

Improving risk management in (SMEs) insurance companies and adapting them to the Corona crisis

Hasan MAKKAWI

The Bucharest University of Economic Studies (ASE)

hasan.makkawi93@gmail.com

Mamoun Walid ARIDAH

The Bucharest University of Economic Studies (ASE)

mamounaridah2004@yahoo.com

Abstract

The organizations' interest is to avoid the failure and collapse by keeping up with technological Improving risk management is important for insurance companies (SMEs) because it improves technology recognition, measurement, and risk handling, even with the continuous development in technology, risk management has become a state of uncertainty that we can measure through knowing the potential losses and gains, trying to reduce losses and trying to increase the gains, Which leads to more adaptation to technological development. Through "The Impact of Uncertainty on Objectives" that illustrates the lack of future information [1]. The SMEs insurers companies face many risks as the continued survival of small enterprises with low financial and non-financial resources are highly vulnerable to threats [2]. The use of a scientifically descriptive-analytical approach shows how insurance companies (SMEs) deal with the threat of the Coronavirus and how their risk management has evolved to confront Virus Corona using technology. The results show a statistically significant relationship, whether between risk management and keeping pace with technological development or between applying risk management steps. The results are expected to help increase the SMEs insurance companies' knowledge of the concepts of risk, risk management, and insurance industries, and increase business performance, evaluate and discuss the concepts and steps of risk management and link them to the sector practical results. The conclusion is that applying risk management steps and keeping pace with technological development reduces all risks, helps the institution to sustain itself, and helps the economy to develop.

Keywords: risk management, insurance industries, New Firms • Startups.

Jel: G32, G22, M13.

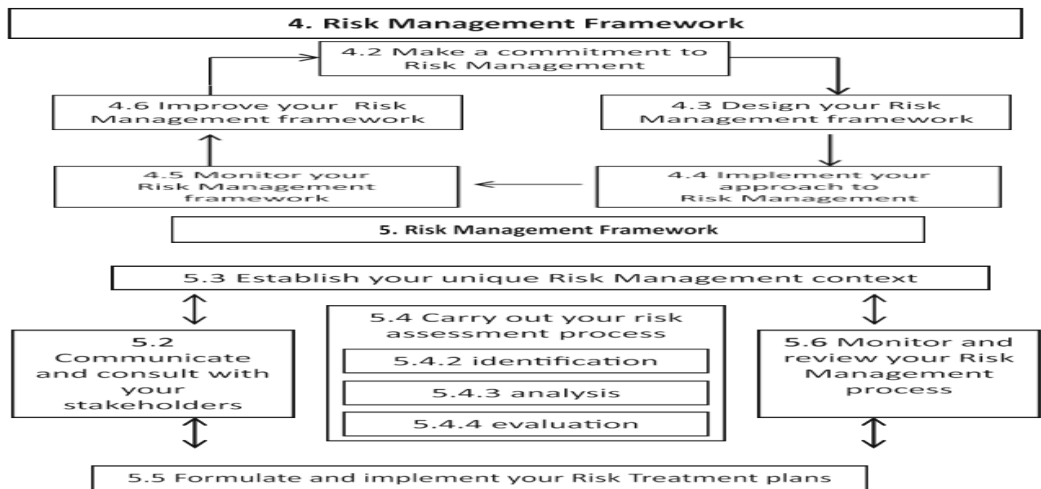
1. Introduction

The first person to define the risk process was the scientist Smith, who defined it as (uncertainty) in (1776) and it was expressed on the basis of the infrequent event, although he did not realize what the risks were in his study. Therefore, the business field is determined by identifying the techniques and procedures for identifying, measuring and treating risks in business decisions, and here was the beginning to plan the risk situation, after that a group of scholars during that period from 1900-1940 identified risks such as (Willet) in (1901) and (Leitner) in (1915) all the way to (sasii) in (1940) where risk was dealt with on the basis that it is a measurable uncertainty and not an immeasurable uncertainty until 1979 when Borghesl explained the concept of uncertainty such as "lack of information about A procedure from a study of the constraint of the system "As it may also be known, a risk can be a cause or source of an unfavorable event, or situations that create or increase the likelihood of an event unfavorable to something related to a particular risk [1].

Insurance companies seek to avoid failure and collapse by improving risk management, as they work to control risks by increasing the effectiveness of management, [3] but with the continuous emergence and spread of new risks, the need to overcome these threats and turn them into opportunities has increased. For the future, the organization should work to manage different types of risks through a comprehensive approach [1] In light of the rapid development in the world and globalization, this development made the application of risk management alleviate the challenges, but with the emergence of the Corona virus in 2019, governments took measures that affected the economy, but despite the efforts made by countries in a cooperative manner in many sectors, but they could not neutralize The risk, as the outbreak of the Corona virus and the mechanism of dealing with it by different countries of the world showed the weakness of institutions in dealing with such risks [4] Here, focus must be placed on improving risk management steps to reduce the organization's problems and enable it to keep pace with development and adapt it to the Corona virus, including increasing Knowledge of insurance companies (small and medium companies) with concepts of risk and risk management and its procedures, increasing the effectiveness of business performance, evaluating and discussing concepts and necessary steps for risk management and linking them to practical results [1].

When we talk about improving risk management, we must take into account the practical steps that must be taken to manage risks, potential financial losses, and analyze these risks that may cause poor business performance, so we must use the ISO 31000 risk management process. That includes communication, advice and setting context. Risk identification, risk analysis, risk assessment, risk treatment, monitoring and review.

Through this graph, the framework and steps of risk management that can be implemented and performed by small and medium insurance companies in the Covid-19 crisis are presented, to be able to adapt to Covid-19, thus reducing the risks that insurance companies may be exposed to.



Source: Risk management framework and process. Source adapted from Knight 2010 [5]

2. Literature review

We review four studies:

1. The study [6]

He studied the initial effects of global risk mitigation measures taken during the fight against the COVID-19 pandemic. The study showed a general lack of understanding of this virus, the mechanism of dealing with it, and the state of confusion witnessed by companies, markets and even countries. The study aimed to build confidence and enhance risk management in all Institutions around the world.

The results of the study can be summarized as the researcher collected information on risks to mitigate risks using the classification approach in countries combating the Coronavirus, as he concluded that it is difficult to reduce risk measures and increase effectiveness, and the reason is the weaknesses in the current systems of institutions and governments in dealing with such risks and where he There was not enough preparedness from the countries and companies as there were countries and institutions that started working from the beginning to understand the problem and deal with it, which led to a decrease in the size of the potential risks and reduce them to the lowest possible, but the failure of the economic system to deal with the crisis led to the turbulence of the economy as a whole and this has an effect. Also on insurance companies and other companies, as controlling the risks of the Covid-19 virus and adapting to dealing with it in addition to controlling the risks of technology was in an unorganized manner because it was not clear how the virus was transmitted and to what extent it would spread and what its future impact would be. Technology was also used. In an attempt to adapt to the epidemiological situation.

2. Through the study of [7] "Effects of COVID-19 on Corporate Governance, Guarantee, Finance and International Economy"

It was made clear that the Corona crisis that suddenly occurred had far-reaching repercussions on the economy, whether for small or large insurance companies, where companies do not enjoy Small insurance with a level of financial security and may lead to its collapse or weakness due to the depletion of the margin of financial safety, to the occurrence of a state of financial distress and its inability to fulfill its obligations, which will constitute risks to the economy as a whole, and among these risks exposure to strong competition between companies in addition to inflation and ultimately the occurrence of financial deflation Which threatens the financial system and economic growth, so companies and their management must pay attention to risk management and that this management be flexible by thinking of innovative forms of financial security, insurance or otherwise, with a focus on arranging risk management and integrating it into business strategy.

Where we summarize the results of the study that the Covid 19 crisis opened the way for good thinking in addressing new risk management and anticipating what will happen in the future, because there is a coming crisis due to the Covid-19 crisis, and we must be well prepared for it. The researcher advised that studies be conducted on many topics, including financial risks in light of the Covid-19 crisis and other upcoming crises.

3. The study [2] under the title (Risk Management Practices in Small and Medium Enterprises: Evidence from Romania, Management and Economics Review, Romania)

The results showed a positive relationship between applying risk management steps in identifying, analyzing, evaluating and treating risks, and integrating risk management into existing activities.

The similarity between the previous study and my studies is that both of them included analyzing and evaluating risks and how to deal with them, and studying the effect of risk management steps in improving business performance in small and medium enterprises.

Also, both of them included the analysis and evaluation of risks and how to deal with them, which will open the way for researchers to study the impact of risk management steps in improving business performance in small and medium-sized companies.

But it was limited to a specific part and was not comprehensive for all steps of risk management and it lacked the components of improving business performance that was added in my study to examine the relationship between risk management and improving business performance.

4. The study entitled (Analysis and comparison of sources of economic and financial risks in small and medium enterprises from the Vise Grad Group).

It aimed to compare the selected factors and the experiences of businessmen in influencing the risk assessment approach in small and medium enterprises. Data collected from 21,110 SMEs in Hungary, Poland, Slovakia, the Czech Republic and Serbia show that the most common risks they face are insufficient profits, tax increases and interest rates hikes.

Based on what was stated in the study, we notice that it focused on the comparison between the countries in which it was mentioned, and did not address

the importance of business performance, and was unable to generalize the study as it used the descriptive analytical approach to describe the case of the study and its theoretical and applied aspects by dealing with descriptive statistics tools to describe the role of improving risk management On business performance in small and medium enterprises.

The study emphasized that the interest rate and taxes are a major risk for small and medium enterprises.

However, through our study, we will address the steps of risk management in order of importance, as follows:

1. Identify risks

When talking about identifying risks, it is one of the most important steps in risk management and is also adopted in the risk assessment process, as the components of risk assessment come from identifying, analyzing and evaluating risks in insurance companies, whether small or large. Down to all companies at the economic level [8].

We explain through the previous drawing that the steps of risk management are intertwined with each other, as when we explain about the mechanism for identifying risks, it is in two stages

The first stage:

This stage clarifies the discovery of the risk process and assigning the management to identify the risks in order to monitor and evaluate the risks effectively and address these risks in addition to monitoring the risks in order to obtain an assessment of the risks and know the action that we will take after that to prioritize the risks according to their importance in order to make recommendations For senior management, and with the Covid-19 epidemic situation, this stage is done by trying to adapt to the Covid-19 crisis by using technology so that small insurance companies can make profits and continue working.

The second stage:

The role of the management and its board in making sure that what has been reached in the priority-setting process is going in the right frame so that the decision is appropriate and this process also falls under the strategic planning, setting the epidemic, the responsibility of the insurance company's board of directors is to ensure that the priorities that are going They are properly positioned and pre-approved.

Consequently, risk identification can be considered as stated in Airmic, Alarm, IRM: "Risks are identified to determine an organization's exposure to uncertainty. It must be approached in a systematic manner to ensure that all important activities and all risks arising from these activities are identified" [1].

2. Risk assessment

The steps of risk management are interconnected with each other, especially in the evaluation process, as it contains three steps to manage risks [9], but here we will focus on how to set the standard on the basis on which the evaluation process is conducted in small enterprises. For those responsible for managing risk, the risk is either "acceptable" or "unacceptable" (and thus can be addressed) which, as stated in ISO 31.000 2.22, indicates: "Terms of reference used to assess the significance or

significance of risk in your organization. They are used to determine whether a certain level is. Are the risks acceptable or unacceptable" [8].

The risks are evaluated in the form of matrices and classified according to the priority and nature of the procedure, such as the risks associated with the risks of the Covid 19 epidemic, and how they are classified according to the priority and nature of the procedure. It should be based on consulting with stakeholders about the principles and laws in place in order to be able to deal with the Covid-19 crisis, make profits, and create technological products that help them profit and keep pace with progress [1].

3. Address the risks

When talking about treating risks, it is related to the previous steps, but here we adjust or mitigate risks and mitigate the impact on companies in the economic and financial aspects, [8] when we talk about the Covid 19 crisis, risk management must modify or reduce the risks in steps Risks treatment: Consequently, conducting a risk control process and maintaining financing, by providing financing to counter risks that reduce the economic or financial impacts and reduce the economic consequences and losses in companies, whether it is a large or small company, and whether it is in the insurance industries sector or others. However, small insurance companies are exposed to financing risks more, so work must be done to properly address risks and adapt to the Covid-19 crisis and any similar crisis in the future as steps to deal with risks will be defined as specified in [10].

"Risk treatment involves identifying one or more options to modify risks and implementing those options. Once implemented, treatments are available or controls are modified."

4. Monitor risks

After completing the risk management steps, we must monitor the risks continuously, as the current crisis of Covid 19 must be monitored continuously as the monitoring process is linked to the risk control process so that the company can reduce stress and the severity of the loss and adapt the loss until it becomes less and so that we can predict the loss Future in order to address the unexpected risks from the Covid 19 crisis and protect human resources that may affect their health by following the common interest between the company and people.

By focusing on risk management steps, companies should address risks based on four principles:

The first foundation: avoidance

It is a process that you go through through risk management steps for not undertaking an activity that creates risks, although it is possible to undertake the activity that involves risks and move to an alternative approach that is more scientific, complex, and adaptive. Current risk status.

We can summarize the process of transferring risks to another party through different processes and procedures to maintain business continuity and can be used in the Covid-19 crisis, given the maintenance of small insurance companies [7].

The second foundation: loss prevention

It is a process that you perform through application in the steps of risk management and it is based on procedures that lead to preventing the expected loss,

and in the case of the Covid-19 crisis, we mean that is training employees on electronic work in order to prevent the spread of the epidemic that leads to the loss of the employee's life. Thus, using the method of loss prevention and business continuity and adopting electronic work after with training and awareness of workers and implementing a successful program to prevent potential loss.

The third foundation: reduce loss

It is a process that you perform through the application in the steps of risk management, and is based on the process of reducing the severity of loss, that is, in the case of Covid-19, the company will be closed for 14 days in the event that an employee in the company is infected and working through electronic technology instead of all workers in the company, At this stage, we need to measure the benefit and cost continuously, so that we can be sure that this measure minimizes the potential losses and that the benefit achieved is greater than the cost.

The fourth basis is separation, duality and diversification

It is a process that you implement through application in risk management steps, which is based on starting to separate and disperse certain activities between different sites, then duplicating, and then emphasizing the existence of a double reserve for risks and then doing this to ensure diversification, and thus the distribution of risks on more than one side. , Which leads to assimilation? Therefore, in the case of Covid 19, the state of preventing the work of one of the activities of the enterprise and the diversification distributes the risks resulting from Covid-19, and the possibility of loss is either separate, married or diversified, thus maintaining the continuity of the company with an emphasis on costs continuously [7].

Risk management has been and remains very important in internal operations from the level of large enterprises through to small and medium enterprises because it can identify risks, as risk identification is very important.

Risk management has been an increasing trend in the company because it works to improve the identification of technologies, measurement and treatment of risks, even with the continuous development in technology, risk management has become a state of uncertainty that we can measure through knowing the potential losses, knowing the potential gains and trying to reduce losses and trying to increase the gains, which leads To agree. Through the “Impact of Uncertainty on Objectives” that illustrates the absence of future information [1].

Here risks can be classified according to three main criteria, bearing in mind that there are many criteria for classifying risks

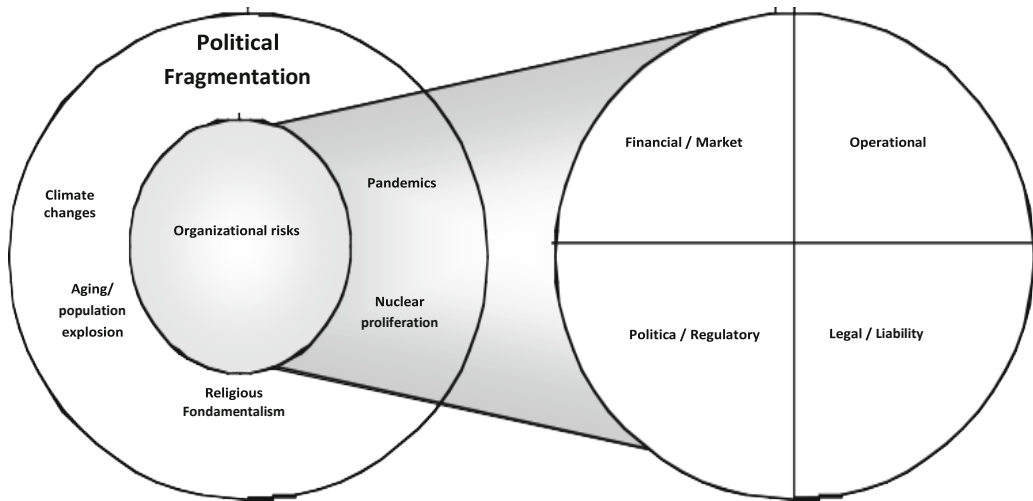
- Physical hazard: refers to a material object that poses a danger, such as a flammable substance.
- Ethical risk: in the sense associated with a person's personality traits, such as dishonesty
- Ethical risks: the humiliation of intangible search, such as indifference [1].

Note that SMEs face many risks as the continued survival of small-sized enterprises with low financial and non-financial resources are highly vulnerable to threats [2].

It is among the risks that may be related to or as a result of the Covid 19 crisis
From the Risk Spectrum to the Four Big Risks

Global risks

Organizational risk



Source: Kloman's risk spectrum. Source modified from (Kloman 1992)

In this diagram, the main group of four risks is shown, and in this diagram we will focus on the risks of epidemics that we are currently witnessing, noting that if there is knowledge of the risks before they occur, the risks will be lower, due to the state of non-adaptation to Covid 19, and thus the increased risks in Insurance companies.

The chart also shows many of the risks that may accompany the risks resulting from Covid 19, which may directly affect the lack of liquidity for small companies, which exposes them to collapse or their inability to borrow, and therefore these risks must be taken into account when referring to the arrangement of risk steps correctly until We achieve a state of sustainability and continuity in the work of the institution.



The concept of risk should be referred to as (an uncertain event or methods that negatively and positively affect the objectives of the project).

Building a risk management plan

We mean developing a method for dealing with risks and the stages of treatment, starting with communication, counseling, setting the context, identifying risks, analyzing risks, assessing and treating them, monitoring risks and reviewing them in the next treatment in a correct manner [11].

Insurance:

Insurance is a way to deal with unexpected effects on the economy of the institution, according to the way in which the process of developing insurance products, and insurance can address the largest possible amount of risks, as insurance provides a process involving the world and the private sector in reducing risks.

Insurance is most effective when you can reduce the risks and adapt to the risks

Where disaster insurance can be interpreted as insurance that reduces vulnerabilities and increases core strengths manages resources better and accurately anticipates future risks.

When we talk about small insurance companies and how to solve their risks to reduce the possibility of loss and reduce the cost of capital, two basic points must be clarified.

The first is about risk transfer and the second is about technological security. The first is risk transfer. Capital through an entire network of insurance companies.

As for the second point related to technological security and how to secure technological risks, as all companies, regardless of their shape and type, completely depend on technology to facilitate all their operations. Insurance companies that may pose a threat to the insurance company itself because they pose a great danger to business, which pushes companies to raise the level of electronic security and make it a priority in corporate tasks, although some companies do not do so. The adoption of this risk in the insurance mechanism, and this causes an imbalance despite the state of technological development and with the presence of the Corona virus and complete reliance on work on technology and reducing office work, which posed a danger to some companies and the difficulty of adapting to the virus as a covid in some other companies, and there are companies that were ready and ready To adapt to the virus and there was an increase in its profits at the expense of it.

Lee companies that led to fire losses in their profits negatively affected the financial stability of the companies

Here, I will talk more about Corona virus and Risk Management [12].

In light of the rapid development taking place in the world, this development has made risk management and its application to mitigate the challenges facing enterprises, which made it a great challenge [12].

With the emergence of the Corona virus in 2019 in the Chinese city of Wuhan on the first of January, and with the state of concern about knowing the cause of the virus, were the bats according to the similarity of the sequence between the virus and bats, or from seafood that was sold in Huat, this virus created a threat not only For companies but the greatest danger to humans, resulting in a large number of

diseases and a large number of deaths despite the measures taken by governments and cooperative efforts made between countries in many sectors.

The outbreak of the Corona virus and the way the world deals with it illustrates the weakness of institutions in dealing with such a threat [13].

Despite all this, the challenge in achieving the best steps in risk management during the Corona pandemic [1] requires the use of scientific knowledge-based steps to manage risks, starting with communication, counseling, setting context, and identifying risks. Analyzing, evaluating and treating risks, monitoring and reviewing risks to maintain sustainability and continuity. Firms are working both by using technology while maintaining production status and also focusing on technology risks when adapting to the Corona virus [12].

It is among the risks that may be related to or as a result of the Covid-19 crisis

3. Conclusion

Companies that have sufficient financial liquidity are able to continue operating despite the Covid-19 crisis. As for companies suffering from poor liquidity, they have suffered from this crisis due to shortcomings in commitments and have caused the closure of many small projects.

On the other hand, companies that were able to obtain borrowing work have overcome this crisis. As for companies that were unable to borrow due to their small size, they were unable to fulfill their obligations and could not cope with the Covid 19 crisis that affected them by the collapse.

On the one hand, companies that were able to adapt risk management steps to the current epidemiological situation using technology and restricting profits by creating technology programs were able to continue operating. Firms that did not rearrange risk management steps in the event of a pandemic suffered from high risks.

We noticed that large companies can secure large liquidity as a result of providing liquidity or as a result of their ability to borrow easily and their ability to adapt to technology by providing expertise in this aspect.

As for small and medium companies, they lack liquidity as a result of the crisis and continue to pay their obligations without achieving a large return, which has affected their financial position.

Therefore, it is essential for small businesses in the insurance sector in light of the ongoing COVID-19 crisis

- Developing its electronic operations and adapting them to the crisis to provide liquidity to continue working
- These companies obtain government loans or government support during this crisis through soft loans with low interest or postponing the loans due on them and deferring the tax on these companies

Rearranging risk management steps to deal with the Covid-19 crisis and secure financial reserves for the future.

References

- [1] Borghesi, A., Gaudenzi, B. (2013), Risk management how to assess transfer and communicate critical risks, springer-verlag, Italia.
- [2] Prioteasa, A. & others (2020), Risk Management Practices in Small and Medium Enterprises: Evidence from Romania, Management and Economics Review, Romania.
- [3] Tularam,G. & others, (2012)Risk management-currentissues and challenges, janezatrdine 951000 rijeka , Croatia.
- [4] Bruin,Y. & others (2020), Initial impacts of global risk mitigation measures taken during the combatting of the COVID-19 pandemic, Safety Science, Volume 128.
- [5] Knight, K.W. (2010), Risk Management. A journey.. not a destination, Standards Australia/StandardsNewZeland,Joint,Thecnical,Committee.
<http://mgubs.ru/images/Image/A%20Journey%20Not%20A%20Destination.pdf.pdf>
- [6] Bruin,Y. & others (2020), Initial impacts of global risk mitigation measures taken during the combatting of the COVID-19 pandemic, Safety Science, Volume 128.
- [7] Kells,S. (2020), Impacts of COVID-19 on corporate governance and assurance, international finance and economics, and non-fiction book publishing: some personal reflections, Journal of Accounting & Organizational Change, issue 1832-5912, Australia.
- [8] AIRMIC, ALARM, IRM, A structured approach to Enterprise Risk Management (ERM) and the requirements of ISO 31000. www.airmic.com
- [9] Alnajar, G. (2017), Impact of Risk Management of the ,Entrepreneurial Projects owners in achieving ,the competitive advantage for their projects(A Case Study:The incubated projects in Business and Technology Incubator at Islamic University of Gaza), The Islamic University of Gaza, Palestine.
- [10] ISO (2018). ISO 31000:2018 (EN) Risk management. Guidelines.
- [11] Keshk, A. & others (2018), Special studies in management of construction project risks, risk concept, plan building, risk quantitative and qualitative analysis, risk response strategies, Sciencepirect, , Volume 57, issue 4.
- [12] Stephens ,S. (2020), How cyber insurance can still leave you vulnerable to risks, Computer Fraud & Security, Volume 2020, issue 2.
- [13] Ettlín, N. & others.(2020), Optimal risk-sharing across a network of insurance companies, Insurance: Mathematics and Economics, Volume 95, November 2020.