SCIENTIFIC REVIEW

INTERDEPENDENCE OF INSURANCE NEED AND DEVELOPMENT INSURANCE MARKETS

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ABSTRACT

On the one hand, the insurance market is no different from other markets, as it has market entities, supply, demand, price and "product" (sale of security). Still, on the other hand, it is specific in relation to all other markets; the market subject to sale is a risk that may or may not be realized in the future. Insurance is a form of risk management, primarily moderate to reduce financial losses or transfer of risk from the insured to the insurance company, with insurance premium payment. The security market has its own branch institutional network consisting of: companies (important factors in the global financial economy), intermediaries (brokers), insurance agents (banks, companies), directorates for business supervision of insurance organizations, professional associations (insurance associations), the association of actuaries, etc. In addition to them, an important place belongs to the individuals and legal entities like insured objects. This topic has been insufficiently researched in practice, so the authors consider it important.

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INTRODUCTION

Having in mind legal, economic, sociological and actuarial aspects of this activity, insurance is difficult to define. Therefore, each definition of this activity can be said to be relative and not generally acceptable, but it is important to understand the essence and importance of insurance in certain conditions. [1] Insurance primarily aimed at reducing financial losses. The basic idea of insurance is to connect many beneficiaries of similar risks into one fund.

According to the law of probability (the law of great numbers) insured cases occur to a small number of insured persons, given that relatively few adverse events occur in one year. The cost and the number of adverse events can be smoothly submitted by a large number of insured. Insurance and risk transfer reduce uncertainty for individual and organization.

From all the well-known definitions of insurance the existence of certain common elements can be noticed, namely: a) risk transfer, b) association, division of risks, c) compensation, payment of damages that actually occurred, d) the ability to reasonably estimate future damages and their determination in the monetary statement and e) the possibility of realizing negative, accidental events, the occurrence of which is beyond the control of the insured. [2]

THE IMPORTANCE OF INSURANCE

The role of insurance is twofold: protection of the insured and third-party protection. Insurance is viewed as an economic mechanism by which an individual exchanges a small (fixed) amount of premiums for a large uncertain financial one - the loss (uncertainty from which it is insured) that would exist if it did not exist, is a confirmation of previous statements. [3]

In this sense, the claim is that the primary function of insurance, viewed from the individual's perspective, is to create security. In other words, insurance does not reduce the probability of occurrence of events, but reduces the probability of financial loss caused by that event. The accuracy of insurers' predictions has magnitude of the loss that will actually occur. By combining sufficiently large numbers of units of a homogeneous set, the fuse is in the ability to use probability theory to make predictions for the entirety of insurance. [1]

ECONOMIC AND LEGAL POINT OF VIEW

From an economic point of view, insurance allows for the redistribution of costs and individual damages to many insured persons, thus achieving indirect economic protection. In the process of social reproduction, every disorder caused by the realization of some risk threatens to disrupt that process. Anticipating adverse event occurrence, insurance prevents the interruption of social reproduction, i.e., everyday life of people, due to the action of sudden adverse events caused by the action of nature or human factors.

Insurance is one of the main drivers of economic development. A developed insurance and reinsurance market is considered one of the basic indicators of a country's economic development. Higher level economic development provides numerous opportunities for risk management since the necessary funds for these processes are more accessible there than in insufficiently developed countries. In addition, the awareness of people with a higher standard of living about the necessity and importance of insurance is more developed there than in the environment with a lower standard of life.

Insurance encourages economic development because it enables stability in the financial sphere and reduces the uncertainty of the insured; it realizes the social function; it encourages exchange and trade and it has a financial and accumulative function and strives for efficiency of capital allocation. [4] Insurance is characterized by invisibility and less attractiveness because it differs from other services traded in other markets. Advance purchase is a specificity reflected in prepaid insurance premiums, and the necessity of explaining the need for insurance protection is a specific feature of the insurance service. The importance of the role of marketing is understandable.

According to the criterion of geographical coverage, the insurance market can be local, regional, national, multi-country market (European Union insurance market) and the world. Starting from the type of insurance protection offered, there are different markets for life, non-life insurance and reinsurance. Each of them can be further divided and depending on the relationship on the supply side, one can talk about monopolistic, oligopolistic and competitive insurance markets. Monopoly was characteristic of the countries of Central and Eastern Europe under of state socialism. Today's worldwide insurance market is mostly distinguished by competitive relations and it includes certain groups of participants, layered relationships between them, technical and institutional solutions enabling its work.

In addition to numerous methods and techniques, banks resort to concluding special loan covenants when approving loans to business entities. [5] The provisions of the agreement provide additional security to the lender that he will not be harmed when borrowing funds, and insurance plays an important role in the lending institution. In an effort to secure the necessary financial resources from the most favorable sources, companies throughout their lifetime face a dilemma: equity or debt. [6]

Elements of the insurance market

Business insurance sphere is very orderly, implying certain rules of conduct between participants. Supply and demand are constituent elements in all markets, including insurance. The subjects of insurance are persons (legal entities) and service insurance coverage is provided only by adequate companies. If the connection between the subjects of supply and demand is established indirectly, the number of subjects of insurance increases, and market relations become complicated.

The following participants that appear on the supply side are insurers, intermediaries and agents, persons providing other insurance services and other participants. An insurer is a legal entity that has a role of seller who offers and provides the insured with insurance protection. Based on the insurance contract, the insurer undertakes to compensate the damage, e.g. pays off the agreed sum insured to the insured when the insured event occurs (risk property damage or risk of death in the contractual insurance period).

From the aspect of the types or groups of insurance they have to offer, insurance companies can be divided into life, health, property, and insurance companies of responsibilities. With regard to criteria of the legal form of organization, we distinguish joint stock insurance company, mutual insurance company and Lloyd’s associations.

Intermediaries and agents perform indirect sales of service insurance. These are natural and legal persons who bring stakeholders into contact for concluding an insurance contract and who conclude the same in someone else's name and for someone else's account. The basic difference between an intermediary and an agent is that intermediaries only connect stakeholders to conclude the contract themselves, while the representatives conclude a contract in the name and on behalf of the insurance company or, less frequently, the insured and his own principal. The role of these insurance entities is reflected in the collection and exchange of information, increase of competitiveness, reduction of marketing and sales costs, as a kind of better dispersion and risk management.

Entities that provide other insurance services are agencies - legal entities that don't give direct insurance protection, but perform the tasks of providing other profit-making insurance services, such as risk assessments, claims assessments, rescue services, assistance services for damage in the country and abroad, premium insurance collection services, indemnity administration services requirements, and a number of other intellectual and technical services related to the business insurance. The organizational form of the agency can be a joint stock company or a limited liability company. Other participants in the insurance market do not appear directly in contractual relations, but to some extent determine work in the insurance sector.

FACTORS IN THE DEVELOPMENT OF THE INSURANCE MARKET

The size or degree of development of the country's insurance market can be measured by: a) calculated premium; b) the share of the premium in the gross domestic product; c) height insurance premiums per capita; g) types of insurance on offer; e) concluded contracts, issued insurance policies; f) insurers; e) policy holders and other indicators. For most of these indicators in various surveys, as a rule, annual data is used. [7]

Factors influencing development insurance markets on different bases compared to the previous period are scientific and technological changes (new information technologies, genetic achievements); globalization of economic relations and its impact on internationalization and liberalization of business in the field of insurance; significant development of distribution channels, bank insurance; changes in the evaluation of the work of employees as a phenomenon in the insurance industry, significant incentives and bonuses for achieving business goals; strengthening market competition; demographic changes in the form of a changed population (increasing age structures); the development of new insurance products and the improvement of existing insurance products and services as a response to increasingly dynamic competitive conditions; the need for continuous improvement of knowledge and skills of employees in insurance activities. [8]

The strengthening of competition on the world insurance market is connected with several factors: a) significant "insurance penetration" in developed economies; b) growth in numbers of new insurance providers, conditioned by the process of deregulation and facilitated by the procedure of issuing licenses for work on foreign markets, as well as cooperation of insurance companies with banks and other non-financial organizations; c) consolidation of market entities in order to create an adequate size of the company necessary for a successful competitive struggle conditioned by liberalization and internationalization of business and d) offer of new products or insurance services as a consequence of adapting to the most diverse needs of the insured and the daily changes that accompany modern society. [7]

INSURANCE DISTRIBUTION (SALES) CHANNELS

Traditional ways of selling insurance are direct and indirect sales through agents and intermediaries. The criterion for choosing a sales channel is profitability which is reflected of income that will be realized and the cost that each channel generates. The choice of channels by society is realized in several steps: identifying the channels used by competition, SWOT analysis of each channel based on analysis of strengths, weaknesses, opportunities and threats, determining the cost of each channel, choosing the channel that represents the optimal a solution for the insurance company's chosen marketing strategy. [9] Everyone's participation channel in the realization of the total insurance premium is determined by characteristics of insurance protection, the degree of consumer knowledge of insurance services, consumer motivation and prevalence of services. [1] The way of contacting the potential insured is the way of sale insurance. The insurer should provide cost-effectiveness of selling insurance and satisfaction of the insured with the service provided.

The current level of development of the insurance business is more present in the digitalization era of business processes and it imposes the need to use new sales channels. The basic criterion for choosing a sales channel, which will be guided in the future, is to access as many customers as possible at minimal cost obtaining insurance and continuously increasing the competitiveness of the offer. Contemporary insurance companies, in most cases, use both types of sales – direct and indirect, through intermediaries and agents. Their proper harmonization and balancing achieve the greatest possible market success. The direct insurance sale is realized directly through contact between the insurer and the insured, while e-commerce provides insurance activities with exceptional opportunities. The global fintech industry is growing rapidly, using technological innovations to capture market shares from the existing companies in many financial service sectors. [10]

The main advantages of the application of electronic commerce in insurance are growth in the number of insured persons, improved quality of service, multimedia and interactivity, etc. In addition to numerous benefits, e-business and e-commerce also show certain shortcomings. An important disadvantage of e-business is risk related to security and data protection. Over the past years, the economic recovery is secured and the business demography is positive again. [11]

CONCLUSION

The current level of development of the insurance business is more present in the digitalization era of business processes and it imposes the need to use new sales channels. The basic criteria for choosing a sales channel is to access as many customers as possible at minimal cost of obtaining insurance and continuously increasing the competitiveness of the offer. Contemporary insurance companies use both types of sales – direct and indirect – through intermediaries and agents. Their proper harmonization and balancing achieves the greatest possible market success. Insurance e-business in the Republic of Serbia has been a modern means of advertising, an external type communication with the business environment and the type of internal communication in the form of internal electronic networks.

Nowadays, the share of e-commerce, as a sales channel, is rather at the experimental level. As opposed to the experience of foreign insurers, the current degree of development of the insurance market in the Republic of Serbia is characteristic of the domestic user of insurance services, who values direct contact with sellers more than virtual contact insurance. In the near future, it is impossible to expect a significant increase in insurance premiums concluded in this way. More significant development of insurance electronic commerce in the Republic of Serbia can be expected with the arrival of new IT-educated generations of insured persons who will be familiar with this new way of trading.

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