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PROBLEMS AND PRACTICE OF INSURER RISK MANAGEMENT

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For definition of the insurer risk management policy it is necessary to make an objective assessment of risks taken for insurance that is quite important during realization of insurance especially in terms of economic crisis. At present, insurers are facing with a problem of choice and application of certain methods, because the corresponding complex methods approved by the Commission of Finance Market in Latvia are absent. In the given paper some aspects for creation of a complex programme for the insurer risk management (in particular, the tariff policy) acting in terms of the insurance market of Latvia are suggested for consideration.

Keywords: risk, management, insurer, Latvia

1. Introduction

A professional management of an insurer activity that is performed in terms of the market relations and is directed to maximum profit obtaining with a rational use of all available resources is impossible without the insurance market analysis, application of the modern methods of activity assessment and the insurer risk management. The insurance activity as any other business activity in terms of market is connected with risks. Due to a specific character of their activity insurers are under the influence of two types of risks: risks conditioned by the insurance organization activity as an object of the economic activity and also risks taken from insurants. [1, 2]

A main activity of the insurance company is the insurance portfolio forming (qualitative index characterizing the insurer activity amount). For definition of the insurer risk management policy it is necessary to make objective assessment of risks taken for insurance that is quite important during realization of insurance especially in terms of economic crisis. [3] For creation of the insurer risk management programme, it is necessary to analyse indices characterizing a situation of an insurer in a general insurance market and to assess a structure of the portfolio payments. The given indices allow assessing an adequacy of calculation of the insurance reserves, an influence of the insurer tariffs influencing on the investment activity of the insurance organization including an efficiency of the investment activity. These are a brief description of the insurer's risks:

- technical risk – a probability of an insurer's losses in connection with a wrong assessment of the undertaken obligations (arises when signing each insurance contact);
- balance risk – a probability of an insurer's obligations exceeding over assets possessed by an insurer due to an absence of synchronization of incoming and outcoming money flows (arises when signing a flow of the insurance contracts);
- investment risk – a probability of the investment asset cost decreasing (arises after the contact flow management when using the insurance reserves formed on their basis);
- risk of liquidity and concentration of portfolio – a probability of violation of money flow synchronization or discrepancy between amounts of incoming and outcoming money flows (arises in case of violation of a balance of insurance types providing an afflux and deflux of money resources);
- surplus technical risk (arises when actually undertaken level of responsibility exceeds a planned level of responsibility).

The given paper represents consequently the results of the work for realization of the complex programme of risk management of the acting Latvian insurance society „A" (in accordance with the existing agreement the name of the insurance society is not used). In the previous papers of the author on the given theme the methods of the risk management have been presented that are in use on the modern stage

and the obtained results and separate aspects of a practical solution of the given problem for a certain insurance company in the Latvian insurance market have been described [4, 5, 6].

2. Insurance Society Reliability Assessment

Insurance is a reliable mechanism of defense of entrepreneurs and population against the unforeseen events causing damage to their property interests. An efficiency of the insurance business for a defense of these interests is obvious and proved in the process of the development of modern social and economic relations. However, an efficiency of the insurance business as such has a dual nature and represents an economic situation when two subjects of the insurance relations – an insurer and an insurant obtain an economic benefit owing to signing and fulfilling the insurance contract.

At present, a choice of the insurance society is not less important that a choice of the servicing bank or investment fund. More types of insurance obtain a form of the obligatory insurances. It is promoted by the acceptance of many laws where it is said about a necessity of the obligatory insurance (the accident insurance in industries, insurance of a professional activity of some categories of specialists and etc.).

Insurance provides owners with an economic stability by a reimbursement of damages when a property is damaged or destroyed and also in case of loss of income. Insurance allows the legal and natural persons to recover a damage caused by various events and provides citizens with an opportunity of the insurance deposit in case of achievement of certain ages, occurrence of temporary disability or disability. Insurance provides a continuity of all types of a public-spirited activity, income of people in case of attachment of certain events – insurance events.

Operative and statistic accounting reflects a quantitative side of mass phenomena in their connection with their qualitative characteristics. Assessment of the insurance society activity starts with an analysis of its insurance fund. The insurance fund is characterized by the following indices:

- registered and other capitals of the insurance organization as well as reserves;
- amount of insurance payments or insurance premiums of life insurance and insurance other than life insurance, and also reinsurance reserves;
- average payment per one contract;
- number of signed contracts.

The analysis of a use of the insurance fund may be performed with the help of the following indices:

- paid losses (insurance payments);
- loss ratio of insurance sum;
- transfers to various funds and reserves;
- tax payments;
- costs of insurance transactions, managerial, operational and other costs.

The process of a capitalization of the insurance fund is characterized by the following indices:

- investments;
- revenues from investment activity;
- operational revenues (apart from those connected with insurance and the investment activity);
- profit.

Besides the named main indices there are a number of other indices used when conducting the analysis of an efficiency of the insurance business:

- speed of growth of insurance payments amount;
- weight of separate types of insurance in a general amount of payments;
- dynamics of the market segment growth;
- growth of a general number of contracts and insurance payments per one contract.

Providing a supervision of the reliability of an insurer and defining of an amount of a certain reliability index is a problem of the modern insurance market both in Latvia and the EU. Regulation of the unitised insurance space has demanded a creation and implementation of general regulating documents (Directive EC 2009/138/EK) on the management of the insurance activity and for ensuring of the financial stability of the insurance market. In the period of the economic crisis the problem of availability and application of the unified indices for assessment of an insurer's reliability has appeared especially critically. An application (not obligatory) of Solvency 1 methodology developed in Great Britain had revealed an imperfection of the given approach that caused a necessity of more modern approach to an assessment of an insurer's solvency – Solvency 2. Since 2012 an application of Solvency

2 is obligatory for a use in all EU states. In Latvia for 2011-2012 the Commission of Finance and Capital Market must develop and accept the normative acts for the application of Solvency 2 from 2013 and standard test "Quantitative Impact Study 5" (QIS5). An application of Solvency 2 for the insurer risk management assumes a use of the existing indices in the unified form. [7]

2.1. Analysis of financial results of insurance society activity

An information base for the financial analysis is, first of all, a balance and its supplements of the Latvian insurance society "A" for 2010, and as well the profit and loss account for the financial year.

Business activity analysis. Business activity (turnover) of the insurance organization is the economic characteristics of the insurance society, which shows an efficiency of the organization activity and an efficiency of resources using. The levels of the business activity of a certain organization reflect the steps of its work and show a degree of an adaptation to the volatile market conditions, and a quality of management [8, 9].

Let us analyse the financial coefficients characterizing the business activity (turnover) of the insurance organization, namely:

- turnover of assets is calculated by formula 1:

$$K_1 = \frac{PSP}{A}, \tag{1}$$

where PSP – obtained insurance premiums thous.lats.;
A – assets, thous.lats;

- turnover of own capital, calculated by formula 2:

$$K_2 = \frac{PSP}{SK}, \tag{2}$$

where SK – own capital of company, thous.lats;

- turnover of invested assets, calculated by formula 3:

$$K_3 = \frac{DI}{IFV}, \tag{3}$$

where DI – revenues from investments, thous.lats;
IFV – investments and financial allocations, thous.lats.

The higher is a turnover the higher is the business activity.

The indices of the business activity are generalized in Table 1 (the table is made on the basis of the financial statement of the insurance society "A").

Table 1. Analysis of financial coefficients of insurance organization

Coefficient	End of period	Beginning of period	Change
1	**2**	**3**	**4 (3-2)**
K1	0.61	0.49	0.12
K2	2.56	2.26	0.30
K3	0.03	0.03	0.00

Thus, in this analytic table we see that a coefficient of turnover has raised a little (+0.12) and complied 0,61by the end of the financial year. Turnover of the own capital has increased to 0,3 and compiled 2,56 by the end of the year. Turnover of the invested assets has not practically changed – 0.03.

The main coefficients characterising the business activity for the financial year have risen that speaks about an increase of the business activity of the insurance society, an efficiency of a use of resources, capital and an efficient management of the company.

Making conclusions it is possible to say that a share of the insurance society in the Latvian insurance market has risen and by the end of 2010 a priority direction of the society activity stays in servicing of a mass segment of natural persons, first of all, in the area of the auto insurance and real estate.

2.2. Assessment of financial status of insurance society «A»

Indices of solvency and liquidity. Liquidity is one of the most important characteristics of the financial status of an organization determining an organization capability to pay invoices in time and actually it is one of the indices of a bankruptcy.

For the analysis of the liquidity of a balance a table is made. In the columns of this table, data for the beginning and end of the accounting period is taken from the comparative analytic balance by groups of assets and liabilities. By comparing final results of these groups, the absolute values of excesses or deficits of payments for the beginning and end of the accounting period are determined. For the analysis of liquidity it is necessary to perform a calculation of liquidity indices of the insurance organization:

- coefficient of current liquidity that is calculated by formula 4:

$$K_4 = \frac{OBS}{KO}, \tag{4}$$

where OBS – working assets, thous.lats;

KO – short-term liabilities, thous. lats.

The given coefficient represents characteristics of the insurance society provision with the working assets for the short-term liabilities cover. The recommended value is K_4>1,5;

- coefficient of quick ratio that is calculated by formula 5:

$$K_5 = \frac{DS}{KO}, \tag{5}$$

where DS – monetary resources, thous.lats.

The given coefficient shows, which part of the short-term liabilities the insurance society covers by monetary resources. The recommended value is $K_6 > 0{,}2$.

Solvency is an outer demonstration of the financial stability. Solvency is a capability of an organization to fulfil timely and completely its payment obligations resulting from the trading, credit or other payment character transactions. Assessment of solvency of the insurance society is detected for a certain date.

A capability of the insurance society to pay its short-term liabilities timely and without delay is called liquidity. Liquidity of the insurance society is a capability of the insurance society to fulfil its obligations by all types of payment timely. In other words, the insurance society is liquid when it is capable to fulfil its short-term obligation by a disposal of the current assets. The main means (if only they are not purchased with the aim of the further resale, as a rule, are not the sources of the current dept redemption of the insurance society owing to their specific role in the process of production and, as a rule, owing to the difficult conditions of their urgent disposal.

The insurance society may be liquid to a greater or lesser degree because in a composition of the current assets absolutely heterogeneous working assets are included; among them there are easily realizable and difficult-to-realize ones. Liquidity of assets is a capability of assets to transform into money means, and a degree of liquidity is defined by duration of the time period, during which this transformation might be performed. The shorter the period of transformation is the higher the liquidity of assets is. In the process of the liquidity analysis the following tasks are solved:

- assessment of money sufficiency for obligations cover, which terms are due in the corresponding periods;
- determination of liquid funds sum and verification of their sufficiency for fulfilment of the short-term liabilities;
- assessment of liquidity and solvency of an organization on the basis of a number of indices.

Table 2. Analysis of financial coefficients of insurance society "A"

Coefficient	End of period	Beginning of period	Change
1	**2**	**3**	**4 (3-2)**
K4	8.02	9.47	-1.45
K5	0.37	0.29	0.07

Thus, from the analysis of the analytic Table 2 (table is made on the base of the financial statement of the insurance society "A") it follows that a coefficient of the current liquidity has decreased and compiled 8,02 by the need of the year. By rules, it must be greater than 1,5, an index of the current liquidity satisfies this rule. A coefficient of liquidity by the end of the year is equal to 0,37 that also satisfies rules.

Coefficients of liquidity of the insurance society "A" are higher than rules that speak about a capability of an organization to fulfil its obligations.

Indices of efficiency. Analysing efficiency (profitability), it is necessary to calculate an efficiency of the insurance organization, profitability of capital.

Efficiency of the insurance society is a relation of the yearly amount of profit to the yearly amount of payments.

Let us analyse main coefficients characterizing an efficiency of the insurance organization; the following coefficients refer to them:

- loss ratio, which is calculated by formula 6:

$$K_6 = \frac{OU - DOU}{PSP}, \tag{6}$$

where OU – paid losses, thous.lats;

DOU – share of reinsurer in paid losses, thous. lats.

This coefficient reflects a share of the paid losses in the insurance income and an increase of this coefficient speaks about an increase of loss ratio of the insurance society, about a decrease of profitability;

- coefficient of reinsurer share, which is calculated by formula 7:

$$K_7 = \frac{PP}{PSP}, \tag{7}$$

where PP – premiums are to be forwarded to reinsurance, thous.lats.

This coefficient reflects a share of reinsurance in the insurance transactions of a company. An increase of this index speaks about an increase of the reinsurance transactions in a company and represents payment for risk;

- expense ratio, which is calculated by formula 8:

$$K_8 = \frac{PVD}{PSP}, \tag{8}$$

where PVD – expenses for business, thous.lats.

This coefficient reflects a share of an insurer's expenses in the insurance income and an increase of this coefficient speaks about a decrease of profitability and about a decrease of the economic efficiency of investments;

- coefficient of income level by investments, which is calculated by formula 9:

$$K_9 = \frac{DI - RI}{PSP}, \tag{9}$$

where RI – expenses by investments, thous.lats.

This coefficient reflects a level of income of the insurance society from the investment of temporarily free funds obtained from the insurance activity. An increase of this coefficient speaks about an increase of the insurance society profit from investments, and therefore, about an increase of a company's efficiency.

- Coefficient of investment activity efficiency, which is calculated by formula 10:

$$K_{10} = \frac{DI - RI}{IFB}, \tag{10}$$

where IFB – investments and financial allocations, thous.lats.

This coefficient reflects a share of income obtained from the invested funds and an increase of this coefficient speaks about an increase of the investment projects and about profitability increase;

- generalizing coefficient of profitability of the insurance organization, which is calculated by formula 11:

$$K_{11} = 1 + K_{10} - (K_7 + K_8 + K_9), \quad (11)$$

This coefficient reflects the results of the insurance and investment activity of the insurance society and its value must be $K_{11}>0$;

- profitability of capital calculated by formula 12;

$$K_{12} = \frac{Pb}{SK}, \quad (12)$$

where Pb– balance income, thous.lats

The given index characterizes an efficiency of a use of capital by the insurance society;

- Profitability of the insurance activity is calculated by formula 13;

$$K_{13} = \frac{Pb}{PVD}, \quad (13)$$

where PVD – expenses for business, thous.lats.

This coefficient characterizes an efficiency of the insurance activity of the insurance society. For convenience of the analysis all performed calculations are generalized in Table 3 (the table is made on the basis of the financial statement of the insurance society "A").

Table 3. Analysis of financial coefficients of insurance society "A"

Coefficient	End of period	Beginning of period	Change
1	2	3	4 (3-2)
K6	0.57	0.58	-0.01
K7	0.07	0.07	-0.01
K8	0.36	0.30	0.05
K9	0.03	0.04	-0.01
K10	0.03	0.03	0.00
K11	0.57	0.62	-0.04
K12	0.20	0.17	0.02
K13	0.21	0.25	-0.04

Therefore, a loss ratio has decreased by the end of 2010 and compiled 0,57. A decrease of the coefficient speaks about a decrease of the insurance society loss ratio, about an increase of profitability. A coefficient of a share of reinsurer is equal to 0,07 by the end of the year and in comparison with the beginning of the period it has not practically changed. A decrease of this index speaks about a decrease of the reinsurance transactions in a company and represents a risk payment. An expense ratio has increased by the end of the year and compiled 0,36. An increase of the coefficient speaks about a decrease of profitability, about a decrease of the economic efficiency of investments. A coefficient of the level of income by the investment activity is equal to 0,03. A decrease of this coefficient speaks about a decrease of profitability of the insurance society from investments, and therefore about a decrease of efficiency of the insurance society. An efficiency coefficient of the investment activity has not practically changed. A generalizing coefficient of efficiency of own capital compiled 0,57 by the end of the year. The coefficient must be greater than 0. Profitability of capital of the insurance organization has been increasing and by the end of the year is has compiled 0,2. Profitability of own capital compiled 0,21. These indices speak about an efficiency of a use of capital of an organization.

In view of the performed financial recovery of the insurance society the indices of profitability of the financial year are improving those witnesses about an efficient use of capital of the insurance society.

Indices of financial possibilities. The performed financial analysis of the insurance society "A" allows determining a stability of the company and discovering the financial possibilities. The main aim of the financial analysis is to obtain several key (most informative) parameters giving an objective and accurate picture of the financial status of an enterprise, its profit and loss, changes in structure of assets and liabilities, in settlements with debtors and creditors. At that, an analyst and manager might be

interested both in the current financial status of an enterprise and its nearest and remote prospects, i.e. an expected parameters of the financial status.

The analysis of the relative indices (coefficients) is a calculation of relations between separate positions of the financial statement and positions of different forms of accounting, and a detection of interconnections of indices.

The analysis of the financial results of an enterprise's activity includes the following obligatory elements: research of changes of each index for the current analysed period (the so-called horizontal analysis of the financial results indices for the financial year); research of a structure of the corresponding indices and their changes (vertical analysis of indices).

A financial stability of the macroeconomic system defines a possibility of existence and development of all participants of the economic relations. But, for insurers a provision of the financial stability is a subject of their direct activity allowing them functioning in the market. At that, the requirements to their financial stability are higher than similar requirements to the financial stability of consumers of the insurance product. For consumers of the insurance services insurers are the guarantors of the financial stability therefore a problem of the assessment of solvency acquires a top-priority meaning for all participants of the insurance relations.

It is necessary to analyse the main coefficients characterizing the financial stability of the insurance organization by the beginning and end of the year, namely:

- coefficient of a share of own capital in a whole capital of a company, it is calculated by formula 14:

$$K_{14} = \frac{SK}{KK}, \tag{14}$$

where KK– capital of company, thous.lats.

This coefficient characterizes a share of own capital of a company in a total amount of funds refunded in its activity or provision of the insurance society with own capital, the higher is a value of this coefficient, the higher is the financial stability and stability of the insurance society;

- coefficient of a share of the insurance obligations in a company's capital, which is calculated by formula 15:

$$K_{15} = \frac{SR}{KK}, \tag{15}$$

where SR – insurance reserves, thous.lats.

This coefficient characterizes a provision of the insurance society with the insurance reserves or it reflects an amount of the insurance transactions of a company;

- coefficient of adequacy for the insurance obligations cover, which is calculated by formula 16:

$$K_{16} = \frac{SK}{SR - PSR}, \tag{16}$$

where PSR – a share of reinsurers in the insurance reserves, thous.lats.

This coefficient reflects an adequacy of own capital covering the insurance obligations.

An increase of this coefficient speaks about a decrease of the financial stability as a result of an increase of the reinsurance transactions, i.e. a company forwards risks to reinsurance as a result of insufficiency of own capital.

The coefficients are presented in Table 4.

Table 4. Analysis of coefficients of financial stability

Coefficient	End of period	Beginning of period	Change
1	**2**	**3**	**4 (3-2)**
K14	0.24	0.22	0.02
K15	0.69	0.68	0.01
K16	0.45	0.34	0.12

Thus, a coefficient of a share of own capital in a whole capital has been increasing during a year and by the end of the year compiled 0,24, the higher a value of this coefficient is, the higher the financial stability and the insurance society stability is. A coefficient of a share of the insurance obligations in a company's

capital has changed inconsiderably and by the end of the year compiled 0,69 that speaks about a security of the insurance society with the insurance reserves. A coefficient of adequacy for the insurance obligations cover has increased that a positive tendency corresponds.

3. Tariff Policy and Insurer Risk Management

In the period of crisis the market and credit risks are increasing and it considerably decreases – and what is more often – makes it impossible to allocate reserves of insurers in the high-yielding tools. One of the main tools of competitiveness support of the insurance company becomes an adjusted tariff policy that meets real risks. For the insurance companies, experts recommend to apply a complex decision that supports a process of the insurance tariff management and implements the following functions [1,4] :

- monitoring of tariffs, a control of their compliance with the existing risks, decision-making about a revision of tariffs;
- calculation of tariff on the basis of data on losses;
- modelling and analysis of consequences of a new tariff for risks, reserves and competitiveness;
- implementation of a new tariff plan.

A decision should allow to integrate data of customers, polices, claimed and settled losses and it is clear from the abovementioned (formulas – 1, 2, 6, 7, 8, 9) that coefficients – K1, K2, K6, K7, K8, K9 include a collected gross-premiums (PSP) and directly depend on the insurance tariffs, which determine an amount of the insurance premium (other indices are directly connected with the given index). A determination of tariff assumes a conduction of the primary statistic data research, an assessment of its adequacy for the further analysis, transformation, and an entry of new calculating variables. An amount of premium should be enough to:

- cover the expected claims during the insurance period;
- create the insurance reserves;
- cover business expenses of the insurance company;
- provide a certain amount of profit.

In the risk insurance during a calculation of the insurance tariff the following factors should be taken into account:

- insurance statistics (statistics of insurance events). A probability of an attachment of the insurance event is calculated on the basis of the statistic data. It allows forecasting a possible sum of the future payments by the signed insurance contracts;
- an amount of the obtained insurance premiums should be enough for forming the insurance reserves, from which the insurance payment is performed, and also munitions for a case of unexpected expenses;
- tariff should cover expenses of an insurer and ensure profit.
  An economic content of the insurance tariff is possible to determine as a unit of measurement of mutual obligation of an insurer and insurant taken by them during a signing of the insurance contract. A lower boarder of price is defined by an equality of receipts of payments from insurants and payments of the insurance reimbursement and insurance sums by contracts plus costs of the insurance company. With such level of price the insurance company does not obtain any profit from the insurance transactions. It is naturally that insurance of such risks does not justify itself. The upper boarder of price of the insurance product is defined by two factors: an amount of demand of it; an amount of a bank rate for deposits. The insurance premiums are main resources of financing of the insurance organization's activity. The main components of the insurance premium (gross premium) are: net premium, extra charge for covering costs of the insurance company and extra charge for profit. A net premium is meant for cover of damage. An extra charge for costs of an insurer represents an element of a premium meant for cover of costs of the insurance company (in accordance with the Latvian Laws – not more than 25% of contract premium).

A process of the development and grounding of the insurance tariff is called the tariff policy that means a purposeful activity of an insurer for establishing, updating and regulating of the insurance tariff in the interests of a successful and loss less development of insurance. This policy is based on the main generally accepted principles [5]:

- equivalence of the insurance relations of parties (insurer and insurant). It means that net rates must meet a probability of damage at maximum;
- accessibility of the insurance tariffs for a wide circle of insurants;
- stability of sizes of the insurance tariffs during a prolong time;

- broadening of amount of the insurance responsibility;
- support of self repayment and profitability of the insurance transactions.

Using the market information and/or statistics of a certain insurance portfolio of the society „A" with its relative representativeness, the insurance company establishes a list of expenses, which will arise during compensation of losses to an insurant and/or to the insured one within the frames of the formed insurance cover. The insurance society „A", as it has been said before, has CASCO auto insurance as a priority type of insurance. An important index of any type of insurance is a norm of a loss ratio. A norm of a loss ratio gives an opportunity to perform a primary assessment of profitability of the insurance activity as such and by a certain type of insurance. A norm of a loss ratio represents a percentage relation of a sum of paid insurance reimbursement to a sum of the collected insurance premiums. In the insurance market of Latvia an index of the loss ratio norm (formula 17) for auto CASCO – 72,5%, and for the insurance company „A" – 74%, that speaks about an insufficient profitability of the given type of insurance.

A norm of a loss ratio is calculated by formula [5]:

$$K_y = \frac{\sum Q}{\sum P} * 100\%, \tag{18}$$

where K_y – norm of loss ration in percentage;

$\sum Q$ – total paid gross reimbursement;

$\sum P$ – total collected gross premiums.

For implementation of the insurer risk management programme (where the tariff policy is one of constituents), taking into account an existing situation, actuaries have a goal to develop tariffs, which application will allow to decrease a norm of a loss ratio to 60% – 70% and to increase a share of the insurance market of Latvia. As a result of the analysis of the insurance society "A" statistics, acting methods of the insurance market of Latvia and expert assessments, it has been determined that to form a tariff it is necessary to divide indices in the following way:

- by types of vehicles: passenger cars, commercial transport (vans to 3.5 t.), haulage truck (over 3.5t), trailers, farming machinery (tractors, combines etc.), buses, motorcycles);
- by the extent of risk probability (amount of loss): 1 group – increased probability of stealing; 2 group – increased probability of payments for repair;
- by place of registration of vehicle: Riga and the Riga District, Latvia (excluding Riga and the Riga District;
- by cost of vehicle (market – LVL): cars (to 2000, 2001-3000, 3001-5000, 5001-10000, 10001-15000, 15001-20000, 20001-30000, over 30001), vans (to 2000, 2001-3000, 3001-5000, 5001-10000, 10001-15000,over 15001), haulage trucks – over 3.5 t (to10000, 10001-20000, 20001-40000, over 40001), trailers (to 5000, 5001-10000, 10001-20000, over 20001), farming machinery (to 2000, 2001-3000, 3001-5000, 5001-20000, over 20001), buses (to 3000, 30001-50000, 50001-70000, over 70001), motorcycles (to 2000, 2001-3000, 3001-5000, 5001-7000, over 7001);
- by territory of operation: Latvia (tariff decreases to 5%), The Baltic States (standard), countries of Europe (standard), countries of Europe including the CIS (additionally to tariff „Europe" – 20 %);
- by availability and extent of own risk: with own risk and without own risk;

As a result of the analysis the additional factors for rating the insurance tariff has been detected:

- cover of risks: «all auto CASCO risks», «auto CASCO risks including stealing/theft), risk of traffic accident only;
- extent of own risk: standard, increased (own risk due to vehicle type: minimal – from 50 LVL to 150LVL, damages – 10% of loss, stealing/theft – 10% or 20% of insurance sum, complete destruction – 10%, 15%, 20% of the insurance sum);
- run of vehicle (coefficients – 0.0, 0.8, 0.9, 1.0, 1.1);
- order of premium payment: «single payment» – premium decreases to 5%, in parts (2 times – standard premium, 4 – premium increases to 5 % , 6 – premium increases to 7 % or 12 – increases to 13 %);
- customer «history»: data of the insurance company registration system, Bonus-Malus system of risk class identification, age and years of experience of a user of vehicle, other;
- discounts: to agents, regional centres, managers of affiliations, underwriters.

By each index the certain numeric data on increase (+ %) and decrease (- %) of the standard tariff has been developed; however a size of the given paper does not allow to present all obtained data.

A standard tariff for risk group 1 is formed taking into account the insurance sum and own risk. For the Baltic States the tariff compiles – from 12 % to 4.6 % (from 2000 LVL over 30 000 LVL) with own risk and without own risk – from 5.8 % to 8.7% (starting with 5000 LVL). For the countries of Europe excluding the CIS the following standard tariff is suggested: with own risk – from 13 % to 4.8 % (from 2000 LVL over 30 000 LVL) and without own risk – from 9.2 % to 6.0 % (starting with 5000 LVL).

Rating of the insurance tariff refers to multifactor tasks of decision-making. The insurance society "A" is forming a complex programme of the insurer risk management in steps and is practically implementing the obtained results.

4. Conclusions

Initiating of the insurer risk management and taking into account of technical, operational and legal risks will allow increasing an efficiency and reliability of the insurance activity that is confirmed by the results of the analysis of the calculated indices. An elaboration of the main procedures and measures directed to an assessment and risk management will support the system risk management at all stages of the insurance contract operation. A great role belongs to an assessment of the financial status of an insurer, because a working life of the insurance mechanism depends on an ability of an insurer to fulfil the contract obligations. Levelling and division of risks (layout of damage) are implemented by the help of the insurance tariff when forming the rational insurance portfolio by the insurance organization.. A problem of the tariff policy optimisation is a rather significant in view of its financial stability support.

Monitoring will allow to ensure a flexibility of the risk management system by means of modernization of the current processes of the insurance cover determination, limits of insurance, condition of the insurance contracts signing due to a change of the insurance portfolio structure, change of portfolio loss ratio and its separate segments including the market changes that is directly connected with the tariff policy. In accordance to the Latvian laws an insurer is obliged to develop own policy of the insurance risk management. At present, insurers are facing with a problem of choice and application of certain methods, because the corresponding complex methods approved by the Commission of Finance Market in Latvia are absent. A special place on the modern stage belongs to implementation of Solvency 2 methodology for determination of an insurer's solvency that demands an attraction of highly qualified specialists by the insurance society for adopting the methodology for a certain portfolio and ensuring a collection of the necessary information in the required standard form. A unified assessment of solvency will allow an insurer to evaluate realistically the indices of its activity and its place in the rating of insurers-competitors. A development of the tariff policy stays in responsibility of actuaries of the insurance company at present. Actuaries adapt well known theoretical approaches to a real portfolio taking into account the statistic data unavailable outside formed in each company independently for each insurance object and risk. In the present paper some general aspects for an assessment of the insurance activity of an insurer and creation of a complex risk management programme (in particular – tariff policy) of the insurance society „A" operating in terms of the insurance market of Latvia by the example of quotation of the CASCO auto insurance (one of the most mass types – about 20% gross-premiums and 25% gross payments in an insurer's portfolio) are suggested for consideration By the results of implementation it is assumed to conduct the analysis of results in a year and in case of necessity to perform corrections of separate indices for realization of the risk management programme for profitability providing of the CASCO auto insurance.

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