SECTION XIII. MANAGEMENT

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Providing the insurance companies' financial security

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Abstract

The article examines the notion of the insurance companies financial security determined by scientists. The financial security is defined to be reflected in the development of the insurance companies financial policies. The financial security management is noted to be carried out on the basis of the financial security mechanism, which is supposed to ensure the financial stability and independence of the insurance companies. The scale of assessing the insurance company's financial security state through the integral index consisting of the sum of scores of financial indices is offered.

Key words: financial security, financial stability, insurance companies, management, mechanism, the scale of assessing the financial security.

The current state of the insurance market is characterized by the rapid growth and the aggravation of competition among insurance organizations. The efficient functioning of an insurance company mainly depends on its ability to avoid and resist the negative effects of external and internal risks of their activities.

The growth of the Ukrainian insurance market provides insurance companies with new tasks. The main ones consist in carrying out the activities that would meet the standards of profitability and financial security requirements of insurance companies. Such sort of activity has to satisfy economic interests of company owners and provide a reliable insurance protection for insurers.

Under the conditions of a rapid change of the insurance market state, consistent problems in the banking sphere, the reduction of business activity among economic entities, world financial market problems and also in the face of limited financial resources, the vital insurer's task lies in the creation of a financial security system that will help minimize the influence of negative factors and will become a guarantee of the efficient functioning of the insurance company [1].

The security of any system, including the insurance company's one, is determined by a combination of certain actions and results, which are disparate in character, way of implementation, participants and resources that are used. A number of scientists who have been analyzing the problem of companies' security, define its nature through the concept of "safety". The economic literature does not pay enough attention to the insurer's financial security issues. It can be partially explained by the fact that many financial security matters are reflected when developing financial policies of insurance companies. It can also be explained by the substitution of concepts, since a number of researchers equal the concepts of the insurer's "financial security" and "financial stability" and study the latter, depreciating the essential characteristics and peculiarities of financial security.

In our opinion, the financial security is a broader concept than the financial stability, the financial reliability and the financial solvency. A number of scholars believe that without a needed security status of an insurance company it is impossible to speak about its financially stable and solvent state [2]. From our point of view, however, a statement like that

is rather controversial, as the insurance company may be solvent in the short-term period and financially stable in the medium-term period, and at the same time it can not be achieving a safe level of functioning in the long run. The financial stability and solvency of the insurer indeed have a significant impact on the financial security, but these notions are different in terms of content and ideas [3]. That is why the notion of the insurer's financial security has the right to exist independently and be researched as a separate category.

Most scholars consider financial security as the ability and the state of an insurance company. Determining the insurer's financial security by the ability and the state speaks of the necessity to assess this condition, which will help determine the appropriate management approaches to ensure the security. On the ground of the above-mentioned notions, we can determine the financial security of an insurance company as the insurer's ability to fulfill the accepted insurance and other obligations under condition of a balanced and optimal approach as to the usage and the management of their financial resources, the ability to carry out an accurate control, the capacity to respond promptly to any internal or external threats in order to minimize or avoid them, and also as the ability to provide the insurer's balance of financial interests.

Financial security management is conducted on the basis of the insurance company's financial security mechanism.

The mechanism is a system of elements (goals, functions, methods, an organizational structure and subjects) and objects of management, where the purposeful transformation of the control elements influence into the necessary state or into the control objects reaction occurs and which has a certain input and a corresponding reaction as the result.

The insurer's financial security management mechanism is designed to ensure its financial stability and independence, to create the maximum possible financial potential and to achieve its efficient use through the optimization of business processes, the development of an indicators system for identifying financial stability threats and through the development of an action plan to avoid, minimize and eliminate the negative consequences. The mechanism must be flexible and easily adapted to the insurer's external and internal environment changes [4].

Thus, the financial security mechanism of an insurance company is a combination of methods, levers, and instruments used by the subjects of the insurance company's financial security system to improve the financial security characteristics, as well as its financial, organizational, informational and analytical maintenance.

One of the main tasks of the establishment and functioning of the insurance company financial security management system consists in the timely detection and prevention of internal and external threats of violating the insurer's financial stability, the protection of the owners' (investors, shareholders) financial interests, customers (insurers) interests, employees and the state interests, the fulfillment of the set goals and the company's mission under the conditions of internal and external threats. Therefore, the basis of the insurer's financial security management system is a combination of all its elements aiming at ensuring the stable functioning of the insurance market in general, and insurance companies in particular.

The efficiency of the insurance company financial security system depends on the information support, which is the process of continuous and purposeful selection of the relevant information readings necessary for the analysis, planning and for the preparation of effective managerial decisions that are related to its financial security [5].

The solvency of an insurance company is one of the indicators of the company's financial safety in the medium-term period. According to the Law of Ukraine "On Insurance", one of the conditions for ensuring the solvency of an insurance company, is a condition of the insurance reserves creation which would be sufficient for future payments of insurance amounts and insurance reimbursement.

The principal methods of insurance companies' financial security management are the diversification, the reinsurance, the co-insurance, the internal audit, the investing activity. The basic indicators of the insurance company's level of financial security are: the funds sufficiency, the insurance activities risks, the liquidity, the solvency, the financial stability and reliability, the profitability of the business.

Based on a set of key figures that can be used to evaluate the level of financial security, we have put together an integral index of defining the state of the insurance company's financial security. The calculated indication values of the insurance company's financial security are assigned a corresponding point scoring from one to five, where "1" is critical, "2" is the minimum, "3" is sufficient, "4" - standard, "5" is the absolute level of the value indication. Thus, the integral index of the enterprise financial security is calculated as the sum of coefficient scores for each group of financial security assessment values of the insurance company.

$$IN_{FS} = \sum I_{BI} + \sum I_{LS} + \sum I_{PR} + \sum I_{BA} + \sum I_{LCI} + \sum I_{FS} + \sum I_{PP},$$

where IN_{FS} is the integral index of evaluating the insurance company's financial security state; $\sum I_{BI}$ is the sum of business income assessment indices of the insurance company; $\sum I_{LS}$ is the sum of assessing the liquidity and the solvency indices of the enterprise; $\sum I_{PR}$ is the sum of accounts receivable and accounts payable indices evaluations; $\sum I_{BA}$ is the sum of assessing business activity indices of the insurance company; $\sum I_{LCI}$ is the sum of index estimates of the level of covering the insurance reserves by the investment assets; $\sum I_{FS}$ is the sum of index estimates of the insurance company's financial certainty; $\sum I_{PP}$ is the sum of assessing the profitability and payability indices of the insurance company.

We can distinguish five states of the insurance company's financial security: high, optimal, medium, low and crisis.

The scale of assessment of the insurance company's financial security state in accordance with the value of the integral index is shown in Table 1.

The choice of alternative strategies of managing the insurer's financial certainty involves the consideration of possible options, an assessment of their actual efficiency and on the basis of that it also considers the development of an interdependent set of measures. We would need to emphasize on the fact that it is necessary to take into account not only the local effect but also the effect of the taken decisions on the final results when assessing the efficiency of these measures.

To make an economic choice means to handle a series of information messages needed for making a decision about the action that will become a signal itself to other units when making decisions. The fundamental problem of the decision-making is the uncertainty that occurs due to the imperfect information. The information is a key element of the financial certainty management mechanism that generates a system of representations necessary for decision-making.

In order to prevent threats to the insurance company's financial security, it is important to identify a set of tasks that require a first-rate solution. These are:

- to ensure and constantly maintain a high level of employees qualifications;
- to provide the development of technical and technological capabilities and the enterprise capacity in order to achieve the necessary level of competitiveness;
- to achieve high efficiency of the enterprise management;
- to ensure the financial stability and the economic growth of the enterprise.

The suggested proposals for improving the financial state will affect the company's profitability, and hence its efficiency, and will also improve its financial performance.

Table 1

The scale of assessment of the insurance company's financial security state

The scale of assessment of the insurance company's financial security state (in points)							The integral index of the financial security state	The state of the enterprise's financial security
Business income indices	The liquidity and the solvency indices	Accounts receivable and accounts payable indices	Business activity indices	The level of covering the insurance reserves by the investment assets indices	The financial certainty indices	The profitability and payability indices		
				15	15	20	80 and more	high
				12 – 14	12 – 14	16 – 19	60 – 79	optimal
				9 – 11	9 – 11	12 – 15	40 – 59	medium
				6 – 8	6 – 8	8 – 11	20 – 39	low
				3 – 5	3 – 5	4 – 7	19 and less	critical

Thus, for the successful management of the financial and economic security of the insurance company, one needs an effective financial management system that can provide a compromise between the interests of the company's development, the sufficient costs availability and maintaining the solvency. In this case, the main strategic goals of the company's activity should be: the profits maximization; the optimization of the capital structure and providing the financial stability; the provision of investment attractiveness; the improvement of the company's competitive position on the market.

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