COMPETITION ANALYSIS OF THE PUBLIC INSURANCE INDUSTRY IN INDONESIA

Nabila Natasha
School of Business IPB University
Jl. Raya Padjajaran Bogor16151
Nabila25natasha@gmail.com
Corresponding author: Nabila25natasha@gmail.com

Abstract

This study aims to analyze the general insurance industry competition in Indonesia. The research method uses a qualitative descriptive approach. This research was conducted at one of the general insurance companies in Indonesia. Data collection techniques were carried out by interview and questionnaire methods. Determination of research respondents using an expert sampling technique. The analytical approach used is Porter's five forces analysis developed by Michael Porter. The analysis results show that all five variables of Porter's power affect the general insurance industry. The variable threat of new entrants has a powerful influence on the general insurance industry. To win the competition in the industry, insurance companies can develop existing products or new products according to the needs of consumers. Companies can also build employee capabilities to minimize the role of brokers in the business.

Keyword: *competitiveness, competitiveness industry, general insurance, porter five forces*

INTRODUCTION

Insurance is one of the non-bank financial services industries that minimize risks that may occur in the future. Insurance is divided into two, namely general insurance and life insurance. According to Robson (2015), general insurance products include insurance for personal use such as motor vehicles, homes, travel, and commercial insurance for businesses such as underwriting, property, and business interruption, while life insurance products consist of health and death insurance. In 2019, insurance companies in Indonesia comprised 54 percent of general insurance and 38 percent of life insurance (Yudistira 2019). Based on data published by Badan Pusat Statistik (2019), the number of general insurance companies until 2019 was 79 companies.

Public awareness regarding insurance philosophy is still considered low. The insurance penetration ratio in Indonesia is currently still below 4%. This value is still small compared to Singapore, which reached more than 8%. So it can be concluded that the Indonesian people still have not used insurance properly. The low penetration rate is also due to insufficient insurance literacy. According to a survey conducted by the Financial Services Authority (Otoritas Jasa Keuangan) in 2019, the insurance literacy index is only 19.4% lower than the existing banking index of 36.12%. The insurance inclusion rate is only 13.15% compared to banking inclusion which has reached 73.88% (Otoritas Jasa Keuangan, 2020).

The world is being hit by anxiety about a virus that can quickly spread through the air, called the Coronavirus or Corona Virus Disease 2019 (COVID-19). On March 11, 2020, the World Health Organization designated COVID-19 as a pandemic. More than 200 countries globally, including Indonesia, face the COVID-19 pandemic (WHO 2020).

The pandemic has resulted in lockdowns in several countries, travel bans, bans on public gatherings, and offices and schools' closure (Babuna et al. 2020).

The COVID-19 pandemic also impacted the insurance business, which was marked by a decrease in premiums at 28 general insurance companies and life insurance companies in Ghana. Claims rates have also increased in general and life insurance companies (Babuna et al. 2020). The COVID-19 pandemic also harmed the stability of the insurance sector in Europe, which was marked by a decrease in the average return to asset (ROA) of insurance companies (Pulawska, 2020). The uncertainty of the long-term impact of the COVID-19 pandemic is forcing insurance companies to face many changes and challenges; however, it does not rule out the possibility of opportunities as they move into a post-pandemic world (Farrell 2020).

The COVID-19 pandemic has had an impact on Indonesia's economic growth. In 2019, Indonesia's economic growth was at 5 percent. Economic growth began to show a downward trend in early 2020. The second quarter of 2020 was a decline in economic growth with a value reaching -5.32%. This is in line with general insurance premium income, which grew negatively by -6.1 percent compared to the same period in 2019 (BPS 2021).

Unstable economic growth during the COVID-19 pandemic affected the underwriting income of the general insurance industry in Indonesia. The COVID-19 pandemic has also impacted the insurance industry in other countries, namely, Ethiopia and India (Worku & Mersha, 2020; Parvathi & Lalitha, 2021). The COVID-19 pandemic negatively impacted and resulted in a decline in premium income, insurance density, and insurance penetration rates in Bangladesh and China (Haque, Mohana, Sultana & Kulsum, 2021; Wang, Zhang, Wang & Fu, 2020).

Economic instability and the negative impact of the COVID-19 pandemic forced general insurance companies to develop strategies to survive and have competitiveness in the insurance industry. The objective of this research are as follows: (1) identify industrial competition in the general insurance industry in Indonesia during the COVID-19 pandemic and (2) determine the right strategy in facing competition in the general insurance industry. The benefit of this research is expected to be used as input and suggestions as a basis for consideration in formulating business strategies to general insurance companies in the future. This research is novel in the conditions faced by general insurance companies when this research was conducted during the COVID-19 pandemic.

LITERATURE REVIEW

Competitiveness is identical to the economic strength of a country or company (Srivastava, Shah & Talha 2006). Competitiveness also shows how a company manages its total competence to achieve prosperity or profit (Garelli 2012). Companies that offer a higher level of competitiveness are assumed to have a competitive advantage (Sigalas 2015). Competitive advantage can be achieved with the right competitive strategy (Porter 1993). In formulating a competitive strategy, first, analyze the conditions of competition in the industry. Industry competition analysis can use Porter's five forces analysis. Porter's five forces analysis can make it easier for companies or organizations to understand strategic implications (Porter 2008).

Insurance is a protection mechanism given if there is a risk in the future against the insured party who previously paid a premium to get compensation from the insurer (Rianto 2012). Insurance can be divided into two parts, namely general insurance or general insurance and life insurance. General or general insurance consists of fire, loss and damage, marine, freight, and credit insurance (Guntara 2016).

Porter's five forces analysis is also used to analyze the competition in the insurance industry in Angola, Greece and Indonesia (Manuel 2016; Yiannakopoulus, Magoutas & Chountalas, 2017; Andriana & Sunitiyoso 2013). Wandebori (2019) and also Prajapati, Lukman and Djohar (2019) researched strategy analysis with Porter's Five Forces analysis and PEST analysis.

RESEARCH METHOD

This study used the descriptive qualitative method. This research was conducted from December 2020 to November 2021. This research was conducted in one of the general insurance companies in Indonesia. The types of data used are primary data and secondary data. Primary data was obtained by filling out a questionnaire with experts in the insurance sector. Secondary data in this study is from literature study data, publications, and scientific journals. The sample selection was determined by one of the purposive sampling methods, namely expert sampling (judgment sampling). Expert sampling is a place to take samples from experts from the field to be studied (Glen 2015). Respondents in this study consisted of three internal respondents and two external respondents.

The analytical technique used in this study is as follows: Porter's five forces. Porter's five forces analysis is used to analyze the industrial environment (micro-environment analysis) and understand the level of competition in a market. According to Porter (1980), the analysis of Porter's five forces consists of three forces, namely the threat of new entrants, the threat of substitute products and the level of industry competition which is categorized as horizontal competition and two other forces, namely the bargaining power of buyers and the bargaining power of suppliers which are classified as vertical competition (Paunescu 2013).

Porter's five forces can make it easier for a company or organization to understand strategic implications (Porter 2008). The following are the steps in carrying out Porter's five forces analysis, namely: **(1) Set indicators of each strength**. According to Porter (2008), each forces has several indicators, which are as follows, (a) Rivalry of competition: number of firms, market growth, barriers to exit, known market leaders, product differentiation and consumer switching costs; (b) Bargaining power of buyers: consumer switching costs, standard products, substitute products, the number of consumers, price-sensitive consumers, and product knowledge; (c) Bargaining power of suppliers: number of suppliers, threat of forward integration, costs of switching suppliers and unique products; (d) Threat of new entrants: product differentiation, customer loyalty, capital requirements and government policies; (e) Threat of substitute products: the price of substitute products, ease of obtaining substitute products, quality of substitute products, and technological development; (2) **Determine the rating value of each parameter with the following criteria**: 1 = not influential, 2 = less influential, 3 = moderately influential, 4 = influential and 5 = very influential; (3) **Determine opportunities and threats from the analysis that has been carried out.** Porter's five forces analysis is often used as an external analysis and is not tied to company resources. Assessing the five forces in determining external factors can help companies develop industry-related strategies to increase competitiveness and profits (Dobbs, 2014). Figure 1 shows the framework of this research.

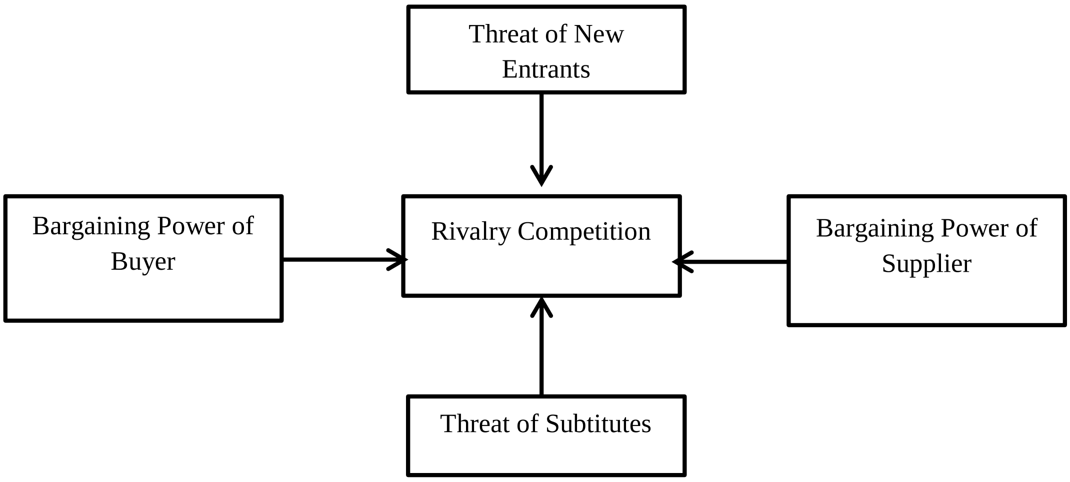

Figure 1. Research Framework
Source: Porter 2008

RESULTS AND DISCUSSION

The results of the analysis of industrial competition show that all variables affect the general insurance industry. The new entrant threat variable has a very high level of influence which can be seen in Table 1. Three of the four parameters on the new entrant threat variable get a value of 5 (very high influence).

Table 1. Recapitulation of Porter's Five Forces Analysis Results

No	Variable	Rating	Result
1	Threat of New Entrant	5	Very Influential
2	Bargaining Power of Buyer	4	Influential
3	Bargaining Power of Supplier	4	Influential
4	Threat of Subtitutes	4	Influential
5	Rivalry Competition	4	Influential

Threat of New Entrant

The analysis results show that the threat of new entrants greatly influences competition and becomes the main threat to the general insurance industry. The level of product differentiation, the amount of capital, and government support are the parameters that get the highest value which can be seen in Table 2.

Table 2 Recapitulation of the results of the analysis of the threat variables for new entrants

No	Parameter	Rating
1	The level of customer loyalty to a product or brand	4
2	Level of product differentiation within the general insurance industry	5
3	Amount of capital required to enter the general insurance industry	5
4	Government support for the general insurance industry	5
	Median	5

Bargaining Power of Buyer

The analysis results show that the bargaining power of buyers affects competition in the insurance industry. The standard products offered by the company are the main parameters that increase the bargaining power of buyers and become a threat to the industry which can be seen in Table 3.

Table 3. Recapitulation of Analysis Results of Buyers' Bargaining Power Variables

No	Parameter	Rating
1	*Buyer switching cost*	4
2	The products offered are standard	5
3	The products offered by the company have substitutes	3
4	Consumers are sensitive to the price offered	3
5	Consumers have extensive knowledge of the product	4
	Median	4

Bargaining Power of Supplier

The bargaining power of suppliers affects the intensity of competition in an industry if the number of suppliers is small, suppliers perform forward integration, the level of consumer switching is high, and the products offered by suppliers are unique. The suppliers referred to in this study are brokers (insurance brokers) and reinsurance companies which can be seen in Table 4.

Table 4. Recapitulation of Analysis Results of Suppliers' Bargaining Power Variables

No	Parameter	Rating
1	Number of brokers and reinsurance companies in the insurance industry	4
2	Suppliers can become distributors (forward integration)	4
3	The level of costs of switching consumers from one supplier to another	4
4	The products offered by the supplier are unique	3
	Median	4

Threat of Substitute

The threat variable for substitute products can increase if the price of substitute products and switching costs decrease. The variable parameters consist of the price of substitute products, ease of access, quality of substitute products, and technological developments which can be seen in Table 5.

Table 5 Recapitulation of Analysis of Threat Variables of Substitute Products

No	Parameter	Rating
1	The price of substitute products is more affordable compared to the products offered by the company	4
2	Ease of buyers in getting substitute products	4
3	The quality of substitute products is better than the products offered by the company	3
4	The level of technological development that can create substitute products	4
	Median	4

Rivarly Competition

The variable of rivalry competition between similar competitors is the most potent variable of the five competitive forces. A competitive market can act as a barrier to entry for new firms to enter the industry. A strategy pursued by one company can be successful only if the company has a competitive advantage in a strategy that a competing company does not carry out. Recapitulation of results of analysis of competition variables between similar competitors can be seen in Table 6.

Table 6. Recapitulation of Results of Analysis of Competition Variables Between Similar Competitors

No	Parameter	Rating
1	Number of companies in the same industry	5
2	Rapid market growth in the industry	4
3	Barriers to exit from the insurance industry	4
4	Market leader known	3
5	The level of product differentiation within the same insurance industry	4
	Median	4

Discussion

Threat of New Entrant

The level of differentiation in the general insurance industry can be low because the companies offer almost the same products or services. Price competition will occur in the industry if the company cannot differentiate the products or services provided from competitors' products. New entrants can be a threat if they offer a different outcome in the industry.

The insurance industry requires a minimum capitalization for new companies who want to enter the industry, at least Rp. 150,000,000,000 as stipulated in OJK Regulation Number 67 of 2016 concerning Business and Institutional Licensing of Insurance Companies, Sharia Insurance Companies, Reinsurance Companies, and Sharia Reinsurance Companies. A minimum capital requirement is a form of regulation created by the government to create healthy competition in the general insurance industry. The government oversees the insurance industry to remain conducive by making new regulations to increase the minimum amount of capital for new and existing companies.

The level of customer loyalty affects the general insurance industry competition but is not a significant threat. The company needs loyal customers to a product or brand to survive and show that the company has a strong product or brand. Customer loyalty will be reduced if the company cannot maintain good performance.

Bargaining Power of Buyer

Community needs will change along with technological developments and changes in people's lifestyles. The insurance products offered by companies in the industry are the same, and there is little product differentiation. Buyers who have extensive knowledge of the product indicate that the buyer knows what product is needed. Buyers who have extensive knowledge will negotiate lower prices and ask for full service from the company.

Consumer parameters are sensitive to price, and the product has enough substitutions to influence competition in the general insurance industry. In general, consumers always want to pay less for the same benefits. Consumers are not price sensitive in the general insurance industry and prefer to negotiate the service to be received rather than asking for a lower price.

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Bargaining Power of Supplier

The supplier's bargaining power variable affects the general insurance industry. The parameters of the number of suppliers, suppliers carrying out forward integration, and the level of switching costs affect the bargaining power of suppliers. They can be a threat to the industry. A small number of suppliers can increase bargaining power because the general insurance industry still relies on the role of brokers and reinsurance companies in running the business. The threat of forward integration by suppliers is still relatively small because the supplier cannot yet become a distributor but does not rule out the possibility that it can become a threat in the future. Likewise, a high level of consumer switching costs will increase the bargaining power of suppliers.

The product parameters offered by the supplier are classified as unique and affect the supplier's bargaining power variable. Suppliers, in this case, brokers and reinsurance companies, cannot create unique products. However, this parameter still poses a threat because some brokers sometimes offer products with more excellent guarantees and lower prices to consumers.

Threat of Substitute

The threat variable for substitute products affects the general insurance industry. Prices of substitute products, ease of access to products, and technological developments can increase the threat of substitute products and become a threat in the industry. Prices of substitute products are more affordable, and easy access to substitute products can influence consumers to switch to competing companies. Rapid technological developments resulted in digital transformation that gave birth to Insurtech. Insurtech combines insurance (insurance) and technology (technology). Insurtech can threaten companies because they offer products that suit customer needs, ease the purchasing process, have affordable prices, and are easy to access because they rely on technology.

Rivalry Competition

Variables of competition between similar competitors affect the general insurance industry. The parameter of the number of companies in the same industry is a factor that can increase competition between competitors in the general insurance industry. In 2019, the number of general insurance companies in Indonesia was 79 companies. The number of companies that are classified as small can increase competition. Companies in the general insurance industry have the same product or service, increasing competition and creating barriers to entry for new firms. The market leader factor is quite influential in the competition between similar competitors. The general insurance industry requires cooperation in sharing the risks of both market leaders and other companies.

Competition in Public Insurance Industry

Based on the analysis of industry competition, the general insurance industry is quite attractive to new entrants. This is because the products offered by general insurance companies are categorized as standard products. The bargaining power of buyers is considered a high influence, and this is because buyers' needs change over time. Buyers need products that are flexible and can be adapted to consumer needs. The bargaining power of suppliers is considered high influence due to the insurance company's demand for brokers to support the company's business. The threat of substitute products is deemed high because the price of substitute products is more affordable and the period is more flexible. Rivalry competition is also considered high influence due to the small number of companies, which only amounted to 79 companies in 2019.

The result of this research is different than the previous research. Andriana and Sunitiyoso (2013) research result indicates all variable in competitive forces is generally weak. The variable that has a big difference is the threat of new entrants. This research suggests that the threat of new entrants has a very high influence, besides in the previous research is a very weak influence. The differentiation can be influenced by the time of research being conducted. The previous research is only considering the established insurance company. On the other hand, this research was considered the conventional insurance and insurtech company. Insurtech companies can be a big threat by the insurance company on this day. Insurtech offers affordable products and easy access because the product can easily be found on the internet. The general insurance companies should make a product differentiation to compete in the industry. The bargaining power of buyers in this research is high influenced as same as Andriana and Sunitiyoso (2013), Manuel (2016) and Yiannakopoulos (2017). The bargaining power of buyers is high because the product offered is standard and the other companies provide the same type of insurance. The bargaining power of suppliers in this research is highly influenced as Yiannakopoulos (2017). The supplier on the general insurance company, brokers and reinsurance companies influenced the competition in the general insurance industry. The threat of forward integration by suppliers is still relatively low because suppliers cannot yet become distributors, but it is possible to become threats in the future. The threat of substitutes and rivalry competition in this research have a high influence as Manuel (2016) and Yiannakopoulos (2017).

CONCLUSION AND SUGGESTION

The analysis of industry competition shows that all variables affect the general insurance industry, with the threat of new entrants having a very high influence. The parameters that affect the general insurance industry are the low level of product differentiation, the products offered are standard, suppliers can become distributors (forward integration), the price of substitute products is more affordable, and the number of companies in the general insurance industry.

The level of competition in the general insurance industry is considered high, and this is because all porter five forces variables affect the general insurance industry. To win a match in the industry, insurance companies can develop existing products or new products according to the needs of consumers. Companies can also build employee capabilities to minimize the role of brokers in the business.

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