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BOOK REVIEW

INSURANCE & INNOVATION 2016

Editors: Andreas Eckstein, PhD, Axel Liebetrau, Anja Funk-Münchmeyer, PhD

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Increased competition, emerging risks, changeable customer loyalty and preferences, and ever-threatening inflation push insurance industry into seeking new ways toward introducing innovations, with the aim to increase the volume of business i.e. of the insurance premium. Such market changes keep happening all the time and to survive, insurers need to constantly adjust to such changeable environment. As new technologies have advanced and the insureds have become increasingly aware of other services designed to provide risk protection, insurance industry has been put under greater pressure to introduce novelties. This is especially true today, in the circumstances of a so-called „soft market“ and slow economic growth, which is not promising for insurance companies, both in terms of fast premium growth and possibilities to achieve higher return on investments.

In the past years, the topic dealing with insurance innovations has gained in importance in numerous journals, studies, and on the Internet. The book *Insurance & Innovation 2016* supports the aforementioned. Creativity and innovations in insurance business today are considered a necessary and pivotal condition for a long-term success. Particular insurance experts even consider that this industry has reached its critical point. Insurers can either expand their role through being customer-focused or continue their traditional ways. The latter will eventually lead to gradual deterioration of their business and tendency of

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insureds to seek the companies with more advanced solutions and business models that are better adjusted to their needs. Thus, it is not surprising that insurance companies put service innovations first.

At the same time, the public feels that insurance companies are slow in introducing innovations, particularly when it comes to the protection against new types of risks. An expert from the USA even wrote once that „since modern homeowners insurance became available in 1959, not a single major new non-life insurance service has been introduced for individuals i.e. households“. Similarly, at one of the annual gatherings of the German insurance buyers' association, key message was that „insurers need to work harder and smarter at innovation and stop trying to sell old products“.

Nevertheless, we can say that as opposed to common public belief, insurers are marketing new services to a considerable extent, which is also supported by the findings of the book *Insurance & Innovation 2016*. Moreover, according to these Proceedings, insurance industry does not lag behind other service-providing activities in that respect. However, insurance innovations happen rather gradually and with baby steps, and thus are not quite visible.

One of the evidence that insurance companies have a tendency toward introducing innovations is certainly this book which, for six years in a row, has been published as a year-book of its own kind, presenting new ideas and challenges of modern insurance business in Germany. The book *Insurance & Innovation 2016*, prepared by the editors Eckstein, Liebetrau, and Funk-Münchmeyer, includes 19 useful contributions. These are written by some thirty experts who summarize, in an extremely legible form, insurance innovations and possibility of their application in a daily market practice.

Among the topics discussed, several articles are particularly striking and worthy of attention such as those on digital revolution in insurance industry, innovations in short term insurance lines, changes among the insureds, securitization in insurance, innovations in industrial risk insurance, sales management of insurance policies, success factors in innovation management, etc. Particularly important in this respect is the fact that these papers include, almost exclusively, the examples drawn from practice, notably intended to inspire and encourage managers operating in insurance market and assist them in finding their own directions in organizing business and successful introduction of innovations.

It is a common knowledge that insurance market plays an important role in transferring risks from those who may suffer unexpected losses to those best equipped to assume such risks. In its conventional form, insurance is mainly based on the risk combination model. Numerous risks are grouped in special combinations enabling the insurer to disperse and spread possible losses across

numerous insureds. Similarly, in a broader sense of the word, insurance can be used to assist in eliminating the consequences of systemic risks which, for companies and entire industries, have a general meaning. The role of insurance so expanded is also evidenced by permanent market growth in a different risk transfer.

Introducing innovation in non-life and life lines – where the book *Innovations & Insurance 2016* represents a considerable contribution– can help in getting closer to a considerably upgraded distribution of risks to a larger number of carriers, which would contribute to successful economic growth. However, market imperfection means that there are limits to which insurers can and should accept particular risks. If we take into account the available information about economy, it becomes evident that there are strong concerns that adverse risk selection and moral hazard may cause huge damages to the insurers. In assuming the risks that are too high, insurance companies may easily exhaust the principal if claims turn out to be excessive. An unexpected drop in the amount of funds available in insurance industry could easily lead to temporary (or even permanent) insurance capacity shortage which, in turn, would justify a prudent approach of insurers to new risk covers. When exploring natural boundaries of the scope of insurance, insurance companies find it important to strike the balance between gradual and complete innovations.

Despite the fact that there are those who argue that the pace of modernization and development is too slow, insurance innovations are much more striking than they are aware. As always, the challenge for the companies will be to keep a balance between their confidence in creating and selling new insurance services and ways to adjust to emerging risks. In their occasional attempts to create innovations of their own, insurers can be subjected to criticism for not sufficiently taking into account the needs of insureds. Nevertheless, there have also been particular signs of changes in that respect, which is supported by the findings of numerous experts who have contributed to the publishing of this indisputably interesting and significant book, *Innovations & Insurance 2016*.

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