



The Insurance Market and Social Wealth

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Abstract Over time, people and their activities were subject to risk. These risks cause damage in different sizes and the insurances cover them, they permit the reconstruction of the destroyed property, ensuring the continuity of the production process and contribute to the integrity of national wealth. Through this paper we try to identify aspects of usability and security role in the development of society and social wellbeing.

Key words:

Insurance, transferred risk, financial compensation, economic wealth

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1. Introduction

The concept of social wealth has been debated a lot over time. In order to define the social wealth there have been made several attempts.

Reality indicates a close link between the financial situation of the people and their welfare. The social welfare can be defined taking into account its psychological aspect, its economic and financial one, but, in its simplistic form, according to DEX [1], it represents the welfare of the members of a society.

Between the insurance and social welfare there is a direct relationship and in this work I will try to prove this thing.

A key aspect of the human life and its development since ancient times was the concern for the future, the fear combined with caution and wisdom certainly accomplished something.

It is known that the *insurance* were born in urgent need of protection of man and his wealth earned hard against the destructive forces of nature, accidents and diseases, the need for the establishment of livelihoods in terms of loss or reduction in work capacity accident, illness or reaching a certain age [2]. Over time, people have tried to find solutions to these problems, they sought to discover and apply various methods of protection against the occurrence of events that may cause damage or destruction of goods and property in their possession. People have always wanted a safe life, free from risks. This is not entirely possible, but there are ways you can limit the risks faced by individuals and companies in their day to day activity, one of them being the *insurance*.

The concept of insurance is a form of relief among individuals from a society. For example, if a house suffers a devastating fire that will help the community members together to rebuild the house, they will be helped as well if it happens to them. This type of insurance has survived to this day in regions where modern exchange economies have penetrated only superficially (e.g. in some countries of the former Soviet Union).

The first to react in this direction was the state. The need for *the national public insurance system* came because not everyone can save their resources, some of them material and financial.

Subsequently it was developed *the private insurance system* that involves *risk passing* under certain conditions, on some *specialized companies* in insurance and reinsurance.

2. The role of personal welfare and social insurance

The economic and social importance of insurance is manifested in several ways. Primarily designed to protect property, health, *life of the individuals* and second the *activity of companies*.

Even the security definitions we see emphasis the economic and financial aspect of insurance.

If it's seen *from an economic point of view* - the insurance provides the creation, under specific conditions, of the insurance fund, on which it can be, highlighted the following aspects:

- the insurance is represented as money;
- the insurance fund is decentralized within each insurance company on account of insurance premiums collected;

• the establishment and use of the insurance fund involves economic relations between the Parties through cash flows resulted from collecting the premiums and then pay for the damages.

The insurance fund is created, shared and used in the process of sharing the gross national product, when between the insured and insurers are developed social-economic relations, financial ones. These financial relations are given by the insurance premiums paid by the national companies, independent companies and commercial societies for their goods insurance and also paid by the individuals for their good insurance or even individual insurance. The insurance is used also as fund to prevent, limit and protect against the destructive forces of nature, accidents, to compensate the loss resulted and to pay the insured sum in case of accidents or decease of the insured person etc. Therefore, *the insurance is a component of finance, of economic relations*. The economic content of insurance is determined by the property forms, the existing economic laws inside a society. Because the insurance is part of the financial sphere, it has also its characteristics; at the same time the insurance has also its specific features, determined by the way of creating, sharing a usage of the insurance fund. Therefore the insurances were created as a result of the existence of several common risks which cause great damages to the economy in case of a claim, to national companies, individual entities, commercial societies, public or private units and to the population. The common risks determine the creation of a community of risk, meaning certain persons – individuals or legal persons – are threatened by the same risks, fact which leads to a common fight to protect their common interests.

According to its financial point of view – it can be appreciated that the insurance is created as a financial intermediary between the individuals who pay the premiums and the individuals and legal persons who need additional financial resources.

The insurance compensates financially the effects of an unfavorable event. The financial compensation funds are created by the insurer from the premiums paid by the persons or organizations who bought insurance. In this way, the compensation received by the insured is reinstated in the financial statement he had before an insured event. This expresses the main purpose of insurance - the compensation of losses and not makes a profit. In exchange for premiums allocated for special funds, the insurer accepts the risk of damages if the policyholder will suffer a prejudice.

Thus, we can say that insurance *is a method of transferring the risk from individual and legal persons to the insurance companies who take the risk*. The material and financial damages are compensated by the insurance company which insures the holder from

the special funds created from the insurance premiums paid by the policyholders. The compensation is paid to the policyholder after the occurrence of damage in accordance with the insured risks, which have been provided by the insurance contract.

The necessary expenses to repair or replace the property can be provided from the amount provided in the policy, the cost of repairs on damage, recovery, restoration, rebuilding or replacing damaged or destroyed parts, and the workmanship.

The definitions presented are using particular elements that punctuate the economic, social and legal dimension that can define the concept of insurance.

The insurance is a complex system that links the individual needs and economic and social sectors where individuals conduct their lives. In the present economic context, I consider that a holistic, comprehensive insurance system is particularly important.

In defining the insurance it should be capitalized and motivations of the individual in accordance with the pyramid of needs conducted by the psychologist Maslow in 1954.

Insurance is a personal product that folds individual needs and requires promoting the awareness of the need to award the (quality) of the insured. Therefore, the insurance education should devise a strategy focused on the needs of the interior of an individual's psychological needs of the person who holds the insurance. The permanent promoting, such as the social programs which exploit awareness of the need for individuals to be insured should be part of the insurance market in Romania. Considerations presented above are based on defining security in terms of psycho-sociological aspects.

Viewed from a psychological point of view [3], the insurance can be defined as a sense of security, contentment, tranquility and peace of mind determined to cover the risks of various forms of manifestation of undesirable events.

The insurance is mainly providing financial protection for people or companies losses due to various risks. Through its social role, the insurance policyholders have to pay compensation to victims of unwanted events.

Any business activity is involving, naturally, certain risks. They appear with the business and grow with it, sometimes at a pace faster than expected. The principal means of protector of property, employees and profits of a company is the conclusion of insurance contracts. But the insurance requires finding answers to several questions, such as:

The reconstitution of destroyed property damage coverage and continuity of the production process are contributing to the integrity of the national wealth.

Providing goods, vehicles, credit is of great importance in terms of economic, financial and especially foreign point of view. In this way we achieved a saving of foreign exchange receipts in foreign currency by making the provision of insurance services.

The insurance allow the survival of companies, victims of unwanted events, ensuring rescuing and helping employees and their jobs, with all the implications and contribute to social and working relationships [4].

The assurance methods were developed along with the existing protection needs at a time for people and their businesses. Therefore, businessmen agreed to use insurance to reduce risks that may arise in commercial transactions and the related heritage protection.

For individuals, life insurance is a way of financial protection, safeguard and maintain the standard of living of a family. It is an integral part of family's financial plan, along with other investment plans. Through life insurance is created la liquidity guarantee fund which is available in the event of an unexpected need, without affecting other forms of saving.

The insurance provides an important role in protecting goods of a person. The property insurance compensates the expenses incurred by repairing or replacing those goods which are damaged, destroyed or lost.

Insurance can replace only money damages in the first place, which can be measured in money and secondly, which were occurred without the insured's intent to cause the insured event. For example, a person who leaves the keys in the car, therefore encouraging thieves to steal cannot expect to recover the value of the car from the insurance company.

Insurance provides funds for rebuilding or buying a home for people who have suffered from an unpleasant event which produced total or partial destruction of property, amounts paid to compensate the professional losses of a person who, because of an accident, remained unable to work; provides funds for medical care of sick or injured they need for a fast recovery.

Until they suffer a loss, most people do not realize the need for insurance. When purchasing an insurance policy, a person is protected against unpleasant events of life which happen, causes damage and financial losses hard to be supported. With insurance, the risk of such events is transferred to the insurance company. When the risk does not occur during the period insured, we cannot say that premiums paid are lost, because if the insured does not end up being compensated, he gets instead a psychological benefit (safety state that provides insurance).

This is the difference between the insurance protection and savings protection. The savings investment means that the insured person hopes to grow his investment, helping to increase his wealth. Property insurance itself does not increase a person's personal property. It has as main purpose the obtaining of benefits, but to protect the financial situation of the insured, or *maintaining social welfare*.

Currently the insurance became an important branch of the national economy. Insurance's share in GDP may reach up to 15% and is generally higher with both regarded as the country reached a higher level of economic development [5].

Table 1. The evolution of the insurance penetration in the period 2003 -2011

Indicator	2003	2004	2005	2006	2007	2008	2009	2010	2011
Gross written premiums (million lei)	2673,8	3476,5	4417,2	5729,3	7175,8	8936,2	8869,7	8305,4	7822,31
GDP at current prices (million lei)	189.077	238.791	287.183	342.400	404.709	503.900	491.274	513.641	578.552
Insurance penetration level in GDP%	1,41	1,46	1,53	1,67	1,77	1,79	1,80	1,62	1,77

Source: The National Institute of Statistics 2003-2011. The reports of the Insurance Supervisory Commission during 2003-2011

In 1995 the percentage of GDP insurance in Romania was very small; it had a share of 0.40%. The highest percentage insurance of GDP was reached in 2009, reaching 1.80%. This indicator is expressed as a ratio of gross written premiums and gross domestic product. This shows the amount of insurance premiums in GDP. Indicates how developed are insurance in our country. The share of GDP is higher; the greater are the insurance ranks among the population.

The insurance penetration was on 31.12.2010 by 1.62%, down with 0.18 percentage points from the 2009

level. The decreased penetration is singular, by 2010 this indicator evolved on a continuous upward trend. By type of insurance, the penetration was determined for general insurance of 1.29% and 0.33% for life insurance.

Compared with 2009, the indicator of general insurance decreased with 0.18 percentage points, while the penetration of life insurance remained at the same level as the previous year, respective 0.33%.

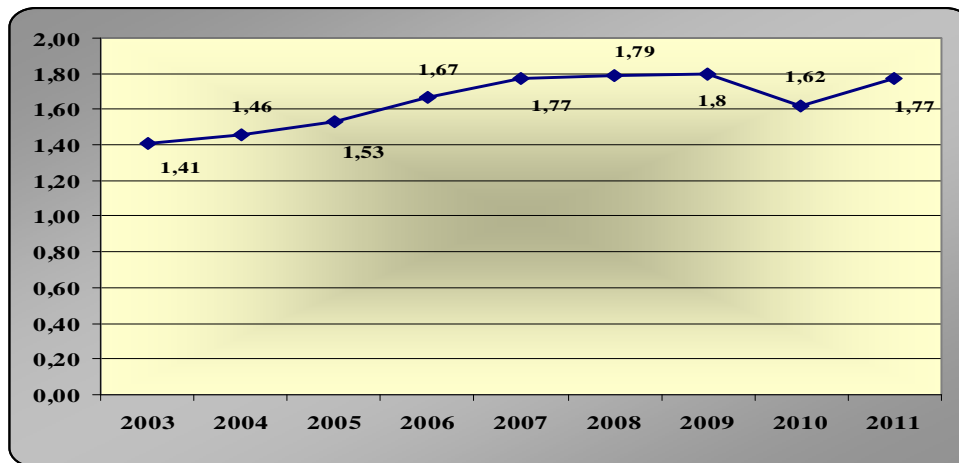


Figure 1. The evolution of the insurance penetration level in GDP %, period 2003 -2011

3. Conclusions

The personal insurance, property and liability represent a special *economic, social and financial importance*. Insurance is considered a branch of service, a financial asset and a financial intermediary in an uncertain economy.

First, the insurance contributes to the national economy, taking measures to prevent damage, compensate losses incurred, provide for the continuous production and reproduction process, and protect the general local and personal interests. The insurance also contributes by its specific means to create the conditions necessary to transpose into life the objectives of the national economic development, expansion of foreign economic relations and tourism. Insurance also contribute to socio-economic progress of the country to maintain continuity of the production process by protecting and defending the integrity of public property, cooperative, private and personal to the public by creating additional pathways and saving provision.

Moreover, the insurance plays an important role in increasing profits and participate in the distribution of GDP between industries, counties, cities, towns and villages, between economic and population groups.

Since it ensures the goods which are the subject of foreign trade and civil fleet (aircrafts, marine and river), the external security is of particular importance in economic and financial rates. Particularly the high risks during transportation are insured and reinsured, in this way opens the realization of currency that is used in providing any compensation, obtaining estimates and saving them at the same time.

Insurers are not just simple redistributors of funds; they fought against the consequences of unwanted events. They developed assistance activities not only to provide cash for compensation and benefits but especially to make life insured.

The insurance company is a key driver of economic development as any modern project development investment and therefore requires insurance participation, without which the contractor would not risk its capital in any way which is necessary for the project. Only insurance can provide security through the existing insurance mechanisms. The Company may provide guarantees for any investor from a skyscraper to the trade modest neighborhood. Also, the insurer collects premiums before the insured to be at risk against which they are insured. This gives the insurer a treasury surplus that can be managed as well in the interest of mutuality.

Second, the liability insurance liability covers damages for which the insured is responsible. Persons injured or harmed by car crashes or other accidents are compensated operational.

Third, personal insurance - which is an additional means of saving and provision - covers the policyholders and their families, in case of production of insured events - accidents, a certain age, death - to collect the sums insured. Life insurance makes sure to take their long-term commitments that require provisioning important. A single premium for a unique guarantee for life must be saved throughout the life of the insured. Capitalization and pension insurance involve accumulation of reserves throughout the contract. These types tend to grow the fastest in modern economy countries and this phenomenon increases the role of financial manager and investor of the insurances.

Fourth, the insurances are fulfilling an educational role. Thus, policyholders are encouraged and required to take the most effective measures for the proper preservation of public property, joint venture, cooperative, private and personal goods.

Fifth, the insurance funds held in bank accounts and reserve units made up the life insurance premiums

deposited in the bank account or the CEC is used as a resource lending contributing to the national economy and social reproduction. Ensuring became the financiers, not only because it takes expert in finance to manage their own capital accumulated by insurers or placed on behalf of their clients but also because certain industries require increasingly more knowledge of finance: insurance or credit insurance operating losses for businesses or individuals, providing capitalization, saving.

On matters related to the compensation of *material damage* caused by natural disasters and accidents, the insurance covers also the *moral damage*, which is that they are insured, creates a certain state of mind, a feeling of peace and security that allows them to focus on their activity.

The insurance must be *effective*; they are profitable for insurance companies, affordable and accessible to policyholders. Simultaneously, they contribute to satisfying the national economy, businesses and households, through prompt payment of insured amounts and compensation, thereby maintaining continuity of the production process by the integrity of public goods and supplementary insurance in cases of old age, accidents and death.

The insurance are very useful to society. They developed new branches demonstrating creative vitality and development of protection needs of individuals and businesses.

The importance of the insurances results from the incidence of their social and economic life that manifests and propagates in the following *main directions*:

- are a creative industry of added value;
- create jobs;
- provides capital loans on the financial market;
- reduce the economic uncertainty;
- enable the resumption and continuation of normal economic and social activity.

A change in the insurance system seems to be an ever closer reality given that European Union [6] accession is desired. The changes which we speak about are legal, functional and structural [7, 8]. All these changes are expected to be made both for insurers and especially for the insured persons. Policyholders should have more protection when receiving the equivalent damage.

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