



FINANCE OF INSURANCE ORGANIZATION

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Abstract:

Different levels of insurance tariff in each life insurance contract or calculate and set the rate of return independently for each contract. Profitability standards for life insurance classes should be strictly defined, and changes to its tariff rates should be made in agreement with the authorized body of the state. In insurance organizations, the basic income and expense account differs in its specificity. The total amount of money received in the account as a result of carrying out insurance, engaging in other activities not prohibited by law is considered as its income.

Keywords: Insurance Company, Finance, Insurance Policy, Insurance Payment, Insurance Risk, Insurance Income, Insurance Expense, Insurance Company Profit, Insurance Event, Insurance Loss, Insurer's Equity, Insurance Reserves, Unearned Premium Reserve, Technical Reserves, Loss Reserve.

There are different options for grouping the income of an insurance company. Among them, according to sources, the option based on dividing the received income into three groups is widely used:

a) income from insurance activities. Income from insurance operations is the main source of the insurer's income.

The main part of these revenues is formed at the expense of premiums collected under insurance contracts. The composition and structure of the portfolio of insurance obligations, tariff policy, marketing strategy and a number of other factors influence the amount of premium income of the insurance organization. For example, a developed marketing strategy cannot be implemented without a corresponding tariff policy, in turn, a successfully implemented marketing strategy ensures the balancing of the insurance portfolio and vice versa. □□

The premium income of the insurance organization is affected by the market conditions, the rate of inflation, the regulatory legal framework, the current taxation system, the level of monopolization of the insurance market, the dynamics of the loan percentage, the state of social protection in the country, and a number of other factors. Regardless of the influence of the above-mentioned factors, in practice, an increase or





decrease in the flow of premium income of the insurance organization is observed. In accordance with the mutual agreement, the insurance organization assumes responsibility for a certain share of the insurance risk. In the process, he can also earn from the transfer of a suitable part of the insurance premium to his account through the mechanism of co-insurance of insurance operations.

Another source of income for the insurance organization is to collect a share of premiums through participation in the reinsurance system. The size of this share depends on factors such as the level of development of reinsurance, the demand for it, the professional maturity of reinsurers, the scale of the primary insurance market, and the size of insurance risks.

If the insurance organization has the right to carry out reinsurance, it also collects its share of loss coverage for the risks transferred to reinsurance in accordance with the terms of the contract in the event of an insured event.

An insurance organization can also act as an intermediary. For example, in the process of transferring the risk to reinsurance, the insurer collects a brokerage fee. In some cases, the insurance company may also earn commissions and brokerage incentives by transferring the risk to another insurer .

In an equal share reinsurance contract, provision for royalty payments to the reinsurer is a form of the insurer's own share in the reinsurer's profits.

b) income from investment placement. This activity of the insurance organization is not directly related to insurance activity. The possibility of investment placement of the insurer occurs at the expense of insurance premiums. Generally, the insurance premiums are invested in income assets during the period of the policy holder's possession, based on the applicable regulatory provisions, which will generate investment returns for the insurer. In terms of investment options, long-term life insurance stocks are more beneficial.

The composition of the insurance organization's income from investment activities:

- interest on bank deposits;
- dividend interest from shares;
- income from securities;
- will consist of income from real estate.

An important aspect of this activity is that the insurer pays its customers bonus payments from the resources they receive from investment placements.

In countries with developed investment markets, the insurer's income from this activity provides an opportunity to cover the losses incurred during the implementation of insurance operations on certain types of insurance.

From this point of view, the effective investment activity of the insurance organization





becomes important in the structure of its income sources.

C) other income of the insurance organization. The insurer may carry out insurance operations and receive income from other activities besides investment placement.

Sources of such income:

- interest sums transferred to the account of depot rewards;
- sums received in the recourse procedure;
- profit from the sale of fixed assets, tangible assets and other assets;
- income from rental activities;
- return sums of insurance reserves;
- fees charged for conducting training and consulting work.

The insurer's income from the sale of insurance services is mainly derived from the preparation of working papers (report forms, etc.) for its branches, advertising of their new "product". In some cases, they are formed through lease relationships. The volume of non-sales income of the insurer depends on the size of the insurance organization.

Determining whether expenses incurred to obtain non-sales income relate to insurance activities or non-insurance activities is difficult. Also, although the insurance organization does not carry out insurance on a certain type of insurance, it covers the costs of its establishment at the expense of non-sales income.

It is known that the mechanism of responsibility distribution in the process of risk transformation in insurance and between the main organization and branches (according to the balance of the final financial result or ownership of the account number) is different.

Insurance activity is a specific type of economic activity related to the compensation of the insured's losses due to the occurrence of an insured event. It is appropriate to determine the standard of scientific validity (studied, calculated, determined) of payment of coverage according to whether the insurance event will occur or not, and to pay the damage from the reserve fund of the insurance organization.

The probability of occurrence of an insured event varies from year to year. In a certain year, the number of these events may be high. It is for this year that the activity of the insurance organization may end with a loss. In case of lack of funds of the reserve fund, it is necessary to revise the rate of annual allocation to the reserve fund at the expense of the remaining income of the insurance organization. Based on statistical data, it should be noted that the insurance coverage carried out for many types of insurance is low interest compared to the amount of collected premiums. Based on this, it will be logical to change its composition, not to increase tariffs.

When concluding a reinsurance contract, it may be stipulated that the reinsurer ("cedant" in international terms) transfers a certain part or all of the reinsurance premium to the depositor. It will be transferred to the reinsurer's account at the end of the contract period and in the event of no insurance event, together with the deposit interest received from these premiums.





Its size (percentage) will be specified in the contract. Providing such a guarantee increases the possibility of using reinsurance premiums as a financial reserve.

According to the civil law, the insurance organization, as a representative protecting the interests of its client, also has the right to claim recourse against the guilty person who caused the insured event. Usually, the recourse amount is collected after the insurer has fulfilled its guarantee. The amount collected as a result of such activity is a source for covering the expenses of the insurance organization in terms of insurance payments.

The insurance organization as an economic entity has the right to sell its main funds used in its activities. Then the profit of the insurer on the activity is determined as the difference between the amount of proceeds received from the sale of the main fund and the amount of write-off at the balance (residual) value of the property. The property of the insurance organization can be leased. For example, real estate objects and fixed assets are used as rental objects in some cases. The rental fee collected as a result of this activity is also the income of the insurer.

Another source of income for the insurance organization is the amount of fees collected for training, consulting work, as well as the provision of risk management services, installation of program "products". Although these incomes are not directly related to insurance, they are formed in integral connection with it.

Studying the mechanism, composition and structure of the insurance organization's income shows that it is a unique type of activity.

Insurer's total expenditure constitutes the cost of the insurance "product" . It is regulated on the basis of current regulatory documents and is the basis for determining the composition of costs by the insurer. When determining the tax base, it is also necessary to clarify the total costs of the insurer and their composition.

The composition of the expenses of the insurance organization is also different. Expenses of the insurance organization consist of eight types, and each type, in turn, is grouped according to the main and target activities and the time of implementation of the expenses. As for the types of expenses of the insurance organization, they are divided into the following groups according to their importance:

a) costs of insurance. These costs are incurred to finance the activities of the insurer. When analyzing the activity of an insurance organization, it is appropriate to group these costs according to certain characteristics.

In accordance with the tasks defined for the use of funds in the course of the insurer's activity, in accordance with the report on the income and losses of the insurance organization, the composition of the costs of conducting insurance can be grouped as follows:

- costs of concluding and executing contracts;
- expenses on investment activity;





- management costs.

b) according to the expenses of insurance proceedings, it can be as follows:

- salary payments;

- allocations to state funds, employee training costs, advertising and marketing costs, business costs, etc.;

According to the period of occurrence of insurance costs, they can be divided into the following groups:

- expenses made in advance for concluding an insurance contract (preparation of working papers, collection of statistical data, tariff calculations, etc.);

- costs incurred during the conclusion of the insurance contract ("acquisition" in international terms);

- expenses incurred during the period of validity of the insurance contract (for example, on the transfer of risk to reinsurance);

- expenses incurred in the event of an insured event (to investigate the causes and eliminate its consequences).

1 – table Types of expenses of the insurance organization and their classification

№	Cost Types	Classification of expenses		
		Main activity according to	Purposeful activity according to	According to the implementation time
1	administrative running costs	Expenses not directly related to insurance	The contract implementation costs	The contract in the process of implementation
2	Costs of Collecting Mediation Awards	Costs of insurance transactions	Costs of contract preparation and conclusion	The contract in the process of implementation
3	Advertising and marketing service costs	Expenses not directly related to insurance	Costs of contract preparation and conclusion	The contract until the composition
4	Costs of preparing special case papers	Costs of insurance transactions	Costs of contract preparation and conclusion	The contract until the composition
5	Allocations to insurance reserves	Costs of insurance transactions	Contract performance costs	The contract in the process of implementation
6	Reinsurance costs	Costs of insurance transactions	Contract performance costs	The contract in the process of implementation
7	Investment placement costs	Expenses not directly related to insurance	Contract performance costs	The contract in the process of implementation
8	Insurance coverage costs	Costs of insurance transactions	Contract performance costs	Insurance event when it happens

Insurance administration costs can also be divided into such groups as variable related to a certain type of insurance or contract and fixed related to the portfolio of all concluded insurance contracts ¹.

international practice, the expenses of the insurance organization consist of such



types as acquisition (mass-organizational complex activities), collection (receipt of premiums for certain types of insurance in cash), liquidation (satisfaction of the requirements stated in the policyholder's application due to the occurrence of an insurance event) and management ¹.

It is more appropriate to classify the income and expenses of the insurance organization according to their place and role in the process of insurance activity. They are as follows:

- income and expenses related to provision of insurance protection (on insurance operations and investment placement);
- other income and expenses not directly related to insurance protection.

The composition of income and expenses of the insurance organization and their calculation largely depends on the norms of the national insurance legislation. Also, the income and expenses of the insurance organization are affected by the method of determining the tax base and the level of rates of the income (profit) tax paid in accordance with the current tax legislation.

Income of the insurance company and Based on the above comments on the composition of expenses, we offer the following methodology for determining it:

$$\mathbf{SM} = \mathbf{SMs} + \mathbf{SMqs} + \mathbf{O'MZo'} \quad (1)$$

Here: SM- the amount of earned insurance premiums;
SMs – sum of insurance premiums for direct insurance;
SMqs – sum of insurance premiums for reinsurance;
O'MZo' is a change in the reserve of unexploited premiums.

$$\mathbf{UNz} = \mathbf{Nz} + \mathbf{Nwt} \quad (2)$$

Here: UNz is the total net part of the damage;
Nz – the net part of the damage;
Nwt – net portion of reinsurance brokerage fees.

$$\mathbf{Nz} = \mathbf{SM} - \mathbf{SQs} - (\mathbf{SQqs} - \mathbf{SQqsq}) \quad (2.1)$$

Here: SQs – paid insurance coverage;
SQqs – insurance coverages paid for reinsurance;

¹ See: Strakhovoe delo. Textbook. Pod ed. Reitmana L.I.-M.: Bankovskii i birjevoy nauchno-konsultatsionnyi tsentr, 1992. p. 333.





TSQqsq – insurance coverages paid by reinsurers under reinsurance contracts.

$$\mathbf{Nvt} = \mathbf{VTqs} + \mathbf{VSqs} \quad (2.2)$$

Here: VTqs – reinsurance brokerage fees;

VSqs – reinsurance brokerage elections.

$$\mathbf{Tsx} = \mathbf{UNz} - (\mathbf{Load} + \mathbf{SMqsrr} + \mathbf{SQs} + \mathbf{VTqs} + \mathbf{Zm} + \mathbf{SQqs}) \quad (3)$$

Here: Tsx is the cost of insurance services.

Freight - costs of conducting insurance proceedings;

SMqsrr – calculated insurance premiums for reinsurance and retrocession risks;

VTqs - brokerage fees and brokerage fees, reinsurance premiums and fees;

Zm – funds transferred to the reserve fund.

$$\mathbf{YaD(Z)} = \mathbf{D(Z)af} \pm \mathbf{D(Z)bf} \quad (4)$$

Here: YAD(Z) – gross income or loss (before tax profit or loss);

D(Z)af- income or loss from the main activity;

D(Z)bf – income or loss from other activities.

$$\mathbf{D(Z)af} = \mathbf{Ns} \pm \mathbf{Nz} \pm \mathbf{Nvt} \pm \mathbf{Load} - \mathbf{DX} \quad (4.1)$$

Here: Ns – net part of insurance premiums;

DX - period costs.

$$\mathbf{D(Z)bf} = \mathbf{Dbf} - \mathbf{Xbf} \quad (4.2)$$

Here: Dbf – income from other activities;

Xbf - expenses incurred for the implementation of other activities.

If we dwell on the issue of introducing the mentioned method of determining the income (profit) of the insurance organization (Table 7), in this regard, there is a need to develop a new Regulation on the composition of the expenses for the organization and sale of insurance services included in the costs of the implementation of insurance work and the procedure for the formation of financial results. .

According to the proposed methodology, the amount of earned insurance premiums in the given data was 1232223.0, of which 910786.8 were direct insurance premiums,



6741.1 were reinsurance premiums, and finally, 314695.1 soums were unexploited premiums.

2-table Calculation of income and expenses of insurance organizations:

	(in soums)
(+) Calculated insurance premiums for direct insurance	910786.8
(+) Insurance premiums under reinsurance contracts	6741.1
(+) Changing the reserve of unexploited premiums	314695.1
(=) Rewards earned	1232223
(-) Paid insurance coverages	1188750.1
(-) Losses on cover payments made under reinsurance contracts	506.3
(+) Covered losses by reinsurers under contracts submitted to reinsurance	-
(=) Net portion of losses incurred	1189256.4
(+) Reinsurance brokerage fees calculated on contracts submitted to reinsurance	-
(+) Brokerage fees calculated on contracts accepted for reinsurance	840.8
(=) Net portion of reinsurance brokerage fees	840.8
(-) Insurance costs	5136.5
(-) Calculated insurance premiums for reinsurance and retrocession risks	-
(-) Insurance payments for direct insurance (insurance coverages)	-
(-) H calculated brokerage and brokers' fees. Reinsurance Premiums and Fees	321.4
(-) Funds transferred to the reserve for compensation of losses	1153961.8
(-) Percentage of coverage payments made on risks accepted for reinsurance	-

3-table In this case, the gross profit from the provision (sale) of insurance services is calculated as follows:

(=) Net portion of earned rewards	1232223
(+) The net part of losses incurred	1189256.4
(+) Net portion of reinsurance brokerage fees	840.8
(-) Insurance costs	5136.5
(-) Period expenses	226235.7
(-) Service production and farm expenses	-
(=) Profit from the main activity	189246.4
(+) Operation. Income from investment and financial activities	214343.3
(+) Operation. Cost incurred for investment and financial activities	-
(=) Income (profit) or loss before tax	25096.9

Source: based on 2002 indicators of "Uzagrosugurta" DASK calculated by the author.

Paid insurance coverages 1188750.1 losses on coverage payments under reinsurance contracts 506.3; the net part of the losses incurred is 1189256.4; 840.8 brokerage fees calculated on contracts accepted for reinsurance; net part of reinsurance intermediary payments 840.8; costs of insurance proceedings 5136.5; estimated brokerage and broker fees, reinsurance royalties and fees 321.4; funds transferred to the compensation reserve amounted to 1153961.8 thousand soums.



Based on the above data, to determine the gross profit from the provision of insurance services, the net part of the earned premiums (1232223), the net part of the incurred losses (1189256.4), the net part of the intermediary payments for reinsurance (840.8) and the expenses of conducting the insurance business (5136 ,5), period expenses (226,235.7), service production and business expenses, the profit from the main activity (189,246.4 thousand soums) is calculated. After that, the amount of profit on the balance sheet (25096.9 thousand soums) is determined by adding the sum of income and expenses from investment and financial activities.

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