

## INSURANCE INDUSTRY IDEAS OF SECOND MILLENNIUM

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*This article discusses the characteristics of the "Insurance Business 2000" project that unites the academic doctrine both with reality and the relating construction of the most significant forms, non-traditional services and new relations used by some banking houses. The article objective is to point out various organisational innovations and project conclusions that may be applied in real life, mainly at the interface between central operation (insurance company) and external service.*

**Key words:** *Insurance, banking, management, organization, sales*

**JEL:** *G220, D810, F52, H55, H12*

**I. INTRODUCTION**

The "Insurance Business 2000" concept is based on the new perspective on insurance institute and its organisational form from destroying systematically the picture of standardised mass products distributed via fixed channels. In other words, the theory focuses mainly on the idea of a flexible insurer, defined based on market situation and clients' needs. Along with implications for the product/service spectrum and client's picture, this paradigm focuses also on the significantly modified perspective on activities performed by insurance companies and on their organisational structure. The article objective is to point out various organisational innovations and their possible application, mainly at the interface between central operation and external service.

West European insurance market is well ahead of the East European insurance market, and hence, the model implications begin to be applied in Romania or in the Czech Republic in this decade.

**II. ELEMENTS OF THE "INSURANCE BUSINESS 2000" INITIAL BASIS**

The collective 15-year project called "Insurance Business 2000" (Haller, *Assekuranz 2000 - Mögliche Wege und ein Gemeinschaftsprojekt*) unites academic doctrine with real life. "Insurance Business 2000" deals with the topic of comprehensive orientation of insurance companies on the market or on marketing. It puts the internal sales force linked to the insurance company into a new role.

The project starting point is based on the assumption that insurance business is subject to certain turns in the economic tendencies.

Parallel to the emerging direction of strategic thinking, the project tries to realise "Thinking in Alternative Future". The following four critical influencing factors were extracted from an analysis of numerous internal and external factors:

- demand stabilisation;
- rational behaviour of consumers;
- extended traditional rational strategies of risk management;
- influence of IT technologies.

These four extracted factors exercise a growing pressure on insurance companies, mainly in terms of:

- demand (influencing the insurance demand);
- offer (allowing new types of insurance offers) (Haller, *Assekuranz 2000 - Mögliche Wege und ein Gemeinschaftsprojekt* 1983, 11).

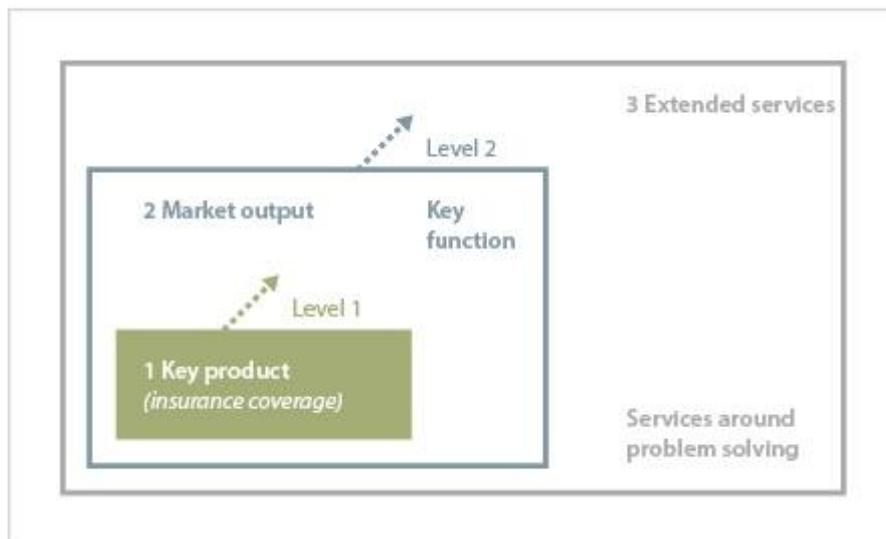
The project analysis of external world above showed two significant conclusions for insurance company management that may be summed in four items:

- impacts on design of services provided by insurance companies (production perspective);
- impacts on clients' picture from the perspective of insurance companies (client perspective);
- impacts on process management of provided services (process perspective);
- impacts on picture of internal sales force tasks (distribution perspective).

### III. DESIGN OF SERVICES PROVIDED BY INSURANCE COMPANIES

"Insurance Business 2000" concept is based on the cognition that described tendency turns and escalating competitive environment lead inevitably to the insurance business moving away from the often rigid approach of insurance products. In this light, the product, i.e. insurance protection (like in industry or sales of goods), has been incorrectly reduced to a commodity product of "pure" insurance protection. A product seen as a "pure" insurance protection is produced and administered in the insurance company and launched on the market in the end. Unfortunately, under this ideology clients are not subject to customer care, but they are seen as acquisition. They are of interest only in terms of sales and contracting insurance policies.

"Insurance Business 2000", an alternative reflecting the growing prestige of orientation on customers, promotes the so called multilevel concept (Haller a Maas, Identität und Identifikation im Netzwerk der Finanzdienstleistungen - am Beispiel der Versicherungen 1997, 281) of an integrated insurance service that is based on real contacts with clients and that develops its content on three levels (Haller, Von der Assekuranz 2000 zur Versicherung im Netzwerk 2007 1997, 4).



**Fig. 1: "Multilevel concept" of an integrated insurance service, source: (Haller a Maas, Identität und Identifikation im Netzwerk der Finanzdienstleistungen - am Beispiel der Versicherungen 1997)**

**Level 1 relates to the key product** (the actual insurance protection, i.e. the "pure" insurance protection) such as material, legal and detailed issues relating to individual insurance policies.

**On contrary, Level 2 comprises the market output**, i.e. the actual solution of problems in line with client's needs incl. targeted consulting services.

**Level 3 shows extended services** that turn the product into a general package while reflecting special services provided to clients.

Therefore, the preceding professional discussion on the concept (Haller, Assekuranz 2000 - Mögliche Wege und ein Gemeinschaftsprojekt 1983, 14) generated a thesis saying that the future insurance competition will take place on the level of market output (level 2) and overall solutions (level 3) rather than on the level of basic products (level 1).

In order to survive, insurance company management has to answer two logically separated strategic questions (Haller, Von der Assekuranz 2000 zur Versicherung im Netzwerk 2007 1997, 5), namely:

- Which competitors (from other markets) could significantly jeopardise my insurance product and do so by replacing it?
- What are the options for enforcing or enhancing my position in a specific segment by providing comprehensive problem solution (level 2 – comprising market performance) or extended services (level 3 – depicts enhanced services)?

Such approach to insurance products or services reflecting these dimensions requires from the insurance company management both to have knowledge of numerous clients' wishes and to be able to offer extensive services to clients which amend and improve the quality of the insurance product. Hence, there is a new view on clients discussed below.

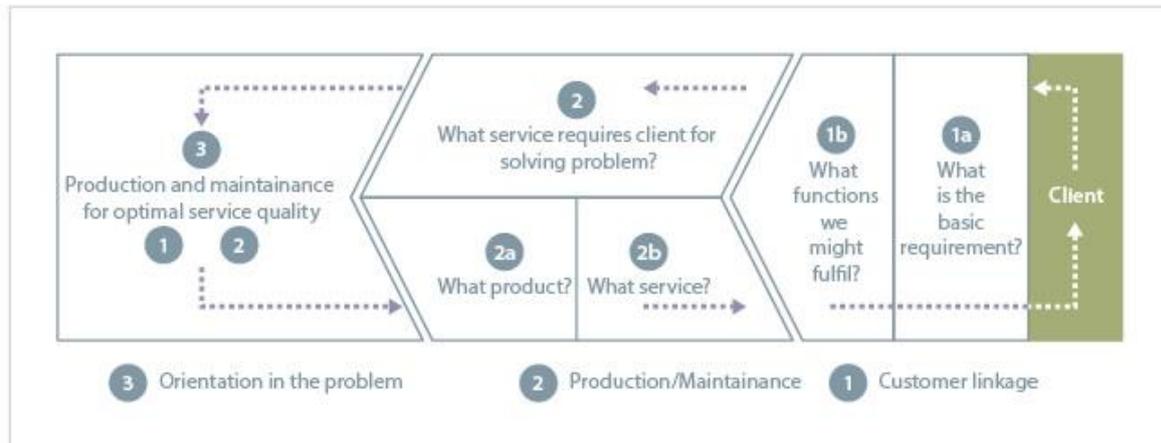
**IV. CLIENT’S PICTURE FROM THE PERSPECTIVE OF INSURANCE COMPANIES**

If we consider the (end) client with their individual needs on individual levels of the multilevel concept (level 2 – comprising market performance and level 3 – depicting enhanced services) are considered as an integral part of the process of providing insurance products and specific services, the entire system of insurance activities changes. The starting point for all activities is not the product but (as shown in Fig.) client with their specific wishes and problems. The outputs of the orientation-on-clients analysis distinguish two types of clients for whom various services can fulfil various functions (Haller, Assekuranz 2000 ohne Außendienste? Gedanken zur Position der Versicherungsvermittler zwischen Dienstleistung und "Deregulierung" 1989, 274).

The principles of offering everything to everybody do not work; reliable is only intentional matrix management consisting of various product types, distribution channels and client groups. In this relation, products (actual insurance protection) and provided services (consultancy provided by sales force) merge into one market performance for a defined group of clients during a certain phase of problem solution. In the last step, the actual product is prepared according to the individual steps listed above. More specifically, basic products are generated as semi-finished products to be turned into the actual performance by the sales force on the spot depending on the actual problem (Haller, Zukunft des Versicherungs Marketings: Vom Produkt zur Institution 1996, 7). In this approach to the marketing concept of insurance, the circular sequence of thoughts is the key as it expresses the endeavours to cope permanently with the clients and their needs (Haller, Assekuranz 2000 ohne Außendienste? Gedanken zur Position der Versicherungsvermittler zwischen Dienstleistung und "Deregulierung" 1989, 274).

**V. PROCESS MANAGEMENT OF SERVICES PROVIDED BY INSURANCE COMPANIES**

As the customer relations are becoming more and more the central point of the general performance, insurance companies have to adapt both the client’s picture and the processes of providing services to a new reference framework. Under this approach to service management, providing insurance-related service is not seen as a unique event previewed selectively but as a sequence of individual tasks. The comprehensiveness of individual tasks provides both good quality of insurance as the quality of the outcome and the quality of the contracting process perceived by clients. (Haller, Von der Assekuranz 2000 zur Versicherung im Netzwerk 2007 1997, 9).



**Fig. 2: Client’s picture as reference framework of insurance company, source: (Haller, Zukunft des Versicherungs Marketings: Vom Produkt zur Institution 1996)**

**VI. DESCRIPTION OF INTERNAL SALES FORCE TASKS IN INSURANCE BUSINESS**

The cognition that the sales force performance represents an independent performance component of generating insurance products leads to the necessity of creating an extended model for insurance-related activities incl. sales force. According to Haller (Haller, Assekuranz 2000 ohne Außendienste? Gedanken zur Position der Versicherungsvermittler zwischen Dienstleistung und "Deregulierung" 1989, 278), the basic precondition is the competition for clients broken down into individual parts – competing for price, product, quality and relations.

When analysing the price competition, the sales force costs are to be seen in the relation to all costs for alternative forms of competition (costs incurred both within and outside of the branch).

Should sales force succeed in reaching on average a better performance for the same price, then it has to play a quality value-generating role. Sales force can optimise basic product according to client's specific needs by the insurance company specialising on clients as compared to the competitors. The right competition mix can be generated only by providing targeted tailor-made consultancy and customer care with the help of sales force. Customer care as well as competing for establishing and cultivating customer relations belongs along with the acquisition of business opportunities to the key sales force activities. Even in case of equal prices, products and their quality, a high quality sales force may not only keep the existing clients but also acquire new ones. It all comes down to forming the contact and customer relations as well as to targeted customer service.

In sense of service management, the sales force is responsible for "transporting" the service idea of insurance company as manifestation of its mentality. Moreover, sales reps are seen as a certain type of communication and interaction specialists who enter the game always when the interaction between two parties becomes basic part of the product (Haller, Assekuranz 2000 ohne Außendienste? Gedanken zur Position der Versicherungsvermittler zwischen Dienstleistung und "Deregulierung" 1989, 281).

## VII. CONCLUSIONS

The main benefits of the "Insurance Business 2000" concept lie in introducing current approaches to insurance theory and hence also to assessing insurance companies from organisational perspective. Therefore, the organisation is not perceived and used as innovation-free and operatively generated form of insurance company generating products like factories and offering only standardised products via pre-defined distribution channels.

Insurance Business 2000 platform defines four basic elements:

- comprehensive view on services;
- improved client's picture and sales force image;
- ongoing improvement of service processes according to clients' needs;
- creating a picture of a flexible insurance company working for the benefit of insured parties.

Adhering to the above basic principles turns insurance companies into organisations with activities in all structures based on a permanent relation both to market and clients.

If only the performance in statistic structures in line with the existing approach has been optimised so far, now it is necessary to provide for fast and permanent adaptation of operating structures in order to be able to create – together with clients – a suitable in situ insurance service. In the meantime, terms such as production, sales, distribution, distribution channels, etc. are used with caution as they belong to the old approach and therefore they may complicate or prevent thinking under the new approach. In this logic, alternative distribution channels are by no means a new organisational phenomenon; they are rather a new, self-integrated form of products which allows the sales reps to define "directly" – i.e. via phone or PC technologies – the required insurance service and hence use newly generated market for insurance products.

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