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Development of Risk-Tightening Practices in Entrepreneurial Activity in The Context of a Green Economy

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ABSTRACT

This article discusses business risk insurance, which is an important tool for protecting a business from potential financial losses and ensuring its stable development. The field of entrepreneurship is becoming more complex and risky, so company owners need to have reliable financial support in case of unforeseen circumstances.

In this article, you will learn what business risk insurance is, what types of business risk insurance exist, and what type of insurance to choose for your business.

Keywords: Entrepreneurial activity, risk insurance, comprehensive insurance, risk management, insurance market, insurance products, insurance protection, insurance culture, economic security, digital insurance technologies, insurance companies, business insurance, liability insurance, small and medium-sized businesses.

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 assumed 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 the possible damage that may result from an economic action, or its mathematical expectation. Thus, risk is considered a quantitative expression of possible losses. This theory has been called classical. However, 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 classical theory, neoclassical theory does not define risk unambiguously negatively. A. Pigou identified the stimulating function of risk, which is manifested 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 one is either unique or their number is insufficient to determine the statistical probability. Risk can be insured, but uncertainty cannot be insured.

Later, the neoclassical risk theory 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.

Y.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 and 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 problems existing in this industry (low-quality goods, reduced effective demand, "quasi-market" relations, contradictions between the insurer and the policyholder, etc.).

Let us 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 the factors of the external and internal environment, which together make up the business environment.

3. Small businesses are more exposed to risks than medium-sized 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 terminate the company's activities. Troubleshooting costs often exceed the total budget. The same incident can be fixed by a large company, but bankrupt a small business. Especially high risks are typical at the beginning of the activity.

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

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

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

Risk classification and identification 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 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 then increasing it if there is an informed decision. Often, the risk is partially or completely transferred to another organization on the basis of a contract. The most common transfer method is insurance. By concluding an insurance contract, an entrepreneur transfers to the insurer the risk of material losses that he may incur if certain dangerous events with a probabilistic feature occur.

METHOD

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

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

In traditional insurance, procedures are not sufficiently standardized and require an individual approach (involving 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 payments upon the occurrence of an insured event.

D.M. Corneliu, D. Dror, A. Malima, and 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 incomes 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 defined by lower insurance coverage and lower insurance premiums. As a rule, the term of the microinsurance contract is shorter, and 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 have the right balance of insurance premium and insurance coverage, which in turn may be complete or contain limitations. With full insurance coverage, all damages will be 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 for a part of the losses from the occurrence of a risky event. But even an insurance payment covering part of the losses helps to improve 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 the client to understand it, complex actions for its purchase, confirmation of losses, and 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 participate to a certain extent in the management of microinsurance, independently determine the rules for the payment of contributions and payments. An example is the mutual insurance system.
Despite the difference in approaches to the definition of microinsurance, some main features can be identified:
 the application of risk pooling principles (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 insurance research and part of one of the largest insurance companies Swiss Re Group, microinsurance can be defined through its attributes.
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. The "lightweight" structure in terms of product design, underwriting, premium collection, insurance reimbursement, and lack of 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. Accessibility. Due to the focus on the segment of consumers with low or unstable incomes, the payment for the risk transferred to the insurer – the insurance premium – determines the availability of insurance coverage for certain target groups of buyers of this protection – policyholders. The low fee for an insurance contract expands the target group of policyholders receiving insurance coverage. Subsidies from the government and development institutions are used.
THE ANALYTICAL PART
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 business expenses and remuneration of agents. Microfinance organizations are one of the low-cost distribution channels.
2. The choice of insurance risk based on the principle of the most relevant in the context 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 realization of a risky event entails more severe consequences for them than for large businesses. Therefore, an urgent task is to

choose those risks for insurance that can lead to critical consequences, such as loss of income, or even catastrophic consequences, such as loss of capital.

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

4. The principle of innovation. Microinsurance is a new product in the national insurance market. The innovativeness 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 in shaping the microinsurance segment of the national insurance market remains the choice of distribution channels for microinsurance products and the business model. The main market participants are sellers and consumers of microinsurance services, the regulator, and 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. Microfinance institutions that have mastered and developed technologies for promoting financial products are also the optimal channel for distributing microinsurance products.

The development of microinsurance will make it possible to use the insurance mechanism to protect the economic interests of small businesses. The low fee for the insurance product ensures the availability of insurance for representatives of the microbusiness and start-up entrepreneurs. Compensation of losses from the realization of insurance risk under a microinsurance contract reduces the risks of bankruptcy of small businesses.

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 NSR risk insurance, helps to reduce the unit costs of creating and selling a microinsurance product, and insurance loss settlement.

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 risk identification and assessment procedures, and reducing transaction costs associated with the purchase of insurance coverage and loss settlement.

Further research is expected to be conducted in the field of building models of integrated risk insurance for 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, and generalizing experience with digital technologies for insurance loss settlement.

CONCLUSIONS

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, access to which is difficult due to territorial remoteness, low cost of insurance products, etc. Microinsurance products themselves are becoming the most adaptive to the requirements that arise from developers of electronic systems, and the availability of products from different companies on the electronic platform will allow not only to determine a more competitive product, but also to compare the cost of an insurance contract and assess the quality of loss settlement based on feedback from other customers.

The development of modern digital technologies will allow remote identification of the insurance company's client, which will significantly reduce the cost of insurers to collect and analyze personal data of policyholders. Insurance claims processing processes can also be simplified and optimized using digital technologies. Automatic loss notification, real-time claims processing, predictable damage assessment, self-service capabilities, and electronic payments make claims management more efficient.

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