FINANCIAL RISK REINSURANCE

Stănescu Cătălin-Florinel Ph. D Student
University of Craiova Faculty of Economics
Craiova, Romania
Simion Mircea-Laurenţiu Ph. D Student
University of Craiova
Faculty of Economics and Business Administration
Craiova, Romania

Abstract: Reinsurance is insurance an insurance company to another insurance company stronger financial terms, the total or partial disposal of an interest in risk and insurance primelede. Reinsurance is divided, disperse and homogenize risks in time and space, taking place a leveling liability insurance company for damage.

JEL classification: G32

Key words: reinsurance,exchange reinsurance,risk reinsurance,credits,pay benefits.

1. INTRODUCTION

Reinsurance as an additional security, leading to the financial stability of the insurance company. “Reinsurance is insurance insurance”[1].

Reinsurance: the insurer, as a reinsurer, reinsurance premiums received in exchange for that help, according to the obligations undertaken, to pay benefits on the occurrence of the risk reinsured pays which is the subject of reinsurance the insurer, as reassured, raw yield reinsurance, the reinsurer contribute in return for which, according to the obligations undertaken, to pay benefits on the occurrence of the risk reinsured pays that covered reinsurance.

Reinsurance involved reinsured (transferor), he, the insurer gives part of the insurance and the insured value which considers that in the event of damage, I could pay one and reinsurers, reinsurance company that takes part or the full amount of compensation that exceeds the power of the reinsured. “Reinsurance works only through insurance”[2].

In turn, the reinsurer may forward part of the sum insured other insurance companies regarded as financially stronger. This new reinsurance completed the reinsurer is called a retrocession (restitution), the retro and retrocessions arise.

The existence and use of reinsurance certifies and seriousness direct insurer as reinsurance company enters into relationships with insurers so that does not prove the required reliability standards.

---

[1] Bistriceanu D.Gheorghe -Insurance and reinsurance in Romania, University Publishing House, Bucharest, 2006

[2] Marinică Dobrin, Tanasescu Paul - Theory and Practice of Insurance, Economic Publishing House, Bucharest, 2003

Reassurance came in the Middle Ages as a means of correcting reckless actions of those who purchase insurance make maritime transport extremely hazardous areas due to heavy pirates and sailing conditions. After concluding contracts at random, seeking to escape the commitments that were excessively risky, surrendering to other insurance companies.Initially, reinsurance is practiced by insurance companies profiled contracting direct ¬ felt the need to improve their portfolio. Were later established companies specialized in reinsurance operations, but without insurance to give up this kind of operations.

2. FINANCIAL EFFECTS OF EXCHANGE REINSURANCE

Reinsurance take effect only between reinsured and reinsurer, "he the insured can not move with legal action against the reinsurer, he is not participating in the reinsurance contract"[3].

Reinsurance are more effects, more influence over the intervening parties and foreign financial results.

Reinsurance influences not only the financial results of the reinsured, contributing to their stability, and capital market debt and balance of payments of the country.Foreign financial effects of reinsurance have become increasingly sizes larger with the development of reinsurance operations, forming a true financial reinsurance market.

Reinsurance exerts a favorable influence on insurance. Since prompitudine accept reinsurance reinsurance cessions offer from insurers, encourages the latter to expand and contract work values increasing risks, which could not cope without reinsurance. Reinsurance protects insurers.

Reinsurance positively influence the behavior of policyholders. Knowing that they are protected not only by insurance and reinsurance but, citizens and businesses are encouraged to work, contract growing business and riskier.

Reinsurance company influences the insurance company directly under financial report. Influence is exercised through how to yield risks, as share premiums as compensation for damages and participate in the final settlements of the reinsured and reinsurer, achieving financial stability.

Reinsurance influence the national economy about forex. Reinsurance cessions and received by insurance and reinsurance companies in different countries exert influence foreign order that reflentă balance of receipts and payments.

Reinsurance foreign influences exercised in the following circumstances:

- ✓ reinsurance is done by means of non-resident companies;
- ✓ reinsurance contracts are concluded in a foreign currency;
- ✓ risks ceded reinsurance, though written in nonconvertible currencies are accepted by the reinsurer, provided that their settlement to be made in convertible currency;
- ✓ insurance and reinsurance companies and reinsurance investments made in foreign currency.

Reinsurance are invisible trade operations reflected in the balance of payments on current transactions section, receipts or payments. Obviously, the influences are

[3] Marinică Dobrin, Tanasescu Paul - Theory and Practice of Insurance, Economic Publishing House, Bucharest, 2003

different depending on whether foreign resources are directed into the country or to other countries.

All proceeds from reinsurance receipts equivalent to an invisible export, and payments made for reinsurance cessions can be treated with an invisible import.

Receiving and pursuing reinsurance cessions stabilitaea financial results of insurance and reinsurance company.

Reinsurance influence the balance of receipts and payments, contributing to its activation by receiving positive or negative currency by borrowing from abroad.Reinsurance can help increase the gross national product or its transfer abroad.

“Risk is a social class, economic, political or natural origin which is a loss of production due to uncertainty and inconsistency risk decisions.”[4]

The notion of uncertainty expressed considerable uncertainty about the future. An action is considered uncertain if possible more results without knowledge of the potential for one or other of them.

In the economic, risk and uncertainty meet The combination in different proportions and can generate deviations fundamental consequences viability legal persons affected.

Not all events generate losses may be covered by insurance or reinsurance. In order to ensure any risk must fulfill several conditions:

Loss generate financial:

likelihood of risk to be between 0 and 1;

risk is possible but not inevitable or certain;

to occur in the future and produce it to be random in terms of what time of the event in itself;

poducerea may not be a willful act of the insured or the insurer.

In the economic risk is a likely future event whose production could cause some damage. It can be predictable - the factors that would cause losses can be identified in advance and can be unpredictable when determined by fortuitous circumstances.

3. CURRENCY RISK REINSURANCE

After exhausting domestic reinsurance risks are redistributed internationally to varying degrees. Insurance companies from different countries resort to different degrees in international reinsurance.

In Romania reinsurance is mainly achieved through non-resident companies. Romania will continue to be linked to foreign reinsurance companies, without which you can not achieve a satisfactory territorial dispersion of risk.

Due to exchange rate variations, insurance and reinsurance companies may face a currency risk.Currency risk can be positive or negative recording influences that enhance or results thereof.Currency risk can be of several types, namely: commercial risk, accounting risk, economic risk.

Commercial risk is dependent on export-import operations, receipt and disbursement of external loans etc. and requires a payment currency over a predetermined period of time. If those operations are recorded in national currency and

---

[4] Bistriceanu D.Gheorghe -Insurance and reinsurance in Romania, University Publishing House, Bucharest, 2006

the foreign currency in which the payment change during the recording instruments and to collect them, then appears a favorable or unfavorable.

Influences which are set at the balance sheet and profit and loss accounting currency risk materializes in insurance. Premium income and claims payments, commissions etc. from reinsurance operations are carried out in various foreign currencies, whose exchange rate in the currency of the country of residence of the reinsurer undergoes changes during the reporting period, generating favorable or unfavorable influences the volume of business, financial results, financial and placement obligations denominated in national currency.

Currency risk refers to an accounting period expired. But an insurance company is interesting to know the extent to which the currency risk can be expected in a future period.

Economic risk is the danger of incurring an injury to property and economic interests, as determined by the circumstances of force majeure, acts of God, acts of reckless management of damages, losses during transport goods or as a result of competition in the market economy.

The risks, traders insurance contracts with insurers and pay premiums appropriate term operations contracts on the commodity exchanges to protect themselves from adverse price fluctuations etc.

Determining economic risk presents certain difficulties because we have to estimate risk caused by exchange rate fluctuations, which insurance and reinsurance companies can expect every year and every reinsurance contract concluded. Most times reinsurers are content to perform calculations on global assets and liabilities resulting from receiving and backs currency risk on each user.Foreign exchange and economic accounting can produce beneficial effects and adverse to insurers and reinsurers.

For this purpose reinsurers can use several solutions:

- ✓ risks are concerned to subscribe only expressed in stable currencies, this solution has the disadvantage that currency criteria selecting risks, reinsurers limit their sphere of activity and thus prevent territorial dispersion of risk;
- ✓ using a basket of currencies (SDR, EURO) To settle reinsurance;
- ✓ places foreign resources they" hold in various activities for their positive effects can offset the negative ones."[5]

In the first study um cesibile risk issues, made by the European Commission, it was defined as risks related to private borrowers from commercial-established in a Member State of the European Union or in one of the member states of OECD urmaătoarele: Australia, Canada, USA, Iceland, Japan, Norway, New Zealand and Switzerland for loans for a maximum of 2 years.

In this case, the commercial risks are:

- ✓ arbitrary termination of contract by the debtor;
- ✓ private unjustified refusal of a debtor to accept the goods which are the subject of a contract;
- ✓ private insolvency of the debtor or his guarantor;
- ✓ private non-payment by a debtor or guarantor thereof by a debt arising from a contract.

[5] Bistriceanu D.Gheorghe -Insurance and reinsurance in Romania, University Publishing House, Bucharest, 2006

The establishment of the concepts of risk and risk cesibile require would only indicate the general policy of reinsurance on the private market, in order to outline the concepts and to take action necessary for proper functioning of the single market.

In 2001 the definition was revised cesibile risk, "included political risks originating from commercial and public law for debtors. In cntinuare there is no risk from all causes catastrophic risks borrowers based in countries other than those listed"[6].

In 2005 the Commission include risks related "to loans insured providers whose export turnover not exceeding EUR 2 million, if the Community market Reinsurance no private reinsurer to accept taking risks"[7]. This change had in mind that the loans granted by these providers is not profitable because they trade with few borrowers located in several states, resulting in an unsatisfactory distribution of risk and that they are not sufficiently familiar with the "subtleties activity Export credit insurance ".

5. Conclusions

Insurance and reinsurance are marked by a high degree of heterogeneity, the existence of a large variety of types and categories of business. Therefore there is no single market for insurance or reinsurance, but the insurance and reinsurance markets, each of which is individualized by the predominance of certain types of transactions, the existence of certain insurance and reinsurance companies, customs, etc..

Reinsurance markets can not be treated in isolation but in conjunction with insurance markets which, moreover, is based. The strongest increase in reinsurance activity occurred in recent decades, surpassing most direct insurance premiums in reinsurance in the same period.

Lately reinsurance plays a very important role in economic and social life around the world, thanks to insurance and the volume and value of industrial goods, transportation, tourism, international trade.

References

1. Bistriceanu, D.Ghe. — Insurance and reinsurance in Romania, University Publishing House, Bucharest, 2006
2. Dobrin, M., Tanasescu P. — Theory and Practice of Insurance, Economic Publishing House, Bucharest, 2003
3. * * * — Communication from the Commission to Member States amending the 1997 on the application of Art. 92 and 93 of the Treaty to short-term credit insurance material for export, published in J.Of. no. C 325 of 22.12.2001
4. * * * — Communication from the Commission to Member States amending the 1997 on the application of Art. 92 and 93 of the Treaty to short-term credit insurance material for export, published in J.Of. no. C 217 of 02.08.2001

[6]Communication from the Commission to Member States amending the 1997 on the application of Art. 92 and 93 of the Treaty to short-term credit insurance material for export, published in J.Of. no. C 217 of 02.08.2001

[7] Communication from the Commission to Member States amending the 1997 on the application of Art. 92 and 93 of the Treaty to short-term credit insurance material for export, published in J.Of. no. C 325 of 22.12.2001