INSURANCE – PART OF THE FINANCIAL SYSTEM

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Abstract:

Now insurance is based on the formation and use of insurance fund. In the process of formation and its use appears certain economic relationships between participants in insurance. Thus, at the first stage, cash flows in the form of insurance premiums are based on natural and legal persons insured by insurance companies. At the next stage, cash flows form of compensation or insured amounts are based on the insurance fund established at the disposal of specialized companies, the policyholders were affected by phenomena insured. It follows that insurance is a system of relationships designed to protect personal interests and / or assets of the insured by forming cash funds at the expense of insurance premiums paid by the insured in return for which the insurer assumes the obligation to produce the insured risk to them pay the insured amount of insurance or indemnity insurance..

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1. INTRODUCTION

Insurance allows a person or legal entity with risk aversion to transfer risks to which it is subjected to a specific organization, in return for insurance premium payment. As an economic activity, insurances have a number of distinctive features, which give them a special place in the economy and in the financial system.

Insurances emerged and developed because of risks common existence, of which manifestation involves serious damage to both the economy and population. Their existence leads to the formation of community risk, which implies that a large number of individuals and / or legal entities, covered by risks, with aversion to this and interested in covering damages consent to defend jointly, participating in the formation of insurance fund through a specialized organization.

From the existence of risk community derives another feature of the insurances activities – the mutuality. It means that risk management is shared. All the members of the risk community participate in the formation of a common fund, which will benefit only some of its members, those that occurred risk. As a result, there is no equality between the size of the contribution of every insured person to the insurance fund (premium) and the allowance received (compensation or sum insured).

The common fund (insurance fund) is established in a decentralized way of premiums paid by the members of risk community and used in insurance organizations. It has destinations specific to insurance activities: damages and insured sums payment as the main destination; setting up specific reserve funds of the insurer; covering the expenses and profit of the insurance organization; establishment of national funds to protect policyholders.

We believe that some comments are imposed on the use, at present, of the concept of insurance fund. Citation in all cases to a single insurance fund no longer fully meets the realities of the market economy. Before 1990, under the state monopoly in insurance and of a single insurance organizations, could speak of an unique insurance fund, although it constituted a decentralized basis, the premiums paid by policyholders, it was used centralized at the sole insurer.

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2. THE INSURANCE AND FINANCIAL SISTEMS

The name of insurance fund remains justified, as type of fund from financial funds system in the economy. But now, both the mobilization and use of specific resources place in a decentralized manner, in each insurance company, in ways and techniques of calculating insurance premiums and of use insurance fund of each insurer. In these areas, only works some common restrictions, given the legal regulations derived from public control over the insurance activity. Therefore, it seems justified to refer to multiple insurance funds in formulations as "insurance funds of insurance companies", "management of insurance funds of insurers", "creation and use of insurance funds," etc.

The insurance differs by its characteristics, solidarity and assistance.

Solidarity is helping victims after the contingency (earthquakes, floods) on the basis of public, respectively private, material or financial resources. Compared with solidarity, insurance has three characteristics: it is a contractual opertation; it requires prior contributions; it takes place in a community venture. Solidarity, in turn, calls a posteriori to a community constituted ad hoc without any contractual basis. Insurance also involves a greater degree of security than solidarity. Each insured person can count on the guarantee contractually agreed, that a certain commitment to cover losses, while damages through solidarity is uncertain, as both production and size.

In insurance, unlike solidarity, the community of protection beneficiaries is limited, explicitly including only those who have signed the contract and paid the premiums.

Insurance has, however, in its area of action, only as insured named risks. If the damages are caused by new risks unknown to some point or other risks uninsurable, solidarity is intervening to cover, in part or in full damage.

Assistance is an activity that has developed, particularly in the last 10-15 years, practiced by specialized companies, which aims to protect against all risks, but in a distinct form. It offers benefits such as: medical care or repatriation in case of illness and providing car repairs for those traveling around the world; remote monitoring of children, elderly, handicapped patients alone at home contractors. In addition, we believe that the essence of aid societies services is that it has a pronounced sense of urgency, being offered at a very short notice after the event causing injury, which is not characteristic of insurance activity.

The insurance activity implies the existence of an insurer that may be only a legal entity. This feature occurs because, in essence, insurance is an intermediary transaction between the insured persons of risk community. Compensation of damages does not occur directly between community risk members but through the insurance organization that intermediates between them.

Ensuring damage reimbursement is based on the common fund constituted and administered to the insurer as a legal entity. No individual cannot guarantee with its assets a mutuality of risks, unlike other economic transactions, such as various guarantees granted to individuals (i.e. loans).

● As legal entities, insurers are limited liability companies, joint stock companies, and - unlike other economic activities - mutual insurance organizations. The latter have no capital, no shareholders and belong to community contributors. Mutual insurance organizations have developed significant holding a share in the insurance sector in some countries (i.e. France). This structuring of the insurance activity is an opportunity to reflect on the manifestation of mutuality in two types of insurers. To mutual insurance organizations, the realization of mutuality is an end in itself, while the insurance companies, mutuality appears as a means to market insurance products. In the first case, mutuality therefore appear to be a technical guarantee, and secondly, as a way of organizing insurers relations.

On the other hand, mutuality has as a result the risks compensation based on contribution required of each member of the risk community. The size of the contribution (premium) is not uniform, but is linked to a specific risk group, the insurance premium being different depending on the seriousness of the risk.

In addition, between members of a mutuality are relations which arise between customers of other businesses. Solidarity within mutuality lead to sanctions for members who do not comply with collective sanctions that derive from the institutional character of insurance relations and not of contractual nature of these relationships.

Another feature derived from the specific insurance, which is risk based, random phenomenon, is more stricter regulation of this activity than other areas of the economy. In all countries, in forms and with different intensities, it is present the public oversight, from which is regulating the establishment and operation of insurance companies, the size of the share capital subscribed and paid up, formation and management of specific reserves, financial investments, solvency, in order to protect insured people. The insurance can be provided only by companies authorized and supervised by specialized state bodies. On the other hand, insurers cannot carry out other activities of industry, commerce, services. This principle of specialization activity is also meant to protect policyholders against the risk of insolvency that would generate practicing other activities.

3. A SHORT REFLECTION ABOUT INSURANCE SISTEM

A reflection of the specificity of the insurance activity cycle is that it has two manifestations: commercial cycle and financial cycle.

I. The commercial cycle, resulted in fluctuations in premiums revenue, is influenced by several factors:

1) The reversal of the production cycle. Unlike other industries, insurers collect revenue before making expenses, the normal production cycle is reversed. Therefore, they sell their product without knowing in advance the cost, most of it representing costs with damages and insured amounts payments, influenced by the randomness of risk. This phenomenon leads to difficulties in forecasting rates and the size of reserves and cause operating and financial imbalances that affect the insurance activity cycle.

2) The pricing cycle linked to the life cycle of insurance products. Pricing strategy is influenced largely by the product life cycle. Thus, in the expansion phase, increasing the number of insured causes a decrease in tariffs due mutuality and risk spreading. In the downward phase of the cycle, lowering tariffs due to competition between insurers, determine technical losses and deteriorating relationship between compensation and bonuses, forcing insurers to resort to tariff readjustments. Insurance becomes more expensive and often provides less security.

3) The profit cycle, whose evolution has as main endogenous factor the conflict between the objectives of growth and profit targets of the insurers. Growth objectives (winning new market segments and increasing sales) causes a downward trend in tariffs, up to under tariff risks. Profit targets require focusing on profitable branches and insurance products, as well as higher rates. As the gap between the development of technical losses - due to growth objectives - and raising tariffs - as a result of profit targets - is higher, the cycle will be longer.

II. The financial cycle derives from insurance affiliation to the modern financial system, acting as financial intermediary, along with banks, financial companies etc.

The financial cycle of the insurance companies is different from that of other financial intermediaries, for example, at banks. Insurers manages funds primarily offered long term, especially in personal insurance, which deviates from the general trend in the financial market. The main consequence arising here is the difference between an insurer's financial cycle and the bank insurance. This distinction is embodied in a process of reversal of obtaining results in two sectors:

● when a bank starts selling "over the counter" insurance products, it takes part of the market with very low cost of initialization, the entire infrastructure being already present. Therefore, turnover growth is accompanied by an immediate profit growth and vice versa;

● to insurance companies, the sequence is reversed, the insurer must cover first investment costs, purchase contracts, pay their employees and insurance intermediaries (insurance agents, brokers). Therefore, during the expansion, the financial results are often negative, given that financial income and the reserves brought about by the new contracts are low. On the contrary, during the period of decline, the insurer incurs expenses lower purchase, its financial incomes are higher and thus make profits.

Finally, other features of the insurance activity aim differences between insurance organizations specializing in insurance of persons and social security and social protection organizations, as well as the special position of insurers as financial intermediaries.

Traditionally, since 1990, in the traditional specialty literature the financial system is conceived, defined, structured closely with how to define the finances broadly and narrowly. The financial system is defined as "a set of components interconnected by a common essence and financial phenomena which have relationships of interdependence".

One approach to the concept of the financial system, it is viewed in several ways:

● as a system of economic relations in cash;

● as a system of institutions which is a reflection at institutional level of these relationships;

● as a system of financial reserves funds;

● as a system of balances and budgets, having the role of financial management and control tools.

Within the financial system as a whole regarded financial relations, there are two major subsystems: the public namely, private financial system. Public financial subsystem components are considered: the state budget, local budgets; state social insurance; credit (with the participation of public entities); property, liability and people insurance (by state-owned companies); finance companies and other public entities. Quite rightly, the insurances are found among the four private financial subsystem components: finance businesses and other entities or private companies (including insurance companies); bank credit (private); social security (private); household finances. It is also important to underline the existence of interrelationships and areas of interference between different components of the financial system, including between public namely, private, financial subsystems, where are involving also the insurances. The financial system can be approached as a system of structures or institutions with responsibilities in the organization of financial relations or as a participant in generation, distribution and use of funds, and the development and implementation of financial decisions. From this point of view "insurance and reinsurance companies take from policyholders in exchange for premiums, risks related to the occurrence of damages or injuries etc. to goods and people, and will pay compensation or insured amounts. They manage to mobilize the financial resources from insurance fund, developing financial relationships with several classes of insurance/reinsurance, according to the object of activity established by the company contract and by statute ".

On the other hand, the different behavior of economic agents in the circuits of financing the economy leads to a distinction between non-financial agents and financial intermediaries. Non-financial agents are all economic agents whose main activity is centered on the production, distribution, consumption of goods and services; they perform buy-sell operations, sampling, transfer in their field.

Financial intermediaries, also called financial agents, are, opposed to the first, the all operators whose main activity is based on placement or lending operations. The existence of parallel and complementarity between non-financial agencies, which, outside of self-financing (internal financing) have a surplus or a shortage of financial resources (need external financing) may be direct contact between them (direct external financing) or to the emergence of financial intermediaries (indirect foreign financing). They mediate between the two categories of non-financial agents, serving to facilitate contact between them and reduce the cost of collecting information on the existence of an informational asymmetry between lenders and the borrowers.

Financial intermediaries are classified according to their ability to create or not titles that allow direct and immediate payments, into monetary, respectively non-monetary financial intermediaries in this last category, ranging also the insurance companies.

From economic and financial addressing of the insurance concept merans that insurance companies hold both the position of non-financial agent, as well as the financial intermediary.

As non-financial agents, the insurance companies have as primary activity the sale of insurance products to their customers, achieving revenues, expenses and realizing profit or loss from this activity. Compared to other non-financial agents, insurers present the particularity that the appeal to external financing resources from the capital market loan is exceptional in nature. In the structure of external resources required for ongoing operations or development, the loans occupy an insignificant share. As external resources, contributions appear mainly to policyholders who remain shorter or longer available to insurance companies.

As financial intermediaries, insurers mobilize financial resources from non-financial agencies and population and provide economic deficient both in the system of direct foreign financing (providing direct loans or buying shares of other undertakings) and by indirect external funding system (placing deposits with banks, investment financial funds).

In the literature of our country, the approach of insurance affiliation to the financial system concerns the similarity between economic relations from insurances and financial ratios of the other components of the financial system. In summary, it is argued that:

● in the creation and distribution process of insurance funds appear certain economic relations, in cash between insurance participants. These relationships arise between insurance companies as legal entities, on the one hand, and persons or legal entities who are insured, on the other hand. The state participates in these reports either directly - as the owner of capital in the system – or indirectly through relationships between insurance companies, as operators with obligations to the budget and state budget;

● the creation and use of insurance funds essentially express redistribution reports of gross domestic product, in which individuals, different categories of legal entities (state-owned, private, mixed businesses; public institutions; local authorities, political and union organizations etc.) and the state, which makes insurance must be considered a separate component of the financial system;

● insurance expresses, therefore like finance, economic relations, in cash, which appear in the distribution of gross domestic product, through which are formed and assigned specific funds - the insurance funds.

We believe that further clarification is needed on the financial aspect of insurance stemming from the evolution of this activity in recent decades.

Thus, it is generally accepted that the benefits paid by insurance policyholders have only monetary form. In the case of destroying or damaging property, the insurer undertakes to replace or repair them, but offer amounts needed to perform these operations. In life insurance, insurers cannot compensate for the pain of the survivors of the death of a loved one. To accident insurance, the insurer does not compensate for physical or psychological trauma of injured persons nor achieved the return to health and bodily integrity input, but covers the financial consequences of accidents (medical expenses, sick leave).

However, two insurance branches emerging in recent decades partly deviate from this principle. Legal protection insurance provides directly the services of lawyers, and addiction insurance, arising from the accelerating process of aging and narrowing the circle of family and included in life insurance category provides similar services to those of social assistance at home for insured persons.

In addition, the emergence of aid societies, which have the object of providing complementary services to insurance contracts or separate from them, and the services offer (repairs of goods, etc.) by insurance companies that contract obligations, outside the scope of monetary relations strictly traditional insurance.

Insurance funds, although financial funds, have a number of distinctive features compared to others of the same nature:

- the consideration may exist or may be missing, while the insurer pays compensation or sum insured. But there is no equivalence between the size of the insured contribution to fund formation and compensation paid from the insurance fund, and the benefit appearance is linked to certain conditions (contingency, contract compliance);
- the transfer of resources from the insured person to the insurer is final, unless the insured risk occurs;
- the insurance relations satisfy the interests of individuals or legal entities;
- the common, social interest of general interest satisfaction appears only if it is entered into the venture community and mutuality.

Such characteristics give to insurance funds a special place within the system of financial funds.

4. CONCLUSIONS

Along time in the contemporary economy has been a multiplication of loans, which led to the multiplication implicitly assumes credit risks.

But in order to avoid these risks, lenders took their own measures to avoid, and without being able to avoid them altogether. For example, the banks bear risks such as liquidity risk, credit defaults that tries to avoid them by analyzing customers, but however they do not disappear altogether. As a result, one of the most effective tools to transfer the financial effects of these risks is credit insurance. Another significant risk faced by operators today is the fraud, theft, misappropriation, falsification, leading to significant losses.

Cover such risks can be done through specific insurance ie ensuring safeguards. Also through insurance guarantees can stimulate economic activity in various sectors. As an example we can mention providing guarantees for participation in tenders give to the companies participating in the auction amounts that would have been fixed with the release of a letter of guarantee.

It is noteworthy that through insurance of financial risks can support certain loyalty programs that companies reward customer loyalty to build and generate additional revenue. Insurance programs such packages include insurance-related products and services to individual customers of financial institutions (eg credit cards), mobile phone companies, internet service providers or retailers .

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