
THE ROLE OF LIFE INSURANCE IN STRENGTHENING FAMILY BUDGETS

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Abstract

Life insurance is an additional measure of provision and long-term savings for citizens and their families in connection with the occurrence of events in their lives. These insurances complement social insurance and social assistance in terms of meeting the requirements of the population in case of loss of work capacity, old age or in case of death.

With the acceleration of life, with the advent of advanced technologies, modernization of entrepreneurial processes, the creation of urban agglomeration, increasing the number of transport parks involving increasing speed and use of atomic energy, the problem of protection of life, health and personal integrity has worsened. However, the advances of science and technology in the modern era have not made the dangers / risks to which human society is subject disappear. In this regard, there is a pressing need for the establishment and development of the national life insurance market. This is demonstrated by the fact that the development of the insurance market, both in countries with advanced market economy and in those such as the Republic of Moldova, requires a detailed analysis of all influencing factors. In the same vein, we note that the life insurance market is an essential component for investment and economic development, with multiple beneficial effects on the national economy.

The economic side is meant to satisfy the profitability of the shareholders by taking over the risks of the insured, against premiums paid in installments. Socially, the insurance participates in maintaining the social balance; increasing the level of psychological training of individuals; the moral recovery of the damaged and the raising of the living standard of the population. Beyond the main roles, the insurance fulfills a series of functions, among which: participation in the constitution of the gross domestic product; making investments and investments on the stock market; including the participation as a provider of capital surpluses held, not least the reduction of pressure on social security budgets and the fight against mortality and morbidity of citizens.

In this context, we can note that life insurance is an effective solution to financial problems (financial needs for funerals, moral recovery after death

and providing financial resources to legal heirs) caused by death and accident. With social development, insurance acquires a new form of life, fulfilling its role through the following functions: compensation, prevention, financial and distribution. At the same time, life insurance participates in increasing individual incomes and consolidating family budgets, orienting human activity towards emotional, psychological and financial stability.

Of course, the physical integrity, work capacity of citizens are affected by unfavorable political, economic and social factors, which lead to the need to contract a life insurance policy, which is why research and finding relevant solutions to this sector is a significant process. major. The degree of massive emigration; lack of culture and financial education; poorly developed infrastructure; low level service provision; fiscal and legislative impediments are among the few obstacles in the development of the life insurance sector and the substantiation of a rich life in the Republic of Moldova.

In the conditions of a politically-legislative, economic-financial unstable situation, the continuous development of the life insurance market would imply a significant change on the structure of the national economy, participating in the strategic macroeconomic growth and contributing to raising the living standard of the population.

At the same time, the issue of demographic aging has a substantial impact on the direction of the life insurance sector, as increasing the number of pensioners and reducing the number of able-bodied people should urge citizens to take concrete action to ensure well-being at retirement age and beyond.

Existing studies, carried out up to the present stage, have shown that people's lives before and after concluding a life insurance contract are very different. This analysis shows that people take out insurance as a result of unpredictable risks: death; accident; boli; surgery.

People's lives are much more orderly and balanced after taking possession of an insurance policy, being motivated to reach the maturity of the contract to benefit from the money resources collected (benefits are shown in Figure 1.1.), Being aware that even in case of no accident, they can benefit from the money collected over the years.

The benefits of life insurance

Figura 1.1



Sursa: Elaborată de autor în baza ANGHELACHE, C.; VEREJAN, O. Analiza actuarială în asigurări. București: Editura Economică. 2006, 23 p.¹

In figure 1.1. the benefits of life insurance are presented both individually (financial protection, moral support, etc.) and at national level (reducing pressure on social security budgets, fighting mortality, etc.). At the beginning of the development of the life insurance sector, it offered compensation and support only in cases of death of the insured, being a way to guarantee the family of the deceased a better financial situation. But over time, insurance companies have expanded their range of products, including in the risk category even the survival of the insured, which has allowed him to enjoy the benefits shown in Figure 1.1. As noted in the „Sputnik Matinal” show: „The compulsory insurance policy does not cover everything. Life insurance helps you get more money to regain your health. Insurance means protection and trust in tomorrow. Life and health must be protected”².

That is why it is important to take out life insurance, in order to have the security of tomorrow, of a prosperous future, in full security and harmony. Most of the time, life insurance is the most efficient method of accumulating money in advance. As the accumulation process is more stable, being regulated by the provisions of the contract that limit the possibilities of free withdrawal of deposits, practiced in savings banks. From another point of view, the accumulation is also accompanied by a

1. ANGHELACHE, C.; VEREJAN, O. Analiza actuarială în asigurări. București: Editura Economică. 2006, 23 p

2. https://sputnik.md/radio_podcasturi/20190305/25073823/Specialist-Asigurarea-de-via-este-o-msur-facultativ-dar-cu-adevrat-necesar.html

protection of the family by insurance in case of unfavorable phenomena for the insured¹.

Life insurance is a way of financial protection, guarantee and maintenance of a family's standard of living. It is an integral part of the family's financial plan, along with other investment plans.

Life insurance creates the guarantee of the availability of a necessary liquidity fund in case of an unexpected situation, without affecting the other forms of saving².

Under these conditions, the main role of life insurance is to provide financial protection to the insured's family, being by his side not only in difficult times, but also in the beautiful ones.

The insurance sector is an effective indicator for assessing the depth and degree of involvement in the process of promoting economic platforms, with high potential in countries with economies in transition, such as the Republic of Moldova, which requires maximum use of all possibilities and opportunities. In order to reach an advanced level of development, it is necessary to systematically calculate statistical indicators in order to form economic and social levers, leading to the expansion of the insurance market and national prosperity. Under these conditions, this sector can contribute either to stimulating or slowing down economic growth. In this regard, it is relevant to suggest the contribution of the insurance sector to the phenomenon of economic growth, which implies the existence of long-term consequences. As no concrete interdependence of the insurance sector and economic growth has been established so far, a broader study of this correlation is needed.

Thus, the life insurance which includes in itself both the life insurance and the accident insurance, representing a combined insurance, implies the manifestation of the efficiency criterion by collecting by the insured or by the beneficiary of the insurance the sum insured in a maximum amount, in case of occurrence of the insured risk or in case of survival after the expiration of the term of validity of the contract, spending, for this purpose, a minimum amount of money³.

Based on these beliefs, we can specify that the economic growth rate is characterized by the contribution of the insurance market within a country. In the following years, Troy Beck and William J. Webb (2003), in their work "Economic, demographic, and institutional determinants of life

1. FOTESCU, Stanislav. Eficiența asigurărilor în Republica Moldova. Chișinău: Centrul Editorial-Poligrafic ASEM, 2001, p.78.

2. IONESCU, Roxana. Asigurări și Reasigurări. București: Editura Universitară, 2016, 5 p.

3. FOTESCU, Stanislav. Eficiența asigurărilor în Republica Moldova. Chișinău: Centrul Editorial-Poligrafic ASEM, 2001, 98 p

insurance consumption across countries” illustrated how life insurers can contribute to economic growth due to various aspects, such as : life insurance can increase productivity by reducing demand for liquidity and more efficient use of available resources or insurers have the potential to stimulate return on investment, reducing the costs of financing risks. The factors that influence the development of the insurance sector differ depending on each state. Economist Sen (2007) estimated that in Asian countries there is a certain impact given by GDP, gross domestic economy (GDP), urbanization, literacy of the population, life expectancy at birth, mortality rate, inflation, real rate of interest and the price of insurance on the application for life insurance. Authors Ernst Otto Fischer (1973) and John Y. Campbell (1980) have shown that insurance is positively correlated with income. This influence is explained in terms of two components.

The first, the increase of incomes determines the increase of the accessibility of insurances by the population, because with the increase of the cash availabilities, the people tend to orient towards other products, which to satisfy not only their physiological needs, but also the security ones. *And secondly*, taking out a life insurance policy leads to an increase in individual income and ultimately to an increase in the well-being of the population. A study by Peter R. Haiss and Kjell Sümegi looked at the impact of insurance investment and the influence of premiums on GDP growth in Europe for 29 countries, finding a positive impact of life insurance on GDP growth, especially in developing countries, such as the Republic of Moldova¹.

The extensive number of specialized studies in the literature developed in order to end the debates on the influence of insurance in the progress of economic growth have decided the positive contribution of the insurance sector at the macroeconomic level (Mirela Cristea (2014)). Next we present in figure 1.2. the advantages of life insurance for the Republic of Moldova.

1. HAISS, Peter R.; SÜMEGI, Kjell. *The Relationship of Insurance and Economic Growth - A Theoretical and Empirical Analysis*. În: *Emprica, Journal of Applied Economics and Economic Policy*. 2007. [citat 2021-03-02]. Disponibil: <<https://ssrn.com/abstract=968243>>.

The benefits of life insurance for the economy

Figura 1.2



Sursa: elaborată de autor în baza FOTESCU, Stanislav. Eficiența asigurărilor în Republica Moldova. Chișinău: Centrul Editorial-Poligrafic ASEM. 2001. p.68.

A study conducted as part of a financial education campaign organized by APPA and supported by Metropolitan Life, called „The Importance and Main Benefits of Life Insurance and Private Pensions” shows that in more advanced European economies, life insurance plays a role. important role in alleviating the risk of poverty by ensuring the financial security of individuals and families in the face of unexpected events, such as death and disability. Life insurance also acts as a saving tool for the population, channeling significant volumes of long-term funds to financial markets and other sectors in need of investment and thus contributing to growth and economic stability as a whole. This study also suggests that the international life insurance industry directs a large volume of population savings to financial markets and acts as a direct and indirect provider of long-term stable financing for various sectors of the economy. Life insurance has many advantages at the international level, which are among the benefits offered at the national level, with a significant role from an economic, social and financial point of view.

First of all, insurance contributes to macroeconomic growth at national level, providing solutions to prevent possible risks, compensating for damage that may occur and achieving a permanent interconnection of general and personal interests.

Insurance catalyzes the process of increasing people’s incomes, which ultimately motivates economic development by motivating them to invest in advantageous economic sectors.

At the same time, they participate in the creation of additional means of provision and saving for the population.

Secondly, life insurance offers the insured and their families the possibility to collect the insured amounts or the indemnity in case of insured events - accidents, personal injury, reaching a specified age in the contract, death or survival.

Third, insurance plays an educational role by participating in informing and cultivating good methods of protecting personal health and integrity.

The insured are motivated to take the necessary measures to prevent the insured risk and, if necessary, to contribute to ameliorating the negative effects of the damages caused.

Fourth, the financial resources collected and coordinated for the formation of funds

Insurance and premium reserves are used for investment activities, as lending resources to various sectors of the national economy, contributing to the growth of gross domestic product. At the same time, a certain part of these resources being taken from the state budget.

In addition to the material side related to the financial compensation for damages, the insurance sector also includes the moral side, which manifests itself by creating a state of peace and security that allows policyholders to focus on their daily work and to carry out their activities. a free manner.

The importance of insurance also results from their impact on economic and social life, which manifests itself and spreads in the following main directions: they are a creative branch of added value; creates jobs; provides loan capital on the financial market; reduce economic uncertainties; make possible the resumption and normal continuation of economic and social activity¹.

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1. BISTRICEANU D., Gheorghe. *Sistemul asigurărilor din România*. București: Editura Economică, 2002. p. 65.