EFFICIENCY OF THE INSURANCE ACTIVITY: INSURER VS INSURED

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Abstract: Efficiency analysis is a complex issue, with specific particularities related to the insurance business, and in the present paper will be treated two aspects: efficiency analysis in case of insurer and efficiency analysis in case of insured. In assessing performances of an insurance company should consider the financial results, the ratio between the effect and effort for obtaining profit, and measuring the insurer success in coverage the customers needs.Insurance companies operate on a competitive system, so they must determine the insurance premiums and insurance rules, so that the products and services should be attractive and effective for the insured. In this context I shall present several insurance efficiency indicators in case of insured, efficiency is even higher as the amounts of money received by the policy beneficiary and are more consistent/appropriate to individual needs, the capitalization segment of products offer a higher performance in terms of risk , and the customers collect in a short time the insured amounts.

1. INTRODUCTION

Efficiency is an action by which positive results are obtained, that is a value greater than the initial one. *Efficiency means "to make better what you are already doing"* , and it depends not only on the organization, management and technology structure, but also it is strictly related to people, to relationships within the work process, social interrelations within various spheres of activity(Băiescu A.,2011).

Determination of performances of an insurance company and the expression of the efficiency of the activity performed by those , should take into consideration both financial results obtained, the ratio between the recorded efficiency and the effort made to obtain this effect, but also the assessment of the success of the insurer in the sense of providing the needs of their clients"(Văduva Maria,2010). Quantification of financial performances of an insurance company can be achieved "with the help of three installment categories: financial structure installments; financial management installments; efficiency installments".(Ciumaş Critina, 2009).

For an as pertinent analysis as possible of insurance activity, a longer period has to be taken into consideration, over 5 years(Negru T., 2010). The relation between the effectand the effort is the *general model of efficiency*, based on two functions: a function of maximization for effect(R), where R is maximum, and a function of minimization for effort,where E is minimum.

Efficiency analysis is a complex problem, with particularities generated by the specifics of the activity, efficiency being approached regarding two aspects: efficiency analysis at the insurer level, and the efficiency analysis at the insured person, respectively. For the insurer: EFFECT is given by the own financial results obtained guaranteeing the further functioning in conditions of maximum security; the insurer's EFORT lies in the organization, management in good conditions of the funds constituted and/or invested in various financial operations; damage reimbursement to the insured persons; the insurance activity is the more EFFICIENT, the lower the reimbursement expenses(insured sums and compensations), as well as those related to forming and management of the insurance funds. For the insured person: the EFFECT obtained as a result of the insurance activity is represented by the compensations given by the insurer; the EFFORT of the insured person lies in the installments; the INSURANCE EFFICIENCY is the higher, the higher the damage reimbursements received at the happening of the insured risk are, and the installments are lower. Similarly, the shorter the time between the implementation of the insurance contract and the damage reimbursement, the insurance activity is more efficient.

The reason of existence of any commercial company is to obtain profit, that is to cover the expenses made from incomes, but in the analysis of the insurance efficiency, it is necessary to have in view the fact that in this field, an original-unique phenomenon takes place in economic activity, namely the inversion of the production cycle, the insurer "sells" before "production", that is before knowing the "cost of the sold product" . In this field, we have a contradictory character of the interests of the parties related to the end of the insurance action, "provoking the insurance companies being the provision of an optimum balance between their interests and the interests of the clients"(Băiescu A, 2011).

2. EFFICIENCY ANALYSIS AT THE LEVEL OF THE INSURER - ASSESSMENT INDICATORS

The economic/financial crisis had many effects and created many distortions on the insurance markets, although the insurers "were witnesses sooner than participants, since due to the nature of this business, they cannot generate systemic risk, they suffered as a result of the fall of financial markets, decrease of the rhythm of economic growth, decrease of interest rates, of credits quality, as well as of direct and indirect exposure to financial institutions that had dramatic decrease of shares price or that went bankrupt"(Buletin informativ CSA, 2012).Insurance companies face today challenges coming from an increased frequency of risks taken over. Insurers have to find an equilibrium point between real costs of assumed risks and prices of products sold to consumers, because those have an important effect on the quality of services offered. Most frequently, the price of a policy is established without a strategic vision, but only based on the interest of the moment, to increase market quota, which will negatively influence both their profitability, and especially their capacity of honoring the obligations assumed towards the insured persons. I think that in the immediately following period, measures should be taken to support insurance activity, increase of market confidence in the insurance system, promotion of a greater transparency, and what is more important, introduction or increase of deductibility for certain insurance categories coming in the help of clients, more emphasis on the population's financial education, and most importantly, increase of professionalism of people working in the field. As direct effects of the crisis, the most important is decrease of the population's incomes, and implicitly of income available for insurance, which led to significant

reduction of sales, especially for unit/linked products, with impact on product mix for new sales, but also for the existing portfolios. Table 1 shows that in the last 6 years the financial result of the insurance market in Romania is negative, the greatest losses being recorded in the year 2011.

Table no. 1. Financial result of insurance market in Romania in the last decade

Year	Net income		Loss		Aggregate result	
	mil Euro	mil Ron	Mil Euro	mil Ron	mil Euro	mil Ron
2002	26,3	82,2	17,4	54,2	9,0	28,0
2003	26,2	98,2	6,2	23,1	20,0	75,1
2004	29,9	121,4	17,2	69,6	12,8	51,8
2005	38,7	140,3	28,0	101,3	10,8	39,0
2006	49,8	175,4	69,2	244,0	-19,4	-68,5
2007	48,8	162,9	124,7	416,0	-75,9	-253,2
2008	72,4	266,6	230,5	849,0	-158,2	-582,5
2009	74,4	315,0	98,7	418,3	-24,4	-103,2
2010	55,9	235,3	65,7	276,6	-9,8	-41,2
2011	60,7	257,1	137,5	582,9	-76,9	-325,9

Source:www.csa-isc.ro

To analyze the efficiency of the insurance activity, a series of primary indicators can be used, which provide partial, unilateral information, and which only highlights one aspect, the quantitative one. Table 2 shows a few such indicators applied to the insurance market leader, of which the situation of the insurer results at the end of the year 2011.

Table no. 2. Primary indicators for assessing the insurance business

No	Indicator	Indicator applied to the leader of Romanian life insurance market (RON)
1.	Share capital	89991626
2.	Gross premiums	554442021
3.	Insurance benefits	17526034
4.	Net income	14709378
5.	Investment income	92394249

Source: Annual activity report 2011,ING

Table 2 shows that the insurer had profit at the end of the year, the social capital has a relatively low value, but this is a normal situation for an insurance company, since technical commissions should represent more than 80% of the total of the passive of an insurer(in the case of the analyzed insurer it represents 90%, according to the data of the balance closed at the end of the year 2011(the value of the insurance premiums subscribed and the income from investments are large, due to the crisis situation . In Table 3 I applied to the same insurer, a few specific indicators to assess the insurance business.

Table no. 3. Specific indicators for assessing the insurance business

No	Indicator applied to the leader of life insurance market in Romania	Formula
1	*Labour productivity in the insurance field*	$W = P / Na = 554442021/1497 = 36446{,}91$ lei, W- labor productivity is an insurance worker, expressed in RON P- total incomings from insurance premiums Na - number of employees scripting insurance business
2	*Relative cost of insurance activity*	$Ca = \dfrac{C}{V} \times 100 \quad = \dfrac{1039294000}{1057089750} * 100 = 98\%$ *Ca – relative cost of insurance activity;* *C- total spending by business insurance Company;* *V – total income from insurance premiums*
3	*Rate of net profit*	$R_{Vn} = \left(1 - \dfrac{C}{V}\right) \times 100 = 1 - C_a \times 100 = 100 - C_a$ **$R_{vn} = 100 - 98 = 2\%$**
4	*Expenditure at 1 RON premium income*	$C_{1leuVn} = \dfrac{C - D}{V - C}$ **D- compensation paid by the insurer** $C_{1leuVn} = \dfrac{1039294000 - 265175557}{1057089750 - 1039294000} = \dfrac{774118443}{17795750} = 43{,}50$ **RON**
5	*Rate of technical reserves*	$R_{RT} = \dfrac{RT}{P} = \dfrac{2043404227}{2264506167} = 90\%$ *RT- technical reserves, P- total passive*

Source: Annual activity report 2011, ING

The first indicator is calculated at annual level and represents a quality element of assessment of a company's life insurance activity, completing the primary indicators in Table 2. The second indicator is smaller than 100%, but there may be cases when it is higher, when the insurer could not cover, from the insurance premiums and from other incomes, the total expenses made. Analyzing the third indicator, showing in percentage the amount left to the for every 100 lei cashed premiums, the analyzed insurer is left with 2 percent from every 100 lei cashed in. The following indicator represents the expenses recorded by the insurer to obtain a monetary unit of net income, and the last indicator points out that the technical reserves are over the normal limit, which shows that the analyzed insurer has a good financial situation and that the activity run is efficient.

3. EFFICIENCY ANALYSIS AT THE LEVEL OF THE INSURED – ASSESSMENT INDICATORS

The insurance companies operate in a competition regime, and each of them tries to make their products attractive and efficient for the insured. In this context, I shall present a few indicators, specific to insurance efficiency from the client's point of view; I think that the higher the insured sums that the policy beneficiary would receive, according to individual needs, the higher the efficiency; the products accumulation

segment provides a higher efficiency in given risk conditions, and the clients cash in the insured sums as soon as possible.

Table no. 4. Assessment indicators at the level of the insured

No	Indicator	Recommendation
1	*Degree of covering the necessary financial protection*	*a. For the risk of death:4Sn<Sa<6Sn* *Sa- insured sum* *Sn- annual net salary of the person taken into financial protection* *b. For the risk of total disability: 6Sn<Sa<10Sn*
2	*The profitability of the capitalization segment*	*a. Clients with small risk tolerance are recommended traditional insurance products* *b. Clients with higher risk tolerance are oriented towards unit-linked insurance*
3	*Average duration of solving an insured case*	*Dm = (ti + t2+ ... t,,) / N, where:* *Dm - average duration of solving the insured case;* *t- number of days from approval of damages until the settlement them* *N- number of damages solved.* *10<Dm<15 zile*

For the risk of death, the recommendation is for the insured sum to be in the range of 4-6 net annual salaries of the person taken into financial protection, so that in the situation this event happens, the family would have financial comfort for 4-5 years, period in which the family can recover, if the family in case has contracts and credits, it absolutely necessary for the insured sum to be higher.

In case of total disability, the optimum financial protection is in the range of 6-10 net annual salaries, the situation being more severe, the respective person cannot produce, but the expenses are higher, even than for a healthy person for the required care. Regarding the degree of covering the necessary financial protection, the following situation may arise:

- optimum degree of cover, when the existing insured sums are more than 85% of the necessities;

-underinsurance, when the degree of cover of the necessary financial protection is less than 80%;

-over-insurance, when the value of the insured sums are more than 120% of the necessities;

The approximate value of the annual premium that a person should spend for a life insurance product providing optimum financial protection should approximately represent the net income for a month(also taking into calculation elements like: contract duration, certain excluded risks, various contractual clauses).

The second indicator, the profitability of the capitalization segment, divides clients in two categories:

- clients with small risk tolerance, where the safety of the investment is more important than its profitability, they would be directed towards traditional products, that is those where the client is guaranteed a certain accumulated sum when the policy matures; this final value is formed from the first part of the premium intended to the capitalization segment, plus the annual guaranteed interest, to which possible supplementary profits may be added.

- clients with higher risk tolerance are oriented towards unit-linked insurance, where the entire investment risk belongs to the insured person, in this case, both the expected gains and the potential losses are higher.

Efficient solving of payment demands, of due rights, is very important for the insured person, thus, reducing the duration of liquidation of damages should be in the center of attention of the insurance company, being subject to a continuous process of making things efficient. I think that an average duration of solving a case is maximum 15 days.

4. CONCLUSIONS

Insurers operating on the Romanian market have experienced the effect of the crisis, not differing much from other countries, but naturally, pondered by market dimension. To make activity efficient at the level of the insurer, the following measures should be taken: avoiding assuming risks over the admitted limits and maintaining sufficient liquidity, maintaining the existing clients' portfolios, intensification of communication with clients developing products, by introducing great differences between those, standardization of professional values of those selling insurances.

Possible solutions to be implemented by life insurance companies in view of making insurance activity efficient from the point of view of the insured person: maximization of the degree of cover of the necessary financial protection, shortening the duration of solving the insured cases by providing urgently the client with necessary forms to be filled in, so that the policy beneficiary should have as soon as possible the damage file; assistance given in filling in the documents, to avoid possible errors or omissions in the forms, ensuring fewer but essential documents requested by the insurer for a correct assessment of the request for compensation.

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