
Financial Industry: Key Success Factors

**Innovativeness of banks and insurers in
Slovenia**

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Introduction

- Innovation activities in banks and insurance companies in less developed financial markets
 - Increased competition of banking and insurance services (from the independence of Slovenia)
 - Type of ownership: state or domestic owners, only few foreign owners (% is rising)
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Introduction

- Foreign competition:
 - in banking sector has varied over the years;
 - in insurance sector has continuously increased.
 - More aggressive and higher competition in the Slovenian insurance market could be one of the reasons for differences in innovativeness between banks and insurers.
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Research objectives were to establish:

- if foreign competition has forced insurers to be more innovative in comparison with banks;
 - if there is a positive independence between dimension of innovativeness and new banking and insurance services success;
 - if banks and insurers used the innovation as a respond to increased competition;
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Research objectives were to establish:

- how banks and insurers developed internal factors (new service development process, marketing synergy and organizational culture) that influence the success of innovations;
 - differences between banks and insurers in responding to increased competition.
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The research survey

Data collection and sample

- Investigated was the success of new financial services in banks and insurance companies in the Slovenian financial market.
 - The questionnaires about the activities in the new financial services development process and the factors affecting the development process and performance of new services were sent to selected managers in marketing and development departments to different organizational units in banks and insurance companies.
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Data collection and sample

- Each selected manager has received two questionnaires concerning successful and failure new financial services that were developed within last five years.
 - From 130 questionnaires (65 for successful and 65 for failure services) 54 usable questionnaires were collected (response rate 41.54%):
 - 33 for successful and
 - 21 for failed new financial services
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Data collection and sample

- Respondents used a 1-9 point Likert scale to estimate 46 items concerning activities of development process and discussed factors.
 - Managers defined each evaluated financial service in terms of innovation.
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Data collection and sample

- The service could represent:
 - the improvement of the existing financial service (i.e. service modification),
 - newness to the bank or insurance company,
 - newness to the bank or insurance company and customers in the Slovenian market,
 - new-to-the-world financial service.
 - No Slovenian new banking or insurance service was classified in the new-to-the-world service group.
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Measures

- The success of the new financial services was measured by:
 - financial indicator (achieved sales profit) and
 - market indicators (achieved market share, achieved customer satisfaction, new opportunities for further development of similar financial services).
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Measures

- New service development process: measured by 23 activities included in five stages
 - Marketing synergy: measured by 5 items
 - Organizational culture: measured by 12 items
 - Market characteristics: measured by 6 items
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Limitations

- Small number of banks and savings banks (banks) and insurers and reinsurers (insurers) in the domestic market in comparison with high developed financial markets.
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Results

First objective

- **Are insurers more innovative compared with banks?**

Dimension of innovativeness	Share of new services in %			
	(1)	(2)	(3)	(2) + (3)
Banks	11.76	47.06	41.18	88.24
Insurers	32.43	24.32	43.24	67.56

The meaning of numbers in the estimated dimension of innovativeness:

- (1) service modifications – improvement of existing financial services,
 - (2) service newness to the bank or insurance company,
 - (3) service newness to the bank or insurance company and the customers in the Slovenian market
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First objective

- Banks developed more than 20 % more higher innovative new services in comparison with insurers.



Second objective

- **Is there a positive independence between dimension of innovativeness and new banking and insurance services success?**
 - Pearson Chi-square test
 - dependent variable – the new financial services success (1: successful new financial service; 0: failure new financial service);
 - independent variable – the dimension of innovativeness (describing four groups of innovative financial services)
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Second objective

- No Slovenian new banking or insurance service was classified in the new-to-the-world service group.
 - In the Pearson Chi-square test were used only first three dimensions of innovative financial services.
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Second objective

- Pearson Chi-square test between the dimension of innovativeness and new banking and insurance services success

Value: 0.939

Significance: 0.625

- The coefficient statistically not significant
(no significant independence between dimension of innovativeness and new banking and insurance services success)
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Third objective

- **Did banks and insurers use the innovation as a respond to increased competition?**
 - **How they developed internal factors that influence the success of innovations?**
 1. Correlation between investigated factors and success indices.
 2. Discriminant analysis: which factor is a key to the success of new banking and insurance services and mostly distinguishes between successful and failed new services.
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Third objective

- **Correlation between stages of the development process, factors marketing synergy, organizational culture and market characteristics, and success indices:**
 - each factor has different impact on success indices;
 - the strongest correlation between success indices and market characteristics;
 - the correlation is the strongest between the achieved sales profit and market characteristics;
 - market characteristics directly affect the success of new banking and insurance services.
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Third objective

Factor	Market share	Sales profit	Customer satisfaction	New opportunities
Idea generation and screening	0.283	0.321	0.194	0.368
Business analysis and marketing planning	0.383	0.375	0.311	0.393
Service development and testing	0.097	0.118	0.137	0.193
Service launching	0.481	0.520	0.415	0.541
Marketing synergy	0.256	0.412	0.283	0.303
Organizational culture	-0.019	0.204	0.178	0.092
Market characteristics	0.466	0.527	0.443	0.518

Third objective

- Discriminant function: independent variables internal and external factors; a dependent variable the success of new financial services.
 - **Market characteristics** - the most important factor. It is followed by **service launching stage** and **marketing synergy**.
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Third objective

Factors	Discriminant loadings
Market characteristics	0.780
Service launching	0.608
Marketing synergy	0.461
Idea generation and screening	0.338
Business analysis and marketing planning	0.256
Service development and testing	0.123

Third objective

- According to correlation and discriminant analysis the most important success factor is **market characteristics**.
 - The reason for such result could be a small Slovenian financial market with many financial institutions considering the market size.
 - Market size seems to be more important for the smaller market compared with highly developed and larger foreign financial markets.
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Fourth objective

- Differences between banks and insurers in responding to increased competition
 - Determined with t-test for independent samples:
 1. differences between single variables – market characteristics;
 2. differences between factors – stages of the development process, marketing synergy and organizational culture.
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Fourth objective

- Within the factor market characteristics differences between six items for successful banking and insurance services were studied.
 - Means and risk at the 95% confidence interval of the difference for each market characteristic, stages of the development proces, and factors marketing synergy and organizational culture are listed.
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Fourth objective

Items	Mean for B	Mean for I	Sig.
Expanse of the purchasing power in target markets for the new financial service	7.58	6.67	0.154
Degree of market growth for the new financial service	4.73	4.48	0.726
Aggressive competition for the new financial service	7.58	8.10	0.375
Very similar competitive offerings	7.17	5.62	0.073
Informed potential customers about changes of the new financial service	7.17	5.67	0.006
New financial services satisfy clearly expressed customer's needs	8.00	6.95	0.023

Fourth objective

Factors	Mean for B	Mean for I	Sig.
Idea generation and screening	8.00	7.06	0.016
Business analysis and marketing planning	7.44	6.46	0.081
Service development and testing	6.84	4.93	0.031
Service launching	7.36	6.60	0.240
Marketing synergy	7.93	6.80	0.002
Organizational culture	7.12	5.87	0.002

Slovenian financial market

The entrance of foreign financial institutions and responsiveness of domestic banks and insurers to increased competition

Slovenian financial market

- Large banks and insurers from highly developed financial markets penetrate to Slovenian market.
 - They use the strategy of market entry by establishing their own network of foreign branches or affiliates.
 - Some of them enter the market toward consolidation within the financial services industry through mergers and acquisitions.
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Slovenian financial market

- Competition from abroad is looking for new opportunities in the Slovenian financial market mainly through the expansion of sales network and occasionally with innovative ventures of their financial services.
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Slovenian financial market

- In the future banks and insurance companies in Slovenia will be forced to act in at least three possible directions:
 - specialization in order to maintain competitiveness;
 - integration with greater financial cooperations, especially from more developed countries of the European Union;
 - expansion to new markets in South and East Europe that would enable an increased business and institutions growth.
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Slovenian financial market

- Future activities for banks and insurers:
 - intensify competitiveness,
 - update the business and reduce costs,
 - develop new financial services and distribution channels,
 - consolidate visibility.
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Conclusions

The survey results show:

- Innovation in financial services in the Slovenian financial market, according to interviewed managers in banks and insurers, is at the medium high level.
 - Banks and insurers do not develop unique financial services.
 - New services are primarily copies of competitive services from foreign financial markets or already established services of domestic competitors.
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Conclusions

- The success of new banking and insurance services the most depends on their effective launching.
 - The suggestion for banks and insurers trading in the Slovenian market:
 - to focus on launching of new services in the marketplace, because financial and commercial success largely depends on this stage.
 - Effective marketing with the whole marketing mix support is very important for the success.
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Conclusions

- Even the most innovative and qualitative financial services without a proper presentation to potential customers mean a failure for the bank or insurance company.
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Conclusions

- The most important factor that distinguishes between the successful and failure new financial services: **characteristics of the marketplace.**
 - Single bank or insurance company can not affect these characteristics, but it can analyze them and with the relevant information try to create the greatest possible competitive advantages.
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Conclusions

- Banks and insurance companies in Slovenia should:
 - consider particular activities in the new financial services development process,
 - devote special attention particularly to the services launching stage since this is the stage which contributes to the services success the most.
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**Thank You for Your
attention.**
