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Protecting the economic institutions from potential dangers

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Abstract

- Economic institutions in general, when carrying out their activities, are always exposed to various and intolerable risks, despite the difference in their economic activity, which varies between production, storage, buying and selling, and financing. Hence, the institution is obligated to choose experts specialized in managing risks, in order to work to discover them before they occur. There are two types of risks, insurable and non-insurable, depending on the nature of their occurrence.
- Keyword: economic, risks, insurance, potential danger.

INTRODUCTION

In the course of its activities, an institution is exposed to various risks, whether it is a productive or economic institution. Its activities can range from production and

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storage to buying and selling, as well as financing. Therefore, the institution is obliged to select the human resources for its operations in order to identify potential hazards before they occur. These hazards can be classified into insurable and non-insurable risks, depending on their nature and occurrence.

To facilitate the process of identifying hazards, the institution prepares a comprehensive list of different risks that it may face. The institution also determines the potential loss, the type of risk, the causes, the contributing factors, and preventive measures. In the event of a potential risk, the institution can resort to pre-insurance.

To address these issues, the following problem is presented: How does the institution confront potential hazards, and what are the methods of dealing with them?

2. First Section: The process of identifying and managing hazards

To manage risks, a dedicated cell is established within the institution responsible for risk management. This cell identifies and categorizes potential hazards into insurable and non-insurable risks. Information is exchanged among the units of this cell within the institution to achieve the process of anticipation.

The process of identifying hazards involves understanding the causes of their occurrence, whether due to natural phenomena such as earthquakes and storms, technical reasons like fractures, or human factors such as death or disability. [1]

The first requirement: Conduct a risk inventory and analysis

The second process after identifying the risks is to inventory these risks by assessing the assets of the organization that may be exposed to those risks. The inventory process includes the following:

1. Buildings: This includes factories, warehouses, workshops, and offices within the organization. The inventory should be very accurate and based on real and realistic data. It should determine the legal nature of the buildings, whether they are owned by the organization or rented. It should also determine the construction type (concrete or prefabricated) and the maintenance procedures, as well as identifying the fire prevention measures.[2]

2. Transportation Equipment: This refers to trucks and vehicles owned or rented by the organization. It is important to evaluate the condition of the vehicles, their maintenance records, and any potential risks associated with their operation.

3. Equipment and Facilities: This includes the equipment owned by the organization, such as machinery in workshops and warehouses, office tools, elevators, electrical

and electronic devices, and everything related to IT systems, hardware, and software. Each item should be evaluated for its importance to the organization's operations and the potential impact of its loss or damage.

4. Raw Material Inventory: This includes raw materials before manufacturing, semi-finished or fully finished products. Waste materials within the organization, especially those known to be hazardous, should also be inventoried. It is important to assess the value of the inventory and consider any risks associated with its storage and handling.

During the inventory process, it is not sufficient to simply list the items, but a monetary evaluation should be assigned to each item, considering its sensitivity to fire and potential vulnerability. This should be done in a precise and detailed manner to accurately assess the potential financial impact of any risks.[3]

The inventory process also includes other intangible assets, such as:

- Files and documents related to the organization's operations: This includes important records, contracts, and legal documents that are critical for the organization's continuity. These should be properly secured and protected against risks such as theft, fire, or natural disasters.

- Checks, contracts, and accounting files related to customers: These documents represent the organization's financial assets and should be safeguarded to ensure proper financial management and customer satisfaction.

- Employees and staff: The risks that each category of employees may face should be determined based on the nature of their work. This includes assessing the potential for occupational accidents, health risks, or any other hazards associated with their specific roles within the organization.

After conducting the inventory process by the authorized team within the organization, these risks are analyzed by assessing their level of danger and the likelihood of their occurrence. This analysis involves coordination between different units of the organization and the exchange of data related to each element.

Accompanying actions should be taken, which involve securing all insurable risks and searching for insurance and reinsurance companies that provide appropriate coverage for potential damages that may affect the organization. This involves evaluating different insurance options, comparing coverage and costs, and selecting

the insurance policies that best align with the organization's risk management and financial objectives.

By conducting a comprehensive risk inventory and analysis, organizations can identify and understand the potential risks they face, assess their potential impact, and take proactive measures to mitigate or transfer those risks through insurance coverage. This helps to protect the organization's assets, operations, and financial stability in the face of unforeseen events or circumstances.

The Second requirement: How to deal with risks

Risks within the organization are addressed by reducing their occurrence frequency or their intensity, or both. In the first case, prevention measures are taken, while in the second case, control is exerted over the outcomes by protecting various resources.

Risk prevention aims to prevent or minimize the causes of risks and reduce their associated costs to the lowest possible level. This involves implementing proactive measures to identify and mitigate potential risks before they occur. Examples of risk prevention methods used within the organization include:[4]

- The necessity of having a fire-fighting system within the organization: This includes installing fire alarms, fire extinguishers, and fire suppression systems to detect and extinguish fires in their early stages.

- The readiness of this system to operate and the need for regular maintenance: Regular inspections and maintenance of fire-fighting equipment ensure their proper functioning when needed. This includes checking fire extinguishers, testing fire alarms, and training employees on fire safety protocols.

- Avoiding the storage of highly flammable and hazardous materials in the organization, except for those necessary for manufacturing: Proper storage and handling procedures for hazardous materials help minimize the risk of accidents, spills, or fires.

- Daily disposal of work waste: Regular disposal of waste materials reduces the risk of accumulation and potential hazards associated with improper waste management.

- Following safe storage practices by placing goods on racks at least 15 cm above the ground: Elevating goods above the ground helps prevent damage from water, pests, or other potential risks.

- Regular maintenance of electrical connections: Ensuring that electrical connections, equipment, and wiring are regularly inspected and maintained helps prevent electrical malfunctions, short circuits, and potential fire hazards.

- Storing goods in a way that allows easy movement between them: Proper organization and arrangement of stored goods prevent accidents or injuries caused by falling objects or inefficient movement within storage areas.

- Having a proper water drainage system and using sumps to prevent flooding: Adequate drainage systems and the use of sumps help prevent water accumulation and flooding, reducing the risk of water damage to buildings and equipment.

- Inspecting ceilings to prevent water leakage during the winter: Regular inspections of ceilings and roofing systems help identify and address any issues that could lead to water leaks or structural damage, particularly during winter seasons.

In addition to risk prevention, organizations also employ risk protection measures to minimize the impact of risks that cannot be completely eliminated. Risk protection involves preserving production elements by providing the necessary maintenance for equipment and production machinery, as well as providing first aid during work.

Furthermore, the organization deals with risks through its risk financing policy, which involves allocating specific amounts to cover potential losses. This can be done through various methods:

- Retaining risk (self-insurance): The organization manages the risks internally and funds them through its own resources. This may include using funds from the company's treasury, establishing reserves, or borrowing from banks to cover potential losses.

- Securitization: In some European countries, risks can be transformed into financial instruments such as natural disaster bonds. These instruments are traded in the financial markets, allowing organizations to transfer the risk to investors.

- Pooling in cooperatives: Large companies and institutions, such as oil companies, may form cooperatives to pool their resources and collectively address risks. This can help protect cash assets, mitigate market and competition risks, and provide coverage

against specific risks such as raw material price fluctuations, internet-related risks, terrorism risks, political risks, and more.

By implementing a combination of risk prevention, risk protection, and risk financing strategies, organizations can effectively manage and mitigate the potential impact of various risks they face. This enables them to maintain operational continuity, safeguard their assets, and preserve their financial stability in the face of unforeseen events or circumstances.

Second Topic: Insurance as an option for risk mitigation in an organization

Insurance remains a widely used and effective option for organizations to mitigate risks that cannot be completely avoided through preventive measures. It provides financial protection and stability, allowing organizations to navigate uncertainties and maintain their operations. Let's explore the advantages of insurance in risk mitigation in more detail:[5]

1. Cost inclusion and pricing: Insurance allows organizations to include the cost of risk in their selling prices. By factoring in insurance premiums, organizations can ensure that they account for potential losses and mitigate the financial impact of risks. This helps in maintaining profitability and competitiveness in the market.

2. Financial stability and stakeholder confidence: Insurance serves as a guarantee for stakeholders in the market. It provides financial balance and protection against unforeseen events, instilling confidence in investors, lenders, customers, and other stakeholders. When organizations have insurance coverage, stakeholders feel more secure in their interactions with the organization, leading to stronger relationships and better business prospects.

3. Statistical analysis and risk prevention: Insurance processes involve the collection and analysis of extensive statistics on potential risks and associated factors. This wealth of data helps in identifying trends, patterns, and common causes of risks. By studying these statistics, organizations can gain insights into recurring risks and take preventive measures to avoid or mitigate them in the future. For example, analyzing work accident statistics can help identify common causes and implement safety measures to reduce the occurrence of accidents.

4. Specialization and expertise: Some insurance entities specialize in providing coverage for specific industries or risks. These specialized insurers develop expertise in understanding the unique risks faced by organizations in those sectors. By working

closely with specialized insurers, organizations can benefit from their knowledge and experience, gaining valuable insights into risk management specific to their industry. This can help organizations identify and address potential risks more effectively, reducing their exposure and potential losses.

5. Liquidity and financial flexibility: Insurance allows organizations to avoid tying up a significant portion of their funds as reserves to cover potential risks. Instead of setting aside large sums of money, organizations pay insurance premiums, transferring the risk to the insurer. This provides liquidity and financial flexibility, allowing organizations to allocate their capital and resources more efficiently towards growth, innovation, and other strategic initiatives.[5]

6. Social protection and compliance: Insurance, particularly social insurance, plays a crucial role in protecting the rights and well-being of workers. It ensures compliance with legally binding rules and regulations related to employee benefits, health coverage, disability insurance, and other social security aspects. By providing insurance coverage for employees, organizations fulfill their obligations and contribute to the welfare of their workforce.

In summary, insurance offers several advantages for organizations in mitigating risks. It enables organizations to include risk costs in their pricing, provides financial stability and stakeholder confidence, facilitates statistical analysis for risk prevention, leverages specialized expertise, offers financial flexibility, and contributes to social protection and compliance. By utilizing insurance as part of their risk management strategy, organizations can enhance their resilience, protect their assets, and navigate uncertainties more effectively.- Company insurance commitments lead to the provision of safety measures and first aid in the event of a risk before it becomes the responsibility of the insurance company. This is known as preventive and protective measures.

1. Second section : Insurance as an option for risk mitigation in an organization

Insurance remains a widely used and effective option for organizations to mitigate risks that cannot be completely avoided through preventive measures. It provides financial protection and stability, allowing organizations to navigate uncertainties and maintain their operations. Let's explore the advantages of insurance in risk mitigation in more detail:

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with legally binding rules and regulations related to employee benefits, health coverage, disability insurance, and other social security aspects. By providing insurance coverage for employees, organizations fulfill their obligations and contribute to the welfare of their workforce.

7. Improved business relations and conflict resolution: Resorting to insurance can improve business relations for the organization. In the event of disputes or damages involving suppliers or customers, insurance transforms the conflicts into disputes between the respective party and the insurer. This helps to mitigate potential conflicts and maintain positive relationships with suppliers and customers, as the financial burden is shifted to the insurance company.

8. Preservation of production pace and resources: Insurance against risks helps organizations maintain their production pace by providing coverage for potential damages to machinery, equipment, and other production elements. By mitigating the financial impact of risks, insurance ensures that organizations can quickly recover and resume their operations after an insurable event. Additionally, insurance contributes to the preservation of human resources by providing coverage for employee benefits, ensuring their well-being and job security.

Enterprise insurance procedures:

When an organization decides to obtain insurance, it covers the potential risks it may face during its activities at a relatively low cost compared to the consequences of risks occurring and the organization bearing them alone. The procedures for insuring the organization are as follows:

1. Selection of insurance contracts: The organization identifies the types of risks it wants to insure against and selects suitable insurance contracts. Factors considered include the insurability of the incidents and determining the appropriate insurance amount for the organization.

2. Selection of insurance entities: The organization can choose to work with private or public insurance companies. Private insurance companies operate for profit, while public companies may have a different mandate or structure. Additionally, organizations may also consider insurance options from foreign companies, taking

into account factors such as efficiency and risk coverage when selecting the insurance company.

3. Involvement of insurance brokers: Insurance brokers play a crucial role in assisting the organization in obtaining the best insurance offer. They act as intermediaries between the organization and insurance companies, providing expertise and market insights. Insurance brokers help organizations compare different insurance options, negotiate terms, and secure the most competitive coverage that suits their needs.

4. Insurance policy negotiation and purchase: Once the organization has selected the insurance contracts and chosen the insurance entity, negotiations take place to finalize the terms and conditions of the insurance policy. This includes determining the coverage scope, policy limits, deductibles, premium amounts, and any additional provisions specific to the organization's requirements. Once the negotiations are complete, the organization purchases the insurance policy by paying the required premiums.

5. Ongoing policy management and claims handling: After obtaining insurance coverage, the organization must actively manage its insurance policies. This involves reviewing policy terms periodically, updating coverage as needed, and ensuringproper documentation and record-keeping. In the event of a covered loss or damage, the organization can file an insurance claim with the insurer. The insurer assesses the claim based on the terms of the policy and, if approved, provides the necessary compensation or assistance to help the organization recover from the loss.

6. Risk assessment and periodic review: Insurance procedures also involve regular risk assessment and periodic review of the organization's insurance needs. As the organization evolves and faces new risks or changes in its operations, it is essential to reassess the insurance coverage to ensure it remains adequate. This may involve adjusting policy limits, adding or removing coverage types, or considering additional specialized insurance products as needed.

7. Compliance with legal and regulatory requirements: Insurance procedures also include ensuring compliance with legal and regulatory requirements related to insurance. Organizations must adhere to applicable laws, regulations, and industry-specific standards when obtaining insurance coverage. This ensures that the organization operates within the legal framework and fulfills its obligations towards employees, customers, and other stakeholders.

In conclusion, insurance procedures in organizations involve selecting suitable insurance contracts, choosing insurance entities, involving insurance brokers for expert guidance, negotiating and purchasing insurance policies, managing policies and handling claims, conducting risk assessments and periodic reviews, and ensuring compliance with legal and regulatory requirements. By following these procedures, organizations can effectively mitigate risks, protect their assets and resources, and ensure the smooth continuity of their operations.

a. General insurance agent: They have significant authorities, including directly contracting with customers on behalf of insurance companies and the right to modify the contract.

b. Broker: Their authority is limited to intermediation in contract conclusion by searching for customers contracting with insurance companies, and they are not obligated to pay the insurance premium.

It is advisable for the organization to resort to the services of external consultants specialized in risk management and insurance. The consultant assesses the risks and analyzes the conditions of subscription in the insurance contract.

The tasks of insurance agents include:

- Informing the organization.
- Understanding and analyzing the available risks.
- Managing insurance contracts.
- Monitoring risks.

4. Negotiation method:

a. Direct negotiation.

b. Negotiation with the general insurance agent.

c. Negotiation with the insurance broker.

CONCLUSION

In conclusion, every organization, regardless of its commercial or economic nature, operates in circumstances that are not free from the risk of facing problems related to production or management. These are potential risks that may hinder its work, affect its production or existence. Therefore, the organization is obliged to anticipate all the risks it may face during its activities. This is done through a cell that operates at its level and works in coordination with all units within the organization to identify and analyze risks. There are risks that the organization can cover, but there are risks that exceed its ability to bear, so it subscribes to insurance contracts to partially or completely cover them. This insurance does not cost the organization as much as the burden of bearing risks that exceed its capacity, and it may lead to its demise.

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