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Digitalization as a Determinant of Insurers' Profitability

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Abstract

The authors investigate the influence of digitalization on profitability of Croatian insurance companies in order to find out whether digitalization or higher investments in information and communication technologies (ICT) might be a determinant of insurers' performance. Since financial reports of insurers lack the exact data on ICT, the authors have used a proxy of the balance sheet item other intangible assets which mostly relates to software the insurers use. Besides variable on digitalization which is calculated as natural logarithm of other intangible assets, other firm-specific and macroeconomic variables were used in the analysis as well. These include size, gross written premium growth, share of reinsurance, claims growth volatility, the premium to surplus ratio, market share of five largest insurance companies, share of gross written premium in GDP and GDP per capita growth. Empirical research is conducted using static panel analysis on the sample of insurance companies that operated in Croatia in the period 2013 – 2017. To test the presence of heteroscedasticity Breusch-Pagan test was employed in research. After finding proper static panel model robust standard errors were used in research. The results of static panel model reveal that GDP per capita growth has statistically significant and positive influence on profitability measured with return on assets (ROA).

Keywords: digitalization of insurers' activities; performance