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## COMPETITIVE ADVANTAGES OF INSURER IN THE CONTEXT OF DIGITAL TRANSFORMATIONS OF INSURANCE BUSINESS IN UKRAINE

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### ABSTRACT

The paper substantiates the need to ensure the competitiveness of insurance companies as an imperative of their successful functioning and innovative development. It is noted that in the context of the development of digitalization and changing the conditions of market competition, the key task is the presence of competitive advantages in the insurer – its unique characteristics, skills, resources, results and opportunities that allow withstanding the competition that exists in the insurance market. Based on indicators of insurance companies assessment by potential consumers of insurance services, internal and external competitive advantages are systematized as the main competences of ensuring the competitiveness of the insurer. It has been established that the current stage of the development of the insurance business is accompanied by a large-scale digital transformation in all spheres of economic activity, and the progressive digitalization of insurance relations is a key competitive advantage of insurance companies. The necessity of changing traditional business models and introduction of technological innovations to ensure a new level of quality of insurance services and preservation of competitive positions in the insurance business environment is substantiated. The directions of providing competitive advantages of the insurer on the basis of digitalization are proposed, among them the development of online communications through the Internet and social networks, a flexible approach to the offer of insurance services, automation of the insurer's key business processes, underwriting on the basis of big data and advanced analytics, interaction with InsurTech companies. The advantages and disadvantages of the insurance business development on the basis of digitalization are determined.

**Keywords:** digitalization, competitiveness, competitive advantages, competencies, insurance business, technological innovations.

### INTRODUCTION

**Formulation of the problem.** The development of the insurance market in Ukraine directly depends on the level of development of its competitive environment. For a particular insurance company, quality competitive potential is one of the most important tools for ensuring successful activity, as well as a reflection of how quickly the insurer adapts to changes in the business environment and how it responds to the influence of external and internal factors. It should be noted that the current stage of the development of the insurance market is characterized by the presence of constant competition of insurers for the right to be leaders in the market, for the opportunity to attract more customers and increase the level of their own financial stability. This is manifested in the use of its own competitive advantages, which help the insurer to differ among its competitors and are realized through a network of branches of the company, intermediaries or completely new innovative ways of interconnecting with customers.



As know, the insurance market is a market of specific products that are designed to meet the needs of consumers in insurance coverage of risks. Characteristic of this type of goods is the plural distribution of properties, which increases the complexity of their comparison and choice. It is based on the amalgamation and combining of risks, insurance conditions, cost and affiliation to a certain insurer. At the same time, at the present stage of their functioning and development, an important resource of influence on the competitiveness of insurance companies is innovative opportunities that also form the demand for insurance goods. That is why competitive advantages are a multi-level concept, which in the context of digitalization and changes in market competition requires detailed study.

**Analysis of recent research and publications.** The problems of formation and achievement of competitive advantages of economic entities in the market business environment and analysis of factors of competitiveness of various objects are devoted to the work of prominent scientists, among them: A. Smith, A. Marshall, P. Samuelson, F. Kotler, M. Porter, T. Copeland, A. Thompson, I. Ansoff, E.M. Azaryan. In particular, to the research of actual aspects of competition and competitive advantages of insurers is devoted to the works of domestic and foreign scientists-economists, including: V. Baranova, K. Bazylevich, N. Vnukova, O. Voronkova, T. Govorushko, Yu. Klapkiv, O. Kozmenko, G. Kravchuk, S. Osadets, L. Shirinyan, V. Fedosov, V. Furman and others. Existing scientific achievements are highly appreciated, the problem of identifying the competitive advantages of the insurer during the period of digital transformations is relevant and requires detailed study. This is due to the constant development of the insurance market, the emergence of new insurers, the rapid dynamics of the processes of digitalization of the insurance business, as well as the change of desires, interests and needs of potential persons who conclude insurance contracts.

**The purpose of the article.** The purpose of the article is to clarify the essence of the competitive advantages of the insurer and identify the main directions for the formation of these advantages in the conditions of the digital transformation of the insurance business.

**Presenting main material.** Competition in the insurance market is actually a set of benefits of insurance services offered by the insurance company and implemented through sales systems, a network of insurance intermediaries, agents or through other forms and methods of communication with potential customers. The market conditions in which insurance companies work require that their products differ from the competitors' offers by something special, so that the consumer can benefit more than from the competitor's goods. In view of this, the functioning and development of the insurance business is carried out in the conditions of competition or the formation of a competitive market.

As know, competition in the insurance business is a set of relationships that arise not only between different insurers. After all, the insurance market is a specific component of the financial services market, where each insurance company competes with a large number of sellers of financial products - banking institutions, non-state pension and investment funds, leasing, factoring companies, as well as with other insurers.

In market-oriented countries, insurance services have a high priority for consumers, which increases competition among insurance companies, changes its forms and methods of work. Large insurance companies compete in the developed global insurance market with an annual turnover of about \$130 billion and an asset scale of approximately \$2.5 trillion. These are transnational companies that by their indicators exceed the insurance markets of most countries. In their domestic market, the business environment undergoes major digital transformations that require



classic insurance companies to respond flexibly and accelerate adaptation to new challenges. For such trends, only those companies that are focused on forming unique competitive advantages can hope for business development. These benefits should be directed towards reducing costs, improving product quality, ensuring flexibility, implementing technological and marketing innovations, etc.

Analyzing the state of competition in the insurance market of Ukraine, it is worth paying attention to the indicator of concentration of the insurance market, which indicates that 90% of insurance premiums for 2020 are concentrated in sixty insurance companies, fifty of which are insurers from the risk insurance market, and ten - from the life insurance market. In non-life insurance, more than 50% of insurance premiums from individuals accumulate ten insurers. The life insurance market in comparison with the risk insurance market has slower development rates and high concentration in Ukraine, because 5 insurers account for 90.3% of insurance reserves (tabl.1) [3]. The above statistics indicate a moderate degree of monopolization of the insurance market and the presence of competitive business conditions. Thus, the tendency of recent years to significantly reduce the number of insurance companies is understandable and is a positive consequence of the presence of a competitive environment. This confirms that to maintain competitive positions in the market, insurance companies must develop and implement effective competitive strategies.

**Table 1**

**The concentration of the insurance market in 2020**

Insurance companies	Non-life market (for premiums), %	Non-life market (individuals) %	Non-life market (insurance reserves) %
TOP 3	17,9	22,6	75,1
TOP 5	27,3	32,9	90,3
TOP 10	43,2	54,6	99,1
TOP 20	64,6	75,6	100,0
TOP 50	90,3	95,7	-
TOP 100	98,8	99,9	-
Total	100,0	100,0	100,0

*Source: National Bank of Ukraine. The results of the insurers reports for 2020. URL: <https://bank.gov.ua> [3]*

The analysis of the competitive positions of the insurance market of Ukraine on a global scale allows noting that the competitive advantages of domestic insurers are formed under the influence of the following factors:

- globalization in the international insurance market – competition with powerful foreign insurers forces Ukrainian insurance companies to increase capitalization, insurance reserves and assets;
- increasing competition in the domestic insurance market – today in the insurance market of Ukraine, the number of insurance companies is constantly decreasing, while the volumes of collected insurance premiums, paid insurance payments, the assets of insurers and their insurance reserves are gradually increasing; the growth of the general indicators of the insurance market, provided that the number of companies decreases, indicates an increase in competition on market;
- reduction of insurance rates – foreign experience of insurance activity demonstrates that quite



often insurance companies use dumping as the main tool in competition;

– has become a tendency to reduce interest rates – interest rates on loans, deposits, investments in securities are constantly decreasing, which in turn reduces the investment profit of insurance companies and, accordingly, their clients.

This allows us to state that ensuring the competitive positions of the insurance market of Ukraine on a global scale is determined by the competitiveness of insurance companies based on the need to establish the main competencies (elements) determined by competitive advantages, they, in turn, must be universal (use in different situations) and unique (those that are difficult to reproduce or duplicate) [4]. The main competence is a specific set of internal comprehensive and applied knowledge, as well as skills and settings. It is based on the company's resources and reflects the effectiveness of their use. It is implied that the main competence is all that due to which the insurer can achieve better results than other companies, including by creating quality products that differ from the products of competitors and provide decent competition in the insurance market.

Consequently, a competitive advantage is a certain unique characteristic of an insurance company, skills, resources, results and opportunities that allow it to be better than other insurers and adequately withstand competition in the insurance market. At the same time, a set of main competencies in its interaction and constant development allows the insurer to achieve synergy or unpredictability effect, thereby providing a high level of competitiveness and sustainable development.

Scientists emphasize that top-level executives should increase the value of the company by forming a strategic structure that will allow them to get rid of the dispersion of basic competencies, set goals for improving potential, make the priorities of allocating resources transparent and consistent, create opportunities to use the company's resources, encourage employees who implement competence, to implement competitive strategies at the corporate level. Thus, in the work [4, 5] the authors proposed a model of the "tree" of competencies and formulated the general provisions of the theory of main competencies:

- main competencies are a source of competitive advantage and a decisive factor in business success in the long term;
- main competencies bring real benefits to consumers and are difficult to imitate;
- main competencies are the result of collective training of the organization, in particular in terms of coordination of production skills and integration of technologies;
- the main competencies are combined with the search for new opportunities of the enterprise;
- the main competencies are a set of interconnected abilities and technologies that allow the company to create consumer values.

It should be noted that there are the following ways of creating competencies: training and development; teamwork; external experience; communication with buyers and suppliers and positive feedback from them; expanding the scope of activities; strategic partnership. Experience and knowledge, skills and connections of the company, which are complemented by other factors of information and intellectual nature, create an opportunity for the company to achieve strategic advantage in a particular market. At the same time, if the insurer uses the latest technologies and know-how, it gains stable and long-term competitive advantages.

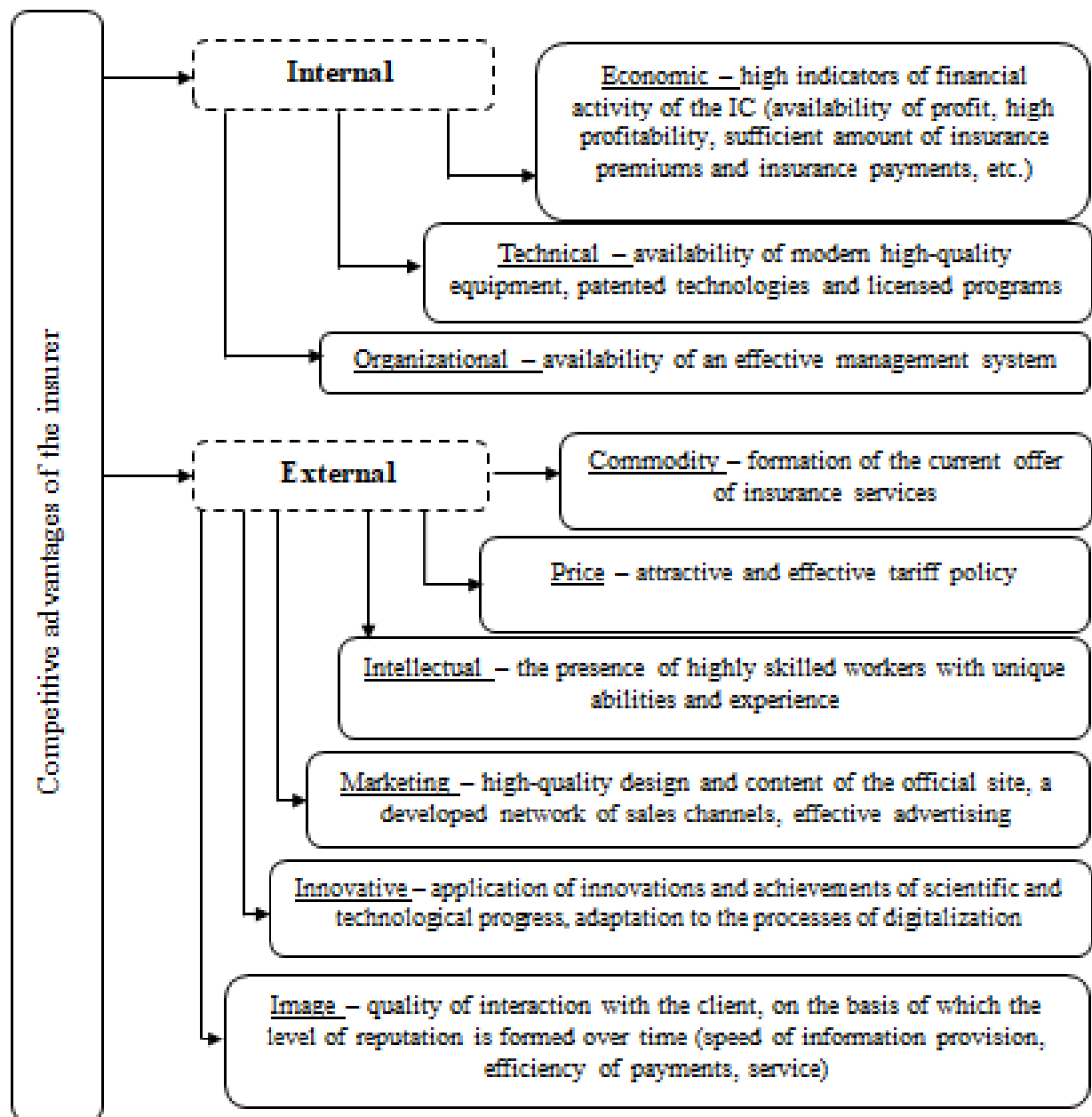
Thus, determining the competitive advantages of the insurer, the so-called "main competencies" requires taking into account the indicators by which potential customers evaluate insurance companies, namely:



- offer insurance services, which are the most popular in a particular period;
- determination of insurance tariffs in accordance with the amount of liability (list of insurance risks under the insurance contract). It is important that the price factor is not a comparison of the abstract cost of the service, but a comparison of the services of competitors with the aggregate of similar insurance risks;
- popularity and reputation of the brand achieved in the process of active functioning and development of the company, due to the existence of a regional network in the country, as well as the presence of a positive history;
- personnel of the company: companies with a staff of 3-5 people, usually, provide a very narrow range of insurance services, have a certain specialization or provide captive insurance. As know, cognitive method comes to replace the traditional way of creating competitive advantages: if the traditional method involves the use of material resources, then cognitive - based on the intellectual capabilities and potential of workers. Consequently, the competitive potential of insurers is based directly on the abilities and professional competences of the company's employees, when choosing a particular company, customers necessarily take into account their professional level and creativity;
- effective work, design and filling of the official website of the company, which are fulfilled according to the criteria of completeness and availability of information about insurance services and financial condition, as well as the efficiency of responding to the requests of potential customers. Sale of insurance services online gradually becomes one of the main factors in the development of sales channels, it complements traditional sales channels, but does not replace them. This sales channel is a significant competitive advantage, and therefore it is necessary to allocate funding for the implementation of IT processes (technologies), online self-service, as well as the development of mobile marketing;
- quality of settlement of appeals in case of occurrence of insurance cases on mass types of insurance services: speed of information collection, assistance to the client, efficiency of payments, their validity in size, etc.

Given the above, it is possible to distinguish a set of internal and external competitive advantages that are basic for ensuring the competitiveness of the insurer (Fig.1). Given the importance of all these competitive advantages, it should be noted that the current stage of the development of the insurance business is accompanied by a large-scale digital transformation in all spheres of economic activity. While maintaining this trend, the key competitive advantage of the modern stage of the development of the insurance business is the progressive digitization of insurance relations, the main goal of which is the individualization of products and services, the ability to provide them in real time and on several platforms at the same time.

The trend of digitalization involves a significant change in the traditional business processes of insurance companies, caused by the need for electronic transformation of insurance products; expanding the use of online services to pay insurance premiums; application of "connecting things" data; real use of "big data"; use of bots in the processes of current maintenance of insurance and loss settlement contracts, etc. Given this, according to experts, it is expected to increase the volume of financing for the development and implementation of InsurTech, which is due to the rapid increase in demand for digital insurance services from businesses and consumers, because since 2015, the share of consumers who interact with insurance companies through digital channels has almost doubled globally [7].



**Fig.1. Actual competitive advantages of the insurer**

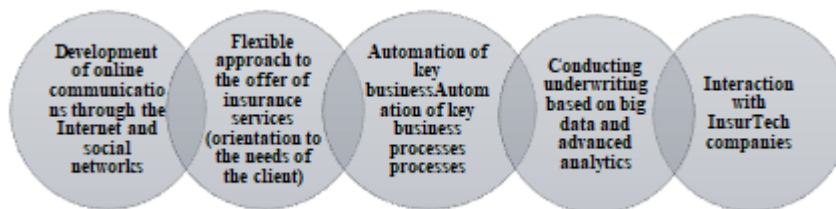
*Source: compiled by author*

It should be noted that domestic insurance companies especially appreciate the modernization of systems, improving the experience of persons who conclude insurance contracts, developing new products, platforms and services. However, at present, many insurers pay more attention to strengthening inherited systems than true innovation. Thus, according to experts, no more than 10% of innovative resources are directed to the radical change of ways of doing business by insurers, and 90% are set to work in the usual traditional format. These trends are confirmed by the research of the Ukrainian Institute for the Future, which shows that in Ukraine the potential



for the development of automation of the financial sector and, in particular, insurance is realized only by 43%. This is due to the fact that for insurers, the difficult task is to rethink the operating model and corporate culture of the organization for the purpose of introducing innovations, and, along with this, in the present and the need to ensure competitiveness and profitability, such a rethinking is essential [6].

Globally, digital innovations are used by insurers to rethink their functioning and to assess competitive advantages, increase staff productivity, quality customer service and increase profits. This, in turn, causes changes in the methods of development and distribution of insurance services, during the underwriting of risks, in the process of settlement of losses and payment of insurance indemnities. However, not all insurance companies are able to fully implement the requirements dictated by the modern insurance business, as they focus mainly on general technologies (automatic processes, chatbots, online sales, electronic information processing, etc.). If do not focus on the existing risks that accompany digital transformation, the priority of increasing competitiveness and maintaining competitive positions in the insurance business is the use of digital technologies.. It is worth highlighting five important directions to ensure competitive advantages using digital technologies (Fig. 2).



**Fig. 2. Directions of providing competitive advantages of the insurer on the basis of digitalization**

*Source: compiled by author*

The development of digital technologies contributes to changes in consumer behavior and requires the creation of new alternative channels for the sale of insurance services. If at the initial stage Internet technologies were used to place basic information about the company and its insurance products, today through the websites of insurance companies it becomes possible to communicate with customers and sell insurance products. Thus, the primary task to ensure competitive advantages of the insurer should be the maximum simplification of the purchase of the products it offers on the Internet, social networks and other online communications. In addition, insurance companies must ensure the reliability and content of the information available on these Internet resources.

Given that the modern service sector for the population is gradually improving the mechanisms for providing any services to its customers through the use of digital technologies, the requirements of persons who conclude insurance contracts are also increasing. They insist on quality service in both normal and online modes. First of all, it concerns the process of sharing the necessary information [12]. When a potential person who conclude insurance contract has an interest in insurance, he begins to study and analyze facts, news, other information about the activities of specific insurers. In order to be different from its competitors at this stage of interaction with the client, the insurance company must organize a quick and convenient way to



search for reliable information in full on Internet resources and in mobile applications. Along with this, persons who conclude insurance contracts need to simplify the mechanism of buying an insurance product, which can be achieved through the development of understandable and affordable ways of self-service.

The next direction of strengthening the insurer's competitive positions through digitalization is the creation of new products focused on a particular customer, and therefore they must best meet his needs. Using information arrays, the company can easily cope with this task, thereby increasing customer commitment to itself, get additional income, reduce the cost of collecting and processing information. Technology and automation allow to administer and reduce the price risk that in a competitive market will eventually lead to reduced bonuses, increased availability and greater coverage.

An important role in digitalization of insurance companies is played by the introduction of mobile applications and services, through which can also monitor and control the process of interconnection with the client. Real-time monitoring dramatically changes the relationship of insurers with customers. Owners of policies that are not against constant control by the insurer can learn more about themselves and use information to adapt behavior or reduce risks [9]. This means that the role of the insurer is not only to compensate for losses, but also to provide additional advice on prevention, avoidance and risk management.

An important aspect of the digitalization of the insurance business is the internal automation of the key business processes of insurance companies. The business processes of the insurer, which are most subjected to digital transformations, include:

- sale of insurance products – the use of blockchains, smart contracts, mobile applications for smartphones;
- settlement of insurance claims – online filing of necessary documents regarding the insured event, creation of a settlement history based on blockchain technology;
- accounting and tax accounting – the use of remote programs for submitting financial statements to the relevant authorities, electronic accounting programs;
- risk underwriting – the use of telematics, sensors of the client's health;
- document circulation – protection of personal information using blockchain technology, creation of a client profile, electronic document circulation.

One of the main advantages of digitalization is to simplify and improve the efficiency of the underwriting process through the use of big data and advanced analytics. Usually, the amount of risk was calculated based on previous cases. Traditional techniques are, of course, effective, but this process is quite time consuming and requires a lot of costs. However, technological innovations have made some adjustments to the risk assessment mechanism. Currently, insurance companies have the opportunity to operate a set of information about the client's risk and improve the pricing process through the use of telematics and the Internet of Things. In addition, automated data processing processes are characterized by low labor intensity, which in turn leads to a decrease in costs [8]. Thus, new data sources and platforms for their storage and analysis will reduce the duration of risk assessment, improve risk selection and allow to optimize pricing, thereby making insurance more flexible and cost-effective.

Along with the above, the necessary direction of digital transformations in the insurance business is cooperation with powerful InsurTech companies that operate in the insurance industry in order to provide individual services that some insurers or intermediaries previously provided. The functioning of InsurTech companies is based on the use of innovative technologies in order to



obtain the maximum number of benefits from the existing insurance system. Usually InsurTech includes robotic technologies, artificial intelligence, cybersecurity development, blockchain technology, the Internet of Things and for all familiar mobile services. The combination of all these elements as a result should significantly affect the easing of the insurance process, save time, strength and resources of both insurers and their customers. InsurTech companies are exploring ways to use new sources of information from devices connected to the Internet to quickly analyze consumer behavior and properly develop strategies. It should be noted that most InsurTech startups are in great demand among consumers due to improved mechanisms of their work, thereby increasing the level of competitiveness of insurance services. In general, statistics show that investors are constantly engaged in financing InsurTech-companies, which indicates the prospects for their further existence and development.

## CONCLUSION

Thus, the current stage of the development of the insurance business is accompanied by the active development of technological innovations, which involves the introduction of new digital technologies in the business processes of insurance companies in order to increase the efficiency of their activities and ensure competitive positions in the modern business environment. Digitalization in insurance is a timely process that catalyzes the innovative development of the insurer, improving the quality of insurance products and transforming the methods of conducting the insurance business. The use of opportunities that open up to insurance market participants as a result of digital transformations will help to ensure the competitive advantages of insurance companies as an imperative of their successful activities and strategic development.

Along with this, the development of the insurance business on the basis of digitalization as any innovative process definitely has its advantages and disadvantages. Positive aspects of this process are ensuring the competitiveness of insurers by improving business processes, ensuring risk diversification, optimizing business costs, simplifying and improving the efficiency of underwriting, improving the quality of customer service using an individual approach, developing and implementing new insurance products and updating the insurance portfolio. It is believed that the technologies used in the insurance market can have an impact on reducing distribution deficiencies in the market, in particular due to the limitations of the problem of information asymmetry, reducing operating costs and reducing barriers to communication with the client. In addition, digitalization processes also have advantages for consumers of insurance services, because an important factor is the simplicity and comfort of buying an insurance product online, which should encourage an increase in purchasing activity. Of course, in the future, digital innovations will change the approach to the architecture and design of insurance products, information infrastructure and risk assessment methodology, which will have a positive impact on the economic efficiency and safety of insurers.

At the same time, current insurance transformations are accompanied by a number of disadvantages, including limitations in the use of leading digital technologies due to their high cost, the need to improve the training of personnel in acquiring the necessary digital competencies, the growth of cyber threats, changing the business strategy of doing business, etc. Therefore, the successful introduction of technological innovations requires from insurers a rational approach to this process and the development of innovation management tools in the context of digital transformations of the insurance business, which is the subject of further research.

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