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FINANCIAL STRATEGY OF THE INSURANCE ORGANIZATIONS IN BELARUS

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Abstract

The research main task consists in defining the major factors influencing a choice of financial strategy of the insurance company, taking into account interests of proprietors and managers of the insurer for development of such financial tools which would allow strengthening a financial condition of the insurer. The choice of the administrative decision in many respects depends on the policy spent by the state on granting of preferences to insurance or its rigid regulation. Belarus has proclaimed now liberalization of state regulation of insurance. And in these conditions first of all on heads of the insurance organization responsibility for a correct choice of financial strategy of the further development lies.

Keywords: *insurance, finance, strategy, state regulation.*

Introduction

In the conditions of recurrence of development of world financial crisis and close economic international contacts it is difficult to say that any state will be not mentioned by its consequences. First of all the crisis phenomena amaze financial institutions, such as banks, investment funds, the insurance organizations which are operating in the activity in basic monetary with the capital and carrying out important social function. Therefore a bicycle a role of a prediction of development of crisis processes in economy chief managers of the insurance organizations which should be based on the detailed operative analysis of all factors influencing realization of activity of the insurer.

The purpose of researches consists in revealing of the factors influencing a choice by proprietors and managers of the insurance organizations of financial strategy for the long period of time on the basis of the analysis of reached financial indicators taking into account the developing economic situation. Various interests of proprietors and administrative potential which should be taken into consideration in the course of development of applied tools of financial influence on development and successful functioning of the insurance organization are for this purpose studied.

External and internal factors

The factors influencing a choice of financial strategy of the insurance organization, it is possible to divide on external and internal.

The basic *external* factor which is necessary for considering for acceptance of the financial decision is a state policy in the field of financial regulation of insurance sector. In Belarus over the last ten years red line of the insurance legislation was lobbying of interests of the state insurers: only at the conclusion with them of contracts of insurance premiums concern on the expenses considered at the taxation of profit of the organizations; only it is authorized to them to spend less kinds of obligatory insurance; only at them the large state enterprises etc. In these conditions to nonstate insurers can be insured it was necessary to raise only quality of the services, and such examples are in the Belorussian market.

For example, Open insurance joint-stock company “B & B Insurance Ko”, without having a state share in an authorized capital stock and, accordingly, deprived of any state preferences, confidently takes the second place on insurance the market. It is possible to assume that declared by the state in the beginning of 2011 economy liberalization, including the market of insurance services, only will positively affect development of the given insurer if the new proprietor – the French insurance company “AXA” doesn't change the steady financial strategy developed for twenty years (6).

The basic *internal* factors are, first, system effectiveness of management of the insurance organization, its flexibility in adaptation to external changes, to work in the growing and falling markets of insurance services; and, secondly, competence of the persons, making administrative decisions.

Thus, the choice of a direction of development of insurance business should be based on modern theoretically well-founded principles of management taking into account a changing conjuncture of a foreign market and internal organizational structure. Hence, working out of financial strategy should begin with gathering of a statistical material, its analysis as a whole on the market and on the concrete insurer on such indicators as average awards, losses, including by insurance kinds so that it was possible to be guided, the tariff policy and management of unprofitableness is how much effectively spent.

However separate, basically the small companies, try to analyze not the market and tariff strategy of competitors in insurance, and to rely on the previous experience, analyzing the profile of risk only for a substantiation of treaty provisions. Unfortunately, this work becomes, as a rule, once a year, in December or the beginning of January, before the statement the next calendar year new tariffs and insurance conditions, or on the instruction of a regulator of the insurance market in connection with the increased unprofitableness of a kind of insurance for accounting quarter.

Interests of proprietors and managers of the insurer

For definition of the purposes and management mechanisms insurance business it is necessary to consider interests of proprietors and managers of the company. Among them it is possible to allocate:

- the *material*: aspiration to improvement of financial results, i.e. growth of profit and increase of capitalization of the insurance or resafety company that will allow to receive in the future considerable dividends on the invested capital;
- the *non-material*: career growth, change of system of values, execution of the universal and creative missions.

It is necessary to notice that insurance business is one of the most dangerous kinds of investments of money resources since completely depends on financial maneuvering in the conditions of uncertainty and action of the theory of probability of approach of insured events. However, at favorable business dealing it can bring and ultrahigh dividends. Therefore from the named two basic interests of proprietors and managers of the insurer the most important is the first – material interest.

Management functions are carried out by the head of the insurance organization who reports to the proprietor for business plan performance, for the arisen ruptures between the plan and the fact. If the objective reasons of backlog of the company in development aren't revealed, the proprietor involves experts, auditors for the purpose of independent diagnostics, development of the program of elimination of lacks and a series of measures within the limits of development strategy. Re-structuring which usually accompanies these changes in the insurance company, can concern control systems, or an organizational infrastructure, actives and business processes. Thus all spent kinds of insurance are divided on two categories are what the insurer can supervise independently and on what the decision on their transfer on outsourcing is made. In insurance sphere can transfer to outsourcing of sale of insurance services, legal issues, real estate, information support, reinsurance, etc.

Management tools

In the conditions of bright display of the external factor influencing a choice of financial strategy of the insurer, a prevalence of material interests of proprietors and managers in their aspiration to improvement of financial results at the expense of growth of insurance premiums not always leads to growth of profitableness and financial stability of the insurer. Over the last 10 years the Belarusian state twice programs of considerable five years' growth of insurance premiums. From them the legislation in dependence puts the specification of expenses on conducting business which and shouldn't exceed now 35% of a total sum of receipts. Otherwise expenses can be reflected in the account only as use of own means. However practice of last

years has shown that in a pursuit of volume of receipts of insurance premiums insurers lose vigilance and incur dangerous financial risks, obviously unprofitable, at times ruinous which lead to inadequate obligations at approach of insured events.

So, unprofitableness of insurance company ISP “ZEPTER INSURANCE”, created two years ago the foreign investor, because of inept management has annually increased and for 2010 the loss has almost reached volume of the enclosed capital – more than 5 billion Belarusian rubles (5).

In the conditions of the announcement the course state on liberalization should change and tools of realization of financial strategy of the insurer, both insurance, and investment. It is possible to carry to the basic technologies of increase of efficiency of activity of the insurer:

- a diversification of risks;
- underwriting;
- calculations;
- management of insurance and safety business processes.

Management of the risks inherent in activity of the insurer, is realized by use of various methods of transfer of the risk inherent both its obligations, and actives. Number of ways of a diversification of insurance risks concern reinsurance and insurance obligations. The diversification of actives and use of derivative financial tools concern number of ways of a diversification of general management risks.

Risk management – the new type of service, rendered by the insurance and re-safety companies to the clients. They are following:

- a risk estimation in sense of dangers to which it can be subject;
- a degree and probability of causing of a damage as a result of influence of such dangers;
- a calculation of the most rational and global insurance covering for the given object of insurance;
- a definition of conditions of realization of insurance and an economic justification of rates;
- a liquidation and minimization of losses in case of their occurrence;
- a substantiation of the size and expediency of resafety protection;
- an inspection of risk and realization of control measures behind it;
- an estimation of possible consequences of insured event, for example, stay of process of manufacture, loss of incomes, default of treaty obligations, responsibility occurrence before the third parties. (Беретнов 2009)

Taking into account achievements of scientific and technical progress, occurrence of innovative technologies, an aggravation of necessity of protection of environment, the risk estimation is rather actual and perspective line of activity of the insurer for attraction of clients.

Underwriting in insurance operations means procedure of selection, an exception and classification of risks, definitions of rates of an insurance premium; process of consideration of offers on insurance and the analysis of the information containing in them; classification of the accepted offers by type and risk degree, and also under the corresponding rates of the award established for each of units, exposed to risk.

For the purpose of specification of influence of economic and geographical factors on risk of insurance the information on an industry and a territorial arrangement of manufacture is important. So, the description of features of activity of the applicant, features of territory of insurance, etc. can form the basis for removal of the decision on acceptance on insurance or refusal in an insurance covering. The description of essence of activity of the applicant, history of losses, kinds and level of possible losses form the basis for formation of a limit of responsibility, structure of own deduction, establishments of the size of an insurance premium etc. In practice at the insurance companies there are problems in reception of the corresponding full information because of unwillingness of insurance brokers to disclose data on the clients.

Actuarial calculations represent system of the settlement methods based on mathematical and statistical regularities, regulating mutual relations between the insurer and the insured. They are spent taking into account the law of great numbers with the help of which in the form of mathematical formulas the mechanism of formation and an expenditure of insurance fund in the long-term insurance operations connected with life expectancy of the population, i.e. in life insurance and pension is reflected. At the expanded interpretation to *actuary* to calculations carry calculations of tariffs on insurance any kind, including insurance on a case of physical inability and property insurance, with their help the share of participation of each insured in creation of insurance fund, i.e. the sizes of tariff rates is defined. The conducted researches of influence of a choice of a method of formation of insurance reserves in life insurance on financial result from insurance operations have shown that correctly chosen financial strategy in a part *actuarial* calculations can help to keep financial stability of the insurer of life even in the conditions of considerable inflate.

Management of insurance and re-safety business processes occurs through the conclusion of contracts of insurance, their renewal and settlement of losses.

The conclusion of new contracts of insurance among physical and legal bodies probably by means of advertizing, marketing, collective and individual conversations with the purpose of attraction of insures. Thus insurance intermediaries are guided by disclosing of advantages of separate kinds of contracts of insurance in the concrete insurance company. Renewal of contracts (prolongation) is one of forms of change of treaty provisions of insurance. Changes can be carried out by the underwriter, the insurer, the insurer for the purpose of increase in the period of insurance responsibility or the broker for the purpose of renewal of insurance for yet not complete financial and economic operation. Settlement of losses assumes calculation of the amount of

damage, subject to compensation as a result of insured event. The basis for application of the given procedure is the statement of the insured on the contract of insurance.

Conclusions

The purpose of financial strategy of the insurance organizations in the conditions of overcoming of consequences of world financial crisis is maintenance of the stable and balanced rates of increase of insurance premiums, profits and solvency preservation. As the basic components of financial strategy are optimization of structure of the capital, increase in volumes of receipts of insurance premiums, a diversification of an investment portfolio and reduction of expenses the basic attention at carrying out of the analysis of financial indicators for the last period should be given such indicators as profit, volume of receipts of insurance payments, volume and level of payments insurance premiums or maintenance, level of own deduction, a diversification of re-safety protection, etc. Timely revealing of deviations from the set strategic values can promote fast acceptance of financial decisions for change of arising negative tendencies.

Realization of the complex approach of proprietors and managers of the insurance organization in formation of financial strategy of the insurer in a combination to application of effective tools of financial influence on process of insurance, reinsurance and investment will allow reaching real qualitative and quantitative jump in development of such socially important branch of economy, as insurance.

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