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Financial controlling in insurance companies

Tilija Timotić
(Student at Specialist Academic Studies, Faculty of Technical Sciences, University of Novi Sad,
tilijatimotic@gmail.com)

Abstract

Today's in dynamic and complex business world of insurance companies, with the increasing competition, we have a growing need for modern business instruments, which will allow management to have a better insight and clearer image of the business. Controlling as a function contributes to the management to increase the effectiveness and efficiency. In that manner, the company becomes more flexible and can more easily and faster to adapt to internal and external changes. We are increasingly faced with the fact that it is not just enough to follow certain parts of the financial statement and that is not enough focusing only on the revenue side of the income statement. In the future, controlling would need to enable insurance companies to better meet its expenditure side of the income statement and with that to achieve better business profitability. Also, the paper will be presented the financial analysis of insurance sector in the Republic of Serbia in order to point out the significance of financial controlling in these financial institutions.

Key words: *controlling, financial controlling, insurance company, company's performance*

1. INTRODUCTION

Controlling is included the tasks of planning, managing and monitoring business process. Controlling can be significant and useful in every company, in small, medium and especially in big company with complex business process and with arranged relations across the organizational units as well as profit centre.[4]
The paper provides theoretical and empirical research results related to operational costs in insurance companies and financial controlling.

This paper is organizes as follows: the second section provides a theoretical background how financial controlling is important for every enterprise, what is the main difference between business controller and financial controller. In the third part of paper is explain controlling function in insurance companies, which indicators controlling sector are observed in these companies. The forth section is more about costs in the companies, how to establish effective cost control and how to make a good plan. The next section presented emperical research about insurance market in the Republic of Serbia and explain the operational costs via three biggest insurance companies at domestic market.

2. THE ROLE OF FINANCIAL CONTROLLING

The most acceptable definition of controlling is: „Controlling is the navigation process towards economic goals, where managing, definition of position is performed according to the established order and plans monitoring.“[1]

Business controller is business and commercial minded. He partners up with other functions outside of finance, almost like a consultant does. He is active, aggressive, externally focused and future oriented. With his strong network in eg. logistics, production and sales, he will build business plans and define ways to measure and report on the key indicators of it.[7]

Financial controlling is there to facilitate, to the management, the understanding of the three basic reports: the balance sheet, the profit and loss account and the cash flow statement. [2]

Reports used by a financial controller are reports that are primarily complied for accounting purposes, however, these reports have a very important role in the process of informing and making decisions in company management today. Unlike accountants, whose is focus on business to be in line with legal regulations and international standards, the controlling is not defined by the law and the management of the company has the freedom to form it in line with the needs of the company. Due to their being less freqent, and since they are stringlently prescribed and brief in form, they do not satisfy all the needs of the company management for information. Common to these two functions is to use the same data, but in a different way and for different purposes.

Due to their being less freqent, and since they are stringlently prescribed and brief in form, they do not satisfy all the needs of the company management for information. Standardized financial statements do not provide all the information that internal users, primarly the board and management, find necessary for making business decisions. In that case, the information form these financial statements is complemented by additional management and financial information the form and contents of which are aerated depending on the requirements of each information user. Company management is responsible for the preparation and presentation of financial statements, while being interested in the information containted in the financial statements. Management (various managers, board members, members of auditing or supervisory committees) require additional information that will help them in day-to-day management of resources, in order to direct, oversee and control them. [9] That is the aim of controlling to provide the most important information to the board management.

Today's accounting reports, done two months after the end of the business year, cannot assure an action towards the realization of an effect for the past period. [3] Controlling, as a rule, does not have time limits, but it is done constantly in keeping with the real needs and the system of internal control of an enterprise. The information obtainted this way provides action in actual time, both in realization of increased effects and elimination or decrease of negative appearance influence on business operations. [6]

On the basis of this, it can be concluded that the main goal of financial controlling is that the company operates profitable, that the support of this function controls the costs and strives to increase revenue and that it is in accordance with the predetermined goals of the advances. This suggests that financial control should serve to define the strategy of further development and operational plan. By regular reporting by the financial controller, the management of the company can react quickly and, in accordance with that, make important decisions that the company will return to the right path, the path of good business, meeting the set goas and making profit.

3. CONTROLLING IN INSURANCE COMPANY

By changing the structure of insurance companies, special attention has been paid to operational control instruments that aim to develop a profit-oriented business that is measured by the following indicators: [5]

1. Realization of insurance premium
2. Cost of damage
3. Return insurance costs
4. Commission costs
5. Operational costs

Controlling has become a necessary tool in managing insurance companies since in the last decade come to a deregulation of the insurance market. The insurance market grew together with other financial institutions, but on the other hand, there was a growing battle for customers due to the strong competition in the market.

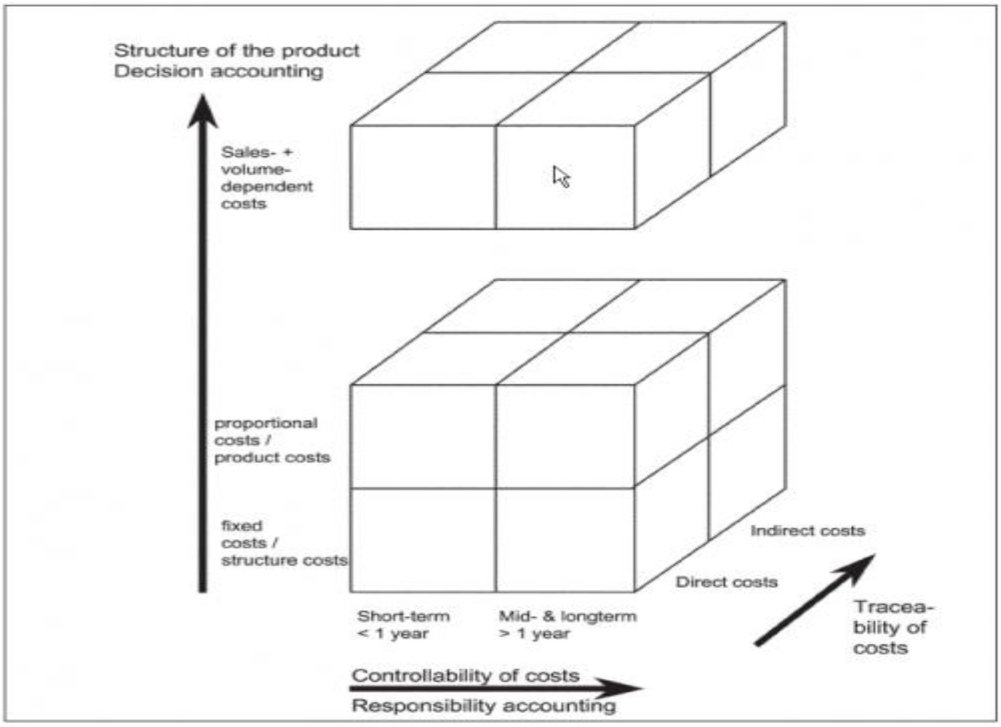

Figure 1. Controlling costs cube

In line with the significance of a particular type of cost, there is a need for cost control. Some types of costs may have a short-term and some long-term impact on business. The division itself into variable and fixed no answer to the question of whether they can be controlled. This requires a different approach. The three dimension is cost allocation. It is decided at what cost can directly burden the product or the cost center. Those toys that cannot be directly distributed are so-called common costs. Figure 1 shows the three dimension or controlling cost cube. [5]

Using the controlling cost cube, the problem of understanding the difference between fixed and variable costs, as well as the division between direct and indirect costs within the cost center, is avoided. The task of the controller is to keep in mind the size and complexity of the costs within the company. Managing and controlling costs is complex from that point of view, because the controller must at the same time rule with all aspects of the cost and observe them through a three-dimensional image. The goal of the company and company's management is to reach the level of managing real incomes and costs, and only in this way controller has clear picture.

Other costs listed in the profit and loss account, which are being deducted to determine the operating profit, are called the selling, general and administration (SG&A) or operating costs. Those include administration costs, sales costs (advertising, fairs, transport and other), depreciation costs, insurance, service and other accompanying costs which are mainly fixed and less dependent on the volume of total income. [2]

4. IMPORTANCE OF COST PLANNING

To establish effective cost control within an enterprise, it is necessary:

1. Compare the planned data with the actual sales revenue generated by the company. It refers to the exact determination of income for each product individually
2. Actual costs must be compared with the plan of different areas
3. In the end, it is necessary to take an overall view of the relations between the planned and realized revenues and costs in order to obtain an analysis of the causes that influenced the positivity or negative trend of these indicators.

The planning process in the company is closely related to the controlling system. The controller is responsible for the introduction and coordination of the planning process. In that sense, we can consider it as a planning manager. He is so-called product-planning manager. [8]

Planning and control are parallel functions. The plan has a need to be measured against actual indicators. Planning implies that what is planned and what is agreed and achieved. Planning cannot be regarded as a kind of propagation of the fate of a company. We could possibly describe him as a tracing of the way to go. Plans are not decisions that are made on the basis of one's wishes, but should be done on the basis of what is possible to achieve.

When we compare the indicators which we have, that hepl us to see are we on the right way. We need to learn from the deviation in order to improve planning.

Consequently, it is very important that cost planning is as realistic as possible, although the task of financial controlling is to monitor the trend of costs and their deviation, cost planning must be done at the level of the enterprise and that managers of all sectors work together on it, this is especially true about operating costs, which are common costs of the entire enterprise.

5. REDUCTION OF COSTS IN INSURANCE COMPANY

Today's unforgiving economic climate confronts insurers with a multitude of challenges. The low interest environment, greater price transparency and customer cost consciousness, sweeping regulatory changes, and lack of growth perspectives are just a few. As a result, the profitability of Life and P&C players is currently barely above the cost of equity: costs are emerging as a key factor for competitive advantage. Insurers across Europe are finding this hard, as many have failed to sustainably manage their costs. However, a few cases demonstrate that successful, long-term cost management is possible. How have these top performers managed to achieve such stellar performance.[4]

5.1. Market situation in the Republic of Serbia

In the financial market of the Republic of Serbia was operated 23 insurance companies in 2016 (19 insurance companies and 4 reinsurance companies). According to the reports of the National Bank of Serbia, the global growth of economic activity was positive, but it was estimated slowly and the weakest in the post-crisis period, with a moderate recovery expected in 2017.

According to the criterion of total realized premium in 2016, the three largest insurance companies in the Republic of Serbia are: Dunav, Generali and DDOR. Operating costs have a large share in these insurance companies. In the Dunav insurance company, the share of operational costs in the total revenues was 7.76%. In Generali insurance company the situation was worse compared to Dunav, because the share of operating costs in total revenues was much higher and it was 22.31%. While in DDOR insurance company, which ranked as third in terms of the criterion of total premium, the situation was a little bit different. The share of operating costs in DDOR was 10.17%.

Operational costs should have the smallest share in total costs and in relation to total revenues, given that these are often fixed costs that do not affect business growth. In today's world, in the conditions of great competition that affects the growth of the costs of promotion and marketing, when the costs of information support due to the constant growth of the information sector and sales through the Internet, financial institutions and especially insurance companies should take care that operating cost is as much as possible burdended by the company's budget.

5. CONCLUSION

In today's world, emphasis is put on sale and revenue in determining plans for the next period in the company, and the costs are not in the focus of the Board of Directors. Strong competition in the last decade has influenced the board to be primarily concerned with raising a strong sales strategy with the aim of maximizing revenue and profit later.

In Republic of Serbia, insurance companies are usually large companies, especially companies included in the analysis. They have to cooperate with all sectors and branches in the planning and control process. The plan must start from the procurement process to the ultimate goal of selling. Only in this way can the exact goals of the company be determined to develop a strategy. A well-developed strategy provides a well-defined budget for each project and sector, in which case the deviations should be minimal. This whole process is primarily significant in order to reduce operating costs, in the future it is expected that these costs will increase constantly, as they are increasingly burdened with the marketing costs of promotion, maintenance costs of the information system, and other costs that are a bit high, because it is about really big financial institutions.

Nowadays, when competition is too big, anyone can expect that the company should only focus on the highest sales revenues. It must be timed to plan for the next year, especially with operational costs. Only when the minimum operating costs are determined, the organization can start with planning the revenue.

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