



FINANCIAL MANAGEMENT IN THE ACTIVITY OF INSURANCE COMPANIES

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ABSTRACT

The article defines the essence and justifies the need for financial management in the activities of insurance companies.

PURPOSE: The aim of the article is to bring out the specifics of financial management in insurance and outline the advantages of controlling as a function and part of the management of the insurance company to ensure the necessary solvency.

METHODS: The systematic and structural approach, analysis and synthesis, including, study of literature sources and analysis of the existing situation in the practice of the insurance company are used.

RESULTS: The results are about highlighting the role of risk management in financial management, as well as the importance of factors - gross technical provisions and others, for risk management of the insurance company.

CONCLUSION: The complex nature of financial management requires integrated risk management, which requires the establishment of an independent unit and / or position in financial management and risk management.

Keywords: financial management, controlling, risk, gross technical provisions

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INTRODUCTION

In order to function normally, the company must have the necessary financial resources (1) Raising capital to start, operate, return capital and make a profit is the first prerequisite for financial management of the insurance company, and in particular its finances.

The second prerequisite is a process of providing funds for the realization of tactical and strategic goals within a certain period. There is a third difference, namely how managers find the funds needed for the financial activities of the insurance company. The finances and financial activity of the business organizations are leading and determining in achieving profit. In the insurance company, this goal is not made explicit. It is pursued through the growth of the volume of insurance activity, the collected revenues from insurance premiums, increasing market share, quality customer service and meeting their needs.

The finance of the insurance company is a set of financial relations arising from all cash flows with which the insurance company is related to other economic entities and to the state. They express a system of financial (monetary) relations between the insurance company and other counterparties - insured, banks, other insurance companies, co-insurers, reinsurers, staff, structural units, the state, the municipality and others. In a narrow sense of the term, the essence of finance is associated only with one-way monetary relations, in which the participation of the insurance company is not associated with the reverse flow of money. (2)

The finances of the insurance company are specific monetary relations, which can be systematized in:

- Monetary relations with shareholders in connection with a subsequent increase in share capital and the payment of dividends;
- Monetary relations with insurers on the occasion of concluding insurance contracts

and collecting the insurance premium, on the one hand, and insurance payments in the event of an insured event, in accordance with the terms of the insurance contract, on the other hand;

- Monetary payments with territorial divisions (branches, agencies, representative offices) on the occasion of settling external settlements and commission payments;
- Monetary relations with insurance intermediaries in connection with the premium collected and paid (transferred) by them and the payment of commissions;
- Monetary relations with the institutions in which the insurance company is a member (the Association of Insurers in Bulgaria, the National Bureau of Bulgarian Motor Insurers, the Guarantee Fund, etc.);
- Monetary relations with the banking system in connection with opened current and client accounts, receipt and repayment of loans, etc. financial relations;
- Monetary relations with other insurance companies related to regressive claims and co-insurance;
- Monetary relations with staff in connection with the accrual of remuneration and deductions thereon;
- Monetary relations with subsidiaries, associates and joint ventures and investment

intermediaries in connection with investment activities;

- Monetary relations with the financial and credit system of the state (budget, social security) and with the state institution performing regulation, control and supervision - Financial Supervision Commission (FSC);
- Monetary relations with reinsurers on the occasion of relinquished premium received insurance indemnities, commissions, participation in the result, formation of the part of the reinsurer in the insurance reserves, etc. Financial management supports the global management of the insurance company.

Financial management is a mandatory component of the business management of the insurance company in a market economy. It is important and necessary for all types of business, both for insurance companies, banks and other financial institutions, and business organizations for production, trade, tourism, i.e. from the real sector.

Financial management is performed by financial managers, assisted by controlling managers. (Figure 1)

The most important financial decisions are made by the top management of the company.

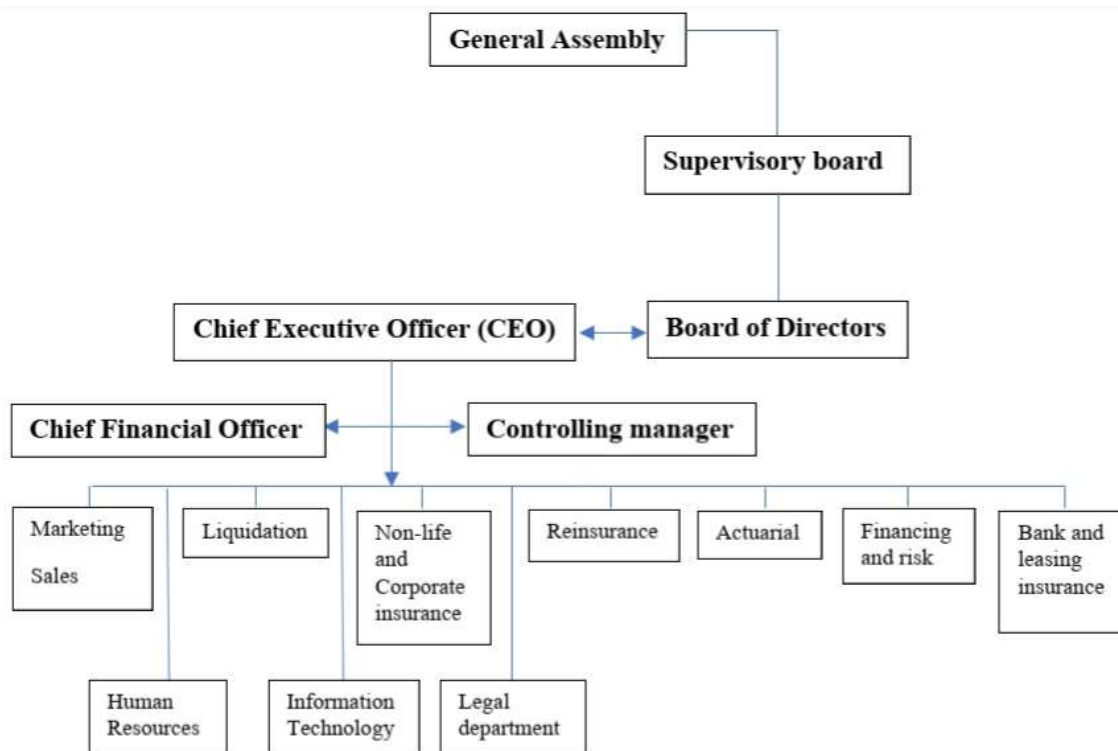


Figure 1. Organizational structure of the insurance company and the place of financial management and controlling in the management (3)

This figure represents the positioning of the Financial Manager and Controlling units in the organizational structure of the joint-stock insurance company with a two-tier management system, as well as the relationships that arise with the other units.

The financial management in the activity of the insurance company contains in itself the general features of the Financial management, but it also has its specific features characteristic for the insurance activity and expressed in their purpose, tasks and functions. The main goal of the Financial Management in insurance is to integrate the functions of management - planning (insurance - technical planning), budgeting, forecasting, spending, accounting, analysis and control in a single system for managing financial resources. In the process of fulfilling this main goal, two tasks are solved - current (regular) and extraordinary.

The current (regular) tasks of the Financial Management in the insurance activity are:

- Related mainly to tracking and controlling the incoming cash inflows and outgoing cash payments in order to optimize the financial condition of the insurance company and ensure the security for correct payment of the claims by the clients;
- Aimed at controlling current cash flows, the conducted tariff policy, the distribution of income and investments;
- Related to estimating and reducing the risk of the insurance company.

Constant tasks - are aimed at providing the necessary capital for development and expansion of the insurance business by acquiring new insurance products and services and expanding the insurance market.

The fulcrums of insurance management related to the management of financial resources are objects, subjects and functions. (2)

The main objects of the Financial Management in the insurance business are the capitals and the insurance-technical reserves of the insurance company, their formation, organization, management and distribution of all insurance payments for normal implementation of the insurance activity. Specific objects of the Financial Management of the insurance company are the Financial Risk Management, the investment, the credit, the dividend policy and others.

Subjects of Financial Management in Insurance are executive directors and their deputies, owners, responsible actuaries, experts, auditors, controlling specialists and supervision of the insurance activity.

The main functions of the Financial Management are:

- Financing;
- Investing;
- Forecasting and planning;
- Controlling.

The main functions performed by the Financial Management in the insurance company have their specifics:

- Insurance function - is related to the use of the financial resources of the insurance company for its normal and effective functioning and implementation of their cycle during the course of the insurance activity;
- Distribution function - distribution of the income from the insurance activity in accordance with the insurance-technical plan and / or normative regulation;
- Reporting - observations for correct documentation of data on conditions and changes in carrying out insurance activities. In this regard is the role of controlling as an information-analytical activity that supports management decisions and the successful development of the insurance company;
- Control - covers the control of the circulation of financial resources from the insurance and economic activity, including the formation, distribution and rational use of financial resources;
- Investment - how much money and in what specific assets to invest? (1, 4) Where and in what way to provide the necessary financial resources for investments? (1, 4)

The distribution of functions and tasks between the individual insurance specialists is one of the main tasks of the management of the insurance company.

The coordination of the work between the separate units in the structure of the insurance company is carried out by the Controlling unit. Controlling as an element of the organizational structure of the insurance company (**Figure 1**) assists the top management in making adequate management decisions.

The management function "Controlling" monitors compliance with obligations and coordinates the implementation of tasks by

jobs in the various units of the insurance company.

Assists in making management decisions by the members of the Supervisory Board and the Board of Directors and participates in the work of the General Meeting.

The controlling manager works in direct connection with the financial manager and is directly subordinated to the Executive Director of the insurance company.

The specialists from the "Controlling" unit, managed by the controlling manager, enter into relations with the specialists from all units of the senior and middle management.

The application of controlling in the activity of business units places emphasis on controlling costs and controlling results. In this aspect, insurance companies are no exception.

Through controlling, the deviations of the actual from the planned results at the moment of their occurrence are ascertained and analyzed. In this way the real reasons for the appearance of the deviations are discovered, factors for the positive (purposeful) acceleration of the process of their elimination and the realization of the set goals of the company are identified.

Taking into account the specifics of the insurance activity in the analysis of cost deviations as a method of control in insurance theory and practice and distinguishes between the concepts of "costs" and "expenses".

Costs are a broader concept and include operating costs and risk-related payments.

Financial managers are aware that good financial results from the activities of the insurance company are achieved by managing

the risk that accompanies the insurance business. (2) The content side of risk management and its complex nature require its consideration as a process and management through methods: risk avoidance, risk reduction, damage control and risk financing. (5, 6)

Risk financing is the financing of the consequences of the occurrence of a risk.

Emphasis is placed on the technical risk due to its importance for the overall risk exposure of the insurance company.

The technical risk is reduced to a negative deviation between the expected (calculated) and the actual need of the insurance company to cover the damages caused by the occurrence of the risk.

In order to establish the existence of a possible loss from the development of the risk for the company, the actually incurred expenses in connection with the development of the risk are compared with the provided funds for covering these expenses for a given period and for a given insurance set. Includes on the one hand, insurance payments and costs for assessing and limiting claims, on the other hand, net premiums collected and reserves set aside.

An important factor for the technical risk is the technical reserves.

The largest share in the gross technical reserves on the Bulgarian non-life insurance market are the reserve for forthcoming payments (pending payments) and the unearned premium reserve, respectively with an average annual share for the period from 2004-2008 of 51.38% and 48.08 %. (**Table 1**) For the period 2013-2018, respectively - 62, 2% and 36, 45%. (**Table 2**)

Table 1. Gross technical provisions in non-life insurance for the period 2004 – 2008 (7)

№	Year	Transfer-premium reserve (thousand BGN)	Reserve for unexpired risks (thousand BGN)	Reserve for forthcoming payments (thousand BGN)	Reserve fund (thousand BGN)	Reserve for bonuses and discounts (thousand BGN)	Other reserves approved by the FSC (thousand BGN)	Total (thousand BGN)	Indices	
									basic	chain
1	2004	196567	-	196384	2410	-	-	395361	100	100
2	2005	257898	-	264751	1286	-	3509	527444	133,41	133,41
3	2006	340624	33	341163	1176	-	7724	690720	174,71	130,96
4	2007	445885	44	455336	1649	217	-	903131	228,43	130,75
5	2008	535732	19	640852	1811	263	-	1178677	298,13	130,51
Total		1776706	96	1898486	8332	480	11233	3695333	-	-
Average annual share		(48,08%)	-	(51,38%)	(0,23%)	(0,01%)	(0,30%)	(100%)	-	-

Table 2. Gross technical provisions in non-life insurance for the period 2013 – 2018 (8)

№	Year	Transfer-premium reserve (thousand BGN)	Reserve for unexpired risks (thousand BGN)	Reserve for forthcoming payments (thousand BGN)	Reserve fund (thousand BGN)	Reserve for bonuses and discounts (thousand BGN)	Total (thousand BGN)	Indices	
								basic	chain
1	2013	472861	16627	664524	5205	6069	1165286	100	100
2	2014	486158	17230	726241	5636	6615	1241880	106,57	106,57
3	2015	494119	13783	722044	7209	7207	1244362	106,79	100,20
4	2016	458068	12036	741734	4987	7032	1223857	105,03	98,35
5	2017	715367	20618	1424409	4340	7361	2172095	186,40	177,48
6	2018	864452	18232	1679432	3353	6206	2571675	220,69	118,40
Total		3491025	58526	5958384	30730	40490	9579155	-	-
Average annual share		(36,45%)	-	(62,2%)	(0,32%)	(0,42%)	(100%)	-	-

Three groups of factors can be distinguished by importance, as elements of the technical risk:

- Factors, due to accidental risk diversion. In this case, the actual value of the aggregate loss deviates from its expected value because more in number and / or very large damages occur by chance. The reasons are the risk situation of the insured sites, the possibility of an insurance event to affect many of the insurance sites or the possibility of occurrence of an event at one site to cause the occurrence of an event at one site to cause the occurrence of the same event and many other sites;
- Factors related to the negative change of the risk situation, respectively of the risk circumstances, after the risk assessment has already been made. Here, the deviation of the actual value of the aggregate loss from its expected value is due to a change in the risk situation;
- Factors due to errors. In this case, the deviation is the result of an incorrect assessment of the development of risk. The reasons for the erroneous assessment are reduced to deficiencies related to the quantity and quality of information, incorrect statistical methods for processing the information, incorrect interpretation of the available data and calculation errors.

In addition to the listed groups of factors, other factors that affect the technical risk are derived. These are the type and size of the set aside reserves and the number and

homogeneity of the objects in the separate aggregates. Significantly less is the impact of the amount of damage assessment costs. Last but not least, attention is paid to the selection of sites and risks for which the insurance company offers insurance protection.

CONCLUSION

In the conditions of scale, complexity and dynamics in the functioning of the economy, the issue of the financial management of the insurance company remains relevant.

Insurers manage huge funds and reserves and their management requires a careful approach from experienced and competent professionals. This process must be continuous and constantly evolving, an integral part of the company's strategy.

The complex nature of the Financial Management requires integrated risk management. This requires the establishment of an independent unit and / or position in financial management and risk management in the organizational structure of insurance companies to participate and fully monitor the management process.

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