PORTFOLIO ANALYSIS – A BASIC INSTRUMENT IN STRATEGIC PLANNING. CASE STUDY ON THE ROMANIAN INSURANCE MARKET

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Practice proved that strategic planning is a necessary process for insurance companies. This process can help companies to adapt more easily to environmental changes. The strategic planning of the activity of an insurance company cannot be realized without a careful analysis of the evolution of the market and without studying the company's market position. A classic model used in the portfolio analysis is the Boston Consulting Group model. In this paper we have used the model for studying the activity of the leader of the Romanian insurance market. In 2009 Alliantz Tiriac had 17 types of insurance in the portfolio. Each class of insurance was considered a strategic business unit. We have studied the insurance portfolio by using secondary data from specialized publications, such as the Romanian Insurance Supervisory Commission. Using the data, we have calculated for Alliantz Tiriac, for each class of insurance, the relative market share. The company was leader on the market for five classes of insurance. The economic crisis had a severe impact on the evolution of the Romanian insurance market. Using the relative market share and the market growth we have identified the "cash cows": there are five classes of insurance in this category, among which the "Insurance for land vehicles (CASCO)" which represented more than half of the sales; the "question marks" and the "dogs". Due to the crisis, a large number of the company's products are in this category and there are no "star" products.
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The strategic planning and the portfolio analysis

Strategic planning is the process through which a company defines its long-term objectives, analyses its situation and sets the strategies and methods by which these could be implemented. This is done on several organizational levels: the superior organizational level, the strategic business unit level and the functional level. (Balaure et al., 2002: 577)

The activity of an insurance company can be planned at the level of each strategic business unit. A strategic business unit (SBU) is a division of the company, which has a separate mission and separate objectives, and which can be planned for independently of the other divisions (Kotler et al., 1998: 1114).

The strategic business unit can be a brand or an insurance product of the company (for small and medium size enterprises), an insurance category, for instance: mandatory motor third party

liability insurance (Petrescu, 2005: 272). The activity portfolio of a company is formed of the totality of its strategic business units.
The models of portfolio analysis allow for the classification of strategic business units (SBUs) and for their analysis. Function of this analysis, the manager can establish, avoiding a subjective approach, the most suitable strategy for each strategic business unit, can determine the profitable strategic business units, spot the ones he needs to invest in and the ones he should give up on.
However, these models cannot be considered a universal remedy, an ideal means of diagnosis, their role being to help the manager understand the situation of each strategic business unit.
There are several analysis models, the most well-known being: the Boston Consulting Group I model, the General Electric (McKinsey) model, the Arthur D. Little model, the Boston Consulting Group II matrix.
The models of portfolio analysis have 'developed the analytical and strategic capacity of managers' (Kotler, 1997: 119) and thus the quality of strategic planning has increased. It is the reason for which these are used by 75% of the first 500 top companies in the world (Kotler et al., 1998: 123).
The models of portfolio analysis offer a clear image of the activity of the company, indicating whether it has a well structured portfolio.
Besides the numerous advantages resulting from the use of the models of portfolio analysis, there are a series of disadvantages, among which the most important are the following: the methods refer to the current products of the company, as it cannot consider the products which are going to be launched, the number of indicators used is limited (especially in the case of the Boston Consulting Group I matrix), and these are not the only relevant indicators for the situation of the company on the market and the use of the models can be difficult.

The Boston Consulting Group Model
The BCG model (the growth - market share matrix) is based on the idea that the growth rate of the market and the relative market share are the main factors influencing the market strategy of the company. For each criterion, the BCG specialists have chosen a differentiation ceiling. For **the relative market share** the differentiation ceiling is the value 1.00 of the relative market share, value function of which products are divided into leader position products and non-leader products. Regarding **the market growth rate**, the average growth rate of the market has to be taken into consideration. It will help make the distinction between a quickly growing market and a slowly growing one, or one in stagnation or decrease. In the initial matrix, the average value of the growth rate was of 10%.
Function of these two criteria, the products are positioned in one of the four categories of the BCG model: 'question marks', 'stars', 'cash cows', or 'dogs'.

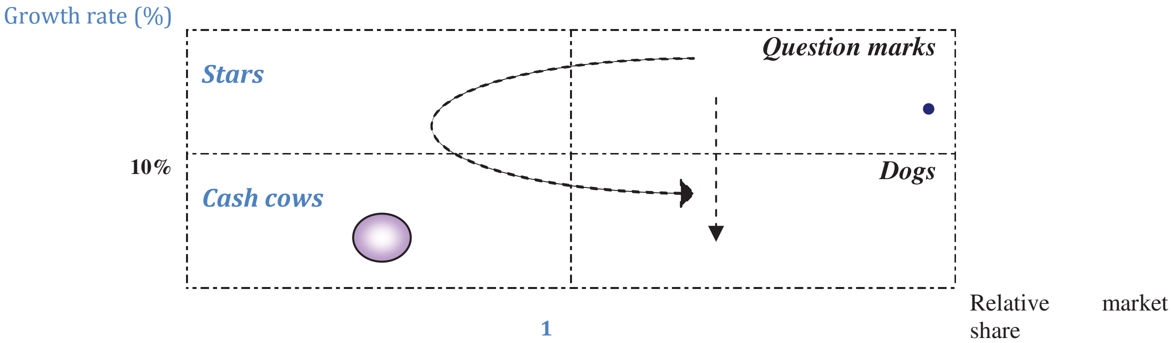

Figure 1. Boston Consulting Group Matrix

When a company launches a new product on the market it enters the 'question marks' category. If it does not succeed in becoming market leader, the product is categorized as a 'dog'. If it is successful and becomes a leader, the product enters the 'stars' category, and as the market growth rate decreases, it enters the 'cash cows' category. Finally, due to innovations brought to competing products, the product may become a 'dog'. The features of the four groups of products are (Petrescu, 2005: 286):

1) The products in the '**cash cows'** category are certain values, which bring profits and supply cash for financing the products in the other categories. These products contribute to the development of the company.

2) The products in the **'stars'** category contribute to the increase in the turnover of the company and to improving its image. These products require investment to maintain or increase their market share.

3) **'Question marks'** are products whose market is developing, the products being though unable to reach supremacy on the market. Their future evolution is uncertain and requires liquidities to ensure their financing. If they have positive perspectives, the company should invest in these products, if not they should be eliminated from the company's product portfolio.

4) The products in the **'dogs'** category do not usually contribute to obtaining a substantial profit or to using it for the development of the company. These are products that the company should eliminate from its portfolio, unless other strategic interests intervene.

The BCG analysis in the ALLIANZ –ȚIRIAC case on the insurance market in Romania

Function of the type and nature of the risks insured, the Romanian market has two important insurance categories: general insurance (divided in 18 insurance classes) and life insurance (divided in 6 insurance classes). Numerous insurance classes were affected by the crisis in 2009 and 2010.

The evolution of the insurance market was ascending till 2008, but the crisis had in 2009 and in 2010 an important impact on the evolution of the gross written premiums in insurance contracts, so in 2009 compared to 2008 the nominal decrease was -0.74% and the real decrease was -5.24%, and in 2010 compared to 2009 the nominal decrease was -6.36% and the real decrease was -13.26% - see Table 1.

Table 1. Development of gross written premiums in insurance contracts 2005-2010

Years	Volume of gross written premiums (lei)	Volume of gross written premiums (mil. Euro) *	Nominal growth compared to the previous year %	Real growth %	Inflation rate %
2005	4,417,165,819	1201.26	27.07%	17.01%	8.6%
2006	5,729,284,541	1694.20	29.70%	23.68%	4.8%
2007	7,175,789,699	2033.83	25.25%	17.53%	6.57%
2008	8,936,286,505	2242.48	24.53%	17.15%	6.3%
2009	8,869,746,957	2097.86	- 0.74%	-5.24%	4.74%
2010	8,305,402,152	1938.34	- 6.36%	-13.26%	7.96%

Sources for data: CSA, 2011, 2006.

** computed function of the leu/Euro exchange rate 31 Dec. 2005: 3.6771; 2006: 3.3817; 2008: 3.985, 2009: 4.2282; 2010: 4.2848 (http://www.cursbnr.ro/arhiva-curs-bnr)*

In 2009, the company ALLIANZ - ȚIRIAC ASIGURĂRI S.A. was market leader with a total market share of 14.50%, followed by OMNIASIG VIG S.A. with 12.56% (CSA, 2010: 99). On the general insurance segment, ALLIANZ – ȚIRIAC was the leader in 2009 with a market share of 16.55%, followed by OMNIASIG VIG S.A. with 15.39%, while on the life insurance segment the leader was ING ASIGURĂRI DE VIAȚĂ S.A. with a 32.37%, market share, Allianz having a 5.38% share.

In 2010, ALLIANZ – ȚIRIAC loses its leadership position on the Romanian insurance market, coming second, with a market share of 12.29%, ASTRA taking the first place with a market share of 13.04% (CSA, 2011: 113). On the general insurance segment, ALLIANZ – ȚIRIAC had a market share of 14.14% and on the life insurance segment, ALLIANZ – ȚIRIAC had a market share of 4.9% in 2010.

The situation of the company ALLIANZ – ȚIRIAC on the Romanian market in the period 2008-2010 is presented in Table 2.

Table 2. Development of gross written premiums in insurance contracts for ALLIANZ – ȚIRIAC - 2008, 2009, 2010, lei and %

Type of insurance	Premiums 2008 lei	Premiums 2009 lei	Premiums 2010 lei	2009/ 2008 %	2010/ 2009 %
GI	**1,278,805,131**	**1,198,250,654**	**938,804,184**	**-6.3%**	**-21.7%**
I	7,800,178	7,410,062	6,311,270	-5.0%	-14.8%
II	10,397,193	9,788,820	2,399,224	-5.9%	-75.5%
III	786,950,298	717,812,565	505,539,288	-8.8%	-29.6%
IV	0	0	0	-	-
V	2,217,460	218,984	-79,243	-90.1%	-136.2%
VI	49,672	52,836	1,211	6.4%	-97.7%
VII	9,993,906	9,037,500	4,885,881	-9.6%	-45.9%
VIII	173,571,310	178,852,236	163,045,172	3.0%	-8.8%
IX	41,361,583	10,851,100	4,932,745	-73.8%	-54.5%
X	197,525,734	230,465,259	222,415,536	16.7%	-3.5%
XI	6,042,027	1,363,718	510,441	-77.4%	-62.6%
XII	356,334	160,382	10,839	-55.0%	-93.2%
XIII	32,734,157	24,913,621	22,661,304	-23.9%	-9.0%
XIV	7,007,419	4,382,854	-3,965,984	-37.5%	-190.5%
XV	2,729,124	588,195	1,310,919	-78.4%	122.9%

XVI	0	0	0	-	-
XVII	0	0	0	-	-
XVIII	68,736	2,352,522	8,825,581	3322.5%	275.2%
LI	**105,577,722**	**87,631,607**	**81,594,905**	**-17.0%**	**-6.9%**
I	39,818,076	39,553,214	37,901,405	-0.7%	-4.2%
II	0	0	0	-	-
III	65,759,646	48,078,393	43,693,500	-26.9%	-9.1%
IV	0	0	0	-	-
B1	0	0	0	-	-
B2	0	0	0	-	-
Total	**1,384,382,853**	**1,285,882,261**	**1,020,399,089**	**-7.1%**	**-20.6%**

Legend: *GI = General insurance, LI =Life insurance,*

General insurance is divided in 18 insurance classes: I. Accident and health insurance (including work related accidents and professional diseases), II. Health insurance, III. Land transport vehicles insurance (other than railroads), IV. Railroad transport insurance, V. Air transport insurance, VI. Marine insurance (including maritime, lake and rivers transport means), VII. Goods in transit insurance, VIII. Fire and other natural disasters insurance, IX. Other goods insurance, X. Third party motor liability insurance, XI. Third party liability insurance for air transport, XII. Third party liability insurance for maritime, lake and rivers transport means, XIII. General third party liability insurance, XIV. Credit insurance, XV. Collateral insurance, XVI. Financial loss insurance, XVII. Legal protection insurance, XVIII. Assistance of persons in difficulty during travel or leave of domicile or permanent residence insurance.

Life insurance is divided in the following insurance classes: I. Life insurance, annuities and supplementary life insurance, II. Marriage insurance, birth insurance, III. Life insurance and annuities which are tied to investment funds, IV. Permanent health insurance, B1. Accident insurance (including work accidents and professional diseases), B2. Health insurance.

Sources for data: CSA, 2009, 2010, 2011, own computations.

For a retrospective analysis of the product portfolio of ALLIANZ – ȚIRIAC on the Romanian market in 2009 we have used the BCG method. The indicators used for the BCG analysis are:

- Rsi - relative market share, which was computed by comparing the gross written premiums for an insurance class of ALLIANZ – ȚIRIAC in 2009 to the gross written premiums for the respective insurance class of its main competitor;
- Ri (%) - the growth rate of the market for each insurance class,
- Sii (%) - the share of the gross written premiums for an insurance class i of ALLIANZ-ȚIRIAC in total gross written premiums for ALLIANZ – ȚIRIAC in 2009.

Table 3. ALLIANZ –ȚIRIAC on the insurance market in 2009

Type of insurance	Premiums ALLIANZ – ȚIRIAC 2009 (lei)	Premiums Main Competitor 2009 (lei)	Relative share for the insurance class i for ALLIANZ 2009 Rsi	Share of the insurance class i in total insurance for ALLIANZ 2009 Sii (%)	Alliantz growth rate for the insurance class i 2009/2008 RAi (%)	Market growth rate for the insurance class i 2009/2008 Ri (%)
AG	**1198250654**	**1114407407**	**1.0752**	**93.19%**	**-6.3%**	**2.5%**
I	7410062	8386952	0.8835	0.58%	-5.0%	0.7%
II	9788820	9712104	1.0079	0.76%	-5.9%	-11.9%
III	717812565	635165532	1.1301	55.82%	-8.8%	-6.4%
V	218984	13631967	0.0161	0.02%	-90.1%	0.5%
VI	52836	9696202	0.0054	0.004%	6.4%	31.3%
VII	9037500	8832564	1.0232	0.70%	-9.6%	-7.0%
VIII	178852236	143322937	1.2479	13.91%	3.0%	10.0%
IX	10851100	38401370	0.2826	0.84%	-73.8%	-21.3%
X	230465259	289760090	0.7954	17.92%	16.7%	22.1%
XI	1363718	20651261	0.0660	0.11%	-77.4%	-10.3%
XII	160382	6370492	0.0252	0.01%	-55.0%	98.1%
XIII	24913621	17285077	1.4413	1.94%	-23.9%	5.5%
XIV	4382854	69483319	0.0631	0.34%	-37.5%	-39.3%
XV	588195	24834711	0.0237	0.05%	-78.4%	137.1%
XVIII	2352522	11164311	0.2107	0.18%	3322.5%	-12.0%
AV	**87631607**	**527059032**	**0.1663**	**6.81%**	**-17.0%**	**-12.8%**
I	39553214	220856588	0.1791	3.08%	-0.7%	-21.7%
III	48078393	303221943	0.1586	3.74%	-26.9%	8.4%
Total	**1285882261**	-	-	**100.00%**	**-7.1%**	**- 0.7%**

***Legend**: GI = General insurance, LI = Life insurance*

Sources for data: CSA, 2009, 2010, own computations.

The main classes of insurance as share of the premiums in total insurance premiums of Alliantz Țiriac are: class III Casco, representing over 55% from the total insurance premiums of the company, class X: Third party motor liability insurance (almost 18% from the company premiums) and VIII Fire insurance representing 14% from the total insurance premiums of Alliantz Țiriac. The company was leader in 2009 for class III Casco (with a relative market share of 1.13) and VIII Fire insurance (1.25), and had an important relative market share for class X: Third party motor liability insurance (0.8). Alliantz change rate for the class III Casco was negative (almost 9% decrease compared to the previous year) and the company growth rate for the class VIII was of 3%, both products being 'Cash cows'. The growth rate for Alliantz for the class X: Third party motor liability insurance was of 16.7% (inferior to the market growth rate of 22.1%), this class being a 'Question marks'.

For Alliantz the difficult situation on the market is due in principal to the negative evolution of the class III Casco.

The insurance types in the 'Cash cows' category are leader products, valuable for the insurance society, which should be exploited. These are: II Health insurance, III Casco, VII Goods in transit insurance, VIII Fire insurance, XIII Third party general liability insurance. The Class III Land transport vehicles insurance (Casco) held the largest share in the company portfolio, 55.82%, but the class has recorded a significant decrease on the market.

The question marks products that should be developed by the company are the ones from class X: RCA, with a relative share of 0.8 and with a share of the gross written premiums in total gross written premiums of 17.92%.
Due to the crisis, over half of the company's strategic business units are in the 'dogs' category. An unfavorable element for Alliantz is that there are no products in the 'stars' category.
However, this analysis is not sufficient to establish the future of products, as the BCG analysis can be only used as a guide; in order to have a correct and complete image, we should analyze the activities portfolio considering other determining external factors for the evolution of a market, such as: the size of the market, the profit margin, the intensity of competition, technological requirements, social, political and legislative factors, the seasonality and cycle of demand etc., as well as factors related to the potential of the respective insurance class, such as: the quality of services, the competitiveness of prices, the quality of management, of personnel, the distribution network, the efficiency of promotion and of sales.

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