Article

The Customer-Oriented Service of Spanish Brokers in the insurance industry: The advice service of the distribution Channel Bancassurance

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Abstract: This research focuses on the customer orientation of insurance brokers, whose activity is regulated by the Law of 26/2006 of July 17 on the mediation of private insurances and reinsurances. The goal is to ascertain whether the intermediation inherent in the insurance broker's activity, which implies a customer-oriented service, entails a positive behaviour that transcends the immediate environment, reaching society. This study presents a comparative analysis between the insurance brokerage society, characterised by providing a personalised customer service, and banks' advisory services on insurance. To this end, we study the evolution of the total volume of business and new production, compared for a portfolio of insurance products. The results presented in this research suggest that the customer values the advisory service provided by the broker. However, for a particular business segment in standardised insurance products and products related to banking assets, customers are more likely to resort to the bank's services. In addition, the results indicate that the commission percentages applied by the entities operating in the banking insurance channel exceed those perceived by the insurance broker. With all this, intermediation in the development of the insurer's activity can entail an ethical and social behaviour that involves customer-orientation and, possibly, social service, which does not always benefit the insurer.

Keywords: customer- oriented service; behaviour; distribution channel; commissions and fees; objective and subjective advice; sustainable insurance brokerage

1. Introduction

Currently, the insurance market is in a process of deep regulatory changes in different geographic areas. The adaptation of the legislation to the new environment takes into account the incorporation of agents and technological advances that significantly reduce the time and costs involved in the satisfaction of customers' demands. Thus, the increasing number of online transactions has led to the consideration of the Internet as an ideal distribution channel for the marketing of standard products rather than investment products, which require specialised advice. Thus, emerging technology-driven innovations in the insurance industry is a trend of recent years, Manaro [1].

The current process of change favours, on the one hand, a strong development of banks as channels of distribution of insurance products in different markets and, on the other hand, a new flow of revenue stemming from the commissions from the insurance companies for the distribution of their products. Therefore, these products represent a source of complementary profit for the banking sector

that compensates for the lower turnover caused by the continuous fall of the Euribor, which is the interest rate of reference in the operations involving banking assets and liabilities. This situation is causing the reduction of the profits from the traditional banking activity: financing services. The temporal series of evolution of the Euribor-12 months' interest rate from 2013 present a clear downward trend to reach unknown levels in the Euro zone. The evolution of the Euribor to reach the price of the money in the year 2018 a -0.376% [2]. With all this, this situation implies a sharp decline in the profit margins of the traditional banking business through the offer of banking assets. As a result, one of the most important contributors to banks' growth is bancassurance. In addition, insurers see a great potential in bancassurance given the possibility of using banks' distribution platform.

According to Cruz-García et al. [3], the Spanish banking sector has experienced a profound transformation in recent years aimed at correcting the imbalances accumulated over the years of expansion, until 2008. The restructuration involved mergers, which allegedly increase market concentration; however, the restructuration in the banking sector has caused competition between companies to deteriorate.

Regarding the insurance distribution channel, the ranking of various agents in the insurance distribution channel is based on the characteristics of the insurance market. Pani and Swain [4] provide evidence that bancassurance has grown in different places, where it has been shaped differently according to demographic, economic, and legislative factors. These authors show the different characteristics of bancassurance models: distribution agreement, strategic alliance, joint venture and financial services. Alavudeen and KD [5] expose that the banking and insurance industries have developed rapidly in economic terms around the world. This situation owes to the merger of global financial markets, the development of new technologies and the universalisation of the banking industry. In addition, the expansion of non-banking activities has allowed the emergence of new channels of distribution in the insurance industry.

The development of the banking distribution channel may have a more pronounced growth in the Eurozone as a model of traditional banking–productive investment–than in other commercial areas such as the USA, characterised by greater regulation in the insurance sector and by a model of banking speculation. In this context, brokers are the predominant distribution channel in countries such as the UK or Germany (75% and 50% respectively), Agrawal et al. [6], while in Asia, for instance, banking-insurance is reaching great penetration levels in the insurance market. This is particularly true in countries like China, India and Japan, where legal restrictions have been attenuated. In fact, this distribution channel allows the banking sector to obtain additional income from the sale of insurance products, while insurance companies can expand their customer base without having to increase their sales force or hire commission agents or insurance brokers. Thus, bancassurance has become an insurance distribution channel with a strong growth according to Yildirim's [7] study on the Turkish insurance market.

Extending the analysis to insurance brokers, we find that they stand out because of their high autonomy in the development of their activity within the distribution channel. Brokers' primary role is to provide insurance coverage on behalf of their clients. Additionally, brokers may be engaged, among other activities, in consulting, wholesale or reinsurance activities, alternative risk financing, risk analysis and human resource consulting activities, Ragin and Halek [8]. Brokers' role can be articulated in the following way: (i) customer acquisition and needs analysis; (ii) market analysis; (iii)

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risk evaluation and identification of the insurance companies that might meet customers' needs and requirements; (iv) contract definition and contract management; (v) support in the settlement for damages.

Specifically, in the Spanish insurance market, the broker business is distributed as follows: intermediary policies in the field of life and the field of non-life represent 5% and 20% of the business, respectively. In particular, for the branch of non-life, 13% of the volume is controlled by bancassurance and 39% by agents as reported by Latorre [9].

Finally, our study extends previous evidence by Latorre and Farinos [10] and delves more deeply into several factors to examine whether bancassurance and the insurance broker's customer-oriented services entail a positive behaviour that permeates into society. We study the quality of the broker's advisory service and compare its objective or non-objective advisory nature to that of the bancassurance operators. Additionally, this study observed that commissions are directly linked to sales agents' ethical behaviour. Dubinsky et al. [11], for example, argue that salespeople often face ethical dilemmas, having to choose between yielding to managerial pressures to meet short-term sales quotas and achieving long-term goals such as client trust. Such dilemmas lead to job stress, poor sales performance, and customer dissatisfaction.

The study is structured as follows. First, the literature review presents previous research on the relevance of insurance brokers and the bancassurance distribution channel, with a presence that varies according to the distinctive features of each insurance market. Second, the method section describes the methodology used to analyse the sample based on information from the databases and the sector's annual reports consulted. The initial sample consists of 500 insurance brokerage firms in Spain included in the SABI database between 2013 and 2017. In this work, 500 insurance broker firms of larger size configure the sample. Cummins and Doherty [12] find that brokers tend to service larger and more complex business insurance needs.

The documents consulted include the sector's annual reports on the activity developed by the bancassurance operators, informed by their respective statistical-accounting documents issued by the Directorate General for Insurance and Pension Funds, and the sector's annual reports on insurance brokers' activity. In both cases, information refers to the non-life business. Third, research results are explained. Finally, conclusions are presented.

2. Insurance Distribution Channels

In this section, we present an overview of two important distribution channels in the insurance industry: the insurance broker and bancassurance.

2.1. Insurance broker

A common opinion in previous literature suggests that brokers seem to be more oriented towards maximizing their own profits than towards the creation of wealth for their clients, Battalio and Loughn [13], even when the activity is developed in a very regulated context such as the US market. These authors show that the broker's decisions may lead to actions that are not geared towards the client's own interest. Game and Gregoriou [14] find that performance in a competitive market can help reconcile the interests of the broker and the client. The financial system should not allow this unethical behaviour; however, the market is not completely efficient. Shleifer [15] states that in an efficient capital market the price of assets always reflects fully the available information on that asset. Furthermore, in the traditional model of a "perfect market", all the agents are supposed to

have the same financial training and the same capacity to use it, Working [16]. Some examples involve the Spanish insurance market, where Latorre and Farinos [10] found evidence of the existence of unethical behaviour consisting in keeping the clients uninformed during the legal process of intermediation.

Mediation in the insurance industry is subject to regulation in different countries in a context of free competition. If an intermediary works as an agent of the insurer, his or her negligence cannot be imputed to the insurance company. The term "agent" may also refer to an intermediary who exclusively sells one insurance company's products and who is identified and treated as an agent of the insurer he or she represents. Agents of this kind are described as "captive agents" or exclusive agents. On the other hand, an insurance broker is not a salaried insurance company employee nor is the broker identified with a single insurer; rather, he or she is considered an independent intermediary. A broker typically has contracts with a number of insurers and is compensated by way of commissions paid by the insurers who offer the coverage. As a general rule, when a broker agrees to sell a policy to a client and obtains a commission in return, the broker has a duty towards the client to act with reasonable care, skill, and diligence.

Regarding the German insurance market, Eckardt [17] suggests that insurance intermediaries reduce transaction costs and information asymmetries. Insurance brokers spend a large amount of their working time searching for information on insurance companies, products, and potential clients. Therefore, insurance brokers may provide better advisory service, of higher quality and better suited to the needs of the consumers than that of insurance agents. Insurance intermediaries have cost advantages compared to individual clients. They can reach economies of scale and perform fixed cost investments in human capital and technology to easily gather information about product prices, performance and terms, Traub [18] and Rose [19].

Eckardt [17,20] analyses the influence of structural variables on the quality of advisory services such as size and number of employees and finds that advisory services are influenced to some degree by the firm's size and employment structure of insurance brokers, as well as by the degree of specialization on private clients (see figure 1).

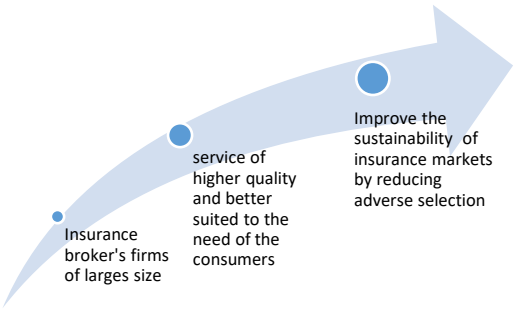

Figure 1. The customer-oriented process of intermediation

In the US insurance market, the brokerage segment of the industry is highly concentrated, as Cummins and Doherty [12] show, leading to a lack of competitiveness. These authors show that, in most insurance transactions, there is an intermediary, usually an insurance agent or broker, between the buyer and the insurer. The intermediary plays a role of "market maker", helping buyers to

identify their coverage and risk management needs and matching buyers with appropriate insurers. In this case, although price is important, it is only one of several factors that customers consider when deciding on an insurer. Cummins and Doherty [12] find that the main differences between independent agents and brokers are size and the range and depth of services provided. In general, independent agents tend to be smaller than brokers and provide services to relatively small businesses and consumers in localized markets, whereas brokers tend to service larger and more complicated business insurance needs. In this context, these authors claim that brokers play a pivotal role in providing information to prospective insurers to help them evaluate the risk. In cases where risks are too large or complex to be insured by a single company, the broker often plays a "syndicate" role, finding various insurers. An important distinction between insurance intermediation and many other markets is that it is more related to quality than to price. Most compensation for insurance intermediaries consists of a percentage of the premiums paid on each policy; many brokers receive contingent commissions based on various performance criteria such as the profitability of the business placed with an insurer, persistency or turnover and revenue from clients. Thus, commissions paid for new policies are higher than for renewed ones. Fees are more common in cases where a significant part of the risk management and risk transfer arranged by the broker does not come through the insurance channel but rather through alternative risk transfer techniques such as sell-insurance and captive insurance companies. Finally, Cummins and Doherty [12] conclude that insurers will trust the selection of risks and the information provided by the intermediary because that information helps to improve the efficiency of insurance markets by reducing adverse selection.

In this context, Doman et al. [23] show that brokers' traditional role has been to find insurance for corporate clients, to negotiate the price and scope of coverage, and to advise clients on the design of their risk management plan. Thus, most brokers make money by taking commissions from insurers on the premium paid by clients. Most recently, a massive consolidation among the distributors of commercial insurance has taken place in the US insurance market. In the USA, as well as the UK and some other European countries, brokers dominate the distribution of commercial insurance because these relatively deregulated and competitive environments allow them to influence insurers' choice and terms. Brokers have also begun to gain market share in deregulating markets such as Italy, Spain, and Latin America. Japan deregulated the insurance market in the late 1990s and legalized brokering, allowing the entry of global brokers into the local market. In Taiwan, Tseng et al. [24] examine the importance of some insurance brokers that may sell insurance to high-risk customers so that more sales compensations can be earned by the broker. The findings of this research may have some implications for insurance management and insurance regulation. Insurance brokers are one of the most important marketing channels in the insurance industry; however, using insurance brokers to sell insurance may result in some ethical problems. The type of advisory services and the collected premiums paid by the client to the insurance broker, for instance, are two of the issues discussed in this study. In Africa, the financial industry is growing up rapidly, enabling large volumes of transactions to be carried out. This growth has significantly increased the demand for insurance and insurance products. Owusu-Sekyere and Kotey [25] examine the factors that determine the profitability of insurance brokers in a developing economy, Ghana.

In the Eurozone, the Directive 2002/92 /EC of the European Parliament and of the Council of 9 December 2002 regulates the activity of insurance mediation, [21]. This directive presents set access rules for those established in a member state or those wishing to settle there. In paragraph 3 (article

1, chapter 1), insurance mediation is defined as "the activity of introducing or carrying out other work preparatory to the conclusion of contracts of insurance, or of concluding such contracts, or of assisting in the administration and performance of such contracts, in particular in the event of a claim". According to the preamble, paragraph 19, Directive 2002/92 EC contemplates that a member state may, in this respect, maintain adopt more stringent dispositions to be imposed on insurance intermediaries [21].

Regarding the Spanish intermediary market and in accordance with the Spanish financial system, the activity of insurance intermediaries is subject to a single supervisor, such as the Directorate General for Insurance and Pension Funds. In this manner, Law 26/2006 of July 17 regulates insurance mediation and private reinsurance [22]. Article 2.1 states that the compensation received by the broker from the insurance company will be in the form of commissions that are satisfied, on the one hand, through the payment of premiums to the insurer and, on the other hand, through fees the broker bills directly to the customer. Insurance brokers are requested to base their recommendations on the analysis of a sufficient number of insurance contracts available in the market for risk hedging, which have to be suitable to the needs of the client.

Another relevant issue that affects the insurance broker is the management of intermediate premiums collection. Latorre [9] shows that the activity of an insurance broker is characterized by a high autonomy, which could imply higher administrative costs than those borne by another type of agent in the insurance mediation market. Therefore, the insurance broker that manages the collection of the premiums of the clients could compensate these administrative costs by looking for a financial return.

However, not all insurance brokers may find this issue significant, since managing their clients' premiums can be interesting. Smaller companies could be interested in the insurance company assuming the collection management in order not to have to bear the costs of management and its associated risks. In certain cases, collection by the insurance company is advisable, as in the case of the fleet vehicle business. This insurance requires the management of a high volume of receipts and a very specialized follow-up in their collection management. In this vein, the new Spanish Law on Private Mediation Insurance and Reinsurance states that mediation intermediaries can only charge commissions and fees for insurance policies they have mediated, and forbids any other form of traditional remuneration such as production incentives (volume discount) or compensation for a good claims portfolio (Law 26/2006 of July 17, insurance mediation and private reinsurance) [22]. In this regard, unethical behaviour may appear when one insurance company offers a higher commission and the broker focuses on maximizing his or her income rather than on providing the client with the policy with the best coverage. Specifically, we focus on the possibility of deferring the payment to insurance companies of premiums collected from clients. In this case, the broker collects the premiums payable under the client's insurance policy but does not immediately send the funds to the insurance company. Instead, the broker waits until the end of the legal period (e.g. 50 days in Australia or 30 days in Spain) and uses this money in the meantime either to make business-related payments or to invest in short-term assets in order to obtain an extra return. Although this practice is not illegal if it is done within the legal period, it may easily be considered unethical behaviour on the part of the insurance broker as the (uninformed) client expects the broker to forward the funds immediately to the insurance company. With "uninformed client" we refer to those clients who are not aware of the legal process of brokerage activity.

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The following section presents the main channels of distribution, such as bancassurance. This presentation will allow us to compare it with the insurance broker.

2.2. Bancassurance distribution channel

A first approximation to the concept of this epigraph is exposed by Pani and Swain [4], who define bancassurance as selling insurance policies through banks. Alavudeen and KD [5] present a broader definition of bancassurance, which involves the allocation of insurance products through the huge network of banks where banks act as distribution channel for the supply of an array of banking and investment products and services.

Following the literature review in this section, we present some aspects treated by different authors on the importance of the channel of distribution of bancassurance in various countries. Thus, in countries such as France, Italy, Spain, Portugal and Romania, bank branches have become the main distribution channel for life policies. However, in other countries such as the UK and Germany, insurance agents and brokers manage most of the insurance market (Morgan et al. [26]; Benoist [27] and Teunisen [28]. Benoist [27] states that the French insurance market has a structured pension system that favours bancassurance's high position in the field of life and, to a lesser extent, in the non-life sector. In the life insurance market, products are very similar to banking products and there are high tax incentives that favour their rapid marketing through the banking channel. In general, for banks, marginal costs, and for insurers, the distribution of costs are lower than those involved in the agents' network, Gonulal [29]. Finally, the sale of products of the non-life sector requires certain skills that differ from those necessary for the sale of savings products.

Latorre [9] points out the similarity of the situation of the brokerage business in the Italian and Spanish insurance markets. This author points out that the bancassurance channel manages 49% of life policies and 3% of the non-life policies in Italy, and 70% of the life policies and 13% in the non-life policies in Spain. Therefore, the existence of a lower intermediation in the business of non-life by the bancassurance could owe to the presence in these markets of strong alternative channels (agents and brokers) and to customers' perception that they are receiving personalized and objective advice. This objectivity contrasts with the service of the banking distribution channel, which depends on the companies whose products they have agreed to market. In this line, Latorre [39,40] provides evidence of the remuneration system of insurance brokers and insurance brokerage companies. On the one hand, his results support the existence of an inversely proportional relationship between the fees received with respect to the intermediation level and the commissions received. On the other hand, fees perception could represent compensation for loss of business due to the emergence of new competitors such as bancassurance. Gonulal [29] (p.11) shows that while in some countries (e.g., Brazil, France, Italy, Portugal and Spain) the banking channel presents a strong growth, the regulatory situation of other countries such as the USA and Canada does not foster the same growth of the banking distribution channel. Thus, there are regulatory differences between countries when it comes to boosting bancassurance, which imply that the advancement of bancassurance responds to the distinctive features of each insurance market. Conversely, the German insurance market is characterised by a strong presence of agents, in towns and cities, and a strong resistance to buy insurance products through banks. In the UK, this situation is the result of a strong tendency towards buying insurance products via the Internet and telephone sales. In this way, saving costs is not an incentive for bancassurance growth, especially in non-life insurance. In the case of life insurance,

most of it is based on employment contracts, which also hinders the growth of the banking channel in this field. Yildirim [7] suggests that the significant growth of bancassurance responds to the high personal and financial information available to its customers. Thus, by having the opportunity to contact their customers at different times of their business relationship, the bank is able to provide insurance products according to customers' personal and professional needs. In addition, the bank provides insurance companies with a channel for the distribution of their insurance products, a situation that favours bancassurance's strong growth in the Turkish insurance market. In Taiwan, Chen [38] presents the impact of bancassurance on service quality, corporate reputation and profitability increases with market maturity. Thus, a service quality has a sustained effect on corporate reputation and therefore profitability.

Regarding the remuneration system of the bancassurance distribution channel, Arguedas [37] (p.26) states that the agreement is based on a commercial contract between the financial institution and the insurance company; it is considered an agency contract. Thus, among other aspects, the contract regulates the payment of commissions. Teunisen [28] (p.409) posits that the main model is that of pure distributor. In this sense, the bank acts as an intermediary by offering products from the insurance company. Therefore, the insurance company usually rewards the bank through the payment of distribution commissions. As far as we know, the bank can cross-sell the products. The application of this model is part of the bank's real need to offer insurance products to its customers within its traditional activity. In general, this service is valued positively by customers who value the independence of the advisor. However, it is a potential disadvantage for insurers, who will have little control over these customers, because there will be a closer relationship between the client and the banking entity. Gonulal [29] (p.25) concludes that even though customers consider bancassurance a trusted advisor, measures should be established to limit banks' fees. In this way, a commission level of 20% on the premium could be established, but if the bank's commissions exceed this level, a protection mechanism should ensure that the client is informed of the commissions perceived by the bank. Additionally, Alavudeen and KD [5] observe that bancassurance has gained recognition over the last few years in other insurance markets such as the Indian market. In India, the insurance sectors are regulated by the Insurance Regulatory and Development Authority (IRDA). In this context, the choice of distribution channel preferred by the customers is detailed. 32% of the customers preferred agents because they provide personalized services. 30% chose insurance products from companies because of their trust in the company. Similarly, 29% said they would buy insurance from banks because of the brands' name and their trust in banks. With all this, only 9% said that they would buy insurance from brokers. In the same geographic area, Pani and Swain [4] argue that there are several factors that explain the need and subsequent development of bancassurance in India. The size of the country, a diverse population, and the problems of connectivity in rural areas hinder insurance sales in this country. In this way, bancassurance, through the local bank branch allows for an improved insurance offer for common people. These authors point out that bancassurance in India is necessary given the need for a well-resourced financial structure that allows the country to grow economically.

In this line of research, Alonso [36] (pp.43–45) presents a preliminary study on the Spanish insurance market regarding the regulation of the following figures of insurance mediators: exclusive agents, linked agents, bancassurance operators, insurance brokers and reinsurance brokers according to the law 26/2006 on mediation of private insurance and reinsurance [22]. Thus, credit institutions and commercial companies controlled or owned by those institutions are considered a bancassurance

operator. The insurance mediation activity consists in establishing commercial relations on behalf of one or more insurance companies through the distribution network of credit institutions (art. 25). In this way, the insurances can be distributed by credit institutions registered as a bancassurance operator without having to change their structure, which is that of the banking or financial activity.

The bancassurance operator, in its role as insurance mediator, will be submitted to the general system of insurance agents because it acts as a bancassurance operator or as a related operator. Therefore, the bancassurance operator may act exclusively for a single insurance entity or for several insurance companies. Finally, one of the requirements to be a bancassurance operator is to indicate the network or networks of credit institutions through which the mediation activity is carried out (art. 25.2). In addition, the bancassurance operator must inform its clients that its advisory service is not completely impartial (art. 42.2. a) and that the advice given aims at selling an insurance product and not another product offered by the credit institution (art. 42.2. b). Thus, at the request of the client, the operator of bancassurance must disclose the insurance companies with which the operator works and from which it receives commissions for its non-target advisory service when marketing their products. The difference between the bancassurance operator and the broker in its intermediation activity is that brokers are fully independent to ask insurance companies for risk coverage in accordance with their clients' needs. However, the associated bancassurance operator only sells the products that come from the insurance companies with which it has established an agency contract, which may pose a competitive disadvantage. Some banking distribution channels prevent this situation by creating their own life insurance company. In addition, bancassurance operators could create the figure of their own associate broker, who might independently ask the different insurance companies for quotation, for clients looking for products of the non-life branch.

In figure 2 we present the remuneration system of the insurance brokers and the distribution channel of the bancassurance:

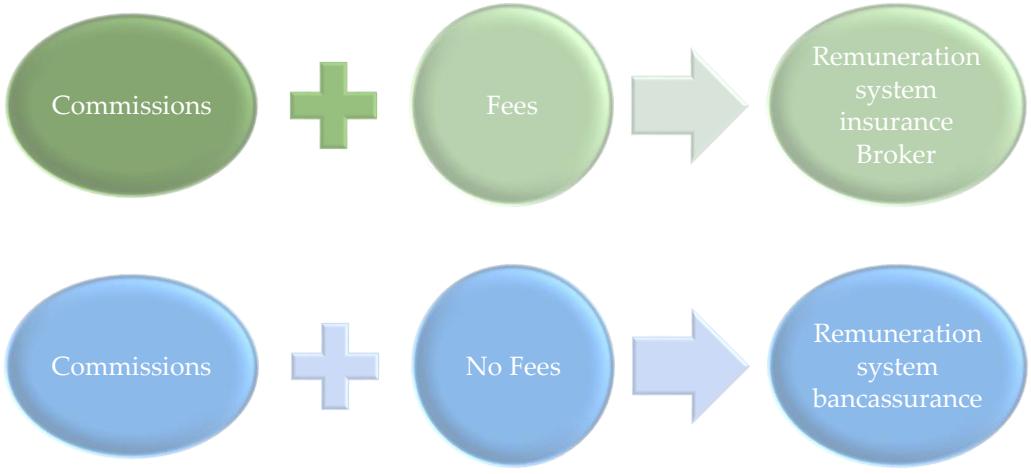

Figure 2. The remuneration system of the distribution channel: insurance broker and bancassurance

3. Hypotheses and Research Design

Considering previous theoretical arguments and empirical evidence from the "Insurance distribution channels" section, we posit the following hypothesis:

H1. The broker has a customer orientation in the management of the policies of his or her clients, which has a positive effect on society. Therefore, sustainable insurance brokerage would be encouraged.

In order to test H1, we take into account the customer-oriented behaviour of Spanish broker firms in the insurance industry. Previous literature (Directive 2002/92/EC, paragraph 4.a) shows that a determinant of this activity is the quick transferral of the collected premiums–paid by the client to the broker–to the insurance company lest there is an incident that has to be managed by the insurance company. According to Dobson [30], this procedure fosters reputation, which bridges the gap between maximization of wealth (i.e. technical competence) and social responsibility (i.e. fiduciary obligation to the client).

H2. The structural variable *size* positively influences the quality of the service provided by the insurance broker to his or her clients.

We test H2 through the analysis of structural variables. Eckart [17,20]) analyses the influence of structural variables such as size on the quality of advisory services and finds that advisory services are influenced to some degree by the size of the insurance brokers firm, arguing that size works as an indicator of their degree of specialization on private clients. Cummins and Doherty [12] find that the main difference between independent agents and brokers is size and the range and depth of the services provided.

H3. The concentration that the banking industry experiences favours the objectivity of bancassurance's advice to clients.

Regarding H3, we test the hypothesis by analysing the quality of the advisory service. According to Cruz-García *et al*. [3], the restructuring that takes place in the banking sector has impacted the level of competition between companies. Gonulal [29] (p.25) points out that despite customers' trust in bancassurance, measures should be established to limit banks' fees. Thus, if the bank's commissions exceed 20% of the premium, the specialisation of the advisory service on private clients of should be ensured.

3.1. Sample and Methodology

This section explains the sample used in this study. In Spain, the market for insurance intermediaries has been traditionally characterized by the presence of small enterprises. Nowadays, and as a consequence of globalization, large insurance mediation companies have appeared in the Spanish market. As a result, large companies broker the most complex and highest risks, while small companies deal with lower risks. The sample is made up of large insurance brokers. This choice increases the reliability of the statistical inferences that can be obtained, given that more data that can be optimally measured regarding the quality of the advisory service as well as its suitability to customers' needs.

Our initial sample comprised 500 insurance broker firms in Spain included in the SABI database from 2013 to 2017. Thus, our temporary horizon covers one crisis year and four post-crisis years. We consider a one crisis year when Spanish has a negative gross domestic product (GDP).

For a broker firm to remain in the final sample, it needs to meet the criteria shown in Table 1, so the *customer-oriented responsibility ratio* can be computed for that year. The necessary economic and financial information for this research comes from the SABI database. SABI dataset is released by Bureau van Dijk Electronic Publishing.

Table 1. Sample selection process

	Observations
Initial Sample	500
Companies whose information on financial income and sales is not available in the Sabi database	(103)
Final Sample	**397**

As explained above, if a broker firm systematically defers the premiums charged to its clients in order to invest in short-term financial assets, that firm is expected to have a high financial income. We proxy the (un) customer-oriented behaviour of insurance brokers through a *customer-oriented responsibility ratio*, computed as financial income divided by sales. At the end of each natural year all the firms in the sample were ranked on their *customer-oriented responsibility ratio.* The sample was then divided into three *customer-oriented responsibility ratio* groups based on the breakpoints for the bottom 30% (*Low*), middle 40% (*Medium*), and top 30% (*High*). Therefore, for a natural year the *Low* group comprises the 30% of the insurance brokers with the best customer-oriented service behaviour whereas the *High* group comprises the 30% of the insurance brokers with the worst customer-oriented service behaviour.

Table 2 summarizes the empirical proxies we used in order to measure operating performance. Some comments should be made regarding the computation of the empirical proxies. A common way to measure profitability is the use of return on sales (ROS), return on assets (ROA), and return on equity (ROE), which refer to earnings before interest and tax (EBIT) by sales, assets and equity, respectively. In computing sales efficiency (SALEFF) and income efficiency (INEFF), we deflate the sales revenue and income data, respectively, using the appropriate GDP deflator.

As a consequence of the well-known asymmetry of accounting ratios, and as is common in the literature, we calculate the median of each variable for the full sample and groups formed as stated above. We test whether the median difference in variable values between the *High* and *Low* customer-oriented responsibility ratio groups is zero. In order to measure the statistical significance of the change in the variables we run the Wilcoxon signed-rank test.

Table 2. Economic characteristics and their empirical proxies examined for insurance brokers.

Proxies	**Characteristics**
Return on assets (ROA) = EBIT/Average total assets	Profitability
Return on equity (ROE) = EBIT /Average total equity	
Return on sales (ROS) = EBIT/Sales	

Sales efficiency (SALEFF) = Real sales/Total employment	Operating efficiency
Income efficiency (INEFF) = EBIT/ Total employment	
Total employment (EMPL) = Total number of employees	Employment
Total debt to total assets (TDTA) = Total debt/Total assets	Leverage
Current assets to current liabilities (CACL) = Current assets/current liabilities	Liquidity

Table 3 exhibits the summary statistics for the full sample (Panel A), *Low* (Panel B) and *High* (Panel C) *customer-oriented responsibility ratio* groups of insurance brokers. In order to avoid any bias caused by extreme values, we show the median values for all the variables except for the sample size, which is defined as the number of insurance brokers in the group.

The comparison between *Low* (best customer-oriented behaviour) and *High* (worst customer-oriented behaviour) customer-oriented responsibility ratio group samples (Panel B and C, respectively) shows some interesting features. For example, firms in Panel C are bigger than firms in Panel B. As a consequence, sales and financial income of firms in Panel C are also greater than sales and financial income of firms in Panel B. If a broker's business operations are similar regardless of firm size, then a similar ratio of financial income divided by sales would be expected for both groups. However, this ratio is larger for firms in Panel C than for firms in Panel B, except in the year 2013, when the ratio is higher in the Panel B. From our point of view, this evidence is consistent with the fact that large broker firms have enough resources to deal with the risk of holding onto premiums collected from clients for the maximum period allowed. Therefore, large broker firms have more incentives to delay forwarding the payment of the premiums to the insurance company than small broker firms, which could suffer financial distress in the event of an incident. Consistent with this evidence, Eckardt (2002) and Owusu-Sekyere and Kotey [25] finds that brokers' advisory services are influenced to some degree by firm size.

To test hypothesis 3, we used the annual reports of the sector, which collect the activity developed by the bancassurance operators based on these operators' statistical-accounting documents, issued by the Directorate General for Insurance and Pension Funds. In addition, we have consulted the financial and accounting database of insurance brokerage companies, in accordance with the definition given by the law 26/2006 of 17 July on mediation of private insurance and reinsurance [22]. The sample includes companies whose accounts are in the mercantile register, according to information obtained from the database consultation Iberian Balance Analysis System (SABI). Finally, in order to present more precise results with regard to the activity of the insurance intermediaries, we analyse a sample with the branches that have the greatest turnover in the non-life business. In 2012, the volume of non-life business brokered by the linked bancassurance operator in the Spanish insurance market was 13%, Latorre [9]. In addition, we study the mean values of premium variables and commissions for both the total production and the new production of the linked bancassurance operator and the insurance brokerage company.

Table 3. Summary statistics for the full sample of insurance brokers and classified by Low and High customer-oriented responsibility ratio.

Year	2013	2014	2015	2016	2017
Panel A:	**Full Sample**				
Sample size	397	397	397	397	397
No. of employees	20.34	20.96	21.3	23.01	25.27
Total assets (thousand €)	1,704.89	1,801.75	1,872.17	2,024.31	2,091.39
Sales (thousand €)	1,372.42	1,552.49	1,703.07	1,885.49	2,035.51
Financial income (thousand €)	30.54	27.06	20.34	20.31	45.67
Customer-oriented responsibility ratio (%)	2.23	1.74	1.19	1.08	2.24
Panel B:	**Low customer-oriented responsibility ratio**				
Sample size	119	119	119	119	119
No. of employees	9.33	11.83	12.82	13.34	15.47
Total assets (thousand €)	300.80	348.43	409.78	457.10	520.26
Sales (thousand €)	210.27	307.49	412.37	462.61	506.80
Financial income (thousand €)	10.31	5.44	0.46	0.23	00.00
Customer-oriented responsibility ratio (%)	4.90	1.77	0.11	0.05	0.00
Panel C:	**High customer-oriented responsibility ratio**				
Sample size	119	119	119	119	119
No. of employees	20.57	20.75	21.25	21.55	22.14
Total assets (thousand €)	700.25	713.18	694.95	764.36	844.60
Sales (thousand €)	415.13	372.13	363.65	372.13	415.13
Financial income (thousand €)	14.60	17.82	16.09	17.89	44.18
Customer-oriented responsibility ratio (%)	3.94	4.81	4.42	5.12	10.64

Notes: (i) The *Customer-oriented responsibility ratio* is computed as financial income divided by sales. (ii) Low customer-oriented responsibility ratio group comprises 30% of the firms in the sample with the lowest customer-oriented responsibility ratio. (iii) High customer-oriented responsibility ratio group comprises 30% of the firms in the sample with the highest customer-oriented responsibility ratio.

Table 4 presents a comparison of the mediation sector during the following years, from 2013 to 2017. The data presented have been obtained from the statistical accounting documentation of the

Directorate General for Insurance under the Ministry of Economy and Finance of Spain. Thus, with respect to linked bancassurance operators, the data indicates a reduction of the number of operators from 53 in 2013 to 49 in 2017. This negative result implies an 8.16% decrease. However, the evolution of the other mediators yields the following data regarding the number of mediators: Insurance Brokers obtain a positive increase by 7.70% and insurance agents present a negative trend of -11.62%.

Table 4. Comparison of Insurance Mediators in the Spanish Market from 2013 to 2017

Insurance Mediators Spanish Markets	2013	2017	Difference	%
Insurance Brokers	3,038	3,272	234	7.70%
Insurance Agents	86,042	76,044	-9,998	-11.62%
Bancassurance operators	53	49	-4	-8.16%
Total Insurance Mediators	**89,133**	**79,365**	**-9,768**	**-12.08%**

With all this, the determinants of this situation could be the change of productive cycle produced by the economic crisis, the competition of other mediators and the reorganization of the Spanish banking sector immersed in processes of merger that affected the different bancassurance operators. In addition, the situation caused banks to sell their insurance business to insurance companies in order to obtain capital gains that might compensate their negative bank balances.

4. Results

In this section we present the results obtained from the testing of hypotheses 1, 2 and 3. Table 5 presents the results obtained from the validation of hypotheses 1 and 2. Thus, Table 5 exhibits the median values for *Low* customer-oriented responsibility ratio broker firms (best customer-oriented behaviour) in Panel A, *High* customer-oriented responsibility ratio broker firms (worst customer-oriented behaviour) in Panel B and median differences for each variable we employed to proxy operating performance from 2013 to 2017 (Panel C).

We observe the presence of slightly significant evidence when using ROA and ROE. However, we find that ROS median values are significantly higher for *High* customer-oriented responsibility ratio firms than for *Low* customer-oriented responsibility ratio firms in three of the five years of our horizon of study (see Panel C). We also find that *High* customer-oriented responsibility ratio firms (firms with the worst customer-oriented behaviour) are statistically more efficient (see INEFF variables) and not as efficient (SALEFF and EMPL variables), have a lower leverage (TDTA) and a better liquidity position than *Low* customer-oriented responsibility ratio firms. These results are consistent for the whole period studied. The observed results are similar to those obtained by Eckardt [17,20] and Cummings and Doherty [12]; our evidence suggests that firms belonging to the *High* customer-oriented responsibility ratio group are able to reap economies of scale in the intermediation process. Thus, structural variables such as size and number of employees could influence the quality of advisory services. The structural variable size is the main distinction between brokers and other agents, but also the range and depth of services provided; generally, brokers tend to service larger and more complex business insurance needs.

On the other hand, the results obtained are in line with Latorre [31], who suggests that insurance brokers pursue a financial return by enduring a higher administrative cost in premium collection management of the different policies. This performance would be more common in large

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companies. In many cases, transferring the collection of receipts to the insurance company would expedite the processing in the event of the loss and could save brokers administrative resources. However, in the management of big risks implied by the collection of large premiums, the transfer of confidential data such as bank details to the insurance company would be a cost to the broker that is difficult to quantify. This situation is reversed for small companies that could be interested in transferring the management of premium collection to the insurance company in order not to have to assume costs of management such as personnel and facilities that would add to responsibilities such as the coverage of the claim if payment of the premium is not made effective.

Finally, the broker must consolidate the relationship with the client by monitoring the production, billing, collection and claim. The global nature of the management process allows providing a better service to the clients, thus generating an important added value for the broker that turns into customer-oriented service and society-oriented behaviour.

Table 5. Median values and differences in medians for proxy variables of operating performance of Low and High customer-oriented responsibility ratio groups.

	2013	2014	2015	2016	2017
Panel A:	**Low customer-oriented responsibility ratio group**				
ROA	0.01	0.01	0.01	0.01	0.00
ROE	0.01	0.03	0.04	0.04	0.04
ROS	0.11	0.11	0.12	0.12	0.15
SALEFF	79.65	80.39	95.24	90.92	102.60
INEFF	9.91	9.23	10.96	13.68	14.51
EMPL	4.00	5.00	6.00	5.00	6.00
TDTA	0.04	0.54	0.60	0.44	0.57
CACL	1.25	1.28	1.48	1.50	1.59
Panel B:	**High customer-oriented responsibility ratio group**				
ROA	0.02	0.02	0.02	0.02	0.02
ROE	0.03	0.03	0.03	0.03	0.03
ROS	0.18	0.17	0.17	0.22	0.19
SALEFF	100.97	101.13	110.13	111.49	108.53
INEFF	16.96	17.90	16.72	18.14	19.18
EMPL	7.00	6.50	7.00	6.00	7.00
TDTA	0.02	0.27	0.25	0.21	0.21
CACL	2.46	2.57	3.13	3.30	3.61
Panel C:	**(High – Low) customer-oriented responsibility ratio groups**				

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ROA	[a]**0.01**	[b]**0.01**	0.01	0.01	0.02
ROE	[b]**0.02**	0.00	-0.01	-0.01	[c]**-0.01**
ROS	[b]**0.07**	[a]**0.06**	0.05	[b]**0.10**	0.04
SALEFF	[c]**21.32**	[b]**20.74**	14.89	20.57	5.93
INEFF	[c]**7.05**	[a]**8.67**	[b]**5.76**	4.46	[c]**4.67**
EMPL	[a]**3.00**	[c]**1.50**	1.00	1.00	1.00
TDTA	[b]**-0.02**	[a]**-0.27**	[a]**-0.35**	[a]**-0.23**	[a]**-0.36**
CACL	[a]**1.21**	[a]**1.29**	[a]**1.65**	[a]**1.80**	[a]**2.02**

Notes: (i) See Table 2 for proxy variables definition. (ii) [a, b, c] Significantly different from zero at the 1%, 5% and 10% level, respectively.

Table 6 and 7 display the results obtained from the validation of hypothesis 3. Thus, Table 6 shows the median intermediate premiums, commissions and fees corresponding to the total production of the intermediaries under analysis. The results obtained indicate that the intermediate business is greater in accident and multi-risk home insurances in the bancassurance distribution channel. In the case of insurance brokers, they manage a higher volume of intermediate premiums in car, multi-risk industrial and general liability insurance. These results indicate that bancassurance intermediates a greater volume of premiums related to the traditional banking business such as mortgage loans for small and medium enterprises and self-employed workers.

When we consider remuneration, the bancassurance distribution channel obtains greater profitability in commissions in health, accident, transport, multi-risk industrial and general liability insurances. Only in car insurance, travel, multi-risk home and industrial insurance do brokers perceive a greater remuneration significantly from commissions and fees than the bancassurance.

Duska [32] states that when a financial professional has to sell two different products to the customer, he or she tends to sell the one that provides him or her with the highest commission. According to the dependency theory, The Compensation Systems of Direct Commission (CSDC) generate a conflict of interest between the agent and the client's own interest. In particular, commissions can promote unethical behaviour Kurland [33], which, according to Kaptein [34], is morally unacceptable.

Finally, the results obtained for this selected portfolio of insurance of the branch of non-life show that, although bancassurance manages greater numbers of intermediate premiums of total turnover, its situation is similar to that of brokers regarding the business of new production. At global level, brokers' perceived commissions exceed those perceived by bancassurance. Thus, compared to the insurance broker, bancassurance perceives more commissions in the new production business, reaching 36.69% (see Table 7), than for the total turnover, where they reach 28.78% (see Table 6). The broker could work as a referee by mediating new home insurance when the mortgage is contracted, advising that the insurance should not be linked to the funding received for the purchase of the house.

These results would be in line with those presented by Benoist [27], Gonulal [29] and Latorre [9] in their respective studies, for all the branches of non-life. Therefore, although a complementary

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study with the rest of branches of non-life could be interesting, this study focused on the hiring of the most representative insurance products of the sector.

Table 6: Total production data for Bancassurance and insurance Brokers

Insurance							
Median %	**Bancassurance Premium**	**Broker Premium**	**Bancassurance Commissions**	**Broker Commissions**	**Broker Fees**	**Broker Commissions+ fees**	**Dif. Median Commisions**
Health	1.07	3.07	28.95	8.97	0.03	9.00	-19.95
Car	18.65	27.36	10.81	11.93	2.06	14.00	3.19 [b]
Accident	5.13	4.09	25.31	17.21	1.07	18.28	-7.03
Transport	0,11	4.44	16.46	12.06	0.36	12.42	-4.04
Travel	0.18	1.18	16.82	21.71	0.04	21.75	4.93 [b]
Multi-risk Home	41.86	5.23	21.19	24.16	0.15	24.32	3.13 [b]
Multi-risk Shops	2.87	2.21	22.88	18.30	4.89	23.19	0.31
Multi-risk Industrial	2.55	6.60	19.41	13.81	0.78	14.59	-4.82 [b]
General Liability	2.32	11.95	18.40	13.43	0.46	13.90	-4.50

[a, b, c] Significantly different from zero at the 1%, 5% and 10% level, respectively.

Table 7: New Production data Bancassurance and Insurance brokers

Insurance							
Median %	**Bancassurance Premium**	**Broker Premium**	**Bancassurance Commissions**	**Broker Commissions**	**Broker Fees**	**Broker Commissions + fees**	**Dif. Median Commissions**
Health	1.53	1.51	36.69	15.35	0.04	15.39	-21.30
Car	16.06	31.76	12.61	12.09	1.51	13.60	0.99 [b]
Accident	5.16	3.67	25.91	17.66	0.19	17.85	-8.06
Transport	0.15	6.06	13.71	12.23	0.18	12.41	-1.30
Travel	0.38	1.93	19.92	24.57	0.03	24.60	4.68 [b]
Multi-risk Home	18.06	3.61	21.35	25.97	0.17	26.14	4.79 [b]
Multi-risk Shops	3.03	1.83	24.95	18.33	0.12	18.46	-6.49

Multi-risk Industrial	2.54	5.35	19.03	13.13	0.38	13.51	-5.52 [b]
General Liability	2.61	10.43	18.86	13.96	0.62	14.58	-4.28

[a, b, c] Significantly different from zero at the 1%, 5% and 10% level, respectively.

The results obtained for the analysis of the behaviour of the insurance broker in finance suggest an ethical approach to this profession based on corporate social responsibility and ethics in finance. The insurance broker works in the world of finance, which is regulated by a legal framework, and does not necessarily show an ethical behaviour. Therefore, the lack of ethics evinced by these actions has a negative impact on society, Boatright [35]. These issues should be considered and faced by consumers of finance products. On the other hand, this situation is worsened by the lack of finance culture, which favours tax evasion and financial products manipulation, which have a negative effect on society. Thus, this study suggests that insurance brokers could show this customer orientation, which has a positive influence on society when they provide an intermediation service and objective advising to their clients in many cases in a more ethical way than other suppliers.

In summary, the results fail to support Hypothesis 1 for brokers in the *High* ethical ratio (worst customer-oriented behaviour). They have a worse behaviour in the management of the premium collections of their clients compared to companies in the *Low* customer-oriented responsibility ratio (best customer-oriented behaviour). By contrast, larger brokers can provide a better objective advice than financial institutions. This would improve sustainable intermediation in managing the risk policy of larger brokers. Therefore, hypothesis 2 is accepted but no support is found for hypothesis 3, which goes against the results obtained by Alavudeen and KD [5] and Game and Gregoriou [14]. The evidence obtained suggests that banking concentration and the rapid growth of bancassurance does not favour an objective advice. So it would not favour sustainable insurance advice to its clients. In this line, Balcilar et al. [41] suggest that whether or not socially responsible investing can indeed benefit investors financially. This situation allows that investor to choose investments based on social and personal criteria.

5. Conclusions

This study examines the relationship between the customer-oriented behaviour of Spanish brokerage firms in the insurance industry, their operating performance and their objective advice. Measuring the customer-oriented behaviour of insurance brokers is certainly challenging. We focus on a common practice, which consists in deferring the premiums charged to clients in order to invest them in short-term financial products and, as a result, gain an extra financial return in addition to their traditional sources of income. Regarding objective advice, it is more likely to take place for risk assessment offered by large companies that usually lend large brokers and get income from commissions and fees (Doman et al. [23]; Eckardt [17,20]; Tseng et al. [24]).

In this context, we proxy the (un)customer-oriented behaviour of insurance brokers through a customer-oriented responsibility ratio computed as financial income divided by sales. In this way, a high value for the *customer-oriented responsibility ratio* means that the insurance broker delays payment of the collected premiums to the insurance company. Note that this practice leads to the broker assuming some risk derived from the possibility of an incident taking place before the

premium has been forwarded to the insurance company, since the brokerage firm would suffer financial distress.

Our results show that firms with the worst customer-oriented behaviour (that is, those with the highest *customer-oriented responsibility ratio*) are large companies that experience a statistically greater profitability (measured as return on sales), better operating efficiency (measured either through income to total employees), and higher liquidity (measured through current assets to current liabilities) than firms with the best ethical behaviour (lowest *ethical ratio*). These high customer-oriented responsibility ratio firms have a significantly lower leverage. In addition, this negative customer-oriented behaviour could owe to the need to compensate for the costs of the collection management of insurance premiums.

This research complements the general evidence that measures should be established to limit banks' fees. Thus, a commission level of 20% on the premium could be regulated so that in case the commission exceeds this percentage, the customer-protection mechanism ensures that the client knows about the commissions that the bank is perceiving. Therefore, our evidence does not support the objectivity of bancassurance's advisory service in the insurance of health, accident, multi-risk home and multi-risk shops. On the other hand, objective advice is provided when customers are offered a sufficient number of insurance contracts available in the market. This objectivity is generally presumed when the broker has analysed insurance contracts offered at least by three insurance entities that operate in the market of the risks covered or when the broker has specifically designed the insurance contract and has negotiated with at least three insurance entities (art. 42.4), as indicated by Alonso [36]. This situation does not take place in bancassurance when applying for risk coverage to a single insurance company.

Finally, our evidence suggests that there is a statistically significant relationship between operating performance and some firm characteristics (such as size), and the brokerage firm's customer-oriented behaviour. That is, the better the performance and the larger the firm, the worse the customer-oriented behaviour will be. Additionally, the results suggest that objective advice is more likely to be provided by the broker than by bancassurance in the Spanish market. The limitations of this study refer to the data available in the Database Iberian Balance Analysis System (SABI). We did not have access to information on commissions and fees; therefore, future research should use other sources of information with greater adaptation to the sector. Furthermore, future research could extend the time horizon of study of the sample and incorporate insurance agents and life insurance to the study.

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Abbreviations

Euribor	European Interbank Offered Rate
SABI	Iberian Balance Analysis System
EC	European Parliament and of the Council
H	Hypotheses
GDP	Gross Domestic Product
ROA	Return on assets
ROE	Return on equity
ROS	Return on sales
SALEFF	Sales efficiency
INEFF	Income efficiency
EMPL	Total employment
TDTA	Total debt to total assets
CACL	Current assets to current liabilities
EBIT	Earnings Before Interest and Taxes
CSDC	Compensation Systems of Direct Commission

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