A. Ignatiuk, PhD in Economics, Assistant
Taras Shevchenko National University of Kyiv, Kyiv, Ukraine

BUSINESS INTELLIGENCE FOR INSURANCE COMPANIES

The current state and future trends for the world and domestic insurance markets are analyzed. The description of business intelligence methodology, tools and their practical implication for insurance companies are provided.

Key words: insurance market, insurance company, market trends, business intelligence, business intelligence elements.

Introduction. The modern global insurance market is characterized by several important trends that will have impact on the future development of this industry. Those trends will have a different impact in terms of their positive or negative directions and magnitude on advanced and emerging insurance markets. The future development of Ukrainian insurance market also will be driven by global trends as well as by the specifics of domestic economic and political situation and local capital market trends. However, all insurance companies (global and domestic) should take into account the main future trends on the market during their mid- and long-term strategy development.

The purposes of this paper are to examine the current state and analyze the recent trends for the world and domestic insurance markets, to provide the description of business intelligence methodology and tools, and to assess the possibility of practical implication of business intelligence for insurance companies.

Literature Review. The questions related to the insurance market development trends have been discussed before by such domestic and foreign researches as Bazylevych V., Zaletov O., Osadec S., Pikus R., Prykaziuk N., Yuldashev R. and others. Business intelligence topic has been explored before by Dresner H., Evelson B., Nicolson N. and others.

Methodology. There have been performed already a lot of studies on the business intelligence methodology and tools, and their practical application for companies taking

into account the recent business intelligence and markets trends. In current paper the author is going to concentrate her attention specifically on insurance market and insurance companies, their problems and challenges and discuss how business intelligence methodology and tools can be used by the companies in this industry taking into account its specifics. This paper is more focused on the qualitative approach than quantitative and the aim is to construct hypothesis model that can be used by insurance companies during their strategy development.

Results. The current state and future perspectives of the world insurance market are characterized by several trends that have direct impact and practical application during the development of future insurance strategies for those insurance companies that would like to preserve, improve and expand their business.

Advanced markets are losing their positions to emerging markets due to the higher growth rates of insurance premiums in the last ones. Advanced economies that have more than 80% of global insurance market share show poor performance because of almost flat growth rates of insurance premiums (table 1). Growth on the global insurance market were stimulated mostly by Latin America and Emerging Asia countries that are responsible for less than 15% of global insurance market premiums but have been showing the higher than average in the world growth of insurance premiums.

Table 1. **Main global insurance market indicators by region/country, 2013-2014**

Region/Country	Premium volume (in millions of USD)		Change (in %) inflation-adjusted		Share of world market (in %)	Premiums in % of GDP	Premiums per capita (in USD)
	2014	2013	2014	2013	2014	2014	2014
America	**1,594,040**	**1,561,461**	**1.1**	**-1.4**	**33.36**	**6.29**	**1,637.8**
North America	1,405,816	1,382,749	0.7	-2.2	29.42	7.31	3,968.5
Latin America and Caribbean	188,225	178,713	4.1	5.7	3.94	3.07	304.1
Europe	**1,697,529**	**1,620,133**	**3.5**	**1.4**	**35.53**	**6.83**	**1,902.0**
Western Europe	1,627,670	1,544,429	3.7	1.5	34.06	7.77	2,995.7
Central and Eastern Europe	69,859	75,704	-1.5	0.8	1.46	1.91	217.5
Asia	**1,317,566**	**1,251,992**	**6.5**	**-0.5**	**27.57**	**5.21**	**307.4**
Advanced Asian markets	802,938	797,054	3.8	-3.8	16.8	11.44	3,728.3
Emerging Asia	465,557	409,830	11.8	7	9.74	3.1	125.6
Middle East and Central Asia	49,071	45,108	6.4	6.7	1.03	1.55	141.8
Africa	**68,974**	**70,294**	**1.6**	**5.5**	**1.44**	**2.79**	**61.3**
Oceania	**100,140**	**89,752**	**15.8**	**7.3**	**2.1**	**5.92**	**2,600.3**
World	**4,788,248**	**4,593,632**	**3.7**	**0.1**	**100**	**6.17**	**662.0**
Advanced markets	3,939,311	3,815,278	2.9	-1	82.44	8.15	3,666.3
Emerging markets	838,936	778,354	7.4	5.9	17.56	2.71	135.6
EU, 15 countries	1,517,098	1,435,429	3.8	1.4	31.75	8.11	3,418.1
United States	1,280,443	1,254,776	0.43	-2.8	26.8	7.3	4,017.0
PR China	328,439	280,119	15.2	-	6.87	3.2	235.0

Source: [18].

The main reasons for such poor performance in developed countries, especially in Western Europe and USA, were the slowdown or even decrease of average

spending on insurance services and also the flat rates of insurance markets penetrations (Fig. 1). No increases in the density together with the slowdown in the GDP growth

rates lead to the fact that insurance companies in Western Europe and USA were not able to increase their total premium volume. At the same time emerging markets that have low insurance premiums per capita indicators and high GDP growth rates were able to show positive insurance premium volume dynamics.
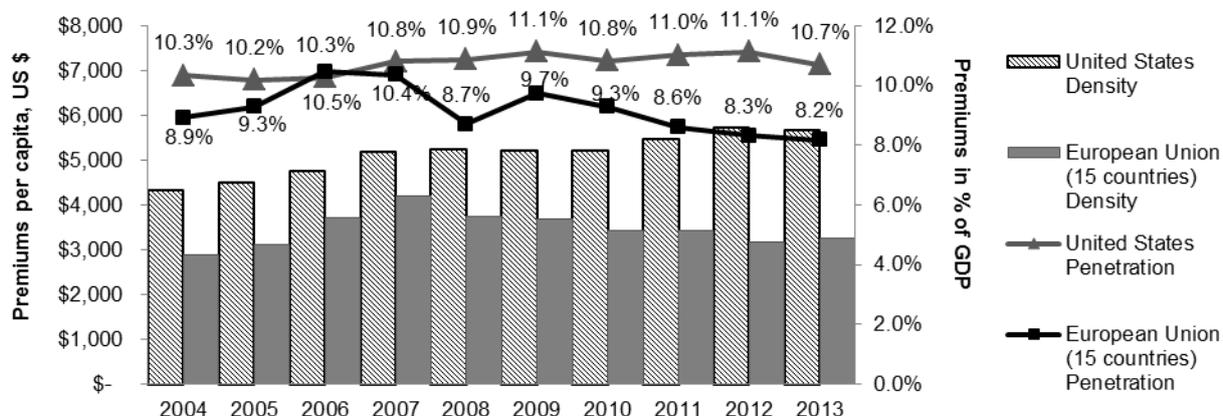

Fig. 1. US and EU (15 countries) insurance markets density (US $) and penetration (%), 2004-2013

Source: [Calculated using data from #9].

This trend will have the next practical implication for the insurance companies, especially on developed markets:

- competition within the industry will increase further and most companies will be trying to gain additional sales and revenue at the cost of their competitors taking into account the flat or minimum growth rates of the total insurance industry in advanced economies. The increase in competition will lead to some positive benefits for the customers, like more advanced and attractive insurance products, bigger variety of offers, better pricing and improved customer service;

- insurers should re-think their strategies on developed countries and orient on the market segments that will show higher growth rates and more opportunities than other. Taking into account aging population and increased life time expectancy in developed countries, especially in US and EU, possible opportunity areas could be products that offer lifetime income protection [4, p. 9];

- insurance companies will be further expanding into new developing markets were currently there are more opportunities for growth of insurance products demand. The increasing size of the middle class and higher GDP growth rates in emerging economies will drive this future growth. For example, the share of middle class of Asia Pacific region in total global middle class volume right now is around 30%, however it is projected to increase up to 54% by 2020 and up to 66% by 2030 year (table 2). This will lead to the increase of purchasing power of hundreds millions people in Asia region.

T a b l e 2. **Size and share of the global middle class by region**

	2009		2020 (projected)		2030 (projected)	
	Millions of People	Percent of Total	Millions of People	Percent of Total	Millions of People	Percent of Total
North America	338	18%	333	10%	322	7%
Europe	664	36%	703	22%	680	14%
Central and South America	181	10%	251	8%	313	6%
Asia Pacific	525	28%	1740	54%	3228	66%
Sub-Saharan Africa	32	2%	57	2%	107	2%
Middle East and North Africa	105	6%	165	5%	234	5%
World	**1845**	**100%**	**3249**	**100%**	**4884**	**100%**

Source: [11, p. 28].

In 2009 Asia Pacific countries accounted only for 23% of the global middle class spending, in 2020 this number projected to be 42% and in 2030 – 59% [18]. It is expected that most of this growth will be coming in the future from China and India. Historically this was not the case. For example, around 70-75% of the growth in the global insurance market were coming from North America and Western Europe regions between 2000 and 2007 years, starting from 2007 till 2011 most of the growth (70-80%) were coming from Latin America and Asia regions [4, p. 49].

Ukraine insurance market is characterized by very low relative values for density and penetration coefficients ($80 and 1.1% in 2013 respectively) [13]. The main reasons for such a low development level of the market are difficult and unstable economic and political situations and low purchasing power of the people in the country. Ukraine belong to the group of countries that have very low level of average income which lead to the fact that insurance products are not considered as a primary consumption products and most of the population cannot afford such purchases. According to the Lloyd report on Microinsurance, this strategy can be viewed by insurance companies as one of the most effective one when it comes to the problem of attracting big group of customers in poor countries. The most demanded microinsurance products in Ukraine are expected to be insurance products that protect customers from illness, disability and theft risks [10, p. 12].

Growing number of different distribution channels and their disconnection due to expansion of business on insurance market will lead to the new challenges for the companies related to the integration, new technologies and growing size of the information coming from different sources. The primary channels for insurance companies for a long period of time were all types of agents (independent and general), brokers and bank channels. Right now the situation is different due to appearance of new technologies – the distribution channels include also direct sales by telephone or mail, workplace selling, the Internet, etc. [4, p. 36-37]. According to the J.D. Power and Associates 2012 Insurance Study around 74 % of automobile insurance customers visit at least one insurer Web site and 34% of all insurance auto policies were bought online [4, p.36]. Currently the usual way for insurance companies is to closely cooperate with other various institutions in order to sell their products, like different associations, car dealers, real estate brokers, pet shops and travel agents, etc. [6].

In Ukraine the Internet sales is only on the early stage of development, most of the company web-sites have only general information about the insurance company and its products without the possibly to make internet purchase. Some of the insurance companies (usually the small one) do not have even web-sites. The product range that could be bought through the Internet is also very limited in Ukraine and mostly includes very simple products like travel insurance and automobile insurance products [1].

The direct implication of this trend for insurance companies is the need for integration of the different type of data coming from those disconnected distribution channels. According to the survey conducted by IBM among UK insurance companies, only 16% of companies integrate their customer data into single database, 24% combine data across different distribution channels, while 38% had no integration at all for all their different lines of business and channels [16].

Insurance companies need to be more focused on customers' retention and acquisition in the future due to the increasing competition on the market and low level of customer trust. In order to increase the retentions rates insurers should be able first of all to identify quickly those groups of customers that need the most focused attention and special product offers. This would be difficult to do without having single and consolidated customers database that is updated on ongoing basis using information from different sources and distribution channels. Such massive data consolidation requires often significant investments in the IT infrastructure and analytical software. According to the Global 2015 insurance outlook many insurance companies will be increasing their IT investments that can help to strengthen their relationships with customers in different regions [3, p. 1]. For example, only 70% of consumers in the world trust insurance companies and in some regions this number is even lower (UK and Australia – 53%), while for supermarkets the level of trust is about 84% globally and for banks – 82% (94% in Middle East and India, 92% in Asia) [15, p. 9]. The most important characteristics mentioned by the customers for long-term relationships with their insurers are value or money propositions (47% of respondents) and clear communication (43%) [15, p. 11]. Insurance companies will need to leverage all of the available data in order to understand what customers values the most and make for them valuable proposition, this process of value proposition should be more customized and individualized in the future in order to prevent high customers turnover.

Another important fact is that companies on insurance market should continuously interact with their customers in order to increase their loyalty and retention rates. According to the EY Global Consumer Insurance Survey 2014 44% of current customers report no interactions with their current insurer during the previous 18 months (this number is even higher for developed markets – 56%).

In Ukraine the level of trust to insurance companies is even lower than overall in the world. According to the survey conducted by USAID program only 11% of respondent trust insurance companies, 15% – private banks and 38% – government bank institutions [2, p. 21]. Such negative attitudes toward financial institutions could be explained by the low level of protection of customers on financial market in Ukraine, problems in regulations of capital market, low level of financial literacy among population and unstable economic situation.

The profitability of investments, especially for life insurance companies, had negative tendencies due to low interest rate environment. The main threat as a result of this trend could be a future tendency of life insurance to invest in "higher-yielding, but riskier, assets" [4, p. 47]. However, overall in the world the life insurance market is a subject to strict regulations related to possible investment portfolio instruments which means that the companies will need to find other ways and solutions to increase their investment profitability and to meet long-term liabilities to their clients.

Specifics of domestic insurance market are related to the structure of investment portfolio and availability on the capital market different investment instruments for long-term investing of insurance companies. 42.2% of technical reserves of Ukrainian insurance companies were allocated on bank deposits in 2013, 12.7% – on current bank account, 12.2% – stocks, 1.8% – bonds and 4.8% – government issued securities [13].

All of the above trends put a high pressure on the insurers related to their operational, analytical and strategical excellence in the future years. For a single company it would be very difficult to solve all those issues without having and exploring business intelligence tools.

In general business intelligence (BI) can be defined as "a set of methodologies, processes, architectures, and technologies that transform raw data into meaningful and useful information. It allows business users to make informed business decisions with real-time data that can put a company ahead of its competitors" [7, p. 1].

Another good definition that point out the need for ongoing business intelligence process inside organizations is provided by Pirttimäki: "BI is defined as an intelligence process that includes a series of systematic activities, being driven by the specific information needs of decision makers and the specific information needs of decision makers and the objective of achieving competitive advantage. Other intelligence concepts are considered as components of BI" [14, p. 1-17]. This term was proposed as an umbrella term first time by Howard Dresner, a Gartner Group analyst, in 1989 year.

Business intelligence (BI) main goals could be defined as the next ones:
• provide the business users with the timely, accurate and relevant information by transforming raw data into meaningful and useful intelligent information;
• enable and improve business decision making (past and future analysis, trends and markets analysis, future forecasting, prediction and foresight) by using and analyzing intelligent information.

Business intelligence includes next components which are described in table 3:

Table 3. **Business intelligence elements and their business functions**

BI element	Main functions	Business problems solved
Data collection	Collect relevant and accurate data from different sources (internal and external) in a timely manner	Provide users with the up to date, accurate and relevant data from all available sources (internal databases, external data, open source data, etc.) continuously
Data centralization	• Combine and centralize isolated databases and reports • Remove data duplication inside the organizations • Provide easy access and increase shareability of the data	• Reduce and optimize data storage and data collection costs • Provide common enterprise-wide view for a business users by combining isolated data pieces
Data cleaning	• Improve the quality of the data • Prepare data for further mining and analysis	• Improve the decision making by filtering out poor-quality data • Reduce the time and costs required for the data preparation for the further analysis
Data mining and drilling down	Enable user-specific reporting and drilling down from summary to specific transactions if needed	Provide users with actionable information on how to improve current business processes
Advanced analytics	Provide users with extensive statistical analytics tools for past analysis, future forecasting and extrapolation of past trends	• Provide certainty measures on facts and past events in order to understand possibilities for improvement and past growth drivers • Find out possible future scenarios for business development
Predictive modeling and foresight	Provide users with other business intelligence techniques that will help to predict future trends, new opportunity areas	• Find out how the past trends will change and what can be expected in the future • Select the best possible scenario through analyzing future changes and trends

Source: [Developed by author].

Certainty BI elements are highly supported by information technology solutions, like OLAP techniques, data warehouses and data marts, scorecards and dashboards, all kind of information systems (TPS, MIS, DSS, ERP, CRM, etc.), Software-as-a-Service (SaaS) and so on [8, p. 61-62]. The further development of business intelligence is highly dependent on the development of information technologies and their availability and affordability for business users.

Despite the fact that companies are spending a lot of money on information technologies and BI solutions nowadays most of those spending does not lead to improved business decisions. According to the Gartner IT spending report there were spend around $3.2 and $3.5 trillion on IT devices and services worldwide in 2010 and 2011 accordingly. This number is expected to increase to ~$4.2 trillion in 2016. Most of this spending in 2011 was related to telecom services – 46.9%, IT services accounted for 24.4%, IT devices account for 17.2% and Data center systems and Enterprise software – only for 3.9% and 7.6% respectively [17]. Most of the spending related to gaining insights from the data across all aspects of their organizations is allocated to customer insight (73%); operations (50%) and sales (49%) hold the second and third places [12, p. 30]. However, despite such significant investments and general understanding of the right directions for those investments 25% of global CEOs are disappointed by the inability to extract useful information from a lot of disconnected data available inside the organization [12, p. 33]. According to the Global CEO study 2012 results a consumer products CEO from North America main concern is that "We have lots of data, but only 10 percent of it is useful information. And even within that 10 percent, we are not using it effectively. Impactful analytics is not in our genes" [12, p. 33].

Global CEOs already realized that big data trend put on their companies big claims in terms of being able to leverage new technologies and sophisticated analytical techniques in order to make their business more profitable and faster. Another important discovery is that the business intelligence specialists have to be far beyond only data scientists and mathematicians; there is real need for the cross-disciplinary business, IT and data specialists who can provide their holistic view and knowledge that will help to connect real business problems with the analysis of existing environment and trends using advanced IT technologies, data knowledge and statistical techniques.

Taking into account the most important global trends on the market insurance companies can explore BI tool in order to overcome those threats and drive the future growth of their business. Since insurance companies have both regular operations like other organizations and some specific operation related to their business, application areas of business intelligence tools and methodology can be divided on two dimensions: general and industry specific (table 4):

Table 4. **Business intelligence application areas for insurance companies**

Application area	Description	Business problems solved
General		
Accounting and Financing	Support finance and accounting department business processes that is responsible for tracking financial assets and fund flows	Maximize returns on company financial assets and its capitalization
Sales and Marketing	Like any other company insurers have different distribution channels and different group of customers with their individual needs. This one area is responsible for analyzing those varieties and find the most effective channels and most profitable customers groups	Improve product and services distribution, improve product and service ranges, increase sales, profits and market share
HR management	support human resource department business processes that is responsible for attracting, developing, and maintaining the firm's workforce	Attract new employees, track the performance of existing employees, create reward and training programs

Continued Table 4

Application area	Description	Business problems solved
Industry specific		
Agent performance analysis	Monitor agents performance, identify the most effective agents in terms of new customers attraction and retention rates	Reward and promote the most productive agents, improve customer experience and reduce the costs
Actuarial and risk management	Actuarial and risk management analysis across different sources, products and offers	Reduce the risk level for new and existent product, offers and provide adequate pricing for them
Claim management	Properly manage the claims information in order to optimize pricing and improve response to claims	Determine and measure the most profitable areas and apply the most effective rate structure
Fraud management	Identify the fraud behavior and predict it before it happens	Reduce companies losses by spending money on fraudulent claims

Source: [Developed by author using data from #5 source].

The main nuances that should be taking into account during the analysis of possibilities to use business intelligence tools and methodology in Ukraine are the next:

• Ukrainian companies usually have much lower budgets for IT and business intelligence projects. Possible solution here could be to use the IT and BI products from local providers;

• Ukrainian CEOs have relatively low IT culture which means there is no full understanding of the advantages and positive outcomes of investing in IT and BI technologies;

• there is much lower rate of modern IT usage among Ukrainian customers than overall in advanced economies; most of the people do not feel comfortable even with such very common in the world technology like Internet;

• there is little support on government side on the introduction of new technologies in business environment from which may benefit not only private companies, but also regular customers and government agencies;

• due to unstable economic and political, and highly risky environment in Ukraine a lot of foreign and local companies are afraid to make any kind of long term investments.

Conclusions. Most of the insurance companies today are already using some tools and information technologies that are designed to help them to understand and operate better their business, to investigate customers and their needs as well as get other internal and external information needed for everyday operations. However, not all of those good efforts and investment lead to positive results because still a lot of companies are struggling from the collecting irrelevant or poor quality data, being unable to have a single view on their customers and business value propositions due to disconnected and isolated databases and tools inside the organization, inefficient customer services and support. Business intelligence approach and tools can close those gaps and provide insurers with visibility and transparency for their business and customers by collecting the data, extracting the relevant information, and transforming it in a timely manner into actionable insights that can help managers to take advantage on the market.

Of course during the application of BI approach and tools recent dynamics and trends on insurance markets, as well as market specifics should be heavily taken into account, especially when deciding about the allocation of limited investment resources between different areas.

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A. Ігнатюк, канд. екон. наук, асист.
Київський національний університет імені Тараса Шевченка, Київ, Україна

БІЗНЕС-РОЗВІДКА ДЛЯ СТРАХОВИХ КОМПАНІЙ

В статті розглянуто сучасний стан та майбутні напрямки розвитку світового та вітчизняного страхових ринків. Проведено аналіз методології інтелектуального бізнес аналізу, її основних інструментів та можливостей практичного застосування цієї концепції страховими компаніями.

Ключові слова: страховий ринок, страхові компанії, ринкові тренди, інтелектуальний бізнес аналіз, інструменти інтелектуального бізнес аналізу.

А. Игнатюк, канд. экон. наук, асист.
Киевский национальный университет имени Тараса Шевченко, Киев, Украина

БИЗНЕС-РАЗВЕДКА ДЛЯ СТРАХОВЫХ КОМПАНИЙ

В статье рассматривается современное состояние и будущие направления развития мирового и отечественного страховых рынков. Проводится анализ методологии интеллектуального бизнес анализа, ее основных инструментов и возможностей практического применения этой концепции страховыми компаниями.

Ключевые слова: страховой рынок, страховые компании, рыночные тренды, интеллектуальный бизнес анализ, инструменты интеллектуального бизнес анализа.

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A. Taubayev, Doctor of Sciences (Economies),
B. Doskaliyeva, Doctor of Sciences (Economies), Professor
Karaganda Economic University of Kazpotrebsoyuz, Karaganda, Republic of Kazakhstan,
S. Akenov, PhD in Economics, Associate Professor
Academy of Karaganda Bolashak, Karaganda, Republic of Kazakhstan

THE ROLE OF THE SOCIAL-ENTREPRENEURSHIP CORPORATIONS IN KAZAKHSTAN IN THE DEVELOPMENT OF THE PUBLIC PRIVATE PARTNERSHIP MECHANISMS

The article describes the features of the establishment and functioning of the specialized institutions of the public-private partnership – the social-entrepreneurship corporations in Kazakhstan. Based on the study of foreign experience of the creation of similar organizations, the advantages and problems of their functioning have been determined. The social-entrepreneurship corporations of Kazakhstan have a non-profit corporation model, but their mission is to meet the challenges of gaining profit and investments for the socio-economic development of the regions. This article describes the functioning activities of the social-entrepreneurship corporation "Saryarka" of Karaganda region, the dynamics and structure of its investment portfolio and the main problems are determined in it.

Keywords: public private partnership, regional institutions of public private partnership, social-entrepreneurship corporations.

Extended summary: The article describes the features of the establishment and functioning of the specialized institutions of the public-private partnership – the social-entrepreneurship corporations in Kazakhstan. Based on the study of foreign experience of the creation of similar organizations, the advantages and problems of their functioning have been determined. The social-entrepreneurship corporations of Kazakhstan have a non-profit corporation model, but their mission is to meet the challenges of gaining profit and investments for the socio-economic development of the regions. The difference of the social – entrepreneurship corporations from the business ones is the reinvestment of the gained profit into the realization of the social projects of the region, in the interest of which they are created. Thus, under the social responsibility must be understood not only the investments

of profits in social projects, but also the creation and maintenance of competitive business, the creation of new industries on the basis of unprofitable enterprises, the efficient use of the state property. Each corporation should become a regional development institution, which will contribute to strengthening of business cooperation. This article describes the functioning activities of the social-entrepreneurship corporation "Saryarka" of the Karaganda region, the dynamics and structure of its investment portfolio and determines the main problems.

Problem statement. In Kazakhstan, when new economic relations are gradually developed, and its economics becomes more and more integrated in the world community, there is an acute need for the structural change and closer cooperation between the state and the private sector. There has appeared and begins to play increasingly