

## LIFE INSURANCE BUSINESS AND ITS DEVELOPMENT TENDENCIES AND MANIFESTATIONS IN LITHUANIA

### Monograph review

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Security of one's life is a value which has and still gains a wide recognition worldwide as the main value paving the way of one's life. The essence of life and health is highly appreciated by human beings. This is reflected by the aspirations of many societies around the world. Indeed, most of the individuals who compose them expect higher and higher standards in terms of safety, security, wellbeing and the ability to recover financially and psychologically from the hazards of modern life. In order to answer the needs of the individuals and of the societies which they compose and belong to, the insurance industry has created a sound mechanism which relies on collective effort principles and creates a pool of financial resources which can be redistributed to those affected by the various hazards of life. Life insurance which transformed itself to an individual branch of insurance is one of the oldest and well-established systems. It serves as a powerful mechanism in the social and economical life of humankind.

Assoc. Prof. Doctor of Social Sciences Vytautas Kindurys, a scientist of Business Department of Faculty of Economics of Vilnius University, released, in the middle of 2011, his new scientific monograph titled "Life assurance business and its development tendencies and manifestations in Lithuania: theoretical and practical aspects", a publication that reflects his research work from the last 10 years. The goal of the monograph is two-fold: to develop a theoretical research concept of life insurance business; and using this concept to unfold and assess manifestations and tendencies of life insurance business development in Lithuania.

The monograph is a successfully fruitful effort that lays down a fundament for the research of life insurance service business. To the best of our knowledge, this is the first time that the conceptual ideas of and existential statements on life insurance business are systemised into one whole in the Lithuanian science of economics. The book unfolds the essence and structure of analysing life insurance business as a specific service business; this provides a significant contribution to the science of insurance in general and science of life insurance in particular.

The author presents a relatively new approach to life insurance as a specific service business, its contemporary development tendencies and elaboration of the contents of its modified economical and social forms. The author explains and refines the contents of the scientific definitions that are in close and direct cohesion with life insurance business; this allows grasping and conceptualising the gist of life insurance.

The monograph is a purposeful aspiration of the author to analyse and evaluate the structure of the Lithuanian life insurance market, its qualitative and quantitative parameters as well as the peculiarities of its economic phenomena and processes.

The monograph consists of nine chapters encompassing a wide range of issues specific to life insurance business. The chosen approach allows narrowing down the problems that arise in this business as well as assessing its further development.

In the beginning of the book (Chapter 1), contrary to many other researchers who conducted their research efforts on the study of the history of insurance in general, Vytautas Kindurys focuses exclusively on the manifestations and development of life insurance business in the world, thoroughly going through the stages of its appearance, growth and maturity in regional and global contexts. The author highlights the dynamic nature of life insurance business and the fact that it is perfectly able to adjust itself to changing conditions, among them, the appearance of new types of risks as well as of insurable objects. At the same time, he states that the potential of life insurance business is, to a certain extent, limited as the behaviour of individuals regarding some risks can be strongly treated as irresponsible: they are either insufficiently informed about the risks that they may face, they ignore the possible fulfilment of risks in the long-term perspective and in such a way ignoring the destiny of their family and relatives, they have insufficient sense of fear of risks, or they are selfish, insensible to the difficulties of others (p. 42). The challenges of life insurance business lie predominantly in the intangible nature of insurance services. Although life insurance has all features that characterise services in general, it belongs to the category of complex financial services.

In Chapter 2 the author of the monograph introduces to the reader his initial research outset (point of departure) that highlights one of the main research problems of his work. Namely, he states that life insurance business' practical activity is in a great need of theoretical background and support. Vytautas Kindurys expresses the necessity of creating the theoretical concept of insurance business in general, where a significant role is given to the understanding of the essence of life insurance services and to the theoretical evaluation of their classification (p. 62). The author explicitly explains and proves his theoretical statement (thesis) about the economics (economic activity) and the value of one's life as the beginning and functional purpose of life insurance business. The provided systematic multi-criteria classification of life insurance services reflects existing situations and organizational decisions that appear when life insurance services are provided.

In Chapter 3 the author proceeds with the genesis and spread of life insurance service business in Lithuania, unfolding its path of development beginning from the 4<sup>th</sup> decade of the 19<sup>th</sup> century, the time when Lithuania was under the dominance of the Russian empire, until the year 2010 with a special interest for the period when Lithuania re-established its independence. The main attention in this part is concentrated on the overall creation of the organisational and juridical basis aspects of life insurance business, a discussion of its main types, as well as the analysis of the establishment, mergers and pure business activity of life insurance companies examining the dynamics and the impact factors of the dimensions that reflect the activity and results of such companies.

Vytautas Kinduryš states that Chapter 4 is the core one; it is appointed to the exploration of problems related to the processes of the life insurance market. The author analyses the essence, structure and particularities of life insurance market and provides his theoretical interpretation of life insurance supply and demand, highlighting the complexity of the consumers' understanding of the insurance business system from its organisational, juridical and administrative points of view, as well as discussing in-depth the factors that affect the aggregate demand for life insurance services (p. 115–125). Later on the author proceeds with an empirical investigation of the Lithuanian life insurance market: he explains the relationships between market participants, analyses the main structural measure of this market – market concentration, and evaluates market size and potential.

The author contributes to the insurance science by providing his valuable theoretical insights into the understanding of insurance consumer behaviour; the discussed research of insurance consumer behaviour encompasses three stages: pre-purchase, purchase (and consumption) and post-purchase of an insurance service. According to the author, efforts directed towards purchase and consumption of life insurance services in Lithuania are mainly dependent on one's financial ability, one's financial "benefit" considerations and one's understanding (perception) of life insurance benefit.

Consequently, the author accentuates the question of insurance consumer loyalty and its cultivation as keeping existing consumers is a crucial issue under the contemporary conditions of sharp competition in the market. The author comes to the hypothetical conclusion that the main factors affecting satisfaction and loyalty of insurance consumers are as follows: the image of an insurance company; the insurance company reliability; the perceived quality of insurance services; the price of insurance services; and insurance promotion means. These factors result in both emotional and rational insurance consumer loyalty.

Moreover, the author of the monograph discusses the role and activity of independent insurance intermediaries. Their overall contribution can be expressed in the following: innovatory marketing; dissemination of information to consumers; dissemination of information in the market; "healthy" competition; diffusion of the risk of the insurer; and reduction of expenses.

The author examines in great details theoretical and practical problems of cooperation of banks and insurance companies providing a focused attention on the possibilities and on the ways of classification of its cooperation (p. 201–223) as well as on a three-side benefit of such cooperation (p. 223–232). The most common type of cooperation is the integration of bank and insurance services. In Lithuania the most popular life insurance product related with bank assurance is life investment insurance where the investment risk falls on the insurance consumer.

The author approaches the problem of the globalisation and integration of life insurance market. He states that this is reflected by the following processes: the concentration of insurance and reinsurance capital; convergence of the capital of insurance, bank and credit; concentration of intermediaries (especially of brokers); changes of the consumer needs for traditional insurance services; fast growth of pension insurance in developed countries; and liberalization of insurance service provision by

opening ways for foreign insurers to act in national markets (p. 243). The leaders of the global life insurance business are interested in overtaking new insurance markets in the developing and transition period countries; among them, the most attractive life insurance markets are located in Middle and Eastern Europe as well as in the Baltic countries (p. 246).

The last part of Chapter 4 presents the SWOT analysis of the Lithuanian life insurance market conducted by the author. Among the strengths, identified and reasoned in the book, one can mention: changes of taxing environment of life insurance, increasing interest of society in retirement welfare, increasing needs for motivation of employees of Lithuanian business' companies, and expanding cooperation of life insurance companies and banks. The weaknesses of the market identified by the author are as follows: unfavourable attitude of Lithuanian citizens to life insurance, increasing inflation causing unattractiveness of long-term saving products, high concentration of life insurance service market, and low purchasing power of the majority of citizens. The author sees such market opportunities as a high market potential, a membership in the European Union, and activity of life insurance companies or their affiliates of Western Europe countries in the Lithuanian life insurance market. Among the possible threats the author draws attention to the recession of economics growth and its consequences, migration of citizens to the Western countries, and society ageing (as a factor of decreasing life insurance demand).

In Chapter 5, providing a pool of qualitative information on the essence of life insurance service product and the questions related with its quality issues, the author creates a sound theoretical background for analysing life insurance service products. His research focus is directed towards the understanding of life insurance service products as well as its development strategies, towards the quality of these products, and towards the empirical research of life insurance service products provided by Lithuanian companies and the structural changes of these products.

Chapter 6 deals with the pricing of life insurance service products: here the theoretical aspects of the essence and structure of price as well as pricing techniques and peculiarities of life insurance service products are unfolded.

Chapter 7 is devoted to the analysis of the indirect activity of life insurance companies, i.e., reinsurance. The author declares that the reinsurance of life insurance companies is studied rather episodically (fragmentally) by the researchers of the Western world and takes the initiative to bring together the existing research to elucidate the essence and functional purpose of reinsurance activity in general and peculiarities of reinsurance in life insurance companies in particular. The author points out that there are no established companies of reinsurance in Lithuania. In his book he analyses the organisational aspects, factual state and extent of reinsurance activities conducted by Lithuanian life insurance companies.

The specificities of another activity of life insurance companies, namely investments, which is a type of their secondary activities, are unfolded in Chapter 8. The author presents the theoretical aspects of the investment activities of life insurance companies and from an empirical point of view investigates the supervision, general state and development tendencies of investment activity of Lithuanian life insurance companies.

In Chapter 9 the author focuses on the private retirement pension funds and evaluates the results and experience of their accumulation in Lithuania. He starts from the fountainhead of private retirement pension funds, their assumptions and peculiarities in Lithuania, proceeds with the explanation of the essence, types and organisational aspects of selling retirement pension annuities in Lithuania. Moreover, he provides his interpretation of the results and experience of accumulating retirement pensions in the 2<sup>nd</sup> and 3<sup>rd</sup> pillar funds in Lithuania. In particular the author discusses the questions related with one's retirement pension accumulation within life insurance companies.

Vytautas Kindurys, the author of the monograph, the initiator, organizer and nurturer of insurance management studies at Vilnius University, Faculty of Economics, has integrated his research results on life insurance business, combining existing theoretical views with empirical studies based on life insurance business experience in Lithuania into a valuably unique and original manuscript, designed to appeal three groups of audience both in Lithuania as well as in the world: academicians, insurance providers, and insurance consumers.

Vytautas Kindurys. Life assurance business and its development tendencies and manifestations in Lithuania: theoretical and practical aspects. Monograph. – Vilnius: Vilnius University, 2011. – 574 p. ISBN 978-9955-634-33-1.

## **GYVYBĖS DRAUDIMO PASLAUGŲ VERSLAS IR JO RAIDOS LIETUVOJE APRAIŠKOS IR TENDENCIJOS**

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### **Santrauka**

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