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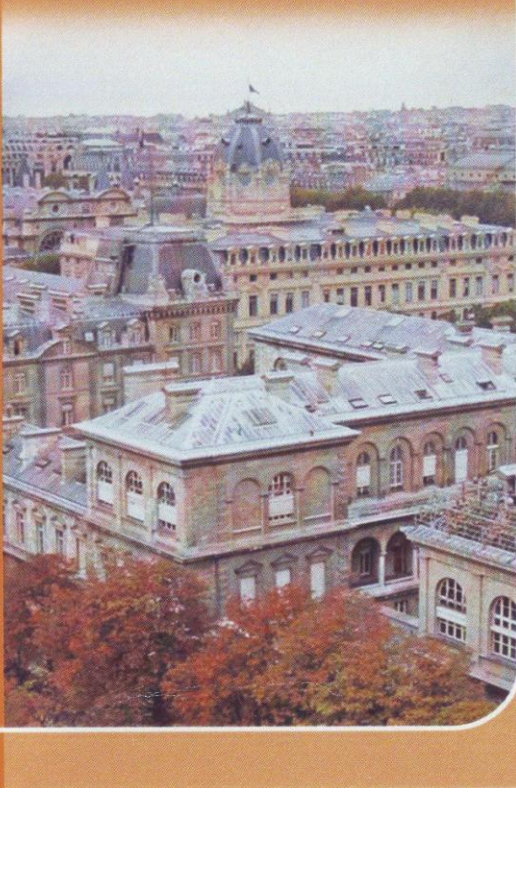

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THE FINANCIAL STRENGTH OF INSURANCE COMPANIES

Important indicators characterizing the financial position of an insurance company are solvency and financial strength. Herein, the financial strength is an ability of insurance companies to meet their obligations on insurance contracts to policyholders by means of all its available possessions.

The financial strength of an insurance company is provided by economically feasible insurance tariffs, insurance reserves, sufficient to meet obligations on insurance contracts, social insurance, reinsurance and mutual insurance; its own resources, including a sufficient and paid-up charter capital as well as an adopted system of reinsurance. Using the reinsurance system assumes that insurer's liabilities are only those risks in relation of which it may meet its obligations in accordance with its financial capacities. The criterion of financial strength of the insurer is usually understood to be a capital adequacy to meet the obligations of the insurer.

The basis of the financial strength of an insurance company is owners' equity. The equity can include the following components:

- Charter capital;
- Additional capital;
- Reserve capital;
- Retained profit;
- Accumulation fund;
- Fund for the social sphere;
- Dedicated revenues (financing).

Proprietory funds of insurance companies play an important role in the initial phase of the operation of an insurance company when the raised funds may be insufficient to cover particularly large risks. So the charter capital is formed by the budget (for compulsory insurance) and funds from the sale of shares and other securities (for all other types of insurance). The value of a minimum charter capital is determined by the Department of Insurance Supervision for each type of insurance separately and is subject to be recalculated.

The sources of additional capital of an insurance company are:

- Funds raised as a result of the revaluation of fixed assets;
- Share premiums from shares placement;
- Funds donated by other organizations.

The reserve capital of an insurance company is in addition to the charter capital and formed due to net profit in accordance with the laws and statutory documents. The reserve capital may in certain circumstances be used to cover nonproduction losses, damages, and to redeem the bonds of an insurance company (if it is a joint-stock company) and to repurchase shares in the absence of other means.

Raised funds include insurance reserves, which are formed from the premiums paid by policyholders, payables, loans and borrowings. It is important to note that the raised funds are not a property of the insurer; they are only accumulated in insurance reserves for the further insurance payments. The need to form insurance reserves is determined by the random nature of insurance event occurrence and uncertainty of the insurance damage magnitude. Therefore, the insurance company must form insurance reserves. The magnitude of insurance reserves is mainly determined by the amount of insured objects, tariff rates on insurance portfolio and is not constant. The shortage of funds of an insurance company depends on the insurance portfolio, i.e. the amount of insurance objects for which the insurance company has provided insurance coverage. It should be note that the insurance amount does not affect the financial strength. The solvency is an important indicator of the financial strength.

The solvency of an insurance company is its ability to fulfill its insurance obligations at any time. The condition of insurer solvency is stronger than the condition of financial strength, as it comprises the additional requirement to assets of the organization. In addition, there must be sufficient assets; they should be liquid to the extent to which it is necessary to fulfill the insurance obligations at any time. Regulatory agencies paid particular attention to the solvency of insurance companies. Therefore, the parameters of solvency in most countries are reviewed regularly.

The retirement annuity in Kazakhstan. The retirement annuity is lifelong periodic insurance payments in the form of pensions. They can be made once a year, twice a year, once a quarter or once a month at your discretion.

Every citizen of Kazakhstan who has reached the age of 50-55 and has the minimum necessary savings in the pension fund (from 3 million tenge) can start receiving a pension for life now. It is regulated by the Article of the Law of Kazakhstan "On pensions in the Republic of Kazakhstan." On February 18, 2013 pursuant to an amendment to the "Pension Act" women can formalize a pension annuity contract at the age of 50. Earlier it was possible only at the age of 55. Men at the age of 55 and women at the age of 50 are already able to receive their pension savings through insurance companies. At the same time the Company accrues from 10% to 30% of savings, plus the annual payment. This type of insurance is called "retirement annuity." After signing the contract you receive your money within a week to the specified account. Annual payments are made for life.

According to the contract you can set "a guaranteed period" for the heirs from 0 to 30 years, during which the insurance company will make payments.

Features of the annuity:

- lifetime payments;
- ability to specify the heir;
- possibility of recieving additional lump-sum payment from 10% to 30% of savings;

- payments start at the age of 50-55.

In the event of dying of a pensioner savings of the pension fund are inherited by all the heirs according to the law. In the case of pension annuity a guaranteed payment period of up to thirty years is provided especially for inheritance. The statement must specify which of the heirs will receive annuity payments to the same extent and with the same frequency with which you receive it until the end of this period.

The company that deals with life insurance has a right to make a pension annuity contract. Insurance gives confidence in the future and encourages a person to perform actions aimed at improving the life of society.

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