

## **RESULTS OF RESEARCH OF BUDGETING DEVELOPMENT IN SLOVENE INSURANCE COMPANIES**

### **ABSTRACT**

*The article presents the research of development and use of different methods and budgeting techniques in Slovene insurance companies. The analysis of budgeting methods in Slovene insurance companies shows that more attention should be given to changes in the budgeting process, enforcement of some modern budgeting approaches and more flexible budgeting systems in order to successfully confront the challenges of a turbulent environment and ever more demanding customers, while also reaching the wanted success. More attention should also be given to the participation of employees in the budgeting process, the insured person as the central object of insurance business and monitoring internal and external environment.*

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### **1. INTRODUCTION**

The insurance market in Slovenia was strongly regulated in the past. With the new Insurance law in the year 2000, reinsurance was allowed across the country borders and with this act the state lost a lot of supervision over insurance companies. The market was liberalized and its growth exceeded gross domestic product (GDP) growth in all years after attainment of independence (Končina, 2003).

Following these changes, insurance companies have in last years been in a similar situation as other companies. Buyers of insurance services are becoming more and more demanding and acquainted with events on the market, they want to ensure themselves as much safety as possible and also returns in near and distant future. Insurance companies must, in order to meet demands of the insured, develop more and more attractive products, which should be better than competitive products, will be introduced to market earlier and will also be cheaper. Therefore, competition became an important part of everyday business

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\* Generali Zavarovalnica d.d., Kržičeva 3, 1000 Ljubljana, Slovenija, e-mail:  
katarina.guzej@mail.generalicom

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in insurance industry, too. What is more, the environment, which has become very turbulent, is changing continuously and becoming increasingly important, opening to foreign competitors, pouring off premiums on foreign markets and putting management and all employees through new challenges.

As for taking business decisions it seems that insurance business is even riskier than the usual companies. In any case, the characteristics of business influence a high level of risk in everyday decisions. With underwriting the insurance company agrees to pay possible loss in the future, which is a very unpredictable liability, moved far in the future. On the other hand we can talk about specific products from the point of view of their continuous production, incapability to produce in stock and immateriality (Hinrichs, 1987, Faller, 1992), while there is also specific customer-company relationship, for which the creation of a relationship of confidence is very important. As Hallman and Kirchner (2001) state, the insured person must stay in the same insurance company at least for 4 years in order to become profitable, a 10-year-long relationship with the insured is 8-10 times more profitable than a 5-year-long relationship and a decrease of lapse ratio from 10% to 5% can be seen. The insurance business is also meeting the specific expansion of the market, like the trend of merging of bank and insurance markets which is present with the phenomenon of the so called bancassurance. In France in 1999, bancassurance presented 60% of all insurance business (Holsboer, 1999). There is a trend of moving from traditional insurance sales channels to brokers, banks and other innovative sales channels, while operations are more and more affected by demographic changes, mostly by the aging of population.

All facts stated are sufficient enough to provoke reflection on how insurance business in Slovenia will meet new challenges and how these will affect the effectiveness of insurance companies. Certainly one of the most important factors for their success and survival will be the availability of suitable information, suitable directions for business and quick responses to internal and external environment. Insurance companies must, in order to survive and be successful, know where they go, what they want to achieve, with what resources etc., which is why operation based on intuitive deciding and without suitable planning of the future is not possible for them anymore.

The principal aim of the paper is to present some specialities of insurance companies and a theoretical framework of budgeting, critically compare and evaluate approaches to budgeting and evaluate theoretical cognitions and approaches to budgeting and research their application in insurance companies. In the second part the theoretical framework and expansion of budgeting in Slovene insurance companies are presented.

## **2. BUDGETING**

### **2.1. DEFINITION OF BUDGETING**

Budgeting is a well known concept in domestic and foreign literature (and praxis), but when studying domestic and foreign literature we meet with a big confusion about definitions of concepts and big differences in the understanding of concepts of budgeting and planning. Foreign, but also some domestic authors, are namely talking about strategic, operative and tactical planning, while budgeting is one of the phases of planning the activities of the company, some authors are of the opinion that it is part of operative planning. On the other hand, in Slovene literature budgeting means mostly activity, which is part of the information function in the company and is therefore preparing variants of the future operations, out of which only one – the one that is approved – is plan. In any case budgeting is an important part of the decision process as part of the information function, which is giving foundations of decision making in a company.

We define budgeting as part of the information function in the company, which is basis for planning as part of the decision-making functions. We see budgeting as a process, which is appearing in all phases of business plans preparation (strategic, operative and tactical). For approval of plans on whichever level it is necessary to construct more variants or budgets. We are interested in preparation of information for decision making, not in already approved business decisions. Attention is given to budgeting as information function and in lesser extent to planning as decision-making function. The most extensive possible definition of budgeting is used, mainly in the meaning of the term comprehensive planning and control, which is connecting all phases of budgeting, as used by Welsch et al. (1988). Considering this, we are, as Sweeny in Rachlin (1987), differentiating between strategic budgets as long-term guidance of the company and operative or short-term budgets, which are assessed in master budgets.

## **2.2. BUDGETING PROCESS**

As stated in the contingency theory, the same factors are not influencing all activities in the same manner, which is of course true also for influences on the budgeting process. For insurance companies different authors are suggesting to consider different factors of external and internal environment in the process of budgeting. As factors of external environment we can mention changes in political environment, legislation, growth of GDP, available income of population, changes in the population itself, unemployment rate, information on competition, while factors of internal environment are development and fluctuation of employees, sales and sales programs monitoring, portfolio development and claims experience, investment etc. (Schareck, 1979, Štiblar, 2002, Sweeny and Rachlin, 1987).

The definition of optimal goals is very important, but also a very difficult task for insurance companies. On one hand insurance companies must meet goals of shareholders for profitability and also growth (goals, that are by definition in contradiction), while on the other hand their elementary task is satisfying needs of insured and assuring their security, satisfying needs of employees and others. The definition of optimal goals for insurance companies is therefore an almost

impossible task without good knowledge of the situation the insurance company is meeting with. Usually business is judged to be successful when its goals are attained as planned or even exceeded (Kavčič, Koželj, Odar, 2004), which is why business goals must be known in order to assess its effectiveness. As most often cited goals which should be examined by insurance companies for their suitability, we can mention profit level, market share growth, respectively premium growth, level of satisfying needs of the insured (which is consequently positively affecting also the aforementioned goals) and somewhat a more new concept of Economic value added (EVA).

### **2.3. BEHAVIOURAL INFLUENCES OF BUDGETING**

With reference to budgeting we cannot avoid employees, their effect and relation to budgeting and inversely also the effect of budgeting on employees. Many weaknesses, that are often assigned to budgeting, are in our opinion a reflection of negative relation of employees to the process of budgeting, unreadiness to share information, care for their own "little garden" and with it the possibility to achieve better results as co-workers etc. Many studies (e.g. Subramaniam, McManus in Mia, 2002, str.310, 315, Ronen in Livingstone, 1975, str.675,676, Brownell, 1982, str.12-27, Marginson, Ogden, 2005, str.450, Collier, Fishwick in Floyd, 2004) are confirming the positive effect of the process of budgeting to behaviour, effectiveness, eagerness for work and feelings of employees in the company. Budgeting reduces employees' uncertainty, facilitates decision making, increases rationality and adaptability. By all means for all these positive effects, a positive climate oriented to budgeting should be established in the company. Employees should be given the possibility to participate in the process, which increases the possibility to internalise the goals of the company as their own, while an environment in which also the top management is in favour of budgeting should be established.

Companies must also be very attentive if they want to use budget as basis for incentives, bonuses and awards. The biggest risk for companies, using budget for this purpose, is the moral hazard problem, as it is termed by Atkinson and Kaplan (1998). The term indicates managers' activities only in accordance with their own interests. The problem of building in budgetary slack also appears, by which managers wish to ensure themselves the promised award or bonus. Different possibilities are available to the organisations, which want to abolish or at least reduce these problems. As possible methods we can mention tying of compensation system (or at least partly) on performance of the whole company, other team members or other teams in the company, and not only on performance of the individual, or introduction of the so-called linear system of compensation. What is most important is the education of employees and the creation of a culture, which improves the understanding of goals of the company as a whole and enables their internalisation to all employees.

### **2.4. MODERN VIEWS OF BUDGETING**

Nelly, Bourne and Adams (2003) are quoting researches stating that 80% of the companies are not satisfied with existing budgeting system. In connection to budgeting concepts many complaints and weaknesses are appearing, such as insufficient flexibility and inability to adjust to changed circumstances, insufficient participation of employees in the process, too high formality level, insufficient connection between strategic and operative budgeting, too much time and money consumption (Hope, Fraser, 2003, Schmidt, 1992, Nelly, Bourne and Adams 2003, Colman, 2004). As possible answers to problems of classical budgeting system different modern approaches to budgeting have developed while suggestions for needed changes follow two main paths. One is to simplify budgeting and the other one is to improve budgeting. The main representative of the first path is beyond budgeting, which is suggesting simplification of budgets and excluding unnecessary budgets or budget items from the process, but also most of the other approaches have some elements of the beyond budgeting approach and tendency to budget simplifications. Besides the already mentioned, we can also mention rolling budgeting or continuous budgeting, activity based budgeting, kaizen budgeting, customer relationship management, shareholder value models, enterprise wide information systems, management by objectives, balanced scorecard and budgeting connected to it, better budgeting, and enterprise performance management.

Modern views of budgeting are not denying the concept of budgeting completely, they only wish to make it more efficient, flexible and concentrated on customers and processes, therefore suiting a more dynamic business environment. Among needed changes we can mention the following:

- Connection between strategic and operative goals is needed
- Decentralization of budget preparation and need for people preparing budgets to know the strategic goals
- Introduction of different goals – stretching goals (beyond budgeting), based on comparison with competitors, colleagues etc., supplementation or substitution of financial goals with non-financial (better budgeting, enterprise performance managements), orientation on processes (activity based budgeting)
- Adjusting budgets to changes in environment (beyond budgeting, kaizen budgeting)
- Reducing budget complexity with reducing the number of unnecessary budgets and the number of budgeted items
- Focusing on customers (beyond budgeting, activity based budgeting, customer relationship management)
- Continuous monitoring of goal achievement (kaizen budgeting, beyond budgeting, enterprise performance management)
- It is necessary to achieve greater efficiency and standardization of processes (kaizen budgeting), synchronization of activities in business processes (activity based budgeting) and information sharing (beyond and better budgeting)

Traditional concepts of budgeting can still perform their functions, while with help of modern methods, approaches and novelties, they can become a more useful and more flexible tool. Nevertheless, for a successful change of budgeting

approach, its incorporation in a wider context of the company's operations, culture, strategy and goals formulation etc. is necessary. There is also need for a change in the culture of the company, the way of thinking and most of all a very high level of culture of employees. Employees must exceed control system scope and pass over to the level of self-control, self-initiative and readiness to cooperate and share information with all levels of employees in the company.

### **3. BUDGETING IN INSURANCE COMPANIES**

In strategic budgeting phase in insurance companies we are meeting specific needs when forming strategic business units. For their formation different criteria are suggested, such as classification by insurance class or groups, regions, way of conducting business, groups respectively types of insured persons (Korošec, 1993), products or groups of products, activities and procedures (Farny, 1995), quality of risks (Faller, 1992) etc. Insurance companies usually form strategic business units on the basis of products or groups of products and sales channels, but at least additional orientation to customers should be necessary. Satisfying needs of different customer groups and their characteristics are among the most important aspects of business.

Use of portfolio matrix as a tool in the process of strategic budgeting is partly limited in insurance companies because of limitations of learning effects as defined by learning curve. Nevertheless, we think the use of portfolio analysis in insurance companies can be of much use as a tool and help when searching directions and paths for the company to reach its goals. By no means can it offer an absolute answer to the question of what strategic orientation of the insurance company should be. Instead of using the Boston Consulting Group (BCG) matrix, which is focusing on estimating strategic orientations from the standpoint of market growth rate and relative position or market share, usually the McKinsey or the General Electrics (GE) matrix, which is estimating strategic orientations from the standpoint of market attractiveness and competitive strengths is advocated to be more suitable for insurance companies.

Also the life cycle curve specifics of the insurance product cannot be avoided. It is characterized by much longer lifetime of the products as it is in case of "usual" industrial products, relatively shorter development time and so called "post-market" phase, in which claim payments can appear long after insurance product is taken from the market.

The operative budgeting in insurance companies has also some specifics. Thus the prognosis of claims frequency and loss amounts, planning of needed reinsurance, height of sums insured etc. are included in operative budgeting parameters, not known in "usual" companies. For this purpose insurance companies are often using quantitative methods, such as linear regression, however, these methods have the main weakness in their unsuitability for unstable environments as they do not consider the influence of external factors on budgeting parameters. Hallman and Kirchner (2001) therefore suggest quantitative-qualitative model of forecasts and simulations, which is on one hand simulating different possibilities of profit or loss with help of multiple regression, while on the other hand including qualitative variables in quantitative

model. Different elements can be included in the model, as for example data on premium, production, average loss amounts, loss frequency, employees, marketing, products, different data on competition (time needed to prepare insurance policy, number of contacts with clients, average claim amount etc.), data showing the possible development of organization (number of complaints, lapse ratio, average time of claims handling, number of refusals of claims payment), employees satisfaction (fluctuation, education per employee in hours), changes in tax and business environment etc. As useful methods in the framework of the model analysis of competitors annual reports, ABC and XYZ analysis, Delphi method, associations and scenario methods can be mentioned.

The frequency and amount of claims in the future is very difficult to be predicted due to their uncertainty, which makes it one of the most difficult budgeting tasks in insurance companies. The most often used tools are the analysis of claims development in the past (claims result of insurance class, effect of winter on car claims etc.) and use of some modern models of catastrophic claims forecasting. Gourieroux (1999) rejects static risks classification, which is including classification of claims development data in homogenous classes of risks, which means that separate claims in the class frame are mutually independent, but have similar distribution, and suggests risks analysis in time. Monitoring claims development in time enables more accurate monitoring of development and forecasting of loss events. The use of factors, considering claims development for each separate case and time component, meaning that more distant loss events have relatively lower weight, is also reasonable to be used for forecasting.

Quality budget preparation can be very supportive for managers' decision making, but budgets can not be very helpful if the company is not reaching set up goals. This is why the phase of control or supervising cannot be overlooked since it is a phase that should accompany the already mentioned phases of the budgeting process and should continue also after strategy selection and goal determination.

For insurance companies the system of strategic warning signals is of exceptional meaning in the control phase of the strategic budgeting process. As assistance, portfolio analysis and time series analysis can be used, but there is also need for a participation of all employees in the information collecting process in order to become aware of hidden dangers timely. As Reinhardt (1984) states, modern systems of information collecting are often too individual, which brings to the problem that 80% of the people are collecting 30% of the data. The method of critical success factors can also be mentioned as a useful method, identifying criteria for each chosen success factor, which is then closely monitored and deviations and problems are searched for, to which special attention should be given.

In the phase of control of operative budgeting adjusting the level and frequency of the reports to the needs of the users is important. An often used method of control in this phase of budgeting is deviation analysis, but its big problem is in its "ex-post" character. We can say the same for some of the ratios. The three best known ratios in insurance companies are surely the claims ratio,

showing the ratio between claims and earned premium, the cost ratio, showing the ratio between costs (including commissions) and written premium and the combined ratio as a sum of cost and claim ratio. On the other hand, premium growth and market share are ratios showing the reputation and image of an insurance company. Due to an ever higher importance of solvency and modern approaches to its calculation, insurance companies will have to turn more attention to early detecting of possible insolvency. An early warning signal system, sensitivity analysis and scenario methods can be suggested as methods suitable for this purpose. Orientation to financial ratios is not assuring insurance companies the necessary orientation in the future, is not enabling the shortening of the delays between decisions and determining their consequences and is enabling judging only on the basis of quantities expressed in monetary units. This is why supplementing quantitative ratios system with using qualitative ratios such as number of complaints, time for claims handling, development time of products from idea to selling it etc., is necessary. Implementing balanced scorecard system can be mentioned as one of the possibilities. Balanced scorecard system is supplementing ratios of effectiveness expressed in monetary units with qualitative ratios, connected to strategic results. Besides, it can be seen also as a tool for the realisation of strategic goals of the organisation system, as it is supplementing financial ratios of past effectiveness, while on the other hand using ratios of future effectiveness drivers.

#### **4. RESEARCH OF BUDGETING IN SLOVENE INSURANCE COMPANIES**

The main purpose of the research was to study the use of different methods and techniques of budgeting in Slovene insurance companies, research to what extent insurance companies are taking into consideration specific conditions (customers, internal and external environment etc.) in the process of budgeting, the extent of employees' participation in the process and the extent of connection of the budgeting system to the remuneration system. The research addressed the question of how budgeting in Slovene insurance companies is developed.

##### **4.1.METHODOLOGY**

Research was conducted with a questionnaire and inquiry was performed in the period April-June 2005. The questionnaire included 10 classic insurance companies operating in Slovenia, which had a market share of more than 0,5%, and were selected on the basis of data as per end of year 2004. The questionnaire included control questions, enabling greater credibility of collected data. Due to reciprocally exclusive answers and deficiencies 8 questionnaires were returned for correction.

The development of budgeting in Slovene insurance companies was verified by performing quantitative and qualitative analysis of answers of the insurance companies on main variables, which are defined as preparation of budgets for the whole life of the product, preparation of budgets per customer group, the extent of consideration of conditions in environment, the extent of employees participation in the process of budgeting, remuneration system and preparation of



cash flow budgets. These factors are among the most often mentioned critical success factors for insurance companies in the studied literature, which is also the reason for including them in the research.

## **4.2. RESEARCH AND RESULTS**

Knowing the goals is of exceptional importance for the quality of decision making and work of all employees.

Familiarity with goals in Slovene insurance companies is very good. We can say that in 70% of the insurance companies, in which goals are known to the whole management but not to all employees, the management presents these goals to subordinates thus making them known to everyone.

The quality of insurance products and forecasting their future results is of special importance for insurance companies because of the specifics of insurance products, such as long lifetime and specific life cycle curve. 70% of the questioned insurance companies forecasts a product's lifetime when developing it. All insurance companies give great importance mostly to forecasting production, claims and commissions level, only 70% are calculating product profitability, while only half of the questioned insurance companies gives more attention also to costs of the product. As Medved (2004) establishes, Slovene insurance companies are cost inefficient and will have to, considering the conditions in which they operate, give more attention to cost managing. Our research also confirms that Slovene insurance companies are still not paying enough attention to managing costs.

Different phases of product life cycle when developing products are taken into consideration only by 40%, while scenario technique is known and used by 60% of the insurance companies. Taking the phase of the life cycle of the product into consideration can be of limited importance in insurance companies, due to usually very long life cycles of the product. Nevertheless, because of the specifics of the life cycle of products, which also have effect on success, we think that more attention should be given to the life cycles of the products and their consideration in the budgeting process.

A quality relationship with customers is very important in the insurance business. Customers must be offered products and services they want and need, which is not possible without defining their needs and wishes. Slovene insurance companies confirm their traditional orientation on products and sales channels. In opposition to findings of Hallman and Kirchner (2001) they do not give enough attention to customers, only 30% is preparing budgets per customer groups. A combination of customer groups, products and at least additional sales channels was used by 20% of the questioned insurance companies, while Hallman and Kirchner found out in their research that this combination was used in 27% of German insurance companies. The reasons for insurance companies not preparing budgets per customer groups can probably be found in the unavailability of data and insufficient orientation of insurance companies on customers. On the other hand, insurance companies, which are preparing budgets per customer groups, are mostly interested only in basic items, such as portfolio movements, value of premiums, claims and commissions, connected to customers, while some other

items are not given special attention. Above all no interest in lapse ratios, which can strongly affect customer profitability, is of great concern. The allowance for bad receivables can also be a very important item in assessing customer profitability because of a very conservative (in the past also regulated by supervisory institutions) formation.

Considering different factors of external and internal environment in budgeting process is of exceptional meaning, although all factors of environment are not equally important for all industries. Considering the insurance industry we concentrated on employees and their development as a factor of internal environment, while unemployment rate, economic growth, capital markets movements and competition acts were considered as external environment factors.

The importance that insurance companies are giving to employees is reflected in the answers of half of the insurance companies, showing that they are taking development and fluctuation of employees into consideration in the budgeting process mostly from the viewpoint of need for new employees and planned expenses for education. Insurance penetration rate is higher in more developed countries with higher GDP and higher income per resident, which is connected also to the unemployment rate. We can say that the unemployment rate is an important factor of insurance companies' success and an important factor of budgeting. However, the questioned insurance companies did not find unemployment rate as an important factor of success, as 80% of them are not taking it into consideration in the budgeting process.

Higher economic growth means also a well-being of the population, higher purchasing power etc., which have a direct impact on demand for insurance. Half of the questioned insurance companies are taking this factor in consideration often or always, others only periodically, rarely or never. Incomes from investments were helping many insurance companies to cover technical losses in the past. Because of capital market movements this has not been true for quite a number of years, but because of the cash surpluses and needed high solvency, investment returns are still an important factor of risk for insurance companies. This can also be seen from the answers of insurance companies, as 70% of them are taking capital market movements into account in the budgeting process, while only 30% do so periodically, rarely or never. The answers of insurance companies also show the meaning of competition, as 80% of the questioned insurance companies are taking expected acts of the competition into account when preparing budgets.

Employees in insurance companies are of exceptional meaning for successful operations of insurance companies because of the need to form long term relationships with the insured. The satisfaction of employees is influenced by many factors, such as abilities, desire to succeed, feeling of being accepted in the organization, feeling of effort for common goals, etc. It is the opinion of many authors that all these can be aided by the participation of employees in budgeting process, as it enables an exchange of information (Parker, Kyj, 2006), reduces information asymmetry, increases commitment to reach goals (Welsch et al., 1988), increases satisfaction, a feeling of connection and communication (Ronen

in Livingstone, 1975), increases accepting the goals of organizations as ones own and willingness to work (Sweeny in Rachlin, 1987, Subramaniam, McManus and Mia, 2002).

When considering the participation of employees in the budgeting process in Slovene insurance companies, the picture is somewhat confusing. Only 30% of the insurance companies agreed that persons responsible for plans realisation, participate in the process of budgeting in Slovene insurance companies. This answer is showing a rather poor picture of participation in the process of budgeting. On the other hand, in 80% of the companies heads of the departments, sectors etc. are participating in the budgeting process and in 60% of the companies they are also responsible for plan achievement, which makes the picture somewhat better. All questioned insurance companies have partially to completely agreed with the statement that strategic goals are usually set by the board, while operative plans are prepared by senior and middle management, which is the description of negotiated budgeting. 80% of the insurance companies also agreed that when setting strategic goals the cooperation of middle and low management (who is also preparing detailed plans) with the top management and board is present. Knowing that these insurance companies also stated that heads of departments are responsible for plan achievement, we can conclude that they are using participative budgeting. On the other hand none of the insurance companies stated that they are using imposed budgeting, respectively so called "top-down" process.

Somewhat contradictive are answers of the insurance companies on the question whether all employees are involved in the budgeting process and how their (not) cooperation affects their motivation. Only one of ten questioned insurance companies answered that all employees cooperated in the budgeting process. The reason for such a small part of positive answers is to be found in the somewhat too broadly defined term "all employees", which caused some doubts in insurance companies. A narrower definition of the term in the framework of the questionnaire would be needed since, by all means, only the employees who have a connection with plans and the knowledge for planning can cooperate in the budgeting process. 5 out of 9 insurance companies, who say that not all employees cooperate in the budgeting process, think that non-cooperation is not affecting the motivation to attain goals, 3 out of 9 think that non-cooperation is decreasing the motivation of employees, while 1 insurance company partially agrees with both statements, as they are of the opinion that non-cooperation in the budgeting process influences some employees negatively, while it does not have influence on others.

The roles of budgets in organisations are very heterogeneous, one of them is also a basis for remuneration. Many authors are stating deficiencies of remuneration systems in connection with determining deviations between the achieved and planned. 90% of the questioned insurance companies at least partially agreed with the statement that operative goals are guidance for their everyday work, while their achievement is partially or completely linked to remuneration of employees. The reasons for only a partial linkage of reached goals to remuneration are to be looked for in the fact that linking rewards to

reached goals is not suitable for all business areas (as one of the questioned insurance companies answered, linking awards to reached goals is used when planning services, not when planning costs per project). As we expected, all insurance companies regularly determine the level of reached goals with comparing planned and reached results and at least periodically also with comparing reached results with previous year results. On the other hand, benchmarking is used only in half of the questioned insurance companies, the reason for which can be looked for also in the lack of data on competition and insurance market in general. The evaluation from a superior comprises a relatively small part, which is expected, as such evaluations are very unpopular because of their subjectivity and are suitable only as additional information about employees' achievements. In the majority of the questioned insurance companies (60%) the management is responsible for reaching goals, regardless of whether they prepared plans or not, while in 20% the person who is preparing the plans is responsible for reaching goals. In half of the insurance companies, beside the management, their subordinates are also awarded considering reaching plans, regardless of whether they prepared plans or not. Only in one insurance company no one is rewarded in dependence of reaching plans. It all shows a quite extensive heterogeneity regarding the responsibility for reaching goals and also the remuneration system in dependence of reaching goals.

One of the most often forgotten and neglected statements in organisations are cash flow budgets. Because of the contradiction between goals of assuring solvency on one side and suitable returns on the other side, cash flow budgeting is of great importance for insurance companies. 70% of questioned insurance companies have answered that they are preparing cash flow budgets, out of these 42,9% are preparing cash flow budgets by using both direct and indirect methods. All insurance companies out of these who are preparing cash flow budgets are preparing short term, while 71,4% are preparing long term cash flow budgets. The questioned insurance companies see the main purpose of preparing cash flow budgets in predicting the financial situation of an insurance company in future by taking into consideration given and planned movements on the market and in the environment, assuring adequate solvency and providing information to the management for decision making. The main items of cash flow budgets are of course cash receipts from premium and cash disbursements from claims, which all insurance companies are planning. Cash receipts, respectively disbursements from commissions, reinsurance, investments, cash disbursements from costs and taxes also turned out to be important items.

We can conclude that the development of budgeting in Slovene insurance companies is quite suitable in some areas, while other Slovene insurance companies could improve their effectiveness and/or efficiency with more modern budgeting methods. We think Slovene insurance companies should pay more attention to:

- Participation of employees responsible for reaching plans in the budgeting process. Insurance companies would thus contribute to the reconciliation of goals of the insurance companies and individuals, who would reach greater satisfaction resulting in a higher effectiveness of the organisation

and employees. The role of employees in the budgeting process in Slovene insurance companies is not completely defined and should be given more attention.

- Budgeting per different phases of life cycle, by which information on how long and how much the product will be profitable can be gained and activities can be suitably adjusted.
- Budgeting and strategic business unit formation by groups of insured (in contrast to the present traditional orientation on products and sales channels), which can enable a stronger concentration on the customer, faster and better satisfaction of their needs, possible "cross-selling" effects etc.
- Some external and internal factors of environment, such as unemployment rate and economic growth. Also a somewhat too small awareness of the importance of human resources development can be noticed, as only half of the insurance companies are considering development and fluctuation of employees, and still, mostly in connection to costs.
- Changed role of budgets as basis for remuneration. Slovene insurance companies have a very traditionally oriented view of determining the level of goals reaching (mostly by comparison of planned and achieved results, sometimes also by comparison of achieved results with last year ones), while benchmarking is used only in half of the questioned insurance companies. Moreover, the heterogeneity of responsibilities for reaching goals and remuneration system in dependency of goal reaching is quite big.

We can conclude that insurance companies are giving rather satisfying attention to factors of external environment, capital market movement and competition acts, which is reasonable regarding the importance of both factors. Quite a lot attention is also given to cash flow budgeting, especially considering the usual neglecting of these budgets, as 70% of the questioned insurance companies are preparing them.

## **5. DISCUSSION**

Slovene insurance companies operated in strongly regulated environment in the past, which was one of the most important reasons for the underdevelopment of budgeting processes in the past as forecasting of the future was not very important. With changes in the environment and in the demands of the customers, Slovene insurance companies are facing an ever more unpredictable future and the necessity to prepare budgets.

From the analysis of methods of budgeting in Slovene insurance companies we can conclude that Slovene insurance companies must give more attention to changes in the budgeting process, the use of some more modern concepts of budgeting and reestablishment of more flexible budgeting systems in order to cope with the challenges of the modern business while at the same time achieving wanted success. There are reports on implementing balanced scorecard approach

in Triglav insurance company, but a wider expansion of this approach cannot be observed.

In our opinion Slovene insurance companies should give more attention to employees and their participation in the budgeting process, as in this way they will be able to decrease fluctuation and increase their satisfaction. Likewise they should give more attention to the insured person as the central element of business, form adequate strategic business units, concentrate on separate customer groups with specific needs etc. Because of an ever more turbulent environment Slovene insurance companies should give more attention also to monitoring factors of external and internal environment, which can significantly affect their operations. In order to achieve better efficiency, insurance companies will also have to think about the adequacy of the remuneration system, which often takes into consideration only the reaching of absolute given goals (e.g. production), while not other influential factors in qualitative judgements (e.g. lapse ratio, satisfaction rate of insured) since also no internal competition is re-established.

In the end we cannot overlook the problem which all Slovene insurance companies are meeting with when preparing budgets. Budgeting and variance analysis level, finding of causes etc., can be detailed only to the extent that data are available. The availability of data is often a problem. Insurance companies often do not have available data on the efficiency of claims solving, satisfaction of customers or quality of stipulation of insurance contracts. Information on external environment, competition, etc. are also usually very limited.

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## **REZULTATI ISTRAŽIVANJA RAZVOJA PLANIRANJA PRORAČUNA U SLOVENSKIM OSIGURAVAJUĆIM KUĆAMA**

### **SAŽETAK**

*Članak prezentira istraživanje razvoja i upotrebe različitih metoda i tehnika planiranja proračuna u Slovenskim osiguravajućim kućama. Analiza metoda planiranja u Slovenskim osiguravajućim kućama pokazuje da bi se veća pažnja morala posvetiti promjenama u procesu planiranja, primjeni modernih pristupa planiranju i fleksibilnijim sustavima planiranja kako bismo se uspješno suočili s izazovima turbulentne okoline i sve zahtjevnijih klijenata, a da pritom ipak postignemo željeni uspjeh. Također bi se više pažnje trebalo posvetiti sudjelovanju zaposlenih u procesu planiranja, osiguranoj osobi kao središnjem objektu osiguranja i promatranju unutaršnjeg i vanjskog okruženja.*

JEL: M10

***Ključne riječi:*** osiguranje, planiranje (proračuna), Slovenija