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Case Study of Building Competitive Strategy for “A” Insurance Company based on Financial Ratio Analysis

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〈Abstract〉

“A” Insurance Company based in Korea (hereafter “A” INSURANCE) had been suffering from its poor business performance, the worsened negative growth after 2008 global economic crisis. Though “A” INSURANCE management is struggling to overcome the adversity, its business has been even deteriorated. Thus, through this study, we aim at discovering how “A” INSURANCE makes use of its competitive advantages to explore the business opportunities and strengthen its market position based mainly on PERL(Performance, Efficiency, Risk and Liquidity ratios) framework analysis. Ultimately, this case study of business strategy development through financial ratio analysis will be used for English－based lecture for student studying financial accounting, which can give student better understanding on how to analyze financial ratio and to apply the analysis results in developing strategic initiatives under the real business environment.

To determine how “A” INSURANCE reinforce its competitiveness in the industry, we firstly identify key success factors (“KSFs”) within its market that determines the firm’s ability to survive and prosper through analysing a macro－business and micro－business environment via PESTEL(Political, Economic, Social, Technological, Environmental and Legal) and Porter’s Five Forces of Competition Framework, respectively. Followed by KSF identification, financial ratio analysis using PERL framework is performed to figure out the areas which “A” INSURANCE has not satisfied what customer wants and cannot deliver key success factors. SWOT analysis and resources and capabilities review that KSFs are based on are performed for proper strategic initiatives development.

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The outcomes from the above analyses contribute to sorting out strategic management agenda for "A" INSURANCE, such as (1) Boost insurance sales, (2) Build up strong product portfolio, (3) Achieve price efficiency at optimum level and (4) Maintain financial soundness in terms of risk management. The strategic initiatives will be achieved as per detailed action plans, which will improve financial ratio and ultimately enhance firm's value.

<Key words> Financial Ratio Analysis, Business Strategy, Strategic Initiatives

Ⅰ. Introduction

"A" Insurance Company located in Korea had rapidly grown in Korea life insurance market since it has been established in early 2000. Total Annualized Premium Equivalent ("APE") increased to 481 billion KRW in 2007 by over 20 times increase compared with in 2002. But, the negative growth has recorded since 2008 when global economic crisis enormously affected all global economy. In 2010, its APE decreased to 170 billion KRW and the sales downturn trend never recovered since 2008 though business of most life insurance companies improves. Furthermore, there has been high employment turnover, especially at senior management and team head level, which is believed to deteriorate "A" INSURANCE's strategic consistency and even make difficult to establish competitive strategies. "A" INSURANCE management is struggling to overcome the current adversity and find the way out to end it. This report will analyse "A" INSURANCE's business environments and current adverse situations and finally suggest the actions to reinforce the competitive advantage of "A" INSURANCE in the Korea market. Through this study, we aim at discovering how "A" INSURANCE makes use of its competitive advantages to explore the business opportunities and strengthen its market position from strategic management perspective. Our ultimate objective of this case study is to provide lecture material on financial－ratio－analysis－based strategy development case study for English－based financial accounting lectures. Thus, this material will be used to educate students to understand the concept of strategy development of the company and more importantly how to analyze financial ratio and apply financial ratio analysis results in developing key strategic initiatives for the company under real business environment.

In this paper, we will firstly conduct a macro－and micro－business environment analysis using PESTEL and Porter's Five Forces of Competition Framework, respectively, to understand Korea insurance business and the industry's potential. Based on the outcome of these analysis, key success factors ("KSF") within life insurance market that determine the firm's ability to survive and prosper would be identified to allow development of competitive strategies for the company. Financial ratio analysis and SWOT analysis would be followed by KSF identification in order to figure out the areas which "A" INSURANCE does not satisfy what customer wants and cannot deliver key success factors. Also, as a part of identifying the improvement areas, resources and capabilities key success factors are based will be analyzed through examining "A" INSURANCE's value chain through applying Michael Porter's value chain, which would provide reasonable guidelines to figure out the resources and capabilities which are most important in sustain competitive edge as well as "A" INSURANCE's strengths and weaknesses as compared with competitors. Based on the analyses outcomes, meaningful strategic management agenda for "A" INSURANCE would be suggested and preferred competitive strategies for "A" INSURANCE will be proposed, the strategies that are believed to improve financial ratio and to ultimately enhance firm's value. At last, detailed implementation actions will be established through McKinsey 7S Framework, which is based on the premise that organizational effectiveness stems from the interaction of different factors : Strategy, Structure, Systems, Staff, Skills, Style, and Shared Values. Last but not least, we will discuss the limitations of this study.

As prior researches reported, corporate strategies would have significant effect on financial ratio that would eventually affect the value of a company. Accordingly, financial ratio analysis is believed to be the basic milestone in developing competitive corporate strategies which should be supported by holistic analysis approaches, including macro and micro environment and internal resources and capabilities.

This strategy development case study could contribute to making students who study financial accounting figure out how to develop corporate strategies based on key financial ratio analysis under real world business circumstance and understand the role of financial ratio that could significantly influence corporate strategies.

The remainder of the paper would be described as follows. Section Ⅱ summarizes key findings from prior researches and key success factors will be identified in Section Ⅲ. In Section Ⅳ, we will perform financial ratio analysis to identify strategic implication. Section Ⅴ describes SWOT analysis for "A" INSURANCE. We then analyze internal resources and capabilities of the company in Section Ⅵ and strategic management agenda of "A" INSURANCE are identified based on the previous analysis results in Section Ⅶ. Section Ⅷ presents specific implementation plan for the strategic management agenda. We will summarize and conclude in Section Ⅸ.

Ⅱ. Prior Research

Prior researches proved that corporate strategies would affect key financial ratio which ultimately influence firm value. Thus, it is believed that achieving strong financial ratio and financial competitiveness through appropriate corporate strategies could cause significant enhancement in firm value. Due to this reason, financial ratio analysis would be critical in building up competitive corporate strategies.

Hwa－Deuk Yi (2004) examined how the strategies selected by companies influence financial information and firm’s value based on the concept that assets turnover ratio and net profit margin are the results of firm’s strategies. He reported that, when the firm pursues product－differentiation strategies, net profit margin would decrease and assets turnover ratio would increase. But, the results for the cost－leadership strategies would be totally opposite.

Hwa－Deuk Yi et al. (2010) showed the research results that the higher profit margins for the firm with cost－leadership strategies are, the lower profitability would be in the future, meaning that increase in profit margins was normally achieved by reducing operating expenses which is believed to have only short－term effects on future profit. Firm with product－differentiation strategies showed increase in assets turnover had more positive effect on future profitability compared with firm with cost－leadership strategies.

Sang－Jo Kim (2007) proved that financial ratios have effect on earnings management. The detailed result from the study showed that profitability ratio and leverage ratio has significant effect on earnings management but the influence of liquidity ration and growth ratio to earnings management was not statistically significant.

Sung－Yong Ryu and Dong－Chul Kim (2000) analyzed whether net book value and net profit information as key financial information affect future firm’s value and showed the results that price－book value ratio and return on equity can play key role to identifying undervalued and overvalued corporations.

Ⅲ. Key Success Factors Identification

3.1 PESTEL Framework for MACRO Environment Analysis[1)]

PESTEL(Political, Economic, Social, Technological, Environmental and Legal) Framework is a useful tool for analyzing MACRO environments for performing strategic analysis. In specific, Political, Economic, Social, Technological, Environmental and Legal factors are analyzed, which would provide overview of market trend, business position, operational potential and direction. Accordingly, a company would use PESTEL framework for MACRO environment analysis to develop market-oriented competitive strategies.

Key findings identified from MACRO environment analysis using PESTEL framework are as follows ;

3.1.1 Socio-cultural Forces

In the aging society, the retired elderly could not obtain sufficient support from government insurance and need to spend more and more their own money. Accordingly, the retirees need more money for a living and medical expenses for their increased retirement life. Life insurance products which could meet people's needs, securing their retirement life are expected to be prospering especially in the future.

3.1.2 Economic

(i) Continuous growth in insurance market supported by GDP growth and steady growth in stock market

Together with approximately 4% growth in Korean GDP, insurance businesses are expected to achieve 4.66% CAGR from 2012 to 2014. And, it is expected that stock market will move to grow in an upward trend due to low level base interest rate and increasing corporate pension market fund.

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1) Sanchez, R. and Heene, A. 1997. "Managing for an uncertain future : a systems view of strategic organizational change", International Studies of Management & Organization, Vol. 27 No. 2, pp. 21-42

(ii) Uncertainty of global economy

Korea economy is highly influenced by US, China and EU economy. Thus, uncertainty of global economy would considerably increase volatility of Korean stock market. Due to 2008 global economic crisis that caused enormous plunge of stock market, Korea people become reluctant to investment－linked insurance products, such as Variable Universal Life (“VUL”) and Variable Annuity (“VA”) but customer’s need for desired high investment return from stock market still remains.

3.1.3 Political and Legal & Regulation Factors

Insurance industry is highly influenced by regulatory changes since insurance and financial related law and regulations can impact and drive change of insurance companies’ operation and financial environment.

(i) Main driver of growth of insurance industry would be pension market.

Due to the revision of Employee Retirement Benefit Security Act, the number of pension subscriber and the relevant reserve would increase and, accordingly, retirement pension market would be one of the major drivers for securing the rest of retirees’ life, along with the National Pension.

(ii) New Insurance Business Act emphasizing customer protection.

New Insurance Business Act which requires much stricter insurer’s responsibilities for customer protection could increase customer complaints and, accordingly, could ultimately damage the company reputation.

(iii) High expense structure in first year

High cost structure of insurance product is mainly caused by high commission of sales agent for the first year. Insurance companies use higher first year commission to attract sales agents. Accordingly, sales agents are reluctant to come to the insurance company without higher first year commission, which can make a company be suffering from shortage of sales forces and finally from poor business performance. However, customers want reasonable expenses for insurance products and regulator is challenging high expense structure.

(iv) Stricter disclosure requirements

Regulatory changes in disclosure requirements is expected to greatly influence insurance company’s business since more detailed information on product and mis-selling results for all insurance companies would be provided to the public and customer can decide insurance product and insurer.

(v) RBC ratio requirements

The full implementation of the RBC system requires insurers to upgrade their risk management process and management strategies, and is expected to enhance financial soundness and strengthen the competitiveness of the insurance industry.

3.1.4 Environment and Technological Factor

Using advanced technology could be one of main success factors for insurance companies for communication to and information sharing with customers as one of effective sales tool.

3.2 Porter’s Five Forces of Competition Framework for Micro Environment Analysis[2)]

3.2.1 Threats of Substitute

Life insurance companies need to develop the areas which Korean government insurance cannot cover at all or fully. Due to fast aging society and decrease in economically active population, fund of national medical and pension insurance becomes decreased and not enough to support all people compared with previous supporting level. Accordingly, Individual person need to be well prepared for the rest of their retirement life, which would give big opportunities for life insurance companies that should keep analyzing Korean government insurance status and develop the area which the insurance companies focus on their success in continuous changing environment.

3.2.2 Treat of Entry

Due to high barriers to new entrant, it is believed that new insurance entrant is expected to be very difficult to enter Korea insurance market and to succeed in its business. It would be believed that access to distribution channel is one of main key success factors which new insurance company can succeed in life insurance market.

2) Robert M. Grant, 2010, Contemporary Strategy Analysis, 7th Edition, United Kingdom : WILEY

3.2.3 Rivalry between Established Competitors

(i) Local insurers' growth based on strong network with their affiliate companies

Business of local insurers has grown rapidly since they use their affiliate companies as distribution channel or generate their sales from their affiliates. Considering Korea market specialty that Korea local companies have expanded and succeeded in their business using advantages as big conglomerate, such as SamSung and LG etc. Local insurers, one of Korea conglomerate group, that have strong partnership and relationship with affiliates can have more potential to survive and even greatly succeed in the market.

(ii) Low levels of product differentiation

Brand identification, on the other hand, tends to constrain rivalry. Brand power would be one of very important factors which customers decide to buy insurance product. Customers tend to select service or/and credibility of insurance company with high level of brand recognition, not only product itself.

(iii) Low switching costs

Customers consider switching costs of insurance product as immaterial and, thus, they can switch insurance product as long as new product satisfies their needs or gives more benefits to them.

(iv) Shrinking VUL and VA market and Customer's sensitivity to investment－linked product

Customer reacts quite sharply to US and EU economic crisis, which absolutely gives negative impact on investment－linked insurance sales. Life insurance companies whose main sales drive is investment－linked products could be easily suffering from sudden change in Korean customer's risk tolerance for their investment due to local and global economic unstableness.

3.2.4 Bargaining Power of Buyer and Customer Needs

(i) Customers' price sensitivity

Though life insurance product has relatively low price sensitivity, price would be still one of important factors which a customer selects to purchase life insurance product especially when key product features and price related information for all other life insurers is disclosed to public.

(ii) Customers' needs for investments

Stock market volatility would seriously impact on customer's appetite for investment linked products. But, if global economy is improved, their needs would increase and customer will look for insurance product which will satisfy their investment needs for their retirement life.

3.2.5 Distribution Channel

(i) Competitive sales agents recruitment market

It is expected that agent recruiting market would become more and more competitive. There is decrease in sales agents number in the market and strong growth in GA sales channel. Thus, more strengthened strategic approaches are necessary in order to maintain solid tied agency and prevent from draining agents to GA.

(ii) Power and quality of sales agents of FC, GA and DM channel

Sales agent of FC, GA and DM channel has strong power to insurance companies due to the current competitive recruiting market. Insurance company that tries to attract sales forces should provide competitive compensation package since they are moving to another company mainly due to good commission. Insurance company which cannot provide competitive financial benefits in short term period should offer strong long－term compensation plan which can give sales agents confidence that they can get more benefits from financial and/or non－financial perspective from long term perspective. Maintaining sales agent quality becomes more important because the Korea regulator would impose strong responsibilities against mis－selling practice.

3.3 Key Success Factors Identification Base on Macro and Micro Environment Analysis Results

Based on the macro and micro environment analysis which allows to understand Korea insurance business and the industry's potential, key success factors within the firm's market environment that determine the firm's ability to survive and prosper are identified.

Framework for identifying key success factors[3] is applied. Firstly, “what do customers for life insurance want?” is identified and, then, “Key Success Factors for a firm to compete” (“KSF”) for life insurance market are identified considering real business situations of Korea life insurance

3) Robert M. Grant, 2010, Contemporary Strategy Analysis, 7th Edition, United Kingdom : WILEY

companies.

The followings in Table 1 are the outcome of analysis of KSF for insurance industry ;

〈Table 1〉 Identifying key success factors for life insurance industry

#	What do customers want?	Key Success Factors for a firm to compete (“KSF”)
(1)	Low insurance premium	• Low costs for competitive product price through cost efficiency improvement, e.g. operational efficiency, such as office rent, printing etc. and reasonable commission scheme
(2)	Wide range of insurance products which can provide most optimum insurance coverage of various possible risks(disease, accident, death, inheritance etc.)	• Differentiation through strengthening competitive product • Product diversification from protection type, such as A&H and whole life, to investment, making company's sales fundamental stable from external environment changes • Development of product which can cover various risk areas based on customers' needs.
(3)	Increasing customer’s interest in retirement planning and increasing need of enough money for their retirement life	• Development of a broader annuity insurance and corporate pension product and strong retirement planning proposition
(4)	Increase wealth	• Development of investment linked product which can gives high performance to ensure living expenses for retired life • Rapid product transition in sales following external factors, such as economy, customer appetite, etc. e.g. savings product with guaranteed interest rate
(5)	Risk adverse since 2008 global economic crisis but also needs certain level of return more than inflation	• Development of insurance products which can properly hedge financial risks and losses and pursue reasonable level of return
(6)	Service quality that satisfies customer needs	• Quality sales agent who has in－depth understating on products and sales process and can provide to customer valuable consulting service that provides most optimum insurance coverage • Develop competitive compensation scheme which ultimately gives long－term benefits for sales agents
(7)	Convenient access to sales channels and to insurance products which can satisfy various customer needs	• Strong sales distribution channels (FC, GA, BA, D/TM) delivering reliable sales support • Stable sales organization with sustainable organizational culture and compensation scheme
(8)	Reliable insurance company since life insurance is lifetime contract	• Improvement in brand awareness and reputation • Low level of customer complaints • Act as promised and for the interest of public. e.g. CSR
(9)	Easy to understand insurance product features	• Strengthen disclosure procedures on product information • Comply with tightened regulation, e.g disclosure, PIPA
(10)	Customer’s assets and financial interests should be protected	• Optimum risk management framework, enabling to properly manage uncertain losses from volatile financial market • Maintain strong RBC ratio and financial soundness
(11)	Customer data and information should be protected	• Maintain strong procedures of customer information protection

Whether "A" INSURANCE can deliver the above KSFs would be evaluated through financial ratio analysis and SWOT analysis in the next parts of analysis. Also, as a part of identifying the improvement areas for the KSFs delivery, resources and capabilities that key success factors are based will be reviewed. The improvement areas for its delivery of the KSFs would be thoroughly reviewed as strategic management agenda for the purpose of sustaining competitive edge and analyzing "A" INSURANCE's strengths and weaknesses as compared with competitors.

Ⅳ. Financial Ratio Analysis[4)]

Financial ratios are calculated and analysed to identify financial status of "A" INSURANCE using PERL framework(Performance, Efficiency, Risk and Liquidity ratios analysis)[5)] and the implication of the financial ratios would be discussed from strategic point of view. Growth ratio and profitability ratio are analysed as part of performance ratio analysis. Financial ratios of "A" INSURANCE would be compared with those of other local and foreign insurance companies in Korea market for the 2011 fiscal year. Total three local big companies (Samsung, Korea and Kyobo life) and four foreign insurers are selected for the competitor analysis. Financial information of "A" INSURANCE for the last 5 years would be reviewed to figure out the trend of financial soundness. Financial figures for the financial analysis are obtained from KLIA homepage and "A" INSURANCE website.

4.1 Growth Ratio

Growth ratio analysis includes turnover, operating profits, net profits and shareholder's equity. For insurance business, there are other important ratios which include In－force policy growth, New business to In－force policy and Surrender/cancellation ratio since sales growth could be achieved by increase in new business and decrease in surrender/cancellation. Accordingly, turnover growth ratio is needed to be analysed together with In－force policy growth, New business to In－force policy and Surrender/cancellation ratio.

4) Bob Ryan, 2004, Finance and Accounting for Business, 1st edition, United Kingdom : Thomson Learning
5) Bob Ryan, 2010, Study Guide of Financial Analysis, United Kingdom : Manchester Business School

(ⅰ) Competitor analysis (for 2011) (measure : percent)

	Local Big 3			Foreign Insurer ("FI)"				
	Samsung	Korea	Kyobo	FI－"B"	FI－"C"	FI－"D"	FI－"E"	"A" INSURANCE
Turnover (premium income)	0.94	－0.72	－0.79	－14.47	0.08	－2.31	－5.75	－3.24
Operating profit	－65.44	48.59 (loss increased)	－48.48	－22.89	27.30 (loss increased)	190.93	－47.55	－60.21 (loss decrease)
Net profit	－51.54	9.83	－14.63	－8.52	－66.11	56.58	－53.13	10.29
Shareholder's equity	15.16	5.27	11.78	0.11	2.60	12.45	15.50	35.24
In－force policy	4.60	3.58	3.74	－0.34	9.99	1.87	2.83	－1.46
New business to In－force policy(*1)	15.70	14.33	16.98	17.69	23.33	14.56	18.78	10.30
Surrender/ cancellation ratio(*1)	8.74	8.42	9.16	13.05	10.64	10.44	8.52	14.84

(*1) New business to In－force policy ratio and Surrender/cancellation ratio are not exactly growth ratio but these two ratio analysis need to be performed with turnover and in－force policy growth ratio review since it would give more clear understanding of "A" INSURANCE status.

(ⅱ) Last 5 year analysis for "A" INSURANCE

"A" INSURANCE	2007	2008	2009	2010	2011
Turnover(premium income)	29.68%	10.56%	1.22%	－2.40%	－3.24%
Operating losses	44.38%	45.03%	－29.94%	－73.16%	－60.21%
Net profit	36.58% (Net losses)	46.74% (Net losses)	－123.05% (Turned to profits)	188.25%	10.29%
Shareholder's equity	37.13%	－35.26%	20.38%	46.21%	35.24%
In－force policy	15.90%	1.83%	－5.08%	－7.39%	－1.46%
New business to In－force policy	36.57%	20.26%	12.73%	9.37%	10.30%
Surrender/cancellation ratio	14.18%	15.65%	17.41%	15.33%	14.84%

① Turnover (premium income) : Most insurance companies' sales figures decreased except Samsung and FI－"C", which is believed to happen because Korea economy is not fully recovered and there are still strong uncertainty in US and Euro economy. Trend of "A" INSURANCE turnover is needed to be focused since it had been increased till 2009 but the growth ratio had been decreased since 2009. Finally, its sales turned to negative growth in 2010 and the negative growth ratio became even larger in 2011. In－force policy growth, New business to In－force policy and Surrender/cancellation ratio for “A” INSURANCE were －1.46%, 10.3% and 14.84%, respectively, which were worst among the companies. Decreased In－force policy, low level of New business to In－force policy and high level of Surrender/cancellation ratio completely hindered “A” INSURANCE from achieving sales growth. Fortunately, the trend of these three ratios improved a bit in 2011 but still worse than those of other competitors. Accordingly, “A” INSURANCE should establish strong strategic initiatives to improve these ratios.

② Operating profit : Among these 8 companies, FI－“D” was the only company whose operating income actually increased in 2011. “A” INSURANCE greatly reduced its operating losses in 2011 by 60% compared to 2010. Trend of “A” INSURANCE operating losses was getting improved.

③ Net profit : “A” INSURANCE recorded its net profits in 2009 for the first time since its establishment. And, its net profits gradually increased and reached to 41 billion KRW in 2011. Trend of its net profits was getting improved. However, increase in net profits could not be maintained without increase in its turnover.

4.2 Profitability Ratio

As a part of profitability ratio analysis, investment return on assets and investment return on operating assets would be analysed since one of main businesses of insurance companies is to maximise investment return using customer’s money.

(ⅰ) Competitor analysis (for 2011)

	Samsung	Korea	Kyobo	FI－“B”	FI－“C”	FI－“D”	FI－“E”	“A” INS
Return on equity	5.26%	8.04%	10.62%	4.53%	2.99%	12.56%	5.60%	23.20%
Operating profit margin	3.79%	－1.52%	2.07%	1.37%	－12.90%	8.61%	2.79%	－2.30%
Earning before tax margin	7.90%	9.65%	10.36%	2.86%	2.53%	12.81%	4.67%	9.54%
Net profit margin	6.22%	7.28%	7.90%	2.03%	2.25%	9.81%	3.56%	10.42%
Investment return on assets	4.59%	5.44%	5.45%	5.62%	4.81%	5.38%	4.72%	4.28%
Investment return on operating assets	4.68%	5.58%	5.55%	5.81%	5.02%	5.57%	4.90%	4.70%

(ii) Last 5 year analysis for “A” INSURANCE

“A” INSURANCE	2007	2008	2009	2010	2011
Return on equity	−33.25%	−75.37%	14.43%	28.45%	23.20%
Operating profit margin	−22.40%	−29.39%	−20.34%	−5.59%	−2.30%
Earning before tax margin	−14.18%	−16.35%	−3.58%	8.84%	9.54%
Net profit margin	−10.24%	−13.59%	3.10%	9.14%	10.42%
Investment return on assets	2.64%	1.86%	3.39%	4.35%	4.28%
Investment return on operating assets	3.21%	2.31%	4.04%	4.87%	4.70%

① Return on equity : Net profits to Shareholder’s equity ratio for “A” INSURANCE was relatively higher than that of other competitors, which is due to smaller shareholder’s equity, amounting 177 billion KRW.

② Operating profit margin : FI−“C” recorded high operating losses to sales. Operating losses of “A” INSURANCE had been reduced since 2008 and reached to 9 billion KRW in 2011 which is 93% of decrease compared with 2008 losses.

③ Net profit margin : “A” INSURANCE recorded 10.42% of net profit margin which is higher than that of other competitors. In 2008, performance of “A” INSURANCE, including net profits margin, was very bad due to 2008 global economic crisis. But, “A” INSURANCE gradually increased its net profits since 2009 when it had recorded its first net profits since establishment.

④ Investment return on assets and Investment return on operating assets : From the point of investment return on assets and operating assets, “A” INSURANCE’s return ratios were lowest. This means “A” INSURANCE investment performance was poor, which would not satisfy customer’s expectation.

4.3 Efficiency Ratio

Efficiency ratio analysis includes operating assets to total assets ratio since this ratio shows that insurance company puts more effort to operate its assets as much as possible to maximise customer’s investment return.

(ⅰ) Competitor analysis (for 2011)

	Samsung	Korea	Kyobo	FI－“B”	FI－“C”	FI－“D”	FI－“E”	“A” INS
Assets Turnover Ratio(times)	10.96%	12.99%	13.68%	17.06%	19.55%	17.15%	22.23%	37.41%
Operating Assets Turnover Ratio(times)	11.50%	13.89%	14.53%	18.22%	23.56%	18.72%	24.38%	55.22%
Operating assets to total assets	95.26%	93.47%	94.17%	93.63%	82.97%	91.62%	91.20%	67.74%

(ⅱ) Last 5 year analysis for “A” INSURANCE

“A” INSURANCE	2007	2008	2009	2010	2011
Assets Turnover Ratio(times)	54.86%	55.73%	48.99%	43.04%	37.41%
Operating Assets Turnover Ratio(times)	154.82%	161.37%	96.53%	69.14%	55.22%
Operating assets to total assets	35.44%	34.54%	50.75%	62.25%	67.74%

① Assets Turnover Ratio : Assets turnover ratio of “A” INSURANCE was decreasing since 2008 because its sales decreased but its total assets increased. However, its assets turnover ratio was still higher than that of the competitors.

② Operating Assets Turnover Ratio : Compared with the other competitors, “A” INSURANCE recorded very high operating assets turnover ratio, which means “A” INSURANCE generated higher sales using its operating assets.

③ Operating assets to total assets : “A” INSURANCE’s operating assets gradually increased, more increase than total assets increased. But, still the ratio of operating assets to total assets for “A” INSURANCE is completely lower than other local and foreign competitors, which means “A” INSURANCE could not sufficiently use its assets for its operation. Moreover, as profitability ratio shows, investment return on assets and Investment return on operating assets was smaller.

4.4 Risk Ratio

A solvency－margin ratio would be analysed as a part of risk ratio analysis because this ratio is one of the indexes used by the supervisory agency to assess a company’s ability to pay insurance claims and other payments in the event of a risk beyond normal estimation, such as a major disaster or a drastic fall in the value of assets.

(ⅰ) Competitor analysis (for 2011)

	Samsung	Korea	Kyobo	FI-"B"	FI-"C"	FI-"D"	FI-"E"	"A"INS
Leverage ratio	771.8%	850.6%	982.8%	1307.1%	679.0%	746.5%	706.7%	595.1%
Solvency margin ratio	386.3%	224.3%	247.1%	306.8%	492.7%	379.9%	316.9%	336.4%

(ⅱ) Last 5 year analysis for "A" INSURANCE

"A" INSURANCE	2007	2008	2009	2010	2011
Leverage ratio	591.7%	994.7%	951.7%	723.0%	595.1%
Solvency margin ratio(*1)	217.0%	149.0%	430.8%	617.8%	336.4%

(*1) Source : 2007~2011 "A" INSURANCE Annual Report, "A" INSURANCE Homepage

① Leverage ratio : Leverage ratio of "A" INSURANCE is lower than that of the other competitors based on strong risk management framework directed from UK group. High leverage ratio can translate into greater risk and unforeseen losses. Leverage ratio had been decreased since 2008 and reached to 595% in 2011.

② Solvency margin ratio : Solvency margin ratio of "A" INSURANCE is average of other competitors. FSS will sanction insurance company whose solvency ratio is under 100%. Thus, maintaining reasonable level of solvency ratio is required. The increase is attributed to increasing premium income across the industry and improvement in capital adequacy and asset quality.

4.5 Other Insurance Related Ratio, Including Liquidity Ratio

Claim payment ratio as type of liquidity ratio would be reviewed and also expense ratio would be analysed since expense ratio is critical from customer point of view and FSS places an emphasis on this ratio and requires insurance companies to disclose this information to the public.

(ⅰ) Competitor analysis (for 2011)

	Samsung	Korea	Kyobo	FI-"B"	FI-"C"	FI-"D"	FI-"E"	"A" INS
Claim payment ratio	62.28%	62.88%	59.00%	86.63%	31.97%	49.57%	51.24%	36.20%
Expense ratio	9.86%	10.95%	10.16%	10.93%	30.96%	10.58%	12.13%	21.50%

(ii) Last 5 year analysis for "A" INSURANCE

"A" INSURANCE	2007	2008	2009	2010	2011
Claim payment ratio	26.64%	33.28%	43.09%	65.72%	36.20%
Expense ratio	30.79%	27.96%	24.09%	19.94%	21.50%

① Claim payment ratio : Claim payment ratio was relatively low compared with competitors'.

② Expense ratio : Expense ratio of "A" INSURANCE is the second highest out of these 8 insurers. FI－"C" is the company which has the highest expenses compared to premium income it received. Expense ratio of all insurance companies is required to be disclosed to the public by FSS. Customer would recognize which company spend a lot of expenses with the premium which the customers have paid, which means high price on insurance product. Expense ratio of "A" INSURANCE seems decreasing compared to that of 2007. But, it is still very high. To meet FSS requirement for customer protection and prove "A" INSURANCE's low price on its insurance product, "A" INSURANCE needs to manage its expense volume.

4.6 Implications for "A" INSURANCE Strategy Development

Financial ratio analysis for "A" INSURANCE would provide insight into "A" INSURANCE strategic approaches for the future.

4.6.1 Sales (premium income) growth

"A" INSURANCE sales performance is definitely poor, which is proven by the fact that its turnover growth ratio had been declining since 2009, turned to negative in 2010. In addition, negative growth ratio had worsened in 2011.

This finding is directly related with in－force policy growth ratio which had been negative since 2009. In－force policy was reduced by 5.08% in 2009 and even more worsened in 2010, reduced by 7.39%. This became a bit better in 2011, negative growth percentage decreased. 1.46% of in－force policy reduced in 2011 but still negative growth. This symptom is supported by the fact that New business to In－force policy was only 9.37% and 10.3% in 2010 and 2011 and Surrender/cancellation ratio was 15.33% and 14.84% in 2010 and 2011, respectively. This indicates that new business policies were getting decreased and surrendered or cancelled policies were increased. Decreased In－force policy, low level of New business to In－force policy and high level of Surrender/cancellation ratio prevented the company from accomplishing sales growth.

Several root causes for the poor performance of “A” INSURANCE could be analysed based on KSF as follows ;

① Sales distribution channels are not strong enough to enhance the sales and business, for example, decreasing sales agents number and low retention ration of the agents, weak strategic business alliance with BA and GA. [The company could not deliver KSF #(7)]

② Product portfolio of “A” INSURANCE is still focusing on investment－linked products, such as VUL and VA and the company did not develop various protection type products and investment－linked product with hedging option against uncertain financial losses which can satisfy customer’s needs for optimum insurance coverage. [The company could not deliver KSF #(2) and (5)]

③ High expense structure and poor customer complaints procedures of “A” INSURANCE were disclosed to the public, which made “A” INSURANCE reputation worsen. [The company could not deliver KSF #(1) and (8)]

Consequently, “A” INSURANCE is required to plan strong strategic actions to achieve sales growth through increasing total in－force policy which could be resulted from increasing new business policy and reducing surrendered or cancelled policies, considering the root causes analysed based on KSF.

4.6.2 Net profit margin

From net profits perspective, “A” INSURANCE is relatively fine from the fact that its net profits were getting improved, recording 41 billion KRW in 2011. But, “A” INSURANCE recorded operating losses and, moreover, most of net profits were recorded due to gain from disposal of fixed assets, commission incomes from other works, such as fund sales, etc. This increase trend of net profits could not be sustained if sales increase is not achieved.

In addition, “A” INSURANCE recorded 10.42% of net profit margin, relatively higher than the other competitors, which seems to give “A” INSURANCE a chance to develop competitiveness from the point that “A” INSURANCE would have room to reduce insurance premium. However, this will not directly affect low insurance premium since pricing of insurance premium considers reasonable assumptions of claim payment, expense (related with only insurance business operation), dividend, policy reserves, surrender value and investment return in the future and net profits which “A” INSURANCE recognised were not insurance business operation related profits. Insurance business operation related expense should be saved to reduce insurance premium but “A” INSURANCE expense ratio was higher than that for most of competitors, whose implication would be analysed in the below (iv) Expense.

Thus, improvements for net profits margin need to be implemented from the point of sales growth and expense reduction.

4.6.3 Operating assets and Investment return on assets and operating assets

Based on operating assets ratio analysis results, “A” INSURANCE has very low operating assets ratio compared with that of the competitors. Moreover, the analysis outcome of investment return on assets and operating assets shows that “A” INSURANCE investment performance was poor and customer would not be satisfied with its investment performance.

Several root causes to the poor performance of “A” INSURANCE could be analysed based on KSF as follows ;

① Enhanced investment−linked products which can provide high performance were not developed. [The company could not deliver KSF #(4)]

② Optimum risk management framework which enables to manage uncertain financial losses is not designed properly or/and is not appropriately operated. [The company could not deliver KSF #(10)]

Accordingly, initiative which can improve operating assets ratio and maximise its investment return is needed to be established to make customers satisfied and trust “A” INSURANCE as one of retirement planning experts.

4.6.4 Expense

Expense ratio would be considered as very critical factor from the perspective of customer as well as Korea regulator. In specific, high level of expense ratio would negatively impact insurance product price and the disclosed information on high expense ratio would damage “A” INSURANCE’s reputation. Most of all, customers who recognize that “A” INSURANCE has spent a lot of money using the premium which they have paid would be very reluctant to buy “A” INSURANCE products.

Certain root cause to the poor ratio could be analysed based on KSF as follows ;

① Currently, expense is not properly monitored to ensure that the expenditure achieves the objectives. There is possibility that expenses are not spent properly and would not be effective enough to bring expected performance. Consequently, expense ratio might be worsening. [The company could not deliver KSF #(1)]

To meet the FSS requirements and improve high price structure on its insurance products, “A” INSURANCE’s expense volume should be properly managed and reduced at least to the industry average level, for example, through outsource arrangement of certain activities which can offer economies of scale to the company.

4.6.5 Solvency ratio

Solvency ratio is a key indicator to show insurance company’ financial soundness and there would be serious sanction from FSS if the minimum threshold is not secured. Maintaining reasonable level of solvency ratio is required to prove capital adequacy and asset quality. [The company delivered KSF #(10) and needs to maintain this competitiveness]

Ⅴ. SWOT Analysis for “A” INSURANCE

Based on in－depth understanding of macro and micro environment and financial figures, SWOT analysis for “A” INSURANCE is performed as follows. The analysis would also include the findings which are identified from financial ratio analysis.

5.1 SWOT Analysis

Strengths	*Weaknesses*
S1. Young and dynamic organization S2. Open communication culture S3. Its FCs are very specialised in VUL products as a leading retirement planning provider S4. Experienced knowledge of VUL sales S5. Strong capital structure : high solvency ratio	W1. Decreased in In－force insurance policies and sales performance and increase in surrendered/cancelled policies W2. Decrease in FCs and GA partners. About 60% of FCs have less than 1 year of tenure W3. Weak distribution network compared with local insurers which have affiliate companies W4. Unbalanced product portfolio (high reliance on VUL and VA products) W5. Lack of Know－How for protection type products sales W6. High expense structure W7. High customer complaints ratio W8. Low brand awareness W9. Low investment return on assets (ROA) W10. No corporate pension products

Opportunities	*Threats*
O1. Aging society increase retirement market O2. Growing corporate pension market per the government policies. O3. Capital Market Consolidation Act enlarges insurer’s business range. O4. Korea people become more familiar with investment－related insurance products.	T1. Possibility of economic instability T2. Shrinking Korea VUL and VA markets T3. High regulatory restriction on sales process for VUL products T4. Highly competitive environment in insurance industry ; competitors’ aggressive activities in recruiting, commission structures and invasion of saving type products. T5. Highly regulated market (e.g. customer protection, strict disclosure etc.)

“A” INSURANCE could obtain some insights for its strategy development from the above SWOT analysis. Several weaknesses of and threats against “A” INSURANCE could be converted into strengths through a series of strategies. For this case study, implications would be mainly discussed from financial ratio analysis perspective only. Those regarding financial ratio analysis are as follows ;

① (For S5) Refer to “Risk Ratio” analysis in “Ⅳ. Financial ratio analysis” for more details. [to deliver KSF #(10)]

② (For W1, W2, W3 and T4) Main root cause of “A” INSURANCE’s current poor sales performance is believed to be decrease in sales agents, in－force policies, new business and increase in surrendered/cancelled policies. Moreover, about 60% of FCs have less than one year of tenure at “A” INSURANCE, low retention ratio. Among these reasons, decrease in sales agent number and low retention ratio, including FCs and GAs, would be most important factors since it would be root causes of the other reasons.

In specific, sales agent numbers of “A” INSURANCE reached the peak in 2008 and, since then, was dramatically decreasing to 1,361 agents in 2011, which was only 45% of 2008 total sales agent number. It is strongly believed that this dramatic plunge caused its sales to be sharply decreased since 2008 and, thus, the main root cause of “A” INSURANCE’s current difficulties would be rapid decrease in sales agent number.

Accordingly, sales agent number issue should be improved with the first priority through recruiting more high quality sales forces and, at the same time, retaining current experienced agents. However, the current sales agents recruitment market is highly competitive and aggressive and, thus, it is needed to establish effective action which can go through the current tough situation. [to deliver KSF #(6) and (7)] Furthermore, retention of experienced FCs needs to be enhanced through providing competitive career development opportunities as insurance sales expert and long-term service incentive for quality FCs as well as through strengthening recruiting criteria to recruit quality sales agent. [to deliver KSF #(6)]

③ (For W4, W5 and T1, T2) "A" INSURANCE product portfolio is unbalanced, specifically high reliance on VUL and VA products, which is quite influenced by stock market change and would be very lethal in this volatile stock market caused by global economic problems, such as Euro Debt and poor US economy, since customers are not willing to buy investment-related insurance product. Thus, product portfolio should be diversified by developing protection type products, such as whole life, accident & health protection, annuity etc., which make more balanced product portfolio. Together with developing protection type product, well-structured training programs for selling protection type product should be established since current "A" INSURANCE sales agents are specialised in investment-linked type and do not have professional expertise in protection type. [to deliver KSF #(2) and (6)]

④ (For W6) Refer to "4.6.4 Expense" analysis in "Ⅳ. Financial ratio analysis" for more details. [to deliver KSF #(1)]

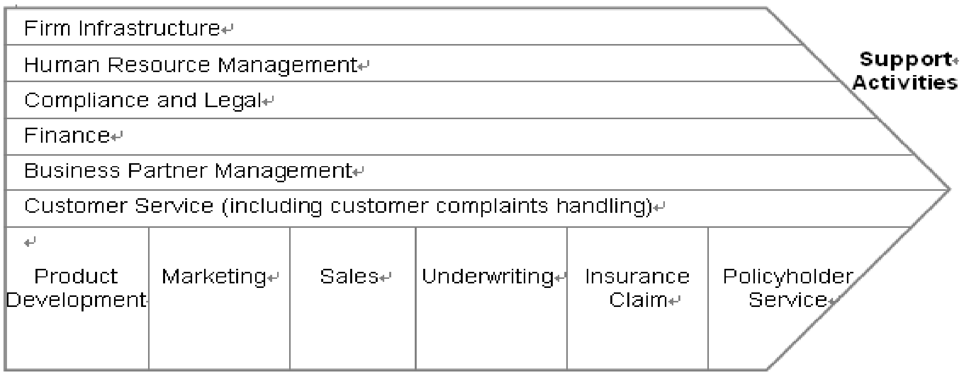
⑤ (For W9) "A" INSURANCE should use more assets for more investment returns. In specific, experienced fund managers need to be recruited more in order to maximise operating assets usage and to get more investment returns. Also, Investment Committee should be established to make appropriate investment strategy in a way that investment strategy becomes more balanced to get more return together with managing potential risks which can happen due to investment strategy change. (Refer to "Investment return" analysis in "Ⅳ. Financial ratio analysis" for more details) [to deliver KSF #(4) and (10)]

Ⅵ. Analysis of Internal Resources and Capabilities

Michael Porter's value chain[6] is applied to analyse specific activities through which "A" INSURANCE can create value and competitive advantage against competitors in life insurance market. Figure 1 explains which activities / capabilities of "A" INSURANCE can contribute to making superior profits through establishing and sustaining competitive edges.

6) Robert M. Grant, 2010, Contemporary Strategy Analysis, 7th Edition, United Kingdom : WILEY

<Figure 1> Porter's value chain for “A” INSURANCE Korea



6.1 Internal Resource and Capabilities Analysis

Resources and capabilities on which the key success factors identified in Section 2.3 are based are identified through examining “A” INSURANCE's value chain. Then, these resources and capabilities have been assessed based on two key criteria. One is importance referring which resources and capabilities are most important in sustain competitive edge and the other is its strengths and weaknesses as compared with competitors.

Table 2 and Table 3 are results of the assessment of resources and capabilities in accordance with the two key criteria for “A” INSURANCE.

6.1.1 Internal resource analysis

Internal resource analysis would be performed for Finance, Branch Location, Distribution, Brand, Culture (including communication capacity) and Skills/Know-how. The analysis outcome is described in Table 2.

〈Table 2〉 Results of internal resources analysis

	Resource	Importance[7]	Relative Strength[8]	Assessment
R1	Finance	8	4	• It had recorded accumulated deficits till 2008 and recognized first profits in 2009 and since then, increased its net profits. Operating profits and net profits has been positive and even increased since 2009. • High level of expense structure • Solvency ratio is relatively good.
R2	Branch Location	7	6	• Branch location is critical for customer accessibility. “A” INSURANCE rents one or two main branch offices in the city center and the rest of office out of the city centre, which satisfies expense reduction. However, considering the fact that customer usually does not physically visit branch but usually sales agent visits customer, customer’s accessibility could be secured by sales agent’s activities.
R3	Distribution	9	3	• Sharp decreases in FCs and GA partners and low retention ratio of sales agents. Extremely competitive recruiting market. • Currently weak alliance with big GA and banks
R4	Brand	8	3	• Low brand awareness. Korea big 3 players (Samsung, Kyobo, Korea) remain the dominant sector given their substantial brand equity. • The company still maintains recognizable brand image as a leading retirement planning provider within the industry.
R5	Culture	7	7	• Open and flexible culture
R6	Skills/ Know－how	9	4	• Sales agents are equipped with in－depth understanding of VUL product and sales process. • Sales agents are lack of understanding of and sales know－how for protection type products.

6.1.2 Capabilities analysis

Twelve capabilities of “A” INSURANCE which key success factors are based on in life insurance market would be reviewed in detail as follows ;

7) Both scales range from 1 to 10 (1＝very low, 10＝very high)

8) Resources and capabilities of “A” INSURANCE are compared with those of other competitors, including local big three insurers and major foreign players. The ratings are based on researcher’s subjective judgment.

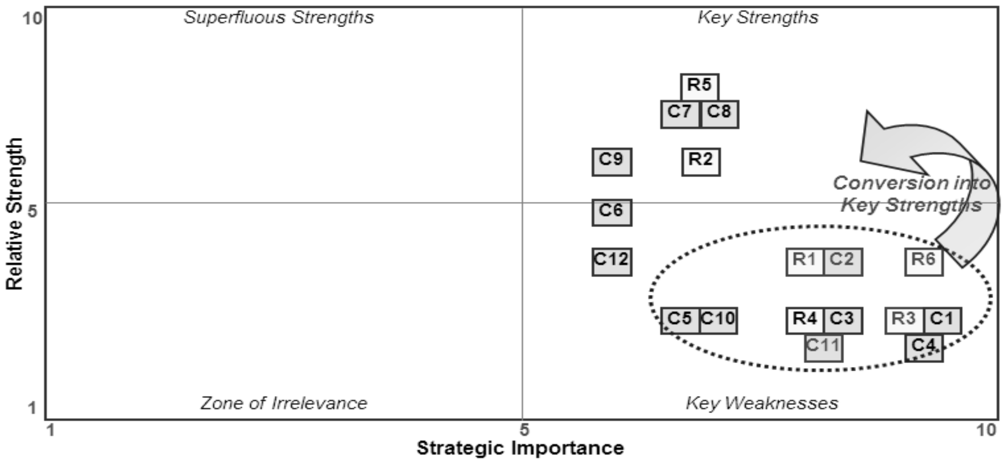
〈Table 3〉 Results of capabilities analysis

	Capabilities	Importance[7)]	Relative Strength[8)]	Assessment
C1	Product development	9	3	• Parent company of “A” INSURANCE, is pursuing profitable product development, avoiding risky product. Thus, “A” INSURANCE is difficult to develop product which satisfies changeable customer's appetite. For example, ISP (Interest－Sensitive Product－Saving) product which provides minimum guaranteed interest income is currently popular but requires large capital reserves and risky from insurer perspective due to guaranteed interests. • Unbalanced product portfolio (high reliance on VUL&VA) • Insurance product with hedging option against financial losses would be developed. • No corporate pension product and no business in Korea corporate pension market.
C2	Financial management	8	4	• “A” INSURANCE’s poor investment return on assets compared with competitors • Good solvency ratio compared to competitors.
C3	Marketing	8	3	• Low brand awareness
C4	Sales	9	3	• 2008 economic crash caused enormous decrease in in－force policies and sales and increase in surrendered/cancelled policies and following bad performance of FCs, which reduce sales force's compensation and, accordingly, the number of FCs. Lack of resources further made FC quality worsening and productivity go down.
C5	Business partner management	8	3	• “A” INSURANCE’s long－term business relationship with GA is not effective. • Alliance with banks (BA channel) is getting worsen. “A” INSURANCE needs to strengthen business relationship with banks.
C6	Government relations	6	5	• Relation with FSS is fine. Audit Committee member are from FSS for better relationship and atmosphere.
C7	Underwriting	7	7	• UW function focuses on risk management, which prevents from accepting risky case.
C8	Insurance claim	7	7	• “A” INSURANCE maintains firm and reasonable claim process. Also, it considers interest of both customer and company. Accordingly, customer's perception about “A” INSURANCE is favorable in terms of claim payment.
C9	Policyholder service	6	6	• “A” INSURANCE is equipped with customer friendly POS procedures together with proper risk management process.
C10	Complaint handling	7	3	• “A” INSURANCE is suffering high customer complaints which could cause negative brand image and reputation.
C11	HR management	8	3	• Great decrease in FC number • Key person is crucial for small－sized company in terms of skills and knowledge maintenance perspective. However, currently, “A” INSURANCE is suffering high turnover of key person.
C12	Compliance & regulation	6	4	• Compliance and legal function of “A” INSURANCE is not so strong, which has been proved by current sanctions from FSS. Thus, these functions need to be enhanced.

6.2 Implications for Strategic Management Agenda through Mapping of the Internal Resources and Capabilities based on the Assessment Results

Figure 2 is mapping of the results of appraising “A” INSURANCE’s resources and capabilities in order to highlight its key strengths and weaknesses which should be further developed and differentiated from competitors and be rectified through reasonable actions, respectively. Also, superfluous strengths could be handled appropriately, probably by lowering the level of investment from these resources and capabilities.

〈Figure 2〉 Mapping of appraising the resources and capabilities (hypothetical)



Based on the mapping of assessing internal resources and capabilities of “A” INSURANCE, some strategic implications could be obtained.

Key weaknesses of “A” INSURANCE which are identified in the above mapping diagram (R1, R3, R4, R6 and C1, C2, C3, C4, C5, C10, C11) should be converted into strength. Out of these, R1, R3, R6 and C2, C11 in red colored letters are the areas relating to financial ration analysis. Most resources and capabilities which are evaluated as key weaknesses are difficult to be immediately improved and need long－term approach. However, these factors are critical in business success and, thus, should be improved with high priority as parts of the corporate key strategies and initiatives.

“A” INSURANCE should put its great effort to exploit its key strength, such as its small sized organization with open and flexible corporate culture, to ensure that the resource is deployed to the greatest effect. In specific, its open and flexible atmosphere would play important role to properly resolve a lot of conflicts and issues which would be caused by implementing key strategic changes.

Ⅶ. Strategic Management Agenda for "A" INSURANCE

Based on the previous analysis outcomes from key success factor identification, financial ratio, SWOT analysis and assessment of internal resources and capabilities, the following strategy would be recommended for "A" INSURANCE as follows ;

"Pursuing sustainable growth through strengthening business foundations"

In order to achieve main strategy of "A" INSURANCE, most probable strategic management agenda are identified as follows ;

7.1 Boost Insurance Sales

Based on the analysis in "IV. Financial Ratio Analysis", "V. SWOT Analysis" and "VI. Analysis of Internal Resources and Capabilities", the following specific initiatives are proposed ;

(i) Recruit more sales agents

Due to 2008 economic crisis, there were a series of incidents which are decrease in new business, increase in surrendered/cancelled policies, decrease in in−force policies and sales, following poor performance of FCs, reduced sales force's compensation and, finally, decrease in the number of FCs. Lack of resources further made FC quality worsening and, thus, productivity of sales force also go down, like vicious circle.

Accordingly, the first priority of "A" INSURANCE should be to recruit more sales agents to improve the current difficulties. To attract quality sales agents, "A" INSURANCE should provide differentiated benefits compared with their competitors. Providing high commission is normal bait to attract sales forces but its effect lasts in short−term period. Moreover, "A" INSURANCE has experienced difficulties in high expense spending and, thus, high commission strategy is not in line with the corporate approach. Accordingly, "A" INSURANCE should contrive effective ways to attract sales agents without paying high level of commission more than their competitors pay.

In specific, the company could offer long−term roadmap, which should include systematic career development plan for insurance sales expert through strong HR methodology for the agents and long−term financial compensation which would be more beneficial for FCs who work with “A” INSURANCE for a long period time than their competitors do. Most importantly, strong sales activity management systems should be established and should take a key role as a main tool as a part of the long−term career development framework. The sales activity management system would support FC to properly perform his/her sales activities even when the agent does not have any experience in insurance sales.

(ⅱ) Retain experienced sales forces

It is also critical to retain experienced sales agents. In specific, approximately 60% of FCs stayed in “A” INSURANCE less than one year. Poor retention also causes other serious issues, not only decrease in total FC number and the company sales but also increase in surrendered/cancelled policies because, in most case, terminated FC makes customers surrender or cancel their in−force policies, which results in more customer complaints.

Consequently, retention of experienced FCs needs to be enhanced through providing competitive career development opportunities and strong incentive for long−term serviced FCs. Sales agent who understands that “A” INSURANCE will provide more benefits from long−term perspective than competitors will not leave “A” INSURANCE and work as part of its foundation stone for his/her successful career. Both the company and sales agents can grow together.

7.2 Build−up Strong Product Portfolio

Based on the analysis in “Ⅳ. Financial Ratio Analysis”, “Ⅴ. SWOT Analysis” and “Ⅵ. Analysis of Internal Resources and Capabilities”, the following specific initiatives are proposed ;

(ⅰ) Diversify product portfolio

Product portfolio should be diversified by developing non−linked products, such as whole life, accident & health protection, annuity etc., which make more balanced product portfolio and make the company more resistant to external environmental change.

(ⅱ) Strengthen current competitive products

Together with diversifying product portfolio, “A” INSURANCE should continue to seek opportunities to boost VUL proposition since “A” INSURANCE is considered as a frontier of

VUL product provider in Korea. For example, investment－linked product which can hedge financial losses and also get reasonable level of investment return could be developed through adopting structured product, such as derivative, for hedging purpose, not for speculation purpose.

7.3 Achieve Price Efficiency at Optimum Level

Based on the analysis in “Ⅳ. Financial Ratio Analysis”, “Ⅴ. SWOT Analysis” and “Ⅵ. Analysis of Internal Resources and Capabilities”, the following specific initiatives are proposed ;

(ⅰ) Reduce expenses and optimize expense efficiency

Based on the analysis in “4.6.4 Expense” analysis in “Ⅳ. Financial ratio analysis”, to improve high price structure, urgent strategic initiatives to reduce “A” INSURANCE’s expense volume should be properly set up. In addition, there should be some effort to maximise the effect of expense spending. For instance, sales campaign costs should result in maximising sales performance of sales agents. If not, the reasons for failure of large spending should be thoroughly analysed and the root causes should be identified. Relevant countermeasures to improve cost effectiveness need to be established. In summary, “A” INSURANCE should be definitely equipped with robust internal controls to monitor and assess the effectiveness of cost spending and to identify improvement opportunities for expense reduction.

(ⅱ) Enhance investment return on operating assets

Though “A” INSURANCE’s operating assets gradually increased, the ratio of operating assets to total assets for “A” INSURANCE is completely lower than that of other local and foreign competitors as the financial ratio analysis in Section Ⅵ shows. This indicates that “A” INSURANCE did not properly manage its operating assets to obtain high investment return for its customers, which would not satisfy customer’s expectation on investment profits.

Consequently, “A” INSURANCE should increase its operating assets ratio and needs to properly manage the assets sufficiently enough to get more investment returns, at least up to the level of the industry average of investment return.

7.4 Maintain Financial Soundness in Terms of Risk Management

As analysed in “Risk Ratio” analysis of Section Ⅳ, solvency ratio of “A” INSURANCE is relatively firm and solvency ratio should be maintained to the reasonable level in order to meet the regulatory requirements and to build up customer's trust.

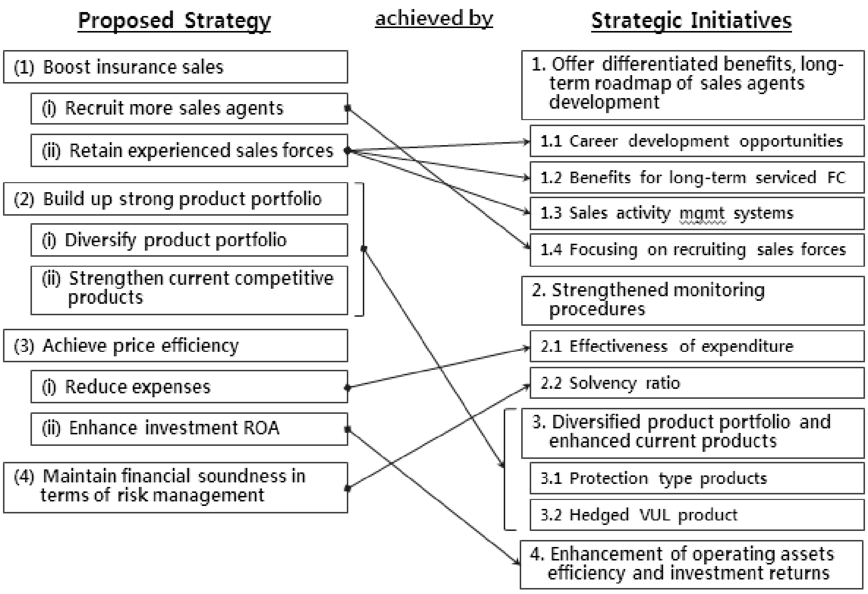
7.5 Do not Enter into Corporate Pension Market

Currently, 13 banks, 14 securities companies, 12 life insurers and 10 non−life insurers are competing in the market. Only a few foreign insurers have launched their corporate pension products.

It would be reasonable that "A" INSURANCE does not get into corporate pension market at this moment because corporate pension market is already heavily occupied by local big financial companies and margin for the market would be very narrow.

As the summary of Section Ⅶ, <Figure 3> shows that we are proposing 4 corporate strategies for "A" INSURANCE which can make KSFs for insurance industry achieved based on the understanding of company's current situation through PERL framework, SWOT analysis and internal resources and capabilities analysis. And, specific strategic initiatives have been proposed to achieve the 4 corporate strategies. It is recommended that top management of "A" INSURANCE should assess the importance of the current issue and the availability of its resource and should prioritize the 4 corporate strategies and the relevant strategic initiatives for efficient and effective implementation.

〈Figure 3〉 Strategic Initiatives developed to achieve strategies



Ⅷ. Implementation Plan to Develop the Preferred Competitive Strategies

The framework of implementing strategy would be McKinsey 7s Framework,[9] which is based on the premise that organizational effectiveness stems from the interaction of different factors : Strategy, Structure, Systems, Staff, Skills, Style, and Shared Values.

Strategic initiatives are listed up as discussed in Section Ⅶ. Strategic management agenda ;

8.1 McKinsey 7s Framework

The factors which should be relevant to effective strategy implementation for each strategic initiative would be summarised in accordance with McKinsey 7s Framework.

8.1.1 Strategy, Structure, System, Staff and Skills

The action plan for the strategic initiatives implementation are analysed per 5S (Strategy, Structure, System, Staff and Skills) as each project could be directly connected to each factor and the remaining 2S (Shared Value and Style) for the strategic initiatives would be reviewed at company－wide.

The below Table 4 is key points of 5S analysis for the proposed strategic initiatives.

8.1.2 Shared Values

It is strongly believed that the identified strategic initiatives could be successfully implemented and can achieve the objectives of the strategic initiatives based on the core values and strategic initiatives of “A” INSURANCE.

8.1.3 Style

To achieve the company’s ultimate goal and the objective of the strategic initiatives as small－sized company, flexible and open atmosphere should be developed further and encouraged, which would let the company take action promptly for any customer needs and change in circumstance in a timely manner. These characteristics should be placed as “A” INSURANCE main strengths and competitiveness of its employees.

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9) Robert M. Grant, 2010, Contemporary Strategy Analysis, 7th Edition, United Kingdom : WILEY

〈Table 4〉 Summary of 5S analysis for all proposed strategic initiatives

Strategy	Structure	System	Staff	Skills
1. Offer differentiated benefits, the long−term roadmap of development plan for sales agents, including financial benefits.				
1.1. Career development opportunities	Firstly long−term roadmap for sales agents should be set up, which is most important initiative in the strategic implementation procedures. The roadmap should include holistic approaches from initial commission and career development for insurance sales expert to strong financial benefits for L−T serviced FCs and training program for individual agent and sales supervisor.	IT system is required to systematically manage the agent's career development, including daily sales activity.	Sales/Branch Manager should monitor the progress of each agent's development and offer timely advice.	Sales experience and expertise
1.2. Benefits for long−term serviced FCs		S−T and L−T commission scheme and other financial benefits program should be set up. Competitive benefits for the L−T served sales agents should be offered, which should be apparently differentiated from competitors.	The team that is responsible for the agent compensation scheme is not capable for product pricing and, accordingly, Product Actuarial Team's involvement is required.	Product actuarial skill for proper pricing is critical to successfully implement this L−T benefits plan.
1.3. Sales activity management systems		Currently, the company cannot provide standardized sales activity guidance and proper & timely advice for the agent. Newly established sales activity framework could direct the sales agent from contacting new customer to wrapping up contract and managing the customers. IT system for these should be implemented.	The Company should seriously consider hiring professional consultants from the market since management needs fresh view. Internal key staff who is knowledgeable in the Company and insurance industry should co−work with consultants, which could bring synergy.	Current Sales supervisor could perform this job. However, more rigorous education program for Sales supervisor are required since their role becomes very critical.
1.4. Focusing on recruiting sales forces		No additional system and process is necessary. But, more strengthened tracking process is needed to monitor the recruiting status.	No need of additional or new staff.	The Company already has proper skills for this initiative.
2. Strengthened monitoring procedures 2.1. Effectiveness of expenditure 2.2. Solvency ratio	No need of additional organizational structural change because there are functions for these.	The monitoring process should be strengthened. Current cost monitoring is not effective enough to assess effectiveness of the expenditure. Robust post−assessment should be required by sales channels and Finance team should verify the post−assessment.	Refer to “Skill” part.	The Company already has proper skills for this initiative.
3. Diversified product portfolio and enhanced current products 3.1. Protection and annuity type products 3.2. Hedged VUL product	• Protection insurance products, such as whole life, accidental & health etc., should be developed. • Structured product, e.g. derivatives which have hedging option for financial losses, could be linked with VUL product.	• No additional system is necessary. • Product development plan which should include specific protection product development schedule needs to be established and monitored closely to keep tracking of the development status.	No sufficient resources who are experienced with developing protection type product. Thus, specialist who has protection type product development expertise need to be resourced.	Together with developing protection type product, training for product knowledge and sales skills should be provided since the agents do not have in−depth knowledge in the products.
4. Enhancement of operating assets efficiency and investment returns	• More experienced fund managers is needed. • No effective investment strategy decision making body exists. Effective Investment Committee should be set up to make proper investment strategy in a more balanced way.	To properly manage more aggressive investment, risk management/monitoring system should be set up.	More experienced fund managers need to be recruited to maximize operating assets usage and to increase investment returns.	Refer to “Staff” part.

8.2 Performance Target for the Implementation

Some measurable factors are established and also timeline to achieve these factors would be set up to properly track the implementation actions status and to make countermeasures when the original actions encounter difficulties.

The specific factors to be considered in order to track implementation of actions and relevant timeline for the implementation are set up in the following Table 5 ;

〈Table 5〉 Factor to track implementation of actions and relevant timeline

Strategy	Factor to track implementation of actions	Timeline
1. Offer differentiated benefits, the Long−Term roadmap of development plan for sales agents, incl. financial benefits.	1. Completed the long−term roadmap 2. # of newly recruited sales agents 3. Retention ratio of sales agent	1. by 6 months after this report issued 2&3. on a quarterly basis from next year since it takes some time
2. Strengthened monitoring procedures	1. Monitoring guideline on sales practice, cost effectiveness and solvency ratio	1. by 6 months after this report issued
3. Diversified product portfolio and enhanced current products	1. Product development calendar for Year 201X 2. # of new product which is not developed yet, no meeting the development targeted timeline	1. by 12 months after this report issued 2. on a monthly basis from next year
4. Enhancement of operating assets efficiency and investment returns	1. New fund manager recruitment 2. Operating assets ratio to total assets 3. Investment return	1. by 12 months after this report issued 2&3. on a monthly basis

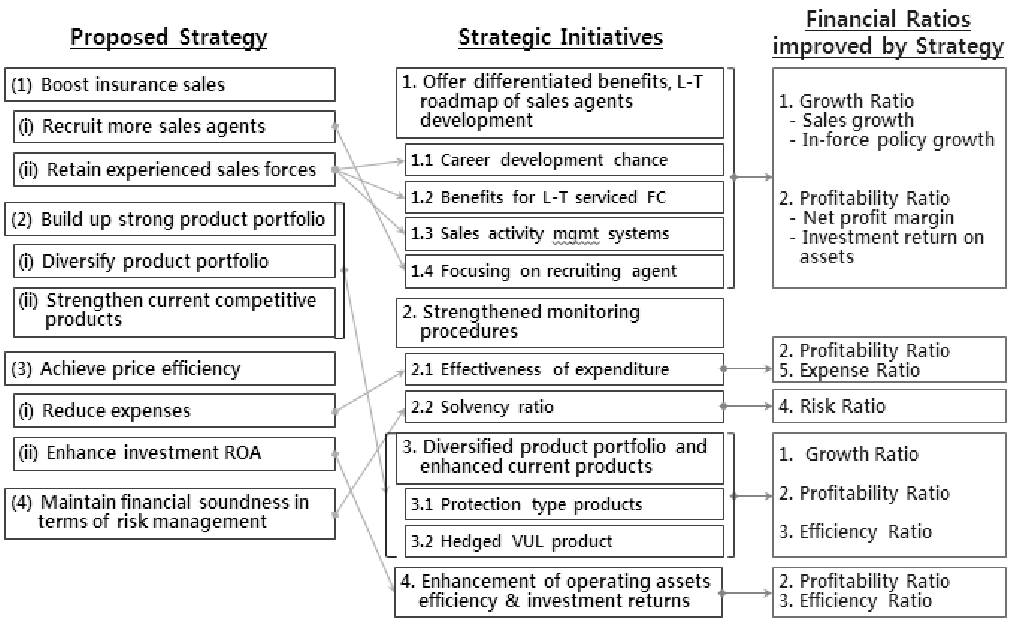
8.3 Financial Ratio which would be Improved by the Proposed Strategy (Mapping of Strategy and Financial Ratio)

Strategic agenda and initiatives have been established mainly from financial ratio analysis perspective based on PERL framework analysis, a strong financial analysis tools, which match internal resources and capabilities analysis for “A” INSURANCE. In this section, we will examine what financial ratio can be influenced and improved by the strategies and strategic initiatives we set up for “A” INSURANCE. As prior researches showed, corporate strategies would affect greatly financial performance of a company, meaning financial ratio would be improved as a result of competitive strategic initiatives, and improved financial ratio and performance will eventually enhance the value of a firm (Sung－Yong Ryu and Dong－Chul Kim 2000 ; Hwa－Deuk Yi 2004).

Financial ratio which can be improved by the strategies and strategic initiatives are mapped in the following Figure 4 ;

Per the Figure 4, we can see that all financial ratios which are covered under PERL framework are mapped with the strategies and strategic initiatives we have established. Based on this mapping, it is verified that corporate strategies would have meaningful influence on financial performance of a company from strategic perspective as prior researches reported.

〈Figure 4〉 Financial ratio improved by the strategies and strategic initiatives



8.4 Proposed Strategy which could Deliver KSF(Mapping of Strategy and KSF)

Which strategic initiative(s) would satisfy what customers want and could deliver KSF is summarised as follows ;

<Table 6> Mapping of Strategy and KSF

	What do customers want?	KSF	Relevant Strategy
(1)	Low insurance premium	• Low costs for competitive product price	Strategy #2
(2)	Wide range of insurance products to cover various possible risks	• Product diversification from protection type, e.g A&H and whole life, to investment, which can cover various risk areas	Strategy #3
(3)	Increasing customer's interest in retirement planning	• Development of a broader annuity insurance	Strategy #3
(4)	Increase wealth	• Development of investment linked product with high performance	Strategy #3 and #4
(5)	Risk adverse but also needs certain level of return	• Development of insurance products which can properly hedge financial losses with reasonable level of return	Strategy #3
(6)	Service quality that satisfies customer needs	• Develop quality sales agent who has in-depth understating on products and sales process and can provide to customer valuable consulting service • Develop L-T competitive compensation scheme to attract quality sales agents	Strategy #1
(7)	Convenient access to sales channels and to insurance products	• Strong sales distribution channels, including strategic partners (FC, GA and BA) • Maintaining Large number of sales agents organization	Strategy #1
(8)	Reliable insurance company	• Improvement in brand awareness and reputation • Low level of customer complaints	Strategy #1 and #2
(9)	Easy to understand product features	• Comply with tightened regulations,	Strategy #2
(10)	Customer's assets and financial interests should be protected	• Optimum risk management framework • Maintain strong RBC ratio and financial soundness	Strategy #2 and #4
(11)	Customer data and information should be protected	• Maintain strong procedures of customer information protection	None

Though #11 KSF is not delivered by any of the proposed strategy, the actions for customer data protection would be strictly required by regulation and, thus, it is believed that "A" INSURANCE would implement the required actions per the regulations. Thus, no additional attention is needed for #11 KSF at this moment.

Ⅸ. Conclusion and the Limitations of This Study

Based on financial ration analysis using PERL framework together with series of analysis using PESTEL and Porter's Five Forces of Competition Framework, SWOT analysis and review of resources and capabilities, we have established meaningful strategies for "A" INSURANCE : (1) Boost insurance sales, (2) Build-up strong product portfolio, (3) Achieve price efficiency and (4) Maintain financial soundness in terms of risk management. In addition, detailed implementation actions per McKinsey 7S Framework and specific KPIs are set up together with timeline to properly track the implementation actions status and to make countermeasures when the original actions encounter difficulties.

It is believed that this strategy development case study could contribute to students' understanding the systematic processes of strategy development using financial ratio analysis under real business environment.

There would be some limitations of this study. External environment and internal situation would keep changing, which could cause "A" INSURANCE business deteriorated or could make the strategic initiatives that have been made through this study not effective. Accordingly, changes in external and internal factors should be monitored and analysed to assess the effectiveness of the proposed strategic initiatives or to set up new strategies to properly respond changing external environment.

And, it would also be possible that the proposed strategies are proven to be unsuccessful due to several reasons. However, more important process would be to perform periodic monitoring to assess the outcomes of the initiatives. If they are proven to not effective, there should be continuous efforts to figure out the problems and root causes of the failure and to identify improvement opportunities. Finally, the revised strategic approaches should be proposed.

The strategic initiatives which are established mainly by key financial ration analysis tool, PERL frameworks, will be achieved per detailed action plans and KPI monitoring, which will improve financial ratio and to ultimately enhance firm's value.

In addition, reorganizational initiative can cause sensitive issues and conflicts between the relevant teams. Great efforts to resolve these issues should be put in place. For example, open communication and productive discussion are essential for successful accomplishment. Sometimes, it takes long period of time to restructure the organisation and achieve the objectives of the reorganisation. Thus, the company should set up countermeasure to cope with potential delay in the organisational restructuring. It is strongly believed that the continuous and consistent efforts from strategic point of view would improve the difficulties which the company is currently facing with and would strengthen the competitiveness of the firm and would ultimately bring the business success in Korea life insurance market.

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재무비율분석을 이용한 “A”보험사 경영전략 수립 사례

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<요 약>

한국 “A”보험회사(이하 “A”보험사)는 2008년 글로벌 경제위기 이후 지속된 마이너스 성장으로 경영성과가 악화되었다. 경영진은 현재의 역경을 극복하기 위해 노력하였지만, 경영상황은 계속 악화되고 있다. 본 사례 연구는 PERL(Performance, Efficiency, Risk, Liquidity)프레임워크을 이용한 재무비율분석을 통하여 경영전략 관점에서 시장 지위를 강화하고 경쟁력을 최대로 활용하는 방법을 모색함과 동시에 “A”보험사의 비즈니스 기회를 탐색하는 것을 목표로 하고 있다. 이를 위해 실제 비즈니스 상황 하에서 기업의 재무비율을 분석하는 방법과 이를 경영전략 수립에 적용하는 방법을 제시함으로써 재무회계를 공부하는 학생들이 재무비율분석을 깊게 이해하는 기회를 제공할 것이다. 특히 본 사례는 이러한 목적을 위한 영어 강의수업에서 활용될 수 있을 것이다.

본 사례분석에서는 경쟁적인 한국 생명보험 산업에서 “A”보험사가 경쟁력을 강화하는 방법을 결정하기 위하여, PESTEL(정치, 경제, 사회, 기술, 환경, 법규제)프레임워크를 통한 거시적인 비즈니스 환경 분석 및 Poter’s Five Forces of Competition Framework을 이용한 미시적인 비즈니스 환경 분석을 통해 기업이 시장에서 성공적으로 생존할 수 있는 중요한 성공 요인(“KSF”)을 식별한다. 이후, PERL프레임워크를 사용한 재무비율 분석을 통해 고객이 원하는 것을 제공할 수 없거나 KSF 달성이 어려운 부분을 확인한다. SWOT분석 및 핵심성공요인을 기반으로 회사의 자원과 역량을 검토하여 최적의 전략적 이니셔티브를 수립한다.

분석 결과, “A”보험사를 위하여 (1) 판매채널 역량 제고, (2) 보험상품 포트폴리오 강화, (3) 최적의 가격 효율성, (4) 위험 관리상의 재무 건전성 유지 등이 경영전략 의제로 제안되었다. “A”보험사는 이러한 전략적 이니셔티브와 구체적인 실행계획을 통해 재무비율을 향상시킬 것이며, 궁극적으로는 기업가치가 제고될 것으로 기대한다.

〈주제어〉 재무비율분석, 경영전략, 전략수립

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