



Factors and Principles of Improving the Hierarchical System of Sale of Insurance Products

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ABSTRACT

The article discusses the issues of managing the sales system in an insurance company, and also analyzes the importance of a vertically integrated sales system for insurance products and its impact on efficiency. Also, when implementing the tariff policy, it is proposed to develop a tariff system for groups of risk factors, and the influence of an insurance company on financial stability is also expressed.

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Enter. Satisfying the interests of the insurance company's customers is the most important stage of service, and its level affects the demand for insurance services, that is, the higher the quality of service, the higher the demand for insurance services by the insured. When the demand for insurance services

decreases, the marketing service must identify the reasons and take measures to eliminate them. Such measures may include improving the image of the company, improving the quality of service, revising the tariff structure, etc.

In this study, issues of increasing the effectiveness of the sales channel of insurance products based on a hierarchical system were studied. Foreign experience shows that the hierarchical sales system is currently considered the most effective way to sell various goods and services, including insurance products[1]. Hierarchical system refers to the hierarchy of the insurance product sales system and relationships aimed at achieving the goals of the insurer in terms of influencing the level, time and nature of demand for insurance services.

Review of literature on the subject. The research of the sales system in insurance companies, including the expansion of the channels for the sale of insurance products, and research on its effectiveness, was carried out by a number of foreign and domestic economists, in particular, Veselovsky M.Ya., Sharapova S.A., Zernov A.A., Zubets A.N., Tretyakova E.I., Shakhov V.V., Shennaev H.M., Azimov R.S., Khalikulova G.T.

Research methodology. Decrees, decisions of the President of the Republic of Uzbekistan, decisions of the Cabinet of Ministers were used in writing this article. Theoretical and statistical analysis and observation methods were used as research methodology.

Result and discussion

In practice, there are four groups of factors for increasing the efficiency of the sale of insurance products.

Table 1. Factors to improve the efficiency of the vertically integrated system of selling insurance products¹

The group of factors to which it belongs	System efficiency improvement factors
Insurance market	the actual and potential capacity of the insurance market; density of distribution of consumers of insurance services; region type; dangerous situation; patterns of consumer behavior; income level of the population; the level of insurance literacy of the population, etc.
Insurance company	address; size; financial status; competitiveness; the main direction of the market strategy, etc.
Insurance product	types of insurance services provided; the average level of insurance tariffs; segment direction; seasonality of demand; level of service;

¹ Author development

	the need to provide information about services, etc.
Organization of sales of insurance products	business partners of the insurance company; comparative cost of distribution channels; the width of the insurance service implementation channel; provision of technological tools (office equipment, software, etc.); channel data support (information networks, computing resources, communication tools, etc.).

Full consideration of the factors of this group in the wide spread of insurance products increases the efficiency of the system and leads to the intended results. By using such a hierarchy of systems in each insurance company, it is possible to create products suitable for the potential insured and subjects who have not even thought about using insurance products, their financial situation, living and living conditions, profession and various needs. In the analysis of the insurance market, it is important to determine the characteristics of the market of insurance services and the range of relevant values of these characteristics in order to create an integrated trading system. In this regard, based on the analysis of the experience of using hierarchical structures in the field of sales, it will be possible to create a morphological matrix and show the feasibility of using vertical integration in the sale of insurance services (Figure 1).

№	Indicators	Types by level		
		low	medium	high
1.	Insurance market capacity		○	●
2.	Financial well-being of the population	○	●	
3.	The level of insurance literacy of the population	○	●	
4.	Intensity of competition	●	○	
5.	The need for risk insurance services		○	●

Conditional signs: ● Sufficient level; ○ Mandatory level

Figure 1. Morphological matrix for determining the scope characterizing the sales system²

According to the morphological matrix, the insurance market is at least moderately saturated with the created products and should be able to provide a choice to potential customers. The financial situation of the population, the standard of living puts the demand for insurance products among the most necessary needs. The population should be aware of insurance, even if it is at a lower level, should be sufficiently literate and healthy competition should be formed in the market at least at a medium level. Most importantly, there must be a need for insurance products.

The analysis of the experience of hierarchical sales systems in the field of general insurance showed that the requirements for insurance services are of decisive importance for the stability of the system of sales of insurance products built on the principle of vertical hierarchy and the financial stability of the insurer. It can be seen that the improvement of the hierarchical system of selling insurance services should be based, first of all, on the parameters that are important for policyholders in making a decision on purchasing an insurance policy. According to research[2], the main characteristics that make up the quality of insurance services include its price (insurance rate) and the occurrence of the insurance

² Муаллиф ишланмаси.

company's obligation (main conditions, exclusions and franchise).

By reducing the cost of insurance services, the insurance company gains market share and competitive advantage. However, it is not desirable to significantly reduce the price of insurance services: psychologically, the price set for the insured is related to the quality of the services provided. Studies in this area[3] have shown that in economically developed countries, an average 10% change in the insurance tariff leads to a 30% decrease or increase in the number of insurance company customers. At the same time, it should be noted that the increase or decrease of prices by a few percent (up to 1-5 percent) compared to the average market level does not significantly affect the entry or exit of buyers.

In this study, in order to model and improve the sales system in relation to price factors, the following simplification was adopted: the total level of changes in sales of insurance services can be defined as the sum of changes in the sales volume determined by each insurance company. This simplification makes it possible to more clearly present trends in the behavior of consumers of insurance services and to manage the quality of insurance services in order to increase the financial performance of the insurance company. Another important aspect when concluding an insurance contract is the availability and amount of the insurance franchise. Deductible is defined as the part of the insurer exempted from indemnity, and it is divided into conditional and unconditional deductibles, which are determined as a percentage of the sum insured. In a conditional franchise, the insurer is released from liability for damages not exceeding the specified franchise amount. In this case, if the amount of the damage exceeds the amount of the franchise, the insurance company will cover the damage in full. In the case of an unconditional franchise, the loss is compensated by deducting the amount of the franchise[4].

The use of a franchise is a generally accepted rule in the West and in Russian insurance practice, which is aimed at reducing the number of small claims and, accordingly, the cost of doing business (the franchise amount in Russian insurance companies is usually from 0.1 to 1.5 percent of the insured amount) [5]. However, this value, which is not directly included in the price of insurance services, indirectly affects the price and, as a result, the recognition of policyholders. In addition, it is worth noting that due to the low level of insurance literacy of the country's population, most of the policyholders find out about the inclusion of this condition in the contract only during the process of processing claims as a result of an insurance event, which negatively affects the reputation of the insurance company and their attitude to the insurance process. Therefore, the inclusion of a certain amount of deductible in the insurance contract reduces the risk price by this amount, therefore, the increase of the deductible helps to reduce the cost of insurance services.

Conducted marketing research proved the sensitivity of consumers of insurance services to the increase in the price of insurance services compared to the increase in the volume of the franchise [6]. This situation, as mentioned above, is explained by the fact that the policyholders are unaware, and that although the franchise is one of the conditions of the insurance contract, it does not appear in a unique way during the conclusion of the insurance contract (at the time of paying the insurance premium). However, negative views immediately arise when the franchise exceeds a certain limit, that is, when it is set at a large amount. Thus, the price factor has a significant impact on the sale of insurance services and should be taken into account when developing a sales system for a particular type of insurance.

At the same time, the insurance company is free to manage prices which is more limited: the basis of the price of insurance services (net premium) is directed to the formation of insurance reserve, which is necessarily mathematically calculated on the basis of probability components and regulated by regulatory authorities. In addition, it is not appropriate to reduce or limit some components of the burden of insurance premiums, in particular, the costs of managing the insurance company, the costs of

financing the activities of agents, advertising and marketing campaigns focused on a certain type of insurance. Only resources can be temporarily redistributed, and the market price of the insurance service must be determined based on the actual level of costs[2]. Otherwise, the financial stability of the insurance company will be at risk. Determining the tariff rates for general types of insurance and setting the terms of their application is called insurance product pricing. The formation of the tariff system and the calculation of tariff rates can be mentioned as the main stages of tariffing. Of course, there are also economic reasons for the creation of tariff systems by insurers. The tariff system should provide an opportunity for the insurer to create an insurance reserve in accordance with its obligations and ensure sufficient solvency.

Based on this, it is proposed to develop a tariff system by groups of risk factors in the implementation of the tariff policy by insurers. In addition to creating a tariff system, the insurer's tariff policy also affects its economic situation. For example, an improperly implemented tariff policy can cause anti-selection of risks. Unfavorable risks for the company include risks whose actual occurrence is higher than the probability provided for in the insurance tariff [7]. The emergence of risk antiselection can be seen in the following example.

In the insurance market, two insurers A and B have developed a new insurance product. Under this product, the insured are divided into two groups according to the probability of occurrence of the insured event: N_1 and N_2 (the probability of occurrence of the insured event is equal to q_1 and q_2 , respectively, and $q_1 < q_2$). Insurer A has developed separate T_1 and T_2 insurance rates for each group, and Insurer B has developed an average Net insurance rate for all insureds. In this case, the equality $T_1 < T_{\text{seat}} < T_2$ is valid. If the conditions of insurance by the insurers are almost the same for their products, naturally the insured tends to buy a cheaper insurance service. Before the implementation of the newly developed insurance service, the distribution of insured persons on the purchase of insurance service will be as shown in Table 2.

Table 2. Distribution of insured persons by purchase of insurance service³

Insured persons	A insurer		B insured persons	
	The rate	Number of insured persons	The rate	Number of insured persons
Group 1 q_1, N_1	T_1	$0,5 N_1$	T_{seat}	$0,5 N_1$
Group 2 q_2, N_2	T_2	$0,5 N_2$		$0,5 N_2$
Total		N		N

After the sale of the insurance service, the insurance service of Insurer A is cheaper for Group 1 policyholders than that of Insurer B, and as a result, all Group 1 policyholders purchase policies of Insurer A. For Group 2 insureds, the insurance policy of Insurer B is cheaper than that of Insurer A, and policies of Insurer B are usually purchased only by Group 2 insureds.

The more effectively the insurance company implements the tariff system in calculating insurance tariffs, the more its accumulated insurance reserves are in line with its obligations [8]. When developing a tariff system, it is important to take into account the factors mentioned above, such as risk grouping of insured persons and anti-selection of risks, that is, acceptance of risks that are unfavorable for the company. Tariffing should be developed in such a way that low tariffs do not negatively affect the insurer's solvency and financial potential, and it is very important that high tariffs do not limit

³ Муаллиф ишланмаси.

opportunities to participate in competitive processes. Reasonable development of insurance tariffs ensures that the coefficient of harmfulness of insurance premiums is low and creates a favorable investment environment.

CONCLUSION. In order to capture the market and exclude competitors, the insurer can set the price of the insurance product lower than the minimum amount possible for some time. This is the essence of the so-called "price war" among insurers. As a rule, such battles end in tragedy for all participants. The mechanism of this is roughly as follows: one of the insurers selects one or more insurance products that are considered the most attractive for customers in order to capture more of the market. It then sets the price of these products below their cost. Undoubtedly, its share in the market will increase, but at the same time it will be operating at a loss. At this time, the insurance reserves formed on the attractive products will not be sufficient to pay the insurance coverage, and the shortfall will be covered by the reserves formed on other insurance products or by the accumulated savings previously.

Other insurers are similarly forced to cut prices, take losses (albeit to a lesser extent) or exit the market in order to retain their customers. This situation cannot continue indefinitely, sooner or later the initiator of the price war will have to raise the price to make up for the losses in this war. As a result, without waiting for a long time, a large number of customers who "fly" to its cheap price, who have passed through another insurance company, begin to leave it. Because policyholders are very sensitive to the price of insurance products, they start to act immediately in response to dumping conditions. As soon as prices start to rise, they will look for new, more favorable conditions. These types of customers are highly price sensitive policyholders.

A reduction in the price of insurance services is not only due to a price war, but also because the insurer has found opportunities to reduce its costs, for example, through segmentation and specialization of the transmission network. However, price reductions also have negative aspects: the policyholder, seeing that the insurance premium under his contract is unusually low, may doubt the quality of the insurance product or think that it may be a fraud. Therefore, the price of the insurance product should not fall below the reasonable level that can be used mentally.

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