

**Вищий навчальний заклад Укоопспілки
«ПОЛТАВСЬКИЙ УНІВЕРСИТЕТ ЕКОНОМІКИ І ТОРГІВЛІ»**

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СТРАХОВИЙ МЕНЕДЖМЕНТ

Навчальний посібник

*для студентів вищих навчальних закладів
з англійською мовою навчання*


К О Н Д О Р
Київ, 2017

УДК 368.021(075.8)
ББК 65.271-21я73
С 83

Рекомендовано до видання, розміщення в електронній бібліотеці та використання в навчальному процесі вченою радою Вищого навчального закладу Укоопспілки «Полтавський університет економіки і торгівлі», протокол №5 від 24 травня 2017 р.

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С 83 **Страховий менеджмент:** навч. посіб. для студентів вищих навчальних закладів з англійською мовою навчання / Карцева В.В., Фисун І.В., Демченко Н.О., Горбунова О.А. — К.: Видавничий дім «Кондор», 2017. — 148 с.

ISBN

У навчальному посібнику визначені особливості управління у страховому бізнесі. Розглянуто сутність і значення страхового менеджменту, ресурсний потенціал, структуру й органи управління страховика, комунікації та інформаційне забезпечення страхового менеджменту. Значна увага приділена плануванню у страховій діяльності, страховому маркетингу, управлінню відбором ризиків, урегулюванню страхових претензій, управлінню грошовими потоками, фінансовою надійністю та організації проведення фінансового моніторингу у страхових компаніях. Кожна тема має питання для самоконтролю, глосарій, тестові завдання, рекомендовані інформаційні джерела. Посібник розрахований на англійськомовних студентів вищих навчальних закладів.

ISBN

УДК 368.021(075.8)

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**“POLTAVA UNIVERSITY OF ECONOMICS AND TRADE”
(PUET)**

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N.O. Demchenko
O.A. Gorbunova**

INSURANCE MANAGEMENT

MANUAL

*for the students of the higher educational establishments
with the English language of instruction*


КОНДОР
Kiev, 2017

УДК 368.021(075.8)
ББК 65.271-21я73
С 83

*The Academic Council of the Higher Educational Establishment of Ukoopspilka
“Poltava University of Economics and Trade” recommended for publishing,
placing in the electronic library, and using in the educational process
On 24 May, 2017, protocol №5.*

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С 83 Insurance management: manual for the students of the higher educational establishments with the English language of instruction / Karceva V.V., Fysun I.V., Demchenko N.O., Gorbunova O.A. — K.: Publishing house “Condor”, 2017. — 148 p.

In the manual, the specific features of management in the insurance business. The essence and importance of insurance management, resource potential, structure and management bodies of the insurer, communications and information support of insurance management. Considerable attention is given to planning in the insurance business, insurance marketing, manage selection risks, manage insurance claims, cash flow management, financial strength and organization of financial monitoring of insurance companies. Each topic is provided with questions for self-control or glossary, test tasks and the recommended references. The manual is worked out for English-speaking students of higher educational institutions.

ISBN

УДК 368.021(075.8)

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INTRODUCTION

Insurance policy is one of the most important features of the market economy. Successful function of insurance company is impossible without highly qualified management as it encourages competition and efficiency. All these goals inspire the development of insurance management. The subject «Insurance Management» is provided with the program of the specialty «Finance, Banking and Insurance» as well as the modern methods of financial resources management for further participation in the insurance market activity in order to satisfy the needs of the insurance services.

The purpose of this discipline is to develop the students' system of theoretical knowledge and practical skills to prepare and implement management decisions that ensure rational use of formation and potential harmonization of insurance companies and financial interests of insurance consumers, owners and staff of insurance companies, insurance intermediaries and the state. To achieve this goal the following tasks should be performed: to get stable knowledge on the theory and practice of insurance company management, to provide insurance services and risk assessment, to settle insurance claims.

Mastering the discipline «Insurance Management» is based on the previous studies of the general theory of finance as well as «Business Economics», «Financial Markets», «Business Finance», «Insurance», «Management» and others.

Having mastered the discipline «Insurance Management» a student must know: some essence, functions and role of insurance management in market economy; the procedure of design, registration and licensing of insurance companies; the content of the government supervision of their activity; principles of an insurer rational structure formation and full powers of their management; principles of insurance company management; methods of working out the strategic plan of the insurer; the essence and methods of marketing activities of insurance organizations; methods of studying the demand for insurance services; risk selection technology of insurance and insurance claims settlements; insurer cash flow management; conditions and ways to improve the financial stability of the insurance company; procedures of insurer financial monitoring operations; to be able to develop strategic goals and objectives of the insurer; to form a rational structure of insurance management organization; to analyze the state of the insurance market; to explore the demand for insurance services

and system of their sale; to issue an insurance contract, to fix the insured event and calculate the appropriate amount of payment to the victims; to analyze the insurer activities and propose measures of their improvement; to determine the adequacy of insurance reserves and to verify the insurer financial transaction correctness.

Manual material is based on the laws of Ukraine, Verkhovna Rada (Parliament) resolutions, decrees of the President, decisions of Cabinet; instructional materials of Ministry of Finance, the State Service of Financial Monitoring, National Commission for State Regulation of Financial Service Markets concerning the functioning of the insurance market members.

Each topic contains the reference of textbook and it is provided with the lecture notes, recommended references and a glossary. Practical skills as well as inspiring logical thinking of students are encouraged with the proposed tutorial questions and tests.

The content of this manual is the result of the general experience of teaching the academic subject «Insurance Management» at the Department of Finance and Banking in the higher education institution Ukoopspilka «Poltava University of Economics and Trade.»

The authors express cordial gratitude to Doctors of Economics, professors S.A Navrotski and N. M Davydenko for giving constructive comments and suggestions for improving the content of the manual during the revision period.

MODULE 1.

THEORETICAL AND ORGANIZATIONAL BASES OF INSURANCE MANAGEMENT

Topic 1. The Essence and Importance of insurance Management

Issues:

- 1. The need, essence and functions of insurance management*
- 2. Goals and objectives of insurance management*
- 3. Legal support of insurance management*

1. The need, essence and functions of insurance management

Insurance, like any other entities, requires management in the organization, planning, regulation and control. First of all, management requires the activity of the insurer related to the formation and use of insurance capital. Due to the fact that primary insurer income is income from insurance business, that it is impossible carry out investment activities without it, the main task of insurance companies is the attraction of a large number of insurers and use the collected premiums for investment activities. All this was made possible by thoughtful and balanced policy management. That is why insurers need a balanced approach to the issue of risk-taking, efficient use of reinsurance, to pay more attention to preventive measures.

The functioning of an insurance company in conditions of market economy requires a high level of organization, which is essential to the achievement of the goal of the insurer, to ensure its competitiveness and effectiveness. It leads to the need in the management of its special direction — insurance management.

Managing insurance activities should be considered in terms of individual insurance companies in the insurance market and in terms of relations in this market environment. Development of insurance management in Ukraine can be characterized by a number of indicators of activity of insurance companies, which are the macroeconomic indicators of the insurance market. If these indicators are positive, it is possible to think about effective insurance management.

Insurance management can be viewed as management of the insurance company in a competitive economic environment that includes goal setting, choice of means and methods of achieving development.

Object management in insurance management in the general sense stands total insurance capital intended for compensation of possible losses of insurers. The institutional entities of insurance management, which generate and use insurance capital, there are the insurance and reinsurance companies. However, their successful performance depends on other professional participants of the insurance market, including insurance agents.

In addition, effective management of insurance management is not possible without the involvement of potential insurers (individuals and businesses) and the regulator of the insurance market of the country.

Effective management provides a basis for economic growth of insurer. Based on the available insurance interests, the insurance company provides a package of insurance products oriented to meet the needs of asurers. The development of all business processes is the main task of management in the insurance company.

Thus, **the insurance management** is the professional management of the insurer in a market economy, aimed at maximizing profits in the rational use of available resources. Insurance management examines the most rational management technology by insurance companies and other professional participants of the insurance market.

The essence of insurance management is revealed in its functions. **Functions of insurance management** are specific types of management activities that are carried out using special techniques and methods, as well as the corresponding organization of work and control activities of the insurance company.

The most common functions are planning, organization, motivation and control (Fig.1.1).

Implementation of all these functions is the management process by the insurance company. Functions are provided by two types of connecting processes — information communications and management decisions.

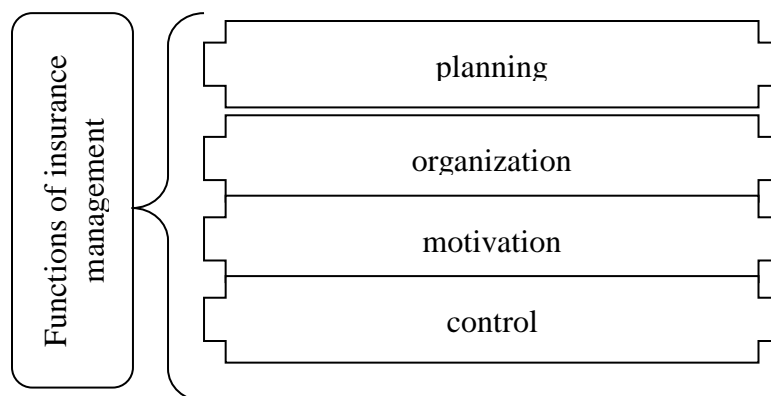


Figure 1.1 — Functions of insurance management

Planning is the initial step in the management process. Its implementation involves deciding what, how, when and who to do. Using the planning function is a unity and coordination of efforts of personnel of the insurance company. Other functions provides the implementation of the established plan.

The function of the organization is to prepare all necessary for the implementation of the plan. Organization of work involves the integration of material-technical base and financial systems with human resources of insurance company. It involves the delegation of authority (the right to make decisions and use the resources of the insurance company) by certain employees, as well as adjustment of the organizational structure of the insurance company for tasks that the insurer needs to solve.

The function of motivation means clearly formed in the insurance employee's desire to fulfill the requirements set by the leadership of the insurance company in full with the required quality. It provides by optimization process steps: supporting the best balance between results and costs of achieving it. The main means of motivation are the orders and instructions relating to the execution of the work.

Control function provides a comparison of planned and actually the result. Control means the management process aimed at the detection of quantitative and qualitative deviations from the planned indicators. The most important control components are setting standards achieved by comparing a period of what was planned and an indication of how to correct errors.

There are several forms of control. There is complete and selective control. *Complete control* is used in situations when it is necessary to check the activities of all employees, example, reporting of all insurance agents. *Selective control* is used when the full control of any reason is impossible.

In addition, there are forms of control as the *previous, current* and *next*. Currently, more prevalent is concept of controlling. In line with this concept the control function is vested in a special unit that provides the system of continuous evaluation of insurance company's activity in general.

All control functions that reflect the essence of insurance management are closely interrelated and interdependent.

The specificity of the insurance management due to the peculiarities of the insurance activity. The process of selling insurance policies always involves direct contact with prospective assurers, resulting in opera-

tional technology amenable to standardization. Insurance brokers are the link between the insured and the insurer under the insurance contract, and therefore have the greatest amount of information about insurance interests and preferences of customers. Work insurance agent, which is basically a strain on the conclusion of insurance contracts require a creative approach, and its performance is largely determined by his personal qualities, knowledge of the insurance business, as well as the psychology of communication with potential assurers. It leads to the possibility of new organizational forms of selling insurance policies, promotes the insurance proposal that meets the needs of existing customers and attractive to potential assurers. Last time, there is a new trend of providing additional services to the assurers who have concluded an insurance contract of a specific kind. All this strengthens the competitiveness of insurance companies and provides the solution of problems concerning the development of insurance.

2. Goals and objectives of insurance management

The goals of the insurance management due to the objectives of the insurance companies in a particular economic environment (insurance market). It is possible to allocate common (economic) and specific (social) purposes of insurance management.

Common (economic) purposes related to the main causes of creating the insurance company. These objectives are reflected in the Charter of the insurer. It is formulated as protection of property interests of businesses and individuals through insurance activities aimed at profit insurance company. Insurance activities is the relationships that are formed for the protection of property interests of businesses and individuals at certain events (insurance cases) due to money funds generated from insurance premiums paid by its (insurance premiums).

The most important economic goal of the insurance company, as a business structure, is maximizing profits. The owners of the insurance company, forming the chartered capital, oriented to profitable placement of funds, which gives them a steady income. Making a profit is also interested assurers, as the financial success of the insurer is evidence of the reliability and stability of the insurance company with which they are dealing. The common interest in the profitable operation of the insurance company finds its labor staff, including senior managers.

Maximizing profit of insurance companies often realize is clear: increase of insurance premiums due to the increase in sales of insurance policies and at the same time reducing costs associated with maintenance

of the insurance company and the process of maintenance of insurance agreements. In this sense stated goal focuses not on long-term operation of the insurer.

In the broader sense of economic purpose of insurance management should not be to focus on maximizing current profits of the insurance company, and to maximize its value, including the receipt of long-term profitability, potential growth of volumes of insurance transactions, the acceptance of insurance risks in relation to estimated insurance.

In addition, the insurance company is a special business structure that accumulates assurer's cash in insurance capital financial resources intended to provide taken to their obligations under insurance agreements.

Expressing economic distributive relations in the sphere of insurance capital that is managed by the management joint-stock insurance company, involved in the whole reproduction process. Given the specifics of insurance capital, insurance management should be focused on securing the resource base of the insurer, includes the full support of obligations to insurers under the terms of insurance contracts.

The realization of this goal involves the establishment of an insurance company management system current liquidity, balance of assets and liabilities of the insurer on the terms and sums of insured, the availability of insurance reserves and the system of assessment of insurance risks.

Specific (social) insurance management objectives primarily related to the need fullest satisfaction of insurance needs of clients of the insurance company and an optimal set of insurance products adequately that correspond to existing insurance interests.

At the same time should be provided with appropriate insurance protection these property interests, as well as the appropriate level of client service insurance company. For this management system it should have at their disposal marketing research product and price insurance market, development of appropriate information and educational programs that enable professionals to develop skills (especially insurance agents) to communicate with potential customers of insurance companies.

The social aspect of the objectives of insurance management is also in the specific economic guarantees for small and medium businesses and creating new jobs in the area of insurance (insurance expertise, insurance marketing, acquisition). In a broad economic context, the insurance company is a public institution which aims to closely link its activities with the General economic development and thereby strengthen the resource base and further expansion of insurance operations.

The economic and social goals of the insurance company determine **insurance management tasks**. The main tasks of insurance management are the following:

- profitability management of insurance companies — control of the volume and structure of active and passive operations of the insurance company and the revenues and expenses of the insurer;
- liquidity management by optimizing the profit — cash flow management, organization of control over condition of highly liquid assets, forecasting the liquidity position of the insurance company;
- risk management, specific objects of insurance, regarding the conclusion of corresponding insurance contracts — development of methods for the assessment of various insurance risks, statistics of insurance cases and accompanying circumstances of risk, standardization of management procedures with respect to existing insurance risks;
- staff management of the insurance company — ensuring maximum realization of its potential. It provides to training of staff, implementing an effective system of remuneration and pecuniary incentives, internal control (Fig. 1.2).

Insurance management tasks	profitability management of insurance company (structure of assets and liabilities, income and expenses)
	liquidity management (cash flows and highly liquid assets, forecasting liquidity)
	risk management of insurance objects (development of methodology for assessment of insurance risks, statistics of insurance cases and accompanying circumstances of risk, standardization of management procedures with respect to existing insurance risks)
	staff management of the insurance company (organization of training, the introduction of an effective system of pay incentives and moral, internal control)

Figure 1.2 — Insurance management tasks

This is a deliberate effect on the human component, oriented according to the abilities of the staff of the insurance company selected objectives, strategy and conditions of development of insurance business.

3. Legal support of insurance management

Legal support of insurance are legislative and normative acts regulating insurance activity, both in general and in specific directions.

The system of legal regulation of insurance contains provisions are identified:

- Constitution of Ukraine;
- international agreements signed and ratified by Ukraine;
- Civil Code of Ukraine;
- Commercial Code of Ukraine;
- Tax Code of Ukraine;
- the laws of Ukraine and resolutions of Government of Ukraine;
- edicts and orders of President of Ukraine;
- decrees, resolutions and orders of the Government of Ukraine;
- regulations (instructions, methods, orders) adopted by ministries, departments and central authorities and registered by the Ministry of Justice of Ukraine;
- regulations of the authority conducting state supervision of insurance activity under the laws of Ukraine;
- regulations of local authorities in cases where the individual regulation of insurance activity has been delegated to these agencies by the President or the Government of Ukraine.

The Constitution of Ukraine, adopted June 28, 1996, determined that the laws of Ukraine established principles of creation and functioning of the financial market (article of law 92) and the Cabinet of Ministers of Ukraine provides financial policy (article of law 116).

During 1992–1993 most independent states formed after the disintegration of the former USSR was accepted legislative acts on insurance issues. In the summer of 1992 Ukrainian state insurance commercial organization with leading insurance companies established in the period 1990–1992, submitted to the Cabinet of Ministers of Ukraine the first draft “Insurance law”, aims to coordinate the positions of several involved in the insurance business departments and agencies. In December 1992 the project after the agreement was re-submitted for consideration of the Cabinet of Ministers of Ukraine. Because according to the decision of the Verkhovna Rada of Ukraine in this period, the Government received the right to issue decrees, which had the status of laws, the draft was adopted as a decree in may 1993.

Decree of the Cabinet of Ministers of Ukraine «Insurance law» was actually the first basic legislative act that provided for the system of legal regulation of insurance activity. This Decree defined the basic terms and concepts related to insurance activities (insurance market).

The development of market economy in Ukraine was in need of adopting new legislation that regulates how the conceptual apparatus and the exercise of insurance activities.

On 6 March 1996 the Verkhovna Rada of Ukraine adopted the «Insurance law», 4.10.2001 it was amended and supplemented. It is the main act of legislation in this industry in our country.

The «Insurance law» has 5 major sections.

The first section reveals the main concepts and terminology: it determines such basic concepts as insurance, insurers, assurers, insurance objects, insurance forms, insurance risks and insurance cases, insurance amount, insurance compensation, insurance payments and insurance rates, coinsurance, reinsurance association of insurers, insurance agents and insurance brokers and others. The centerpiece of this section is occupied by the rules that define the requirements for the insurer during its establishment and registration, as well as the procedure of obligatory insurance.

The second section of the Act regulates the conduct of insurance: defines the requirements for contracts and insurance regulations and the relevant currency, sets forth the duties of insurers and insured in a particular situation. The importance of legislative norms, envisaged by the section is the maximum completeness of contract relations, the rights and obligations of the parties in the insurance industry. In fact, it specifies general rules of civil law in this range.

The third section defines the conditions to ensure the solvency of insurers and very important. This section reveals the financial mechanism of insurance, certain restrictions are established regarding the possibility of commitments and general principles defined audit insurer. Important articles of the law in this section are those, which refers to the procedure of forming insurance reserves and types of both technical and life insurance. Some articles regulate issues relating to the establishment of guarantee funds, accounting and reporting.

The fourth section defines the principles of state insurance supervision. This section defines the institution that carries out state supervision of insurance activities and sets its rights and responsibilities. This section describes the licensing of insurance activities, which provides the legal regulation of insurers in the insurance market. The law specifies the particular features of the liquidation, reorganization and financial rehabilitation of insurers that allows to control it after they cease their activities.

Final, the fifth section provides for the regulation of such general points as the basis of international law, the procedure and the steps in the application of certain rules, etc.

When the law was passed, the government has introduced a number of laws, including statutes and regulations governing individual issues of insurance. Thus, a separate Government decree defines the procedure of regulation of reinsurance in Ukraine. It is also the Government's resolution of legal regulation of intermediaries, brokers and agents in the insurance market. A separate decree of the Government defined the peculiarities of mutual insurance companies.

Government resolutions regulate the procedure of implementation of each type of obligatory insurance. Separate resolution specify the size limits of the costs of the proceedings in the case of obligatory insurance, and also regulates the creation of state and national insurance companies and mandatory associations of insurers.

Government orders are submitted as separate orders regarding experiments in the field of insurance. Orders can solve certain issues of regulation of insurance rates, the terms of contracts when it does not contradict the laws of Ukraine.

Regulations of ministries and departments — instructions, practices, orders registered in the Ministry of justice, are detailed certain legislation. This is especially true for those matters within the scope of the regulation of several departments. For example, these acts regulate the accounting and statistical reporting insurers for the implementation of the customs or law enforcement of a general financial and insurance supervision. Sometimes such acts are approved methods of calculation of insurance rates. Joint acts sets out the regulations for registration of insurers in the system of various departments.

Regulations of local authorities, as a rule, are administrative in nature, outlining, within certain administrative units especially the performance of activities of certain government or institutional documents. The role of the legal acts of local authorities in the insurance industry minor in connection with the assignment of most of the issues on regulation of insurance activities at the national level.

The Ukrainian «Insurance law» was defined executive authorities, exercising appropriate oversight. Till 2000 year such authority in Ukraine was the Committee for insurance supervision that obeys to the Cabinet of Ministers of Ukraine. From 2000 to 2003 years, the functions of the Authorized body belonged to the Ministry of Finance of Ukraine, in particular the Department of financial institutions and markets. After april 26, 2003 year — the State Commission for regulation of financial services markets of Ukraine. By the presidential decree of Ukraine from November 23,

2011 year № 1070/2011 created the national Commission, which performs state regulation in the sphere of financial services markets, in its activity is guided by the Constitution and laws of Ukraine, and also presidential decrees of Ukraine and resolutions of Verkhovna Rada of Ukraine, accepted according to the Constitution and laws of Ukraine, acts of the Cabinet of Ministers of Ukraine, regulations on the State Commission for regulation of financial services markets of Ukraine (Resolution of the Cabinet of Ministers of Ukraine of February 3, 2010 year, № 157).

The main functions of the Commissioner authority, by article 36 of the «Insurance law» are (total of 14):

- maintenance of the unified state register of insurers (reinsurers) and the state registry of insurance and reinsurance brokers;

- issuance of licenses to insurers to conduct insurance activities and audits of its compliance with the issued license;

- inspections on the correct application of insurers (reinsurers) and insurance intermediaries legislation on insurance activity and accuracy of reporting;

- development of regulatory and guidance documents on insurance activities assigned by this Law to the competence of the Authorized Agency

- adoption within its competence, of regulations on insurance and brokerage activities in insurance and reinsurance;

- monitor the solvency of insurers under insurance taken its obligations to assurers;

- establishment of rules of formation, accounting and placement of insurance reserves and reporting indicators;

- implementation and coordination of legislation in certain of education, training and retraining;

- participation in international cooperation in the field of insurance and reinsurance, organization of implementation of the international treaties of Ukraine on these issues.

Article 37 of the «Insurance law» is displayed, which has the rights authorized body (total of 11). There are the main:

- obtain in the prescribed manner from insurers of the reporting on insurance activities, information about its financial condition and the necessary explanations regarding the reporting of data;

- carry out checks on the correct application of the insurers of the Ukrainian legislation on insurance activity;

- issue instructions to insurers about elimination of the revealed violations of requirements of the legislation on insurance activity, and in case of

its failure to stop or limit action of licenses of these insurers until elimination of the revealed infringements or to make a decision about withdrawal of licenses and exclusion from the state register of insurers (reinsurers);

- carry out thematic inspections of the activities of the insurer;
- monitor the accuracy and made of the information that is provided by the insurance market participants;
- apply to the court for canceling the registration of the insurer (reinsurer) or insurance intermediary in cases provided by law;

Detailed functions and rights of the Authorized body on supervision of insurance activity set out in the «Insurance law».

References: [1–6], [12], [17], [20], [22], [25], [28].

Questions for self-control

1. What is the need for management of insurance?
2. What is the specificity of the insurance management?
3. What is the essence of insurance management?
4. What are the functions inherent in insurance management?
5. What is the essence of planning functions in insurance management?
6. What are the characteristics of the control function in insurance management?
7. What are purposes of insurance management?
8. What are the main objectives of insurance management?
9. What are the legal foundations of legal regulation of insurance activity in Ukraine?
10. What purpose was adopted the «Insurance law»?

Glossary

Control in insurance management — the process of management, aimed at the detection of quantitative and qualitative deviations from the planned indicators

Insurance management — professional management of the insurer's activity in conditions of market economy aimed at obtaining maximum profits with efficient use of all available resources

Functions of insurance management — specific types of management activities that are carried out using special techniques and methods, as well as the corresponding organization of work and control activities of the insurance company

General (economic) goals of insurance management — protection of property interests of businesses and individuals through insurance activities aimed at profit insurance company

Motivation in insurance management — clearly formed in the insurance employees desire to fulfill the requirements set by the leadership of the insurance company in full with the required quality provided by optimizing the process steps (supporting best balance between results and costs of achieving it)

Management object in insurance management — total insurance capital intended for compensation of possible losses of insurers

Organization in insurance management — preparation of all necessary for the implementation of the plan, which involves the integration of logistical and financial systems, human resources insurance company

Planning in insurance management — the initial phase of the management of the insurance activities, which achieved the unity and coordination of staff of insurance company

Specific (social) insurance management goals — the most complete satisfaction of needs of insurance customers the insurance companies and the creation of an optimal set of insurance products, adequately those that correspond to available insurance interests

Tests

Test 1. Insurance management is:

- a) professional management of the activities of the insurance company;
- b) technology financial planning;
- c) the process of drafting, adopting and further control of budgets;
- d) management of insurance market.

Test 2. The necessity of insurance management is predefined by the:

- a) specific of activity of insurer;
- b) unicity of insurance activity;
- c) necessity of management of insurer activity;
- d) necessity of planning of insurance activity.

Test 3. The insurer — is:

- a) legal entity that under current law assumes responsibility for damages and has license to conduct insurance business;
- b) legal entity that carries out insurance under a contract with the insurer;
- c) a natural or legal person who pays the premiums under the contract;

d) the person or entity that receives reimbursement in the insurance case

Test 4. Voluntary Associations of insurers are created to:

- a) protection of economic interests of potential policyholders;
- b) protect the economic interests of insurance intermediaries;
- c) coordination of activities of insurers engaged in specific types of insurance;
- d) coordination of activities of insurance intermediaries.

Test 5. Professional participants of the insurance market include:

- a) insurers, banks, the stock exchange;
- b) insurers, reinsurers, insurance intermediaries;
- c) the insurer and the insured;
- d) association of insurers, credit unions, pawnshops.

Test 6. The basis of calculation of insurance capital is:

- a) insurance indemnities and compensations;
- b) insurance reserves;
- c) the assets of the insurer;
- d) the collected insurance premiums.

Test 7. The goals of insurance management are classified as:

- a) state and public;
- b) general and specific;
- c) the economic and political;
- d) administrative and financial.

Test 8. It is not the function of insurance management:

- a) planning;
- b) organization;
- c) reinsurance;
- d) motivation.

Test 9. There are forms of control:

- a) insurance and reinsurance;
- b) individual and collective;
- c) complete and selective;
- d) preliminary, current and subsequent.

Test 10. Economic goal of the insurance management is:

- a) the development of the insurance market;
- b) maximizing current profits;
- c) development of quality insurance products;

d) maximizing the value of the insurance company.

Test 11. The social goal of the insurance management is:

- a) the development of the insurance legislation;
- b) meet the insurance needs of clients of the insurance company;
- c) the creation of new jobs in the insurance industry;
- d) profit maximization.

Test 12. Clearly formed in the insurance employees desire to fulfill the requirements set by the management of the insurance company assumes the function:

- a) planning;
- b) organization;
- c) motivation;
- d) control.

Test 13. Comparison of planned and actual obtained result provides a function:

- a) planning;
- b) organization;
- c) motivation;
- d) control.

Test 14. Authorized governmental authority that oversees insurance activities in Ukraine is:

- a) The Ministry of Finance of Ukraine;
- b) The National Commission for State Regulation of Financial Services Markets;
- c) The Antimonopoly Committee;
- d) League of Insurance Organizations of Ukraine.

Test 15. Which of the functions assigned to The National Commission for State Regulation of Financial Services Markets:

- a) determining the minimum authorized capital of insurers;
- b) processing insurance rates;
- c) granting licenses for insurance activity;
- d) registration of insurance contracts, which transferred to the risks of reinsurance to non-residents.

Topic 2. Resource Potential, Structure and Management of Insurance Organization

Issues:

- 1. Resource potential and the basic organizational and legal forms of insurance activity in Ukraine*
- 2. Process formation of an insurance company, reorganization and liquidation*
- 3. Structure management of the insurer*

1. Resource potential and the basic organizational and legal forms of insurance activity in Ukraine

Commercial activities can not be carried out without the requisite factors, namely: material, energy, labor, financial and information resources. Its combination and rational structure determine the potential of the company. Potential insurance companies determine its available financial, material, human and information resources (Fig. 2.1).

Resources have to be constantly managed, it means to determine the quantity and quality of resources required, method, duration and place of its interaction.

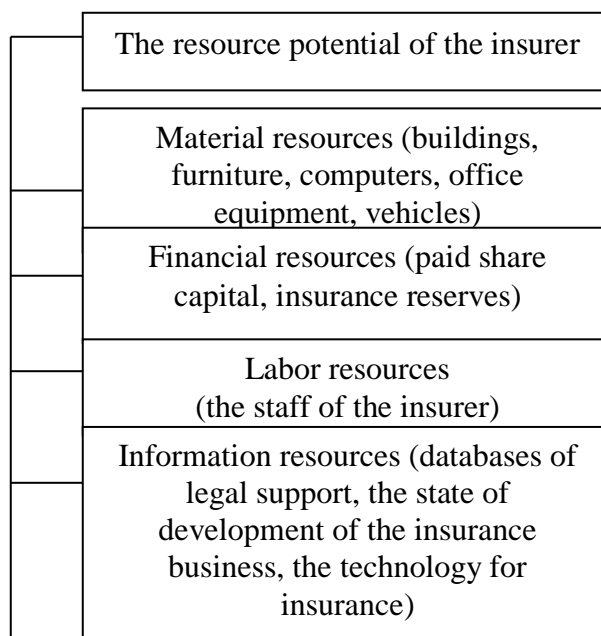


Figure 2.1 — Components of the resource potential of the insurer

Material resources of the insurer could include rooms for the office and its separate structural divisions (including maximum convenience to potential assurers), furniture, telephone, computer, copiers and other equipment of the vehicle.

Financial resources provide reliability obligations of the insurance company and consist primarily of cash of the paid-up share capital and of insurance reserves, sufficient for the payment of insurance claims on insurance agreements.

Labor resources of the insurer are important for its success. From the intellectual and professional level of the staff of the insurance company depends on the achievement of strategic objectives. Workers do not perceive the automatic, unconscious control. One or another individual comes into an organization with a specific purpose and require appropriate assistance in achieving it. Therefore, the leadership must constantly make every effort for the rational selection of employees and unlock their professional abilities.

Insurance is one of the business sectors most dependent on **information systems**. Each insurer feels the need to constantly analyze changes in external and internal factors that can affect the performance of the company. Databases help it contain the system acts on legal support of the company, describing the economy as macroeconomic and microeconomic levels, the state of the national and regional insurance markets, giving an idea of global trends and new technologies of insurance.

The basis of the success of the insurance company is human resources. The impact of intellectual and professional development of staff insurer to insurer achieving strategic goals is crucial.

The success of the insurer often depends on «the narrowest component of the potential. However, it often becomes necessary to increase one factor by weakening another. So, creating or developing the insurance business, you need to pay attention to the rational formation of each component of a company's potential.

The insurance company is a legally registered business entity, where the formation of capital and insurance are interwoven individual and collective interests. The insurance company according to the license takes the responsibility via fee to compensate the insured caused the insured event the loss or to pay the insured amount.

Economic Code of Ukraine provides for the establishment of insurance companies in the following organizational and legal forms: corporations, general partnerships, limited partnerships, additional liability. Also, the law provides for the creation of state insurance companies. In addition, a special category of insurance companies represent mutual insurance companies.

Participants of the insurer should not be less than three. The subject of direct activities of an insurer should be only insurance, reinsurance and financial activities related to the formation, placement of insurance reserves and its management.

Private insurers can be individuals, joint and other insurance companies. *The state* insurers can be based and guided on behalf of the government or the nationalization of joint stock insurance companies and transforms its property into state property.

For organizational form insurers are divided as follows.

Joint stock insurance company is type of insurer is created and operates with a charter capital divided into shares that give their holders the right to participate in the management of the company and receive part of the profit in the form of dividends. A characteristic of joint organizations is the distribution of responsibility between participants and commitments made. In Ukraine insurance market is dominated by joint stock companies as private. However, more perspective for the insurance business is public joint stock companies, which have the ability to raise funds through the sale of shares on the open market.

Partnership with additional liability is the insurer in the form of a business partnerships, the authorized capital is divided into shares determined by statutory documents. Participants are responsible for its obligations with their contributions to the charter capital, and in case of insufficiency of these funds — advanced by property.

Partnership with full liability is the insurer as a union of several persons who personally involved in the affairs of the company, and each bears full responsibility by the obligations of the partnership not only by invested capital, but also by all their property.

Insurer in the form of a limited partnership combines two types of participants, including full partners and investors-limited. Legal status of full partners similar to full partnership. They engage in business activities on behalf of the limited partnership, responsible for the company's obligations with all its assets. Participants don't participate in the management of the company (acting on its behalf under instructions), responsible for the company's obligations within their contributions to the share capital and participate in the distribution of profits on invested capital.

The mutual insurance company (MIC) are legal entity-insurers are established in accordance with Ukrainian «Insurance law of Ukraine» with the purpose of insuring the risks of that company. Each member of the society, subject to the use of all the obligations to the mutual insurance com-

pany, regardless of the amount of the premium, has the right to obtain all the necessary insurance indemnity in case of insured event. Currently Ukraine has not registered any insurer in the form MIC.

Outside the scope of insurance coverage the insurance company can be divided into *local, regional, national and transnational (international)*. The licenses of almost all companies issued with the right of implementation of activities throughout the country. It is therefore difficult to investigate within what regions or cities have one or another insurer. However, given the scale of the territory that is covered by insurance coverage, we can say that each of these insurance companies perform their specific functions and meets certain criteria.

Life insurance companies engaged in long-term cumulative types of insurance (for survival in case of death, additional pensions, etc.) and *risk insurance company* engaged in both types of short-term insurance (property, land transport accidents, etc.).

Reinsurers are insurers that do not perform direct insurance operations and taking risks of other insurers in reinsurance and may transfer part of its in retrocession (re-reinsurance).

By amount of capital and by other economic indicators, which determine the rating of the insurance companies, in the market allocate *large, medium and small* insurance companies.

2. Process formation of an insurance company, reorganization and liquidation

Creating an insurance company is usually in three stages: Stage 1: State registration of insurance companies as a business entity; Stage 2: Registration issue of shares of the insurance company (if the insurer is established as a joint stock company); Stage 3: licensing of insurance company.

In the first stage, the insurance company is registered as a business entity in accordance with the Commercial code of Ukraine and Law of Ukraine «On state registration of legal entities and individuals-entrepreneurs». State registration of insurance companies is carried out by the state Registrar only in the Executive Committee of the city Council of the city of regional value or in district, district in the cities of the state administration at the location of the legal entity.

The insurance company needs to have its own name, which contains information about its legal form and name. Chartered capital of insurance companies should be formed only in the monetary form. It is allowed the

authorized capital of the insurance company securities, issued by the State at their nominal value in the manner determined by the National Commission for State Regulation of Financial Services Markets, but not more than 25 per cent of the share capital. It isn't allowed to use the share capital notes, funds of insurance reserves, budget and funds received in credit, loan and secured, make intangible assets.

The total amount of contributions to an insurance company authorized capitals of other insurance companies in Ukraine cannot exceed 30 percent of its own share capital, including the contribution to the charter capital of a separate insurance company cannot exceed 10 percent. These requirements do not apply to an insurance company that provides insurance other than life insurance in case of its contribution to the authorized capital of the insurer that provides life insurance.

Based on the results of the check the insurance company receives the certificate of state registration — a document certifying the fact of entering into the Uniform state register of note about the state registration of the company. At this point, the insurance company can operate as a business entity, but has no right to engage in insurance.

The second step is the registration of the issue of shares of the insurance company (provided the company established as a joint stock company). The procedure for the issue of shares is governed by the Civil and Commercial Code of Ukraine, Laws of Ukraine «On Securities and Stock Market», «On Joint Stock Companies» and other regulations of the National Commission for State Regulation of Financial Services Markets.

After the registration of the share issue private and public joint stock companies issued a certificate of registration of the share issue.

The third stage is the licensing of insurance company. Licensing of insurance operations of the insurance company, which will operate on the territory of Ukraine is mandatory and is carried out by the National Commission, carrying out state regulation in the sphere of financial services markets. The license is issued for conducting a particular type of insurance, at the same time gives the right for this kind of reinsurance for insurance throughout Ukraine. The licensing process is governed by the License terms of the insurance activities. The licensing process includes the issuance, renewal and revocation of licenses, issue of duplicates of licenses, conducting licensed cases of the National Commission, carrying out state regulation in the sphere of financial services markets.

According to the Commercial Code of Ukraine and Ukrainian «Insurance law», the insurance company may terminate its activities through

reorganization (merger, joining, division, separation, transformation) or liquidation. Reorganization of the insurance company carried out in the manner specified by the current legislation of Ukraine, allowing for the provision of succession to conclude insurance contracts established by the National Commission for State Regulation of Financial Services Markets.

The merger provides termination of activities of two or more exclusively of insurance companies as legal entities and transfer of all property rights and obligations to another insurance company-a legal entity the rights of a branch or without opening a branch.

The joining provides for the termination of the activities of an insurance company as a legal entity and transfer of all property and non-property rights and obligations to another insurance company on the rights of a branch or without opening a branch.

The division provides for the termination of the activities of an insurance company as a legal entity and the transfer by the distribution act (balance) in the relevant parts of all his property and non-property rights and obligations of several insurance companies — legal entities that are created as a result of the reorganization.

Separation envisages the establishment of the insurance company-a legal entity (or several insurance companies), when property and non-property rights and obligations of the insurance company-a legal entity (that is reorganized) in relevant parts follow to it by the distribution act (balance). In practice, often instead of separating there is establishing new insurance companies because it is much easier and requires less cost.

Transformation provides:

- change the legal norms of society, which an insurance company was established. This new insurance company has all property and rights and obligations of the company, reorganized;

- conversion of insurance company into insurance intermediary, subject to repayment of its economic and moral obligations to insurers and re-insurers.

The reorganization (sanitation) insurance company made under the decision of the higher authority of the insurance company or at the request of the National Commission for State Regulation of Financial Services Markets in the application of sanctions for violation of insurance laws. The process of liquidation of the insurance company is controlled by the National Commission for State Regulation of Financial Services Markets.

Termination of the insurance of the company is possible in the following cases:

- by the decision of the higher authority of the insurance company;
- a court decision on the proposal of controlling the activities of the insurance company (for example, National Commission for State Regulation of Financial Services Markets), in the case of systematic or gross violations of the law. The National Commission for State Regulation of Financial Services Markets may suspend a license for insurance activity in violation of the insurer of the current legislation and regulations, and in the case of gross violation of the law to cancel the license for insurance.

Liquidation of the insurance company is the appointed the liquidation Commission, and in the case of termination of the company by the court — the liquidation Commission appointed by the court. In the case of recognition of the insurance company bankrupt, liquidation is carried out according to the liquidation procedure provided by the Law of Ukraine «On restoring debtor’s solvency or declaring bankruptcy».

3. Structure management of the insurer

After receiving a license for insurance, the insurer is entitled to work for her throughout Ukraine abroad. It is possible for the insurer through the creation of its structural subdivisions of different levels in Ukraine and in other countries (Fig. 2.2).

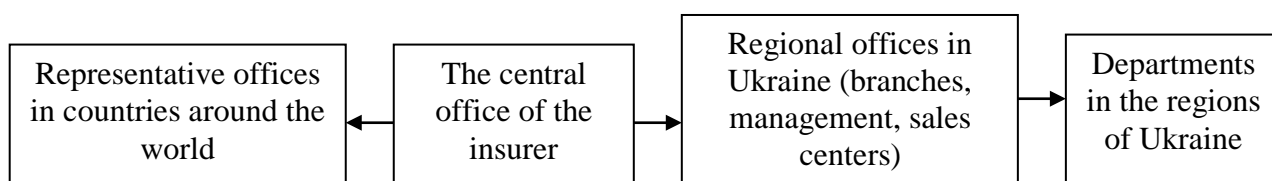


Figure 2.2 — The scheme of the territorial structure of the insurer

A set of standard units, its functions and subordination system are determined by the characteristics of the financial cycle. Typical functions in the insurance company is marketing; develop your own package of standard insurance products; negotiations with potential customers to implement insurance contracts; underwriting; execution and support of insurance contracts; actuarial calculations; settlement of losses; finance and investment; general business functions and more.

Each insurance company forms the workforce at its discretion, and depending on the goals and recommendations of the management or owners of the company.

The most common is the linear-functional management system insurer that provides direct subordination to the president of the insurance company of all other departments.

The divisional system, focused on the greater autonomy of the structures of the insurance company. To some extent, the divisional management system provides for the rejection of the Directive of the company management.

Direct management of the insurance company does by the Chairman of the Board who is appointed or elected in accordance with the Charter of the company. In some cases, the position can be called «President», «CEO» or «chief Manager of the company».

Traditionally, the insurance company personnel divided as follows:

- management (top management);
- middle managers;
- heads of the lower level;
- senior specialists;
- junior specialists;
- staff (Table 2.1)

Table 2.1 — The staff of the insurer

Groups	Positions
Management (top management)	Chairman of the Board, the Vice Chairman of the Board, chief accountant
Middle managers	heads of departments, heads of branches, project managers, deputy chief accountant, underwriter, manager of sales, risk manager, actuary
Heads of the lower level	heads of departments, heads of sectors, heads of offices responsible for financial monitoring
Senior specialists	chief specialists, leading specialists
Junior specialists	specialists
Staff	secretary, drivers and others

The Chairman of the Board is assisted by his deputies or Vice-presidents, who are directly subordinate to him and in case of his absence temporarily, perform its functions. In addition, top officials applies chief accountant of the company.

According to the professional requirements for managers and chief accountants of financial institutions (approved by the State Commission for State Regulation of Financial Services Markets №1590, 13 July 2004), the head and chief accountant of the insurance company can only be a person who has completed higher economic or legal education (specialist, master), was training at the appropriate specialization according to the

program agreed with the National Commission for state regulation of financial services markets.

In addition, this person has general experience of work not less than five years, including managerial experience of at least two years, of which at least one year in the financial services market. Also, for the past five years, that person was not a leader, chief financial officer or chief accountant of the financial institution, declared bankrupt, prone procedure of forced liquidation or which was used measure the impact of the body that regulates the financial services markets, including the National Commission for state regulation of financial services markets in the form of removal from the leadership of the financial institution and the appointment of an interim administration and have no outstanding criminal convictions for premeditated crimes in the sphere of economic and service activities, and not be deprived of the right to occupy certain positions and engage in certain activity.

Chairman of the insurance company is personally responsible for its activity as to the owners of the company, and to state agencies that may control the economic activities of the insurance company. This responsibility is transformed into a right chairman without authorization to sign contracts and other civil documents and perform other actions on behalf of the company.

Depending on the circumstances, chairman of the company can provide the right to sign financial documents his deputies. Vice Chairman of the Board shall have the right to sign documents of the insurance company only under orders of Chairman of the Board, unless otherwise stipulated by the charter company. Chairman of the Board is responsible for performance of the company and as the officer responsible for the violation of the law, including bear administrative and criminal liability for the company.

Chairman of the Board can perform both functions of Chairman of the Board of Directors.

In Western Europe, the operational management of the company usually performs general manager. Unlike the chairman of the insurance company, its functional responsibilities are coordinating nature.

The main task of the general manager is to coordinate the work of other top managers (managers of the implementation, a risk-manager, underwriter, etc.) in accordance with the purposes of strategic and tactical plans.

Chief manager who routinely deprived of necessary care for subordinates, have sufficient time to evaluate the project qualified strategic and

tactical plan to consider a new model of insurance services and to define the most important links, hampering the company.

Today in Ukraine there is a general manager position typically in companies with foreign capital. In foreign practice general manager has broad powers in the management of the company. At the same time, other top managers have the authority for making operational management decisions without additional approval and documentation.

Number of Vice Chairman of the Board and their functional responsibilities are established by the owners of the company or Chairman of the Board at its discretion. Different insurance companies as Vice Chairman of the Board differ. In some of them the deputy chairman plays an important role in the management and may even full control of the company. In other deputy role be reduced to perform certain assignments chairman. The mechanism of work deserves attention, in which the deputy chairmen of the assigned duties with full control certain area of insurance or a separate structural element (e. g., management *front-office* or *back-office*).

Chief accountant of insurance company controls the financial reporting of the company. Responsibilities of the chief accountant of the insurance company cover all aspects of the company's financial performance. Chief accountant, as an official, shall bear administrative and criminal liability for the performance of insurance company tax obligations. It requires the chief accountant qualifications and comprehensive understanding of insurance.

Depending on the structure of the insurance company to the chief accountant can be charged with the organization reporting to the National Commission for State Regulation of Financial Services Markets. In some cases, the chief accountant performs financial analysis of the company. However, experience shows that such activity is conditional and is not carried out in a professional manner.

The authority of heads of branches (representations) determined by management of the insurance company with specific activities. Professional requirements of the National Commission for State Regulation of Financial Services Markets of the heads of separate units are similar to the head of the insurance company.

With strict regulation of the company from management, functional responsibilities of heads of departments actually confined to the timely implementation of the instructions received.

The decentralization of the management of the insurance company heads of departments may have the authority to make independent decisions, which generally relate to the insurance contracts.

Search for candidates for the insurer can be: within the company, with the help of employees, this may be the candidate that most appeal to the company providing the work a job through the media, the use of services of public and private employment services, recruitment personnel by graduates.

References: [1–6], [13], [21], [22], [26], [33].

Questions for self-control

1. What are the components of the resource potential of the insurance company?
2. What is the subject of direct activity of the insurer?
3. What is classification of insurers by organizational-legal form?
4. Which of the organizational-legal forms of insurance activity is most prevalent in Ukraine? Why?
5. What is the need for functioning separate units of the insurance company?
6. What are the association of insurers operating in Ukraine? What are the functions they perform?
7. What are the steps of creating an insurance company?
8. How the insurance company can cease operations? Give a description of each method.
9. What are the main types of organizational structures of management of the insurance company?
10. Who performs direct management of the insurance company? What are the functions it performs?

Glossary

Division — termination of the activities of an insurance company as a legal entity and the transfer by the distribution act (balance) in the relevant parts of all his property and non-property rights and obligations of several insurance companies — legal entities that are created as a result of the re-organization.

Joining — termination of the activities of an insurance company as a legal entity and transfer of all property and non-property rights and obligations to another insurance company on the rights of a branch or without opening a branch

Joint stock insurance company — type of insurer is created and operates with a Charter capital divided into shares that give their holders

the right to participate in the management of the company and receive part of the profit in the form of dividends

Merger — termination of activities of two or more exclusively of insurance companies as legal entities and transfer of all property rights and obligations to another insurance company—a legal entity the rights of a branch or without opening a branch

Partnership with additional liability — Insurer in the form of business partnership, the authorized capital is divided into shares determined by statutory documents. Participants are responsible for its obligations with their contributions to the charter capital, and in case of insufficiency of these funds — advanced by property.

Partnership with full liability — insurer as a union of several persons who personally involved in the affairs of the company, and each bears full responsibility by the obligations of the partnership not only by invested capital, but also by all their property

Reinsurers — insurers that do not perform direct insurance operations and taking risks of other insurers in reinsurance and may transfer part of its in retrocession (re-reinsurance)

Separation — the establishment of the insurance company—a legal entity (or several insurance companies), when property and non-property rights and obligations of the insurance company—a legal entity (that is reorganized) in relevant parts follow to it by the distribution act (balance)

The mutual insurance companies — legal entity-insurers are established in accordance with Ukrainian «Insurance law « with the purpose of insuring the risks of that company

Transformation — the change of the legal norms of society, which insurance company was established or conversion of insurance company into insurance intermediary, provided the repayment to them of their property and non-property obligations to policyholders and reinsurers

Tests

Test 1. The direct activity of the insurer is:

- a) reinsurance;
- b) receiving funds under the mortgage;
- c) trade in banking metals;
- d) audit.

Test 2. Insurance companies are classified by ownership:

- a) specialized and universal;
- b) local and regional;

- c) private and public joint stock companies;
- d) private and public.

Test 3. What forms of enterprises can be established insurers in Ukraine?

- a) individuals registered as entrepreneurs;
- b) legal entities registered as joint-stock, full, limited partnerships and companies with additional liability;
- c) a legal entity in the form of limited liability companies and private enterprises;
- d) foreign legal entities.

Test 4. The main purpose of mutual insurance companies is:

- a) insurance operations in all types of insurance;
- b) creation of insurance to protect members of society;
- c) reinsurance;
- d) development and implementation of the common rules of insurance.

Test 5. Captive insurers are:

- a) joint stock insurance companies public and private;
- b) insurance companies established with participation of foreign persons;
- c) insurance company created by industrial, business and banking institutions;
- d) insurance company created at the expense of the state.

Test 6. The branch of an insurance company has the right:

- a) to enter into and maintain contracts of insurance;
- b) to make decisions about its liquidation;
- c) to conduct audits of the activities of other branches;
- d) to engage in promotional activities.

Test 7. Association of insurers:

- a) coordinate the activities of insurance companies;
- b) carry out insurance activity;
- c) carry out mediation activities;
- d) ensure financial soundness of insurance operations.

Test 8. The reorganization of insurance companies can be conducted through:

- a) merger;
- b) accession;

- c) separation;
- d) liquidation.

Test 9. The change of the legal form of the company, that the insurance company was created, provides:

- a) merger;
- b) accession;
- c) conversion;
- d) allocation.

Test 10. Reorganization of the insurance company conducted if:

- a) there is decision of the supreme body of the insurance company;
- b) at the request of the League of Insurance Organizations of Ukraine;
- c) there is decision of the policyholders;
- d) at the request the National Commission for State Regulation of Financial Services Markets for violation of insurance laws.

Test 11. The main types of organizational structures of management of insurance companies do not include:

- a) linear;
- b) linear-staff;
- c) static;
- d) functional.

Test 12. The main methods used to select the type of organizational structure of management don't include:

- a) analogy;
- b) expert-analytical;
- c) structuring purposes;
- d) plan.

Test 13. The system of measures of direct state regulation does not include:

- a) granting licenses to conduct certain types of insurance;
- b) registration of insurance companies;
- c) taxation of insurers;
- d) monitoring the activities of insurers.

Test 14. The authorities of management of the insurance company include:

- a) the Finance Department;
- b) the Supervisory Board;
- c) the trade Union Committee;

d) security service.

Test 15. The Supreme management body of the insurance company established as a joint-stock company is:

- a) the Supervisory Board of the insurance company;
- b) the General meeting of shareholders;
- c) the Board of Directors;
- d) the Board of the insurance company.

Topic 3. Process Planning in Insurance Activity

Issues:

- 1. The economic essence and principles of financial planning in insurance activity*
- 2. Strategic planning of insurance activity*
- 3. Operational planning of insurance activity*
- 4. Methods of financial planning in the insurance company.*

1. The economic essence and principles of financial planning in insurance activity

From reasonably planned model of the insurer depends on its financial stability and profitability. So the important role given to financial planning in the insurance.

Financial planning insurer — is the management processes of creation, distribution and use of financial resources in the company, which is implemented in the detailed financial plans.

Financial Planning insurance is the process of studying the financial needs of the company for a specified period based on the receipt of insurance premiums, the availability of funds and their expenditure trends for the period. It is one of the central parts of the management of financial and economic activity of the insurer.

Financial plan — a set of financial indicators should be calculated and forecast using special technology. As a final result of the financial plan is usually used projected balance insurer, including the report on income, statement of income and expenses and cash flow statement.

Financial planning is closely related and based on the marketing, production and other plans of the company, subject to its mission and overall strategy. Financial forecasts will find no practical value as long as no processed production and marketing decisions. Financial plans become reality if put out of reach marketing goals. They may be acceptable if conditions reach target unfavorable financial performance for the company in the long run.

The conditions that affect the efficiency of financial planning, resulting from the most goals of the process and the desired end result. In this sense, there are three basic conditions of financial planning:

1. Reliability prediction.

Weather can be based on historical information on the use of mathematical statistics, modeling and expert estimates.

2. Set a financial plan.

It should be understood that while there is no model that would solve the manager that possible alternatives should take. The decision shall be taken after consideration of alternatives based on professional experience and intuition head.

3. Control over the execution of the financial plan.

The principles of financial planning in insurance activities include the following:

1. Consideration of the insurance company as an open social and economic system capable of self-organization (systemic). This principle implies that the process of financial planning insurance company is seen as a certain system fully open to active interaction with environmental factors. During this interaction insurer takes appropriate organizational and functional structure.

2. Consideration of the basic strategies of the company (affiliation). Planning of the insurer — is an integral part of its overall development strategy, and therefore has to take into account provided the latest tools and techniques to achieve these goals. Given the specificity of insurance business, it can be argued that it is a basic financial strategy and the initial part of the planning process.

3. Providing flexible financial planning. The future development of the insurer's always inherent uncertainty. Therefore almost impossible to leave unchanged developed financial plans at all stages of their implementation. Timely maneuvering of financial resources achieved through the creation of appropriate reserves and their effective management. In addition, an important role in ensuring flexibility in financial planning plays a level of liquidity and investment.

4. Providing alternative planned financial choice (alternative). At the heart of financial planning decisions must be actively seeking options for directions, forms and methods of implementation, the choice of the best of them, the formation of the basis of the general financial strategy and effective mechanism for its implementation.

5. Taking into account the conditions of the insurance company and its potential (compliance). Each insurance company is to some extent unique form of business organization, which is why the use of template approaches are ineffective. Important for the development of the state of play of the whole economy, political stability, the development of technology, space insurance market in the country, confidence in financial institutions and insurance culture of local capacity (owners, asset management).

6. Focus on the professional unit of financial management in the implementation of financial plans (professional). Whatever experts are not introduced to the development of the individual parameters of financial plans, their implementation must provide trained professionals — financial managers. They should be familiar with the basic principles of strategic management, management mechanism specific aspects of insurance, own methods of strategic financial controlling.

In terms of the planning period can be identified long-term, medium-term and short-term financial planning. This short-term planning based on the results of mid-term and long-term planning. However, planning for long periods in the development of economy, characteristic of contemporary conditions is ineffective because it does not allow to objectively consider changing macroeconomic environment.

2. Strategic planning of insurance activity

Strategic financial planning insurer — is a part of an overall plan of its financial activities, covering a considerable period of time in order to effectively use available resources to achieve the main goal of the company.

Given the specificity of the insurance business can distinguish two types of financial strategies: 1) general (covers the need for financial resources and sources of their formation in the long term); 2) operational (relating to the current financial management, detailing the general strategy for a specific period of time).

Thus, the practice of insurance companies has developed a number of approaches to strategic planning of their activities.

The content of the main stages of strategic financial planning insurer is:

1) determine the overall period of development of financial strategy. The timing depends on several conditions. The main condition for its determination is the length of the period taken to create a common development strategy — as the financial strategy is towards her subordinate nature, it can not go beyond the limit of this period, in the current unstable economic development during this period can not be more than three years;

2) study of factors external financial environment and financial market. For such studies should explore economic and legal conditions and financial activities of possible changes in the next period. Moreover, at this stage of development of financial strategy analyzes financial market conditions and the factors that determine it, as well as developing weather conditions in individual segments of the market related to the following financial activities of the company;

3) formation of strategic objectives of financial activity. The main purpose of this activity is to improve the welfare of the insurer and the maximization of its market value. At the same time, this needs to specify the main purpose given tasks and features next financial development. The system should ensure the strategic goals of forming sufficient own financial resources and highly profitable use of equity; optimization of assets and capital employed;

4) specification targets financial strategy for the period of its implementation. During this dynamic presentation of detail provided strategic target system of financial regulations as well as their internal and external synchronization time. External synchronization provides coordination for future implementation strategies developed indicators of financial performance of the overall development strategy of the insurance company, as well as predictable financial market changes. Internal synchronization involves coordination of all time target strategic financial ratios of each other;

5) development of financial policy in some aspects of financial activity. This stage of development of financial strategy is the most responsible. Fiscal policy is a form of ideology financial implementation and financial strategy of the company in the context of the most important aspects of financial activity at various stages of implementation. In contrast to general financial strategy, financial policy formed only on specific areas of financial activity that need to ensure the most effective management to achieve the main strategic goal of this activity;

6) develop a system of organizational and economic measures for the implementation of financial strategies. In the system of measures is expected formation of «responsibility centers» of various types; determine the rights, obligations and responsibilities of managers measure for financial performance; develop a system of incentives for workers to contribute to improving the efficiency of financial activity;

7) evaluate the effectiveness of the financial strategy designed to determine whether the company is able to achieve defined objectives in terms of possible changes in environmental factors associated with the concept of «stability», which refers to the possibility of maintaining the equilibrium state of the system at the time.

The question of stability of insurance companies, as well as other financial institutions are very important in terms of attracting clients and market positioning. The financial condition of the insurance company, its resistance is a qualitative characteristic when buying insurance services. Installing the economic requirements for insurers is a way to prevent in-

solvency, but this system has its drawbacks (especially due to the instability of the currency). Development of indicators to assess a company's own financial condition enables better approach to the question of the stability of the activity.

The financial strategy of the insurance company can be divided into its three main components (Fig. 3.1).

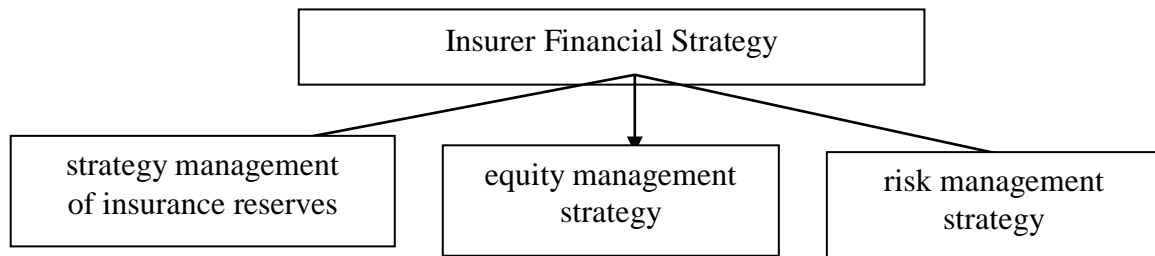


Figure 3.1 — The financial strategy of the insurance company

The content of the components of the financial strategy of the insurance company is as follows.

Strategy management of insurance reserves. During the management of insurance reserves solve the problem of ensuring their safety, profitability, liquidity and diversification, implemented on the basis of analysis of the situation by deliberate action on the structure of the reserves.

Equity management strategy is particularly important insurance company to ensure its solvency. The expansion of the company increased the amount of its liabilities, which necessitates an increase in equity. In addition, management equity associated with the justification criteria of adequacy and choice of indicators can evaluate.

The strategy of risk management. The essence of any insurance company — is working with risks. Therefore, risk management for insurers is the subject of special attention. On the activity of insurance company influence the risks inherent in all business entities specific risks that always accompany the activity of the insurer. Taking into account the risks associated with the insurance business, is necessary because they occupy the largest share among all of the risks and impact not only on the financial performance of the insurer, but also on the social level form the attitudes of society towards it.

3. Operational planning of insurance activity

Operational financial planning is a key element in the management of insurance organizations. It is due to operational planning models provided adequate financial management of the insurer needs changing market envi-

ronment and its effectiveness. If strategic financial planning is designed to meet the challenges of the future and designed typically for 5–10 years, the operational financial planning solve the short-term (within 1 year) detailed tasks.

Operational financial planning is part of the financial plan insurer, calculated for the period between 1 year and solves the problem of this nature with regard to strategic objectives, ensures stable operation issues and provide the insurance company needs financial resources.

General, financial and investment activities of insurance organizations has its own specific characteristics. Therefore, the construction and implementation of operational planning needs to be adjusted in accordance with the needs of the insurance business.

Due to operational financial planning solved the problem of financial security of economic activity of the insurer. Operational plans specify and clarify the tasks of the strategic plan. The insurance company may reveal significant investment opportunities to determine the optimal capital structure, build effective work of all divisions (underwriting department, department of methodology; actuarial department, department of reinsurance, claims handling department, finance department, operating department, agency grid).

Due to operational financial planning can be solved following tasks insurance company:

- Income from insurance planning, investment and other activities;
- Coordination of the various structural units of the insurer;
- Operational control current performance objectives, determine deviations and their correction;
- Control over the efficient use of financial resources insurer;
- Improving the achievement of the objectives by determining responsibility centers.

Operational financial planning is a tool of financial management that allows the insurer to exercise current control over cash flow, forming financial results affect the deviation of its performance.

In modern conditions of dynamic market development and financial services, including insurance market in Ukraine, managers of insurance organizations should take into account that the operational financial plan should be flexible and include alternative solutions.

In preparing financial plans for the operational manager of the insurance company should consider the possibility and extent of the impact of each of these factors. In particular, the manager must perform the fol-

lowing steps: prepare alternative proposals for business development; determine the payment calendar; establish responsibility centers on the scope and the timely and full implementation of the tasks; use budgetary control.

Implementation of the financial plan implemented during the fiscal (calendar), the insurer provided with financial solvency and reliability of the insurance company.

Operational financial planning involves the following steps:

1. Analysis of the financial condition of the insurer and its closest competitors.
2. Analysis of external and internal factors influencing the financial and economic activity of the insurer.
3. Analysis of incoming cash flows of the insurer.
4. Analysis of baseline financial flows insurer.
5. The plan cash flow insurer.
6. The plan insurer financial results.
7. Budget control.

Reports on the budget, must necessarily be submitted accounting managers responsible for revenue and cost responsibility centers.

4. Methods of financial planning in the insurance company

At present there are several basic methods of financial planning in the insurance companies (Fig. 3.2).

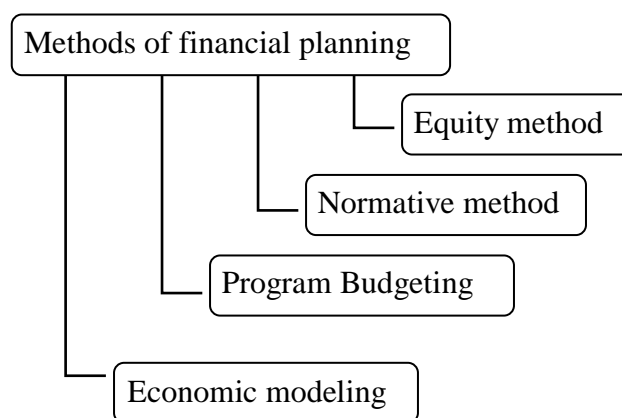


Figure 3.2 — Methods of insurer financial planning

Equity method of planning is a planned balance of revenues and expenses, reflecting the state of the insurance company, the result of insurance operations, investment, income and expenses and the sources of their funding.

On the revenue side reflects of insurance payments from the reserve and the reserve assets, depreciation of investment funds and others.

On the expenditure side — insurance premiums, contributions to the spare and reserve funds on preventive measures to doing business, including the commission to intermediaries and insurance agents, payments risks ceded reinsurance. Indicators balance to determine not only the taxable profit from insurance operations, investment and other activities, but the amount of income tax and its subsequent distribution.

Proceeds means of insurance reserves is not planned, because it is determined by the actual loss ratio, which will be known only at the end of the reporting period (usually the end of the year). This flow of funds from insurance reserves can be considered conditionally income, because in its economic essence it means just redistribution insurer.

The expenditure of the planned structural balance is method (based on the structure of tariff rates). That means planning costs on all counts conducted in the proportion of the amount of insurance premiums laid for this purpose in the tariff rate.

Method of forming structural balance has two significant advantages. First, it eliminates the effect of the size of the accumulation of factors that do not depend on the activity of insurance organizations (market conditions, inflation, etc.). Second, this method greatly simplifies the calculation of certain equipment expenditure.

Due to the fact that the cost structure of the tariff rates for different types of insurance, costing recommended for each type of insurance separately.

Cost structure tariff rate insurance companies developed their own, so sometimes there is a need tariff adjustment or replacement. In this case, the share of net rate intended for insurance payments, based on the analysis of dynamics of level payments for the coming years in this insurance company, if such there are no statistics, the proportion of net rate based on the expected rate loss insurance amount .

Unprofitable sum insured or the likelihood of harm is the ratio of paid insurance compensation to the insured amount of insurance facilities (formula 3.1):

$$Y = \frac{Q}{S} \quad (3.1)$$

where Y — the sum insured loss;

Q — the total amount of paid insurance claims;

S — the total sum insured for all objects of insurance.

Value of loss the sum insured is always less than unity. Others can not, because it would mean that the insurer will cover the losses within the higher sum insured.

Unprofitable sum insured can also be viewed as a measure of the value of the risk premium. Thus, the net loss rate, or the ratio of net benefits is the percentage ratio of insurance claims paid to the amount of collected insurance net premiums for a specified period of time (formula 3.2):

$$N = \frac{Q_t}{SP_{Nt}} \cdot 100\% \quad (3.2)$$

where N — norma net loss ratio, %

Q_t — the total amount of paid insurance claims within a specified period of time;

SP_{Nt} — the sum of all collected insurance net premiums for a specified period of time.

For practical purpose is calculated as the net rate of loss, and gross rate of loss. In the latter case, the denominator of the formula used indicator equal to the amount of collected gross premiums. Thus, the rate of loss rules may take a value less than 100%, more than or equal to this value.

The basis of the regulatory plan is the development of the insurance fee that allows you to not just estimates of income and expenditure for certain types of insurance, but also planned to evaluate contributions to preventive measures, conduct business, profit, etc.

The essence of the standard method of financial planning is that on the basis of the financial regulations and technical and economic requirements calculated subject in need of economic and financial resources determined by the source of these resources. Regulations are cited tax rates, tariff rates, charges and fees, depreciation rules, the rules of working capital.

Since the operation of the insurance company is a dynamic system, for the effective planning of its activities is used target-oriented and economic modeling using computers. This method allows finding quantify relationships between financial indicators and factors that determine it. Economic modeling takes you planning on averages for the best options. Increased scientific validity planning requires the development of several options plans according to different conditions and ways of development of the company and then selecting the optimal variant financial plan.

Prediction insurance operations — a key element of a successful insurance organizations in a market economy. Prediction — it's likely future state insurance rating organization, based on statistical data of the past and present levels.

The purpose of forecasting — identifying the main trends and patterns in the dynamics of the insurance operations. Modern science has developed in some detail the general theoretical bases of economic and mathematical example of settlements with the help of computer technology.

Due to changes in the general economic situation it is appropriate to develop forecasts shift forward one, two or three years before the forecast and the forecast period. Drafting such example provides a systematic adjustment of forecast indicators, which in turn makes it possible to make real plans and adjust them.

Optimization of planning decisions is to develop options for scheduled payments in order to select the optimal ones. So can use different selection criteria:

- The maximum profit (income) on currency invested capital;
- The maximum saving of financial resources, ie minimum financial costs;
- A minimum current expenses;
- Minimum capital investment for the most effective results;
- The absolute maximum amount of profits.

So planning is the development of a detailed schedule of actions the insurer for the next period for the implementation of development strategies. Therefore, the assembly of such financial instruments as budget expenditure, revenue, profit forecast, solvency is an important part of the insurance company.

Information Sources Used: [4], [11], [12], [25], [26], [29].

Questions for self-control

1. What is the role of financial planning in the management of the insurance business?
2. What are the main principles of planning in the insurance business?
3. What are the conditions for effective planning insurance?
4. What is the difference between strategic and operational planning of the insurer?
5. What is the financial strategy of the insurer?
6. What are the stages of strategic planning of financial insurance company?
7. What is the strategic analysis of the insurer?
8. What should conduct prompt financial planning in the insurance company?

9. What are the main components of operational financial planning of the insurer?

10. What are the methods of financial planning in the insurance company?

Glossary

Insurer Financial Planning — managing the processes of creation, distribution and use of financial resources in the company, which is implemented in the detailed financial plans

Internal financial environment insurer — system conditions and factors that determine the choice of forms and financial activities in order to achieve the best results of which are under the direct control of managers and specialists of financial services

Financial plan — set of financial indicators to be calculated and forecast using special technologies

Gross loss rate (ratio of gross-payments) — percentage of the amount paid insurance compensations to the amount of collected insurance gross premiums for a specified period of time

Net loss rate (ratio of net-benefits) — percentage of the amount paid insurance compensations to the amount of collected insurance net premiums for a specified period of time

Operational financial planning insurer — part of the financial plan, calculated for the period between 1 year and solves the problem of this nature with regard to strategic objectives, ensures stable operation issues and provide the insurance company needs financial resources

Strategic analysis — method of research and database conversion, derived from analysis environment, the strategy of a business entity

Strategic financial planning insurer — part of the overall plan of its financial activities, covering a considerable period of time, the effective use of resources to achieve the main objective of the insurance company

The external financial environment insurer — system conditions and factors affecting the insurance company, the forms and the results of its financial activities in the long term, direct control of the exercise which it can, at both the macro level

Unprofitable sum insured (probability of damage) — Ratio of paid insurance compensation to the insured amount of insurance facilities.

Tests

Test 1. Financial planning insurer — is:

- a) projected a comprehensive program of perspective development of the insurance company;
- b) a set of financial performance calculated and predicted using special methods;
- c) the feasibility of the planned insurance activities;
- d) the process of studying the financial needs of the company for a specified period based on the receipt of insurance premiums, the availability of funds and areas of expenditure for the period.

Test 2. Financial plan — is:

- a) projected a comprehensive program of perspective development of the insurance company;
- b) a set of financial performance calculated and predicted using special methods;
- c) the feasibility of the planned insurance activities;
- d) the process of studying the financial needs of the company for a specified period based on the receipt of insurance premiums, the availability of funds and areas of expenditure for the period.

Test 3. Conditions that affect the efficiency of financial planning...

- a) created by the state;
- b) are provided at the microeconomic level;
- c) stem from the same purposes of the process and the desired end result;
- d) depending on the competition insurer.

Test 4. The principles of financial planning in insurance activities include:

- a) flexibility, alternative, professionalism, compliance;
- b) dynamism, speed, simplicity;
- c) static, complexity, conformity;
- d) the speed, professionalism, compliance.

Test 5. Consideration The test conditions of the insurance company and its potential in the planning process is the principle ...

- a) flexibility;
- b) dynamic;
- c) compliance;
- d) professional.

Test 6. Strategic Financial Planning insurer — is:

- a) management tool insurer;

- b) the method of research and database conversion, derived from analysis environment, the strategy of a business entity;
- c) the process of drafting, adoption and subsequent monitoring budgets;
- d) part of the overall plan of financial activities, covering a considerable period of time in order to effectively use available resources to achieve the main goal of the company.

Test 7. Components of the financial strategy of the insurance company is management:

- a) insurance reserves guarantee fund risks;
- b) insurance reserves, equity, risk management;
- c) the budget of income and expenses, risks, insurance reserves;
- d) financial planning and forecasting.

Test 8. Strategic analysis test — it

- a) management tool insurer;
- b) the method of research and database conversion, derived from analysis environment, the strategy of a business entity;
- c) the process of drafting, adoption and subsequent monitoring budgets;
- d) part of the overall plan of financial activities, covering a considerable period of time in order to effectively use available resources to achieve the main goal of the company.

Test 9. The final product test market intelligence insurer are:

- a) system of conditions and factors affecting the shapes and financial performance in the long term, direct control over which insurer can not implement, at both the macro level;
- b) a document justifying the further development of the insurer;
- c) a model of strategic financial position indicating financial conditions and possibilities of the insurer;
- d) the potential increase in the net income of the insurer.

Test 10. The external financial environment characterized by an insurer ...

- a) a system of conditions and factors that influence the shape and financial performance in the long term, direct control over which insurer can not implement, at both the macro level;
- b) a document justifying the further development of the insurer;
- c) a model of strategic financial position indicating financial conditions and possibilities of the insurer;
- d) the potential increase in the net income of the insurer.

Test 11. The indirect impacts of the external financial environment insurer include:

- a) international principles of insurance;
- b) the political, economic and geographical factors;
- c) competitive, social and economic factors;
- d) public financial policy and state regulation of financial activities of insurance companies.

Test 12. Application situational analysis in the planning of the insurer caused ...

- a) the requirements of competition;
- b) an economic necessity;
- c) loss of relevance of long-term forecasts;
- d) the requirements of regulation.

Test 13. Operational Test financial planning is ...

- a) part of the financial plan, calculated for the period between 1 year to meet the challenges of this nature with regard to strategic objectives;
- b) management tool insurer;
- c) the process of drafting, adoption and follow-up budgets;
- d) part of the plan for financial activities, covering a considerable period of time in order to effectively use available resources to achieve the main goal of the company.

Test 14. Budgeting — is:

- a) management tool insurer;
- b) financial planning technology;
- c) the process of drafting, adoption and subsequent monitoring budgets;
- d) part of the overall plan of financial activities, covering a considerable period of time in order to effectively use available resources to achieve the main goal of the company.

Test 15. Last year the insurer received the returned amount of technical provisions in the amount of 20 800 thousand. UAH. Reimbursement from the reinsurers — 3 400 thousand. UAH. and net sales of insurance services — 220 000 UAH. The amount of operating income last year for the calculation of the targets is:

- a) 244 200 thousand. UAH .;
- b) 223 400 thousand. UAH .;
- c) 240 800 thousand. UAH .;
- d) 24 200 thousand. UAH.

Topic 4. Communication and Information Services Insurance Management

Issues:

- 1. The concept and importance of communication and information in insurance management*
- 2. Principles of mutual relations of participants of the insurance process*
- 3. Communication and information support in the management of business processes of the insurer*

1. The concept and importance of communication and information in insurance management

The main purpose of the communication process is to ensure understanding of information that is exchanged. But the fact of the exchange of information does not guarantee effective communication of people in it. To better understand the exchange of information and the terms of its effectiveness, should be aware of its stage, which involved different groups of participants.

The main elements of communication are: source, transmitter, receiver, recipient. All the way from the source of the information (sender) to the receiver called a channel of communication. Channels can be formal (official) and informal (informal). A formal set of administrative and associated employees both vertical and horizontal levels of management. Informal communication channels are those that do not coincide with the officially determined. For the effective functioning of production teams should ensure that the organization acted both formal and informal communication that needs to be balanced. If the organization has a formal system of communication, the process of passing information will be bureaucratized. If it is to dominate a system of informal communication, it will lead to the spread of rumors that would interfere with normal activities.

Information in business is a set of messages that reflect the specific status of phenomena, events, production and economic activity. Information can be classified according to certain criteria:

- by coverage of events: full, partial, and excessive;
- by the period of: one-time, recurring, long-term, and permanent;
- by content: administrative, financial, accounting, information, technological another;
- by the reliability: reliable and unreliable.

The **communications of the insurer** mean all «signals» it sends to its customers, potential customers, their sales networks, public opinion etc. Communications of the insurer ensure the implementation of the consequences of marketing research, namely: the results of segmentation and search of the best consumer groups, the choice of arguments of influence on clients, positive features of insurance services. There are internal and external communications of the insurer.

Internal communications aimed at ensuring transparent internal environment of the insurance company. External communication focused on public opinion of insurers and potential consumers of insurance services.

Communications strategy aimed at combining in itself all external connections insurer.

These include:

- relationships senior managers and other key employees of the partners;
- their communication with the media;
- with customers and units of the insurer.

The purpose of communication strategy is to achieve optimal financial results with existing resources.

Communications Strategy of insurer has the following components:

- identification system of the competition is the work aimed at increasing the popularity of its brand among potential clients, introducing a sound, graphics, color and vivid images that people associate with a particular insurance company;
- communication in the sale of insurance products — mediation, advertising of certain types of insurance services;
- creating a team spirit among employees of the insurance company, its partners and customers — internal communications;
- system analysis of the effectiveness of communications.

The external communication insurer aimed at exploring potential policyholders of insurance services; to market services the insurer; increase brand image in the minds of potential customers. Thus, the main focus of communications is increased sales of insurance products.

With communications insurer is trying to convey to potential policyholder brief information about themselves and their services, making it more interested in solving the problems of insurance protection. Therefore, external communication is a key marketing bridge between the insurer and the insured. Sources communication or distribution channels are:

- a variety of advertising;

- insurer representatives (agents)
- the system of measures aimed at stimulating sales of insurance;
- most sales of insurance products;
- public relations.

The main requirements for external communications insurer following:

- 1) appeal to a particular audience should be very specific and noticeable on the general background of advertising;
- 2) the appeal will be fixed in the minds of potential consumers of insurance services of the company only if it is repeated;
- 3) communication will not give the desired results if they are aimed at creating a single positive entity of the insurer.

Communication only takes effect when the advertised services are backed up by real effective insurance service company.

Based on the fact that insurance companies are selling insurance products on the market, the insurance contracts that confirm this are the key primary inbound messages. Information support of these documents is to provide effective conditions for their formation, storage, analysis and use in the process of the insurance company.

Implementation of *information support of insurance contracts* carried out in almost all subsystems of the automated information system (AIS) insurance companies, including:

- «*planning*» is designed to develop prospective and current plans of revenues and expenditures for all types of insurance. Information support: different insurance products have different content, so in the planning phase are developed and specific forms of insurance contracts;

- «*accounting and reporting*» are implementing the automated solution of tasks on execution of operations accounting cash and current business operations, the creation of accounting documentation. *Information support*: entering the contract database (included in AIS) insurance company enables automatic accounting operations of this contract;

- «*labor and wages*» intended for the development of cost estimates and accounting expenses for the maintenance of the insurance company, reporting on work and wages. *Informational support* can be, for example, in the form of account number and quality of contracts with a certain insurance agent who will influence the distribution of remuneration among staff;

- «*legal support*» provides accounting, storage and retrieval of legal information and acts on all activities of the insurance company. The task

of this subsystem is solved within an automated information retrieval system (IRS), which provides support for insurance contracts necessary regulatory and legal support.

– «*tariffs and regulations*» designed for solving problems in the automated calculation of tariff rates by type of property and personal insurance reserves, insurance contributions and other payments. Information support is to automate the calculations (rates, premiums, reserves, loss, and payments).

2. Principles of mutual relations of participants of the insurance process

Three main groups of participants are combined within the insurance company: owners, managers (top management) and employees. Effectiveness of the insurance company depends on the following factors:

- 1) the ability to ensure that the implementation of the common interests of all participants — maximize profits;
- 2) the degree of realization of interests of each participant company;
- 3) the degree of realization of interests of other legal entities — customers, suppliers, public authorities, investors;
- 4) the possibility of increasing the efficiency of management due to changes in mechanisms of coordination of interests of all participants of the company and other subjects of legal relations;
- 5) the overall efficiency of the organization and the possibility of its improvement.

Insurers, insurance brokers and insurers in the relationship must follow a number of principles that are intended to improve the relationship between the insurance company, intermediaries and customers, strengthen confidence and enhance their protection. It relates to the behavior of each participant and submits it to a unified communication channel of the insurer.

Principles of insurance relations between participants of the process can be formulated in the following way.

Professionalism. An employee of the insurance company or insurance intermediary shall perform their duties diligently and have sufficient expertise to carry out insurance operations.

Precaution. The management of the insurance company is required to maintain adequate liquidity and solvency, to effective risk management.

Satisfaction of informative needs of customers. The insurance company is obliged to provide the client with appropriate objective information

with the aim of making conscious balanced decisions; to inform customers about insurance and any risks unbiased and balanced manner; to inform the client about his duties and responsibilities of the service provider.

Mutual trust. For the development of relations of mutual trust insurance company as a provider of insurance services must obtain from clients concerning their insurance needs and risk circumstances accompanying the insured object. Information, that, in opinion of client, is confidential, as such must be examined. Clients should be informed of their obligation to provide relevant information.

Avoiding conflicts of interest. Insurance providers should avoid conflicts of interest between the parties. An insurer must not groundlessly put the interests higher than interests of insure.

Supporting business relations with government regulators. The insurer is required to maintain regulatory authority of the business relationship, to provide objective information to comply with the requirements established by applicable law, of any non-regulated activities (if available) and so on.

Organization and control activities. The insurance company should perform regular monitoring of their activities. The control system as a whole and in particular control depends on the size and complexity of the challenges insurance companies and intermediaries as well as the organizational structure of these entities.

The presence of personnel whose qualification corresponds to the filled positions. The management of the insurance company should distribute responsibilities among senior and middle management structure so that job descriptions are clear; responsibilities clearly allocated between workers; insurance operations properly monitored by the internal control system at senior managerial level and board of directors; optimally combined individual and collective responsibility of the company.

The use of reliable mechanisms for the management of the company. Management mechanisms adopted by the insurance company must meet the requirements of the regulatory system, promote the growth of economic potential, enhances the interaction of structural subdivisions of the company to meet customer needs.

The central structure which implements control functions of an insurance company is manager in the international practice or the Chairman of the Board (Director) in Ukrainian practice of functioning of the market. Thus there are four basic operations that it performs.

Setting goals. The problem many managers of insurance companies is the inability to define strategic objectives.

Organization of business processes. To fulfill the goals established appropriate organizational structure (divisions, departments, offices).

Support staff motivation and communication (appointments, financial incentives, career, etc.). The head of the insurance company in the formation of personnel policy has no right to be guided by factors other than qualification level of the employee.

Analysis and evaluation of the results. For professional interpreting the results of economic activities of the insurance company must have sufficient knowledge of management, finance, accounting, business law and more.

3. Communication and information support in the management of business processes of the insurer

To achieve the objectives of the company, defined by different levels of government are required consistent founders and management, undertaken as part of this organization and legal structure. All these actions are called *business processes*.

The main business processes in the insurance company are:

- calculation of insurance rates;
- underwriting;
- production;
- settlement of insurance claims;
- reinsurance;
- investment;
- accounting;
- risk management;
- development and implementation of new insurance products.

The calculation of insurance rates is the basis for pricing in insurance. This process differs significantly from the pricing of other goods and services. The insurance rate should fully meet the requirements of the insured and to ensure profitable operations of the company.

Production. The term «production» refers to the sale and marketing of the insurance company. In some cases, the term «production» is replaced by the term «sales», indicating the importance of selling insurance products as the main paradigm of economic activities of the insurance company. The insurance company develops a mechanism of realization of insurance products. In the Ukrainian insurance market there is the most common method of selling insurance products through specialized units and with the involvement of intermediaries, usually insurance agents.

Settlement of insurance claims. The process of settlement of losses and insurance payments is a critical function in the activities of the insurance company. Large insurance companies have a separate unit for the settlement of losses. In some cases, experts on the settlement of the losses operate under the relevant departments for the sale of insurance products.

Reinsurance. Of particular importance to the insurance company assigned reinsurance policies. The need for reinsurance occurs when the insurer's obligation under the contract more than the financial resources of the company.

According to Ukrainian «Insurance law», the insurance company is obliged to reinsure insurance risks if the sum insured under a separate insurance object exceeds 10% of the paid-up share capital and the existing free insurance reserves.

Reinsurance is the process of transferring part of the risk from one insurer to another, the essence of which is that the risk of a particular insured object is distributed among several insurers (reinsurers).

Every insurance company that participates in reinsurance is responsible and pays the insurance indemnity only within the limits of its own content.

As a result, even under conditions of significant insurance benefits insurer does not lose its ability to pay. However, in the case of unjustified reinsurance may originate you the situation where individual companies-the reinsurers become insolvent.

With effective organization of the reinsurance unit of the insurance company has the opportunity to earn additional income from conducting reinsurance. For rates, which entered into contracts of insurance and reinsurance reflect different levels of prices prevailing at a given insurance market and provide an opportunity to earn income on its differences.

Investment is critical to a common set of operations that provides insurance company. Temporarily free funds owned insurer, form the basis for investment. Insurance premiums can be invested in profitable assets and generate investment income of the company.

The insurance company has the ability to earn additional income that can be used both for insurance benefits and to increase profitability.

Most Ukrainian insurance companies haven't a separate unit, which would be involved in investment activities.

The issue of investments is given insufficient attention, therefore, the income from investment activities is irrelevant.

However, international experience shows that insurance companies of developed countries reap significant gains from investment activities and there are the largest investors in the stock market and real estate market.

The insurance company determines the directions and methods of investment under the current legislation. But it needs to take into account the requirements for investment of funds of insurance reserves, the insurer forms to ensure its solvency.

When carrying out transactions on the stock market, the insurer applies to the services of dealers in securities and in transactions with deposits and banking metals collaborates with banking institutions.

Accounting is carried out in accordance with accounting standards adopted for business entities, and special regulatory documents relating to accounting of insurance companies.

The peculiarity of insurance companies requires compliance with:

- certain requirements in the accounting,
- subdivided into account premiums,
- insurance reserves,
- investment and other activities of the insurance company as a business entity.

Risk management covers the monitoring and analysis of financial condition of the insurance company.

The main objective of risk management is to monitor the processes associated with risk, which exists when the insurance activities.

In the framework of the insurance company risk management has two directions:

- adjustment of the level of risk under contracts of insurance (reinsurance);
- regulation of the level of risk in general insurance companies in the process of economic activity.

Risk management function is not limited to control of risk more important to assess the reasons for changes in risk and make the necessary adjustments that would minimize it. It is wrong to shift the functions of risk management to the accounting Department of the company thereby replacing the risk analysis for the company reporting to the regulatory authorities.

The functions of risk management and accounting are somewhat different. If accounting records are available, the loss, the risk management aims to implement preventive measures to reduce the probability of risks.

Development and implementation of new insurance products is one of the important areas of innovation insurance company. For Ukrainian insurers there is typical situation where this activity is concentrated in the departments of marketing. Insurance product development is a complex

work of all units of the insurance company that requires employees focused efforts to achieve a common goal. Marketing research thus needs to play a supportive role and to timely monitor changes in the offerings on the insurance market.

Business processes that operate within the insurance company, manifested through the activities of individual units, or so-called business units, which are responsible for separate stages of the operating and investment activities.

The success of the insurer depends on well-functioning communication and information management between business units.

References: [4], [5], [24], [28], [30], [31].

Questions for self-control

1. What is communication from the point of view of management theory?
2. What are the main stages of the implementation of the communication process?
3. What is information and what is its role in the communication process?
4. What is the communication of the insurer?
5. What is the role of communication and information to the insurance company?
6. How is formed communication channel an insurer?
7. What are the main principles of interaction of participants of the insurance process?
8. What are the basic operations performed by the head of the insurance company from the point of communication?
9. What is the business processes of the insurer?
10. What is the role of information and communications in management business-processes of the insurer?

Glossary

Business processes — the successive steps of the founders and management of insurance companies, carried out as part of its organizational and legal structure and necessary to achieve the purposes

Business units of the insurer — separate structural units, which operate within the insurance company

Communication — exchange of information between people, using words, letters, symbols, gestures, through which is expressed the attitude of one employee for knowledge and other reasons, achieved the trust and acceptance of the views

Communications in the sale of insurance products — mediation, advertising certain types of insurance services

Communications of the insurer — all the «signals» that it sends to its policyholders, potential customers, its sales network, public opinion

Communication process — exchange of information between two or more persons

Information in insurance activity — the set of messages that reflect a particular state of phenomena, events, production and economic activity of the insurer

Information noise — Everything that distorts information, its content (deviations, errors, etc.)

Reinsurance — the process of transferring risk from one insurer to another, the essence of which is that the risk of a particular insured object is distributed among several insurers (reinsurers)

Transactions in communication — interpersonal relations between partners in communication, accompanied by the presentation of their positions

Tests

Test 1. Communications of insurer means:

- a) the exchange of information between two or more persons;
- b) all the «signals» that the insurer sends its policyholders, potential customers, insurance brokers;
- c) the relationship between the channels of the one who transmits the information and the person who perceives it;
- d) a set of messages that reflect the specific state of the phenomenon, event production and economic activity.

Test 2. Communication process is:

- a) the exchange of information between two or more persons;
- b) all the «signals» that the insurer sends its policyholders, potential customers, insurance brokers;
- c) the relationship between the channels of the one who transmits the information and the person who perceives it;
- d) a set of messages that reflect the specific state of the phenomenon, event production and economic activity.

Test 3. Transaction is:

- a) the exchange of information between two or more persons;
- b) all the «signals» that the insurer sends its policyholders, potential customers, insurance brokers;
- c) the relationship between the channels of the one who transmits the information and the person who perceives it;
- d) a set of messages that reflect the specific state of the phenomenon, event production and economic activity.

Test 4. Information in business is:

- a) the exchange of information between two or more persons;
- b) all the «signals» that the insurer sends its policyholders, potential customers, insurance brokers;
- c) the relationship between the channels of the one who transmits the information and the person who perceives it;
- d) a set of messages that reflect the specific state of the phenomenon, event production and economic activity.

Test 5. Primary key input messages for the insurer are:

- a) the financial statements of the insurer;
- b) official data on the results of the insurance market of Ukraine;
- c) indicators of activity of competitors;
- d) insurance contracts

Test 6. Maintaining the liquidity and solvency of the insurer in the interaction of participants in the insurance is principle of:

- a) professionalism;
- b) trust;
- c) diligence;
- d) avoiding conflicts of interest.

Test 7. Awareness of policyholders of their obligation to provide relevant information in the process of interaction between participants in the insurance is the principle of:

- a) professionalism;
- b) trust;
- c) diligence;
- d) avoiding conflicts of interest.

Test 8. Competence of the insurer's employees in the process of interaction between participants of process of insurance is the principle of:

- a) professionalism;

- b) trust;
- c) diligence;
- d) avoiding conflicts of interest.

Test 9. The situations in the process of insurance, for which there is waste solution:

- a) predictable;
- b) unique;
- c) ordinary;
- d) standard.

Test 10. The situations in the process of insurance, characterized by the lack of similarities is decision:

- a) predictable;
- b) unique;
- c) ordinary;
- d) standard.

Test 11. The successive steps of the founders and management with the purpose of realization of objectives set by various levels of management of the insurer is:

- a) planning;
- b) forecasting;
- c) business-processes;
- d) risk-management

Test 12. Monitoring and analysis of the financial condition of the insurance company is:

- a) planning;
- b) forecasting;
- c) business-processes;
- d) risk-management.

Test 13. The development of an insurance product is involved in:

- a) the marketing Department;
- b) Finance Department;
- c) all divisions of the insurance company;
- d) the sales Department.

Test 14. The process of risk-management includes:

- a) monitor the level of risk;
- b) the financial statements for regulatory authorities;
- c) settlement of losses;

d) the office of the insurance company in the judicial bodies.

Test 15. The insurer has insured the object of insurance valuation 500 thousand UAH. The maximum retention limit of the insurer in covering the same risks — 400 thousand UAH. The reinsurance passed the quota of 25% of the insurance portfolio. Private part of the assignor in the coverage of risk will be:

- | | |
|----------------------|----------------------|
| a) 100 thousand UAH; | b) 125 thousand UAH; |
| c) 225 thousand UAH; | d) 375 thousand UAH. |

Topic 5. Management Marketing Activity in Insurance Business

Issues:

- 1. The essence and components of the insurance marketing*
- 2. Insurance services as an essential element of insurance marketing*
- 3. Tasks and functions of the marketing service of the insurance company*

1. The essence and components of the insurance marketing

A special place in the activities of insurance companies has **marketing** as a method of research of the insurance market and influence with the aim of obtaining the insurer making profits.

Insurance marketing is a complex of measures aimed at formation and continuous improvement activities of the insurer that includes the following:

- 1) the development of competitive insurance products (services) for specific categories of customers (insurers);
- 2) implementation of sustainable forms of realization of products for the proper service and advertising;
- 3) the collection and analysis of information about the effectiveness of the insurer.

The subject of the study of insurance marketing is the supply and demand of the insurance market. The tasks of insurance marketing are achieving the best use of the insurance institution to meet the needs of insurance protection and investment resources.

Features of insurance marketing:

- 1) long-term nature of interaction between insurer and insured, covering the period of contract, time of claims and loss settlement process;
- 2) the need for the implementation of risk assessment and management;
- 3) state regulation of the insurance business limits the marketing opportunities of the insurer;
- 4) the lack of patenting of insurance products leads to a copy of insurance programs and contracts of competitors;
- 5) depending on the macroeconomic environment influences the dynamics of long-term insurance;
- 6) lack of understanding of insurance by the majority of potential clients leads to misunderstandings and conflict situations.

The insurance market is a particular area of economic relations in the sale of a specific product — insurance service that it is consumer and financial.

The purpose of insurance as consumer marketing service is to meet customer needs for insurance protection.

The purpose of marketing insurance as a financial service is to optimize the movement of financial resources of insurers and insured.

Research the demand for insurance market requires the structure of insurance companies specialized marketing services which evaluates contingent of potential insured and their need for insurance services.

In the process of marketing activities of the insurance company uses *a set of marketing tools (marketing complex)*:

- insurance services;
- prices (insurance rates);
- methods of distribution and promotion of insurance services etc.

The object of marketing research in insurance is effective demand for insurance services.

Marketing environment of the insurance company is a set of entities and forces operating within and outside of the insurance market, and influencing the development of the insurance company.

The main task of the marketing Department of an insurance company is providing profitable relationships with target insurers. Marketers of the insurance companies must constantly monitor changes in the marketing environment, follow the new trends and seek out opportunities for insurance activities.

Marketers must adjust and adapt marketing strategies of the insurance company according to the requirements of the marketing environment that has a certain structure (Table 5.1).

Table 5.1 — The structure of the marketing environment of the insurance company

Macroeconomic environment	political-legal, demographic, economic, socio-cultural, natural, scientific, technological and information environment
The immediate environment	competitors, insurers, distribution channels, insurance brokers, service providers
Microeconomic environment	the management of the company (supervisory board, the board of directors of the company, the management board of the company), regulatory and supervisory authorities, organizational structure, staff.

The study of consumer demand for insurance services involves the use of techniques such as statistical study of the income and expenses of potential clients, polls, survey, collection and analysis of information and so on.

Research supply in the insurance market is done in two main ways: on the basis of the analysis of public statistical data and analytical materials on the basis of their own information sources. The volume and structure of supply of insurance services is affected by: competition between insurers; level costs of insurance; other factors that determine the situation in the insurance market. Insurance Marketing is a division of marketing science, but has a number of specific features related to the conditions of functioning insurance market.

Marketing in insurance is associated with the organization of the activities of insurance companies on the basis of research of a condition of the insurance market and forecasting the demand for insurance services.

Insurance marketing functions are planning, pricing, advertising, distribution network organization.

The insurer is using the tools of marketing insurance explores insurance market with the purpose of organizing the activities for the development and implementation of insurance products that meet the needs of potential insurers and profitable to the insurer.

2. Insurance services as an essential element of insurance marketing

From the point of view of the insurance business, legitimate to argue that the meanings of «insurance product», «insurance goods» and «insurance service» are similar. However, the primary expedient considered «insurance product» as a result of human activities on the implementation of protection of property interests of businesses and individuals from the consequences of unexpected adverse events.

The insurance product sold by the insurance service, which is insurance goods, when produced for permanent sale. In view of this, the insurance product can be considered as the initial step in the creation of insurance services.

However, not all services provided by the insurance company at the conclusion of the contract, some of its may be available during the term of the insurance contract. At the same time, these services can be provided not only insured but also the victim or insured. It is worth noting certain types of additional services that may be provided in the implementation of a particular type of insurance.

For example, the implementation of car insurance (Casco) can additionally be provided technical and medical assistance, protection of the damaged vehicle; in the implementation of voluntary medical insurance can provide additional services to ensure the insured with medicines and the possibility of additional examination; during home contents insurance citizens the insurance company may provide additional services to provide temporary housing and organization of repair of premises in case of occurrence of insured event. These services are provided during the term of the insurance contract.

Insurance product is a result of the activities of the insurance company to meet the needs of customers and profit. The insurance product becomes a commodity (a service) when it becomes the object of sale on the market.

Thus, the use of the term «insurance product» does not exclude the concept of «insurance service», as those terms are similar, but have different meanings.

The condition of the insurer is the accumulation of funds received from the insurers of insurance premiums and the formation of insurance capital to cover losses insurers, compensate their costs and profit. In addition, part of the funds of the insurance company aims at preventive measures, investment projects; compensation of losses on insurance contracts concluded. In this case, the insurer received premiums relates to the reserve for unearned premiums by the end of contracts, for which they paid.

Thus, the insurance premium paid to buy insurance services, it is advisable to consider the borrowed funds insurance companies, that it advances the insurer.

Given the above definition, insurance services are considering it in two ways.

The first aspect of insurance services should be considered in terms of insurance premium, which is advanced insured funds, the second — in terms of profit insurance company and meet the needs of the insured. This takes into account that insurance services are implemented in compulsory and voluntary forms on a contractual basis.

Thus, **insurance service** is a specific product is sold by the insurer on a contractual basis for advances funds insured for profit and meet the needs of the insured to protect its economic interests from the consequences of unexpected adverse events (insurance cases).

Components of insurance services can be divided into financial and quality.

Financial components of insurance services include:

- list of risks set forth in the insurance contract;
- the amount of insurance rates;
- insurance sums;
- the limits of liability of the insurer in the carrying out liability insurance;
- the amount of investment income on life insurance.

In the *qualitative components of insurance services*, it is legitimate to include:

- the term of the insurance contract and the insurance policy;
- courtesy of staff of the insurance company, its professionalism;
- modern ways of selling insurance products (Internet, delivery insurance policy to the client);
- legal support of the insurance contract.

But the most important component of the quality of insurance services is the ability of the insurance company timely and fully meet its obligations to the insured, that insured the opportunity to receive timely and full insurance reimbursement in the insurance case. The price of insurance services is the insurance premium (payment, contribution) is determined by the formula 5.1.

$$SP = S \times T \quad (5.1)$$

SP — the insurance premium (payment, contribution);

S — the insurance sum by the contract;

T — the insurance rate.

Within the definition of insurance services can identify its individual level:

- *basic insurance services*, which is identical to most insurers under one type of insurance and includes the essential terms of the contract;
- *additional insurance services* that serve as an indicator of the company's marketing strategy and enable insurance position in the market as innovative
- *support insurance contract* covering the operation identifying customer needs in insurance, risk transfer, execution of the contract, settlement losses etc. (Table 5.2).

All insurance services of the insurer can be divided into three groups:

- *services in the management of insurance capital*, including management by specialists of the insurer's contracts of insurance, settlement of losses, insurance indemnity (insurance activities);
- *services of investment reserves* for the long-term types of insurance with the purpose of deriving investment income (investment activity);

- *additional services* are provided by the insurance programs and not prohibited by law (experts, consulting, risk management).

Table 5.2 — *The levels of insurance services*

The levels of insurance services	Specifications
The basic insurance services	Insurance coverage (list of risks), insurance sum, insurance tariff, the limit of liability, investment income
Additional insurance services	Insurance expertise, technical, medical, legal assistance
Support insurance contracts	Selection insurance program, registration, transaction, professionalism and courtesy of staff, etc.

Between given groups of insurance services there is a close relationship. Thus, the implementation of insurance services leads to an increase in insurance premiums, the balance of the insurance portfolio and the growth of investment resources of the insurer, which in turn stimulates additional investment income from the investment of accumulated funds. Insurance services can be classified according to the following criteria:

- *the type of customers* (focused on individual and corporate client);
- *the terms of use* (long-term (life insurance) and short-term (up to 1 year) insurance);
- *in terms of novelty* (products-the pioneers, meet innovative demand products in market innovation (improved products-the pioneers); the products with additional services (technical, medical, legal).

3.Tasks and functions of the marketing service of the insurance company

Marketing service of the insurance company is a special unit that operates on the basis of the principles and methods of marketing with the purpose of comprehensive market research, developing market needed insurance products and sustainable implementation.

To investigate levels of hierarchy structure of the marketing environment marketing services insurance company solve certain tasks.

Tasks in relation to the macroeconomic environment of the insurer are forecasting the development in the macro environment based on the analysis, evaluation and forecasting of development of such aspects.

The demographic aspect. The forecasting of the main demographic trends that represents opportunities and threats for the insurance company.

The economic aspect. Predicting the impact on the insurance company of the future trends in income, prices, savings and credit conditions.

The ecological aspect. Forecasting changes in the cost and availability of natural resources and energy. Natural resources are always limited stock levels, affecting the global changes in the economy as a whole in the long time interval.

The technological aspect. Forecasting changes in science and technology (basic research, applied research, experimental design research and implementation of new technologies and equipment).

The political aspect. Forecasting development of legislation and the impact of laws that are proposed for adoption, the strategy of the insurer. The study of the political component gives an idea of the intentions of the state towards the development of society and the means by which it proposes to carry out its policies. Political stability depends on the position of many businesses. For an insurer operating in the financial market conditions, political risks are significant.

The cultural aspect. Forecasting changes in lifestyle insurers who have influence on changing attitude to the activities and services of the insurer.

Task in relation to direct surroundings of insurer is an estimation of the state and development of prognosis of development of components of the system of direct surroundings.

Markets. Status and development trends of the insurance market, growth rate, geographic distribution, segmentation, and profitability.

Consumers. The buyers (clients of insurance companies), that is, the study of demand is an important task of the analysis of the immediate environment.

Suppliers. Supplier analysis allows the insurance company to provide services of the highest quality with the lowest costs to achieve the most efficient allocation of these resources. Providers for insurance companies are the intermediaries in the insurance market (insurance brokers and agents), as well as entities providing services for the placement of financial resources (banks, dealers in securities, custodians of securities).

Competitors. Competition analysis aims to identify their strengths and weaknesses and on this basis to build a competitive strategy.

The distribution channels. Status and trends the effectiveness of key sales channels. Assessment of costs and effectiveness of various distribution channels: through representation, through insurance brokers, and other intermediaries.

Reinsurers. An important task is to assess the reliability of reinsurers and their insurance reimbursement practices damage to other insurance companies.

Contact audience. To contact the insurance company audiences are legal entities and individuals. Each of these audiences has its own characteristics. This audience segmented into smaller sectors that cover various individual lecture groups of consumers of insurance services.

Workforce. Analysis of the labor market intended to identify its potential to provide the insurance company required for the task personnel.

Analysis of profitability. Thus, in determining the yield containing, for example, the following indicators:

1) The profitability of assets (formula 5.2):

$$PR_A = \frac{P}{A} \quad (5.2)$$

it means: PR_A — profitability of assets of insurer;

P — the total profit of the insurer;

A — the total assets of the insurance company.

2) The profitability of the insurance activities (formula 5.3):

$$PR_{IA} = \frac{P_{IA}}{I_{IA}} \quad (5.3)$$

it means: PR_{IA} — profitability of the insurance activities;

P_{IA} — the profit of the insurer from insurance activities;

I_{IA} — income of the insurer from insurance activities.

3) The profitability of certain types of insurance (formula 5.4):

$$PR_{TI} = \frac{P_{TI}}{I_{TI}} \quad (5.4)$$

it means: PR_{TI} — the profitability of certain types of insurance;

P_{TI} — the insurer's profit got from realization of insurance;

I_{TI} — the insurer's income got from realization of insurance.

It is important to assess the profitability of the insurance company in relation to other insurance companies in statics and dynamics.

Tasks in relation to the microeconomic environment of the insurer is the development of marketing policy; the exercise of influence on actions related to the interaction between customers and all departments of the insurance company; analysis, evaluation and prediction of the following tasks:

- 1) identify the goals oriented insurance company in the market and develop proposals for its adjustment;
- 2) the formation of the marketing tasks that are appropriate to the needs and resources of the insurance company at the present stage and prospects of insurance market development;
- 3) development marketing components of the strategy of the insurance company to achieve the goals in the implementation of long term plans;
- 4) evaluation of the adequacy of resources of the insurance company for various market segments, insurance portfolios, areas and elements of the marketing mix;
- 5) analysis of the costs of the insurance company and evaluation of factors affecting cost behavior;
- 6) optimization of the organizational structure of the insurance company to determine the required number of employees in accordance with the financial potential of the company;
- 7) ensuring cooperation between employees of marketing Department with other departments in terms of implementation of the marketing policy of the insurance company;
- 8) evaluation of the functioning of the insurance company in its internal environment;
- 9) planning marketing activities, its implementation, monitoring and adjustment.

Marketing helps in the development of strategic and tactical plans of the insurance company. Proper organization of marketing service can ensure that the necessary and reliable information that enables the insured to efficiently carry insurance to reduce the losses, to attract new customers and introduce new insurance services. Ineffective organization of marketing service is a direct way to turn it into a senseless burden in the work of the insurance company.

References: [1–5], [12], [18], [19], [25], [27], [28], [30].

Questions for self-control

1. What is the insurance marketing?
2. What are the main tasks of insurance marketing?
3. What are included in the complex insurance marketing?
4. What are the mandatory components of the insurance contract?
5. What is the insurance service?

6. What is a difference in between an insurance product and insurance service?
7. What is the comprehensive marketing research of the insurance company?
8. What are the components of quality insurance services?
9. What are the financial components of insurance services?
10. What is a marketing office of the insurer?

Glossary

Additional services of the insurer — services are provided by the insurance program and not prohibited by law (expert, consulting, risk management)

Insurance marketing — a complex of measures aimed at formation and continuous improvement activities of the insurer that includes the following:

the development of competitive insurance products (services) for specific categories of customers (insurers); implementation of sustainable forms of realization of products for the proper service and advertising; the collection and analysis of information about the effectiveness of the insurer

Insurance product — a result of the activities of the insurance company to meet the needs of policyholders and profit

Insurance service — a specific product is sold by the insurer on a contractual basis for advances funds insured for profit and meet the needs of the insured to protect its economic interests from the consequences of unexpected adverse events (insurance cases)

Marketing activity of the insurer — research of the insurance market and possibilities to influence on it with the aim of receipt more profit by the insurer

Marketing complex of the insurer — set of marketing tools, covering insurance services, prices (insurance rates) and methods of distribution and promotion of insurance services

Marketing environment of the insurance company — the set of subjects and forces operating inside and outside of the insurance market, and influence on the development of the insurance company

Marketing service of the insurance company — the special unit that operates on the basis of the principles and methods of marketing with the purpose of comprehensive market research, developing market needed insurance products and sustainable implementation

The main task of insurance marketing — achieving the full range of insurance institution to meet the needs of consumers in insurance protection and investment resources

The object of insurance marketing — an effective demand for insurance services.

Tests

Test 1. Insurance marketing is:

- a) state regulation of the insurance business;
- b) the system of patenting insurance products;
- c) a set of measures aimed at formation and continuous improvement activities of the insurer, the development and implementation of competitive insurance services;
- d) effective demand of the population.

Test 2. Marketing activities of insurance companies includes:

- a) the relations on the formation of financial resources;
- b) the issue of securities;
- c) determination of the market segment;
- d) material support.

Test 3. Marketing tools include:

- a) price;
- b) taxation of insurance services;
- c) competition between insurers;
- d) the set of conditions of insurance.

Test 4. Consumer value of insurance service is:

- a) insurance rate;
- b) the interest rate for the loan;
- c) insurance protection;
- d) discount.

Test 5. The insurance product is:

- a) a complex of services on elimination of consequences of adverse events;
- b) investment income;
- c) a specific product sold by the insurer on a contractual basis for advances funds insured for profit and meet the needs of the insured to protect its economic interests from the consequences of unexpected adverse events;

d) the result of the activities of the insurance company to meet the needs of policyholders and profit.

Test 6. The level of the immediate environment of marketing services includes:

- a) channels of distribution;
- b) the resources of the insurance company;
- c) political aspects;
- d) demographic aspects.

Test 7. The macro level marketing service learns:

- a) contact audiences;
- b) labor market;
- c) cultural aspects;
- d) the cost of the insurance company.

Test 8. The level of the microenvironment of marketing services learns:

- a) competitors;
- b) suppliers;
- c) the organizational structure of the insurance company;
- d) the economy of the country.

Test 9. Advertising is:

- a) a public appeal to attract customers;
- b) a complex of marketing communications;
- c) the method of access to the services;
- d) batch service.

Test 10. Tools of advertising mean:

- a) intermediaries;
- b) the media;
- c) sales network;
- d) market research.

Test 11. Additional services of the insurer include:

- a) calculation of insurance rates;
- b) payment of insurance indemnity;
- c) the conclusion of the insurance contract;
- d) technical assistance.

Test 12. Marketing service of the insurance company is:

- a) a complex of marketing researches;

b) a special unit that operates on the basis of the principles and methods of marketing with the purpose of comprehensive market research, developing market needed insurance products and ensuring its implementation;

c) the division of risk management;

d) department of settling insurance claims.

Test 13. The insurance service is:

a) a complex of services on elimination of consequences of adverse events;

b) investment income;

c) the specific good, which is realized by the insurer on a contractual basis for advances to the insured for the purpose of receiving profit and meet the needs of the policyholder regarding the protection of its economic interests from the effects of sudden adverse events;

d) the result of the activities of the insurance company to meet the needs of customers and profit.

Test 14. In the life insurance contract is set insurance sum 20 000 UAH, semi-annual netto-premium for the insurance sum of 10 000 UAH is 300 UAH. The proportion of the netto-premium in gross-payment — 80%. Semi-annual insurance premium under the agreement will be:

a) 600 UAH;

b) 750 UAH;

c) 1000 UAH;

d) 3000 UAH.

Test 15. It was found out during realization of marketing researches, that an insurer-competitor on January of current year had such indexes: paid authorized capital — 100 200 thousand UAH; technical reserves — 150 300 thousand UAH, free reserves — 3 200 thousand UAH. The value of liability for one insurance contract that insurer-competitor has according to the current legislation of Ukraine will be:

a) 3 200 thousand UAH; b) 10 520 thousand UAH;

c) 20 200 thousand UAH; d) 25 370 thousand UAH.

MODULE 2.

CONTENT AND PROCEDURE OF MAJOR COMPONENTS OF INSURANCE MANAGEMENT

Topic 6. Risk Selection Management for Insurance

Issues:

- 1. Classification, identification and assessment of risks in insurance*
- 2. Risk-management as a system of management risks of the insurer*
- 3. Tariff policy management and risks selection for insurance*

1. Classification, identification and assessment of risks in insurance

Risk — (ridsikon, ridsa — «cliff, rock») — risk or uncertainty in any field of economic activity and socio-economic life. Risk is considered as activities related to overcoming uncertainty in a situation of unavoidable choice, during which there is a possibility quantitatively and qualitatively assess the likelihood of achieving the intended result and the deviation from the target.

From the point of view of business risk is the probability of any event, which is objective and the occurrence of which may lead to losses or profits. There are three possible economic results in the occurrence of this event: negative (loss); the zero, positive (gain, profit, and benefit).

It is important for insurer to distinguish between *insurance* and *non-insurance* risks. Article 8 of the «Insurance Law of Ukraine» states: «Insurance risk is certain event in which case the insurance and which has signs of probability and chance occurrence».

Non-insurance risk is an event that is accompanied by losses for the victim, but not subject to insurance, often due to lack of desire insurer to assume liability for damages caused by the event. This is usually the risk that we are unable to estimate the probability of an insured event, to determine the amount of damages and costs of insurance services.

Risk classification in insurance is associated with a criterion, puts in its basis.

Depending on the source of danger there are divided into *natural risks* caused by natural manifestation of the forces of nature and *anthropogenic* arising from human activities.

Risks qualified the object, are divided into property and personal. *Property risks* are in the property objects and property interests of their owners, and *personal* — on the faces of people.

According to the criterion of possible effects there are net and speculative risks. If the *net risk* than result of random events is always an alternative: loss or absence. Typically, the insurance take net risks. *Speculative risks* don't require insurance coverage for the opportunity to provide not only losses but gains.

According to the criterion of the extent of damage risks are: *minor (small), medium, high, catastrophic*. The first two are those that lead to a small amount of damages and often occur in insurance of property of citizens. The amount of loss for them is estimated at 10 thousand UAH. *High risks* are those that cause large losses that significantly exceed the average loss when comparing, that is of the same origin. The average rating gives the size of loss of 10 million UAH. *Catastrophic risks* are defined by natural phenomena or human activity, which may lead to numerical cumulous individual risks and lead to significant property and personal damages in especially large sizes.

Political risks are associated with illegal actions from the point of view of international law actions, or actions of foreign governments against sovereign states, businesses or citizens of this state.

Environmental risks related to pollution of the environment and transforming due to human activities.

Transport risks are divided into risk «cargo» and «casco».

Risks «casco» (spanish *casco* — building, ship skeleton, helmet) relate to insurance against any type of transport.

Risks «cargo» (spanish *cargo* — loading, load) provide cargo insurance, carrying all kinds of vehicles.

Technical risks appear as an accident due to sudden break down of machinery and equipment or failure in technology. Technical risks can cause damage to property, life, health and financial interests of enterprises.

There is also the risk of the insured (for example, the risk of disability or did not receive timely wages to pay for the insurance). From the standpoint of the ability to influence party's insurance risks are:

- internal (endogenous) risks;
- external (exogenous) risks;

– mixed risks.

Internal risks can be attributed to production risks: risks of violation of the schedule of work, the risk of closure of the company, the risk of ineffective management of the company due to the low qualification of the personnel.

External risks include political (the uncertainty of the political situation in the country, changing the state tax conditions) and force majeure (natural disasters, drought, floods), administrative risks (risks of changes in administration).

Mixed risks include risks that depend on user security, and external factors.

From the standpoint of frequency of occurrence there is separate group allocates a special (unique) and anomalous risks. *Special (unique)* occur rarely and are usually high costs (such as insurance valuable goods — precious metals, precious stones, works of art, cash). *Abnormal risks* are risks which value can be attributed not relevant objects to the different groups of insured population.

According to the criterion of the amount of liability the insurer's risks are divided into *individual* and *universal*. Individual risks are included in the scope of liability of the insurer for individual atypical in the insurance contract. Universal risks are included in the scope of responsibility of the insurer by most standard insurance contracts.

Insurance risks can be divided as to statistical and hypothetical. The former includes such possibility of realization is determined by methods of mathematical statistics and probability theory («massive risks»). The second are others (specific, unique, etc.).

The process of insurance risks involves its identification. In the broad sense of identification (from the latin *identificus* — identical) can be considered from two perspectives:

- 1) identification, assimilation;
- 2) establishment based on predefined identity features various facilities.

Identification of risk insurance helps to identify it in order to find methods of management, because the risks taken by insurance may adversely affect the financial condition of the insurer. In this regard, the identification of risk the insurer should be viewed from two angles (Fig. 6.1).

Risk assessment in the insurance effected with an actuarial calculations of mathematical and statistical methods. To assess risk in the insurance practice there are different methods. The most common method is method of individual estimates, method of averages and method of in-

terests. *The method of individual estimates* applies only in relation to risks that cannot be correlated with the average type of risk. The insurer has an arbitrary assessment that reflects his professional experience and subjective opinion.

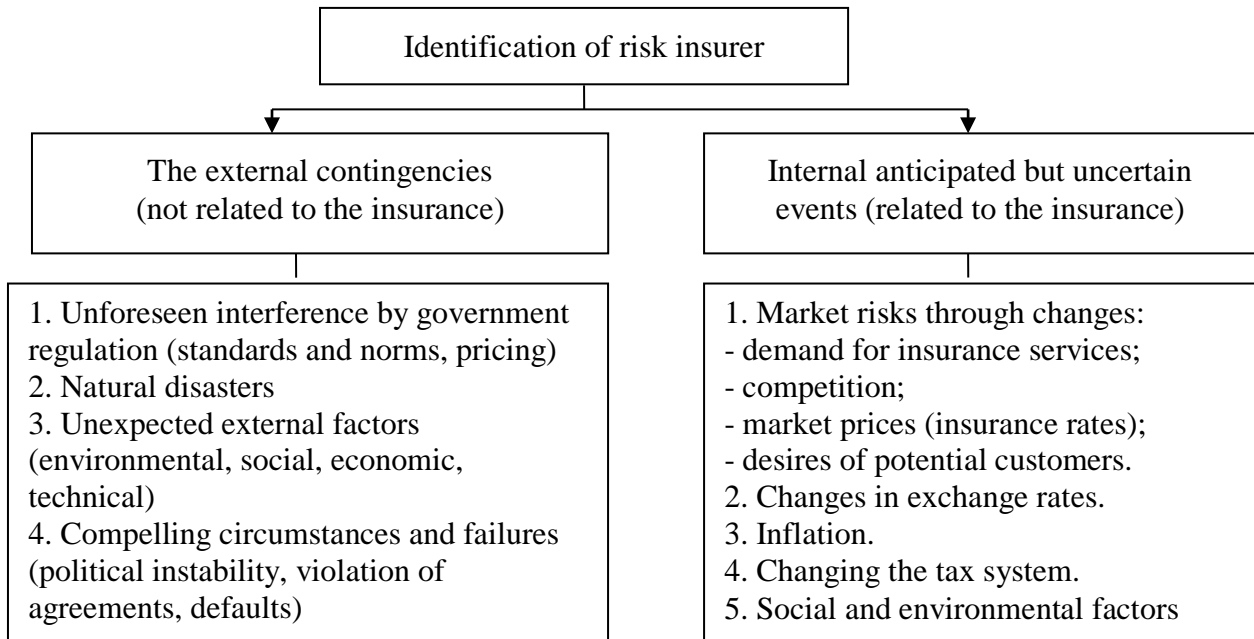


Figure 6.1 — Identification of risk insurer

The method of distribution of averages applies risk groups into sub-groups. It creates analytical framework for determining the amount for the risky features, such as the carrying amount of property insurance, production capacity, type of production cycle.

The method of interest is a set of discounts and surcharges to the existing analytical basis dependent on the possible positive and negative deviations from the average risk type. Discounts and allowances are determined as a percentage of average risk type.

2. Risk-management as a system of management risks of the insurer

Targeted actions to limit or minimize the risk in the economic relations called management of risk or risk-management. **Risk-management of an insurer** is the management process associated with the identification, analysis and economic control of risks that can threaten its assets or income.

For risk-management of insurance companies, like other entrepreneurs, use the following classification levels of risk:

- acceptable (risk, the amount does not exceed the amount of net-premiums for the tariff period);
- critical (full use of the insurance fund while maintaining equity);
- disastrous (loss of all property and bankruptcy).

Risk-management of insurance company differs from other risk management in business areas, due to the specificity of the insurance.

The risk-management as the risk management system of the insurer covers four phases:

- 1) preparation;
- 2) risk-analysis;
- 3) the choice of methods of risk-management;
- 4) risk-control.

The content of phased risk-management in insurance is as follows.

Preparatory phase of *risk-management* involves the identification, detailing the origin and classification of risks inherent in activity of the insurer. The object of risk management is a complex property interests related to the activities of the government. Complex property interests can be represented by the entity's assets and liabilities management, financial flows and financial results.

In the *second stage* of the *analysis or risk assessment* the main objective of risk-management is to analysis the potential consequences of an identified risk.

The process of *risk-analysis* includes the following components:

- diagnosis or identification of risks;
- quantitative risk assessment methods;
- determining the sequence of further action based on the overall risk assessment in this particular situation.

Identification and assessment of risks enables a full picture of the risks associated with the activities of the insurer. At the stage of risk-analysis uses different methods of quantitative and qualitative analysis of risk consequences. To do this, use mathematical and statistical models of the manifestations of risk, probabilities and forecasts of the consequences of the event.

The methods of qualification of risk analysis in the insurance activities include the following:

- analysis of observations of the process of creation and implementation of insurance services;
- analysis of the evidence of the insurer's employees;
- documentary analysis of economic activities;

- analysis of the organization of activity of the insurance company;
- analysis of individual checks.

The first two stages of risk management provide the necessary information to conduct the *third phase—making strategic decisions on risk management techniques*.

In this case, *the main methods of risk management in insurance activities* include the following.

Risk-prevention is the avoidance of events associated with risk. Often this method leads to the abandonment of certain activities, so you should consider some points:

- preventing possible risks can't be at risk of civil liability;
- preventing one type of risk can lead to others;
- all of the profits from certain activities can greatly exceed the potential losses in the event of risk situations associated with the specified activity.

Risk situation, on the one side, is a source of possible losses, on the other — a source of additional income.

Decrease (minimize) the risk is aimed at reducing the probability of occurrence of loss or size of its consequences. For this purpose, it is using division, association, diversification of risks.

The division of risk (segregation) is due to the division of insurance of responsibility through the implementation of reinsurance transactions with regard to its forms and methods of implementation.

Combining risks (combination). Possible risk is divided among several insurers (coinsurance). Joining forces makes a statement provided as they are under the control of one company. The combination of risk can occur by increasing the size of the insurer (asset growth, the emergence of additional activities) and by merging several insurers and others.

Diversification is the allocation between the various investments activities not directly linked. If as a result of unforeseen events one type of activity would be unprofitable, the other still bring profit. Often insurer covers losses from insurance due to income from conducting investment activities.

In addition, the methods of risk management of the insurer include the following:

- structure of the internal organizational structure of the insurance company;
- coordinate of work of internal units of the insurer;
- structure the external organization of work of the insurer (the creation of separate departments in the country and abroad);

– implementation of integrated information systems in the activities of the insurance company.

An important in risk-management is a continuous education and training of *staff of the insurer*, for incompetence, lack of expertise of personnel is often the cause of damage. Education and training should play a major role in risk reduction programs at all stages of the business-process of insurer.

In the final, fourth stage of risk management is ***controlled by risks***. At this stage, there is implementation of the decisions about management practices in all departments and functions of the company.

3. Tariff policy management and risks selection for insurance

The insurance rate should be considered as price insurance risks and other costs necessary to fulfill of the insurer to the insured by insurance agreements. Insurance rate reflected the monetary costs to 100 units of the sum insured for a year or interest rate of the total insurance amount.

The insurer calculates premiums on the assumption that the amount of premiums calculated on the basis of rates should be such that it could fulfill its obligations to policyholders (to indemnity), to cover the costs of the insurance company and make a profit. Thus, insurance rate includes two parts: *netto-tariff* and *load*. In this case, the ratio between the components of the insurance rate the following: about 80% is directed to the creation of insurance reserves necessary for the payment of insurance indemnities (*netto-rate*); about 20% — *load*, which is used to cover other payments related to the insurance and profit.

Each insurance company bases its tariff policy in accordance with the overall goals, objectives, and tasks depending on the type of insurance that it holds. However, to achieve *optimal tariff policy* the insurer must use the following *principles*.

1. The equivalence of insurance relations: the *netto-rate* should correspond to the maximum probability of loss, thus ensuring the repayment of funds of the insurance reserve for the tariff period of that set of insurers, the scope of which was built insurance rates.

2. The stability of the amount of insurance rates: insurance rates do not often vary in time, which will negatively affect the demand for insurance services on the part of potential policyholders and adversely affect the activities of the insurer in general.

3. Ensuring profitability of the insurance operations: insurance rates should be constructed in such a way that insurance premiums are received, constantly covered the cost of the insurance company.

4. The availability of insurance tariffs for a wide range of insurers: insurance rates must correspond to the purchasing power of the population, because too high rates will lead to the loss of customers of the insurer and its loss in the future.

This specialist of the department taking risks insurance governed by the calculation *index loss of the insurance sum* calculated by the formula 6.1:

$$I_y = n \frac{\bar{Q}}{S} \quad (6.1)$$

It means, I_y — index loss of the insurance sum;

n — number of insured objects affected;

\bar{Q} — average size of insurance compensation;

S — average size of insurance sum.

Index loss of the insurance sum is calculated on homogeneous groups of objects of insurance and provides the opportunity for the insurer to be guided in the assessment of risks accepted for insurance. This figure indicates the amount of change of the loss ratio of the insurance sum in comparison with the previous period.

In the insurance company's assessment of risks accepted for insurance, is the prerogative of a specialist *underwriter* who is a qualified and responsible person of the insurer, mandated to carry out the necessary procedures for the review of proposals and taking risks for insurance. It is taken basis insurance rates are calculated by an actuary. In fact, the underwriter and the actuary are the main experts of insurance companies that carry out the functions of risk management, but their objectives are somewhat different. If the actuary's primary purpose is to calculate insurance rates that reflect the average level of risk inherent in the objects of insurance, the underwriter assesses the level of risk for a particular insurance object.

Underwriting is a complex activity of the insurer on the identification, analysis, risk assessment, determination of insurance, the optimal choice of insurance coverage, compliance testing risk balance of the insurance portfolio.

Underwriting tasks:

- risk identification that includes risk classification by source and degree of danger;
- assessment of the risk proposed for insurance;
- a decision on the appropriateness of a particular insurance risk;
- definition of the terms, conditions and amounts of coverage;
- adjustment of the amount of insurance rates.

Underwriting principles are as follows.

1. *The choice of objects and of the risks accepted for insurance.* The underwriters selected by those objects, the loss ratio for insurance which does not exceed the figure laid down in insurance rates.

2. *An appropriate balance within each group of risks.* Objects with similar characteristics are grouped together in loss and together in a certain class of underwriting. Each object in the group has the same insurance rate.

3. *Equality between policyholders (owners insurance contracts).* The underwriter must assign adequate insurance rates, and each group of policyholders (insured persons) must pay the amount of insurance payment-set for this group. No one group of policyholders should not subsidize another.

Stages of underwriting.

1. *The development of the current insurance policy of the company.* The underwriting process begins with the development of current policy insurance company determines risk factors and categories of objects, which are insured, the maximum sum insured (depending on the type of insurance) and activities, which should develop on the basis of market conditions.

2. *Informing employees of the company about insurance policy.* After the current insurance policy is formed, it shall be communicated to employees implementing insurance products, as well as to intermediaries, the company cooperates with.

3. *Risk assessment in the context of specific objects of insurance.* To assess the insurance risk underwriter guided surveyor's reports (expert, inspector, an agent of the insurer, which examines objects accepted for insurance).

4. *Deciding on insurance.* After assessing the information received about the facility offered to insurance underwriter shall take the appropriate decisions:

- adopt;
- adopt the relevant conditions and exceptions;
- reject.

If necessary, the underwriter may ask you to put the size of the deductible or when calculating the final rate to use correction factors.

References: [4], [24], [25], [27], [30], [32].

Questions for self-control

1. What is the risk?
2. What risks are insured?
3. How to identify and assess the risks of insurance?
4. What risks are anthropogenic?
5. What are classifications levels of risk in the insurance business?
6. What are the stages of risk management in insurance companies?
7. What is the technical risk of the insurer and its importance in the risk management system of insurance companies?
8. What is the purpose of the load in the structure of the insurance rate?
9. What is importance of exactly calculated netto-rate?
10. What specialist of insurer is responsible for selection of risks for insurance?

Glossary

Abnormal insurance risk — risks, which value can't be attributed to relevant objects to the different groups together insurance totality

Decrease (minimizing) of insurance risk — actions of the insurer aimed at reducing the probability of loss or size of its effects

Diversification of risk insurer — the allocation of risk between different types of activities of the insurance company, are not directly linked

Identification of insurance risks — the process of identification and recognition of insurance risks in order to find methods of management

Index loss of the insurance sum — index, which indicates the change in the sum insured loss compared to the previous period and it is calculated by multiplying the number of insured objects affected and the loss of the sum insured for the entire group of objects

Insurance rate — the price of the insurance risk and expense are required to meet the obligations of the insurer to the policyholders by insurance agreements

Insurance risk — certain event for the case of the insurance that has features of probability and chance of occurrence

Risk-management of the insurer — management process, is associated with the identification, analysis and economic control of risks that can be threaten to its assets or income

Special (unique) insurance risks — risks that occur rarely and are usually high cost

Underwriter — highly qualified specialist of insurer, authorized to carry out the necessary procedures to review the proposals and take insurance risks

Underwriting — the complex activities of the insurance company for the identification, analysis, risk assessment, determination of insurance, the optimal choice of insurance coverage, compliance testing of risk balance of the insurance portfolio

Universal insurance risks — risks are included in the scope of liability of the insurer by the standard insurance contracts

Tests

Test 1. Insurance risk is:

- a) the risk of loss insurer invested temporarily free funds;
- b) the risk of loss of profit insurer;
- c) the event that has signs of probability and chance occurrence and in case to do insurance;
- d) force-majeure circumstances are noted in the insurance contract.

Test 2. Insurance risks are classified according to criteria:

- a) the completeness, franchise, insurance system;
- b) the reinsurance, co-insurance and diversification;
- c) natural disasters and accidents;
- d) the possible of consequences, the object, the causes, the volume.

Test 3. Non-insurance risks are:

- a) risks that we are unable to determine the amount of damages;
- b) risks that are outside of the insurance field of particular insurer;
- c) risks that we are unable to estimate the probability of an insured event, to determine the amount of damages and costs of insurance services;
- d) risks that the insurer refuses to take on the responsibility because the property is estimated in excess of normalized legislation, the volume of insurance reserves.

Test 4. The insurance rate is the basis for determining:

- a) amount of insurance losses;
- b) the insured sum in property insurance;
- c) indemnity;
- d) insurance premium.

Test 5. The major risks are characterized by:

- a) the probability of occurrence;

- b) areas, coverage of risk;
- c) the main indicators of activity of business;
- d) the kind of natural disasters (water, fire, wind and others)

Test 6. Risk analysis is :

- a) the risk assessment;
- b) reducing the risk;
- c) identification of risk;
- d) the avoidance of risk.

Test 7. The criterias of insurance risks include:

- a) an accident;
- b) possibility of estimation;
- c) a low degree of probability;
- d) large losses.

Test 8. Surveyor — is:

a) authorized insurer of the person who establishes the causes, nature and amount of damages object provides documentation of the insured event and preparation of materials for the examination of the insurer of insurance payment;

b) expert who reviews the facility and assess the insurance risk for its security;

c) expert who represents the insurer to settle the alleged claims of the insured due to the insurance event and is an estimate of the amount of losses;

d) Agent insurer to implement the necessary procedures to review the proposals and taking risks for insurance.

Test 9. Based on results, the underwriter has determined that the probability of occurrence of the risk on potential insurance contract equal to one. This means that:

- a) the one event will happen from all possible;
- b) the event will happen;
- c) the event will never happen;
- d) the event will only happen once.

Test 10. The signs of risk that cannot be insured:

- a) the result of the implementation of the risk is known in advance;
- b) there is no subjective factor;
- c) effects of a risk can be assessed;
- d) there is probabilistic character.

Test 11. The methods of risk-management include:

- a) uptake of risk;
- b) compensation risk;
- c) avoid the risk;
- d) escape from risk.

Test 12. The main purpose of the netto-rate:

- a) to cover the cost of the insurer for doing insurance business;
- b) to create profit of insurer;
- c) to create a free and centralized insurance reserve funds;
- d) compensation for policyholders.

Test 13. Insurance rate is:

- a) the premium rate for the year;
- b) the rate of insurance compensation;
- c) the rate of the insured sum in personal insurance;
- d) the premium rate to the franchise.

Test 14. The insurance premium is:

- a) payment of insured sum for insurers in personal insurance;
- b) payment of insurance compensation to the policyholder;
- c) payment for insurance services to the insurer by the insurance contract;
- d) the amount that object is insured by law or contract.

Test 15. What is the purpose of the load in the gross-rate?:

- a) to cover the costs of the insurer;
- b) for the formation of the insurer's profit and cover the costs for insurance;
- c) to create a free and centralized insurance reserve funds;
- d) for compensation of losses to policyholders.

Topic 7. The Settlement of Insurance Claims

Issues:

1. *The essence, principles and stages of settlement of insurance claims*
2. *Payment order of insurance compensation*
3. *The composition and methods of calculating the reserves of the insurer to provide insurance benefits*

1. The essence, principles and stages of settlement of insurance claims

Insurance claim — the claim of the insured successor or the insured to the insurer for damages that are the result of the insured event. The order of presentation and settlement of claims determined by the rules of insurance.

During the occurrence of insurance claims to understand the situation in which the insurer has received notice from the insured of the insured event, the estimated amount of damage and the circumstances of the events that led to this loss.

The main principles of the settlement of insurance claims:

- The legitimacy of claims to cover losses;
- Adequate compensation;
- Operative execution of financial transactions;
- The timely payment of insurance compensation.

Stages settlement of insurance claims.

I. Notice of insured event (initial stage). Fixing insurance claims must be made in writing, which shall include a statement of the insured on the insurance case, which must specify the circumstances of the insured event and the object that hit.

II. Investigate the causes of the insured event. Insurance expertise is one of the stages of the preceding claims handling and assembly process of the insurance act.

Insurance expertise — a pre-trial investigation into all the circumstances of the insured event, based on the specifics of a particular type of insurance that aims to give its detailed response. Insurance companies may carry out insurance expertise alone or involve independent experts who are licensed to carry it out.

Emergency Commissioner is authorized by the insurer by the person who establishes the causes, nature and extent of damage object provides

documentation of the insured event and preparation of materials for the examination of the insured on the insurance payment.

Surveyors (professional appraiser) is an expert who reviews the facility and assess the insurance risk for its security.

Is an expert adjusters, which represents the insurer to settle the alleged claims of the insured due to the insurance event.

Investigating an accident, experts of the insurer, first must make sure that:

- At the time of the insured event the insurance contract was in force;
- A person who applies for insurance payments is indeed insured or his representative;
- Specified in the application object was indeed insured;
- An event that happened, in the list of insurance claims under the insurance contract;
- The insured has taken reasonable and appropriate measures to mitigate the effects of the insured event;
- The seat of the insured object corresponding to the place specified in the insurance contract,
- The insurer promptly reported an accident competent authorities and they confirm the fact of this case.

According to the results of this investigation the insurer decides on the insurance payment.

III. The decision to implement (or not implement) the insurance benefits (final stage). For such a decision in the insurance contract specified the required period commencing after receiving all required documents the insurer of the insured and lasts usually 15 days. If the insurer does not adhere to the deadline, the policyholder has the right to nominate a second claim to the insurer or require payment of the fine in court.

When carrying out work on the settlement of insurance claims must be considered that such work can often be challenging, require significant costs time and money insurer. In this regard, there is a practice setting limits on the amount of insurance payments. Setting limits does not require a detailed investigation of the insured event, if the refund amount claimed does not exceed the limit.

Insurance payment can be made once (in most cases) or in several stages, in the case of large insurance payments and calculations involved reinsurers.

2. Payment order of insurance compensation

The order of payment of insurance compensation is governed by Article 24 of the Law of Ukraine «About insurance», in which determined that the payment is made under the insurance contract or by law, upon application of the insured (his representative) or 3 persons specified in the insurance contract and insurance act (emergency certificate) consisting insurer or authorized person (average commissioners) in the form specified by the insurer.

The insurer may refuse to pay the insured, the grounds for refusal listed in Article 25 of the Law of Ukraine «On insurance». In particular, the following reasons are the following.

1. Deliberate actions of the insured or the person to whom the insurance agreement aimed at insured event.
2. Committing insured intentional crime that led to the insurance case.
3. Presentation of the insurer knowingly false information about the object of insurance.
4. The insured full compensation for property insurance of persons guilty of causing them.
5. Delays message insurer of the insured event without good reason, or obstructing the insurer in determining the circumstances and the nature and amount of loss.

An insurance contract may provide other grounds for refusal to pay.

The decision to refuse to pay the insurer accepted the terms stipulated in the rules of insurance, the insured and reported to necessarily writing with the reasons for refusal. In full compliance with the obligations to pay, ie the full sum insured, the insurance contract is considered expired, it shall be terminated.

When paying compensation in the amount of a certain percentage of the sum insured insurance contract is considered valid in the amount equal to the difference between the sum insured and paid compensation.

According to Article 27 of the Law of Ukraine «About insurance», and Article 993 of the Civil Code of Ukraine insurance company is entitled to recover damages for recourse party guilty of an insured event. This right insurance company gets after the insurance payment to the insured and only in an amount not to exceed the actual amount paid to the insured. In addition, the insurance company has the right to demand compensation for moral or other intangible losses.

The insurance company may refuse to pay the insurance indemnity if the insured does not give the company the necessary documents or otherwise prevent the use of recourse.

Compensation for recourse, as a rule, is as follows.

Evaluation of an insurance case and identify the guilty party. At this point, you must have objective evidence proving the guilt of a third party.

Appeal to the guilty party with a request to pay damages. An appeal to the guilty person should be written with the mandatory confirmation of the guilty party receiving such treatment. Between the insurance company and the perpetrator concluded the act regulating material claims, stating the amount and term of compensation a condition that damages after party will not go to court or otherwise attempt to re-claim damages.

Appeal against the judgment. The insurance company has the right to a civil action to claim damages from the perpetrator, as well as the amount of state duty paid by the company for a civil suit. In addition, the insurance company has the right to ask the court to seize the property of the perpetrator in order to enforce a civil claim.

Damages forcibly. If the guilty person in due course does not fulfill the court's decision, the executive office has the right to carry out the forced removal of the perpetrator of the property for its sale and damages insurance company.

Large insurance companies have service with the settlement of insurance claims.

The organization of the service of the settlement of insurance claims advisable to adhere to the following requirements:

- Service for the settlement of insurance claims must be directly controlled by the head of the insurance company only and must not in any way depend on the units engaged in the sale of insurance products;
- Qualify for the settlement of insurance claims should be qualified, preferably with experience in protecting the interests of insurance companies in litigation;
- Employees of the settlement of insurance claims in its work should be guided by regulations, including internal documents of the insurer expressly governing the settlement of insurance claims.

Service for the settlement of insurance claims departments should cooperate with the insurer engaged in financial management. Thus, when notified of the insured event from the service of the settlement of insurance claims financial services should reserve funds for possible insurance payments in the amount not less than the sum insured specified in the insurance contract.

3. The composition and methods of calculating the reserves of the insurer to provide insurance benefits

In order to ensure future payments of insurance premiums and insurance compensation insurers forming insurance reserves, formed according to the specialization of the insurance company and are divided into technical reserves (formed by insurers with risk insurance) and life insurance reserves (mathematical reserves generated by insurance companies engaged life insurance) (fig.7.1).

Methods of forming and accounting of technical reserves established by the National Commission for State Regulation of Financial Services Markets.

Provisions for life insurance are composed of:

- Reserves long-term obligations
- Reserves adequate payment of insurance premiums, which insurers accordance with Article 31 of the Law of Ukraine «On insurance» are obliged to create and maintain records.

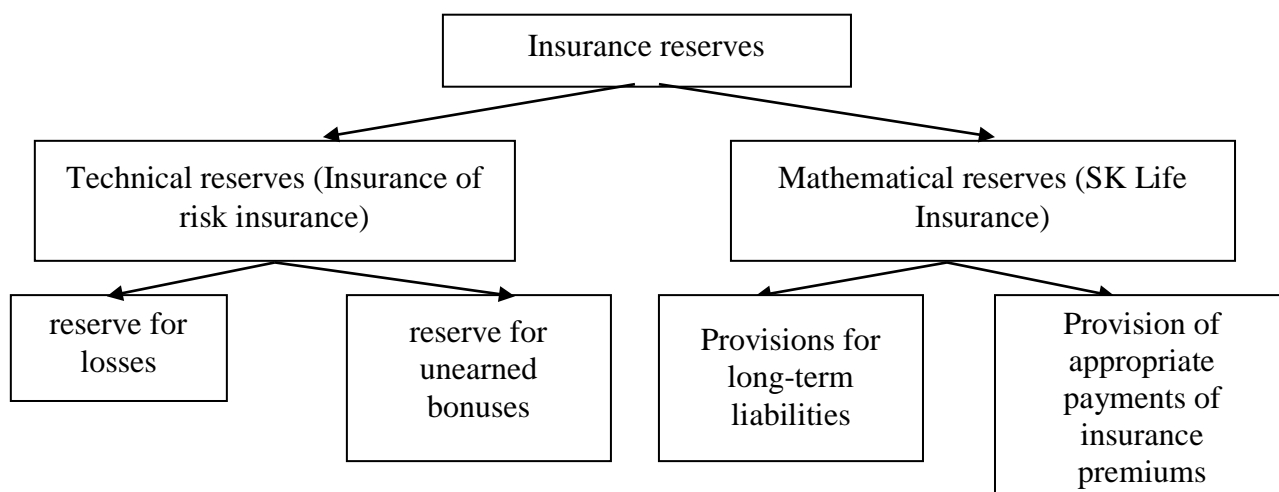


Figure 7.1 — The formation of insurance reserves of the insurer, depending on specialization

The value of the reserves long-term liabilities calculated by actuarial separately under each method of provisioning for life insurance considering the rate of inflation.

Methods of forming reserves for life insurance, the volume of insurance liabilities, depending on the types of life insurance contracts and the minimum term of the life insurance contracts and methods of forming and accounting of technical reserves established by the National Commission for State Regulation of Financial Services Markets of Ukraine. Law of Ukraine «On insurance» given the powers of the Cabinet of Ministers of

Ukraine on amendments to the list of insurance reserves and the order of their calculations.

As a component of technical provisions important premium reserve, which formed the basis of the two possible types of fluctuations in the current loss on the planned value provided net rate:

- Annual variations within normal statistical variation;
- Catastrophic loss peaks at a fairly steady average level of loss.

Therefore, insurers form reserve of losses and catastrophes reserve. However, most important is the provision for unearned premiums, which is essentially a reserve not literally, as Article accounting and distribution of premiums received consistent between periods.

This is due to the fact that premiums for contracts usually paid by policyholders in advance for the entire period of the contract, which does not always coincide with the timing of the reporting period.

The concept of earned premiums derived from comparing the period of the insurer and of a specific contract. When unearned premium aware of insurance premium received for the current reporting period the insurance contract, which relates to part of the contract that goes beyond the reporting period (formula 7.1).

$$W = (SP_s - SP_p) + NZP_{pp} - NZP_{kp} \quad (7.1)$$

where: SP_s — insurance premiums received under insurance and reinsurance for the period;

SP_p — premiums paid to reinsurers for the period;

NZP_{pp} ; NZP_{kp} — Reserve for unearned premiums at the beginning and end of the period.

Thus, for calculating the reserve for unearned premium is used several methods presented in the Law of Ukraine «On insurance»:

- The method of «floating neighborhoods» or method «1/4»;
- Method «1/365»;
- Method of «1/24», «1/12», «1/8»;
- The method of «40%», «36%».

The use of a methodology for calculating the reserve for unearned premium for a certain period depends on the structure of the insurance portfolio of the insurance company.

Thus, according to the method of «floating neighborhoods» value of the reserves for unearned premiums on any date set depending on the particle receipts of insurance payments (premiums, insurance premiums), which may not be less than 80% of the total amount of insurance premi-

ums from the relevant insurance in each month of the previous nine months (billing period) is calculated as follows:

- The share of income of insurance payments for the first three months of the billing period multiplied by 1/4;
- The share of income of insurance payments for the next three months billing period multiplied by 1/2;
- The share of income of insurance payments for the last three months of the billing period multiplied by 3/4;
- Works of prepared annexed (formula 7.2).

$$WIP = \frac{1}{4} SP1 + \frac{1}{2} SP2 + \frac{3}{4} SP3 \quad (7.2)$$

where: SP1 — premiums received for the first three months of the calculation period;

SP2 — premiums received for the next three month accounting period;

SP3 — premiums received in the last three months of the calculation period.

This method of determining the unearned premiums reserve is easy to calculate, but the result does not give very accurate.

Most accurately determines the amount of the required reserve for unearned premium method «1/365», according to which the base rate premiums on insurance contracts are grouped according to the date of liability insurance, the insurer periodicity of payment of premiums and duration of the contract. This method is used in cases where the terms of payment of insurance premiums are distributed randomly in time and does not coincide with the beginning of the month, quarter or year. Reserve for unearned premiums by a certain date will be the amount of unearned premiums for each individual contract.

The insurance companies where the monthly income from insurance premiums varies, the calculation of the reserve for unearned premium is made by «1/24», whereby it is assumed that all insurance contracts concluded during the month, the premium goes to the middle of the month. This received the annual premium is divided into 24-D of the (2nd half of the month) and distributed for the duration of the insurance contract. Thus, the earned premium in the middle of this month will be 1/24 the amount of the annual insurance premium, and the end of the month it will be 1/12.

This method of calculation makes it possible to set the amount of unearned premiums for each insurance contract to the middle or end of each month (but not on any date as the previous method).

But in practice, the insurance company serves both tens or hundreds of insurance contracts, deadlines, which do not coincide with each other. These conditions determine the earned and unearned insurance premium, based on the date of each insurance contract shall be accompanied by a large number of calculations. Therefore, in practice, insurers often use less accurate special techniques such as «1/4», «40%» or «36%».

The most common method of «floating neighborhoods» or «1/4», which was discussed above. If the insurer's insurance portfolio comprises unified insurance contracts with uncertain expiry dates, to calculate the reserve for unearned premium using the method of «40%» or «36%». This insurance contracts should be concluded around the same period as the premiums for them should come regularly.

Provision for losses formed to provide the sum of payments on insurance cases that could come before the end of the financial year. Almost insurer is paying for damages immediately, but after some time.

Determination of the impairment loss has several stages:

1) the insured event (the insured has not applied for the insurance case and the amount of damage is unknown)

2) an application filed by the insured, the insurer fixes a possible loss in the amount of the sum insured for a particular insurance contract, but the exact extent of the damage is unknown;

3) the insurer determines the actual amount of the claimed loss;

4) calculations insurer to insurer declared and calculated at a loss.

That's why loss reserve is divided into:

- Reserve declared, but unsolved losses;

- Reserve for losses that have occurred but not reported.

Reported but not settled claims reserve (RBNS) created by the insurer to ensure fulfillment of obligations, including the costs of claims handling by insurance contracts that are not made or not fully made at the balance sheet date. Moreover, these insurance liabilities arising from insured events that occurred during the reporting period or prior to it, and the fact of the established order has been previously declared to the insurer.

The value RBNS size is determined for each claimed but unsolved claim (if the damage claimed, but its size has not been determined, it is used to calculate the maximum possible value loss, but not exceeding the sum insured) the sum of the following components:

- Deductions for possible unspecified damages in the amount of 5% of the amount of insurance premiums;

- Declared but unsolved losses (known insurer losses for which the insurer did not calculate the required payment);

- Unsettled towards (declared insured and registered insurer that made them fear acts indicating their volume), but not yet paid by the insurer losses.

Incurred but not reported claims reserve (IBNR) formed in connection with insurance cases that have occurred, the fact of which the insurer was not announced in due course of the reporting date, and therefore insurance liability insurer has to perform in the next reporting period. In practice, the value of RHEI is calculated at a rate not exceeding 10% of the premiums received during the reporting period if the reporting period is the year.

The calculation of the allowance for losses arising, but not claimed, is carried out for each type of insurance separately and the value of the reserve is the amount of reserves for losses that have arisen but not reported, designed for all types of insurance. This calculation is made using actuarial methods, including:

- a) modification of the method chain (Chain Ladder);
- b) Fixed interest method;
- c) Bornhuettera-Ferguson method (Bornhuetter-Ferguson).

These methods are used if data is not less than 12 periods (quarters) payment of damages. Moreover, if the selection method reserve a fixed percentage of losses that have arisen but not reported, determined at 10% of earned insurance premiums of the previous four quarters preceding the reporting date.

Information Sources Used: [1], [2], [4], [22], [25], [26], [27], [29].

Questions for self-control

1. What is an insurance claim?
2. When an insurance claim?
3. On what principles based regulation of insurance claims process?
4. What is the initial step in the settlement of insurance claims?
5. Reason for conducting insurance expertise?
6. What does the emergency commissioner?
7. What is the purpose of the service the insurer generates settlement of insurance claims?
8. On what basis is formed office of the settlement of insurance claims?
9. What is the purpose insurer provides insurance reserves?
10. What are the main components of impairment loss insurer that provides insurance other than life insurance?

Glossary

Adjuster — expert who represents the insurer to settle the alleged claims of the insured due to the insurance event and is an estimate of the amount of losses

Compensation for recourse — acquiring the insurer the right to receive compensation from the perpetrators of insured events, after the insurance payment to the insured in an amount not exceeding this payment

Disaster reserve — reserved funds of the insurer for the purpose of insurance payments in the event of natural disasters or major industrial accidents and in case of need for the implementation payment of insurance compensation in amounts that exceed the average amount of damage taken as the basis for calculating insurance rates

Emergence of insurance claims — situation in which the insurer has received notice from the insured of the insured event, the estimated amount of damage events and circumstances that led to such damage

Emergency Commissioner — insurer authorized person who establishes the causes, nature and extent of damage object provides documentation of the insured event and preparation of materials for the examination of the insured on the insurance payment

Insurance claim — the claim of the insured (or insured's successor) to the insurer for damages that are the result of the insurance case

Insurance expertise — pre-trial investigation of all circumstances of the insured event, based on the specifics of a particular type of insurance that aims to give a comprehensive description of its

Provision for losses — reserved funds of the insurer, designed to provide the sum of payments on insurance cases that could come before the end of the financial year

Provision for unearned premiums — shares reserved amount of premiums received for the current reporting period insurance contracts which refers to the part of the contract, the terms of which do not end in the reporting period

Reserve declared, but not solved losses — Insurer reserved funds to ensure fulfillment of obligations, including the costs of claims handling by insurance contracts that are not made or not fully implemented at the reporting date

Service on the settlement of insurance claims — insurer unit, designed for qualitative investigations the circumstances of insurance claims, determining the perpetrators, establishing the value of net losses

Tests

Test 1. Insurance claim — is:

- a) verbal claim of the insured (successor insured) to the insurer for damages caused by the insurance event;
- b) lawsuit against the insured (the successor of the insured) to the insurer for damages caused by the insurance event;
- c) the claim in writing to the insured (the successor of the insured) to the insurer for damages caused by the insurance event;
- d) threat to the insurer of the insured (successor insured) associated with the need to compensate the incurred losses.

Test 2. Procedure for submission and settlement of claims determined...

- a) the insurance policy; b) the application for insurance;
- c) the laws of Ukraine; d) insurance regulations.

Test 3. Insurance Expertise — is:

- a) the operational execution of financial transactions;
- b) investigate all the circumstances of the insured event in order to complete its characteristics;
- c) the timely payment of insurance compensation;
- d) harboring the insurer circumstances of the insured event.

Test 4. Emergency Commissioner — is:

- a) authorized insurer of the person who establishes the causes, nature and amount of damages object provides documentation of the insured event and preparation of materials for the examination of the insurer of insurance payment;
- b) expert who reviews the facility and assess the insurance risk for its security;
- c) expert who represents the insurer to settle the alleged claims of the insured due to the insurance event and is an estimate of the amount of losses;
- d) Agent insurer to implement the necessary procedures to review the proposals and taking risks for insurance.

Test 5. Adjuster — is:

- a) authorized insurer of the person who establishes the causes, nature and amount of damages object provides documentation of the insured event and preparation of materials for the examination of the insurer of insurance payment;
- b) expert who reviews the facility and assess the insurance risk for its security;

c) expert who represents the insurer to settle the alleged claims of the insured due to the insurance event and is an estimate of the amount of losses;

d) Agent insurer to implement the necessary procedures to review the proposals and taking risks for insurance.

Test 6. Stages of risk management include:

- a) control;
- b) avoid the risk;
- c) risk limitation;
- d) risk prevention.

Test 7. Insurance Act is ...

- a) the underwriter;
- b) an actuary;
- c) the survivor;
- d) average commissioner.

Test 8. Under emergence of insurance claims understands ...

a) a situation in which it was an accident that led to of insured of damages;

b) a situation in which the insurer has received notice from of insured of the insured event, the estimated amount of damage and the circumstances of the events that led to it;

c) refusal of the insurer to pay the insurance indemnity;

d) lawsuit against the insured to the insurer.

Test 9. The insurance company is entitled to damages for recourse in case ...

a) if the insured losses caused by third parties; b) if the insured had caused a loss;

c) if the insured losses caused assignee; d) if the insured losses caused to third parties.

Test 10. The insurance company takes recourse since ...

a) the receipt by of insured;

b) signing an insurance contract;

a) calculate the amount of of insured of damages;

d) the actual payment of insurance compensation.

Test 11. The material claims settlement act composed between ...

a) the insurer and the insured;

b) the insurer and the insured;

- c) the insurer and the third party that caused the damage to the insured;
- d) the insured and the third party that caused him damage.

Test 12. Provision for unearned premium — is:

- a) the amount of insurance premiums on insurance contracts, which decided not to pay the insurance indemnity;
- b) the amount of insurance premiums on insurance contracts whose validity has not expired;
- c) the amount of premiums on insurance contracts, which decided not to pay the insurance indemnity;
- d) the amount of insurance premiums received by the insurer for insurance contracts whose validity has not expired.

Test 13. Damage reserve — is:

- a) the amount of insurance premiums on insurance contracts, which decided not to pay the insurance indemnity;
- b) the amount of insurance premiums on insurance contracts whose validity has not expired;
- c) the amount of premiums on insurance contracts, which decided not to pay the insurance indemnity;
- d) the amount of insurance premiums received by the insurer for insurance contracts whose validity has not expired.

Test 14. As a result of the accident, the culprit which has an agreement of compulsory insurance of civil liability of owners of vehicles, damaged car, repair cost of which is 24.7 thousand. UAH. Insurance reimbursement, which the insurer will pay the victim will be:

- a) 50 thousand UAH;
- b) 49 thousand UAH;
- c) 24.7 thousand UAH;
- d) 23.7 thousand UAH.

Test 15. As a result of insurance event (industrial accidents) have been simple for enterprises from 1.05 to 30.06 this year. Average profit amounted to 220 thousand UAH. The cost of major repairs to eliminate the consequences of the accident is 500 thousand UAH., Operating costs — 100 thousand UAH. Losses of the plant by the insurance case ...:

- a) 1 040 thousand UAH;
- b) 940 thousand UAH;
- c) 820 thousand UAH;
- d) 600 thousand UAH.

Topic 8. Cash Flow Management of the Insurer

Issues:

1. *The essence, principles and objectives of cash flow management of the insurer*
2. *Management of Cash inflows of insurance company*
3. *Management of Cash outflows of insurance company*

1. The essence, principles and objectives of cash flow management of the insurer

Insurance company as a business entity in the operational management pays considerable attention to the investigation of the nature of money, the regularities and features of its movement. Such necessity is caused by search of sources of financing, efficient allocation of funds in the relevant assets of the company, while ensuring liquidity and solvency.

Cash flow of insurance company rightly regarded as the circulation of money that flows continuously over time.

Money insurer has two independent *cash flows*:

- 1) turnover of funds that provides insurance protection;
- 2) turnover related to the organization of the insurance business.

The first cash flow is two stages:

- the first phase is formed and distributed insurance capital;
- the second phase of the funds is generated from insurance capital invested for profit.

The most important *feature of the first cash flow insurer* is risky, probabilistic nature of the movement of money in it, because the basis of insurance capital formation is likely damage, calculated on the basis of statistics and probability theory. The possibility of disagreements amount of insurance and capital requirements for insurance claims raises a number of specific *features of financial activity in the insurer*.

Cash Management includes the following steps:

- accounting of cash flow;
- analysis of cash flows;
- budgeting of funds.

The main objective of the analysis of cash flows is to determine the cause of shortage (excess) in cash, identifying sources of income and areas of use.

To analysis the cash flow necessary its *provision of information*, which is a set of information resources and ways of organization as is

necessary or appropriate for the implementation of analytical procedures. Its structure has five units:

- information regulatory-legal and informational nature;
- financial (accounting) reporting;
- the financial and operational management accounting;
- financial statistical information;
- systemic data.

Cash flow management of the insurer is integrating a system of principles, methods, design and implementation of a model of formation, distribution and use of insurance capital and the organization of its turnover.

Effective cash flow management is ensured implementation of a number of principles, the main of which are presented in Figure 8.1.

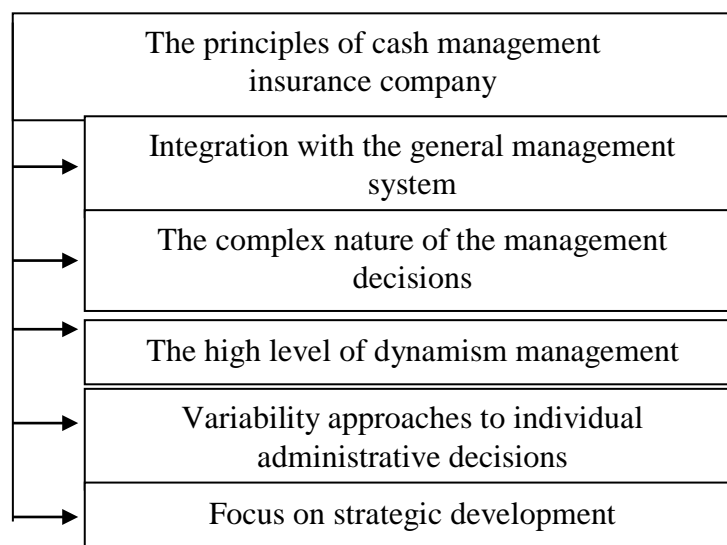


Figure 8.1 — The basic principles of cash flow management of the insurer

Integration with the general management system of the insurer is that in whatever sphere of activity of the company were not accepted management decision, it directly or indirectly affects the generation of cash flows and results of operations.

Managing cash flow should be considered as *complex functional control system* that ensures the development of interrelated management decisions, each of which contributes to the overall effectiveness of the insurance company.

The next principle of cash flows of the insurer is *high dynamic of management* assumes that even the most effective management decisions related to the formation and use of funds, and optimize its sales, developed and implemented by the company in the previous period, cannot always be reused for the next stage of its economic activity.

The implementation of the principle of *variability of approaches to the development of individual managerial decisions* suggests that the preparation of each of the managerial decisions in the sphere of formation, utilization and organization of its turnover needs to consider alternative possibilities of action.

As for principle *focus on the strategic development of the company*, the projects of managerial decisions in the sphere of the cash flows should be rejected if it conflicts with the mission (the main purpose of the activities) of the company, the strategic directions of its development, undermining its economic foundations of the formation of high amount of resources in a future period.

Given the content and principles of cash management insurance company, it forms its goals and objectives.

The main purpose of the cash flow management of the insurer is inextricably linked with the main objective of financial management in general and it is implemented in a single complex.

In the process of implementing its primary objective cash flow management aimed at achieving the following *objectives*.

1. Ensuring a high level of financial stability and solvency of insurance companies in the process of development achieved by creating sufficient insurance reserves; effective management of residues cash assets and cash equivalents; formation of sufficient reserve their parts; ensure uniformity of revenues; ensuring synchronicity forming incoming and outgoing cash flows; choose the best form of payment in payments to contractors.

2. Maximize net cash flow that provides specified economic development self-financed is realized through the formation of monetary insurance company that generates the greatest amount of profit from operating, investing and financing activities; choice of effective depreciation policy; timely implementation used assets; reinvestment temporarily free funds.

3. Ensuring minimization of losses cost of funds in the course of its use suggests that the main measure to minimize the loss of value of the assets of the insurer is to *diversify directions of placement* of insurance reserves.

It is necessary to classify cash flows of the insurer and determine its structure. In view of this, the cash flows of the insurer can be represented as follows.

1. By sources:

- cash from the main (insurance) activity;

- cash from financing activities;
 - cash from investing activities.
2. By the directions of cash flow:
 - input cash flows.
 - output cash flows.
 3. By currencies:
 - cash in national currency;
 - cash in foreign currency.
 4. By the field of use:
 - the funds of the head office of the insurer;
 - the funds of the regional divisions.

The effectiveness of cash management of the insurer mostly depends on information sources to analyze its existing potential and effectiveness of cash flow.

2. Management of Cash inflows of insurance company

In general, the system of cash flows of the insurer, as well as any business entity, based on structuring cash flows. There are input (Cash inflows) and output (Cash outflows) cash flows.

The main feature of the activity of insurance companies is that unlike production, where producers first provides the cost of production and then compensates its at the expense of proceeds from the sale, the insurer first accumulates the funds received from insurers, creating insurance capital, and only after that shall bear the costs of compensation of losses on insurance contracts concluded. As a result, the priority for the insurer there is **input cash flows**.

In general, the components of the input cash flows of the insurer can be classified as follows (Figure.8.2).

The *first groups of input the cash flows* of insurance companies are insurance premiums (contributions) are paid by insurers (reinsurers) for insurance risks.

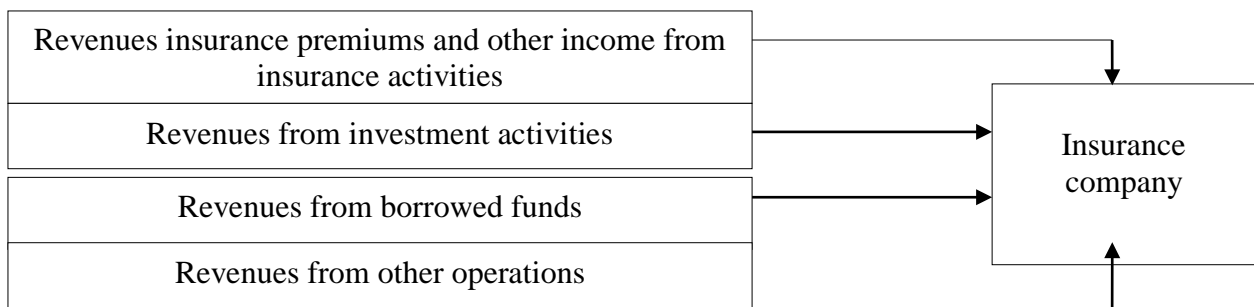


Figure 8.2 — The structure of input cash flows of the insurer

It is the *largest on the value of the input cash flow of the insurance company*, it accounts for approximately 60-80% of the total amount of funds received. This input group cash flow mostly depends on the tariff policy of the insurer, which in turn is the result of the system of management of insurance risks.

The second group of input cash flows of the insurer is income from investment activities are derived from primary incomes of the insurer (insurance premiums). This is the second in importance of the input cash flow of the insurer; its volume is approximately equal to 10-30% of the total volume of received insurance company funds.

The third group of input cash flows of the insurer is quite unstable in the time factor and consists of:

- funds that insurance company received to issue its shares;
- funds received from banks (loans).

The *last group input the cash flows* of the insurer are the cash flows from other operating activities ordinary and extraordinary events not related to the characteristics of insurance activities. These cash flows of its economic content are the same as other similar income of business entities.

The determination of the components of said groups of input cash flows of the insurance company is the starting point to manage your incoming cash flow of the insurer that gives you the opportunity to identify the sources of receipt of money and work over its creation and (or) maintenance.

The next stage management input cash flows is *to determine its scope and frequency of formation*, that allows the insurer optimally allocates the funds received and plan its next in terms of cost as well as time.

After that, there is *the analysis of the factors influencing on the individual cash flows*, both in absolute amount and as a fraction. The results of the analysis identify the most positive factors contributing to the increase in the absolute mass and the acceleration of cash inflow of the insurer.

The penultimate event is *the determination of the influence of the individual cash flows by the current financial condition of the insurance company*, as well as the final results of its financial, insurance and investment activities.

And the last stage of the management of input cash flows of the insurer is *monitoring input cash flows and making operational decisions to manage them*. This step allows the insurance company to respond promptly to changes in components, structure and absolute values of the input

cash flows and take prompt measures for timely adjustment and optimization of management decisions.

To analyze the movement of input cash flows of insurer is initially evaluating changes in the composition of its assets and liabilities based on the balance sheet (Form 1).

Next, there is defining the changes for each item of assets and liabilities affect the cash position of the insurer and the size of its profits. Thus, evaluating each of the factors that positively or negatively affected by increase (decrease) in cash, you can not only identify the causes but also to develop specific measures that changes the structure of assets and liabilities and improve the financial policy of the insurance company.

3. Management of Cash outflows of insurance company

Financial and economic activity of business entity involves expenditure and use of the funds. The appointment of **output cash flows of the insurer** is to use the funds in different areas of its financial and economic activities (Figure 8.3).

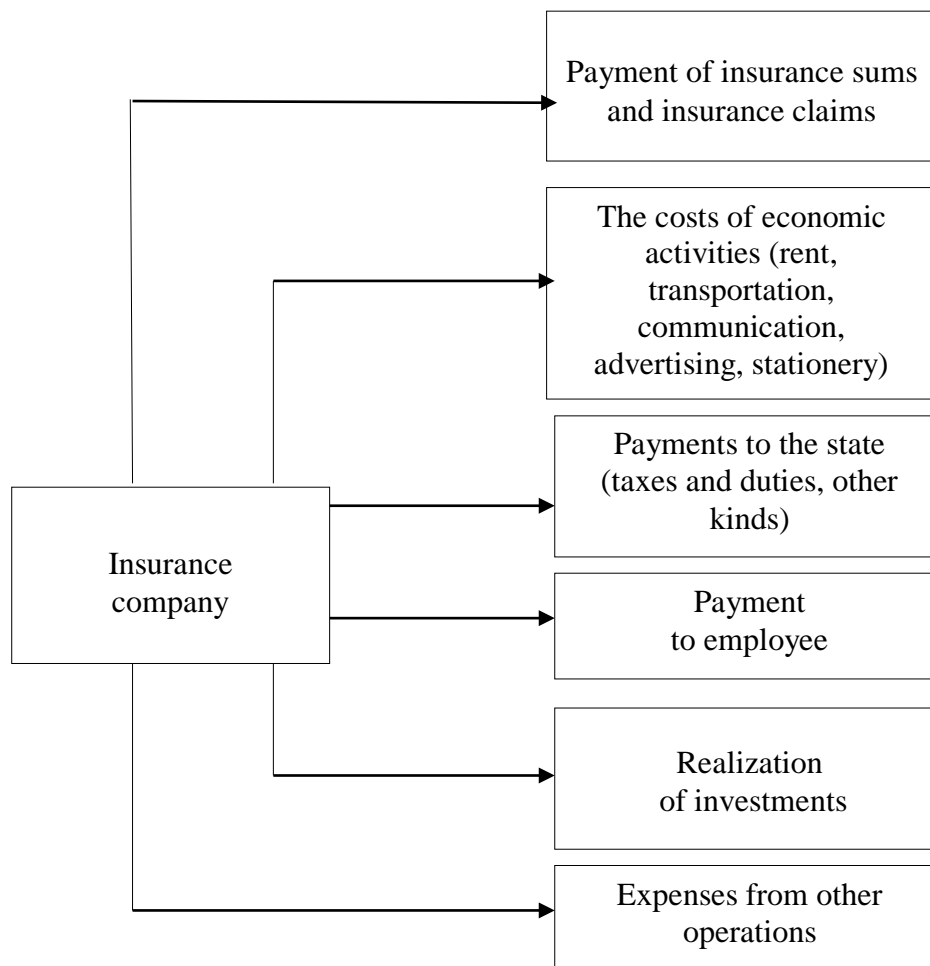


Figure 8.3 — The structure of the outgoing cash flows of the insurer

For insurance companies, unlike other areas, the characteristic inversion of the cycle, that is, revenues from insurance activities (insurance premiums) ahead in time of the implementation of major costs (for payment of insurance sums and insurance claims), forming a *first group of output cash flows* of the insurer.

Like revenues, expenses of the insurance company associated with the dualistic nature of its activities. Therefore, there are the costs of insurance operations and the costs of other interventions. The largest share of expenditures of the insurance company is costs providing the core activity of the insurer. It can be classified into three groups: the payment of insurance sums and insurance claims pursuant to contracts of insurance and reinsurance; maintenance costs of the insurance and reinsurance; the cost of maintaining the insurance company. The second and third group of costs together constitutes the concept of «*cost of doing business*». Of course, that the main group of expenditures, representing the interest of the policyholders, there are the payment of insurance claims.

The cost of maintenance of process of insurance and reinsurance of an insurance company are classified in *acquisition, collection, liquidation*. The first subgroup includes the costs of attracting new policyholders and the conclusion of new insurance contracts.

Such expenses include: payment of services for the development of insurance rules and determination of tariff; Commission to brokers and agents for the conclusion and maintenance of contracts of insurance; refunds to agents expenditure on official business travel related to the performance of their duties; the payment of external professionals who evaluate insurable risks; the cost of forms of documents; advertising services and so on.

As for the second group output cash flows, it includes the costs associated with economic activity of the insurance company, namely:

- lease payments;
- transportation costs;
- notarial costs;
- entertainment expenses;
- payment of services of communication;
- maintenance of office equipment;
- office expenses;
- advertising expenses.

The main feature of this group of costs is that it is quite constant in time and has a constant value.

The *third group of output cash flows* includes taxes and fees, which the insurance company according to the results of the activity should transfer to the state budget and other budgetary funds.

The *fourth output cash flow* consists of payments to employees of insurance company salaries and bonuses. It is also fairly constant over the movement in time and size and it is approximately 10-20% of the total output cash flow of the insurance company.

The *fifth component of the output cash flow* of insurance companies consists of the funds that the insurance company directs the investment activity and the last is the insurer's costs from operations not related to insurance activities.

Freedom of action insurer in investment and financial activities directly related to the source of funds used for investment. The insurer has *two groups of assets*:

- first — own funds in the form of share capital, reserve and additional capital, free reserves, retained earnings;
- secondly, the funds raised in the form of insurance reserves.

The investment of funds belonging to the first group is not legally regulated and carried out by the insurer in its sole discretion. An exception is the authorized capital. Thus, the «Insurance Law of Ukraine» requires the authorized capital of newly established of insurer or authorized capital increase already existing insurer exclusively by contributions in cash.

The only exception to this rule is for contributions to the authorized capital of the insurer in the form of securities issued by the state. The Law allows such contributions within 25% of the authorized capital. Thus, we are talking about indirect inducement to invest up to 25% of the authorized capital in securities issued by the government.

To limit the total amount of contributions of the insurer in authorized capitals of other insurers of Ukraine (no more than 30% of its own authorized capital, including contribution to the authorized capital of a private insurer — not more than 10%) means the regulation of financial investments in corporate rights.

Investing insurance reserves is strictly regulated. Thereby it regulates the possibility of obtaining certain types of income. The regulation is due to the fact that these funds are not the property of the insurer, so dispose of it needs special care. The amount of money is corresponding to the amount of insurance liabilities. To at any time be able to meet its obligations to policyholders, the insurer must keep funds of insurance reserves in diversi-

fied, profitable, reliable assets that are characterized by a sufficiently high level of liquidity.

Insurance company, by law, has the right to do at the expense of means of insurance reserves of both *capital and financial investments*. However, the possibility of capital investment limited right to purchase real estate. Other types of capital investments for the placement of insurance reserves by the legislation of Ukraine do not provide. Much more diverse is the possibility of an insurer regarding financial investments. However, these investment funds in the case of insurance reserves should be not direct and portfolio.

Determination of the output components of cash flows of the insurance company is the first event of the output cash flow management.

In General, the content management system outgoing cash flows similar to the control system input cash flows.

Task management process of output cash flows of the insurer:

- optimal definition and the possible reduction of the absolute value of output cash flows;

- payments to the set period.

- ensuring the solvency of the insurance company, the increase in profits.

Cash flows of the insurance company with it specialization stated in the «Insurance Law of Ukraine», closely associated with all three areas of activity –insurance, financial and investment. In order to effectively manage cash flows you need to know that it value for a particular period of time and it basic elements.

The main information document for cash flow management is the «*Report of cash flows*», which can be used to control the current solvency of the insurer, to take prompt decisions on the management of cash flows and explain the discrepancy between the financial result and the change in cash. The report classifies the current information on the sources of receipts in the reporting period, the amount and timing of future payments.

Preparation of the «Report of cash flows» of insurance companies can be done on the basis of direct and indirect methods. For the company the choice of method depends on the goals in the planning process is delivered. The direct method gives the possibility to follow the major sources of inflow and outflow of funds, adequacy of funds for current operations, identify those activities that bring the most profit to the insurer. And at the same time, the financial manager cannot trace the relationship between

earnings and changes in the absolute size of funds. In contrast to this method, the indirect method allows us to trace this relationship.

The second important source of cash flow management is the «*Report of income and expenses of the insurer*». It shows total revenues, total expenditures and the financial result (profit or loss), the insurer received as a result of its activities.

The first thing that informs this report is insurance payments *from providing insurance services*. Income (revenue) in the insurance company that it contents doesn't coincide with the generally accepted concept of revenue.

After receiving the insurance premium, insurer carries its obligations to the insured object due to the end of the contract term or until the risk. Thus it may happen that during the year the risk of the insured, or their group, not implemented and then in reduction of the remaining term of the liability, the resulting premium goes into the insurer's disposal.

References: [4], [5], [26], [27], [28], [29], [31].

Questions for self-control

1. What is cash flow?
2. What is the cash flow of the insurance company?
3. What is the need for cash flow management of the insurer?
4. What are requires to classify cash flows of the insurer?
5. What are the components of the input cash flows of the insurance company?
6. What are the characteristics of the components of the output flows of the insurer?
7. What is the cash flow of insurer is most important?
8. What document contains information on the net profit of the insurer?
9. What document specified information regarding income and expenditure of funds of the insurer?
10. What document uses the initial analysis of the movement of input cash flows of the insurer?

Glossary

Acquisition costs — the costs of insurer associated with attracting new policyholders and the conclusion of new insurance contracts (payment services for the development of insurance rules and determination of tariff;

commission fees to insurance brokers and insurance agents; expenses for official travel; the payment of external professionals who evaluate the risks are taken by insurance; the costs of forms of documentation; advertising services)

Cash flow management of the insurer — the integrating a system of principles, methods, design and implementation of a model of formation, distribution and use of insurance capital and the organization of its turnover

Cash inflow of the insurance company — cash turnover that flowing continuously in time

Collection costs — the costs of insurer related with paying of employees that carry out operations to obtain premiums and production (acquisition) of the forms required for documentation, payment of banking services for collection of revenue

Earned insurance premium — part of the insurance premium, that is recognized as income of the insurer and in the event of cancellation or termination of the insurance contract is not refundable to the policyholder

Income from insurance activities — insurance premiums and other operating incomes (commission for transfer risks in reinsurance, the share of insurance premiums and insurance claims are paid by reinsurers, returned amount of centralized reserve funds, returned amount of technical provisions other than unearned premiums)

Liquidation costs — the costs of insurer related with regulation loss (payment of experts to determine the causes and determine the amount of damages; the costs of obtaining information; payment of bank services related to payment of insurance compensation; postal and telegraph costs and court costs on settlement of insurance claims and contributions to the reserve of loss)

Unearned insurance premium — a part of insurance premium received in the current reporting period by the insurance contract, which relates to part of the contract that is beyond the limit of reporting period

Tests

Test 1. Cash flow of the insurer is:

- a) the flow of income and expenses;
- b) the turnover of the cash flow continuously in time;
- c) treatment of cash;
- d) continuous flow of funds

Test 2. A special feature of the turnover of the insurer that provides insurance protection is:

- a) the permanent nature of cash flow;
- b) the planned character;
- c) the probabilistic nature of cash flow;
- d) the ability to accurately determine its volume

Test 3. Cash flow management of the insurer is:

- a) operative to respond to changes in components, structure and absolute value of cash flows;
- b) develop measures for the timely adjustment of cash flows and optimization of management decisions;
- c) management of income and expenses of the insurance company;
- d) integrating the system of principles, methods of development and realization of model of formation, distribution and use of insurance capital and the organization of its turnover

Test 4. Cash flow management includes the steps of:

- a) accounting, analysis, budgeting;
- b) planning, forecasting, analysis.
- c) analysis, planning, control;
- d) accounting, forecasting, analysis

Test 5. The main objective of cash flow analysis is to determine:

- a) its economic substance;
- b) its volumes;
- c) causes of shortage(excess) funds, sources of income and areas of use;
- d) causes of expenditure for insurance operations

Test 6. There are cash flows by the direction of cash flows:

- a) in national currency and in foreign currency;
- b) input and output;
- c) from insurance, investment and financial activities;
- d) main office and structural divisions

Test 7. There are cash flows by sources:

- a) in national currency and in foreign currency;
- b) input and output;
- c) from insurance, investment and financial activities;
- d) main office and structural divisions

Test 8. There are cash flows by the field of use:

- a) in national currency and in foreign currency;

- b) input and output;
- c) from insurance, investment and financial activities;
- d) main office and structural divisions

Test 9. Ensuring the solvency of insurance companies is the task of cash flow management:

- a) input cash flow;
- b) output cash flow;
- c) from insurance activities;
- d) from investing activities

Test 10. Primary insurance income is the income from:

- a) investment;
- b) financial activity;
- c) insurance activities;
- d) reinsurance activities

Test 11. The largest group of insurer costs are the costs of:

- a) investment activity;
- b) financial activity;
- c) insurance activity;
- d) reinsurance activity

Test 12. Participation in profits of reinsurers is part of the cash flows of the insurer:

- a) investment activity;
- b) financial activity;
- c) insurance activity;
- d) reinsurance activity

Test 13. The main source of income of the insurer from insurance activities is:

- a) financial investments;
- b) the sale of fixed assets;
- c) insurance payments;
- d) insurance premiums.

Test 14. The costs of doing insurance business, laid down in the insurance rate, should not exceed:

- a) 15%;
- b) 20%;
- c) 25%;
- d) 35%.

Test 15. Earned premiums for contracts of insurance and reinsurance in reporting period up 90 mln. UAH., payment of insurance claims — 30 mln. UAH., commission on reinsurance — 1 mln. UAH., the share of claims paid by reinsurers — 25 mln. UAH. , the cost of doing business — 15 mln. UAH. Profit (loss) from insurance activities will be:

- a) 129 million UAH;
- b) 101 million UAH;
- c) 91 million UAH;
- d) 71 million UAH.

Topic 9. Management of Financial Stability of the Insurer

Issues:

1. Signs and factors to ensure financial stability of the insurer
2. Tax management of insurance activities
3. Investment activity management of insurance company
4. Management of insurer solvency, the formation and use of profit

1. Signs and factors to ensure financial stability of the insurer

Financial soundness of the insurer — the economic category that describes a condition of its financial resources, its distribution and use when the insurance company is solvent and able to timely and fully meet its financial obligations to policyholders in the negative influence of external factors caused changing parameters of the environment in which it is located and internal factors caused by the implementation of one or a number of risks insurer.

Financial soundness of the insurer is assessed by a number of indicators, limit values which are legislated separately for the companies of life insurance and risk insurance. *Financial soundness of the insurer* means the constant balance or excess of revenues over expenses.

To carry out its activities and achieve the financial soundness of the insurer must have sufficient financial resources, but to be able to meet its obligations to policyholders. The characteristics of the financial soundness of insurance company include the following elements: the availability of sufficient financial resources for the development of the insurer as the subject of the market and its solvency (Fig. 9.1).

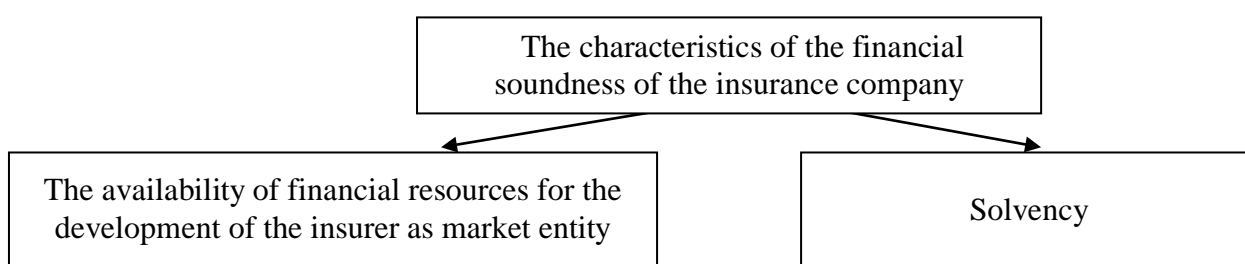


Figure 9.1 — The characteristics of the financial soundness of the insurance company

The insurer as a business entity must provide its own insurance protection in the form of insurance capital. Financial resources, including:

share capital, guarantee fund, free and insurance reserves are the insurance capital of the insurer that provides financial soundness of insurance operations.

In this case, the factors that ensure the financial reliability of insurance company include: sufficient equity capital and insurance reserves, the positive results of investment policy, the use of necessary system reinsurance, effective tariff policy (Fig. 9.2).

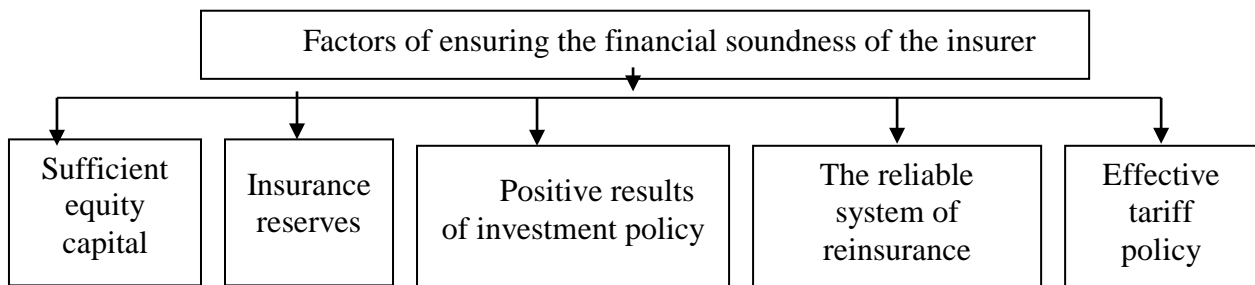


Figure 9.2 — Factors of ensuring the financial soundness of the insurer

The main source of financial resources of the insurer is borrowed funds. There are insurance premiums of insurance contracts, which take the form of insurance capital, which formation and motion is caused by several factors, including: tariff policy; macroeconomic factors (dynamics of gross domestic product, monetary incomes and savings of citizens); microeconomic factors (financial and economic activity of the company). In addition to insurance protection, making preventive function, insurers form the Foundation of preventive measures (in the form of a reserve of precautionary actions) as a percentage of the insurance premium, differentiated by type of insurance, which charges laid in insurance rates.

Measures to support financial soundness of the insurance company can be grouped into risk management system, means system of targeted actions to the maximum limit and prevent any risk (risk-management). From the point of view of the policyholder and the insurer, the objectives of risk-management are similar to limit the possibility of damage or loss of property, injuries or prevent the death of the person. But there are differences. Thus, the policyholder, given the probability of the insured event, not always seeks to conclude an insurance contract, and therefore spend a certain amount of money. The insurer, in contrast, seeks to expand its insurance portfolio by signing new contracts and the provision of new types of insurance. The most important principles of insurance are the basis for elimination of these contradictions lies in the balance of the amounts of insurance payments, received by insurance claims and the normal profitability of the insurer.

The largest part of the insurance capital, the insurer uses to pay insurance sums and insurance compensation. To this end, insurers provide insurance reserves, depending on the types of insurance (reinsurance). *Insurance reserves* are payments, deferred demand, that do not have a specific due date. At its core insurance reserves are both obligations of insurers and as any obligations require some capital. It reflects the value of outstanding commitments at the moment by insurance contracts. The important point is that the amount of insurance reserves should fully cover the amount of future payments by existing insurance contracts. To determine the amount of insurance reserves requires detailed analysis of operations of the insurer and relevant mathematical calculations.

Contributions in insurance reserves carried out according to established standards stipulated in the calculation of tariff rates by type of insurance and insurance companies approved in the manner specified in the constituent documents of the insurer.

Insurance reserves are divided into technical reserves and the reserves of life insurance (mathematical reserves).

Article 31 of the “Insurance law of Ukraine” stipulates that insurers are required to keep records of insurance contracts and claims (applications) of insurers to pay the insured sum or the insurance compensation in the form established by the authorized body that will provide the information necessary to take into account in the formation insurance reserves.

Possibility of *investment activity of insurer* derives from the characteristics of the redistribution of funds by the insurance. The specific of the insurance contract allows the insurer within a certain period of time to dispose of the funds received from policyholders, investing it in various areas. In addition to borrowed resources, insurance companies have the own funds. These resources are used by insurers for investment purposes.

If the insured sum for separate insurance object exceeds 10% of the amount of paid authorized Fund and formed free and insurance reserves, the insurer is obliged to conclude a *reinsurance* agreement.

According to article 30 of the «Insurance law of Ukraine», insurers who took the insurance liabilities in excess of the possibility of their implementation at the expense of own assets must reinsure the risk of fulfilling those obligations from reinsurers-residents or non-residents.

One of the main characteristics of the financial soundness of the insurance company is its use of a reliable system of reinsurance protection, resulting in strong cooperation with reinsurers, able to provide effective secondary redistribution of risk insurer.

Scientifically, the optimal insurance rates for all types of insurance not only directly affect at the dynamics of the insurance capital, but is determining factor in ensuring the financial soundness of certain types of insurance. *The tariff policy* means purposeful activity of the insurer to establish, organize and clarify insurance rates for the benefit of a successful and cost recovery of insurance.

2. Tax management of insurance activities

System accounting and taxation of insurance companies has significant differences in accounting for income and expenses. It is a real situation when by the results of the tax account, the insurance company has a profit, and by the results of accounting it is unprofitable.

The main tax for an insurance company in scope is the income tax. This tax is only conditionally can be called income tax, in fact, the object of taxation in insurance is not so much profit, how much gross income of the insurer in the form received (accrued) insurance premiums by contracts of insurance and reinsurance. Taxation gross income (profit) insurers carried out at the following rates.

The rate of 3% of gross income from the insurance company in the form of insurance premiums received by contracts of insurance and reinsurance, except for transferred reinsurance resident and apart from long-term life insurance and reinsurance. Income from other sources is taxed at the general conditions.

For insurance companies that carry general (non-life) insurance, subject to tax legislation is defined gross income that is taxed at **rate 3%**. For tax purposes in taxable gross income from insurance business means the sum received by the insurer during the period of insurance payments (contributions, premiums) by contracts of insurance and reinsurance in Ukraine or abroad, reduced by the sum of insurance premiums (contributions, premiums) paid by insurer for reinsurance contracts with residents (local reinsurers) in the same tax period. The calculation of the profit tax from insurance activity is carried out according to the formula 9.1:

$$TSP_{ia} = (SP_i + SP_r - SP_{r-1}) \times 3\% \quad (9.1)$$

It means: TSP_{ia} — the sum of the profit tax from insurance activity for the reporting period;

SP_i — the sum of insurance premiums by insurance contracts in the reporting period;

SP_r — the sum of insurance premiums by contracts of reinsurance with local insurers during the reporting period;

SP_{r-1} — the sum of insurance premiums paid for reinsurance contracts with local insurers during the reporting period.

For life-insurance companies, the taxation method is similar tax profit of insurance companies that engaged in the general (non-life) insurance. But the main activity of the insurance company that provides life-insurance contracts is long-term life-insurance (accumulative pension insurance), which has a special tax system. In particular, the law provides the possibility of «*zero*» *tax rates* for taxation of income received by the contracts of *long term life-insurance*. In the event of *early termination of long-term life insurance contract* that is not associated with the death of the insured or disability insured, the income earned by the insurer are taxed at *a rate of 3%* in the tax period in which occurred the termination of the contract, with a penalty in the amount of tax debt calculated from the beginning of the tax period following the tax period, which accounts for receiving such income of insurer.

In the case of reinsurance insurance risks in non-residents' tax system has certain characteristics, due to the desire of public authorities to limit the outflow of premiums in the form of reinsurance premiums beyond the Ukrainian financial market.

In this regard, the relevant decision of the National Commission for State Regulation of Financial Services Markets was introduced differentiated approach to transactions of domestic insurers with non-resident reinsurers.

If the insurance company provides the transfer of insurance premiums by the contract of reinsurance to non-resident insurance company that has financial strength rating at not less than stipulated by the decision of the National Commission for State Regulation of Financial Services Markets, the sum of funds transferred to the non-resident company is *exempt from taxation* (that is deducted from taxable gross income as it is the case with domestic reinsurers).

If the insurance company transfers reinsurance premium under a contract with the reinsurer that has the rating of financial reliability, or its rating is lower than the minimum level of National Commission for State Regulation of Financial Services Markets, the amount of funds transferred in favor of the reinsurer's non-resident is taxed at *a rate of 12%* of such payments for its own account at the time of transfer of the payments.

The profit of the insurance company from not insurance activities (investment, financial and other business) is taxed in the general procedure at the rate stipulated by the Tax Code of Ukraine.

In addition, insurance companies, as well as any other entities pay a number of other national taxes and duties (mandatory payments), local taxes and duties required by law.

3. Investment activity management of insurance company

Insurers occupy a special place in the investment process. On the one way, they are able to perform the functions of institutional investors, mobilizing a significant part of financial resources of legal entities, individuals and directing it to different types of investments. By other way, insurance can provide incentives for investment activity of domestic and foreign owners of capital through the implementation of insurance operations by type of insurance, guaranteeing investors a return on investment, and in many cases underexposed and compensation income upon the occurrence of various adverse events that led to the loss of all or part of the invested amounts.

The insurer invests the temporarily free funds (funds of insurance reserves and own funds) in the investment activities with the aim of obtaining benefits from its use. Therefore, the more complex are the tasks associated with the organization of the finances of the insurer and management of its investment portfolio.

Investment activity of the insurance company usually associated with long-term investment.

Investment activity is consistent, purposeful activity that is the capitalization of property, in the formation and use of investment resources, regulation of investment processes and international movement of investment and capital goods, creating appropriate investment climate and the goal of profit or a particular social effect.

For successful realization of investment activities the insurance company must adhere to the following principles:

- to invest funds taking into account the dynamics of insurance premiums and insurance payments;
- to prevent the worsening of the solvency of insurance companies due to the illiquid investment;
- to diversify investment targets with the perspective of risk and return;
- regularly monitor the investment market;
- to analyze the situation on the investment market and respond to its changes.

Income from investment can be used to compensate for losses of insurance operations, development of insurance business and so on.

Income from investment activities includes three groups of revenues.

The first group is *revenues from sale of*:

- financial investments (cash revenues from the sale of shares or debentures of other enterprises, as well as shares in the capital of other enterprises owned insurance organization);
- non-current assets (cash revenues from sale of fixed assets, intangible assets and other long-term non-current assets (except financial investments));
- property complexes (cash revenues from sale of subsidiaries and other business units).

The second group is *the income received in the form of*:

- interests (cash flow from interest on cash advances and loans made to other parties (other than advances and loans made by a financial institution));
- dividends (cash flows from dividends as a result of acquisition of shares or debentures of other companies and of shares in joint ventures).

The third group is *other revenues* (cash receipts other than those listed above).

With the ability to accumulate small cash flows and direct it to the economic development, the insurance companies are transformed into powerful institutional investors. From the point of view of the interests of the insurer, the best methods for the allocation of funds are *the investment strategy of the insurer* depends on:

- types of operations carried out by insurance;
- the amount of accumulated resources;
- the state of the financial market.

In investing, the insurance company takes into account the following main criteria: warranty preservation of invested funds and liquidity of assets, the rate of profit.

In the result of analysis of investment activity of the insurer, there is determined ways reliable investment, possible changes in the future of the company and business policy changes.

For Ukrainian insurance companies, traditional type of investment are deposits in banks with higher risk and low liquidity. At present, these investments are not reliable, due to the problems in the banking sector.

4. Management of insurer solvency, the formation and use of profit

Solvency of insurer is the ability to fully and timely perform its payment obligations to policyholders. Solvency provided by the system of fi-

financial guarantees industry-specificity of activity of the economic entity. In the insurance business, financial guarantees should provide solvency at two levels of insurance operations (insurance risk) and non-insurance activities (market risk).

The financial guarantee of the solvency of the insurance operations is based on such key factors as the adequacy of the adopted obligation insurance rate (at the stage of formation of insurance capital and insurance reserves (at the stage of use of insurance capital).

In the «Insurance Law of Ukraine» states that the duties of the insurer according to the repayment obligations should be three conditions of solvency:

- 1) the availability of the paid authorized capital and the availability of the guarantee fund of the insurer;
- 2) the creation of insurance reserves, sufficient for future payments;
- 3) excess of actual solvency margin over the required (calculated) solvency margin.

In table 9.1 there is algorithm of calculation of the solvency assessment of the insurer.

Table 9.1 — The algorithm of calculation of the solvency assessment of the insurer

Indicator	Calculation
1. The actual reserve of solvency	Assets – Intangible assets – Total liabilities
2. The calculated (normative) solvency margin — the higher of the indicators:	1) [the amount of the insurance premiums for the previous 12 months – 0,5 × (the amount of premiums due reinsurers)] × 0,18
	2) [the amount of payments made during the previous 12 months – 0,5 × (the amount of insurance payments are compensated by reinsurers)] × 0,26
3. Solvency margin	The amount exceeding the available solvency margin of the insurer over calculated standard margin

On any date, actual solvency margin should exceed the calculated regulatory solvency margin of the insurer.

The normative solvency margin of the insurer that provides life-insurance, for any date equal to the amount, that is determined by multiplying the total value reserve of long-term liabilities (mathematical reserve) to 0,05.

If the insured sum for individual insured item exceeds 10 percent of the amount of paid charter capital and formed free and insurance reserves, the insurer is obliged to conclude a reinsurance agreement to reinsure the risk of fulfillment of obligations from reinsurers-residents or non-residents.

The Cabinet of Ministers of Ukraine may change the procedure for determining the actual and standard solvency margin and guarantee Fund structure.

In the insurance business there are two types of profits:

- actual, received by results of the work of the organization;
- regulatory, inherent in the structure of gross-premiums.

Differences between the regulatory profit and profit on real insurance activity is due to the influence of many factors and, first and foremost, the likely nature of insurance payments which leads to a deviation of real insurance payments from those that were taken into account in the structure of the insurance rate.

The insurance company provides insurance, investment and other activities, and therefore, the profit of the insurer is a summary of the financial results of these activities.

Profit from insurance activities (P_{ia}) is calculated by formula 9.2:

$$P_{ia} = (EP+CR+PR+RCRF +RTR) - (PS+ PCRf+PTR +CDI) \quad (9.2)$$

It means: EP — earned premiums by insurance and reinsurance contracts;

CR — commissions for reinsurance;

PR — shares of the insurance payments paid by reinsurers;

RCRF — returned amount of centralized insurance reserve funds;

RTR — returned amount of technical reserves other than unearned premiums;

PS — payment of insurance sums and insurance compensation;

PCRf — payments in centralized insurance reserve funds;

PTR — payments to technical reserves, other than unearned premiums;

CDI — the cost of doing insurance business.

The ratio of annual profit to the annual amount of premiums called the ***profitability of insurance operations***.

Profitability is determined for each type of insurance and on insurance operations as a whole.

The difference between revenues and expenditures of the insurer resulting from ordinary activities and extraordinary events, net of taxes is a net profit received by the reporting period (formula 9.3):

$$NP = POA + PEE - LEE - TEA \quad (9.3)$$

It means: NP — Net profit of the insurer;

POA — Profit from ordinary activities of the insurer;

PEE — Profit from extraordinary events;

LEE — Loss from extraordinary events;

TEA — Tax of profit on extraordinary activities.

Profit is distributed by the general principles for all business entities. The insurer may set free reserves to strengthen its solvency at the expense of net profit.

References: [1–6], [11], [15-20], [24], [26], [27], [28], [29], [31].

Questions for self-control

1. What the term «financial soundness of insurer» includes?
2. What are the main features of the financial soundness of the insurer?
3. What factors affect the financial soundness of the insurance company?
4. What is included in the term of «tax management of insurance activities»?
5. What is investment activity of the insurer?
6. What are the methods of management of investment activity of the insurer?
7. What are the algorithms for calculation of actual and normative of solvency margin for domestic insurers?
8. What is the «profitability of insurance operations»?
9. What factors should be considered in the management of the insurer's profit?
10. What factors most influence on the profitability of insurance?

Glossary

Financial soundness of the insurer — the economic category that describes a condition of its financial resources, its distribution and use when the insurance company is solvent and able to timely and fully meet its financial obligations to policyholders in the negative influence of exter-

nal factors caused changing parameters of the environment in which it is located and internal factors caused by the implementation of one or a number of risks insurer

Insurance reserves — payments of the insurer, pending demand, such that no specific term performance and reflect the value of outstanding commitments of insurer by concluded insurance contracts with policyholders

Investment activity of the insurer — the consistent, purposeful activity of the insurer, which is the formation and use of investment resources and aims to profit

Margin solvency of the insurer — the amount of excess of the actual margin of solvency over the calculated normative margin

Profitability (yield) of insurance operations — the ratio of the annual amount of profit to the annual amount of insurance premiums

Solvency of the insurer — the ability of the insurer fully and timely perform its payment obligations to policyholders

Tariff policy of the insurer — purposeful activity of the insurer for the establishment, streamlining and clarification of insurance tariffs in interests of successful and break-even development insurance

The investment strategy of the insurer — ways to get the best allocation of funds by the point of view of the interests of the insurer

Tests

Test 1. Financial soundness of the insurer is characterized by:

- a) ratio between own and borrowed capital;
- b) the deficit of funds;
- c) the number of contracts of insurance;
- d) excess of revenues over expenditures

Test 2. The liquidity of the assets of the insurance company is:

- a) the financial soundness of the insurer;
- b) the distribution of investment funds among categories of assets of investment;
- c) the ability to attract additional resources;
- d) the ability of the insurer to pay for urgent obligations

Test 3. The solvency of the insurer is a characteristic of:

- a) yield;
- b) liquidity;
- c) the financial soundness;

d) profitability.

Test 4. Insurers in accordance with the volumes of insurance business are required to maintain the level of solvency margin:

- a) normative;
- b) actual;
- c) calculated;
- d) balance.

Test 5. The normative of solvency margin of the insurer for life insurance on any date equal to the amount that is determined by:

- a) multiplying the total value reserve of long-term liabilities by 0,26;
- b) multiplying the amount of insurance premiums in the previous 12 months by 0,18;
- c) multiplying the amount of payments made during the previous 12 months by 0,23;
- d) multiplying the amount of reserve of long-term liabilities by 0,05.

Test 6. The actual solvency margin of the insurer is:

- a) own capital;
- b) netto-assets;
- c) gross-assets;
- d) insurance reserves.

Test 7. The conditions to ensure financial soundness of the insurer do not include:

- a) the paid-up share capital and guarantee fund of insurer;
- b) the availability of redemption amounts;
- c) the availability of reserves;
- d) excess of the actual solvency margin of the insurer on a regulatory solvency margin.

Test 8. The application of early warning tests doesn't use:

- a) analysis of internal and external market environment;
- b) analysis of the composition and structure of assets of the insurer;
- c) analysis of yield and profitability;
- d) analysis of the current obligations of the insurer.

Test 9. On the basis of early warning tests, insurers can get estimates, offered by:

- a) five-point system;
- b) four-point system;
- c) ten-point system;

d) twelve-point system.

Test 10. The main tax for insurance companies by its volume is:

- a) value added tax;
- b) the income tax;
- c) the profit tax;
- d) the real estate tax.

Test 11. The investment strategy of the insurer is:

- a) the best methods of placing the temporarily free funds;
- b) forecasting activities for the future;
- c) planning activities for the future;
- d) analysis activities.

Test 12. The tax base for the payment of the profit tax from insurance activity are:

- a) gross profit;
- b) gross income;
- c) gross expenses;
- d) net income.

Test 13. The largest investment in terms of life insurance is:

- a) short-term;
- b) medium;
- c) the long-term;
- d) current.

Test 14. Investments of insurance risk, which is the largest in terms of:

- a) short-term;
- b) medium;
- c) the long-term;
- d) current.

Test 15. The insurance company that provides risk insurance in the reporting year made 310 000 UAH of insurance payments, which reinsurers were paid 80 000 UAH, the sum of collected insurance premiums amounted to 450 000 UAH. The normative of solvency margin of the insurer will be:

- a) 70 000 UAH;
- b) 70 200 UAH;
- c) 81 000 UAH;
- d) 84 000 UAH.

Topic 10. Financial monitoring of insurance companies

Issues:

1. *The essence and necessity of financial monitoring implementation of insurance company*
2. *Legislative support and organization of financial monitoring of insurance company*
3. *Methods of income legalization, from crime, by insurance tool*

1. The essence and necessity of financial monitoring implementation of insurance company

Financial monitoring (*financial intelligence*) is a concept associated with mandatory procedures of internal control of financial transactions. A *financial transaction* is any transaction, associated with the implementation or secure of cash payment by business entities. Financial monitoring is considered as the activity of organizations performing operations with monetary funds or other assets for revealing operations related to the legalization (laundering) of proceeds from crime, financing of terrorism, proliferation of weapons of mass destruction.

Financial monitoring is divided into mandatory and internal.

Mandatory financial monitoring is set of activities specially authorized executive agency for financial monitoring analysis of information on financial transactions provided by reporting entities, as well as measures to verify that information in accordance with the laws of Ukraine.

Internal financial monitoring is activity entities to identify, according to the laws of Ukraine financial transactions subject to financial monitoring, and other financial transactions that may be related to legalization (laundering) of proceeds.

According to the Law of Ukraine «On prevention and counteraction to legalization (laundering) of proceeds from crime or terrorist financing», ***financial monitoring*** is a set of measures implemented by the financial monitoring entities in the sphere of prevention and counteraction to legalization (laundering) of incomes, obtained in a criminal way and financing of terrorism, which include state financial monitoring and initial financial monitoring.

The subject of financial monitoring is set of various types of activities aimed at meeting the needs of clients, and ***objects*** are economic and financial relations in financial and real sectors, the internal processes in financial institutions and relationship in the market environment.

The system of financial monitoring is defined as a set of methods of analysis, monitoring and forecasting aimed at achieving financial stability as a separate entity and financial and credit sector of the country as a whole.

According to the current legislation, ***the primary financial monitoring*** means set of measures, implemented by the entities of initial financial monitoring, aimed at fulfilling the requirements of the law of Ukraine «On prevention and counteraction to legalization (laundering) of incomes obtained in a criminal way and financing of terrorism», which include the mandatory and internal financial monitoring.

Functions of initial financial monitoring:

- organizational and management;
- controlling;
- analytical;
- information;
- safety.

The entities of initial financial monitoring are:

- banks, insurance companies, credit unions, pawnshops and other financial institutions;
- payment organizations, members of payment systems, acquiring and clearing institutions;
- commodity, stock and other exchanges;
- professional participants of the securities market;
- companies of management assets;
- postal operators and other institutions that conduct financial transactions of transfer of funds;
- branches or representative offices of foreign business entities providing financial services on the territory of Ukraine;
- business entities that provide mediation services in transactions of sale of real estate;
- business entities, engaged in trading in cash of precious metals and precious stones and products of it if the amount of financial transaction equals or exceeds the amount, determined by the legislation;
- business entities that conduct lotteries and gambling, including casino, electronic casino;
- notaries, lawyers, auditors, audit firms, individuals-entrepreneurs that provide accounting services, business entities that provide legal services (except persons providing services within the employment relationship) in the cases provided by the legislation;

- legal persons for their legal status are not financial institutions but provide certain financial services.

The subjects of the state financial monitoring are:

- National Bank of Ukraine,
- Ministry of Finance of Ukraine,
- Ministry of Justice of Ukraine,
- The Ministry of Transport and Communications of Ukraine,
- Ministry of Economy of Ukraine,
- The National Commission on Securities and Stock Market
- The National Commission for State Regulation of Financial Services Markets,
- The State Service for Financial Monitoring of Ukraine.

According to the «Regulations on the National Commission for state regulation of markets of financial services», approved by decree of the President of Ukraine of 23 November 2011, №1070/2011 National Commission for State Regulation of Financial Markets of financial services performs the following functions:

1) performs within the limits of their authority the functions of the entity of state financial monitoring;

2) determines in coordination with the State service for financial monitoring of Ukraine requirements to organization of financial monitoring by financial institutions and corporate entities that are not financial institutions, but are entitled to financial services by the law, to fulfill the requirements of the legislation concerning prevention and counteraction of legalization of incomes, received by criminal way and financing of terrorism.

The State Service for Financial Monitoring of Ukraine (SSFM of Ukraine) occupies a central place in the national system of combating money laundering and terrorist financing. Similar organizations operate in more than 100 countries and have a common name — Financial Intelligence Units (FIU). According to international standards, the State service for financial monitoring of Ukraine is not financial or supervisory authority, it functions in cooperation with the financial sector and law enforcement agencies. The purpose of the State Service for Financial Monitoring of Ukraine is the fulfillment coordinating role in the implementation of state policy on counteraction to laundering of «dirty» money and terrorist financing.

2. Legislative support and organization of financial monitoring of insurance company

International program to combat money laundering was developed in 1998 within the Department of the United Nations for drug control and crime prevention.

In Ukraine, the insurance companies conduct financial monitoring with the basic provisions of the following legal documents:

- The law of Ukraine «On prevention and counteraction to legalization (laundering) of proceeds from crime, financing of terrorism and financing of proliferation of weapons of mass destruction» (14.10.2014, №1702-VII);

- Resolution of the Cabinet of Ministers of Ukraine «Some issues of organization of financial monitoring» (5.08.2015, №552);

- Resolution of the Cabinet of Ministers of Ukraine «On approval of procedures for state bodies and for state Registrars, at the request of the entity of initial financial monitoring, for information about the client» (8.09.2015, № 693);

- Resolution of the Cabinet of Ministers of Ukraine «On approval of the Procedure for the organization and coordination of work on retraining and professional development of experts on financial monitoring» (19.08.2015, № 610);

- Resolution of the Cabinet of Ministers of Ukraine «On procedure of determination of countries (territories) that do not fulfill or improperly fulfill the recommendations of international, intergovernmental organizations engaged in activities in the sphere of combating legalization (laundering) of the incomes received by a criminal way, or financing of terrorism or funding of proliferation of weapons of mass destruction» (17.07.2015 p. № 510);

Resolution of the National Commission for State Regulation of Financial Services Markets «On approval of the criteria for assessing the risk for entities, governmental regulation and supervision it by the National Commission for State Regulation of Financial Markets and services» (13.10.2015, № 2481);

- Resolution of the National Commission for State Regulation of Financial Services Markets «On approval of sanctions by the Law of Ukraine «On prevention and counteraction to legalization (laundering) of proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction», submission requirements and monitor the implementation by the National Commission for State Regulation of Financial Services Markets, and ceasing invalid some orders of the State

Commission for Regulation of Financial Services Markets of Ukraine « (01.10.2015, № 2372).

According to the Law of Ukraine «On prevention and counteraction to legalization (laundering) of incomes obtained in a criminal way and financing of terrorism» entities of initial financial monitoring are obliged to independently classify its clients considering risk of criteria, defined by The State Service for Financial Monitoring of Ukraine and the bodies responsible for regulation and supervision of their activities and take precautionary measures of clients whose activity indicates high risk of them conducting such operations.

So, according to the order of The State Service for Financial Monitoring of Ukraine (03.08.2010, № 126) «On approval of Criteria of risk of legalization (laundering) of the incomes received by a criminal way, or terrorism financing», risk assessment by geographical location of the country of registration of the client or by institution is carried out, in particular, if it is known reliable sources that it does not fulfill or unduly fulfills the recommendations of international, intergovernmental organizations involved in the field of combating legalization (laundering) of the incomes received by a criminal way, and terrorism financing.

In order to ensure compliance with the legislation on prevention and counteraction to legalization (laundering) of proceeds from crime or terrorist financing, financial institutions appointed *compliance officer*. The compliance officer (responsible for the financial monitoring in financial company) heads and coordinates the implementation (realization) of measures on prevention and counteraction to legalization (laundering) of proceeds from crime or terrorist financing institutions.

The compliance officer (responsible for the financial monitoring in financial company) is appointed ex officio at the management level of institution.

Taking into account characteristics of the organizational structure of a financial institution it can be created a *separate department for financial monitoring*. Thus, this department operates in accordance with the provisions of this structural department. The head of this department is responsible worker.

In case of inexpediency of introduction of separate position or assignment the employee, who shall perform the duties of the responsible employee (responsible for financial monitoring in a financial company), responsible for financial monitoring can be assigned by the head of the institution.

The compliance officer (responsible for the financial monitoring in financial company) is appointed by the law and in the manner prescribed by the constituent and/or internal documents of the institution to the start of the first financial transaction.

Not later than the next working day after the release of the compliance officer (responsible for the financial monitoring in financial company), another responsible employee is assigned.

It is allowed the execution of the duties of a responsible employee in the event of his dismissal — by the person acting for a period of check the business reputation of a candidate for the position of the responsible employee (responsible for financial monitoring in a financial company), which shall not exceed two months.

A compliance officer must have an impeccable business reputation and meet the qualification requirements established by the legislation. Business reputation of a compliance officer of the institution (separate department) must have the following requirements:

- 1) must not have outstanding or not removed in accordance with legislation, criminal record for committing an intentional crime;
- 2) not to be, the sentence of the court, deprived of the right to hold certain posts and practice certain activities.

If during the last ten years, the person was a Director, member of the governing body or chief accountant of the legal entity-participant of the market of financial services, declared bankrupt, or to such person applied measure (sanctions) of the body regulating the relevant market of financial services in the form of removal of management from management of the legal entity, cancellation of the license for implementation of activity concerned, such a person can be appointed for the compliance officer of a financial institution (separate subdivision) in agreement with the National Commission for State Regulation of Financial Services Markets.

Appointment of compliance officer can be done after checking the reputation of the candidate for the position of compliance officer (responsible for the financial monitoring department of a financial institution) based on original documents: passport, employment history, education documents and information on the absence of individual convictions for acquisitive crimes and for crimes in economic activities not removed or outstanding in accordance with the law.

In the appointment of compliance officer for financial monitoring-the head of financial institution, the check of its reputation made by the appropriate body of the financial institution or by shareholders of financial institution.

Confirmation of business reputation of the candidate for the position compliance officer for financial monitoring by the results of its inspection, issued in the written conclusion, signed by the head of the financial institutions or persons who made the verification of business reputation, or approved by the relevant management body of a financial institution. Advanced training of employees responsible for financial monitoring is done by passing the training at least once every three years.

At the time of absence (holiday, business trip, illness) the compliance officer for financial monitoring or inability to perform his duties, it should be assigned the person temporarily fulfilling its duties.

If the financial institution has separate divisions at the proposal of the head of a separate division or person that performs his duties, as agreed with compliance officer for financial monitoring, head of the financial institution or the person who performs his duties, appoint an employee for the financial monitoring of the department.

3. Methods of income legalization, from crime, by insurance tool

Nowadays the Ukrainian insurance market is at a stage of improvement both in terms of legal regulation of taxation system and financial potential. Imperfect domestic insurance legislation allows the owners of large enterprises and insurance companies to implement the «scheme of insurance» with the aim of laundering of proceeds of crime.

Characteristic features of the insurance companies involved in the scheme of money laundering crime include:

- low solvency, level of insurance payments less than 20% in insurance premiums;
- a large amount of insurance premiums for the most «popular» to launder types of insurance (financial risks, property risks);
- high performance in terms of reinsurance operations (especially reinsurers-non-residents);
- «closed» information, low publicity of the insurance company.

In 2004 in Ukraine started campaign against illegal withdrawal of capital abroad by means of reinsurance. Decree of the President of Ukraine «On the system of measures to eliminate the causes and conditions that contribute to the manifestation of crime and corruption» was entrusted to the National Bank of Ukraine and the regulator of the insurance market to strengthen anti-money laundering and their output abroad.

General criteria for risk insurance companies are listed in order of the State Service for Financial Monitoring of Ukraine (03.08.2010 p., №126)

«On approval of risk criteria legalization (laundering) of proceeds from crime or terrorist financing». It provides for assessment of geographical features of client registration, client risk and the risk of product (goods or products). The risks of the product characterized by the following features:

- regular customer returning insurance payments by the insurance contract;
- regular return premiums to account by the contract of insurance with excess listing;
- obvious discrepancy between incoming/outgoing payments to the actual purpose of the payment;
- early termination of the insurance contract with transfer of funds in favor of third person;
- payment of insurance premiums by a person who is not a policyholder;
- regular payment of premiums for one contract of insurance from various bank accounts;
- increase of insurance premiums, especially if it isn't provided by the insurance contract;
- payment of insurance premiums in a larger amount than it is provided by the insurance contract.

Characteristic features of the «scheme of insurance» for the withdrawal of capital abroad are:

- the low ratings of financial soundness (stability) of insurers and reinsurers-non-residents or sharp change of rating during the term of the reinsurance contract;
- location of insurers and reinsurers non-resident is a country that does not participate in international cooperation in the field of prevention and counteraction to legalization (laundering) of proceeds from crime and the fight against terrorism or offshore area or country with favorable tax regime;
- retrocession contracts with doubtful reinsurers;
- unusual or obviously economically unprofitable conditions of the contract of insurance/reinsurance (insurance object, insurance sums, insurance premium and payment procedure etc.).

This «insurance scheme» can be implemented as follows:

- involve fictitious entities (including insurance companies for one-day);
- transactions with insurers (reinsurers) non-residents who do not have a license and are not subject to insurance supervision;
- falsification of financial stability rating (artificially inflated);
- falsification of insured accident;

- failure of reinsurers terms of reinsurance agreements;
- Reinsurance contracts with participation of front brokers-non-residents.

According to the current Ukrainian legislation such brokers should have permanent representation in Ukraine, to be registered as taxpayers and included in the State register of insurance and reinsurance brokers.

The most common variants of money laundering through insurance company are as follows.

1. The conclusion of a fictitious contract of insurance.
2. Return insurance payments.
3. Money laundering through reinsurance.

International Association of insurance supervisors (IAIS) has considered the problem of using insurance to launder the proceeds of crime, and identified the following principles in the activities of insurance companies: 1) know your customer; 2) cooperate with law enforcement.

References: [7–10], [14–16], [21], [23], [26], [27], [28], [31].

Questions for self-control

1. What does the term «financial monitoring»?
2. What is the need for financial monitoring in the insurance companies?
3. What is the mandatory financial monitoring?
4. What is the purpose of internal financial monitoring in the insurance organization?
5. Who are the entities of initial financial monitoring?
6. What is the role of mandatory financial monitoring?
7. What are the main legislative acts of financial monitoring in the insurance companies?
8. Who performs directly financial monitoring in the insurance company?
9. What are the duties of compliance officer of financial monitoring in the insurance companies?
10. What is the «scheme of insurance»?

Glossary

Business relations in the insurance — the relationship between policyholders and the insurer, as an entity of initial financial monitoring arising by the contract on providing of insurance services

Financial monitoring — the process of continuous scientifically-based diagnostic and prognostic monitoring, analysis and forecasting of the changes in financial activities of business entities and population, and the status of subjects of financial-credit sphere of the country to ensure economic development and financial stability of business entities, sectors of the national economy, regions and state

Financial transaction — any operation are related to the implementation or enforcement of monetary cash payment by business entities

Identification of the policyholder — recognition procedure client of insurer when establishing business relations on the basis of submitted official documents or duly certified copies of it to obtain full information about it

Internal financial monitoring — the activity of entities of initial financial monitoring to identify financial transactions subject to mandatory financial monitoring, and other financial transactions that may be related to legalization (laundering) of proceeds

Mandatory financial monitoring — the set of measures taken by the entities of initial financial monitoring, detection of financial transactions, identification of participants and examining their activities, keeping records and data on their participants, obligatory reporting on them to the authorized agency and submission of additional information about them

Public financial monitoring — a set of measures taken by its subjects, aimed at fulfilling the requirements of the legislation in the sphere of prevention and counteraction to legalization (laundering) of proceeds from crime, financing of terrorism and proliferation of weapons of mass destruction

The primary financial monitoring — the set of measures taken by its subjects, directed to the requirements of current legislation, including the conduct of mandatory and internal financial monitoring

The system of financial monitoring — set of methods of analysis, monitoring and forecasting aimed at achieving financial stability as a separate entity and financial and credit sector of the country as a whole

Tests

Test 1. Financial monitoring of the insurer is:

- a) control of the flow of premiums;
- b) compulsory internal control of procedures relative to financial transactions;

- c) any operation relating to the implementation or enforcement of cash payment;
- d) operation of insurance claims payments

Test 2. Financial operation of insurance company is:

- a) control of the flow of premiums;
- b) compulsory internal control of procedures relative to financial transactions;
- c) any operation relating to the implementation or enforcement of cash payment;
- d) operation of insurance claims payments

Test 3. The system of financial monitoring is:

- a) a set of methods of analysis, monitoring and forecasting, aimed at achieving financial stability as a separate entity, financial and credit sector of the country;
- b) a set of insurance supervision and control over the activities of insurers;
- c) a set of methods to ensure the financial soundness of business;
- d) a set of methods to ensure the profitability of businesses.

Test 4. The National Commission for State Regulation of Financial Services Markets is subject to financial monitoring:

- a) primary;
- b) internal;
- c) mandatory;
- d) state.

Test 5. The insurer is subject to financial monitoring:

- a) primary;
- b) internal;
- c) mandatory;
- d) state.

Test 6. Mandatory financial monitoring is:

- a) the activities of entities to identify financial transactions subject to financial monitoring, and financial transactions that may be related to the legalization (laundering) of proceeds;
- b) internal control procedures required to conduct financial transactions;
- c) a set of activities specially authorized executive agency for financial monitoring analysis of information on financial transactions provided by reporting entities by the laws of Ukraine;

d) mandatory testing operations of the insurer for payment of insurance claims

Test 7. The central place in the national system of counteraction of money laundering and financing of terrorism in Ukraine is:

- a) The Ministry of Finance of Ukraine,
- b) The National Commission on Securities and Stock Market
- c) National Commission for State Regulation of Financial Services Markets,
- d) The State Service for Financial Monitoring of Ukraine.

Test 8. Internal financial monitoring is:

a) the activities of entities to identify financial transactions subject to financial monitoring, and financial transactions that may be related to the legalization (laundering) of proceeds;

b) internal control procedures required to conduct financial transactions;

c) a set of activities specially authorized executive agency for financial monitoring analysis of information on financial transactions provided by reporting entities by the laws of Ukraine;

d) mandatory testing operations of the insurer for payment of insurance claims

Test 9. The head and coordinate the implementation of measures on prevention and counteraction to legalization (laundering) of proceeds from crime or financing of terrorism in insurance organization:

a) Director;

b) the chief specialist of sales;

c) compliance officer;

d) the Chairman of the Supervisory Board.

Test 10. Identification of individuals and legal entities at the conclusion of insurance contracts is implemented by:

a) the insurer;

b) the insurer or insurance intermediary, working on his behalf;

c) the State Service for Financial Monitoring of Ukraine;

d) The National Commission for State Regulation of Financial Services Markets.

Test 11. Written reports about detected financial transactions subject to financial monitoring and measures taken for the implementation of the legislation in the sphere of prevention and counteraction to legalization

(laundering) of incomes obtained in a criminal way and financing of terrorism, is made by the compliance officer of the insurer not less:

- a) once a year;
- b) once a quarter;
- c) once a month;
- d) once a week.

Test 12. Internal financial monitoring shall be carried out operations of the insurer in the amount of:

- a) less than 150 thousand UAH;
- b) more than 150 thousand UAH;
- c) less than 200 thousand UAH;
- d) more than 200 thousand UAH.

Test 13. Mandatory financial monitoring shall be carried out operations of the insurer in the amount of:

- a) less than 150 thousand UAH;
- b) more than 150 thousand UAH;
- c) less than 200 thousand UAH;
- d) more than 200 thousand UAH.

Test 14. The compliance officer for the financial monitoring of separate subdivision insurer is accountable to:

- a) the head of the financial Department of the insurer;
- b) the head of the structural unit of the insurer;
- c) the head of the insurer;
- d) the State financial monitoring service of Ukraine.

Test 15. Total gross-premiums paid for life insurance contracts are 60 000 UAH; the sum of the connected investment income — 11 000 UAH ; standard payment of the redemption sum is set by the insurance company is 80% gross- contributions and 100% of profits. The redemption sum which the insured person receives for early termination of the contract will be:

- a) 11 000 UAH;
- b) 48 000 UAH;
- c) 59 000 UAH;
- d) 60 000 UAH.

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Навчальне видання

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СТРАХОВИЙ МЕНЕДЖМЕНТ

Навчальний посібник

Керівник видавничих проектів — Ястребов А.О.

Друкується в авторській редакції

Дизайн обкладинки — Тишківська Н.М.

Комп'ютерна верстка — Тишківська Н.М.

Підписано до друку 13.09.2017 р.

Формат 60×84 1/16. Папір офсетний.

Гарнітура Times New Roman.

Умовн. друк. аркушів — 8,60.

Обл.-вид. аркушів — 7,40.

Тираж 300 прим.

ТОВ «Видавничий дім «КОНДОР»
Свідоцтво серія ДК № 5352 від 23.05.2017 р.
03067, м. Київ, вул. Гарматна, 29/31
тел./факс (044) 408-76-17, 408-76-25
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