



VILNIAUS GEDIMINO TECHNIKOS UNIVERSITETAS

VERSLO VADYBOS FAKULTETAS

TARPTAUTINĖS EKONOMIKOS IR VADYBOS KATEDRA

Irina Čižik

**TARPTAUTINIS GYVYBĖS DRAUDIMO VERSLAS: VADYBOS
MODELIŲ UNIFIKAVIMAS**

**INTERNATIONAL LIFE INSURANCE BUSINESS: UNIFICATION OF
MANAGEMENT MODELS**

Baigiamasis magistro darbas

Verslo vadybos studijų programa, valstybinis kodas 62403S121

Tarptautinio verslo specializacija

Vadybos ir verslo administravimo studijų kryptis

Vilnius, 2010

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TVIRTINU
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Anotacija

Baigiamajame magistro darbe „Tarptautinis gyvybės draudimo verslas: vadybos modelių unifikavimas“ nagrinėjamas gyvybės draudimo įmonių valdymas, tarptautinės plėtros perspektyvos, esant nepalankioms ekonominėms sąlygoms, svarbiausiu veiksniu laikant gyvybės draudimo versle naudojamų vadybos modelių tobulinimą. Darbe analizuojamos vadybos teorijos, taikytinos gyvybės draudimo verslo plėtrai tarptautiniu mastu. Vadovaujantis minėtomis teorijomis atlikti empiriniai tyrimai, siekiant identifikuoti taikomų vadybos modelių trūkumus, ribojančius tarptautinę plėtrą. Atliktų tyrimų rezultatai yra apibendrinti pateikiamame perspektyviniame unifikuotame vadybos modelyje, išskiriant tris pagrindines kryptis. Tyrimams atlikti buvo taikomi šie metodai: teorinių darbų, antrinių šaltinių analizė, gyvybės draudimo verslą atspindinčių statistinių duomenų analizė taikant koreliaciją, tarptautinė internetinė gyvybės draudimo vadybos grandies darbuotojų apklausa, PEST, prognozavimas pagal slenkantį vidurkį ir eksponentų išlyginimą, atvejo analizė, ekspertų apklausa, kurios rezultatams apdoroti buvo pritaikytas Kendal atitikties koeficientas, patikrintos iškeltos hipotezės.

Darbą sudaro 8 dalys: įvadas, penki pagrindiniai skyriai suskirstyti į poskyrius, išvados ir siūlymai, literatūros sąrašas.

Darbo apimtis – 108 p. teksto be priedų, 13 iliustr., 10 lent., 169 bibliografiniai šaltiniai. Atskirai pridedami darbo priedai.

Prasminiai žodžiai: gyvybės draudimo verslas, internacionalizavimas, lyderystė, reguliavimo aplinka, vadybos modeliai, virtuali organizacija

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Annotation

The master thesis, "International life insurance business: unification of management models" analyze management of the life insurance business, international development perspective in the unfavorable economic conditions, while keeping life insurance business management models used as the most important factor for development. The thesis examines management theories applicable for the life insurance business development internationally. According to these theories empirical studies were accomplished in order to identify the patterns of management models deficiencies that have limited international development. The research results are summarized in the perspective unified management model, distinguishing three main directions. Research was supported by the following methods: theoretical studies, analysis of secondary sources, a statistical analysis reflecting life insurance business using the correlation, the international internet survey of the life insurance senior management, PEST, forecasts according to moving average and exponential smoothing, case study, expert interviews, which compliance rate was checked by Kendall's coefficient of concordance, stated hypotheses testing.

Structure: introduction, the five main sections divided into subsections, conclusions and suggestions, references.

Thesis consists of: 108 p. text without annexes, 13 pictures, 10 tables, 169 bibliographical entries. Annexes included.

Keywords: internationalization, leadership, life insurance business, management models, regulatory environment, virtual organization

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Introduction

Topic relevance

Life insurance organizations are major institutional investors. Managers must continuously make decisions based on long term perspective to secure profitable growth in life insurance business.

Drastic societal and economic change spurs the quest for a “best-practice” preferably for economic success. This propensity is often motivated by the desire to limit uncertainty. The unification would help for the managers to succeed and win employees, shareholders approval, as the unified management frame in sequence determine the correct behavior. In addition, the unification is of crucial importance to successful management in the international context as managers must formulate a universal language – unified management models in order to avoid cultural misunderstandings.

Problems

The absence of unified easily understood management model negatively influences the international life insurance business. It is becoming more difficult for international life insurance companies consistently meet its obligations in the changing market place. Even to share and cooperate within the groups of companies is also difficult as to compare and interpret the data on systemic or emerging risks they hold is not always possible because of fragmentation and many regulations. Customers become more difficult to consistently convey feedback, and staff to respond to market changes and offer the right products and services.

If managing a domestic business is complex, managing the international business is infinitely more so because of the many new variables bearing on crucial management decisions. The national economies and business systems are becoming deeply interlinked with each other changing and tightening the competitive landscape, regulatory and compliance requirements, rising different approach to risk management, and fraud management, underwriting quality, risk pricing and distribution management.

Purpose and goals

There is need for the unified management models development, to enable managers in international life insurance business to build a company that last, survive and be successful in the current fast-paced, highly competitive, global, complex and changing market then some principles of management are enduring.

Thus the purpose of the paper is to provide research on the international life insurance business and in consequence the way the insurance companies manage their activity in order to compose the conceptual unified management model.

For the purpose reach the following goals are formulated:

- ✦ to analyze management models and to state which aspects are beneficial in the life insurance business;
- ✦ to explore regulatory environment committed for the insurance business development;
- ✦ to do research on the internationalization processes and management experience of the international life insurance businesses;
- ✦ to test stated hypothesis validity;
- ✦ to develop unified management model for international life insurance business.

Research and analysis methods

An assessment of these goals shows that quantitative and qualitative research is appropriate:

- ✦ the comparative systematic analysis of the relevant scientific literature, articles, reports and statistical data reflecting insurance business is employed;
- ✦ the qualitative methods are conducted by means of international internet survey, face to face experts' interviews, case study, PEST analysis and hypothesis testing as well as comparison with the data from secondary sources used to test the validity of the procedure;
- ✦ quantitative methods used: correlation analysis, forecasting by moving average and exponential smoothing, Kendall's coefficient of concordance.

Paper structure

The master thesis consists of the five main sections subdivided in to subsections. The first section reveals research object – international life insurance business. The second section reveals research subject – management models. The third and the fourth sections are for research problem investigation. The fifth section is a proposal of unified management model for the international life insurance business.

Paper practical implication

It shows author ability to use various information sources, analyze, organize and qualify research data as well as use analysis methods for primary source gathering and managerial implications.

1. INTERNATIONAL LIFE INSURANCE BUSINESS AND IMPROVEMENT OF ITS MANAGEMENT AS AN IMPORTANT OBJECT OF SCIENTIFIC RESEARCH

1.1. Life insurance features, definitions and classification

Basically life insurance role is very important in nowadays global economy. Given the nature of the insurance business, a great deal of the premium income is reinvested in local and international capital markets, which in turn makes insurers very significant institutional investors around the globe.[R. B. K. Pye, 2005] From social side – insurance is the mean of maintaining well and reducing the gap between different levels of people. From economical side – it is the important condition for economical development. From macro economical side – insurance plays functions of capital and income saving, also credit safety role.

Insurance activity is treated as part of economical activity of units. Main conditions that should be present for insurance activity to appear are [P. Howells, K. Bain, 2007]:

- ✦ collectivism – there should be some particular amount of people that wish to participate in insurance activity;
- ✦ economy – all expenses of an economical unit should be logical;
- ✦ demand – there should exist large number of people that wish to be engaged in insurance activity;
- ✦ randomness – nobody can predict the fact of event to occur;
- ✦ measurable – all risks and fees of insurance should be measurable in monetary expression;
- ✦ existence of the same risk – all risks should be groups for economical entities to oversee which insurance policies to choose.

Insurance activities theorists and practitioners have tried to create the theory for insurance, which would be universal.

Theory of damages is one of the most common legal theories, which is based on the assertion that the occurrence is always the case, the insurer is obliged to compensate for damage/loss. This theory is popular in the Anglo-Saxon, Spanish and French insurance legal literature. The biggest shortcoming of this theory is that it is difficult to apply for insurance against accidents, health or life insurance, because the amount of insurance is paid regardless of the injury. [S. Girdzijauskas, 2002, p. 35; T. E. Tomlins, 2001]

Theory of demand. Essentially the definition of insurance theorists tried to solve the problem through an economic need for the category. Demand theory assigns insurance needs:

the concrete (actual damages) or abstract (a certain amount of payment), collateral function. The most representatives of this theory are Gobbi and Manes. [S. Girdzijauskas, 2002, p. 36; J. R. Hicks, 1986] The need for the theory is criticized for the fact that under the insurance contracts may be awarded only when the tangible economic need, rather than, for example, need a sense of security.

Theory of conservation measures insurance as the tool which eliminates any uncertainty in the target and at the same time ensures the protection of the life of instability. The main representative of is the law theorist Hupka. [S. Girdzijauskas, 2002, p. 36; S. Muñoz Viñas, 2005] This theory is criticized because of the criteria used, as defined by the prohibition is hard to separate from all other persons to be providing for the measures.

Theory of enterprise explains the essence of insurance within the legal relationship between the insurer and the insured prism in a way: the insurance company undertakes to provide insurance protection for persons at risk of a homogeneous risk. Lot supporters in particular in southern Europe, Italians - Lordi, Mossa, Rocco, Vivante, Frenchman - Danjon and German Goldschmidt. [S. Girdzijauskas, 2002, p. 36; D. Patterson 1999] The shortage of this theory is that the direct relationship between the insurer and the insured is not created.

Theory of risk. German insurance law theorist Bruck [S. Girdzijauskas, 2002, p. 36; E. F. Brigham, M. C. Ehrhardt, 2008] first expressed the idea that the persons submitting the insurance company of one type of risk, in the same form the risk community.

To this day, there is no established definition of insurance, which would be unassailable and universally recognized.

According to a Dictionary of Economics, life insurance is a contract providing funds on death or at a certain age. A life insurance (or assurance) policy is a contract whereby, in return for lump-sum or regular premiums, the company provides an agreed sum to the policyholder's estate in the event of death before some agreed date, or to the policyholder upon survival to this date.

A Dictionary of Finance and Banking and a Dictionary of Business and Management represent life assurance as an insurance policy that pays a specified amount of money on the death of the life assured or, in the case of an endowment assurance policy, on the death of the life assured or at the end of an agreed period, whichever is the earlier. Life assurance grew from a humble means of providing funeral expenses to a means of saving for oneself or one's dependants, with certain tax advantages.

Due to Law on Insurance of Republic of Lithuania, life assurance - means the insurance of property interests related to life and (or) capital accumulation of a natural person where due to insured events, such as death of the insured, maturity of the insurance term established in

the insurance contract or other insured event, insurance benefits are paid in lump sum or in installments. [Law on insurance, No. X-1324]

Thus the common aspect of all presented definitions are that life insurance is an important tool for hedging risks against uncertainty and unforeseen circumstances as it provides return and tax relief. Moreover, those definitions sum up the main insurance functions [J. Čepinskis et al., 1999]:

1. Risk compensation function means risk diminishment or elimination. This is the main insurance function, as insurance risk as possible loss probability, directly link with the main insurance purpose – injured material loss compensation.
2. Preventive function the main idea is that by using finances from insurance fund, preventive tools are financed, which led decrease insurance risk.
3. Savings function shows, that insurance helps to save finances by attaining some specific age. Cumulative capital ban promotes the need to maintain the welfare of living.
4. Control function implies that the insurance fund would be formed and used strictly for the intended purpose.

European Union directives as well as the Insurance Act of the Republic of Lithuania distinct two insurance branches: life and non-life insurance.

Table 1.1. Branches and classes of insurance

Non life insurance	Life insurance
General liability insurance Sickness insurance and Accident insurance Financial loss insurance Railway rolling stock insurance Credit insurance Surety ship insurance Liability for ships (sea, lake, river and canal vessels) insurance and Ships (sea, lake, river and canal) insurance Assistance insurance Motor vehicle liability insurance Land vehicles other than rolling stock insurance Aircraft liability insurance and Aircraft insurance Legal expenses insurance Property insurance Goods in transit insurance	Marriage and birth assurance Life assurance where the investment risk is borne by the policyholder Life assurance not covered in other classes: Whole life and Term assurance Endowment assurance Annuities Tontines

Source: Law on insurance, No. IX-1737

Insurance is classified under various signs. Widespread insurance activities distribution into the insurance branches such as life and non-life insurance and from the insurance risk groups simple and complex insurance, distribution of restrictive facility, the distribution of the insurance contract period in the short and long-term insurance, the distinction between public and private, according necessity (voluntary and compulsory insurance), according insurance activity (personal, property and insurance of financial losses), according to the method of determining compensation.[S. Girdzijauskas, 2002, p. 19-20; P. Howells, K. Bain, 2007]

There can be distinguished two type of life insurance: accumulative and risk insurance. Accumulative life insurance – the employee’s premium and “laying –up” form. Risk insurance covers any death case. Insurance fee depends on insured age and gender. The fee is higher for older people and men, and lower – for younger people and women.

The ever lasting conflict between the insurance companies which want to profit the most and the insured person who wants to get as much compensation as possible from the insurance company. The motivation behind many life-related policies is essentially a desire to save for the future. But life insurance companies are in competition with other forms of long-term saving. The most serious risk faced by long-term insurance funds is that future economic and financial conditions cause the future yield on their portfolio to fall below expectations. [J. D. Cummins, A. M. Santomero, 1999]

1.2. Nature of life insurance business in the context of socio-economic internationalization processes

As the selected international life insurance business refers to the finance and insurance sector it is important to stress internalization advantages. According to the market-based view and the resource-based view, market conditions and firm resources can be understood as initiating forces that are existent at the point of founding or the first internationalization decision and therefore support the rapid internationalization of a firm. [R. W. Griffin, M. W. Pustay, 2007]

Internalization advantages refer to the benefits of retaining assets and skills within the business. Moreover, the more the global economy becomes interconnected, the more possibilities to acquire knowledge, technology, and market access. The most significant determinants influencing the present form of financial markets in the world include: new technologies, integration of financial markets and creating of over national financial conglomeration between banks, insurance companies, trust investment and pensions funds,

this enhance their capabilities and become, potentially, advanced players themselves. [T. Bernat, D. Grundey, 2007, p. 185]

Life insurance is generally thought of only with regard to protecting the financial well-being of individuals and their families. But from the individual's perspective, life insurance offers many advantages [P. C. Verhoef, B. Donkers, 2001; D. Li et al., 2007]:

1. Life insurance guarantees to pay a stated sum to a family on the death of its income earner(s). In so doing, it affords families a measure of protection against the adverse financial consequences of premature death, gives individuals a greater sense of economic security, and can help reduce worry and distress and thereby increase initiative. No other privately purchased financial instrument can perform this function.
2. Cash value life insurance can serve as a means through which individuals save. Many persons who might not otherwise save consistently will regularly pay their life insurance premiums; thus, life insurance might constitute a type of quasi-compulsory savings.
3. Life insurance products, especially annuities, provide a convenient by which individuals can make financial provisions for retirement.
4. Life insurance can permit more favorable credit terms to borrowers – both individuals and businesses – and can decrease the risk of default. Life insurance can also minimize the financial disruption to businesses caused by the death of key employees.

Economic importance of insurance is one of the reasons why insurance relations in general are regulated in all civilized societies. [T. Kontautas, 2006, p. 9] The financial development generally is synergistic with economic development. J. Carmichael and M. Pomerleano (2002) concluded basic insurance contribution ways. Three of them reflect life insurance contribution:

1. Life insurance promotes financial stability among households, because of the risk transfer. The stability provided by insurance encourages individuals to specialize, to create wealth, and to absorb only those risks that they can reasonably withstand.
2. The long term nature of life insurance liabilities is conducive to capital formation. Studies have showed that, on average, countries that save more tend to grow quicker. Life insurers are an effective conduit for mobilizing savings from the households sector and channeling them to the corporate sector.
3. The private insurance reduces the reliance on government social security programs. Life insurance is a potential substitute for public pensions. Studies have confirmed that greater private expenditure on life insurance is associated with a reduction in government expenditure on social insurance programs.

Two powerful and sometimes controversial current social and economic trends are globalization and the widespread adoption of information and communication technologies. [J. D. Cummins, B. Vernard, 2007] Thus countries are under pressure to behave more like companies because in the globalization system countries, more than ever, can choose prosperity - depending on the policies they adopt - and their citizens will start to catch on to that and demand better management accordingly. [T. L. Friedman, 2000, p.247]

The democratization of technology certainly helped foster the change in how we invest. Information is cheaper and easier to obtain. [C. W. L. Hill, 2003, p. 437; D. S. Kidwell et al., 2008] What companies do today well, after one year they should do it even better if they want to preserve their place in the market, there is racing. Thus it is important to learn new skills, enjoy the challenges of working in busy environment. [T. J. Peters, R. H. Waterman, 2008; P. Drucker, 2001)

T. L. Friedman (2000) offered expression of the democratization of finance. Due to increased competitive pressure, companies engaged in life insurance are using these new technologies to extend their services and operations into the international marketplace. Technology allows global commercial transactions to take place at increasingly faster rates and at greater volumes across national borders. What is more, technologies are used to achieve new innovative transnational organizational forms.

Openness combined with sound domestic policies leads to faster growth, and the faster growth transfers directly into increased living standards. It is predicted that the share of global GDP of Brazil, China, India, Indonesia and Russia will increase to over 30 percent in 2020, from about 20 percent in 1995. At the same time, their share in global trade is expected to rise from about 30 to about 50 percent. The decline in poverty has been the fastest where the economic growth has been fastest (in Asia, in particular in China and India). Other indicators of well-being, such as life expectancy, literacy and infant mortality rates also showed marked improvement during the second globalization wave. [P. Howells, K. Bain, 2007; D. S. Kidwell et al., 2008]

Collaborative efforts, often through international institutions, can assist developing countries as they open their financial markets. [J. Ravenhill, 2005, p. 190] As the main negative consequence becomes increased inequality of income [World Bank insurance program]:

- ✚ developing countries to open their economies and improve their investment climates, while introducing better social protection;
- ✚ developed countries to open their markets to exports from developing countries, and to reduce their large agricultural subsidies;

- ✦ the substantial increase in development assistance, particularly in education and health.

A world potentially characterized by deeply integrated financial markets, borrowing and lending fuel economic growth. But deepening financial linkages bring with them unavoidable problems, bouts of instability. Avoiding, mitigating and transferring certain risk create greater predictability for consumers and business, and allows people and organizations to use risk intelligently to maximize their opportunities. Risk management corresponds insurance and creates certainty about the future and way of cumulating funds. More and more, large institutional investors such as pension funds, money market and equity funds, and insurance companies are dominating today's markets. Professional fund managers now move money regularly across international boundaries to diversify risk and to take advantage of market differentials. [P. King, 1990; B. Solnic, D. McLeavey, 2003, p. 437]

At the national level, countries have developed a variety of mechanisms to safeguard the financial system from shocks caused by the collapse of financial institutions. But during periods of euphoria in financial markets, participants tend to forget historical lessons, participants in global markets choose entirely to ignore the past. [H. Sadhak, 2005]

1.3. The new challenges for international life insurance business and the priorities of improvement of management in this sector

The international life insurance business is extremely competitive, especially as the world is moving away from relatively independent national economies toward a single global system. [A. Dreher et al., 2008; S. L. McShane, C. W. L. Hill, 2008; M. Mc Neilly, 2007] This process of globalization is changing the competitive landscape, regulatory and compliance requirements are rising requiring a different approach to risk and fraud management, underwriting quality, risk pricing and distribution management. [B. Zukis, D. Holtzman, 2010]

New risks created by the global markets themselves and exposed the danger of great instability in the new, closely integrated word system. [J. N. Bhagwati, 2004] Managers must continuously make decisions based on long term perspective to secure profitable growth in life insurance business. In general they face challenges in obtaining, interpreting and applying information about systemic or emerging risks.

These interconnections among risks (*annex A-I*) can help management teams challenge themselves to develop better strategic scenarios. It includes strategic decisions on new market

entry, mergers, acquisitions, joint ventures and capital investments. Moreover, decisions should be taken with the response to external organization environment such as macroeconomic factors, regulatory change, geopolitical upheaval, technological and innovation development.

Very interesting ideas framed K. Black (1996), the author attempted to forecast the future of the life insurance business. The study revealed that the life insurance industry is being transformed, along with the entire financial services area, providing important future opportunities for well-managed companies. The author maintained that by 2010:

- ✦ the industry is likely to be more consolidated due to mergers and acquisitions;
- ✦ face increased outside competition;
- ✦ place more emphasis on full disclosure to customers.

The industry must meet challenges from globalization and find ways to target mass market customers. Traditional industry compensation systems and customer relationships similarly should change. Insurance companies' integrity and performance should come under increased investigation.

According to Ernst & Young [Strategic business risk report, 2009] the insurers need to examine areas for reducing costs and seek ways to optimize their operations for a low-growth environment in 2010 that could last several years. In order to become profitable again and achieve growth, insurance executives are going to have to become more innovative and proactive to change the way they conduct business.

As concerns the insurance sector, analysts pose the greatest challenges from the credit crunch and radical greening, quite high impact from regulation and compliance as well as deepening recession. What is more, demographic changes are the greatest strategic risk currently taking priority for the life insurance industry. [Operational risk, Business continuity journal, 2008] While further risks such as: non-traditional entrants, costs cutting, managing talent, executing alliances and transactions, business model redundancy and reputation risks are seen as the moderate threats. [Second annual business risk report, Ernst & Young, 2009]

Table 1.2. The top five challenge and solution trends

Challenge Trends	Solution Trends
Increasing concern for the environment. Greater personalization and customization. Faster pace of innovation. Increasing complexity. Increasing competition for talent.	Becoming more connected. Becoming more global. Becoming more mobile. Rise of the creative class. Increasing collaboration.

Source: M. Carpenter, T. Bauer and B. Erdogan, 2008

M. Carpenter et al. (2008) have defined ten major ways in which the world is changing. They characterized the first five as challenges and the next five as solutions.

✦ Challenges trends

Increasing Concern for the Environment. People are seeing the growing threat of global warming, which is leading to failing crops, rising sea levels, shortages of drinking water, and increasing death tolls from disease outbreaks such as malaria and dengue fever.

Greater Personalization and Customization. Customization and the growing numbers of products mean managing more services and more products. Managing for mass production will not suffice in the future.

Faster Pace of Innovation. Companies are speeding new products to market in response to customer demands.

Increasing Complexity. As customers want more sustainability, more customization, and more innovation, companies face growing complexity.

Increasing Competition for Talent. According to McKinsey's global survey of trends, business executives think that this trend, among all trends, will have the greatest effect on their companies in the next five years. Companies will have to deal with shortages of specific skills. Hiring from each other is a common practice amongst insurance companies. Employees, especially in middle and junior levels of the sales function, tend to move amongst insurance companies. Availability of quality talent is still scarce. Given the huge demand for talent, and since not all of this requirement can be met by fresher, companies tend to poach from competitors.

✦ Solution trends

Becoming More Connected. By September 30, 2009 more than 1.7 billion people were online [Internet users, Global policy forum, 2009; Internet world statistics, 2010] and that number continues to increase each year as the developing world catches up with the developed world on Internet usage.

Becoming More Global. Organizations and social movements alike are using social networking to help people find others with the skills and talents to solve pressing problems.

Becoming More Mobile. By the end of 2008, 60 percent of the world's population – 4 billion people – was using mobile phones. [International Telecommunication Union, 2008] Mobile phone adoption continues to grow.

Rise of the Creative Class. The demand for workers and ability for workers to work from anywhere may lead to an "e-lance economy" anyone can post their creative ideas.

Increasing Collaboration. Foster a rise in collaboration across space and time now bring more people together to solve more problems more quickly. To design new products quickly

– and make sure they meet consumer needs – companies are now looking beyond their four walls for innovation.

Life insurance executives will continue to face a challenging environment and must focus on improving their current strategies and infrastructures to ensure that they are in line with their business goals and objectives. [B. Graham, 2010] Besides the business environment depends on collaboration across regional and national borders, so successful manager need to be culturally sensitive and have an understanding for how business is done in different cultures.

1.4. The priorities of the scientific research on management in the sector of international life insurance business

To enable managers in the international life insurance business to improve a complex set of tasks, sustain the business and broaden understanding, there is need for the new management organization models. This view is driven by the international business nature as the traditional organizations that had clear boundaries, formal procedures and well defined authority structures are changing, to stay successful and profitable in the long run.

The successful and unsuccessful companies differ in that, the first case, the company is bringing together the core of everything - whether it is technology or market. [P. F. Drucker, 2001] This idea should be even expanded by adding: all in one place - this is a global service. [J. A. Vasconcellos e Sá, 2008] Forasmuch, management activity is already not simply local, or regional or neither purely international it comes in the stage then there is transition between international manager and global manager. Despite the growing importance of global business, Fortune 500 companies have reported a shortage of global managers with the necessary skills. [Global Relocation Trends Survey report, 2008]

In order to develop the rational, unified models of management in the international life insurance businesses, the research structure process is chosen to be implemented in this manner:

1. *There is need to examine evolution of management theory to the new modes of thinking.*

Manager's work contains decision making and implementing management decisions. The level of productivity, or the success of management, depends on the execution of certain managerial functions such as planning, organizing, directing and controlling. To carry out these functions, managers engage in a continuous process of making decisions. Life insurance

operating internationally is facing cross-cultural challenges as understanding the differences in communication patterns and styles, preferences for leadership approach and style, different principles and notations of hierarchy and organizational structures, and different systems of decision-making.

Previously management would provide business units with prescribed scenario and they would follow it. But today management must adjust the planning process to ensure it explicitly factors, optimize the portfolio and reflect to uncertainty. In this helps integral part of daily life – technologies. [V. De la Mar, 2007] As changing risk landscape may directly or indirectly affect the organization as a participant in a global competitive market place it also can reveal emerging opportunities in markets or sources that could provide a competitive edge. Ditto take to compete more effectively as an international business.

Competition is a process that is driven by the development of new product, process, and business models some of which destroy old business models, while creating entirely new product market opportunities. To success as a manager require:

- to understand how this process works and be ready to play a part in leading it;
- be able to stay ahead of the competition by pushing the organization to develop better innovations, recognizing paradigm shifts when they occur;
- be ready to push for change in the strategy and organization architecture so that it can adapt, survive, and prosper when facing a new competitive reality;
- be able to identify inertia forces in organization and know how to counteract them, helping the organization overcome the inevitable resistance to change.

This skills mark truly great manager. Still the business world is as an increasing discontinuous place, it is living, complex system. Building a company to last – managing survive – is no longer enough in an age of discontinuity. If organizations want to survive and be successful, executives and senior managers should thrive in the current fast-paced, highly competitive, global, complex, and ever-changing market place. Thus the suitable management platform for the information and knowledge age is based on new living systems model innovate→proliferate→aggregate. [J. Ravenhill, 2005; W. W. Burke et al., 2009]

Framework would be developed for organizations willing to innovate and collaborate. Various elements of the strategic process should be considered when developing a management process in an international life insurance business context. As the standard way of doing business is radically becoming obsolete and irrelevant to develop models as to how things work in the environment and most importantly refine those models through learning and adaptation. One of the main principal to management process with unified management model is inspiring frontline workers to operate as independent agents, pursuing their own

solutions with little control. As employees are more educated and more is expected of them. Thus managers should obtain superior results and decisions including [S. G. Haines et al., 2005, p. 13; S. L. McShane, C. W. L. Hill, 2008, p. 69]:

- ✦ employee satisfaction, how best to staff, compensate, motivate, train, develop and manage the human capital of their organization;
- ✦ customer satisfaction, whether to treat the world as a single market or customize the organization's products to reflect differences across nations;
- ✦ economic benefit for shareholders, and owners, where to locate different business activities, how best to manage subsidiaries;
- ✦ contribution to society.

2. *Establish the conditions that cause the most impact on life insurance businesses operating internationally.*

Insurance coverage were seen as non-essential under the communist system since the state guaranteed citizens the basic needs in terms of healthcare, education, employment and pensions. [R. B. K. Pye, 2005, p. 208] Thus, in the case of life insurance products, these were generally seen as nonessential luxuries that offered very little economic value to customers, but the global mind have changed. As M. Porter once put it: "A nation's wealth is [now] principally of its own collective choosing. Location, natural resources and even military might are no longer decisive. Instead, how a nation and its citizens choose to organize and manage the economy, the institutions they put in place and the types of investments they individually and collectively choose to make will determine national prosperity." [T. L. Friedman, 2000, p. 248]

Life insurance companies are in sharp competition with other institutions of long-term saving. The future economic and financial conditions should be all the time reviewed and measured before decisions are taken. Thus in the complex and dynamic twenty-first century, the most serious risk faced by long-term insurance funds require organizations' development professionals – managers the new modes of thinking to effectively manage organizations. The approaches to thinking and management that worked in the twentieth century the future yield on their portfolio and during the Industrial Revolution are no longer relevant in today's fast-paced Information Age. [S. G. Haines et al., 2005, p. 16]

Globalization of financial markets was driven by three central developments: first, deregulation ended many controls around the world on foreign investment in financial services and on international capital flows. Second, advanced technology enabled financial institutions to use computers to create new products unimagined only a few years ago and to apply sophisticated communication technology to link markets and offer financial products

globally, often on a 24-hour basis. Third, volatility of prices, exchange rates, and interest rates led to a demand for innovative ways to hedge against or take advantage of new risks. [E. F. Brigham, M. C. Ehrhardt, 2008, p. 434-5]

The growing integration of national economies into the international economy and societies around the world creates new challenges and opportunities for businesses. The opportunities include access to new markets that were previously closed due to cost, regulation, or indirect barriers, the ability to tap resources such as labor, capital, ideas and knowledge on a worldwide basis, and the opportunity to participate in global financial networks, foreign direct investment and capital flows. Challenges come from foreign competitors entering firms' domestic markets, and from domestic competitors reducing their costs through global sourcing, moving services offshore or gaining economies of scale by expanding into new markets. Economic globalization challenges businesses to become more streamlined and efficient responding to these opportunities increasingly requires a fundamental restructuring of organizational strategy and processes. [J. N. Bhagwati, 2004; Business and economic research advisor, 2009]

Thus to be successful in this complex environment requires from managers deep understanding of impact on organization of uncertain events, dealing with different accounting and tax rules, current competitors, potential new market entrants, accommodate country differences and the governments. [S. L. McShane, C. W. L. Hill, 2008, p. 74; Global risk report, World Economic Forum, 2010]

Every modern organization needs to enhance its capacity be flexible, to change and to adapt. Thus flexibility, ability to adapt and change requires continuous renewal of resources by input, sharing or synergy, which needs diverse interaction with other market participants. This fast world is challenging and exciting for managers. Globalization is radically altering the environment confronting managers, giving rise to opportunities and threats, creating new uncertainties that much harder to reduce or control.

2. THEORETICAL STUDIES AND ANALYSIS OF MANAGEMENT MODELS APPLICABLE IN THE MODERNIZATION OF INTERNATIONAL LIFE INSURANCE BUSINESS

2.1. The modern theories of international economies, international business and management and their use in the area of life insurance business development

In order to develop a deeper understanding of international economy, international business and management and their use in the international life insurance business it is worth to note that we have been moving rapidly away from a world in which national economies were relatively self-containing entities, isolated from each other by barriers to cross-border trade and investment by distance, time zones, and language and by national differences in government regulation, culture and business systems.

The reality of modern view is moving toward a world in which barriers to trade and investment are tumbling, perceived distance is shrinking due to advances in telecommunications technology, material culture is starting to look similar the world over, and national economies are merging into an integrated and interdependent global economic system. [C. W. L. Hill, 2003, p. 404; S. L. McShane, C. W. L. Hill, 2008, p.56]

Thus an integrating global economy, financial markets ups and downs can be constructive for businesses engaged in the international arena. When they facilitate innovation, production and exchange, adjustments in the prices of financial assets are helpful to the real economy and serve to stabilize the underlying political order. Economic benefits and costs are surely distributed and redistributed across subsidiaries world wide. [J. Ravenhill, 2005, p. 178]

J. S. Landefeld and B. M. Fraumeni (2001) described the new economy by the terms as the Internet age, the information technology (IT) revolution, and the digital economy. The new economy subcomponents including high-tech products, IT goods and services, E-business, business-to-business E-commerce, and retail E-commerce.

The fundamental principle of every manager under the digital economy conditions, regardless of his or her principal activity, has to manage the resources of the organization with the objective of increasing the market value of the business. [F. Carrada-Bravo, 2003]

Recent technological changes that continues to reshape existing commercial relationships in the global economy, provides an integrated financial management system, contribute to making sound business decisions and to designing effective financial programs

that match the interests of management with that of the stockholders. But it not as easy as it sounds. In such conditions of the high-tech, E-business world of stock options, capital gains, mergers and acquisitions, intellectual property, write offs, and changing tax laws to manage the organizations become more difficult task. [K. L. Kraemer, J. Gibbs, J. Dedrick, 2005]

Theories of business internationalization: Uppsala model (J. Johanson and J. E. Vahlne, 1977), Product Life Cycle model (R. Vernon, 1966), Ownership, Location and Internationalization model (J. Dunning, 1977), Diamond model (M. E. Porter, 1990), Linkage, Leverage and Learning model (J. A. Mathews, 2006) are still reconstructed to fit the modern economy and international business requirements.

As many international markets are now extreemly competitive due to the liberalization of the world trade and investment environment. But countries differ along a range of dimensions, including the economic, political, legal and cultural and that these differences can either raise or lower the costs of doing business in a country. [C. W. L.Hill, 2003, p. 408-10]

Despite the fact that some principles of management are enduring, managers should continually adapt to changing times. The framework of performing management functions has to be adapted to take advantage of, and to manage in, the changing world.

Thus the core of management is the art of getting things done through the efforts of other people. [M. Carpenter et al., 2008] Formally, management can be defined as working with human, financial, and physical resources to determine, interpret, and achieve organizational objectives by performing the functions of planning, organizing, staffing, leading and controlling. The purpose of management is to set and reach the organization's objectives. Management functions are performed, and human resources, financial resources and physical resources are used.[S. P. Robbins, D. A. Decenzo, 2007]

A variety of schemes have been developed to describe the evolution of management theories. T. J. Peters and R. H. Waterman (1982) have proposed to use R. Scott four major theoretical development and management practices periods. Each of them is defined in the table (see table 2.1.).

The first phase *a closed system - a rational player*. The most influential of early management principles were set by H. Fayol. He proposed five primary functions of management (planning, organizing, commanding, coordinating, and controlling) and developed fourteen principles of management.

M. Weber and F. W. Taylor the essence of the theory was to show that if certain rules and practices could be learned and mastered - the rules of division of labor, the maximum volume control, about power and responsibility adjustments - when large groups of people management issues are more or less solved.

But those views presumed that managers were overseeing manual labor tasks. As work began to require less manual labor and more knowledge work, the principles they had developed became less effective.

Table 2.1. Four stages of theory and the main theorists

	Closed system	Open system
Rational player	I. 1900-1930 H. Fayol M. Weber F. W. Taylor	III. 1960-1970 A. Chandler P. R. Lawrence J. W. Lorsch
Social player	II. 1930-1960 E. Mayo D. McGregor A. Maslow F. Herzberg	IV. 1970-now K. E. Weich J. G. March W. E. Deming P. F. Drucker

Source: modified from T. J. Peters and R. H. Waterman, 2008

The second phase *a closed system - a social player*. E. Mayo and his followers established industrial area of the social organization theory, the philosophy underlying organizational humanism is that individuals need to use all of their capacities and creative skills at work as well as at home. The rational model of top-down interaction and the social model of bottom-up efforts to start revolutions in the training department.

The third phase *an open system - a rational player*. The theory went back to the mechanistic assumptions about the man, but took a step forward, because the organization was treated as the competitive market share formed by outside forces.

The fourth period began in 1970 and is still going on *open systems - the social player*. Everything is constantly changing - goals, measures, blustering external shocks. Failure to comply with a formality is emphasized, and individual entrepreneurial evolution is characterized by a short review, but no solid theory formation.

The previous century seventies prompt management solutions has a list of management by objectives, planning, programming and budget system, theory Y, sensitivity training, work improvement, project evaluation and monitoring approach, BCG matrix.

The eighties had a centralized strategic planning matrix corporate governance systems, management of project management, flextime and budget planning, regardless of the previous budget period. Nineties gave entrepreneurship, quality circles, theory Z, just-in-time inventory management system, fourteen W. E. Deming principles of self-command and secret projects.

The last decade of the twentieth century proposed the strategic alliances, the core competencies, the payment according to performance, total quality management (TQM) transformation, mass customization, charismatic leadership, emotional intelligence, infinite organizations, knowledge organizations, the transfer of activities and of power to third countries.

A services-based economy requires interactions between employees and customers. Employees have to be able to improvise, and they have to be motivated and happy if they are to serve the customer in a friendly way. Therefore, new management theories were developed to address the new world of management and overcome the shortcomings of the early views.

P. F. Drucker was the first scholar to write about how to manage knowledge workers, he denied a traditional understanding of a manager's job, which is defined in terms of the activity he/she heads, that is downward addressed. [S. P. Robbins, D. A. Decenzo, 2007]

Table 2.2. A comparison of three management models

	Top-Down	Middle-Up-Down	Bottom-Up
Agent of knowledge creation	top management	self-organizing team (with middle managers as team leaders)	entrepreneurial individual
Resource allocation	hierarchy	from diverse viewpoints	self-organizing principle
Pursued synergy	synergy of money	synergy of knowledge	synergy of people
Organization	big and powerful headquarter staff use manuals	team-oriented affiliated firms by entrepreneurs	small headquarter self-organizing suborganizations
Management process	leaders as commanders emphasis on information processing chaos not allowed	leaders as catalysts create organizational knowledge, create/amplify chaos/noise	leaders as sponsors create personal information chaos/noise premised
Accumulated knowledge	explicit computerized/documented	explicit and tacit shared in diverse forms	tacit incarnated in individuals
Weakness	high dependency on top management	human exhaustion lack of overall control of the organization	time consuming difficult to coordinate individuals

Source: I. Nonaka, 1994

Similarly I. Nonaka (1994) proposed a paradigm for managing the dynamic aspects of organizational knowledge. A new model of management called "middle-up-down management" was proposed and contrasted with typical "top-down" management or "bottom-

up” management. This middle-up-down management model is suitable for promoting the efficient creation of knowledge in business organizations. The model (see table 2.2.) is based on the principle of creative chaos, redundancy, and requisite variety mentioned above, much emphasis is placed on the role of top and middle management for knowledge creation, which has been almost neglected in traditional accounts of managerial structure.

Learning organizations do not wait till the market will allow them, but they are developing their own internal market. The best ideas imposed from the top of the headquarters of the operating managers is rare, more frequently they are offered, tested and adapted in each department. [F. Reichheld, 2006, p. 70; D. Shufang, 2008] It is essential that the organization can create a forum where good ideas can actually be identified and they are shared. Thus technology works as unification tools for greater efficiency, as well as the promotion of adaptation and survival gear.

Over the past forty years we were able to monitor the loss in sole control of executive, it was replaced by the participating manager. Modern management practices as a delegation and teamwork requires trust. The first decade of the twenty-first century have revealed the work-family balance benefits, electronic governance, virtual organizations, knowledge management and workplace spirituality. [S. P. Robbins, 2007, p. 157]

Thus, managers and executives efficiency depends on the ability to gain confidence in their followers. If management is defined as getting things done through others, then leadership is the act of influencing others toward a goal. [M. Carpenter et al., 2008] This view about leadership importance is not new, but competition among employers and countries for the best and brightest, increased labor mobility and this is the reason where good management requires good leaders and leadership.

As management through leadership contains various styles it is important to distinguish under which conditions different styles would be effective. For this purpose reach the leadership theories will be overviewed.

Early leadership theories focused on what qualities distinguished between leaders and followers, while subsequent theories looked at such variables as situational factors and skill level. K. Cherry (2008) proposed to classify leadership theories into eight major types:

1. “Great Man” theories

These theories assume that the capacity for leadership is inherent – that great leaders are born, not made. The great leaders are heroic, mythic, and destined to rise to leadership when needed. Leadership was thought of primarily as a male quality, especially in terms of military leadership.

2. Trait theories

Trait theory assumes that people inherit certain qualities: personality or behavioral characteristics and traits that make them better suited to leadership. Otherwise there is shortcoming as some people poses right qualities, but are not leaders.

3. Contingency theories

Contingency theories of leadership focus on particular variables related to the environment that might determine which particular style of leadership is best suited for the situation, but it does not suit in all situations. Success depends upon a number of variables, including the leadership style, qualities of the followers, and aspects of the situation.

4. Situational theories

Situational theories propose that leaders choose the best course of action based upon situational variable. Different styles of leadership may be more appropriate for certain types of decision-making.

5. Behavioral theories

Behavioral theories of leadership are based upon the belief that great leaders are made, not born, they can learn to become leaders through observation and learning.

6. Participative theories

Participative leadership theories suggest that the ideal leadership style is one that takes the input of others into account. These leaders encourage participation and contributions from group members and help group members feel more relevant and committed to the decision-making process. However, the leader retains the right to allow the input of others.

7. Transactional theories

These theories focus on the role of supervision, organization, and group performance. Leadership based on a system of reward and punishment. When employees are successful, they are rewarded, when they fail, they are reprimanded or punished.

8. Relationship theories

Relationship theories/Transformational theories focus upon the connections formed between leaders and followers. These leaders motivate and inspire people by helping group members see the importance and higher good of the task. Transformational leaders are focused on the performance of group members, but also want each person to fulfill his or her potential. These leaders often have high ethical and moral standards.

J. Sze Yin Ho et al. (2009) findings related to a mixture of the aspects of transformational leadership and transactional leadership revealed that insurance leaders would need to emphasize on the characteristics of the leaders such as inspirational, motivators, concern for the individual and rewards. But managers can not choose the style of leadership

as they want. They are constrained by the cultural conditions that surrounded them were born and grew up with and expectations from their subordinates. [S. P. Robbins, 2007]

J. Mattsson (2008) has proposed two basic models of how the company should be allocating power, and channel identification between the key parties in business relationships. The first model presents internal power perspective by triangle turned on its head. The second model proposes a reverse loop of moral and individual identification.

Most service companies have hierarchies, which consists at least from three levels: top manager/leader, middle managers and front line – employees having direct contact with customers. Top level leaders make strategy and plans. Middle level managers follow up daily work and supervise employees at the front line. The front line delivers the actual service or work. Thus the base of the triangle is where the customer interaction takes place and where value is delivered.

Much of what goes on in the interface between customers and contact employees is invisible for managers and top leaders. They are busy planning or supervising. To lead, they must take part in daily interaction with customers. The front line is where customer complaints or new business ideas are heard. This is where work stress leads to unhappy employees, or bad customer service. It is often the lowest level of status and power.

After turning triangle upside down the interface becomes the first priority, the real power is placed in the hands of those delivering service and value. The second priority, middle managers should take an active part in service delivery, and be a role model for what is considered excellent marketing work. Leaders become the third priority, and should be supporting middle managers to help them become exemplars of the company mission. What is more, leaders can tap into and direct real power only by being immersed in operations and by motivating employees to make the best use of resources.

When to analyze the loop of inverse identification between stakeholders it is important to stress, that top leaders must identify themselves with customers and other key stakeholders. Giving orders to the organization is meant to direct action toward common goals.

The next relationship is the one between customers and other stakeholders and employees. Customers should identify with frontline employees who deliver value to them. They should know what they get and want to pay for.

The final, relationship is between front line employees and top leaders. The front line needs to deliver quality work as specified in their contracts or according to the aims of the company. They should report mistakes and correct them when possible involved aimed at improving the company.

Therefore described theories are applicable in the international life insurance business, but with some limitations. From international business perspective there exist requirement to report to shareholders and the board of directors, this diminishes manager's ability for creativity and fast action, various official regulations are obligatory for organizations engaged in the life insurance activity so the speed is lost. More speed equals less resources, which in turn equals a better return on investment. [M. Mc Neill, 2007] Otherwise, this weakness of many interventions and regulations could be used as the strength, the formalization of targets, strict rules and procedures prevent employees from unclear goals. Whenever people are convinced that the results of treatment and procedures are fair and honest, the more likely that they felt good about the organization, will help other employees and the performance of their duties are expected to exceed the usual expectations. [S. P. Robbins, 2007]

T. J. Peters and R. H. Waterman (2008) in their book presented specific content of beliefs, which from our point of view can contribute to life insurance business too. Accordingly the eight believes, which manager can spread in the organization are:

1. The presence of the best.
2. Details importance at work.
3. Practical aspect of the good work carried out.
4. The importance of people as individuals.
5. Superior quality and better services.
6. Willingness to support in case of failure.
7. The importance of communication.
8. Economic growth and profits, and its recognition.

The formal leadership may be substituted by distinctive identity and maintaining a sense of pride. As work should be done within strict regulations the main inner driver are beliefs. What is more, J. L. Beauvois (2001) defined that individuals dominated by predominant begin to store these norms and values as it would be their own.

H. Urban (2004) identified three things that successful leaders have constantly having a positive impact on both workers' spirit, and productivity.

1. They allow employees to feel that they are considered.

T. J. Peters and R. H. Waterman (2008) called this the management by walking. The leader should be more out of his/her office to find out the names of staff, talk with them, ask questions, find out their contributions and let them know that it is valued.

2. They recognize and praise employees.

Too many managers observe people doing bad things more than good handling. S. Levine and M. Crom (1993) told that a little recognition - a little bit of encouragement at the appropriate moment - is all you need to make a good staff great staff.

3. They help employees to grow.

Good leaders are good teachers and coaches if they need someone to teach, they do so privately, gently and constructively.

2.2. The modern insurance theories and models and their implementation in the insurance business development practices

The principal goal of insurance, as assessed by economists, is to transfer resources from low marginal utility of income states to those where the marginal utility of income is high. If insurance is actuarially fair, this process will continue until the marginal utility of money is constant across states. [D. M. Cutler, R. Zeckhauser, 2003] B. J. Glenn (2003) stress argument that the insurance industry is postmodern, it facilitates the pursuit of the good life, also serves as a powerful gatekeeper that allows some in and keeps some out.

M. Nektarios (2010) considered two major research orientations for the insurance industry. The first covers the area of microeconomics and may be grouped under three main headings:

- the demand for insurance and protection;
- economic equilibrium under a symmetric information;
- and insurance market structure.

The second orientation insurance has been analyzed more and more in the general framework of financial theory, mainly in the areas of:

- portfolio theory and the capital asset pricing model (CAPM);
- option pricing theory;
- insurance and corporate finance;
- and insurance and financial markets.

The conjunction of a financial model and a mortality model is a life insurance model. [F. de Vylder, 1997] The spread of life insurance is expected and valuable, and important as a source of savings as well as security. There is a view that the life insurance market is growing very strongly, there is more interest in selling life insurance, as well as there is more interest in buying it. J. Minto (2009) suggests two-fold drivers of change:

- the industry has modernised;

- ✦ it now recognizes the key role of the end consumer.

Thus a modern financial services business delivering strong value to customers at a time when they need protection two-thirds of poverty among surviving women and one-third of poverty among surviving men results from a failure to purchase sufficient life insurance. But recent studies [B. D. Bernheim et al., 2001] suggest that underinsurance is yet common. The extent of underinsurance varies with socioeconomic characteristics. Otherwise, K. Frick and A. Bopp (2005) concluded according to the classic utility-insurance model that too little income can result in the decision not to buy insurance even if the decision maker is risk averse.

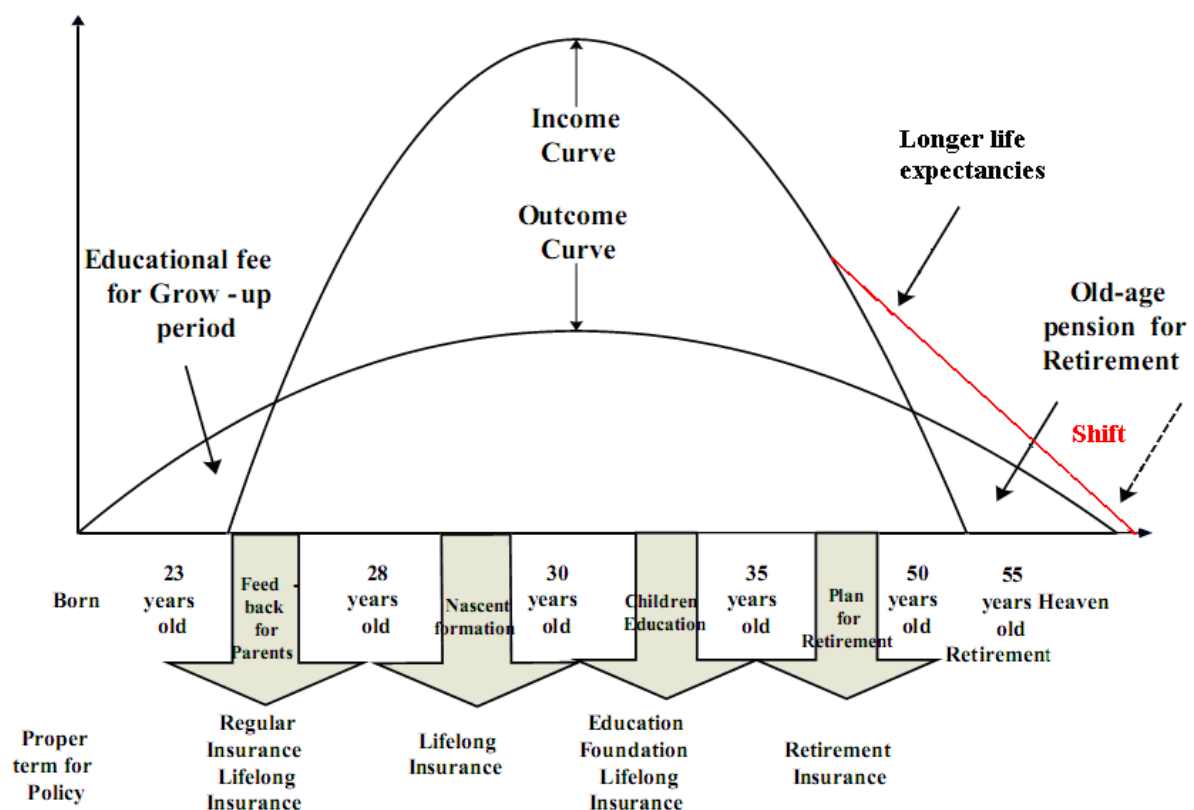


Figure 2.1. Suitable insurance for consumers at various life stages [modified from L. Shu-Hsien et al., 2009]

According to J. Minto (2009) without advice, more people will continue to investigate getting life insurance protection directly and they will buy from the emerging direct to consumer channels. This trend is forced by:

- ✦ longer life expectancies mean people have to work longer to fund it;
- ✦ death insurance is likely to become cheaper as major improvements in medical research around heart-related disease and cancer improve life expectancy and lower life cover;

- ✦ new technologies as life insurers continue to invest in automating previously labour-intensive application and underwriting processes.

Naturally, these factors will affect the organization and processes of the insurance industry. We are likely to see broader integration of the various segments of the insurance offer, as the development of new risk management techniques further blurs the lines between various specialties and between insurance products. [G. Dionne, 2000]

T. Parera (1999) after investigation of the best management practices in the banking, financial and insurance sector identified five best practices that were persistently present in the management of successful companies in this sector. The findings of the research indicated that the level of managerial capability is steadily increasing.

Forming lifetime partnerships with the customer are both long-term and mutually strategic for both the customer and the organization. Back office operations are located away from front office areas and each front office area has a group of multidisciplinary officers to assist the customer comprehensively so that his/her questions and needs could be addressed at one spot. [T. Parera, 1999; M. Mc Neilly, 2007]

Dedicating skills to the organization ensures that while developing skills and competencies of the employees, by making them unique to the organization, is on the path to achieve competitive advantage. It is not only that these skills need to be developed to give a high quality of performance, but that they need to also be as unique and non-replicable in the industry as possible. To the extent that this is possible, the core skills of the people would be dedicated to the organization. This would give meaning to brand identity and unique value in the sector. [T. Parera, 1999; D. C. Nooman, 2006]

Building affective commitment is central to motivation and productivity. There is also evidence that the companies are moving towards being human resource development oriented since their human resource practices are seen to give rise to achieving employees' affective commitment, a very high form of motivation. The prime importance should be given to recruiting people who had the right attitude to work. [T. Parera, 1999; J. Collins, 2001]

Now before how realize the need to empower employees to act now and not look around for direction from above, or be bound by structural constraints. Customers of financial services should experience many 'moments of truth' in receiving their services. There is no time for awaiting instructions in competitive business. Gone are the times when a customer was kept waiting by an indecisive employee. Employees need to be empowered, and to be so, they need to have the necessary power, authority, responsibility, and access to resources including information to make effective decisions. This would make the employee confident and flexible to provide the customer's needs.

Well orchestrated controls. Cellular organizational structure is intended to give a large degree of autonomy for each operating unit and branch within the overall integrated structure. Strategic business units provide specific focus on target markets and provide the necessary autonomy and clarity of purpose for pursuing corporate goals in each specific market. All corporate plans were bottom up as well as top-down designed. There was evidence that guidelines and targets for divisions and down to individuals were derived from them. In effect, all controls were found to be orchestrated to perform in harmony. Inspiration was often derived from the mission statement of the organizations that were intended to give direction to long-term action. Action plans derived from these corporate plans were supported by standard operating procedures. The virtuosity of the players has been built up through a process of skill dedication to be capable of performing in harmony. Networking and cross-functional teams backed by information technology were quite common.

The insurance sector is facing some specific challenges, and also must address some fundamental challenges that are facing many industries. These dynamics are forcing firms to be more progressive in how they view their customers and in how they use analytics to deliver value. *Management of the customer experience* - unified data and analytics -will lead to brand loyalty and the ability to match the right product to the right customer at the right time. B. Zukis and D. Holtzman (2010) have defined the competitive advantage in the ability to convert customer data to knowledge in the insurance sector by customer analytics.

Thus physical supply chains and the corresponding products and services created have little to no differentiation in the insurance. Because of this, managers need to find a new source of competitive advantage other than competing on price, as technology continues to become more pervasive and powerful, customers can easily compare prices of insurance products online. Managers should turn to their information supply chains. An organizations ability to create insight and to take action from the data that they have in their information systems will drive a better understanding of their business, markets and customers.

M. Covrig and R. Serban (2008) suggest when an insurance company issues certain products, it is useful for such a company to build up a virtual organization which is meant to conceive, sell and manage in a better manner those products. This fact follows from the advantages brought by the flexibility and mobility of a virtual organization, as well as from the possibilities to optimize costs and risks implied by such an organization.

Today to gain competitive advantage insurance organizations are trying to create a consistent customer experience across all their product lines as well as put analytics in place to increase retention, attract new business and grow the current book of business. With all the customer information in each of the product silos it is impossible for these organization to

know who their customers are, what products they own and what their future protection and financial instrument needs could be. Unified customer information is difficult to get but by taking an analytics approach organizations can add significant value, such as:

- ✦ better product alignment with customer needs;
- ✦ enhanced and more efficient customer services;
- ✦ better risk profiling and fraud detection;
- ✦ greater customer penetration;
- ✦ better understanding of customer profitability;
- ✦ better asset retention.

While using a customer centric approach across the insurance sector, organization managers usually are looking to improve decision making, performance management, revenue, operational efficiency and customer experience management, decrease operating costs.

Then we analyze the customer in insurance, the distribution channel should be also included. Insurance for the most part is a B2B2C business model and not only does the insurance carrier need to provide the right products and services to the market, but also the right level of support to the various distribution channels that they utilize. Whether they are captives, independents, third parties (brokers-dealers) or direct, analytics are critical to driving business decisions. Making decisions on how to effectively manage these distribution channels should be based on analytics, such as:

- ✦ distribution channel profitability,
- ✦ product mix,
- ✦ revenue growth by channel and market,
- ✦ channel segmentation,

Customers want aggregated and easy access to an insurance companies product portfolio based on their profile coupled with lifetime events and the organization structure should not be a barrier to this. Today, the barrier is the product centric structure and related data. Leading firms are moving aggressively towards a customer centric approach (customer attrition analysis, customer lifetime value, customer retention, customer satisfaction).

Most organizations have started in the areas where key decisions drive an organizations bottom line - typically the claims (loss ratio analysis, claims fraud analysis, claims leakage analysis) and underwriting (risk modeling, underwriting profit analysis, loss analysis) functions. In addition to customers, an enterprise wide approach also impacts revenue improvement, cost reduction and how effectively the organization is functioning. [B. Zukis, D. Holtzman, 2010]

The focus around the customer and not the product is creating value across the insurance sector. This is being driven by significant competitive pressures and changing regulations. Beyond the customer, insurance firms can derive significant enterprise value from many parts of their value chain by deploying a broader business intelligence approach (*annex A-2*).

2.3. The models of marketing and their implementation in the insurance business development practices

Marketing of insurance products and services have become an important activity in the insurance business. Marketing literature provides different views on the marketing of services and products the main difference is in the complex structural elements. Early analysis of marketing mix elements was based on the manufacturing industry at a time when the importance of services to economy was relatively unimportant, while recently this model “4P” is seen as too limited in its application to services. [M. J. Baker, 2003]

C. Grönroos (1990) in addition to the four traditional elements of marketing services represent the fifth element – interaction: service providers and customer relations. Very similar opinions have expressed other authors from Europe K. Iron (1988), R. Kühn and R. Fasnacht (1995). [V. Kindurys, 2002] O. Dekel et al. (2007) expanded this view. The new role of marketing in this post-modern world will be to help individuals in consumer culture to increase their ability to choose identities and negotiate their position in society by the creative use of their lifestyles and consumption.

Services marketing theorists still disagree, what and how much should be applied to other marketing mix elements, in addition to the usual four elements: product development, pricing, advertising and promotion, distribution. [A. Meidan, 1984]

One of the weak point of A. Meidan (1984) proposed four elements marketing mix was that from its origin this model was closer to production rather than to insurance services as marketing goods and service is not the same. As due to five elements marketing model for which advocate C. Grönroos (1990), K. Iron (1988), R. Kühn and R. Fasnacht (1995) Western insurance companies experience in the marketing shows that more and more focus on customer service and interaction to be appointed in the marketing tools. [A. Beckett, 2000; V. Kindurys, 2002] Western countries in the marketing of insurance services have identified the marketing of five elements: a specific insurance product, the staff and the insurance company’s internal culture, the sales of insurance products on the system, the insurance

company's image, for the insurer. [A. P. Archipov et al., 2008] Besides, to identify comprehensive marketing activities, marketing planning and marketing research importance for model development is emphasized. So it offers an idea that this five model insurance marketing view still lacks some elements.

These weaknesses have resulted in a number of attempts to redefine the marketing mix in the way it would be applicable in the service sector B. H. Booms and M. J. Bitner (1981) in addition to the four traditional elements of the marketing mix recognized the importance of people and processes as additional elements. They distinguished physical evidence making up a "7P".

The marketing approaches to the development and marketing of insurance products, adopted by the West, bad fall on the Russian reality. [A. N. Zubec, 1999] European insurance markets by several orders of magnitude are superior to Russia on the demand for insurance services.

It is appropriate to identify the current insurance market concept. The digital revolution has placed a whole new set of capabilities in the hands of businesses. [P. Kotler, 2003]

First, a very common way to promote the life insurance company is to make the name of the company familiar to others by means of television commercials, handing out pamphlets, hanging banners in populated areas and by providing exciting offers, making phone calls (telephone marketing). What is more, a powerful new information and promotional channel with augmented geographical reach are available. Using one or more Web sites, a company can explain its products and services, its history, its business philosophy, its job opportunities, and other information of interest to stakeholders.

Second, customers who are not contacted for a longer period of time normally fail to remain loyal to the insurance company and look for a different life insurance company. [Insurance marketing, Economy Watch, 2010] The company can keep the records of the client's birthday and days like anniversary and sent him/her small tokens of loyalty at a regular basis. Companies can collect fuller and richer information about markets, customers, prospects and competitors. Conducting marketing research using the Internet, marketers can arrange from focus groups, distribute questionnaires and gather primary data in other ways.

Third, insurance companies can use intranets to facilitate and speed up internal communication, allowing employees to query one another, seek advice, obtain training, keep internal manuals and policies updated and access needed information from internal sources. Going further, companies can use the Internet for two-way communication with customers and prospects, for recruiting and for making transaction more efficient. Extranets allow

companies to link supplier and distributors for sending and receiving information, placing orders, and making payments more efficiently.

Fourth, insurance companies can also customize offerings, services and messages to individual customers based on information from internal databases and supplemental information.

Fifth, companies can significantly improve cost-efficiency while improving accuracy and services quality through the online exchange of information, orders, transactions, and payments between companies, their business partners and their customers.

It has become very important for the life insurance companies to concentrate on marketing program standardization and attract as many people as possible towards their company.

Generally, a standardized approaches easier to implement because companies need not adapt to local tastes and preferences (Baalbaki & Malhotra,1993), however, it may fail to account sufficiently for local differences in specific needs and characteristics of consumers (Hassanetal, 2003; Ozsomer & Prussia, 2000; Steenkamp & Ter Hofstede, 2002).[E. K. Feodermayer, A. Diamantopoulos, 2008, p.140-141] Therefore, businesses have to bear in mind the trade-off between benefits and inefficiencies when determining the extent of standardization.

A. Schuh (2000) examines the arguments for marketing program standardization from his point of view the decision for program standardization has to include financial performance, competitive and implementation aspects. Advantages of program standardization are mainly seen in cost savings (via variety reduction and standardization), in a coherent brand image and a more rapid diffusion of products. [K. Su-Yeon et al., 2006]

K. Kashani (1990) findings also revealed that when the global decision making process is flawed, marketing standardization becomes more of a handicap and a management straightjacket than the competitive tool it is mean to be.

✚ Significant cost savings.

Profitability depends ultimately both on sales and costs, and there are significant opportunities for cost reduction via standardization. [J. C. Baker et al., 1988, p. 319] The most obvious and usual is product design. As current insurance market is dominated by large companies, the middle and small ones have benefit of niche marketing and can offer very specific products.

✚ Consistency with customers.

Executives of international businesses believe that consistency in product style, in customer service, in brand names and packages, and generally in the image projected to customer is a

powerful means of increasing sales. [J. C. Baker et al., 1988, p. 322] Moreover, providing the same level of service to major customers gives clarity and eases the tasks for personnel.

- ✦ Improved planning and control.

Flows of people and information across national boundaries may affect international marketing strategy.

- ✦ Exploiting good ideas.

Good ideas tend to have a universal appeal, especially with regard to creative aspects of advertising and promotion programs, but they do not necessarily apply across the board. Value added through aggregation, in the sense of exploiting similarities across countries. [Q. Zhaowei, 2008]

The four factors limiting standardization are: market characteristics, cultural factors, marketing institutions, legal regulation. [A. N. Berger et al., 2000, p. 332] Each national market is different and must therefore be provided with its own, distinctive marketing program, the potential customers should not feel that they have been treated unfairly by the insurance company.

2.4. Methodology of empirical research on development and modernization of international life insurance business

Due to N. K. Denzin and Y. S. Lincoln (1994) qualitative studies stress processes and situational constraints, whilst quantitative studies typically emphasize the measurement and analysis of causal relationships between variables. Because the research aimed to explore the process of management improvement and its adoption in international life insurance business, research results can be more useful when the two methods are combined.

As the concern is put to investigate current management practices in the international life insurance business with obtaining insights for unified management model development the process of breaking a complex topic into smaller parts to gain a better understanding of it is used (see figure 2.2.).

The primary research objective/goal is to develop the unification models of management in the international life insurance business. But in order to achieve this primary research objective first of all empirical research is constructed with the secondary research objectives: to establish theoretical link between insurance and its' regulatory environment, to determine global trends in the implementation of modernization of international life insurance business, to describe macro environmental issues in Europe and provide forecasts for

Lithuania in the international life insurance business, to study existing models of internationalization and management via case, to ascertain empirically the currently applied management approaches.

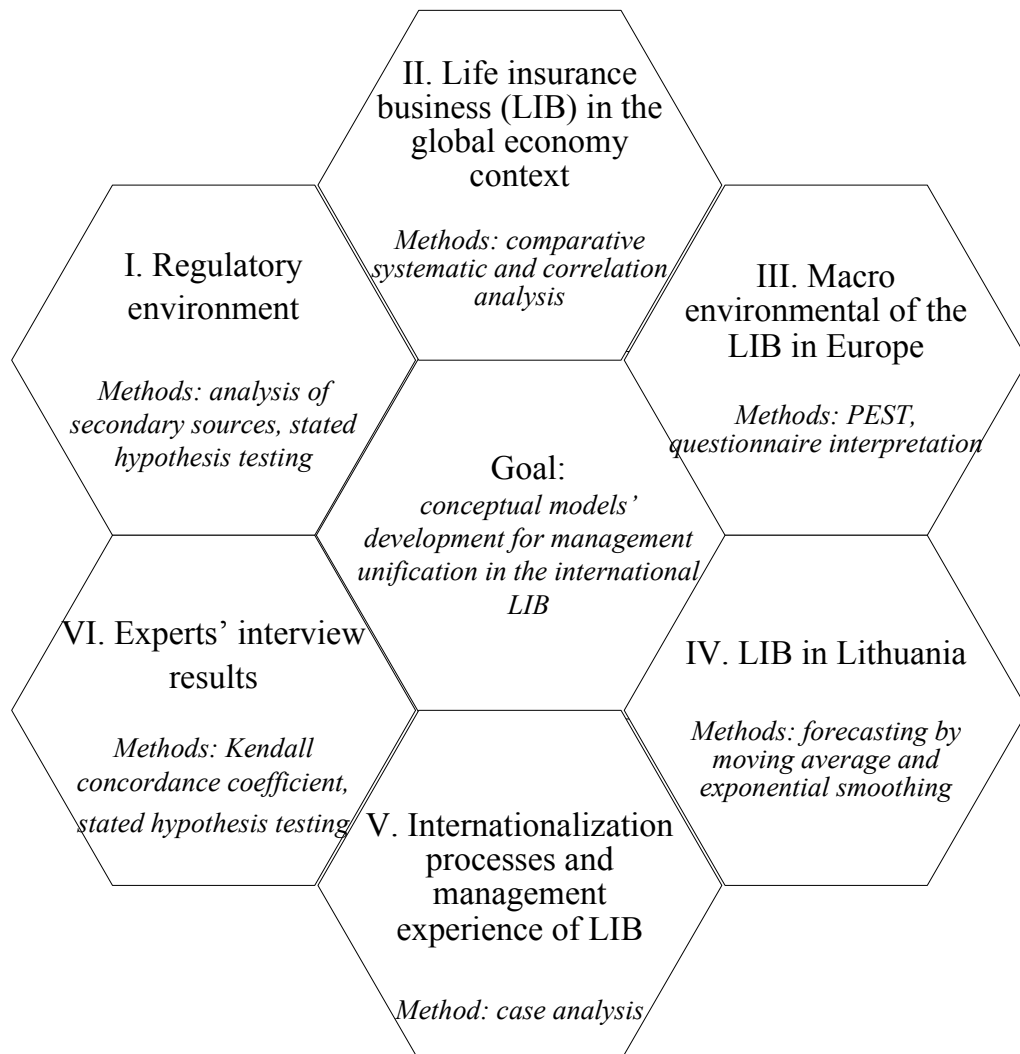


Figure 2.2. Structure of the research [composed by author]

For the first phase regulatory environment anticipated to analyze local regulatory environment committed for the insurance business in Lithuania, current insurance regulatory environment, consequences for insurers and regulatory developments in Europe and regulatory environment by the increasing globalization of insurance markets. From the author point of view will be presented the insides in the complexity of institutions from general to specific problems in the international life insurance business. Also the trends of insurance companies' interaction with other financial institutions and integration of financial products will be overviewed with feedback from chief financial officers based on Towers Perrin 2009 survey. In this first phase the following hypothesis will be tested for validity:

H₁: Current insurance regulatory framework is fragmented

H₂: Insurers face the threat of being compared to banks

The second phase life insurance business in the global economy context provides comparative systematic analysis of randomly selected web pages and correlation analysis. To analyse web pages of insurance companies engaged in life insurance activities is important as the World Wide Web has become the main source the consumers search the information about various offerings. [S. Callet, P. L. Seguin, 2008]

The initial evaluation criteria were selected based on the several authors' prepositions by combining own relevant list of the questions. S. E. Beck (1997), P. S. Piper and H. N. Tilman (2000), suggests to use eight criteria model for web page evaluation, which consists of: purpose, authority, objectivity, appropriateness, currency, responsibility, clarity and accessibility. While J. Barker (2002) offers four criteria: look at the uniform resource locator (URL), scan the perimeter of page, and look for indicators of quality and other options. Whereas J. Kapoun (1998) noted five criteria model, but a bit different from previously stated authors. He used accuracy, authority, objectivity, currency and coverage.

Thus the hybrid model consists of:

✦ *URL and accuracy of web page.* Questions to be answered are the following.

Is it personal page or site?

What type of domain is it?

Who wrote the page?

Can you contact the creator of the web page?

Is this person qualified to write this page?

✦ *Quality.* Questions to be answered are the following.

When was it produced?

When was it updated?

How up-to-date are the links (if any)?

How many dead links are on the page?

Are the links current or updated regularly?

Do the links (if any) complement the documents' theme?

Is the information on the page outdated?

✦ *Aim.* Questions to be answered are the following.

What is the purpose of the web page and why was it produced?

How detailed is the information?

✦ *View.* Questions to be answered are the following.

What is the first impression while browsing the web page?

Is it all images or a balance of text and images?

Is there an option for text, frames, or a suggested browser for better viewing?

How long does it take to see results?

If page requires special software to view the information?

How much are you missing if you don't have the software?

Is it free or is there a fee, to obtain the information?

Is the information presented cited correctly?

✚ *User friendly*. Personal opinion and comments about the web page and evaluation:
very good – 3, good – 2, average – 1, poor – 0.

As insurance is a very dynamic area and plays an important role in the world's economy the author has decided to select international business web pages.

After review of works in the area of life insurance demand investigation, it turns out that authors use different factors. L. J. A. Lenten and D. N. Rulli (2006) emphasize on economic factors such as: inflation, income, interest rate and unemployment. While C. Lim and S. Haberman (2003) on macroeconomic factors: financial development, income per capita, inflation rate, interest rate (savings), price of insurance, life expectancy, stock market return, crude live and death rates as well as total fertility rate. S. Sen and S. Madheswaran (2007) in their paper used demographic and economic factors: gross domestic savings per capita, financial depth, urbanization, young and old dependency ratios, adult literate population, total life expectancy at birth, inflation and real interest rate. All those authors' mentioned factors could be classified into three main groups: economic, demographic and insurance business. The data for this investigation consist of all three groups.

Thus correlation analysis is applied to determine whether exists relationship between Y – dependent variable and every independent variable – X and what is the strength of this relationship.

Coefficient of correlation is calculated according to the formula [A. Pabedinskaitė, 2005]:

$$r = \frac{n \sum XY - \sum X \cdot \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \cdot \sqrt{n \sum Y^2 - (\sum Y)^2}} \quad (1)$$

The correlation analysis is selected to reveal the dependence of the life insurance and selected factors. Therefore the following factors there selected for analysis:

Y – life insurance, which is represented by world life premium, the dependent variable.

X₁ – world gross national savings,

X₂ – world gross domestic product,

- X₃ – world inflation,
- X₄ – life expectancy at birth,
- X₅ – unemployment rate,
- X₆ – gross debt.

The third phase aims to present an analysis of life insurance macro environment in Europe. The PEST analysis is employed for understanding market growth or decline possibilities, the position, potential and direction for the life insurance business. The data used for this analysis is taken over primary and secondary sources. Primary source is international internet survey. The survey approach will be based on e-mail survey data collection technique. Survey questionnaire will be send for respondent by e-mail. Respondents are employees engaged in the life insurance business in Europe, responsible for managing or other persons judged to be the most knowledgeable about the issue were asked to participate in the survey since they were able to defined actual use of management process. Questions are presented in *annex A-3*, questionnaire is organized with closed- ended questions, in such case respondents will have less time to spend to fill in the questionnaire and respond range will be higher then in case with open-ended questions. Secondary sources are European Commission official web page, CEA Statistics, OECD reports and the World Bank publications.

The fourth phase is on life insurance business in Lithuania, attention is put on forecasting as T. Bernat and D. Grundey (2007) insurance market maturity study in Poland and Lithuania concluded that both researched markets are not mature yet. Two forecasting methods are employed a moving average and exponential smoothing.

A moving average forecast computes only a specified number of the most recent actual data values in generating forecast. A forecast using the moving average method is computed according to the formula:

$$F_{t+1} = \frac{1}{n} \sum_{i=t-n+1}^t Y_i \quad (2)$$

where

t = period number for the current period;

F_{t+1} = forecast of inflation rate for the next period;

Y_i = actual inflation rate in period in i ;

n = number of periods to be included in the moving average.

Where error (E) and mean square error (MSE) is calculated according to formula:

$$E = Y_t - F_t \quad (3)$$

$$MSE = \frac{\sum E^2}{n} \quad (4)$$

The mean square error shows how forecast differs from real statistical data Y_t .

Exponential smoothing method keeps a running average of actual data and adjusts it for each period in proportion to the difference between the latest figure of actual data and the latest value of the average. The formula for exponential smoothing method is:

$$F_{t+1} = \alpha Y_t + (1 - \alpha)F_t \quad (5)$$

Where

F_{t+1} – smoothing forecast for the time period following period t

F_t – smoothed forecast for period t ,

α – smoothing constant that determines weight given to previous data ($0 \leq \alpha \leq 1$),

y_t – actual data in period t .

The fifth phase use case analysis for internationalization processes and their management experience. The importance of this case lay behind the strategic development and entry modes as well as competitive advantage factors and barriers as this is the closer look at how managers and executives are able through centuries manage and change their management models.

The sixth phase conducted by means of expert survey (questionnaire), and hypothesis testing as well as comparison with data from secondary sources was used to test the validity of the procedure by the use of Kendall's coefficient of concordance.

Focus groups for expert survey were not used because (1) different views are important to collect, which may have been more difficult to obtain in a group situation, (2) the executives in the organizations were often geographically dispersed and it was unlikely as I as a student could get a significant number to participate in a focus group and (3) some aspects of management were considered sensitive by the participants and the focus group format makes it difficult to research sensitive topics.[A. Fontana, J. H. Frey, 1994]

Given the time-consuming nature of this research approach, it was decided to restrict the sample to seven organizations from life insurance field (see table 2.3.). This initial group was chosen to represent different sizes of organization and to cover a wide range of activities in the financial services sector.

Table 2.3. Sample of organizations

Life assurance companies	Life assurance companies carrying obligatory MTPL
- Aviva Lithuania - Bonum Publicum - ERGO Lithuania life insurance - PZU Lithuania life insurance	- Lietuvos draudimas - Compensa life Vienna insurance group SE Lithuania - Vital life

Source: composed from Insurance Supervisory Commission of the Republic of Lithuania data

These companies were included because of the significant growth from previous years in premiums written and developing importance and possible influence on life insurance market within financial services in Lithuanian life insurance market.

Out of seven selected companies author expected that at least half respondents will agree to take part in in-depth interview.

Participants were reached via e-mail and phone, interviewed on a face-to-face basis. Participants were promised anonymity as commercial confidentiality. The following hypothesis is viewed to test for validity:

H₃: There is need to rebuild management system in the international life insurance business

The research instrument consists of interview questions regarding the issues. Sample anticipated interview questions include the following:

1. What are the greatest challenges facing management in life insurance business?
2. How would you rate your organization's business prospects?
3. How your organization is positioning for success?
4. How large is the staff managing the organization?
5. What background and expertise does the staff managing organization have?
6. How would you describe your management type applied in the organization?
7. What performance measures and analytical tools do you use?
8. Do you agree or disagree with the following statement: "The globalization of the insurance market has lead to the uniformity of tastes of consumers worldwide, making their attitudes and preferences similar." Please, comment why.
9. What additional capacities and skills will you need after 3-5 years, in order to stay in the top of your field?

Based on the results of the interview, interpretation will be prepared by the use of nonparametric approach – Kendall's coefficient of concordance (W).

Kendall's coefficient of concordance is nonparametric measure of association/correlation employed with ordinal data. It represents the degree of relationship between two or more variables. [D. J. Sheskin, 2004]. According P. Legendre (2010) textbooks describe two ways of computing Kendall's W statistic (equations 6 and 7); they lead to the same result. S or S' is computed first from the row-marginal sums of ranks R_i received by the objects:

$$S = \sum_{i=1}^n (R_i - \bar{R})^2 \quad (6)$$

$$S' = \sum_{i=1}^n R_i^2 = SSR \quad (7)$$

where S is a sum-of-squares statistic over the row sums of ranks R_i . $\bar{R}$ is the mean of the R_i values. Following that, Kendall's coefficient of concordance statistic can be obtained from either of the following formulas:

$$W = \frac{12S}{m^2(n^3 - n) - mT} \quad (8)$$

$$W = \frac{12S' - 3m^2n(n+1)^2}{m^2(n^3 - n) - mT} \quad (9)$$

where n is the number of objects and m is the number of variables. T is a correction factor for tied ranks:

$$T = \sum_{k=1}^g (t_k^3 - t_k) \quad (10)$$

in which t_k is the number of tied ranks in each (k) of g groups of ties. The sum is computed over all groups of ties found in all m variables of the data table. T = 0 when there are no tied values.

Kendall's coefficient of concordance is an estimate of the variance of the row sums of ranks R_i divided by the maximum possible value the variance can take. This occurs when all variables are in total agreement $0 \leq W \leq 1$, 1 representing perfect concordance.

The following hypotheses will be tested:

H_0 : Conflicting experts' assessments (concordance coefficient equal to 0)

H_1 : Similar experts' assessments (concordance coefficient unequal to 0)

After all research steps accomplishment author expects to have enough evidence for the formulated goal implementation.

3. ANALYSIS OF REGULATORY ENVIRONMENT, LEGAL LAW AND OTHER DOCUMENTS COMMITTED FOR THE INSURANCE BUSINESS DEVELOPMENT

3.1. Local regulatory environment committed for the insurance business in Lithuania

Insurance companies are heavily regulated in each country in which they operate. They tend to adopt conservative investment policies, focusing on fixed-income assets, in order to assure their claim-paying ability. Stable, well-functioning national financial markets require stable, well-functioning regulatory authority underneath them. Market actors need clear operating rules. Property rights have to be established and adjudicated when conflict arise. Predictable procedures have to be in place to handle inevitable bankruptcies. [J. Ravenhill, 2005, p. 180]

Market can not work without institutional support, this is why international business legal environment is closely linked with the political environment. While developing international life insurance business, it is important to clarify the legal system. The right can be defined by three characteristics [J. Sekliuckienė, 2009, p.30]:

- ✦ law - the rule that defines what is appropriate behavior;
- ✦ law requires that specified standards are met;
- ✦ law covers the process, which describes the coercive measures for those who violate the rules or who engage in illegal activities.

As international law includes several levels: local/national, regional and international law, from the structural point of view it is worth to start analysis of committed regulation and law for insurance sector from the local/national context and going further to regional, global perspective.

An evolving consensus on the liberalization of markets still heavily influenced by national governments certainty exists. [J. Ravenhill, 2005, p. 188] Thus the first law on the insurance activity has been passed in 1990 in Lithuania. [J. Čepinskis, D. Raškinis, 2003, p. 45] Six year later the second law came into force, which set stricter regulations for the insurance companies, as the consequence the stability of the insurance market increased. According to J. Čepinskis and D. Raškinis (2003) the processes of transformation and euro integration have raised the necessity to regulate the relations of insurance market more systematically. For this reason in autumn 2003 the third insurance law has been passed in

accordance with the EU directives and other regulations. This law is amending and supplementing each year up to now. [Legal information, Insurance Supervisory Commission of the Republic of Lithuania data]

In Lithuania there are at the moment three different supervision authorities. Lithuanian bank supervises banks and other credit institutions, State Insurance Supervisory Authority oversees insurance and broker firms, and the Lithuanian Securities Commission is responsible for the supervision of the capital market.

There is no financial supervision model that is optimal for every country in all circumstances. In spite of this, there are several important reasons to change supervision model in Lithuania establishing a single supervision agency. Comprehensive powers and a full-scale overview of the financial markets will enable the single regulator to carry out supervision efficiently and to contribute to the stability of Lithuania as a financial centre. [J. Čepinskis, K. Gancevskaitė, 2008] Such supervision agency could examine jointly the new international nature of financial markets, the regulatory gaps, and the need to modernize regulation, clearance, and settlement in the national level. It could suggest guidelines for improving operational efficiency and financial strength of clearing and settlement systems develop agenda for regulatory modernization.

The single supervisor responsible for the supervision of the whole financial group is better suited when ensuring the soundness of a single financial conglomerate and the stability of the financial system. [J. Čepinskis, D. Raškinis, 2003, p. 50] Moreover, legal regulation is needed for both sides of organization in defending the requirements and rights. National regulatory reform must take into account international reality. Cooperation among international insurance regulators must be expanded to achieve similar standards and practices. Modernization of financial regulation at the national level and cooperation among insurance regulators at the international level are necessary but not sufficient. Protecting the financial system and the economy from unacceptable and unforeseen shocks. [R. E. Caves, 1998]

Lithuanian entered to the European Union allowed the transposition of directives into national law by the active participation of EU law-making process. One of the most important step – the Solvency II directive. [G. Žigienė, M. Mickevičienė, 2009, p. 150] On November 10th 2009 the European Council adopted a directive setting out new solvency rules for insurance companies.

3.2. The current insurance regulatory environment, consequences for insurers and regulatory developments in Europe

As concerns regulatory environment and supervision of insurance, there is no doubt that banking sector, in which the financial crisis arose increased government intervention and potential tax law changes despite the fact that insurance has survived largely unscathed. Due to PricewaterhouseCoopers [LLP report, 2009], the insurance industry may not see a return to relative stability and certainty for a few years as it reacts to the effects of regulatory reform.

In addition Transparency International [Confronting corruption challenges, 2009] also advocated on lack of efficient government oversight. As major gaps existed in many countries in regulatory frameworks so that many financial institutions that engaged in trading in complex derivatives and allied products outside of traditional banking institutions, such as insurance companies and hedge funds and investment banks, were very poorly regulated.

Internationally, the G20 and the EU advocated financial sector regulatory reform. Proposals for action include [Lloyds worldwide]:

- ✦ it is considered to improve macro-prudential regulation, through better monitoring and improved powers to deal with systemic risk;
- ✦ there are proposals to improve micro-prudential regulation, through enhancements to existing regulatory regimes;
- ✦ the new regulations are proposed to deal with specific problems – such as the role of credit rating agencies and remuneration in the financial sector – thought to have contributed to the financial crisis.

In the EU it is proposed to establish a European Systemic Risk Board and to transform existing regulatory bodies into the European System of Financial Supervisors, with new European Supervisory Authorities. New measures have also been enacted regulating credit rating agencies and remuneration.

The consequences for insurers may be driven by the problem that many of the measures are based on failings in the banking sector, and may not necessary apply to all financial services sectors, including insurance. Whereas the financial crisis was a catastrophe for the global banking sector, which it survived only due to government and central banking action, insurers have continued to transact business. Basically even AIG sustained damage did so not as a consequence of traditional insurance underwriting activities, but because they were operating in other financial sectors. But conservative assessments of the levels of capital that regulated entities should hold may reduce returns to investors, harming the ability of those entities to raise capital and to operate profitably. In the insurance sector, they may also

increase the prices that policyholders pay for cover. Measures intended to improve policyholder protection can therefore actually impair policyholders' interests. [Lloyds worldwide]

The search of an adequate format for the regulation and supervision of financial system has stirred considerable interest in Europe in the last years. The EU member states have chosen different models to supervise their financial systems. D. Zapodeanu and I. S. Coroiu (2008) identified three main supervisory models, that are currently in force in EU member states:

- *the centralized model*, a single supervisory authority;

The centralized model, or single supervisor, provides only one supervisory authority over all financial system. This model was adopted especially in the early stage of financial systems when the central bank dominated, being the only supervisory institution.

- *the vertical model*, an institutional supervision;

This model developed as a consequences of the great crises of 1930s. It represents an institutional supervision, a segmentation of the financial system in three main sectors: banking, securities and insurance; the supervisory competences being well defined for each main sector.

- *the horizontal model*, a supervision by objectives.

This model is based on a supervision by objectives. Each supervisory function is under the jurisdiction of a given authority, independently of the supervised subject. There is no strict separation between sectors, each authority has cross-sector regulatory and supervisory powers in pursuing its function.

Given the fragmented nature of the current European insurance regulatory framework, with varying national standards and approaches, a common set of objectives and conceptual approach will be a major step forward. [S. Wilson, 2007] The Solvency II directive aims to “reflect the latest developments in prudential supervision, actuarial science and risk management and to allow for updates in the future.”[Solvency II adopted, Business continuity journal, 2009] It will strengthen the supervision of insurance companies and prudential regulation and establishes a new framework for EU regulation through the recasting of 14 existing insurance directives into a single legal text. The new rules are intended to [Legal acts, Council documents, 2009]:

- increase the integration of the EU insurance market;
- strengthen protection of policyholders and beneficiaries;
- enhance the competitiveness of EU insurers and re-insurers; and
- encourage improved legislation in this sector.

The Solvency II framework consists of three pillars, each covering a different aspect of the economic risks facing insurers, see figure 3.1. This three-pillar approach aims to align risk measurement and risk management. The first pillar relates to the quantitative requirement for insurers to understand the nature of their risk exposure. As such, insurers need to hold sufficient regulatory capital to ensure that (with a 99,5 percent probability over a one-year period) they are protected against adverse events. The second pillar deals with the qualitative aspects and sets out requirements for the governance and risk management of insurers. The third pillar focuses on disclosure and transparency requirements by seeking to harmonize reporting and provide insight into insurers' risk and return profiles. [E. Buškevičiūtė, A. Leškevičiūtė, 2008, p.76; H. H. M. Van Grinsven, R. Bloemkolk, 2009]

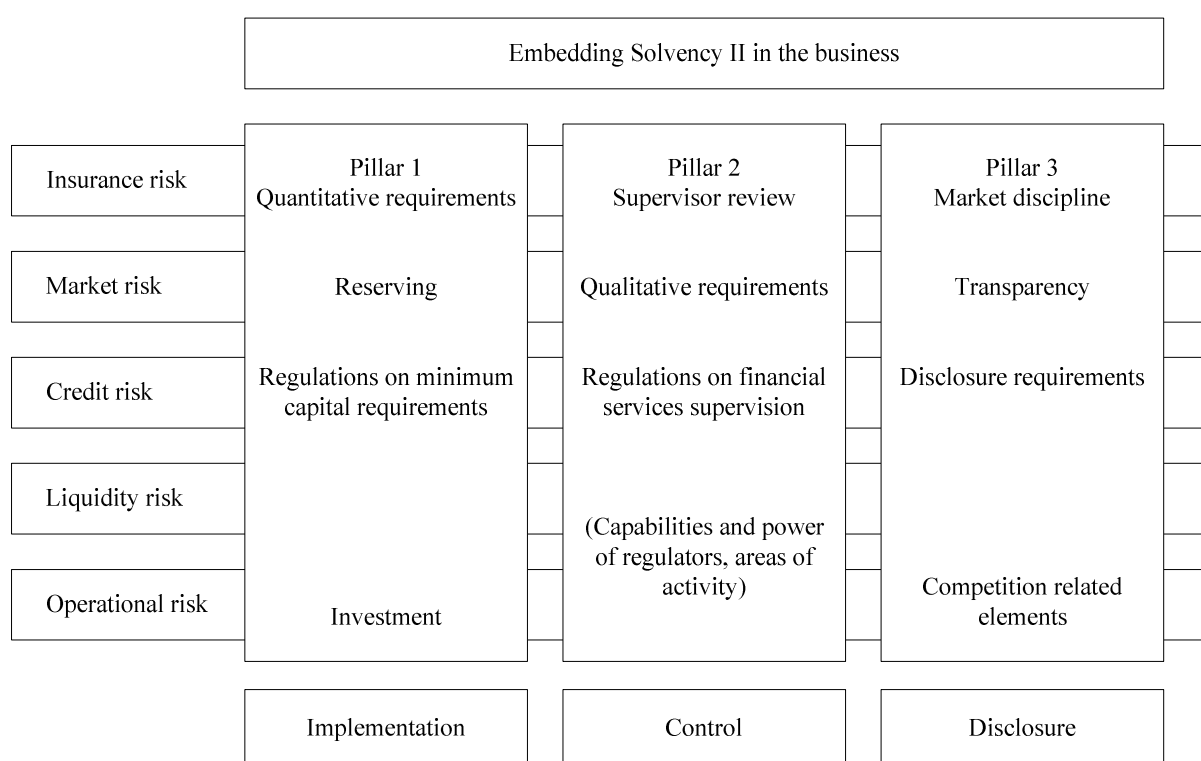


Figure 3.1. Solvency II model [First element, 2009]

Unfortunately these positive developments (*annex A-4*) could be derailed by responses to the financial crisis. In many areas these suggest a move towards the tightening of requirements, in comparison with the Solvency II Directive agreed by EU member states earlier in 2009. Supervisors have chosen the more rigorous alternatives, requiring higher levels of capital or more prudence in the approaches insurance undertakings must adopt. The negative effect will be increasing operating costs for all insurance undertakings. The capital requirements for each firm may no longer reflect the local or sectoral markets in which that firm operates. [S. Wilson, 2007]

There are also risks of moves towards regulatory protectionism. Many countries' insurance laws impose requirements that effectively preclude non-local firms from carrying on insurance business locally. Proposals to strengthen such provisions can close local markets even more tightly to global insurers. Since the essence of insurance is the spreading of risk, such measures can reduce local policyholder security, particularly if they impose additional costs on, or erect barriers against, global reinsurers providing cover to local insurers. [Lloyds worldwide]

As concerns European life insurance directives 79/267/EEC, 90/619/EEC, 95/26/EC, 2002/12/EC repealed by 2002/83/EC. [Legislation in force, European Commission] This directive was introduced in order to facilitate the taking-up and pursuit of the business of life assurance, ensure and coordinate adequate protection for policy holders and beneficiaries in all Member States. It was and is as a tool to eliminate certain divergence which exists between national supervisory legislation. Moreover, adaptive notices 2006/C 194/07, 2009/C 41/01 regarding the adaptation in line with inflation of certain amounts laid down in the life and non life insurance directives.

The absence of cross-border consolidation within the financial and insurance services sector has drawn attention in September 2007 a Directive of the European Parliament and of the Council was adopted that would assessing proposed mergers and acquisitions in banking, insurance and securities activities. The directive aims to clarify the criteria against which supervisors should assess possible mergers and acquisitions in order to improve clarity and transparency in supervisory assessment and help to ensure a consistent handling of mergers and acquisitions requests across the EU. [Facts and figures, Eurostat, 2009]

According to S.Wilson (2007) and Eurofi report (2009) understanding of group capital, group risks and group controls should be an important additional part of the European supervisory framework going forward, with an associated clear allocation of regulatory powers and responsibilities.

Whereas 50 percent of European direct insurance is written by the 20 largest groups, and they operate in a number of Member States through different subsidiaries. These groups currently face overlapping and varying requirements from an array of home (parent) and solo (subsidiary) supervisors. Furthermore, policyholder protection is hampered by the absence of a framework that facilitates regulatory understanding of the group as a whole as opposed only to the group simply as the sum of its parts. [S.Wilson, 2007]

The characteristics of the European integrated supervision and the conditions for its deployment form is selected for its implementation according to Eurofi report [Eurofi report, 2009]:

- ✦ be based on harmonized accounting and prudential rules;
- ✦ ensure that the supervisors of a given group are put in a situation enabling effective cooperation, that they give access to all to the relevant information in a timely manner;
- ✦ have mandates, mechanisms and procedures for cooperation that enable decisions to be taken as quickly as possible, that do not favour any country over another or any financial institution over another, whatever their business models, and that involve countries based on what is effectively at stake for them in the decisions to be taken;
- ✦ have neutral appeal procedures in the event of any disagreement between supervisors or appeals by a financial institution;
- ✦ use and develop the technical capabilities of the various supervisors, as well as their knowledge of the national economic and regulatory conditions (local conduct of business, consumers protection provisions etc.).

Within the EU, despite recent concerns about its detailed provisions, Solvency II is a good example of the right approach. Provided policy makers continue to listen to the views of the insurance sector, it could become a model approach to insurance supervision. [Lloyds Worldwide]

3.3. Regulatory environment by the increasing globalization of insurance markets

During the twentieth century, leading countries build up national regulatory and supervisory systems to limit the dangers of financial crises. According to J. Ravenhill (2005) cross-national regulatory coordination become necessary after international capital movements accelerated in the 1970's but remained politically difficult to ensure. Incremental institution building, they have favoured technical policy coordination to the extent necessary to ensure the deepening integration of stable, not risk-free, financial markets.

H₁: Current insurance regulatory framework is fragmented confirmation. Globalization led to the challenges regarding global financial system, which involve the complex coordination, interaction and compliance of current international and domestic laws. [Business and economic research advisor, 2009] According to United Nation [Workshop II report, 2008] the underlying causes of financial crises include global macroeconomic imbalances, weak financial systems, inadequate legal and accounting frameworks and information asymmetries that create uncertainty.

Global asset allocation is often limited by regulatory constraints. The investment policy of any insurance company depends on its surplus. The surplus is the difference between the total value of the invested assets and the expected claim payments. Although the assets matching the expected claim payments are typically invested in domestic bonds, the surplus can be invested in riskier assets, including global investments. [B. Solnic, D. McLeavey, 2003, p. 684] While the existence of an appropriate regulatory framework is an important factor in the development of any sector, it is absolutely crucial to the development of the insurance business.

Financial globalization requires strengthening of international cooperation and coordination between insurance supervisors. [K. A. H. Polvliet, 2004] Same idea was stressed by the World Economic Forum [Global risks report, 2010]: with unprecedented levels of interconnectedness between all areas of risk, there is the need to combat governance gaps globally is greater than ever. It argues that this can only be addressed by an overhaul of current values and behaviors by decision-makers to improve coordination and supervision. [News release, Swiss Re, 2010] H. Davies (2000) noted that international collaboration between insurance supervisors is a more recent phenomenon.

The International Association of Insurance Supervisors (IAIS) was founded only in 1994. It has come a long way, and done a lot, in a short time. The IAIS framework for insurance supervision refers to the figure below.

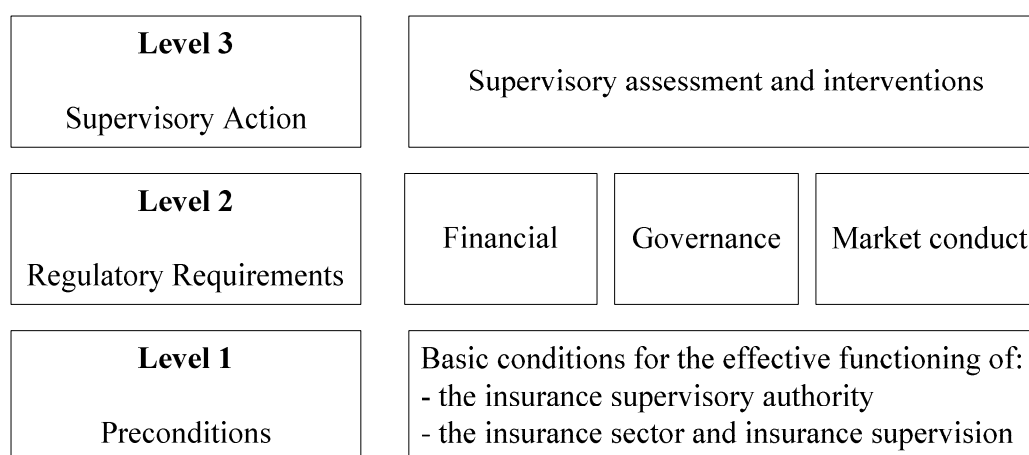


Figure 3.2. Framework for insurance supervision [Mapping of IAIS papers]

In addition not only International Association of Insurance Supervisors is involved in regulation, International Monetary Fund (IMF), World bank, United Nations establish reliable supervisory standards and instruments in a widening range of developing countries, often through expanding technical assistance by international organizations. Against a changing global financial environment, the IMF often eclipses other institutional competitors and

ability that many observers attribute to its close connections with the finance ministries of leading countries. [J. Ravenhill, 2005]

Insurance program division on investment and enterprise [United Nations Conference on Trade and Development] is developed to assist in the establishment of competitive and regulated insurance markets in developing countries and countries with economies in transition through consensus building and provision of targeted policy advice and technical assistance.

The joint World Bank-IFC Financial and Private Sector Development Vice Presidency focuses on supporting social safety networks with market-based instruments: financial market-based instruments and risk management for pensions and insurance systems. [World Bank insurance program]

Due to report [Workshop II report, 2008] it was pointed out that a number of countries have been hoarding reserves in order to reduce their reliance on the IMF in the event of financial instability. There is nevertheless an information problem here in that countries do not really know the level of reserves needed for insurance and what is the surplus which can be used for investment.

H₂: Insurers face the threat of being compared to banks confirmation. There are many ways in which the insurance sector and the financial services interact. But there are two particularly important trends which we must watch carefully and which will undoubtedly influence the regulatory environment in the future [H. Davies, 2000]:

- ✚ the development of bancassurance in various forms and;
- ✚ the use of securitization to transfer risk.

Bancassurance is developing in different ways, in different countries. Overall, three types of structural model can be distinguished: a bank may own an insurance company, or vice versa, a bank and an insurance company may form a conglomerate via a holding company, a bank may organize a joint venture or an alliance with an insurance company, perhaps also acting as an intermediary for that company's products. Thus all of these different models pose interesting problems for management. There continue to be significant cultural differences between banking and insurance which need to be carefully handled. Indeed some have argued that the cultural differences are so significant that banking and insurance mergers tend to lead to value destruction.

H. Davies (2000) prompt to recognize that bancassurance poses challenges for regulators. Indeed, the structures of individual deals and mergers are pushing against the boundaries of existing legal and regulatory frameworks. There are risks of regulatory arbitrage between the insurance and banking businesses within a group: capital requirements

for insurance companies and banks differ in a number of ways. Insurers and reinsurers are offering to buy risks from banks. In addition growing convergence of products in the capital markets – credit default swaps are economically similar to credit insurance, and weather or disaster derivatives are now being written by banks.

Regulatory structures will need to adapt to market forces. Through that risks may be transferred outside the insurance industry to other types of financial institution. Insurance supervisors should follow that risk, and ensure that regulation, both of insurance and of the financial institutions which may hold these transferred risks in the future, adapts to the changed economic reality.

3.3.1. The complexity of institutions

Great shifts - genuine and radical transformation - have been shaping the economy and business environment in recent decades. [B. Graham, 2009] If managing a domestic business is complex, managing the global business is infinitely more so because of the many new variables bearing on crucial management decisions.

Consequently those difficulties arise because of differences in legal systems, political systems, economic policy, language, accounting standards, labor standards, living standards, environmental standards, local culture, corporate culture, foreign exchange, tariffs, import and export regulations, trade agreements, climate, education and many more areas. Each of these factors requires significant changes in how individual business units operate from one country to the next as international business designates not a class of decisions but group of firms that face decision making problems beyond those that confront single-nation business. [R. E. Caves, 1998, p. 15]

Institutional economics is founded on the premise that the institutional environment is composed of a set of fundamental social, legal and political tenets that govern economic activity. Specifically, each institutional element operates at multiple levels. [D. A. Griffith, 2009]

The multi-level analysis (see figure 3.3.) of the institutional environment, coupled with the dynamic view of institutional environments can assist for international life insurance business managers' in more clearly understanding the complexities they face as market segments converge globally, resultant from convergence leading to changes in preferences, thus making some extant market segments larger, others smaller, as well as creating new segments with new preferences.

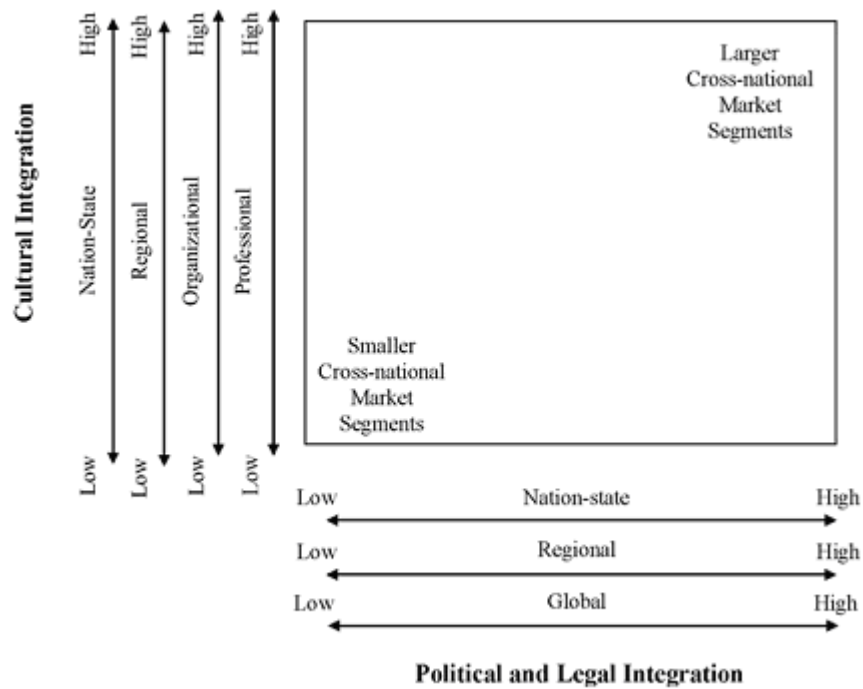


Figure 3.3. Multi-level institutional environment [D. A. Griffith, 2009]

While looking deeper into problems faced in the life insurance business in the international arena, those problems from author's view could be split into general for all businesses and very specific which are common only in the life insurance sector.

General problems

Therefore starting from general problems of the parent company typically must incorporate all the legal restrictions of the home company into the management of companies in very different legal and cultural frameworks, what is more, they should seek to provide a uniform framework for business operations and construct competitive strategies:

- a host country laws and politics, government regulations, restrictions, policies differences or differences of custom and law in national commercial and investment practice;
- problems in economic conditions because of globalization and the power of closed regional/triad blocs;
- the global businesses need different competitive strategies if they are in the different markets position in the various regions;
- other issues are the host country's geography, infrastructure, currency, distribution channels, state of technological development, and cultural differences.

Specific problems

Thus managers of life insurance business must be prepared to react to factors in the home country and compare them to host country in order to be successful in the international markets. After observing arising problems in life insurance business, there is need for:

1. Effective legal system. This point is quite similar that was stated as first in general problems site, but it is not so. As here legal system is concerned as the tool, for the unification of law across the countries, for instance, there are significant health care and political differences in Europe itself and this causes difficulties for life insurance business regulations. For instance, the Law on Equal opportunities came into force in 2005, the Lithuanian life insurance companies raised the question of sex, as the legalized risk evaluation factor. If sex factor as the risk evaluation factor was prohibited, the Lithuanian life insurance services would become noncompetitive in the EU market, the economical principles of the market would be seriously violated, the higher premiums paid by women as compared by men. The revision of the Law on insurance concerning equal opportunities in 2006 solved the above problem. [L. Belinskaja, 2009] However, this example shows that the EU directives requirements should be implemented very carefully.
2. New competition policy. The structure of current insurance market is determined by the dominating purchase and mergers during the last decade. [A. Lezgovko, P. Lastauskas, 2008, p.145] Accordingly market is dominated by large companies, which should react to demographic changes. Ageing tendency in Europe, declining birthrates are not balanced by immigration and menace for the economic situation especially where is adopted Pay As You Go social system. The demand for insurance products is influenced by the population's attitude toward insurance activities and population habits. A long time pass since population disappointment in the country's financial system, including insurance activities, when due to the inflation and monetary reforms premiums of the insured had depreciated, the confidence in the financial institutions has again returned.[L. Belinskaja, 2009, p.75]

J. C. Rankin (2003) mentions the following factors driving the insurance companies' cross border activity. Many countries are moving away from protectionism and state control and taking more market driven approach especially in the insurance and financial services and opening up their markets to foreign companies. The process of Insurance globalization significantly influenced by the GATT/WTO. A major break through was achieved in 1997 with an agreement of Liberalization of financial services following which 102 countries

committed to remove entry barriers and liberalize their markets. The GATT agreement offers legal security and protection to global insurance players. [H. Sadhak, 2005]

3. High qualification of personnel. Firm's human resource policies must adapt to national differences in culture that affect managerial hierarchies, national traditions and practices and particularly differences in trade union organization and blue color wage setting practices. [R. E. Caves, 1998] Furthermore, the increasing standard of living and the growing regular income of the population determine the greater interest of the public to savings.
4. Establishment of common information system and knowledge spread in life insurance business. Today's most successful executives, while still greatly concerned with cost structure, maximizing operational effectiveness, and business process reengineering, have shifted their focus to issues of how to build capabilities for faster growth, how to attract and retain the best people, how to develop leaders at all levels in the company, how to manage knowledge effectively, how to become a true learning organization, and how to be more effective global corporations. Knowledge is the essential source of enterprise competitive predominance. But knowledge has many obstacles, especially the tacit knowledge sharing. [V. Kotelnikov, 2007; D. Shufang, 2008]
5. Separating cultural values. Culture affect the way consumers think. With this in mind, marketers abroad often do not fully understand the culture and lack the proper frame of reference. Thus, decisions that they would make automatically at home could be dramatically incorrect when operating abroad. Business problems and goals must be defined in terms of the host country's culture.[International marketing, Business reference] Being able to separate home-country norms from those in the host country can be a very challenging task. Often, the influence of one's own culture is underrated.
6. Consumer behavior in financial services. One more important issue is that insurance by its nature is the financial service and some factors that motivate individual buying behavior can be observed. A. Beckett (2000) introduced consumer behavior matrix explaining alternatives available to individuals. Consumers adopting rational/active behavior are perceived as being involved or interested in the good or service and confident that the purchase exposes them to known and therefore certain outcomes. Consumers adopting relational/dependent behavior seek advice and help from other parties to make their purchase choices.

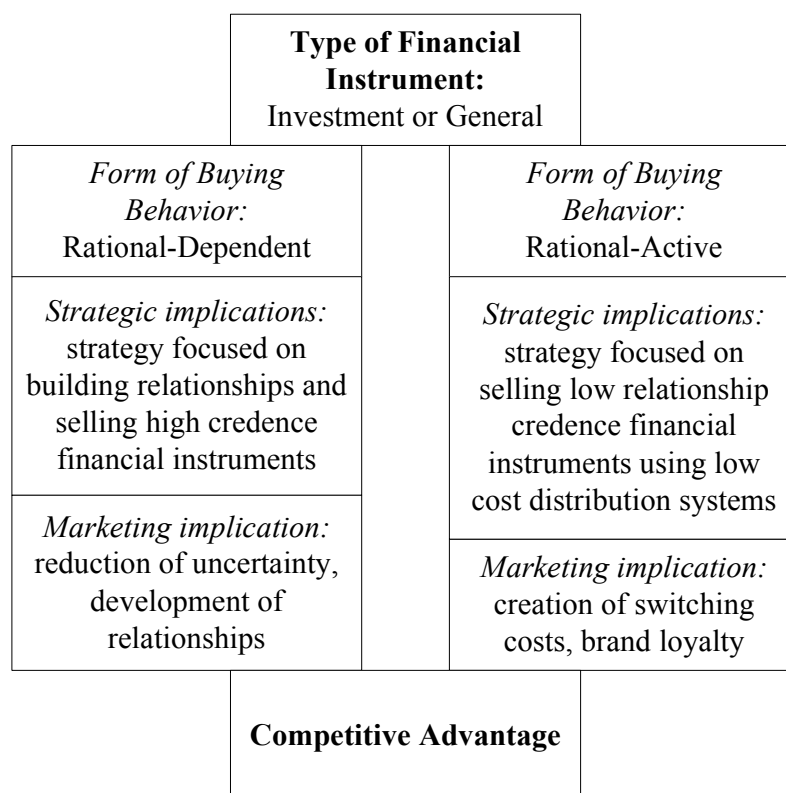


Figure 3.4. Financial service strategy [A. Beckett, 2000]

Financial service providers are contingent on the form of financial instruments that they supply and the buying behavior of consumers. Distributing investment instruments require the ability to form and sustain relationships that reduce consumers' perception of uncertainty.

3.3.2. Insurance companies interaction with other financial institutions

An increasing number of clients of banks, financial services institutions and insurance companies are demanding integrated financial products. The former distinction between banking and financial services on the one hand and insurance business on the other are gradually disappearing. As a result, there is growing tendency among banks, financial services institutions and insurance undertakings to form cross-sectored groups for whom it is easier to place broad product ranges effectively in the market. The trend towards integrated bank assurance groups is expected to continue. [J. Čepinskis, D. Raškinis, 2003, p. 50]

Various developments in financial markets are often mentioned as examples of a convergence process in the management and operations of insurance companies and other financial institutions. Among these examples the most relevant are [A. Beltratti, G. Corvino, 2008, p. 365]:

1. Application of new asset management techniques to manage reserves of insurance companies. The increasing number of insurance companies investing their own capital in hedge funds is a visible example regarding the structure of proprietary portfolios;
2. Increasing full-function joint ventures in life and non-life businesses between insurance and banking financial groups;
3. Modification of products sold by insurance companies to include financial elements traditionally found only in products offered by banks and investment houses. Unit-linked and index-linked products usually require passively or actively managed assets or mutual funds to act as underlying securities. Through unit-linked and index-linked products, insurance companies may then sell financial securities under the form of insurance products.

Table 3.1. Interaction between insurance companies and other financial institutions

Type of financial institution	Interaction with insurance company
Commercial banks and saving institutions (SIs)	Insurance companies compete with banks and SIs to finance leveraged buyouts. Insurance companies sometimes compete with banks and SIs by offering credit default swap (CD's). Insurance companies sometimes compete with banks by offering an account on which checks can be written. Insurance companies merge with banks in order to offer various banking services. Insurance companies face increased competition for insurance related services as banks and SIs attempt to offer such services. Insurance companies commonly purchase loans that were originated by banks.
Finance companies	Insurance companies are sometimes acquired by finance companies and managed as subsidiaries.
Securities firms	Insurance companies compete directly with securities firms by offering mutual funds.
Brokerage firms	Insurance companies compete directly with brokerage firms by offering insurance services.
Investment banking firms	Insurance companies compete with investment companies to finance leverage buyouts. Insurance companies commonly purchase stocks and bonds issued by corporations that were underwritten by investment banking firms. Insurance companies issue stocks that are underwritten by investment banking firm.
Pension funds	Insurance companies offer to manage pension plans to corporations.

Source: D. S. Kidwell, D. W. Blackwell, D. A. Whidbee, and R. L. Peterson, 2008, p.715

The current insurance market structure is grasped by prevailing over the past decade, mergers and acquisitions. The main market leaders in this situation have for this activity, rather than on the evolutionary development of the business. Mergers and acquisitions are mainly based on considerations of economies of scale, willingness to strengthen its positions in the international insurance arena, to expand the insurance services and products in volume, or get in any region. [A. Lezgovko, P. Lastauskas, 2008, p.128]

A Towers Perrin (2009) survey found that 71 percent of life insurance chief financial officers (CFO) said they are interested in acquiring a block of business, while half said they may be seeking to buy a company.

Over 2008, only 8 percent of those CFOs surveyed said they have acquired, or are in the process of acquiring, a block of business, and 30 percent indicated that they have purchased, or were taking steps toward purchasing, a company.

The survey found that many companies are looking to acquire “protection” business over the next 12 months; 79 percent of CFOs said acquisitions of individual life businesses were attractive, while 25 percent indicated group life businesses may be a target.

In insurance, the home country composition of the largest transnational corporations (TNCs) has changed dramatically. European TNCs have taken over the lead from U.S. and Japanese firms. The rise to prominence of European TNCs has occurred in parallel with their increasing participation in cross-border mergers and acquisitions (M&As) and global insurance groups have been a major force in the consolidation process. [Mergers and acquisitions, Reuters]

Institutions diversify their overseas activities to seize new opportunities and escape domestic regulatory restrictions. To compete with a broader array of products, firms are also developing international alliances, many across traditional institutional lines. The number of partnerships and inter-organizational alliances among different businesses has grown steadily and is expected to increase as part of need to gain competitive edge and new customers. Insurers can now provide a wide range of insurance products and services, despite competition in the financial markets is getting intense. [J. D.Cummins, B.Venard, 2007]

More insurance carriers now sell financial products such as securities, mutual funds, and various retirement plans. This approach is most common in life insurance companies that already sold annuities, but property and casualty companies also are increasingly selling a wider range of financial products. In order to expand into one another's markets, insurance carriers, banks, and securities firms have engaged in numerous mergers, allowing the merging companies access to each other's client base and geographical markets. [T. Hess et al., 2009]

In addition, as other financial institutions increase their offerings of insurance related services, differences between insurance companies and other financial institutions are diminishing. For example, insurance companies that have merged with brokerage firms offer a wide variety of security related services.

Insurance companies interact with financial institutions in several ways, as summarized in the table 3.1. Also the manner in which insurance companies use their funds indicates their form of participation in the financial markets. Thus insurance companies are common participants in the stock, bond and mortgage markets because their asset portfolios are concentrated in these securities. They compete in one form or another with all types of financial institutions as the penetration into non traditional markets increase. A widening range of clients also gradually become convinced of the virtues of portfolio diversification. These changing conditions permissive of large-scale international capital flows and of their consequences.

4. EMPIRICAL RESEARCH ON THE LIFE INSURANCE BUSINESS

4.1. Analysis of life insurance business in the global economy rebalance and recovery scenario

Deregulation, globalization of insurance institutions, intensified competition, electronic commerce, bank assurance, and the emergence of new risks are among the challenges faced by insurance markets. The World Economic Forum Global Risks report (2010) findings confirmed that we must face the challenges created by the unprecedented levels of interconnectedness between risks.

Through the number of risks examined, key concerns are on the impact of the fiscal crisis, the social and political implications of high unemployment rates in several major economies. Many countries have put themselves at risk of overextending their fiscal positions and being burdened with extremely high levels of debt. Particularly, the current models for health, education and unemployment protection have been put under severe strain by the fiscal crisis, notwithstanding the longer-term implications of increasing life expectancy. [News release, Swiss Re, 2010]

Hence, life insurance companies were also influenced by the financial crisis. T. Hess et al. (2009) defined the three ways. The first determines that value of the assets of life insurance companies plummeted down. The second, life insurers are still struggling to earn the guaranteed rates promised in prior years. And the third is that some insurance companies had difficulties while meeting liquidity demand since the assets they held could no longer be sold easily.

Thus the industry recovery has started along with the improvement in financial markets, but some main issues will face life insurers in 2010 [T. Hess et al., 2009]:

1. Low investment yield: investment income will remain low, due to low interest rates and strategies of investing most assets in government and highly-rated corporate bonds. This will cause low profitability.
2. Need to rebuild capital: because of debt issuance is costly and rights issues are dilutive. A threat of asset impairments remains, which are influenced by rising commercial mortgage and corporate bond default rates.
3. Arrested recovery of new business: sales will recover only slowly in 2010. Persistency is well, regarding annuities business and churning is low as reprising of many products with guarantees.

T. Hess et al. (2009) have examined the global economy growth till 2012. They claim that as a consequence of the risk of inflation rising, insurers will need to price this rising risk over the next five years.

✦ *Correlation analysis*

In order to understand the changes which had happened in the global insurance market and the factors which drive them, the data from *annex A-5* is used for calculations.

The purpose of the investigation is to examine which factors influence the life insurance in the world. Thus correlation analysis was applied to determine whether exists relationship between the life insurance according to world life premium (Y) and every independent variable ($X_1, \dots, X_6$) and what is the strength of this relationship.

Table 4.1. The calculated coefficients of correlation and interpretation

Coefficient r meaning	r calculated	Interpretation
From 0,9 to 1,0 (from -0,9 to -1,0)	$r_2=0,86252$	Very strong positive (negative) linear correlation
From 0,7 to 0,9 (from -0,7 to -0,9)	$r_3=-0,79114$ $r_6=-0,71341$	Strong positive (negative) linear correlation
From 0,5 to 0,7 (from -0,5 to -0,7)		Average positive (negative) linear correlation
From 0,3 to 0,5 (from -0,3 to -0,5)	$r_4=0,31380$ $r_5=-0,49824$	Low positive (negative) linear correlation
From 0,3 to -0,3	$r_1=-0,15044$	Very low correlation or non

Source: composed by author

Calculation of the coefficients of correlation revealed that factors X_1 , X_3 , X_5 and X_6 have negative correlation with Y. This shows that then world gross national savings, world inflation, unemployment rate and gross debt increases the world life premium decreases. Whereas, only X_2 and X_4 have positive correlation with Y. This show that world gross domestic product and a bit less life expectancy at birth increase positively influence the world life premium increase.

✦ *Web page depends on the insurance businesses ability to capture attention of the visitors*

There are some key world trends which may be seen at more or less the same level in various countries worldwide. J. D. Cummins and B. Venard (2008) have summarized homogeneous trends.

Table 4.2. Global trends/local contingencies in the international insurance markets

Global Trends	Local Contingencies
Global insurance products	Semantic differences
Sophistication of insurance products	Economic development diversity
Global risks	Financial market diversity
Reinsurance market	Variation of the political systems
Risk diversification	Diversity of situations regarding the aging population
Foreign insurers activities in national markets	Regulation diversity
Deregulation	Insurance tariffication
Supranational agencies involvement in international business	Variation in the e-commerce in the insurance sector
Regional economic area creation	Diversity of distribution channels
Privatization	Bancassurance
Technological development	Differences in portfolio of insurance products
Pension and health reforms	Insurance companies strategy diversity
Evolution of insurance distribution	

Source: J. D. Cummins and B. Venard, 2008

Those global trends (global insurance product, risk diversification, technological development, evolution of insurance distribution) prompt the interest of the author in the success of web page depends on the insurance businesses ability to capture attention of the visitors. This interest was also stimulated by J. Minto (2009) ideas analysed in the second part of this thesis and to KOF [Globalization Index] which presented that economic globalization advanced from openness, knowledge and the best technologies in the world.

Thus ability to capture attention of the visitors' is particularly difficult in the insurance industry because of the complexity of products, claims administration and underwriting processes, so the information provided in the web page should be clear even for non expert. [J. Helland, 1992; J. Kapoun, 1998; B. Krassenstein, 2009]

Randomly there selected four web pages of international life insurance companies two of them are engaged in the Lithuanian market. To make the comparison easier abbreviations will be used in this manner:

- ✦ "Compensa Life Vienna Insurance Group SE Lietuvos filialas" – the first web page,
- ✦ "Aviva Lietuva"- the second web page,
- ✦ "New York Life Insurance Company"- the third web page,
- ✦ "Life Insurance Corporation of India"- the fourth web page.

The criteria used for comparison are explained in the methodology section, there are presented only the summery of the obtained results.

URL and accuracy of web pages. All web pages are personal type, the first and the second web pages uses different domains only the third and the fourth are in the same domain.

The first three web pages are written by companies' specialists only the fourth is completed by private company.

Quality. The web pages production year range from 2001 to 2004, but all of them are updated till now, just it is very significant difference in updates frequency between companies operating in Lithuania and abroad, as the third and the fourth web pages are more virtual base and interaction with customers is more developed. As there was no dead links it means that administrative side of the web pages is done accurately.

Aim. The purpose of all four web pages were the same to inform the customer, just the information channels which visitor of the page could select were quite different. More developed range of virtual communication was presented by the third and the fourth web pages.

View. The first impression while browsing the web pages there very different from neutral to positive, in all pages there used images, text, banners, in the third there was added video and interactive tool for customers, which required the use of special software to view the information, none of the web pages there charged for browsing it.

User friendly. As concerns my personal attitude from the first web page I liked e-Life system, but it has limitations. The evaluation was 1 point. The second web page could be criticized because of unequally managed information on it and for the reason that only pensions has electronic version for clients. The evaluation was 1,5 points. The third web page was better equipped for the visitor from the technical side. The evaluation was 2 points. The fourth web page overall structure was the best comparing it to previous web pages, so the evaluation was 3 points.

After four web pages evaluation become evident that insurance companies have discovered that the Internet can be a powerful tool for reaching potential and existing customers. Most companies use their web pages simply to post company information, such as sales brochures and product information, financial statements, and a list of local agents.

The stronger web pages are developed by companies operating abroad, but not in Lithuania such situation could be explained as visitors of the insurance companies web pages expected to have only the basic web knowledge in Lithuania, but from my point of view this judgment is not correct and the web page platform should be developed further.

Whereas Insurance Distribution Channels in Europe [CEA Statistics N°39] also claims about the development of new channels such as supermarkets, the internet and call centres in parallel with the retention of traditional networks such as agents and brokers demonstrates the desire of insurers for multichannel strategies to reach clients.

4.2. PEST analysis of life insurance environment in Europe

This section aims to present an analysis of life insurance macro environment in Europe as Lithuanian insurance market is strongly affected by it. The PEST analysis used for this purpose combination of secondary and primary data applied. The questionnaire was send on February 2010 for 45 international life insurance companies engaged in insurance activities in the European market, the response level was 42 percent.

Ditto survey results the greatest impact on the life insurance business was equally influenced by economical and legal/regulatory environment both at 43 percent and technologic at 14 percent, other were not selected probably as respondents were asked to chose only one the main out of seven possible.

✦ *Political factors*

Forasmuch political stability also can influence the demand for insurance, since life insurance involves long time horizons. Unstable political environments depress the demand for insurance, because individuals tend to lose confidence in the ability of insurers to meet their promises. The European community has come a long ways toward unity, but it still has a long way to go. Major changes compared to the period 2004-2009 are instability of political groups the formation of new political groups in European Parliament. Such fragmentation and concurrency deprive from taking fast updates and properly cater for the wider range of life insurance products. [T. Rudge, 1996; J. Carmichael, M. Pomerleano, 2002]

The countries of Europe need to relinquish more sovereignty as the Union grows in strength. [Ravenwerks] Along with this, they need to begin to work with each other more directly as they begin to rely on each other not only for economic growth, but also for the common legal system and regulations for life insurance in the common European market.

Governments also determine the competitive environment in which the market works. There could be two options: to allow foreign competition into the domestic market or limit to some extent. According to J. Carmichael and M. Pomerleano (2002) foreign competition can be viewed as a positive factor for growth and efficiency, to the extent that it is a source of both capital and expertise for local markets and a mean of diversifying risk as broadly as possible. But as negative factor for growth the financially strong insurers are able to cover the best risks, thereby weakening and even impeding the growth of the local market.

Governments can indirectly influence the growth of the insurance industry through the position of alternative sources of long term savings. For instance, German life insurance industry has grown as strongly as it has is the widely held perception that the public pension scheme will be unable to meet its promises. Institutional reforms constitute the second growth

factor for insurance. Life insurers in Central and Eastern Europe should benefit from pension scheme reforms, which are calling the preponderance of government-administered programs into question. Insurers have a role to play in the provision of pension products or related services (such as asset management) for the second pillar as well as for the third pillar. The need for more regulation was not dominant by respondents, while Solvency II was welcomed by 71 percent.

The most obvious way in which governments influence the growth of insurance is through tax policy. A majority of European countries grant tax concessions for the purchase, ownership or execution of life insurance policies. These benefits vary widely. In some cases relatively slight and designed merely to simplify tax administration, they may also be substantial and intended to encourage people to purchase or maintain policies in order to encourage a shift in national savings towards life insurance promote long term savings or prompt individuals to help ensure their own financial security. [Emerging Markets Advisors in Insurance, 2009]

As concerns the statement “the economic crisis is transforming the global life, pensions and asset management markets” majority of the respondents 86 percent agreed.

✚ *Economical factors*

Insurance makes a major contribution to Europe’s economic growth and development. European insurers generate premium income of 1.100 billion euro, employ one million people and invest 6.900 billion euro in the economy. [CEA Statistics N°37] According to primary data of the survey the chain of insurance agents and brokers on both sides of the contract is expected not to diminish rather they will fluctuate in the same industry just within different employers.

Among the top insurance groups in Europe, only a limited number (Aegon, ING) have required government support to improve their capitalization. Reviewing other key market indicators, share price indices show that although European insurers’ stock prices have fallen less overall than those of European banks over the past nine to 12 months, life insurers’ share prices have dropped significantly, which has clear implications for the insurers’ financial flexibility. [Insurance analysis, 2009]

The European life insurance market is largely driven by the UK and France, which account for nearly one third and one fifth of total life premiums respectively. In 2008, total European life premiums declined 11 percent (minus 16 percent at current exchange rates), amounting to 644 billion euro, compared with 766 billion euro in 2007. This record decline predicted for 2008 is largely due to the global financial crisis. In comparison, the drop during the 2000–2001 financial crisis was 4 percent. [CEA Statistics N°37]

The financial crisis has had a number of consequences for the life insurance industry. Firstly, the drop in the stock markets has led to a slowdown in unit linked product investments, for which policyholders bear the investment risk. Secondly, life products lost out in the second half of the year to short term banking products that offered higher returns because of the inversion in the yield curve.

All respondents agreed that insurance industry can cope with hard times as it was hurt fewer than banks, but 29 percent expressed doubt about preparation for the capital challenges with global “mega risks” in their companies.

Developments in the life insurance markets varied greatly between European countries. Among western countries, Ireland and the UK recorded a decline of life premiums by more than 25 percent. France, Belgium and Italy also recorded a decline of about 10 percent which corresponds to the CEA average. In all these countries, unit linked products under single contracts are quite popular and the financial crisis has adversely affected sales of such products.

Markets with a high share of regular premiums were more resilient and in Germany, the life premium volume increased by 1 percent in 2008. Luxembourg, Spain and Portugal were the only western markets of the EU to expand at double-digit rates. An astonishing 123 percent increase in Luxembourg is explained by the fact that a domestic company exceptionally registered substantial additional premiums. In Spain, the increase was mainly driven by high numbers of surrenders that were then most probably invested in other life insurance contracts. In Portugal, the life insurance sector benefited from transfers originating from the banking sector.

In central and eastern European markets, the picture was mixed in 2008. Whereas life premiums fell sharply in the three Baltic States, hit hard by the financial crisis, Poland, which is the largest life market in the region, Slovakia and Romania all experienced double-digit growth. In Poland, the dynamic development of bank assurance for life insurance products and the attractiveness of short-term life policies led to a boom in premiums. A move from unit linked products to traditional products was also observed.

Unemployment in the Euro zone is expected to reach 11 percent in 2010. [Global risk report, World Economic Forum, 2010] L. J. A. Lenten and D. N. Rulli (2006) study suggest that unemployment has a negative influence on the demand for life insurance.

✚ *Social factors*

Social factors also have effect on consumer behavior and play an important role in determining the level of insurance penetration, as life insurance products are purchased primarily as saving instruments. D. Li, F. Moshirian, P. Nguyen and T. Wee (2007) find a

significant positive income elasticity of life insurance demand. Demand increases with the number of dependents and level of education, and decreases with life expectancy and social security expenditure.

The level of education positively affects the demand for life insurance in two respects. Truett (1990) argue that a higher level of education is associated with a stronger desire to protect dependents and safeguard their standard of living. Browne and Kim (1993) explain that a higher level of education results in a greater awareness of life's uncertainties and hence highlights the benefit of life insurance coverage. Outreville (1996) also supports the view expressed by Browne and Kim (1993). In addition, the level of education is associated with the duration of the offspring's dependency, resulting in an increased need for protecting beneficiaries through life insurance. [L. J. A. Lenten, D. N. Rulli, 2006]

Social security is expected to decrease the demand for life insurance. Browne and Kim (1993) explain that social security expenditure is a proxy for national wealth, which can be viewed as a substitute for life insurance coverage (or self-coverage). Skipper and Klein (2000) indicate that generous social welfare programs reduce the cost of dependence. Following his theoretical development, Lewis (1989) argues that social security expenditure is a form of mandatory life insurance that can displace the need for private insurance. Furthermore, given that social security benefits come from taxes, which reduce available income to purchase life insurance, high social security expenditure is hypothesized to reduce the consumption of life insurance. Beenstock, Dickinson, and Khajuria (1986) find strong evidence of a negative relationship between social security and life insurance demand among developed countries. [D. Li et al., 2007]

Hence, people who prefer invest into life insurance products were defined as those who care about security aspect so responded 27 percent. Households across European countries appear to contemplate insurance consumption taking into account the expected loss of lifetime income as well as the attractiveness of the investment product.

From primary research the most often mentioned problems their company's face were complex management and increased responsibility both at 22 percent, as well as differences in laws and culture, but world is squeezing because of high level of technology use.

✦ *Technological factors*

The performance of life insurance companies impacted by the information technology management practices as IT investments as well as their contribution to the efficiency of the life insurance firm as a whole can have a substantial effect on efficiency over and above the effects of particular technologies themselves. [J. D. Cummins, A. M. Santomero, 1999] Same

agrees J. Yates (2005) information technology shaping, and being shaped by, the insurance industry's existing business processes, cultures and practices.

Insurance carriers have discovered that the Internet can be a powerful tool for reaching potential and existing customers. [Facts and figures, Eurostat, 2009] The Internet enabled customers:

- ✦ to access online account and billing information,
- ✦ allowed claims to be submitted online,
- ✦ provided insurance quotes online based on the information submitted by customers,
- ✦ allowed customers to purchase policies through the Internet without ever speaking to a live agent.

Insurance companies reflect to the changes in the market and require a modern, flexible and future-proof solution to replace the existing legacy and back office systems. For instance, Duck Creek Technologies Europe Limited, a software and service solutions provider for the insurance industry, in partnership with Tata Consultancy Services (TCS), has been selected as the supplier of a new Commercial insurance processing system for AXA Insurance (a market leader and one of the largest general insurers in the UK).[PR Newswire, 2009] The solution will support the full policy life cycle enhancing AXA's customer service, enable rapid product definition, development, deployment and management of products and services across multiple lines of business and multiple distribution channels.

The outlook for life insurance from respondents looks optimistic as positive insurance product taxation, technological improvement and reduced social insurances will lead to industry successes (57 percent in these categories separately).

4.3. Analysis of Lithuanian life insurance market internationalization

Lithuanian insurance market is not closed but it has been part of the broader European internal market. Lithuanian insurance market has significant development potential, it confirms the weak development of the insurance rates.[A. Lezgovko, P. Lastauskas, 2008] In addition, there is preposition that the current environment is very conducive to the development - a social shift to the private sector, foreign capital provides best practices, improve quality, also the insurance companies and banks started the integration.

Competition among life insurance companies for each of the market share percentage is complex in today Lithuanian life insurance market. Different ways to attract customers are used, but compared Lithuanian life insurance market rates with the developed Western

European countries indicators, there is a clear – Lithuania behind. This leads to several fundamental reasons [J. Čepinskis, K. Gancevskaitė, 2008]:

1. The first life insurance company established only in 1995 in Lithuania, while in other European countries, the life insurance market was already developed by this time.

T. Bernat and D. Grundey (2007) insurance market maturity study in Poland and Lithuania concluded that both researched markets are not mature yet. This resulted from a few features: in the previous years they have been developing much faster than a competitive market, measured in change dynamics of gross premiums, density and penetration significantly differ from generally accepted standards.

2. The insurance companies, non-transparent activities and the event of bankruptcy left the Lithuanian population subconscious negative attitude in general to all insurance companies.

Table 4.3. Factors influencing the Lithuanian life insurance market

Positive factors	Negative factors
-Increasing society interest in alternative means of saving; -Integration of bank and insurance services, cross-border mergers and acquisitions, global insurance groups; -Favorable tax environment of life insurance; -Mean of employees motivation; -Great potential of life insurance market.	-Unfavorable attitude of Lithuanian residents towards life insurance; - Life insurance products are not seen as being of prime necessity, the purchase of other products and services takes priority. - The proportion of singles and childless families rise significantly, reducing the demand for life insurance products. -Lost confidence in the financial institutions; - The financial system is heavily bank-based. -High level of inflation determining the unattractiveness of long-term saving products; -Decreasing regular income of population; -High unemployment level; -Emigration of residents; -Aging society;

Sources: modified from L. Belinskaja, 2009; Emerging market advisors in insurance; Annual insurance market overviews from Insurance Supervisory Commission data

Despite so many negative factors dominating the Lithuanian life insurance market there are some signs of interests in this field from customer side. According to sociological research to finances and economy [Aviva forumas Nr. 26, 2009] the world's attention to items of personal or family financial planning in newspapers and magazines is increased. Lithuanian respondents' average in reading was 41 percent in 2009. It is more than in other countries participated in the study – the world average of 34 percent.

3. The low standard of living of the Lithuanian population and financial instability prevents large parts of the country's population access to life insurance companies for services.

Since only a small part of the country's population are insured life insurance, J. Čepinskis and K. Gancevskaitė (2008) assumes that more competitive rate in the life insurance market, which influences companies' efficiency, service quality, new product introduction services and administrative fees, would help companies to attract even more new customers, while at the same time to reduce the main direct and indirect life indicators gap with the West European countries.

According to A. Lezgovko and P. Lastauskas (2008) life insurance will increase more than the non-life insurance due to level of development of the social reforms. Moreover, they predict that the insurance market will remain relatively strong concentrated, with some companies having large market share. There are also presumptions that insurance companies may decrease the number of international trends that are forcing insurers to increase market share and thus reduce risk management costs, as well as collision with competitive pressures, regulation, which becomes increasingly difficult.

✦ Lithuanian life insurance market

The growth of Lithuanian insurance market has been positively influenced by overall growth, during the recent years. The growth rate of the insurance market exceeded the country's gross domestic product (GDP) growth rate in 2007. [Insurance Supervisory Commission data] Determinants affecting the insurance market growth until 2007 were associated with the growing and developing economy as well as public confidence in financial institutions. Also, the boom of the stock market was a great incentive for the conclusion of unit-linked life insurance contracts. Rising wages and improving working conditions had an impact on the growth of life insurance as well – employers were increasingly interested in employees' life insurance.

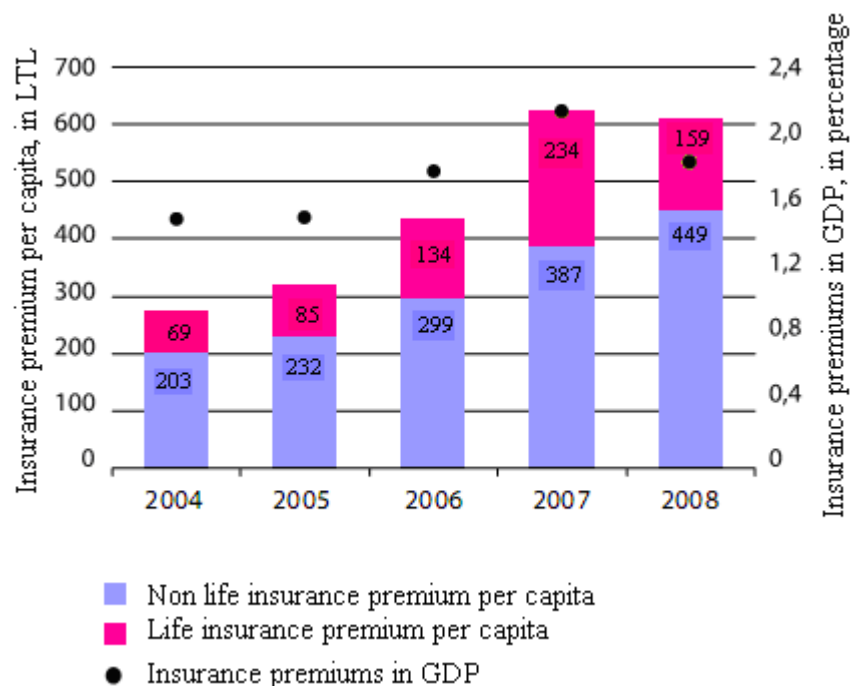


Chart 4.1. Insurance penetration and density in Lithuania [composed from Insurance Supervisory Commission data]

According to Lithuanian Bank experts in 2008, the growth of the financial system assets slow down and become lower 97.6 percent than GDP value, for comparison, in 2007 it was 104.1 percent of GDP. But the favorable environment for the development of the life insurance market in 2007 has undergone some changes in 2008. There was an uncertainty for investments as unit-linked products have been affected by the drop in the stock markets. Even more based on CEA [Annual Report 2008-2009], life products were challenged by short-term banking products that offered higher returns due to the inversion in the yield curve in the second half of 2008.

In 2008, the rating agencies Fitch Ratings and Standard&Poor's lowered Lithuanian long-term foreign currency rating from A- to BBB+, and left a negative trend. Lithuanian insurance market is reacting to the overall situation of the world's financial markets and the economy in Lithuania. The global financial crisis coincided with the Lithuanian economic growth deceleration phase of the economic cycle, so the negative impact is significantly stronger. Ratings there lowered further in 2009 from BBB+, to BBB by Fitch Ratings and Standard&Poor's agencies. According to economic experts, Lithuania's economy is currently entering the stage of slower economic development. Therefore, the country's insurance market is going to face new challenges in its attempts to effectively develop the insurance business under not very favorable macroeconomic conditions, where inflation is growing but

income of citizens and companies is increasing at a much slower pace. [Economic outlook for Lithuania, Bank of Lithuania]

In 2009 insurance undertakings paid more attention to communication with existing clients as chosen risky investment directions, incur losses which undermine the growing public confidence in financial institutions and this will have a long-term negative impact on the further development of the life insurance market. [Insurance Supervisory Commission data] Business Monitor International's Lithuania Insurance Report predicts that in the longer term, Lithuania's insurance sector will undoubtedly return to the trajectory of swift expansion. It is stated that total premium growth of 34 percent in 2010 and 23 percent in 2011 in the life insurance is possible. [Lithuania insurance report, 2010]

- ✦ Forecasting by moving average and exponential smoothing methods for the life insurance market growth according to newly concluded insurance contracts

The forecasting with mean square error (MSE) of 2-period moving average forecast is less than MSE of 3-period moving average forecast for 2010. This shows that forecasting of 2-period moving average is more accurate, calculation are presented in the *annex A-6* and graphically plotted in the chart below.

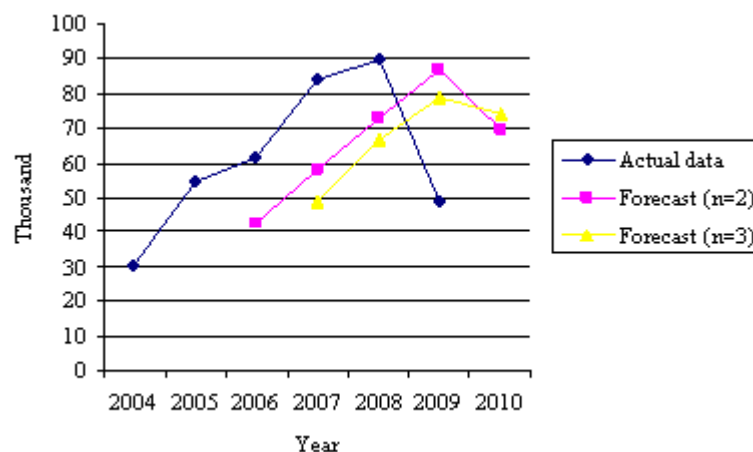


Chart 4.2. Forecasting by moving average method [composed by author]

Whereas in the exponential smoothing method new growth of life insurance market according to concluded insurance contracts forecast = (α) , the current actual growth of life insurance market according to concluded insurance contracts + $(1-\alpha)$, the previous growth of life insurance market according to concluded insurance contracts F_t . There was used three cases then $\alpha=0,4$, $\alpha=0,6$ and $\alpha=0,8$.

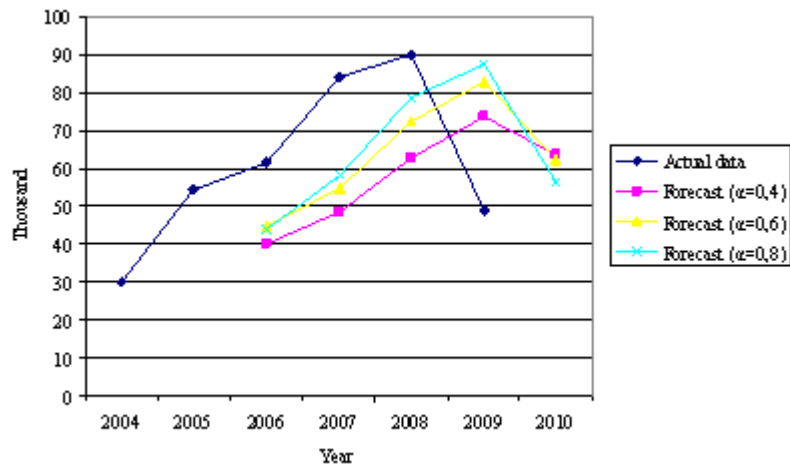


Chart 4.3. Forecasting by exponential smoothing method [composed by author]

According to the forecasting data calculated, the graph was plotted (see chart 4.3.) for visual comparison of actual data with the results using three different smoothing constants. We see that the mean square error is smaller using bigger α , thus the forecast with $\alpha=0,8$ is more accurate. The results of forecasting by using exponential smoothing method are provided in the *annex A-6*.

In comparison of both methods applied we can see that by moving average method forecast is more optimistic to exponential smoothing method, but indeed situation is quite pessimistic as all in all the life insurance market growth according to newly concluded insurance contracts is far away from 2007 results and will take time to reach previous results.

In fact, for all three the Baltic states the situation is quite problematic since each of them has a very small domestic market, which given current conditions may make local operations economically unviable. This might result in the Baltic states being served by foreign branch operations as opposed to a truly indigenous insurance sector. While this may be cost-effective for insurers, it could handicap the development of the financial services sector in general, given the insurance sector's role as the third main pillar. [R. B. K. Pye, 2005, p.220]

4.4. Analysis of internationalization processes and their management experience: the case of Aviva group

The objective of this section is intended to outline Aviva group case in the international development of life insurance business and their management experience gained.

➤ Main data about the group

Aviva is the world's fifth-largest insurance group (based on gross worldwide premiums for the year ended 31 December 2008) and the largest insurance services provider in the United Kingdom (UK). The group has subsidiaries, associates and branches in the UK, continental Europe, North America, Asia Pacific and other countries around the world. Aviva group takes the leading position in provision of life and pension products in Europe and are actively growing the long-term savings businesses in Asia Pacific and the USA. [Facts and figures, Aviva]

The main activities are long-term savings, fund management and general insurance (includes motor, household, creditor, health, commercial motor, commercial property and commercial liability insurance). There is 54,000 employees serving over 50 million customers in 28 countries around the world. [Aviva World]

Group is also engaged in Lithuanian life insurance market. Aviva Lithuania has two main business lines – life insurance and pensions. During the period of the activity from 2001 Aviva Lithuania established strong positions among top three life insurance and pension providers in Lithuania. The company has over 185 000 life insurance and pension funds customers, 15 branches and sales offices in major Lithuanian cities and cooperates with around 550 insurance consultants. Direct sales force is the main distribution channel of Aviva Lithuania. [Aviva Lietuva]

✦ *Strategic development and entry modes*

Based on the main dates presented in the *annex A-7*, the three level strategic developments and entry modes model were developed see figure below.

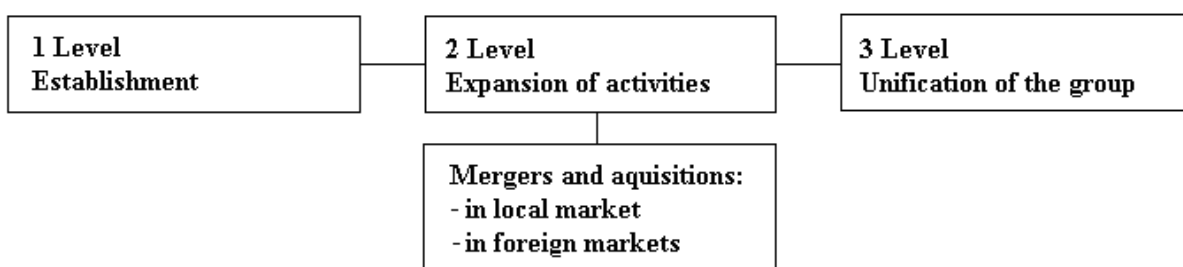


Figure 4.1. Strategic developments and entry modes model [composed by author]

1 level includes establishment process from 1696, which main driver were merchants, who want to protect their goods.

2 level includes expansion of activities into to several directions. Firstly by becoming international through subdivisions establishment from 1862 in twelfth countries all other the world. Secondly while acquiring by mergers and acquisitions local companies in UK from 1894 and mergers with foreign capital companies from 1971. It could be named as horizontal

integration, as growth was achieved by internal and external expansion through mergers and acquisitions. Thus advantages of horizontal integration there the following : economies of scale, selling the same product by geographic expansion, economies of scope, sharing resources, increased market power over downstream channel members.

3 level includes early stage common group creation starting from 1987 in Europe. The Aviva brand name was launched in July 2002. The group was formed by the merger of CGU and Norwich Union in 2000. CGU came from the merger of Commercial Union and General Accident in 1998. [Facts and figures, Aviva] And further development from July 2007, Aviva has been structured into four regions: UK, Europe, North America and Asia Pacific. The main strategy is acting together as a group – as One Aviva – to best serve the interests of group customers and shareholders. Thereby from this stage of development positioning is seen as benefit gained through customer perception of linkages between products by using the same brand name.

Going further with 3 level implementation we could find out competitive advantages factors.

✦ *Competitive advantage factors and barriers*

Group adapt to changes in external trends, internal capabilities and resources for achieving sustained competitive advantage.

Business is diversified across general insurance, long-term savings and investment management. Group has market-leading brands in all four of the operating regions and offer products through direct and independent sales channels, bank assurance and multi-distribution. In life insurance, brokers are very important in insurance distribution in the U.K., with 61 percent market share and in Canada, with 44 percent of the market, but have limited share in Germany, with 28 percent market share, and even lower in France, with 9 percent market share and Italy with 0,8 percent. [J. D.Cummins, B. Venard, 2007]

Due to A. Moss the group chief executive the group has advantage of scale “We operate in a global market. By thinking globally, we shall find ways of releasing more value from our existing business and realize the benefit that scale can give us”. [Aviva World]

✦ By sharing expertise across businesses, they produce better products for customers and continually improving the way they work.

Matrix structure allows better share knowledge and exploits scale across the group, while placing more employees closer to customers, making them accountable for performance across their business.

- ✦ Companies belonging to the group have stable and beneficial position in the financial hard times.

Aviva group ensure the continuity of the available solvency margin, the surplus at the end of 2008 year amounted to 2 billion pounds. Experts of the group calculated that in case of the financial markets declining another 40 percent a charter group of the available solvency margin and the surplus would be reduced from 2 billion to 1,2 billion pounds. This is more than enough reserve ensuring the continuity of the whole group. [Aviva World]

- ✦ Centralized international processing centers and shared services and IT systems are improving efficiency and bringing cost savings.

The company has rationalized key IT operations across many areas of the business so it can tackle the current economic downturn and be in a good position when the outlook changes and confidence improves. Aviva reviewed its desktop estate as part of the company's IT software rationalization program. There were four management systems controlling the 36,000 desktops and 1,500 servers, which resulted in an unsustainable level of complexity and cost. Aviva took action and launched a project to consolidate the existing management tools to a single system. There was a real sense of urgency because of the crucial role the updates, which averaged 1.5 million a year—played in maintaining security and performance. [Case studies, Microsoft, 2009]

- ✦ Off-shoring enables to meet profit and expense targets. (The target was to have 7,800 positions off-shored and 1,500 outsourced by the end of 2007)
- ✦ The strength of the Aviva brand helps to widen leadership positions, and to increase awareness in the financial and business community.

In accordance the following competitive factors could be as the strength for the group: delivering operational excellence by sharing knowledge and product development expertise, rationalizing systems, outsourcing efficiently and brand. What is more, well placed ranking of the group gives advantage of market opportunities, but with the unstable financial markets could strike and decrease speed of response and negatively effect interest of customers and shareholders via inefficient management of a composite portfolio.

From the case presented it is clear that business system core and priorities are put on: productivity, customer service, profitability, quality, staff, organization development and implementation of innovations.

The unified management would defend managers from difficulties which arise. As the group expanded to a greater number of cities and regions, it became increasingly difficult for staff in the head office to maintain tight financial control over its nationwide operations. The composite nature and size of the group may cause duplication of activities. Also regulations

from financial and government institutions can slow down or destroy the markets where group operates. Need to rebuild capital: because of debt issuance is costly and rights issues are dilutive. Raising capital by selling off parts of the business – Aviva sold their Australian operations.[T. Hess et al., 2009] Technology costs. Aviva-COFCO decided to implement a centralized financial management system based on a range of Oracle E-Business Suite applications. It is critical to understand the current customer profiles/behaviors.

4.5. Experts survey analysis on improvement of management system in the sector of international life insurance business

For this study five face-to-face interviews were conducted with the leading life insurers in Lithuanian insurance market. The data had been collected using interview and later ranking method for the responses. They were ranked on the basis of the responses given by the respondents. Rankings have been assigned to the key competences and the greatest challenges managers have identified on the basis of their relative importance from 1-very important to 5-less important. Key competences and the greatest challenges of managers have been identified, which are:

- category A: managing change, knowing how, rethinking business operating models;
- category B: spreading risk, balancing business cycles, portfolio risk, cost-focused approaches;
- category C: embedding a performance culture, motivate and inspire employees, help them to grow, cross cultural skills;
- category D: long term relation development with customers and shareholders achievement oriented leadership, performance measured due to the goals set;
- category E: broad-ranging efficiency programs, IT modernization, substantial improvements to optimizing business and technology processes.

Table 4.4. The rank order summary

Categories/experts	A	B	C	D	E	
First	2	3	4	1	5	Total
Second	1	3	5	4	2	
Third	3	1	4	2	5	
Fourth	3	4	5	2	1	
Fifth	1	3	2	4	5	
Rank sum	10	14	20	13	18	75
Rank sum square	100	196	400	169	324	1189

Source: compose by author

By Kendall's coefficient of concordance, we could able to estimate the relationship and test whether the different respondents are in agreement or not. The results are as follows:

H₀: Conflicting experts' assessments (concordance coefficient equal to 0),

H₁: Similar experts' assessments (concordance coefficient unequal to 0).

Where S calculated is 64, in comparison with critical values of S in the Kendall's coefficient of concordance S_{0,05} equals 62,6 shows that there is 95 percent significance of the calculation as S calculated is larger than S_{0,05}.

Further W is equal to 0,256 represents that concordance coefficient unequal to 0 and confirms stated hypothesis H₁ as well as rejects H₀. Moreover, if we had complete disagreement, every applicant would have a rank sum of 15, but as we see from the table above out of five there is 2 rank sums which exceed, thus even with the low value of W H₁ is valid.

In addition to primary research on experts' responses secondary data results are used as supplement. As a slowing economy, volatile financial markets, fast-changing customer demands and new emerging-market opportunities are redefining the prospects for the international life insurance business.

According to a global survey of 104 leading life and property/casualty insurers in 16 of the world's largest insurance markets findings regarding growth, capital strategies and industry challenges [J. C. Rankin, 2009]:

1. Over the next 3 years, organic growth in mature markets (75 percent) and strategic expansion into emerging markets will be a top driver of superior ratings.

But Towers Perrins' Life Insurance CFO Survey in 2009 has showed a bit pessimistic view regarding expansion. More than three-quarters (77 percent) of the CFOs surveyed cited capital issues and cash constraints as impediments to undertaking an acquisition, up from only 13 percent in 2007. Half cited general economic conditions as a barrier to doing a deal, up from only 9 percent in 2007, broader comparison is presented in the *annex A-8*.

2. Capital investments in operational efficiency are valued nearly as much as in share buybacks and dividend increases.

Finding of the survey was the number of analysts who said they see an opportunity for insurers to outperform the market through broad-ranging efficiency programs. By a strikingly close margin, they rated operational transformation as the second most valuable use of capital. Purely cost-focused approaches, such as headcount reductions and labor arbitrage, are actually less valued by analysts than optimizing business and technology processes.

3. Modernizing aging legacy systems is seen as a critical industry-wide challenge.

Analysts consider disparate and outdated technology to be a major barrier to performance for life insurers. They rank IT modernization as the second greatest challenge facing the industry, after portfolio risk. The majorities say investment in core technology—such as policy administration and call centers – will be “critical” to the life industry over the next 3 years.

As due to *H₃: There is need to rebuild management system in the international life insurance business*. Thus from the global survey findings and primary experts’ interview analysis emerged that life insurers need to transform. Consequently they will need an operating environment that can fast support a variety of selling models, product features, and customer service expectations, as well as respond to the conditions, regulations and cultural nuances of customers and employees across the globe. Therefore to have the unified operating management model enable to meet those challenges and to stay or get into the profitable growth.

5. PERSPECTIVE MANAGEMENT MODELS FOR INTERNATIONALIZATION PROCESSES IN THE SECTOR OF LIFE INSURANCE BUSINESS

5.1. General management model for internationalization processes

With the emergence of a global economy and radical changes in the behavior and expectations of customers, the life insurance industry is going to transform. To outperform the market, insurers will need to put a heavy emphasis on organic growth within core markets, embark on disciplined expansion into emerging markets, and pursue broad structural changes aimed at improving operational efficiency. [S. Callet, P. L. Seguin, 2008] The winners in the coming environment will be those companies that will be able to understand the long-term competitive implications of the current economic downturn.

Sustaining accomplished research results the life insurance businesses is going to transform. To begin, insurers must define a management model that addresses critical questions about:

- the markets to go after,
- channels to sell through,
- merger and acquisition opportunities to pursue,
- products to focus on,
- services to differentiate by,
- IT strategies to follow,
- ways to engender innovation within their company culture.

To unify management across international markets requires initiation of the process that involves accumulating current-state and metrics, and setting the key objectives for a target operating models. Thus after analysis results obtained in the third and the fourth thesis parts there was selected three directions for the general models for internationalization processes as presented in the figure 5.1..

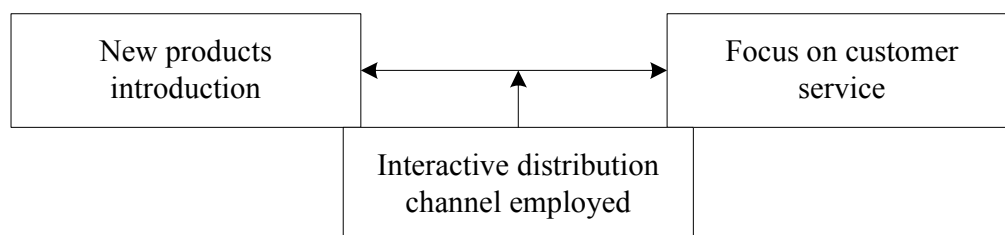


Figure 5.1. Directions of internationalization processes [composed by author]

✦ Focus on customer service

The groups of life insurers and their networks build on mergers and acquisitions are replacing separate insurance companies, because of their strength in the international markets. Taken to its logical extreme, this view suggests that the larger means less flexible, but technologies allow to cope with this threat. The size in this case allows holding large databases on customers, their purchase frequency. This could be used for the superior quality and better services. The main problem here is databases compatibility within the group members.

As customer needs changes during lifetime to form the partnerships with the customers would lead to repeat purchase and more stability as data obtained about the customer already allow to see if he/she is reliable or not and is it worth to sign more contracts.

The unified data and analytics – from organization perspective would lead to better service quality, better sells the ability to match the right product to the right customer at the right time, less lapses in signed contracts, less disappointed customers and as result lower costs for rebuilding the trust. The unified data and analytics – from customer perspective would lead to better brand loyalty.

✦ New products introduction

New and better targeted insurance products can be designed via virtual organization to better meet the needs and expectations of customers while more effectively dealing with the issues of moral hazard and adverse selection.

As the tool for new product introduction the virtual organization could be formed, this view appeared under the influence of information technologies development and fast moving world's tendencies in order to gain competitive advantage and to react to constantly changing customer and market requirements.

Based on core competencies the internal virtual team members from life insurance companies within the group will contribute to the virtual organization with their core competencies on insurance product development and introduction into the market. The combination of all core competencies leads to synergy and enables a flexible way of meeting the customer demands.

The figure 5.2. shows how core virtual organization activities are organized. There is no one overall organization driving the virtual organization, all organizations forming the group have their part to fulfill. All members rely on each other to fulfill the needs of the market and the customers. The creation of the virtual organization is the beneficial strategy for its

members to meet market needs as the sum of their parts is greater than those of the individuals.

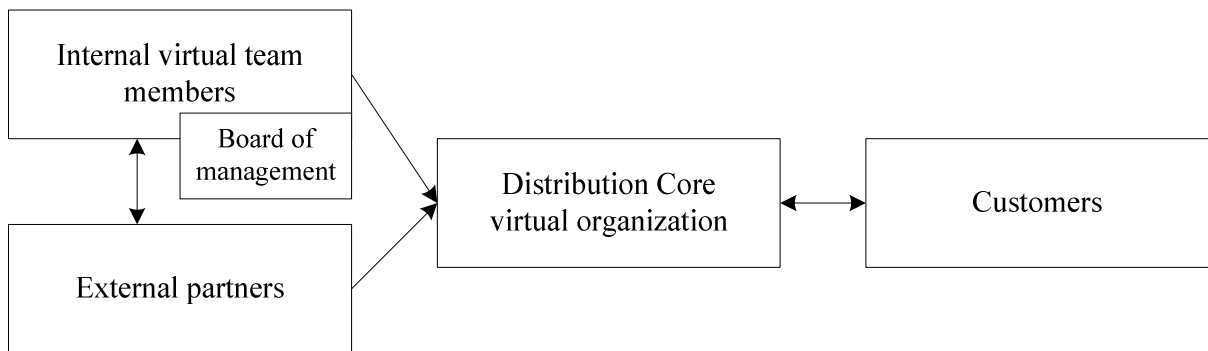


Figure 5.2. Working structure of virtual organization [composed by author]

In deed a board of management, people seconded from the internal virtual team members are involved in planning, procedures and management of delivering to the demands of the market and those of the customers. This board could be created to bring better-defined management and processes to this virtual organization – this will depends on the final size and the complexity of the virtual organization itself as well as to constantly and rapidly fast changing market, that products or their combinations will be on demand.

Shared leadership means that every partner controls its own resources but not automatically the resources of the whole virtual organization. The external partners will be engaged in activities, which will ensure distributed core virtual organization dynamic network. External partners can enter and leave the virtual organization, depending on individual goals and those of the market.

👉 Interactive distribution

The insurance marketplace is undergoing a transformation that may eventually lead to significant changes in how consumers purchase insurance products. A variety of distribution channels: direct writing, intermediaries, bancassurance are currently used in this market place, and some insurers utilize a combination of distribution channels. While it is true that insurance purchasers today have more options available than they did five years ago, it is unclear if and when distance selling through the Internet channels will dominate existing insurance distribution channels.

The customers interact with life insurers' virtual organization, but at the same time may be aware of its members but will not be able to interact with them directly or will have no so

much time to visit each of them at once. All members have responsibility to meet the needs of the customers by new products introduction to the market.

Each member of distributed core delivers a different skill, service, product etc. in order to meet the needs of the customers.

✦ General conceptual model

The model (figure 5.3.) is composed of external and internal environmental factors and financial risks, as in any transformation, environment and transition of risks especially for insurance companies is very essential. External environment and financial risks were already discussed in detail in the third and fourth sections of the thesis. Thus internal factors should be not omitted as well. In the model the following factors are included: international orientation, organization culture, and financial performance, nature of products, organizational structure, integrated and standardized information.

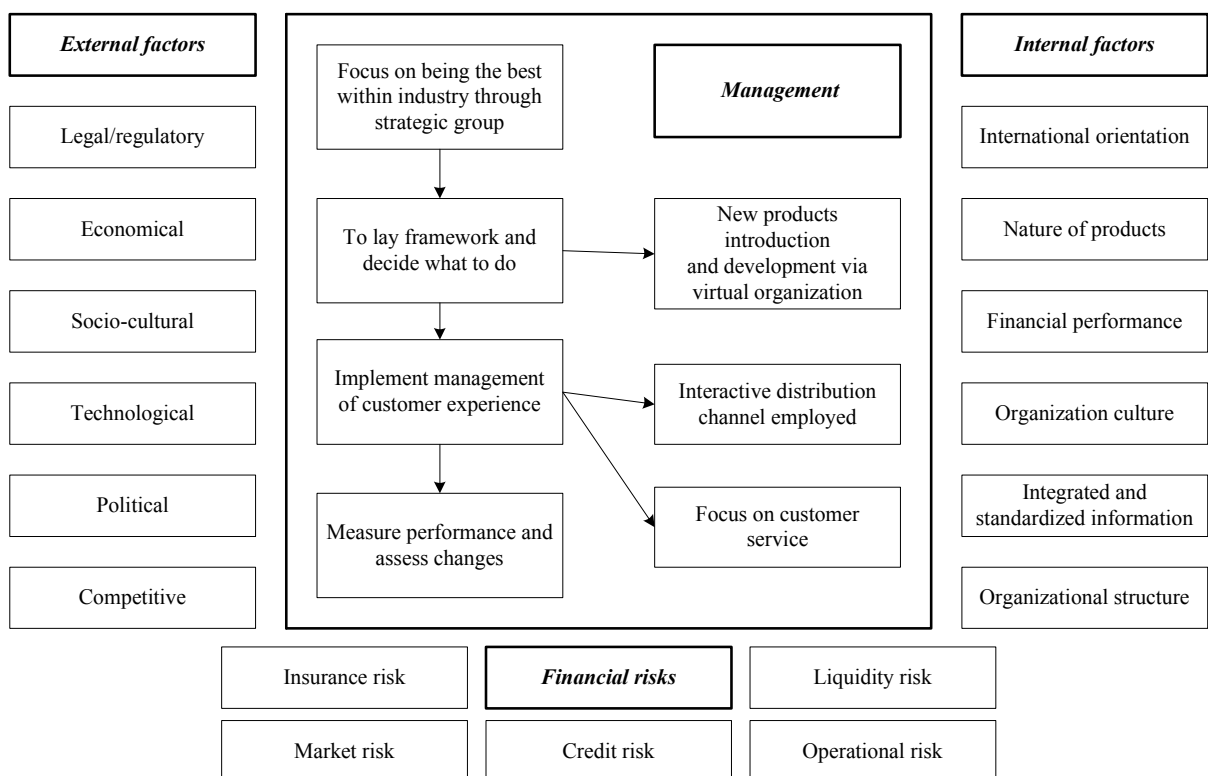


Figure 5.3. Unified management model for life insurance business [composed by author]

And the core of the model which those environments encircle is management. Insurance companies face unique financial considerations. Since insurance involves the transfer of risk, insurance companies' managers must continually identify the exposure they face to significant losses of covered assets. To minimize the impact of excessive losses, insurance companies'

managers can contractually assign various risk elements so that potential losses are diffused among a number of different parties. Finally, insurance companies' managers must also remain vigilant about security risks that could cause harm to their own assets or to the assets owned by insured that are covered by insurance policies.

Standardizing the operating model in the business processes to be efficient across the international markets and at the same time supporting rapid product and service innovations require easy adaptability. Such unified model makes it easy to scale and adapt to new markets and distribution channels.

While internationalization of insurance is not new phenomena, transformation represent a fundamental shift from products developed in “close kitchens” of companies to more integrative virtual organization forming in order to reflect customer centric approach in a company's business and operating model. Transformation is an ongoing and costly process and must be driven from the top of the organization. It means a shift in shareholder returns and operating performance to protect long-term viability and scalability.

5.2. Implementation of management model in the sector of life insurance business

It is important to point that physical size and location of businesses are no longer major attributes to the success. Unified management model provides a systematic approach for international life insurance business companies. The idea is to do business in response to external and internal factors. It highlights the four key principles that every company can use to successfully formulate and execute.

The four principles show how to reconstruct market boundaries, focus on the big picture, reach beyond existing demand, get the strategic sequence right, overcome organizational hurdles, and build execution into strategy.

The four challenging fundamental assumptions:

- ✦ focus on being the best within industry through strategic group;
- ✦ to lay the framework and decide what to do;
- ✦ implement management of customer experience;
- ✦ measure performance and assess changes.

Focus on being the best within industry through strategic group. Creation of vision and strategy, recognition of the staff. Building skills in employees via close cross-functional integration between departments, removing barriers to those who want to make the vision a

reality. Leading and bringing together working groups. Building strong teams, whose members have leadership skills, are reliable, outgoing, authoritative, and capable of analyzing changes in the market. Able to see how the future will be different from the past and how implement strategy in these changing conditions.

Local management board can gain control over employees work, can change, do things differently. Moreover, it has the authority to make a huge impact upon the way in which staff work, shape own work environment.

To lay the framework and decide what to do. Developing a good process for insurance product creation (product development teams, pricing, pre-market offer testing), insurance product sale (marketing, distribution channels, agents), claim and policy service (customer service, claim management, policy administration, document scanning, data input), basic projects selection and management (implementing partly parallel development processes, placing a radically new technology in an autonomous organization unit).

Organizational design is the process managers go through to create meaningful structures, decision and information networks, and governance systems. Organizational design provides for the dividing and grouping of tasks; networks to convey information; a structure for locating decision centers or authority; processes for coordination, control, and conflict resolution; and the means to link key work units. Designing an organization involves deciding how it should be managed as much as it does creating structures to subdivide and allocate tasks.

Implement management of customer experience. Ensure that product development project is driven by the needs of customers. The company customers can be one of its primary sources of new product idea. The identification of customer needs – particularly unmet needs – can set the context within which successful product innovation take place. As the point of contact with customers, the marketing function can provide valuable information.

Also a better competitive position could be gained by using customer information contained in databases, in this way businesses can invest in the customers that are potentially for the company, but also minimize their investments in non-valuable customers. Building customer data warehouse to capture the data attributes that will allow clearly identifying and targeting new business as well as crossing sell to existing customers. As everyone knows that more expensive to find a customer than to retain. Measures that improve customer loyalty by 5 percent, profits increased from 25 to 85 percent. [P. C. Verhoef, B. Donkers, p. 189]

Ditto O. Dekel, C. Prince and G. Beaver (2007) study results customer involvement in product design needs to become more of an accepted part of the development and marketing process in many industries. Consumption is not merely an act of buying goods or services, it

is a fundamental process by which people create identity. Consumer will look for brands to contribute directly to their identity. One of the options is personalizing a website, it makes the customer aware that the company cares about them and wants to give them the best possible service.

An essential concept is that the innovation in managing customer experience due to product, service, and delivery must raise and create value for the market, while simultaneously reducing or eliminating features or services that are less valued by the current or future market and in this manner saving unnecessary costs.

Measure performance and assess changes. The power of analytics is to understand how to target untapped markets. Periodic performance monitoring, policy remediation and restructure, product suitability and outcome probability analysis. The purpose is to recognize data as a strategic asset and to leverage data as a means to drive more efficient decision making.

In a large business, new options may be limited by the existing corporate culture, but even here changes can be made sideways. There is no need to fight the system, but rather to work better within it. As you start working well, this will be quickly recognized and nothing gains faster approval than success. Resist. After the first success in the even stronger and get down to work in a hurry. [J. P. Kotter, H. Rathgeber, p.136-137] In addition to constantly change until the vision becomes reality. Comply with the new treatment methods, to ensure that they bring success before they are strong enough to displace the old traditions and clearly articulate a vision for the future.

✦ Insides for the virtual organization management

On a managerial level exists a clear distinction between the abstract requirements and the concrete implementation to reach the organizational goals, accordingly for the sharing of information and knowledge, there must be a high amount of trust among the partners. The main problems to organize relationship among participants in virtual organization are to coordinate the communication among dispersed partners and to motivate employees to actively involve themselves into the network.

One of the options is managers from distribution core need to align the communication structure to the task characteristics. For routine tasks, hierarchical structure may indeed be preferable, because hierarchies provide efficiency and economy of communication. Managers can foster a hierarchical communication structure by promoting specialization in knowledge areas so that all communication regarding a particular area is directed through a single individual. On the other hand, complex tasks should be managed to promote plenty of discussion and decentralized decision-making with virtual team members. This should lead to

enhanced innovativeness and creative solutions. Such task directed hierarchical (or non-hierarchical) structures can also be promoted through specially designed computer-supported communication systems.

Other option then the external partners and distribution core can support the internal virtual team members with know how about the coordination within an organizational structure without any hierarchy. This collaboration will allow the partners to use centralized and standardized ICT. the partners should be interconnected as flexible as possible, to enable a fast and easy entry or exit of partners. Secondly, the ICT system should be based on standards, to reduce knowledge and experience barriers as well as costs to a minimum. Thirdly the ICT should support all necessary functions in a VO.

Moreover, some additional challenge in the long run could be retaining individuals who are at the center of information exchange networks. Managers from distribution core may monitor communication structures and design reward structures so that individuals acting as knowledge centers from internal virtual team membership can be retained and promoted. Reward structures should also include incentives for these individuals to share their expertise with other members of the organization. Further, it is critical to develop and train other individuals who can assume the network positions occupied by other individuals as they are promoted so that the communication structures can remain stable despite the turnover.

Some partners may be replaced due to their completed mission, contract term re-negotiation or contract violations, the VO will be re-configured and a new partner integrated.

Each company is trying to continue to grow and create their next “S curve” they are looking for insights from their existing business to leverage as they go after new markets and new channels of distribution. Change is not avoidable. As a number of products within the insurers’ portfolio have become commoditized it is critical to understand the current customer profiles - behaviors. There are more opportunities in the market place and therefore there is a big need to create an innovative environment and to take some of the risk elements out.

Conclusions and suggestions

In today's competitive international life insurance business, the challenges are many and there is much uncertainty. As the world becomes more global, complex and dynamic, the most serious risks faced by long-term insurance funds require organizations' development professionals – managers the new modes of thinking to effectively manage organizations.

The main purpose of work was to provide research on the international life insurance business and in consequence the way the insurance companies manage their activity in order to compose the conceptual unified management model. From the research results, we can presume that:

- Now management is in the phase of open system-social layer, everything is constantly changing. The control from executive side was replaced by the participating manager, who employed a mixture of the transformational leadership and transactional leadership.
- There is growing tendency among banks, financial services institutions and insurance undertakings to form cross-sectored groups. But there is risk of regulatory arbitrage between the insurance and banking businesses, as well as regulatory fragmentation. Thus hypothesis H_1 and H_2 were confirmed.
- The coefficients of correlation and provided web pages evaluation of life insurance companies revealed that the longer life expectancy determines that more people will continue to investigate getting life insurance protection directly and they will buy from the emerging direct to consumer channels.
- PEST analysis of life insurance environment in Europe and international internet survey results revealed that developments in the life insurance markets varied greatly between European countries most because of differences in governance and regulation as well as negative trends in economical development growing rates of unemployment in euro zone. The significant positive trend was that due to increased competitive pressure, companies engaged in life insurance are using new technologies to extend their services and operations into the international marketplace.
- Regarding Lithuanian life insurance market it is dominated by bankassurance rather than life insurers companies, this is caused by very small domestic market. Forecast by moving average method was more optimistic to exponential smoothing method, but indeed situation is quite pessimistic as the life insurance market growth in Lithuania according to newly concluded insurance contracts is far away from 2007 results.

- According case analysis then unifying management through the group the following difficulties arise: due to expanded geographical areas difficult for staff in the head office to maintain tight financial control over its nationwide operation, this can cause duplication of activities. Also regulations from financial and government institutions can slow down or destroy the markets where group operates.
- Thus from the global survey findings and primary experts' interview analysis emerged that life insurers need to transform, Kendall's coefficient of concordance showed experts opinion comparability. As due to H_3 : There is need to rebuild management system in the international life insurance business, it was confirmed.
- To unify management across international markets requires initiation of the process that involves: focus on customers, new products introduction and interactive distribution via virtual organization. General conceptual model is composed of external and internal environmental factors and financial risks, and management based on four principles.

Considering research results some suggestions should be provided.

- The main factor after financial risks which disturb international life insurance is differences in governance and regulations, here is necessary cooperation between countries, governments to solve multiple and in some cases inconsistent legal frameworks.
- While using a customer centric approach across the international life insurance sector, organization managers can improve decision making, performance management, revenue, operational efficiency and customer experience management, decrease operating costs.
- Life insurance companies can use intranets to facilitate and speed up internal communication, allowing employees to query one another, seek advice, obtain training, keep internal manuals and policies updated and access needed information from internal sources. The main difficulty can be here to have the same technological background and interrelated systems, which is quite costly.
- Going further, companies can use the Internet for two-way communication with customers and prospects, for making transaction more efficient. International life insurance companies can customize offerings, services and messages to individual customers based on information from internal databases and supplemental information from external partners as was proposed via virtual organization in the fifth section of the thesis. Companies can significantly improve cost-efficiency while improving accuracy and services quality through the online exchange of information, orders,

transactions, and payments between companies, their business partners and their customers.

Forasmuch deeply integrated financial markets leads to management of workforce that is distributed across the country and the world, traditional organizations that had clear boundaries, formal procedures, and well-defined authority structures is changing. To survive and thrive, international life insurers must seek to unify management models and in this way to achieve strategic success that enable increase profitability.

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Annex

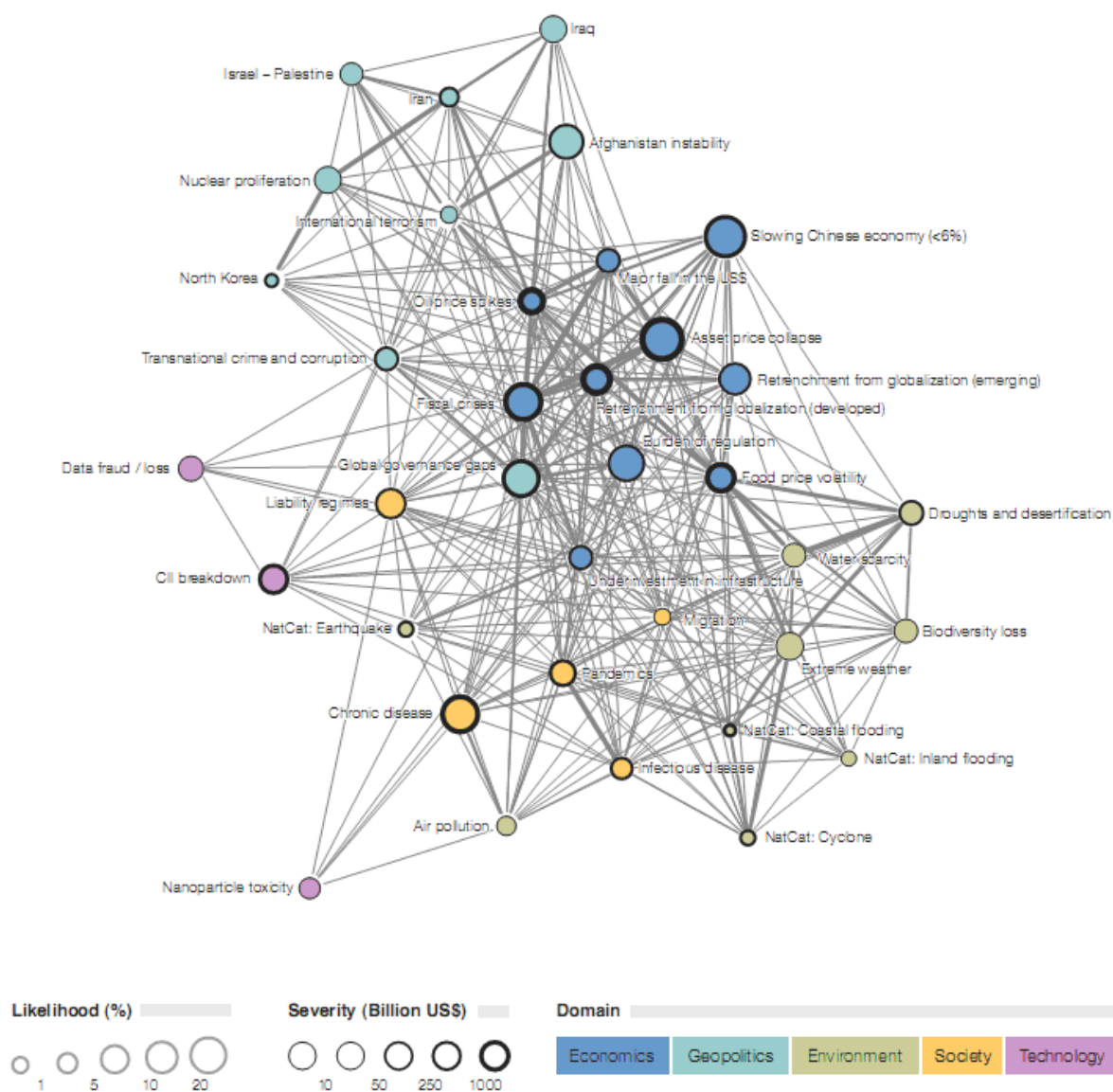


Figure A.1. Risks interconnection map [Global risk report, World Economic Forum, 2010]

Table A.1. Business intelligence investment drivers in Insurance

B1 Drivers	Usage	Impacts
1. Improve Decision Making / Performance Management	. Predictive Modeling . Risk Pricing . UVV quality . Fraud Management . Claim Payment	. Revenue . Reserve . Risk Profile . Profitability . Combined Ratio
2. Improve Revenue	. Product Development, Pricing . Customer Acquisition . Marketing & Campaign . Distribution Management	. Revenue . Risk Profile . Market Share
3. Decrease Operating Cost	. Claim loss reduction . Fraud Management . Subrogation effectiveness . Organization design . Compensation	. Loss Ratio . Expense Ratio . Sales & Acquisition Cost
4. Operational Efficiency	. Claim cycle time reduction . Claim leakage reduction . UVV efficiency . Sales & marketing effectiveness	. OUE . LAE . Process Improvement
5. Customer Relationship Management	. Cross – selling . Customer preference, trend . Churn management . Segmentation	. Revenue . Profitability . Customer Satisfaction

Source: B. Zukis, D. Holtzman, 2010

Questionnaire

This questionnaire is part of the study for master thesis. Objective: to investigate current management practices in life insurance business in order to confirm or refuse hypotheses about the need for management system rebuilding. I would appreciate if you appoint your time to fill in the questionnaire. *(From 1 to 8 select one answer, from 9 to 12 more than one answer is possible)* If you have any questions or comments regarding research, do not calm contact me by e-mail: irinacizik@yahoo.com.

1. Which environment has the greatest impact on the life insurance business?

- ☐ Political
- ☐ Economic
- ☐ Socio-cultural
- ☐ Technologic
- ☐ Ecological
- ☐ Legal/regulatory
- ☐ Competitive

2. Do you agree that the economic crisis is transforming the global life, pensions and asset management markets?

- ☐ Yes ☐ No

3. What is the major financial risk to life insurers?

- ☐ Market risk
- ☐ Credit risk
- ☐ Liquidity risk
- ☐ Operational risk
- ☐ Regulatory risk
- ☐ Human factor risk

4. Can the established insurance industry cope responsibly with access to a fast moving, dynamic, volatile and virtually unlimited capital pool?

- ☐ Yes ☐ No

Annex A-3 continuation

5. Do you feel your company is prepared for the capital challenges with global “mega risks”?

☐ Yes ☐ No

6. Should there be more regulation of the non-bank financial sector?

☐ Yes ☐ No

7. Will Solvency II lead to greater transparency and reinforce risk adequate pricing?

☐ Yes ☐ No

8. Will the chain of insurance agents and brokers on both sides of the contract diminish?

☐ Yes ☐ No

9. What lead your company to the international market?

☐ The desire to expand market share

☐ The desire to improve performance

☐ Risk diversification

☐ Economies of scale and scope

☐ The desire for a change of image

☐ Incentives in a foreign country

☐ Other, please comment _____

10. What problems does your company face?

☐ Cultural differences

☐ Differences in the laws

☐ Foreign language

☐ Complex management

☐ Increased responsibility

☐ Other, please comment _____

11. Why do people prefer investment in life insurance?

- ☐ It has security aspect
- ☐ Protecting family against uncertainty
- ☐ Ease of payment
- ☐ Good policies conditions
- ☐ High quality service
- ☐ Other, please comment _____

12. What is the outlook for life insurance?

- ☐ Positive insurance product taxes
- ☐ Technological innovations
- ☐ Reduced social insurances will lead to industry successes
- ☐ Quick recovery
- ☐ Credit spreads tighten
- ☐ The low interest rate environment
- ☐ Improving investment results
- ☐ The growing middle classes in the emerging markets will demand protection products
- ☐ The world population continues to rise, which will increase the importance of private solutions for pension, disability, critical illness and long-term care products
- ☐ Organic restructuring
- ☐ Increasing uncertainty over taxation
- ☐ Pressure on reinsurance sales in developed markets
- ☐ A growth in both regulation and government assertiveness toward the industry
- ☐ Other, please comment _____

Thank you for taking part in the survey

Table A.2. Solvency II benefits

SII expected benefits	
Insurer	Consumer
Reduced losses suffered by policyholders	Reduced risk of failure or default by an insurer
Enables internal risk and capital assessment models	Reduced costs of insurance and investment contracts
Reduced costs and increased flexibility	Broader range of products
Increased confidence in the financial stability of the insurer	Better match between products and individual requirements
Provides supervisors with early warning so that they can intervene promptly if capital falls below the required level	

Source: H. H. M. van Grinsven, R. Bloemkolk, 2009

Table A.3. Selected factors for the investigation

Factors/Year	2004	2005	2006	2007	2008	2009	Sources
World Life Premium, in %	2,3	3,9	7,7	5,4	-3,5	-2,8	Swiss Re sigma reports 2004-2010
World Gross National Savings, in % of GDP	21,9	22,8	23,9	24,1	24,0	24,1	IMF World Economic Outlook data base, World Bank
World GDP, constant prices, annual % change	4,9	4,5	5,1	4,9	3,9	3,0	
World Inflation, average consumer prices, annual % change	3,5	3,7	3,6	4,0	6,2	4,6	
Life expectancy at birth, total population % change	0,25	0,34	0,68	1,62	0,67	0,47	United nations, Index mundi
Unemployment rate in % of labor force	6,8	6,6	6,0	5,6	5,9	8,2	OECD Economic Outlook No. 86
Gross debt, in % of nominal GDP	74,3	75,9	74,6	73,1	78,4	90,0	

Source: composed by author

Table A.4. Forecasting by Moving average then $n=2$ and $n=3$

Year	Y_t actual data	F_t ($n=2$)	Error	Square error	F_t ($n=3$)	Error	Square error
2004	30,2						
2005	54,6						
2006	61,6	42,4	19,2	368,64			
2007	84	58,1	25,9	670,81	48,8	35,2	1239,04
2008	89,8	72,8	17	289	66,7	23,1	532,07
2009	48,8	86,9	-38,1	1451,61	78,5	-29,7	880,11
2010		69,3			74,2		
Sum			24	2780,06		28,6	2651,22
			MSE	695,02		MSE	883,74

Source: composed by author

Table A.5. Forecasting by Exponential smoothing method then $\alpha=0,4$, $\alpha=0,6$ and $\alpha=0,8$

Year	Y_t actual data	F_t 0,4	Error	Square error	F_t 0,6	Error	Square error	F_t 0,8	Error	Square error
2004	30,2									
2005	54,6	1,6	52,95	2804,02	1,6	52,95	2804,02	1,6	52,95	2804,02
2006	61,6	40,0	21,64	468,29	44,8	16,76	280,90	44,0	17,59	309,43
2007	84	48,6	35,38	1252,03	54,9	29,10	847,04	58,1	25,92	671,75
2008	89,8	62,8	27,03	730,64	72,4	17,44	304,21	78,8	10,98	120,64
2009	48,8	73,6	-24,78	614,14	82,8	-34,02	1157,59	87,6	-38,80	1505,69
2010		63,7			62,4			56,6		
Sum			112,23	5869,12		82,24	5393,76		68,64	5411,53
			MSE	1467,28		MSE	1348,44		MSE	1352,88

Source: composed by author

Table A.6. Main dates

1696	Londonė, pirklių namuose „Tom Coffe House“, įkurta „Hand in Hand“ – seniausia veikianti draudimo kompanija pasaulyje.
1861	Rugpjūčio 5 dieną įkurta gaisrų nuostolius draudžianti „Commercial Union Fire Insurance Company“, o rugsėjo 28 – draudimo bendrovė „Commercial Union Insurance Company“.
1862	Plečiama veikla pradėjusi teikti gyvybės draudimo paslaugas. Pradedamos teikti jūros ir žemės transporto draudimo paslaugos (laivai, kroviniai). „Commercial Union“ pradama tarptautinę veiklą ir įkuria padalinius 12-oje pasaulio šalių.
1894	Prijungiama draudimobendrovė „Old West of England and Life Insurance Company“.
1900	Prijungiama „Palatine Insurance Company“ (įkurta 1886) ir pradedamos teikti draudimo nuo nelaimingų atsitikimų paslaugos.
1905	„Commercial Union“ susijungia su „Hand in Hand – Fire & Life Insurance Company“, seniausia pasaulyje draudimo kompanija, įkurta 1696 metais, ir greitai tampa viena pirmaujančių pasaulyje finansinių paslaugų grupių.
1907	Prijungiamos „Union Assurance Society“ (įkurta 1714) ir „Ocean Marine Insurance Company“ (įkurta 1859).
1910	Prijungiama „Ocean Accident & Guaranty Corporation“ (įkurta 1871).
1912	Išmokėjusi milžiniškas draudimo išmoka dėl didžiausio pasaulio laivo „Titanikas“ katastrofos, bendrovė „Commercial Union“ išlaiko tvirtas pozicijas draudimo rinkoje.
1926	Prijungiama „British General Insurance Company“ (įkurta 1904).
1928	Prijungiama „Travellers Insurance Association“ (įkurta 1907).
1959	Prijungiamos „Northern British & Mercantile Insurance Company“ (įkurta 1809) ir „Railway Passengers Assurance Company“ (įkurta 1849).
1968	Prijungiama „Northern Assurance Company“ (įkurta 1863).
1971	Prijungiama „Les Provinces Raunies“ (Belgija) ir „Delta Lloyd“ (Olandija).
1987	Įkuriamas „Commercial Union Europe Division“ grupės, valdanti „Commercial Union“ veilą Europoje.
1992	„Commercial Union“ pradeda veiklą Vidurio Europoje (Lenkijoje).
1994	Prijungiama „Gruope Victoire“ (įkurta 1857) – viena didžiausių Prancūzijos draudimo grupių.
1998	Prijungiama „Berlinische Lebensveirisherung AG“ (Vokietija). „Commercial Union“ ir „General Accident“ paskelbia apie savo ketinimą susijungti ir įkurti CGU grupę.
2000	Sujungus CGU ir „Norwich Union“, įsikuria CGNU grupė.
2001	Lietuvoje veiklą pradeda UAB „Commercial Union Lietuva Gyvybės draudimas“ įkurta „Commercial Union Polska“ (90 proc. šios bendrovės kapitalo priklauso „CGU International Insurance“ ir 10 proc. – „Bank Zachodni WBK SA“).
2002	Liepos 1 d. CGNU grupė pakeičia pavadinimą į „Aviva“.
2007	Gruodžio 12 d. „Commercial Union Lietuva“ pakeičia pavadinimą į „Aviva Lietuva“.

Source: Įžanginis kursas: medžiaga finansų konsultantams. Uždaroji akcinė gyvybės draudimo ir pensijų bendrovė „Avia Lietuva“ 2008 m. rugpjūtis p.3.

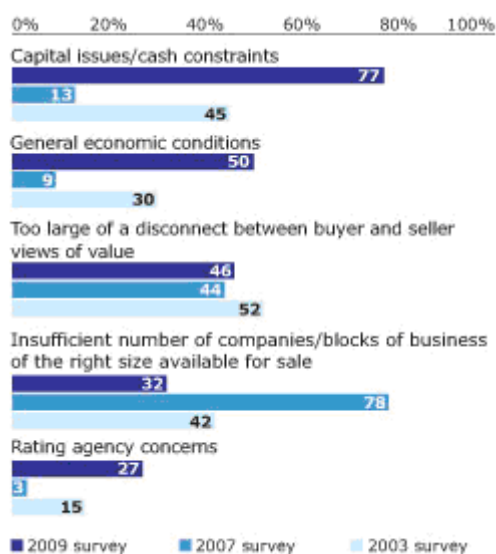


Chart A.1. Impediments to undertaking an acquisition [Tower Perrin survey, 2009]