
Article

OPPORTUNITIES & THREATS IN GENERAL INSURANCE INDUSTRY, A CASE IN INDONESIA

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Abstract: The purpose of this study is to discuss the opportunities and threats in the general insurance industry. Departing from the idea that competition in today's business world is getting tougher, every business actor needs to implement an appropriate and effective strategy so that the company continues to exist and even grow. An organization without a strategy, is like doing business without direction, there is no clear identification of ways to achieve goals. So that the success of victory which is the ultimate goal is difficult to achieve. Success is the fruit of strategic planning that is mature, measurable and reachable based on the facts of the resources available in the team and the challenges faced in competition. Thus, in the business world, the application of strategic management inevitably plays an important role for the success of the company. By combining opportunities and threats from the external business environment with the company's internal strengths and weaknesses, a corporate strategy will be created that is responsive to its business environment. So that the company is expected to be able to win market competition and achieve sustainable performance. The writing closed with conclusions and suggestions for further research.

Keywords: opportunities, threats, societal environment, industry environment, strategic management model.

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1 Introduction

Competition in today's business world in each type of industry is getting tighter. Therefore, every business actor must implement an appropriate and effective strategy, so that the company continues to exist and even grow. To be able to create an appropriate and effective strategy, companies must be able to recognize opportunities and threats that exist in their business environment. For this reason, it is necessary to apply Strategic Management in every company.

Strategic Management is a series of managerial decisions and actions that determine the long-term performance of a company. This includes external and internal Environmental

Scanning, Strategy Formulation (strategic planning or long-term planning), Strategy Implementation, and Evaluation and Control. The study of strategic management, therefore, emphasizes the study of external opportunities and threats as well as the strengths and weaknesses of a company. Environmental Analysis is monitoring, evaluating and disseminating information from the external and internal environment to leaders within the company. The aim is to identify the strategic factors – namely the external and internal factors that will determine the future of the company.

External Environment, consisting of variables of Opportunities and Threats that are outside the organization and are usually not under the control of top management. These variables form the context for the company to exist. External Factors consist of two kinds, namely Social Environment Factors and Industrial Environmental Factors (Task Environment). Included in the Social Environment Factors are: Economic Forces, which regulate the exchange of materials, money, energy and information; Technological Forces, which foster the invention of problem solutions; Legal Forces, which allocate powers and provide restrictive and protective laws and regulations; and Sociocultural, which regulates the values and customs of a society. While the Industrial Environmental Factors (Task Environment), namely: New Competitors (Threat of New Entrants), Competition between existing insurance companies (Rivalry Among Existing Firms), Threat of Substitute Products or Services, Bargaining power of Buyers, Bargaining power of Suppliers, Relative Power of Other Stakeholders. Based on the External Environment Analysis, it will be possible to obtain opportunity and threat factors for the industry concerned.

1.1. General Insurance Players in Indonesia

General Insurance Players in Indonesia based on the OJK Indonesia Insurance Report, there are 75 players with 19 of them being joint venture companies. According to regulations, insurance companies are required to fulfill a minimum capital of IDR 40 billion by the end of 2010, meet a minimum capital of IDR 70 billion by the end of 2012 and fulfill a minimum capital of IDR 100 billion by the end of 2014. Most players in the market are small and medium class companies with limited capital. Often they face problems meeting the minimum capital, claims that are outstanding, or lose money so they have to be closed (bankrupt). So that Small and Medium companies must implement appropriate and effective strategies, so as not to be crushed by large companies with large business capital.

1.2. Problems

Some of the problems observed by the author from market conditions, can be summarized in the points below:

- 1) Many Insurance companies in the Loss sector (especially on a Small and Medium scale) were established and did business in the market without using a business strategy.
- 2) Most of these companies only rely on the strength of the Marketing Force, Personal Attachment, and Captive Market in obtaining business. Even though by using the right and effective business strategy, performance targets will be achieved even on an ongoing basis.

- 3) The impact of the absence of an appropriate and effective business strategy, business gains will be limited. Furthermore, because the business portfolio is limited, in the event of a claim, the law of large numbers does not apply. Where the company's Loss Ratio due to claims that occur is far greater than the magnitude of the probability Loss Ratio in this business class nationally.
- 4) Furthermore, because the company's loss ratio is high, the company will have difficulty paying claims, which in the end is the policyholder who is harmed, besides the company will also suffer losses.
- 5) In order for a company to live sustainably, the company must implement an appropriate and effective business strategy, starting with determining the opportunities and threats from the business environment in a precise and comprehensive manner.

The purpose of this paper is to determine the opportunity and threat factors in the insurance industry, especially in the field of general (losses). So that companies can create strategies based on the opportunities and threats available in their business environment.

2. Literature

Strategic Management is a series of managerial decisions and actions that determine the long-term performance of a company. This includes external and internal environmental scanning, strategy formulation (strategic planning or long-term planning), strategy implementation, and evaluation and control. The study of strategic management, therefore, emphasizes the study of external opportunities and threats as well as the strengths and weaknesses of a company. The advantages of Strategic Management include:

- 1) Clearer vision of a company
- 2) Focus more on what's important
- 3) Improve understanding of the rapidly changing environment

The basic model of a Strategic Management consists of four (4) elements (see figure 1.):

- 1) Environmental analysis
- 2) Strategy Formulation
- 3) Strategy Implementation
- 4) Evaluation and control

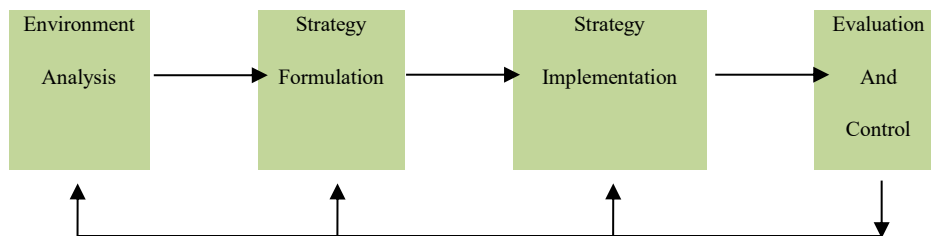


Figure 1. Strategic Management Model

2.1. Environmental Scanning

Environmental Scanning is the monitoring, evaluation and dissemination of information - information from the external and internal environment to leaders within the company. The aim is to identify strategic factors, namely the external and internal elements that will determine the future of the company. The easiest way to carry out an environmental analysis is through a SWOT Analysis. SWOT is an abbreviation used to describe strengths, weaknesses, opportunities and threats which are strategic factors for a company. External Environment, consists of variables of Opportunities and Threats that are outside the organization and are usually not under the control of top management. These variables form the context for the company to exist. Variables can be general forces and trends within the Overall Societal Environment or specific factors operating within the Specific Task Environment of an industry. The internal environment of a company consists of Strengths and Weaknesses that exist within the organization itself and are usually not under the quick control of top management. They consist of the company's resources, capabilities and competencies. Key strengths form the core competencies which a company can use to gain a competitive advantage.

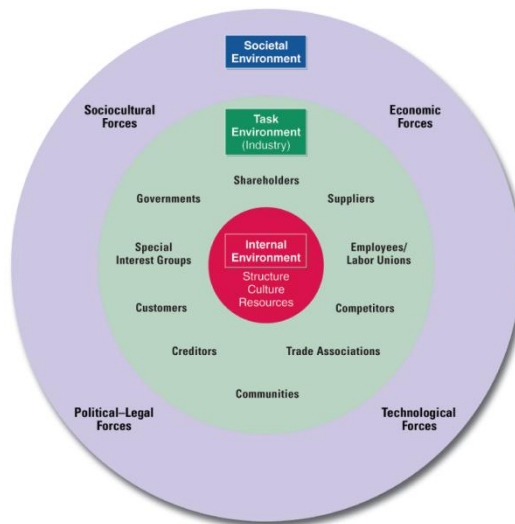


Figure 2. Environment Variables

2.2. Scanning the Societal Environment

Societal Environment includes general forces that do not directly affect the company's short-term activities, but can and often do influence its long-term decisions. These variables are:

- 1) Economic forces, which regulate the exchange of materials, money, energy and information.

- 2) Technological forces, which foster the invention of problem solutions.
- 3) Legal forces, which allocate power and provide laws and regulations that limit and protect.
- 4) Sociocultural, which regulates the values, and customs of a society.

2.3. Scanning the Task Environment

An industry is a group of companies that produce the same products and services. A study of important stakeholder groups, such as suppliers and customers, in a particular company's task environment is part of an industry analysis. Michael Porter, author on competitive strategy, believes that a company is very concerned with the intensity of competition in its industry [1]. The level of this intensity is determined by the basic competitive forces, as shown in Figure 3. Using model figure 3, a large strength can be considered as a threat because it will reduce profits. A small strength, on the other hand, can be considered as an opportunity because it allows the company to earn greater profits. Trends in these competitive forces will determine the intensity of competition in the industry.

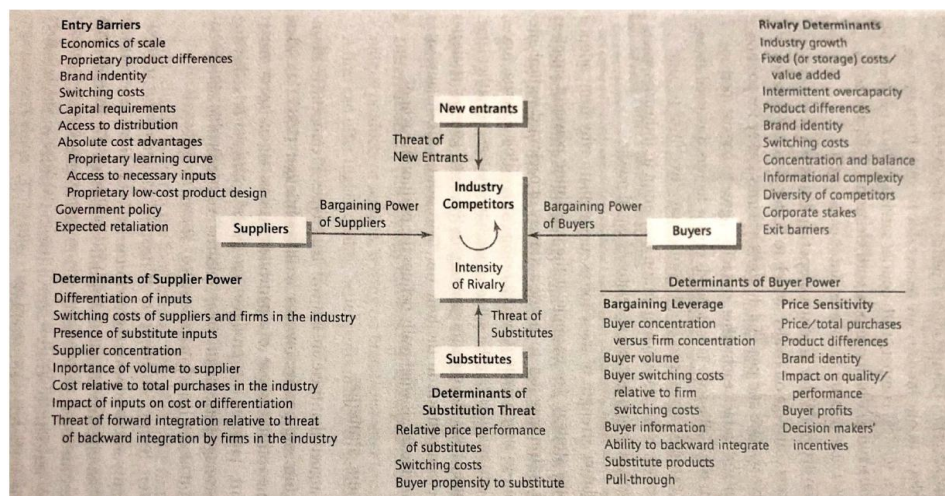


Figure 3. Forces that control industry competition

Porter's competitive analysis model identifies five forces in the organizational environment that affect competition, namely:

- i. The threat of newcomers. An industry like a club where companies gain acceptance by overcoming certain 'barriers to entry', such as economies of scale, authorized capital requirements, and customer loyalty to established brands.
- ii. Bargaining power of the company's suppliers. Suppliers want to charge the highest prices for their products, a power struggle naturally arises between companies and their suppliers. The advantages go to the side that has more options and also less loss if the relationship ends.
- iii. Bargaining power of the company's customers. The company's customers want to lower prices or improve quality. Their ability to do so depends on how much they buy,

how well informed they are, their willingness to experiment with alternatives, and so on.

- iv. The threat of replacement products. There is an old saying that nothing is irreplaceable. Competition depends on the extent to which products in one industry can be replaced by another.
- v. The intensity of competition among competing companies. All the previous factors converged on the rivalry, which for Porter was a cross between active war and peaceful diplomacy. They may attack each other, or secretly agree to coexist, maybe even form an alliance. This depends on the factors discussed above. For example, the threat of substitution can push companies to unite, while great competition can erupt in industries where buyers and suppliers have relatively equal strength.

3. Methods

3.1. Framework for Thinking and analysis

A business model is a company's method of creating income in the current business environment [2]. Therefore, to achieve success in the General Insurance business, the steps that must be taken are as follows:

- 1) Understanding the External environment of General Insurance
- 2) Understand the Social Environment of General Insurance
- 3) Understanding the Industry Environment of General Insurance
- 4) Understanding Opportunities and Threats.

So that the discussion above can be outlined in the image below.

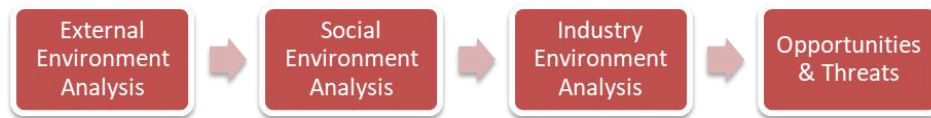


Figure 4. Model Thinking Framework and Analysis

3.2. Method of collecting data

Table 1. Method of collecting data

No.	Stages of Analysis	Required data and info	Sources of data	Methods of data collection
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No.	Stages of Analysis	Required data and info	Sources of data	Methods of data collection
1.	Social Environment Analysis	Trends in economics, technology, legislation, and socio-culture.	newspapers, magazines, books, internet, insurance reports the Ministry of Finance, literature and research results and discussion	Periodically collect relevant data sources and also hold discussions with competent sources as needed.
2.	Industry Environment Analysis	Industry analysis consisting of six factors: Threat of New Entrants, Competition from existing insurance companies, Threat of Substitute Products or Services, Bargaining Position of Buyers, Bargaining Position of Suppliers and Influence of other Stakeholders	Newspapers, magazines, books, internet, insurance reports the Ministry of Finance, literature and research results and discussion.	Periodically collect relevant data sources and also hold discussions with competent sources as needed.

The data needed for this writing is obtained from:

- 1) Primary data obtained with direct data from OJK, Ministry of Finance
- 2) Primary data from AAUI and industry players and others
- 3) Secondary data, obtained from written objects, literature, books, newspapers, magazines, internet, and related research results to obtain information about the company and its industry.

4. Results

4.1. Opportunities and Threats in the General Insurance Industry in Indonesia.

Based on the Social Environment Analysis and Industrial Environment Analysis above, several opportunities and threats can be concluded, as follows:

4.1.1. Opportunities

- 1) People's purchasing power is still quite good.

With fiscal and monetary policies the Government continues to encourage economic growth, despite the global financial crisis. This is realized from the reporting of economic growth in the range of 5% in 2019. So that the potential for people's purchasing power is still quite good, including the potential for purchasing power for insurance.

- 2) The potential for Compulsory Insurance is quite high, which is regulated in regulations or legislation.

In mandatory insurance coverage, policy closure is certain to occur so that insurance companies that can compete well will obtain production. Because it is mandatory, it applies in its entirety to most people or legal entities, so that the number of business portfolios in the market will be large and the potential for premiums will be large.

- 3) The potential for personal insurance for the middle and upper class is quite good. Here, their awareness of insurance is good, where their income is sufficient for various needs, including the need for an insurance policy. The premium potential of this group is quite large and they usually buy products such as residential fire insurance, motor vehicle insurance, personal accident insurance and health insurance.

- 4) The potential for insurance for middle and upper business actors is quite high. The awareness of business actors to insure is quite high, especially in this uncertain economic condition, it is necessary to have financial security that is certain for the continuity of their business. The premium potential is large when looking at the type of product and the amount insured. Here, almost all factory assets and business activities are insured, such as: Property All Risk (PAR) for factory buildings and their machinery and equipment, Machinery Breakdown for machine operations, motor vehicle insurance for operational vehicles, freight insurance for product distribution to customers, personal accident insurance and health for employees and employees.

- 5) Competition in the field of Energy and Financial Insurance is not too tight. The number of players in the energy and financial insurance fields is limited. For general products, almost all 75 players on the market have it, for energy insurance only 10 players on the market, custom bond insurance and surety bond insurance only 43 players on the market and cons bank guarantees no more than 10 players. This is also related to the competency of its human resources, especially underwriters in product know-how for each of these products, so that only companies that have the competence can obtain product sales permits from the Ministry of Finance.

4.1.2. Threats

- 1) High minimum capital requirements.

In accordance with the Government Regulation of the Republic of Indonesia Number 81 of 2008 concerning the Implementation of Insurance Business states that Insurance Companies are required to fulfill a minimum capital of IDR 40 billion at the end of 2010, fulfill a minimum capital of IDR 70 billion by the end of 2012 and fulfill a minimum capital of IDR 100 billion at the end of 2014. So that insurance companies that have not met the minimum capital requirements must receive an injection of funds either from the group, or domestic or foreign investors.

- 2) Fairly high level of solvency requirements

Insurance companies must at all times maintain the achievement of a solvency level limit of 120% from the risk of losses arising as a result of managing assets and liabilities. must be increased again and can be subject to sanctions if they do not comply immediately.

3) Implementation of strict insurance rating standards by large corporate insureds
Through the beauty contest, the insured person for a large corporation requires large paid-up capital, large assets and good company financial performance, so that many insurance companies do not pass the selection.

4) Implementation of a strict security list by insurance brokers
In the security list requirements by insurance brokers, parameters are included: asset value, capital, underwriting capacity, company leadership, production performance, claim payment performance, company financial performance and the experts available at the company. This has resulted in many insurance companies not passing the partner selection, and some were even previously registered as partners, but because within a certain period of time they did not show good performance, they were terminated and no longer become partners.

5) Competition is getting tougher with the entry of investors with strong capital
Investors, especially foreign investors with strong capital, can take over part of the company's ownership shares and are usually made partners with local companies to obtain injections of funds in order to increase capital. This has an impact on local insurance companies that do not have partners in increasing capital, because they will face increasingly fierce competition in the market.

5. Recommendation and Concussion

5.1. Recommendation

Based on the results of observations of the business environment above, it can be concluded that there are several suggestions for improvement in making corporate strategies as follows:

- So that each company properly implements Strategic Management, especially the Analysis of the External Environment which generates Opportunities and Threats
- So that every company understands the Opportunity and Threats in the Business Environment
- Furthermore, that each company conducts an assessment of the Company's Strengths and Weaknesses
- Create a Company Strategy by matching Opportunities and Andaman with Strengths and Weaknesses using the TOWS strategy.
- Create a Program and Budget which is the Implementation of the Company's Strategy
- Implement Action and do Monitoring & Evaluation
- If necessary take Corrective Action

5.2. Conclusion

Based on the results of observations of the business environment above, several conclusions can be drawn as follows:

- The application of Strategic Management in the company's operations is very important in achieving success in business, namely continuing to exist and grow according to the set targets.

- Environmental analysis, namely monitoring, evaluating and disseminating information - information from the external and internal environment to leaders within the company, has a very important role in identifying strategic factors - namely external and internal elements that will determine the future of the company.
- By conducting an External Environment Analysis consisting of a Social Environment Analysis and an Industrial Environment Analysis, you will be able to identify strategic external factors, which are opportunities and threats.
- The EFAS (External Factor Analysis Summary) matrix method can help sharpen external factor analysis carefully and thoroughly to identify opportunities and threats, by weighing each factor based on its importance, and at the same time measuring the company's rating, namely how well the company responds to each these factors.
- It is important for companies to first understand the Opportunity and Threat of the business environment in the General Insurance Industry.
- After understanding it, it is important for every company to conduct an assessment of the company's strengths and weaknesses
- Furthermore, the company can create a Corporate Strategy by matching Opportunities and Threats with Strengths and Weaknesses using the TOWS strategy.
- Further so that the company makes a Program and Budget which is the Implementation of the Company's Strategy
- Then for the Company to carry out Action and carry out Monitoring & Evaluation on a regular basis
- If it is found that performance on a regular basis has not met, the company needs to take corrective action.
- Limitations: that this observation is based on the 2019 Insurance Report which was officially issued by the Regulator in this case the Insurance Directorate of the Ministry of Finance, because the 2020 and 2021 Reports have not been published. But it can be said that the position of competition is still the same among companies.
- Suggestions for future research:
 - 1) Conducting EFAS (External Factor Analysis Summary) exercise in the General Insurance Industry
 - 2) Examining the key success factors in the General Insurance Industry
 - 3) Researching the industry matrix in the Loss Insurance Industry
 - 4) Examining how successful companies implement alternative TOWS strategies, even though they do not have a captive market and large capital.

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Conflicts of Interest: The authors declare no conflict of interest.

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