ANALYSIS OF THE PRACTICE OF ORGANIZING THE RISK MANAGEMENT MECHANISM IN ENSURING THE FINANCIAL STABILITY OF INSURANCE COMPANIES

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ABSTRACT

This article provides a comprehensive analysis of the practice of establishing a risk management mechanism in ensuring the financial stability of insurance companies. Also, under the conditions of the Pandemic, the share of insurance premiums is expected to decrease by 3.6 percentage points in 2021, while insurance companies of developing countries will suffer more losses. This gives priority to the timely fulfillment of obligations to creditors and insured by ensuring the financial stability of insurance companies, and shows the need for insurance companies to make decisions on increasing investment opportunities through the rational use of limited financial resources.

Keywords: insurance companies, financial stability, risk management, insurance premiums, financial resources.

INTRODUCTION

In recent years, various changes occurring in the world economy force countries to make decisions on the use of various instruments in managing their financial policy. It should be noted that until recent days, relations were expressed about the global financial and economic crisis that began in 2008, which seriously affected the world economy. By 2019, the spread of the Covid-19 virus, which started in China and later reached the level of a pandemic, had a serious impact on the economy of many developed countries as well as developing countries. Of course, as a result of such globalization and integration processes, countries will have to effectively develop a risk management mechanism, taking into account the external and internal factors that may occur in all segments of the financial market. In such a case, it is natural that serious problems related to financial resources will arise especially in front of insurance companies dealing with life insurance.

In our opinion, one of the main tasks of the insurer in the organization of activities is the correct risk assessment. It can be seen that as a result of the change in the external economic environment, first of all, insurance companies should be able to set an example in the effective organization of the risk management mechanism. Of course, for this purpose, insurance companies should make a rational decision regarding the diversification of investment activities while bringing the amount of available reserves to an optimal state. It should be noted that although there is little experience in risk management in the practice of insurance companies operating in our country, the gradual development of this mechanism is considered not only one of the important factors in ensuring the financial stability of companies, but also plays an important role in protecting the rights of shareholders and policyholders. Continuing our thoughts on the relevance of risk management in insurance companies, we should mention that today, insurance companies are responsible for specific areas of insurance activity, for example, investment, operational, financial, etc. it is necessary to develop separate regulatory and legal documents on risk management.

ANALYSIS OF THE RELEVANT LITERATURE

Today, the organization and effective implementation of risk management is a priority task for companies operating in various directions. It is known from international practical experience that companies can cover several types of risks in the organization of large-scale risk management. It should be noted that the company reflects the relevant risk management directions in its activities based on the nature of its activity.

In insurance activity, risk management is understood as an activity aimed at assessing the probability and financial impact of events that may occur to clients, determining the amount and distributing the risks of these events among other insurance companies in the market. Risk management work typically involves mathematical and statistical modeling to determine the appropriate premium coverage and value of insurance risk.

ANALYSIS AND RESULTS

To achieve the strategic goals of the company, the following should be taken into account in order to create the right risk strategy and ensure adequate risk management (Figure 1).

An insurance company should pay attention to the following when managing risks in its activities:

- Assessment of market strategy and reinsurance procedures to adapt the company to risks and optimize the company's goals

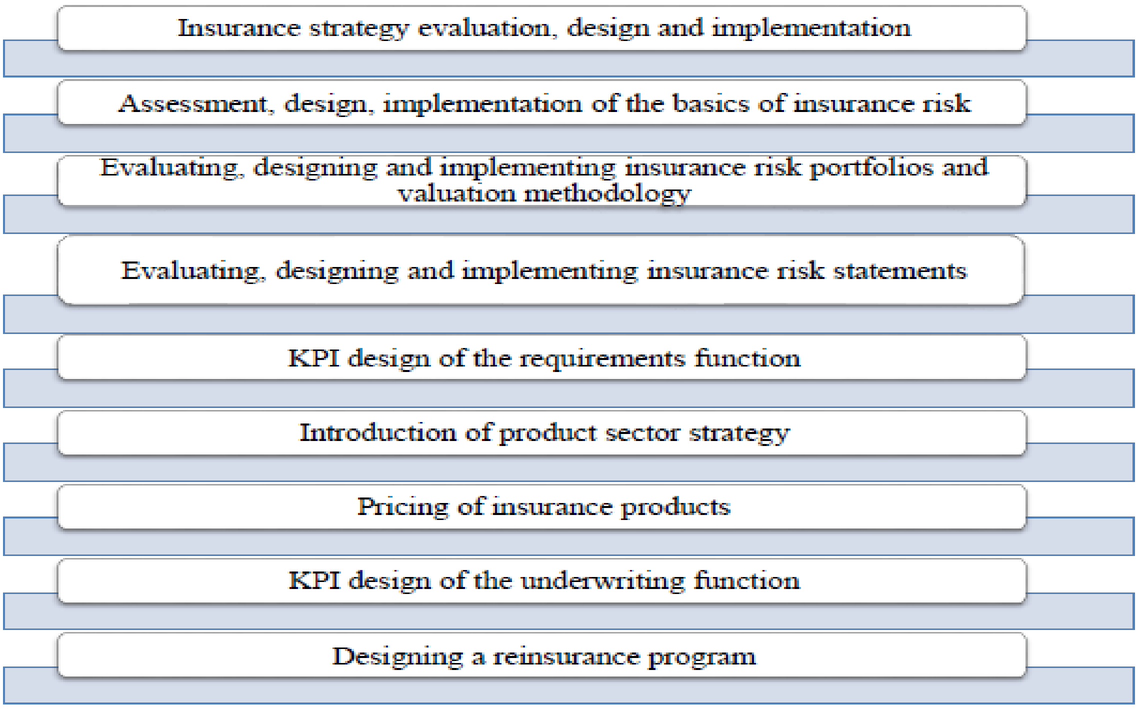

Figure 1. Aspects to be considered in the development of risk strategy in insurance companies in international practice

- properly explain risks and changes in demand rates to customers in order to move to a more market-oriented, risk-based pricing method that ensures efficient deployment of capital and reduction of losses in various situations;
- taking into account existing requirements to increase the efficiency and profitability of these processes.

It should be noted that the International Association of Insurance Supervision emphasizes that insurance companies face the following risks in most cases.

The main goal of any risk management is to anticipate future risks and prevent or at least minimize possible losses. Risk management is one of the main functions of insurance companies because, unlike many other industries, insurance companies deal with risk assessment and coverage. In order to adapt to an increasingly complex business environment, insurance companies need to establish internal risk management practices that include more advanced data analytics tools and technologies to better support underwriting, pricing and claims management, and prevent investment risks. Today's risks in the activities of insurance companies arise as a result of inconsistent internal processes or processes caused by some uncontrollable external factors. Risks of insurance companies are characterized by probabilities of occurrence. Traditional risk management among insurance companies focuses on:

1. Underwriting risks;
2. Adequacy of reserves and reinsurance of insurance companies to cover potential losses;
3. Risk management in the investment portfolio of insurance companies.

S&P Global Ratings' Insurance Industry and Country Risk Assessment (IICRA) ranking covers 103 insurance sectors in 52 countries. This IICRA rating is based on the criteria of the "Insurer Rating Methodology" published on July 1, 2019. The most important risks of each sector are divided into 10 categories:

- investment risk;
- a large number of high-risk assets;
- country risk;
- strong competitive environment;
- prospects of market development that has stopped growing;
- the presence of weak techniques;
- occurrence of natural disasters;
- currency risk.
- In the IICRA ranking of health insurance, the best indicators belong to the countries of the USA and Australia, classified according to the level of risks existing in these countries.
- The 2019 global insurance risk management performance survey was conducted by Aon, a professional services company. The survey covered 2,672 participants from 60 countries (Latin America - 11%, North America - 24%, Europe - 48%, Central Asia and Africa - 2%, Asia and the Pacific region - 15%).
- Based on the results of the research, a rating of the highest risks in the insurance sector was compiled (Appendix 3). In this case, the risks associated with cyber-attacks recorded the highest result.

- It is necessary to create a statistical model of risk management of insurance companies using the probability approach. Therefore, this model must meet certain general requirements and take into account all risks in the activities of insurance companies.
- In our opinion, the following can be cited as the main requirements for creating a statistical model of risk management in the activities of insurance companies:
- - this model should include, describe and significantly simplify the main features of the risk management process in the activity of the insurance company;
- - the obtained results should be similar to the actual results;
- - the model should be used in making management decisions;
- In addition to those specified, the main requirement for the model is to ensure its compliance with the actual process. Analysis of the existing risks in insurance companies is important for establishing a risk management mechanism in insurance companies, achieving financial stability through correct assessment of risks (Appendix 4).
- The statistical model of risk management is based on the operation of insurance companies in uncertain conditions. Before making management decisions, risk management departments of insurance companies need to pre-analyze various types of risks using a probabilistic approach. This approach makes it possible to identify risks and take measures aimed at minimizing the occurrence of negative consequences for companies.
- An additional advantage of this model is that this model takes into account the real activity of the company. Here, each risk can be implemented in different combinations with different levels of probability. This can have negative consequences for one company and advantages for another.

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