



TRANSFER OF KNOWLEDGE IN THE SCOPE OF LIFE INSURANCE AFTER GLOBAL ECONOMY CRISES

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Abstract:

Life insurance represents a special field of business that affects a country's social and economical structure up to a great extent. Due to its nature, life insurance differs from all other kinds of insurance. What is essential for all the businesses that are present in the insurance market is to present life insurance itself to an individual with all its advantages and benefits. In this paper, we have drawn focus especially to provision of the antecontract information according to EU Legislation and to the national one. We have presented functions of life insurance as a form of savings, social function and accumulation function. The conclusion is that the better education that would result from a fair and quality transfer of knowledge would itself represent a motivational force that could be highly beneficial for one branch of economy of such great importance such as insurance is.

Keywords: life insurance, knowledge transfer, information provision.

1. INTRODUCTION

Life insurance is a special field of business with a great impact on social and economical structure of a country. Its main field of interest is human life, and it makes it possible for the insured to systematically create financial stability for their families and business. Also, it serves economy as an important channel through which other branches of economy may reach capital.

The study of life insurance is inside the scope of legal science; however, it also implies a union of knowledge in numerous other areas such as management, marketing, finance, economy, knowledge management, statistics, mathematics, legislation, accounting, general management, history etc.

Due to its nature, life insurance differs from all other kinds of insurance. Around the world, there are different and special legal codes and its funds that have a special quality for the purpose of long-term placements, enjoy a special legislative treatment. Since a life insurance premium is perceived as long-term savings, the life insurance funds create a facility for the classical pension and the state in the domain of social politics for the fact the insured individual takes up all the responsibility and care instead of the state. Therefore there is a special stimulation for life insurance as the separate kind of insurance by the state through tax concession politics for life insurance premium, as well as through special tax concession rates available for capital once the contract expires.

Republic of Serbia has for a long time been on a low level of the market share in the scope of life insurance. By reformation of the insurance market controlled by the National Bank of Serbia since 2004, the conditions for a further development of this sector have been created. However, despite a constant growth and development, the insurance sector in Serbia is still under-developed and according to the stage of development it is positioned significantly lower than it is in the EU countries. One of the reasons for this state, apart from the stage of development of economy is, for sure, lack of knowledge about the notion of life insurance

Familiarization of citizens of Serbia with the notion of life insurance, its advantages and benefits it provides represents one of the primary causes for all businesses in the insurance market. Also, similarly important in the knowledge transfer process are universities that have a responsibility to provide their students and all the interested parties with the maximum amount of information in the scope of insurance. Whereas the knowledge transfer to students is a responsibility of universities, the knowledge about practical experiences and practices is a responsibility of everyone involved in the business of insurance. A joint approach and action of both these factors would ensure a right-timed, quality and accurate information transfer for all those interested in the notion of life insurance and consequentially the opportunity for knowledge transfer would be maximally seized and used indeed.

The existing tax law in Serbia is dissimulative for the existing insurance houses in the field of life insurance. The importance of life insurance is not only in the provision of secured future for the insured party, buy also in its secondary effects that are reflected in the economy growth and technical progress of a country's economy. Tax concession contribute in encouraging all those

interested in savings and also in triggering long-term forms of investments since the whole society would benefit from it in more ways than one.

There are ever more realistic perspectives for the development of life insurance in Serbia for the fact that the conditions that regulate life insurance in our country are improving. The domestic currency stability is ever greater just like the citizens trust in it; the citizens contemplate the possibilities to ensure secure future for their children. This is of special importance for the growing number of citizens who have not had a chance to make larger amounts of savings for the future in the previous period. This trend has a tendency to grow if economy stabilizes and if life standard and income of the citizens improve. Nevertheless, what is essential for the insurance market to flourish, apart from a proper regulation, ensured customer trust and a higher life standard in a country, is to provide tax concessions and additional education that would make it clear for the citizens that the premium is not pure giving, but it is an investment in the future. For the reason, insurance companies in Serbia need to focus on presentation of all advantages of this insurance as a means of saving and a way to ensure financial stability of the citizens. Only then will life insurance gain the position it has in developed European countries.

In this study we will pay a special attention to the responsibility of providing the ante contract information according to the EU and Serbian legislation, taking into account that this information transfer represents a rather important part of the process and therefore in the transfer of knowledge.

By elaboration of all the institutes separately, we will present the whole range of knowledge that is transferred to the end user of the service together with the ways for doing it.

2. TRANSFER OF KNOWLEDGE

Conventional economic theory suggests that knowledge transfer would take place spontaneously in a market economy as knowledge and technologies are traded in competitive markets. Baumol (2002) has argued that in developed market economies the force of competition between large oligopolistic firms can propel a technological 'arms race' between the largest firms in an industry that drives technological progress. Oligopolies sometimes enter into voluntary knowledge sharing agreements in technology consortia in order to share technological know-how to develop new technologies on a collaborative basis. In this view there is little need for government intervention to encourage knowledge transfers and to promote innovation. The market can be left to its own devices and competition will drive both innovation and the dissemination of new technologies.

Yet as Arrow (1971) long ago pointed out, information and knowledge are not always so easily amenable to market exchange, and market failures abound. Firstly information is indivisible and the cost of dissemination is typically very low so that the inventor cannot easily capture the economic value of new knowledge. Another serious source of market failure is the lack of appropriability of information and knowledge. A well developed legal system capable of enforcing intellectual property rights is needed to overcome this potential source of market failure. Yet even where the legal system is well developed problems may persist. As Arrow pointed out "...no amount of legal protection can make a thoroughly appropriable commodity of

something so intangible as information. The very use of information in any productive way is bound to reveal it, at least in part" (Arrow, 1971, p. 148). Information is also subject to market failure because investment in the production of knowledge and its acquisition is a risky activity, since an investor cannot be certain of the value of the information until it is used. For all these reasons businesses may under-invest in information and knowledge transfer, and in consequence the level of innovation and competitiveness in a market economy may be less than potentially achievable.

Moreover, recent research on social capital has suggested that the ability to transfer knowledge, even on an apparently well functioning market with adequate legal protections, may also depend upon elusive factors such as trust between the parties to the exchange (Field, 2003). As Field has noted "knowledge is a notoriously fragile commodity, in that sellers have little protection from unscrupulous behaviour by buyers, other than the high cost of legal action; knowledge therefore tends to be exchanged far less freely than is optimal for business performance. Trust-based relations between entrepreneurs may help compensate against these risks, and can reduce a variety of transaction costs" (Field, 2003, p. 54). However, trust is built only slowly over time. It may be encouraged by the repeated exchange of ideas and personnel between the research institutions and the industry sector, in both directions. This requires flexible institutional arrangements.

Recent research into national and regional innovation systems (Brazczyk et al., 2000) has shown that differences in innovative capacities between countries and regions are linked to the institutions which promote learning and technology transfer activities. These in turn depend upon the existence of networks of institutions and firms that permit reciprocal exchange of knowledge and information (Morgan, 1997; Audretsch, 2005). Such reciprocal exchanges are facilitated where the institutional structure is flexible enough to permit interaction between research institutes, university science departments and industrial enterprises.

These arguments are especially relevant in the case of transition economies, where the legal system may not fully protect intellectual property rights, and where old relations of trust have broken down as research teams have been dispersed and disrupted, where foreign direct investment is low, and where large domestic enterprises may be protected from the force of oligopolistic market competition. In these circumstances it is likely that there will be low levels of knowledge transfer both between businesses and between research institutes and business entities. This suggests a role for government intervention to stimulate the application of inventions and provide a boost to the level of innovation activity.

3. LIFE INSURANCE AND TRANSFER OF KNOWLEDGE IN THE FIELD

Insurance of individuals is different from insurance of property in its basic characteristics and there are special rules for the establishment of legal relations in this group of insurance.

The subject of the insurance of the individuals is life and health, i.e. physical integrity of the insured party. The risk that encompasses insurance of individuals is established for the very individual and therefore cannot be expressed through a material value.

Life insurance serves as an addition and extension of social insurance especially of pension and health insurance. Life insurance with the element of savings can contribute to pension insurance by making it possible for the insured to gain higher income after retirement. .

Among the numerous factors that affect the development of life insurance there are the more prominent ones such as:

- a) The amount of the national income and the level of life standard
- b) Stability of national currency;
- c) Development of social insurance in the country;
- d) How informed the citizens are about life insurance;
- e) Demographic conditions

The basic specific feature of life insurance is that it represents a combination of insurance of the insured risk and savings insurance. Life insurance has a twofold aim. Apart from the insurance protection that ensures economy and social security of the insured in accordance with their individual needs, there is also a rather significant function of the accumulation of the capital.

Presentation of the basic advantages of life insurance is the main goal of knowledge transfer to the end users of life insurance service. When we mention knowledge transfer it is essential to note that in this task (knowledge transfer) there are two levels. The primary level represents the level of knowledge transfer between the primary (end) users of life insurance and the organizations which provide the insurance services. The other level i.e. the secondary level represents the knowledge transfer that takes place between the very service providers in a territory as well as their attitude towards the responsible state institutions. For service providers both these levels, the primary and the secondary one, are of a great importance for it is the success on the both levels that grants their existence and success in a market. For the end users of the insurance service it is the primary level that is of the highest importance since this is the level on which the insurance conditions are set precisely for them together with the arrangements that set their position in the business generally.

It is most possible that the end users of life insurance do not have a clear picture of the function of life insurance as a means of savings, as a social function of life insurance, the function of accumulation and other functions. Also, presenting information on the important elements of life insurance contract such as the insured amount represents itself a very important step in the transfer of knowledge to the end user.

The entire process of knowledge transfer on this primary level must be easy, available and simple for the fact these are individuals (end users) that do not possess all the knowledge in the field and any elaboration will affect them in a way that they would be discouraged from entering the business.

Saving through insurance is a purposeful, continuous, and long-term – which is a precondition to concrete contracts on life insurance. What is characteristic for saving through insurance is the set expiry date (typically 10 years) and the savings goal expressed by the insured amount. It consequentially implies that the saving through insurance is disciplined, continuous, long-term and purposeful, this is, it has all the characteristics of continuous savings.

By providing the function of economy protection and the function of assets accumulation, life insurance also indirectly accomplishes a very important social function. The social function of life insurance is present in the fact that its purpose is of interest for the entire society. Due to that, the government's intervention and insurance control are expressed through legal regulations of contracts on insurance for the purpose of establishment of equality of the contract parties, of the conditions for the insurer solvency and practicing audits on the insurance companies. It is in the interest of every country to create a list of kinds of mandatory insurance of responsibility that functions on the behalf and for the benefit of third parties.

Social function of insurance is represented by the means of protecting individuals from the risk of death (life insurance), and disability (accident insurance), obtaining the health –related procedures (health insurance) and material support at old age (pension insurance). However, the social function of insurance springs from the obligation of insurance companies to provide compensation for individuals who suffer consequences of accidents regarding their personality or property during traveling in the public transport with no personal guilt. This group includes the ones hurt by a motor vehicle or an aircraft.

When insuring individuals, the insured amount is an important element of the contract of insurance. If there are no insured values, it is only the height of the insured amount that can serve in the evaluation of the premium. On the other hand, when there is an insured case, the insured amount is the upper limit for the insurer's responsibility. If there is no insured value, there is no relationship between the insured amount and the value, and therefore in the insurance of individuals the rules for over and underinsurance are not applied

4. THE OBLIGATION OF PROVIDING ANTECONTRACTUAL INFORMATION IN ACCORDANCE WITH EU LEGISLATION AS ONE OF THE WAYS FOR INFORMATION TRANSFER TO THE END USER

When creating a contract on life insurance certain rights and obligations of the contract parties are established. One of the insurer's obligations that ensue once the contract has been made is the obligation of providing ante contractual information to the end user of the insurance services.

The basic source of the EU legislation are the EU Directives that directly obligate the EU member countries regarding the aims they denote. There are three directives regarding insurance that obligate the EU member countries to state that certain information denoted by the Directives have to be pointed out to clients. The first one states this very obligation for life insurers, the second one states the obligations of the non-life insurers and the third one states obligations for insurance mediators. These are the following: Directives 2002/83/EC of the EU Parliament and Council for life insurance (Act 36) (Official EU Gazette No L 345, 19. 12. 2002), page. 1 – The Directive has been edited by Directive 2004/66/EC (Official EU Gazette No L 168, 1. 5. 2004), page 35), Directive 92/49/EEZ of the European Economy Council for the establishment of legal, sublegal and executive acts that directly impact direct insurance , except life insurance, that also edits and modifies Directives No 77/239/EEC and Directives 88/357 EEC („The Third Directive for Non-life Insurance”), act. 31. and 43. (Official EU Gazette No L 228, 11. 8. 1992, Directive that was last edited by the Directive 2002/87/EC of the EU Parliament and Council No L 35, 11.

2. 2003, page 1. And Directive 2002/92/EC of the EU Parliament and Council for insurance mediation acts 12 and 13. (Official EU Gazette No L 9, 15. 1. 2003, page. 3.).

Apart from the requests issued regarding information providing in connection with the contract that the insurers and insurance intermediaries close with the insured party in the Directive for the life insurance, The Third Directive for Non-life

Insurance and the Directive for Insurance Mediation, there are other cases in which Community Law states requests regarding provision of information that deal with trade communication. They are specific since they deal with certain professional issues thus they do not impact insurance, such as requests regarding information on package holidays, holiday packages and package arrangements, on purchase of rights for usage of immobility in the timeshare system; Cash loans and other contracts or the ones of general nature that regard all the contracts together with the contracts closed between insurers and insurance mediators with clients.

Since these requests for information that have to be stated to the client are prescribed by the Community Law, i.e. Directives, all these cases of informing are perceived as important information according to the Directive for Incorrect Trade Practice (the exact name of this Directive is : Directive 2005/29/EC of the EU Parliament and Council since May 11, 2005 for the incorrect trade practice of companies towards clients in the inner market that edits the Directive of the EU Council 84/450/EEC, Directive 97/7/EC, 98/27/EC i 2002/65/EC of EU Parliament and the Code (EC) No 2006/2004 of European Parliament and Council, Official EU Gazette , No. L 149, 11. 6. 2005), which perceive violations of the above stated regulations regarding information providing as an insincere and incorrect trade practice. Apart from the aforementioned, the information that the insurers and the insurance mediators have to provide for the individuals that are in a position of a client are stated in the acts 5. and 6. of the Directive 2000/31/EC for e-trade (The exact name of this Directive is Directive 2000/31/EC of the EU Parliament and Council since June 8, 2000 for certain legal aspects of the services of the IT society, especially regarding e-trade inside the inner market the so called. "E-trade Directives", Official EU Gazette No L 178, 17. 7. 2000, pp. 1–16). And the acts 3, p. 1, act. 4 and act 5. Directive 2002/65/EC for distance marketing of the financial cash services (The exact name of this Directives is Directive 2002/65/EC of the EU Parliament and Council since September 23, 2002. regarding distance marketing of financial cash services that edit Directive 90/619/EEC and Directive 97/7/EC and 98/28/EC, the so called "Directives for the distance marketing of financial cash services".

5. THE OBLIGATION OF ANTECONTRACTUAL INFORMATION PROVISION IN ACCORDANCE WITH NATIONAL LEGISLATION AS A MEANS OF TRANSFERING INFORMATION TO THE END USER

EU member countries had the obligation to put into practice, in their legal systems, the realization of the above mentioned Directives and to regulate the obligation of the insurer to provide ante contractual information, for several reasons one of which is protection of clients and normal functioning of the inner EU market. We will take legal regulations from Czech Republic and Slovakia as examples. We have chosen these two countries' legal systems because these two

have relatively recently become the EU members and have an experience in the application of the Community Law through creation of national regulations.

The regulations regarding the so called client information that are provided by the Czech insurers are placed inside the scope of the Insurance Contract Law Regulations in a separate (fifth) chapter under the title “Special regulations”

They are divided into two groups. One group is the information given to the interested parties that include information provided before the contract is closed to the party interested in the insurance contract closure, regardless the status (user or non-user), by which the obligation of information provision is extended outside the mandatory circle of insurer- user which the information provision is connected to according to the EU Directives. The other group of information is the one aimed at the insurer. This is the information provided by the insurer on a constant basis within the insurance contract’s expiry date to the other party in the contract, again regardless his being a client or not.

Information from both these groups has to be provided in a clear and accurate manner in writing and in Czech language. The information may be provided in a language other than Czech if the interested party or the insurer demand so, or if they can take the liberty to choose the legislation that would be put into practice in the insurance contract.

The information provided to the interested party before the insurance contract is closed are divided into three categories: 1. information regarding the insurer’s status that regard any kinds of insurance (the general type) 2. Information regarding responsibilities taken up with the insurance contract in the kind of individuals insurance that is stated upon the contract closure 3. Information that the insurer must provide to the interested party as additional before the distance insurance contract has been made, that regard individuals insurance. By grouping and stating the content of information that is provided to the insurer in this way, the Czech Insurance contract Law in this scope of regulations has both the undoubtedly high quality of simplicity and clarity of the information formulation that is transferred to the end user. Apart from the already mentioned quality there is the obligation to provide information that is expanded to contracts regarding insurance of non-individuals. If the content of all these information groups is revisited, it is obvious that they mostly cover all requests regarding the information established by the EU for the member countries in the before mentioned (the so called “individuals’”) Directives.

Regarding the information that is provided before the distance individuals insurance contract, for the insurer there are two more duties prescribed by the Insurance Contract Law: It is necessary to, at the moment of closure of such a contract, inform the party interested in the distance insurance contract that they are, at a personal request, in the position to gain further information if its nature is stated and that the insurer is obliged to provide the information on a solid medium in due time, long enough before the interested party in the contract takes up the responsibilities stated in the insurance contract.

At any moment during the contract’s validity, the insurer, according to the Czech law has a right to obtain the insurance rights printed on the contract of the insurance, as well as to change the

means of distance communication that he used prior to that. By this insurer-friendly rule established, their legal security in distance contracts is reinforced.

If compared to the Czech Insurance Contract Law, Slovakian Civil Law pays significantly less attention to the obligations of the insurer when it comes to the obligation of information provision.

Common for all the information that the insurer states is the fact that they need to be printed in Slovakian language. This information can also be provided upon the state's or the insurer's request, in the language or the languages of the countries whose legislation has been practiced on the insurance contract or the parties have the liberty to choose the legislation in effect.

6. FINAL CONCLUSIONS

The insurance contract is an aleatory kind of a contract since the subject of the obligation is damage or loss compensation that would impact the insured party as a consequence of an insured circumstance the occurrence of which would be unsure and possible at the moment of the insurance contract closure and in accordance with the legal order and positive regulations. The principle of aleatority of the insurance contract subject is therefore in accordance with the notion of aleatority, since it denotes that there is no probability in terms of equivalence of the amount of the obligations of the parties in the contract. When speaking of the insurance contract, it can be said that it is a *sui generis* contract that in itself contains features of aleatory contracts and insurance contracts.

The flexibility of life insurance is reflected in possibility to pay out the redemption value under certain conditions defined by the insurance conditions. On the other hand, the insurers would be able to offer a certain additional fees for the insurance of these circumstances by a precise definition of the conditions under which the insurer's responsibility takes place and without a discount of the insured amount in the case. The recent development in additional insurance for the circumstances of accidents inside the life insurance basis goes in the direction of the separation of the accidents insurance contract as a separate type.

A special contribution to this direction would come from a better information distribution and a better knowledge of the end users of the insurance who could, by this, become more actively involved in the processes. The transfer of knowledge from professional members of the insurance business to the end user would be in more ways beneficial and it would in turn yield rather positive effects. First the end users would enter the insurance business freed from the fear and insecurity. Next, everyone would gain quite good knowledge about their rights and obligations regarding the closed contract. They could suggest certain improvements of the conditions stated in the insurance contract in due time, and they could also be actively involved in giving suggestions for certain changes that are addressed to responsible state's institutions. Better education, as a consequence of a good and quality transfer of knowledge represents a motivational force that can yield immense benefits for an economy branch of such great importance as insurance is.

Finally, it is obvious that the higher the general development stage is, the more developed the insurance is; and the more developed the insurance is, the more developed life insurance is. Also, what is essential is permanent education of citizens about the advantages of life insurance as well as the promotion of the insurance culture together with the introduction of the tax concessions. Further and ever faster development of financial markets is a must for the fact that they are rather shallow nowadays which in turn provides limited possibilities for financial placements of life insurance funds.

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