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"Global Challenges and Prospects of the Modern Economic Development"****OVERALL DIGITALIZATION – AS A CONTEMPORARY DRIVER
FOR INSURANCE INDUSTRY**

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Abstract

Insurance industry, as others, is going through transition period, orienting towards changing needs and priorities of their customers, learning and implementing latest technologies, digitalizing their processes, implementing new corporate culture, relationship between all players within insurance market. New insurance paradigm, analyzed and presented in this paper, means different level of communication between Insurance company, intermediaries, end user, and also product, channels of distribution, sales patterns and means of promotion. Digital customer on the contemporary level of development needs product with flexible price, affordable, easy to understand and use, transparent sales patterns. Customer also is looking for the opportunity to create a product for himself in cooperation with insurance company (co-production), which could be customized specifically for his needs and preferences. It has to be stated also that overall literacy in financial services was increased, and it's a win-win process, demonstrating the intention of customer to be helpful in the creating product process for himself, that's what appreciated by the company, from one hand, from the other – the company is moving towards satisfying customer's needs, simplifying processes and product usage. In this paper practical experience of multinational insurance company was analysed, abstracted main trends of development, main drivers, that influence the success of the industry, presented new insurance paradigm that could be characterized by moving to new technologies and digitalization.

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Keywords: Digitalization benchmark, blockchain in insurance, new insurance products generation, insurance online channelling, client-oriented modernization, insurance calculators.



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1. Introduction

Insurance Market – is considered as a part of financial market, where insurance services are provided by the Insurance companies, regulated by the State, responsible for the financial stability of the insurance companies. The market is driven by the fair competitiveness of the insurance companies; foundations and rules are presented in the Federal Law N 135-FZ “Protection of Fair Competition” (2006) that regulates the market and presents key performance indicators for fair competition within insurance market.

According to the KPMG report (KPMG, 2018 a, b) insurance market demonstrated good results, thanks to, most of all, OSAGO/KASKO market, that growing rapidly. In order to understand the way insurance market is moving it makes sense to make a glance towards changing needs and preferences of the customer. Mega trend here is digitalization, all market players use latest technologies, digital tools for all kinds of activity (Vera-Baquero, Colomo-Palacios, Molloy, & Elbattah, 2015). It means that insurance customer, as well, changed dramatically and now faces new insurance operations paradigm, dealing with new products, or new “packaging” in order to fit new distribution channelling (Bhattad, 2012). The Market anticipates the changing portrait of contemporary customer (Tsyganov & Bryzgalov, 2018) (Tsyganov & Kirillova, 2018). Online customers are dominating, decision-making traffic reduced to 1-2 site visits. The middle age of insurance customer increased.

2. Problem Statement

The global insurance market is actively moving from agent distribution channels to direct sales, online, digital sales. Emerging markets, especially China and Latin America, are developing rapidly in this. Today in the world up to 20% of all insurance services are sold online. In Russia – up to 92% users fulfill payments online: 86% - from desktop (computers and laptops), 69% – from their smart phones (Li, 2017). At the end of 2018, up to 30% of the population of developed countries use mobile services to make payments.

According to Fitch Ratings, Insurance is a “fertile ground” for the possibilities of blockchain technology, which could potentially make big changes in the industry in the long run. By using blockchain, the insurance industry can cut between 15% and 30% of annual expenses. However, it’s still under negotiations – what kind of investment are needed in insurance industry, there is no sufficient justification for the way and size for digital development and automation level.

Another characteristic feature of contemporary market is – customer’s personalization. In digital era the customer became more powerful and knowledgeable. The customer want personalized product, he has a great variety of distribution channels on his disposal and the level of loyalty could depend on different factors, indicating trust. It’s evident that expectations were grown up, but the trust towards insurance companies is still low.

3. Research Questions

Research questions are connected with the statement, mentioned above:

- Analyses of the main trends in the field of insurance development, particularly, new insurance channels of distribution, insurance product presentation, operation processes, that represents new insurance operations paradigm (Lacom, Bazzaro, & Sagot, 2017).

- Findings of the main drivers that push the industry forward,

- Research the level of connectivity with other industries and the way it influences digitalization and new technologies implementation process,

- Examining the main stages of digitalization process, using example of Foreign Insurance company, acting within Russian market,

- Evaluating and justifying the level of investment that has to be done for the industry development.

4. Purpose of the Study

The main purpose of the study is – to consider the effectiveness and efficiency of developing digital solutions for insurance in Russia, learning and examining contemporary development patterns of the foreign insurance company.

Change to a new technological paradigm – is a strategic plan, which should be designed and planned in advance. Otherwise the insurance company can put itself in risk to fall out of the market in the future. Digitalization brings high possibilities for the strong shift toward the client. Client oriented approaches now may be implemented and exploit through automation and digitalization, where client would get such benefits as ease of use, personal involvement, personalization, awareness, availability, transparency. Client-oriented, simplified insurance system, avoiding intermediaries – is a new challenge for the insurance industry development.

5. Research Methods

Research methods used in the paper are as follows:

- Practical experience through the job for the leading foreign insurance companies, collecting and processing information, statistics for actuarial calculations and report presentation (cabinet research),

- Observation and practical experience through consultancy job, dialog with the companies, questionnaires, problem solving, solutions findings,

- Trainings with the leading world insurance companies- risk management and change management courses for insurance companies,

Collecting and processing data through communication with Actuarial Guild, Central Bank, learning state regulation system in insurance industry.

6. Findings

Case-study of one of the international insurance group, acting in Russia: Digitalization Benchmark. The insurance department of one of the leading international group in financial sector of economics has a strong presence in Russia, focusing on the needs and priorities of local customers, taking into account the economic and cultural environment.

In 2012 The Company launched a new project – digitalization implementation, presenting three stages of development.

2012-2014 – the Company launched the first stage in digitalization, implementing new technologies. The goal was – to evaluate current status of the companies’ digitalization level, resources, including technological and human assets, outsourcing opportunities and risks.

2014-2016 – was the test phase, where 320 new projects and initiatives were designed and tested. The purpose of this stage was – to evaluate costs and outcomes. A lot of changes took place in redesigning resources, including human, organizational, technological, outsourcing.

2017-2020 – the project’s implementation phase – is ongoing process.

One of the major company’s goal – to improve customer service proposition and increase customer’s loyalty. The portrait of the customer changed. End users nowadays want to receive the highest quality service, 24 hours support with a highest level of guarantee and minimum risks. New insurance concept considered integration of services such as: the prevention of complex situations and customer support based on modern technologies, products, solutions and services designed to meet new customer needs. In a five-year plan perspective, the Company intends to introduce 80% of all processes automated. It will allow achieving better interaction with the client from the moment of purchase decision to the claims payment, increase transparency of decision making process and the speed of response to request, decrease customer’s risks (Padilha, Cziulik, & Beltrão, 2017).

6.1. New insurance products

Considering the product presentation – the trend is – to introduce insurance services as a simplified and flexible product, that could be easy to understand and manage by the end users, avoiding intermediaries and insurance agents. Previously the product was complicated and fixed, it was almost no opportunities for modification and price change. Insurance agents had to work hard explaining the content of insurance services and possibilities to reduce the price.

Launching digitalization and online sales, made it possible to avoid some stages, and present understandable, transparent, accessible, modified product directly to the end user. In order to assist customers in decision-making process, totally new products were introduced to the market - insurance calculators and insurance constructors, that are able to choose and create insurance cover, suitable for the customer. In this case customer has to be involved into production process in order to get a product customized for him (co-production). More complicated product or service will still need insurance agent as assistance and, probably, a visit to the office.

6.2. The use of digital technologies in channeling and sales

Previously the major work in providing insurance products and services was fulfilled by insurance agent, dealing with end users. It was a necessity because the product was complicated and fixed. More than that, insurance agency could be a separate structure that brings extra expenses on sellers and buyers.

Nowadays the client can examine the company’s webpage, organize online chats concerning the product modification, prices. For example in case of change in insurance product (premium, cover,

conditions) it might be done rapidly on the web platform, where traditional solution would require a visit to the Company, extra costs, time, aggravations.

As for benefits with digital channeling and sales the client would get ease of use, the product may be purchased using computer or smartphone, no need to spend time going to the insurance company office. Customized interfaces, online calculators, chatbot (Notomista & Botsch, 2017) brings also customer's recognition. In this case the insurance company may provide client with customized product with a proper price that will satisfy his needs, provide with advise for the next purchase, recommendations for reducing risks.

First carriers of online sales in insurance were travel insurance, simple accidental and home insurance, simple forms of third party liability motor insurance with flexible or reduced price, fixed cover, understandable and transparent.

7. Conclusion

It has to be stated that insurance companies has to move towards deeper customer involvement, customer engagement, they need to provide customer's long –life value. Customers need to be sure that they can rely on the insurer, be safe and protected.

Using customized interfaces, online calculators, chatbot, insurance company may provide clients with needed products, affordable price, transparent service. Further on client might easily receive any information about their policy or processes any time, anywhere, from any device.

New technological solutions give us new abilities to adapt and improve all the operational processes (Haufe, Colomo-Palacios, Dzombeta, Brandis, & Stantchev, 2016). So that insurance company has capacity to rebuild its client oriented processes, which in turn, would mean modernization of operational processes with its automation and optimization.

New insurance paradigm that means digitalization of all insurance market players, including products and its presentation, channels and sales, customer's behavior, communications will lead to transparency of all operations, cost and price reduction, ease in purchasing and use and, as a result, will lead to trust, confidence and loyalty within insurance market.

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