STANDARD OF LIVING AND INSURANCE – WHETHER INSURANCE IS A LUXURY OR A NECESSITY?

Vera Karadjova [1*], Aleksandar Trajkov [1]

[1]Faculty of tourism and hospitality – Ohrid, UKLO Bitola

*corresponding author: vera.karadjova@uklo.edu.mk

Abstract: The paper brings together the two key challenges of modern insurance – microinsurance products and catastrophic risks; and having in mind Insurance principles, attempts to put Risk Management function between its social and economic dimension. In order to answer to the main question "Whether insurance is a luxury or a necessity?" besides the economical, also sociological, psychological, cultural, and financial factors have to be included, such as: legal framework regulating the insurance market (compulsory and optional insurance); the level of awareness for the need of buying insurance services (because it is usually about types of risks that the frequency of occurrence is not extremely expressed); and the level of living standard, or the availability of insurance services for socially vulnerable categories of the population in a specific economy environment.

The paper refers to the analysis of the socially vulnerable strata of the population that could potentially be involved in the demand of insurance services and the microinsurance models that could be applied in countries that have not still developed this form of insurance. It's about the ability of low-income populations to meet their daily needs, in any economic environment and regardless of the degree of the economy development. The low standard of living and the inability to meet basic living needs can only at first glance point in the direction of the luxury of purchasing a particular insurance service. Uninsured risks, regardless of the type of risk in question, especially badly affect poorer categories of society which cannot cope with the catastrophic losses from negative shocks

INTRODUCTION

Although the answer to the topic question seems very simple and obvious, if we take into account as many factors that make causality in this relationship, the answer may vary more. The question is not precisely set in terms of whether insurance is really a luxury for certain strata of the population and whether they actually need it, but rather in terms of how they perceive it in their own perception. In this sense, the analysis must include sociological, psychological, cultural, and financial factors. A key financial factor in the approach to answering this question is the standard of living and the ability of low-income populations to meet their daily needs, and after that to understand and realize the need for purchasing insurance coverage. The low standard of living and living below the poverty line at first glance suggest that purchasing an insurance service for this population is indeed a luxury. But that "luxury" can be seriously useful if a damage occurs that they would not have the financial capacity to cover. In any case, the demand for insurance as a basic strategy for risk management is mainly determined by the level of living standard and the possibility of purchasing insurance services by socially vulnerable categories of the population. Such a correlation, in turn, leads to that situation, that uninsured risks, especially badly affect poorer categories of society which cannot cope with the catastrophic losses of any kind. In fact, mutuality and solidarity as the basic principles on which insurance is based move in the direction of raising the importance and need for insurance for low income earners.

Having in mind that, risks are objective category that exist regardless of the people wishes and needs and regardless of the level of the human community development (Karadjova, 2012), and the risks existence is an axiom; risks are integral part of every person live and every business and they are part of low income people live too. A great number of risks belong to history, but some new risks that follow the progress appear. There are a number of risks that people in modern conditions cannot resist, so, manners to live with risks have to be found. Two basic possibilities for solving risk situations which are also part of insurance industry are: to act preventively; and to act in the direction of eliminating the consequences of accidents. The question is which risks meet the basic prerequisites for being subject of insurance, and what innovative solutions can be found for at least some of those who do not meet some of those prerequisites to get involved in the insurance business. Particularly important category of risks in this context are the catastrophic risks and threats that arise from them in underdeveloped and developing countries, thus necessitating the incorporation of insurance as a key strategy to deal with these risks. Having

in mind solidarity while we are faced with catastrophes, it is a link between Insurance and catastrophic risks. This is primarily in the context of natural disasters (as a main category of catastrophic risks: earthquakes, floods, fires, pandemics etc.), and the inability of small and underdeveloped economies to finance the consequences of such risks. It is about risk hedging that is not an immediate and technical, but indirect, have an economic nature and is achieved by compensating the damages by association; risk sharing and jointly covering of the damages.

In conditions of severe natural disasters of any kind (which are statistically monitored and processed), the uncertainty on which we all are exposed to, gain intensity (Karadjova, 2016). Starting point for everyone is raising awareness for the need of insurance against catastrophe risk evens in terms of having data on catastrophic risks in the past and the damage they caused. We are talking about risks that are rare, but if they occur, they can cause catastrophic damage that lead to large financial losses. The % of Insurance against catastrophic risks has very low participation as a world average. In terms of lack of insurance, the costs to cover the financial damages caused by natural disasters are borne by the state, and it is a really great problem to deal with those financial expenses for underdeveloped and developing countries with a big percentage of low income population. The main objective is to emphasize the role of the insurance sector in the management of the catastrophic risks, and in that sense to raise awareness and responsibility of all stakeholders to insurance the property from catastrophic risks by achieving the principles of mutuality and solidarity in covering potential damages. In this way, the macro and micro approach in the processing of the topic is combined, which gives the elaboration more scope and complexity, but simply the two approaches are inevitably intertwined and causally connected each to another.

So, the final goal is to stress the threats of catastrophic risks and the benefits of insurance against them, as one of the best strategies for catastrophic risks management. In the multitude of arguments for and against the use of insurance as a method for financing risks, primarily is that this method reduces uncertainty and the danger of financial losses, but also that the paid premium is a major expense (the possibility of investment of the such engaged funds collapses). Without applying the strategy of insurance for managing of the catastrophic risks, the costs that they cause and slowing of the economic growth has enormous dimensions. The destruction of property and living resources during natural disasters provoke the regress of development results and worsen the poverty rate, usually over a longer period of time. Typical disasters reduce economic growth about 1% to 2% of GDP, but they unfortunately may have two-digit numbers. Empirical

literature suggests that the impact of major disasters on the growth rate is largely negative (Hochrainer, 2009). Such catastrophic risks have an additional negative effect on underdeveloped economies in terms of additional food shortages, causing an avalanche effect on economic flows and living standards.

LIVING STANDARDS AND VULNERABLE STRATA OF THE POPULATION – ISSUE OF POVERTY

The standard of living as a complex concept basically refers to the use and enjoyment of tangible and intangible goods and services, whether the individual provides them for themselves or they are provided by the wider social system. The basic factors that condition the living standards are as follows: (1) the level of the country's economic development (in this context we should mention labor productivity); (2) macroeconomic (in) stability in the country; (3) allocation policy, etc. The higher the level of development is the higher is the average level of living standard of the population as a whole (which of course does not exclude differences between the individual classes of the population). More importantly, countries with a higher level of economic development basically have higher labor productivity, primarily because of the better equipment and better human capital. This provides a more permanent basis for a high standard of living, because ultimately the standard of living depends on the achieved level of labor productivity in the given economy (Mojsoski & Karadjova, 2002). On the other hand, in countries with low levels of economic development, less opportunity for personal consumption exists, as the level of GDP per capita is less (Karadjova & Dicevska, 2018). The basic indicator for production quantification in all countries in the world and according to which they are classified in reference to the development level is gross domestic product (GDP) and gross domestic product per capita (GDP per capita). GDP is considered the "world's most powerful statistical indicator of national development and progress" (Lepenies & Gaines, 2016). The ratio of GDP to the total population of the region is the per capita GDP. But, nominal GDP per capita does not, however, reflect differences in the cost of living and the inflation rates of the countries; therefore, using a basis of GDP per capita at purchasing power parity (PPP) is arguably more useful when comparing differences in living standards between nations (Karadjova & Dicevska, 2019).

Table 1 is an overview of just such data for GDP per capita, PPP (current international $) for 2021, according to the official data of World Bank (World Development indicators). GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies

not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U.S. dollars (World Bank national accounts data; OECD National Accounts data files, 2022). Table 1 presents data for countries with the highest GDP per capita, data for European countries and some countries with the lowest GDP per capita. Differences ranging from 134753.8 in Luxembourg to 793.2364 in Burundi are evident. Large differences are also noticeable between countries in Europe, ranging between the highest amount in Luxembourg and the lowest in Bosnia and Herzegovina of $16846.46. GDP per capita is not much different in North Macedonia ($17918.08), Serbia ($21432.41), Montenegro ($22795.41) and Bulgaria ($26705.44), where it is slightly higher. But the question that arises is the correlation between the amount of available funds, the exposure to risks and the need and possibility of buying insurance.

Table 1. GDP per capita (PPP ccurrent international $), 2021 worldwide

Rank	Country Name	Country Code	GDP per capita, PPP (current internatio nal $) 2021	Rank	Country Name	Country Code	GDP per capita, PPP (current international $) 2021
1.	Luxembour g	LUX	134753,8	49.	Romania	ROU	35413,99
2.	Singapore	SGP	116486,5	50.	Latvia	LVA	34468,6
3.	Ireland	IRL	106455,8	51.	Bahamas, The	BHS	34107,85
4.	Qatar	QAT	93521,44	52.	Croatia	HRV	33800,55
5.	Bermuda	BMU	85192,32	53.	Slovak Republic	SVK	33010,29
6.	Norway	NOR	79201,23	54.	Russian Federation	RUS	32803,36
7.	Switzerland	CHE	77324,09	55.	Panama	PAN	31680,19
8.	Macao SAR, China	MAC	73802,23	56.	Greece	GRC	31295,15
9.	United States	USA	69287,54	57.	Turkiye	TUR	30472,38
13.	Denmark	DNK	64651,22	58.	Seychelles	SYC	29837,46
14.	Holland	NLD	63766,89	59.	Malaysia	MYS	29617,3
15.	Sweden	SWE	59323,96	60.	Chile	CHL	29104,06
16.	Belgium	BEL	58930,94	61.	Kazakhstan	KAZ	28599,99
17.	Austria	AUT	58427,5	62.	Trinidad and Tobago	TTO	26868,09
18.	Germany	DEU	57927,59	63.	Bulgaria	BGR	26705,44
19.	Iceland	ISL	57646,41	74.	Montenegro	MNE	22795,41
20.	Australia	AUS	55807,44	78.	Serbia	SRB	21432,41
21.	Finland	FIN	55006,65	90.	Macedonia	MKD	17918,08
24.	Canada	CAN	52085,04	100.	Bosnia and Herzegovina	BIH	16846,46
26.	France	FRA	50728,67	206.	Ethiopia	ETH	2599,736
27.	United Kingdom	GBR	49675,3	216.	Sierra Leone	SLE	1816,17

Rank	Country Name	Country Code	GDP per capita, PPP (current internatio nal $) 2021	Rank	Country Name	Country Code	GDP per capita, PPP (current international $) 2021
28.	Saudi Arabia	SAU	49551,33	217.	Malawi	MWI	1658,334
34.	Italy	ITA	45936	218.	Madagascar	MDG	1635,418
38.	Slovenia	SVN	43624,67	219.	Chad	TCD	1590,553
39.	Japan	JPN	42940,41	220.	Liberia	LBR	1552,807
40.	Lithuania	LTU	42665,32	221.	Mozambique	MOZ	1342,29
41.	Cyprus	CYP	42556,11	222.	Niger	NER	1309,814
42.	Estonia	EST	42191,51	223.	Somalia	SOM	1302,453
43.	Spain	ESP	40775,28	224.	Congo, Dem. Rep.	COD	1218,768
45.	Poland	POL	37502,56	225.	Central African Republic	CAF	1020,533
47.	Hungary	HUN	36752,52	226.	Burundi	BDI	793,2364
48.	Portugal	PRT	35888,17				

Source: adapted according to The World Bank, World Development Indicators (The World Bank, 2022)
https://databank.worldbank.org/reports.aspx?dsid=2&series=NY.GDP.PCAP.PP.CD

Table 2 provides an overview of GDP per capita (current US$) for selected European countries (some of them as highly developed, and some as countries from Central and Eastern Europe with a lower level of development), for the period from 2014 to 2021. GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. The data presented show the dynamics of GDP per capita over a period of almost a decade, as well as the huge difference of this indicator between countries (almost ten times the indicator differs in developed compared to some less developed countries). All this in the direction of the need to examine the correlation between the degree of the countries development, the standard of living of the population in individual countries and the interest in purchasing insurance services for the risks that exist regardless of the degree of development (fires, floods, earthquakes and other elementary accidents).

Table 2. GDP per capita (current US$), 2014 - 2021
(Selected European countries)

Country Name	Country Code	2014	2015	2016	2017	2018	2019	2020	2021
Austria	AUT	51786	44196	45308	47429	51487	50114	48589	53268
Germany	DEU	48024	41103	42136	44653	47974	46795	46253	50802
France	FRA	43069	36653	37063	38781	41593	40579	39037	43519
Italy	ITA	35566	30242	30961	32407	34622	33673	31835	35551
Slovenia	SVN	24247	20890	21678	23514	26117	25943	25490	29201
Europe & Central Asia	ECS	26388	22625	22455	23704	25298	24915	23981	27114
Greece	GRC	21617	18084	17924	18582	19757	19134	17647	20277
Croatia	HRV	13762	11933	12528	13629	15228	15312	14132	17399
Bulgaria	BGR	7902	7075	7569	8366	9447	9879	10079	11635
Montenegro	MNE	7388	6517	7033	7803	8850	8910	7695	9367
Serbia	SRB	6600	5589	5765	6293	7252	7417	7731	9215
North Macedonia	MKD	5496	4862	5150	5450	6109	6070	5846	6721
Albania	ALB	4579	3953	4124	4531	5288	5396	5332	6494

Source: adapted according to World Bank national accounts data, and OECD National Accounts data files

The graphic presentation of Figure 1 clearly shows a trend of almost perfect parallel movement of GDP per capita changes in the analysed countries, with almost no intersection of trends. Certain changes of increase and decrease of GDP per capita are noticeable, but they occur almost at the same time in all the analysed countries, and the countries keep the rank they had before, regardless of the current changes and oscillations. Without going into detail about the causes of those changes, it is likely that these are changes caused by exogenous factors.
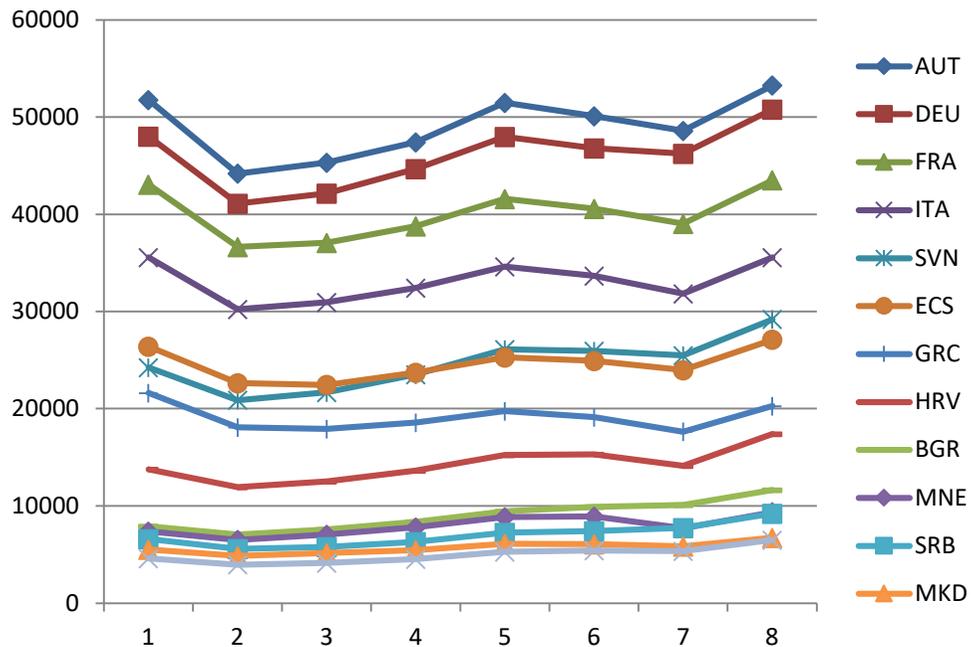
Figure1. GDP per capita (current US$), 2014 - 2021 (Selected European countries). *Source: adapted according to The World Bank, World Development Indicators* (The World Bank, 2022)
https://databank.worldbank.org/reports.aspx?dsid=2&series=NY.GDP.PCAP.PP.CD

The issue of GDP per capita is closely related to the issue of poverty. Most simply, for poor are considered persons, families and groups of persons whose resources (material, cultural and social) are at a level that excludes them from the minimum acceptable manner of living in the country in which they live. Poverty, as defined by economics, is a state or condition in which a person or community lacks the financial resources and essentials to enjoy a minimum standard of living and well-being that's considered acceptable in society (Karadjova & Dicevska, 2018, p. 35). Poverty may be defined as a human condition characterized by sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights (United Nations Committee on Social, 2001). Living below the poverty threshold also means that a certain number of citizens are unable to meet basic needs or cover the costs of normal living (housing, food, electricity, water, etc.). The concept of living standards is closely linked to the poverty problem. In the same time, macroeconomic stability, i.e. price stability is one of the primary factors that determine living

standards. So, unstable prices, i.e. inflation in conditions of constant nominal wages or in conditions when wages grow slower than the rise in prices, reduce their real value. Therefore, whenever we analyse the level of personal consumption and the living standard, price changes must be considered. There are several ways to define and measure poverty. The differences mostly arise from the different ways of collecting and analysing the statistical data. The most commonly used poverty indicators are *absolute* and *relative poverty* indicators. Both indicators define a poverty threshold, or poverty line, and people who fall below this line are considered poor. *Absolute poverty* (also known as extreme poverty) means the lack of sufficient resources to provide the basic necessities of life, including, among others, safe drinking water, food or sanitation. The poverty line is often calculated based on income: when a person's or family's income falls below a certain level that is considered the minimum required for a reasonable standard of living, then this person or family is considered poor. When talking about poverty in Europe, poverty is generally understood as *relative poverty,* and a person or household is considered poor when their income and resources are worse than what is considered adequate or socially acceptable in the society in which they live. Due to a lack of income, those who are poor are often excluded from participating in some economic, social and cultural activities that are considered the norm for other people, and their enjoyment of basic rights may be limited (European Commission; Directorate-General for Employment and Social Affairs, 2004). However, the fact that when poverty is discussed in Europe, relative poverty is usually thought of, it does not mean that there are no people living in absolute poverty in these countries. For example, 25% of children live in absolute poverty in Southeast Europe and the Commonwealth of Independent States (Sethi, et al., 2008).

The poverty line changes depending on a number of factors. Thus, the World Bank defined absolute poverty as living on less than $1.25, and Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population), Poverty headcount ratio at $3.20 a day (2011 PPP) (% of population), and Poverty headcount ratio at $5.50 a day (2011 PPP) (% of population); and the indicators to: Poverty headcount ratio at $2.15 a day (2017 PPP) (% of population), Poverty headcount ratio at $3.65 a day (2017 PPP) (% of population), Poverty headcount ratio at $6.85 a day (2017 PPP) (% of population) in September 2022. This amount is determined based on "purchasing parity" power," meaning how much local money is needed to buy the same set of items that can be bought for $2.15; $3.65; or $6.85 in the United States.

Poverty headcount ratio at $1.90 a day is the percentage of the population living on less than $1.90 a day at 2011 international prices; Poverty

headcount ratio at $3.20 is the percentage of the population living in poverty, defined as those living on less than $3.20 a day in 2011 international prices; and Poverty headcount ratio at $5.50 a day is the percentage of the population living on less than $5.50 a day at 2011 international prices. The following is a comparative overview of poverty data according to the indicators used until September 2022 for selected countries in Europe, i.e. for several countries from Eastern and Central Europe and for several developed European countries.

Table 3. Poverty headcount ratio at $1.90 a day (2011 PPP)
(Selected European countries)

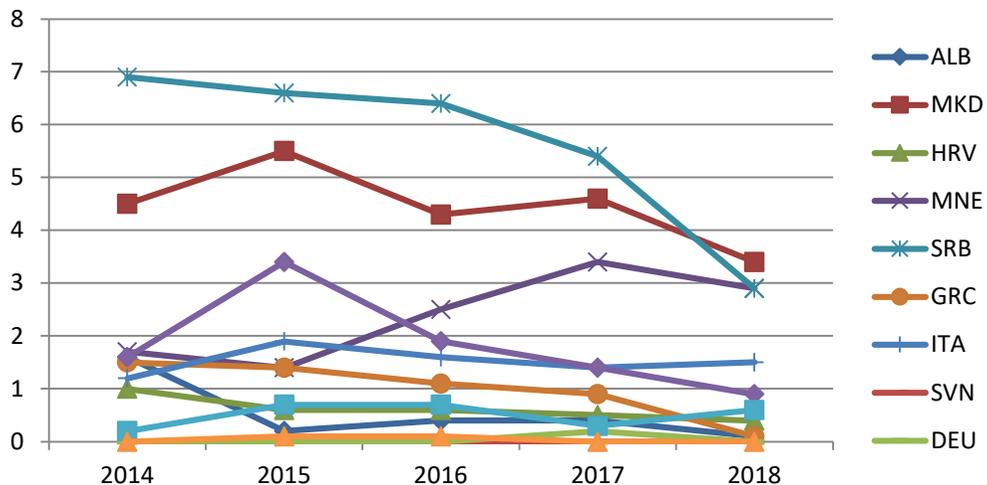| Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population) | | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Albania | ALB | 1,6 | 0,2 | 0,4 | 0,4 | 0,1 | 0 |
| North Macedonia | MKD | 4,5 | 5,5 | 4,3 | 4,6 | 3,4 | .. |
| Croatia | HRV | 1 | 0,6 | 0,6 | 0,5 | 0,4 | 0,3 |
| Montenegro | MNE | 1,7 | 1,4 | 2,5 | 3,4 | 2,9 | .. |
| Serbia | SRB | 6,9 | 6,6 | 6,4 | 5,4 | 2,9 | 2,3 |
| Greece | GRC | 1,5 | 1,4 | 1,1 | 0,9 | 0,1 | 0,7 |
| Italy | ITA | 1,2 | 1,9 | 1,6 | 1,4 | 1,5 | .. |
| Slovenia | SVN | 0 | 0 | 0 | 0 | 0 | 0 |
| Germany | DEU | 0 | 0 | 0 | 0,2 | 0 | .. |
| Bulgaria | BGR | 1,6 | 3,4 | 1,9 | 1,4 | 0,9 | 0,9 |
| Austria | AUT | 0,2 | 0,7 | 0,7 | 0,3 | 0,6 | 0,6 |
| France | FRA | 0 | 0,1 | 0,1 | 0 | 0 | .. |

Figure 2. Poverty headcount ratio at $1.90 a day (2014-2018)
Source: own reviews based on Data from database: World Development Indicators. Last Updated: 07/20/2022 (The World Bank, 2022)

Table 4. Poverty headcount ratio at $3.20 a day (2011 PPP)
(Selected European countries)

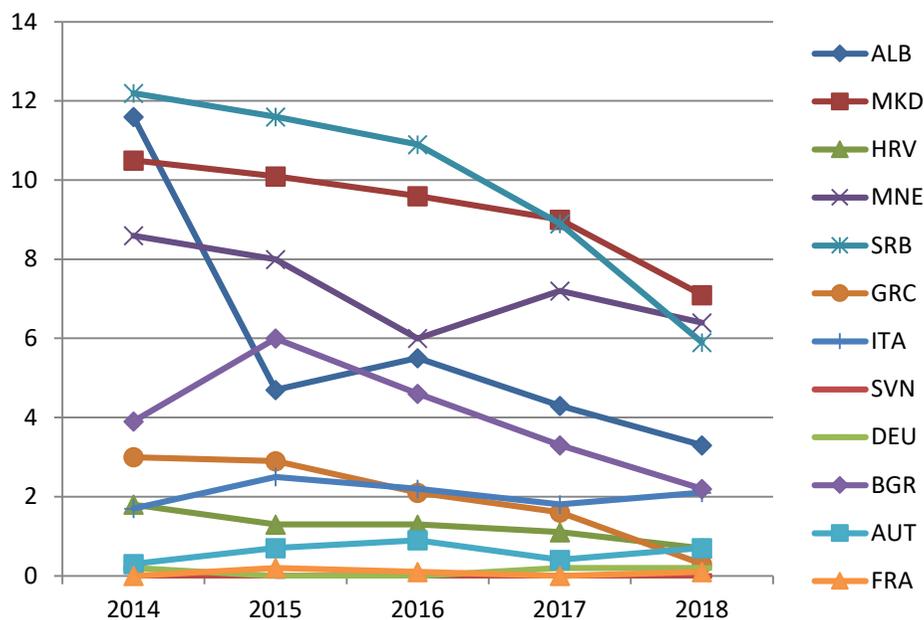| Poverty headcount ratio at $3.20 a day (2011 PPP) (% of population)							
		2014	2015	2016	2017	2018	2019
Albania	ALB	11,6	4,7	5,5	4,3	3,3	1,2
North Macedonia	MKD	10,5	10,1	9,6	9	7,1	..
Croatia	HRV	1,8	1,3	1,3	1,1	0,7	0,6
Montenegro	MNE	8,6	8	6	7,2	6,4	..
Serbia	SRB	12,2	11,6	10,9	8,9	5,9	4
Greece	GRC	3	2,9	2,1	1,6	0,3	1,3
Italy	ITA	1,7	2,5	2,2	1,8	2,1	..
Slovenia	SVN	0	0	0	0	0	0
Germany	DEU	0,2	0	0	0,2	0,2	..
Bulgaria	BGR	3,9	6	4,6	3,3	2,2	2,6
Austria	AUT	0,3	0,7	0,9	0,4	0,7	0,7
France	FRA	0	0,2	0,1	0	0,1	..

Figure 3. Poverty headcount ratio at $3.20 a day (2014-2018)
Source: own reviews based on Data from database: World Development Indicators Last Updated: 07/20/2022 (The World Bank, 2022)

Table 5. Poverty headcount ratio at $5.50 a day (2011 PPP)
(Selected European countries)

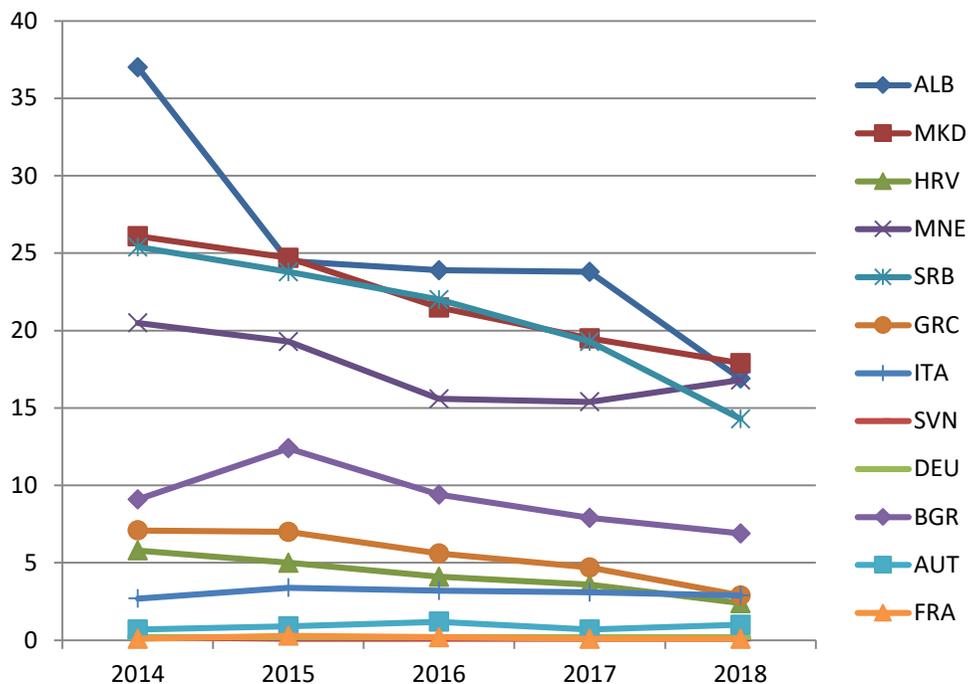| Poverty headcount ratio at $5.50 a day (2011 PPP) (% of population)							
		2014	2015	2016	2017	2018	2019
Albania	ALB	37	24,5	23,9	23,8	16,9	10
North Macedonia	MKD	26,1	24,7	21,5	19,5	17,9	..
Croatia	HRV	5,8	5	4,1	3,6	2,4	1,8
Montenegro	MNE	20,5	19,3	15,6	15,4	16,8	..
Serbia	SRB	25,4	23,8	22	19,3	14,3	10,1
Greece	GRC	7,1	7	5,6	4,7	2,9	3,4
Italy	ITA	2,7	3,4	3,2	3,1	2,9	..
Slovenia	SVN	0,2	0,1	0,1	0,1	0,1	0,1
Germany	DEU	0,2	0,2	0,2	0,2	0,2	..
Bulgaria	BGR	9,1	12,4	9,4	7,9	6,9	6,2
Austria	AUT	0,7	0,9	1,2	0,7	1	0,8
France	FRA	0,1	0,3	0,2	0,1	0,1	..

Figure 4. Poverty headcount ratio at $5.50 a day (2014-2018)
Source: own reviews based on Data from database: World Development Indicators. Last Updated: 07/20/2022 (The World Bank, 2022)

From the presented data, and especially from the graphical overviews, it can be observed that the greatest reduction in poverty among the analysed countries is in Albania, according to all three indicators. The least impressive is the decrease for the indicator $1.90 a day, because the starting position of this indicator is also low (1.6 in 2014), so after the drop to 0.2 in 2015, it remains at a very low level around zero in the following years. It is also clearly striking that there is a serious difference between the participation of the poor population in Macedonia and the surrounding countries (Serbia, Montenegro and Albania) on the one hand, and in the developed European countries, members of the EU on the other hand, at least in the analysed period. Namely, these findings refer up to 2018, until when official data on Poverty headcount ratio is available, and it is to be expected that some differences in trends have occurred in the last few years, i.e. after the health crisis that started in 2020, and then spilled over into all other areas of social life. Those differences are most striking for the indicator Poverty headcount ratio at $5.50 a day, where four countries (Serbia, Montenegro, Macedonia and Albania) with a noticeably higher share of poorer population or population below the poverty line are clearly differentiated compared to the other more developed selected countries. whose data on the percentage share of the population living on less than $5.50 a day is significantly lower on the graph. For the data that refers to $3.20 a day, Albania shows the most pronounced decline and separates from the countries in the region, and approaches the same data for more developed countries. Serbia also recorded a significant drop in this indicator (from 12.2 in 2014 to 5.9 in 2018). According to all three indicators, Macedonia has the highest share of poor population and population at the poverty threshold among the countries selected in the analysis, and among the countries in the surrounding area.

In addition to GDP per capita, living standards, Poverty headcount ratio and some related indicators through which the emergence of poverty can be expressed, many scholars believe that poverty relief is much more than providing access to wealth. Some other indicators have been developed in that direction, and one of those new approaches to reducing poverty has been developed together with a new method for measuring development. It is about the indicator called Human Development Index (HDI). The Human Development Index (HDI) was created to emphasize that people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone. HDI is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions (UNDP, 2022). The generally accepted principle that economic development

is not an end in itself, but should be in the direction of overall human development, still encounters difficulties in its application (Karadjova & Trajkov, 2022). It is this indicator that can serve to more fully present the interconnection between the standard of living, the occurrence of poverty and the need for insurance. Namely, a long and healthy life needs insurance and the reduction of expensive health care costs, especially for the poorer strata of the population, and a decent standard of living with all the elements that determine this category means maintaining the standard of living at a decent level, even when any harmful events occur that cause financial expenses, and especially in situations of the occurrence of some catastrophic risks.

LIVING STANDARDS, CATASTROPHIC RISKS AND THE NEED FOR INSURANCE AS RISK MANAGEMENT STRATEGY

Knowing that risks are an integral part of the life of every person and every business, implies that they are certainly a part of the life of people with low incomes. In all countries, regardless of the level of economic development, there is a greater or lesser percentage participation of a population that is poor (by any definition of poverty) or living on the poverty line. Therefore, the question that is universally imposed for all economies in the world is the choice of an optimal risk management strategy, especially for the socially vulnerable strata of the population, and even more so if it is a question of catastrophic risks. The primary risk management strategy is related to the principles of solidarity and mutualism, which in turn have a pronounced significance for people with a low standard of living. Of course, we are talking about insurance, and the demand for insurance services, in addition to depending on the available purchasing power of the population, is largely determined by the legal framework that regulates the insurance market (in the sense of which types of insurance fall into the category of mandatory and which in optional insurance), from the level of awareness of the need to purchase insurance services (especially when it comes to types of risks where the frequency of their occurrence is not significantly expressed). The use of insurance as a basic risk management strategy certainly depends primarily on the level of living standards or the availability of insurance services for the socially vulnerable categories of the population in the national economy. Uninsured risks, no matter what kind of risk it is, particularly hardly affect the poorer categories of society who cannot cope with catastrophic losses of any kind and do not have the financial capacity to cover the resulting damages.

In that sense, and bearing in mind the necessity of insurance as a risk management strategy, one of the possibilities for overcoming the

perception of insurance as a luxury is the use of microinsurance products. The concept of microinsurance is based on the idea of merging the necessary and useful, or merging the business and the social responsibility. It is about linking the offer of insurance products and socially vulnerable categories of the population, where insurance products are offered at extremely low prices. Thus achieves significant expansion of the sales on the market of insurance products, but also ensure an opportunity for risk management of a large part of the population which cannot afford using of insurance in order to provide health care, quality education or compensation for damages caused by catastrophic risks (Karadjova & Dicevska, 2017).

The term "microinsurance" typically refers to insurance services offered primarily to clients with low income and limited access to mainstream insurance services, regardless of whether we are talking about developed, undeveloped or developing countries. In fact, the microinsurance from one hand have social dimension that refers to providing protection of low-income population from certain specific types of risks, but on the other hand realizes significant economic effects on the development and expansion of the insurance services market by inclusion of economically disadvantaged strata of the population on the insurance products demand side. The principal distinction from traditional insurance is in targeting of low income people, which leads to distinct characteristics and objectives, including addressing the particular risks of low income people (health insurance, insurance against unemployment, insurance against catastrophic risks, etc.) (Karadjova & Dicevska, 2017). The question that arises in these circumstances is: *How poor do people have to be for their insurance protection to be considered micro?* The answer varies by country, but generally microinsurance is for persons ignored by mainstream commercial and social insurance schemes, persons who have not had access to appropriate products. Of particular interest is the provision of cover to persons working in the informal economy who do not have access to commercial insurance nor social protection benefits provided by employers directly, or by the government through employers (Churchill, 2007).

In the multitude of arguments for and against using insurance as a method of financing risk, the primary advantage is that it reduces uncertainty and the risk of financial loss, but on the other hand the premium paid for insurance can be a large expense that reduces the possibility for consumption or saving of available funds; or, in an even worse situation, if it is a population living at or below the poverty line, it may happen that there are not enough funds left to purchase insurance after the basic needs of life are met. In that sense, the concept of microinsurance appears as a reconciliation of the two conflicting situations that arise in almost all

economic realities - the arguments for the need for insurance and the limited funds for the use of insurance products by the low-income population. Such exclusion of the poor from the insurance institution often stems from the perception of people with a low standard of living that the payment of the insurance policy is an unnecessary cost that would additionally burden their modest budget for a service which they probably "will not need". Contrary to that view, usually those with modest incomes are most in need of insurance coverage in situations of arising of any kind of risk for which they have not financial capacity to cover independently (Karadjova & Dicevska, 2017).

Generally, insurance is a very suitable risk management tool for all entities exposed to the risk of loss, taking into account the risk-return-cost ratio. This means that this tool is especially suitable when the probability of damage occurring is low, but if it does, the loss would be large. What must be kept in mind is that insurance as a way of managing risks can be used to manage pure risks, but not financial risks, and in this sense is available to all entities. The dilemma which has been imposed for a long period in the development of insurance regarding catastrophic risks has also been overcome and they also can be managed with this strategy. Having in mind solidarity while we are faced with catastrophes, it is a link between Insurance and catastrophic risks. We are talking about risks that are rare, but if they occur, they can cause catastrophic damage that lead to large financial losses. Talking about catastrophic risks, nearly all of them fall into the category of pure risks, i.e. risks that can be managed by using insurance. Regarding the use of this method of risk management by financial institutions it is necessary to emphasize that ensuring for the insurance institutions is imminent primarily through the institutes co-insurance and reinsurance (Karadjova, 2012, p. 341). But, without applying the strategy of insurance for managing of the catastrophic risks, the costs that they cause and slowing of the economic growth has enormous dimensions. The destruction of property and living resources during natural disasters provoke the regress of development results and worsen the poverty rate, usually over a longer period of time. Typical disasters reduce economic growth by 1% - 2% of GDP, but they may have deeper effects, as it happened during the earthquake in Kobe in 1995, when the GDP per capita decreased by 13% over a longer period of time (World Bank, 2013, p. 60). Empirical literature suggests that the impact of major disasters on the growth rate is largely negative (Hochrainer, 2009, pp. 8-10).

Catastrophic risks of the category natural disasters meet all the conditions needed to be treated as a subject of insurance, and that makes them official candidates for insurance, but it must be bear in mind that the % of Insurance against catastrophic risks has very low participation as a world average. In

terms of lack of insurance, the costs to cover the financial damages caused by natural disasters are borne by the state, which is a really great problem to deal with those financial expenses, especially for underdeveloped and developing countries with a big percentage of low-income population. Given the impossibility of small and underdeveloped economies to finance the consequences of such risks, a way to protect against risk is needed that is not immediate and technical, but indirect, has an economic nature and is achieved by compensating damages by pooling; risk sharing and joint coverage of damages

CONCLUDING CONSIDERATIONS

The essential function of insurance to provide solidarity coverage for damages in at-risk communities is the basis of the question of whether insurance is a luxury for those with lower incomes. In fact, from the historical emergence of the idea of mutual and joint coverage of damages, insurance has the character of solidarity and "help" to those in trouble and to those who cannot independently cope with the consequences of harmful events, regardless of the reasons for their occurrence. In any case, the most seriously threatened are the poorest, i.e. those who do not have the financial capacity to independently compensate for the damages incurred. Among other things, the threats from catastrophic risks and the benefits of insurance against them should be emphasized, as one of the best strategies for catastrophic risks management.

Despite the existence of numerous arguments for and against the application of insurance as a method of financing numerous risks, insurance remains one of the key strategies for covering incurred damages, given that it reduces uncertainty and the danger of financial losses. Although at first glance it seems that a low standard of living reduces the possibility of purchasing insurance services, it is precisely the low standard of living that is a problem for the coverage of incurred damages, despite the low probability that some of them occur. This is especially important when it comes to catastrophic risks, considering that the damages that would occur due to their eventual occurrence would be enormous. Without applying the strategy of insurance for managing of the catastrophic risks, the costs that they cause and slowing of the economic growth has enormous dimensions. The destruction of property and living resources during natural disasters provoke the regress of development results and worsen the poverty rate, usually over a longer period of time.

In countries with the highest level of development, also a certain percentage of the population lives below the poverty line. There is an interaction

between living standards and insurance indicators, i.e. the need for specific insurance products for socially vulnerable layers of population. The intention of the paper is to present the need for inclusion of the poorer layers of the population in the use of insurance products by applying innovative and differentiated micro-insurance products that will be harmonized with the economic environment in which they are implemented. Those products can have from one hand social dimension that refers to providing protection of low income population from certain specific types of risks, but on the other hand realizes significant economic effects on the development and expansion of the insurance services market by inclusion of economically disadvantaged strata of the population on the insurance products demand side, addressing particular risks of low income people (health insurance, insurance against unemployment, insurance against catastrophic risks, etc.). The macro and micro approach in the processing of the topic is combined, which gives the elaboration more scope and complexity, but simply the two approaches are inevitably intertwined and causally connected each to another.

REFERENCE:

1. Churchill, C., 2007. *Insuring the Low – Income Market: Challenges and olutions for Commercial Insurers, The Geneva Papers,* Geneva: International Labor Organisation.
2. European Commission; Directorate-General for Employment and Social Affairs, 2004. *Joint report on social inclusion 2004,* s.l.: Luxembourg: Office for Official Publications of the European Communities, 2004.
3. Hochrainer, S., 2009. *Assessing the Macroeconomic Impacts of Natural Disasters: Are There Any?,* s.l.: World Bank Policy Research Working Paper.
4. Karadjova, V., 2012. *Principles of Risk Management (Принципи на управување со ризик).* Ohrid: CNIR FTU - Ohrid.
5. Karadjova, V., 2016. Insurance – Key Strategy for Managing Catastrofic Risks. In: *Serbian road to the EU: Finance, Insurance and Monetary Policy.* Belgrade: Bar Code Graphics,Inc. Chicago.IL,6061,United States of America; Faculty of Business Economics and Entrepreneurship (BEE), Belgrade,, pp. 78-97.
6. Karadjova, V. & Dicevska, S., 2017. Microinsurance - Between the Social and the Economic Dimension of Risk Management. *International Scientific Journal Horizons, Series A, Social Sciences and Humanities,* 20(X), pp. 521-542.

7. Karadjova, V. & Dicevska, S., 2018. Living Standards and Microinsurance. In: *Finance and Insurance Sector Industry.* s.l.:Silver and Smith Publishers, London, UK, pp. 29-52.
8. Karadjova, V. & Dicevska, S., 2019. Economic Growth V.S. Economic Development - Complementary Indicators. *Balkans Journal of Emerging Trends in Social Sciences*, 2(1), pp. 28-38.
9. Karadjova, V. & Trajkov, A., 2022. Basic economic indicators and economic well-being. Horizons International scientific journal Series A Social Sciences and Humanities, XXXI. pp. 165-181 .
10. Lepenies, P. & Gaines, J., 2016. The Power of a Single Number: A Political History of GDP. In: New York: Columbia University Press.
11. Mojsoski, V. & Karadjova, V., 2002. *Applied Economy - Economic System & Economic Policy (Применета економија - Економски систем и економска политика).* Ohrid: CNIR FTU - Ohrid.
12. Sethi, D. et al., 2008. *EUROPEAN REPORT ON CHILD INJURY PREVENTION,* s.l.: World Health Organization, WHO Regional Office for Europe.
13. T. W. B., 2022. *World Development Indicators.* (Online) Available at: https://databank.worldbank.org/reports.aspx?dsid=2&series=NY.GDP.P CAP.PP.CD (Accessed 20 07 2022).
14. T. W. B., 2022. *World Development Indicators.* (Online) Available at: https://databank.worldbank.org/reports.aspx?dsid=2&series=NY.GDP.P CAP.PP.CD (Accessed 20 07 2022).
15. UNDP, 2022. *Human DEvelopment Reports.* (Online) Available at: https://hdr.undp.org/data-center/human-development-index#/indicies/HDI(Accessed 07 2022).
16. United Nations Committee on Social, E. a. C. R., 2001. *Poverty and the International Covenant on Economic, Social and Cultural Rights, E/C.12/2001/10.* (Online) Available at: www.unhchr.ch/tbs/doc.nsf/%28Symbol%29/E.C.12.2001.10.En
17. W. B., 2013. *Risk and Opportunity, Managing Risk for Development. World Development Report 2014,* s.l.: World Bank.
18. World Bank national accounts data; OECD National Accounts data files, 2022. *DataBank, World Development Indicators.* (Online) Available at: https://databank.worldbank.org/reports.aspx?dsid=2&series=NY.GDP.P CAP.PP.CD (Accessed 20 07 2022).