INSURANCE MARKET AND ITS INCIDENCE ON THEECONOMY

Maria VĂDUVA[1]

Abstract:

THE MARKET IS THE CENTRAL PLACE IN THE FUNCTIONING MECHANISM OF A MODERN ECONOMY. THE FUNCTION OF THE MARKET, OF ITS CHARACTERISTIC LEVERS, ITS ROLE AND FUNCTIONS IN AN ECONOMY DEFINES THE MODERNITY DEGREE, RATIONALITY AND ITS EFFICIENCY.

THE INSURANCE OPERATIONS MADE ON CONTRACTUAL BASES ARE DEVELOPED IN THE FRAME CALLED THE INSURANCE MARKET. THIS DENOMINATION IS BEING USED BECAUSE HERE IS MET THE INSURANCE DEMAND COMING FROM THE INSURABLE NATURAL AND LEGAL PERSONS WILLING TO CONCLUDE INSURANCE TITLES AND INSURANCE BID SUSTAINED BY THE SPECIALIZED ORGANIZATION TO FUNCTION IN THIS FIELD AND CAPABLE UNDER FINANCIAL REPORT TO DEVELOP SUCH AN ACTIVITY.

THE DENOMINATION OF MARKET, VALID BOTH FOR THE COUNTRIES THERE OPERATE MORE INSURANCE ORGANIZATIONS AND FOR THOSE WHERE STATE MONOPOLY FINANCES SUCH AN ORGANIZATION. IN THE FIRST CARE WE HAVE A COMPETITIVE MARKET IN THE SENSE THAT EACH INSURANCE ORGANIZATION IS PREOCCUPIED TO ADJUDICATE A LARGER SEGMENT OF THE INSURANCE DEMAND.

IN THE SECOND CASE, EXISTING ONE INSURANCE BID, THE INSURANCE ORGANIZATION IN NO LONGER IN COMPETITION WITH OTHER SIMILAR ORGANIZATIONS REGARDING THE OFFERED INSURANCE CONDITIONS.

THIS MARKET APPARENTLY NON-COMPETITIVE PRESENTS IN REALITY COMPETITION FEATURES OF A SPECIAL KIND. THE SOLE INSURANCE COMPANY IS PREOCCUPIED TO CONVINCE THE INSURABLE NATURAL AND LEGAL PERSONS TO ACCEPT THE OFFERED INSURANCE CONDITIONS AND IN THIS WAY TO BRING THE INSURANCE DEMAND TO THE DIMENSION OF ITS BID.

A DISTINCT PLACE IS OCCUPIED BY THE INSURANCE MARKET FOR PEOPLE, GOODS AND LIABILITY BECAUSE SUCH INSURANCES REPRESENT A DISTINCT FIELD OF ACTIVITY WITH DIFFERENT IMPLICATIONS ON THE ECONOMIC AND SOCIAL LIFE.

THE INCIDENCE OF INSURANCES ON THE OVERALL ECONOMIC AND SOCIAL LIFE IS MANIFESTED IN FOUR MAIN DIRECTIONS: AS CREATIVE BRANCH OF ADDED VALUE; AS CREATIVE BRANCH OF JOBS; AS BRANCH PARTICIPATING IN THE CAPITAL BID, OF LOAN ON FINANCIAL MARKET; AS REDUCTION FACTOR OF ECONOMIC UNCERTAINTY AND AS A MEANS TO RESUME THE ECONOMIC ACTIVITY TEMPORARILY INTERRUPTED..

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1. Associate Professor PhD - "Constantin Brâncuşi" University of Târgu-Jiu, Romania, email:

1. INTRODUCTION

The insurance operations performed on contractual basis are conducted within a framework which is the insurance market. It is used this name because here meet the demand for insurance, which comes from insurable natural and legal persons willing to conclude various insurance titles and the insurance offer sustained by relevant organizations operating in this field and able, under financial report to develop such activity. The market name applies to both the countries in which several insurance organizations operate and those in which in virtue of the state monopoly finances such an organization. In the first case, we are dealing with a competitive market in the sense that each organization is concerned to win over a large segment of the insurance application.

In the 2nd case, there is only one insurance offer, the insurance organization no longer compete with other similar organizations in terms of the conditions of offered insurance.

This seemingly noncompetitive market shows elements of a special kind of competence in reality. The single insurance organization is concerned to persuade the insurable natural and legal persons to accept the conditions of the offered insurance and thus bring the insurance application to the size of its bid.

In the absence of several insurance organizations, insurable natural and legal persons have opted between accepting the only insurance offer that exists on the market and rejecting it. Those who accept the offer of the insurance organization are concerned to find a viable, real or apparent alternative for the insurance.

For people who want to conclude a life insurance to simultaneously provide them insurance protection and the possibility of fruition of the economies, the alternative is to deposit the available funds for preservation and fruition in the savings bank. This considering that the amount cashed from a life insurance policy by the insured survivor at the expiration of the insurance is less than the one that would have been cashed if he/she had entrusted an amount of money equal to the total paid insurance premiums for preservation and fruition in the savings bank. In reality, it is not that the insurance organization capitalizes weaker the population‟s savings than the savings bank, but that it also covers the risk of death of the insured during the contract period, for which is entitled to charge a certain premium insurance.

2. A BRIEF OVERVIEW OF INSURANCE

The economic units and the households of the population interested in protecting their goods instead of insurance through a specialized organization have at hand the solution of self-insurance with all its limitations.

Forms of competition can occur in an insurance organization and a savings bank, namely between the insurance in fact and self-insurance.

Another problem related to the insurance market refers to its size. The decisive element that defines the size of such market is the insurance demand determined by economic power of insurable natural and legal persons, and on the other hand, their belief in the usefulness of the insurance mediated by the specialized organizations.

The insurance demand focuses on the insurance contracts after its confrontation with the offer. It is possible that not all persons who requested bids from the insurance organizations to conclude contracts with them, either due to the fact that they do not find separate convenience, or that those conditions of the applicants are not accepted by the bidders. Finally, the size of insurance market is expressed using several indicators including: the number of contracts concluded in the reference period, the number of active policies, the annual insurance premiums, the ratio of the insured amounts in the reference period and the total amount of the commitments assumed by the insurance companies at a given time.

The demand of person, goods and liability insurance comes from the natural persons who want to conclude insurance contracts to protect them and their families, and the economic units concerned to provide security to their employees in case of accidents or occupational disease. The demand for goods and liability insurance comes from the legal persons interested to protect the available assets against the dangers that threaten them and third party liability.

The insurance offer is presented by the insurance companies with private, state or mixed capital and by mutual insurance organizations.

The insurance companies, regardless of the form of ownership develop its activity according to the law in pursuit of profit. These companies are required to remain within the legal provisions in regard with the size of the minimum subscribed and paid capital, the size of the obligations which may be assumed by the premium reserves and damage that they must constitute, the way to keep track of the developed activity, form of the balance and profit and loss account which must be drawn up and published, the concerned companies must respect the opinions and rules of the State body in charge of the insurance supervision.[2]

The insurance organizations of mutual type perform insurance operations for their members according to their statutes based on the principle of mutuality, they intend to help their members and not to make profit. Each member of a mutual organization has a dual quality: the insured and the insurer. As insured each member group participates in the formation of the common insurance fund with the contribution that has been established for him/her. The above fund covers the covered damage suffered by the goods and liability insurance and the insured amounts are paid to the life insurances. The regularization of the contributions is made at the end of the year depending on the actual size of the damage and the insured, paid amounts or outstanding payment, increasing or decreasing as appropriate.

In some countries, where certain mutual organizations ex. those from agriculture cannot cover all costs related to the insurance on account of their own contributions, they receive state subsidies to supplement them.

Tontines are associations constituted for a determined period of time during which the association members pay an annual fee into the trust fund which varies according to age. These associations owe their name to the Italian banker Lorenzo Tonti in the eighteenth century, who introduced them in France after experiencing them in Italy. When expires the deadline for which the association was established, the amount resulting from the capitalization of the contributions over the years is divided between the surviving members. Similar associations also associate for deaths.

There are specific organizations besides the insurance organizations commonly found in many countries. National House of Provisions is in France, a public institution administered by the Deposits and Consignments House with the mission to provide annuities and life insurance.

In the United Kingdom of Great Britain and Northern Ireland, there is Lloyd's insurance organization, which includes a professional corporation, a community of underwriters and an insurance market is a global center of maritime information. Lloyd's organization was created in the late seventeenth-century by ship-owners and finance people who frequented Edward Lloyd's café of London. The initial aim of these organizations was to provide wider information on the situation of ships and their cargoes, of the commercial maritime transactions and their value. Recognized as an institution of general interest institution for the maritime trade by an act of the British Parliament of 1871, Lloyd's has continuously improved and enlarged the structure and scope of work, particularly on the line of insurance. Now named the Corporation of Lloyd's, the organization is in addition to a professional corporation one of the most important insurance institution. In the object of its activity are all forms of insurance, except life and fire insurance.

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[2] C. Alexa, V. Ciurel, "*Insurances and reinsurances in the international commerce*", All Back Publishing House, Bucharest,2012

On the insurance market, the connection between the insurers and insured persons is done either directly by the specialist staff of the insurance companies or by the members of the mutual insurance organizations or by means of intermediary agents (brokers, courtier).

In Romania since 1991, the insurance activity is conducted by insurance companies, insurance-reinsurance companies and reinsurance companies as provided by law.

3. THE ROLE OF INSURANCE SECTOR COMPANIES

Intermediary companies also attended in the insurance activity that negotiate and conclude insurance and reinsurance contracts or provide other specialist services for the mentioned companies.[3]

The commercial companies in the insurance field may have state, private or mixed capital. Foreign legal persons can make up insurance companies with foreign capital only by association with Romanian legal and natural persons in Romania. The foreign commercial companies and the associations of foreign insurers may establish representative offices in our country.

Another issue concerns the nature of the insurance market: is it a perfect or imperfect competitive market? To answer this question, which concerns the specialists in the field it presents the characteristics of a market considered perfect: homogeneity of products, market transparency and atomization, freedom of entry-exit for the market participants and decentralization of the decisions.

Product homogeneity. An infinite range of products are sold on the goods market but each of them has one or more replacements. Thus, fabrics, garments and knit cotton, wool and silk have other substitutes made from natural or synthetic fibers; shoes from leather has as substitutes made of artificial leather, rubber or textiles and other primary products also have their substitutes, household appliances are produced in multiple variants with different performance and qualities.

The insurance market does not sell one single product, "the insurance" but a relatively broad range of products consisting of insurance against various risks. The novelty lies in the fact that a product (a type of insurance) cannot be replaced with another (another type of insurance) e.g. the product "motor car insurance for damage" (comprehensive motor car insurance) cannot be replaced with the product "Motor vehicle liability" and much less with "household goods insurance" or with "life insurance".[4]

A person who has a motor car and household goods of a certain value feels the need to protect all such property against the dangers that threaten life and civil liability stemming from the use of the motor car. It cannot replace one insurance with the other, being interchangeable. This finding leads to the conclusion that the insurance companies "in general" do not compete on the insurance market but the companies with the same profile, those having the same type of the product, conclude insurances against the same risk. The insurance market consists of as many components as the sub-branches of insurance are practiced.

The law on the establishment, organization and functioning of insurance companies, adopted in 1991 lists 10 categories of insurances that these companies can practice in our country. These are the following classes of insurance: life, persons, other than those of life, vehicles, marine and transport, aviation, fire and other damage to goods, liability, credit and warranties, financial loss of insured risks, agricultural.[5]

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[3]D.A. Constantinescu., "*Insurances and reinsurances*", Brend Publishing House, Bucharest, 2008

[4]T. Negru, *Economia asigurărilor. Metode, tehnici, soluţii,* Editura Wolters Kluwer, Bucureşti , 2010

[5]A.I. Giurgiu, P.V. Ungurean., Fl. S. Duma, *Mic Lexicon Financiar-Bancar şi Bursier,* Editura Didactică şi Pedagogică, Bucureşti, 2009

It can be noticed that we do not meet perfectly homogeneous products even in a sub-branches of insurance. e.g. private accident insurance differs from the group or housing insurance differs from the movables and immovable insurances belonging to a company against fire and other risks.

We can say that most products are lacking homogeneity, except the motor vehicles and housing insurances.

Market transparency. Natural and legal persons unfamiliar with the insurance problems do not realize what benefits can be offered by an insurance contract, what relationship is between the due premium and obtainable compensation in catastrophe. In the goods market, every product wears a sales price tag, in the insurance field such a label that would indicate the premium share is not sufficient to convince an applicant about the usefulness and appropriateness of contracting insurance. To obtain the information necessary for taking a decision, the interested persons should contact an insurance agent. An insurance market is almost opaque to the uninitiated.

Market atomization. A market is considered atomized when it brings together a large number of bidders and applicants in such a manner that none of the participants can influence its operation in manner sensitive manner.

A certain image on the atomization degree of the insurance market gives us the number of insurance organizations in several countries occupying important places in the insurance field worldwide; USA 2254 life insurance companies and 1558 motor car insurance companies, Japan 61 insurance companies and 1226 insurance associations and federations, Germany 2334 the total number of insurance companies, Austria 1105 insurance organizations.[6]

It results that in those countries there operates a large number of insurance organizations but they are heterogeneous in size and importance. Together with the large stock companies they finance smaller-type limited liability companies and mutual organizations that bring together small groups of associates. Even the insurance companies themselves are very different in potential.

Freedom of entry - exit of the participants on the market. In the mind of the ordinary man, the market is where anybody can come that wishes to sell or purchase and remain there as long as he/she is interested to do so. It is the same on the insurance market; increasing or decreasing the insurance organization number is the result of the appearance of new companies, mutual ones or other types of organizations on the market simultaneously with the liquidation or merger of others. These fluctuations show that the insurance market is not a closed market, but one in constant motion. The insurance market is subject to close monitoring by the public authorities. This supervision is carried out by a specialized body that works near the Ministry of Finance, Ministry of Industry or near other institution of the central state administration.

In our country, the task on the supervision of legal provisions related to the insurance activity, preventing the insolvency of insurance companies in the field and insuring the rights of policyholders has been entrusted to an office that functions within the Ministry of Finance.

Supervision office of the insurance and reinsurance activity performs the duties and rights that have been set out by Government on the establishment of insurance companies, paying their subscribed capital, insurances by law, premium tariffs for life insurances, financial situation of insurance companies, fund to protect the policyholders.[7]

These powers and duties intend to prevent the insolvency of the insurance companies and protect the interests of policyholders contributing to the better functioning of the insurance market.

[6]T. Negru T., *Economia asigurărilor. Metode, tehnici, soluţii,* Editura Wolters Kluwer, Bucureşti ,2010
[7]M.R. Ţîrlea, *Asigurări şi Reasigurări, Editura Risoprint,* Cluj Napoca, 2012

Decentraliz7ation of decisions. In principle, every organization makes decisions within its financial capacity. When making decisions that have effect on third parties, the insurance organizations are obliged to take into account the legal provisions in order not to harm their own interests or those of third parties..

4. CONCLUSIONS

The credit insurances eliminates in a certain measure the substantial risk of financial loss, especially when dealing with transactions of large amounts or the number of business partners is relatively low; this can cause a difficult situation where one or more debtors cannot acquit their payment obligations. However, not all credit insurances are always profitable, especially if the individual loans are lower and the risks are dispersed on a high turnover.

The credit insurance is compensation insurance, as it involves compensation paid to the insured for the suffered loss due to insolvency or default of the insured"s customer, and not the creation of a "physical" event as the case of the other insurances. Therefore, it is a pecuniary insurance, of financial loss and not material.

The differences between ordinary insurance, indemnity insurance and credit risk come from nature of the risk and the stakeholders, namely:

1. There are 3 parts involved in credit insurance, each aware of the other.
2. The responsibility lies on the repayment of the debtor"s credit and the liability only if the first does not fulfill his/her payment obligation due to reasons included in the insurance policy.
3. The insurer has no interest in the agreement, than the guarantor for the buyer.

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