MANAGING THE INSURANCE RISKS – FACTORS OF PROFITABLE BUSINESS OF INSURANCE COMPANIES

Upravljanje rizicima osiguranja – čimbenik profitabilnoga poslovanja osiguravajućih društava

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Summary

The insurance market is in our country as well as in other developed countries subject to high competition, because many insurance companies are dealing with insurance business. They need to offer more and more services at a lowest price in order to increase business efficacy. They also need to recognize characteristics, types and extent of different risks and supply the needs of a bigger market. If they wish to reach these goals they often manage insurance risks in order to do profitable business of the insurance companies. Synergetic effects of managing the risks enable them to predict the danger and prevent it. This is a process and structure that together form an optimum of managing the potential possibilities and negative effects.

Key words: insurance, characteristics of risks, managing the risks, profitable business of the insurance companies

Sažetak

Osiguravateljno je tržište u nas kao i u razvijenom svijetu izloženo veoma oštroj konkurenciji jer se djelatnošću osiguranja bave mnogobrojna osiguravajuća društva. Da bi povećala svoju uspješnost poslovanja, ona su primorana nuditi što više osiguravateljnih prizvoda po nižima cijenama. Zbog toga moraju poznavati karakteristike, vrste i opseg mogućih rizika te zadovoljiti potrebe većega opsega tržišta, to jest tržišnih segmenata. U ostvarivanju takvih ciljeva potrebno je primjereno upravljati rizicima osiguranja u funkciji profitabilnoga poslovanja osiguravajućih društava. Sinergijski učinci upravljanja rizicima osiguranja omogućuju predviđanje nastanka ili sprečavanja opasnosti, procesa i struktura, a koji ujedinjeni predstavljaju optimum upravljanja potencijalnim mogućnostima i negativnim učincima.

Ključne riječi: osiguranje, značajke rizika, upravljanje rizicima, profitabilno poslovanje osiguravajućih društava.

INTRODUCTION / *Uvod*

The insurance is today one of the most important and most profitable activities in the economy in the European countries as well as in Slovenia. The insurance depends upon its clients, who are becoming aware of the dangers that their property is facing, because of the complicated business processes, unexpected natural changes, inattentive acts and unforseen emergencies, which can not be avoided even by taking safety measures. In order to surmount an obstacle with success, insurance companies need do a profitable business with a fair

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relationship to their customers, because the sale of insurance is based on the customer's trust.

It is very important to manage insurance risks rationally in order to maintain successful and safe business of the insurance company. Every activity can be at different risks, which can grow with the development. The insurer must define the height of the insurance premium, in case of the insurance risk.

There is a research risk – it is a fact that managing of insurance risks is a demanding and responsible business, because it is important for its growth in safety and effectiveness of the insurance companies. The most important thing in keen competition is which insurance company is more successful and which one offers a better protection to the insured people, which depends on the business itself or stability and liquidity of the insurance company. For this reason we need to respect standpoints of different managements and choose the managing methods, which comprise to the insurer's needs and accompany the procedure system and managing technique from the beginning of the business process.

The main research topic is very closely connected to the defined research problem – *to explore important characteristics of the system that manages insurance risks according to the principles of business of insurance companies*, *inner-relationships in the function of effective management and to define the research's results in the affirmation of special management*, *enabling profitable business of insurance companies*.

The research problem and research topic reflect the objective research object. The insurance risks - *profitable business of insurance companies*.

Because the complexity of the problem and the main research topic we need to write a hypothesis: With the appropriate managing of the insurance risks it is possible to increase the insurance sale and the profitability of the business of the insurance companies.

THEORETIC CHARACTERISTICS OF THE INSURANCE / *Teorijske karakteristike osiguranja*

In the modern world insurance has become very important universally; it became an important economic activity and is inevitably part of our lives. We can say that nothing is so safe that doesn't need to be insured. Knowledge abouth the insurance has not decreased; it has increased, which can be expected with regard to the technologic progress. We need to pay a special attention to: **1) idea, development and importance of insurance, 2) functions and types of insurance 3) important principles of insurer's business.**

Idea, Development and Importance of Insurance / *Ideja, razvoj i važnost*

Modern insurance is one of the fruits of people's work, which has gradually developed in long centuries. The outlines of insurance could already be noticed in the period of first exchange of goods. Already 3,000 years BC first types of dispel risks occurred, because the Chinese merchants loaded their goods onto more boats while transporting it on the Jangtze River. In case of sinking of the boat or pirate attack, they lost just the shipment, which was on that boat and not all of it.

Merchants in the old Babylon in the reign of the king Hamurabi (approximately 1700 let BC.) had quite a similar insurance to the modern one, transporting their cargo in caravans. They had the agreement on the joint coverage of eventual losses, which would occur, because of the pirate attack on the caravan, which is a sign of reciprocity, main components of the modern insurance.

Thus we slowly come to the beginning of the insurance we know today. It has its basis in the maritime insurance, which was used in 14th century in Italy. First insurance policy from 1347 was found in Genoa notary's records. Soon after the first independent insurance policy was made in Pisa in 1384 and is exclusively connected to the marine insurance. First collection of maritime customs known as Barcelona ordinance was published in 1435 and the first policy of the accident insurance was published in 1536.

Insurance was there very quickly introduced to other West-European and Mediterranean countries. Dubrovnik introduced a special law about a marine insurance in 1568 (Ordo super assecuratoribus), which is one of the oldest legal documents from this field. A legal milestone is presented by the French "Ordonance de le marine marchande" (Ordinance on merchant marine, in 1681), which was almost without a change inserted into the Napoleon "Code de Commerce" (Merchant code from 1807). As we can see, it is no coincidence that the beginnings of the insurance are connected to the transport or even more precisely to the merchant marine.

Insurance is an economic category, which originated from the need for property and goods, lives and health of the people to be insured. Everything is always in a constant danger of the formation of damage or destruction, made by different damage events. This institution designed on the basis of solidarity has a wide-range of activities and can be arranged according to different criteria

Insurance is a notion, which is in its individual segments more or less known to everyone. This is why it doesn't seem strange that the most frequently quoted

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definition of the insurance sounds: "Insurance is creating economic security with combining dangerous objects, because of balancing of the danger."

For this purpose there are special insurance organisations (insurance companies), which under the certain conditions engage oneself with a contract to repay the damage, which resulted from the insurance risk. So insurance is a legal act, where the insurer contracts an obligation to repay the damage to the other contracting party (the insured person), which would arouse as a consequence of the insurance risk. The insurer engages oneself to pay the agreed insurance price, known under the name "insurance premium".

Beside that the insurance enables an exact expenses calculation in business. The height of the insurance premium is known in advance, while the height of the reserve fund for disabling the consequences of eventual damage is not foreseen.

Functions and Types of Insurance / *Funkcije i vrste osiguranja*

Market economy can not do business without the safety fund in the framework of the insurance. In the process of production the insurance has a function (at the damage compensation) to keep the reproductive ability of the business subject, to enable it to overcome economic consequences of some damage incidents in unimpeded production process. To sum up, the insurance has two joint functions [Bijelić, 2002, 26]:

1) Main functions: function of compensation for damage and payment of insurance sums, preventive function (if we can convey funds/ resources for precaution).
2) Other functions: social function, developmental function, antiinflacional function.

The main function is to protect the danger economically–-risk that is threatening people and their estate, but it is realized through compensation for damage and with payment of insurance amounts to everyone, who have problems with the insurance risks. Insurance can have a preventive function, if the formation of preventive funds is foreseen, by elimination of a sum of a gross premium for financing preventive measures.

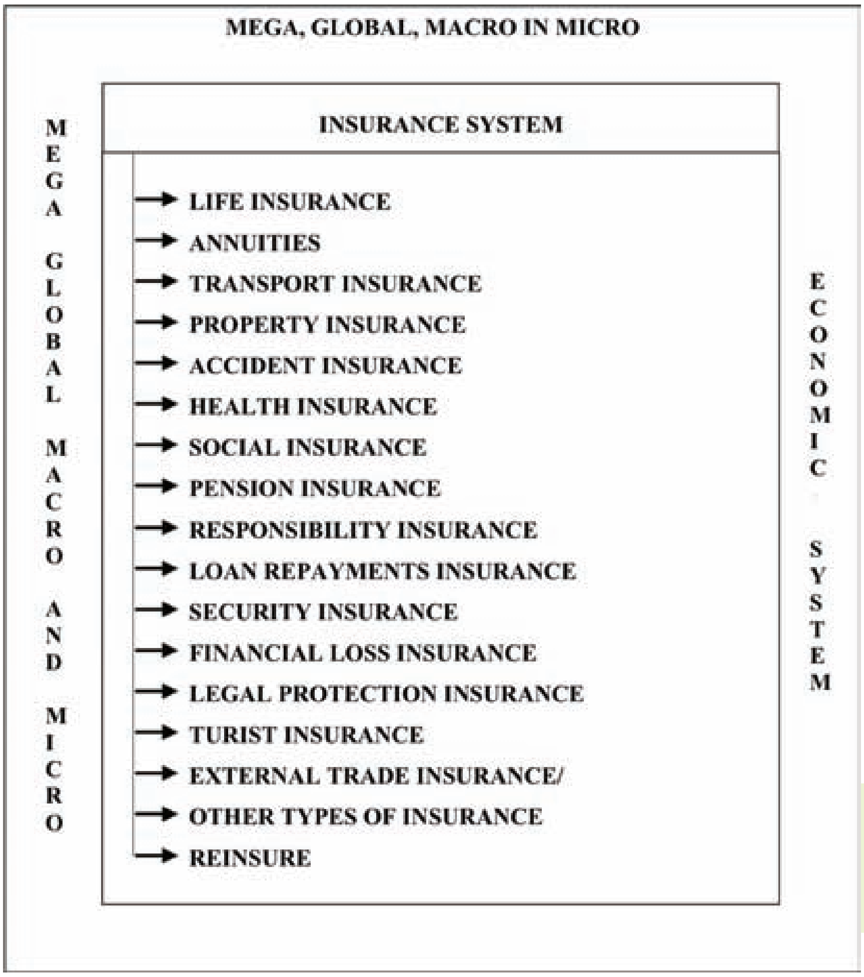
Among other functions, we should mention a social function. Development of the insurance enables smaller eventual obligation of the country to different kinds of economic help to individuals and corporate body, because of the damage events. We can conclude that every good settled country aims at a wide-scale of economic protection through insurance risks, as well corporate bodies as individuals and so it lowers pressure to the national funds. The country should stimulate insurance development with some measures of economic and physical politics.

An important insurance function is a development function. Insurance companies have at their disposal important funds, which can be invested in variable development programmes. High-quality funds for investment in the development programmes are long-term collected funds (life insurance funds, pension insurance and annuities).

Insurance has a very important antiinflational function, which is characteristic of transit countries as well as of the countries, where the inflation has important negative economic consequences for the standard of living and for the production process. Funds that are invested in the insurance present a delayed consumption, because the insurer's obligations to compensation for damage always arouses with a certain time shift regarding the premium payment. Insurer's obligation to payment depends on the type of insurance, insurance's contract and insurance duration (annuities, life and pension insurance, etc). Funds invested as an insurance premium (especially funds of several years old life and pension insurance as well as annuities) is not spent instantly and thus lead to lower prices.

This system should consist of: micro insurers, macro insurers, global insurers and mega insurers according to the space and time dimension of production process of insurer's product. Every of them in principle present high sophisticated intelligent financial enterprise, which produces insurer's products. Such products directly support the production of several and different insured products. So every insurer deals with different types of insurance, which together form an insurance system [Zelenika, 2005, 599].

ISSN 0469-6255 (18-28)



1st scheme: Structure of the insurance system
Shema 1. Struktura sustava osiguranja

Source: Zelenika (2005, 600).

In practice we know many classifications and systematisations of insurance, because of many criteria that are the basis for systematization of similar types of insurance into insurance groups with common characteristics. Controlled and different approaches, criteria and ways in systematisation as well as classifications of every type of insurance join into the following groups of insurance.

1) Regarding the way of decision-making we divide insurances into:

Obligatory insurance is an insurance, which has to be signed between contracting parties on the basis of law. They include: insurance of passengers in the public transport, insurance of the owner or the user of the motor vehicles for the liability for damage caused to third parties, insurance of the owner or user of the aircraft for the liability for damage caused to third parties, insurance of the owner or the user of the power-driven yacht for the liability for damage caused to third parties, insurance of the liability for caused nuclear damage and other types of insurance for liabilities. Each country decides in accordance with the regulations, which insurances are obligatory.

Optional insurances: all other insurances belong to the group of optional insurances, which means that the person, who is taking out the insurance decides by himself whether to take out the insurance or not. Then people need to decide what to insure, how to insure it, for which dangers, etc.

2) Regarding the insured item: property insurance in a wider sense, transport insurance, loan insurance and insurance of persons.

3) Regarding the affinity of insurance risk there are the following groups of insurances:

- a group of property insurances (civil, rural, industrial and general liability insurance)
- a group of insurances of motor vehicles (comprehensive car insurance and third party car insurance),
- a group of transport and loan insurances (transport insurances-cargo, transport-comprehensive insurance and loan insurance),
- a group of personal insurances (accident insurances, life insurances).

ISSN 0469-6255 (18-28)

Each group of insurances presents different type of insurances. Each type of insurance is a case of business of one group of insurance. A new type of insurance, which was not yet dealt with, is arranged on the principle of affinity (object and risk) into one of groups of insurance.

Property insurance is further divided by one criterion, which is called insurance of things and property interest. Among insurance of things belongs insurance, where things are protected. Things can be fixed (buildings, bridges, harrows, machines in and other things) and non-fixed (goods, placing and inventory, motor vehicle, yachts, ships, planes, money, etc.). Insurance of property interest includes insurances, which cause at the approach of loss case for the person insured insurance loss or finance loss.

4) Regarding the status of insured person: insurance of legal persons and of private individuals. To the group of legal persons we count all insurances, where the insured persons are legal persons regardless the ownership, whereas to the group of the insurance of legal private individuals insured citizens are counted.

5) Regarding the balance criterion of the insurance business and the establishment of the business result of the insurance we distinguish: property insurances and life insurances

Important Principles of Insurers' Business / *Važni principi poslovanja osiguravatelja*

An insurance company is an economic operator, which collects finances with premiums. These finances accumulate from year to year. Primary collected insurance-technical reservations are meant for the repayment of claims, but the insurance company does not need them at that point. This is why it puts them into the national economy, because it would not be economical to keep these funds in the insurance company or on its bank account. Insurance company by putting its insurance-technical reservations into the national economy increases its incomes and it avoids losses, which can arouse at some types of insurances. By doing this the insurance must consider the structure of insurances and the damage case, and can thus despite its investments pay bills, which arise from the insurance contracts. The insurance company must besides safety principles and liquidity also bear in mind the principle of profitability and assure an appropriate mixing of the different types of investments, which means that smaller investment needed to be sprayed correctly when putting its insurance funds into the economy.(The insurance act).

The principle of safety has a preference over other principles, because an insurance company is safe just by investing safely and so it assures economic safety to its people insured. The principle of safety requires from the insurance company to invest its funds with no risk. The principle of safety is taken into consideration for all types of investments and for each investment. This is achieved by checking the profit of its finance partners and by implementing the principle of mixing and dispersal of investments. Insurer can compensate huge and massive damage, which might arise and deviate from expected damages to the people insured without any problems.

An insurance company carries out an insurance process without being disturbed as long as it fulfils its basic task, which derives from the insurance process. It should do business in a way that risks, which are taken by the insurance company when doing all kinds of insurance business, don't exceed some restrictions. It should do business in a way that it is capable to repay an overdue bill (liquidity) and that it is capable of fulfilment of all the obligations (solvency). The principle of liquidity cares that an insurance company always has enough non-deposit money to be able to pay off the due liabilities immediately.despite deposit investments

The principle of profitability – it is responsible for the return of investments, which need to be as high as possible. They try to invest money in the investment, which is in certain situation the most profitable. Money should be invested in the most profitable and still free investment and the profit must be as high as possible.

The principle of dispersal combines all mentioned principles. Dispersal usually lowers the risk, increases profitability and improves liquidity. Dispersal of investments usually lowers the unsystematic risk, which depends on the company's success. However, a systematic risk on the market with dispersal of investments remains. The principle of dispersal means that we have within one type of investments many different investments that are limited by their size and users. Portfolio has to be dispersed in its content as well as in its geographical position.

IMPORTANT CHARACTERISTICS AND TYPES OF INSURANCE RISK / *Važne karakteristike i vrste rizika osiguranja*

In order to manage and study the most important risks legalities we need to pay our attention to the following topics: **1) notion and characteristics of the insurance, 2) commercial and non-commercial risks, 3) full and speculative risks, 4) subjective and objective risks, 5) risks of goods in the foreign trade and 6) financial risks in the foreign trade.**

ISSN 0469-6255 (18-28)

Definition and Characteristics of Insurance Risks / *Definicija i karakteristike rizika osiguranja*

Economists, statisticians, decision-making theorists and insurance theorists have discussed for a long time about the concept "risk" and its unpredictable occurrence in order to make a general definition of a risk, which is useful for analytics in every field of study, however they could not find a general definition of the risk for all fields. Despite that, all different definitions have something in common e.g. indefiniteness (unpredictability) and loss.

A characteristics of the indefiniteness of the end is defined in all definitions of the risk. It is doubtful whether an end will arise or not. When we have a risk, there should be at least two possible ends. If we know that we will face losses, there is no risk.

When we talk about losses, we do not want to reach at least one of the possible ends. This can be loss in a general sense, which means that something that is owned by someone is lost. Example: an investor, who misses certain business »loses« profit, which could be made. An investor, who does not know which good to invest in, can »lose«, if he chooses well that has a lower growth.

Vaughn Emett J. defines "risk" as a state with possibility of negative deviation from the desired end, which is expected or wished for.

Risk in its widest sense means a certain danger, loss or some unpredictable event in the future, which can also have undesirable circumstances. We need to distinguish between two expressions: risk and unpredictability. We can speak about the risk when we expect that the result of a certain event might have different ends, which is probable to happen. If no such probability exists, we talk about unpredictability. [Reilly, 1989, 9].

In contingencies the actuaries predict a certain loss, so they define a premium according to these expectations. For the insurer the risk means the probability of negative deviation from the expected losses.

Unpredictability is often mixed with a risk (as a synonym), so we need to explain the connection between the two meanings (risk and unpredictability)

Unpredictability is a reflection of the deficient knowledge about the future. The existence of a risk (state or different circumstances, where a loss can occur) presents unpredictability of a certain reason, which means loss and is seen in the risk. A certain reason or deficiency of such reason (predictability or unpredictability) about certain state factors can be connected with an actual state. Unpredictability can vary, which depends on knowledge and knowing of certain situations. If there is a probability of losses, there is also a risk regardless of that if the person insured, which realizes the losses and consequently the risk. We need to adopt a decision on the basis of actual risk (an example of the objective risk). A better informed person is less unpredictable and knows the risk better and adopts a better decision.

We also need to distinguish between three expressions: risk, danger and hazard. Risk is a danger of emergence of a damage case; danger is a reason for damage (example: a danger of fire, floods, hail, and theft). The reason is damage, which occurs. Hazard can even increase the possibility of losses in time of danger or increased probability of occurrence of damage.

Important Types of Insurance Risks / *Važne vrste rizika osiguranja*

We can arrange risk in different classes using different approaches, however there are certain differences, which are typical for their management so I will explain them in the following examples.

Commercial and Non-Commercial Risks / *Komercijalni i nekomercijalni rizici*

There are many non-commercial and commercial risks that cause a decrease of payment or non-payment.

Non-commercial risks are political risks in a restricted sense (nationalisation, expropriation, confiscation, etc), war risks (war, revolution, civil war, clash of arms, revolts etc.) and other political measures, which make a debtor's free use of property impossible, monetary risks like political risks in a wider sense (transferable risks, e.g. moratorium on payment, embargo of payment, incapacity of conversion and transfer) and currency risks (they are also commercial risks) and risks of natural disasters (earthquakes, volcano eruptions, floods, etc.); mostly at claims from joint investments.

Non-commercial risks are unpredictable. Our economic subjects mostly in developing countries and in countries with unsteady economic and political system and with unsteady national currency.

Commercial risks are all risks, which do not belong to the group of non-commercial ones; however the most common risk is risk of solvency (insolvency). This is a full or partial objective incapability of enforcement of foreign exchange claims, because it is above the debtor's assets [Pirš 2000, 38]:

- the opening of proceeding
- the opening of proceeding of controlled admini-stration (as an usual transition phase of bankruptcy in some countries) or rehabilitation or finance reorganisation,
- the opening of proceeding of compulsory settle-ment (court or out-of court).

ISSN 0469-6255 (18-28)

Full or Speculative Risk / *Potpuni ili špekulativni rizik*

A full risk is a risk, which appears accidentally and not as a individual's wilful activity (death, fire).One of the best examples of a full risk is probability of loss, which is caused by circumstances that are found on our ownership [Kidwell 2003, 548].

Speculative risk is a risk, which is taken by individuals wilfully (gambling, investment in different projects). This type of a risk is not a subject of insurance, because it is not in compliance with the principle of protection of integrity of a man and property. Subjects can protect themselves from the negative consequences of such type of a risk with a self-insurance.

Insurance covers just such full risks, which exclusively bring a loss. It is also not possible to insure one just for full risks (e.g. nuclear risks, catastrophic or ecological risks that are taken over by the insurance companies into the insurance under other conditions, either in the height of financial funds or with the distribution of risk into the insurance).

Full insurance risks can be divided into three main groups: personal risks, where risks are for a certain person, property risks, where risks are for her or his fortune and responsibility risks with risks for covering of expenses for the third person, these are personal risks, property risks and responsibility risks.

Personal risks with probability of loss existence from the income or funds as a consequence of loss of ability gain earnings. To these risks is an individual exposed, because of an early death, inability to work because of an old age, illness or unemployment. In these situations many individuals and their families face finance losses. For this reason they decide to take out insurance to protect themselves against the risks mentioned above.

Property interests are risks, where fortune is at risk. These risks can have direct or indirect losses. Example: when equipment of an enterprise is destroyed, not only the value of the equipment is lost, but also the income, which would an enterprise have if the equipment worked properly. Property risk includes property loss and loss because of the non-use of the property as a consequence of income loss or extra expenses.

Responsibility risks where losses of a third person should be covered, and for which an insurer is responsible. The responsibility can be legally obliged (e.g.: an insurance of the car responsibility).

Subjective or Objective Risks / *Subjektivni ili objektivni rizici*

Subjective risks are all risks that occur because of the mental characteristics of the insured people and they also imply to their state of mind and character. These can imply to the people who had a contact with the insured objects or with people, which is very difficult to measure. Objective risks are risks that are measurable (the insurance object, its value, insurance time) and are a result of the objective circumstances.

If there is a danger because of objective circumstances, irrespective of the behaviour of the person insured, than we talk about the objective risk. If danger depends on the behaviour of the person insured, than the subjective risk is discussed.

Specialists agree on the fact that it is possible to insure objective risks, if other conditions are fulfilled. However, they have different opinions about subjective risks. They do not approve of inclusion of subjective risks into the insurance, because [Trcol, 2005, 138]:

- because it contradicts basic ethical insurance conditions,
- because it breaks the principle of solidarity,
- because with it we disavow the insurance.

Risks of Goods in the Foreign Trade / *Robni rizici u vanjskoj trgovini*

Risk of type, quality and amount of goods can occur, because of the reduction in quality when it is being transported or stored or because of the losses in quantity of goods from the place of despatch to the place of delivery (until it is in the hands of the purchaser). This risk mostly happens to goods, which are subject to climate and temperature changes (they can go off or lose its qualities), they are also liable to damage or other losses during the transport or storing (breakage, lavishing, etc.) [Andrijanić, 2001, 394].

Risk of purchasing sale or export and import is in the foreign trade a consequence of subjective and objective circumstances, which are making difficult or even impossible the planned import and export to happen. Subjective circumstances refer to bad points in the enterprise, work system and knowledge of the employees in preparing and fulfilment of the planned business of export and import.

Objective circumstances refer to the outside influences, which can not be controlled by the enterprise, e.g. systems of measures of the national offices in regulating goods and payment transactions with a foreign country (restrictions of import and export, foreign currency restrictions, regional direction of the export and import, opportune or long-lasting moratorium of payments in a foreign country, etc.).

Risk of fulfilment of the purchase contract in the foreign trade exists because of the possibility of non-enforcement of the payable liabilities of one contracting

ISSN 0469-6255 (18-28)

party, which directly causes damage to other contracting party. Usually this risk occurs in two cases [Andrijanić 2001, 397]:

1. When the producer does not deliver the contracted goods or does not accomplish the contracted services (it is late in delivery of goods or in carrying out the service or it does not accomplish its contracted duties).
2. When the purchaser rejects the delivered good, or reduces the payment of the delivered good.

Transport risks of the insurance are risks, which the good is taking during the transport or the insurance duration. These risks originate from the danger of the transportation itself, from the abandonment of the contracting parties and third parties or from the nature of goods themselves. Risks in cargo insurance in the road transporters divided into four groups [Požar,1980, 15]:

- **Basic risks.** They present fundamental coverage or a minimal extent of the insurance coverage. It is called a narrow coverage and the insured person is not obliged to mention the insurance that they are always insured when taking out basic cargo insurance.
- War and politic risks,
- special risks.

- **Additional risks.** The person insured must insure them separately and pay additional premium for them. Division of additional risks depends on the quality and nature of the goods.

- **War and political risks**. A war risk is an event that happens in war and causes loss or damage of the insured object and has inconstant and exceptional character. Besides war we count among war risks the following events:
  - civil war, revolution, rebellion, revolt or other civil fight, or any other hostile act by one of the belligerent sides,
  - confiscation, occupation, shutdown, restriction or containment (except piracy), and as well a consequence of these acts or their attempts,
  - damage because of the abandoned mines, torpedoes, bomb, etc.

Among political risks we count:
  - loss cause because of regulations of political authorities,
  - pettyfoggery of the political authorities that cause damage on goods,
  - damage that is caused by terrorists or by a person who is politically oriented

- **Special risks**. Risks that are caused by mistakes and the nature of goods themselves and are not caused by external events or influences. However, these are not real risks; they can be insured items, because they threaten financial interests of the person insured. These risks are:
  - rejection of taking the delivery,
  - Inflammation, freezing and unfreezing, heating, self-ignition, coagulation, explosion, damage on the labels, ruin in forcible slaughter of the cattle, ruin of fish, etc.

Finance Risks in the Foreign Trade / *Financijski rizici u vanjskoj trgovini*

Price risk is risk in the export trade, which has a danger of increase in prices of the purchase/sale or a change of the contract price, either to the detriment of the purchaser or seller. As far as offer or inquiry on the market causes increase in price of the purchase/sale, which is in time of taking out of the purchase contract on the international market being made as final, fix price, the seller or exporter will be at loss. Otherwise the purchaser or importer will be at loss.

Reasons that can cause a change of price of purchase contract can be of two different natures: one refer to the deviation from the contract clauses, such as additional claims of the purchaser or the seller, unpunctual taking of the delivery, delay at delivery or at fulfilment of the business service, etc; the other refer to the changes of market circumstances or to the changes of the contract prices, because of the changes in the production costs in the country of the seller or in building costs (investment projects) in the country of the investor.

Risk of the export credit is a danger to the exporter or the service, because a purchaser in the foreign country might not pay the delivered good or the fulfilled service within the periods under the contract and on decided conditions.

Objective and subjective conditions and reasons cause emergence of risk of the export credit of such a nature, probability and intensity that the exporter can often not presume. For this reason the risk of the export credit between exporter and its country is distributed. The country is interested in increase of the international exchange and of its export over the foreign trade enterprises and so it takes over a higher risk of the export credit then the exporter.

Transfer risk is a risk of inability to pay from the country of the exporter to the country of the importer in compliance with the contractual obligations. The transfer risk is so a consequence of the autonomous, evitervenistic and other

ISSN 0469-6255 (18-28)

measures of the national authority in the country of the importer, which limitate the purchaser and prevent him/her to pay the supplier. These obligations are subject to the concluded purchase contract.

Risk of the financial transfer varies from country to country and has the highest value in the developing countries, which are according to the statistics of the developed countries divided into groups from A (the lowest risk) to D (the highest risk). The definition of the importance of transfer risk in separate countries, divided from A to D, is given below [Andrijanić, 2001, 412]:

- A – no restrictions to the foreign currency fund transfer,
- B – there are minor problems, which occur in the transfer period,
- C – long delays and possibilities of blockade of the financial transfer,
- D – a huge control outflow of the foreign currency and longer delay in the foreign currency transfer – continuing risk of the transfer risk.

Risk of the exchange rate occurs as a consequence of a certain condition on the world financial and foreign currency market and means a possibility of damage emergence, because one of business partners, as a cause of the fluctuation of the currencies of the contract currency. Damage occurs, because of the changes in value of the contract currency in comparison to the national currency of one or other contracting parties. This can be seen on the deviation of the predicted business or finance effect, which does not affect the exporters, because they get for the delivered good or the implemented services the same height of the contract currency, which meanwhile lost its value; however importers pay the contracted currency, which price considerably increased or decreased.

Currency risks they arise as a consequence of sudden changes regarding the increase or decrease of the currency, which is a lawful currency as a consequence of an ordinance of the superior national authority or as a reflection of a certain economic policy of the country.

MANAGING THE INSURANCE RISKS IN PROFITABLE BUSINESS OF INSURANCE COMPANIES / *Upravljanje rizicima osiguranja u profitnim osiguravajućim društvima*

Managing the insurance risks in profitable business of insurance companies must be reflected in the synergetic relationships between the risk, premium, insurance sale, damage liquidation and insurance funds.

Relationship between the Risk and the Premium / *Povezanost rizika i premije*

The price of products and services on the market depends on the supply and demand. Seller and purchaser take counsel about the price of the product or service. Insurance's price is premium, which needs to be paid by the purchaser. At purchase the risk is taken, which assures the safety of the person insured.

Price (premium) is in an important element on the market, because it defines the insurer's income. To decide upon the premium two conditions should be fulfilled: frequency or probability of the damage event (risk) and the height of the expected damages (risk). The most important things we need to determine the premium are law of big numbers and probability calcus. There need to be many people who are taking out the insurance.

Premium must thus cover the risk, which is taken over by the insurance company and must make a safety reserve, which will enable the insurance company to cover the risk in a long-term and good operation of the company.

When making the premium the insurance company can take advantage of badly informed customers. Insured people can take out the insurance with a low premium and so they sub-insure themselves. They are deceived by the insurance company when they pay the lowest premium, but they do not know what losses will be covered in case of risk. They find out these things not earlier than at the emergence of the risk. Such ill-treatment of the insurance companies can sap the customers' trust in all insurance companies, because they are given a fake feeling of safety, followed by disappointment.

Relationship between the Risk and the Insurance Sell / *Povezanost rizika i osigurnine*

Insurance service is an insurance product. It is abstract and unreal; it is above all a promise, which is given to the insured person by the insurance company.Insured people do not get anything materially with the new insurance contract; the only thing that they get is a promise about taking over the risk by the insurance company and a safe feeling.

Whole service could be divided into two parts: before sale and after sale period. In the before sale period the insurance company tries to make such service of taking over the risk that the insured person would be satisfied. They wish to persuade customers that taking out the insurance will bring them something that they really need. In the after sale period insurers want to cover the risk in such a way that the insured people carry out their duties and obligations.

ISSN 0469-6255 (18-28)

In the insurance business they always put greater emphasis on the offer of individual solutions. Insurance services are changing from the standard ones and are becoming more and more complex, adapted to the customer. Such example is a package offer of the insurances, where customers can choose, which types of insurances they will take out. Insurance company makes a discount when more types of insurance are taken out (personal, property, car insurance, etc). In the future this trend of adapting to the individual will continue and there will be more and more complex insurance services on the market.

Relationship between the Premium and Insurance Sale / *Povezanost premije osiguranja i prodaje osiguranja*

When making a premium the insurance company must be very mindful. Insurance company can endanger its safety and lose its customers with too low premium despite high number of demands.

In the sale period the insurance company must in cooperation with the customer make such insurance, which is acceptable for the insured person. With taking out of the insurance and with payment of the premium the insurance company persuades the customer that this investment is reasonable.

Insurance premium is for each insured person the insurance price or risk price, which influence the number of insurances being sold. For that reason premium is at risk, because it depends on the degree of probability of the insured case and damage height.

Relationship between the Risk and Profitability of the Insurer / *Povezanost rizika i profitabilnosti osiguravatelja*

Insurance company distributes the risk to many dangerous objects in the dangerous group, where the danger compensation is performed. Joint damage is distributed to all dangerous objects, which are included in the dangerous group, to the affected and non-affected. Insurance and so the danger compensation can thus be performed just along many dangerous objects and subjects in the dangerous or reciprocal group (Flis, 1999, page 80).

Insurance companies must work as non-deposit finance institutions, which make long-term and safe investments of the collected funds of the insured people. They face different investment risks, which prevent the profitability. Most of all, the happenings on the stock exchanges make us think that classical insurance risks very often take part in the investments, mostly in the capital markets, despite being unpredictable.

When the insurance companies reach the profitability they solve these risks in two ways, e.g. they turn such risks over the insured people and they dispel the investments, which increase the funds.

Relationship between the Risk and the Insurance Funds / *Povezanost rizika i osiguravajućih fondova*

Insurance companies operate on different finance markets, which can be examined from the standpoint of the emergence of risk and the way how funds are spent. Insurance companies often take part at stock, debenture and mortgage markets. They also use financial markets for using the short term securities in liquidity purposes; however they do not take part on the finance markets in such an extent as on the capital markets.

Which structure of the funds is suitable for each insurance company depends on the insurance company itself, characteristic and real safety judgement and real profitability of the insurance company.

However, big investments in the insurance funds can lead to the crisis. Until now insurance company was ready to face with the losses from the insurance business, because they easily covered them with the profits from the share investments.

Damage Liquidation and Increase in Insurance Sale / *Likvidacijska šteta i povećanje prodaje osiguranja*

An important element of insurance services is in the sale phase of the insurances at the insurance case. Insurance case makes an insurance risk or the purpose of the insurance for the insured person come true. A consequence of the emergence of risk is damage. Liability of the insurance for the liquidation of the damage can come true just if future insecure events are covered with the insurance sale.

Customers form their relationship towards the insurance company on the basis of damage liquidation, liquidation procedure and the payment of the substitutes. Insurance company can gain customers, who will remain loyal, by correct and quality performing of its setvice.

CONCLUSION / *Zaključak*

Etymological meaning of the word insurance is "safety at a certain event or fact". Thus to insure property means to protect it from different risks (dangers). People have been developing all types of measures, which protected

ISSN 0469-6255 (18-28)

them from different events, which could end up with damage, because they wanted to protect their property and themselves. We can conclude that a type of protection against the risks and eventual damage depended upon the type of danger, they wanted to insure from. With the emergence of new types of dangers there were always new types of security against them.

We need to be very cautious when dealing with insurance and business of the insurance companies, because they take part in some activities, among which we have exposed taking over the risk and dealing with it, as a factor of profitable business of the insurance companies.

Managing of the insurance risks is an integral part of the managing process. We are talking about the multi step process, which is in most cases dealt by multidisciplinary teams, which step by step and in right succession easier make decisions in order to make risks and their consequences more recognised. When managing the risks we need to deal with the possibility of the creation or prevention of danger, process and structure, which together present an optimum of management with potential possibilities and negative effects.

Insurance company needs to take over the risk, make pricelists of the premiums and insurance conditions in order to be on the insurance market and sell its products. Risks can be keept with its own coverage, if the capacities are satisfying or can also be shared with other insured in co-insurance or be given in sub-insurance. This is the only way of a safe business, in order to preserve its value and business profitability.

Rational management with insurance risks is an important factor of efficiency and safety of the business of the insurance company. Such activity is connected to various risks, which get even bigger. Insurer must decide upon the height of the insurance, as a consequence of the occurrence of the insurance risk.

Insurers' main task is to meet their obligations, so they need to manage the insurance risks on a long-term. However, the estimation when, where and in what amount a risk needs to be managed, is decided by the insurance company. Managing with the funds must be based on the disposable funds and on the managing of the insurance risks and the optimal liquidity needs to be planned.

Insurance companies can do good business when they pay their full attention to the correct management of the insurance risks. Countries want to achieve with its acts of law that the insured people will be protected and when insurance sums are paid out the society can have funds at their disposal. Even when the risk does not occur, it is important not to have losses, which means that the insurance company runs a rational business.

Insurers need to manage the insurance risks rationally, because by doing so they can manage insurance funds rationally and have a profit. They can do this without re-insurance co-insurance, if the risks are being managed dispersionally, because we lower the risk and increase the earnings.

When managing the risks we need to take into consideration opinions of different managements, in order to manage them usefully and have positive results. We need to choose those managing methods, which are in compliance of the insurer's needs and monitor the procedure system and the managing technique from the beginning of the business process.

We can conclude that the insurance companies can manage insurance risk rationally just on the basis of professional, precise and well-conceived strategies considering the development in relation to the concentration.

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