Corporate social responsibility in the era of the changing business insurance market

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Abstract

The development of corporate social responsibility (CSR) mainly results from the changes in perceiving the role and function of enterprises in the environment. In the literature we can encounter the view that operations of enterprises should concentrate not only on the realisation of basic initiatives but also on undertaking a number of ventures to improve social and environmental conditions. It means that enterprises should exert positive impact on the environment (both internal and external/closer and farther one). In this paper the Author attempts at analysing CSR in relation to the insurance service sector. Insurance institutions, as the main entities of the insurance service sector, are the institutions of public trust which should operate in accordance with fundamental principles of business ethics. The aim of this paper is to analyse CSR and its impact on internal and external environment of the insurance service sector and to present the tools used to assess the results of actions in terms of CSR in the sector of insurance services. Its methodological aim is to create a model of quality of insurance service sector. Whereas the application aim is to prepare materials and conclusions to improve the operations of business environments in the insurance market. The results presented come from Author's own scientific research conducted within the framework of research projects. The article uses the methods of descriptive and quantitative analysis, as well as comparative analysis. The results of the survey conducted in the years 2010-2014 serve as primary sources.

1 Introduction[1]

An enterprise in market economy produces goods which generate the highest returns using techniques which assure the lowest costs. A modern enterprise is an independent economic entity, identified in terms of economy, technology, organisation and law, established in order to meet the needs of a customer in the market and achieve permanent gains. The entity management makes decisions independently and at their own risk. It is the basic element of economic life and, regardless of the form of ownership and organisation structure, it is characterised by:

1. Its aim of activity;
2. Its economic independence (an enterprise has separate assets);
3. Legal distinctness;
4. Organisational distinctness;
5. Separate area in which it is located.

The object of activity of an insurance company is to provide insurance cover, i.e., be ready to pay the insurance benefit and, in the event of insurance event having occurred, to pay insurance compensation[2] defined in the insurance contract. According to the Author, *an insurance institution is an economic organisation, capable of providing insurance services which meet the expectations of customers able to buy them directly or indirectly (through an intermediary – an agent, an insurance broker) for the price which meets the expectations (needs) of customers and allowing it to achieve a positive result in the form of a non-negative financial result.*

The article constituted the first part in the series of papers on corporate social responsibility in the insurance service sector, based on the analysis of foreign and Polish literature. Here, the Author uses descriptive and qualitative methods of analysis as well as comparative analysis. Next papers of the series will present the results of surveys conducted in the years 2010-2014. The aim of this paper is to analyse corporate responsibility and its impact on the closer and farther environment of insurance service sector, and to present indicators of assessment of the results of corporate responsibility activity in the insurance service sector. Whereas, the application aim is to prepare materials and conclusions to improve the operations of business environments in the insurance market. The results presented are the result of Author's own scientific research conducted within the framework of research projects.

2 Insurance company environment

The object of activity of an insurance company is to provide insurance cover, i.e., be ready to pay insurance benefit and, in the event of insurance event having occurred, to pay insurance compensation defined in the insurance contract.

Every insurance company operates in a specific environment. It consists of elements the company has little or no impact, and which must be known and analysed, as well as their impact on company own decisions and actions must be anticipated.

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[2] Insurer's benefit means to pay, particularly, in case of property insurance, a defined compensation for damage occurring as a result of an event provided for by the contract, and in case of personal insurance – an agreed sum of money benefit or another compensation if the accident provided for by the contract occurs in the life of the insured person. Art. 805 § 2. Of the Civil Code.

According to K. Ortyński (compare: MONKIEWICZ, 2003) the environment of an insurance institution can be examined as:

1. General (macroeconomic) environment (makroekonomiczne) – including the natural environment and demographic, legal, economic, technological, social, international and cultural dimensions.
2. Competitive environment – related mainly to the most serious (current and prospective) competitors, both on the demand side, as well as on the supply side.
3. Own (operational) environment – products, markets and customers, i.e. the elements having a direct impact on an insurance institution.

3 The aim and importance of corporate social responsibility in the insurance service sector

In order to talk about corporate social responsibility[3], first of all it is necessary to familiarise oneself with the term "responsibility" (compare: HYS, 2014). According to A. Jedynak, „responsibility" is *"the readiness to account for the effects of one's own actions";* a relation which consist of the subject, the instance body), and the ground for responsibility. The Author writes that in order to make responsibility exist, some conditions have to be fulfilled such as individual freedom or freedom to make decisions.

The literature says that social responsibility is also called the responsibility for shaping the future (FILEK, 1998). It is the internal responsibility *ex ante – i.e.,* that the basis for taking proper actions by an individual with reference to future events is the sense of obligation, or moral principles by which an individual is guided. Simultaneously, this individual is for him/herself an instance discharging from fulfilling the obligation.

The essence of Corporate Social Responsibility (CSR) is the activity of the company (including insurance company) far exceeding good practice. A socially responsible company is a company which includes in its activities the needs of a widely understood group of beneficiaries/stakeholders (ROK, 2004). It is defined as competence, owing to which the company at the stage of building its strategy willingly accounts for social interests, environmental protection, as well as the relations with different groups of stakeholders. Being responsible does not mean only meeting all the formal and legal requirements but, apart from that, also increased investment in human resources, environmental protection and relations with the company environment, i.e. willing commitment. Social responsibility is a process in which companies manage their relations with various stakeholders who may have a real impact on the success of the economic activity; therefore, they should be treated as investment and not cost. Business responsibility is an effective management strategy which, through the social dialogue and at the local level, contributes to the increase in competitiveness at the global level and, also, to creating conditions for sustainable social and economic development.

Summing up the above deliberations, according to the Author, a socially responsible business *(as recently, simply responsible businesss), is the one which in its profit-oriented activity takes into account the rights of stakeholders in their three dimensions*. In other words, *responsible business does not mean meeting all the formal and legal requirements. It does not refer to the simplest forms of philanthropy or sponsoring various cultural events, i.e., giving money away. Responsible business is a strategic and long-term approach to the company management process, based on the principles of social dialogue and looking for solutions beneficial for all the stakeholders.*

Thus, responsible business is to:

1) willingly consider economic, legal, social, ethical and ecological aspects in the economic activity,

2) make permanent gain while, simultaneously, to wisely build relations with stakeholders and consider their rights/opinions,

3) provide services and products in such a way that it does not disturb the ecosystem, is a functional whole, where there is a constant exchange of matter between biocenosis and biotope,

4) build and implement company management strategy processed, social commitment which exceeds legal obligations, for the welfare of all the citizens, in compliance with the socially accepted ethical standards,

5) make a commitment to the sustainable development by cooperating with central authorities, business and local community in order to enhance the quality of life of all the citizens.

6) have a sense of responsibility for the stakeholders, the natural environment and the success of the economy,

7) care for the development of employees, the employment growth (including the groups „excluded" in the labour market), and the pro-ecological investments.

4 Responsibility in the insurance service sector

The foundation of sustainable development and security of the financial market is the ethical dimension of its participants. It is extremely important that customers can feel confidence towards the institution to which they entrust their resources and which realises the tasks connected with their turnover and flow, as well as towards intermediaries whom they contact directly. The importance of applying good practices to increase market transparency and build mutual trust is appreciated both by market regulators and by its participants.

Insurance institutions are institutions of the financial market recognised as the institutions of the highest trust. The need for exceptional trust between the service recipient (customer) and the service provider (insurance institution) comes from the credibility of information flow between both parties of the insurance contract. The insurance contract itself is considered the contract of the highest trust (ORLICKI, 2010), which makes it obligatory for both parties of the contract to act with due diligence, on the one hand during its execution and, on the other hand, during the realisation of the obligations resulting from it. Bearing in

3 In the literature the corporate social responsibility can be named "corporate responsibility" or "corporate citizenship".

mind the fact that the insurance contract is consensual[4] and is a contract based on mutual trust[5], the customer's trust to an insurance institution refers to the fact that the insurer will meet certain formal, organisational, legal and financial requirements, while the insurance company trusts that any information provided by the insurer is accurate, hence there is nothing which could have an impact on the probability of an event occurring.

Customers' trust to insurance institutions results from the function played by insurance in the social and economic system of the state. In the literature (HANDSCHKE, 2001) we can encounter the following functions of insurance:

1) Insurance (compensation) cover, meaning the readiness of the insurance institution to take over the effects of risks,

2) Preventive, leading to the decrease in possible fortuitous damage, capital accumulation,

3) Educational, connected with the increase in insurance awareness in the society,

4) Stimulating, which causes the increase in the technological development growth in various sectors of economy.

Moreover, the reason why customers' trust to insurance institutions plays such a important role is the specificity of an insurance company and the features of insurance services (PRZYBYTNIOWSKI, 2013), which also include intangibility, perishability, inseparability of service and its supplier, heterogeneity, impossibility of purchasing ownership rights to the service, information asymmetry.

4.1 Measurable aims of activity of socially responsible companies

For many years attempts have been made aimed at creating formal regulations facilitating the creation of a strategy and, then, making it possible to independently assess the actions in the area of social responsibility conducted by economic entities (compare: EPSTEIN, ROY, 2001).

Typical CSR regulations include:

1. The ISO 26000 *Guidance Standard on Social Responsibility* – is a guide presenting the idea of social responsibility and the guidelines for its practical application. Unlike most ISO standards, it is not a technical standard. ISO 26000 is universal and consistent with many other CSR standards.
2. The *Global Compact Programme*. It was launched in 2000. It is a collection of good practices based on fundamental principles resulting from the Universal Declaration of Human Rights, the Charter of Fundamental Rights of the European Union and Agenda 2153 (ADAMCZYK, 2009).
3. Social Accountability 8000 (SA 8000). It is related to the quality standards (ISO 9001) and environment standards (ISO 14001). It is present worldwide.

As A. Carroll wrote, social results should be subject to measure as it is an important issue both for business and for the society, and the possibility of measuring it will only make its importance visible" (WRONKA, 2011; HYS 2014). To make the assessment of actions undertaken by a responsible enterprise binding, an appropriate CSR strategy must be reflected in measureable aims of its activity (EPSTEIN, ROY, 2001). An example of it may be a level of expenditure on social programs for employees or investment programs.

While analysing the literature one can notice some problems in measuring the results of social activities. It results in creating alternative methods of assessing this activity. They can also include stock market indices of socially responsible companies, surveys or case studies (EPSTEIN, ROY, 2001). Such tools may include: GRI Guidelines, Dow Jones Sustainability Index and RESPECT Index.

1. Global Reporting Initiative (GRI). A non-profit organisation established in 1997 which promotes the idea of sustainable development and provides companies and organisations with complex standards of reporting in this area.
2. Dow Jones Sustainability Index (DJSI). Launched in 1999, an index of 2500 companies which in their strategy include actions related to social responsibility. The company position in the index depends on the total number of points collected in a detailed survey, which examines various aspects of company operations (further: ADAMCZYK, 2009).
3. RESPECT Index[6] – is a Polish answer to DJSI. It is the first in Poland stock market index of responsible companies (PRZYBYTNIOWSKI, 2012). One of the basic aims of the RESPECT Index is to select companies listed at the Stock Exchange which are managed in a responsible way and which take into account the concept of sustainable development. As of today, the RESPECT Index includes 23 companies, one third of which are financial companies (including PZU).

In the analysed literature, the tools described above may be used to assess any company. However, it must be noted that there are no uniform measures (like the well-known financial indicators) which could assess the results of social activity in a uniform way. According to M. Wronka (2011), for the needs of company's own reporting, every company should define the most adequate indicators. In line with the Author, business responsibility measures should be easy to measure and should allow the results to be compared in time (WRONKA, 2011). Here, a question must be asked whether creating such measures by each individual company is necessary. According to other authors, such a solution would make it difficult to compare the results achieved by various companies. Perhaps such indicators should be developed for a given sector of economy.

4 i.e., an insurance contract comes into effect by unanimous declaration of will of the parties entering into insurance: the insurer and the policy holder.

5 i.e., it must be remembered that an insurance contract is executed by parties of the insurance contract who must have special confidence in each other.

6 RESPECT is the acronim of the following words: responsibility, ecology, sustainability, participation, environment, community, transparency [www.odpowiedzialni.gpw.pl: retrieved: 02.05.2015]

4.2 Social Responsibility Indicators for insurance companies

Bearing in mind the basic aim of this paper, below the Author intends to present social responsibility indicators for companies of the insurance sector. This attempt was inspired by the works of I. Ferrell, O.C. Maignan [2000, 2001], who divided CSR alternative measurement methods, pointing to three main groups: assessment of experts, surveys carried out among managerial staff and indicators.

5 Economic Indicator

$$We = \frac{\text{Ni}}{\text{Spb}} \quad (1)$$

where:
EI – Economic Indicator
IE – investment expenditure
GPW – gross premium[7] written

$$We = \frac{\text{Ni}}{\text{Nsob}} \quad (2)$$

where:
EI – Economic Indicator
IE – investment expenditure
CSRIE – socially responsible business investment expenditure

These indicators inform which part of financial resources of insurance institutions is allocated for investment connected with CSR.

Bearing in mind the concept of insurance, insurance institutions should conduct research connected with developing procedures and, consequently, indicators of early warning and showing the relationship (the cause-effect relation) between specific natural, social and economic phenomena [compare: www.csr.parp.gov.pl/files/74/455/14301.doc]. This indicator can help to estimate the size of possible events practically and work out operational procedures for them.

$$Wwo = \frac{\text{Ni}}{\text{Nbzpse}} \quad (3)$$

where:
EWI – Early Warning Indicator
IE – investment expenditure
ERnse – expenses on research connected with natural, social and economic phenomena

$$Wi = \frac{\text{Np}}{\text{Po}} \quad (4)$$

where:
II – Investment Indicator
NP – new products
TP – Total points

It is impossible not to discuss here the problem of prevention which is understood as the actions intended to decrease damage of events both by reducing its effects as well as decrease the probability of risk realisation (HANDSCHKE, 2001). Preventive measures are both on the part of the insurer and the policy holder. They may be tangible (raising a preventive fund in insurance institutions) and intangible (provisions in General Insurance Terms and Conditions, assessment of risk reported to the insurer by the policy holder).

It is not mandatory for insurance institutions to hold a fortuitous event fund, hence possessing such a fund by an insurance company may be considered positive and a CSR activity.

The economic indicators below can be suggested on the basis of prevention:

$$Wp = \frac{\text{Nfp}}{\text{Spb}} \quad (5)$$

where:
PI – Preventive Indicator
PFE – preventive fund expenditure
GPW – gross premium written

$$Wp = \frac{\text{Nfp}}{\text{Wo}} \quad (6)$$

where:
PI – Preventive Indicator
PFE – preventive fund expenditure
CP – compensation paid in a given period in Group II

$$Wp = \frac{\text{Nfp}}{\text{Wś}} \quad (7)$$

where:
PI – Preventive Indicator
PFE – Preventive fund expenditure
BP – benefits paid in a given period in Group I

While analysing the above indicators, the representatives of insurance institutions should check the relations of the created and redistributed preventive fund in the long term to the claims ratio or to the value of benefits and compensations paid.

6 Environmental Indicator

$$Wś = \frac{\text{Niś}}{\text{Spb}} \quad (8)$$

EnI – Environmental Indicator
EnIE – Environmental investment expenditure
GPW – Gross premium written

$$Wś = \frac{\text{Niś}}{\text{Ni}} \quad (9)$$

EnI – Environmental Indicator
EnIE –Environmental investment expenditure
IE – Total investment expenditure

Bearing in mind the Environmental Indicator and its impact on CSR, it can be measured by the relation of the total value of environmental investment expenditure, aimed at the reduction of negative impact of an insurance institution on the environment, to the total value allocated for investment.

7 Social Indicator

$$Wp = \frac{\text{Pz}}{\text{Pzo}} \quad (10)$$

[7] Insurance premium is a sum of money which, pursuant to Article 805 of the Civil Code, a policy holder is obliged to pay an insurance institution due to the voluntary or mandatory insurance agreement concluded for a determined time, for the insurance cover provided. It is the basic technical revenue in insurance activity. According to J. ŁAZOWSKI [1998] an insurance premium is the policy holder's share in covering benefits.

where:

EmI – Employee Indicator

EmS – number of employees exempt from job security programs

EmD – total number of dismissed employees

$$Wp = \frac{\text{Psz}}{\text{Po}} \quad (11)$$

where:

EmI – Employee Indicator

EmT – total number of employees participating in training programs

TEm – total number of employees

$$Wp = \frac{\text{Psze}}{\text{Psz}} \quad (12)$$

where:

EmI – Employee Indicator

HTbe – number of hours of training in business ethics in an insurance institution

HT – total number of hours of training

This indicator answers how much the management of an insurance institution identify themselves with the idea of CSR and, consequently, include employees in building the management strategy of an insurance institution, and understand the problems of corporate responsibility.

$$Wp = \frac{\text{Izk}}{\text{Izm}} \quad (13)$$

where:

EmI – Employee Indicator

EmF – number of female employees

EmM – number of male employees

Bearing in mind the presentation of the above indicators as tools to assess the realisation of values characteristic for the CSR in management processes in an insurance institution, important is the fact that each of those indicators can encounter certain limitations and may fail to fully reflect the examined issue and, consequently, the complexity of the examined problem. Thus, the problem is open and should be subject to further research. Perhaps the use of such a tool as a questionnaire may be an alternative to the suggested indicator method to examine the CSR. One of such questionnaires may be a questionnaire used for companies listed at the Stock Exchange – the RESPECT index (Przybytniowski, 2013).

Conclusions

Corporate Social Responsibility is one of the management strategies of a company (including an insurance company) which enables the increase in competitiveness. It can be influenced by building relations with local communities, as well as by company operations in the internal and external environment (Figure 1). Thus, on the one hand there is an obligation created to bear the consequences of effects of actions connected with the company strategy and, on the other hand, to address the needs of individual groups of company stakeholders.

The approach to conducting business, based on the idea of responsibility for the environment in which the company operates, is not common in Poland. Also, it is not clear how to communicate such ventures. Companies (including insurance companies) combining their commercial interest with public benefit often call it *social marketing* (Smith, 2006). In foreign literature there is a more exact term: Cause Related Marketing (CRM) (Adkins, 2008), namely marketing efforts which integrate the company interest with a social cause.

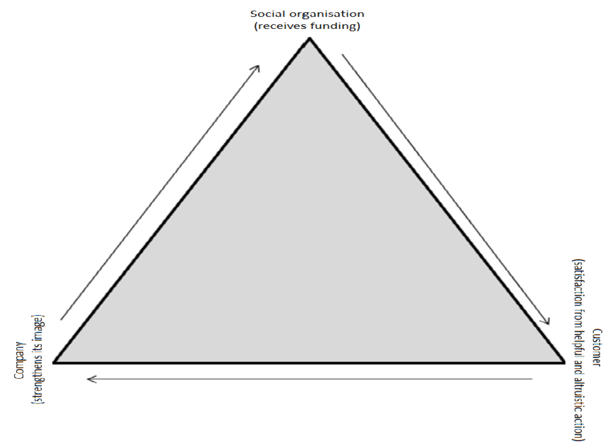

Fig. 1. Benefit Exchange Triangle. Company – Social Organisation – Customer

Source: Based on: Przybytniowski, 2013

Polish customers do not have a tool to define the company's social activity. They do not distinguish between the explicit social activity and pro-social commercial activity. Companies, as a sender of such messages, seem to maintain this unclear image by ambiguous and inconsistent messages. One of the factors which allows us to understand the essence and economic, social and environmental benefits resulting from implementing and applying the analysed concept, may be creating and passing clear and simple to use tools to measure socially responsible actions. Therefore, in this article and on the basis of the already existing literature, the Author has undertaken to propose his own indicators which enable the measurement of CSR results in an insurance sector, taking into consideration its specificity. Bearing in mind the presentation of the indicators as tools to assess the realisation of values characteristic for CSR in processes of managing an insurance institution, its important element is the fact that each of these indicators may face some limitations and may not fully reflect the examined issue and, consequently, the complexity of the examined problem. Thus, this problem is open and should be subject to further research.

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