

# METHODOLOGICAL ISSUES FOR EVALUATING THE EFFICIENCY OF MANAGEMENT OF INSURANCE COMPANY

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## ABSTRACT

The paper considers the possibility of using a systematic approach to performance appraisal practice management. The author clarifies the content of management, discloses goals, objectives, efficiency of management units from the position of the achievement of goals by owner of an insurance company.

## JEL CLASSIFICATION & KEYWORDS

■ M10 ■ G22 ■ Management ■ Insurance company ■ Goal ■ Efficiency ■ Systematic approach ■ Evaluation of efficiency

## INTRODUCTION

Our research, conducted within the insurance segment of the economy of Uzbekistan indicates that the overall management level of this stage of development of the insurance community is characterized by the following main characteristics: on one hand - the insufficient level of entrepreneurial culture and the orientation of the owner of an insurance company over the current interests of the insurance business, rather than on long-term strategic installations (mainly used targets can be described as an orientation for survival) and the other - poor orientation of the management to the interests of the owner in the short and long term (as if there is management itself, and the owner itself). The situation is aggravated by lack of awareness of senior management on advanced management technologies and tools, as well as the lack of general methodological approaches (formed on the basis of bench marketing) in the branch level which allow to improve the local management schemes based on the stage of development of any insurance organization.

### Main prerequisite of research

From our standpoint, the most important questions of the methodology of systems approach using in valuation practice of the management of insurance companies is problematic of system-forming unit to which the following conclusions of Anokhin P.K. (galactic.org.ua.) "Combines the resulting block relationship between goals and results".

A poll conducted by us among the top management of insurance companies of Uzbekistan with different ownership forms, illustrates that the managers themselves in different understandings of the content of the final result. Some believe that this is the maximum possible amount of insurance contracts concluded (policies), others - profit, others as incomes of workers and owners (or owners only: because the employee receives a salary according to staffing). Unclear understandings of the essence with the final result generates carelessness in strategic objectives. Also, neglecting the question: Who defines these goals and results?

It is worth emphasizing that there is no common understanding of final result of the management among researchers of the insurance market. Thus, criticizing the well-established in economic literature, the view that profit is a major target of commercial insurance companies, Kurgin E.A. believes that, in broad terms, the economic purpose of insurance management is to maximize insurer's value. This involves obtaining long-term profit, the potential growth of

insurance operations, affordable insurance risks in respect of assessed insurance premises, increase the market value of shares and stable dividends of its while fulfillment by the insurance company its liabilities. He rightly notes that the goals of an insurance company is formed by its owner. As for management, "in the process of organization the insurance management must to implement at least three major goals - to achieve high profitability, enough liquidity and security of insurance operations" (Kurgin, 2005)

As we see in this definition of the purpose of management there is some contradiction which shows that, by nonidentity of legal status of the management subjects in respect of ownership the owner and management of insurance company form the distinct goals. Moreover, if the owner puts the goal to maximize the final result of these economic conditions, the management aims to ensure the implementation of measures for achieving these goals. In practice, the situation can be observed when for the purpose of the development the owner of "sacrifices" with his current profit to create conditions for a stable long term profitable activity. In the insurance practice, this is clearly identified in cases when one or another insurer approaches untapped segment of the insurance market or introducing new types of insurance products.

Moreover, the divergence of ownership's and management's goals are linked not only with a different legal status forin respect of the rights to the final product. The fact that the process of achieving of the owner's goals - not a one-time process but the process associated with the life cycle of an insurance product. Its effectiveness is stipulated by realization of the partners', employees', insurance companies' interests, the quality of the resource base and the characteristics of the consumers of insurance services. At the same time management stands to harmonizing principle which links the interests of the owner and the interests of other participants in the insurance relationship (Tronin, 2006).

Consequently, the management system is to provide a strategy / tactics of insurance company in the optimal range that ensures the stability and feasibility of inter-related interests of the founders, staff and customers of the insurance company.

### General approach to the assessment of the management effectiveness

The consistency of the management system is related with the nature of the internal relationships of its components. Because of this, management will also aim to ensure harmonious internal relationships, consistency of effectiveness of many in-house subsystems (as its components) through the establishment of goals for each of them, methods to achieve them, control of possible deviations from the parameters for their functioning and development (Nikolenko, 2007). In this case the components of the management system may include the following subsystems: Strategic Management, Risk Management, Personnel Management, Financial Management, Marketing Management, Information Management and Claims Management.

Table 1: Insurance company's management subsystems' effectiveness

Subsystem	The Subject of goal-setting	The Subject of Management	Objective	Product	Result
Strategic management	Company owner	Senior Management apparatus	Performance of the strategy and mission of the insurance company for forecast and current periods.	Performance criteria for the current and long-term period; Highly qualified senior management personnel; Quality Management System (QMS); Personnel motivation policy; Intra corporate culture policy; Management structure, form of the relationship of the structural units, hierarchy of subsystems; Insurance services sales policy; Investment policy; Formation and distribution of income Policy	Winning and long-term positioning of the company; Achievement of strategic goals; Current competitiveness of the company; High external and internal performance indicators of the company.
Personnel management	Company owner, Senior Management apparatus	HR manager	Formation of personnel and Human resources	Low staff turnover; Optimal performance; Positive psychological climate; Compliance of labor laws (no violations).	Claims minimizing in customer service; No violations of labor law and internal regulations, and internal work culture.
Financial management	Company owner, Senior Management apparatus	Financial officer (FO), Chief accountant	Control of cash flow ; Financial provision of the stable activity; Effective relationships with the budget and timely settlements with partners; Cost minimization for the maintenance of the structural units and formation of cash resources for the performance of the current and strategic goals	Financial reporting forms; Units' budgets; Financing of activity and development program.	The optimal financial performance; Stable financial position; Effective costs financing; Absence of claims by the supervisory authorities to conduct the financial statements.
Risk management	Company owner, Senior Management apparatus	Risk manager, underwriter	Implementation of the adopted risk policy.	Underwriting calculations; Calculations of optimal insurance portfolio; Retention policy (reinsurance activity); Consistency of assets and liabilities.	The optimal insurance portfolio; Stable performance of insurance Activities.
Investment management	Company owner, Senior Management apparatus	Financial officer (FO), Risk manager	Preservation and profitability of financial resources.	Investment policy; Investment tools.	Optimal investment portfolio; Additional income from investments.
Marketing Management	Company owner, Senior Management apparatus	Sales director, sales managers	Organization and development of networks and distribution channels; Advertising - News promotion.	The results of demand research, changes in the competitive and market environment, evaluate the consumers response; The development, improvement of the design of insurance products; Insurance products and Company's positioning policy	Customer satisfaction, increase sales; Long-term positioning in the market.
Claims management	Company owner, Senior Management apparatus	Claim manager, lawyer	Settlement of insurance claims. Subrogation..	Analysis and control of undesirable trend, which may eventually lead to deviations, which indicates a lack of insurance products.	Increased customer satisfaction. Competitiveness and corporate image. Optimal loss ratio of insurance operations.
Information Management	Company owner, Senior Management apparatus	Information manager.	Effective information exchange; Automation of operations managers and performers.	Optimal IT architecture and clarity using of computer; The completeness of technical documentation regulating the activity of the company.	Information support management decision-making; Formation and storage of databases; The absence of failures in computers and means of communication, timely publication of information on websites.
Management support activities (infrastructure)	Company owner, Senior Management apparatus	Head of maintenance department, Division of Labor and Technical Security department	Maintaining standards of sanitation and hygiene in the workplace. Optimal allocation of labor, sufficient means of production of the office and industrial buildings.	Repair work premises; Maintenance of premises, carry out the necessary measures to protect the health and safety.	Working design, rational organization of labor; Fire prevention and safety in accordance with approved standards.

Source: Author

Decomposition of the owner's target in the management components can be expressed in the Table 1.

Formation of each above mentioned subsystem is subordinated to system-wide principles and specific basics of insurance activity. The effectiveness of the overall management system can be evaluated by range of indicators reflecting the level of achievement of these goals. In our opinion, their construction is related with the position of the owner to have criteria that can provide an opportunity to assess the dynamics of the overall level of management.

For their formation, from our point of view can be used the calculation procedure of synthetic indicator which calculated as the sum of the criteria defined by us as indicators of overall performance and internal efficiency. These figures are for a single dimension, necessary for calculating generalizing synthetic criteria (calculated on the basis of methods quality control).

The first group we assigned mainly statistics and estimates: the profitability of insurance operations at the established value of loss ration, the level of segmentation of the insurance market, the amount of capital, the size of the branch network, consumer complaints on the quality of insurance services, the profitability of investment activity and performance indicators established by State Insurance Supervisory Authority. These criteria are supplemented by internal indicators, which can be grouped in forecasting performance, motivation, coordination and adaptation, which are the quality indicators defined by the socio-economic methods, which capable to the measurement and numerical expression.

Due to the fact that it is impossible to offer a standard or typical performance management and their weight content for all insurers by different levels of development and quality of human resources, start-up capital and depended on the management technologies, the author proposed a general approach to evaluating the effectiveness of management, providing a series of successive steps:

1. Evaluating the significance of internal and external performances relative to their maximum possible significance (the proportion of 1), depending on the importance of these criteria for a particular stage of company development.
2. Each of the criteria is ranked in the figures, which are assigned the maximum weight. In the case of violations of the generated schema and management processes the scores for each criteria with respect to their maximum values are reduced. In this case we can always compare the maximum possible and the actual level of general efficiency criteria, which would indicate the level of company management.
3. Calculation of generalizing synthesis efficiency criteria. Overall assessment of the level of management is as the sum of maximum scores for internal and external performance criteria and the difference between the values by the following formula:

$$ME = MS1 - EC + MS2 - IC,$$

ME - the total amount of points of management effectiveness.

MS1 - the maximum score on external criteria.

MS2 - the maximum score on internal criteria.

EC - the value of reduction in scores on the external indicators.

IC - the value of reduction in scores on the internal indices.

## Conclusion

Methodological approach to the construction of the system of assessment the level of management based on their quantitative measurement techniques on the basis of quality control methods considering the establishment of critical points of effectiveness. The overall score is expressed as the sum of scores of internal and external criteria, taking into account the reduction factors.

Establishing evaluation index weights - the prerogative of the company's management, which takes into account all the factors of its internal and external operating environment. The composition and dimension deviations, their weight will depend on the level of general management philosophy a specific insurance company, qualifications of senior management responsible for the scoring of the indicators the strategy of the insurance company formed by its owners.

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