

SPECIFIC FEATURES OF FOREIGN TRADE OPERATIONS' INSURANCE IN MODERN CONDITIONS

Yura Tararyshkin

Рассмотрены теоретические и практические аспекты страхования внешнеторговых операций в современных условиях.

The article deals with theoretical and practical aspects of foreign trade operations' insurance in modern conditions.

Ключевые слова: внешнеторговая операция; страховые риски; страховой рынок; страхование имущественных рисков; страхование финансовых рисков; страхование ответственности; страхование жизни и здоровья.

Keywords: foreign trade operation; insurance risks; insurance market; property risks insurance; financial risks insurance; liability insurance; life and health insurance.

Foreign economic activity is an essential part of general economic activity of companies and organizations of different types of ownership. The aim of foreign economic activity consists in successful implementation of foreign trade operations. As a result and indicators of completed foreign trade deal's efficiency acts currency earnings and the level of foreign trade turnover.

Thus the balance of foreign trade of Republic of Belarus by the end of 2015 was approximately 57 billion U.S. dollars: 27 billion U.S. dollars – export, 30 billion dollars – import. Wherein, the level of GDP in Republic of Belarus by the end of 2015 was about 45 billion U.S. dollars. It is obvious, that the foreign trade is an important sphere of national economic activity, where significant financial, production and workforce resources are concentrated.

Any company or organization of different types of ownership, while operating its foreign economic activity, is a subject to certain risks, that may occur and lead to financial or material losses, that is highly undesirable for the companies and organizations itself, and for the nation in general. Therefore it is quite rightly that today the sphere of foreign economic activity is a subject to increased attention of the government, and a substantial direction of financial relationship between companies and organizations and insurance companies. Insurance becomes an essential element of foreign trade operations' development and is a means of responsibility distribution for the consequences of any negative event that is an object of insurance.

The roots of insurance come from trade. At all times trade was an activity, connected with concentration of huge sums of financial resources. At the same time – it is an activity, that is a subject to certain risks, such as risk of load loss, risk of nonpayment for the consignment and etc.). Being, generally, a very profitable business and an essential part of economic relations in society, trade attracted interest of persons, who were ready to share the responsibility for possible negative results from any risks, taking a fee for it, incommensurable to the sum of potential participation in covering the results of the risk.

Thus, insurance and trade were mutually interested in each other. Traders received an opportunity to minimize their losses for a certain payment, in case if any risk occurs, and insurers made money on the will of traders somehow to insure themselves against financial losses and on their readiness to pay for such kind of service.

First forms of insurance were practiced by Chinese and Babylonian traders as long ago as the 3rd and 2nd millennia BC when shipping the goods by sea. Chinese merchants travelling treacherous river rapids redistributed their goods being shipped by big vessels across many small vessels to limit the loss due to any single vessel's capsizing. The Babylonians developed a system which was practiced by early Mediterranean sailing merchants, when a merchant receiving a loan to fund his shipment, paid the lender an additional sum in exchange for the lender's guarantee to cancel the loan if the shipment would be stolen or lost at sea. In the 1st millennium BC, The Greeks created a form of group insurance, when groups of merchants shared the whole sum of insurance payment between each other and paid it to insure their goods being shipped together. The collected premiums were used to reimburse the losses of any merchant whose goods were jettisoned during transport, whether to storm or sinkage [4].

Gradually insurance had been developing and began to cover more spheres of society, and consequently in the 17–18 centuries took its modern form. Today insurance is a separate large sphere of financial activity, a specific kind of economic relations, the main aim of which is to protect material and financial interests of entities at all levels.

The determination of insurance used in The Republic of Belarus is given in the Agreement about Eurasian economic union, dated 29 may 2014 and in national legislation [1]. Due to it, insurance – is a cooperation aimed at material interests' protection of citizens of the Republic of Belarus, foreign citizens, stateless persons, organizations, including foreign and international, as well as the interests of the Republic of Belarus and its administrative-territorial units, foreign states, if certain events occur (insurance cases) at the expense of insurance reserves, that are

accumulated by insurers from the paid insurance fees (insurance premiums).

The main parties of relationship in insurance are the policyholder and the insurer. Due to the legislation, the policyholders are considered the citizens of the Republic of Belarus, foreign citizens, stateless persons, organizations, including foreign and international, as well as The Republic of Belarus and its administrative-territorial units, foreign states, that bought the insurers' insurance policy or determined as the insured due to the legislation of the Republic of Belarus. In turns, insurers are considered commercial organizations, launched for the implementation of insurance activity and have special permits (licenses) for carrying out insurance activities.

Today the insurance market of the Republic of Belarus is represented by 24 insurance companies [5]. Insurance companies underwrite the following risks (by types of insurance): property risks insurance, financial risks insurance, liability insurance, life and health insurance.

Insurance related to foreign trade operations includes three types of risks' insurance: property risks insurance, financial risks insurance and liability insurance. In turns each type of risks' insurance consists of variety of insurance subtypes that are considered to be the objects of insurance. The types of risks' insurance and appropriate subtypes of insurance are presented in figure 1.

Property risks insurance	Financial risks insurance	Liability insurance	Life and health insurance
<ul style="list-style-type: none"> • home insurance • cargo insurance • fire and natural disasters insurance • builder's risk insurance • auto insurance • business interruption insurance • legal rights insurance 	<ul style="list-style-type: none"> • contract liabilities insurance • trade credit insurance • rent liabilities insurance • leasing liabilities insurance • insurance of service provision liabilities 	<ul style="list-style-type: none"> • driver's liability insurance • professional liability insurance • public liability insurance • producer's liability insurance 	<ul style="list-style-type: none"> • life, health insurance • cumulative pension insurance • casualty insurance • medical insurance • traveler's insurance

Fig. 1. Types of risks' insurance and appropriate subtypes of insurance

The policyholder, the insurer and the insurance objects are the key elements of insurance as an activity. Object of insurance are the risks of a different nature. The policyholders – are the party that is intended to assure themselves against negative results of such risks. And the insurers are the party that is ready to share the responsibility for the risks that may be subject to policyholder.

What are now these key elements in foreign trade operations' insurance, and on what basis the cooperation between them? In the Republic of Belarus foreign trade operations' insurance is regulated by the Decree of the President of the Republic of Belarus, dated 25 august 2006, N 530 "On insurance activity" and N 534 "On promotion of export goods (works, services) development" [2; 3].

Due to the legislation the policyholders of foreign trade risks are legal entities and individual entrepreneurs engaged in foreign economic activities, in particular exporting the goods (works, services), including those under leasing contracts or investments in foreign countries, as well as serving them resident banks. In turn, the insurers are insurance companies that are registered and carry out their activities in the territory of the Republic of Belarus, which

provide services on insurance of risks that arise in the implementation of foreign economic activity.

A key role in the insurance market of the Republic of Belarus in insuring the risks related to foreign economic activities, assigned to the insurance company "Beleximgarant", which is a state-owned insurance organization established by the Government of the Republic of Belarus, and operates as an insurance company since 2001. "Beleximgarant" has the exclusive right to carry out insurance of export risks [3]. With the establishment of the national export promotion system in the Republic of Belarus, innovative financial instruments used in international trade, for the realization of export potential and providing protection against possible risks have become available to Belarusian companies.

It should be noted that in general insurance of foreign trade operations is a complex concept, including plenty of insurance products from various insurance areas, in which the relevant types of risks are underwritten: voluntary insurance; compulsory insurance and insurance of export risks.

Voluntary and compulsory insurance of risks related to the foreign trade operations can be carried out by any insurance company and is not a subject

Voluntary insurance area	Compulsory insurance area	Export risks insurance area
<ul style="list-style-type: none"> • cargo insurance • carrier's liability insurance • forwarder's liability insurance • auto insurance • sea cargo insurance • vessel's insurance • guarantee and issuing carnet A.T.A. association's risks insurance • carnet TIR insurance • customs warehouses owner's liability insurance • customs agents' and representatives' liability insurance 	<ul style="list-style-type: none"> • auto owner's liability insurance • dangerous cargo carrier's liability insurance 	<ul style="list-style-type: none"> • short-, medium- and longterm export contracts insurance • insurance of exporter's losses, related to export contract implementation • insurance of Republic of Belarus resident's investments in foreign countries • insurance of export leasing risks • insurance of exporter's loan nonpayment risk • insurance of foreign buyer's export credit nonpayment risk • insurance of resident's export investment loan nonpayment risk • insurance of bank guarantees and other services • insurance of export factoring

Fig. 2. Distribution of insurance products into areas of insurance

to exclusive interests of the state, while the right to insure export risks belongs to the state.

Each area of insurance includes a specific set of types of risks and the corresponding insurance products. On the basis of established in the Republic of Belarus insurance practice, the list of insurance products offered by insurance companies can be divided into areas that are presented in figure 2.

Export risks insurance plays a key role in the insurance of foreign trade operations, and in comparison with voluntary and compulsory insurance, has some specific characteristics [3]:

1) the obligatory provision is the establishment of a time-lag and the insurer's own participation in covering the potential losses, which is not applied in voluntary insurance contracts;

2) the basic insurance rates for export risks insurance are a subject of the insurer's establishment in coordination with the Ministry of Finance taking into account the level of political risk of the home country of the insured contractor;

3) differentiation of countries in terms of political risk should be made by the insurer in coordination with the Ministry of Foreign Affairs, taking into account

information provided by the Organization for Economic Cooperation and Development and the International Union of Credit and Investment Insurers;

4) the amount of liability of the insurer under the current export risks insurance contracts at any given date may not exceed the maximum amount of obligations under contracts of such risks' insurance;

5) export risks insurance contract signing is a subject to the Government of the Republic of Belarus decision, if the responsibility for it may exceed 10 % of the insurer's own capital;

6) insurance compensation under a contract of export risks insurance within 10 % of the insurer's own capital should be paid by the insurer at the expense of insurance reserves and equity capital;

7) the insurer is annually granted a budget loan for the payment of insurance claims, if necessary, for export risks insurance contracts, usually at the level of 20 % of the maximum amount of obligations under export risks insurance contracts.

According to the results of financial activity in 2015 the total amount of voluntary insurance in the whole insurance market of the Republic of Belarus, in the property and liability insurance, amounted to

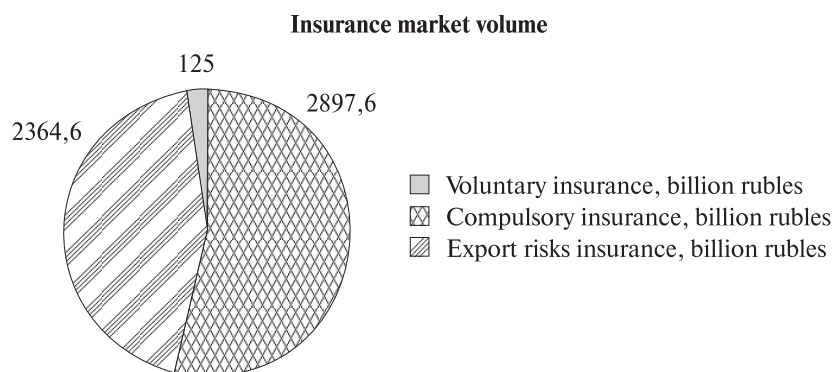


Fig. 3. Insurance market volume according to insurance areas

2897,6 billion rubles, compulsory insurance, in the property and liability insurance – 2364,6 billion rubles. The volume of export risks insurance amounted to about 125 billion rubles (fig. 3). In turn, the level of insurance payments in the total amount of insurance premiums amounted to about 57 % [5; 6].

It is obvious, that the export risks insurance covers a small share in comparison with other areas of insurance, that indicates a low development of this insurance sector. In addition, the current level of insurance payments in the total amount of insurance premiums (57 %) is an indication of a slight involvement of insurance companies to cover the losses arising from the risks and stands as one of the limiting factors of development of the insurance market as a whole.

In terms of export orientation of the economy of the Republic of Belarus it is necessary to:

- 1) increase the volume of export risks insurance, as a key element of foreign trade operations insurance;
- 2) increase the level of participation of insurance companies in the coverage of risks arising in the implementation of foreign trade operations, thus increase the attractiveness of this type of insurance products.

Thus, the following features of foreign trade operations insurance in modern conditions can be highlighted:

1) insurance of risks arising during the implementation of the foreign economic activity, is an important and perspective direction of financial relations between economic entities of different levels and insurance companies;

2) insurance of foreign trade operations should be considered as a set of insurance areas in which the appropriate types of risks are underwritten;

3) today the legal framework of insurance regulation is established and a modern export support mechanism is developed in the Republic of Belarus, in particular:

- relevant insurance services in the field of export risks insurance are developed and provided;
- the procedure of granting and usage of budget loans for the payment of insurance claims for export risks insurance contracts is provided and defined;
- the mechanism for compensation of banks' providing export credits losses, as well as banks and non-bank financial institutions of the Republic of Belarus, carrying accounts receivable financing (factoring) in the implementation of export contracts is provided;
- the exclusive right to underwrite export risks is legislatively a state privilege and can be carried out on behalf of state only by the insurance company "Beleximgarant".

References

1. Agreement about Eurasian economic union // National Register of Legal Acts of the Republic of Belarus. 2016 (in Russ.).
2. On insurance activity: Decree of the President of the Republic of Belarus N 530 of 25.08.2006 // National Register of Legal Acts of the Republic of Belarus. 2016 (in Russ.).
3. On promotion of export goods, works, services development: Decree of the President of the Republic of Belarus N 534 of 25.08.2006 // National Register of Legal Acts of the Republic of Belarus. 2016 (in Russ.).
4. Insurance // The Free Encyclopedia Wikipedia. 2016. Available at: <https://en.wikipedia.org/wiki/Insurance>.
5. Website of Ministry of Finance of the Republic of Belarus. Available at: <http://www.minfin.gov.by/>.
6. Website of insurance company Beleximgarant. Available at: <http://www.eximgarant.by/>.

The article was received for publication on 02.05.2016.