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FACTORS AFFECTING THE FINANCIAL SUSTAINABILITY OF INSURANCE COMPANIES AND THEIR MANAGEMENT

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Abstract:
This article examines the factors influencing the financial stability of insurance companies and the processes of their management. It should be noted that one of the main external factors influencing the financial stability of insurance companies is the analysis of the legal framework for regulating this system in the country. In addition, the specific features of each of the external and internal factors affecting the financial stability of insurance companies in terms of their impact on the financial condition of the company are studied.

Keywords: Insurance Companies, Financial Stability, Factors Affecting Financial Stability, External And Internal Factors.

INTRODUCTION

While the financial stability and solvency of insurance companies play an important role in protecting the interests of insurers, these indicators are one of the main criteria for determining the reliability of the insurer and provide strong confidence of insurers. Of course, from the point of view of people's material interests, the financial well-being of many people depends on the timely fulfillment of financial obligations assumed by insurance companies.

As noted above, in order to have an idea of the financial stability of insurance companies, there are no clear quantitatively limited financial indicators, but these indicators may differ depending on several characteristics of the insurance company. we do This is because the assessment and analysis of financial stability must also take into account important factors such as the organizational legal form of the company, the types of insurance services, the scale or volume of insurance operations. Assessing the financial stability of an insurance company helps to identify important quantitative parameters of activities, their strengths and weaknesses, and ways to solve problems that arise.

In particular, to reduce the cost of policies, insurance may be offered with a limited list of risks, for example, only against catastrophic events, or contracts with fixed-term payments. In addition, it is possible to expand sales of products with high deductibles. For captive insurance companies, much depends on how their parent corporations feel, and whether they can quickly reorient themselves to the retail market. This requires additional investments that are unlikely to be possible in such a situation. In the context of regional insurers, the following conclusion can be drawn: those companies that are on the verge of bankruptcy will merge, and those with a well-balanced portfolio will be able to survive crisis on their own. The investment component among the sources of profitability of insurance companies may not suffer. Indeed, conservative instruments in times of crisis have seen an increase in rates, which is due to an increase in their attractiveness for investors, in spite of increasing the impact of risks on more profitable instruments. On the other hand, stock markets remain highly uncertain, so investing the reserves of insurance companies is a very risky strategy. Consequently, the main problem under the sources of profitability under the crisis is the decline in premiums.

ANALYSIS OF THE RELEVANT LITERATURE

Before covering the analysis of key indicators and ratios that assess the financial stability of insurance companies, it is advisable to highlight the factors influencing it in the assessment of financial stability and their main aspects. Factors affecting the financial stability of insurance companies can be divided into external (non-manageable) and internal (manageable) factors according to the general approach (Figure 1).

It should be noted that one of the main external factors affecting the financial stability of insurance companies is the legal framework for regulating this system in the country. It is the perfect development of legal and regulatory documents regulating the activities of the insurance market that ensures the effective operation of companies based on the implementation of strategic projects, optimal decision-making, achieving financial stability.

In addition, the main internal factors affecting the financial stability of insurance companies are the effective organization of corporate governance in

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insurance companies, opportunities to diversify insurance types and services, proper risk management, optimization of the insurance portfolio, the amount of insurance reserves. Each of the external and internal factors that affect the financial stability of insurance companies has its own characteristics in terms of its impact on the financial condition of the company. If we look at external factors, they do not depend on the insurance company itself, so the company must coordinate its financial activities in accordance with external factors, given that there is no possibility to change the impact of such factors. In this definition, only one factor of financial sustainability of the enterprise is considered – the structure of sources of financing, and, accordingly, the probability of limiting the sustainability in the current period under the influence of this factor is estimated. It is worth noting that the insurer's sustainability is formed under the influence of a combination of factors of the internal and external environment, and its level is determined by numerous risks In order to effectively manage the risk of financial sustainability, it is necessary to develop an appropriate strategy. The meaning of "limiting financial sustainability risk", "risk management strategy" was defined in the present research in order to develop and formalize the risk management strategy of the limiting financial sustainability risk of the insurer, allocate its phases, mechanisms and instruments. Consideration of international and domestic experience in classification of the limiting financial sustainability risk of businesses allowed justifying the original view on the grouping of these risks, taking into account the local realities and peculiarities of insurance companies by setting out the insurance, strategic, market, tax, investment, information risk, risk of inefficient capital structure, risk of limiting the liquidity of the insurance company, risk of operating activities and the risk of inefficiency of the organizational structure of the country. In the process of developing the management strategies for financial sustainability of the insurance company, its value was proved, the basic principles of implementation were outlined, the list of functions was specified, the key stages of development and implementation of this strategy with their detailed description were defined, and the summarizing pattern of the risk management strategy for the limiting financial sustainability risk of the insurer was suggested.

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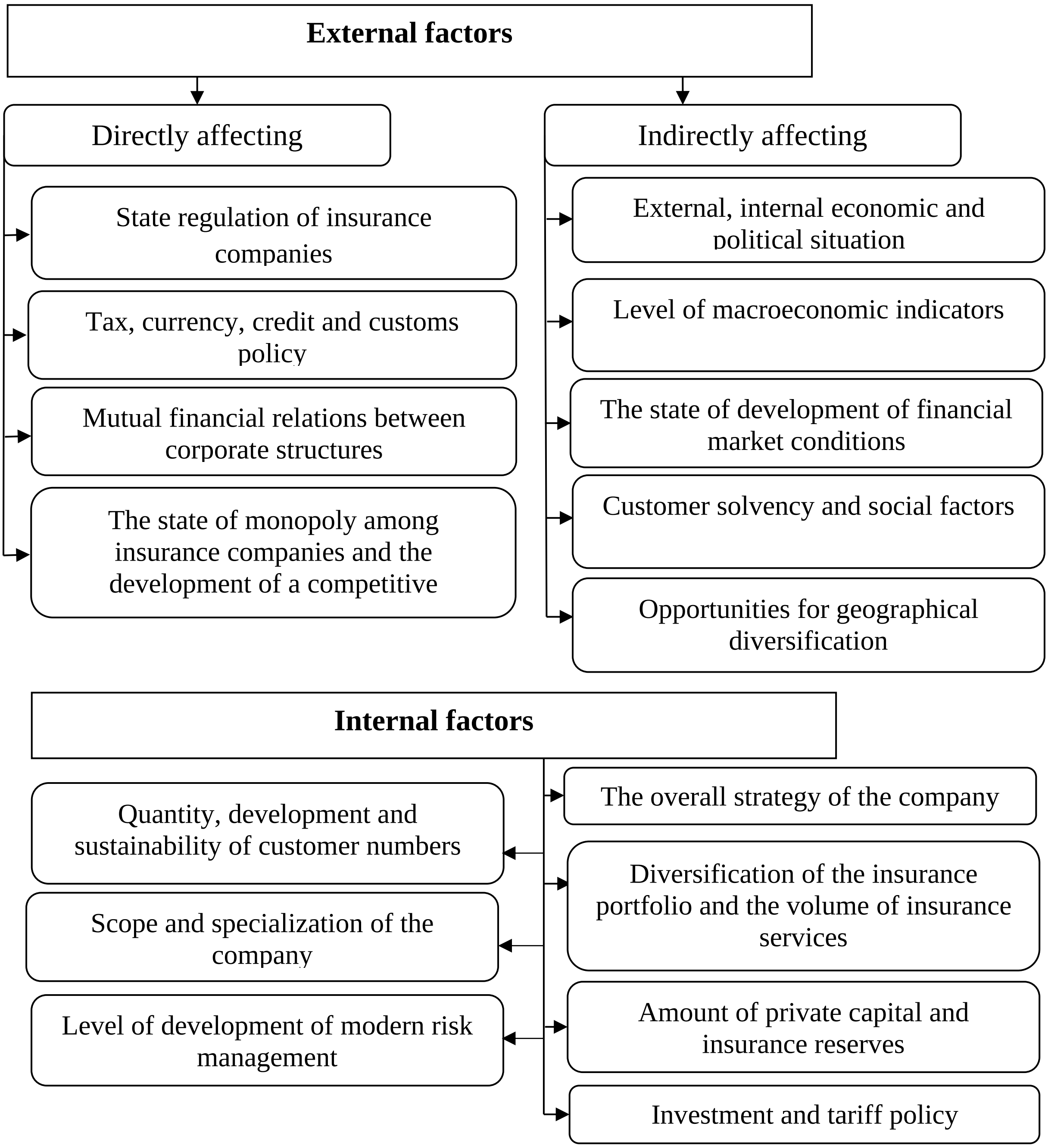

Figure 1. Classification of factors affecting the financial stability of insurance companies

Internal factors, on the other hand, depend on the financial performance of the insurance company, so the insurance company will be able to ensure its financial stability by directly influencing these factors. It should be noted that both external and internal factors affecting financial stability have their own characteristics and require a separate approach, but we will dwell on some of them.

One of the external factors that seriously affects financial stability is the inflation rate. It should be noted that the inflation rate directly affects the value of financial resources in all periods (over time) and covers many aspects of the financial activities of companies. Consequently, the financial losses on real interest rates seen by both insurers and insurers are related to inflation, which has a negative impact on insurance performance. Inflation can lead to serious errors in expressing the dynamics of key indicators, devaluation of insurance premiums and insurance reserves, affecting the balance of the insurance portfolio. As a

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result of the impairment of insurance premiums, insurers lose interest in insurance, and the depreciation of insurance reserves may be insufficient at the time of the insured event.

In turn, it should be noted that the level of inflation is directly related to the term of liability under the insurance contract. The risk of impairment of expected payments, which is limited by the amount of insurance, also changes with the change in the term of the contract. In order to protect insurance reserves in the event of depreciation, they can be formed taking into account the inflation rate, ie the inflation rate should be taken into account in the tariff.

ANALYSIS AND RESULTS

Based on the results of the analysis of international practice, the general structure of financial stability management can be expressed by the following figure (Figure 2).

Insurance companies' financial stability management should include the following key processes:

- planning of key indicators that ensure the financial stability of the company over a period of time;
- monitoring of key parameters determining financial stability;
- assessment of the state of financial stability;
- Development of management decisions aimed at achieving the set parameters of financial stability.

Thus, financial sustainability is a complex phenomenon that is under the influence of various financial and economic processes and is a guarantee of competitiveness and the basis for the stable development of an insurance company in a market environment. If the insurer is financially sustainable, then it has a number of advantages over other companies in attracting clients and investments. The more effective is the management of financial sustainability of the insurance company, the more independent is the latter from unexpected changes in market conditions, and, therefore, the lower is the risk of inability to meet its obligations to customers and, consequently, the likelihood of being on the verge of bankruptcy

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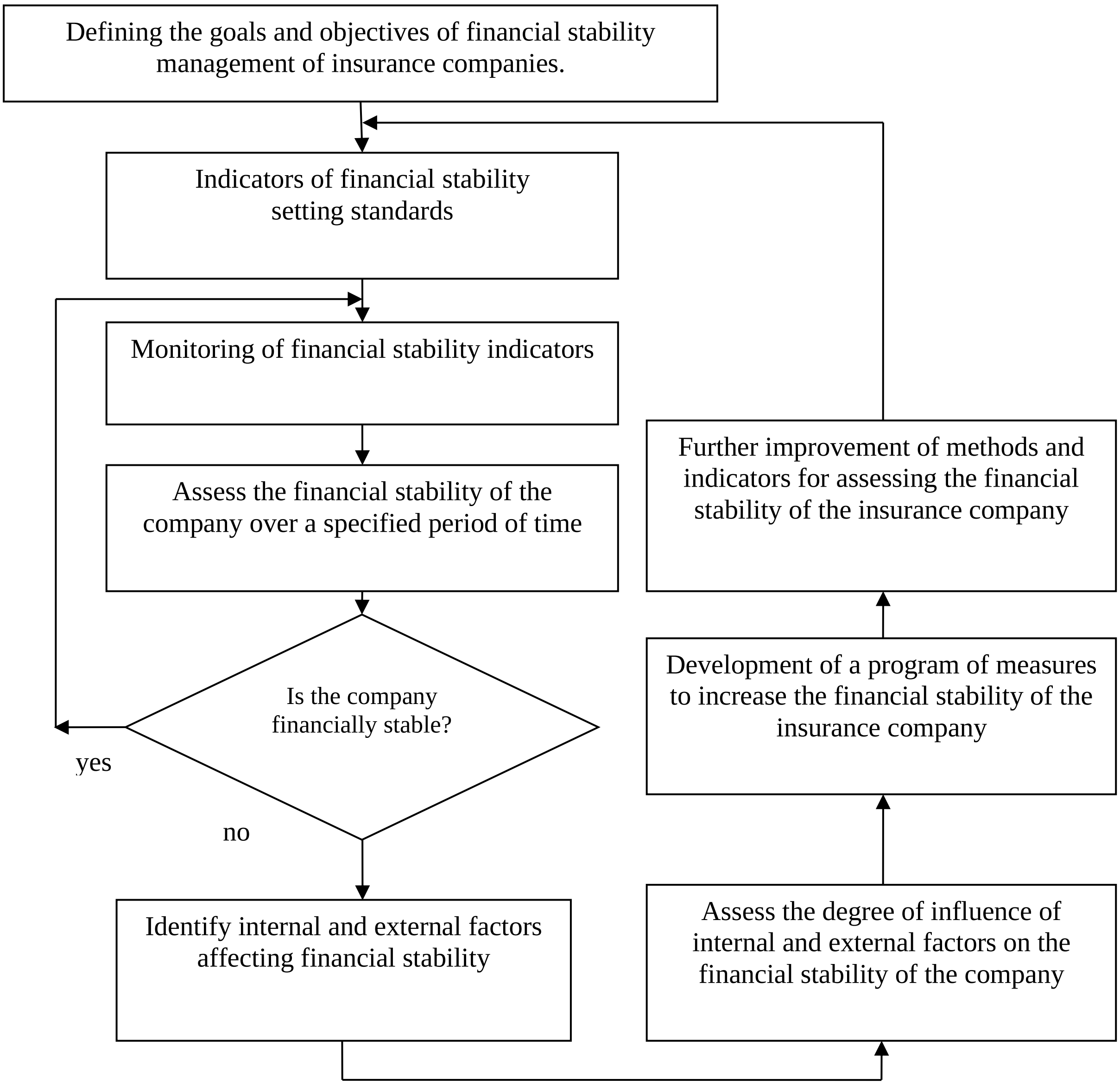

Figure 2. General structure of financial stability management of insurance companies

This approach of management allows, firstly, to comprehensively assess the financial stability of insurance companies, and secondly, to determine the period during which financial stability can be achieved, and to assess the financial stability at any time necessary to make operational management decisions. The assessment of the solvency of the insurance company is carried out by assessing its own (not related to liabilities) assets.

We believe that maintaining and strengthening financial stability to the maximum depends on internal factors, based on the financial strategies of the insurance company. Therefore, in accordance with Article 22 of the Law of the Republic of Uzbekistan "On Insurance Activity", "Insurers can not assume liabilities in excess of the maximum allowable amount for certain risks and the maximum allowable sum of liabilities. except when reinsured in accordance with other requirements of financial stability. Insurers have the right to reinsure their obligations outside the Republic of Uzbekistan in the prescribed manner. Accordingly, the introduction of new innovative services and the improvement of investment activities will play an important role in further strengthening the financial performance of insurance companies.

In order to analyze and evaluate the financial stability of an insurance company, it is necessary to first distinguish the factors that are quantified. Based on the

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results of the research, the following can be cited as internal factors that can be quantified:

- Sufficiency of own funds and insurance reserves;
- investment policy;
- tariff (price) policy;
- reinsurance.

Based on the results of the study, it can be noted that when a new type of insurance is introduced, as well as when rare, rare objects are accepted for insurance, insurance companies face a problem in calculating the tariff rate. In this case, it is difficult to determine the amount of damage on the newly introduced type of insurance under the existing insurance rates. This is due to a lack of statistics or their unreliability. In such cases, the rates are compared with other insurance companies and set based on the information collected as a result of the insurance process, and then adjusted based on the information collected during the insurance process. Various statistical observations not related to the implementation of insurance activities, as well as expert assessments can be used to calculate the tariff correctly. The main parameters of the new type of insurance - the probability of an insured event in the planned period, the average payment and the average sum insured are determined by an expert assessment.

Based on the approaches cited in the foreign economic literature, we believe that the rate rate becomes one of the elements of competition that encourages insurers to reduce tariffs that are based on persistent customer attraction but not based on the company's financial sustainability. We do not fully agree with the authors that the reduction of tariffs is always unreasonable in terms of the financial stability of the insurer. Sometimes the reduction of tariffs allows to conclude more insurance contracts and thus provides the necessary level of financial stability. Naturally, the more insurance contracts there are, the higher the financial stability, but the higher the tariff rate, the lower the stability can be. What we mean here is that an increase in the tariff rate leads to an increase in stability (the insurance rate also depends on the amount of the tariff rate), but at the same time leads to a decrease in the number of contracts, which can negatively affect financial stability.

One of the important aspects in ensuring financial stability is the optimization of the insurance portfolio. In order to create a balanced insurance portfolio and ensure the financial stability of insurance operations, insurance companies can effectively use the reinsurance mechanism. Reinsurance is a system of economic and legal relations, in the process of which the insurer accepts insurance risks and transfers part of the responsibility for them to other insurers on the terms agreed, taking into account its financial capabilities. There can be a very high level of risk in an insurance company's portfolio, in which the onset of even a single major loss can be problematic for an insurer who does not have sufficient funds. The company will also have to insure risks that are inconvenient or complex in nature to compete with other insurers.

In our opinion, the use of the reinsurance mechanism provides protection of the insurer from the following risks:

- accidental changes (fluctuations) of insurance losses at the insured objects, including as a result of accidents and natural disasters, as well as emergency losses based on the effects of "risk accumulation";
- the fact that the receipt of applications (applications) for insurance losses is not the same in time;
- the emergence of risks associated with the development of technology, in which the initially insured risks do not correspond to the new risks, ie the accumulated insurance premiums do not correspond to the event that occurred.

As a result of reinsurance, the insurer can take on more levels of risk, cover a wider range of types of insurance, and thus expand its operations. The more contracts are entered into by the insurance organization, the more balanced the insurance portfolio will be and the less changes in claims for insurance payments will be made to it.

Reinsurance eliminates individual risks or losses in cases where the average value is higher, allowing to reduce the level of liability for the obligations assumed. Through reinsurance, it is possible to equalize changes in the results of the insurance organization's activities over several years and achieve the stability of the resulting results, which is important to ensure the financial stability of the insurer.

CONCLUSIONS

Based on the results of the study, it can be noted that reinsurance contracts can be divided into two groups: proportional and disproportionate. Proportional reinsurance contracts provide for the distribution of the insurance premium and insurance indemnity between the insurer and the reinsurer in proportion to their share of liability. In the case of disproportionate reinsurance, the reinsurer's payment is determined by the amount of damage or loss. The principle of participation of the reinsurer in the payment of payments and insurance indemnity based on the reinsurance interest does not

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apply. The use of different types of reinsurance contracts has different effects on the distribution of losses of the insurance portfolio and changes in the financial stability of the insurance organization.

Proportional reinsurance is not intended to "fight" the insurer's high amount of losses, and this practice is a relatively "soft" means of redistribution of liability.

Although disproportionate reinsurance provides additional financial results to the insurer, it may continue until a loss or a series of losses occur that exceed the reinsurer's liability limit. Such a situation is very rare, but occurs only in the presence of frequent losses, when each of them does not increase the priority of the insurer in its amount.

In general, from a theoretical point of view, there are different types of proportional and disproportionate reinsurance, and only proportional contracts are divided into quota contracts and extensor (excess) sum contracts. In turn, the main types of disproportionate reinsurance are divided into extraordinary damages contracts and extraordinary damages agreements.

Quota reinsurance reduces the risk of the insurer under all contracts awarded to the reinsurer, but there is no possibility of compensation, such as exclusive reinsurance. Quota contracts can be used for risks associated with relatively low fluctuations in insurance amounts and guarantee effective protection against the accumulation of many small and medium-sized losses resulting from a single event.

While incremental contracts require the insurance company to incur a lot of costs, it allows the insurance portfolio to be balanced by reducing the level of risk. Extedentary reinsurance protects the insurer from major losses on certain risks, which helps to maintain the financial balance of insurance transactions. The purpose of an extraordinary damages contract is to "compensate" for the amount of damage incurred in the event of a significant change in damages. Transferring too much liability to reinsurance may not lead to a high result, as the insurer deducts a large portion of the insurance premiums it has accumulated. On the contrary, we believe that the excessive liability assumed (in terms of financial feasibility) may adversely affect the financial stability of the insurance organization.

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