

RECEIPTS AND EXPENDITURES BUDGET OF THE INSURANCE COMPANY- BASIS INSTRUMENT IN ACHIEVING FINANCIAL BALANCE

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By elaborating the income and expenditure budget it is aimed firstly that in the year for which the budget is laid down the insurance fund obtained from insurance premiums, along with other incomes, to allow the payment of all costs as well as obtaining some profit. Therewith an insurance company when laying down its receipts and expenditures budget, it is necessary to watch that the predicted volume of insurance premiums is set according to real possibilities in economy concerning optional goods, persons and civil responsibility insurances. This thing is necessary, because every insurance company has to be preoccupied to act in order to reach the possible optimum level regarding the degree of inclusion of goods and persons in optional insurances they practice.

Regarding the cost level, by laying down the receipts and expenditure budget it will be aimed that this is settled by taking into consideration the level recorded in the last year and the level recorded in a certain period of time (our opinion is minimum 5 years), of the compensations/requitals paid in the current year, as well as the possibility of them growing or a predictable consequence of changes in frequency and intensity of generating insured risks, as a result of the extension of the sphere of optional insurances therefore of the volume of assumed responsibility. A special attention is imposed when the volume of costs regarding constitution and administration of the insurance fund is established, permanently seeking for

new solutions and possibilities to reduce it. Thus, for example, organizing and informatics system and the existence of programs that respond to the demands of competition specific to market economy, a certain reduction of these costs can be realized.

The cost an income budget of an insurance company can be considered as a useful instrument in the management process and activity control. By drawing it one can see to what extent in that year the financial balance of the company's activity appears possible. Also, by the way of scaling, through budget, costs and incomes, it can be acted in raising the liability of the company's management regarding a better administration of all the funds and respecting financial discipline. In the receipts and expenditure budget is reflected, quantitative as well as qualitative, the company's entire insurance activity. This budget of the insurance company, like any other company, has two parts, the income and cost parts and some chapters. In these chapters there are presented first the incomes and costs with the development of insurance and reinsurance activity and then the financial revenues and costs.

After forecasting the total revenues and costs, the gross result of the financial exercise is mentioned. This result is put across in profit if the total incomes overcome total costs, or in loss if costs are higher that revenues.

In table 1 is presented a receipts and costs budget with indicators

computed on conventional data. These data was thus selected, being the case of an anonymous company that practices

only general insurances, to reflect what can easily happen on the insurance market in Romania.

Table 1. Income and cost budget in year X, with general index, at N company, that practices general insurances.

	Total Year	I quarter	II quarter	III quarter	IV quarter
TOTAL INCOMES*	17316372	3777123	3930759	4492891	5115540
I. Exploitation incomes, from which:	16942312	3651123	3836759	4412891	5041540
1. Insurance premiums incomes, from which:	12960000	2826000	2934000	3350000	3850000
-auto damage/theft insurances	4640000	960000	1128000	1192000	1310000
-buildings and goods insurances	2160000	436000	568000	552000	604000
-financial risk insurances	4080000	786000	894000	1110000	1290000
-car civil liability	1200000	480000	152000	280000	288000
-accident insurances	800000	154000	192000	216000	308000
-health insurances	80000	10000	20000	20000	30000
2. Incomes from reinsurance, from which:	2922957	583086	673414	771226	895231
-reinsurance commission	1072796	305332	250251	285226	331987
-profit reinsurance commission	68234	13773	17943	17438	19080
-damage recovery	1781926	363981	405226	468562	544163
3. Recoveries and downtrends	1040316	240236	227545	286905	285629
4. Other exploitation incomes	19040	1800	1800	4760	10680
II. Financial	374000	126000	94000	80000	74000
TOTAL EXPENSES*	16743703	3732592	3778004	4417007	4816099
I. Exploitation expenses, from which	16728703	3729592	3774404	4412807	4811899
1. Paid compensations, from which:	5337580	1245183	1161726	1458526	1472145
- auto damage/theft insurances	2302220	477380	582100	621370	621370
- buildings and goods insurances	130720	12856	26072	31028	60764
-financial risk insurances	2226000	433650	490650	603750	698250
-auto civil liability	650080	315870	56635	195381	82194
-accident insurances	28000	5426	6569	6997	9568
-health insurances	560	120	135	145	160
2. Gross cession subscribed premiums	4651272	913581	1061795	1228818	1447078
3. Premium net reserve, from which:	1177611	303779	259921	280374	333536
-gross premium reserve	1469082	425899	398771	344862	299550
-premium reserve cession in reinsurance	291471	122120	138850	64487	-33987
4. Damage reserve	1041654	296322	225995	301306	218031
-notified damages reserve	702090	232713	149155	198347	121874
-un-notified damages reserve	339564	63609	76840	102958	96157
5. Catastrophe reserve	360360	73974	89686	92697	104003
6. Equalization reserve	400	0	0	0	400
7. ISC taxes	130680	32940	28140	32300	37300
8. Aquisition commission	340297	91475	71888	83927	93007
9. Administrative costs, from which:	3439278	718219	818971	870259	1031798
-salaries and salary debts	2045416	436187	459202	530095	619931
-working costs	1393831	289031	359769	340164	411867
10. Premiums from annulled policies	249000	54120	56280	64600	74600
II. Financial costs	15000	3000	3600	4200	4200
GROSS PROFIT	572610	44531	152754	75884	299441

Note*Data from above is conventional.

According to data from this budget, regarding the source of the insurance premiums, it is easily observed that on the first place are premiums for car insurances (civil liability together with damage insurance) followed by financial risk insurances and premiums regarding buildings and goods insurances. It also results that incomes from cessions in reinsurance are quite important. Regarding exploitation costs the ones concerning compensations are most predominant, and within them car insurances weight the most followed closely by the ones regarding financial risks. Therewith we see that cost regarding cessions in reinsurance, respectively premiums cession to reinsurers, have an important place within exploitation costs. This aspect has to be looked at in a close connection with the important weight of the premiums coming from financial risks insurances, because according to regulations¹ for such insurances it is imperative to some extent cession in reinsurance in order to have a good dispersion of risks. Within the costs regarding insurance and reinsurance activity, an important place is held by the costs afferent to reserve constitution: premiums, damages, disasters and equalization. Important as volumes are also costs regarding constitution and administration of the insurance fund put across in: staff costs (salaries and those adjacent to them) and functioning costs.

The determination of incomes from gross insurance premiums is made in a different way considering the legal form of insurance constitution (mandatory and optional insurances).

Establishing the volume of gross premiums that are going to be obtained with mandatory civil liability insurance is made by taking into consideration several aspects.

Thus, has to be considered the fact that making the mandatory civil

liability insurance is made only by insurance companies that have been authorized by the Insurance Surveillance Committee. As a result, from one year to another could appear variations in the volume of realizable premiums, depending on many factors like: number of authorized insurance companies to make this insurance in the respective year; rise of vehicles from a certain category (having in consideration the difference in levels of insurance premiums on vehicle types and insurance holders categories) in the year for which the budget is being calculated, compared with the current year and the precedent year; the certain number of vehicle owners included in car mandatory civil liability insurance that have not paid the insurance premiums until the elaboration date of the income and cost budget and preliminary data on this line, until the end of the year.

Determining the volume of gross premiums that are going to be realized in different optional insurance categories is made by taking into consideration a series of indicators, such as:

- The degree of inclusion in a certain optional insurance class of goods and/or persons, realized in the current year and the one possible of being realized in the year for which the budget is being drawn, taking into consideration the insurable potential, unit network and number of persons or brokers that make insurances;

- Volume of gross insurance premiums forecast to be realized on categories and insurance classes in the current year, according to objectives and existent goods on different territorial agencies, that are possible to be taken into optional insurance;

- Particularities and local conditions, population and economic agents preferences regarding some types of insurances of goods and/or persons;

- The weight of optional insurances with up to date premium

¹ See Regulations regarding the limitation of credit risk subscription, emitted by ISC, published in Official Monitor no.818 from September 9 2005.

payment and of those remaining in the total of active insurances;

- Possibilities to raise the number of goods and persons insurable for next year.

Collections from insurance premiums forecasted for current year are determined on the doubtless gains obtained until the data of the budget drawing, at which are added probable gains regarding the period remained until the end of the year.

The volume of premiums attained in optional insurances is established on categories and insurance classes, on goods genre and insurance holders' categories. Thus, for example, in Casco insurance, the volume of the premiums realizable can be determined by multiplying the first averages on types, manufacturers and categories of car possessors in the previous year with the probable number of cars which will be insured the next year. The first average on auto vehicle is obtained by dividing the gross collected premiums in the previous year with the number of insured auto vehicles. Another example is this one: the volume of premiums realized in animal optional insurances can be established by multiplying the animals' possible existent per insurance holder (separately on species, breeds and age groups) with the average premium made in the previous year.

In optional health insurances, the premiums that are stipulated of being realized in the next year can be determined taking into consideration the average sum insured in existent active insurances from the beginning of the period, entries representing new insurances and the number of annulled policies. After the average insured sum appropriate to them is established and the afferent average premiums, it is passed to determining the outputs of that same period. For this purpose, the average insured sum is considered and the average premium concordant to expired insurances.

From the difference between the average insurance premium of the average sum insured initially and the one resulted from calculations made, we can establish the premiums obtained in that period.

In a relatively similar way we can act in determining the volume of premiums realized in the plan year in other categories of optional insurances.

Determining the cost volume that are included in the income and expense budget is made in a different way, because it is about expenses for paying compensations/requitals and costs regarding constitution and administration of the insurance fund.

Suggestions regarding the level of expenses with compensations/requitals payments-if it is an insurance company that has the necessary experience and good informational system, the level can be determined by the average of the last 5 year's volume, as well as preliminary payments for the expiring year. The average of these costs on minimum 5 years is needed because they are the result of the action of factors with random character.

Preliminary compensations for the expiring year can be established by considering the effective expenses until the end of the month prior to the beginning of elaborating the budget; estimative compensations are booked as expenses for the damages until that date, but still unpaid, compensations afferent to damages that are likely to take place again until the end of the year, regardless of the fact that a part of these compensations will effectively be paid in the next year.

In establishing damages that will take place eventually until the end of the current year, the average damages produces in the same period in previous years will be taken into consideration.

All calculations are made upon insurance holders' categories (individuals or legal entities), classes and types of insurances (mandatory or optional) and on goods categories.

Expenses regarding the constitution and insurance fund administration are determined upon certain realizations from the current year until the date of elaborating the budget and preliminary data for the period remained until the end of the year.

The volume of administrative-ménage costs is established according to certain realization from the current year until the date of elaborating the budget and preliminary data for the period remained until the end of the year and the results of the solid analysis to reduce them from the previous year. Analyzing the way of reduction will head especially for costs that can practically be minimized. Thus, for example, to some office expenses, communication expenses and transport ones, could exist possibilities of reducing them by having a severe regime of saving up, limiting phone calls to the strict necessary number of calls and duration, wisely using means of transportation.

After establishing the total incomes and expenses for one year, then they are allocated on trimesters. Referring to allocation of incomes and expenses on trimesters, as it results from the data presented in table 1, we take into consideration the fact that in many cases, forecasts for the first two

trimesters are inferior to the ones from 3 and 4. The budget thus laid down and assumed by the board of administration is undergoing the Annual General Meeting. For companies that have branch offices the incomes and at least the costs regarding constitution and administration of the insurance fund are allocated.

Seeing how the collections and expenses are realized by head offices or other branch offices is made upon the data periodically given by them. In this purpose, within the informational system, symbols can be used for each existent index in the income and expense budget to which head offices have to communicate incomes and expenses made.

This pursuing of achieving incomes and costs by head offices has a major importance in insuring financial balance in the entire insurance company.

As a conclusion, we estimate that a good substantiation of the income and expense budget, at a central and territorial level, followed by the use of modern and flexible methods in executing this budget, throughout the financial exercise, leads to the consolidation of the budgetary balance and implicitly to the growth of financial stability of insurance companies.