

# Probe into the Financial Risk Management of Insurance Companies

Zilong Song

Canvard College, Beijing Technology and Business University, Beijing 101118, China

## Abstract

The insurance industry is crucial in the social security system. Nowadays, the scale of the insurance industry continues to expand, and its products are further enriched. The insurance industry generally has higher risks. Each insurance company needs to bear its own interests and losses, but also faces the operational risks. And at the same time give play to the value of people's life and property protection and promote the stable development of society. Enterprises need to pay attention to fund management when managing, because capital management is the top priority of enterprise management, the quality of financial risk management will affect the future development of insurance enterprises, and the stable development of the insurance industry is conducive to ensuring the harmonious development of society. This research focuses on the analysis of financial risk management issues of insurance companies, it has important value significance.

## Keywords

Insurance Companies; Financial Risk Management; Research.

## 1. Introduction

With the gradual improvement in the quality of life and living standards of the general public, more and more people are concerned about the safety of life and property. The insurance industry has important protection value to the masses of society. In recent years, China's insurance industry has continuously innovated products and further expanded its business. At present, the insurance industry has become a key part of China's financial economy. According to relevant information, in 2021, insurance claims in China will reach hundreds of billions of yuan, and the insurance industry will provide good life safety protection and property protection for all sectors of society. From the point of view of the insurance industry, the insurance industry bears the risk for the customer. Compared with companies that actively avoid risks, insurance companies usually deal with risks, so the insurance industry should do a good job in risk prevention. With the continuous improvement of China's economic level, further expansion of financing channels and further expansion of financial risks faced by the insurance industry, the insurance industry should constantly improve its risk management ability. Financial risk is the key content of daily risk management of insurance enterprises, and plays an important role in the future development of enterprises. This research focuses on analyzing the financial risk management of insurance companies and providing them with optimization suggestions.

## 2. Overview of Financial Risks of Companies in the Insurance Industry

### 2.1. Introduction to the Basic Situation of Insurance Companies

Since China's reform and opening up, the insurance industry has developed rapidly. Nowadays, the insurance industry has become a key content of the economic and financial system as well as the social security system. The insurance industry can realize social management value,

which is helpful for the country to promote economic development and ensure the harmonious development of society for the country.

According to relevant data, the total original premium income of China's insurance industry in 2020 was 3,658,101 million yuan, an increase of 18.16% compared with 2019. Among them, the income of property insurance companies increased by 13.76% year-on-year, the income of personal insurance companies increased by 20.04% year-on-year, and the compensation fund reached 1118.079 billion yuan, an increase of 6.35% compared with 2019. The total assets of the insurance industry in 2020 were 167,489.37 trillion yuan, an increase of 10.80% compared with 2019.

Nowadays, the country's attention to the insurance industry is gradually increasing, lay a good foundation for the development of insurance industry, and the demand of the insurance industry is also further increasing. The future development opportunities of the insurance industry are relatively good. However, some insurance companies have not actively improved the level of financial management, and still use traditional financial management methods to manage financial work, which affects the development of enterprises. This paper focuses on analyzing the financial management risks of insurance companies, identifying relevant factors of financial risks, and providing optimization opinions for the financial risk management of various insurance companies.

## **2.2. The Main Types and Influence of Financial Risks of Insurance Industry Companies**

### **2.2.1. Risks in the Financing Process**

Fund-raising activities are the basic prerequisite for the daily operation of insurance companies. The stronger the capital strength of insurance company is, the better the financial ability of insurance company is. Insurance companies should use different financing methods to obtain funds that are consistent with the development of the enterprise. Some insurance companies arbitrarily expand their business scales at will, resulting in excessive capital cost burden of enterprises, affecting the solvency of the enterprises, and leading to financial management risks for the enterprises.

### **2.2.2. Risks in the Investment Process**

There may be many risks in the process of corporate investment activities. Different investment projects have different management requirements for corporate operating funds, and different investment projects will also cause enterprises to face different operating financial risks. Wrong investment activities will affect the economic benefits of enterprises and bring financial risks. For example, blind investment and blind expansion will lead to a shortage of funds for insurance companies, which will affect daily operations. Insurance companies should reasonably control investment projects to prevent capital losses and financial risks.

### **2.2.3. Risks in the Operation Process**

(1) Underwriting process risks. Underwriting means that the insurance company conducts a comprehensive review of the insurance application requirements submitted by the insured, analysis of customer conditions to determine whether to agree to accept insurance, and clarifies the relevant regulations. Some customers will conceal their actual situation, increasing the difficulty and risk of insurance companies' claims settlement.

(2) The risk of premium collection. The insurance company obtains the premium paid by the customer, and then formulates and collects it according to the corresponding plan. The form of premium collection cannot be changed at will. Some insurance companies use the form of delay or multiple payments to obtain premiums, then accounts receivable and notes receivable. If the customer does not pay premiums within the specified time, the insurance company may have bad debts and affect the capital chain of the enterprise.

(3) Claim risk. Insurance claim settlement refers to the property losses and personal damages incurred under the background of the insurance company's performance of the contract. The insurance company will analyze the customer's responsibilities for compensation and payment responsibility. Insurance claims refers to the insurance company to the customer in the process of insurance risk accident claims, which is also a key link in the daily operation of the insurance company.

### **3. The Main Problems in the Financial Risk Management of Insurance Industry Companies**

#### **3.1. Lack of Awareness and Ability of Financial Risk Management**

Nowadays, the staff of many insurance companies do not have a good sense of financial risk awareness, and these staff have not paid attention to the importance of financial risk management to the development of insurance companies. The top managers focus only on the economic benefits brought by insurance to the company, and the basic staff of the company only pays attention to their own performance. It can be seen that the staff of China Life do not have a good sense of financial risk management awareness. In the current insurance industry companies, a good financial risk management environment has not been formed, and top-down concerns have not been formed. As a result, there are serious financial management risks due to weak financial management awareness in the actual operating process of insurance companies. Seriously affect the actual operating efficiency of some companies in the insurance industry.

#### **3.2. Financial Risk Early Warning Mechanism is not Perfect**

Because the managers of many insurance companies do not have the awareness of financial risk management, the financial risk management and evaluation methods of enterprises are relatively single, and there is no scientific and reasonable risk early warning system. The use of performance evaluation indicators to analyze the financial risks faced by insurance companies has led to financial risk early warning and excessive management and control. There is no separate risk assessment and risk monitoring department, so when the risk comes, it is not possible to make accurate control in the first time. At present, insurance companies are unable to form effective guidance on the financial management of staff in the actual work process due to the imperfect financial risk early warning mechanism and imperfect financial risk management system, which also results in relatively serious financial risk management of the enterprise. Inadequate work will affect the actual business development of the enterprise, and is not conducive to the inflow of economic benefits. It may even lead to a serious financial crisis in the enterprise and eventually go bankrupt.

#### **3.3. The Company's Internal Control System is not Sound**

As far as the actual development of the insurance industry is concerned, there are many insurance companies that do not have a good internal control management system, it let alone a scientific and reasonable internal control management system, which results in the lack of effective. The guidance of internal control policies has caused serious financial management risks. Firstly, although many insurance companies have established control systems, such as inventory control systems, monetary capital control systems, accounts receivable control systems, etc., the strength of control is far from enough. Enterprises do not pay attention to the value of internal control in the process of daily operation, as an enterprise financial manager, the guidance and observance of the internal control system tend to be formalized, and many personnel have not implemented it in accordance with relevant rules and regulations. Secondly, many insurance companies have not hired professional personnel to manage internal control, and the level of professional skills of the staff is limited. In addition, the lack of financial, the

efficiency of control and supervision is poor. In addition, the job responsibilities of the supervisory department are not clear, and there are many job function conflicts or vacancies, which lead to obstacles in the daily supervision of internal control, and the application value of internal control cannot be brought into play. Failure to carry out internal control work smoothly will directly lead to serious financial risks in the enterprise, which will affect the actual operating conditions.

### **3.4. Related Party Transactions are Complicated and Protection System Lacking**

The equity structure of a lot of insurance companies is more complex and the internal management is not perfect, which can affect the daily management of insurance companies. Insurance company within the related transactions, and further improve the financial risk probability, lead to financial risk further expansion, such as equity investment and the capital flow between subsidiaries, interaction types business, each subsidiary, mortgage guarantee behavior between behavior, commitment, insurance companies, each subsidiary exchange technical service, information sharing, patent transfer, brand general. As the scale of business development continues to expand, there will be more and more related transactions. In addition, many companies currently do not effectively handle related transactions. The complex relationships within insurance companies increase the possibility of financial risks. The company cannot achieve internal synergy, which brings certain financial risks to insurance companies.

### **3.5. Deviation in Positioning of Strategic Goals and Lack of Product Innovation**

Many insurance companies do not develop accurate development strategies, and fail to reasonably segment the market. Their products tend to be homogeneous, and in some cases, their innovative products will be copied by others. Under the basic condition of constant market capacity, the competition in the insurance market is fierce, and the development space of many insurance companies is further reduced. Because insurance companies do not have advantages in product innovation, insurance companies, in order to further expand their market share, plan from the rate, and then fall into the whirlpool of market competition, which seriously affects their profitability and leads to financial risks. The current serious problem of unclear strategic goals and even positioning deviations has caused certain problems in the actual business process of the company's business development direction. The grassroots staff lacked the guidance of effective development goals and lacked motivation in actual work, resulting in insufficient motivation. There are serious problems in product innovation, and product research and development do not meet the reality of enterprise development, causing serious enterprise development problems and affecting the development of financial management.

## **4. Perfect Measures for Financial Risk Management of Insurance Industry Companies**

### **4.1. Strengthen the Training of Employees**

China Life Should optimize its human resource management policies when conducting financial risk management, formulate talent development strategies in the process of enterprise development planning, including financial risk management training for staff positions. For example, China Life insurance set up an independent financial risk management department and set up financial risk management staff under the department. The daily work of the staff is to supervise various financial risks faced by the enterprise, so as to improve the financial risk management level of the enterprise and make regular summaries and reports. In this process, the development of financial risk management department staff to regularly receive training, such as to various institutions for further education, to participate in lectures in other areas, or

helping to improve the comprehensive quality of enterprise financial risk management staff, so as to improve the level of enterprise financial risk management.

#### **4.2. Strengthen the Construction of Financial Risks Early Warning Mechanism**

In the process of establishing financial risk early-warning index system, China Life Insurance should take the evaluation of solvency and profitability as key indicators. We should pay more attention to the indicators of cash flow liabilities, surrender, assets and liabilities, returning on total assets, operating profit, freeze, capital income, surplus cash guarantee multiple, liquidity ratio, premium income growth, net asset income and cost. Through the above indicators, we can comprehensively supervise the financial risks faced by enterprises and improve the control of capital flow. The important business content of property insurance company is to pay indemnity and collect premium, but the operation of insurance company and the cash flow of indemnity have important correlation. Therefore, insurance companies should comprehensively analyze the cash flow generated by daily business activities, paying certain attention to it, and protecting enterprises from financial risks with the help of financial risk early warning system.

#### **4.3. Strengthen the Construction of Internal Control System**

If you want to improve the efficiency of financial risk management, it is necessary to continuously optimize the internal control system of the enterprise to further reduce financial risks. China Life has to formulate a financial budget system to reflect the company's daily operating conditions, so as to improve the level of cost control. Formulate a business performance evaluation system and a capital management system to ensure the safety of the company's capital flow. Fully defend against the impact of financial system risks and single financial incidents on the enterprise, formulate a cash flow management system to ensure the healthy financial operation of the enterprise. Therefore, in order to effectively improve the quality of financial management and reduce the risks of financial operations, the construction of a scientific internal control system during the operation of the insurance industry has important practical significance. It is essential to strengthen the internal control work of the insurance industry and form an effective internal control system. Through the management and control of the internal control system, the work standardization and standardization of actual staff can be improved, thereby effectively reducing the formation of financial risks.

#### **4.4. Strengthen the Risk Management of Affiliated Transactions**

In view of the current situation of serious internal related transactions within insurance companies, effective management from multiple perspectives should be used to effectively improve the control of internal related transactions and reduce the impact of internal related transactions on the financial management of the business. Firstly, China Life Insurance should protect the interests of investors and customers, and ensuring the continuity and effectiveness of insurance group business operations. Secondly, China Life should maintain public confidence in the financial system and prevent financial accidents from turning into financial crises. China Life insurance needs to comprehensively prevent the spread of risks. Under normal circumstances, many enterprises have internal related transactions, and related transactions bring financial risks to enterprises in the daily operation process. Therefore, China Life Insurance should constantly improve the management efficiency of internal related party transactions, reviewing the contents of related party transactions, formulating transaction principles, restricting limits, and preventing the further spread of financial risks caused by related party transactions within the enterprise.



#### 4.5. Strengthen Product Innovation, Scientific Positioning of Strategic Objectives

Under the background of the current environment, the development of the insurance industry has gradually become the trend of the times. More and more people are paying attention to and buying insurance. Therefore, the demand for insurance products is also increasing, which requires the insurance industry to continue to innovate its own products. Types, attract more consumers by continuously enriching product categories. At the same time, when carrying out product innovation, it is necessary to clarify the development position of the enterprise and guide the enterprise to conduct good and orderly operation and development. Nowadays, the insurance market is developing continuously, and the market division is more clear. Therefore, China Life insurance should comprehensively analyze its own characteristics, formulate reasonable development strategies, and constantly innovate products to improve its competitive strength. China Life Insurance should comprehensively analyze the actual situation of the insurance market and reduce the pressure of financial risk management. In the process of formulating policies, the development and sales of new insurance products should be promoted, and relevant departments should do a good job in product innovation. When launching new products, we must learn to use "protection policies" to prevent competitors from copying our products. This will also become an important protection method for insurance product innovation and become a major measure for the regulatory authorities to drive the development of the insurance market.

#### 5. Summary and Prospect

Effective financial management for the current insurance industry operations has important practical significance and can effectively promote the standardized operation and development of our country's insurance industry companies. Nowadays, many insurance companies have formulated certain risk management rules and regulations, but in fact, they have not been effectively implemented, nor have they supervised the implementation process, nor have they analyzed the effect of implementation. Enterprises should take risk management as the focus of their daily work, it should constantly improve the quality of risk management, and it should attach importance to the value of risk management. It is not easy for enterprises to achieve risk management, which also requires enterprise managers to set up correct management ideas, through the establishment of a sound supervision system to promote the staff to implement the risk management objectives issued by the superior. Enterprises should train their staff, it should develop a risk warning system, it should improve the efficiency of internal control, and it should make comprehensive management of related transaction risks, so as to improve the risk response ability of insurance companies.

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