

RESEARCH ON SOLVING PROFIT PROBLEM IN SMALL AND MEDIUM SIZED PROPERTY INSURANCE COMPANY

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ABSTRACT. In this paper, property and casualty insurance companies' profits are from the four main areas as a starting point, in-depth analysis of the small and medium sized property and casualty insurance companies making profits in the three major steps. Combined with cases, we pointed out: 1. Underwriting management by target market segments is the first key step; 2. The establishment of "EQC" (efficiency, quality, cost) which claims management model is the second key step; 3. The establishment of a "quarter" method of budget management system is the third key step. Further more, this paper also presents some institutional recommendations to make the small and medium sized property and casualty insurance companies in a sustainable development.

Keywords: Property and Casualty Insurance; Losses; Profit; Underwriting Components; Claims Components; Cost Components

1. The Whole Property and Casualty Insurance Industry Has Been into Losses. From 1999 to 2009 is the Golden Decade for the great development of property and casualty insurance. In 1999, the insurance industry obtained a total income of 52.112 billion Yuan of property and casualty insurance premiums, in 2009 this figure reached 287.583 billion Yuan. However, in recent years, the whole industry has been into losses. How to make profit, especially the small and medium sized property and casualty insurance companies, is an important issue in front of the insurance industry. For a long time, there was a "three-year odd cycle" in property and casualty insurance industry, that is prosper in the first year, rich in the second year and loss in the third year. This cycle, also led the industry to form such a mindset-a new property and casualty insurance company must be in loss for the first three years. The new opened property insurance companies are basically of small scale, and this also means that small and medium sized property and casualty insurance companies are the main losses of the property insurance industry. In the first half of 2009, property insurance industry achieved a total loss of 540 million Yuan, of which over 7.8 billion is underwriting loss.

2. Chinese Small and Medium Sized Property Insurance Company Profit Model.

2.1. Analysis on the "Three-Year Odd Cycle". First, it is attributed to the unreasonable development strategy. Many companies who paid more attention to scale than benefit, take scale as markers, mislead front-line agencies do not attach importance to quality of business, and result in rapid expansion of institutions, over-development. what's more, risks continue

to accumulate during this process and there is no time and means to resolve, eventually lead to crisis. The case China United Property Insurance Company Limited be inadequate solvency is just a good lesson to the new small and medium sized property insurance companies.

Second, it is attributed to the homogeneous products. According to statistics, motor vehicle insurance premiums account for 70% of insurance premium income. However, motor vehicle insurance products are awarded reunification provisions. There is not much competition in individual terms, and then the competition focuses on rates. Now the auto insurance is a field of over-competition and there is no benefit at all. The same problems also spread to the other major traditional property insurance products, such as business property insurance and cargo insurance and so on.

Third, it ignores the main business operators so that underwriting profit turned to investors profit. Previous years, based on the explosive growth of capital markets, the cash flow underwriting philosophy began to be respected. In the past, the companies emphasized on underwriting profit and now they rely on investment returns. However, the downturn of capital market in recent years makes a significant decline in investment income, which can not cover an underwriting loss.

2.2. The Main Profit Links of Property Insurance Companies. As is proved, small and medium sized property insurance companies that is in line with previous thinking, "to scale for efficiency", will be impossible to achieve sustainable development. We must change it, rely solely on profit return on investment model, strengthen the management of insurance business and lower operating costs to improve business performance. This is the realistic choice for property insurance company.

The profits of insurance companies are mainly from four areas: investment income areas, underwriting areas, claims link and cost control link.

For investment income areas, because of its high dependence on capital markets, they cannot guarantee a stable and effective high yield. I think: insurance companies should return to core business operations, and make a good control in three links of underwriting, claims and cost control to achieve an underwriting profit.

3. Three Key Steps for Small and Medium Sized Property and Casualty Insurance Companies to Make Profit.

3.1. The First Key Step-Underwriting Management by Target Market Segments. Underwriting is the first pass, in which to shut out the potential loss business, underwrite business of good quality, which needs around managing the development and target market segments and establishing different customers types of risk underwriting management. This can be divided into internal and external two aspects:

3.1.1. The External Aspect-According to the Probability of Dangerous Condition to Classify Different Customers, and Adopt Different Customers with Different Risk Underwriting Management. For example, Sunshine Property and Casualty Insurance issued a set of underwrite management mode called "Red, Yellow & Blue". Blue stands for

VIP client, Yellow is elementary clients, Red is risk clients. This mode is mainly used to subdivide the existing clients, which is on the basis of “from vehicle, from people, from region” and according to the different claim probability in the classified to the clients as “Red & Yellow & Blue” three levels. Sunshine Insurance analyzes two sets of data according to a large number of statistics, which shows that “claim probability of the target market is 4.61%, and the non-target market is 10.59%; loss ratio of the target market is 39.86%, while the non-target market is 66.81%; the maximum loss ratio between target market and non-target market is 50% on average. Centering on the development and subdivide target market, Sunshine Insurance divides Car insurance into red, blue and yellow. Red car insurance is of high claim probability and high loss ratio, then it’s a kind of loss service. Yellow car insurance is of high claim probability and loss ratio can be controlled, then it’s a kind of service between profit and loss. While blue car insurance is of low claim probability and low loss ratio, then it’s a kind of cost-effective service. Companies centre on resource allocation to promote positively development of blue service and restrict red service. In 2007, Sunshine Property and Casualty Insurance realized accounting profits two years in advance, which broke the “three year odd cycle” on property insurance company.

3.1.2. The Inside Aspect- the Company Should Build up a Set of Standard Accept Insurance Management Procedure to Insure the Authenticity and Accuracy of the Insurance Data. We still take the Sunshine Property and Casualty Insurance for example. The company built a set of standard underwriting management procedures. If clients want to underwrite, we should do it on the basis of standard and specification, or it’ll be no use. On the check insurance management system, it should adopt cascade decision-making authority, which based on differentiation management, strengthen enforcement efforts in departments and staff at all levels. Sunshine Insurance Henan Branch based on developing and subdividing target market management to set up the insurance management mode of different clients and risk types. Sunshine Insurance Henan Branch earned premium income as much as 321.85 million in 2007 and 356.95 million in 2008. While the administration cost rates were 100.16% and 94.80% respectively. Using this method, Henan Branch got significant benefits in the first 2 years.

3.2. The Second Key Step-"EQC" (Efficiency, Quality and Cost) Claims Management Mode. Claims cost is the largest cost for companies operating in the property and casualty companies. The key step is how to manage compensate? Property companies should build "EQC" (efficiency, quality and cost) claims management mode to compensate. The mode is mainly divided into two aspects:

3.2.1. Comprehensive Evaluation System. The evaluation of claims effect should be a comprehensive evaluation system, this means the bad or good effect evaluation claims management should be changed to these three aspects of “EQC” to comprehensive evaluation instead of the previous single hand (such as efficiency or quality or cost).

3.2.2. Quantified Standards. According to EQC, setting standard for the claims job, setting formulate specific requirements, the quantitative evaluation of the job plays control

role. Recently, such as its "link in the claims EQC" claims management mode is mainly from three aspects of the evaluation result claims management. And each position to formulate relevant standards, specific requirements and performance quantification, plays very good control effects. By December 2009, while it restores the property division, 17 claims range is in AB insurance and 12 interval fluctuated.

3.3. The Third Key Step--Establishment of Budget Management, "Four Quarter" Method Management System. From the point of the cost link in property insurance company, one of the most important financial indicators is combined ratio in insurance companies, and the indicator can be objectively reflect the company's operating costs of the integrated control capability, management and professional level of fine important performance reflected. The current general insurance industry with "two half" cost accounting system, makes the "change fee" of a gray area for a long time, and the industry has become "the cost of promoting the development of path dependence". This accounting treatment which is the cost of packaging concept insurance companies is difficult to achieve a fair cost. For the cost of property insurance sectors, we have to establish budget management with "four quarter" method management.

Many international property insurance companies use a quarter of the cost of budget management control mechanisms, which are cost of sales, management costs, operating costs and compensation costs. For example, Ping An Property & Casualty leads in establishing a quarter of the cost management and control mechanism, which are cost of sales, management costs, operating costs and compensation costs, through the right insurance, market, institutional differentiation inputs to play into the cost of leverage. But now the world's largest medical insurance and finance companies: CIGNA Group (Cigna) using in-house "four quarter" which is the market cost in classified acquisition costs will be divided into acquisition costs, compensation costs, operating costs and management costs four categories. From risk control and financial point of view, this kind of "four quarter" is more scientific.

For example, in January 2009 the Sunshine Property & Casualty company also draws on CIGNA Property & Casualty Group (Cigna) "4 quarter " and experimented with "criss and cross". But what is different from Ping An company is that their marketing costs will be included in acquisition cost where the cost is divided into acquisition costs, compensation costs, operating costs and management costs four categories. Through the detailed management on the fine cost, it will be clear to ensure the responsibility and facilitate the centers to examine and implement dual control process. It is reported that the whole process is through the implementation of all aspects of budget management, and property insurance comparable caliber of Sun Property & Casualty Company is under a 30% decline in fixed costs. As in the first quarter of 2009, the combined ratio remained at less than 100%, and it can be shoulder to shoulder along with good control property and casualty insurance peers like the Pacific.

4. More opinions. In addition to the several aspects have been discussed, small and medium sized property insurance company should do more to make profit such as involving insurance products to meet market demand and providing a full range insurance services.

At the same time, insurance regulators are also facing the difficult task that is to promote market more market-oriented.

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