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INNOVATIVENESS OF BANKS AND INSURANCE COMPANIES IN DEVELOPING MARKETS: GUIDELINES FOR SUCCESS

Inovativnost bank in zavarovalnic na razvijajočih se trgih: vodila uspeha

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Abstract

The article examines innovation activities in banks and insurance companies in Slovenia's developing financial market. The importance of the efficient new financial services development process and the impact of three core factors (i.e., marketing synergy, organizational culture, and market characteristics) on the services success are stressed. Market characteristics are the most important success factor of new banking and insurance services. The liberalization of financial markets in the European Union has led to a search for new opportunities of global financial corporations in less developed financial markets. The consequence of the increased competition is the need for the innovation of domestic and conservative financial organizations.

Key words: Innovation, new financial services success factors, banks, insurance companies, Slovenia

Izvleček

V članku so obravnavane inovacijske aktivnosti v bankah in zavarovalnicah v Sloveniji, ki predstavljajo razvijajoči se finančni trg. Poudarjen je pomen učinkovitega izvajanja procesa razvoja novih finančnih storitev in treh ključnih dejavnikov (trženjska sinergija, organizacijska kultura in značilnosti trga), ki vplivajo na uspešnost bančnih in zavarovalniških storitev. Značilnosti trga so najpomembnejši dejavnik uspeha. Globalne finančne organizacije so zaradi liberalizacije finančnih trgov v Evropski uniji začele iskati nove priložnosti na manj razvitih finančnih trgih. Zaradi povečane konkurence se je v domačih in konservativnih finančnih institucijah pojavila potreba po inoviranju.

Ključne besede: inovacija, dejavniki uspeha novih finančnih storitev, banke, zavarovalnice, Slovenija

1 Introduction

European banking is facing a number of competitive pressures, leading to a fundamental transformation in the overall banking system. The idea of a single market in financial services has been realized, and the intensity of integration and globalization of financial markets are increasing. Innovation in the delivery of banking services through information technology and services development is proceeding. In the last two decades, the majority of European banks have increased the overall size of their business operations toward a universal banking model called bank assurance. The aim of banks and insurers is to harness the synergy of using common distribution channels, knowledge, resources, and other infrastructures through cooperation and equity mergers. The result of this synergy is to optimize the utilization of resources and distribution channels, increase profits, reduce costs, and create competitiveness. Banks and insurance companies seek to select the optimal form of cooperation (Nellis, McCaffery, & Hutchinson, 2000).

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The increasing competition of insurers in the market requires more frequent changes in their offerings than before. Customers in the European insurance market show greater service expectations and less loyalty. Rivalry among competitors is increasing. The degree of orientation toward the customers, distributors, competitors, and the general economic environment is becoming an increasingly important area (Lado & Olivares, 2001). More market-oriented insurance companies are more innovative and have higher innovation success.

In 1991, more than 20 years ago, Slovenia became an independent country. Through continuous economic development, it has created its own space among developed countries. Financial services in the Slovenian economic system have also acquired importance, as in other developing and developed countries. In these years the competition among financial services, particularly banking and insurance in the small Slovenian market, has increased significantly. Compared with other financial markets in the European Union, the Slovenian financial market varies by type of ownership of financial institutions. The majority of banks and insurance companies in Slovenia are in the hands of domestic owners or the state. Although these institutions are large, strong, and stable, they are progressively losing their competitive advantages in the fight with foreign banks and insurers entering the market with a proven recipe for success. The need for diversity in the supply of financial services has increased. For these reasons, financial institutions in Slovenia should adjust their offers in demand. Banking and insurance services in Slovenia represent a major proportion of the supply of financial services, but the competition intensity in both sectors differs quite a bit.

From independence until 1997, the competition in the banking sector has increased significantly, growing from a single state-owned bank to 36 private and state-owned banks, albeit in only three of them (i.e., 8%) is foreign capital predominant (Bank of Slovenia, 1997). In the beginning of 2004, before Slovenia joined the European Union, 27 banks were active in the domestic market; 10 of them (i.e., 37 %) had a foreign-owned majority. By the beginning of 2010, 24 banks were operating in the Slovenian market, with 7 (i.e., 29%) being predominantly foreign capital (Bank of Slovenia, 2010). Since independence, the competition in the Slovenian banking market has increased significantly, but since 1998 the number of institutions has been slowly decreasing. The most common reason for this is the consolidation of banks.

In the insurance sector, the situation is a bit different. The number of insurers, both domestic and foreign, has increased over time. In the insurance sector, before independence, there was only one state-owned insurance company; after independence, nine insurers were formed, including two (i.e., 22%) from abroad. Domestic and foreign competition was growing all the time, and by 2004 four of the 15 insurers were mainly foreign owned. In 2012, 19 insurance companies and two reinsurance companies were active in Slovenia; nine of them (i.e., 43%) were mainly with foreign capital. The data show a dramatic increase of foreign competition (Slovenian Insurance Association, 2013).

Thus, in the banking sector the foreign competition has varied, but in the insurance sector it has continuously increased over the years. The more aggressive and more extensive competition in the Slovenian insurance market could be one of the reasons for the differences in innovativeness between banks and insurers. One of the objectives of our research is to determine if foreign competition has forced insurance companies to be more innovative in comparison with banks.

Our study also focuses on the degree of innovation of new banking and insurance services in the Slovenian financial market. We examined the impact of three factors (i.e., marketing synergy, organizational culture, and market characteristics) on the development process and on the performance of new banking and insurance services. We were particularly interested how banks and insurers responded to increasing competition in the relatively small Slovenian market. The question was if banks and insurers used the innovation to respond to increased competition and how they developed internal factors that influence the success of innovations. Another objective of this study is to study differences between banks and insurance companies in responding to increased competition. Among internal factors, we investigated marketing synergy and organizational culture. We limited the innovation as banks' and insurers' possible responses to increased competition.

As this field of research has not been investigated for less developed and developing financial markets, we decided to research the Slovenian financial market, which is a developing financial market. Thus, our study contributes a better understanding of innovations in developing financial markets.

2 Conceptual Framework and Hypotheses

New banking and insurance services, improvements of existing services, more efficient processes of financial services (including the development of electronic distribution channels and improved personal contact with customers), and diversification into related businesses are some of the innovative examples essential for banks and insurers in order to maintain or strengthen their market position. For banks and insurance companies, it is necessary to have an intensive focus on innovation activities, which might improve their financial and commercial success.

2.1 Innovation activity of banks and insurance companies

Changes in regulations, increasing competition, heightened customer expectations, and rapid technological changes have led to many innovations and, as a result, new services being developed in the financial sector (Johne & Harbone, 2003). In order to compete effectively and efficiently in a dynamic business environment, financial institutions have had to develop new services. The consequence was a permanent expansion of financial services.

Although unique and really new financial services have been launched, most innovations have been incremental, using a slight difference to existing services leading to extend new and generally similar financial services. Radically different types of financial innovations require a different approach to achieving success in the development of new financial services (de Brentani, 2001; Gounaris, Papastathopoulou, & Avlonitis, 2003).

Different levels of service innovativeness in banks have been noted: service repositionings, service line extensions, service modifications, new delivery processes, new-to-the-company services, and new-to-the-market services (Avlonitis, Papastathopoulou, & Gounaris, 2001; Costanzo & Ashton, 2006).

In last two decades, the insurance market has become very competitive. New entrants to the market have offered attractive new insurance services in non-traditional ways. Important changes have occurred in distribution as insurance companies started to distribute their services through independent brokers. New forms of competition also emerged from banks, which started offering bank assurances. As a result, insurers have initiated three main types of innovation: market innovation (entry into market segments new to the company), product innovation (new insurance service and its development), and process innovation (improved internal capabilities). Companies that have achieved a greater number of major innovations have done so by pursuing the newer simultaneous approach to managing changes (Johne & Davies, 2000).

To being about such achievements in innovation in a bank or insurance company, an efficient and effective development process is required.

2.2 Key success factors and success indicators for new banking and insurance services

2.2.1 Internal success factors

Existing studies investigating the critical success factors of a new service mention the development process as an important internal success factor. New service development activities describe how firms are concerned with and manage the development process. According to the literature (Cooper & de Brentani, 1991; de Brentani, 1991; Gounaris et al., 2003), the new service development process in financial institutions consists of five stages: idea generation and screening, business analysis and marketing planning, service development, service testing, and launch of activities.

The idea generation and launching stage in banks and insurance companies has been studied by various researchers, including Gounaris et al. (2003), Roberts and Amit (2003), Cooper and de Brentani (1991), Oldenboom and Abratt (2000), and Stevens and Dimitriadis (2005). They found a positive impact of idea generation and launching on financial services success. Financial institutions that have the ability to develop a constant flow of innovations are more profitable in the long term (Roberts & Amit, 2003). An efficient process for new financial service development presents a crucial factor in success and a core competency for banks and insurance companies (Menor, Tatikonda, & Sampson, 2002).

The current study examines two additional factors that have the greatest impact on the financial service success, as demonstrated in previous investigations: marketing synergy and organizational culture (Cooper & de Brentani, 1991; de Brentani, 1991; Easingwood & Storey, 1995; Jantunen, 2005; Kandampully, 2002; Martins & Terblanche, 2003; Oldenboom & Abratt, 2000). Marketing synergy represents a strong match between the needs of the financial service and the institution's sales personnel, distribution, advertising and promotion, and marketing skills. It has emerged as a strong predictor of success in banks and insurance services (Lovelock & Wirtz, 2004). The service must benefit from strengths and facilities in such a way that the combined effort is greater than the performance would be if the new and established services were working separately (Oldenboom & Abratt, 2000). In order to efficiently develop and sell the services, it is more important for a bank and insurance company to build on the existing firm's strengths, skills, knowledge, and other resources than to seek new opportunities away from its resources and experiences (Cooper & de Brentani, 1991).

Organizational culture is defined in many different ways in the literature. In our research, organizational culture is defined as deeply seated values and beliefs shared by personnel in a bank or insurance company. Organizational culture is manifested in the typical characteristics of the organization. It refers to a set of basic assumptions that have worked so well in the past that they are accepted as valid assumptions within the organization. These assumptions are maintained in the continuous process of human interaction as the right way in which things are done or problems should be understood. The components of organizational culture are routine behavior, norms, values, philosophy, rules of the game, and feelings (Martins & Terblanche, 2003; Webster, 1995).

Organizational culture is the primary determinant of innovation. The possession of positive cultural characteristics provides the organization with necessary ingredients to innovate (Ahmed, 1998). It is crucial for the innovation and success of banks and insurers as well. Appropriately developed organizational culture is a potential basis for their competitive advantages.

Within organizational culture studies, recent surveys of the banking system have demonstrated that the extensive formal and informal communication between management and other personnel has been reflected in the success of the development of new banking services (Johne & Harborne, 2003). Organizational structure as the important part of organizational culture was an issue for both banks (Stevens & Dimitriadis, 2005) and insurance companies (Johne & Davis, 2000).

A critical part of the organizational culture determining the nature of change in insurers' organizations was top management. The absence of clear communication was a challenge for efficient service development (Oldenboom & Abratt, 2000).

2.2.2 External success factor

Market characteristics present external factors that impact the entire development process of a new service in the bank or insurance company and simultaneously on the new service success. The most frequent dimensions of the market defined in previous studies of financial services were service adjustment to the market, market size and growth, and the level of competition in the market (Cooper & de Brentani, 1991; de Brentani, 1993; 2001).

Highly developed financial markets offer numerous and various types of financial instruments; they are more dynamic in changing and adopting to internal and external influences and actually larger. The European financial market includes a wide range of financial institutions, small saving banks and cooperative banks, and investment banks. The potential of growth rate is high, competition is aggressive, and competitors' offerings are very similar. Prior to the recent crisis, the European financial market had a certain degree of inherent flexibility due to the need to cope with less developed markets (Cheun, von Köppen-Mertes, & Weller, 2009).

2.2.3 Success indicators

Success is defined as the achievement of certain objectives, requirements, plans, or efforts. Measures of the service success can be classified into financial, competitive, and qualitative measures whereas the success measures of the development process are defined as the criteria of cost-effectiveness and promptness of process implementation. The criteria used to measure the success of new business services (de Brentani, 1991) are sales performance, competitive performance, cost performance, and other boosters. The success criteria could also be the degree to which the new service meets customers' needs, wants, and requirements (de Brentani & Cooper, 1992).

The financial performance of products and services in different studies are still presented and needed, but they have lost their importance in light of the growing importance of market performance. In our study, only one financial indicator was used: sales profit.

Indicators used to measure market success were domestic market share, sales growth, and profitability of new services. The indicators of the profitability of new insurance services actually present a financial indicator (Maydeu-Olivares & Lado, 2003).

In service companies, sales profit and company's growth are closely connected to customers' satisfaction and loyalty. Increased customer loyalty to a company's services creates a barrier for competitors. Creating a brand position is also important because it reflects the history of past relations and promises for the future.

2.3 Hypotheses

According to the study's purpose, we are interested in which factors are the most important for the success of new banking and insurance services. Based on the previous studies, we presumed that:

- H_1: Marketing synergy is the most important success factor of new financial services in banks and insurance companies.
- H_2: Service launch ranks second among all success factors and is the most important stage of the new financial services development process in banks and insurance companies.

The continuous increase in the suppliers of insurance services and the changing number of banks in the Slovenian market during the last 20 years has caused some differences in the activity performance of banks and insurers. Thus:

- H_3: In the Slovenian financial market, insurers perceive more aggressive competition within their market than banks do.
- H_4: The diversity of insurance services significantly differs compared to the diversity of banking services in the Slovenian financial market.
- H_5: In the Slovenian financial market, insurers perform activities in the new service development process more completely than banks do.
- H_6: In the Slovenian financial market, insurers have better organizational culture and marketing synergy than banks do.

3 Research Methodology

A research survey of the new financial services success in banks and insurance companies in the Slovenian financial market was conducted in 2006.

3.1 Data collection and sample

The questionnaires about the activities in the new financial services development process and the factors affecting the development process and performance of new services were sent to managers in marketing and development departments of different organizational units in banks and insurance companies in 2006. Each manager received two questionnaires concerning successful and failed financial services developed within the last five years.

From the 130 questionnaires (i.e., 65 for successful and 65 for failed services) sent to banks and insurance companies, 54 usable questionnaires were collected—33 for successful and 21 for failed financial services—representing a response rate of 41.54%. This response rate is comparable with similar studies in foreign countries.

Data were collected using a five-page self-administered questionnaire. Respondents used a nine-point Likert scale to estimate 46 items concerning activities of development process and discussed factors.

Managers were asked to choose two financial service innovations and classify them into one of the following groups: improvement to an existing financial service (i.e., service modification), new service for the bank or insurance company, new service for the bank or insurance company and customers in the Slovenian market, and new-to-the-world financial service. No new Slovenian banking or insurance service was classified in the new-to-the-world service group.

The structure of the sample by types of financial institutions, the success of new financial services, and the level of innovativeness are presented in Table 1.

3.2 Measures

The success of the new financial services was measured by a financial indicator (sales profit) as well as market indicators (i.e., achieved market share, achieved customer satisfaction, new opportunities for further development of similar financial services).

The respondents were asked to estimate the success of chosen indicators relative to the success of other company's new services, the success of the strongest competitor's new service, and the achievements of the company's objectives on a scale ranging from -5 (i.e., the bank's or insurer's new service is much worse compared to other services or target values) to 5 (i.e., the bank's or insurer's new service is much better compared to other services or target values). New opportunities for the development of similar financial services were also measured on a scale ranging from -5 (i.e., the bank's or insurer's new service did not provide any opportunity for further development of similar services) to 5 (i.e., the bank's or insurer's new service created numerous opportunities for the development of other new services).

The reliability of financial and non-financial indicators measured by Cronbach's alpha is presented in Table 2. A description of the indicators is provided in Appendix 1.

Table 2: *Indicators measuring financial and market performance*

Financial and non-financial indicators	Cronbach's alpha*
Achieved market share	0.612
Sales profit	0.611
Achieved customer satisfaction	0.759
New opportunities for further development	-

* Cronbach's alpha values above 0.6 are regarded as satisfactory.

The new service development process was measured by 23 activities grouped into five stages. These activities were drawn from the literature (Cooper & de Brentani, 1991; de Brentani, 1991; Gounaris et al., 2003). The respondents were asked to estimate the extent to which these activities were undertaken during the development process on a nine-point Likert scale (1 = do not agree at all and 9 = completely agree). Based on the factor analysis, all activities were grouped into four factors indicating the stages of the new financial services development process. A description of the items representing activities of the new financial services development process is provided in Appendix 2. Table 3 includes the Cronbach's alpha for each of the four stages of the development process, indicating acceptable levels of reliability.

Table 3: *Stages of the new financial services development process and*

Stages of the development process	Cronbach's alpha
Idea generation and screening	0.817
Business analysis and marketing planning	0.889
Service development and testing	0.722
Service launch	0.708

Table 1: *Structure of a sample for new banking and insurance services*

Financial institutions	Number of successful new services				Number of failed new services			
	Level of innovativeness				Level of innovativeness			
	1)	2)	3)	**Total**	(1)	(2)	(3)	**Total**
Banks and savings banks	0	8	4	**12**	2	0	3	**5**
Insurers and reinsurers	8	4	9	**21**	4	5	7	**16**
Total	**8**	**12**	**13**	**33**	**6**	**5**	**10**	**21**

Note: The numbers in the estimated level of innovativeness refer to the following:
(1) service modifications—improvement to existing financial services
(2) new service for the bank or insurance company
(3) new service for the bank or insurance company and the customers in the Slovenian market

The marketing synergy was measured by five items on a nine-point Likert scale. Higher values on this scale indicated that the experience and disposable knowledge of managers and other personnel were sufficient and appropriate for the new service development and marketing. The items were drawn from the literature (Cooper & de Brentani, 1991; Easingwood & Storey, 1995).

Organizational culture was measured using a 12-item scale. Higher scores on this scale indicated that the culture is entrepreneurial, market oriented, and innovative. In other words, vision and mission support creativity and innovation activity in the bank or insurance company. The bank's or insurer's interdisciplinary teams work on important projects, employees are an important part of the organization and their communication is very good, failed innovative efforts are tolerated and used as opportunities for further learning, and ideas are rewarded. Characteristics of organizational culture that are important for banks and insurers were drawn from the literature, with an emphasis on the creation of organizational culture (Martins & Terblanche, 2003; Webster, 1995).

The market and its characteristics were measured using six items on a nine-point scale. Two of the six items refer to market potential, two items measure market competitiveness, and two refer to the service–market fit. Higher values on this factor indicated that the new service responds to clearly identified customers' needs and problems. The items were taken from the literature (Cooper & de Brentani, 1991; de Brentani, 1991; 2001; de Brentani & Cooper, 1993).

Factors marketing synergy and market characteristics were measured for both successful and failed new financial services. Organizational culture was measured at the organizational level.

The reliability of these three factors measured by Cronbach's alpha is presented in Table 4. A description of items representing internal and external factor characteristics is provided in Appendix 3.

Table 4: *Internal and external factors*

Factors	Cronbach's alpha
Marketing synergy	0.615
Organizational culture	0.892
Market characteristics	0.631

Limitations stemmed from the small number of banks and savings banks (hereafter called banks) and insurers and reinsurers (hereafter called insurers/insurance companies) in the domestic market compared with developed financial markets, such as the United States, Canada, and the United Kingdom. In 2006, Slovenia had only 39 financial institutions providing banking and insurance services.

4 Analysis and Results

4.1 Innovation activity and level of innovativeness in banks and insurance companies

First, the level of innovativeness for banks and insurance companies was determined. Based on the varying number of banks and continuous growth in the number of insurance companies in the Slovenian market, the question was whether insurance companies are more innovative compared to banks.

Table 5: *The share of new banking and insurance services according to levels of innovativeness*

Financial institutions	Share of new services in %			
	Level of innovativeness			
	(1)	(2)	(3)	Total
Banks and savings banks	11.76	47.06	41.18	100
Insurers and reinsurers	32.43	24.32	43.24	100

Note: The numbers in the estimated level of innovativeness refer to the following:
(1) service modifications—improvement of existing financial services
(2) new service for the bank or insurance company
(3) new service for the bank or insurance company and the customers in the Slovenian market

Table 5 shows that, with respect to the level of innovativeness in the Slovenian market, new service for the banks (47.06%) or new service for the banks and customers (41.18%) dominated. Modifications of banking services represented only 11.76% of all innovations. Insurance services that were new for insurers or new for insurers and customers in the Slovenian market represented 67.56% of all innovations in insurance companies. Thus, banks developed more than 20% more highly innovative new services than insurers.

4.2 Relationship between internal and external factors and the success of new banking and insurance services in Slovenia

To test hypotheses H_1 and H_2, we used correlation and discriminant analysis. The correlation was determined between internal and external factors and success indices for successful and failed new banking and insurance services. A discriminant analysis was conducted to find out which factor is a key to the success of new banking and insurance services, mostly distinguishing between successful and failed new services.

The correlation analysis between internal and external factors and success indices indicated that the strongest correlation exists between market characteristics and success indices (see Table 6). The correlation is the strongest between market characteristics and the sales profit (correlation coefficient = 0.527). A strong correlation also exists between market characteristics and customer satisfaction.

Table 6: *Correlation coefficients among stages of the development process, internal and external factors, and success indicators of new successful and failed financial services*

Factor	Achieved market share	Sales profit	Achieved customer satisfaction	New opportunities
Idea generation and screening	0.283*	0.321*	0.194	0.368**
Business analysis and marketing planning	0.383**	0.375**	0.311*	0.393**
Service development and testing	0.097	0.118	0.137	0.193
Service launch	0.481**	0.520**	0.415**	0.541**
Marketing synergy	0.256	0.412**	0.283*	0.303**
Organizational culture	-0.019	0.204	0.178	0.092
Market characteristics	0.466**	0.527**	0.443**	0.518**

Note:
** Correlation is significant at the 0.01 level
* Correlation is significant at the 0.05 level

Marketing synergy, assumed as the most important factor for the success of new financial services, is not the most important success factor according to the analysis. The factor is significantly correlated with three success indices: sales profit, achieved customer satisfaction, and new opportunities for the further development of similar financial services. The correlation is the strongest with sales profit (the correlation coefficient is 0.412), but it is not significant with achieved market share.

Organizational culture is not significantly correlated with any of the success indices.

The correlations between the stage of service launch and success indices are the strongest. The achieved market share and new opportunities are highly correlated with service launch while sales profit and customer satisfaction are highly correlated market characteristics.

We continue our analysis with a discriminant analysis to determine the rank order of internal and external factors.

Internal and external factors were independent variables in the discriminant function, and the success of new financial services was a dependent variable. Discriminant loadings for factors are listed in Table 7.

Table 7: *Discriminant loadings for internal and external factors according to the service success*[1]

Factors	Discriminant loadings
Market characteristics	0.780
Service launch	0.608
Marketing synergy	0.461
Idea generation and screening	0.338
Business analysis and marketing planning	0.256
Service development and testing	0.123
Eigenvalue: 1.269	
Wilk's Lambda: 0.441	

1 The factor organizational culture was not included in the discriminant analysis because it does not distinguish between successful and failed services.

According to the results in Table 7, the market characteristics significantly affect the differentiating between successful and failed new banking and insurance services, followed by service launch stage and marketing synergy. Service launch represents the most important stage of the new financial services' development process. The least important stage is service development and testing, which is somewhat surprising.

Based on the results obtained, hypotheses H_1 has to be rejected: Marketing synergy is not found to be the most important factor for the success of new banking and insurance services.

4.3 Differences between successful banking and insurance services with regard to internal and external factors

To test hypotheses H_3, H_4, H_5, and H_6 we first analyzed differences in mean values between successful banking and insurance services for six items to measure market characteristics. The results of *t*-tests are presented in Table 8.

To test hypothesis H_3, the significance of difference between means in aggressive competition for the new financial service was examined. The difference was not significant; therefore, hypothesis H_3 is not accepted. To test hypothesis H_4, the significance of difference between means in very similar competitive offerings was examined. The difference was also not significant; thus, hypothesis H_4 is not accepted. High scores on characteristics referring to the market competitiveness (aggressive competition and very similar offerings) show that competition is a very serious problem for banks and insurance companies in Slovenia.

Differences in mean values between successful banking and insurance services for items measuring stages of the development process, marketing synergy, and organizational culture were also studied. The results of *t*-tests are presented in Table 9.

To test hypothesis H_5, the difference between means in the stages of development process was examined. The difference was significant for two development stages: idea

Table 8: *Mean values and significance level of t-tests for items measuring market characteristics*

Items	Banks	Insurers	Significance level
Expanse of the purchasing power in target markets for the new financial service	7.58	6.67	0.154
Degree of market growth for the new financial service	4.73	4.48	0.726
Aggressive competition for the new financial service	7.58	8.10	0.375
Very similar competitive offerings	7.17	5.62	0.073
Informed potential customers about changes in the new financial service	7.17	5.67	0.006*
New financial services satisfy customers' clearly expressed needs	8.00	6.95	0.023*

Note:
* Difference is significant at the 0.05 level

Table 9: *Mean values and significance level of t-tests for items measuring stages of development process, marketing synergy, and organizational culture*

Factors	Banks	Insurers	Significance level
Development process			
Idea generation and screening	8.00	7.06	0.016*
Business analysis and marketing planning	7.44	6.46	0.081
Service development and testing	6.84	4.93	0.031*
Service launch	7.36	6.60	0.240
Internal and external factors			
Marketing synergy	7.93	6.80	0.002*
Organizational culture	7.12	5.87	0.002*
Market characteristics	6.98	6.33	0.008*

Note:
* Difference is significant at the 0.05 level

generation and screening and service development and testing. Banks perform two stages more completely. Thus, we can conclude that banks perform activities in the development process more completely than insurance companies. Based on these results, hypothesis H_5 is not accepted.

To test hypothesis H_6, the difference among means in marketing synergy, organizational culture, and market characteristics was examined. We found significant differences for all three factors. Average values of these factors are higher for banks, indicating that marketing synergy and organizational culture in banks contribute more to the success of new banking services than in insurance companies. Thus, hypothesis H_6 is not accepted.

In the development process of new financial services, banks pay more attention to two stages and all three factors than insurance companies do. These results show that their new services have a higher potential for financial and commercial success.

5 Discussion

The purpose of this study was to examine the innovation activities in banks and insurance companies in the Slovenian financial market as well as the influence of the most important factors (marketing synergy, organizational culture, and market characteristics) to the development process and success of new financial services. We investigated the degree of innovativeness of new banking and insurance services in the relatively small Slovenian financial market. Furthermore, stages of the new financial services development process and important factors affecting the process with the emphasis to market characteristics were examined. Differences in the success between banks and insurance companies were established. The investigation of the responsiveness of existing banks and insurers to the increased competition in the Slovenian financial market was also an important part of the paper.

The main contribution of the paper lies in dealing simultaneously with the development process and significant influential factors while also discussing the differences in achieving the success of new financial services between banks and insurance companies in Slovenia. The findings suggest how predominantly locally owned existing banks and insurers in the small and developing Slovenian financial market react to the increased competition from abroad.

The survey results show that Slovenian financial institutions' innovation activity is at medium level. Banks and insurance companies do not develop unique financial services. New services are primarily imitations of competitive services developed by foreign financial markets or already established services of domestic competitors.

The success of new banking and insurance services depends primarily on their effective launch. Banks and insurance companies trading in the Slovenian market should focus on launching new services in the marketplace as financial and commercial success largely depends on this stage. Effective marketing with the whole marketing mix support is also important for success. Even the most innovative and qualitative financial services, without proper presentation to potential customers, could mean a failure for the bank or insurance company.

The most important factor that distinguishes between the successful and failed new financial services is market characteristics. The reason for such result could be the small Slovenian financial market. Market size seems to be more important for the smaller market compared to highly developed and larger foreign financial markets. Indeed, a single bank or insurance company cannot affect market characteristics, but it can analyze them and with the relevant information try to create the greatest possible competitive advantages. For financial services, innovation marketing synergy is also very important, but in the new services development and marketing activities there is a lack of emphasis on this factor. The survey results can be useful for banks and insurance companies in the Slovenian market as well as other financial institutions in their efforts to increase innovativeness and competitiveness.

To conclude, banks and insurance companies in Slovenia should consider particular activities in the new financial services development process and devote special attention to the service launch stage as this stage contributes to the success of the services the most.

6 Conclusions

For financial institutions in the Slovenian market, especially banks and insurance companies, despite the increasing competition in the market, conservatism is still considerable as reflected in offers and complete businesses. After Slovenia joined the European Union, a number of foreign financial institutions entered the Slovenian financial market, but banks and insurance companies that were in the hands of local owners still control the majority of the market share and also supply the most financial services in the market. However, these services are not highly innovative. Banks and insurance companies are not developing novel financial services because they have neither the financial or human capital. The number of new financial services in the market is rising, but those services are often only a modification of competitors' existing services or copies of services from highly developed financial markets.

Innovations have occurred in the Slovenian financial market over the past decade, focusing primarily on activities of financial institutions in the new market conditions, arising from a change of the previous economic and financial system into the market system. Distribution has been modernized and started to proceed from traditional to electronic approaches; as new ways and increased advertising have appeared, financial services performance and physical support (e.g., offices and equipment) have been improved.

Despite characteristics significant for developed financial markets, the major global financial organizations have engaged in considerable diversifications in recent years. Thus, even conservative financial institutions are looking for ways and methods to increase their revenues and profits; as a result, they are also dealing with much more insecure financial instruments. Highly developed financial markets expect greater liberalization, increased profits, and greater flexibility from new and less developed financial markets (e.g., the Slovenian market). Competition from abroad is looking for new opportunities in the Slovenian financial market mainly through the expansion of sales networks and occasionally with innovative ventures of their financial services.

In the future, banks and insurance companies in Slovenia will be forced to act in at least three possible directions:

- specialization in order to maintain competitiveness;
- integration with greater financial cooperation, especially from more developed countries of the European Union; and
- expansion to new markets in Southern and Eastern Europe to allow for increased business and institutions growth.

The strategic orientation of banks in Slovenia are directed primarily to the expansion of target markets (Slovenia, Southeastern Europe, the former Soviet Union) in the continued process of the association of individual subsidiaries, increasing the equity in subsidiaries and the transfer of knowledge and best practices within the banks, and providing conditions for continued growth in subsidiaries activities and improvement of the cost-efficiency and financial performance of companies. Given the relatively low stability of specific target markets in achieving the financial goals, it will be necessary to stress safety and risk management.

The trend among leading Slovenian insurance companies is to strengthen and expand insurers into foreign markets, particularly in Southeastern Europe. Insurance companies are aware that networking, dissemination, and adaptation to new conditions are necessary for the continued growth. Achieving dissemination adjustments of the organizational culture at home and abroad will be necessary, as well be strengthening the development model of corporate governance. It will be also necessary to develop a commercial model of knowledge, procedures, and processes that will be transferred to the insurance subsidiaries abroad.

If there is a positive link between economic prosperity and the demand for insurance services, we can conclude that the insurance market in Slovenia and other countries with developing financial markets will grow faster in comparison with the developed European insurance markets. This could be an opportunity for insurers in Slovenia and other countries with similar conditions to offer new insurance products.

In the future, banks and insurers will have to deal with even more competition, update business activities, reduce costs, develop new financial services and distribution channels, and consolidate visibility due to the expected macroeconomic trends in the domestic and international environments, increased competition, changing savings habits, increased financial education among the population, and the European integration processes.

However, the Slovenian financial market is growing. Based on the data obtained, the Slovenian investments are becoming increasingly focused in the domestic market. For higher market development, increased liquidity and stability will be needed (Bank of Slovenia, 2010). In order to improve their offers and the market situation, banks and insurance companies should work much more flexibly and readily understand the new ideas, thereby providing the opportunity to create added value at least in Europe, if not in the world. Given the free movement of financial services in the European Union and the emergence of the increasing number of foreign financial institutions in the Slovenian market, for domestic financial services providers it will be increasingly difficult to retain existing customers and the market share. The acquisition of new customers will require extra efforts. Highly skilled personnel and innovations in financial services, as well as efforts to find new market opportunities and competitive advantages, are certainly important to obtain and retain customers.

Encouraging creativity and innovation in banks and insurance companies is acquiring greater importance. Without improving existing and creating new processes within the financial institutions, reflected as new financial services, successful business performance will be increasingly difficult to achieve.

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