

THE IMPORTANCE AND FEATURES OF FINANCIAL RISK INSURANCE

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Abstract: Market financial risk insurance is the process of protecting financial assets or liabilities from potential losses associated with various risks in the financial markets. These risks may include stock price fluctuations, currency fluctuations, interest rate changes, credit risks, and others.

Financial risk insurance is an important area for both financial institutions and corporations and individuals. It helps mitigate potential losses associated with various financial transactions and investments. The process of protecting against losses or unexpected events may affect the financial position of an individual, company, or organization.

Organizations and investors may resort to financial risk insurance to reduce potential losses and ensure a more stable financial position. Insurance can also help manage uncertainty and increase confidence in financial decision-making. Financial risks can come in many forms and are dependent on many factors such as market conditions, economic changes, political events, and others.

There are many financial risk insurance products available in the market, including financial derivatives, options, futures, swaps, and other instruments. Companies can also use various risk management strategies, including portfolio diversification, hedging, and structuring financial transactions.

Overall, financial risk insurance plays an important role in the modern economy, helping companies and investors protect their financial interests and increase the stability of their investment portfolios. However, it is important to remember that insurance does not eliminate risks, but only helps manage them more effectively.

Keywords: financial risks insurance, risk, insurance market, business

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Financial risk insurance is an important area for financial institutions, corporations, and individuals alike. It helps mitigate potential losses associated with various financial transactions and investments.

Financial risk insurance is the process of protecting against losses or unexpected events that may impact the financial situation of an individual, company, or organization. Key aspects of financial risk insurance include (Rusu, 2023):

1. *Risk Identification:* This is the first step in the financial risk insurance process. Organizations and individuals analyze their financial situation to identify potential threats and risks that could impact their income, assets, or liabilities.

2. *Risk Assessment:* Once risks are identified, they are assessed. This assessment involves determining the likelihood of a threat occurring and the amount of loss that could occur if the risk materializes.

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3. *Insurance Selection*: Based on the risk assessment and insurance needs, the most appropriate types of insurance are selected. This may include life insurance, health insurance, property insurance, liability insurance, and other types.

4. *Insurance Policy Preparation*: After selecting suitable types of insurance, insurance policies are prepared, defining the terms and conditions, premium amount, and other important details.

5. *Insurance Claims Management*: In the event of an insured event, the insurance company makes payments under the insurance policies in accordance with the terms of the contract.

6. *Monitoring and Analysis*: After signing insurance contracts and initiating insurance, it is important to monitor financial risks and analyze the effectiveness of the selected insurance strategies. If necessary, adjustments can be made to insurance policies or other types of insurance can be selected.

Overall, financial risk insurance plays an important role in providing financial protection and peace of mind for both individuals and businesses, helping them cope with potential threats and unexpected expenses.

Financial risk insurance is the process of protecting financial assets or liabilities from potential losses associated with various risks in the financial markets. These risks can include stock price fluctuations, currency fluctuations, interest rate changes, credit risks, and others. Organizations and investors may seek financial risk insurance to reduce potential losses and ensure a more stable financial position. Insurance can also help manage uncertainty and increase confidence in financial decision-making (Popescu, 2022).

Financial risks can take many forms and depend on a variety of factors, such as market conditions, economic changes, political events, and others. The main types of financial risks include:

1. *Market risk*: This type of risk relates to losses that may arise due to changes in the prices of financial instruments, such as stocks, bonds, commodities, and currencies. This includes:

- *Interest rate risk*: Associated with changes in interest rates.
- *Exchange rate risk*: Associated with changes in exchange rates.
- *Commodity price risk*: Associated with changes in the prices of raw materials or commodities.

2. *Credit risk*: This type of risk arises when a borrower is unable to meet its financial obligations to a lender.

3. *Liquidity Risk*: This is the risk of losses arising from the inability to quickly convert assets into cash without loss.

4. *Operational Risk*: This risk relates to losses arising from inefficiencies or failures in operational processes, technological failures, human errors, and other administrative or systemic malfunctions.

5. *Political and Country Risk*: This relates to potential losses due to changes in the political environment, legislation, or geopolitical events.

6. *Reputation Risk*: This is the risk of loss of trust from customers, investors, or the public due to negative events, public scandals, or unfair practices.

7. *Systemic Risk*: This risk relates to potential losses that may arise due to instability of the entire financial system, for example, in the event of financial crises or major systemic failures.

8. *Legal and regulatory risk*: This is the risk associated with potential changes in legal and regulatory standards that may affect a company's operations or investments.

Companies and investors must consider these various types of risks and develop risk management strategies to minimize their impact on their operations or investments.

A variety of financial risk insurance products are available on the market, including financial derivatives, options, futures, swaps, and other instruments. Companies can also employ various

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risk management strategies, including portfolio diversification, hedging, and structuring financial transactions.

Table 1. Types of Financial Risk Insurance

Currently, the global insurance market is home to many insurance companies offering a wide range of voluntary insurance options for various types of financial risks. These include:	Loan default insurance (insured by the bank)
	Borrower liability insurance for loan default (insured by the borrower)
	Late interest insurance
	Consumer loan insurance (insured by an individual)
	Commercial loan insurance (bill insurance)
	Deposit insurance (insured by the bank or depositor)

Source: (Rusu, 2023)

Financial risk insurance plays a vital role in the modern economy, helping companies and investors protect their financial interests and increase the stability of their investment portfolios. However, it's important to remember that insurance doesn't eliminate risks completely, but rather helps manage them more effectively.

Key aspects of financial risk insurance (Cojocaru, 2023):

1. Life and health insurance: Life and health insurance policies are designed to protect people's financial interests in the event of an accident, illness, or death.
2. Business insurance: This includes various types of insurance, such as profit insurance, debt default insurance, and professional liability insurance.
3. Investment insurance: Some investors and companies turn to insurance to protect their investments from potential financial losses.
4. Credit risk insurance: Companies can insure themselves against customer defaults or contractual defaults.
5. Commodity and financial instrument price insurance: This is an important tool for companies engaged in trading or investing that want to protect themselves from potential losses due to market price changes.

Today, with advances in technology, insurance companies are also beginning to utilize data analytics, machine learning, and other modern methods to more accurately analyze risks and develop customized insurance products for specific customer needs. There is also growing interest in insuring against cyber risks associated with data breaches and cyberattacks.

Business insurance is the process of protecting a business from potential financial losses associated with various risks, such as property damage, third-party liability, business interruption, and other potential threats. [4]

Types of insurance commonly used in businesses:

1. Property Insurance: Protects a business from loss or damage to property, such as buildings, equipment, inventory, etc., caused by fire, theft, natural disasters, and other events.
2. Third-Party Liability: Covers legal costs and compensation to third parties if a business is found liable for damage or injury to others.
3. Business Interruption Insurance: Provides compensation for lost income that may arise due to the temporary cessation of business operations due to natural disasters, fires, or other events.
4. Professional Liability Insurance: Protects businesses against losses arising from errors, omissions, or negligence in the provision of professional services.
5. Transportation and Cargo Insurance: Designed to protect vehicles and transported goods from various risks, such as accidents, theft, or damage.
6. Cybersecurity Insurance: Provides protection against threats associated with cyberattacks, including hacks, data theft, and other cyberthreats.
7. Employee Health and Life Insurance: Designed to provide medical care and compensation to employees in the event of illness, injury, or death.

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The choice of appropriate types of insurance depends on the specific business, its characteristics, risks, and needs. Before purchasing insurance policies, it is recommended to consult with a professional insurance agent or broker to determine the best insurance options for your business.

Investment insurance is a concept in which investors use insurance products to protect their investments from potential financial loss. This can be particularly useful for risky investments or volatile market conditions.

The main types of investment insurance are:

1. **Portfolio insurance:** Here, investors insure their entire investment portfolio against general risks, such as market fluctuations, exchange rate risks, etc. This provides overall protection against losses.

2. **Non-incurrence insurance:** This type of insurance allows investors to insure themselves against specific losses, such as losses on specific investments or as a result of specific events.

3. **Insolvency insurance:** This type of insurance provides protection against losses associated with the insolvency of the issuer of investment products, such as bonds or other financial instruments.

4. **Inflation Insurance:** Investors can also hedge their investments against the negative impact of inflation using various financial instruments or products that provide protection against inflation fluctuations.

Investment insurance can be an important element of an investor's risk management strategy, especially given the uncertainty and volatility of markets. However, before purchasing insurance products, investors should carefully review the terms and conditions to fully understand the risks covered and any limitations that may apply.

Investment insurance is a concept in which investors use insurance products to protect their investments from potential financial loss. This can be particularly useful for risky investments or volatile market conditions.

The main types of investment insurance are:

1. **Portfolio insurance:** Here, investors insure their entire investment portfolio against general risks, such as market fluctuations, exchange rate risks, etc. This provides overall protection against losses.

2. **Non-loss insurance:** This type of insurance allows investors to insure themselves against specific losses, such as losses on specific investments or as a result of specific events.

3. **Insolvency insurance:** This type of insurance provides protection against losses associated with the insolvency of the issuer of investment products, such as bonds or other financial instruments.

4. **Inflation insurance:** Investors can also insure their investments against the negative impact of inflation by using various financial instruments or products that provide protection against inflation fluctuations.

Investment insurance can be an important element of an investor's risk management strategy, especially given the uncertainty and volatility of markets. However, before purchasing insurance products, investors should carefully review the terms and conditions to fully understand the risks covered and any limitations that may apply.

Credit insurance is a type of financial protection designed to protect lenders against losses arising from a borrower's default on a loan or other financial obligations.

This type of insurance can be useful for banks, financial institutions, and other lending organizations, as well as for companies operating in international markets and exposed to debt defaults and problems with financial partners.

The main types of credit insurance include:

1. **Trade Credit Insurance:** Protects companies from losses associated with non-payment of debts for goods or services sold on credit.

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2. Financial Guaranty Insurance: Provides guarantees for the payment of bonds or other financial instruments in the event of default on financial obligations.
3. Credit Derivatives Insurance: Provides protection against losses associated with default on credit derivatives, such as credit swaps or credit options.
4. Investment Risk Insurance: Protects investors against losses arising from issuer default or other investment risks.

Credit risk insurance helps reduce financial losses and increase confidence in investments or lending, making them safer and more predictable for policyholders. However, like any form of insurance, it also includes certain costs and coverage terms that should be considered when applying for it.

Commodity and financial instrument price insurance, also known as inflation insurance or price insurance, is a type of financial protection designed to mitigate the risks associated with fluctuations in the prices of commodities and financial instruments. This type of insurance can be useful primarily for businesses engaged in manufacturing, trading, or investing to protect their financial interests from the negative consequences of price changes.

Key aspects of price insurance:

1. Inflation protection: This type of insurance can provide protection against rising prices of goods and services. For businesses operating in a market with high inflation, this can be an important tool for maintaining stability and minimizing losses.
2. Guaranteed prices: By purchasing price insurance on goods or financial instruments, a company can lock in specific prices for a specified period, providing predictability in planning and financial management.
3. Risk reduction: Investors can use price insurance to reduce the risk of losses resulting from fluctuations in the prices of goods or financial instruments. This is especially important when investing in volatile assets.
4. Increased competitiveness: Companies offering guaranteed prices on their goods or services can improve their competitiveness in the market by attracting customers with their stability and unpredictability.
5. Budgeting and Forecasting: For businesses, especially those that rely on price stability, price hedging can help with budgeting and profit and loss forecasting.

However, it's worth noting that price insurance can be expensive and requires a thorough understanding of financial market risks and instruments. As with any form of insurance, it's important to carefully review the policy terms and choose the appropriate type of coverage based on your business needs and risks.

Among the insurance companies operating in the Moldovan insurance market in 2024, six provided financial risk insurance.

Table 2. Insurance revenue by type of financial risk insurance in Moldova in 2020–2024.

Type of Insurance	2020	2021	2022	2023	2024
Financial Risk Insurance	9424640	10131339	8998955	8102989	14669375
Loan Insurance	478521	723349	690792	13966	74175
Guarantee Insurance	1637038	32911	3016109	11844	33403
Financial Loss Insurance	7309081	9375079	5292054	8077179	14561797

Source: Author's own calculations based on data from CNPF and NBM (CNPF, n.d.; NBM, n.d.)

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The largest share of insurance revenue by type of financial risk insurance for 2024 comes from financial loss insurance (99%), loan insurance accounts for 1%, and guarantee insurance accounts for only 0.2% of all insurance premiums for financial risk insurance.

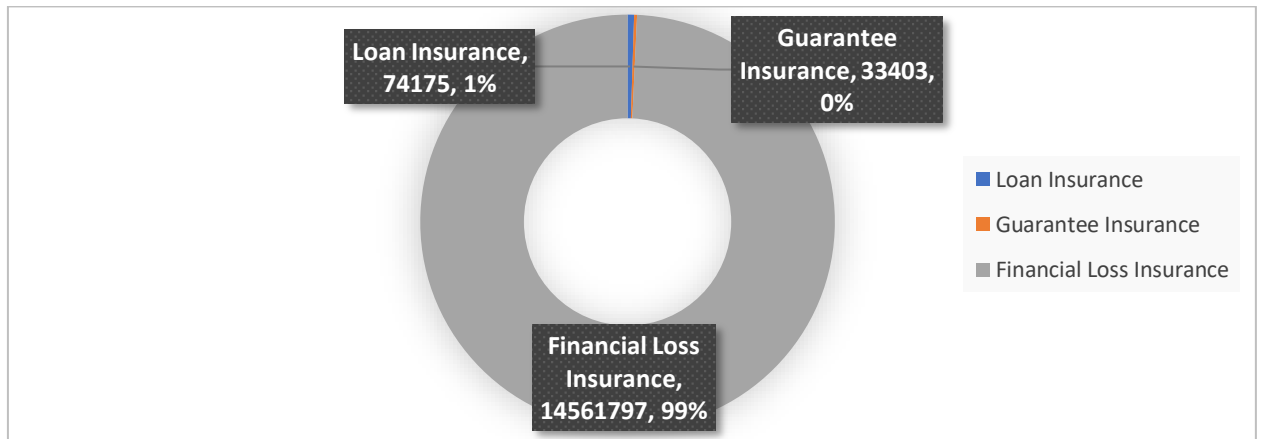


Figure 1. Insurance revenues by type of financial risk insurance in Moldova in 2024.

Source: Elaborated by the author based on data from NBM (NBM, n.d.)

When assessing insurance claims by type of financial risk insurance, we can conclude that they are primarily for financial loss insurance.

There is no basis for discussing any ratio of premiums to payments, since, in this situation, it can be said that no insurance claims were actually made for types of economic risk insurance.

Table 3. Insurance claims by type of financial risk insurance in 2020–2024.

Type of Insurance	2020	2021	2022	2023	2024
Financial Risk Insurance	138499	1080600	2477191	5035550	1991887
Loan Insurance	94456	467800	1813686	0	0
Guarantee Insurance	0	0	0	0	0
Financial Loss Insurance	44043	612800	663505	5035550	1991887

Source: Author's own calculations based on data from CNPF and NBM (CNPF, n.d.; NBM, n.d.)

The main reasons for the underdevelopment of financial risk insurance are:

- Low solvency of potential policyholders;
- Lack of representative statistics necessary for calculating optimal rates from the perspective of the insurer and policyholders;
- Ignoring the individuality of risk parameters and the diversity of risks;
- Insufficient scientific, regulatory, legislative, and methodological support for the process of insuring entrepreneurial risks;
- High probability of adverse changes in risk levels after the conclusion of an insurance contract;
- The need for an individual approach to risk analysis and assessment, as well as its high cost.

The main barriers to the further development of financial risk insurance are:

- a) Inconsistency in legislation on financial risk insurance;

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- b) Insufficient economic justification for the benefits of financial risk insurance compared to self-insurance and other risk mitigation methods;
- c) the lack of a statistical base for calculating reasonable insurance rates, resulting in high (in some cases, insufficiently justified) costs for the insurance services offered;
- d) the practice of double-entry bookkeeping in some cases, making it impossible to insure business risks;
- d) company managers are unaware of the possibility of insuring such risks;
- e) a weak marketing policy for product promotion and a shortage of qualified personnel at insurance companies;
- g) the low level of understanding of this problem.

Financial risk insurance can be effectively organized through the implementation of a range of measures, including:

- development of the legal framework and economic foundations for financial risk insurance;
- objective and complete classification of threats to business activity;
- activating the activities of insurers themselves by applying new types of insurance similar to the insurance markets of industrialized countries;
- gradual inclusion of financial risks with critical consequences for business into the insurance coverage system;
- conducting marketing research;
- government and business support;
- enhancing responsibility and service culture for policyholders.

Based on the above analysis, the following conclusions were reached: financial risk insurance in Moldova remains underdeveloped. This type of insurance is in low demand, as evidenced by the low premiums received by insurance companies, despite the positive dynamics of this insurance market. At the same time, the development prospects of this market are difficult to predict, as they largely depend on the state of the country's economy and its level of development.

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