INSURANCE IN THE MODERN ECONOMY

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Abstract: *Traditionally, insurance is seen as a means of protection against financial losses caused by certain unforeseeable situations. At the same time, insurance is an important component of a country's financial system and an active participant in the financial market. The insurance market has developed intensively in recent years and has become an important financial instrument. The specific feature of insurance is that it not only offers protection and psychological comfort to policyholders, but also saves financial resources and increases investment opportunities overall. Insurance therefore offers real opportunities for capital growth not only for insurance companies but also for policyholders, especially in the case of life insurance. This approach served as a premise for the research. Thus, the aim of the paper is to analyze and present the role of insurance in the modern economy. In the process of research, such methods as analysis, induction and synthesis were used.*

Keywords*: insurance, modern economy, investment, savings, stability, efficiency.*

JEL Classification: *A13, B41, C40, D01, D70, E20, G22.*

INTRODUCTION

Insurance plays an important role in the economy of each country, in the activity of economic entities, as well as in the life of any citizen. In other words, insurance comes with important funds on the financial market, allows the continuation of the activity of economic entities without great obstacles, and in the case of citizens, provides them with protection and security for the future. These are the main functions of insurance. Essentially, insurance was designed to provide protection. However, with the development of economic relations, insurance is diversifying, emphasizing their role in the economy. The importance of insurance is also confirmed by the existence of mandatory insurance, which continues to be completed and adapted to the realities of each state. At the same time, throughout their evolution, insurance has shown that they can offer much more benefits, besides the protection itself. Thus, they have a considerable impact on the cyclicality of business, the stability of financial markets, the encouragement of innovations and, last but not least, they create the psychological comfort necessary to carry out effective activities.

MATERIALS AND METHODS

In this paper, the focus is on the study and analysis of the role of insurance in the conditions of modern economy, which has expanded considerably lately. In the research process, various research methods were used: analytical, induction, comparative, observation, description. As informative and statistical materials, the data provided by the official websites of the National Bureau of Statistics of the Republic of Moldova, the National Bank of Moldova, the Financial Supervisory Authority of Romania, were used, the European Union's.

THE IMPORTANCE OF INSURANCE IN THE MODERN ECONOMY

According to the law of the Republic of Moldova on insurance and reinsurance, insurance represents a transfer of a possible risk, including the risk to which the life, health or property of a person is exposed, from the insured to the insurance and/or reinsurance undertaking in accordance with the insurance contract [5].

According to the Romanian Law on the authorization and supervision of insurance and reinsurance activity, the insurance activity represents the activity exercised in or from Romania, which mainly designates the offering, distribution, negotiation, etc, the conclusion of insurance and reinsurance contracts, the collection of premiums, the liquidation of damages, the regression and recovery activity, as well as the investment or the fructification of own funds and attracted by the activity carried out [6].

In the US, with the largest insurance market in the world (by the amount of premiums collected), insurance is a contract whereby the insurer agrees to compensate another party (the insured, the insured, the policy holder or a beneficiary) for a particular loss or damage to a particular thing (for example, an object, property, health or even life) following the occurrence of certain risks, or, for a fee (insurance premium) [1].

Therefore, the above definitions characterise insurance as a risk transmission to a third person (bassurance undertaking) in return for a fee (insurance premium). Thus, the basic purpose of insurance as an activity is to provide protection to insured persons in exchange for an insurance premium. However, in addition to the general functions: distribution and control, insurance also performs specific functions: protection, prevention, compensation, saving and last but not least the social function (Figure 1).

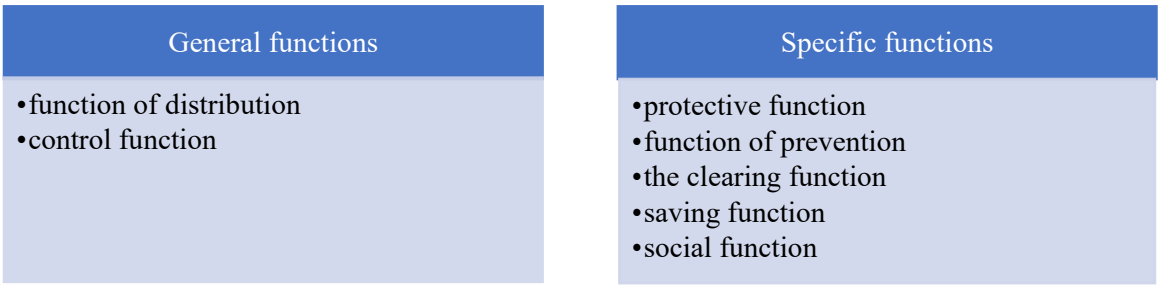


Figure 1. Insurance functions
Source: Elaborated by author

The main function of insurance as a specific activity is protection. This function provides security, confidence and the desire to carry out new projects.

Preventing potential damage is one of the main concerns of the insurer. In this context, the insurer will ask the insured to take all necessary measures to prevent possible unpleasant situations or in case of occurrence of certain unfavorable events, to participate in minimizing the losses that may occur. This function is particularly important in the case of human insurance and refers to the fact that people have to carry out regular medical investigations in order to prevent serious diseases. To this end, insurance companies often finance expenses related to medical investigations. The prevention function also has an impact on the liability of insured persons. Therefore, insured persons are liable for their goods, actions and lives so that the contractual conditions are complied with.

The insurance saving function manifests itself in several aspects. Most often this function is related to saving funds on life insurance. The latter are long-term contracts and allow to save own resources to be used at will after a certain period. On the other hand, this function also applies to other types of insurance. For example, in the case of property insurance, if the insured risk occurs, the compensation received from insurance companies contributes to saving a significant amount of financial resources from the insured.

The existence and development of insurance is a major support for the state budget. In other words, insurance covers social risks, thus taking over part of the financial burden of the state (social function).

By generalizing the functions of insurance and the impact they have on each individual and on the entire economy, we can deduce their importance and role in the modern economy (Figure 2).

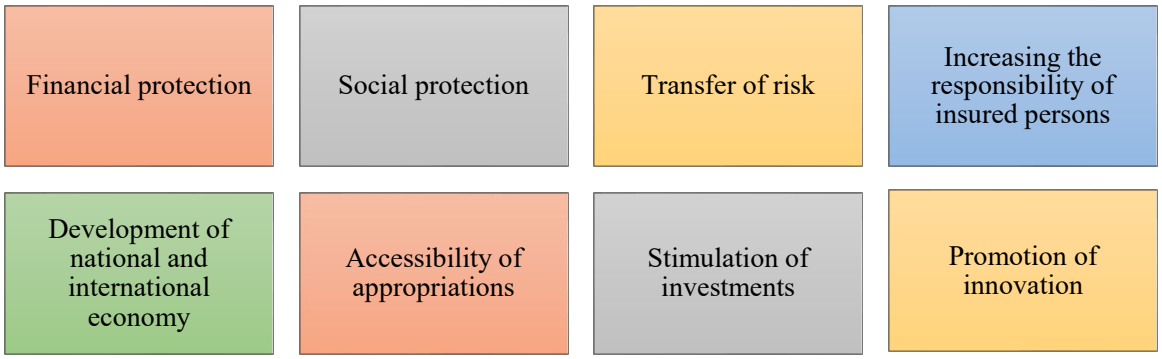


Figure 2. The role of insurance in the modern economy
Source: Elaborated by author

1. In the foreground is the role of financial protection. Insurance provides financial protection in the event of unforeseen events, such as accidents, illnesses, material damage or financial loss. Thus, insurance contributes to reducing the negative financial impact on the budgets of insured persons.
2. No less important is the role of social protection, which refers to ensuring a stable income for the insured person or beneficiary in case of disability, retirement or even death of the insured person. As mentioned above, the development of the insurance market reduces the financial burden of the state.
3. The transfer of risks involves the transfer of risks from natural or legal persons to companies specialized in risk management (insurance companies) in exchange for an insurance premium.
4. To be functional, any insurance contract is based on certain specific conditions. Thus, in the case of insurance of goods, companies may put forward certain conditions on the preservation of goods in order to reduce the likelihood of producing risks or, in the case of production, of diminishing losses. In the case of civil or life liability insurance, there are certain provisions regarding the actions of the insured person that can cancel the insurance contractually. As a result, insurance helps to increase the responsibility of insured persons so that they can fully enjoy the benefits of insurance.
5. Development of national and international economy. Insurance plays an important role not only at the level of individual, economic entity, but also at the level of national and international economy. Insurance offers the possibility for economic entities to continue their activity, without large interruptions, in case of unfavorable events. At the same time, insurance intermediates import-export relations, thus contributing to the development of foreign trade. And last but not least, insurance companies come with important funds on financial markets.
6. Insurance plays an important role also under the conditions of credit application. In particular, insurance becomes mandatory for mortgages (real estate insurance), and in some countries banks may require borrowers to purchase a life insurance policy as well.
7. Increasing credit accessibility will boost investment. At the same time, the insured person is protected from possible losses and, respectively, more willingly accepts the risks.
8. Promoting innovations. Insurance stimulates the use of new technologies, new production methods, often very risky. At the same time, the changing nature of risks requires the introduction and modernization of insurance products.

The insurance market is in close dependence on the economic situation in each state, but also

around the world. Thus, ensuring the payment capacity, but also guaranteeing stable revenues to customers are not possible without an efficient investment activity. An effective investment policy must be based on the following criteria: diversification, minimum risk, efficiency and prudence [5]. The selection of types of investments will be made depending on the types of insurance activities, so as not to violate the rules of profitability and risk. The investments that best meet these requirements are: investments in securities, including state securities and bank deposits. Greater opportunities are offered to companies that practice life insurance. Given that in the Republic of Moldova, the share of life insurance is very small compared to developed countries, the investment activity of insurance companies is reduced. It is obvious that in developed countries, the structure of the insurance market is different from that of the Republic of Moldova. This is due to several factors, including: financial factors, the degree of information of citizens and businessmen about the advantages of insurance, risk aversion, historical factors, and, including the reputation of insurance companies. In the Republic of Moldova, the insurance market is predominantly occupied by motor liability insurance, which are mandatory. The low interest in other types of insurance is caused by poor information of citizens, but also by the lack of citizens' trust in the financial system as a whole. Moreover, even when purchasing a life insurance policy, the insured do not fully realize the additional benefits of these insurances. In the figures below we can follow the structure of the insurance market in the EU by the two major classes of insurance: general insurance and life insurance.

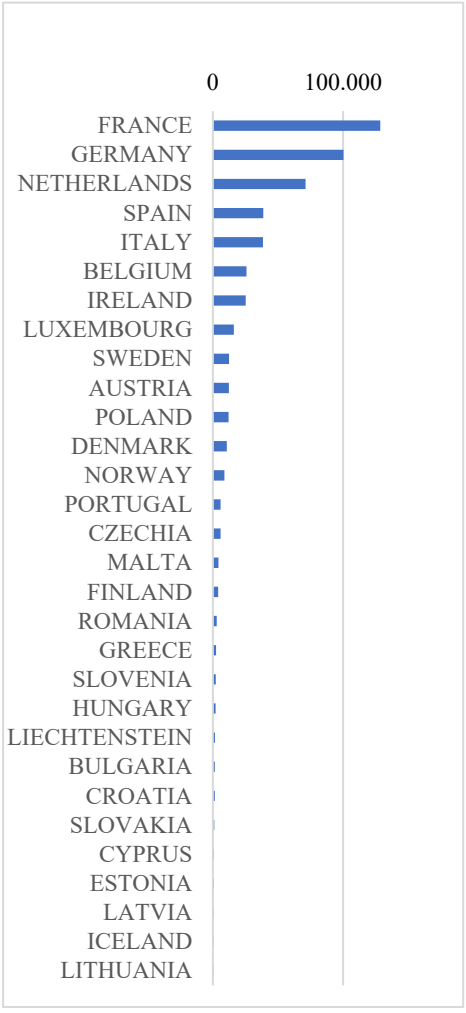


Figure 3. General insurance, gross written premiums, 2023, mil. Euro



Figure 4. Life insurance, gross written premiums, 2023, mil. euro

Source: www.eiopa.europa.eu [4]

Referring to the volume of gross written premiums for this general insurance class, in the Republic of Moldova, in 2023 they amounted to 146.17 million. Euro [2], [3], which is well below the lowest level recorded in EU countries (the lowest level was recorded in Lithuania 446.81 million euros). If on the general insurance segment the domestic insurance companies manage to collect a significant volume of premiums, then in the Life insurance segment, the market is poorly developed. In 2023, gross premiums of 5.56 million euro were collected [2], [3], compared to the lowest level recorded in the EU countries of 60.57 million million. Euro to Iceland. In the same vein, Romania receives a volume of gross premiums 10 times higher than the Republic of Moldova. This rather large discrepancy indicates a high investment capacity of insurance companies in developed countries compared to the low possibilities of domestic companies. Therefore, the small amount of investment resources available to insurance companies will also have an impact on the development and stability of the financial market. In order to recover the situation, the insurance market in the Republic of Moldova should reorient itself towards the Life Insurance segment, by informing and advising the population on the benefits of this type of insurance.

CONCLUSIONS

Recent events have contributed to the development of insurance as an important sector of the national economy. Insurance dynamically expands its scope and its role in the economy. Even if the main function is protection and safety, insurance has a considerable influence on the development of the real sector of the economy, the financial stability of the financial market, and, but also of economic entities by reducing the considerable losses caused by sinister, the psychological comfort of citizens, but also of the initiators of innovative ideas.

Awareness of the considerable role of insurance as a promoter of stability, continuity and development both at national and global level, requires the application of various instruments, policies on boosting the insurance market. Regarding the insurance market in the Republic of Moldova, besides all the classic measures that have been taken over time, as a recommendation is the application of artificial intelligence to identify specific products and tailored to the needs of members of society. In this context, insurance companies will be able to increase insurance premiums and therefore to diversify their investment portfolios.

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