

## The Necessity and Importance of Insurance Controlling

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### Abstract

*In this article we aim to present the need and importance of controlling as a control method and as a management technique, in order to identify the advantages of their subsequent use in the insurance market.*

*Controlling is considered an indispensable function for the top management of the entity, in the sense of coordination, planning, control and computerization, in order to produce favorable generalizations or conclusions in the decision-making process.*

*Through this research we aimed to highlight the interdependence between the management of the insurance field and the controlling system. At the same time, we aimed to clarify who the controller is and what are its functions within an entity and what are the stages of the decision-making process.*

*It should be noted that a controlling system must be available to the management of the insurance industry all the tools to meet their information needs.*

**Key words:** controlling, instruments, entity, control, insurance market

**J.E.L. classification:** M10, M20

### 1. Introduction

Within the insurance field there are a number of difficulties regarding the measurement of human resources performance, also we refer to the absence of evaluation criteria and indicators of the entity's performance, lack of correlation between human resources performance and quality of services provided to the public. (Lavine, 2005,p.76)

At the current stage, the notion of "performance" has become an important term for the entity's managers, because a high-performing economic unit more easily overcomes periods of crisis generated by the external environment, meets social needs both quantitatively and qualitatively in a particular segment, etc.

So, the performance is not a simple finding of some results but, on the contrary, it is "a special achievement in a field of activity", which was obtained in a previous period, a better result compared to the competitors, a better result compared to the proposed objectives. In order to be successful, the economic entity must apply the total quality approach which is based on five fundamental concepts: compliance, prevention, excellence, measurement and responsibility.

Controlling has become indispensable for improving business performance and maintaining competitive advantage, as it supports top management in strategic and operational decision making. Given that the details are what differentiate a profitable entity from a bankrupt one, every module of a business must be managed with all seriousness, and the role of the controller is decisive. The controller is the administrator's trusted man. It seeks to ensure that the policies of procurement,

production, staff recruitment or motivation of employees are complied with. It also analyzes costs and intervenes, where possible, to reduce them.

## **2. Literature review**

In this article we want to present the basic concepts and concepts of control, starting from a series of definitions of this concept which are found in the literature. The controlling function is a controversial one in the literature and enterprise practice, with the task of designing and monitoring the management process in defining goals, planning and control processes, with a responsibility for achieving the set goals (Becker & Ulrich, 2016). Anthony (1965) defines the controller that the process by which leaders ensure that resources are effectively obtained and used to achieve the organization's objectives (Anthony, 1965). Other relevant definitions are formulated by Hauschildt (1972).

It is important to mention how the concept of controlling has evolved and developed over time, for the first time in the 15th century in England. The importance of control has started to grow steadily with the 20 years, with management accounting being built up in the '60 years and cost management in the '80.

Subsequently, it presents the main functions of the controller: Investigation and documentation, planning, forecasting and consulting, Regulation and management, control (Jung, 2007), as well as the tools with which it operates: Cost calculation, budgeting and performance indicators.

## **3. Research methodology**

General aspects of risk insurance and the importance of controlling. Insurance is an important part of life. Without insurance, many aspects of today's society and economy could not function. The insurance industry provides coverage for economic, climate, technological, political and demographic risks, thus enabling people to lead their daily lives and companies to operate, innovate and grow.

Insurance is a transfer of risk. It transfers the risk of financial loss as a result of specified but unpredictable events from a person or firm to an insurer in exchange for an insurance premium. Thus, if a specified event occurs, compensation or service can be requested from the insurer (eg platform transport of the damaged vehicle, means of transport insurance for the continuation of the journey).

Insurance is therefore a means of reducing losses due to uncertainty. In exchange for buying an insurance policy for a smaller premium, known as a value, the possibility of a larger loss is ruled out. By accumulating insured premiums and events, the financial impact of an event, which could be disastrous for an insured, is dispersed into a larger group.

Modern insurance - although based on a very simple principle - is an extremely sophisticated risk transfer mechanism, which can take many forms.

Insurance has developed over many centuries. It began with pure maritime insurance, whereby traders agreed to contribute to the loss of those who suffered damage after it took place. The problem with this system was that it did not completely transfer the uncertainty, because traders never knew how much they would have to pay. Modern insurance has developed so that policyholders know from the beginning what is the full value of their participation in damages (ie the premium).

It can be said that modern society could not function without insurance. Many daily activities that we take as such involve a certain risk of damage and could not be carried out without insurance. (Amann, K., & Petzold, J. 2014, p. 209)

The process by which the insured's risk is assessed is called underwriting. The premium and the terms of the insurance contract are based on the assessment of the level of risk performed by the insurer.

Each person or company that wants to be insured brings a different level of risk to the insurer: a wooden house represents a higher risk than a brick one, for example. In order to be convinced that each insured person pays a fair premium, insurers use a number of assessment factors to determine the level of risk. In general, the higher the risk, the higher the premium.

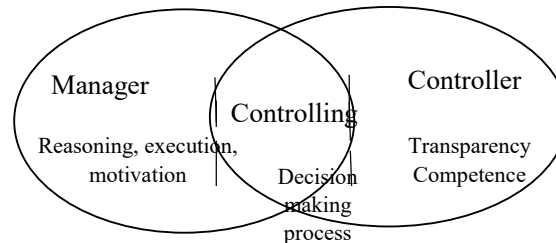
Thus, we appreciate that the exercise of controlling plays an important role in monitoring and managing the performance of insurance. Supported by a series of tools, controlling ensures the tracking and administration of the good results of an entity.

In Romania, in most insurance entities, where the controlling function persists, they are assigned more tasks and accounting functions, such as preparing financial statements, tracking contracts with customers, suppliers.

Thus, it is recommended that, first of all, for large brokerage firms, a separate Controlling Department be included in the insurance organization chart. What happens to small companies, so the Accounting and Planning service is handled by the Accounting Department, but there are some needs that are met separately from accounting.

So, the implementation of the controlling system, which is dedicated to top management, must come to their aid and "translate" the company's results, based on the information provided by the Accounting Department to plan strategic objectives. Controllers provide management with complementary business administration services for goal-oriented and control-oriented planning, and bear joint responsibility with management for achieving set goals.

Figure no. 1. Controlling - the composition of entity management



Source: (own processing)

However, the controller operates at all hierarchical levels and in all areas of the company. Accordingly, a large controlling organization is born in large firms, which includes numerous controllers established at a decentralized level.

Here, however, we do not want to address the organizational details, which will be dealt with in what follows; it is enough for us to remember that the tasks and the position of the controller are significantly determined by the size of the company (Kupper, 2005, p.32). Thus, for medium-sized companies it is typical that a controller is seen as a "good girl at all" and does not only deal with controlling activities, while large companies divide the activities of the finance department into activities for the controller and activities for the treasurer, stricter or less strict dividing lines are drawn.

An auxiliary element for determining the tasks of the controller and its driving position is the job description. (Goedel, H. (2010).46-47)

The job description provides information on the position and hierarchical ratios of the controller, as well as on its precise tasks and competencies. (Ziegenbein, Klaus 2002, p.23) The job description is thus the most appropriate tool for determining the framework of the controller activity and for the visible documentation of the controller position.

Table no. 1. Assurance portfolio of an insurance controller

Job description		Insurance	
<b>1.0 Job title</b> Coordinating controlling		<b>2.0 level</b> Field coordinator	
<b>3.0. Objectives</b> -development and application of procedures that lead to the achievement of a sufficient profile for the company -supporting the company's management as an analyst and advisor for an efficient self-control			
<b>4.0 Job title of immediate superior</b> The director of the company <b>4.1The job holder receives specialized instructions from</b>			
<b>5.0 The job holder gives specialized instructions to:</b> -coordinator of the cost calculation department -coordinator of the planning and reporting department -employees in the controlling department			
<b>6.0 The post holder is replaced by</b> -the director responsible for the financial, administrative and legal problems of the company's economy -coordinator of the administrative department			
<b>7.0 The job holder replaces</b> The coordinator of the administrative department			
<b>8.0 Special powers of attorney</b> (Special powers and rights which are not specific to the hierarchical level and which go beyond the general regulation must be indicated here) -General power of attorney - power of attorney for the bank			
<b>9.0 Description of the specialized activities to be carried out in particular by the (independent) job holder</b> - advising the company director - responsibility for reporting and entering the information management system - elaboration of budgets and monthly results - deviation analyzes and benchmarking - performing, interpreting and commenting on the comparison of the estimated and achieved results - making predictions - drawing up cost calculations per product and setting prices - objective - strengthening internal and external reporting - performing profitability and investment calculations - financial planning - supporting / performing strategy planning - process analysis and development of control countermeasures - unification and development of controlling tools - Project Management			
Indication for the job holder:			
The job description sets out your tasks and competencies in a binding manner. You are obliged to act and decide accordingly. You must inform your supervisor immediately when you notice deviations.			
Date: Hierarchical superior	Date: Department coordinator	Date: Human Resources Department	I received the job description Date: Signature of job holder:

Source: (own processing)

At the end of this section it should be clear why the concept of controlling, as a component of the modern management of a company, is an absolute necessity.

Because there are no legal requirements on the controlling function in companies or the quality of its results should deliver (Krings, 2012), the organization of the controlling system that differs from one company to another. It is also a rather vague concept that has been approached over time in a different way. The paragraph seeks to clarify the meaning of controlling according to the current understanding in the literature, noting three different perspectives: (1) the controlling mission statement, (2) the controlling process model, and (3) the concept role in controlling. The impact of insurance on economic growth

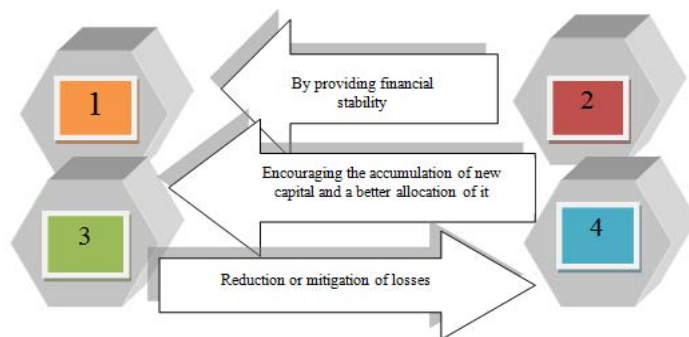
The insurance sector can contribute to economic growth, both as a financial intermediary and through the function of supplier and risk transfer identifier, respectively achieving an effective risk

control and mobilizing the savings of the population. Over the last decades there has been a rapid growth of the insurance market, especially in developing (emerging) markets, due to financial liberalization and integration, which has raised questions about the impact of this sector on economic growth. A large volume of theoretical literature has been devoted to the way in which financial systems influence saving and investment decisions and implicitly the rhythms of long-term economic growth through the following functions.

- exercising corporate governance;
- trading, diversification and risk control;
- mobilization and placement of savings;
- conductor of exchanges of goods and services;
- mitigating the negative consequences that random shocks can have on capital investments.

Financial intermediation supports economic development by improving these functions, and alleviating market frictions, such as the costs of acquiring information, (Horvat 2006, pp.108-110) making transactions and concluding contracts, respectively allowing the economic environment to allocate resources (savings) to investments more efficiently. However, the positive effects of financial development are tailored by macroeconomic policies, laws, regulations, financial infrastructure and the strengthening of rules applied across countries and times.

Figure no. 2 The contribution of the insurance sector to economic growth



Source: (own processing)

#### 4. Findings

Having regard to the ambiguity surrounding the term of control, in this article, clarification has been made as to the definition of this term, so it can be said that the controller must have a good understanding of the processes that are being carried out within the insurance companies but also of the strategy in order to be able to support management.

#### 5. Conclusions

Given the ambiguity that exists over the term controlling, in this article clarifications have been made regarding the definition of these terms so it can be said that controlling must have a good understanding of the processes that take place within companies but also on strategy to be able to support management.

The main purpose of a Controller is to support the management, so that together they achieve the established organizational objectives. It was also considered relevant presentation of the controller profession in Romania of the promises that formed the basis of its appearance, but also the degree to which companies have developed a controlling department.

From the analysis of the literature, but also of the business environment, it was observed that some skills are common both in theory and in practice, such as training, communication skills and team spirit or critical thinking.

In conclusion, we will mention that the current conditions of activity of any entity dictate to the management new requirements for its management. This, in the conditions of the upward development of an information society, it is rational to apply controlling, which is a complex system with its concepts and has a significant impact on management by ensuring the integration of planning and control activities and directly contributes to balanced management decisions.

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