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FEATURES AND PROSPECTS FOR THE INSURANCE PRODUCTS' IMPLEMENTATION THROUGH NETWORK MARKETING

This article discusses such an urgent problem as the introduction of insurance products through network marketing. It is noted that at present, MLM can become an effective agent network in the implementation of insurance services in the insurance market of Ukraine. The scientific works of many domestic and foreign scientists who are actively researching the activities of insurance agents are being investigated. The insufficiency of the insurance activities' studies in introducing insurance products through such a sales channel as network marketing has been determined. Three models of the agent network managerial structures that are used by insurers are considered: simple horizontal, pyramidal, multi-level (MLM). It is proved that in foreign practice, multi-level marketing has long been an effective tool for introducing insurance services and managing an agent network. The laws that apply in society and in the consumer market are being specified. The advantages of network marketing are identified, as well as its disadvantages are highlighted. The essence and role of the distributor in the work of the agent network is determined. The authors disclose statistics on the feasibility of implementing network marketing when implementing insurance products. The economic efficiency of life insurance policies' the implementation according to the MLM system has been proved. The importance of presentations, their types (collective and individual) and features are considered. Depending on the activities of network distributors, the following types are distinguished: "wholesale customers", "active customers", "weekend warriors", and "entrepreneurs". The network method significant advantages of selling

insurance products are highlighted, such as: saving insurance companies from many problems and costs associated with finding, hiring, motivating, training, developing and servicing agents; with high costs of doing business, a large staff of specialists; with advertising, search and customer acquisition and the like. The results of the study can be used both for further study of the life insurance market, and other types of risk insurance.

Keywords: *insurance company, insurance product, agent network, network marketing, insurance agent, distributor, life insurance.*

ОСОБЛИВОСТІ ТА ПЕРСПЕКТИВИ РЕАЛІЗАЦІЇ СТРАХОВИХ ПРОДУКТІВ ЧЕРЕЗ МЕРЕЖЕВИЙ МАРКЕТИНГ

У даній статті досліджено таку актуальну проблему як реалізація страхових продуктів через мережевий маркетинг. Зазначено, що на даний час MLM може бути дієвою агентською мережею у реалізації страхових послуг на страховому ринку України. Досліджено наукові роботи багатьох вітчизняних і зарубіжних учених, що активно досліджують питання діяльності страхових агентів. Визначено недостатність досліджень діяльності страхових агентів при реалізації страхових продуктів через такий канал збуту як мережевий маркетинг. Розглянуто три моделі управлінських структур агентської мережі, які використовуються страховиками: проста горизонтальна, пірамідальна, багаторівнева (МЛМ). Досліджено, що у зарубіжній практиці довгий час багаторівневий маркетинг є дієвим інструментом при реалізації страхових послуг та управлінні агентською мережею. Зазначено закономірності, що діють у суспільстві і на споживчому ринку. Розкрито переваги мережевого маркетингу, а також виокремлено його недоліки. Визначено сутність і роль дистриб'ютора у роботі агентської мережі. Наведені статистичні дані доцільності впровадження мережевого маркетингу при реалізації страхових продуктів. Доведена економічна ефективність реалізації полісів страхування життя за системою МЛМ. Розглянуто важливість проведення презентацій, їх види (колективні та індивідуальні) та особливості. В залежності від активності мережевих дистриб'юторів виділено такі їх види: «оптові покупці», «активні покупці», «воїни уїк-енду», «підприємці». Виокремлено суттєві плюси мережевого способу реалізації страхових продуктів, такі як: позбавлення страхові компанії від багатьох проблем і витрат, пов'язаних з пошуком, набором, мотивацією, підготовкою, розвитком і утриманням агентів; з високими витратами на ведення справи, великим штатом фахівців; з рекламою, пошуком і залученням клієнтів тощо. Результати дослідження можуть бути використані як у подальшому вивченні ринку страхування життя, так і інших ризикових видів страхування.

Ключові слова: *страхова компанія, страховий продукт, агентська мережа, мережевий маркетинг, страховий агент, дистриб'ютор, страхування життя.*

Problem formulation. When promoting their services on the market, insurance companies of the world's major economies pay considerable attention to agent networks. Practice has proven that agent networks are an effective sales channel for insurance services, especially when working with individuals. A significant number of global insurers are involved in attracting insurance agents,

their training and motivation. Most Ukrainian insurance companies are still characterized by weak development of agent networks. Today, there is a need to create effective networks of insurance agents and their effective management.

One type of building such a network is network marketing (MLM), a concept for the sale of goods and services based on the creation of independent distributors network, each of which, in addition to marketing products, is entitled to attract partners who receive similar rights. It contains two components, today quite powerful forces in the business world: the network principle of work and marketing. The main idea of network marketing is that the manufacturer wants to make its products known on the market and distribute to a large number of consumers.

So, now one of the main technologies for promoting insurance services among the population in Ukraine, namely network sales, is gaining momentum in the insurance market. Western insurers took this technique into service as early as the 50-60s of the last century. And, according to participants in the insurance market, it is network marketing that provides the main sales volumes of insurance policies.

Analysis of recent research and publications. A number of issues relating to the activities of insurance agents were investigated in the writings of many practitioners and scientists, in particular: Bazilevich V. D., Zaletov A. N., Koz'menko O. V., Osadets S. S., Nechiporenko V. I., Gamankova A. A. and others. But the practice of insurance activity shows that the technology itself to attract customers and the implementation of insurance policies is not perfect. Insufficient study of the theoretical and practical aspects of the insurance agents' activities in the implementation of insurance products through such a sales channel as network marketing.

Formulating the goals of the article. The aim of the work is to analyze the main models of the agent network managerial structure in the

implementation of insurance products and the use of network marketing to improve the dynamics of insurance policies sales.

Presenting main material. The formation of effective agent networks is a significant problem for almost all insurers working in the market. The experience of many firms indicates that out of ten people who go to insurance agents, only two remain, at best, three to five [8, p. 79]. That is why the essence of managing an agent network is to economically organize all agents and direct them towards the achievement of the ultimate goal.

Practice shows that the managerial structures of the agent network are usually built by insurers using three models. The form of the model depends on the number of participants, their skill level, remuneration and the role of the agent, insurer and insurant as subjects of insurance relations, as well as depending on how the subjects of the market interact and the main functions that they perform [1, p. 35].

Models of the agent network managerial structure:

1. Simple horizontal. The insurer fully controls the activities of the agent network and each dependent agent separately. He forms a network himself, selects, trains and consults agents with the help of a special staffing unit. In this case, the agent, as a rule, enters into an agency agreement with the insurer, works independently under the control of the company's staff and receives a commission for each insurance contract concluded.

2. Pyramidal. The insurer appoints general agents, and those, in turn, appoint subagents divided into several levels (in accordance with the share in the total amount of agent remuneration). An average European insurance company has from 4 to 6 levels of such sub-agents. The reward is distributed across all levels of the network in an inversely proportional relationship – the higher the level, the lower the proportion. The general agent receives remuneration from the network of insurance agents subordinate to him.

3. Multilevel (MLM). The policyholder, buying an insurance policy, becomes an agent himself and receives the right to sell insurance products. So, in this model, the agents are directly the insured - individuals. Basically, such a model is common in life insurance [6, p. 28].

In foreign practice, for a considerable time, multi-level marketing has been a fairly effective means in the implementation of insurance services and the management of an agent network.

When developing a network marketing system, some patterns that apply in society and in the consumer market are used.

1. People, making purchases, share information about the purchased goods and services with friends and acquaintances.

2. People tend to listen to the opinions of loved ones about consumer goods and services.

3. As a rule, each person seeks to imitate the one who is attractive to him, including in consumer preferences.

4. Many purchases on the market occur precisely on the recommendation of friends. Usually, people trust more acquaintances than advertising in the media.

5. For many people, consumer preferences determine trust in manufacturers and the people who represent them.

6. People rarely refuse the opportunity to earn and receive additional income [9, p. 5].

The main objective of network marketing is to reach as many people as possible. The main link in the network marketing system is the distributor – a person of legal age who has signed an agreement with the company. He acquires the right to buy the company's products at the wholesale price, to attract (sponsor) other distributors and receive remuneration in the form of commissions and bonuses from purchases of the distribution network he created in accordance with the company compensation plan.

The benefits of network marketing include:

- ensuring savings on advertising and retail space;
- marketing of products is based on a demonstration of its exclusivity;
- the formation of customer loyalty, who prefer to buy only from people they know;
- stimulation of increase in sales by significant commission payments to distributors;
- network companies are better at experiencing economic crises than traditional business.

The disadvantages of network marketing are:

- similarity with schemes of financial pyramids;
- forcing novice distributors to unproductive costs at the initial stage (participation in paid seminars, trainings and other events, the acquisition of training materials, etc.);
- emphasis on expanding the network by attracting new members prevents the increase in actual sales;
- encouraging, and sometimes compulsory, the practice of distributors purchasing MLM products for their own consumption;
- the potential possibility of using personal relationships as a channel for recruiting new network participants and a way to ensure sales expansion;
- an invitation of persons to meetings without explanation of a specific purpose [9, p. 7].

Network marketing as a business system, designed so that everyone can, if they wish, become an entrepreneur and start their own business at minimal cost. The mechanism is quite simple: the distributor offers the client to become a distributor and distribute the company's products, and then attract the consumers he finds, which, in turn, will also attract their distributors.

“Forced hilling” is one of the most common marketing moves that insurance agents use in their work. And the point here, of course, is not that the

insurance agent is a special kind of people. Insurance simply belongs to the category of “passive demand”, the acquisition of which the consumer thinks only when he hears an advertisement [4].

A significant part of insurance experts considers multi-level marketing to be a promising direction in the development of insurance sales. According to the results of the studies, it turned out that the MLM system very successfully falls into the so-called consumer space of the average insured. Thus, the AMSKOM Agency for Mass Insurance Communications and the All-Russian Public Opinion Research Center “WCIOM”, having analyzed the factors of making decisions about insurance and choosing an insurance company, came to the conclusion that when making decisions about insurance, policyholders are primarily exposed to the agent (25.9%), and then an example or the advice of a friend (together also 25.9%).

A similar picture is observed when choosing an insurance company. In most cases, the choice of a client is affected by the visit of an insurance agent (26.8%), somewhat less, but the factor “recommendations of acquaintances, including those working in the company” (20.4%) is of great importance [2].

Based on these data, three consumer models of policyholders' behavior were formed: recommendatory, agency and effective. The recommendation model includes 41% of policyholders on voluntary types of insurance; they make their choice on the basis of the recommendation of friends. In the agent model, there are 34% of policyholders and the agent is the driving factor. And about 25% of insurers belong to a productive model and make a choice based on their own experience and information about the insurer [2].

Given the above, it can be argued that the success of a multi-level agent model based on the concept of multi-level marketing in insurance lies in the fact that it successfully combines the qualities of a recommendation and agent model of behavior. Under these conditions, the consultant himself consumes the

insurance service and recommends it to another consumer, but at the same time he acts as an agent, since he is interested in receiving a commission.

Practice has proved that the most successful in the insurance industry are employees who use the services or products of the insurance company in which they work. Some insurance companies operating in the Ukrainian market require their employees to have one or more insurance products.

The textbook “Insurance business” edited by professors Serbinovsky and Garkusha gives a comparative description of the traditional marketing and marketing of the insurance product “Life Insurance Policy” under the MLM system. So, those companies that have chosen MLM save up to 50% of the shaft [3]! Due to the fact that there is no need to create additional offices, to keep a large staff of employees from employees, due to the computerization of accounting and many other processes.

Network marketing in insurance is a marketing system brought to the absolute. In this case, there is no act of sale. The client does not buy anything – he places his money in the insurance company and pays nothing for it, on the contrary – the insurance company charges him a percentage. An employee of an MLM company in this case also does not sell anything – he gives information to the client, for which he receives his commission not from the client (the client does not pay the consultant anything), but from the insurance company. In this case, the benefit is obvious to all parties to the transaction:

- 1) the client receives the service;
- 2) the company receives a ready-made customer without any effort;
- 3) the consultant receives a commission for the work performed.

At the same time, it is advisable to use MLM in regions where people do not particularly delve into the differences between sales systems and where insurance companies have to develop life insurance from scratch.

An important element of work in network entrepreneurship is the presentation, the purpose of which is to provide potential insurers with

comprehensive information on insurance products offered by the insurance organization.

Types of presentation:

1) collective presentations:

- held with a large concentration of potential insurers;
- pursue two goals: assistance in the work of novice network employees and the dissemination of information about insurance products;
- the disseminated information manifests itself and necessitates the conclusion of an insurance contract for a particular insurance product;

2) individual presentations:

- carried out by personal agreement with a potential insured;
- there is a limited circle of persons invited by the most potential insured.

Depending on the activity of network distributors, they can be divided into:

1) “Wholesale buyers» (make up 5-10% of all distributors of the organization):

- formally not distributors, as they do not sell the insurance product at retail and do not provide assistance to others;
- join the network in order to receive insurance products at a wholesale price;
- they have no desire to engage in the development of the project of products of the insurance organization;

2) “Active buyers” (make up 30-40% of the network):

- have a great interest in the product
- they consume themselves and sell mainly to friends, acquaintances, family members;
- seek to earn sales commissions to cover purchases for themselves;

3) “Warriors of the weekend” (make up 35-45% of the network):

- partially engage in entrepreneurship, usually working in the evenings;

- are included in the sponsorship process, but not on a massive scale;
- use products and share with their relatives and friends;

4) “Entrepreneurs”, or “Powerful players” (less than 5% of the total mass of distributors):

- have five- and six-figure monthly incomes not by selling products;
- build huge organizations with thousands of distributors promoting a significant number of products [7, p. 170].

However, the attitude to multi-level marketing in the sales of insurance services today is rather ambiguous. Indeed, such a specific method of sales, as network marketing, has both advantages and significant disadvantages, which, however, may be less if the company clearly articulates the goals of network marketing, as well as a properly built sales management system and training network leaders. An essential advantage of the network sales method is that it saves insurance companies from many other problems and costs that are relevant to the traditional system of agent sales, such as finding, recruiting, motivating, preparing, developing and maintaining agents; with high costs of doing business, a large staff of specialists; with advertising, search and customer acquisition and the like.

At the same time, companies that still decide to sell their product with the help of network method, inevitably face at least three problems. The first problem. Multilevel marketing as a sales system requires an attractive marketing plan for agents. It is the ability to make money quickly that primarily motivates and attracts agents in the company, and only then the product itself. On the other hand, the specificity of the insurance product requires that it give the client real insurance coverage. There is a certain contradiction, which, unfortunately, not all companies decide in favor of the client.

The second problem. If everything is going right, then the number of agents is growing like an avalanche, and pretty quickly the question arises of automated accounting and control. “Networkers” are a special people and

require different approaches to managing an agent network than with traditional sales methods. For example, there is an unwritten rule that the network's marketing plan, next to the product plays a central role here, should not be changed more than once every two to three years. This means that the insurance company cannot just take and change, for example, the tariff or insurance conditions. It is much more painful for the delay in the payment of commissions and the like. Often agents come to the company in whole groups, but they can just as easily leave it if a conflict arises.

The third (and also the main) problem is related to the training of network leaders. Network marketing is a self-organizing system. Interfering in it is undesirable, but you need to manage. Management occurs, as a rule, in two ways: organizational – the provision of network marketing, and methodological – the training system, and, in fact, management of network leaders. As practice shows, the quality of the agent network and its effectiveness depend on the leaders [5].

However, the leaders of the structures themselves constantly face great difficulties in working with the network. Most of the leader's difficulties of the structure lie in the field of motivation, professional and personal growth of network participants (including the leader himself), as well as in the relationship system (“Company – Structure”, “Leader – Structure”, “Leader – Leader” (leaders of various branches of one structure)).

Conclusions. So, Ukrainian insurance companies pursue a policy of attracting insurance agents, their training, territorial expansion of the agent network. The attitude to multi-level marketing in sales of insurance products today is ambiguous. As a specific method of sales, network marketing has both pros and cons, which can be less if the insurance organization has clearly formulated the goals of network marketing, a properly built sales management system and training network leaders.

In our opinion, more attention should be paid to the selection and motivation of insurance agents. After all, the agent will not be able to work productively if he is not interested in this field, not sufficiently motivated. The agent must have sufficient qualifications, be competent, interesting interlocutor to interest a potential client. That is, when selecting agents, it is necessary to take into account the personal qualities of a person. It is important for an agent to be able to correctly submit information, and the manager's task is to select an agent in which the potential lies and help this agent grow professionally.

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