FINANCIAL ANALYSIS OF THE SUSTAINABILITY OF INSURANCE COMPANIES

The article examines the essence of the concept of financial stability of an insurer, conducts a financial analysis of insurance companies. The role of financial sustainability for insurers is determined, which is special because it determines the importance of ensuring a high level of financial stability and reliability of the insurer’s activities. It is proved that the key factors in assessing the competitiveness of an insurance company are profitability, stability, financial strength and level of service. The factors influencing the financial stability of the insurer and the main criteria for ensuring the financial stability of the insurer are analyzed. It is found that an important criterion for ensuring the financial stability of an insurer is the availability of a balanced insurance portfolio, the formation of which is aimed at maximizing profit with minimal risk. The role of reinsurance in ensuring the financial stability of the insurer is substantiated. The investment activities of the insurer to accumulate significant financial resources are analyzed.

Keywords: financial analysis, financial stability, insurance company, financial performance of the insurer, criteria for ensuring financial stability.
The key factors in assessing an insurance company's competitiveness are profitability, stability, financial strength, and service level. It is necessary to introduce strict control over administrative expenses and the company's budget, expansion of the sales network, and opportunities for flexible pricing. Effective pricing is one of the prerequisites for success in the insurance market. Solving the problem of marketing insurance services means finding ways to gradually reduce the elements of uncertainty and risk in assessments, decisions and actions related to insurance activities [5].

In recent years, there has been a decrease in the number of insurance companies in the Ukrainian insurance market (Tables 1, 2), which is explained by the problems that insurers face during military operations and the peculiarities of the insurance market development. This trend forces the management of insurance companies to pay special attention to ensuring a high level of financial stability of enterprises to continue their activities and develop insurance companies in the future.

As of September 1, 2023, 140 insurers were registered in the State Register of Financial Institutions (SRFI), including 13 life insurance companies. All insurers in the SFR are licensees [3].

As for the structure of insurance types in 2023, insurers received UAH 8.54 billion in premiums for compulsory civil liability insurance, UAH 4.99 billion for green card insurance, UAH 3.94 billion in premiums for endowment life insurance, UAH 987 million in premiums for bank life insurance, and UAH 1.4 billion in accident insurance, UAH 5.7 billion in voluntary health insurance, UAH 10.9 billion in hull insurance, UAH 1.3 billion in cargo, UAH 1.2 billion in fire and UAH 2.4 billion in property risks, UAH 873 million in travel insurance, UAH 602 million in compulsory aviation insurance, UAH 152.8 million in nuclear risks, and more than UAH 1 billion in financial risks [3].

Motor insurance (CASCO, compulsory motor third-party liability insurance, Green Card) retained its leadership in terms of premiums among other risk types. Compared to the same period last year, motor insurance premiums increased by 15%. However, in the last quarter of 2023, the volume of gross motor insurance premiums decreased slightly (by 3%), primarily due to lower premiums for the Green Card product.

The peak of growth in the popularity of this product due to the forced emigration of Ukrainians is likely to have already passed, while the volume of claims is growing: it has more than doubled over the past year, more than doubling the level of payments. Gross premiums for property and fire insurance grew by 40% over the year, while gross claims decreased by a quarter. Despite the

<table>
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<tr>
<th>The number of insurers in SRFI</th>
<th>01.01.2022</th>
<th>01.03.2022</th>
<th>01.09.2022</th>
</tr>
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<tr>
<td>In total, of these:</td>
<td></td>
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<tr>
<td>SRFI licensees</td>
<td>156</td>
<td>144</td>
<td>145 (-11)</td>
</tr>
<tr>
<td>Non-life</td>
<td>143</td>
<td>131</td>
<td>132 (-11)</td>
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<tr>
<td>Life</td>
<td>13</td>
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*SRFI – State Register of Financial Institutions

Source: compiled from official reports of the National Bank of Ukraine [7]
Factors affecting the financial stability of an insurer's activities are divided into internal and external. Internal factors include the amount of equity capital, tariff policy, balance of the insurance portfolio, investment policy, profit distribution strategy, organizational structure of the enterprise, composition and financial stability of the founders of the insurance company, etc.

Of course, an insurance company cannot take into account all of the above factors in the course of its activities, so its financial stability will depend on the number of factors that will be taken into account. One of the insurer's priorities should be the management of internal factors affecting financial stability, because external factors are virtually impossible to control and very difficult to effectively counteract.

Most authors in their works identify almost the same criteria for ensuring the financial stability of an insurance company, which include: sufficient equity capital, optimal tariff policy, balanced insurance portfolio, availability of a safe and effective reinsurance program, sufficient insurance reserves for future payments, optimal program for placing insurance reserves and a high level of solvency of the insurance company [6].

Ensuring the financial stability of an insurance company is possible only if the insurer's activities are constantly and thoroughly monitored and the company's management responds in a timely manner to changes in the internal and external environment.

Let us consider the main criteria for ensuring the financial stability of an insurer in more detail.

The equity capital of an insurance company is a guarantee of its financial stability, as it ensures the fulfillment of the insurer's obligations in the event of insufficient insurance premiums and income from investment activities. This situation may be caused by the accumulation of risks of the same type or as a result of certain catastrophic events [4; 9].

A correctly determined cost of insurance services, which is achieved through an effective tariff policy of the insurer, is the basis for ensuring the financial stability of the insurance company. The insurance tariff makes it possible to achieve a balance between the insurance company's income and expenses, since the tariff rate in its structure includes all the necessary funds and reserves intended for insurance operations. Significant overstatement of the insurance tariff may lead to a decrease in demand for this insurance product and, consequently, to the loss of competitive positions of this insurer in the insurance market. At the moment, there is a dumping of insurance tariffs, and the danger is that insurance tariffs are reduced by reducing the component of the insurance tariff that...
goes to the formation of insurance reserves. This policy may lead to insolvency and bankruptcy of the insurance company.

An important criterion for ensuring the financial stability of an insurer is a balanced insurance portfolio. The formation of an insurance portfolio is aimed at maximizing the amount of profit with a minimum amount of risk. A diversified insurance portfolio helps to reduce the risk of insolvency without reducing the expected return.

When managing the insurance portfolio, the management of an insurance company should constantly analyze and adjust the correlation between insurance lines, insurance amounts and risk levels of objects in the context of existing and newly concluded insurance contracts. It is through the implementation of the above principles that an insurance company maximizes its profit given the risky nature of its own activities [11].

In our opinion, one of the most important criteria for ensuring the financial stability of an insurer is the reinsurance mechanism. Reinsurance takes into account the value of the insured object, the imbalance of the insurance portfolio, fluctuations in the insurer’s performance in order to transfer part of the risk to the partner [12].

The role of reinsurance in ensuring the financial stability of the insurer is as follows:
- allows to form a more balanced insurance portfolio;
- reduce the risk of losses incurred by the insurer from insurance operations;
- helps increase the insurer's ability to enter into insurance contracts with large sums insured;
- enables insurers to regulate the ratio between their own and borrowed capital without withdrawing from insurance contracts.

It is worth noting that an insurance company that reinsures almost 100% of the risk it takes on, leaving minimal or no retention of its own, is unlikely to be trusted by its customers.

Sufficiency of insurance reserves for future payments is also an important element of ensuring a high level of financial stability of an insurance company. The insurer forms different types of insurance reserves based on the specifics of the risks to be insured. The highest level of

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**Figure 1. Factors affecting the financial stability of an insurance company**

*Source: author's presentation*
financial stability of an insurer can be achieved only if the policy of insurance reserves formation is reviewed at least once a year.

Insurance companies are a powerful investment institution due to the accumulation of significant financial resources. The period between the possible payment of an insurance claim and the payment of the insurance premium by the insured allows the insurer to effectively invest the accumulated funds to generate additional profit. A successful investment policy of an insurance company has a positive impact on the quality of services provided, reduces the cost of insurance services and provides an opportunity for the development of the insurance company.

In today’s environment, crisis management is of particular relevance to ensure the financial stability of an insurance company. The implementation of anti-crisis policy should be systematic, since the financial and economic crisis has a negative impact on all areas of business activity and, as history has shown, each subsequent crisis has more and more negative consequences.

The insurer’s management is obliged to investigate the causes and consequences of previous negative phenomena in the economy, forming short- and long-term anti-crisis strategies based on the processed information [8]. This policy of the insurance company will enable it to introduce a set of effective preventive measures in the early stages of destabilization of both the insurance and other related financial services markets (stock market, foreign exchange market, real estate market, banking market, etc.), which will allow the insurer to overcome the crisis not only quickly but also with minimal losses.

Conclusions. The study has shown that the financial sustainability of an insurance company is a set of actions aimed at maintaining a balance between the insurer’s costs and liabilities and the financial resources required to cover or fulfill them, resulting in the effective development of an insurance company despite changes in external and internal factors of economic functioning.

The financial stability of an insurance company is influenced by internal and external factors. The company’s management should pay special attention to the management of internal factors, since the company’s management has little or no ability to influence external factors. The more factors a company takes into account in the course of its activities, the higher level of financial stability it can achieve.

Among the main criteria for ensuring the financial stability of an insurer are: sufficient equity capital, optimal tariff policy, balanced insurance portfolio, a safe and effective reinsurance program, sufficient insurance reserves for future payments, an optimal program for placing insurance reserves and a high level of solvency of the insurance company.

At the same time, further research is needed to improve the financial reliability of insurance companies, their liquidity, and reinsurance to enhance the financial stability of insurers.

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