## WHERE TO LOOK FOR RISKS IN EURO BASED LIFE INSURANCE POLICIES?

Áron Antal–Máté Bárdos

This article's objective is to present the development of the euro based life insurance market and the underlying risks within the policies. In order to classify these risks, we use a two dimensional approach, namely: the participants – insurance company, insurance policy holder – and the two main product types – unit-linked and traditional (mixed life insurance). After the general classification of risks, actual products from the Hungarian life-insurance market are used to demonstrate the diversity of factors that are to be taken into consideration. The specific risk for euro based insurances – besides the classical risks of covering the insurances and the risk of the premiums paid – is the one that derives from exchange rate fluctuation. This latter problem is demonstrated with the help of a particular calculation based on specific, simple life-insurance products. The study's conclusion indicates that regardless of the simplified products used for comparison, there is a significant growth in risk, mainly due to product innovation (euro based unit-linked products), that has forerun the regulators.

## APPLICATION OF MACROECONOMIC CREDIT RISK MODEL TO ROMANIA

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The main goal of this study is to apply a macroeconomic credit risk model which links a set of macroeconomic factors and industry-specific corporate sector default rates using Romanian data over the time period from 2002:2 to 2006:4. Using the modeled and estimated industry specific default rates we will simulate with Monte Carlo method a loss distribution of a hypothetical corporate credit portfolio and analyze the impact of the GDP on the portfolio loss distribution.

## INFORMATION SHARING, RISK PREMIUM AND INTEREST RATES – AN INTERNATIONAL COMPARISON

Iván Major–Dávid Krisztián Nagy

It is a widely shared view among Hungarian banking experts that full information sharing on private borrowers would result in stronger competition among banks and in lower risk levels that in turn would lead to lower risk premiums and leanding rates. Using the World Bank data base on 103 countries – among them 21 EU-member countries – we show that neither the type of information sharing – that can be a "black list" or a "full list" – nor the type of the owner of information – state or private – have a significant effect on interest rates. The sole factor that has a statistically significant impact on risk premiums and interest rates is the rate of coverage of private borrowers. Since coverage can be expanded much further with a full than with a black list this is an indirect supporting argument to full information sharing.

## FINANCING SMALL AND MEDIUM SIZED ENTERPRISES IN THE BANKING SECTOR

Andrea Némethné Gál

In Hungary, during the approximately past two decades, there have been important changes in the relationship between Small and medium enterprises (SME-s) and the banking sector, among which, one of the most significant is the intention of credit institutions to make approaches to SME-s. This procedure, starting from the really end of the nineties, has been going on by this time, first of all, with providing easier credit conditions and standards as well as increasing the number of credit products offered for small businesses. As a result of this, the proportion of SME credit is higher in the credit portfolio of banks, and the supply of external financing resources, have also shown an improving tendency. This study presents the facts influencing the relationship between banks and SME-s, in this way, explaining all the above mentioned procedures. The following analyses is going to prove that the credit data of different-sized companies tend to approximate each other, what's more, a so called „new era" is to occur between banks and SME-s. Credit institutions try not just to open towards SME-s, but also satisfy the smallest, micro-businesses with considering their financing demands with making the highest possible efforts to please them.

## SECURITY OPTION ESSENTIALS IN BRIEF

Csaba Halmágyi

Some opinion about incompatibility of security option with Hungarian law is known. In fact, there is no any ruling on its nullity or invalidity. Due to historical reasons security option is currently under regulated in Hungarian law, therefore in numerous cases customers are given over to creditors. Hungarian Financial Supervisory Authority (HFSA) and the Courts have the potential to maintain reasonable balance of forces. CRD directives do not prevail as they ought to.

Contracting parties shall have certain provisions in their contracts to make sure that the Court will accept their option contract as it is. Beyond Civil Code and other acts executive officer's circular Nr. 1/2007. of the HFSA shall be used as a clue.

It is required to have all relevant regulations available for customers at every point of sale in order to give customers the opportunity to study them before signing a contract. A copy of the regulations shall be handed for free on demand of the customer.

Operational risk of the cover is high, so the risk must be shared with an insurance company. Contracts shall have regulations on the following issues: type of financing (loan or leasing); sum of monthly instalment/fee; price of the vehicle and other parameters (EUROTAX); currency rate and the place of its publication; detailed explanation on the effect of currency rate on the sum of instalment/fee; interest and the way of its calculation; additional costs and the way of their calculation; information on which proportion of the redemption goes to pay the price, which proportion goes to pay the interest; the procedure and costs of exercising the right for option and any other security right; the way of settlement; other provisions.