

## HOW TO ENSURE LEADERSHIP IN THE WORLD MARKET OF INSURANCE SERVICES: THE EXPERIENCE OF STRATEGIC MANAGEMENT OF FOREIGN COMPANIES

### ЯК ЗАБЕЗПЕЧИТИ ЛІДЕРСТВО НА СВІТОВОМУ РИНКУ СТРАХОВИХ ПОСЛУГ: ДОСВІД СТРАТЕГІЧНОГО УПРАВЛІННЯ ІНОЗЕМНИХ КОМПАНІЙ

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*In the article, the author determines that the strategy is the vision, general course, plans of the company's management to achieve its strategic objectives in any field of activity. Companies will be successful if they have a strategic vision (goals) and a plan of action for a certain period of time. Companies, leaders in the world insurance market, have different models and methods of management. However, they have common features. All of them make strategic planning because it has more advantages than disadvantages. They conduct an analysis of the external environment; assessment of strengths and weaknesses of the insurance company, opportunities and threats etc. They all have a strategy. The company has certain strands of action for the future. They have metrics to measure their goals. They all implement innovative methods of providing insurance services. Moreover, the world's top insurance companies are facing low bond yields, global geopolitical risk, and regulatory pressures. Thus insurance companies propose new technologies to customers that reduce claim handling costs and increase the number of special or unique product lines to boost profits.*

**Key words:** factors, strategy, strategic goals, companies, insurance market, strategic management.

*Компанії будуть успішними, якщо вони матимуть стратегічне бачення (цілі) та план дій на певний період часу. Стратегія – це бачення, загальний курс, плани керівництва компанії для досягнення стратегічних цілей у будь-якій сфері діяльності. Компанії, лідери світового ринку страхових послуг, мають різні моделі та методи управління. Проте, вони мають спільні риси: досліджують зовнішні та внутрішні впливи, ризики, виокремлюють загрози та ін. Компанії здійснюють стратегічне планування, оскільки воно має більше переваг, ніж недоліків, мають чітко визначені стратегічні цілі та напрями дій на майбутнє, мають цільові орієнтири. Компанії впроваджують інноваційні методи надання страхових послуг. Крім того, найбільші страхові компанії світу стикаються з низькою дохідністю облігацій, глобальним геополітичним ризиком та регуляторним тиском. Тому компанії пропонують нові технології клієнтам, що скорочує витрати на обробку претензій, а також збільшує кількість спеціальних або унікальних товарних ліній для збільшення прибутку.*

**Ключові слова:** фактори, стратегія, стратегічні цілі, компанії, страховий ринок, стратегічний менеджмент.

*Компании будут успешными, если они будут иметь стратегическое видение (цели) и план действий на определенный период времени. Стратегия – это видение, общий курс, планы руководства компании для достижения стратегических целей в любой сфере деятельности. Компании, лидеры рынка страховых услуг, внедряют различные модели и методы управления. Однако компании имеют общие черты. Компании осуществляют стратегическое планирование, имеют четко определенные стратегические цели и направления действий на определенный момент времени, целевые параметры. Компании внедряют инновационные методы оказания страховых услуг. Кроме того, крупнейшие страховые компании мира сталкиваются с низкой доходностью облигаций, глобальным геополитическим риском и регуляторным давлением. Поэтому компании предлагают новые технологии клиентам, что сокращает затраты на обработку претензий, а также увеличивает количество специальных или уникальных товарных линий для увеличения прибыли.*

**Ключевые слова:** факторы, стратегия, стратегические цели, компании, страховой рынок, стратегический менеджмент.

**The relevance of the issue.** The development of the world insurance market depends on economic trends that are relevant to the global economy. Different economic factors affect insurance companies, such as: crisis phenomena in the financial sector, currency fluctuations, the change of price situation. And this is far from an incomplete list of factors that affect the insurance market in general and each of the insurance companies, in particular. The political, legislative, economic, social, technological, and environmental factors affect insurance companies too. In changing world, it is very important for the insurance company to have a strategy. Companies will be successful if they have a strategic vision (goals) and a plan of action for a certain period of time.

**Analysis of publications.** The concept of strategy and strategic management was studied by I. Ansoff, H. Mintzberg, M. Porter, A. Thompson, A. Chandler. Mintzberg uses the research of Mariann Jelinek (Institutionalizing Innovation, New York: Praeger, 1979) as one of the best and “carefully reasoned arguments in favour of strategic planning.” Strategic planning for Jelinek provides a natural evolution in organizational behaviour. What Frederick Taylor and others did for the routinization and systematization of manual labour in American industry was replicated in the strategic planning movement as a way to introduce systematic management for the top tier of the organizational hierarchy [1]. However, the publications of those authors did not pay attention to the strategic goals of companies who are leaders in the world market for insurance services

**The purpose of the article** is to determine what does the strategy means. Moreover, it is necessary to find strategic goals of companies, insurance market leaders.

**The main material of the research.** In scientific sources, there is no single point of view regarding the emergence of a strategy. Someone say that strategy is a plan or something like that – leadership, a guide or direction of development, a road

from the present to the future. Very often a strategy is called the principle of behaviour or following a certain model of behaviour. Sometimes scientists say that strategy is a position, namely, the location of certain products in specific markets.

Therefore, in our opinion, the strategy is the program, the plan, the general course of the company's management to achieve its strategic objectives in any field of activity.

There is no consensus on how strategies should be developed:

- modelling based on judgment and design; relatively isolated formal planning process;
- selection of strategic market positions of the organization.

Let us look at approaches to strategy formation. The strategy can be formed as:

- penetration into the future through the insight of the manager;
- with the support of the logic of cognitive psychology, penetration into the consciousness of the strategist;
- developing a strategy step by step as the organization learns;
- the principles of forming a strategy are determined by culture;
- the strategy is formed under the influence from the outside.

The organization ensures its development through balanced interaction with the external environment in the strategic management. Strategic planning is a special kind of practical activity, consisting in the development of solutions. The goal of the solutions is the effective operation of the company in the long term and quick adaptation to the changing conditions of the external environment. The main procedures of strategic planning are: forecasting, programming, and design. The strategic planning has more advantages than disadvantages (table 1).

Let us look at two alternative approaches to strategy development, at the vision of H. Mintzberg and M. Porter about the concept of strategy.

Table 1

**The main advantages and disadvantages of strategical planning**

ADVANTAGES	disadvantages
<ul style="list-style-type: none"> <li>• you can make decisions and react to changing market conditions with the end in mind;</li> <li>• defines the purpose of the organization and establishes realistic goals and objectives consistent with the mission, which can be clearly communicated to constituents;</li> <li>• minimizing the negative effects of changes that are taking place, as well as the factors of “uncertainty of the future”;</li> <li>• opportunity to obtain the necessary basis for making strategic and tactical decisions;</li> <li>• can making business more monitoring and controlling, since in the presence of the system of strategic plans there is an opportunity to compare the achieved results with the goals specified in the form of planned tasks;</li> <li>• unique differentiation: avoid “competitive convergence”;</li> <li>• can making business more responsibility.</li> </ul>	<ul style="list-style-type: none"> <li>• can be more expensive and time-consuming;</li> <li>• formalization in the process and can be more bureaucratic;</li> <li>• lack of flexibility;</li> <li>• less relevant in a crisis.</li> </ul>

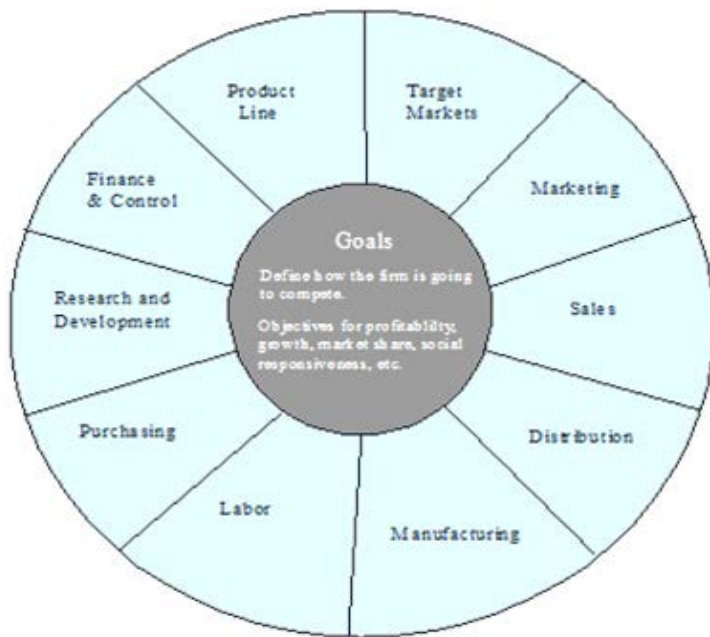


Fig. 1. The Wheel of competitive strategy [2]

For H. Mintzberg, the strategy is a word that we define differently than we practice. For many, the definition of strategy is “a plan”, but in actuality, the strategy appears as a pattern that blends intended responses with responses that emerge out of the changing environment. Every company has a competitive strategy although some strategies are implicit rather than explicit. However, there are significant benefits available to firms that engage in the explicit process of developing a strategy and the companies will be successful if they have a strategic vision (goals) and a plan of action for a certain period of time [1]. According to H. Mintz-

berg, strategies do not arise out of conscious strategic planning but result from a number of ad hoc choices perhaps made lower down the hierarchy. The final objective of the strategy is unclear and elements still develop as the strategy proceeds, continuously adapting to human needs – the emergent strategy are evolving, incremental and continuous.

M. Porter provides review the classic approach to the formulation of strategy. Figure 1, shows what he refers to as the wheel of competitive strategy. The hub shows the firm’s goals, mission, or objectives. The spokes represent the firm’s key operating policies. Like a wheel, the policies (spokes) must be connected to each other and reflect the goals of the firm (the hub) [2, p. 47].

Figure 2 includes four factors that determine what the firm can successfully accomplish. On the left-hand side, the firm’s strengths and weaknesses are related to its assets and skills. These together with the personal values of the firm’s key members (implementers) determine the limits to competitive strategy from an internal perspective.

On the right-hand side, the industry environment together with broad societal factors (government policy, social concerns, etc.) determines the firm’s external limits.

As noted above, different factors affect insurance companies, such as: political, legislative, economic, social, technological, and environmental etc. In changing world, it is very important for the insurance company to have a strategy.

The management should answer the following questions to form a vision of the company:

- How do you see your organization in 5-10 years?

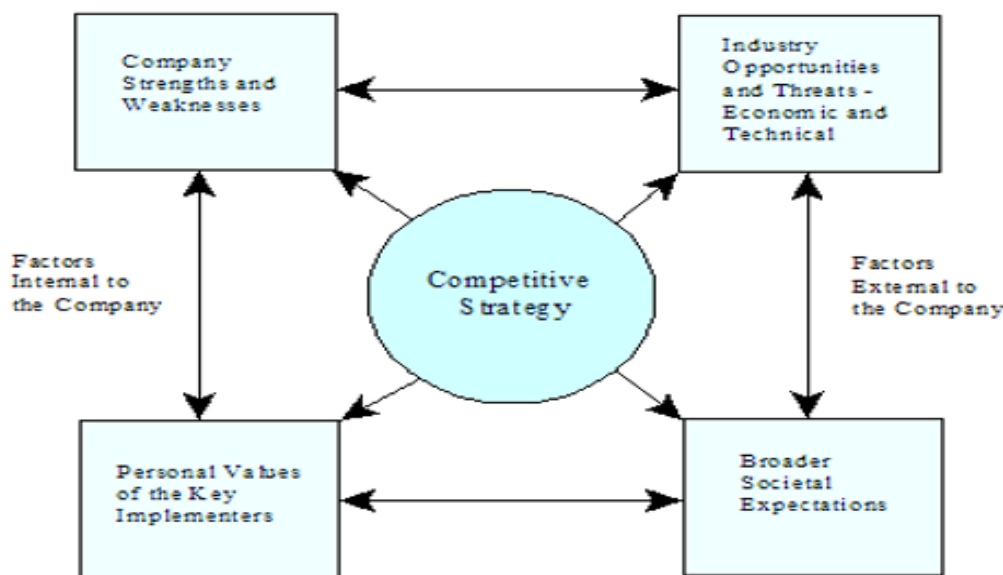


Fig. 2. The context in which competitive strategy is formulated [2]

- How important is this goal for you? What values of the organization support are people striving for this goal?

- How much does the goal depend on you, is it in the sphere of your direct influence?

- How do you know that you have achieved the result?

- When and with whom do you want to achieve your goal?

*The vision is formed on the basis of:*

- analysis of the external environment;
- assessment of strengths and weaknesses of the insurance company, opportunities and threats;
- evaluation of competitive advantages and key competencies;

- evaluation of resources available for the insurance company etc.

Companies will be successful if they have a strategic vision (goals) and a plan of action for a certain period of time. The experience of companies, which are the world leaders in the global insurance market (Ping An Insurance Group, Allianz Group, AXA Group etc.), confirmed that [3].

Let us identify the strategic goals of the world insurance market leaders.

**Ping An Insurance (Group) Company** of China was the leader of the world insurance market (2016). Ping An was established in Shekou, Shenzhen, in 1988. The Group was the first insurance company in China that adopted a shareholding structure. It has developed into a personal financial services group with three core businesses – insurance, banking, and investment – enjoying parallel growth of its core finance and internet finance businesses [4].

The value of new business and business size of the life and health insurance business continued to grow rapidly. In the first three quarters of 2017, the value of the new business of life and health insurance business grew by 35.5% to 8.2 million USD due to the rapidly increasing sales agents and constantly rising productivity.

Strategies by the business division of the insurance business:

- maintain the healthy and steady development of our property and casualty insurance and life insurance businesses while promoting their competitiveness and steady expansion in market share;

- increase inputs in new business areas such as corporate annuity and health insurance [4].

The next company is the leader in the world insurance market – **Allianz SE**. The Board of Management of Allianz SE has defined a business strategy consisting of five pillars:

1. *True customer centricity*: we aim at an outstanding customer experience by gaining a better understanding of our customers' needs and tailoring our services so as to meet those needs. Our success is measured by our customers' willingness to recommend Allianz, for which we use the Net Promoter Score (NPS). The results reveal the

level of our customers' satisfaction and loyalty and indicate how we can improve even more. Since a high NPS also means accelerated revenue growth, by 2018 we would like 75% of our businesses (currently 50%) to be loyalty leaders or at least above-market average in terms of NPS.

*Digital by Default*: digitalization can suddenly threaten business models that have been successful in the past, as we have witnessed in other industries. But the good news for you as an Allianz investor is that digitalization also opens up major opportunities for your company. It allows us to transform Allianz and concentrate on the things that promote positive customer experience and customer growth and, at the same time, to increase our productivity.

We are working throughout the Group on simplifying products and processes and on common technologies and platforms that will fully digitalize the business step by step.

The resulting productivity gains will be invested in future business model improvements. Our ambition is that these initiatives will bring about a sustained increase in productivity of at least €1 BN per year by 2018. In order to reach this goal, we will have to consistently align business models, products, and processes across country and company borders and minimize paper at each element of the value chain [5].

*Technical Excellence*: Our aim is to raise the quality of our insurance business to a level that generates superior margins and growth rates by leveraging the best analytical methods and our highly-talented experts and managers. The advantages offered by digitalization will be used to optimize our risk-adequate pricing and to streamline and speed up claims processing. We also seek to increase growth and effectiveness in our business with medium-sized enterprises and commercial firms. In the Property-Casualty segment, our goal is to achieve a combined ratio of 94% or better by 2018, with the support of the best technical experts, and to receive consistently positive feedback from brokers and customers.

In the Life/Health business segment, we are targeting a return on equity of 10% or higher and a new business margin of at least 3%. This also requires us to selectively wind down unprofitable business.

*Growth Engines*: We will consolidate our leading positions in mature markets and expand our presence in growth regions with the aim of generating stronger growth and improving margins. Our new joint venture with the Chinese web portal Baidu, which reaches 90% of Chinese internet users, is one good example. It puts us in a prominent position in one of the most dynamic digital insurance markets with annual growth rates of 40% and expected annual revenues of €100 BN by 2020.

*Inclusive Meritocracy*: Our corporate culture will be refined to make not only high-performance matter but also the way in which our employees

go about achieving it, for example by collaborating closely in cross-functional teams. The aim is to promote an entrepreneurial spirit that concentrates on finding the best ideas and implementing them productively together with others in the organization. For this to succeed, we are adjusting our remuneration and incentive systems. The Inclusive Meritocracy Index (IMIX), which is based on our annual employee surveys, shows the progress we have made towards renewing our management culture. It currently stands at 68% throughout the Group, and we aim to increase it to 72% by 2018 [6]

The new 5-year plan of **AXA Group** is articulated around two strategic priorities: focus and transform.

The first priority is a continued and immediate focus on sustainable earnings growth over the plan based on selective growth, cost efficiencies, technical margin improvement, and an active management of capital and cash. These initiatives will position AXA to grow earnings and increase dividends, even in a context of continued low-interest rates.

The target of AXA Group is an average annual increase in underlying earnings per share of between 3% and 7% over the plan period [7].

At the same time, the second pillar of our strategy is to transform our company to ensure tomorrow's growth. We want to adapt our business model from payer to partner. This means accelerating business innovation to meet our customers' rapidly evolving needs in the digital world and developing further in areas such as prevention and care. The success of this transformation will be based on the engagement and energy of our employees, agents, and partners, adapting their capabilities to best serve our customers.

*The main financial objectives for 2020 are:*

- Underlying earnings per share CAGR between 3% and 7%;

- Cumulative 28-32 billion Euro of Group operating Free Cash Flows from 2016 to 2020;

- Adjusted return on equity between 12% and 14% over the period 2016-2020;

- Solvency II ratio target range between 170% and 230%;

- 2.1 billion Euro pre-tax cost savings by 2020.

We can agree with the thought that insurance is about preventing adverse outcomes and protecting customers against risks. In order to carry out this mission to the best of their abilities, insurers need to understand and prepare for the risks we will face in the years ahead [8]. The main risks for 2025, according to H. Chauveau, are: climate change, cyber risk, internet of things, artificial intelligence and robotisation, financial risk, natural resources management.

**Conclusion.** Companies, leaders in the world insurance market, have different models and methods of management. However, they have common features. All of them carry out strategic planning because it has more advantages than disadvantages.

They conduct an analysis of the external environment; assessment of strengths and weaknesses of the insurance company, opportunities and threats etc. They all have a strategy (the vision, general course of the company's management to achieve its strategic objectives in any field of activity). They all have certain strands of action for the future. They have metrics to measure their goals. They all implement innovative methods of providing insurance services.

Moreover, the world's top insurance companies are facing low bond yields, global geopolitical risk, and regulatory pressures. Thus insurance companies propose new technologies to customers that reduce claim handling costs and increase the number of special or unique product lines to boost profits.

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