

Claim Paid Position in Rank of Alternative Source of Funding

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ANNOTATION

Paper discusses the evaluation of the claim paid as a source of financing of business activities. It notes the current situation in which claim paid is in the literature of mainstream theory of corporate finance as a source of financing practically absent.

The paper analyzes the key factors in the characteristics of the sources of funding sources used and assess this resources by simple statistical method (frequency test). It compares the selected sources of funding to the claim paid as well as to the volume (size of source).

Results supports the view that there is not reason to ignore the claim paid as a source of financing of business activities.

KEY WORDS

Claim paid, parameters, comparison.

JEL Classification: G22, G32

INTRODUCTION

The status of claim paid as a source of funding in mainstream domestic corporate finance theory is still some ambivalence.

On the one hand, the theory commonly recognizes insurance as one of legitimate protection against the risk, **especially in cases of fatal risks** that may affect the continuity of business activity fundamentally (natural disasters). The role of claim paid is a threshold matter, clear and unquestionable in principle. On the other hand is claim paid so far not accepted as a standard, or an alternative source of financing.

AIM AND METODOLOGY

The fundamental aim of this paper is to contribute to the inclusion of claim paid between sources of financing business activities and **especially in connection with the generally problematic financing company in the extreme situation (natural disaster or other insurable risks)**.

The decisive contribution of the instrumentation methodology consists of literature review and comparison. They are also used in routine analytical and synthetic procedures. The statistical methods used is a simple test frequency. With regard to the data base contribution for the current state of affairs is question to discussion the original level of representativeness of the analyzed foreign sources.

Source citations in Fig 1 was chosen because of the need to evidence the results of searches.

RESULTS

At the level of sub-goals in this paper is primarily on the definition of parameters and requirements which meet the funding source.

Parameters of the generalized sources of funding

The first result of this paper is the frequency test. It provides information about how often the given characteristics of the sources studied so far appears. Information is presented in Fig. 1. Parameters of sources are divided into groups within which the score is determined in descending order of frequency of their occurrence in the studied resources.

Fig. 1 Parameters of the generalized sources of funding (frequency test).

GROUP

*parametr of resource
resource*

more characteristic feature

Size / Availability / Feasibility (frequency 10x)

„easier access“

(HRDÝ, M. a kol., 2008, p. 99)

uncertainly disposable (available)

(SVITÁKOVÁ a kol., 2011, p. 7)

uncertainty in principle (from donors and government)

unavailable for start-ups

(SVITÁKOVÁ a kol., 2011, p. 10)

property

(DLUHOŠOVÁ, 2006, pp. 49, 52)

(SYNEK, (2000, p. 115)

structure (own and foreign), availability requirement in terms of the capital (basic capital)

conditional application

(DLUHOŠOVÁ, 2006, p.52)

conditional compliance "obligations under the law"

narrowness

(SVITÁKOVÁ a kol., 2011, p. 7)

limited amount of funding (from donors and government)

sufficient amount of

(KISLINGEROVÁ, 2004, p. 285)

Size/amount of the source

(SYNEK, 2000, p. 114)

„ have just as much capital it needs.“

realistic sources

(SYNEK, 2000, p. 115)

actual amount, not “the sum of the balance sheet”

Manageability (frequency 5x)

pružnost („flexibility“)

(DARMODARAN, 2001, p. 563)

preferred parameter of the source of financing

manageability of resource („control“)

(DARMODARAN, 2001, p. 563)

preferred parameter of the source of financing

long maturity

(VALACH, 2003, p. 82)

high flexibility

(VALACH, 2003, p. 82)

riziko použití zdroje

(VALACH, 2003, p. 82)

Stability(frequency 5x)

sustainability

(SVITÁKOVÁ a kol., 2011, str. 7)

source must be able to reproduce

usability at a profit

(SVITÁKOVÁ a kol., 2011, str. 7)

this source is not otherwise available (microfinancing)

stability in time

(KISLINGEROVÁ, 2004, p. 507)

stability small and great, source permanent and temporary

time aspect

(SYNEK, 2000, p. 115)

short-time and long-standing

(DLUHOŠOVÁ, 2006, p.53)

Price (frequency 4x)

low interes rates

(KISLINGEROVÁ, 2004, pp. 520-521)

low fees

(KISLINGEROVÁ, 2004, pp. 520-521)

minimum cost

(VALACH, 2003, p. 82)

price oft the source

(DLUHOŠOVÁ, 2006, p.104)

profitability in relation to activities funded

Creation (frequency 3x)

way to create

SYNEK (2000, p. 115)

the law (e.g)

DLUHOŠOVÁ (2006, p.52)

Fig. 1 Parameters of the generalized sources of funding (frequency test) - continue

transparency
 KISLINGEROVÁ (2004, pp. 366-367) in connection with the leasing opaque
Function (frequency 3x)
 function of source
 SYNEK (2000, p. 115) specific (if possible)
 influence on the failure of a company
 VALACH (2003, p. 82)
 influence on the control on a firm
 VALACH (2003, p. 82)
Yet Unquoted (frequency 2x)
 legality
 conformity with good morals
Source: see the quotations inside Fig. 1

Quantification of selected sources of funding

Input data indicates Fig. 2. In the second step, the claim shall be compared with selected now standardized sources of funding in terms of quantity (some alternative resources and IPO).

Fig. 2 Quantification of selected sources of funding (billion Kč) – input data

source of financing	period (year)				
	2004	2005	2006	2007	2008
claim paid (nonlife)	35,4	34,3	38,4	36,7	39,2
leasing incl. credits	138,8	154,5	169,4	180,1	174,2
factoring	41,1	86,8	110,4	135,1	141,9
IPO	1,8	0,0	2,8	2,2	4,7
TOTAL	365,9	443,5	503,0	568,5	601,9

Source: Statistická ročenka ČR 2004, 2005, 2006, 2007, 2008, 2009; MELUZÍN, T.-ZINECKER, M. 2009. IPO, prvotní veřejná nabídka akcií jako zdroj financování rozvoje podniku. Computer Press, 2009. Vydání první. 188 stran. ISBN 978-80-251-2620-2, str. 173. <http://www.pppcentrum.cz>; <http://www.asociaceppp.cz>; www.cap.cz; www.cnb.cz; www.clfa.cz; autor's calculations

Note: IPO volumes are in source listed in the Euro. Conversion is performed at CZK in all cases using CNB exchange rate of the last working day of the year.

Horizontal and vertical analysis of the processed input data presents Fig. 3.

Fig. 3 Quantification sources of funding (billion Kč) - horizontal and vertical analysis

Source of financing	period (year)									
	2004		2005		2006		2007		2008	
claim paid (nonlife)	35,4	16,3%	34,3	12,4%	38,4	12,0%	36,7	10,4%	39,2	10,9%
	100%		96,9%		108,5%		103,7%		110,7%	
leasing incl. credits	138,8	64,0%	154,5	56,1%	169,4	52,7%	180,1	50,8%	174,2	48,4%
	100%		111,3%		122,1%		129,8%		125,5%	
factoring	41,1	18,9%	86,8	31,5%	110,4	34,4%	135,1	38,23%	141,9	39,4%
	100%		211,2%		268,6%		328,7%		345,3%	
IPO	1,8	0,8%	0,0	0,0%	2,8	0,9%	2,2	0,6%	4,7	1,3%
	100%		0,0%		155,6%		122,2%		261,1%	
TOTAL	217,1	100%	275,6	100%	321,0	100%	354,1	100%	360,1	100%
	100%		127,0%		147,9%		163,1%		165,8%	

Source: *Statistická ročenka ČR 2004, 2005, 2006, 2007, 2008, 2009*; MELUZÍN, T.-ZINECKER, M. (2009); <http://www.pppcentrum.cz>; <http://www.asociaceppp.cz>; www.cap.cz; www.cnb.cz; www.clfa.cz; author's calculations

Note: IPO volumes are listed originally in Euro. Conversion is performed at CZK in all cases using CNB exchange rate of the last working day of the year.

DISCUSSION

Parameters of sources of funding

Frequency test (in Fig. 1) showed that the quantitative aspect is in evaluation the importance of funding sources significant criterion. Under the current state of knowledge can even be seen as the decisive criterion.

The debate is still the aggregation partial or individual characteristics into groups.

Quantification of the selected sources of funding

The quantitative assessment should be considered in a broader context. One of them is undoubtedly the fact that the absolute amount of claims paid will always be (at least to some extent) depend on the externalities that the insurance industry's control. A classic example of these influences are natural disasters.

Probably the most interesting result from the application of quantitative evaluation is that the IPO is completely negligible as a source. The contrast between the frequency of this source in the literature and its totally negligible size could hardly not be greater.

CONCLUSION

In this paper we analyzed the data lead to the clear conclusion that there is no parameter or the description of standard sources of funding that would prevent claim paid considered as a source in the same category.

The first result of this paper is conclusion that neither the absence specific characteristics of claim paid in standardized financial resources (available only in precisely defined situations, etc.) can not be an obstacle to the inclusion of the indemnification set of corporate finance. One of these unique characteristics, however, favors the claim paid almost completely - virtually unconditional availability of this resource in case of accession of claims addressing the risk of gambling situations.

The inclusion of claim paid between the standard considered sources of funding also supports the quantitative aspect (see Fig. 3). It can perhaps discuss whether or not it is appropriate to include claim paid to the category of alternative sources.

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