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## Article

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# PREFERENCES AND THE LEVEL OF SATISFACTION FROM THE PROVISION OF INSURANCE SERVICES IN ACTIVITY OF THE LGUS ON A MUNICIPAL LEVEL IN PODKARPACKIE VOIVODSHIP

*Tomasz Skica<sup>1</sup>, Jacek Rodzinka<sup>2</sup>*

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## Abstract

*The article is based on the results of author's study survey conducted on a representative sample of municipalities of Podkarpackie voivodship. Based on the results of research, the article will present both the current state of insurance in local government units (LGUs) of the municipal level, as well as the associated changes directly affecting the functioning of the insurance business in LGUs. The primary objective of this paper is to determine the procedures for concluding the insurance in LGUs, and also defining the types of insurance most often executed by these entities, and indication of the intermediaries, whose services are most commonly used by examined LGUs.*

**JEL Classification:** H7, H72, G22

**Keywords:** insurance, local government, satisfaction with insurance services, insurance brokerage

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## Introduction

The article is an attempt to analyze the insurance contract procedures by local government units (LGUs), on the example of LGU on municipal level. It takes for the target to establish the extent of satisfaction, with the level of local government services provided to them by insurance agents and insurance companies. Subject undertaken in the article is extremely important, given the fact that, LGUs have been, increasingly wider and increasingly tighter, entering into the realities of the market, implementing solutions specific so far for a private sector on the ground of activity of general government sector (GGS). And this is intimately linked to the risk in their business. Therefore, bearing in mind the scale and diversity of tasks carried out by LGUs (both own compulsory tasks, as well as an optional tasks, and the tasks accepted for implementation through concluded agreements), it appears advisable to play safe and concern for providing security for the initiatives being undertaken (Hood, Stein and McCann, 1977, p. 223-243).

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Next to the outlined thematic framework, this article takes for a goal to determine generic categories of insurance transacted the most often by the local governments, and assumes to investigate services, of which kind of intermediaries, examined units use the most often. Such arrangements, will form the starting point for reasoning about the current state of the insurance consciousness of LGU representatives and associated needs relating to reorientation of the current government approach to the use of insurance services.

### **The meaning and structure of the insurance in the activity of LGU**

Entities forming the structure of local government are a specific recipient of the insurance services. Therefore, it is necessary to create, by the institutions providing such services, offers profiled and oriented directly to local governments, i.e. covering solutions dedicated to LGUs (Mikulska, 2009; Mikulska, 2007; Sułkowska and Ciuman, 2000). Thus, it is reasonable to question about the profile and scope of insurance, which due to the subjective criterion can be applied in relation to LGUs. Products that are used by local government bodies must be broken down to, so called specific products and nonspecific products (see Table 1). This classification is a reference point for designed empirical analyzes, the results of which, will be presented later in this article (see Smith 2004, p. 173-187).

**Table 1: Specific and nonspecific insurance products in the activities of LGUs**

Specific products	Non-specific products
<ul style="list-style-type: none"> <li>• civil liability insurance in respect of administrative decisions;</li> <li>• civil liability insurance in respect of the lack of provision or inadequate provision of municipal services;</li> <li>• civil liability insurance in respect of disturbances and acts of terrorism.</li> </ul>	<ul style="list-style-type: none"> <li>• property insurance / business costs increase insurance (or the loss of profits - concerning economic activity of LGUs);</li> <li>• electronic equipment insurance;</li> <li>• construction - assembly insurance;</li> <li>• accident insurance;</li> <li>• general civil liability insurance.</li> </ul>

*Source: Based on: Liwacz, A. (2010). Insurance of Local Government Units. In: L. Gąsioriewicz, J. Monkiewicz (ed.), Insurance at Managing the Risks of a Company. Volume 2 - Applications (p. 192 et. seq.). Warszawa: Publisher Poltext*

On the subject of life insurance used in LGUs, crucial becomes the opinion of the Regional Audit Chamber (RAC) in Gdansk from 16 December 2009, *concerning the legality of employee group life insurance contract concluded by the local governments* (WK.0441/in/179i180/19123/2006). And although the established position is not binding, the pronouncement of this record seems to be of significant importance for the application of this category of insurance in LGU<sup>3</sup>. Opinion of the RAC states, that the group life insurance contracts, concluded by the local governments, are the obligation contracted contrary to the provisions of the Public Finance Act (Journal of

<sup>3</sup> Regional Accounting Chambers (RAC), do not have the power to interpret the law, which would have the nature of general application.

Laws No. 249, item. 2104, as amended)<sup>4</sup>. In the RAC opinion, local governments can spend held resources, solely for the implementation of tasks assigned to them by the content of legal regulations. The existing legislation does not allow however, for the conclusion of the employee group insurance contract, by the 'Local government employer'. Bearing in mind the above, much more adequate, due to its specificity and compatibility with regard to an activity of local governments, turn out to be analysis in the area of the property insurance. Thus, in conducted empirical inferences the center of gravity was transferred in this direction.

Factors, which explicitly militate in favor of accuracy of chosen orientation in research on the insurance in LGUs, include: provisions of art. 43 et seq., of chapter 5 of municipal government act (Journal of Laws No. 142, item. 1591, as amended), article 46 et seq., of chapter 5 poviát government act (Journal of Laws No. 142, item. 1592, as amended), and finally also article 47 et seq., of chapter 4 of provincial government act (Journal of Laws No. 142, item. 1590, as amended), dealing consecutively with the municipal property, poviát property and provincial government property, as well as their relevance to the implementation of tasks assigned to LGUs. The very fact of regulating separately economic issues with a property for each LGU individually, demonstrates the complexity and multidimensionality required in this area of analysis. Adding provisions of the Constitution of the Republic of Poland (Journal of Laws No. 78, item. 483), enacting independence of LGUs in the area of ownership rights and property rights and the provisions of the Act on Municipal Management (Journal of Laws No. 45, item. 236, as amended), determining the rules of disposal of its property, and finally by referring to the provisions of the Act on Local Government Revenue (Journal of Laws No. 80, item. 526, as amended), introducing a category of property revenue and dozens of inferior acts, not a way to undermine a statement, about a purposefulness of concentration of analyzes in terms of insurance in LGUs, precisely on their assets.

## **Insurance in the activities of self-government communes.**

### **Conclusions based on research**

This part of the paper was based on studies, performed in the period between March and June 2011, among randomly selected communes of Podkarpackie voivodship. The research sample has been selected using proportional stratified sampling, which ensures high efficiency of selection of the sample. General population was divided into layers, in accordance with the type of municipality, and then in each of them dependent drawing was conducted (that is drawing according to the scheme without replacement). As a result, obtained generic structure of units in the sample was adequate in terms of generic structure in the general population.

In the study participated 68 municipalities, out of which 3 were the urban municipalities with county rights, 5 urban municipalities, 14 urban-rural and 46 rural municipalities. Due to the number of inhabitants submitted for LGU examination, among the smallest units, i.e. the self-governments of up to 5 thousand people were 10 municipalities, another 43 entities represented

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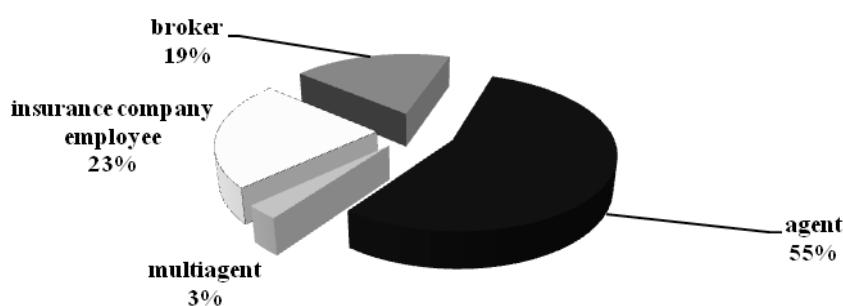
<sup>4</sup> RAC opinion in Gdansk was released in 16 December 2009. This date is important from the point of view changes in the shape of the public finance sector (PFS), which were adopted in 2009. Indeed, since January 2010, began the applicability of the Act on Public Finance (opf) of 27 August 2009, repealing the law previously in force with the same title from June 30, 2005. Although the RAC opinion refers to article 167 paragraph 2, previously binding Act opf of 2005, which binding force (for the most part), expired at the end of 2009, however, the fact of overlapping in time changes in the legislation, does not affect the objections raised in the RAC opinion, and doubts accentuated by RAC in Gdansk remain valid also in accordance with the provisions of the new ACT opf.

areas inhabited by more than 5 but less than 20 thousand residents. 13 local governments represented the area inhabited by 20 to 50 thousand people. Furthermore, the sample also included one municipality with a population in the range of 50 to 100 thousand people and one, with the number of people falling within the range of 100 to 200 thousand.

The first question asked in the interview questionnaire to respondents was intended to identify who in the LGU deals with the conclusion of insurance contracts. In the analyzed municipalities, a person responsible for concluding such contracts, in most cases (i.e. 38%), was the headman (mayor, president), slightly less frequently dealt with it employee of the finance office (28%), and secretary of the municipality (22%). In 12% of reported cases another person was responsible for this sphere of office activity. Twice the inspector was mentioned here, and other indications concerned employees for administrative and substantive issues, and employees of separate offices, related substantially to the subject of insurance.

At this point, however, it should be clearly distinguished, between the responsibility for signing contracts from the current handling of insurance policies resulting, for example, from reporting claims, providing insurance company with the information about the changing actual state, which has an impact on determination of the amount of insurance risk or finally filling in the insurance applications and accompanying forms. The study showed, that the obligations of the headmen (mayors, presidents), cede on the subordinate employees. Only one headman on 68 municipalities submitted for examination - declared that he dealt with the current handling of insurance policies personally. In 17 cases it was the secretary, in 31 municipalities an employee of the finance office dealt with those issues. Ultimately, in 18 cases it was a different person, than the above-named representatives of self-government public finance sector. At the same time It is worth noting that over 40% of the submitted for examination offices received assistance from a financial intermediary dealing with insurance. Posted below Graph 1, presents the status of a financial intermediary, providing services to local government units.

**Graph 1: Status of the financial intermediary of whose services benefit Podkarpackie communes**

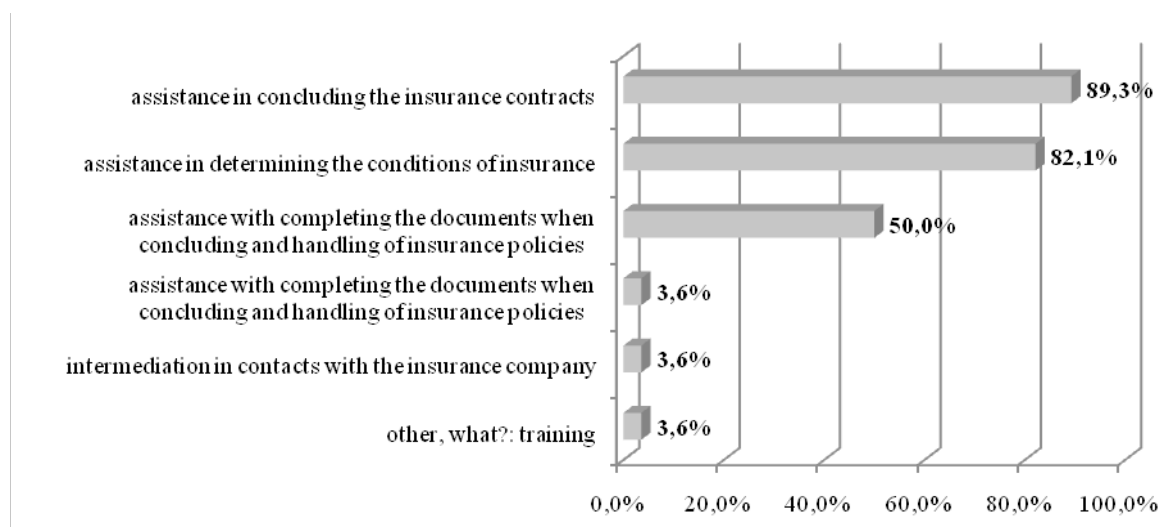


*Source: Own calculations based on test results*

Majority of municipalities using the services of insurance intermediaries are supported by agents, secondly, these are employees of insurance companies, and just under 20% of self-governments use the services of brokers. Such a big share in the structure of insurance intermediaries - agents and employees of insurance companies may be due to the fact that half of the offices have policies concluded with only one insurer, 38% with two, 10% with three, and only 2% of them with five. Another question, which was asked to respondents concerned scope of services provided by financial intermediaries. Results obtained during the study shows Graph 2.



**Graph 2: The scope of services provided by insurance agents**



*Source: Own calculations based on test results*

Analysis of obtained figures showed conclusively, that insurance intermediaries perform in favor of LGUs, mainly activities concerning assistance with: the conclusion of insurance contracts, determining the terms of insurance, as well as paperwork in concluding and handling of insurance policies. Other services, provided to local governments, played a significantly lower role in the sphere of intermediaries activity, and the proportion of indications, concerning such services as intermediation, in contacts with the insurance company or training was only 3.6%. To the question about the level of satisfaction with the services of the financial intermediary, in which the respondents had possibility of determining (quantification) the level of satisfaction in a scale of 1 to 5 (where 1 means the lowest scores), 33% of respondents issued the highest rating to its agents, and a slightly lower note (i.e. 4) up to 47%. The evaluation of 3 chose 17% of the municipalities surveyed, and only just under 1% indicated the grade 2 (highlighting the low level of satisfaction with the current level of service). None of the municipalities, submitted for examination, stated the mark equal to 1 in relation to their previous experiences from cooperation with an insurance intermediary. Obtained results, suggest that the existing formula of cooperation on the line LGU - insurance intermediaries, in most cases did not raise any objections, and surveyed self-government units highly evaluated satisfaction with the scope of provided for them insurance services. However, it should be clearly pointed out, that the presented results only allow for recording some general pattern. Important at this point, is a question of whether surveyed local government units, to the same extent assess the work of each of the insurance intermediaries, providing services to LGUs?

Given the above question, in Table 2 summarized the data concerning cooperation of LGU of the municipal level with various financial intermediaries. Based on the analysis of the obtained results, level of satisfaction of the representatives of surveyed self-governments was specified, from cooperation with specific insurance agents.

**Table 2: Evaluation of municipal level LGUs cooperation with the financial intermediaries**

Type of insurance intermediary	Marks*					Total
	1	2	3	4	5	
broker	0,0%	0,0%	0,0%	66,7%	33,3%	100%
agent	0,0%	5,9%	17,6%	58,8%	17,6%	100%
multiagent	0,0%	0,0%	100,0%	0,0%	0,0%	100%
insurance company employee	0,0%	0,0%	16,7%	0,0%	83,3%	100%

\* Evaluation of co-operation is made on a scale of 1 to 5 (where 1 is the lowest)

*Source: Own study based on test results*

Two thirds of respondents rated the work of brokers to 4. The rest of the indications positioned them on the highest possible level (weight 5). Agents were rated slightly worse, since the highest score (in the opinion of the LGU respondents) they deserved in almost 18% of responses, and 59% of respondents rated them at 4. At the same time, almost 18% chose an average mark (i.e. weight 3), but 6% of respondents gave them also a grade 2. Multiagents were evaluated at the average level, while the insurance company employees came out in this ranking by far the best, because their work was evaluated at the highest level by 83% of respondents, other indications reported a medium level of satisfaction (weight 3).

The most frequent type of insurance policy concluded in Poland, is civil liability insurance policy of motor vehicles holders. A similar case is also recorded in the surveyed offices, and the results of conducted empirical analyzes are presented in Table 3.

**Table 3: Insurance products in the possession of municipal offices**

Products	Percentage of indications
TPL insurance of motor vehicles	95,59%
comprehensive vehicle insurance	83,82%
property insurance against fire and other natural forces	86,76%
property insurance against burglary and robbery	85,29%
business liability insurance	33,82%
property owners' liability insurance	39,71%
insurance guarantees	11,76%
employees' accident insurance	52,94%
the Volunteer Fire Brigade firefighters accident insurance	1,47%

*Source: Own study based on test results*

Studies have shown that the vast majority of the surveyed offices benefited, not only from the compulsory insurance of motor vehicle owners, but also from other insurance products. At the same time (except for cars and buildings), other insurance not longer enjoy such a great popularity. Attention is paid to the fact of the lack of property owners' liability insurance in a package of purchased services. Only less than 40% of companies declare the use of this type of protection. It is hard to understand, that the municipality being in possession of certain assets, such as roads, buildings or network devices, is taking substantial risks, associated with their use by third parties. This in turn seems to be quite an obvious factor determining the necessity

to consider this type of assurance. Insurance products concerning, provided only fragmentary, areas of functioning of LGUs, should not be therefore, in this respect, treated as an unnecessary luxury, but as an absolute minimum. Unfortunately, conducted analysis highlight quite different, in this respect, position of local authorities submitted for examination.

Another question, that referred to the respondents, concerned the satisfaction with insurance services and the impact on their level of satisfaction with the settlement of claims (see Table 4). In the study, 82% of respondents indicated, that in the last 3 years in the audited entity of local government, efforts were made to pay compensation.

**Table 4: Effect of the occurred damage on the level of satisfaction with services provided by insurance companies**

		The level of satisfaction*				
		1	2	3	4	5
<b>Overall level of satisfaction in a scale 1-5</b>		0,0%	5,9%	16,2%	45,6%	32,4%
<b>Whether LGUs in the last 3 years applied for the compensation</b>	<b>Yes</b>	0,0%	7,3%	18,2%	47,3%	27,3%
	<b>No</b>	0,0%	0,0%	0,0%	41,7%	58,3%

\* Evaluation of cooperation is done on a scale of 1 to 5 (where 1 is the lowest)

*Source: Own calculations based on test results*

As shown by the results of empirical analysis illustrated in Table 4, representatives of the offices are satisfied with the services provided by insurance companies. The highest level of satisfaction (i.e. 5), declares more than 32% of respondents. Its satisfaction on the assessment of 4 evaluated nearly 46% of respondents, and just over 16% of responses concerned municipalities assessing their satisfaction with insurance services at the average level (i.e. 3). At the same time, about 6% of LGUs identified weight 2, as appropriate to determine the level of satisfaction with provided on their behalf services, along with the absence of indications negatively assessing (i.e. weight 1) satisfaction with insurance services, being a consequence of the method of elimination of the occurred damage.

Optics of looking at the results undergoes radical changes, when submitting for comparison data, concerning satisfaction of LGUs from services provided by insurance companies along with the surveyed answers to the question: whether in last three years the office was trying to apply for the compensation. This ranking clearly shows, that all the average marks (weight 3) and low (weight 2), were indicated by those, who have applied in the last three years for compensation. Clear disproportions are also reflected in the highest evaluations. Bodies that have not been trying to get compensation, in nearly 60% evaluate their satisfaction at the highest possible level (i.e. weight 5), while the other respondents in this group evaluate the cooperation with insurance companies at level 4. In the group of those, who reported the damage, only 27% of surveyed LGUs is fully satisfied, and less than half rate their satisfaction at a level equal to 4.

## Conclusions

Decision makers in LGUs, motivated by the awareness of adjudging by national courts increasingly higher benefits and compensations for damage, especially personal, should in this regard pay more attention to assurance opportunities. One large, or the accumulation of many small random events, may result in the need to pay high compensations, and consequently, negatively



affect the current financial condition, particularly of small municipalities. LGUs, being in possession of significant capital, which physical condition is often marked by a high degree of exploitation, bear a substantial risk of certain random events. However, as performed studies have shown, a relatively small percentage of municipalities is transferring the risk of responsibility for a held property into specialized assurance entities.

From a comparison of the data, concerning satisfaction with the level of service and the reported insurance loss, it can be concluded that, at the stage of concluding and current handling of insurance policies, cooperation of local government units with insurance companies seems satisfying. Customers feel satisfied and highly appreciate the activities of insurance companies. Problems appear, however, when a damage occurs. As research studies have shown, when the municipalities have been trying to get the compensation, and this situation took place in up to 82% of self-government bodies, cooperation with insurance companies ceased to be satisfactory. As a result, municipalities gaining the experience related to the liquidation of damages and payment of the compensations graded the insurance companies with much lower assessment. Given the above, it should be noted, that the local government units have yet a long way in terms of building awareness in the need for reliable and full protection of their interests against adverse effects of random events. Beside the generally concluding contracts, these less known, but not less necessary as: liability insurance in respect of administrative decisions; liability insurance for non-provision or inadequate provision of public services; liability insurance due to riots and acts of terrorism, or electronic equipment should also meet with greater interest. This fact is extremely important, but as studies have shown, insurance needs that go beyond so-called 'minimum' standards remain, either unnoticed, or what is far worse are simply ignored. Concluding, it should be clearly stated, that only a complete assurance protection can be a guarantor of full preservation of LGUs interests. Therefore, any partial solutions will deliver only as incomplete results.

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