

Approaches for Analysing Activity Efficiency of Insurance Companies

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Abstract – This paper for proceeding contains research about main approaches for defining and analyzing the term “efficiency”. There are submitted opinions of foreign and domestic economic scientist about calculation of this term. Also there is shown main indicators, which characterize efficiency of insurance companies, in particular profitability of insurers. Main indicators of profitability were submitted.

Key words – efficiency, analyzing, insurance, indicators, insurers, profitability

I. Genesis of term “efficiency”

The main goal of every insurance company is to make profit. For this reason it is important for insurers to use their resources as well as possible to obtain the necessary returns. It means managing their property in right way which would maximize their profit. Achieving the necessary effectiveness would show effective activity of the company.

Researching of origin of concept “efficiency” was made by Kovalchuk O. She claims that term “efficiency” was firstly met in William Petty works (XVII cent.). He used it with the meaning of effectiveness, reaching appropriate results. David Ricardo also used this term, but he gave it new meaning – dependence of received result and some kind of costs. Since then term “efficiency” gained a status of economic category. Starting from XIX century this term was used to estimate different actions. Representatives of neoclassical school of economics J. Schumpeter and V. Pareto in the end of XIX cent. had made the definition of “efficiency”. They suggested that term “efficiency” should be calculated as results divided by costs. In XX cent. G. Emerson formulated such definition – the most useful correlation between sum of cost and economical results [1].

In Ukrainian literature issues of activity efficiency of insurance companies was studied by the large number of scientists, but there is no common approach to examine it. This issue was researched by such Ukrainian scientist: Alexandrova M., Cherep A., Ionin M., Govorushko T., Kondrat I., Shynkarenko O., Azarova A. and others. As for the definition, thoughts of prof. Cherep A. practically matches previous definitions, he means under this term ability to make positive effect, effectiveness of the process, project etc. which defines as effect or result divided by costs which provides that result. Govorushko T. in his monograph summarize thoughts of different researcher about efficiency – it is the image of activity

results of enterprise subject which is measured by correlation between results and costs (resources) needed to achieve these results [2].

Monastyrskiy G. says that in general there are such approaches to understanding of efficiency in economic literature:

- As the degree of achievement of the organization;
- As the organization’s ability to use the environment to acquire scarce resources;
- As the ability to achieve maximum results in fixed costs or ability to minimize the cost of reaching the necessary results;
- Like the ability to achieve the goal, taking advantage of internal characteristics

Definitions of term “efficiency” made by different authors are shown in table 1.

TABLE 1
DEFINITIONS OF TERM “EFFICIENCY”

Authors	Definition of term “efficiency”
W. Petty	Used term “efficiency” with the meaning of effectiveness and reaching appropriate result
D. Ricardo	The correlation of the results and a certain type of costs
J. Schumpeter and V. Pareto	Compile a definition of “efficiency” – the ratio of costs and results
G. Emerson	The most useful correlation between sum of cost and economical results.
P. Drucker	Separates the efficiency and effectiveness; The effectiveness is presented by result of certain processes and performance functions. Efficiency is a consequence of the correctness of such actions.
Cherep A.	Ability to make positive effect, effectiveness of the process, project etc. which defines as effect or result divided by costs which provides that result.
Melnik L., Karintseva O.	The efficiency reveals the nature of causation. Efficiency reflects the price of the achieved result
Monastyrskiy G.	Summarizes approaches to efficiency understanding in economic literature: - As the degree of the organizational achievement; - As the organization’s ability to use the environment to acquire scarce resources; - As the ability to achieve maximum results in fixed costs or ability to minimize the cost of reaching the necessary results; - Like the ability to achieve the goal, taking advantage of internal characteristics
Govorushko T.	The image of activity results of enterprise subject which is measured by correlation between results and costs (resources) needed to achieve these results.

Table was made by author using sources [1], [2].

II. Analyzing of activity efficiency of insurance companies

Poplavskyy O. identifies such areas of analyzing activity efficiency of insurance companies as analyzing of financial support of insurer, analyzing of insurance operation, analyzing of investment activity. Researches of investment activity efficiency was made by Alexandrova M., Basilevich V., Zhabinets O., Kuzmenko O.

Big influence on insurance companies activity has Tax Codex of Ukraine from 02.12.2010. This issue was researched by Shiriyan L. V. and Kozoriz G. They described influence of changes tax legislation and taxation of insurance companies and defined results of that changes.

Authors thoughts differs, when we are talking about evaluating of activity efficiency. Because of thoughts pluralism authors define different indicators to estimate characteristic of activity efficiency of insurers. Alexandrova M. notes that activity efficiency can be evaluated by lots of indicators, but most important are financial stability and profitability of business operation, namely insurance operation. That is because task of insurers is to make insurance payments after determined insurance event to it's clients (assurers), who forms insurance funds [3]. Belgorodtseva M. mentions in her article, that summery indicator of activity efficiency of insurance company is financial result which is calculated using indicators from every kind of activity of insures [4].

According to researcher thoughts that activity efficiency of insurers is defined as correlation between results and costs, it would be advisable to take into account profitability indicators typical to insurance companies.

Profitability as indicator of activity efficiency of insurance companies was examined by Lisoval V., Ionin M., Zemlyachova O. In particular, Lisoval O. points out such most essential indicators of profitability of insurers:

- profitability of assets;
- profitability of equity;
- profitability of insurance activity;
- profitability of investment activity;
- profitability of sales [5].

Order of State Commission for Regulation of Financial Services Ukraine (now National Commission for Regulation of Financial Services Ukraine) of 17.03.2005, Number 3755 contains standards for assessing the financial condition of insurers. To assess the effectiveness of the indicators we can use the profitability and return on investments, these indicators will show out return of insurance and investment. Bondarchuk M. and Kondrat I. mention these figures in their article and describe the appropriateness of their use [6].

Important indicators for evaluating are absolute indicators. For insurance companies such indicators are indicators from income statement (form №2), in particular a gross amount of signed premiums, net losses incurred by insurance payments, net premiums, costs of doing business (net incurred losses on insurance administrative costs, costs of sales, other operating expenses). Also it is necessary to analyze the profitability of certain types of insurance.

Another factor that should be taken into consideration is the level of insurance payments. The level of payments was investigated by such scientists as Ribalchenko S., V. Turco. V. Turco points out that the standard level of insurance payments is considered such level, which is

common for the UK - 67%. This indicator affects consumer confidence in the insurance company, and could serve as a good advertisement for the insurer [7].

Conclusion

In this paper main approaches of defining of term "efficiency" was given. We took into account opinions of different scientist starting from XVII century. Summarising thoughts of scientists we can say that efficiency is the image of activity results of enterprise subject which is measured by correlation between results and costs (resources) needed to achieve these results. This paper contains also common ways for analysing activity efficiency of insurance companies.

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