



**Списание за наука**

**„Ново знание“**

ISSN 2367-4598 (Online)

*Академично издателство „Талант“*

*Висше училище по агробизнес и развитие на  
регионите - Пловдив*

**New Knowledge**

**Journal of Science**

ISSN 2367-4598 (Online)

*Academic Publishing House „Talent“*

*University of Agribusiness and Rural Development -  
Bulgaria*

<http://science.uard.bg>

## **MONEY AND INSURANCE**

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**Abstract:** The history of insurance undoubtedly convinces us that it is one of the most ancient categories in socio-economic relations between people, in particular to counteract the negative and destructive forces contributing to material and non-material losses. It originates in the late stage of the decay of the primordial community and over time becomes a constant companion of these relations. Put it in another way, insurance as a historical evolutionary phenomenon follows socio-economic development. Nowadays, globally, this sector has become a powerful financial industry that also feels both the beneficial and the negative effects of the dynamics of socio-economic processes. This calls for more and more effective approaches, methods and ways to manage risk in insurance companies.

**Keywords:** insurance, money, cash flow, risk management.

## ПАРИ И ЗАСТРАХОВАНЕ

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**Резюме:** Историята на застраховането по безспорен начин ни убеждава, че то е една от най-древните категории в обществено-икономическите отношения между хората, по-специално за противодействие на негативни и разрушителни сили, допринасящи за материални и нематериални загуби. То се заражда в късния етап на разложението на първобитнообщинния строй и с течение на времето се превръща в постоянен спътник на тези отношения. Казано по друг начин, застраховането като исторически еволюционен феномен следва обществено-икономическото развитие. Днес, в глобален мащаб, този сектор се е превърнал в мощна финансова индустрия, която също изпитва както благоприятните, така и негативните ефекти на динамиката на обществено-икономическите процеси. Това налага търсенето на все по-ефикасни подходи, методи и начини за управление на риска в застрахователните компании.

**Ключови думи:** застраховане, пари, парични потоци, риск мениджмънт.

### INTRODUCTION

Problems related to the place and role of a phenomenon in a specific sphere, age, etc., can always give rise to some objections to the arrangement of concepts: whether to be "a place and a role" or a "role and place". Without even a touch of conformism, it can be said that at first glance both ways are correct - this is due to the fact that the two concepts are closely related to one another, which is why the boundary in the dilemma is blurred. However, it depends on the meaning and the purpose of the arrangement. In the context of this Statement, the sequence "place and role" of insurance is chosen because we believe that the membership of insurance in the financial sphere has been objectively predetermined too long ago (3,000-2,000 BC) when the more primitive ways of risk distribution - mutual assistance and natural "funds" - are replaced by the formation of an "insurance fund" by means of cash contributions by participants (eg in Roman colleges, etc.) or providing money guarantees and loans (eg Maritime loan).. Namely, monetary relations, which are intensified and deepened over time in the field in question, are the main prerequisite for insurance to find a place as a major, very important element of modern national (individual) and global financial system. While this fact is clearly beyond doubt, however, in view of the objectives of this work, it is imperative to identify, as necessary, some more specific situations that highlight the place and role of insurance in the national financial system.

Insurance is an economic, particularly financial, category, above all, because in the formation and use of the insurance fund and its elements it is conditioned by the movement of value in monetary form. In this movement, there is a powerful turnover (accumulation, distribution, redistribution, management, etc.) of cash and financial instruments. Thus it is included in the total monetary turnover of each country's national financial system, including Bulgaria.

With very few and insignificant exceptions, insurance relationships are specific, mainly distributive and redistributive relationships, which are the basis of the insurance business and the relevant entities. These relationships are of the "closed" type, ie. they are carried out only between the participants (individuals and companies) in the group of the insured subjects. This is one of the distinctive features of insurance as a financial category that we will talk about later on.

Insurance (monetary and financial) relationships may be private (related to the interest of individuals or business firms) and public law (determined by the interest of the state). In this respect, there are many facts, examples and practices that do not require their detailed identification and argumentation. We will only focus on the fact that insurance is included in the financial system primarily through public-law insurance relations (when the state is one of the parties), although there are also many options of the first type.

Apart from the formation, distribution and redistribution of the insurance fund, financial relations also exist when investing the insurer's temporary free cash in different types of assets. In this way, insurance is "bind", especially recently, with other areas, structures and instruments of the financial and financial markets. It thus appears to be one of the big and stable sources of financial investment resources, which also testifies to its belonging to corporate and public finances. To a large extent the place of insurance, expressed through the place of its "mechanism" (subsystem and instrument) - the insurance market.

However, the membership of insurance to the financial system should not be considered as a circumstance that includes it as its structural, vertically integrated and subordinated entity or subsystem. In fact, it is a self-contained sector. It appears only as an element of the financial macro system, with certain functions, specific objectives, role and mission, which are determined by its own approaches and methods in the accumulation, distribution and use of the assigned (insurance) money funds. As a separate element, however, insurance corresponds to and closely links with other subsystems of the national economy, such as the real sector, international and public finance, the capital market.

The reasoning presented so far does not exhaust the aspects of the place of insurance in the financial system, but only a certain, but we consider sufficient, extent only the affiliation of insurance to the financial system in view of its genesis and predetermination due to the monetary relations in the sector. In addition, the insurance phenomenon can also be analyzed in terms of public needs - how it is perceived, assessed and used by individuals and business organizations.

The location of each phenomenon is determined by its role and the usefulness it provides to society and individuals in particular. Such an assertion is also valid for insurance as an economic category and institution, regardless of the stage of its development that is considered and judged. This also depends on another very important premise - the level of public awareness of this utility. However, there are other features that are also the result of the evolution of insurance in time and space and which have an impact on the usefulness of the phenomenon under consideration.

The benefit, role and place of insurance in modern society is determined by its functions, and above all, to what extent it develops and implements them in practice. It is in this that we see the differences in the level of development, demand and consumption of insurance products and services in different geographic territories (countries) in the same epochs (periods). In this case, we do not neglect the circumstances and conditions under which the economies and other relations of the individual countries have developed, which is also relevant to the problem under consideration.

## LITERATURE REVIEW

Issues related to the nature, functions, place and role of the insurance are considered and analyzed extensively in the abundance of Bulgarian and foreign publications<sup>1</sup>. There are a huge number of both contradictory and identical concepts and opinions on these issues. Discussions, however, are still lively, which is normal because it is a dynamic phenomenon that offers and

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<sup>1</sup> See: Gavriisky, V. Economics of Insurance, Svishtov, 1972; Gabrovski, R. Introduction to Insurance, Tsenov AI, Svishtov, 2005, pp. 13-19; Draganov, H., Iliev, B., Misheva, I., Parvanova, Z., Insurance, Fort, Sofia, 1998; Gvaddenko, L.A., Основы страхования. - М., 1998. - 300 p.

serves social life in a specific, perhaps even unique way - aiming not only to take on its own but also on other subjects risks.

In this work, we will restrict our knowledge of historical facts, traditions and concepts of insurance to the extent that they are needed as a basis and arguments to clarify and substantiate ideas, concepts and results in support of these concepts. Therefore, in relation to the usefulness, role and place of insurance in the national economy, its functions are discussed below in several different aspects. This is imperative due to the fact that classical (traditional) interpretations and classifications are currently subject to displacements due to objective reasons and do not correspond to the current state of insurance. It is already very difficult to say which functions are basic, which - secondary and additional and how they should be arranged in essence.

*First.* In the majority of the specialized literature, the authors agree that the main function of the insurance institution is the compensatory (compensatory)<sup>2</sup>. In this respect, more or less explicitly, almost identical opinions are expressed. This answers perhaps the most accurate of the problem.

*Second.* Recently, especially in the early years of the new century, there is a particular dynamic in the functions and hence in the role and place of the insurance. In particular, it is about the effects and impact of globalization, information and communication technologies (ICT), economic and financial crises, convergence of financial markets and products, and modern insurance management, which is related to metamorphosis, dilution, merger and so on, of its functions which have previously been strictly considered and differentiated individually. Therefore, any claim of clarity and precision in the definition of the concepts in question would appear to be unrealistic.

In view of what has been said so far, we believe that the usefulness, role and place of insurance in the socio-economic space can be seen in relation to this - not how many functions are attributed to it, or how they are defined and classified, but whether it actually performs the mission, which has been called since antiquity. Because it is known that the function of any phenomenon or economic category, in the case of insurance, is its manifestation in action.

The dynamics of business processes will continue to affect business sectors, including insurance. This will inevitably affect its functions, which will more and more be difficult to distinguish and classify. In view of the imperatives and conditions of the 21st Century business, some of them will inevitably be modified, and it is not excluded that other new functions will emerge (already outlined). Taking into account that such a circumstance is possible and it will have an impact on the role and place of 21st century insurance, we are inclined to present from a different viewing angle a more general interpretation of them in a different light that has different theoretical and practical aspects. Thus, the traditional features of the place and role of insurance are not denying or neglecting, but only updated and adapted to modern conditions and new positions that it is increasingly expanding and consolidating in the socio-economic life.

The place of insurance in the socio-economic space, as mentioned above, can be seen from the perceptions, judgments, degree and volume of consumption of insurance products by citizens and businesses. Such an aspect may have a more practical and commercial significance for the insurance business, but it is illustrative in many respects - above all, on whether insurance really provides usefulness and fulfills the mission to which it is called. In this respect, the benefit and hence the place and the role of the insurance can be seen from two positions.

*First.* An objective side that is based on and links to the benefits of insurance for society as a whole i.e. public utility. It is a fact evidenced by the millennial business practice and the

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<sup>2</sup> In some publications, this basic function is considered as a constructive one, which is not a big mistake, but in the case of etymology, the concept is not precise enough.

fact that insurance develops in accordance with the public needs of time and occupies positions in ever-newer sectors of life. This has led to the emergence of some of its new features, which have become more and more evident in recent years. For example, over the last 20 to 30 years, such functions as investment, information, service and, in particular, its most up-to-date function, as a concept, technology and risk management tool in business and personal life, we believe that these, albeit more general arguments, are enough to highlight the place of insurance in today's socio-economic life.

*Second.* A subjective side that relates to the valuation, benefit, and consumption of insurance products by individual entities, i.e. the subjective utility. It varies over a wide range, which is normal for subjective phenomena. However, it should be emphasized that many factors influence this type of utility, such as awareness and perception, risk appetite, income, etc. They vary from one entity to another and therefore affect the consumption and development of insurance in a different way country. For Bulgaria, although the benefit of insurance is clear, the most important factor is the amount of disposable income. In this case, we do not exclude the underestimation or neglect of insurance as a good way to compensate and protect the financial situation of the entities.

In insurance theory and practice, the subjective aspect of the place and role of insurance in public life and in the financial sphere is assessed differently, but the most commonly used are "insurance penetration"<sup>3</sup> and "insurance density"<sup>4</sup>.

Not ignoring certain circumstances specific to the country, we believe that the main factor in this situation is the low pay of labor in the country and the resulting low disposable income and low solvency of the population. However, these magnitudes indicate that a certain impact on the level of indicators gives the degree of intensity and the quality of the insurers' work.

From the above, some conclusions can be made which are summarized in a synthesized form and emphasize the place and role of insurance in the state's financial system. First of all, it should be noted that since the earliest stages of the development of the insurance institution, monetary relations have been imposed as the basic form of formation and use of the insurance fund. As time goes on, they improve and bind the sector under consideration with other subsystems of the national economy.

By collecting and distributing huge amounts of money, insurance carries out a powerful monetary turnover that is directly or indirectly included in the total money turnover of the particular economy. However, in view of the subject, the objectives, the mission, etc., insurance retains its relative autonomy within the financial macro system.

The affiliation of the insurance to the financial system is also underlined by the fact that it is regulated by a specialized unit (management) of the single financial supervisory institution - the Financial Supervision Commission.

The place and role of insurance as an element of the financial system can also be defined in terms of the usefulness it provides to society and to individual citizens through the functions it performs. Objectively, this utility is publicly recognized, but in our country it has rather intra-corporate aspects, i.e. it is valued and realized more by business firms and is of greater importance to insurers than to individual citizens. In this respect, the low levels of the main indicators, which identify in another aspect the place and the role of the insurance in the national economy, are indicative, although the reasons are of another nature.

What has been said here is not a detailed explanation of already well-known facts and discussions, nor the "clarification" of the nature of the insurance. Reflections and analyzes are mainly aimed at identifying areas and directions, as well as the specificity and complexity of

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<sup>3</sup> The ratio of gross premium income to gross domestic product for a given period (year) in percent.

<sup>4</sup> Gross premium income per capita (in BGN) for a given period (one year).

cash movements, whereby complex and dynamic cash flows, often connected and at risk, are formed.

### **FINANCE, FINANCIAL RELATIONS AND CASH FLOWS OF THE INSURANCE COMPANY**

The cash flow risk assessment of the non-life insurance company requires, although more generally, the nature of its finances and the activities where it is generated and where the associated risks arise. The main reason for this is that this sphere, because of the specificities of insurance, is very specific, because complex multi-directional financial relations and flows are formed there, which place in a permanent metamorphosis the form, the purpose and the volumes of the money.

The organization's finances are the basis for the normal implementation of the business initiative it has undertaken. In business, money is primary, and finance - the secondary (derivative) phenomenon.

The leading role of the finances in the life cycle of business organizations is due to the fact that they cover the wide variety of monetary relationships associated with the formation, distribution and use of corporate monetary funds and assets. In their totality, they are regarded as a relatively autonomous sphere because precisely there is formed the main part of the value of the income of the economic entities, which are redistributed further in the national economy.

In the insurance business, corporate finance is assigned an even more important place and role, because in essence and content "production" in the insurance company (company) is entirely related to monetary and financial relations. Their sufficiency and stability implies the sustainability and reliability of insurance operations and of the insurer as an economic entity, depending on its normal relationship with clients.

It is these circumstances that have imposed rigorous, specialized regulatory oversight, not just traditional control over insurers and their activities.

In the specialized theory and practice, the sources and the formation of the insurer's finances are generally considered in three aspects (stages):

*Initial funding.* The organization of an insurance company (the start of the insurance business) is related to the upgrading of solid financial resources and monetary guarantees. Their sources can be their own or borrowed capital. Their size, allocation and investment are subject to specialized state supervision. Since the start of the activity, they have been regulated in the way that the insurance company constantly maintains the required solvency guaranteeing maximum protection of the interests of the insured. For this purpose, the supervising institution develops and imposes strict requirements, rules and high limits (norms) on the required minimum capital.

*Current funding.* This is the main way of forming the insurer's finances. It takes place throughout the life of the insurance company. The sources of these funds are: insurance premiums; reinsurance premiums, commissions, fees and contributions to the company's profits; investment, consulting, expert and other external services; income from sales, lending, rents; revenue from regressions; dividends, etc. In essence, current funding is most directly linked to the financial (insurance) potential of the insurance company.

Current funding is the longest and riskier stage in time, space and management. At this stage, the actual strategic and operational insurance activity is performed, expressed through a powerful and multi-directional insurance money turnover resulting from various financial and monetary relations and flows.

*Special funding.* This type of financing is used when the insurance company needs additional funds, both in the extreme (critical) and in favorable situations (eg. Increasing the share capital, expansion activity in the transformation of the company, etc.). It may be internal (by the insurance company itself) and externally (by the state, other institutions, physical

persons, legal entities, etc.). Special funding is required for a variety of reasons and involves the provision of additional capital, subsidies, grants, loans, participations and other financial resources appropriate to the case and objectives.

The financial resources for the formation of the insurance company's insurance fund are: share capital, insurance and reinsurance premiums, investment income, financial market and other income from insurance and non-insurance activities, which is not prohibited by law. In this situation, they are generally differentiated as own, borrowed and resources resulting from redistributions (from the state, related enterprises, state subsidies, subsidies, etc.). Such a clarification is necessary in view of the specific nature of the insurance business, the special treatment of financial resources of origin, destination and use, and the way in which they are supervised.

Using and managing the finances of a non-life insurance company generates multi-directional and complex financial relationships within the company itself, as well as between the company and entities outside it. In particular, financial relations are an expression of interaction through active and passive financial operations between the insurance company and all the entities to which it corresponds. Internal financial relations are related to the movement of funds between: the company's structural divisions; company and staff; operational financial turnover and reserve funds; movement to other internal units and entities.

External financial relations are even more diverse and complex. In general, however, they occur between the company and: the insured (legal and natural persons); insurers, co-insurers and reinsurers; state budget; insurance, credit and guarantee institutions; state and local institutions (eg on preventive activities and targeted funding); other directions.

With regard to cash flow risk management, financial relationships can be considered as activities as follows:

- (a) financial relations in the insurance business;
- (b) financial relations in the case of non insurance business;
- (c) financial relations in the investment activity;
- (d) financial relations in financial activity;
- (e) other financial relations

The place and role of finance and financial relations of the non-life insurance company are predetermined by the functions they perform in the formation, use and regulation of its cash and assets in value form, including cash flow optimization. The main objective is always to achieve the stability of the main insurance business and the operations ensuring a relative balance of relationships.

The financial relations of the non-life insurance company and outside of the non-life insurance company are manifested through the respective financial flows. While financial relations are actions, activities and relationships between entities, financial flows reflect their substance and direction i.e. the specific form and content of active and passive insurance operations.

For the purposes of this work, there is no need for a detailed examination of the structure and types of financial flows of the insurance organization. Therefore, to the extent necessary for further research, here we will outline only the main directions and the situations in which they are carried out, namely:

- (a) insurance and reinsurance premium income;
- (b) income (expense) from insurance and reinsurance commissions;
- (c) insurance payments (insurance and reinsurance recoveries);
- (d) financial flows in the investment activity;
- (e) financial flows in financial activity;
- (f) financial flows related to the remuneration of the work of the insurance company;
- (g) financial flows related to the budget;

(h) other financial flows

In the current non-life insurance company, financial flows are a dynamic category, regardless of the size of the company, the insurance industry, and the state of the market. Their dynamics is manifested through the insurer's cash turnover, a fact that is indicative of the relationship between the two seemingly similar but different categories - the financial and cash flows.

For the efficient functioning of an insurance company, some attributes (characteristics) of financial flows such as volume, speed, direction, etc. are important. They are largely determined by some regulatory situations but ultimately depend on the skills and quality of the corporate management, which performs their optimal movement within the organizational structure of the company and beyond.

Financial resources, flows and financial relations of the non-life insurance company form its financial potential. It is an extremely important feature and a prerequisite for the normal operation and security of the insurance operations because it is most closely related to the development of the insurance and technical risk of the company. For this reason, it is subject to a precise rating by rating companies for determining the value of the insurance company.

### **CONCLUSION**

In the specialized literature and practice the financial potential of the insurance company has been discussed many times and to a sufficient extent. Most expert opinions<sup>5</sup>, however, present it as a cumulative (accumulation) of own, attracted financial resources and indebtedness. This is correct, but it does not show the intensity of the company's financial strength (power). It is not understood how in the insurance turnover the elements of the financial potential are mobilized and generate (or consume) added value. Thus, the phenomenon under consideration is more statically represented as a state, and the added value is created when capital (or cash) is in motion, and in a rational turn. In view of this, we believe that a modern non-life insurance company should be seen as a dynamic, evolving, organic system, and its financial potential should also reflect features such as its liquidity and commercial activity (its cash-flow).

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<sup>5</sup> For details: Shcherbakov, V.A., E.V. Kostyaeva, *Insurance: a study guide*, M.: KNORUS, 2007. - 312 p.; Bases of insurance activity, the Manual, Publishing house of the Altai state university BARNAUL - 2001, with. 176.

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