

FACTORS WHICH GENERATE THE PECULIARITIES OF THE MANAGEMENT IN INSURANCES

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ABSTRACT: *This article presents some considerations concerning the management in insurances. There are presented peculiarities of the management in insurances, making the difference between the compulsory insurances and the optional insurances. There are pointed the organizational measures taken by insurance companies, stressing the random nature of the damages, the specific types of insurances such as goods, persons, third-party liability.*

There are mentioned: the conditions which the manager has to fulfil, the means by which he can avoid the bankruptcy of the company, those modalities which permit to obtain profits for the company, the investment on the money market of those funds which are not immediately necessary for paying the damages towards the insured, the constitution of a solvency margin, meaning redundancy included in tangible assets which have to be maintained permanently. There are distinguished factors which generate the specific of the management in insurances, being insisted over the juridical form of the insurance thru the effect of the law or optional.

KEY WORDS: *damages, insurances, insured, insurer, investments, management, risks, solvency margin*

Economical-financial operation, the insurance is prefigured by law and is represented through a contract in which the insured commits himself to pay an insurance in exchange of which the insurance company guarantees and commits itself to pay compensatory finances or insured amounts in the case of production of an event with consequences over the insured. Both the insurances and reinsurances represent a complex system which contains beside personal insurances, goods insurances, third-party liability insurances, foreign insurances and reinsurances in currency and other insurances like those regarding welfare, health, and lay-off.

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The shapes of juridical achievement and the coverage domain of the insurances had known a continuous evolution especially in the regulation system of compensation of the damages produced by casualties or accidents.

The way in which an insurance company is organized and managed is strongly related to the requests of the national and international insurances and reinsurances market.

Besides the factors which are common for all activity domains, in insurances interfere specific factors which determine the way of organization and management of the insurance activity.

The management in insurances has to provide optimal conditions for:

- the formation on time and in the predicted amount of the insurance fund;
- the operative granting of the compensations and the insured amount which is the right of the insured when the insured risks are produced;
- the continuous adjustment of the insurance forms (optional or compulsory): goods insurance, personal insurance, third-party liability insurance, at the demands which appear on the insurances, reinsurances, national and international market.

In the compulsory insurance case, the management is different to the optional insurance. In the first case there are imposed measures concerning the creation of the conditions for the collection of the insurance in legal term and the quick evaluation of the damages or for the establishment and payment of the insurances and compensations. In the second case, the management follows the realization of an optimal dispersal of the risks, the streamline of the insurance contracting activity and insurance collect, also a correct evaluation of the damages and quick establishment of the compensation. The insurance society, before contracting the insured but also after, has to have as objectives organizational measures as:

- the examination and analyze of the economical, social, and financial intern and international conditions;
- the insurance contracting has to be based on each person's situation;
- an own marketing strategy regarding the improvement of the insurance society's image;
- the correct evaluation of the risks;
- the knowledge of the economic situation of the insurable person.

The existence of *the random character of the damages*, of which volume cannot be estimated but approximately, implies the necessity of effecting some calculations presume the existence of an informational system which performs the calculation, establishes the frequency and intensity of the risk and determinates the introduction of new forms of optional goods, persona, and third-party liability insurances.

Through legislation or through insurances contracts, the insurance societies assume responsibilities for covering damages. In insurances, the risk is much more present then in other domains; the production of it influences the financial situation of the insurance company.

Besides the *technical risks* (the risk of error - the tariffs for bonuses are insufficient to cover the value of damages; the deviation risk - the evolution of

damages and assurance's costs are different from the initial calculi of the assurance bonuses; the evaluation risk - the technical reserves of bonuses do not permit the total acceptance of the obligations assumed by the mean of the contracts of assurance closed; the risk of exploitation expenses - the assurance made on long term do not cover the expenses for creating and using the assurance fund; the risk of major damages - influences the financial balance of the assurance society; the risk of excessive uncontrolled and uncoordinated growth of the activity; the risk of catastrophe - the accumulation of large damages as consequence of natural phenomena occurrence; the risk of liquidation - the society's funds value is below the level of the obligations towards third party), it can also appear *investment risks* (the risk of devaluation, the risk of liquidity, the risk of interests, the risk of over evaluation) and *other risks* (the participation risk, the managerial risk, the general business risk, the risk due to the losses of some third party person, the risks regarding the guarantees given in favor of third party persons).

In the case of *goods insurances*, the management has peculiarities based on the kind of goods, which impose themselves in the activity of finding and evaluation of the damages, but also of establishment of the compensations and the presence of specialized staff (agronomist engineer, constructor engineer, mechanic engineer), beside economists [2]. Also for the insured and for the insurer, the management of the risks is important because it has to be identified exactly the insurance paid to the insured.

The insurance can be paid off in advance and fully and in the case of goods [5] insurances, the insurance companies difference the insured goods in risk classes making distinction for example for real estates between urban and rural areas, building materials and security measures.

The computerization of the operations regarding the setting down of the data, the volume of the paid insurances, eventual redeemed amounts, reduced insured amounts or loans received from the insurer, proves its efficiency in the case of *personal insurances*. Because the evaluation of people is not a matter, it is not necessary, in the case of personal insurance, a compartment in charged with establishment and evaluation of damages. The insurance companies which take care of this sort of insurance are obligated to administer different accounts and to manage separately those funds [1].

In the case of life insurances there are followed: family protection, financial independence in children's study period, maintenance of the security in business interest, the insurance of a financial compensatory fund in case of diseases or an expense fund in case of decease. Life insurance [4] is a way of financial protection, a contract between the insurer and insured being a benefit for the client that he benefits of all the money he contributed with at which is added an interest.

Regarding the third-party *liability insurances*, these cover the prejudice produced by the insured to a third person. The insurance society commits itself to pay compensation for the prejudice for which the insured is responsible based on the law. So, third-party liability insurance, according to articles 998-1003 from Civil Code [7], allows that the affected person receives the compensation or/and the proper insurance, and the insured is not juridical followed for the prejudice in exchange of his insurance.

Territorially, the insurances are intern and extern. In the case of intern insurances, the management is conditioned by the specific of the country and the economic and financial situation of the possible insured. In the case of the extern insurances, in the realization of the insurance are taken into account the possibilities of the offers from the international insurances and reinsurances market through direct and systematic prospect. The realization of this activity presumes the existence of some particular agencies abroad or documentation of the local insurance company agents on the extern market.

The sizing of the management in extern insurances is related to a good knowledge of the economical politics of external trade of the country.

In order that the insurance and reinsurance activity evolves efficiently is necessary that between the collections and payments to be maintained a permanent balance whose realization requires that the insurer incomes from insurances allows the cover of the expenses of the compensation payments and insured amounts within intern insurances, of expenses regarding the insurances and reinsurances in currency, of expenses regarding the construction and management of the insurance fund and also the gaining of a certain profit.

The financial and currency balance of the insurances is based on insurance society's budget which is, on the one hand a prognostic, management, analyze and control tool of the insurance activity, and on the other hand a tool used in the realization of the financial-currency insurance's balance.

The sizing of the funds which an insurance society can constitute, presumes the existence of different accounts for life insurances, meaning different management of afferent funds.

The insurance of the optimal conditions for the management in insurance concerns [6]:

- the construction in time and in predicted quantum of the insurance fund;
- the quick payment of the compensations and the insurances which are the right of the insured when the insured risks produce;
- the continuous adapting of the forms of goods insurances, personal insurances and third-party liability insurances, at the requirements that appear on the insurance and reinsurance intern and international market.

So there are created the premises for the insured to be able to get over the negative effects of accidents or natural disasters.

The management in insurances implies:

- the coordination of all the activities meant to put the agents in contact with the right clients at the right time;
- the leading of all insurance agencies through all the seven functions of an agency (market research, identification of insurance necessities of the clients, preparation of the offers, presentation of the offers, contracting).

The management is fulfilled in good conditions only through the art and *intuition of the manager*. The manager [8] is either an individual or legal person which has to prove experience, professionalism, the capacity and potential of the team that he leads, team which has to define in all its activities the objectives in condition of the law.

Managers can be Romanian or a foreign person which:

- have experience officially proved;
- favourable professional references;
- do not have criminal convictions;
- do not own stock holdings at companies with similar activity.

Insurance societies own a large amount of funds which can be invested on the money market. A good manager has to know the peculiarities of the money market, its principles, the innovations and financial tools recently appeared.

The variations of the interest rate, inflation rate, the evolution of the money market and capital market can affect the available capital and the results of the insurer.

A good manager can invest on the money market the funds that are not immediately needful for the payment of the compensations or for expenses taking into account that an insurance company always needs cash.

In investments the income can be obtained from multiple sources. The most stable is the income from investment in form of interests, dividends and stock holdings, real estates and other assets owned as investments.

Other sources are represented by gaining from cession, which results from the sale of a stock holding at a higher value than the acquisition price, also higher than the gaining or losses of capital from re-evaluation, which results when the market value of a stock holding grows over the acquisition price but the stock holding is not cession.

Some insurers can invest in treasury bills that do not involve credit risk and can be easily transformed in cash with minimum losses.

In any moment the insurance companies have to be able to honour their obligations taken through insurances contracts. An insurer is solvent when his cash is higher or at least equal with his debts.

The legislation demands to each insurance company to create a solvency margin and an overflow included in cash which have to be permanently maintained.

In insurances and reinsurances is necessary the promotion of a professional code of laws based on honesty and trust between the insurer and the insured at the contracting, also on respect of the promises that the insurance products are intangible and in the case of eventual financial losses the insured is compensated.

Generally, each insurance company has to respect the three principles of the ethic behaviour: the utilitarian principle, the respect of the rights principle and the justice principle.

In conclusion, the factors that generate the specific of the management in insurances are:

- the random character of the risk;
- the juridical type of the insurance (compulsory or optional);
- types of insurances (personal, goods, third-party liability);
- territory (intern and extern);
- the quantum of the insurances funds.

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