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IMPROVEMENT OF INSURANCE ACTIVITIES OF ENTERPRISES

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Abstract:
The insurance industry is innovating. Business models, services and processes are rapidly evolving, largely backed by technological developments. The particular historical context of COVID-19 provides a suitable case to understand the relevance of exploiting technology to react quickly to traditional and emerging risks. Focusing on the initiatives put in place by the most influential insurance companies at the global level, we have framed the innovation mechanisms in the industry, highlighting four rationales underpinning these initiatives (Adaption, Expansion, Reaction and Aggression), which differ according to the relevance of the technology in use and innovation to the portfolio of risks covered. Overall, it emerges that insurance companies have the room and capability to innovate, in many cases using technological applications to cover new and existing risks.

Keywords: *Insurance, Innovation framework, COVID-19, Risk, InsurTech, Technology, Fintech, Business model.*

INTRODUCTION

Insurance is not typically considered a bastion of innovation, despite a long track record of creating new and exciting markets around emerging risks and consumer demands. For example, the relatively nascent cyber insurance market is forecast to surpass $22.4 billion by 2026 at an annual growth rate of more than 25 percent in the next five years, according to market research and consulting firm IndustryARC. In reaction to the lockdowns of the COVID-19 pandemic, many insurers rapidly digitalized their customer and agent experience, permanently shifting away from a traditional face-to-face service model. Other carriers are responding to consumer demand for more meaningful interactions with loyalty and gamification programs that promote customer engagement. For instance, South African insurer Discovery's Vitality loyalty program gives customers points as incentives for practicing healthy habits and good driving behavior, and then grants them access to rewards and benefits.

The C-suite is already taking note of the key role innovation will play in delivering long-term value: data from a 2020 survey show that while executive teams focused on short-term cash management and the welfare of their workforce at the peak of the pandemic, innovation now ranks as one of their top two priorities.

But while the industry as a whole has delivered pockets of innovation, few carriers have pursued innovation in a systemic way. Today, new customer expectations, low interest rates, and new sources of competition (such as leading tech companies, insurtechs, and third-party capital) are putting pressure on carriers to take a more systematic approach. For innovation to deliver sustainable growth, it must be embedded in the company's growth model and fully integrated across the organization, bringing together cross-functional teams to approach challenges in new ways.

And that's not easy. Successfully profiting from innovation is a complex, company-wide endeavor, and most insurers have not yet cracked this code—at least not on a consistent basis. In fact, a 2017 survey of life and annuities executives found that only 12 percent believe they have a process that delivers strong product innovation. And fewer than 30 percent of financial-services executives say they have the expertise, resources, and commitment to successfully pursue new sources of growth. An insurance company's internal environment is composed of its owners, managers, employees and exclusive agents. The owners of an insurance undertaking are a very important group of stakeholders. In most cases, they are large business groups that manage and invest private capital. This group of stakeholders focuses on the insurer's growth and satisfactory financial performance (increase in total corporate value, increase in stock price, availability of comprehensive and reliable information, insurer's reputation, observance of corporate governance principles). Managers serve as go-betweens for an insurance company's owners and its employees. They develop an organization's infrastructure and create a positive working environment for employees. Managers have a highly responsible task of maintaining good relations with the owners of capital, employees, clients and other entities in the company's external environment. The expectations of this group of stakeholders are largely consistent with those of capital suppliers, but managers are also employees who have specific and individual needs. Motivational systems play a very important role in this group of stakeholders. In addition to financial compensation, non-monetary

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incentives, such as praise and acknowledgement, access to comprehensive and reliable information about the company's standing, work satisfaction, occupational safety, recognition and opportunities for personal growth, play an equally crucial role. Exclusive agents are an important part of an insurance company's internal environment.

LITERATURE REVIEW

An exclusive agent signs a contract with an insurance company whereby he undertakes to sell only the products offered by the company in a given insurance sector. Exclusive agents operate as sole traders, and they are not salaried employees of the insurance company. They account for a large group of stakeholders who work directly with insurers.

Fortunately, there are ways to establish and implement cross-cutting practices and processes to structure, organize, and encourage innovation for sustainable growth. Here are five steps for building innovation into the way an organization works, competes, and grows. To identify the innovative initiatives properly, we based our work on Baregheh et al. (2009, p. 1325), according to whom "Innovation can be defined as the effective application of processes and products new to the organization and designed to benefit it and its stakeholders". We searched for results that satisfied the following three properties. Firstly, they had to be real company initiatives, so we disregarded opinion papers or suggestions for the industry, taking the position that innovations are such when they are effective and tangible applications (Baregheh et al. 2009). Secondly, the initiatives had to create value, provide benefit and economic value (Garcia and Calantone 2002) to at least one stakeholder, and/or solve a problem or a social need (Edwards-Schachter 2018). Thirdly, the initiatives had to have been developed as an immediate response to the COVID-19 pandemic. Data were supplemented by a thorough analysis of secondary sources, such as business news channels (e.g. CNBC), articles from industry-specific and business magazines (e.g. Forbes) and interviews published in the press (e.g. CEO of Company 1). Where possible, we directly tested the tools under study ourselves (e.g. the Company 13 chatbot).

We analysed these materials through content analysis, a widely-adopted method (Elo and Kyngäs 2008) that provides a systematic and objective means of describing phenomena (Krippendorff 1980; Downe-Wamboldt 1992; Sandelowski 1995), enabling researchers to make "replicable and valid inferences from data to their context, with the purpose of providing knowledge, new insights, a representation of facts and a practical guide to action" (Elo and Kyngäs 2008, p. 108). All the authors were involved in the analysis to reduce personal bias.

MATERIALS AND METHODS

Today, a structural-technological, motivational and corporate culture transformation is observed, based on the systematic concept of financial instruments and financial asset management, which is directly influenced by the external environment and strategic improvement. This process requires the introduction of digital technologies for the analysis of large volumes of data by applying a functional business method in the form of a multi-component matrix, which includes the possibility of providing a competitive service. The improvement of the organizational structure of the insurance entity is achieved by determining the scope of specific tasks, rights and responsibilities for each department, as well as establishing the procedure for interaction with other departments. Risk-based approaches in the theory and methodology of assessing the financial condition of insurance activity increase the possibility of sustainable development of the insurance institution. It is important to note that a common information base needs to be established for all insurers in the interest of fraud prevention, policy and loss accounting and reporting. This, in turn, creates the possibility of perfect competition (standardization) and is a factor in the formation of a statistical database related to insurance underwriting. Although a certain concept of the priority directions of the development of the insurance institute has been formed in the section of developing a solution to the problem of increasing competitiveness in the insurance activity, the issue of optimizing business processes in this activity is also gaining urgent importance.

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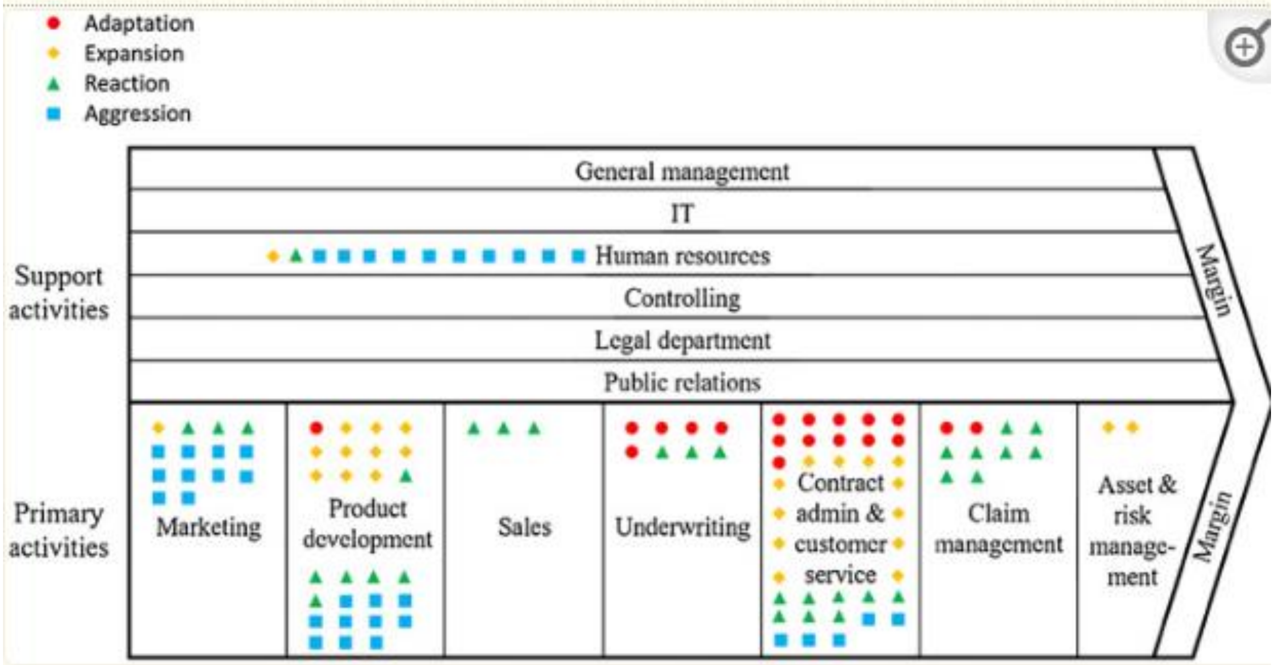

Fig. 1. Distribution of initiatives along the insurance value chain by rationale

Focusing on technology, insurance companies responded to the pandemic in two main ways. On the one side, they exploited their existing technological arrangements, expanding their use or opting to adopt new technologies. In the U.S., Company 13 trained its existing chatbot to detect suspicious infection in a timely manner. In addition, the chatbot had a marketing purpose, as it could also propose appropriate insurance products offeed by Company 13. Several insurance companies, including Company 22, offered remote medicine solutions to their customers, e.g. live-video conferencing with medical experts, with the aim of reducing infection by avoiding doctors' surgeries. At the same time, there were cases where technology was not always central to the insurance company's response. For instance, several insurance companies, such as Company 1, extended their grace period for paying premiums (especially for customers who typically paid in cash in a brick-and-mortar agency or who were facing temporary financial difficulties). Others, including Companies 7 and 16, extended their existing health insurance cover and explicitly included coronavirus infections. Insurance organizations initiate activities that foster the growth of the insurance market, control market operations, protect stakeholder interests, develop and evaluate draft legislation addressing the insurance market, create opportunities for conciliatory settlement of disputes between stakeholders, collaborate with domestic and foreign organizations, associations and institutions in matters relating to insurance, acquire, gather, process and release information about domestic and foreign insurance markets, initiate educational and information campaigns, develop and administer databases gathering insurance statistics, and handle claims.

RESULTS

During the worst stage of the pandemic, insurance companies found themselves dealing with new risks, but at the same time they had to deal with those already in place. The risk of infection was clearly central in extending existing products. Customers benefitted from extended policy coverage, as did doctors in their professional civil liability insurance (e.g. a subsidiary of Company 27) with reference to telemedicine and everything else beyond their usual sphere of expertise deployed while fighting the pandemic. Collateral psychological issues related to lockdown measures raised concerns. The responses ranged from a 24/7 hotline during the crisis (e.g. Company 22) to a COVID-19 microsite and emotional support (e.g. Company 22) and free subscriptions to Netflix and Spotify (e.g. Company 9 in Turkey). Qualified personal trainers, chefs and dieticians were brought in to offer free advice and consultations on matters relating to nutrition and wellness, and customers were offered discounts for home grocery deliveries (e.g. Company 9 in Turkey). Insurance companies set up initiatives linked to many primary

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activities in the value chain that had been affected by the pandemic. For instance, with regard to claims management, in one case Company 25 and its supplier were able to determine the cause of a house roof leak through a 'drive-by' survey. assessment within personal and property insurance and surety contracts, payment of damages and other benefits due under insurance contracts,acquisition and sale of objects and rights acquired by an insurance undertaking in connection with the execution of an insurance contract or a surety contract, controlling policy holders' and insured entities' observance of safety rules and principles relating to the insured object stipulated in the contract or the general terms and conditions of an insurance agreement, conducting recourse proceedings and collecting receivables, investing assets, determining the causes and circumstances of fortuitous events, calculating the amount of damages, compensations and other benefits due under insurance contracts or surety contracts, determining the value of an insured object, preventing or minimizing the outcomes of insured accidents or financing such operations from prevention funds.

CONCLUSIONS

This paper discusses various stakeholder groups on the insurance market and their expectations towards insurers. The operations of insurance companies are influenced by various market actors who compete or cooperate with one another directly or indirectly and mutually influence their key areas of activity. The discussed stakeholder groups have shared expectations, which are mainly to satisfy the goals of all parties, to achieve a high level of financial security, to stabilize their market position and build mutual trust. Private and institutional clients are the direct recipients of insurance services. Insurance companies can effectively identify and satisfy the unique needs of their clients by conducting regular customer satisfaction surveys. Insurers reach their customers via diversified distribution channels. The main effectiveness of insurance activity is determined by the ratio of production and sale of insurance services (products). Accordingly, it can be noted that the definitions of the categories "insurance product" and "insurance service" are not correct to be mutually interpreted, but it should be noted that these categories are interrelated in business processes. In these processes, the question of whether insurance operations belong to a service/product is controversially interpreted in insurance theory and practice. This rule is explained by the fact that the features of insurance transactions are intrinsically immaterial, that is, they do not have their material form until they are implemented. Insurance operations can be expressed as a labor product in connection with the costs of their implementation. At the same time, the essence of insurance activity is manifested in the inherent connection with the nature of probability. Taking into account the specific characteristics of the activity of a certain organization, in particular, an insurance organization, it can be interpreted as its internal environment, such as planning, sales, financial and personnel policy, information supply and activity control, in terms of its functional areas, service provision (production, performance of work) .

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