



Prospects For Improving Comprehensive Insurance Of Risks Of Small Business And Private Entrepreneurship

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Abstract: *The development of microinsurance makes it possible to use the insurance mechanism to protect the economic interests of small business entities. Low payment for the insurance product ensures the availability of insurance for representatives of micro-businesses, start-up entrepreneurs. Compensation of losses incurred from the implementation of insurance risks under the microinsurance contract allows to reduce the risk of bankruptcy of small business entities.*

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Introduction

Entrepreneurial activity is carried out in an uncertain economic environment. Therefore, the term "entrepreneurial activity" is inextricably linked with the concept of "risk".

The economist R. Cantillon wrote about this concept for the first time. He considered risk to be the main distinguishing feature of entrepreneurship.

A. Smith considered an entrepreneur as an owner who took on the risk of managing. At the same time, the entrepreneurial profit is compensation to the owner for the risk.

D. Ricardo, D.S. Mill, and W. Senior defined "entrepreneurial risk" as a possible damage that may arise as a result of an economic action, or its mathematical expectation. Thus, risk is considered a quantitative expression of possible losses. This theory has been called classical. However, in it, the concept of risk does not fully reflect its essence. Therefore, the neoclassical theory was developed,

the founders of which are A. Marshall and A. Pigou. They defined risk not only as possible losses or their mathematical expectation, but also as a deviation in the amount of profit from the expected level. Unlike the classical theory, the neoclassical one does not define risk unambiguously negatively. A. Pigou identified the stimulating function of risk, which manifests itself in the motivation of enterprises in conditions of uncertainty to extract additional profit for the increased risk of decisions (risk payment).

The American economist F. Knight drew a clear line between the concepts of "uncertainty" and "risk". The peculiarity of the first one is the lack of the possibility of classifying and grouping events, since each is either unique or their number is insufficient to determine the statistical probability. Risk can be insured, and uncertainty cannot be insured.

In the future, the neoclassical theory of risk was supplemented by J.M. Keynes, who noted the presence of a psychological component in the process of making a risk management decision by an economic entity.

Currently, we can talk about the synthesis of theories and numerous additions that scientists make, adapting theoretical aspects for practical application in various types of economic activity.

Yu.S. Pinkovetskaya considers three levels of entrepreneurial risk – acceptable, critical and catastrophic, as well as methods for assessing the risk of small enterprises.

V.I. Parasolov studies the basic concepts of entrepreneurial risk, as well as its classification, forecasting methods.

R.R. Saifullina highlights the features and risk factors of small enterprises (limited resources, higher risks, unstable market position, poor management quality, etc.), and also emphasizes the need to develop a specialized approach to assessing the risks of SMEs.

The issues of risk insurance of business entities were considered in the works of M.A. Bushueva and N.N. Masyuk, who highlighted the existing problems in this industry (low-quality goods, a decrease in effective demand, "quasi-market" relations, contradictions between the insurer and the policyholder, etc.).

We will highlight the main aspects of the risky activities of small enterprises.

1. The risk of an enterprise can be defined as the mathematical expectation of a loss, loss of profit or deviation from the expected result.
2. The risks of enterprises are influenced by factors of the external and internal environment, which together make up the business environment.
3. Small enterprises are more exposed to risks than medium and large ones. This is due to the fact that their activities are less secured by their own capital and reserves. Damage to even a small part of the property can stop the activity of the enterprise. Troubleshooting costs often exceed the total budget. The same incident can be eliminated by a large company, but bankrupt a small business. Especially high risks are characteristic at the beginning of the activity.

Medium-sized businesses, in turn, are characterized by stability and a high degree of stability.

Among the many signs underlying the classification of risks of small enterprises, we will single out the most, in our opinion, important:

- ☐ by severity (permissible, critical, catastrophic);
- ☐ by type of damage (financial, non-financial);
- ☐ if possible, insurance (insured, uninsured).

Classification and identification of risks are part of an organization's risk management.

The most conservative method – risk avoidance – involves refusing to perform the action that caused the risk. It is better to use such an event in extreme cases, because the organization is deprived of the opportunity to benefit from the implementation of such an action. A classic example of risk reduction is its diversification. Creating reserves for possible losses is a form of risk taking. Risk assessment involves conducting an analysis, determining the level and its subsequent increase if there is an informed decision. Often the risk is transferred partially or completely to another organization on the basis of a contract. The most common transfer method is insurance. An entrepreneur, concluding an insurance contract, transfers to the insurer the risk of material losses that he may incur if some dangerous events with a probabilistic feature are realized.

The main part

Currently, national insurers cannot offer small businesses a quality insurance product that meets the market demand.

Microinsurance, being a tool for effective financing of small business risks, is characterized by the presence of simpler products, alternative sales channels and marketing tools that make business protection more accessible.

In traditional insurance, procedures are insufficiently standardized and require an individual approach (involvement of experts, actuarial calculations and expertise) in each individual case. This leads to an increase in the cost of the insurance policy, complicating the process of concluding a contract and receiving insurance benefits upon the occurrence of an insured event.

D.M. Corneliu, D. Dror, A. Malima, L.T. Piesse note that the definition of microinsurance does not differ much from the interpretation of classical insurance. Microinsurance is carried out in accordance with generally accepted practice, is based on the same principles, has the same fundamental parameters and functions as traditional insurance. However, it has its own distinctive features. There are three main approaches to understanding "micro" in microinsurance: depending on the target audience, product and processes.

The first approach characterizes microinsurance through the financial situation of consumers. Buyers of microinsurance services are individuals with low and unstable income or employed in the

informal sector of the economy, immigrants, start-up entrepreneurs with a bad credit history, residents of small towns and rural areas, micro and small enterprises, etc.

According to the second approach, microinsurance is determined by less insurance coverage and lower insurance premiums. As a rule, the term of the microinsurance contract is shorter, payments are irregular. For example, India became the first country to clearly define microinsurance products in its regulatory framework using this approach (insurance products with insurance benefits).

A microinsurance product should be simple, and also have the right balance of insurance premium and insurance coverage, which, in turn, may be complete or contain restrictions. With full insurance coverage, all damage is reimbursed. The introduction of various restrictions complicates the process of settling losses. At the same time, the use of deductibles and other restrictions leads to a reduction in the insurance rate. As a rule, insurance coverage compensates only part of the losses from the occurrence of a risky event. But even an insurance payment covering part of the losses contributes to the improvement of the borrower's financial condition and increases his ability to repay his obligations and cope with unforeseen circumstances.

A microinsurance product should not require special training and knowledge for its understanding by the client, complex actions for its purchase, confirmation of losses, receipt of payment. It is characterized by small insurance amounts and premiums, standardized insurance rules.

The third approach is based on the identification of features in the processes of development, implementation and distribution of microinsurance products and implies the application of the principles of subsidiarity, when insured entities to a certain extent participate in the management of microinsurance, independently determine the rules for the payment of contributions and the implementation of payments. An example is the mutual insurance system.

Despite the difference in approaches to the definition of microinsurance, some main features can be identified:

- application of the principles of risk pooling (as in the case of conventional insurance);
- targeting the low-income segment, the informal sector;
- independence from the risk class (life, health, harvest, livestock, property, etc.).

According to the Swiss Re Institute, an organization engaged in research in the field of insurance and part of one of the largest Swiss Re Group insurance companies, microinsurance can be defined through its attributive features.

1. Principles of insurance, including the equivalence of payment of insurance premiums by the policyholder (or on behalf of the policyholder by the government, development institutions) in exchange for guarantees of compensation for losses in the implementation of insurance risk.
2. Simplicity. An "easy" structure in terms of product design, underwriting, premium collection, insurance indemnity payments, no actuarial calculations.
3. Flexibility. Microinsurance products must be adapted and consumer-oriented. For example, the collection of regular insurance premiums may adjust to the irregular income of policyholders.

4. Availability. Due to the focus on the segment of consumers with low or unstable income, the payment for the risk transferred to the insurer – the insurance premium – determines the availability of insurance protection for certain target groups of buyers of this protection – policyholders.

A low fee for an insurance contract expands the target group of policyholders receiving insurance coverage. Subsidies from the Government and development institutions are used.

It should be noted that microinsurance also has specific features that distinguish it from traditional insurance:

1. The principle of load minimization. To maintain a sufficiently low price, it is necessary to take measures to reduce administrative and economic expenses and remuneration of agents. Microfinance organizations are one of the low-cost distribution channels.

2. The choice of insurance risk according to the principle of the most relevant in terms of ignoring less important risks. Due to the fact that small enterprises, as a rule, operate in conditions of limited financial resources, and reserve funds are often absent, the implementation of a risky event for them entails more severe consequences than for large business entities. Therefore, an urgent task is to choose for insurance those risks that can lead to critical – loss of income, or even catastrophic – loss of capital, consequences.

3. The principle of mutual trust of policyholders and insurers. The local nature of the activities of mutual insurance companies, the possibility of control by members of the company of management decisions made by management, allows to overcome the distrust of entrepreneurs to insurance as an effective risk management mechanism.

4. The principle of innovation. Microinsurance is a new product on the national insurance market. The innovation of insurance products arises at various stages of the development of an insurance product, its sale and the implementation of insurance protection of the property interests of policyholders.

The key issue of the formation of the microinsurance segment of the national insurance market remains the choice of channels for the distribution of microinsurance products and the business model. The main market participants are sellers and consumers of microinsurance services, the regulator, intermediaries. As already noted, buyers of microinsurance services can be individuals and representatives of micro and small businesses. Sellers of services are both special microinsurance companies, mutual insurance companies, and large insurance companies. The optimal channel for the distribution of microinsurance products is also microfinance institutions that have mastered and worked out technologies for promoting financial products.

Conclusions

Financial convergence, the prerequisites of which are the client, technological, product and marketing community of microfinance market participants, is a factor in the development of insurance of SMP risks, contributes to reducing the unit costs of creating and selling a microinsurance product, settlement of insurance losses.

The development of modern digital technologies will make it possible to organize new distribution channels for microinsurance products, promote competition, and reduce information asymmetry in the insurance market. Digital technologies will expand entrepreneurs' access to insurance by improving the infrastructure of digital services, simplifying the procedure for identifying and assessing risks, reducing transaction costs associated with the purchase of insurance coverage and settlement of losses.

Further research is expected to be carried out in the field of building models of complex insurance of risks of small businesses in the context of digital transformation of the financial market, evaluating new digital tools and opportunities that help optimize the development, underwriting, distribution of microinsurance products, generalizing experience with digital technologies of insurance loss settlement.

Conclusion

Modern digital technologies make it possible to form new distribution channels for microinsurance products. Digital platforms make it possible to organize the process of online sales of microinsurance policies for customers whose access is difficult for reasons of territorial remoteness, low cost of insurance products, etc. The microinsurance products themselves are becoming the most adaptive to the requirements that arise from the developers of electronic systems, and the presence of products from different companies on the electronic platform will not only determine a more competitive product, but also compare the cost of an insurance contract, assess the quality of loss settlement based on the feedback of other customers.

The development of modern digital technologies will allow remote identification of the insurance company's client, which will significantly reduce the costs of insurers for collecting and analyzing personal data of policyholders. Insurance claims processing processes can also be simplified and optimized with the help of digital technologies. Automatic notification of losses, real-time claims processing, predictable damage assessment, self-service capabilities and electronic payments make it possible to improve the efficiency of claims management.

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