

THE ANALYSIS OF PROFITABILITY OF INSURANCE OPERATIONS ON THE BASIS OF DISTRIBUTION OF EXPENSES

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Keywords: efficiency of insurance company activity; the characteristic of financial results; profitability of insurance operations; structure of expenses for the insurance organization; management of investment and insurance income; profit.

Specific features of formation of total financial result of the insurance organization are investigated. The insufficiency of traditional use of absolute indicators with the view to analyze the efficiency of insurance activity is revealed. The creation of the unified system of relative indicators of profitability and the financial factors estimating level of profitableness of insurance operations and defining ability to support long-term financial stability is suggested.

The efficiency of an insurance company activity first of all is characterized by absolute indicators which concern income, expenses and profit. However studying one absolute indicator, including absolute profit becomes insufficient for management efficiency measurement. In the conditions of the increased requirements of insurance theory and practice there is a requirement to widen the application of a complex of relative indicators, which can lead to full check and update of the actions of an insurance organization.

In Russian economic science there is no system of obligatory indicators characterizing the efficiency of insurance business as an independent sphere of enterprise activity, which allows to compare the efficiency of capital investments in insurance to any other sector of economy.

By the means of profitability factors management efficiency is measured by resources and organization income and its ability to maintain long-term financial stability. The general indicators here are the following: profitability of manufacturing, profitability of production (works, services), profitability of commodity line, profitability of sales, and profitability of the capital.

Economists have developed special indicators characterizing the profitability of insurance operations, namely: profitability of insurance operations, profitability of the type of insurance, profitability of sales of insurance services (insurance gain), profitability of insurance activity taking into account the income on investment (see table).

Besides the ambiguity of interpretation of the indicators of profitability, the question of the structure of insurance company expenses also demands methodological approach as the specification of insurance expenses will allow to state the most exact estimation of their efficiency. Thus cumulative expenses of the insurance organization include the expenses on business conducting, the administrative expenses, the expenses connected with insurance payments and with the change of insurance reserves. The use of such generalized indicator of expenses in a greater degree corresponds to the standard approach to financial reporting regarding the disclosure of the expenses occurred due to the change in insurance reserves and insurance payments, but in a smaller measure it reflects the efficiency of expenses of the insurance company on granting insurance services.

Therefore foreign insurers analyze the indicator of profitability of the capital, based only on the results of insurance operations, excluding the return on investment.

In connection with the ambiguity of treatment of the indicator of profitability of the insurance organizations noted above, and also for the comparison of activity of subjects of the insurance market, it is required to use the set of the financial factors adequately characterizing the results of insurance operations. In the world practice the efficiency of insurance activity and the ability definition to maintain long-term financial stability is measured by the system of factors of profitability and a number of the factors of the

* Natalia N. Kalashnikova, PhD in Economics, associate Professor of Balakov Institute of Economics and Business, subsidiary of Saratov State Social and Economic University. E-mail: bfgseu@balakovo.san.ru.

Interpretation of indicators of profitability

For insurance activity	For other commercial activity
Profitability of insurance activity = Income of insurance operations / Insurance award for the period Reflects the efficiency of insurance activity in relation to the return on insurance operations. The negative result on life insurance is connected with the performance of obligations at the expense of the investment income; on other types of insurance due to the increase in losses or understating of tariffs and the growth of investments efficiency	Profitability of sales= Net profit / Receipt Shows The size of the net profit (loss) of the enterprise on one ruble of sale of production. The negative result on the usual kinds of activity indicates irrational organization of production demanding the revision of price policy, the expansion of commodity markets, the decrease in expenses and the increase of capital turnover speed
Profitability of certain types of insurance = Income of operations by the form insurance / Insurance award Represents the greatest interest within the limits of a particular insurance company and the estimation of structure of an insurance portfolio. The analysis of the results in dynamics forms the basis for making administrative decisions on the revision of tariffs or the structure of insurance services	Profitability of a commodity line = Profit on service sale / Full cost price of service Reflects the volume of the income received on the industrial expense for rendering a service. In case of positive result it is considered the best maximum value, the negative result demands the revision of the enterprise strategy
Profitability of insurance concerning investment income = Profit on insurance operations + Income of investments / Insurance award Characterizes the efficiency of investment and insurance activity taking into account covering the negative technical result from insurance operations by the means of return on investment or the general efficiency of the insurer with positive financial result	Profitability of manufacture = Idle profit / Working capital Cost is the general measuring instrument of level of fixed capital and current actives of the enterprise efficiency in relation to the balance size of net profit. Shows the share of the received profit per one ruble of cost of the core and circulating assets
Covering the loss of insurance activity = (Income of investments - Expense from investments) / Loss from insurance operations Reflects a parity of the investment income and the size of negative technical result on insurance activity which should be covered at the expense of profit on investment operations	Profitability of the general investments = Profit to the taxation / (Long-term obligations + Own capital) Shows the efficiency of use of the invested means by defining the received income per one ruble of investments.

losses authentically estimating level of profitability of the interrelated insurance operations.

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