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## NEED FOR INSURANCE OF THE FOOD INDUSTRY IN THE EUROPEAN UNION

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***Abstract:** In the article the main reasons need insurance the food industry of the European Union. The basic risks of business: technical risks, commercial risks, political risks and operational risks. The reasons of adverse situations and risks of the food industry of the European Union. Established that especially important insurance and ingredients of the food industry is given the risks of business activities such as property risks, market risks, commercial risks, transportation risks and settlement risks. Determined that the security of the food industry of the European Union has structural deficiencies and needs improvement.*

***Key words:** food, insurer, insured, insurance compensation.*

### INTRODUCTION

International economic activity is the process of realization of foreign economic relations in trade in goods and services, joint ventures and cooperation of states in the world. Great urgency is the study of the processes of improving insurance of the food industry in the European Union. For the functioning of the single insurance market, which will promote economic efficiency and market integration, it is necessary to have a common framework that will allow insurers to freely carry out operations in all European Union countries, establish branches and provide services. One of the conditions for effective operation of the food industry in the transformation of property relations should guarantee financial stability in the event of accidents. World experience of food production shows that production problems are resolved more effectively to the development of insurance and insurance relations. The development of the food industry based on the use of agricultural products. Therefore, the development of individual industries and their territorial organization linked to agricultural production. Integrating with each other, they form different agro territorial formation, which also need to insure success.

### STATEMENT

In modern conditions of accelerated scientific progress, the development of capital-intensive industries of the European Union, growth in international foreign trade flow share of machinery and equipment (including supply of complete enterprises and the construction and installation and commissioning works on the territory of the importing countries) significant development and need around the world takes business risks insurance, including insurance for the food industry.

The need for insurance of food producers of European Union also confirmed that business activity is always accompanied by different kinds of risks. During understand these business risks arising in any kind of business activity associated with the production of products, goods and services and their implementation; commodity-money and financial operations; commerce, and science and technology projects.

Manufacturers of food of European Union may suffer losses due to damage or destruction of the means of production, the failure of counterparties of contract. In addition, any significant financial losses due to lower prespecified level of profitability, because of the need to compensate for damage caused by salaried workers because of an accident at work, as well as consumers of products of this company.

The need for the food industry of European Union in protecting against possible losses in a market economy can be achieved by [1; 3; 4]:

- self-insurance (creation of the reserve fund immediately entities);

- the creation of mutual insurance where premiums is also the founding capital contributions to the charter capital. Creating a company or related industries to meet their specific risks;  
- insurance contracts with insurance companies.

There were around 3 700 insurance companies operating in Europe in 2015, down 3.1% on the previous year. European companies can offer cross-border services either through freedom of establishment or freedom of services. In 2014, 578 branches of EU/EEA companies were operating in the European Union and around 7 600 licensed insurance operations were overseen by national supervisory authorities on the basis of freedom of services. The European insurance industry employs over 975 000 people directly. This figure excludes outsourced employees and independent intermediaries [4].

Insurance is one of the main types of economic activity in Europe, which is approximately 5-10% of GDP in most developed European countries. European Union experts insurance recognize that the main purpose of integration in the insurance business is to improve the competitiveness of countries [3; 4].

Total European direct gross written premiums increased by 1.3 % between 2014 and 2015 to reach €1 200 bn. Life premiums grew 1.2% to €730 bn, non-life premiums grew by 1.1% to €343 bn and health premiums grew 1.5% to €124bn. In 2015, insurance penetration (gross written premiums as a percentage of GDP) decreased by 0.2 percentage points to 7.4%, but ranged from 0.9% in Latvia to 11.4% in Finland. An average of €2 010 per capita was spent on insurance in Europe in 2015, compared to €1 993 in 2014. Non-life insurance, whose two main business lines are motor and property, includes a wide range of cover for individuals, property, vehicles and businesses. Non-life premiums grew by 1.1% in 2015 to total €343 bn. Motor was the largest non-life business line in 2015, accounting for 38% of premiums [2].

Insurance covers all entrepreneurial risk insured business that is associated with the investment of money and other resources in production, works or services, and on that basis, obtaining an income (profit). Liability insurer is insured compensation costs resulting from unforeseen unexpected in terms of business.

The greatest influence on business of European Union food industry are the following types of risk: political, technical, industrial, commercial [3; 4].

The political risk of the food industry – is the potential loss or reduction of profit margins, which are the result of government policy. Taking into account this risk is particularly important in countries with unstable legislation, lack of entrepreneurial culture and traditions. Political risks can be divided into: nationalization and expropriation without adequate compensation, transfers (linked with the possibility of limiting the conversion of local currency), breach of contract action by the authorities of the country where the company counterparty hostilities [1]. Political risk may be national, regional or global.

The technical risk [1] of the food industry of the European Union determined by the degree of production, availability of preventive measures (regular preventive maintenance of equipment, safety measures), the ability to repair their own equipment firm. These risks include the risk of losses due to the negative results of research and development work, inability to achieve planned development of technical parameters and low technological possibilities production. Technical risk refers to the group internal risk because it depends on the emergence of the enterprise [4].

Especially developed insurance technical risks of the food industry are the US, Germany, Britain, Japan and other countries that are part of the International Association of Insurers of technical risks. In world practice when it comes to insurance technical risks are distinguished usually insurance providing cover risks or manufacturer, or operating a [1; 4]:

- 1) insurance building entrepreneur from all risks (CAR);
- 2) insurance of mounting risks (EAR)
- 3) insurance of vehicles;
- 4) insurance of electronic devices.

Production risk of food industry related to the production of products, goods and services and the implementation of any type of productive activity, in which entrepreneurs face problems of

inadequate use of raw materials, rising costs, increasing loss of time, use of new production methods.

Commercial risk [4] is the risk arising in the implementation of the goods and services produced or purchased by an entrepreneur. These include risks related to the sale of goods (services) in the market, its transmission, reception of the goods (services) buyer solvency of the buyer and the risk of force majeure.

While property insurance, especially in the food industry of the European Union requires an individual approach in assessing risks because insurance industry is characterized by a variety of risky situations, significant losses and low frequency of insurance events. Each industry-specific risk. Therefore, property insurance companies are features in terms of insurance and significant differentiation of insurance rates.

The need for insurance of the food industry is especially important, given the following risks (Fig. 1):

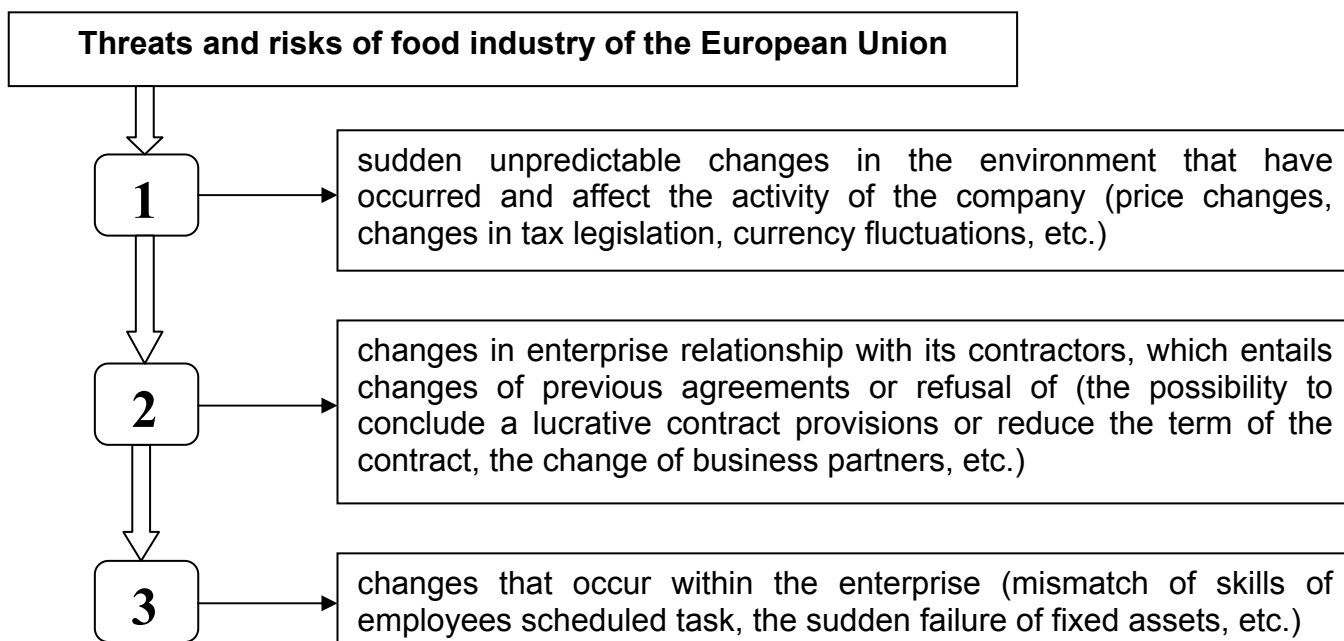


Fig. 1. Risks of the food industry, determining the need for insurance protection [1; 3; 4]

Commercial risk, and therefore the need for insurance of the food industry of European Union is conditioned by factors such as [1; 4]:

- lack their own niche in the market;
- using false information;
- decline in sales;
- poorly organized goods movement;
- lack of or incorrect market research organization;
- loss of customers;
- poor contractor performance of the contract;
- imbalance of supply and demand in the market.

We can identify the main causes of commercial risk, affecting the food industry of the European Union:

1) decrease in sales due to changes in product of competition, restrictions on sale, falling demand for goods sold now, displacement of its competing products, can cause loss of income;

2) increase the purchase price of goods in the course of business and not locked draft terms of the purchase agreement leading to possible losses;

3) the unexpected decline in purchases and sales compared with the planned, reducing the scale of the whole operation and increases the cost per unit volume of goods sold (due to the relatively fixed costs);

4) loss of goods during transportation, storage;  
5) loss of product quality during transport and storage, leading to lower its prices;  
6) increase in costs compared to scheduled rotation as a result of the payment of fines, contingent payments, leading to lower profits; Among the possible reasons for higher costs can be unpredictable fees, charges, fines and additional costs.

The economic risks [1; 4] of the food industry is the European Union risks associated with the likely loss of property companies due to sabotage, theft, negligence, overloading technical and technological systems. Market risks [1]- risks associated with competitive products that let enterprise pricing and assortment policy. Commercial risks [1] – risks associated with a loss due to delay payments, refusal of payment during transport, with no supply of goods. Transport risks – risks associated with the likely loss of assets (property and equipment) during transportation by road, sea, river, rail, air. Calculated risks – risks that characterize the likelihood of financial loss due to poorly chosen point, period, form of payment [4]. Non-life insurers paid out €222 bn in claims in 2015, an increase of 2.3% on the year before. Motor claims paid increased 1.9% to €101bn and property claims grew 0.7% to €53bn. Accident claims paid rose 8.6% to €21.2bn, while general liability claims remained stable at €20.9bn [2].

Property insurance provides protection against risks to property such as fire, theft and some weather damage. The business line includes specialised forms of insurance, such as fire, flood, earthquake or home insurance. In 2015, property insurance premiums increased 1.6% to reach €93bn in Europe. This is equivalent to an average of €155 paid in property premiums per inhabitant, which is €2 more than in 2014 [2].

Such circumstances bring enterprise search ways to reduce the likely damage, and if its appearance – the maximum possible compensation.

## **CONCLUSIONS**

The industrial and financial activities of enterprises in today's unstable internal and external environment is for an entity to many risks. With insurance are certain financial guarantees stability and profitability of production in the event of adverse situations in any business structure, part of the market mechanism. Now widely spread acquires property insurance companies associated with providing insurance protection material base of production. In property insurance the insurer may be the owner or the person who received the property in use, rental, leasing, deposit, secured and more. By this insurance includes many species that are often divided by categories of insurance and insurance cases, namely insurance of total assets, insurance, transportation, transport, electronics, insurance, machinery, insurance of construction risks insurance cars of breakdowns.

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