

TOOLS FOR STRATEGIC ANALYSIS AND ASSESSMENT OF PROSPECTS FOR DEVELOPMENT OF INSURANCE BUSINESS

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Abstract

The evaluation of the prospects and the formation of the strategy for the development of the insurance business are based on a strategic analysis, which is a tool for selecting, consolidating and evaluating information on the state of the external and internal environment, as well as the factors that have the greatest impact on this branch of the financial market. That is why the improvement of the tools of strategic analysis is given a worthy attention in the scientific community and the business community in Russia and abroad. In this study, various scientific trips developed by Russian and foreign scientists, applied to the insurance business, including a SWOT-analysis, supplemented by a correlation analysis, which not only highlighted the strengths and weaknesses of the insurance business, its potential opportunities and threats, but also to form their weighted estimation taking into account the influence of the most significant factors. The result of the study is an assessment of the prospects for the development of insurance business in Russia, as well as the development of a toolkit for strategic analysis of insurance companies. The scientific results have been tested on the example of one of the largest Russian insurance companies "Rosgosstrakh –Life" and can find perspective application in the whole system of the insurance market.

Keywords: strategic analysis, valuation, insurance business.

1. INTRODUCTION

Insurance is an important branch of the financial market, a socially significant sector of the economy, whose activity is aimed at risk management through financial instruments. In this regard, the stability and security of the state's economy depends, inter alia, on the availability of potential, quality of assessment and forecasting the prospects for development of the insurance business along with other financial institutions. The purpose of this article is to present methods for evaluating the strategic potential of insurance business aimed at increasing the reliability of the results of strategic analysis and taking into account the specific characteristics of insurance companies based on the integration of qualitative and quantitative, mathematical and statistical methods for assessing the impact of factors on performance indicators of insurance business. The

methodological base of the research was the works of Russian and foreign scientists, applied research and analytical tools, including SWOT-analysis, analysis of key success factors, M. Porter matrix of competitive forces, McKinsey-General Electric matrix, SPACE-analysis, and key financial calculations performance indicators of insurance companies.

The scientific result of this study is an assessment of the prospects for the development of insurance business in Russia, as well as a set of tools for strategic analysis of the insurance companies, tested on the example of one of the largest Russian insurance companies "Rosgosstrakh-Life". Using a comprehensive analytical toolkit allows you to determine the strengths and weaknesses of the insurance business, to describe its potential opportunities and threats, as well as to form a weighted assessment, taking into account the influence of the most significant factors.

2. ANALYSIS OF THE STATUS AND FORECASTS OF DEVELOPMENT OF THE RUSSIAN INSURANCE SECTOR OF ECONOMICS

After the rapid development of the insurance market in 2011-2012, when its growth rates reached 19 to 22%, in 2013-2015, there was a gradual decline in growth rates: from 11,8% in 2013 to 8% in 2015 [15]. This trend is associated with the deterioration of the macroeconomic situation in the country, which was one of the reasons for the decline in consumer activity and the reduction in the number of insurance companies in the market. Other factors that affected the decline in the activity of the Russian insurance market were inflation, the volume of lending, the volatility of the ruble exchange rate, economic sanctions, as well as legislative reforms that resulted in increased demands on insurance companies from the state: IFRS reporting, the accounting standards became more detailed, the practice of publishing insurers - leaders on the number of complaints from policyholders was introduced; Supervision of insurance companies was transferred to the Bank of Russia, and the Financial Markets Service was created [10], [11]. Insurance companies have become objects of regular monitoring of their activities. Insurers had to work actively to reduce the number of complaints and court costs, and therefore, to improve the quality of settlement of losses. Their work affected the dynamics of the share of refusals from insurance payments. The share of refusals in relation to the claimed insured events fell from 1.8% in 2012 to 1.3% in 2013. On insurance of property of citizens, the value of the indicator decreased from 12,2 to 7,6%, for auto insurance claims - from 5,2 to 4,4%, for OSAGO - from 4,4 to 3,4% [14].

The real growth of the insurance market resumed in 2016. The main ways to increase the volume of portfolios of insurers were to increase the level of customer retention, the development of new products and the development of new sales channels. The most significant growth (66%) was demonstrated by life insurance due to the active dissemination of products of investment life insurance. The Casco market continued to decline, and in 2017, insurers developed a policy of reducing losses by optimizing contracts with partners, combating fraud, expanding underwriting analysis, improving the settlement process of insurance claims in courts, increasing the use of the franchise, developing new products. According to the rating of the companies of the Russian insurance market, the leaders in the industry are companies: "Sogaz", "Rosgosstrakh", "Ingosstrakh", "Reso-Garantiya" and "Alfa-insurance" (Table 1).

Tabelle 1. The largest insurance companies [14]

Insurance companies	Insurance premiums (million rubles)	Company's share in total fees for the country (%)
Sogaz	123 758	13,97
Rosgosstrakh	93 055	10,51
Ingosstrakh	65 367	7,38
Reso-Garantiya	64 461	7,28
Alfa-insurance	47 708	5,39
Sberbank Life Insurance	46 833	5,29
VTB Insurance	43 286	4,89
Insurance House VSK	38 698	4,37
Rosgosstrakh-Life	29 158	3,29
Consent	24 197	2,73

Despite the presence of problems in the insurance market as a whole, new investment products in life insurance allow you to earn income above the inflation level, which in turn makes it possible not only to save your own capital, but also to increase it due to innovations in the investment policy of insurers. Life insurers in 2016 increased their financial assets and increased their status as investors in the economy of the

Russian Federation. Assets of life insurers increased by 58% and reached 475 billion rubles, investments grew by 57% and amounted to 410 billion rubles. In the structure of investments of life insurers, two-thirds of investments are accounted for by corporate bonds and deposits. Investments in state and municipal bonds make up 28.2%, in shares – 2,4%, in pension funds – 0,7%, other investments – 2,5%.

Half of the premiums (50,4%) of life insurers account for life insurance investment, 21,4% of the portfolio is formed by credit insurance (life insurance, individuals and collective schemes with banks), by 16,7% - by accumulative insurance life at the expense of individuals, 4,8% by voluntary medical insurance, 3,4% - by insurance against accidents and diseases of individuals (without credit insurance), by 1,6% - by accumulative and risky life insurance at the expense of legal entities persons, on 1% - accumulative insurance Life at the expense of legal entities, and 0,7% - premiums on other lines of business.

Thus, it can be said that the life insurance market develops year after year and increases not only the amount of insurance premiums, but also the amount of investment in the real sector of the economy [12].

According to RAEX (Expert RA), the insurance market in 2018 taking into account life insurance (non-life + life) will grow by 9-10%, and its volume will overcome the level of 1,4 trillion rubles. Without taking into account life insurance in 2018, stagnation in the insurance market (excluding life insurance) will continue. Positive growth rates of premiums will be maintained by voluntary medical insurance (6-8%) due to annual inflation of the cost of medical services and the introduction of cancer insurance programs, insurance against accidents and diseases (10-12%), which will be supported by a revival in the consumer market crediting and tourist flow, as well as insurance of property of citizens (11-13%) due to the active promotion of “boxed” products by banks. At the same time, insurance premiums will only slow down premiums to 5-3%, while the market of compulsory motor third party liability insurance will remain at the level of 2017. In the segment of insurance of property of legal entities, stagnation will also continue to occur [15].

3. METHODS AND TOOLS OF STRATEGIC ANALYSIS, THEIR USE IN ASSESSMENT OF PROSPECTS OF DEVELOPMENT OF INSURANCE BUSINESS

In Russian and world science, strategic analysis is seen as one of the fundamental stages in the development of a strategy. However, a single approach has not yet been formed. The most significant differences in the approaches of Russian and foreign scientists are in the arrangement of analytical priorities. In particular, foreign scholars (I. Ansoff, M. Porter, D. Norton, R. Kaplan, R. Grant, A. Thompson, A. Strickland and others) emphasize the external business environment of companies [1], [2], [3], [8], [9], [13], [16]. In turn, Russian scientists (A. Khorin, G. Kiperman, N. Plaskova, R. Fatkhutdinov and others) prefer the evaluation of the company's internal resource potential, in particular, indicators of production, investment activity, financial sustainability, social development [3], [4], [5]. At the same time, various methods and methods have been developed and introduced into management practice [3], [6], [7]. In order to make strategic analysis of insurance business more reasonable, it is necessary to use a complex of various strategic tools.

The use of a complex of tools for strategic analysis of the insurance companies will be examined using the example of “Rosgosstrakh-Life”. The analysis focuses on the evaluation of key success factors, strengths and advantages over competitors, as the company is among the leaders of the Russian life insurance market [2], [13], [16].

The results of the analysis of the strengths and weaknesses of the insurance company “Rosgosstrakh-Life” and their weighted estimates, taking into account the influence of the most significant factors on the basis of the correlation analysis, are presented in Table 2.

On the basis of the analysis, the strongest aspects of the company are the existence of a branch network that covers the entire territory of Russia, as well as loss adjustment centers; the weakest parties are the duration of the development of new products, the weak controllability of the regional agent network. As for opportunities and threats, the greatest weighted assessment of opportunities corresponds to the growth factor of the life insurance market and attraction of new clients, and the largest weighted threat assessment is the factor of instability in the Russian economy. In order to assess the competitiveness of an insurance company, it is necessary to consider the factors of competitiveness, to analyze the ability to develop and implement a unique strategic development concept that simultaneously creates insurmountable barriers for potential competitors, that is, building a kind of security zone [1].

To identify the key success factors of “Rosgosstrakh-Life”, competitive analysis tools were used: the matrix of competitive forces M. Porter, the matrix McKinsey-General Electric and SPACE-analysis [2].

For the analysis of key factors of success, such groups of factors as technology, production, distribution, marketing and personnel qualification were taken. The key success factors of “Rosgosstrakh-Life” were compared with those of “Sberbank Life Insurance”, “AlfaStrakhovanie-Life”, “Renaissance-Life” and “SiV Life”. These companies are among the top five companies in the life insurance market, according to RAEX agency ratings.

Table 2. Weighted estimation of the most significant factors of the activity of the insurance company Rosgosstrakh-Life

Name of factors		Weight	Estimated	Weighted score
Strengths				
S1	Presence of highly professional team of employees, replenished by young personnel	0,16	4	0,64
S2	The presence of an extensive branch network, which covers the whole territory of the country	0,21	5	1,05
S3	Recognizable brand and high level of loyalty among the population	0,15	4	0,60
S4	Years of experience	0,15	4	0,60
S5	The presence of an extensive network of loss-settlement centers, high technological procedures for the settlement of losses	0,19	5	0,95
S6	High quality of services provided	0,14	4	0,56
Score of of strengths		1		4,40
Weak sides				
W1	Duration of development of new products	0,30	4	1,2
W2	The complexity of managing a large company	0,25	3	0,75
W3	Weak controllability of the regional agent network	0,25	4	1,00
W4	For many years the company was positioned as a retail and operating for a low-segment	0,20	3	0,60
Score of of weak sides		1		3,55
Opportunities				
O1	The emergence of new insurance products	0,30	3	0,90
O2	Possible changes in legislation to improve the tax system for insurers	0,20	3	0,60
O3	Attraction of new clients	0,23	4	0,92
O4	Growth of the life insurance market	0,27	4	1,08
Score of opportunities		1		3,50
Threat				
T1	The entry of new Western insurers into the Russian market	0,18	2	0,36
T2	Instability of the Russian economy	0,23	5	1,15
T3	Decline in purchasing power	0,19	3	0,57
T4	Decrease in volumes of crediting of the population	0,19	3	0,57
T5	The depreciation of the ruble against the backdrop of the rise in world currencies	0,21	4	0,84
Score of threats		1		3,49

According to the analysis, the key success factors of the “Rosgosstrakh-Life” insurance company are such advantages over competitors as the greatest ability to innovate, work with a large number of different distributors, including its own agent network, a wide range of insurance products offered. In addition, the company has the most advanced personnel development system, including recruiting, training, adaptation and mentoring.

As for the competitors of “Rosgosstrakh-Life”, “AlfaStrakhovanie-Life” also has a great ability to innovate, but this company does not have such a huge agent network. “Sberbank Life Insurance” is not a leader in key success factors, most of the key factors are at the level of market development. However, this company has a broad banking structure that allows it to cross-sell insurance products at the bank's sites, which makes the company the leader in terms of the number of premiums, but this factor may limit the company's development in the future. “Renaissance Life” and “SiV-Life” are companies - followers of leaders. Therefore, they do not have a wide range, they are not focused on active introduction of innovations. These companies have their own client base, within which they promote their insurance products, often copying the products of competitors' companies. They attract new customers, mainly due to lower prices for insurance services.

Further, to analyze the competitive situation, the model of the analysis of the five competitive forces of M. Porter was used, which makes it possible to determine the way of forming a competitive advantage, as well as the strategy of retaining profitability and competitiveness in the long-term period [13]. According to M. Porter's model, the life insurance market is highly competitive. However, it is worth noting that the major market share belongs to five large companies (75%), which were divided among themselves by the market. Among them is “Rosgosstrakh-Life”. As for the threat of new competitors, because of the high barriers to entry (large start-up costs, availability of existing large players), the risk of new strong players is small. The market power of suppliers is also low and is at an average level. Not all suppliers are suitable for the quality of services offered by “Rosgosstrakh-Life”, but the services provided by suppliers (IT services, recruitment, telephone surveys, etc.) are not key aspects of the company's activities. The pressure of substitute products is low, since “Rosgosstrakh-Life” has a large number of loyal customers, as well as such advantages as new added value, certain guarantees (for example, money invested in an insurance policy, not subject to confiscation, not participating in the property section). The market power of buyers is at a high level. Customers need high-quality services at favorable prices, so in order to increase customer base and maintain the loyalty of existing customers, the insurance company “Rosgosstrakh-Life” needs to constantly improve insurance products, notify customers about new offers and provide a high level of service.

The next competitive analysis tool is the McKinsey-General Electric matrix. This tool allows you to assess the level of attractiveness of the market and the competitiveness of the organization in this market (Table 3) [2].

Table 3. Matrix McKinsey - General Electric

Indicators of competitiveness assessment	Rosgosstrakh-Life			Sberbank Life Insurance			AlfaStrakhovanie-Life			Renaissance Life			SiV-Life		
	Weight	Assessment	Weighted score	Weight	Assessment	Weighted score	Weight	Assessment	Weighted score	Weight	Assessment	Weighted score	Weight	Assessment	Weighted score
Share of company sales	0,08	7	0,56	0,08	9	0,72	0,08	6	0,48	0,08	6	0,48	0,08	4	0,32
Audience loyalty	0,06	7	0,42	0,06	6	0,36	0,06	6	0,36	0,06	5	0,30	0,06	5	0,30
Uniqueness of services	0,06	7	0,42	0,06	6	0,36	0,06	7	0,42	0,06	5	0,30	0,06	5	0,30
Size of investments	0,05	4	0,20	0,05	5	0,25	0,05	4	0,20	0,05	4	0,20	0,05	4	0,20
Competitiveness	0,06	6	0,36	0,06	6	0,36	0,06	6	0,36	0,06	5	0,30	0,06	5	0,30
Latitude of products and services offered	0,07	7	0,49	0,07	6	0,42	0,07	7	0,49	0,07	5	0,35	0,07	4	0,28
The effectiveness of the marketing system	0,07	8	0,56	0,07	7	0,49	0,07	7	0,49	0,07	6	0,42	0,07	6	0,42
Sufficient resources	0,06	5	0,30	0,06	7	0,42	0,06	5	0,30	0,06	5	0,30	0,06	5	0,30
Level of profitability	0,07	6	0,42	0,07	7	0,49	0,07	6	0,42	0,07	6	0,42	0,07	5	0,35
Technological development	0,07	8	0,56	0,07	7	0,49	0,07	7	0,49	0,07	7	0,49	0,07	6	0,42
Cost structure	0,06	5	0,30	0,06	6	0,36	0,06	5	0,30	0,06	6	0,36	0,06	6	0,36

Efficiency of work of the personnel	0,06	9	0,54	0,06	9	0,54	0,06	8	0,48	0,06	8	0,48	0,06	8	0,48
Brand of the company	0,08	8	0,64	0,08	7	0,56	0,08	8	0,64	0,08	6	0,48	0,08	5	0,40
Demand	0,06	6	0,36	0,06	6	0,36	0,06	6	0,36	0,06	5	0,30	0,06	5	0,30
Efficiency of distribution	0,09	9	0,81	0,09	6	0,54	0,09	8	0,72	0,09	7	0,63	0,09	6	0,54
Total	1	-	6,94	1	-	6,72	1	-	6,51	1	-	5,81	1	-	5,27

In the analysis of competitiveness indicators, the following criteria for the values of weighted estimates:
 from 0 to 0,33 - low competitiveness / attractiveness;
 from 0,34 to 0,66 - average competitiveness / attractiveness;
 from 0,67 to 1 - high competitiveness / attractiveness.

According to the results of the McKinsey-General Electric matrix, it can be concluded that the life insurance market has an average appeal, since the level of competition in the market is quite high, market leaders also have a high influence, the market is subject to strong influence of external factors (economic, political) [6], [7]. The competitiveness of the insurance company “Rosgosstrakh-Life” in the life insurance market is at a high level (high customer loyalty, a well-known brand, a wide range of products and services offered, etc.). Further, to evaluate the ability of the insurance company “Rosgosstrakh-Life” to compete in the market and evaluate its most advantageous strategic position, the SPACE analysis method was used, based on factors such as: situation stability (ES), industrial potential (IS), competitive position (CA) and financial stability (FS) (Fig.1) [6].

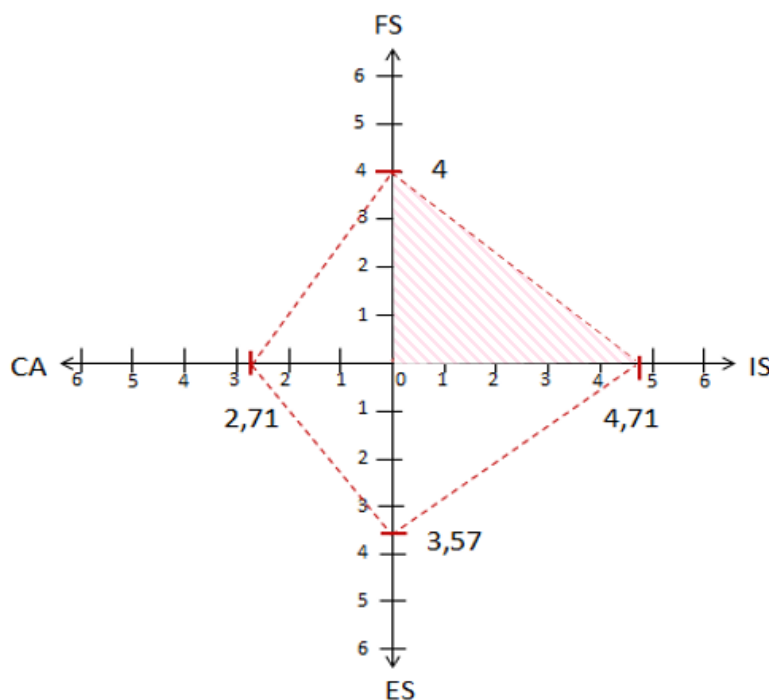


Fig.1. Results of SPACE-analysis of “Rosgosstrakh-Life”

According to the analysis, the company has a number of advantages over other insurance companies (the greatest ability to innovate, work with a large number of different distributors, a wide range of insurance products offered, and an advanced personnel training system). The presence of competitive advantages provides it with a stable long-term superiority over competitors with the prospects of increasing this superiority.

4. CONCLUSIONS

In the context of the globalization of financial markets, the development of an effective strategy for the

development of insurance business should be based on a set of methods for assessing its own potential and competitive position, which determines strategic goals and tactical tasks. In accordance with this setting, a method of integrated strategic analysis is proposed to substantiate the prospects for the development of insurance companies. The advantage of this methodology is the integration of expert and quantitative methods of strategic analysis in relation to the insurance business, including SWOT-analysis, supplemented by correlation analysis that provides not only the identification of the strengths and weaknesses of the insurance company, its potential opportunities and threats, but also their weighted estimation that takes into account influence of the most significant factors. The results of the research in the form of a complex of tools for strategic analysis of the activity of insurance companies, tested on the example of one of the largest Russian insurance companies, can find promising application in the entire system of the insurance market.

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