INSURANCE AND REINSURANCE SERVICES – SYSTEM OF RELATIONSHIPS IN ORDER TO PROTECT THE INTERESTS OF INDIVIDUALS AND LEGAL ENTITIES

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"If it were me, I would write the word insurance” on the door of each House and each man’s forehead because I am convinced that for the unthinkable whole small families can be protected against disasters that might destroy them forever. Then I could be happy, because insurance protects your family in case of misfortunes and coming up of irreparable damage.

"Winston Churchill

Abstract:
In the current economic and social context, the development of insurance and reinsurance services is a necessity. The negative effects of possible events that act on the integrity of material goods or on human life (calamities, accidents, incidents, etc.) can be reduced or prevented by the insurance or reinsurance services. They form the basis of a system of relationships in order to protect the interests of natural and legal persons. Insurances are well established in the market economy, through the establishment and use of insurance fund, the creation of jobs and the functions they fulfill (distribution, control, compensation for damage, damage prevention and financial).

Key words: concept of insurance; reinsurance, co-insurance; self-insurance; the principle of mutuality; insurance functions; items insurance; terms and conditions of the insurance contract.

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1. Theoretical Approaches of Insurance

In the economic and social context and contemporary conceptual, insurances operating in competitive internationalized environments, with strong trends of globalization. In this sense, the development of insurance industry in Romania represents a necessity supported by specialists in the field of insurance, by the academic environments, but especially of the reality of the current society.

The insurance is linked to the existence of possible events that pose a threat to the integrity of the material goods or people's lives: disasters, accidents, incidents, etc.

The need for protection of the people always existed. Awareness and manifestation of the need for protection of any man, as the decision to buy a security, as the individual approach and on a voluntary basis, are largely determined by objective factors (economic, financial, social, family, educational, with reference to the readiness to use part of the revenue for this) and subjective factors (previous experiences, knowledge of the advantages offered by the insurance protection).

The variety and diversity of insurance products are the result of the development of the market.

Events can cause material losses, to influence negatively the economic activity, jeopardizing the life and integrity of the human body.

Insurance, through its specific means, namely by creating a community of venture capital and through the application of the principle of reciprocity in bearing damage, is contributing to the pursuit of continuous production processes in industry, agriculture and other branches of production. Insurance companies, taking on the risks that threaten the natural and legal persons, in exchange for a premium, offer them some protection. Taking over from their partners the contact material consequences of risks that threaten them in the event of them, allow private businesses-enterprises, state or mixed-to resume normal production process.

Insurance companies developed insurance services which are intended to cut costs and to increase the safety of insurers.

Insurance companies which have developed new technologies and which have a role in the management of damage are: video systems, the Internet and phone.

Video systems can be used to assess the damage, helping to lower the cost of travel and consolidation, to some extent, facilitating the work of assessing the damage.

As a way to sell insurance, the Internet holds the greatest potential, along with other traditional forms of sale of insurance policies, insurance companies’ affiliates or via bank assurance.

The phone offers increased security, at low costs, an efficient risk control. However, the phone is not a system that can work independently. Terms of polices to be concluded over the phone, go to the knowledge of the public through the media.

Also by phone, you can solve problems related to the management of claims, the advantage of being to gain time and to avoid bureaucracy, but with the disadvantage of not being able to correctly assess the damage.

The insurance agent represents a vital tool in this area, because, more often than not, the first contract with a potential client is done by phone. The key to success is knowing and using the skill of art conversation on the phone.

All these represent a series of advantages and disadvantages. Insurance companies need to assess new technology without giving up the traditional, considering the importance of this sector, the tertiary.

Insurance participates in increasing gross domestic product, offering employment to a large number of people, who carries out a labor productivity higher than the average on economy, also participates in the offer of loan capital in the financial markets with cash resources that we make available to banks, businesses and public authorities, through the allowance granted to the insured or compensates the injured person, contributes to the restoration of property damaged or destroyed by the insured risks and, in this way, accelerating the resumption of production.

Through investments on capital market, insurance companies contribute to the development and financing of economic projects, bringing an important contribution to the resumption of economic activities, on a broader stage. Money resources attracted in the economic circuit by means of insurance undertakings are recycled and geared towards enhancing the productive capital of the company, directly or through the intermediation of funds, either by covering the budget deficit to the level of the Central Administration of the State or local.
governments. In both cases, financial resource flows, ranging from insurance companies to the various beneficiaries, do not increase the monetary mass in movement, a phenomenon that in certain conditions would be generating inflation, but merely redistributes it, avoiding recourse to currency issuance to finance the budget deficit.

2. Insurance, Co-insurance, Self-Insurance and Reinsurance

Insurance business means primarily providing, mediation, negotiation, conclusion of contracts of insurance and reinsurance, premium collection, liquidation of damages, the setback and recovery, as well as investing or taking advantage of the own funds and attracted by the work done.

Insurance is the operation whereby an insurer shall, on principle of a mutual insurance fund, through the contribution of a number of policy holders, exposed to the production of certain risks, indemnify those who suffer an injury on account of premiums for the Fund, as well as on behalf of other income arising as a result of the work carried out.

The insurance is linked to the emergence of the need for people to help each other in case of the ever increasing damages and the reinsurance for supporting each of those who manage funds and insurance activities.

Over time the company tried to find effective means for preventing and limiting the consequences of the events, which cause damage, but experience shows that their conduct cannot be fully foreseen or halted. Hence arose the imperative to adopt protective measures to cover material damage or to ensure decent living conditions for people who have lost the ability to work through the emergence of aggravation. In the world of practice have been promoted the following ways.

a) solidarity stated in front of events that occur in the life of a community is based on each individual's contribution with small amounts, in the form of contributions towards the creation of a Monetary Fund used to help those individuals who have suffered damages arising from events which have motivated the union community; community and mutual principles and which were the basis of the concept of solidarity and the insurance.

b) insurance - which appears as a system of economic relationships involving the contribution of a large number of individuals and companies in the creation of a Monetary Fund, given that being threatened by dangers, people imagine and recognize the desirability of preventing and eradicating the mutual injury caused by these hazards to future production, likely, possible but uncertain. People joined together to deal with the consequences of accidents.

Dictionary of English Language and Culture defines insurance as an “agreement by contract to pay money to someone if something, specially a misfortune, such as illness, death or an accident, happens to them.”

John Downes and Jordan Elliot Goodman, in the Dictionary of Finance and Investment Terms, define insurance as "a system whereby individuals or legal entities, aware of the possible risks, pay insurance premiums to insurance companies amounts corresponding to refunds in the event of damage or injury. Insurers profit by investing the amounts they receive. ...In a broader sense ensuring the transfer of risk from one person to a group that may be easier to pay the damages.”

Another definition is that of Yvonne Lambert Faiivre, who considers that the technical aspect is securing the operation whereby an insurer, organizing on mutual principle, a large number of insured people, exposed in the production of certain risks, it pays out on those of them who have been damaged on account of the common fund consisting of first cashed.

D.S. Hansell defines insurance as a tool which provides financial compensation for the unfortunate events, the payments being made from the contributions of several parties which participate in this scheme.

Provision is based on an agreement of will between a natural or legal person as the insured and a legal person as the insurer, the insured gives the insurer the risk or a risk class for which to obtain the protection of the insurer. For this protection, the insurer pays the insured a sum of money, called first, followed by that in the event
of the risk or risks insured, the insurer is to indemnify the insured for the damage suffered.

Insurance is based on the principle of mutual relationship, according to which each the insured contributes with the insurance premiums to the insurance fund from which it supports the value of damage suffered by the insured.

Co-insurance is the provision, to which two or more insurers take part in insuring the odds of the same risk. Another meaning of this term is a simultaneous insurance of persons within the limits of the insured amount. People without income can gain revenue by the insured. Co-insurance is a way to transfer the risk of the assured by several insurers, for parts of the value of the property insured.

According to the same dictionary, "co-insurance represents the dispersion of a risk for the situation in which insured damage can get so high that it is not prudent for a company to underwrite the entire risk. Usually, the free Jim Rohn-Baptist is liable up to a certain limit and co-insurer reply over the limit. It is much used for accessing fire and flooding."

Self-insurance is another form of protection quite used. It consists in the creation of a juridical person or of a Fund, in own reserves your with the destination only to cover damage created for any reason (with calamities, fires, thefts and others). Self-insurance could be called more correct self-protection.

It is not based on a contractual relationship, the parties do not exist, and the insured is also insurer and does not abide the idea of compulsory mutual insurance.

Among the advantages of using self-insurance, we might mention:
- a cost reduction strategy;
- low level of "first," they only cover the risks in question, and not other costs;
- income from investing these funds created from raw materials belong to the insured and may be used by increasing its own protection fund or reduce future contributions;
- through self-insurance they will stimulate the reduction and management of risks;
- there is the possibility of disputes between the insured and the insurer in connection with the damage;
- the profit result of self-insurance will grow and will accrue to the insured.
- the main disadvantages of the self-insurance are:
  - in case of a disaster, the Fund can be used to cover losses in full or may be too little interest;
  - in many situations it is necessary to employ a relatively large staff for self-insurance administration, increasing the corresponding
  - no longer exists technical consulting offered by insurers regarding risk prevention, which will not be used for self-insurance;
  - damage statistics organization will result from a relatively small number of situations and it is therefore very difficult a correct foresight regarding the future damage

Reinsurance is the transfer by the insurer, to other companies, the risk underwritten part that exceeds its retention.

The classic definition of re-insurance, according to English law was drawn up by Lord Mansfield, in 1807: "represents a new insurance re-insurance, carried out through a new policy for the same insured risk initially, for the purpose of the in the insurers ' indemnity for insurances previously signed; both policies exist at the same time."

The main reason for which they have been re-insured is the protection given to the insurer in case of very large accidental isolate loss or several losses arising from an event, the value of which is very large in relation to income derived from insurance premiums charged or reserve funds. Therefore, as a result of such injury, to prevent the payment of very high reimbursements that may even lead to bankruptcy, insurance companies offer other direct insurance companies part of the risk, or sometimes the entire venture activity known as reinsurance.

In the Dictionary of financial and investment terms, reinsurance shall be subject to the idea of sharing the risk between insurance companies. Some of the insurer's risk is assumed by other companies in return for payment of a portion of the premium paid by the insured. Through dispersion of risk, reinsurance allows a company to accept clients whose coverage would be a great burden or it would be impossible to be borne alone.

1 Ibid., p. 15
3. The functions of the insurance contract

a. The function of appointment is manifested primarily through the process of training of insurance fund on account of the first borne by individuals and legal entities covered by the insurance.

b. The position of control contacts tweets how to raise insurance premiums and other revenues of the insurance organization, how to perform payments by way of indemnity insurance, risk prevention etc.

Insurance is acting as the branch providing services in a commercial insurance company, in exchange for premiums received from individuals or legal entities, provides a service, namely the obligation to take upon himself the negative effects of a particular event or set of events.

c. Damage compensation Function is the main function of the insurance and interest for both insured and for the economy of the country:
   • for insured, providing a margin of safety with regard to the protection of property and life
   • all national economy, cannot prevent damage but by addressing the operative to carry out our duties, perhaps in a relatively reasonable period, conditions for productive activity or capacity for persons injured.

d. Waste prevention function of damages is the second function as important and is manifested in two ways:
   • by financing activities for the prevention of calamities and accidents;
   • formulation of such insurance conditions to insure the constrained to promote actions to prevent events and ensure interest in maintaining the proper status of the insured property.

e. Financial Function materialized because insurance is appreciated as one of the paraghiile of the financial system. Total payment of insurance premiums takes place during exercise due to the beginning of the financial year. Payment of damages and insurance cuvenite amounts is done gradually, throughout the year, as the appearance and substantiate them.

4. The essence of the role of insurance in economic and market economy

The development of insurance activity is tied to economic activity, as well as the evolution of relationships. The English economist Adam Smith observed that, insurance is a very effective technique to spray the individual's losses, an area as large, making them easy to be borne by their coverage by a larger number of people.

At present, the most important issue of services refers to the provision and use of the insurance fund. In the process of formation and its use appear certain economic relations between the participants of the insurance.

In the first stage, the money flows in the form of insurance premiums range from physical and legal persons covered by insurance companies. In the next stage, cash flows, in the form of indemnity or sums insured, start from the insurance fund, established to provide specialized companies to the insured who have been affected by the phenomena.

The result is a system of ensuring relationships meant to protect personal interests and/or property of the insured through training of financial funds from insurance premiums paid by the insured, in return for which the insurer assumes the obligation as the materialization of the risk insured to pay the insured the amount of the insurance indemnity or insurance.

Another aspect of the problem of insurance given by specialists is "treating security as a service, a financial intermediary and a financial asset in an economy full of uncertainties." ¹

Insurance can be considered as a branch of the economy providing services of a distinct category of beneficiaries: the insured.

The company which ends the life insurance is not only providing services for the insured but also a financial intermediary between individuals who pay insurance premiums and stages, physical and legal persons that have additional financial resources. The role of the financial intermediary you meet, especially life insurance companies, even though insurance companies and property and liability have some financial resources temporarily, offered to put it on the market.

Insurance companies offer is aimed at commercial banks, companies, central and local public authorities, owners of land and property.

5. Items Insurance

- The insurer is a legal person, insurance company, which in return for insurance premium

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from the insured will undertake to cover the use of the goods or services provided;

- **The Policyholder** is a natural person or legal person who shall insure against events that can occur in his life, who insures the assets against natural disasters or insures for the damage which they may cause to third parties;

- **Insurance Beneficiary** is the person who has the right to collect compensation or the sum insured without being party to the insurance contract;

- **The policyholders** is a special element to optional insurance and is the natural or legal person who may conclude an insurance, without however obtaining the quality of the insured;

- **The insurance contract** is a legal act regulating the legal relations between the contracting parties. It consists of a set of documents including: request for insurance, the policy of insurance, terms of contract for insurance and for additional clauses attached.

- **The insured risk** is the event that once produced, because of its effects, binding on the insurer to pay the insured or the beneficiary, compensation the sum insured;

- **Evaluation** in order to insure is the specific item to the insurance of the goods;

- **The insured amount** is part of the insurance for which the insurer shall assume liability in the case of an event for which provision has been concluded;

- **The norm** is the sum of insurance, established by law on the insured object, and it is found only in the case of insurance of the goods required;

- **The insurance premium** represents an amount of money determined in advance that the insured pays the insurer so that he can constitute the insurance fund required for the payment of damages;

- **The time of insurance** represents the length of time during which remain valid insurance relations between the insurer and the insured as they set out in the insurance contract;

- **Damage (or damages)** is losing value at a good secured as a result of the phenomenon against which the provision has been concluded;

it is possible, because if a property is not threatened by any sort of risk, this insurance does not become necessary.

**The second condition** relates to the fact that the event must have an accidental character.

**The third condition** is that the event must be posted to track statistics. Data from statistical records relating to a specified event permit a long period in the frequency and intensity of its production. These data form are at the basis of the conclusion, because without them the insurer cannot determine the probability of occurrence of insured event.

**The fourth condition** requires that the production of the event does not depend on the will of the insured or beneficiary insurance. If the insured person or beneficiary insurance contributed directly or indirectly to the materialization of the risk insured, so they can receive compensation of insurance or the insured amount, it will lose all rights under insurance and will bear the rigors of the law.

**The insurance contract** or **policy** is the legal document that ends between the insured and the insurer in case of optional insurance. By this act, the insured agrees to pay the insurance premium and the insurer agrees that the materialization of the risk insured, to pay to the insured or to the beneficiary of the insurance, compensation or the insured amount.

At the same time, in the insurance contract are prescribed also the other rights and obligations of the contracting parties, and the date of commencement and termination of the insured.

7. Risk Management

According to the defined risk established by the renowned specialist in the field, Jim Bannister, "risk management is a world of contrasts. It can be nebulous or precise. It can be defined in a narrow, nondescript meaning, or it can be hidden in your own language of insurance." 1

Important stages of risk management implementation:

- **identifying risk**-this is a difficult stage, on which depend all changes and is based on knowledge of the real situation, the statistical research, experience, knowledge, inspections, interviews with various people, the objective and

1 Ibid., p.32
subjective assessments of the insurer or its designated experts of

- **risk-quantification** – this stage is necessary to determine the financial impact of the risk; this is a relative term, because strong financial organizations can more easily absorb losses compared to small firms.

- **elaboration of recommendations**- following the identification and measurement of risk, "hazard managers" make recommendations to management according to previous analyses aimed at selecting the best risk management techniques.

- **implementation of the decision**- the components of the implementation process refers to finding the best cover, getting some first rate, choice of insurer.

- **monitoring and interpretation of results** are essential, together with the assessment of the effects of the decisions taken, to see if changing conditions determine the choice of different solutions.

The implementation of these decisions requires a risk management to coordinate activities in a synthetic form, fulfilling distinct functions of management. Risk management makes it possible for any business to deal with risks, consciously because there is an accidental release of large losses. Every company must watch risk management not as an option but as an obligation.

In the United States of America, risk management has been expanding rapidly worldwide. Its importance is very great, for both insured and insurer.

Risk management and insurance today are essential for understanding the fundamental changes that are happening in the modern economy and to develop economic and strategic opportunities in society.

**REFERENCES**