Crisis Management in Insurance Companies

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Abstract
In this paper we present some considerations about management in insurance companies during the present economic recession. The insurance companies are important players of the financial market, serving a number of economic functions, such as allowing risk transfer, helping companies and people save and invest, enabling entrepreneurial spirit and business initiatives. We will examine the way recession influenced the global insurance field but also our internal market and we will identify a series of managerial approaches in order to overstep the present difficulties but also to rise insurers’ competitiveness and to carry on a performant management in this domain. We have defined a series of managerial approaches such as: strategic management, management based processes orientation, management methodologization or changing organizational culture.

Key words: insurance, global financial crisis, strategic management, processes based management

Introduction
The global economic crisis has a lot of negative effects on an important part of the population from the affected countries, as well as on companies activating in the majority of economic fields. Despite of those aspects, it is important to recognize that the economic recession brings together a series of adjustments and a rethinking of the way business are done today to a microeconomics level but also to a global level. The present crisis became a challenge for companies’ management from all economic domains, including the insurance one.

1. Global insurance evolution
Insurance companies are important players of the financial market, serving a number of economic functions such as allowing risk transfer, helping companies and people save and invest, enabling entrepreneurial spirit and business initiatives. Insurance provides a mechanism for pooling and transfer the financial consequences of risks. The insurer commits to financially compensating the policyholder if an insured event occurs. The insurance companies receive premiums for the covered risks that allow them to pay the insurance claims but also to operate on the market and obtain profit.

Very often the insurance industry is connected to banking sector because in recent years both domains grown increasingly similar with respect to product offerings, distribution, regulation, and supervision. Despite this convergence, differences remain in the basic function and business models of bank and insurers. These differences are reflected in asset allocation, asset-liability management but especially in risk and capital management. All these elements generate a different exposure to financial crisis.

The global insurance industry neither contributed to, nor was significantly affected by the credit crisis. Of course, there were some exceptions – the financial and mortgage guarantors and a small number of primary insurers and reinsurers that had entered into
certain derivatives transactions. The majority of insurers and reinsurers had not engaged in such transactions and did not have substantial exposure to the United States sub-prime mortgages.

However, the global insurance market was indirectly affected by the economic slowdown and recession in many areas and also by the financial market conditions. Usually, what happens to insurance in time of recession? The economic environment changes because of the negative effects on the industrial production, foreign trade, employment, disposable income, inflation rate and price levels.

During the financial crisis, the global insurance industry continued to provide cover and to pay claims. There was no shortage of capacity and premium rates did not increase. Unlike banking, insurers did not receive government support in the form of capital or guarantees, except a few cases.

After two years of falling premium volume, the global insurance market returned to positive growth in 2010. The same results are expected to be obtained in 2011, although the profitability of insurance companies was affected by low interest rates and euro debt crisis.

But after we have analysed the reports over the insurance domain, we believe that emergent markets had the most important contribution to the positive growth over the last two years – Emerging Asia and Latin America. According to the Swiss Re Sigma Report over the insurance in emergent markets, the factors that had contributed to the emerging market premium growth were a sound economic environment, including lower inflation, improvements in insurance supervision, product innovation, and the use of multiple distribution channels to reach a broader population spectrum.

Positive results of premium have also been obtained on the mature, industrialised countries, but lower than those on the emergent markets. Even in pre-crisis period, the insurance sector was showing signs of saturation in many Western European countries and in North America. In these mature markets major insurance products have been available for a long time, and the needs of most customers have already been met. Therefore, the sources for future insurance development and profitable growth will be found in the emergent markets.

For 2012 the business environment for insurance sector remains challenging. In case of mature markets, it is expected a moderate premium growth due to weak economic developments; also, the profits will be constrained by the low interest rates, the government bond yields, euro debt crisis, and significant catastrophic losses produced in 2011. On the side of emergent markets, growth is expected, but, giving the fact that they are part of the global economy, there will be some negative influence. In terms of profitability, there are some challenges related to the fact that in many emergent markets, insurance is still nascent and companies therefore still have high start-up costs and a long break-even point period.

The Romanian insurance market was affected in terms of premium and profits by the economic recession. Although before crisis, the insurance sector grew more then many sectors of the Romanian economy, our market remains less developed than majority of European countries. However, our insurance market is an emergent one, with a great potential for development in the future years.

2. Management solutions for crisis

In a competitive environment which allows only a slow development, the insurance companies’ capacity to deliver the promised value to the policy holders depends firstly by the rational understanding of organizational strengths and the insurers’ ability to adjust their activities according to the external movements.
Nowadays, to achieve a balance between profitability and social responsibility of insurance companies is a major challenge for them. More often lately insures are being reproached their exclusive concern for rising profits, despite of their basic activity and function which is delivering a proper financial cover for the policy holders.

In order to rise insurers’ competitiveness and to carry on a performent management in this domain, we have defied a series of managerial approaches such as: strategic management, management based processes orientation, management methodologisation or changing organizational culture.

Starting with the first managerial approach, we believe that due to the unstable and complex environment in which insurance companies activate, dealing with a large number of risks related to their main activities and other economic agents risks, it is obvious that we need to identify and also take into consideration the external influences, to value opportunities and to avoid possible threats. This is possible by promoting and using the strategic management approach.

In the economic literature there are a lot of definitions and approaches for strategy and strategic management. Ovidiu Nicolescu and Ion Verboncu define strategy as „the ensemble of an organization’s major long term goals, the main approaches for achieving them, together with the resources allocated in order to obtain the competitive advantage according to the mission of the organization”. The major components of a strategy are: mission, fundamental objectives, strategic options, resources, deadlines and competitive advantage.

In the process of establishing its strategy, an insurance company must take into consideration a series of factors such as company’s resources and capabilities, the internal and external environment in order to obtain positive results and to minimize the negative consequences of them. The Romanian insurance market has a very high potential for growing and development, but this potential is influenced by the economic evolution of our country and by the level of public awareness for insurance need. Also, when we talk about the insurance market, we must talk about the intense regulation and supervision.

Nowadays, an important trend in management is to overcome the stage of elaborating and implementing a simple strategy and move towards a more complex process called strategic management. In fact, what is strategic management and which are the differences between strategy and strategic management? Is it possible to be only a more sophisticated name for strategy?

In economic literature, there are a lot of approaches for strategic management, different points of view, but many authors consider that strategic management implies a series of actions, starting with the analysis of company’s competitive environment and with the establishing of its strategic mission and ending with the appraisal of the performance achieved by applying the strategy and, if necessary with a reconsideration and changing the respective strategy.

Ion Popa considers that strategic management is a new management approach based on strategy, used by managers to insure the long term evolution and performance of the organization, with a proper strategy development, a systemic and effective implementation, as well as an on-going assessment of it.

Strategic management represents more than organizational strategy, is a process that implies a permanent reconsideration and adjustment of those management decisions which influence the company’s future. It represents the management approach that is best adapted to anticipate the future problems, opportunities and threats the company would
face. It also provides a proper framework for allowing strong involvement of the company’s management, starting from the lowest operational levels and going up to the level of the general manager of the company, in designing, establishing, applying and assessing the overall strategy and any other related elements.

The experience of highly competitive companies shows that strategic management approach generates a significant improvement of the economic and financial results of the company, a rapid growth and consolidation of the market position, as well as an enhancement of its competitiveness.

The implementation of the strategic management approach implies a new organizational and managerial culture. This represents a part of the success of promoting strategic management, as well as a major side of the insurance companies’ economic and managerial performances. In the last years, the organizational culture is more often treated as one of the most important determinant of the companies’ success or failure. For the company’s management to be aware of the employees’ values system, beliefs, aspirations and behaviors means to create those circumstances that assure more effective and efficient business decisions.

Going back to the present situation of our internal insurance market and taking into consideration our experience in this domain, we think that for the next period companies should establish clear strategic options in order to deliver a proper competitive advantage. Among these are: diversification of insurance portfolio, increasing efficiency of their activities, involvement in peoples education towards insurance for a better understanding of its necessity and importance.

The Romanian insurance market is dominated by motor insurance products characterised by a high loss ratio. Therefore, in order to improve the underwriting results, it is necessary to promote other insurance products, such as:

- **Homeowners insurance.** Starting from the fact that this insurance became mandatory, insurers should promote policies which cover more risks and thus, give a better response to the people needs.

- **Agriculture insurance.** In this sector, our market should learn some lessons from India and Mexico. These are two emergent markets which have developed in recent years and promoted insurance solutions in order to protect agricultural output from specific risks and uncertainties with the support of global reinsurance partners and government subsidies.

- **Professional liability insurance.** This is an insurance sector with a high development potential, giving the fact that it is mandatory for many professional categories (medicine doctors, lawyers, managers, accountants s.a.). Besides these, the insurance supply should adapt to the financial possibilities of the clients and deliver simple and affordable mass-market solutions. Product innovation is a rational choice for insurance companies doing business on an emergent market. Insurers must design products that offer more comprehensive life protection, help mobilise savings and enable wealth accumulation, especially for low-income population.

Regarding the efficiency of insurers’ activities, it is important to mention that in the last years, due to the need for market consolidation and mostly to the high insured losses, profitability of insurance sector was negatively influenced. Diversification of insurance portfolio it is one solution, and raising organizational efficiency is another one.

Thus, we propose a second managerial approach for managers in insurance domain - processes based management. Having the reengineering as its starting point, the processes based management has evolved over the past few years, becoming a successful
way of improving companies’ efficiency and effectiveness, giving its orientation towards clients’ needs and expectations as well as others stakeholders’ interests.

The process means a set of activities which assure the transformation of material or nonmaterial inputs, adding them value into material or nonmaterial outputs, useful to the clients. The processes based management’s main supposition is that the company’s products and services are the result of the processes which take place within the organization. Because of this, it is necessary for the company to abandon the functional approach of its activities and to adopt the processes based orientation in order to remain competitive and to successfully deal with the environmental changes.

The identification and continuous improving of business processes are a viable option for insurance companies permanently confronted with a lot of challenges on a highly competitive market. We must not forget the fact that clients’ loyalty is determined by the received value which is delivered by the insurers’ business processes.

According to Michael Porter, there are essential processes situated on the value chain of the company and support processes. A very important tool used by processes based management is the map of company processes. Before establishing this map it is important to identify the main insurers’ stakeholders: clients, insurance agents, managers, shareholders and supervisory entity.

Each category has some interests related to the company that must be balanced: clients want to achieve a proper cover for a number of risks, at an affordable price, to be correctly informed and to be indemnified when an insured event occur; insurance agents demand a better access to the insurance companies, a faster policies’ processing and a motivating commission; managers and shareholders are interested in achieving the performance indicators, maintaining and rising financial stability, and obtaining a better position on the market; supervisory entities are watching for insurers complying with the law and insurance contracts.

The scientific management recommends for redesigning the insurers’ business processes a clear working methodology following a number of stages and steps. The successful results of many others companies prove that the processes based management works, but especially with the full support and dedication of managers.

Managers are an important part of companies’ success. Usually, in insurance domain are working highly qualified people with a better insurance knowledge then their managers. An insurance company is an organization dominated by specialists and because of that the management processes cannot be performed only through managers’ intuition, talent, experience, and improvisation.

A professional and performent management needs professional managers using many methods and techniques provided by the scientific management. It is also needed a specific leadership centered on negotiation capabilities, mediation and team collaboration.

Conclusion

Insurance market is an important part of global economy, being influenced by the present economic recession, as well as a lot of economic, political and social factors. For the next years, the environment for the insurance industry remains very challenging but with positive outlook, along with economic recovery and euro debt crisis overstepping.

The Romanian emergent insurance market has a significant development potential, proved by many global insurers’ presence and interest. But for growing and being competitive, the insurance companies’ management should take action in portfolio diversification and efficiency increasing as parts of on-going strategic vision recommended.
On one side, it is important to adapt the insurance supply to market low financial possibilities, through product innovation and diversification, and on the other side, a better risk management is required as well as an increased efficiency of insurers’ internal processes. Thus, we recommended the processes based management orientation promoted by professional managers in a larger context of management methodologization and organizational culture changing.

A final recommendation for insurance market is implication in public education towards insurance. It is important to help people understand that insurance is necessary for their financial protection and savings, mostly during recession periods. In order to change public attitude towards insurance companies, they should remain competitive, pay claims and do business under transparent conditions and circumstances.

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