

THE CORPORATE COMPETITIVENESS EVALUATION MODEL FOR INSURANCE***Erik K. OVAKIMYAN**

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Article history:

Article No. 674/2019
 Received 22 October 2019
 Received in revised form
 14 November 2019
 Accepted 28 November 2019
 Available online
 30 March 2020

JEL classification: G22

Keywords: insurance,
 competitiveness, improving
 competitiveness

Abstract

Subject This article examines the different models for assessing the competitiveness of insurance companies.

Objectives The article aims to develop an optimal model for assessing the competitiveness of the insurance company, able to adequately assess the current situation and provide comprehensive information of the insurance company's position in the insurance market.

Methods For the study, I used the methods of theoretical and comparative analyses.

Results The article presents two models for assessing the competitiveness of insurance companies, namely, for external and internal users. It proposes to represent a model of measuring competitiveness for internal users as a graphic imaging, and for external users, as a table, which is based on a balanced scorecard.

Conclusions and Relevance The results of the study can help any participant of the insurance market to adequately assess the state of the insurance company, and identify competitive advantages and disadvantages to improve the financial situation of the organization. The information outlined in the article is practical for it affords to use the eventual outcome of the study in the practice of insurance organizations to improve their competitiveness.

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The editor-in-charge of this article was Irina M. Vechkanova
 The authorized translation by Irina M. Vechkanova

Please cite this article as: Ovakimyan E.K. The Corporate Competitiveness Evaluation Model for Insurance. *Digest Finance*, 2020, vol. 25, iss. 1, pp. 30–38.
<https://doi.org/10.24891/df.25.1.30>

Introduction

Insurance has penetrated every aspect of today's life since its inception. Although it does not deliver any physical product, assuming all risks, the insurance market promotes an economic growth. Insurance also helps reduce budgetary spending and gives guarantees to people, reimbursing their expenses in case of unforeseen situations.

Despite the fact that there are all insurance products in Russia, for example, risk insurance associated with the cryptocurrency market, the insurance market is stagnating. So, as of the end of Q2 2019, insurance premiums increased just

by 1.8 percent year-on-year. However, the market is inhabited by fewer insurance companies (from 293 down to 268, or by 8.5 percent, within June 30, 2018 through June 30, 2019¹).

Insurance has not only local and national significance, but also has a global mission. Major insurance companies play a systemic role worldwide, being key actors of the financial system. As part of the banking system and governmental network of regional budgets, insurance companies use funds they earn from their core activity and put them up into long-term and short-term deposits as an additional investment scheme and hold them in bank accounts. Banks can employ the funds in order to derive additional income.

* For the source article, please refer to: Овакимян Э.К. Модель оценки конкурентоспособности компаний страхового сектора. *Финансы и кредит*. 2019. Т. 25. № 12. С. 2903–2914.
 URL: <https://doi.org/10.24891/fc.25.12.2903>

¹ The Review of Insurers' Performance Indicators, Q2 2019. URL: https://www.cbr.ru/Content/Document/File/79916/review_insure_19Q2.pdf (In Russ.)

As for the securities market and currency market, insurers undertake substantial investment to purchase and sell securities for earnings. Therefore, insurance companies act as institutional investors.

Neither large business cannot work without insurance. In any case, whether it be a new production facility, construction project or life insurance, insurance companies can offer a service that will meet all needs of a customer and the given risk exposure. Being protected with insurance contracts, business may adopt risky policy, earmark more funds to R&D or reduce their continuing operation risk as they get an insurance coverage of their accounts receivable.

However, any advantage fades away, if any challenge comes its way due to economic or political instability. In such cases, unfortunately, businesses try to save money by avoiding insurance, first of all.

Nowadays there are plenty of scientific literature on insurance.

I would like to highlight proceedings by E.V. Andreeva, O.I. Rusakova [1], Yu.T. Akhvediani [2], L.A. Orlyanyuk-Malitskaya, S.Yu. Yanova [3], K.E. Turbina [4], and E.L. Prokop'eva². They all concern the regulation of insurance markets.

I would also mention studies by A.S. Ermolaeva [5], T.V. Kolesnikova [6], M.P. Sinitsyna, L.V. Belova³, A.A. Turgaeva⁴ [7], K.V. Gutova, O.A. Okorokova [8], O.N. Kozlova,

² Prokop'eva E.L. [Topical issues of insurance regulation in Russia and the ways to improve its effectiveness]. *Finansy i kredit = Finance and Credit*, 2017, vol. 23, iss. 28, pp. 1690–1706. (In Russ.) URL: <https://doi.org/10.24891/fc.23.28.1690>

³ Sinitsyna M.P., Belova L.V. *Osnovy konkurentosposobnosti na rynke strakhovykh uslug. V kn.: Problemy sovershenstvovaniya organizatsii proizvodstva i upravleniya promyshlennymi predpriyatiyami: mezhvuzovskii sbornik nauchnykh trudov. T. 1* [Competitiveness principles in the insurance market. In: Issues of improving the production and management at industrial enterprises. Volume 1]. Samara, Samara State University of Economics Publ., 2016, pp. 378–384.

⁴ Turgaeva A.A. [Investment potential of insurance companies and their competitiveness evaluation]. *Finansy i kredit = Finance and Credit*, 2017, vol. 23, no. 2, pp. 89–109. (In Russ.) URL: <https://doi.org/10.24891/fc.23.2.89>

O.N. Kotova, E.V. Pavlovskaya [9], E.M. Khitrova and T.I. Khitrova, E.S. Popova [10], A.A. Panasyuk⁵, E.M. Khitrova, E.S. Popova [11], T.I. Lapina, K.S. Nikiforova⁶ and N.V. Kuznetsova [12]. The above studies raise the issue of insurance companies' competitiveness and competitiveness factors.

Notwithstanding the importance of the insurance market, I should note that there is no uniform method to evaluate the competitiveness of insurance companies. However, L.E. Kopylov⁷ managed to formulate some requirements which the competitiveness evaluation model should meet so as to suit the insurance sector's needs:

- a holistic approach;
- inner consistency;
- transparency;
- case modeling.

I agree with the requirements proposed by L.E. Kopylov. However, I would add some more requirements to the competitiveness evaluation model.

Although there are multiple studies into the insurance market, I discovered some weaknesses of studies evaluating the competitiveness of insurance companies.

⁵ Panasyuk A.A. [The competitiveness of insurance companies in the Russian Federation]. *Rossiia i mir: razvitie tsivilizatsii. Transformatsiia politicheskikh landshaftov za period 1999–2019 gody: materialy IX mezhdunarodnoi nauchno-prakticheskoi konferentsii* [Proc. Sci. Conf. Russia and the world: The Development of Civilization. Transformation of political landscapes fin 1999–2019]. Moscow, Institute of Global Civilizations Publ., 2019, pp. 380–383.

⁶ Lapina T.I., Nikiforov K.S. [A set of indicators to ensure the insurance company's competitiveness]. *Informatsionnye sistemy i tekhnologii: materialy IV Mezhdunarodnoi nauchno-tekhnicheskoi konferentsii* [Proc. Sci. Conf. Information Systems and Technology]. Kursk, Universitetskaya kniga Publ., 2018, pp. 59–63.

⁷ Kopylov L.E. [Analysis of legacy methods of estimation competitiveness for using in the insurance business]. *Vestnik Vladivostokskogo gosudarstvennogo universiteta ekonomiki i servisa = Territory of New Opportunities. Bulletin of the Vladivostok State University of Economics and Service*, 2011, no. 3, pp. 7–17. (In Russ.)

The Evaluation of the Insurance Company's Competitiveness

First of all, we should split the competitiveness evaluation models from perspectives of internal and external users.

As opposed to employees of insurance companies, who have access to internal data and can analyze the outcome, external users do not possess such resources and have to rely on studies published in scientific journals, financial statements disclosing only some business aspects of analyzable companies. Nevertheless, the model for evaluating the insurance companies' competitiveness is undeniably important.

The competitiveness of an insurance company cannot be evaluation without the comparative analysis. To get an unbiased view, there should be a sample of several companies.

I should note that the competitiveness evaluation model based on external data is very important for analysts working with a competing insurance company. Relying predominantly on managerial reports, the competitiveness evaluation model produces a more unbiased result, however it does have a drawback. It fails to provide for a comparison with a competing company, since financial statements contains limited information. Furthermore, it is not reasonable to compare competing entities as of a random date, because either competing entity releases its financial statements once a quarter in the best case scenario. In most cases, quarterly reports differ from annual ones as it discloses less information. Such models are biased describing advantages of either competing insurance company. So, it is of paramount importance for such comparisons to have a model based on widely available data, since it makes the analysis more objective.

Moreover, it is crucial to provide internal and external users with the illustrative presentation of the information. More often than not it is the management that initiates the competitiveness evaluation. Thus, the outcome should be clear and

illustrative without additional information, for example, hand-outs, and demonstrate all strengths and weaknesses.

The person who prepared a report should use the latest available data. Doing so, he or she should refer to financial statements and the information in public domain to discover more accurately what factors influence the corporate competitiveness most.

What is more, the model should be flexible both for those who design it and the customer of the report. The model should be modifiable and customizable. Companies from different classes should be compared through the external use model, since designers have only publicly available data and need to evaluate several various companies.

The aspect is critical because the global insurance market has no boundaries. Nowadays, major insurance companies are present in Russia, though to a different extent. The Russian insurers shall expect foreign companies to expand their activity in Russia. In this respect, local insurance companies should be evaluated and compared with global insurance giants. The comparison helps companies set their own benchmarks so as to get relevant knowledge.

Despite available internal information, it is not that critical for the reporting person to compare companies from different classes, but rather have boundary values and benchmarks for each analyzable metric, since he or she has no knowledge of competitors.

Having examined evaluation methods, I discovered the impossibility to forge a uniform competitiveness evaluation model for insurance companies, which would satisfy both external and internal users.

External users more often than not have limited knowledge of the current situation in an insurance company that issues the financial statements in question. Financial statements often give just a general view of the company, without reflective

its real capabilities. For example, financial statements of an insurance company do not inform of the percentage of customers which prolong their insurance policies, the personnel's satisfaction with working conditions and their professional qualification, and the method the company uses to do market research.

However, external users undoubtedly need to assess the competitiveness of the insurance company. Any investor seeks reasonable assurance of the financial health for at least short-term time horizon, before they decide to invest.

In addition to financial reports, there exist insurance market research done quarterly by the Central Bank of Russia. The information it publishes reveals the competitiveness of an entity. There are studies into the insurance market, which are regularly conducted by various entities, post-graduates, professors, often analyzing a certain insurance company, say, from Top-10. This is another source of information.

Hence, notwithstanding scarce information about competing entities, it is possible to evaluate their competitiveness, especially if all available data are employed.

In the case of internal users, the competitiveness analysis should involve internal data on customers and corporate position. Such information cannot be ignored because it can best reveal corporate segments to be improved.

Examining the existing competitiveness evaluation models, I did find the one which would completely meet the requirements.

Therefore, I set up models which can be appropriately suitable and effective.

First, I ought to recognize the merit of the SWOT-analysis when dealing with reports intended for internal and external users.

The report helps evaluate the position of a company in the insurance market, highlight its strengths and weaknesses. However, I suggest adding three more aspects, which must be

considered as part of such an analysis, i.e. the comparison of the competition, presentation of the company's solvency margin and analysis of the insurance activity through additional ratings, such as metrics of growth, liquidity, return on capital, turnover of assets and equity, return on insurance.

The SWOT analysis shall refer to the first metric due to the variability of the outcome, which subsequently needs to be commented on by the person preparing the report.

The second metric also deserves a special mention, because it is set by the regulator. The SWOT analysis model provides for its most comprehensive view.

The third one unveils the insurance company's performance for its further evaluation.

Before the insurance company's competitiveness is totally analyzed, the SWOT analysis is advisable to unfold the outer situation around the company, which is difficult to integrate into the model.

I suggest reviewing the most suitable model for external users (*Fig. 1*).

In my opinion, the outcome should be graphically presented, since it makes the model more understandable and strengths and weaknesses more evident. However, there are still some material differences that I have to mention.

I applied a ten point scale to assess the results, which made the final result clearer.

The ten point scale needs the information about the market leader to set benchmarks. I advise to use data of the European insurance companies, because they have stable and diversified activities.

What I excluded from the model is that competitive strategies should necessarily coincide in a homogeneous market segment, since the analysis looks into corporate factors more profoundly.

Subsequently, I modified the metrics. Let us focus on each of the modifications. As for the options Insurance Produce, Management Effectiveness, Brand, I suggest keeping the methodology proposed by I.N. Zhuk [13]. The metrics are sensitive for understanding the competitiveness of companies, influencing financials considerably. For the options Customers, Training and Professional Advancement, Innovation and Motivation, I embedded the methodology described by A.S. Ermolaeva [5]. In the case of external users, the competitiveness evaluation model differs from that intended for internal users due to fewer resources for the analysis. Nevertheless, it can satisfy the customer's needs and give an unbiased view of the results (*Table 1*).

As showed in *Table 1*, the model resembles the 7P model. However, it was modified to include new options, such as the Financial Position, Innovation and Top Management.

The method serves for quantifying certain factors and the overall situation. Based on the method, users can evaluate several companies simultaneously, rather than separately, and understand the factors to be improved. To evaluate companies, I modified some positions in order to better illustrate distinctions of the insurance market.

Nevertheless, the method is not perfect. First of all, it is biased, thus making users employ experts, which have relevant competencies to evaluate and interpret the score each company gains. Appropriate competitors is another sensitive matter. To predict the company's future more accurately, competitors shall be selected from the same class, with international companies being undesirable there if regional market actors are in question. The incorrect sample often distort results.

Although the model contains some information about managerial reports, the expert can adequately evaluate several companies and find aspects to be analyzed so as to subsequently raise

the competitiveness. The final result will meet principles of timeliness and relevance. The method also helps choose which segment shall be prioritized as a target one and what aspects are important in the higher competitiveness strategy.

As for the Innovation, I integrated the option The Number of New Insurance Production for the Period. Basically, financial statements of the insurance company contain such information. Relevant facts can be found in press releases issued by the insurance company and social network announcements.

There are some restrictions about the option Top Management. Bonuses and respective payments are often confidential. However, in case of listed insurance companies, they are required to make disclosures about related parties in compliance with IFRS. The related parties paragraph may shed light on the bonuses. But still, the indicators reminds us of the possibility to modify the model, if needed.

As for the Financial Position, the dynamics, liquidity, profitability, business activity matter in this case.

For purposes of the trend analysis, a growth in insurance premiums and payments are what can be best informative. Noticeably, a growth in insurance payouts exceeding insurance premiums signifies the deteriorating financial health of the insurance company.

Analyzing the competitiveness, users also refer to marginal, quick and overall liquidity. The metrics show whether the entity has enough funds and abilities at a given point of time to fulfill its liabilities.

For purposes of computations, some metrics of the return on capital are employed to better reflect the financial health of the company. These are the return on equity (ROE), return on capital (ROC) and profitability of insurance activities.

ROE is indicative of the feasibility of investment and capitalized funds. ROC is a key to analyze

whether the company utilized its comprehensive capital, equity and debt finance effectively. The profitability of the insurance company reflects whether the insurance company is efficiency in terms if its insurance turnover.

Business metrics go last for purposes of computations. Analyzing them, we shall assess the turnover of current assets as they are critical characteristics of the insurance company's policy. The higher the turnover of current assets, the more efficient the insurance company. High turnover induces greater income from investment, financial and insurance activities. The asset turnover shall be assessed, since it indicated how many turnover cycles the insurance company's capital passes for the period. The metric mirrors the profitability.

Conclusions

As a result of research, I have made the following conclusions, summaries and suggestions.

I integrated new metrics into the model for evaluating the insurance company's competitiveness:

- a holistic approach;
- inner consistency;
- transparency;
- clarity;
- flexibility;
- reference to the most relevant data that are available for people preparing the report;
- comparability of companies from different classes (a must in case of the evaluation model intended for external users);
- availability of boundary values and benchmarks for each analyzable metric (a must for the evaluation model intended for internal users).

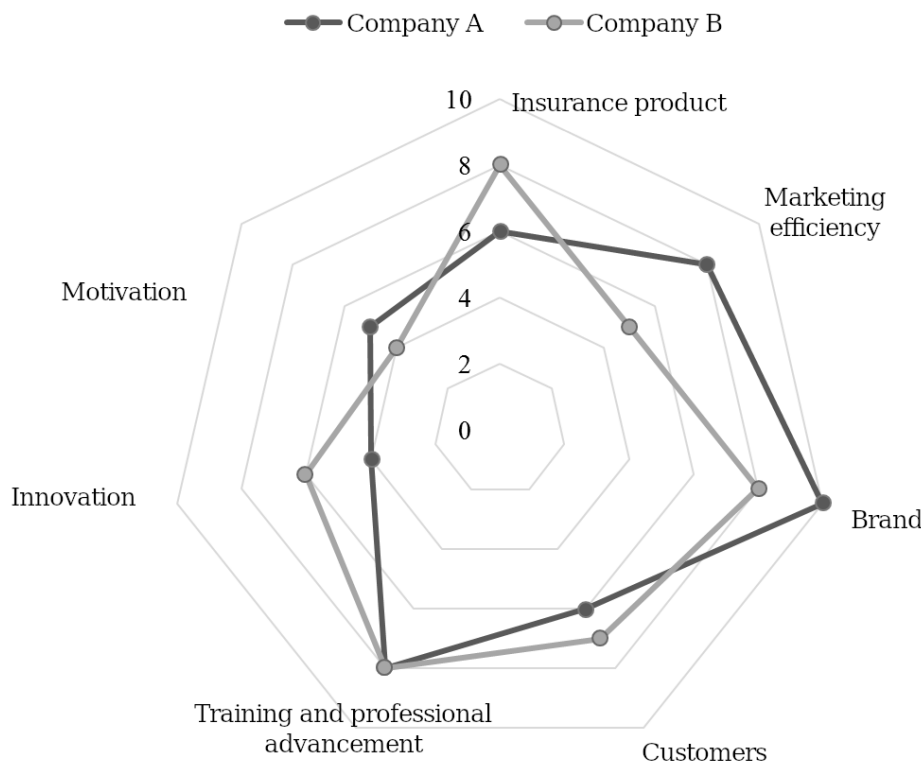
The article offers models, which can be considered appropriate and effective.

Techniques herein may serve for evaluating the competitiveness of insurance companies. The findings can enhance the competitiveness of not only insurance companies, but also the entire insurance market in Russia.

Table 1
Assessment of insurance companies' competitiveness

Competitiveness Factors	Analyzable Company	Competitors	
		Company 1	Company 2
Product			
1. Reliability	5	5	5
2. Term of a service	5	5	5
3. Trademark prestige	5	4	5
4. Style	5	5	5
5. Actions in case of an insurance event	5	4	5
6. Exclusive nature of additional services	5	3	5
7. Multiple options of services	5	4	5
8. A range of propositions	2	4	5
Price			
1. Price for a service	5	5	5
2. Discounts	5	5	5
3. Terms of payment and procedure	5	5	5
Regions and Distribution Channels			
1. Distribution strategy	3	5	5
2. Number of agents	3	4	5
3. Market coverage (a variety of services)	2	4	5
4. Extent of local presence	2	3	5
Promotion			
1. Advertising formats	2	5	5
2. Advertising frequency	2	4	5
3. References in mass media	5	5	5
Talent			
1. Motivation	5	5	5
2. Opportunities for professional advancement	5	4	5
3. Customer loyalty plans	5	4	5
4. Competence of servicing personnel	5	3	5
5. Feedback channels	3	5	5
Financial factors			
1. Groups of growth metrics	1	5	4
2. Groups of liquidity metrics	4	3	5
3. Groups of profitability metrics	1	3	5
4. Profitability of insurance activities	1	3	5
5. Groups of metrics of the turnover of assets and equity	5	3	2
Innovation			
1. The number of new insurance products for the period	1	5	5
Top Management			
1. Total bonuses paid to top managers as compared with the financial result	-	-	-
Process			
1. Convenience of a service	5	5	5
2. Servicing time Скорость получения услуги	5	5	5
Development			
1. Convenience of the place of service	2	5	5

Source: Authoring

Figure 1**Graphical representation of the evaluation of insurance companies' competitiveness**

Source: Authoring

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Conflict-of-interest notification

I, the author of this article, bindingly and explicitly declare of the partial and total lack of actual or potential conflict of interest with any other third party whatsoever, which may arise as a result of the publication of this article. This statement relates to the study, data collection and interpretation, writing and preparation of the article, and the decision to submit the manuscript for publication.