ФІНАНСИ, БАНКІВСЬКА СПРАВА ТА СТРАХУВАННЯ

UDC 368(075.8)
DOI: https://doi.org/10.32782/CMI/2024-10-12

Borisova Victoria
Doctor of Economics, Professor,
Sumy National Agrarian University

Selezen Olena
Senior Lecturer,
Sumy National Agrarian University

Zhdek Vasyl
Postgraduate Student,
Sumy National Agrarian University

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.*

Борисова В.А., Селезень О.М., Ждек В.М.
Сумський національний аграрний університет

ФІНАНСОВИЙ АНАЛІЗ СТІЙКОСТІ СТРАХОВИХ КОМПАНІЙ

У статті досліджено сутність поняття фінансової стійкості страховика, проведено фінансовий аналіз діяльності страхових компаній. З'ясовано роль фінансової стійкості для страховиків, яка є особливою, бо обумовлює важливість забезпечення високого рівня фінансової стійкості та надійності діяльності страховика. Високий рівень фінансової стійкості підприємства є одним з найголовніших завдань для управління страховою компанією. Доведено, що ключовими чинниками оцінки конкурентоспроможності страхової компанії є прибутковість, стабільність, фінансова потужність і рівень обслуговування. Проаналізовано фактори, що впливають на фінансову стійкість страховика та основні критерії забезпечення фінансової стійкості страховика. З'ясовано, що важливим критерієм забезпечення фінансової стійкості страховика є наявність збалансованого страхового портфеля, формування якого має на меті отримання максимального прибутку за мінімального ризику. Диверсифікований страховий портфель дозволяє зменшити ризик неплатоспроможності не зменшуючи очікуваної доходності. Обгрунтовано роль перестрахування для забезпечення фінансової стійкості страховика. Проаналізовано інвестиційну діяльність страховика для нагромадження значних фінансових ресурсів. Період між можливим здійсненням страхової виплати та сплатою страхувальником страхової премії дає можливість страховику ефективно інвестувати акумульовані кошти для отримання додаткового прибутку. Успішна інвестиційна політика страхової компанії позитивно впливає на якість надаваних послуг, дозволяє зменшити вартість страхових послуг та дає можливість для розвитку страхової компанії; запропоновано напрями подальших досліджень. Наведено основні критерії забезпечення фінансової стійкості страховика, зокрема: достатня величина власного капіталу, оптимальна тарифна політика, збалансованість страхового портфеля, наявність безпечної та дієвої програми перестрахування, достатній розмір страхових резервів для здійснення майбутніх виплат, оптимальна програма розміщення страхових резервів та високий рівень платоспроможності страхової компанії.

Ключові слова: *фінансовий аналіз, фінансова стійкість, страхова компанія, фінансові показники діяльності страховика, критерії забезпечення фінансової стійкості.*

Statement of the problem. The role of financial stability for insurers is special, because when selling an insurance service, the insured pays an insurance premium to the insurer and expects that in the future, upon the occurrence of an insured event, the insurance company will fully or partially cover the losses incurred. This feature of the insurance business makes it important to ensure a high level of financial stability and reliability of the insurer's operations. A high level of financial stability is one of the most important tasks for the management of an insurance company, since the level of financial stability will determine the ability of the insurance company to fulfill its obligations.

Analysis of recent research and publications. The theoretical foundations of financial stability of insurance companies and financial analysis of their activities, factors influencing this element of financial condition and criteria for its ensuring have been studied by many Ukrainian and foreign scholars: Balytska M. [9], Bikteubayeva A. [6], Chiaramonte L. [2], Dossayeva A. [6], Dreassi A. [2], Hammadi A. [4], Haitham F.N. [4], Jondelbayeva A. [6], Khalaf K. [5], Kulustayeva A. [6], Lacher A. [11], Langen V. [8], Nobanee H. [5], Nurmagambetova A. [6], Paltrinieri A. [2], Pfeifer D. [8], Pikus R. [9], Piserà S. [2], Prykaziuk N. [9], Schmucki P. [11], Schneider T. [11] and others.

Formation of the objectives of the article (task statement). The arm of the article is to conduct a financial analysis of insurance companies' activities; to study the main factors affecting their financial stability and to determine the features of achieving its high level.

Summary of the main research material. The concept of financial stability of an insurer is not defined by law, but there are many interpretations of this concept. In our opinion, the financial sustainability of an insurance company should be understood as a set of actions (financial, investment and organizational) aimed at maintaining a constant balance between the insurer's costs and liabilities and the financial resources required to cover or fulfill them, resulting in the effective development of the insurance company despite changes in external and internal factors of economic functioning [1].

Based on the characteristic features of the activities of insurance companies, there are two aspects from which the financial stability of the insurer can be assessed, namely

– financial stability of the insurance company as a legal entity engaged in business activities to provide services;

– financial stability of an insurance company in accordance with the requirements for insurance companies as financial market participants.

The financial stability of an insurance company as a legal entity is based on an effective ratio of equity and debt in the structure of the financial resources of the insurance company, which is able to ensure the required level of solvency and liquidity [2].

The financial stability of an insurance company in accordance with the requirements for insurance companies as financial market participants is to create a structure of financial resources of the insurance company that would ensure the formation of an appropriate ratio of regulatory and actual solvency reserves, required reserves, authorized capital and compliance with other legal requirements for this type of financial activity.

On the one hand, insurance is currently a means of ensuring the welfare of the population and serves to protect legal entities from possible risks, and on the other hand, it is a commercial activity aimed at generating profits by placing temporarily available funds.

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 1

Changes in the composition of insurance market participants in 2022

The number of insurers in SRFI	01.01.2022		01.03.2022		01.09.2022	
	SRFI*	licensees	SRFI	licensees	SRFI	licensees
In total, of these:	156	144	145 (-11)	142 (-2)	140 (-5)	140 (-2)
Non-life	143	131	132 (-11)	129 (-2)	127 (-5)	127 (-2)
Life	13	13	13	13	13	13

*SRFI – State Register of Financial Institutions

Source: compiled from official reports of the National Bank of Ukraine [7]

Table 2

Results of the Ukrainian insurance market in 2023

Indicators	1 quarter 2023	2 quarter 2023	9 months 2023	2023
Number of insurance contracts concluded for the period, thousand units	20,229	40,775	73,353	94,821
Assets on the balance sheet	70,480	70,780	73,399	74,335
Assets defined in Article 31 of the Law of Ukraine "On Insurance"	54,516	54,579	55,865	56,292
Amount of paid authorized capital	6,472	6,298	6,202	5,956
Formed insurance reserves	41,329	42,482	44,888	46,781
Gross insurance premiums, of which:	10,116	21,355	34,142	47,015
from individual insurers	6,110	13,036	20,952	28,755
from reinsurers	224	495	737	1,057
Gross insurance payments, of which:	3,840	7,818	12,027	16,867
individual policyholders	2,037	4,162	6,458	9,151
reinsurers	81	80	103	134
Level of gross payments, percent	38	37	35	36
Net insurance premiums	9,915	20,895	33,438	46,011
Net insurance payments	3,793	7,744	11,923	16,736
Level of net payments, percent	38	37	36	36
The amount of insurance payments due to reinsurers, of which:	1,379	2,437	3,684	4,650
to non-resident reinsurers	1,178	1,978	2,980	3,647

Source: compiled from official reports of the National Bank of Ukraine [7]

rapid growth, this product has not yet recovered from the decline in 2022.

The retention rate remained stable in 2023. Although the volume of insurance premiums ceded for reinsurance decreased in the fourth quarter, it was commensurate with the decrease in gross written premiums.

The management of an insurance company should strive to achieve the lowest possible level of insurance claims, which in turn is an important factor influencing the financial stability of the insurance company. It is influenced by a number of factors that may have both external and internal sources. An insurance company cannot be resistant to all factors, so the level of its financial stability depends on the number of factors to which it is resistant.

The grouping of factors affecting the financial stability of an insurance company is shown in Figure 1.

Factors affecting the financial stability of an insurer can be divided into internal and external. External factors include those caused by the external environment, which, according to the figure, include economic, social, psychological, and environmental factors. We believe it is appropriate to add political factors to the above grouping of external factors, as they can also have a significant impact on the activities of insurance companies. In an unstable political situation in the country, investment activity may deteriorate, which in turn may slow down the development of insurers.

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

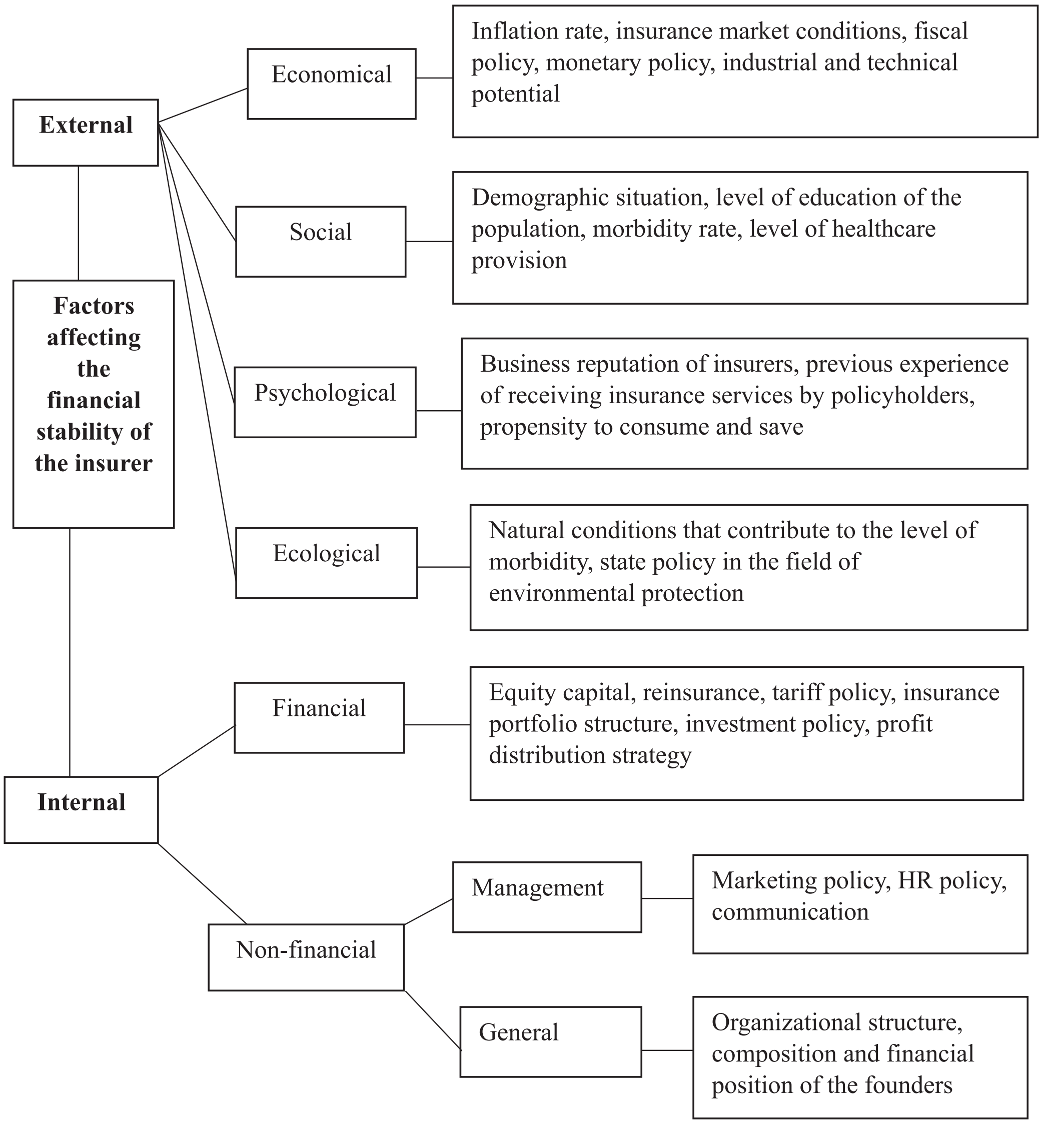

Figure 1. Factors affecting the financial stability of an insurance company

Source: author's presentation

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 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.

REFERENCES

1. Borisova V., Samohkina I., Rybina L., Kobzhev O. (2019) Formation of the Environmental Insurance System to Improve the Environmental Safety of the State: the Case of Ukraine. *International Journal of Ecology & Development*, vol. 34, is. 1, pp. 127–140. Available at: http://www.ceser.in/ceserp/index.php/ijed/article/view/5988

2. Chiaramonte L., Dreassi A., Paltrinieri A., Piserà S. (2020) Sustainability Practices and Stability in the Insurance Industry. *Sustainability*, no. 12(14). DOI: https://doi.org/10.3390/su12145530

3. Forinsurer. Insurance in Ukraine. Available at: https://forinsurer.com/

4. Hammadi A., Haitham F. N. (2020) Sustainability and Corporate Governance: a Mini-Review. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3539058

5. Khalaf K., Nobanee H. (2022) Sustainability and Performance in Insurance Companies. Available at: https://www.researchgate.net/publication/358395122_Sustainability_and_Performance_in_Insurance_Companies

6. Kulustayeva A., Jondelbayeva A., Nurmagambetova A., Dossayeva A., Bikteubayeva A. (2020) Financial data reporting analysis of the factors influencing on profitability for insurance companies. *Entrepreneurship and sustainability*, is. 7, pp. 2394–2406. DOI: https://doi.org/10.9770/jesi.2020.7.3(62)

7. Official website of the National Bank of Ukraine. Available at: https://bank.gov.ua/

8. Pfeifer D., Langen V. Insurance Business and Sustainable Development. Risk Management 2021. DOI: https://doi.org/10.5772/intechopen.96389

9. Pikus R., Prykaziuk N., Balytska M. (2018) Financial sustainability management of the insurance company: case of Ukraine. Investment Management and Financial Innovations. Available at: https://www.businessperspectives.org/index.php/journals/investment-management-and-financial-innovations/issue-298/financial-sustainability-management-of-the-insurance-company-case-of-ukraine

10. Radchenko N., Rubtsova N., Chkan I., Yakysheva I. (2019) Methodical Approaches to Implementation of Financial Bank Stability. In: Nadykto V. (eds) Modern Development Paths of Agricultural Production. Springer, Cham. P. 547–559.

11. Schneider T., Lacher A., Schmucki P. (2024) Areas of action the insurance industry. Sustainability in the insurance business. 14 p. Available at: https://assets.kpmg.com/content/dam/kpmg/ch/pdf/sustainability-in-the-insurance-business.pdf

12. Sustainable finance in the insurance sector. (2020). Available at: https://www.comarch.com/finance/articles/sustainable-finance-in-the-insurance-sector/