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## IMPROVEMENT OF INSURANCE BUSINESS MANAGEMENT AIMED AT RAISING ITS EFFICIENCY

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### ABSTRACT

Efficient functioning of the financial market depends on the development of insurance activities. Improvement of the rendered insurance services quality, protection of insurers' interests and proper fulfillment of commitments under insurance contracts by insurance agencies are the important directions in the development of the Russian insurance market. The article considers modern Russian insurance market and main ways of improvement thereof. Specifics of business processes arrangement in insurance organizations as well as conditions of their successful and efficient implementation are also analyzed.

**Keywords: insurance, insurers and insurants, business processes, fraud, underwriters, settlement of losses, Dynamics of insurance fees in 2013-2014 (RAEX 2014).**

### INTRODUCTION

In the Russian economy, insurance has become an important constituent of the financial market influencing actively the formation of financial flows in the economic

system. Without improvement of insurance business management methods and quality of the business processes in insurance companies, without developing effective and introducing

new insurance products, it is impossible to provide further reformation of the economy and its integration into the world insurance market.

Insurance market can nominally be divided into separate independent markets which can function viably and efficiently only subject to their close interaction: these are insurance market of consumers of services, vendors of services, market of middlemen and market of insurance infrastructure.

The insurance market functions within the financial system both on the partnership and competition bases. This refers to competition between various financial institutions for spare money of the population and subjects of economic activity.

The contemporary market of insurance services is characterized by active consolidation, reduction of the number of active insurance companies. Since 2005 more than one thousand licenses were withdrawn, only in 2015, this number was 18, though a part of them was renewed. The dynamics for withdrawal of the licenses according to <http://www.insur-info.ru/> is given in fig. 1.

However, this does not entail any reduction in the volumes of the collected premium and rendered services. The existing market is getting redistributed, capitals, premiums, reserves and funds consolidated. Thus, the volume of incomings under voluntary and compulsory insurance (except

compulsory medical insurance) in five largest companies in 2015 was almost one half of the whole insurance market:

Rosgosstrah –	14.54%
Sogaz-	12.04%
Reso-Garantia –	7.61%
Ingosstrakh –	7.19%
Alpha-strakhovanie –	5.28%
<b>Total =</b>	<b>46.66%</b>

## LITERATURE REVIEW

In 2015, the share of the companies other than top-20 was 23.5% of insurance premiums and 17% of pay-outs, the market volume according to RAEX forecast being just under 1020 bn rubles.

Russian insurance market is characterized by an extremely low involvement of the broker sales channel (about 4% of insurance fees) caused by absence of high-quality regulation, problems due to usage of strange databases and frequent cases of fraud. On the other hand, the retail insurance market saw a new trend of expanding range of intermediaries.

Previously, this market was limited to banks, car dealers and travel agencies, however, nowadays insurance policies are offered by airlines, telecommunication companies, real estate agencies etc. Car showrooms, along with MTPL and comprehensive insurance policies, sell insurance against accidents, VHI, and property insurance policies. In the high-technology segment of Internet communications, direct insurance goes along with the increased number of sales channels arranged by internet

agents, intermediaries offering a choice of insurance companies and policies via the Internet.

According to analysts (<http://raexpert.ru>), in 2016, the market will not only stay at the levels of 2015 but is supposed to rise, which is partly due to the inflation. Keeping the insurance market capacity at the existing level and its further increase requires its improvement in some areas (RAEX 2015). The Strategy of insurance activities development in the RF for the period to 2018 elaborated by the Ministry of Finance of the Russian Federation (Ministry of Finance 2013) and Draft strategy of development of insurance activities in the RF to 2020 adopted by the Government of the Russian Federation determine the priority directions of the development of the insurance industry for the middle term and methods of implementation thereof (see fig. 2). In particular, it is supposed to solve such problems as strengthening of stability and reliability of the insurance system, improvement of insurance services quality, clear definition of the insurance activities subjects, their rights and responsibilities, implementation of modern business-processes for provision of information and automation of the insurance business. The compulsory insurance market acts now as a, since sale of various types of compulsory forms of insurance determines, in many ways, social policy of the state and the

corporate sector of the market. The following problems arising in this sector require immediate solution: different types of responsibility (in the size of insurance payments) for damage to life and health, which represents social inequality; absence of a single approach to determining sizes of the refundable damage for the damaged property, insufficient activity of associations of insurers for defending rights and interests of the insureds.

One of the leading places in the compulsory insurance market is taken by car insurance where high technology insurance products and sales channels are widely distributed, for example a new direction, insurance telematics, known in western countries as Usage-Based Insurance (UBI) (Husnjak et al. 2015), which implies installing special telematics devices in insurer's car allowing the insured to obtain data on the character of driving of the car owner providing an objective estimation of the driving ability to the insurance company. Telematics makes it possible to segment the client base and provide personified tariffs like PAYD ("Pay as you drive", which means calculation of the policy value depending on the mileage), PHYD ("Pay how you drive", which means calculation of the cost depending on the driving style), as well as to improve the loss settlement process. This method of car insurance makes it possible to optimize the cost of comprehensive insurance policy. On

the one hand, implementation of the new technology requires seed money to create the necessary infrastructure and equipment sufficient for developing the information base for the insurers, and on the other hand, this could provide the performing companies with strategic advantage in the future.

The new economic and political conditions, when the market stopped developing as fast as in the previous years and there is a trend in reduction of the financial income (see fig. 3), have required improvement of quality and efficiency of business processes in insurance.

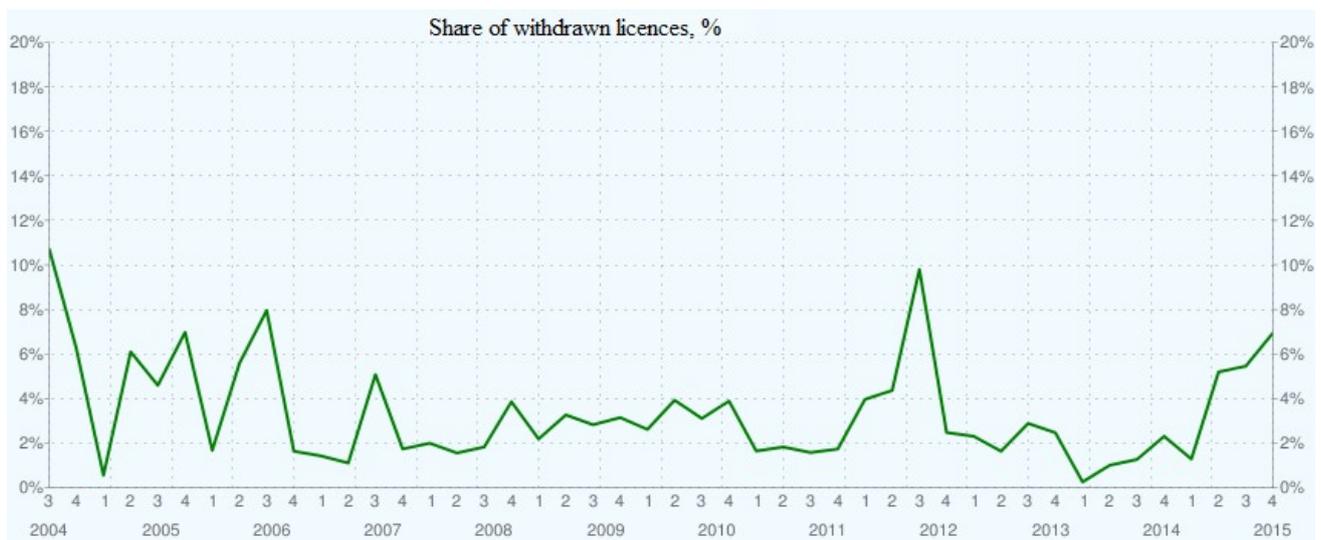


Fig. 1. Dynamics of licenses withdrawal (Insurance today 2016)

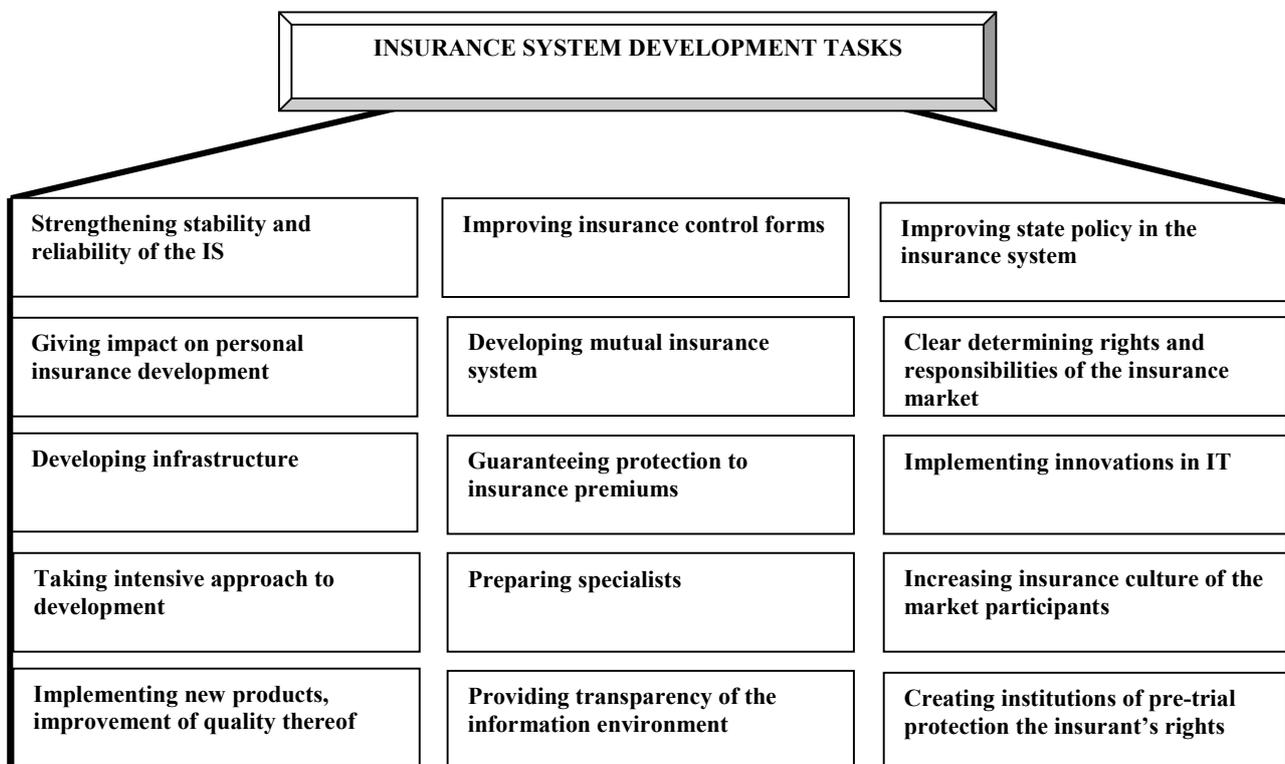


Fig.2. Insurance system development tasks in accordance with the strategy of the insurance activity development in the RF.

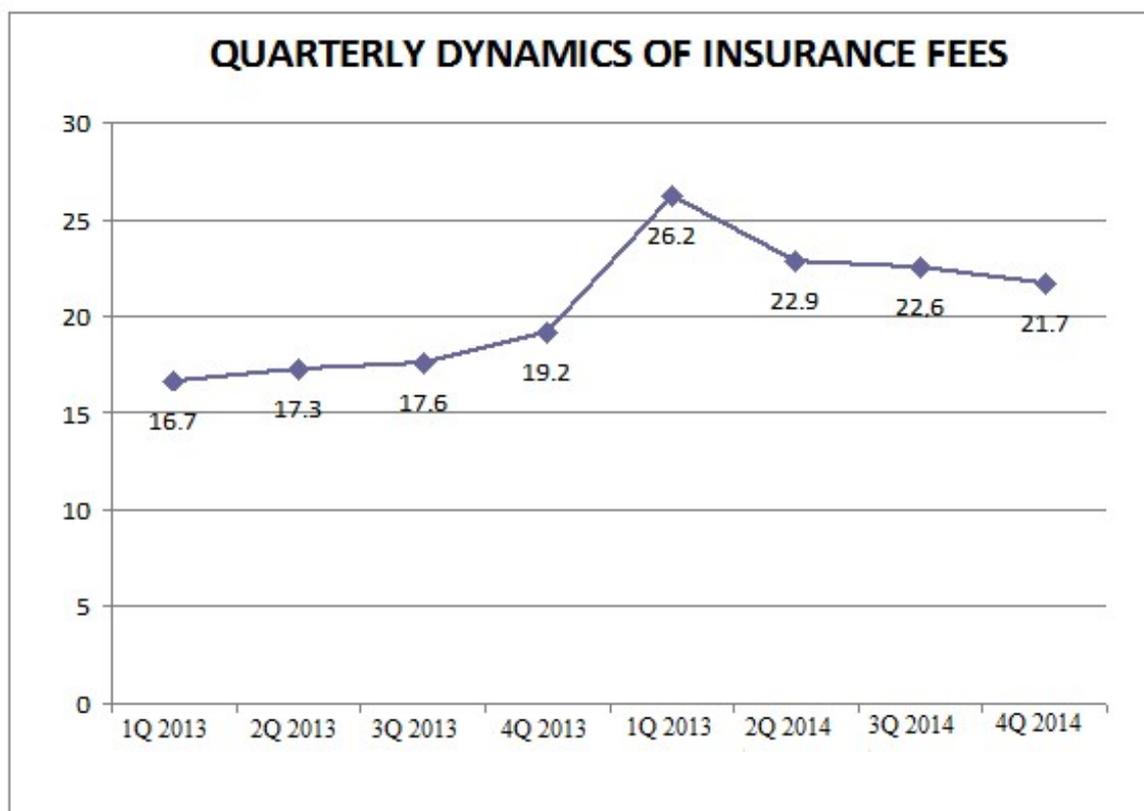


Fig. 3. Quarterly dynamics of insurance fees in 2013-2014 (RAEX 2014)

As a rule business process in insurance can be imagined as consisting of separate technological operations - marketing, development of insurance services, sales, underwriting, contract support, loss settlement. In practice these processes are often mixed, but their goals and influence on financial results differ. Like this specifics should be taken into account in building of both individual business-processes and the business-system of an insurance company on the whole.

The main focus of the insurance marketing is identifying target groups of potential clients of particular types of insurance services. Client interest is mainly determined by the insurer's image which is

created on the basis of the analysis of strengths and weaknesses of the service and identification of threats and capacities of the external environment of the company. In general, the insurance company image is due to many factors including:

- marketing (the market share in the insurance segment, length of service of the company in the market, variety of services for the population, quality of services rendered, research and development of new types of services, efficient promotion of the services for the population);

- finances (the level of profitability, financial stability, investment profitability, capital structure);

- production (company structure, management and staff competence, rational distribution of rights and responsibilities, corporate culture).

The analysis helps to determine influence of the factors which threaten the company. Many of these can be taken into account at the marketing strategy development stage, for example, insurance terms, price policy, sales system (choice and preparation of sales channels, personnel training etc.).

The analysis carried out by RAEX rating agency showed that customer satisfaction index of those using comprehensive insurance in Saint-Petersburg and Leningrad region was 72.2, which corresponds to the middle level of consumer evaluation according to EPSI scale. With that, clients do not demonstrate high loyalty and could readily change the insurer. The research shows the highest satisfaction in clients of such companies as “Ingosstrakh”, “VSK”, “Alyans” and “RESO-Garantia” (RAEX 2012).

The research conducted by us showed that the insurer’s choice is mostly influenced by such the insurance product indexes as prestige and service quality, price, insurer’s reliability and additional service. It was found out that the companies oriented at target groups of potential clients have more chances to win the competition. For example, “Ingosstrakh” became the leader in this market segment due to high quality of service.

Insurance portfolio of any insurance company in modern socio-economic conditions must be secured by energetic work of its insurance agents - underwriters. When signing contracts, the latter should take into account all the risks that may arise in the course of insurer’s life. They should also envisage measures on reduction of the identified risks, which could help the insurance company to get additional profit for the account of reduced pay-outs to the insurer in the event of the insurance case.

The research made showed that major Russian companies, for example, “UralSib”, make reinsurance agreements with such partners as Hannover Rückversicherungs, Muenchener Rueckversicherungs Gesellschaft, Sirius International Insurance Corporation, Partner Reinsurance Company Limited, SCOR Global P&C SA, Swiss Re Germany AG, AXA Art Insurance Company, Lloyds syndicate.

Settlement of losses is one of the most important issues which determine competitiveness of an insurance company.

## **CONCLUSION**

The research made showed, that losses or unwarranted payments are insurer’s additional expenses, which do not refer to expenses and commitments under contracts of insurance since they are connected with a number of faults and mistakes made in the course of contract execution. Clients may

usually be unsatisfied with refusal to pay the sum insured or delayed payment thereof.

The most widespread mistakes in underwriters' work are unjustified increase in costs at various stages of the insurance process, for example, at client reception and counselling, in payment department due to low quality file registration, because of duplication of documents, territorial isolation of subdivisions, and fraud on behalf of insureds, which leads to increase in the claim amount.

Monitoring of the quality of underwriters work is carried out using the existing insured feedback channels:

- regular phone interviews of the insureds on their satisfaction with the quality of service rendered by the authorized insurance business unit, aimed at identifying "bottlenecks" in the company operation, including all its partners;

- complaints and suggestions books in company offices;

- questionnaires and interviews of the insureds on the quality of work of the subdivisions they applied to, immediately after their application;

- arranging "hotlines" dealing with quality issues.

Client orientation leads to reduction in the number of unsatisfied insureds increase in the percentage of extended contracts, increase in the number of insurance products per one client.

The research shows that in modern socio-economic conditions, only new information technologies may help reduce losses of insurance companies. For example, "UralSib" has made a contract with IGS company, which has serious expertise in practical application of ESM technologies. This entailed the reduction in risks and operation costs due to implementation of profile ESM-solutions including mass registration of insurance products like comprehensive insurance, MTPL insurance and optimization of loss settlement.

The practice shows that in modern socio-economic conditions, problems of increasing operational efficiency and reducing insurance risks can only be solved using new information technologies.

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