page).

### 1.5.1 Conceptualization

The conceptualization represents the different concepts to be studied. The first concept to be studied is the reasons for intermediary existence. This should lead to the role of the intermediary within the insurance supply chain, which is the second concept to be studied in order to gain a view on the environment in which Company X is a stakeholder. It is assumed that Company X loses control on intermediaries as a result of developments in the insurance industry and that Company X can anticipate on these developments by answering the wishes

and needs of intermediaries. These wishes and needs are derived from the factors that are of influence on the intermediaries' choice for an insurance company and the expectations of intermediaries on an insurer's role, which are the fourth and fifth concept to be studied. These wishes and needs can be reflected in the service concept – distribution policy – of the organization.

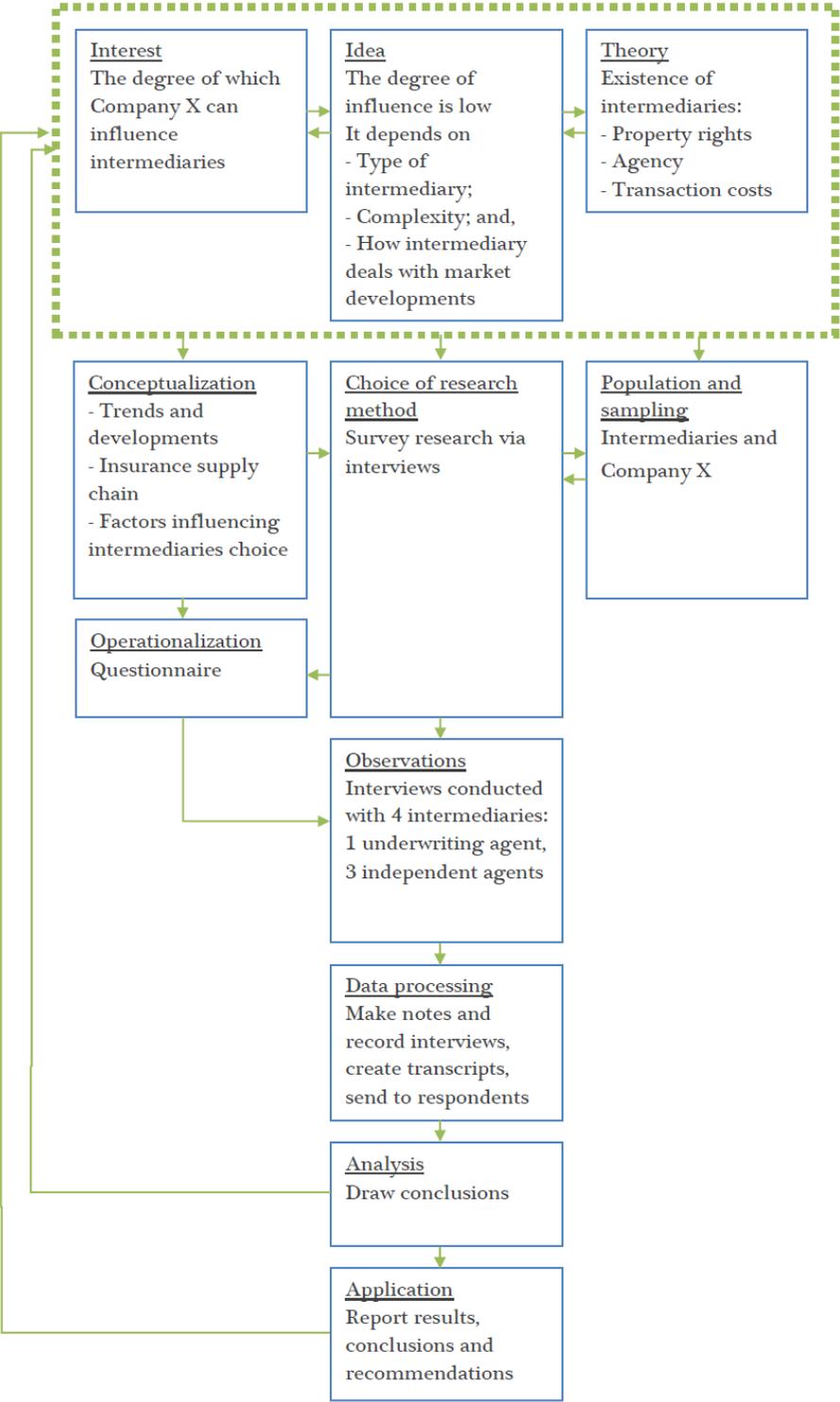


Figure 1 Research design

### **1.5.2 Research methods**

As can be seen in the box 'choice of research method' in figure 1, this qualitative research consists of two types of research: literature research and survey research (interviews). The existing literature is used in order to construct a theoretical basis on the existence of intermediaries. Questions 1a, 1b, 2a, and 2c will be answered using the literature. An answer on question 1b will be derived from scientific articles. The other three questions will be answered using articles published in trade magazines like AM or VVP, and opinions given by professionals to be found online. Interviews with the travelling sales force of Company X were conducted in order to answer question 1c. To gain a better understanding of what is occurring in the insurance industry and give an answer on question 3a, interviews with intermediaries were conducted. During the interviews, the respondents were asked to give their opinion about the trends and developments in the insurance industry, how they affect their organization, and how Company X could deal with these trends and developments the best. At the end, an answer on question 3b can be given: does the current service concept of Company X fit the wishes and needs of intermediaries?

### **1.5.3 Data collection**

Within this research, different units of analysis can be distinguished. The first unit of analysis is Company X. A number of interviews with employees of Company X took place to collect data about their service concept: the way Company X works and participates within the insurance industry.

The second units of analysis are Dutch intermediaries. During desk-research the intermediary in general formed the units of analysis. A selection of intermediaries for the interviews is made in order to conduct the interviews. As a result, the units of observations are a selection of intermediaries with which Company X collaborates.

To conduct the field research several intermediaries are interviewed. As illustrated in Figure 2, the sampling procedure consisted of several steps. For this procedure intermediaries are separated into two categories which are usually distinguished by Company X: underwriting agents and independent intermediaries. The next step was the selection of eight intermediaries, based on the concept of remuneration, target groups and the expected

willingness of the intermediaries to participate in this research. These were ranked from contact firstly to contact lastly and the first five organizations were approached for an appointment. Four of them participated in this research: after several attempts for contact, one organization did not respond. A description of the respondents that participated can be found in Appendix B.

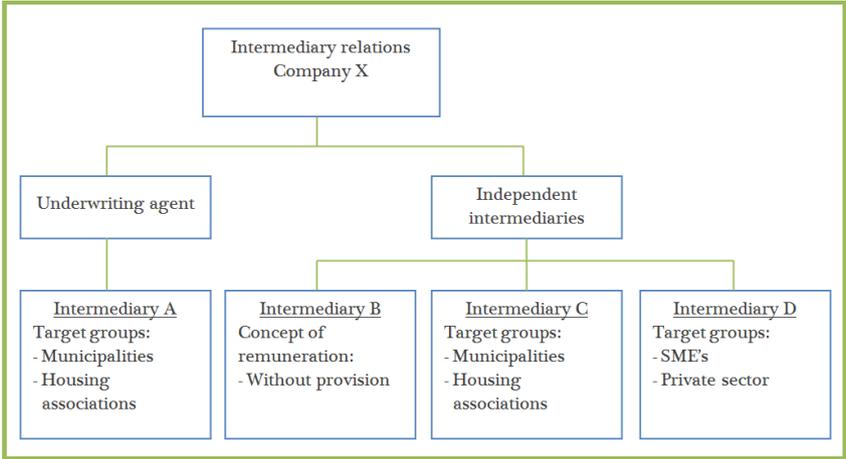


Figure 2 Schematic illustration of the sampling procedure

1.5.4 Operationalization

It is chosen to conduct semi-structured interviews: the topics and most important questions are standardized in advance (Baarda, de Goede, & Teunissen, 2005). Therefore, a questionnaire is created. Another reason to create a questionnaire is to ensure the most similar situation possible every interview. This questionnaire can be found in Appendix C.

The questionnaire consists of four different topics:

1. The interviewee: the organization and person with which the interview takes place.
2. Trends and developments in the insurance industry and the influence on the insurance supply chain.
3. The way in which an intermediary forms a preference for an insurance company.
4. What should be the future relationship between an intermediary and insurance company? What can Company X do about that?

The choice for these four topics of the interview will be described in the next sections.

### **The interviewee**

The four organizations were selected against the background of the target group or concept of remuneration. In order to confirm this and to create a comprehensive view of the person interviewed, several questions about the interviewee and the organization the respondent works were asked.

### **Trends and developments and the influence on the insurance supply chain**

During desk-research several trends and developments in the insurance industry showed up. These trends and developments may influence the changing insurance supply chain and how insurance companies should serve the end-customer and intermediaries. This part of the interview is to confirm whether the trends and developments are of importance for the intermediaries. This ended up with questions about the influence on the insurance supply chain: will these developments influence the historical insurance supply chain or not?

### **Development of insurer preference**

In order to affect the intermediaries to some extent, it is interesting to know more about how intermediaries select insurance companies, with which they want to collaborate. Also the reasons to switch to another insurance company were asked for. These questions ended up with a set of factors which can be influenced by Company X.

### **The future relationship**

This topic is to gain a view of the expected relationship between insurance companies and intermediaries. It is asked what role insurance companies should fulfil in the future and how intermediaries and insurance companies can improve the collaboration. This topic gives the intermediaries also the possibility to place remarks on the collaboration with Company X, about how they can strengthen their position and what they can do in order to keep and strengthen the relationship with intermediaries.

#### **1.5.5 Validity and reliability**

This research is limited to the insurance supply chain, which is taken as the starting point, and trends and developments in the insurance industry as the input for changes within the

insurance supply chain. Intermediaries are the core unit of analysis because insurance companies are to some extent dependent on them.

One element of a qualitative interview is the introduction which takes place at two moments in time: in the first contact when telephoning the respondents and at the beginning of the interview (Baarda, de Goede, & Teunissen, 2005). All respondents were contacted by telephone. These phone calls were standardized by starting each phone call with a standardized message, or when not possible, it was tried to make clear the same message. At the second introduction, the respondent was asked to give an agreement to record the interview. The actual introduction consisted of an introduction of the researcher, the research and Company X.

All interviews are recorded from the first question until the last question and notes have been made. Therefore, the researcher could write a correct transcript of the interview afterwards. In order to check for the right interpretations of what was said, the transcript was sent to the respondent for an agreement.

#### **1.5.6 Data analysis**

As mentioned in the previous section, transcripts of the interviews are made. These transcripts were sent to the respondents within a week after the interview was conducted and they were asked to give remarks. The transcripts were used to analyse the results of this research.

The analysis of the results started during the first interview: one answer of the respondent could lead to a new question. Because each interview was conducted on another day, it was possible to make the transcript in between. Therefore, the results could be analysed already and used as input for the following interviews. A short summary of how the four interviews went can be found in Appendix D.

### **1.6 Structure of this report**

In order to get to the answer on the central question the remainder of this report is composed from background in chapters 2 'insurance supply chain' and 3 'theoretical review', via the

observed trends and developments and their implications in section 4.1, to the translation of the developments into a cooperation between intermediaries and Company X in section 4.2.

Table 1 describes the chapter or section in which each sub question will be answered. The central question will be answered in chapter 5 ‘Conclusions’. This report will end with recommendations for Company X in chapter 6; this advice exists of six points of interest and will bring Company X a step further in handling the current developments in the insurance industry.

<b>Question</b>	<b>Method</b>	<b>Chapter/section</b>
<b>1a</b>	Literature	Ch. 2
<b>1b</b>	Literature	Ch. 3
<b>1c</b>	In-depth interviews	Ch. 2
<b>2a</b>	Literature	§ 4.1.1-4.1.4
<b>2b</b>	In-depth interviews	§ 4.1.5
<b>2c</b>	Literature and in-depth interviews	§ 4.1.6
<b>3ai</b>	In-depth interviews	§ 4.2.1
<b>3aii</b>	In-depth interviews	§ 4.2.2
<b>3b</b>	In-depth interviews	§ 4.2.3 + 4.2.4

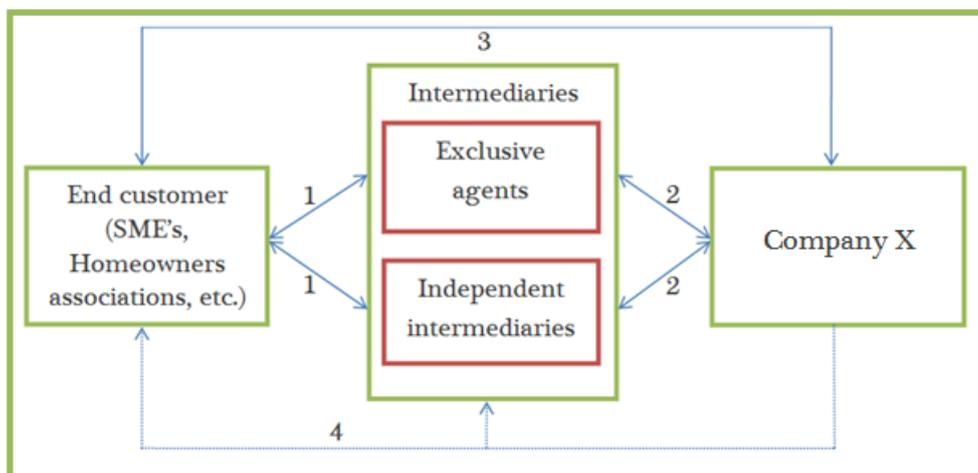
*Table 1 Outline of this report*

## 2 Insurance supply chain

This chapter describes the supply chain of the insurance industry, from a historical perspective. Section 2.1 describes the supply chain of which Company X is a stakeholder in accordance with the current distribution policy. In section 2.2, each stakeholder of the supply chain will be discussed. The current service concept, or distribution policy, of Company X will be a part of this section.

### 2.1 Insurance supply chain

There are three important stakeholders within the insurance industry: the end-customer, intermediaries, and the supplier of insurances. The process of taking out insurances is illustrated in Figure 3. This figure is a schematic view of the current distribution policy of Company X.



*Figure 3 The insurance supply chain*

Within the insurance supply chain several relationships exist. SME's, homeowners associations, municipalities, etc., are the end customers. They are the central part in the supply chain: 'customer interest' – in Dutch 'klantbelang' – should be the starting point of every insurance company and intermediary. A first important source of information for the end customer is the intermediary, see arrow 1. This information is about the customer's risks

and the insurances that would cover those risks. At the end, the customer decides for taking out the insurance via the intermediary or directly from the insurance company.

There are two ways in which the end customer can take out the insurances from Company X: via an intermediary – see arrow 2 – or, directly from the insurance company – see arrow 3. However, approximately 98 percent of the insurances are taken out via the intermediary distribution channel. Insurances taken out directly are arranged via the website of Company X. Company X distinguishes two types of intermediaries: underwriting agents and independent intermediaries. In order to get a view on the market, four intermediaries were interviewed for this research.

Arrow number 4 represents the influences of Company X to the end-customer and the intermediaries using marketing and communication strategies. Marketing and communication strategies aimed at the end-customer are very minimal; the target group for the marketing and communication strategies is also the intermediary. However, advertisements of Company X – for example in trade magazine ‘AM’ – can also contribute to the brand recognition under the end-customers. In the past years, Company X organized several marketing activities. These activities did not yield the desired results.

Since the distribution policy of Company X is restricted to the intermediary distribution channel, the organization may forget to pay attention to their end-customers; intermediaries are seen as the target group. However, the AFM stimulates intermediaries and insurers to adapt the insurance products to the demands and needs of the end-customers. Besides that, intermediaries also have several target groups, meaning that the intermediaries with which Company X collaborates must be chosen carefully in line with their target groups. It is therefore important for Company X to see the end-customer as an important stakeholder in the supply chain.

## **2.2 Stakeholders within the insurance supply chain**

In this section each stakeholder of the insurance supply chain will be discussed. The position of Company X as compared to the other players will be described.

### **2.2.1 Company X**

Within the supply chain, Company X has the role of the supplier of glass insurances via intermediaries. The portfolio of Company X exists of 300 intermediaries and 10 contracts with underwriting agents. There are two competitors operating on the niche market: Company Y and Company Z. An additional service of Company Y is the insurance of light and neon advertising signs, which is covered in all possible forms, even in the case of storm and vandalism. As a part of this insurance, customers can also cover the liability risk. Company Z also covers this risk – except for the liability risk –, complemented with the coverage of the risks of greenhouses.

### **Products of Company X**

As aforementioned, in the Netherlands glass insurance is a form of property insurance of which the fire insurance is one sector. Since the presence of glass in buildings is expanded, there are more windows present and the windows also cover a larger surface, the costs of damage increased. Therefore, it is interesting to take out separate glass insurance. The glass insurance is also interesting for organizations possessing specific glass in their building because of the detailed insurance conditions and premium of glass insurance. In contrast with normal types of insurance, the glass insurance of Company X does not compensate for the cost made after glass damage. Instead, the customer is able to report the damage via a phone call to the emergency room. From that point Company X will unburden the customer completely: the damage will be restored by specialized glass damage repair companies and the complete handling of claims will be done – which contains for example, payment, quality inspections and any special requirements.

Company X developed three different types of products: ‘Glasverzekering’, ‘Glasconcept’, and ‘Glasbeheer’. These three insurance types include a basis package of services: free calls to the emergency room, glass damage repair companies repairing the damage – nationwide, online possibility to request for offerings, and online claim management. ‘Glasverzekering’ is a basis insurance for which the customer pays a premium for covering the consequences of risk. This insurance is available for every customer segment. ‘Glasconcept’ is only available for municipalities, housing associations and homeowners associations. This insurance is introduced as a response on the market developments with regard to the insurance tax. This

tax has changed three times since 2008 and rose from 7 percent in 2008 to 21 percent as of 1 January 2013 (Belastingdienst, 2014). 'Glasconcept' consist of a premium with deductible excess. The deductible excess is called the 'threshold of damage' - in Dutch 'schadedrempel' - and represents the level of the average claims. The premium is set for outliers above the threshold. The last type of insurance is 'Schadebeheer'. This type is completely variable and consist only the services of Company X; actually it is not an insurance product. In this case Company X is not the risk bearer, but only a facilitator of services: the customer pays for the services it uses only and bears the risk itself.

Beside these three products, Company X can deliver additional services. These services include an option for 'lek- en blindslag' in the event double glass windows leaks. Another option for extra services is the re-painting of glazing bars in the right colours. These additional services can only be executed in the market for municipalities, housing associations and homeowners associations.

The distinctive capacity of Company X compared with the competitors on the niche market is very small. The competitors deliver a similar product and similar services: customers can report the glass damage via a phone call to an emergency room, and from that point the insurance company will handle the damage. With respect to the general insurances, the distinctive capacity of Company X is large. Taking out glass insurance from a niche player is beneficial for the end-customers: the premium is determined after inspection and thus custom made, the conditions of the insurance are more detailed, and one phone call is enough to start the process of handling the damage. However, the sort of insurance has less attention of the end-customer and intermediary: glass insurance can be seen as a low interest product. Through segmentation of the end-customer and the intermediary and product development – on communication, contact and services for the end-customer for example – Company X can increase the distinctive capacity.

### **Organizational structure of Company X**

The organizational structure of Company X can be found in Appendix E, it shows that 12 people are employed. In practice, the different departments work separately. Communication about customers – end-customers and intermediaries – normally takes place via different

software applications. Because there are no rules about the use of these systems, this leaves room for interpreting the information. Therefore, situations of miscommunications are made easily.

Normally, the functions of the office and travelling sales force are complementary: the office sales force supports the travelling sales force – see for a job description Appendix F. When these departments work and function as a team, this would have a positive impact on the turnover. Within Company X, these two departments do not function as a team: there is less communication between the departments, for example a meeting on a weekly basis does not exist, and the two departments do not work complementary. A clear defined strategy for the acquisition of new customers – intermediaries, the end-customer is not a target group – and maintaining the existing relationships with intermediaries does not exist. Both employees on the travelling sales force have their own ‘strategy’ of preparing a customer visit, having the conversation and processing the information into a report.

### **2.2.2 Intermediaries**

WFT distinguishes three different activities of an intermediary: the offering of, mediating in and advising on financial services. In case the intermediary is licensed to advice, mediating in financial services is prohibited. A mediator is licensed to mediate and give advice (AFM, 2014 b). On a yearly basis, AFM does a research to all financial services providers. According to the AFM Self-assessment (2013 b) 51,8 percent of the 7.775 financial service providers are mediating. The industry decreased: AFM issued 313 new licenses and ended 561 licenses in 2012. In 2013, 7.466 financial service providers possessed a license for offering property insurances and 7.032 for life insurances. According to research of TNS-Nipo, it is expected that the market share of intermediaries will decrease further in the near future, and that this market share will flow to the direct writing distribution channel. This particularly applies for the property and life insurances (TNS-Nipo, 2014). For this decline, several reasons are given, for example: the internet as a new medium for advice and taking out insurances, but also the provision ban. As a result, the intermediary distribution channel stands under great pressure. The market share of the underwriting agents is very small: there are 328 licenses issued for providing property insurances and 181 for life insurances (AFM, 2013 b).

Four intermediaries with whom Company X collaborates were interviewed during this research. These four intermediaries differ a lot, which can be seen in the review of several factors, for example: the target groups, the ratio of the private and commercial market, the degree of innovativeness, age of the organization, and the potential growth in the future. A table of these four intermediaries can be found in Appendix G. This table is made after the interviews were conducted.

### **2.2.3 End-customers**

The products of Company X are developed for certain target groups. Originally, the insurance company started with the SME's as the target group. These days more target groups have the attention: homeowners associations, housing associations, and municipalities. The private sector is a not a target group – in a manner that the marketing is not adapted to this sector – but is able to make use of Company X's services as well. This section will give a description of the most important target groups.

#### **Homeowners associations**

It is mandatory in the Netherlands to establish a homeowners association if residents are sharing an apartment building. This association is responsible for the maintenance and the administration of the common areas (NVM, 2012). Since July 2008, the homeowners associations are obligatory to be registered at the Chamber of Commerce (Belastingcollectief Nederland, 2012). In 2012, 129.000 homeowners associations were established. Only 66 percent of them were registered at the Chamber of Commerce at that moment (NVM, 2012).

#### **Housing associations**

388 housing associations were registered in 2011 and owned 2.319.778 housing units at that moment (Rijksoverheid, 2011b). That year signals a decrease in the number of housing associations of 12 as compared with 2010. However, the decline in housing associations was already present a long time before: the statistics of 'Rijksoverheid' show that the number of associations decreased from 767 in 1997 to 388 in 2011. At the same time, the average number of housing units increased: from 3.138 in 1997 to 5.979 in 2011 (Rijksoverheid, 2011a).

### **Small and Medium Enterprises**

Organizations with a maximum of 250 employees are called SME's. 99 percent of the Dutch organizations are SME's. 70 percent of 1.247.445 – the number of SME's in 2012 – was working as self-employed entrepreneur. Another 25 percent of the organizations employed 2-10 employees (MKB Servicedesk, 2014).

### **Municipalities**

As of 1 January 2014, the Netherlands counts 403 municipalities. Due to mergers of several municipalities and the abolishment of one municipality, this number is less than in 2013. This decrease in municipalities can be a result of the financial crisis: the government outsourced several activities to the municipalities. Because the extra budget they receive is not enough to cover the costs, it is necessary to cut back their expenses (NOS, 2014).

## **2.3 Summary and conclusions**

The intermediary distribution channel is under intense pressure: the number of financial service providers is decreasing and it is expected that this decline will hold in the near future.

The role of an insurer is to create an environment in which intermediaries can function: they sell the product of the insurer. However, since the industry becomes customer oriented instead of product oriented, intermediaries' role shift from seller of insurances to purchasers of insurances. This means in practice that the insurers should develop products that follow the demands and needs of the customer.

The end-customer deserves more attention of Company X: the end-customer is underexposed within their service concept. In order to be able to make a segmentation of intermediaries to collaborate with, segmentation of the end-customer must take place: intermediaries choose target groups also.

Glass insurance is a low interest product. At the same time, the distinctive capacity of Company X is small. By thinking from the customer's interest, Company X can differentiate the organization from competitors and other insurers. Product development, in the form of additional services, can help to increase the distinctive capacity.

# 3

## Theoretical review

This chapter will describe theories concerning intermediation services and will review the reasons of intermediary existence from the theory. Three theories will stay central within section 3.1. Together with these theories, the practice within the insurance industry will be described: what is the role of an intermediary in the insurance industry? Why are intermediaries needed? What is their added value? Section 3.2 will give an answer on the question why intermediaries exist, but also questions their existence from practice since developments within the insurance industry may influence their position as a distribution channel for insurers.

### 3.1 New institutional theory

The institutional theory is derived from the neoclassical theory (see for a description Appendix H) and is based on a model which takes into account the existence of institutions and transaction costs. A central role in the new institutional theory is attributed to the transactions of people and businesses, whether or not facilitated by institutions – for example intermediaries, and the fact that transactions cannot be achieved without any costs (Hazeu, 2000).

Since the existence of institutions is accepted and organizations or people are willing to minimize the transaction costs, it is of importance to identify the most economical governance structure (Hazeu, 2000). Williamson defined the governance structure as “*the institutional framework within which the integrity of a transaction is decided*” (Williamson, 1979, p. 235). In the new institutional theory, another alternative for the market is considered: hierarchy. Consequently, two alternatives of the governance structure are the market and hierarchy. The new institutional theory consists of three different theories: [1] property rights theory, [2] agency theory, and [3] transaction cost theory (Hazeu, 2000). These three theories will be described in the next sections.

### 3.1.1 Property rights theory

In case of the intermediary industry the property rights theory is relevant in order to decrease the chance of market failure: to build a contractual relationship with the customer instead of a relationship build on trust (De Jong, 2007).

According to Groenewegen et al. (2010, p. 93), *“private property leads to responsible guardianship and motivates the owner to make use of it in such a way that it renders maximum utility”*. This substantiates the fact that a contractual relationship – in which agreements are laid down by contract – is more safe than a relationship of mutual trust. Three different property rights can be distinguished (Groenewegen et al., 2010):

1. The right to make use of the service
2. The right to earn income from it; and
3. The right to manage the good and to transfer control of it (or sell it) to another party.

Customers of an intermediary have the right for mediation and advice. However, customers do not have the required knowledge to control for getting the deserved advice. This is a result of information asymmetry. The other way around, intermediaries are not able to control for the customer being honest about its tended efforts to avoid damage and not committing fraud. Therefore, the property rights theory can decrease market failure through the misuse of information asymmetry (De Jong, 2007).

Since AFM requires transparency of financial service providers, which was meant to provide the end-customer the information about the price, the amount of contracts increased. Due to the transparency requirements, end-customers are enabled to gain information about the price, quality and content of the product. More contracts are concluded in order to ensure the end-customer about receiving the quality as promised. Before this requirement was introduced, end-customers were not aware of what they paid for: specifications were invisible.

### 3.1.2 Agency theory

In the agency theory conflicting interests and information asymmetry play a central role. The theory makes a distinction between the principal and the agent. In case of the insurance industry, insurance companies and customers represent the principal, and the intermediary represents the agent. In both cases, the intermediary receives an assignment of the principal.

This principal-agent relationship can become a principal-agent problem when two conditions hold (Groenewegen et al., 2010):

1. When the principal and agent have conflicting interests.
2. When there is asymmetric information.

Both actors pursue their own interests, which can lead to conflicting interests. Since the agent has to perform the interests of the principal, it is necessary for the principal to motivate the agent performing in the interests of the principal. Therefore, these interests should be reached by contract (Groenewegen et al., 2010). The problem of conflicting interests is especially interesting in the insurance industry where there are two principals and one agent: this is called a plural principal problem. Each principal is trying to influence the agent, and at the same time to discharge from negative consequences to the detriment of the other party (Hazeu, 2000).

Besides the conflicting interests, both the principal and agent are not fully informed. This result in information asymmetry in two ways: *ex ante* – a shortage of information before the contract is signed – or *ex post* – one party does not behave in an expected way after the contract is signed (Groenewegen et al., 2010). This information asymmetry can lead to abuse of the dominant market position, which can lead to x-inefficiency. This means that agents may have more motivation to work on their own goals and have less focus on the goals of the principal (Hazeu, 2000).

Within the insurance industry, the insurer is one principal and the end-customer is the other principal. Since the end-customer is willing to purchase the insurers product, the products of insurance companies should fit the demands and needs of the end-customer. However, until recently the insurer formed a product and presented this product to intermediaries in order to sell these to the end-customers: the agent acted as a seller of the insurer's products. Nowadays, as a result of new rules and laws, the customer's interests are more important: the agent therefore acts as a purchaser of the insurer's products. This means that the demands and needs of end-customers stay central in the development of new products.

Intermediaries may have one interest: 'how do I survive?'. To avoid intermediaries from the abuse of their dominant market position and in order to shift the motivation to the interest of the customer, transparency is an important pillar. Transparency leads to clarity of information: the end-customer is able to address to the wrong behaviour.

### 3.1.3 Transaction cost theory

'The nature of the firm' (Coase, 1937) is considered the start of the transaction cost theory. In contrast to the neoclassical theory, Coase (1937) argued that the price mechanism does not achieve market equilibrium on itself without any transaction costs, and organizations can be of value by reducing these costs. According to Coase, transaction costs can be the costs for *"discovering what the relevant prices are"*, *"costs of negotiating"*, and *"concluding a separate contract for each exchange transaction which takes place on a market"* (Coase, 1937, p. 390-391). Organizations selling the information associated with these costs can reduce them, but not eliminate them. In an economic situation in which transaction costs exist, intermediaries have a reason to exist and 'add value' by reducing the transaction costs. An intermediary is needed in case the products are sensitive for advice: when advice is not necessary, the costs for this advice do not reduce the transaction costs.

Since actors in the market are striving for maximization and aiming to reduce the transaction costs, the most economical governance structure must be applied. This depends on the human behaviour – whether the actor behaves rational or not –, and the degree of opportunism (for example, agents striving their own interests more than the principal's) (Groenewegen et al., 2010). According to Williamson (1979), governance structures vary with the nature of the transaction. He stated three different dimensions that characterize transactions.

1. Asset specificity;
2. Uncertainty; and
3. Frequency

Williamson assumed that uncertainty exist with every transaction: *"transactions conducted under certainty are relatively uninteresting"* (Williamson, 1979, p. 253). Asset specificity is considered the most important dimension. In case of specific assets, it can be assumed that

investments have to be made and that alternatives do not exist. The fact that there are no alternatives makes it hard or expensive to switch: switching costs are high (Williamson, 1981).

The combination of high asset specificity and high uncertainty increases the transaction costs the most. In the insurance industry, these transactions occur in case of complex products – for example life insurance or important business insurances. These complex products are specific in a way that deeper knowledge of the product and, more important, the end-customer is needed; this may result in high transaction costs. Instead of waiting for the market mechanism to work, organizations can be involved in decreasing the transaction costs. Intermediaries may be less expensive in certain situations.

This theory can be applied to glass insurance: the need for intermediaries, the need for their advice in order to make a decision about the insurance product, can be measured along the three dimensions asset-specificity, uncertainty, and frequency. All in all, it can be said that the need for advice is not high:

1. Transaction specific investments are not required; glass insurance is even a part of the home insurance. Therefore, it is important for a glass insurer to set the focus on the right target groups – end-customer, but also the intermediaries. For example: there might be target groups with specific glass, which is a specific demand though.
2. Uncertainty is only high in case of a large volume, when there is a lot of glass and thus a high risk of damage. For the private customer, uncertainty is very low.
3. The frequency of the transactions is accidental: glass insurance is not expensive, and does not have a high need for attention.

It can be concluded that the costs of intermediaries are not justified in case of simple glass. In case of high volume and specific glass, intermediaries are needed for advice: these products are sensitive for advice. This mainly concerns the commercial market, but the private market may also be interesting in case of high volume.

### **3.1.4 Distribution policy of insurers**

Originally, there are three distribution channels for insurances, via: direct writing, banks, and intermediaries. Until recently, the intermediary distribution channel was the standard. However, the number of intermediaries declines, and as a result of several developments the

intermediary distribution channel becomes too expensive. Also the internet makes it less necessary to make use of an intermediary for advice: the use of internet is less expensive, and decreases the information asymmetry. Therefore, the direct writing distribution channel becomes more usual: end-customers have the demand for this channel, and insurers serve these needs. This is a result of the high costs for the intermediary channel, which no longer justifies the transaction costs always. It is therefore important for insurance companies to select the target groups carefully and match the right distribution channel with the different target groups.

Therefore, it can be questioned if the market is changing from imperfect, in which intermediaries function in order to reduce transaction costs, to a perfect market, in which the functioning of intermediaries is not necessary anymore because they do not add value in reducing the transaction costs and decreasing the information asymmetry.

### **3.2 Why do intermediaries exist?**

As a result of the existence of market imperfections, intermediaries have the right to exist. In a perfect market buyers and suppliers can reach an optimal transaction of goods and services together. They are both fully informed and transaction costs do not exist: market equilibrium can be reached by the market mechanism and intermediaries are not required.

However, in the current economics transaction costs and information asymmetry exist. Since insurances used to be complex products with a high degree of uncertainty, intermediaries can play a role in decreasing these transaction costs and information asymmetry. The more complex the product, the higher the customer's uncertainty and demand for advice. It is – or, was – less expensive for customers to ask for advice from intermediaries than to search for the right information, for example about prices, risk etc.

The emergence of the internet in the last century enabled the customers to search for information themselves: the degree of information asymmetry reduces. The internet enabled insurance companies to standardize less complex insurances and distribute these via direct writing.

Due to the internet and transparency requirements, intermediaries do not always justify the transaction costs. A result of transparency is pressure on the prices of intermediaries' advice, but also on the premium of insurances, and therefore more pressure on intermediaries and insurance companies.

At the same time, the intermediary distribution channel faces a loss of the market share: direct writers gain a larger market share. A new dimension in the insurance industry is granted to the end-customer: the demands and needs will determine the new products which the insurance companies do offer, whether via the intermediary distribution channel or via direct writing. This holds largely for the private market for property insurances with less risk where customers can easily estimate their risks and choose the right insurance themselves. The intermediary distribution channel has greater right to exist in the market for complex products.

With regard to Company X, it can be said that the costs of intermediaries are not completely justified in case of simple glass. The organization must select the target groups carefully and choose the right distribution channel for each target group differently. In case of high volume and specific glass, intermediaries are needed for advice: these products are sensitive for advice. This mainly concerns the commercial market, but the private market may also be interesting in case of high volume. Since the role of intermediaries will change, the role of Company X has to change as well: from a seller of products to a provider of products according to the demands and needs of the end-customer.

# 4 Results

This chapter is about the developments in the insurance industry and how these affect intermediaries and the supply chain. Section 4.1 describes the developments considered of major importance: this enumeration indicates that the relation and position between the customer, intermediary, and insurer in the supply chain is changing, and therefore their role within the chain. Section 4.2 will describe several variables that are of influence on the intermediaries' choice for an insurer and the role of an insurer from the intermediaries' point of view.

## 4.1 Developments within the insurance industry

The six developments discussed in the interviews and the next sections are: provision ban, competency requirements, customer interest, internet, big data, and the changing behaviour of customers. This section will end with the impact of the developments on the insurance supply chain.

### 4.1.1 Developments in the insurance industry

A central goal of AFM is to reach a more transparent insurance industry in which the customers' interests stay central. AFM explains the need for new regulations in two ways: the customer must be satisfied with the services, and the customer should have the right to gain knowledge about the content of the services. This interpretation of customer interest arises from the intention to protect the customer.

It can be said that the rules and laws changed more quickly in the past 8-10 years, than before. This is a result of the financial crisis started in 2007/2008 and the decline in customer confidence in financial institutions (Butter, Van der Giessen, Gelevert, & Van Genabeek, 2013). This decline is strengthened by economic scandals of DSB, the 'woekerpolisaffaires', and the excessive bonuses of managers in the financial industry.

Together with the new rules and laws, one question arises: do these rules and laws count for both the private customer and commercial customer? Previously, the rules and laws applied

mostly to the private customer. However, nowadays a customer can be both a private or commercial customer. To prevent for the fact that people search for ways to get around the rules, all rules and laws apply to both the private and commercial customer with retroactive effect. As a result, insurance companies have to deal with more legislation and regulation when the commercial customer is a target group.

#### **4.1.2 Legislation and regulation**

Since the start of 2006, a lot changed in legislation and regulation. This section will illustrate three of them: these three were of great importance for the interviewed intermediaries, and therefore considered important for this study. Besides that, these developments affect all three stakeholders within the insurance supply chain. Other developments on the ground of legislation and regulation from 2006 until 2014 can be found in Appendix I.

##### **Provision ban**

The ban on remuneration of intermediaries via the premium – the so called ‘provision ban’ – is a project started with the ‘Besluit Gedragstoezicht Financiële Ondernemingen’ (BGFO) 1, in 2009. In 2010 and 2013 followed respectively the BGFO 2 and 3. This legislative measure relates to the WFT requirement ‘transparency’: the goal of implementing this measure is to shift the focus in the financial market back to the customer. The AFM started implementing this measure on the market for complex products. This means that the intermediaries distributing property insurances do not have to deal with this measure (Bakker, 2013). However, if customers of property insurances ask for the amount of provision included in the price, the intermediary is obliged to report.

As a consequence of increasing the transparency via this measure, the business model of intermediaries must be changed: they have to find a new remuneration model and should position differently to the customer. The intermediary is not the seller of insurer’s products anymore, but gives the end-customer advice as a purchaser of products that matches their demands and needs. These changes imply innovative capacity of the intermediaries.

## **Competency requirements**

New requirements for the competences of intermediaries are applicable since January 2014. After research of AFM has shown that intermediaries do not have the right skills, the supervisor introduced new rules to prevent for incomplete or incorrect advice in the future. According to these new rules, all employees providing advice must possess a certificate. The deadline for possessing this certificate is 1 January 2016. Requirements are imposed on knowledge, but also on competencies, abilities, and professional behaviour (Welten, 2014).

These new requirements hold with the WFT requirement 'duty to care'. In order to be able to act in line with this requirement, the intermediary must possess adequate knowledge. The customer must be able to rely on the knowledge of the intermediary.

## **Customer interest**

Customer interest is a new general theme of the AFM of which all regulation will be part. It is of importance to centralize the customer interest. This means that products must be appropriate and useful to the end-customer, without any harm. Financial service providers must provide the customer the right information to determine its interest and needs, and the type of service needed. The final goal of the AFM is to restore the confidence of customers in the financial services industry. As seen in the previous section of the provision ban, transparent communication is an important part of customer interest. This specific measure concerns the communication about the provisions, but also other communication is of importance: about the implications of the product for the customer, the details of the different possible services the customer can acquire, and communicate in order to clarify the demands and needs in order to ensure appropriate services. Transparent communication must be clear, evident, well-balanced and not misleading.

According to BGFO 3, financial institutions are obliged to design the product development process in a way that they formally carry a product development process, but also carry a process through which all relevant departments of the organization contribute to the establishment of a financial product. This process of product development and review consists of three elements (Verbond van Verzekeraars, 2014):

1. It defines the intended outcomes of the process, with regard to the 'duty of care';
2. It defines the necessary activities to come to this analysis;
3. The process determines who is involved and has what responsibilities.

In order to be able to design an appropriate product development process, financial institutions must turn to an approach from the customer and its interests.

As aforementioned, 'duty to care' is also a requirement of the WFT. Since January 2014, the duty to care is established by law. This ensures that financial service providers act in the interest of the customer and AFM is able to intervene abuses in an early-stage. However, because this law covers an open standard, there is no clear guidance of how the intermediaries or insurance companies should act: in case they act wrong, the financial service providers may hold responsible. Therefore, they should prevent for these situations in a way that fits their organization (Rijksoverheid, 2013).

### **4.1.3 Technology**

#### **Internet**

The introduction of the internet has strongly affected the insurance industry: according to a research of Thuiswinkel Waarborg, the insurance industry is the third industry with the largest turnover via internet in the first quartile of 2014 (Thuiswinkel, 2014). As a result of internet, a new trend is introduced: online sales. Also the intermediary insurers – the insurance companies distributing via intermediaries only – started online sales, without the intervention of intermediaries. However, until now the online sales only holds the less complex products: the private sector for property insurances, and also the self-employed and small SME's. Life insurances are too complicated to standardize because the insurance is specialised on the insured person (Berendsen, 2013). Internet can also be a threat for the intermediary on the ground of their reasons to exist: information asymmetry and transaction costs. Due to the internet, customers have easier access to information about insurances and the insurance companies providing them. Comparing programs were introduced for the simpler insurance products: customers can compare and take out insurance via the internet. This reduces the transaction costs because there is no intermediary involved (De Jong, 2013).

However, due to the use of internet as a medium to collect data and even taking out insurances, the complexity of insurances reduces. In 2008, only a small percentage of insurances were taken out via the internet. This mostly concerned travel, car and travel cancellation insurances (AM web, 2008). Already in 2010, the internet was the major channel to take out property insurances, relative to personally via advisor, telephonic, and by post (GFK, 2012). Also the health insurances are taken out via the internet nowadays. It can be questioned if this type of insurance is not complex, if customers do not need any advice to cover their health risks? It can be concluded that the internet can become a bigger danger for the insurance industry than expected today. The internet can be used in the future as a medium for advice: customers do not have to make an appointment at the office of their intermediary, but have an appointment via software using the internet. This way of advice is less time consuming and therefore less expensive.

### **Big data**

Another upcoming trend within the insurance industry is 'big data'. Big data is a collection of data. This data can be used in order to anticipate on the developments within the market. However, tools to handle this overdose information are not present yet, new techniques have to be discovered in the near future (Butter et al., 2013).

#### **4.1.4 Changing behaviour of the customer**

A general social trend is the fact that customers become more critical and price conscious (Fygi, 2010). This also applies the insurance industry. Nowadays customers have much more information available via less expensive mediums. Due to the transparency of the market the prices of the services are visible and the customer is able to be more critical on the expected quality of the products and/or services. Previously, the customer was not informed about the prices and details of the services. AFM noticed that insurers and intermediaries did not act sufficiently in the interest of customers, which resulted in distrust of the customers. Internet is the perfect medium for the customer to collect information, compare prices, and even take out insurance. The need for intermediaries is therefore decreasing.

#### **4.1.5 What do the professionals think?**

During the interviews, the respondents were asked to reflect on the given developments: do they have impact on their organization? What do they think about these measures? Their thinking is described in this section.

##### **Provision ban**

Three of four respondents agree with the provision ban, since they think it is more transparent and fair to work fees based or let the customer pay per hour. However, two respondents state that the customer is still reluctant for paying a price for advice. Some people will remain uninsured because of the high price for advice, while before advice seemed to be free. Two organizations already adapted to the provision ban before this measure was introduced: one organization is making a shift to work without provisions, and another intermediary works with a net premium for the highly valued customers. This holds also for the less complex insurances/products and property insurances at both organizations. It can be concluded that the provision ban has led to a change in the remuneration and advice models of intermediaries, and a shift in the services provided to the private customer to the commercial customer or customer asking for complex products.

##### **Competency requirements**

The professionals agree with the requirements: it is good to sharpen the knowledge about the insurance industry. All respondents can find themselves in the need to remain informed. However, one respondent thinks the supervisors are going too far: it takes a lot of time to study for these certificates, compared with the two days needed before. Another respondent agrees: he thinks the supervisors should dispense some types of advisors, their employees possess a certificate as register advisor. At the end, all respondents think that an educated intermediary can estimate the risks more properly. As a conclusion, it can be said that the quality of financial service providers will improve, and therefore the transaction costs will rise. It is no longer beneficial to serve simple products anymore.

##### **Customer interest**

All respondents place their customers on the number one position. However, it is not clear if the intermediaries treat their customers from the perspective of 'customer interest'. As an

element of the customer interest, the 'duty to care' is in direct contrast with the provision ban and transparency: the customer must pay the advisor with a fee, but is daunted by the high price for advice. Intermediaries are mandatory to help the customer cover its risks, but cannot provide their services for free. One respondent illustrates this with the fact that the customers being financial healthier covered the cost for the advice of the customers being less healthy in the time before the provision ban. Since each customer must pay for advice, the organization feels to be forced to select customers on financial health. Their solution is to cover the duty to care – the customer receives the services for the preparation of a policy – which is now the margin. Nevertheless, all respondents agree with the duty to care: the organization can be held liable for the damages not covered because of the intermediaries' lack of awareness. It can be concluded that the intermediaries interviewed are not fully aware of the transparency requirements of AFM and the goal of this requirement. It is not clear what acting in accordance with the customer interest really means; it is not about centralize the customer, but about centralize the customers interest.

### **Internet**

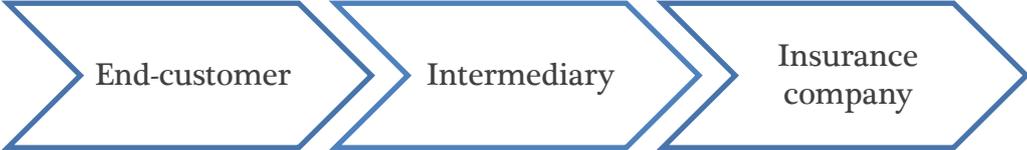
The respondents do not fear the internet as a threat for the existence of the intermediary. Customers use the internet as an information source, but are – until now – still scared to push the button and take out the insurance. One respondent is even satisfied with the introduction of insurances taken out via the internet, such that his organization can focus on the more complex insurances and do not have to waste time on simple handlings. However, the internet brings a huge risk: the customers cannot estimate all risks perfectly; there is a risk that customers do not signal their house as a special object for example. This is a result of the simplification of the products. All respondents agree about the internet being a good medium for the private market: the products on this market are less complex and the internet can decrease the information asymmetry. Several conclusions can be drawn. Firstly, the internet will rise in market share; the market share of intermediaries in their current role will decrease. Secondly, the intermediary distribution channel is a channel to be considered for complex products only or in case of Company X for high volume. Segmentation of customers becomes of greater importance in order to choose the right distribution channel(s).

**Changing behaviour of the customer**

As a result of the internet, customers seem less loyal and faithful to their advisors: the internet is used as a medium to gather information and the customer becomes an ex-customer for a small difference in price. It can be concluded that intermediaries must prove their value to the customers by knowing the demands and needs of customers. Company X can provide intermediaries the needed information to show the customers the importance of glass insurance.

**4.1.6 Change of the insurance supply chain**

It can be said that the aforementioned developments have an impact on the insurance industry. The developments discussed previously are considered to affect the interpretation of the insurance supply chain. First point of attention is ‘customer interest’; every activity of the intermediaries must be performed in the interest of the customer. This means that the insurers do not develop products which the intermediary will sell to the end-customer, but the demands and needs of the end-customer will be the input for insurers to develop new products. This can lead to a first change of the insurance supply chain:



*Figure 4 Adjusted insurance supply chain: end-customer as starting point*

Together with the shift from product oriented to customer oriented, goes the remuneration of the intermediary. Within this supply chain, the remuneration of the intermediary is not a motivation for production and sales anymore, the intermediary is paid directly.

Another expected change is the division of the private and commercial sector: each market will work following a different supply chain. The four intermediaries interviewed foresee losses on the private market for simple insurance products for the intermediary, since the customer will take out these insurance directly from the insurance company. This is possible because these customers are able to take out the standardized insurances: there is only one standard package without any choice. However, at the end the customers may have the need

for advice and help in case of problems or damage. Therefore, the intermediaries think that the role of advisor will not disappear. This new supply chain is illustrated in Figure 5.

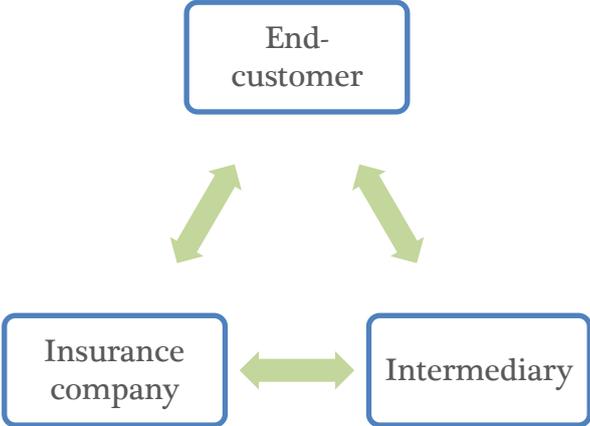


Figure 5 Adjusted insurance supply chain: interactive supply chain

However, the respondents think that there will always be a function for the intermediary on the commercial market. The intermediary can function as a risk manager of the customer. As a risk manager, the intermediary administers the risks of the insured: go deep into the risks an organization may overcome – employees, inventories, vehicle fleet etc. – and search for all possible risks of an organization – also the risks that cannot be covered. The risk manager will keep the organization under attention: it can be the case that the risks will change, or can be covered in the future. Functioning as a risk manager, the intermediary can take care for the continuity of the organization, but can also prevent the organization for damages and risks (Paling, 2013). It can be said that the function of the intermediary moves from a mediator to an advisor. A realistic insurance supply chain for the more complex products would be as illustrated in Figure 6.

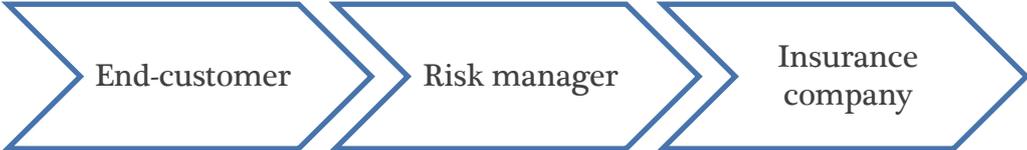


Figure 6 Adjusted insurance supply chain: intermediary as risk manager

After the interviews were conducted it can be said that every intermediary handles the developments within the industry in a different way:

- Two organizations did change or feel the need to change the business model, while others do not think a radical change within the organization is necessary. These

organizations seem a little naïve; as if they think the developments and changes will not affect their business. One explanation can be the difference in generations; the respondents working a long time within the industry seem tougher than the younger generation.

- There is a difference observed in radical changes and small changes. One organization is switching the way of remuneration for the complete organization, also the less complex products for which the provision ban does not count. Another organization is not changing, except for the changes as required by legislation and regulation.
- Two organizations have worked ahead of some changes in legislation and regulation. These intermediaries behave actively in the market and are able to react quickly. The other two organizations adapt to the developments when required. Therefore, they are not able to react quickly.

## **4.2 Cooperation of the intermediary and Company X**

This section will describe several variables that are of influence on the intermediaries' choice for an insurer and the role of an insurer from the intermediaries' point of view. These variables are formed along with the different activities Company X can undertake in order to affect an intermediary to advice their products.

### **4.2.1 Development of insurer preference**

During the interviews it was asked on which factors the organization determines whether to work with an insurance company or not. This led to a variety of determinants which are categorized into five areas: [1] price, [2] pro-activity, [3] coverage and policy conditions, [4] service, and [5] trust. These five categories are drawn up to the activities an insurance company can undertake.

#### **1. Price**

The first determinant is the price: when the premium is too high, the intermediary will switch to another insurance company. Although the intermediary emphasizes the relationship with the supplier, the customer leaves the intermediary for a small difference in price nowadays.

## **2. Pro-activity**

It is of importance to first observe the developments and then respond to them. This also implies that the insurance company should not only observe the developments which have a direct impact on their organization, but rather observe the developments that affect the intermediaries. The intermediaries think that an insurance company is more interesting when changing with the market. The extent to which the current insurance company responds to developments within the market can be a decisive factor to change from supplier.

## **3. Coverage and policy conditions**

The coverage of insurance should be as broad as possible, and the conditions must be as flexible as possible. The number of exclusions – damages not covered with the current insurance – is an important variable for one of the respondents.

## **4. Service**

The way in which the insurance company represents itself to the end-customer and intermediary is of importance. The insurer must be flexible and quick: it is of importance to handle the claims in short time and flexible – considering the wishes and needs of the end-customer. This can lead to a pleasant working relationship between the insurance company and intermediary: namely, if the insurer serves the intermediary well, the intermediary is also able to serve the end-customer in the best possible way.

## **5. Trust**

A right execution of activities implies fewer mistakes. For example: when the intermediary calls for tender, this should not contain any mistakes. The same counts for the policies. One respondent thinks insurance companies cannot be trusted. Therefore, reliability is an important factor for this intermediary: the willingness of the insurance company to build an honest relationship and cooperate.

Regarding these five categories, it can be said that an insurance company must fulfil several tasks in order to become under attendance of intermediaries:

- Competitive pricing; set sharp prices
- Respond to market developments
- Communicate knowledge about developments with the intermediaries

- Think about gaps in de market: develop new products in cooperation with intermediaries
- Keep the policy conditions up to date corresponding to the market developments
- Pay attention to operational activities: service, customer-friendly, flexibility
- Act as a reliable partner

#### 4.2.2 Expectations of the role of an insurer

The intermediaries have a strong opinion about the role of insurers. Four different functions – activities or types of behaviour – can be distinguished from their view on insurance companies:

##### 1. Risk bearer

Actually, this is the major role of the insurance company: determine the pure price of the risk. It is important to bear in mind that the intermediary is not satisfied when the insurance company takes over the activities of intermediaries, the intermediary will set the pace. This happens much more often since the internet became an important medium of information.

Since insurance companies must add value somewhere, instead of only being a risk bearer, insurers can undertake activities to be noticed and become the best possible partner of an intermediary:

##### 2. Being customer orientated

Whereas the insurance industry was product oriented, nowadays the insurance industry changed into more customer oriented. Also insurance companies should turn this orientation. In contrary, the intermediaries were obliged to do so because of the legislation and regulation – almost all new rules and laws are related to the practice of intermediaries. To reach customer oriented products, the insurance industry must gain knowledge about the customers: the end-customers and intermediaries. Therefore, it is important to select specific target groups and develop a service concept for each of the target groups, containing a specific distribution policy. The respondents think insurers should search for partners and develop new products together.

### **3. Behave pro-actively on the market**

Some of the respondents have the feeling that ‘insurers lean too much backwards’. A more pro-active attitude of insurers is desirable. Insurance companies should adapt the developments within the insurance industry. Half of the respondents think that the insurer should do this by their selves: actively adjust the products and policy conditions. The other two respondents think the insurance company should do this in cooperation with the intermediary: this player on the market knows the wishes and needs of the end-customer. In this way, the new developed products fit these wishes and needs. A start of being active is to keep updated about the developments within the market.

### **4. Act actively to the intermediaries**

In the case the insurance company is updated and knows about the developments, the organization should express that. Insurance companies should be involved in the process instead of waiting for the intermediary to ask for a gap to fill with a new product. One respondent wanted insurers to express the feeling of wanting to be a leader in the market. Another respondent said that interim reflection would be a good opportunity to search for gaps together – the insurance company should take the initiative.

#### **4.2.3 Intermediaries about glass insurance**

Two respondents mentioned that they give advice for glass insurance only in the case when the customer possesses specific glass. However, there are more reasons to advise for glass insurance – these are explained in section 2.2.1. The intermediaries may not be aware of the reasons why glass insurance should be advised. This can be a lack of the service concept of Company X. Company X should share the knowledge about glass insurance, so that the intermediaries are aware of the risks involved with glass.

Advantages of collaboration with a specialist are the fact that a specialist takes care for all activities after damage and the extended policy conditions, which means that for example the costs associated with installing the glass are covered. Another advantage of a specialist in a niche market is the fact that this organization is, in contrast with the generic, large, insurance companies, more flexible. The four respondents are very satisfied with the service provided by

Company X. They are very flexible and the communication is very direct and quick. The intermediaries are happy with the willingness of Company X to be as flexible as possible. At the same time, this is Company X's trap: intermediaries have different wishes and ask for different treatments and appointments. Because of their lack in communication internally, Company X may lose the 'big picture' in the back office and thus lose the satisfaction of intermediaries on the long term: when treating every intermediary in a different way, Company X loses overview.

One intermediary said to be satisfied with the services of Company X because the insurance company can complement the intermediaries' knowledge with the specific knowledge of glass insurances: in order to set the premium, an inspection will take place. This prevents the customer for possessing the wrong insurance.

The frequency of the visits of the travelling sales force is sufficient. One or two visits per year are enough. However, the intermediaries think such a visit is more meaningful when not talking about glass for an hour, but instead have a conversation about innovations, the customer's wishes and needs, the risks of possessing glass in buildings, and the gaps to work on. Another task of the travelling sales force can be improved: the presentation of Company X on the market. Two respondents were satisfied by the travelling sales force to perform this job. This may also be done by profiling the organization in other ways – for example, news items on the website or via trade magazines.

#### **4.2.4 Matches the current service concept?**

In order to answer the final question 'is the service concept of Company X corresponding with the demands and needs of the intermediaries?', we can fill in the activities Company X undertakes.

- **Competitive pricing; set sharp prices**

Company X handles very sharp prices. The price is a variable Company X uses to start a new relation with intermediaries: if the insurance company handles a competitive price, intermediaries will give the organization a chance.

- **Respond to market developments**

The product 'Glasconcept' is introduced after the insurance tax increased. However, the organization behaves very passive since this introduction. Keeping the developments under attention and communicate about them with intermediaries is a new opportunity for Company X; it would be a new approach for the travelling sales force.

- **Think about gaps in de market: develop new products in cooperation with intermediaries**

This activity is compatible with the previous; when Company X knows about the developments in the industry, the organization can think about the opportunities and fill the gaps with new products.

- **Keep the policy conditions up to date, corresponding to the market developments**

Since Company X is not actively following the developments in the insurance industry actively, the policy conditions are not adapted to these developments.

- **Pay attention to operational activities: service, customer-friendly, flexibility**

Company X is a small organization of 12 employees, of which two are working as the travelling sales force. These two employees do not have a clear strategy for acquisition and maintaining relationships with existing relations. Although, the intermediaries are satisfied with the service concept of Company X: when they need something, Company X can take care for it.

- **Act as a reliable partner**

Since Company X is a small organization and will do anything to satisfy the intermediaries, it is a reliable partner. This can be seen in the behaviour of the organization: Company X made itself secondary to the intermediary and is losing its identification.

Although it seems that the current service concept of Company X corresponds with the demands and needs of the intermediaries, it is not sure if this service concept will hold in the (near) future. Since the insurance industry faced a lot of developments which will have a big impact on the distribution policies of insurance companies, Company X should formulate a new strategy for the future. This strategy concerns customer segmentation, a new and diverse distribution policy, and market positioning.

### 4.3 Summary and conclusions

Several conclusions can be drawn:

- The insurance industry shifts from product oriented to customer oriented. The intermediary is an advisor and purchaser of products which meet the customer's demands and needs perfectly.
- Within the insurance industry it is not about the insurance products anymore, but about the service: how well serves the insurance company the end-customer and intermediary and what additional services the insurer has to offer.
- Insurers deliver good work if the intermediary and end-customer are both satisfied with the insurer's services and/or products. Therefore, the end-customer must be a major point of attention of the insurance company.
- Since price is an important determinant, the pressure on prices continues to grow.
- It is of importance for insurance companies to work on their reputation. Together with the reputation, the market positioning of insurers is of importance. These factors affect the intermediary and end-customer in their decision making.
- The private customer is not of importance for Company X, the commercial customer is. Segmentation of the customers must take place and a distribution policy must be selected for each type of customer. The insurer should also consider the direct writing distribution channel: for the customers for whom the intermediary distribution channel does not justify the transaction costs anymore.

# 5 Conclusions

During this research, several concepts were studied: developments within the insurance industry, reasons for intermediary existence, the insurance supply chain, the service concept of Company X, factors that influence intermediaries' choice for an insurance company, and expectations on an insurer's role within the supply chain. These concepts affect the development of the intermediary distribution channel. At the end, conclusions about implications for the future distribution policy of Company X can be drawn. The answer on the research question will follow in the next sections.

## 5.1 The development of the intermediary distribution channel

The intermediary distribution channel is under intense pressure. It can be concluded that this distribution channel will not remain the standard in the future. This is the result of several developments:

- A decrease of the number of financial service providers.
- Rules and laws change more quickly and apply for both the private and commercial customer.
- Transparency is an important pillar of AFM in order to restore the confidence of customers in the financial services industry. This has implications for intermediaries: all activities must be in the interest of the customer. Therefore, intermediaries must communicate more transparent: about their remuneration and the details of the different possible services the customer can acquire. Furthermore, communicate in order to clarify the demands and needs in order to ensure appropriate services.
- The internet is a new medium the customer uses in order to collect information. Since the internet gains larger market share, this medium can possibly turn into a new distribution channel through which customers can be provided of advice and also take out a new insurance.

It can be concluded that the right to exist will be mainly on de commercial sector for complex products. An intermediary is useful if the customer requires advice before taking out the insurance, when the information asymmetry is large, or when the transaction costs are high.

## 5.2 Implications of developments for the future distribution policy of Company X

Developments in the insurance industry must play a central role in the execution of Company X's activities. Since the roles of stakeholders in the supply chain are changing, Company X has to change and shift from product oriented to customer oriented:

- The demands and needs will determine the product development process of Company X. The end-customer is thus a major point of attention: both the intermediary and end-customer must be satisfied with the products.
- An insurer's role is to create an environment in which intermediaries function: if the intermediary is satisfied, the end-customer either.
- An insurer's reputation becomes of importance: behave and act pro-actively, adapt to developments, deliver the best quality, and be flexible. This reputation determines the decisions of intermediaries and end-customers.
- The need for advice of simple glass insurance is not high: asset-specificity, frequency, and uncertainty are low. This means that the costs associated with the intermediary distribution channel will not justify the transaction costs. Customers with specific and/or high volume glass may need advice: in that case transaction costs may be justified. This mainly concerns the commercial market.
- The direct writing channel must be considered as a new major distribution channel: the internet makes it possible to provide the end-customer of advice and enables the end-customer to take out insurances.
- One standard distribution policy for every product/market combination is no longer adequate: a distribution channel must be chosen per product/market combination.
- The distinctive capacity of Company X is small. The organization should enlarge this distinctive capacity in order to remain a valuable stakeholder.
- Since the internet is an important medium of information, the website of Company X must play an important role in their service concept.
- Within the insurance industry it is not about the insurance products anymore, but about the service: how well serves the insurance company the end-customer and intermediary and what additional services the insurer has to offer.

### 5.3 Answer on the research question

At the start of this research a central research question is composed:

*How is the intermediary distribution channel developing and what implications do these developments bring for the future distribution policy of Company X?*

The intermediary distribution channel is losing market share, while internet turns from a medium into a new distribution channel and gains high market share in the near future. Because the customer thinks the intermediary distribution channel is expensive, as a result of transparency, this channel does – in the current role – not always justify the transaction costs anymore. Besides that, the internet considerably reduced the information asymmetry. As for Company X, these developments imply a change in the distribution policy.

A change from the intermediary distribution channel as the major channel to the direct writing distribution channel as major channel must be considered. These developments also imply a segmentation of the end-customer and a carefully chosen distribution policy per segment.

Based on these finding, the next chapter contains an advice on how Company X can deal with these developments and design an appropriate plan for the future.

# 6 Advice for Company X

This chapter will contain a detailed advice of how Company X can deal with the developments in the insurance industry. These are based on the results of this research on the one hand, what are opportunities, threats and room for improvement and on the experience at the office on the other hand. At the office, it was observed how employees treat each other, how the cooperation (or the shortage) between employees worked out, and how some processes are structured.

Based on these observations several advices are formulated. These advices are formulated along the developments, with a look towards the future. This may be an alternative approach; it can be hard to switch from something that went good in the past to something new.

This advice exists of six different implementations to be taken; some follow a previous, others can be elaborated at the same time.

## 6.1 Customer orientation

It is of importance to be a customer oriented organization. This means the products follow the wishes and needs of the customer, instead of the customer to choose for a product that is brought on the market. Two things in the organization have to be changed in order to reach this: [1] employees must change their mind-set and work as a team in order to serve the customer as best as possible, and [2] Company X should track the data of the end-customers. When the organization possesses this data, it can search for a pattern: which end-customers or sectors should have the focus. At this moment, Company X serves almost the whole commercial sector: 99 percent of all Dutch organizations are SME's (MKB Servicedesk, 2014).

## 6.2 Market intelligence

Start a process of collecting 'market intelligence'. According to Rustenburg et al. (2008, p. 150), market intelligence is a structured and continuous process whereas data will be transformed to information and at the end can be used to analyse and take action.

One way to do so is to start working with a ‘Customer Relationship Management’ (CRM) system. This system should work, in the first place, as a tool to analyse information from different departments, with which the manager/director can make decisions and can formulate policies. Therefore, this system should work as a balanced scorecard: the data in the system can be used to analyse the degree in which the mission statement of Company X is effective in order to [1] realize financial goals, [2] optimize customer value, [3] shape necessary changing processes, and [4] learn on organizational level (Rustenburg et al., 2008, p. 146).

An information system results in several advantages: a decrease in costs of the office sales force and an increase in effectiveness of the travelling sales force. This is possible because the data enables the organization to make sufficient analyses. The data can also be used for the segmentation of customers – intermediaries-, and the communication between employees of Company X. One important key success factor is the skills of the sales staff: they have to translate the collected data – from internal sources like reports of the sales force and information from colleagues, or external sources like customers and competitors – into information ready to be analysed (Rustenburg et al., 2008, p. 148-156). A more detailed description will follow in paragraph 6.5.

### **6.3 Customer segmentation**

After the interviews were conducted one important conclusion can be drawn: all intermediaries are different. They differ in a lot of manners: when is the organization founded, how many employees are working in the organization, is the organization changing along with the developments in the market, and is the organization innovating? Besides that, the intermediaries differ in the way they want to be served by insurance companies. Therefore, it is important for Company X to apply customer segmentation on intermediary level.

The first step is to group the intermediaries with which Company X is collaborating already. Before the segmentation can start, several selection criteria must be defined. When these criteria are defined, the travelling and office sales force can get to work: search for information about the intermediaries to categorize them, how do the intermediaries want to

be served. When the intermediaries are categorized, Company X can use the collected data in order to adapt the right service concept with each category.

After the first segmentation of the intermediaries is finished, a selection of the categories must take place: which groups of intermediaries should Company X focus on. A success factor is a careful selection into top-customers, middle-customers, and small-customers. By using selection criteria with a weight and scores for these criteria, Company X can value the categories. When this is done, Company X can think about the service concept of each category of intermediaries: what is the strategy, what is our goal, how many visits should take place each year, who is going to visit the customer, and what will be the message each time we communicate with the intermediaries. This can result in a reorganization of Company X, which will be explained further in section 6.5.

Since the intermediary distribution channel is the major distribution channel of Company X, the organization has less contact with the end-customer and may lose the attention to this important stakeholder within the insurance supply chain. However, it is of importance for Company X to determine the target groups carefully because several customers will not be beneficial for the insurance company – their need is for simple glass insurance – and the organization must rather know which customer groups are beneficial.

Based on this study the following product market combinations may be beneficial for Company X:

	Product		
Market	Simple	Specific	Volume
Commercial		x	x
Private			x

Table 2 Possible product/market combinations

The market with the highest expectation remains the commercial market. This market contains the customers with the highest uncertainty, asses-specificity, frequency, and therefore: the highest risks. After choosing the target groups, a new distribution policy should be determined for each product/market combination.

## **6.4 Distribution policy**

Although the previous sections relied on the intermediary distribution channel, it is also an option to build the new distribution policy with other distribution channels. One distribution channel Company X should consider is the direct writing channel. Since customers make use of the internet in order to decrease the information asymmetry, and the transaction costs, Company X should respond to this development.

Another approach of the intermediary distribution channel is also possible: search for partner intermediaries which provide customers advice via the internet. This enables the customer to keep the transaction costs low, and at the same time gain the needed advice. The insurance is taken out very easily in this way.

## **6.5 Reorganizing the internal organization**

In order to realize the new service concepts of Company X, also the internal organization should adapt to this. All employees should be aware of the changes within the organization and function as a team in order to serve the customer. Therefore, it is of importance that a leader of the organization is named. Implementation of a CRM system becomes most successful in case the implementation happens project-based: a management committee, project groups, and working groups should be formed. The goal of the management committee is to lead the project-groups, monitor the progress, take the initiative, and make decisions. Since Company X is a small organization, the employees that normally would form the management committee can think about an alternative.

In order to prevent for problems in the back office of Company X the internal organization should be rearranged. It is important to set up rules about the use of the software and communication between the employees. Also helpful would be to have a meeting on a regularly basis: the information is up to date, and employees are informed about the last information. It is for example important for the travelling sales force and office sales force: as aforementioned the two departments should complement each other, but the current representative is outside almost all the time.

## 6.6 Use the data

Lastly, whenever the organization collects data, the data should be used. Use the data to change along with the developments in the market, keep up to date, work together as a team and communicate. This research described the current situation of the insurance industry to a large extent. However, this concerned mostly the external environment of Company X. Other areas of research are the internal organization, end-customers, and competitors. Company X is now a good partner for the intermediaries. However, these relationships must be maintained and the organization has to work on the strengthening of this position.

# 7

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# 8 Appendix

## Appendix A Glossary

This glossary contains translations from definitions; English to Dutch.

Commercial sector/market	Zakelijke markt
Customer interest	Klantbelang
Financial service provider	Financieel dienstverlener
Glass damage repair company	Schadeherstelbedrijven
Home insurance	Opstalverzekering
Homeowners association	Vereniging van Eigenaren
Housing association	Woningcorporatie
Mediator	Bemiddelaar
Municipalities	Gemeenten
Office sales force	Commerciële binnendienst
Private sector/market	Particuliere markt
Service concept	Bedieningsconcept
Small and Medium Enterprises	Midden- en Kleinbedrijf
Threshold of damage	Schadedrempel
Travelling sales force	Buitendienst
Underwriting agent	Gevolmachtigde agent

## Appendix B Description of respondents

- **Intermediary A**

Intermediary A is an independent insurance advice company providing advice to the customer, but also purchases the insurances. Besides the advisory company, Intermediary A started an underwriting agency for less complex products in order to be able to react more quickly, handling claims more quickly, and for developing product in niche markets. The interview was conducted with the cofounder and director of Intermediary A.

- **Intermediary B**

Intermediary B is a traditional independent intermediary operating both on the private and commercial sector. The interview was conducted with an employee in function as advisor property insurance. Intermediary B works without provision since 2010, started on the market for property insurance and pensions.

- **Intermediary C**

Intermediary C is an independent intermediary focusing on the commercial sector. The interview was conducted with account manager of Intermediary C. Main target groups are real estate and housing associations.

- **Intermediary D**

Intermediary D is an independent insurance advice company operating in property and life insurances and pensions. The interview was conducted with an employee operating in the commercial sector in the function of relations manager. Main target groups of Intermediary D are SME's and the private sector.

## Appendix C Questionnaire

The interviews were conducted in Dutch. Therefore, the questionnaire is prepared in Dutch.

### C.1 Questionnaire

Het interview zal bestaan uit vier delen:

- De geïnterviewde: de organisatie en de persoon waarmee het interview plaats vindt.
- Trends en ontwikkelingen in de verzekeringsmarkt (voor zowel intermediair als verzekeraar). En, invloed van trends en ontwikkelingen (omgevingsfactoren) op de waardeketen.
- De wijze waarop bij een intermediair een voorkeur voor een verzekeraar ontstaat.
- Hoe zou de relatie intermediair-verzekeraar er in de praktijk uit moeten zien. Met uiteindelijk relatie [organisatie] met Company X.

#### Geïnterviewde

Om te weten te komen wat voor organisatie er tegenover mij zit zullen hier enkele vragen over gesteld worden. Dit is belangrijk voor de verantwoording van de gehouden interviews en om deze naast elkaar te kunnen leggen. De vragen hebben betrekking op de soort organisatie, de doelgroep van de organisatie, het doel van de organisatie en de rol van de geïnterviewde binnen de organisatie (van wie krijg ik de informatie?).

- Kunt u kort iets vertellen over de organisatie?
- Wat is uw rol binnen het bedrijf?
- Wat houden de werkzaamheden algemeen in?
- Wat is/zijn de primaire doelgroep(en) van?

#### Trends en ontwikkelingen in de verzekeringsmarkt

Er zijn gedurende het vooronderzoek verscheidene trends en ontwikkelingen geconstateerd. Om te weten te komen of deze ook daadwerkelijk leven bij de te interviewen intermediairs zullen er vragen gesteld worden met betrekking tot die trends en ontwikkelingen (paragraaf C2 bevat de voorgelegde ontwikkelingen).

- Kan de geïnterviewde zich vinden in de geconstateerde ontwikkelingen?
- Op welke manier hebben deze invloed gehad op de organisatie? Direct of indirect?

- Heb ik nog belangrijke ontwikkelingen gemist (welke wel degelijk van invloed zijn geweest)?
- Provisieverbod is niet voor schadeverzekeringen ingesteld; heeft u iets veranderd aan het beloningsmodel?

Voor hen die niet met schadeverzekeraars werken is het verplicht op een andere wijze dan de provisies betaald te worden; wat hebben zij daar op bedacht? Voor hen die dat wel doen; wordt er gezocht naar andere manieren?

- Wat voor gevolgen hebben de ontwikkelingen gehad? Heeft de organisatie veel aanpassingen doorgevoerd na constatering? Staan er aanpassingen op de planning?
- Wat is de rol van internet als nieuw medium voor [naam organisatie]?

### **Invloed van trends en ontwikkelingen op de waardeketen**

Tijdens het desk-research zijn verscheidene opties voor de nieuwe waardeketen gevonden (deze zijn te vinden in paragraaf C3). Er wordt dus nog verschillend gedacht over de manier waarop de verschillende partijen in de waardeketen zullen bewegen. Verandert er iets aan de relatie; verandert de houding van het intermediair t.o.v. een verzekeraar?

- Hoe denkt u over deze verschillende waardeketens? Bewegen jullie gericht naar één van deze vier waardeketens? [als niet, welke dan wel?]
- Wat betekent deze verschuiving voor het bestaansrecht van het intermediair? Hoe ziet u de toekomst van intermediairs? Zijn zij nog een tussenpersoon?
- Wat betekent deze verschuiving voor de relaties die [naam organisatie] heeft met klanten en verzekeraars?

### **De wijze waarop bij een intermediair een voorkeur ontstaat voor een verzekeraar; en behouden kan blijven**

Welke factoren spelen bij [organisatie] een rol in het willen samenwerken met een verzekeraar? Waarom gaat de voorkeur uit naar een bepaalde verzekeraar? Als dit in kaart is gebracht dan kan Company X daarop inspelen; indien de factoren bekend zijn kunnen deze beïnvloed worden.

- Op welke manier ontstaat de keuze voor een verzekeraar?
  - Werken jullie samen met enkele vaste verzekeraars?
  - Wanneer wordt dit aantal uitgebreid, welke situatie, waarom?

- Kunt u 5 factoren noemen die in de keuze voor een verzekeraar mee spelen?
- Wat verwacht u van een verzekeraar in tijden van het zoeken naar een nieuwe aanbieder van verzekeringen?
- Wat verwacht u van een verzekeraar als de relatie al bestaat? Op welke manier kan een verzekeraar de relatie warm houden? Welke mate van contact zou ideaal zijn?

Er is een relatie ontstaan met Company X. Hoe denkt intermediair daarover; op welke vlakken kan Company X verbeteren en wat moeten ze vooral niet veranderen.

- Wat is voor u de waarde van een glasverzekering? Welke prioriteit heeft een glasverzekering bij u?
- Wat doet u met een glasverzekering? Los aan klanten aanbieden of in modules?
- Eén leverancier van glasverzekeringen of meer?
  - Waarom voor Company X en niet de concurrenten?
- In hoeverre bent u tevreden over de dienstverlening van Company X? Frequentie van de bezoeken/mailcontact/telefonisch contact? De snelheid van offreren?
- Is het voor u van belang dat Company X puur een glasverzekeraar is? [waarom wel, niet?] Waar zou Company X op kunnen winnen?
- Liever voor de specialist? Of liever een brede verzekeraar die je het hele pakket voor de klant kan bieden?

### **Uitwerking relatie intermediair-verzekeraar**

Hoe zou de relatie intermediair-verzekeraar er in de praktijk uit moeten zien. Met uiteindelijk relatie [organisatie] met Company X. Wat kan Company X actief ondernemen om het intermediair (beter/meer/actiever) tegemoet te komen?

- Welke rol moet een verzekeraar aannemen in uw ogen?
- Wat betekent een verandering van de waardeketen voor de relatie met Company X? Zou Company X een andere rol moeten gaan innemen? [welke?]
- Heeft u nu andere verwachtingen van Company X?
- Inloggen bij de verzekeringsmaatschappij? Eén gezamenlijke polisadministratie. Wat zou er nog meer samen geregeld/georganiseerd kunnen worden?

Volmacht heeft al zelf de polisadministratie van de polissen.

- Ik heb geconstateerd dat gemak een sleutelwoord is voor veel intermediairs. Op welke manier ziet u dit gemak? Hoe kan een verzekeraar u van gemak voorzien?

## C.2 Veranderingen/ontwikkelingen/trends

Op welke manier hebben deze invloed op de organisatie? Direct/indirect/samen met andere ontwikkeling/op zichzelf.

<p><i>Wet- en regelgeving/bedrijfstak</i></p> <ul style="list-style-type: none"> <li>- Vakbekwaamheid</li> <li>- Tegengaan ongewenste sturing</li> <li>- Verbod bonusprovisies schadeverzekeringen</li> <li>- Transparantie</li> <li>- Dienstverleningsdocument</li> <li>- Afschaffen volume gerelateerde commissies</li> </ul>	<p><i>Wet- en regelgeving/bedrijfstak</i></p> <ul style="list-style-type: none"> <li>- Verbod bonusprovisies</li> <li>- Transparantie</li> <li>- Prijsdruk</li> <li>- Nieuwe distributiekkanalen</li> <li>- Intermediair risicomanager</li> <li>- Zorgplicht</li> <li>- Klantbelang</li> </ul>
<p><i>Macro-economisch</i></p> <ul style="list-style-type: none"> <li>- Eurocrisis</li> </ul>	<p><i>Technologisch</i></p> <ul style="list-style-type: none"> <li>- Internet</li> <li>- Big data</li> </ul>
<p><i>Trends</i></p> <ul style="list-style-type: none"> <li>- Productinnovatie</li> <li>- Consument wordt mondiger</li> <li>- Big data</li> </ul>	<p><i>Iets gemist?</i></p>

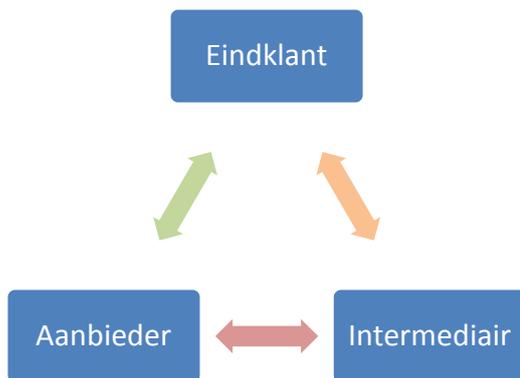
### C.3 De waardeketen: vijf opties

#### 1 Waardeketen van oudsher



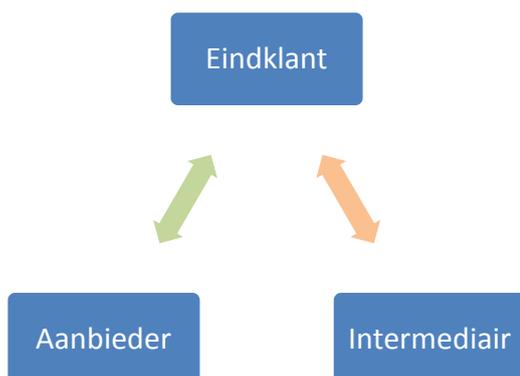
- Een schakel tussen aanbieder en eindklant
- Intermediair is adviseur en bemiddelaar

#### 2 Nieuwe mogelijkheid 1



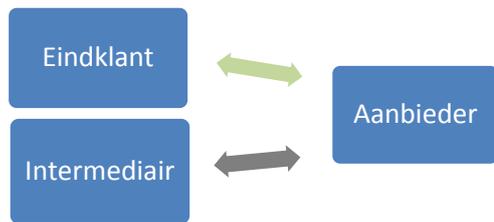
- Interactieve waardeketen; een zuiver marktmodel

#### 3 Nieuwe mogelijkheid 2



- De klant heeft de keuze uit twee kanalen:
  - Directe kanaal; klant sluit direct verzekering af bij de aanbieder
  - Intermediaire kanaal; in dat geval ontstaat ook relatie intermediair aanbieder

#### 4 Nieuwe mogelijkheid 3



- Intermediair staat naast de klant: is een adviseur
  - Klant vraagt om advies van intermediair (de risicomanager)
  - Klant gaat zelf shoppen bij de aanbieder/aanbieders

#### 5 Nieuwe mogelijkheid 4



- Klantbelang nummer 1: klant vraagt, de andere partijen volgen
- Eindklant staat aan het begin van de waardeketen; aanbieder aan het eind
- Nog steeds altijd een schakel tussen eindklant en aanbieder

## Appendix D Report of the interviews conducted

The interviews were conducted in the following order: Intermediary D, Intermediary C, Intermediary A, and Intermediary B. This order can be of influence on the results of this research because of the analysis that took place between the interviews. Within this report a few similarities and differences between the interviews and respondents will be described.

- All four respondents had a high degree of willing to participate. Three participants said yes directly, and an appointment within two weeks was made. A fourth participant wanted to discuss his participation with his colleagues first.
- All four respondents were very nice and open for answering the questions. There was a nice and open atmosphere in which talks could be held. Although, some respondents did behave a little 'reserved' sometimes. For example when questions were asked about if they already changed something in their strategy, and of more means: what and why.
- After conducting the four interviews it seems like there is a difference in generations: the younger generation seems more open for change and innovations. The older generations seems to behave a little naïve: they had an attitude as if nothing can happen to their organization, 'why should we change anything that works good at this moment?'.  
The younger generation seems more open for change and innovations. The older generations seems to behave a little naïve: they had an attitude as if nothing can happen to their organization, 'why should we change anything that works good at this moment?'.
- A big difference between the ways the organizations react on the changes within the insurance industry is observed. Two organization were already facing the changes and on their way to change the business models and strategies. The other two organization fall in the 'naïve' group and were thinking that nothing can happen to their organization – they still acquire five new customers each month without any advertisement.

## Appendix E Organizational structure

The organization Company X is organized following 6 departments:

- **Board of directors**

Head director and financial director.

- **Policy department – 2 employees**

One employee is responsible for the contracts for municipalities, housing associations and homeowners associations. The other employee is responsible for SME's, private customers etc. This department is under supervision of the financial director.

- **Claims department – 3 employees**

These three employees are responsible for the handling of the claims. The claims department is under supervision of the financial director.

- **Office sales force – 2 employees**

The office sales force is operating in Company X's head office. These employees arrange the offer demands of intermediaries and prepare for appointments with intermediaries.

- **Travelling sales force – 2 employees**

These employees can be seen as the account managers of Company X. One of them is the head director. Both employees take care for the acquisition of new intermediaries and maintain the existing relationships.

- **Technical advisors – 2 employees**

The technical advisors function as inspectors before and after damage. A primary task of these employees is to inspect the property to be insured: they determined the premium to be paid. Another task is to assess the damage and make an assessment of the quality of the damage recovery. Due to their role within the organization, Company X is able to ensure for the best quality. A third task is to handle claims for glass manufacturers: they function as independent inspector and will inspect those claims.

## Appendix F Job description of the office sales force

This job description is a derivative of the description according to Rustenburg, Hoften & Steenbeek (2008). One of the functions of the office sales force is to support the sales – and the travelling sales force. This function can be specified in different functions:

- Set up special projects of services that can serve as advise for marketing to specified groups
- Sales activities at exhibitions of profession
- Education (also supplementary trainings)
- Avoiding mistakes in coordination and planning in the visiting schedules
- Commercial analysis of market reports and work reports (of the customer visits)

(Rustenburg, Hoften, & Steenbeek, 2008)

## Appendix G Comparison of intermediaries

	Intermediary A	Intermediary B	Intermediary C	Intermediary D
<b>Target groups</b>	Private sector, SME's, and real estate	Private sector and commercial sector	Real estate, housing associations, and municipalities	SME's and private sector
<b>Market ratio</b>	33,3% private 66,6% commercial	20% private, 80% commercial	100% commercial	50% private, 50% commercial
<b>Exclusive agent</b>	Yes	No	No	No
<b>Innovativeness</b>	High	High	Low	Low
<b>Number of employees</b>	40	9	10	8
<b>Year of foundation</b>	1997	2004	2001	1999
<b>Potential growth</b>	High	High	Medium	Low

*Table 3 Comparison of interviewed intermediaries*

### Comments:

- Degree of innovativeness and potential growth are estimates after the interviews were conducted. The potential growth is a derivative of the innovativeness of the organization.
- The estimated degree of innovativeness is based on the answers on questions about the changes the organization has made.
- The market ratio of Intermediary B is estimated: the focus of the organization is changing to the commercial sector, it is expected that the organization will not serve the private sector anymore.

## Appendix H Neoclassical theory

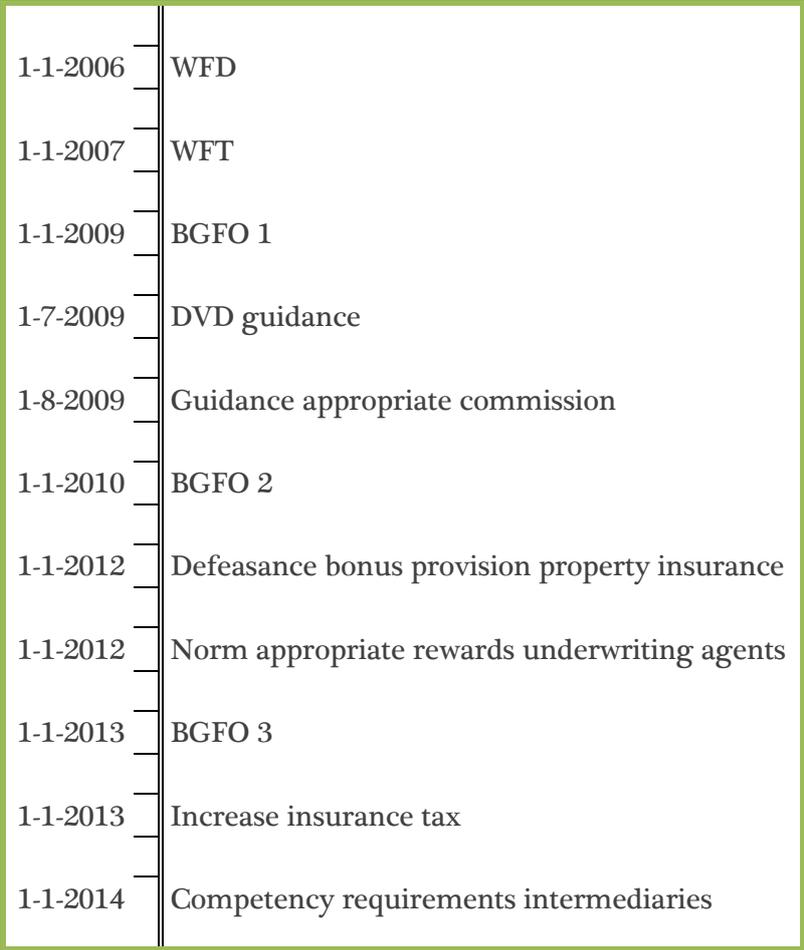
Neoclassical theory is considered the mainstream of general economics describing the economics in the perfect world. Equilibrium can be achieved through maximization with preconditions. These preconditions are related to the actors and the market (Groenewegen, 2004). The market is the place where the supply and demand of goods meets each other, and the price mechanism ensures equilibrium (Hazeu, 2000).

With regard to the actors three assumptions are made: [1] actors are seen fully rational, [2] are fully informed about all relevant information, and [3] the personal goal for individuals is to maximize utility or for organization to maximize profit. Regarding to the market it is assumed that equilibrium can be achieved when actors strive for and therefore achieve maximization. The market is a mechanism of selection: the most efficient combination survives. Equilibrium can be achieved through the market mechanism of transparency – prices reflect the market and are widely known - and flexibility – changes can be applied immediately so that products reflect the market (Groenewegen, 2004).

In an economic situation with no market imperfections, intermediaries have no right to exist. The market is self-regulating and there is no adding value of intermediaries. However, not all economics agree with the neoclassical theory: consumers cannot always act fully rational, but may behave opportunistically and they cannot foresee everything. Besides that, there is a degree of uncertainty in the market concerning each other's behaviours, demand and supply, and future prices (Groenewegen, Spithoven, & Van den Berg, 2010).

# Appendix I Explanation of rules and laws

Since the start of 2006, a lot changed in legislation and regulation. Some introduced rules and laws that are considered as having the most impact on the complete industry are illustrated in a timeline in Figure 7. An explanation of these rules and laws will follow in this appendix.



*Figure 7 Timeline of important developments in legislation and regulation from 1-1-2006 until 1-1-2014*

## I.1 WFD – 1-1-2006

The WFD functioned in the period 1 January 2006 until 1 January 2007. This act includes requirements for financial service providers on six areas: [1] integrity, [2] expertise, [3] operational integrity, [4] financial security, [5] transparency and [6] duty to care. It is only permitted to provide financial services when the organization is licensed (AFM, 2014 b).

## **I.2 WFT – 1-1-2007**

On 1 January 2007, the WFT replaced the WFD and seven other supervisory laws. Since this year, all financial service providers must be licensed under the WFT (AFM, 2014 b).

## **I.3 BGFO1 – 1-1-2009**

Suppliers, mediators and advisors are prohibited to pay or receive provision of complex products when this provision is not necessary for providing the service. Besides that, the BGFO 1 is about transparency of the remuneration: financial advisors must inform the customer about their remuneration before a contract is signed. The remuneration of the advisors and direct suppliers may not be a part of the premium anymore (Bakker, 2013).

## **I.4 DVD Guidance – 1-7-2009**

Since 1 July 2009, advisors and mediators of complex products and mortgages are required to supply their customers a so called ‘dienstverleningsdocument’. This document contains information about the nature and scope of the services and the remuneration of the advisor or mediator. This document enables customers to make a conscious decision between the remuneration and services of different intermediaries (AFM, 2009 a).

## **I.5 Guidance appropriate commission – 1-8-2009**

Following on the BGFO1, AFM published the guidance for appropriate commission for financial service providers in August 2009. This guidance provides the advisors a framework of the rules set on 1 January 2009 (AFM, 2009 b).

## **I.6 BGFO 2 – 1-1-2010**

Within BGFO2, the rules set in BGFO1 are further tightened. The AFM introduced a new rule about nominal cost transparency in order to create a situation in which intermediaries and direct writers are treated more equal (Bakker, 2013).

## **I.7 Defeasance bonus provision property insurance – 1-1-2012**

Since 1 January 2012, intermediaries are prohibited to receive bonus and sales commissions, insurance companies are prohibited to provide these kind of commissions. Besides that, if clients of intermediaries receiving advise on the ground of property insurances ask for the way the intermediary will be rewarded, the intermediary is obliged to do so (AFM, 2014 c).

### **I.8 Norm appropriate rewards underwriting agents – 1-1-2012**

This norm prescribes a balanced relationship between the amount of remuneration and the provided activities by the underwriting agent. The options to control production focused sales was found to be large. Therefore, the AFM introduced the norm for appropriate rewards of underwriting agents in 2012 (AFM, 2013 a).

### **I.9 BGFO 3 – 1-1-2013**

BGFO3 is the final part of the abolition of provision and remuneration laws. Since 1 January 2013, intermediaries advising about complex and other high risk products are prohibited to receive remuneration in the form of provisions (Bakker, 2013).

### **I.10 Insurance tax – 1-1-2013**

The tax rate on insurances is increased from 9,7 percent to 21 percent (Belastingdienst, 2014).

### **I.11 Competency requirements intermediaries – 1-1-2014**

After research of AFM showed that the skills of intermediaries induced incomplete or incorrect advice in many cases, all advisors must possess a new type of certificate. AFM developed a new competence structure, focused more on the competency requirements of intermediaries (Welten, 2014).