DEVELOPMENT DIRECTIONS OF SERVICES AND PRODUCTS IN INSURANCES

Lect. Ph.D Mitu Narcis Eduard
University of Craiova
Faculty of Economy and Business Administration
Craiova, Romania

Abstract: In the new context of globalization, it is apparent the growth of insurances industry. The insurance world is continuously changing. New insurance types come into sight, while the old ones are constantly revised. Most of the developed countries turned the insurance industry into a motor generator of powerful social-economic progress. Therefore, for the economic and social national environment, it appears to be more and more necessary to surpass the actual state of research and to develop a long-lasting environment in which insurance specialists could have credibility and a powerfully positive influence. Thence, in our paper, we treated some problems which are adverted to integrate financial services, new technically of finance risks, and tendencies in the products of assurance evolution.

Keywords: insurance, financial services, risk management, evolution, insurers.

Direct Today, we can all agree that the insurance sector is a strong engine of economic and social progress. Henry Ford, once said that USA wouldn't have got that far without insurances, sky-scrappers wouldn't have been built without investors insuring their buildings, and workers wouldn't have done their job at such heights thinking that, without life insurance, their children would have become homeless.

But in order to keep this beautiful and true attribute (engine of progress), the insurance sector must keep up to the "crazy age" that we live in, defined by a continual transformation and globalization.

The globalization represents a generalization of internationalization phenomenon. The last and a half decade, from this point of view, can be characterized through the existence of the globalization phenomenon which manifests in social, political, cultural and especially economical evolutions. From this point of view the globalization means "global financial markets' development, transnational corporations' growth and their growing domination upon national economies". As a fact, the international insurance market has an important dimension, noticed especially by the concentration of the actors of this market from which take part the insurance companies, reinsurance companies, insurance brokers and companies that offer services in insurance activity, and not only.

The traditional models, where businesses were very clearly differentiated (the banks were giving credits, were founding deposits and were easing the capital transfer and insurance companies were offering risks and security cover) have become "footnotes" for financial literature.

At present time, the insurance companies explore the banking environment and vice versa. The banks and the dealers fight against each other, trying to take a market which becomes more and more crowded. Hereby, in our conception, the best word which can be associated to the financial markets in this moment is “convergence”.

In this perspective, it is estimated that in the future the global industry of insurance will suffer major changes, starting to create sets of new products, services and business processes, all in order to create more value and to offer a solid basis of long term growth and development.

1. Integrated financial services

Integrated financial services can be the answer for future development of insurance companies. Already existing one on the global market, but also on the national one enough companies which offer a large range of financial services (insurance products and services, banking, leasing and investing products) to individuals and companies customers, using the distribution channels chosen by them, under a common name.

Table no. 1 Transpassing process from classical financial services to integrated financial services

• From a service company	• To a company of information
• From a national economy	• To a global economy
• From asistance/consultance	• To “self-aid”
• From limited offers	• To multiple choices

Such an approach offers to insurance companies some advantages, among which we can enumerate:

- operating on a market and at a larger scale
- the growth of concentration tendencies upon essential activities (“core business”)
- the development and administration of the access of the customers to more distribution channels and for a growth of the channels’ number
- better acquaintance of the customers

2. New techniques to finance the risk

In the complex process of risk management, the insurance companies hit the classical measures’ limits used with this purpose many times.

Neither insurances nor reinsurances take over and cannot take over all the risks of a company. Many times, can’t be insured especially the risks that provoke some of the biggest worries, like a part of the operational risks (system unfunctionality, security breach, some meteorological risks, some accidental pollution risks, special types of civil responsibility etc.)

Moreover, the insurance, generally speaking, lack continuity in activity, such as: amends endowment takes place after a period of time when the ensured event took place, necessary to inspect and solve the loss by the insurer; as a result there are discontinuities in companies’ activity or delays in restarting the activity.

That is why appears more and more the need to take into consideration the risk inside the management process and certain alternatives to classical insurance products. Hereby, we can take into consideration two techniques to finance a risk, alternatives to existing insurance on the market. These techniques are useful when the risk can't be placed using usual insurance contracts

First technique called "Finite structure" is an agreement through which the insurant finances using annual rates up to 80% from the agreed indemnity limits (the rest of 20% being a normal insurance).

For the acquitted annual rates, the insured is given an interest that eases he's financial effort.

If the "risky" event doesn't occur in a settled period of time (maximum 5 years) or the loss is smaller than the money gained, the insured is paid back 50-80% from the bounties and interests.

With "Finite structure" is assured a balance between self-finance and risk transfer; the loss cost is echeloned on a 5 year period; the arrangement has the form of an insurance, offering its fiscal advantages; it is offered a substantial bounty return in case of low loss.

The second technique called "Contingent Capital Facility" is an agreement where the insurer must pay the loss and the insured must refund the amount to the insurer.

The insured pays annually a very small engagement bounty until the loss occurs. After the event occurs, which has been completely compensated by the insurer, the insured pays echeloned, annual premiums in order to refund the loss and the interest. This "hybrid" product has the form of insurance, offers flexibility and diversifies the capital sources, offers finance for unplanned spending, associated to random risks.

The objective of these techniques is to flatten the financial effort curve of the companies with considerable losses caused by the materialization of uninsured risks in casual bank bills, through loss cost leak edge on a 5 year period of time, in certain conditions.

For both techniques, the insurers must have a high financial standard, and the insured must have a strong financial situation. The negotiation of such arrangements take 4-6 months, and the minimum limit insured must be 30-50 million $.

As an example, for an arrangement type "Finite structure" on a 5 year period of time, with 80% from duty limits funded by the insurer, the insured pays 24 million $. That means an annual rate with over 4 million $, taking into consideration interest accumulation. Of course, because of imposed conditions by the insurers and the big amounts, only financially strong companies can have access to these techniques.

3. Tendency in insurance products evolution

The innovations in insurance industry must come on to problems about demographic changing data of the customers, about new technologies, changes occurred in regulations etc.

Very interesting is the latest study made by the IBM Institute for Business Value, called "*Insurance 2020: Innovating beyond old models*"

The study offers a new perspective upon the challenges the insurance companies must deal with in 2020 and upon the strategies that can lead to a successful innovation.

In the next decade it will be an important growth in insurance products' flexibility, and the extending use of the technologies to calculate will lead to a transpose in practice of these estimations.

The "*Pay-as-You-Live*" insurance which is based on the fact that the events in customers' lives are managed while they happen will reduce the problems and high costs of refunding management claims focusing on preventing and new business processes that will decrease the costs and will make the products more appealing, take place of the old models of insurance. The industry standards, the same for a long period of time, are to provoke an income deduction and won't be able to offer the insurance companies the long term profit margin.

The calculation of a specific risk cost, it is anticipated in the named study, will base on using some sensors connected to the next internet generation. The data offered by this type of sensors, who are met to serve the life and goods insurance, will allow the calculation of the risks in real time and will balance the evolution of bounty costs on the real risk basis. A similar technology will support another large range of products that will be emitted based on the duration of the policies.

An example can be given by the "*Just-in-time-insurance*" product where every step of the journey (from the car to the station, from the train to town, from the sub station to the office etc.) will represent a different risk.

A scenario type "pay-as-you-live" can lead to a partial abdication to privacy (must be known the place where the insured is, the time spent in a certain period of time etc.), which can be compensated by a smaller bill for insurance policies.

In the active managerial spirit of the risk, the same web of sensors could also give useful information that can lead for example to a jammed route avoidance – the information transmitted using the most appropriate equipment, like the audio system in a car, the phone or the computer.

Conclusion

In conclusion, it can be noticed the change of the attention concentration from a product to a customer. Hereby, in insurance industry the supremacy of transactional marketing will be given in favor of relational marketing. The insured persons will have a higher access to products and a higher possibility to make decisions by themselves. The most successful insurance products will be the dynamic ones, leading to important performances for the other types of business.

REFERENCES

1. Cristea, M. — Asigurări internaţionale, Editura Reprograf, Craiova, 2003
2. Mitu, N.E. — Asigurări şi reasigurări, Editura Universitaria, Craiova, 2006
3. Politis, A. — Managementul agenţiei de asigurări, Editura All Beck, Bucureşti, 2001
4. Soros, G. — Despre globalizare, Editura Polirom, Iaşi, 2002
5. *** — Insurance 2020: Innovating beyond old models, IBM Institute for Business Value, 2006 - http://www-935.ibm.com/services/us/bcs/pdf/g510-6291-00.pdf