

TYPES OF FINANCIAL RISK INSURANCE AND THEIR ROLE IN THE ECONOMY

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Abstract: *This paper aims to analyze the types of financial risk insurance that currently exists on the market and outlines their common elements, but also the differences. In order to emphasize the diversity of these types of insurance and their causes I will try to present their role and importance in the economy. These aspects will be useful for research to place financial risk insurance in an attractive area that will have an influence and positively affect the economic dimensions.*

Keywords: Insurance; Risk assessment; Banking system.

JEL Classification Codes: G22, G23, G28, H25.

1. INTRODUCTION

The paper presents an analysis of the types of financial risk insurance and their effects on economic growth. The purpose is the necessity and the role of financial risk insurance in the development and growth of the economy in all aspects and in various forms of manifestation, including at microeconomic level, financial risk insurance generates positive effects that are transposed at macroeconomic level.

The insurance field represented and represents an important sector for the economy. In the last period, a series of changes and transformations have been concentrated at their level, which implies a significant increase that had as an anchor the development of new products necessary to protect the potential financial risks or appeared at the level of the commercial transactions carried out at the microeconomic level under the trend of manifestations from the macroeconomic level.

On the financial risk insurance segment in Romania, according to the regulations of the Financial Supervisory Authority (ASF), there are practiced the credit insurance, guarantee insurance and financial loss insurance. Being a relatively new form of insurance generated by the need to protect the financial risks that may arise as a result of the economic activity, we are entitled to say that the financial risk insurance represents the link between the insurance market and the financial market. Thus, a new function of insurance is identified, that of stabilizing the evolution of the financial system, as a result of tempering or even eliminating the tensions that have arisen within it.

The Romanian insurance market offers through a small group of insurance companies a series of financial risk insurance products and services. These types of insurance have resulted from market needs and requirements. But this fact is not sufficiently imperative, so that this segment of insurance becomes sufficiently penetrating in the economy. Yes, the financial risk insurance is necessary and useful, but also due to the external factors and legislative constraints,



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the entrepreneurs generally take advantages of the conditions for accepting to contract financial risk insurance and its future benefits.

As a foundation of this poor niche of financial risk insurance there is the lack of knowledge and acceptance of insurance as a true and essential element of business protection, since the insurance market has undergone a transformation sustained in a direction similar to the developed markets at the level European. At the same time, taking into account a limited demand, even if the economy demands it, the creation of new financial risk insurance applications is slow and not sufficient for triggering new needs-generating mechanisms or with a relatively high degree of awareness of the need from consumers. At the same time, the degree of notoriety of the insurance company and implicitly of the products and services they provide, are important factors in the selection and contracting of a financial risk insurance product, at least in the case of Romania, without eliminating it as a principal criterion in choosing such a product type, its price.

The main transformations of the Romanian insurance market in the last period have also influenced the quality of the financial risk insurance products, so that we assist in modeling, not only in terms of regulations, in the field of insurance, but also in terms of sales strategies and analysis risk. In this regard, there is a special attention on the channels of commercialization of financial risk insurance through bank-assurance and virtual systems through the Internet, the initial and feed-back behaviors of consumers, the development of new financial risk products generated of another type of risk, which can be called "basic", for example, providing the financial risk for the temporary interruption of activity as a result of the appearance and manifestation of cyber risk.

And last but not least, we can mention as an important element in the actions taken by the players from the insurance field to expand the weak segment of financial risk insurance the effort made by the insurance companies in presenting information online and how to configure and develop the insurance of the own websites or interconnect with other platforms to make such products known and sold.

The protecting of the financial consumer has become an inevitable concept, which requires an integrated approach from the series of regulations that currently govern non-banking financial products until the market response of their implementations. This aspect represents a challenge that each participant in the insurance sector must escalate, which implies a combination of efforts in adopting mechanisms at entity level based on real-time risk assessment and not only through reporting compliance.

2. TYPES OF FINANCIAL RISK INSURANCE

Romania, characterized by a risky commercial environment, the analysis from the perspective of the financial creditworthiness and stability of the business partners, presents the best way to protect and develop the businesses through financial risk insurance. Sales of goods or the provision of services with a down payment are exposed to the risk of default of the supplier credit. The lack of financial protection in such situations can cause major damage: loss of profit, liquidity crisis, greater or lesser financial blockages as well as the decline of the business, reaching the bankruptcy of the company.

Compared with the developed and sustainable economies of the member states of the European Union, Romania still is in the category of the states that try to diversify the insurance products and adapt them to the needs of the population, increase the consumer confidence in the insurance products and develop the level of education financial. Thus, at the current level, the following types of financial risk insurance practiced are distinguished: credit insurance, respectively domestic credit insurance, export credit insurance, investment credit and credit

insurance, financial loss insurance, in which we find the insurance of fidelity and assurance of guarantees.

According to the Financial Supervisory Authority (ASF), the financial risk insurances are classified in the classes IV, V and VI of insurance with the mentioned names.

All these types of financial risk insurance practiced on the Romanian insurance market have undergone a strong development in the last decades due to the complexity of the economic activity, of the national and international trade and investments, the modification of the national regulations, both in correlation with the imposed regulations but also in the virtue of the international market response, including the instability of the general political climate.

The credit insurance generally implies a significant risk reduction of financial loss, especially in the cases where the high values are traded or the partners are in small number, thus the risk of exposure becomes high. This type of insurance represents a compensation insurance because it involves the payment of the insured a sum of money to cover the loss suffered as a result of the inability to pay or the insolvency of the insured client's partners, as opposed to the classic insurances which involve the appearance of a "physical" loss. From the cost perspective, these types of insurance represent minimal "expenses" of administration, because the practice of the insured is to use them for all credit agreements, not only for those that would present a high risk of exposure to financial losses, and, at the same time, it will benefit from the verification of the solvency and creditworthiness of the business partners through the insurer following the risk analysis performed by its specialized department. Thus, from this point of view, the credit insurances are considered attractive products for the insured.

A distinct feature in the case of export credit insurance is given by the fact that the insured's business partner is located in another country, which determines a risk assessment which has to take into account many factors external to the buyer, risk factors. of the country in terms of specific regulations and customs at the level of the state concerned, as well as the political risk. This characteristic is reflected in the way of analyzing and defining the terms of the financial risks, the conditions stipulated in the insurance policies and in the procedures necessary for the insurer to pay the insured amounts. For these reasons, not all the insurance companies offer this type of insurance product, the risk to which they are exposed is based on external information and factors, harder to be controlled in their vision.

An option, which appears as a result of the need to insure an element of the credit obligations, respectively the credit rate, is the insurance of the credit rates. This type of insurance is practiced to protect against financial losses resulting from non-payment of credit installments for a fixed period of time. In this case, the insurance policy is signed for the entire turnover of the insured, which is represented by the seller, producer or trader.

The guarantee insurance appeared as an alternative to the banking product letter of bank guarantee. It is frequently used, in particular, in contracts concluded in the field of construction to insure the risks arising during the execution period as a result of defective or non-execution, during the maintenance period, as well as during the post-execution period for a well-determined period of time.

The financial loss insurance refers to the insurance of all other types of risks generating the financial losses that have not been specified in the types of insurance already mentioned, such as: faulty exploitation or non-exploitation of a production capacity over a period of time, insufficiency of the accumulation of revenues necessary for the existence and the carrying on of the activity object of an economic entity, unforeseen commercial expenses generated by the concluded commercial relations or general expenses increased by legislative changes or that can no longer be borne due to the insufficient availability at the level of the entity, loss of profits, indirect and/or non-commercial losses, loss of market value, losses from current income, including caused by bad weather or other causes that lead to a decrease in a significant part of

the business or even the entire business at one time or cause major financial damage that may cause an entity to cease to exist.

Regarding the ranking of the most appreciated insurance companies in 2019, Forbes together with the Statistical portal presents them in the structure of table 1:

Table 1. Ranking of insurance companies with the best reputation in the year 2019

Position	Company
61	Generali Group
62	AXA Group
68	Zurich Insurance Group
86	Allianz
124	Elvetian Re
141	Helvetia Holding
224	General Insurance Company of India

Source: own processing by data <https://www.forbes.com/lists/best-regarded-companies/#2adc7719124d>

The table 1 reflects the positioning of the most important insurance groups and companies established according to the answers received by Forbes following a survey applied to 15 000 respondents from 50 countries, which was mainly based on the degree of confidence criteria they offer, their behavior, the quality of the products and services offered and the behavior as employers. It is easy to see that some of these concerns are also active on the Romanian market, which gives the same feeling of mutual confidence in the field of insurance in our country, respectively the Generali Group offering insurance products from both the general and the insurance sectors of life insurance, the French AXA Group that operates on our market only through life insurance, and the German Allianz Group, through the company created in Romania in 2000 by integrating the company ASIT becoming Allianz-Țiriac Insurance. The three groups, Zurich Group, Swiss RE and Helvetia Holding are not yet active in the Romanian market; they have their headquarters in Switzerland but have numerous operational headquarters in Europe, the Middle East and Africa. And last but not least is the insurance company from India.

The gross premiums subscribed by the two companies in the Generali Group and Allianz Group during the period 2013-2018 are shown in table 2.

Table 2. Gross premiums subscribed by insurance companies during the period 2013-2018

-mil lei-

Company	Year 2018	Year 2017	Year 2016	Year 2015	Year 2014	Year 2013
Generali Group	638.4, from which:	613, from which:	642.7, from which:	484.5, from which:	462.7, from which:	439, from which:
	523.5 general insurance	547 general insurance	573.7 general insurance	414.1 general insurance	384.4 general insurance	354.6 general insurance
Allianz	1320, from which:	1229, from which:	1200, from which:	1054.5, from which:	985, from which:	918.8, from which:
	1172 general insurance	1093 general insurance	1100 general insurance	953.7 general insurance	887.8 general insurance	824.1 general insurance

Source: own processing according to the data presented on the websites of the insurance companies presented

As they are highlighted, they show during the analyzed period an increase from year to year in both situations, in which the general insurance segment holds a significant share. The biggest increases, for both Generali and Allianz are between 2015 and 2016, the fact determined by the legislative changes imposed by the alignment with the European norms, the support effort made by the financial supervision in the field, conjugated by the penetrating attitude of the business strategies adopted at the level of these companies. The growth became slower, but the focus is still on the general insurance segment between 2017 - 2018. In the presentation of table 2, AXA Group was not included because it has no activity except in the life insurance segment so that the information would not be relevant.

In this framework, the structure of the gross premiums subscribed on insurance classes has a special relevance, which also includes the financial risk insurances that are reflected in table 3 for the period 2017-2018, as well as their shares in total gross premiums subscribed and in total general insurance.

Table 3. The structure of the gross premiums subscribed on the financial risk insurance classes during the period 2017-2018

-mil. lei-

Insurance class	Gross premiums subscribed during 2018	Gross premiums subscribed during 2017	Total GPS weight in 2018	Total GPS weight in 2017	Total GPS weight in 2018	Share in the GI in 2017
Credits insurance	1.2	1.04	0.01	0.01	0.01	0.01
Guarantee insurance	229.88	169.52	2.27	1.75	2.86	2.20
Financial loss insurance	25.13	21.32	0.25	0.22	0.31	0.28

Source: own processing according to the data presented on http://www.primm.ro/care-sunt-vedetele-pietei-de-asigurari_2272.html

The table 3 reflects in the structured data that in 2018 the increase in absolute sum for all three classes of financial risk insurance in Romania, of which the important increase is represented by the guarantee insurance.

This fact, in our opinion, is determined by the fact that this type of insurance is used mainly in the field of construction-assembly, and this field is beginning to catch up, but, at the same time, it is still under the risk of insolvencies and time lags payment. They are followed by the increase of financial loss insurance and by the credit insurance in a slow growth. The causes are still the liquidity risk affecting globally, the profitability is under the pressure of high production costs, and 2018 reaches a high point in the credit sector in Romania.

3. THE ROLE OF FINANCIAL RISK INSURANCE IN THE ECONOMY

Starting from the fact that the insurance sector, in general, is a very important sector with major influences at the level of the world economy, in this case, the financial risk insurance represents a significant segment in this regard. The factors that manifest themselves at a general level in the development and transformation of insurances, such as globalization, convergence and consolidation of the markets, the appearance of new distribution channels and digitization affect and influence including the commercialization of financial risk insurance.

Accelerating the growth rate of lending and intensifying the growth cycle of the construction sector are important prerequisites for insurance companies to develop composite products with financial risk insurance elements or to develop specialized insurance products of this type. Taking into account the fact that the financial risk insurances have components with a high involvement in the economy sector, they represent real instruments of protection of both private and public heritage. At the same time, they play an overwhelming social role, not only to guarantee the economic continuity of the entrepreneurs, but also the social one, to insure financially the losses suffered to the one who due to payment delays is at risk of not being operable even under social aspect.

As it is known the economic role of insurance in the formation of the gross domestic product is given by the added value produced by them, so that the weight of each type of insurance in the value of the gross premiums subscribed is important and that, consequently, contributes to the "economic growth, representing an important part of the financial sector that collects the economies and creates adequate funds for investments" (Ege, 2011). At the same time, the specialization of the insurance companies has a different effect on the economic growth, in the case of the financial risk insurances the companies that offer this type of products have a positive effect on the investments in the medium and long term, compared to the other types of products within the general insurances that have an effect on short-term investments. At the same time, in relation to this aspect, we can say that, in general, the financial risk insurance presents significant results related to the economic growth, especially in the developing countries.

In the context of the globalization, the role of financial risk insurances in the development of international trade can be notice, so that foreign credit insurances have an important position in the development of world trade, generating the positive effects that go back to the economic circuit.

Taking into account the fact that the economy, generally, and the economy of the economic entities, in particularly, represent generating factors of risk, regardless of the stage they are on the economic circuit, financial risk insurance plays the role of regulator in the slippages that would exist as a result of the risk manifestation.

At the same time, due to its intrinsic character, the financial risk insurance has the role of preventing the financial losses caused by events that are the subject of the insurance and, at the same time, through the imposed insurance conditions, it determines to the insured reactions and behaviors to prevent the insured events, creates a common co-interest attitude in the existence and maintenance of a stable financial climate.

According to the Organization for Economic Cooperation and Development (OECD), the insurance markets play a "key role in the economy by pooling and managing risks and, in some countries, they play an important role in the long-term investment of population economies" (OECD, 2011). From this, it derives the role of the financial risk insurance, managing, in reasonable terms, the financial damages and mitigating the possible losses at individual level with effects at general level.

The digitalization context has created the framework for promoting and practicing the invisible trade that leads to the sale of insurance products under similar conditions on several markets. In this way, the standard products have appeared, even in the case of financial risk insurances, even if they have particularities related to the specificity of the insured object. Thus, it has been achieved benefits in terms of cost reduction and facilitation in the use of advanced remote technologies to reach the customer's requirements much faster. And with the effect of "snowball", in this way, beneficial effects are obtained also in the other fields, than the one of insurance, which in its turn generates progress and development at the macroeconomic level. The

more developed the economy of the country, the faster it gets to these benefits, which is immediately reflected in the degree of insurance penetration.

The presence in the economic life of the insolvency risk that became inevitable during the crisis period and not only, led to the creation of specific credit insurance products, so that, besides the private credit insurance, most countries also developed the public insurance systems credit, which especially covers difficult risks. In this respect, the role of the country as a partner and player in the insurance market appears which contributes to mitigating damages and strengthening an economic climate favorable to all participants.

Even though the insurance market in Romania is not yet part of the mature markets category, it is oriented towards the right direction, and the financial risk insurance segment is weak and has more of a legislative constraint than an option and self-protective behavior. Further, the insurance market in our country is influenced by multiple socio-economic factors in a global context, and the innovative channels in the insurance sector are also real challenges for us to be escalated. In this respect, the back-assurance channel is required to be a true vector of marketing of insurance products especially that of financial risk insurance, this fact also having an interdependent connection with the credit and the need for the associated financial protection.

Table 4. Macroeconomic indicators of Romania during the period 2013-2019

Year	GDP at current prices -billions-	GDP / per capita at current prices - billions-	Population -millions-	Unemployment rate %	Investments % of GDP
2013	635459	31741	20020	7.10	25.59
2014	668590	33508	19953	6.80	24.68
2015	712588	35853	19876	6.81	25.13
2016	765135	38720	19761	5.90	23.33
2017	856727	43612	19644	4.90	23.38
2018	945402	48424	19524	4.17	23.60
2019	1011973	51836	19522	4.8	22.46

Source: own processing by data <https://www.imf.org/external/pubs/ft/weo/2019/01/weodata/index.aspx>

All these roles that the insurances have, in general, in the economy are reflected in the macroeconomic indicators, and in the case of Romania they are presented for the period 2013-2018 in Table 4.

It is observed that the indicator gross domestic product expressed in current prices shows a trend increasing from year to year in the analyzed period, consequently the same trend is observed in the case of the gross domestic product per inhabitant, while the number of inhabitants is decreasing, and the unemployment rate is decreasing, with a slight deviation in 2019 compared to 2018.

Instead, the level of investments reflected as a percentage in the total gross domestic product shows a sustained decrease, with slight increases between 2014 and 2015, 2016, 2017 and 2018, and in 2019 it decreased again.

The table 5 presents the indicators that characterize the Romanian insurance market in correlation with the macroeconomic indicators for the same period.

Table 5. Insurance density and penetration degree of Romanian insurance in GDP during the period 2013-2019

Year	Gross premium subscribed (PBS) -billions-	Degree of penetration of PBS into GDP %	Insurance density RON / capita
2013	7982	1.26	398.70
2014	7823	1.17	392.10
2015	8535	1.20	429.41
2016	9381	1.23	474.72
2017	9702	1.13	493.88
2018	10141	1.07	519.42
2019 quarter 3	8129	0.80	416.40

Source: own processing by data http://www.primm.ro/care-sunt-vedetele-pietei-de-asigurari_2272.html and https://asfromania.ro/files/analize/Raport_Piata_asigurarilor_Q3_2019.pdf

The underwritten gross premiums are generally on a slightly modulated increase in certain years, but without these variations having significant values, compared to the degree of penetration of the assurances in GDP which is showing a decreasing trend. Regarding the density of insurance per inhabitant, expressed in RON, it is generally on an increase during the analyzed period, but, like the gross subscribed premiums, with slight variations in certain years.

4. CONCLUSIONS

During the paper there were approached some subjects regarding the types of financial risk insurance, their characteristics, the factors that influence the option to conclude a financial risk insurance, the value of the gross premiums subscribed by the groups of insurance companies operating in both the markets of Europe, but also in Romania, as well as the structure of the gross premiums subscribed on the classes of financial risk insurance during the period 2017-2018. Thus, we can underline that the financial risk insurances play the role of economic and social stabilizer for all the existing structures both at the level private as well as public, micro or macroeconomic, including with implications on the financial sector.

By paying compensation from an insurer, the financial risk insurances are real guarantees that the financial damages suffered are not true "economic crises" that can lead to bankruptcy.

The evolution of the financial risks will suffer some significant changes as a result of interconnecting markets globally, as well as following their massive digitization. Thus, at the level of economic microstructure, it is necessary to implement effective strategies and mechanisms for managing economic risk that must be able to respond in real time to eventual interruptions in activity with the lowest costs.

A positive cash flow resulting from a collection of the financial risk insurance benefits over a reference period can be a real source of loans for an operation or investment, which generates the obtaining of new sources of availability and estimated profits.

In the macroeconomic context, the transformations to which the insurance field was submitted could not naturally exceed the stage of reform at the level of the entire economy.

An important conclusion is that the insurance market in our country has continuously expanded, diversified and produced beneficial effects on the economy. Thus, the number of insurance and reinsurance companies multiplied, numerous intermediation companies were created, the volume of the social capital invested in this branch, including that of foreign origin, was increased, the range of the products offered by insurers to their clients was expanded, new

branches and agencies of insurance and reinsurance companies were created and progress has been made in modernizing existing ones.

All these have made it possible to create new jobs, especially for specialists with higher and medium qualifications. The total volume of premiums received, in actual expression, as well as of the allowances granted as a result of the registered risks, has increased each year, which has offered increasing possibilities to cover the damages suffered by the insured. The volume of reserves of premiums and damages created by insurance and reinsurance companies increased, which contributed to the increase of their participation in the creation of the loan capitals.

The insurance sector presents the complex economic connotations that involve not only the insured persons, but the entire society.

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