

# ECONOMIC EFFICIENCY WITHIN INSURANCES

Văduva Cecilia Elena<sup>1</sup>

## Abstract:

*The understanding trends in the world economy at the beginning of the third millennium, the learning characteristics of business environment, essential features of a market economy, the subject that must preoccupy the decisive factors of the economy of each country and especially of Central and Eastern European countries that have moved to market economy after 1990. Ensuring the welfare of the population in these countries will depend on how decision makers will be able to integrate national economies in world economic activity, dominated by economic globalization and globalization.*

*In terms of effectiveness insurance we can say that is a form of economic efficiency and social expressing the relationship between the results obtained from the insurance and expenses (compensation and insured amounts) determined to rebuild damaged goods or sums insured financial results for the insurer. Insurance efficacy analysis is necessary to bear in mind that in this area meets a unique phenomenon in economic activity, reversing production, the insurer sold before knowing the cost of the product sold. Thus, one can see the importance of knowing insurable matter and setting insurance premiums based on calculations using mathematical and statistical methods.*

**Key words:** insurance, economic efficiency, risk, insurance company

**JEL Classifications:** I13, I15

## 1. INTRODUCTION

The efficiency of resources utilization determine the development.

Etymologically, the efficiency comes from the Latin verb "efficiere" which means to carry out, in a general sense we can characterize the efficiency as the measure in which the proposed effect was realized, implies correlation, comparing the effects obtained with the expected ones without putting them face to face with the effort applied to obtain them.

The economic activity has a quantitative size determined by consumption expenditures, achieved effects, efficiency as a qualitative characteristic that expresses the relationship between effectiveness and the effort to obtain it.

The economic efficiency of an activity expresses the causality relationship between total effects, equivalent in nature and time, and total time and total resources involved in that activity, positive relationship, compared to other versions of the activity or requirements of the national economy of saving resources.

The efficiency of any activity must be seen in connection with the utility. Insurances are an important element of the mechanism of market economy, complies with certain requirements of society, with real needs of individuals and businesses.

## 2. THE INSURANCES ECONOMIC EFFICIENCY

Insurances are services performed by a company of insurance in favor of the population or legal persons.

The efficiency of insurances is a form of socio-economic efficiency expressing the ratio of results of the insurance activity and expenses (compensation and insured amounts) determined to rebuild damaged goods or insured sums, the financial results obtained by the insurer. To determine the insurance efficiency analysis is necessary to bear in mind that in this area exists a unique phenomenon in economic activity, the reversing of production cycle, the insurer sell before knowing the cost of the product sold. By collecting the insurance premium the insured person undertakes to pay him damages whose amount is

---

<sup>1</sup> Assoc.Prof. PhD, Constantin Brancusi University, Târgu-Jiu,Romania, marianavaduva2016@gmail.com

only approximately known. Thus, it can be seen the importance of knowing insurable matter and setting the insurance premiums based on calculations using mathematical and statistical methods.

The insurance economic efficiency should be considered from the interests of insurers point of view but also from the interests of insured persons point of view. For the insurer, insurance is more effective if given the insurance premiums the pay of compensations to insured amounts and administrative-household expenses are lower. For insured persons, for the same insurance premiums paid, the economic efficiency of insurance is greater as the insured sums and the compensation they receive are at a level closer to the actual value of the property destroyed or time of the event insured until receipt compensation amounts are shorter.

The insurance efficiency should not be viewed separately in terms of each party participating in the insurance act.

Given that the insurance activity is no longer the monopoly of the state, being organized and carried out by insurance companies with state or private capital, developing an efficient cost-effective activity is essential for survival.

In the insurance activity comes a specific factor, the randomness of generating losses events. This character requires to make the analysis of insurance economic efficiency on a longer period of time because only in this way we can have correct conclusions regarding the obtained final results.

Another factor influencing the performance of the insurer is the quality and extent of undertaken activity by the insurer on making a greater number of insurances and on understanding level of the various individuals or legal persons, of necessity and usefulness of insurance. Achieving a higher enrollment in insurance creates the conditions for the insurer to obtain favorable financial results.

The insurance is effective when there are satisfied both the general needs of the companies and the needs of each insured person. The interests of both parties involved in the insurance contract must be harmonized as insurance be effective for both the insurance company and the insured people. In this sector, by abolishing the state monopoly, they are created conditions for economic efficiency to become a basic criterion in assessing the work carried out in this sector.

In the conditions of the market economy, any insurance company must operate on the basis of efficiency leading to the possibility of covering all expenses with compensations and insured amounts, other expenses of fund insurance formation and management and to afford a profit. The effectiveness of an insurance activity is characterized by the size of the profit.

The profit is set at the end of the calendar year; if it has a negative value means an end for the business with loss which can lead to lockout.

The insurance company must have a clear situation at least in terms of the probability that profits earned at one time have a certain value. It requires a determination of analytical expressions to express profit at any time depending on the parameters that appear in random phenomenon which characterizes the company's activity. This analytical expression is the function of the insurance activity efficiency. One possibility to determination is the establishment based on a statistical study of the insurance company's profit at certain times. The actual profit achieved decreases with sinister probability of production. It is necessary to the establishment of the insurance premium and in any time the insurance company determine this probability within statistical situations.

In the activity of insurance companies, taking into account the randomness of different payments to policyholders may arise situations where actual profit becomes negative or total share capital held by the company at some point becomes negative. Given

the randomness of sinister occurrence, improving the situation can be made in a relatively short time, the insurance company cannot be considered bankrupt at first pass through a negative equity and neither when is operating with loss at first making a negative actual profit. This state should be a warning to that company, since then it should be followed for at least on short periods of time.

Another way to increase profit is lowering these statistical weights being necessary that the insurance company organize its activity so that this share be the smallest.

The complex nature of insurance company determined using a system of indicators to quantify the efficiency of insurance. Each of the indicators used to express the efficiency highlights certain aspects of the activity of insurance: it cannot be made a ranking in the use of indicators, it cannot be said that one of them would be most representative.

The choice of indicators used to assess the insurance economic efficiency can be made according to the following criteria: the analysis objectives that are to be made; the micro or macro level where the analysis to be performed; the way of legal regulation of the insurance to be analyzed; the insurance branch under analysis.

The profit is the indicator used to estimate the financial results of the insurance company; is determined by subtracting from income the costs incurred to produce them. The profit cannot be considered an absolute criterion for assessing the economic efficiency in the insurance activity. The particularity consists in the extent of the compensation paid that varies from year to year. Due to the large amount of compensation would be inappropriate to claim that workers from insurance sector did not have an effective work but it emerges in such situations the effective effect of insurance for the national economy.

The volume of premiums collected by the insurance company demonstrates the expansion of insurance relations. Insurance premiums earned contribute to provide the funds necessary to meet the goal of insurance, paying the compensations and the insured amounts. Thus, it can be seen the importance of knowing the insurable matter and setting the insurance premiums on the basis of scientific calculations.

The insurance premium collected indicator gives a conclusive picture on the absorption capacity of the insurance market.

The indicator of level of protection by reducing the risk of the company is a prominent indicator regarding how the insurances fulfill their functions in society; it is calculated as a ratio between the amount of compensation actually paid for the risks covered by insurance and the estimated value of all insurable damages that may occur in society in a certain period of time.

The risk assessment is based on statistical information on the frequency and intensity of events producing damages to the national economy over a relatively long period which could be differentiated by the nature of risk as follows: for hail, thunderstorm, heavy rain, animals mortality, certain accidents on the road or good transport and others with similar frequencies, could be studied on a period of 5 years; for fires, hurricanes, landslides and land collapses, the period could be of 10 years and for earthquakes cannot be considered real conclusions on the frequency of risk only for longer periods of 25-30 years. The level of protection relates only to the risks that meet the conditions to be included in insurance.

The arrangement for prevention and limitation of damages is the partial or limited coverage to the effects of insured risks by engaging insured people to pay the other part of the damages;; it is used the indicator of compensation level for making the analysis, it is calculated by reporting the compensation paid to the actual value of the damage as a result of the insured risk.

The loss ratio highlights the report in which are the compensations paid by the insurer to premiums received by him. The loss ratio is required to register values below

100% for the insurance to be effective. When the indicator exceeds the insurer will incur losses.

The indicator is relevant only in the case of property insurance and liability insurance. In case of life insurance when making the insured event, the insurer pays the insured person the compensation or the insured amount for which the policy has been completed.

The performance evaluation of an insurance company must take into account the financial results, the relationship between the registered effect and the effort to achieve the effect and also the assessment of the insurer to meet its customers' needs.

### **3. CONCLUSIONS**

The conclusion that emerges from the above, can be realized by the fact that insurance / reinsurance, are parts of national financial systems, components of national economies which tend increasingly toward globalization, to meet the needs and opportunities that go beyond National, also the role the financial component, and thus insurance has increased significantly in economic and social situation and will have the same trend in the near future, all the major issues facing today's economic entities and that need to be resolved by management, are reflected in the activity of insurance companies, of course with the characteristics and peculiarities of the insurance business and to ensure the development of economy requirements imposed millennium, the parties involved must overcome whole, as such components must come up with offers priori demand.

Achieving these goals not only requires managers of insurance companies, information, responsiveness and compulsory introduction of the new, the pace to ensure today's needs of tomorrow.

### **4. REFERENCES:**

- [1] Alexa C., Ciurel V., „*Insurance and reinsurance in international trade*”, C.H. Beck Pub., Bucharest, 2014.
- [2] Constantinescu D.A., Dobrin M., „*Insurance and risk management*”, Tehnica Pub., Bucharest, 2008.
- [3] Popa A., Anghel N., Cristea M., „*The investments efficiency*”, Universitaria Pub., Craiova, 2012.
- [4] Tanasescu P., Serbanescu C., Ionescu R., Popa M., Novac L.E., „*Modern commercial insurance*”, C.H. Beck Pub., Bucharest.
- [5] Seuleanu V., Brana F., Herbei R., Mutacu M., Raileanu M., „*Commercial insurances*”, Mirton Pub., Timisoara, 2010.
- [6] Vaduva M., „*Insurances*”, Mirton Pub., Timisoara, 2012