

Aims and Perspectives of Insurance Company Investments

Kozlova O.N.

Kemerovo State University, Kemerovo 650000, Russia
e-mail: kozlova_o_n@mail.ru

Kalacheva I.V.

Kemerovo State University, Kemerovo 650000, Russia
e-mail: irinakalacheva@mail.ru

Kalacheva E.A.

Kemerovo State University, Kemerovo 650000, Russia
e-mail: kalacheva-elena@mail.ru

Abstract—The article examines the perspectives and aims of Russian insurance companies' investment activities. Investment is not the principal activity for such companies, yet it plays an important role by allowing them to acquire additional income and affecting financial markets. Investment activity is limited by The Bank of Russia's requirements and has to adhere to the principle of repayment, liquidity and diversification. Although insurance companies are interested in high profitability, they have to comply with the demands of the megaregulator. The article provides the analysis of the investment portfolio of insurance companies and the efficiency of investment activities. The calculations have shown that insurance companies have sufficient investment income, which keeps pace with inflation. In order to justify the perspectives of investment activities, we have analyzed the dynamics of sources investment activities (equity and debt capital), concentration of capital, the interaction between insurance and banking market, dynamics of insurance premium, including long-term life insurance. The analysis have shown that Russian insurers have positive perspectives and opportunities, with their primary aims of investment activities being further investment in the banking sector (less profitable, but lower risks) and transfer of a part of insurance reserves to fiduciary management, which has higher risks and profits.

Keywords—Insurance Company Investments, fiduciary management of investment reserves.

I. INTRODUCTION

The insurance market in Russia is developing quite dynamically. As of 2017, the volume of insurance premiums reached 1278.8 billion rubles, including 1032.6 billion rubles for voluntary insurance. Insurers perform the basic function of insurance protection, and because of the probabilistic nature of payments, they have the ability to invest temporarily spare monetary resources. The Bank of Russia establishes the principles of diversification, liquidity, repayment, return on investment. The balance between these principles is achieved through the diversification of the investment portfolio. The inevitable contradiction between the interests of commercial insurers and the requirements of the Bank of Russia can be overcome by optimizing the formation of an investment portfolio within the framework of specified directions.

The **relevance** of the study is due to necessity to achieve a balance between the interests of commercial organizations and megaregulator, which forces insurers to find ways to optimize their investment portfolio.

II. SETTING THE OBJECTIVE AND AIM OF THE STUDY

In Russia, the activity of insurance organizations in the field of investment is regulated by legislation that, above all, defines the boundaries and rules of investment activity.

The effectiveness of investment activity is measured by the activity in the investment market. It can be assessed using the following indicators:

- Return on investment in the insurance sector;
- Degree of diversification of the insurers' investments and compliance with the regulatory requirements of the Bank of Russia.

The structure of Russian insurers' investment portfolio is presented in Table 1 (calculated by the authors according to [3-5]).

TABLE I. STRUCTURE OF THE INVESTMENT PORTFOLIO OF INSURANCE ORGANIZATIONS, %

Indicator	2014	2015	2016
Assets, including	100	100	100
Bank deposits	18,3	24,7	26,1
Receivables	18,9	19,0	17,7
Bonds	13,2	15,6	17,4
Reinsurers' share in insurance reserves, including	10,4	8,0	8,0
Financial assets, including	10,8	7,9	6,2
State and municipal securities, including	6,1	6,4	8,9
Stocks	8,1	7,2	6,6
Other assets	14,2	11,2	9,1

The largest share in the structure of assets belongs to bank deposits, receivables and bonds. Although the accounts receivable from insurance operations are considered as assets accepted to cover insurance reserves, it is inaccurate to regard

them as an investment instrument in the context of our research, as it is a "by-product" of the implementation of activities, and not an instrument for profit-making.

In 2016, bank deposits in absolute terms amounted to 487,859.5 million rubles. By the end of 2016, the share of investments in the banking sector reached 32.2%, and this share has been stable over the recent period. The next most popular form of investment is bonds. Investments in corporate bonds are the most preferred, since they have lower operational risks, higher yields and faster repayment rates [6]. State and municipal securities are not popular among insurers due to low profitability.

Table 2 presents the income flows from various types of investments (calculated by the authors according to [7]). The investment income for the five-year period decreased by 23%, while the result of investment transactions more than doubled.

TABLE II. INVESTMENT REVENUE AND INVESTMENTS TRANSACTIONS RESULTS, %

Indicators	2012	2013	2014	2015	2016
Investment revenue, million rubles	958 264,1	582 154,7	544 419,7	470 879,4	737074,9
Investments transactions results ("+" , "-") - total, million rubles	34 109,4	36 759,3	37 608,4	87 065,4	75546,3
Effectiveness of insurance reserves, as a source of investments, %	3,6	3,4	3,7	7,7	4,3
Effectiveness of insurance reserves for life insurance, as a source of investments, %	8,4	5,6	2,6	10	3,1

This represents an increase in the efficiency of capital management, and that now, with the development of life insurance, more and more insurers prefer long-term investments to the short-term ones. The financial result for investments was achieved due to insurance reserves. The effectiveness of insurance reserves as a source of investment is calculated by comparing the result for investments and the volume of insurance reserves.

Today, despite the instability of the Russian economy, the profitability of insurers remains positive. The positive moment of investment activity was its increased optimization. The

analysis of the current state of investment activity of insurers makes it possible to determine two areas of research: assessing the capabilities of Russian insurers and justifying the promising directions for their investment activities.

III. STUDY RESULTS

A. Evaluation of the Possibilities and Prospects of Russian Insurance Companies Investment Activity

The following factors contribute positively to the development of investment activities of insurance organizations:

The growth of insurance premiums, including the development of long-term types of insurance. Voluntary types of insurance, in particular for long-term life insurance, are of greatest interest to the insurers in the process of their investment activity. Over the past five years, the most dynamically developing type has been life insurance, mainly due to credit, and now investment life insurance. At the end of 2017, the share of life insurance was 26% of the total market. The growth rate of the insurance premium for life insurance in 2017 was 53.7% and 8.3% on the market. The positive dynamics of life insurance premiums provides investment opportunities for insurers, as the investment portfolio is formed on a long-term basis and is less dependent on risk fluctuations. Prospects of investment activity, above all, relate to long-term life insurance.

Trends in insurance reserves. Insurance reserves, being attracted resources, are the main source of investment. The volume of insurance reserves in absolute terms has already reached 1,136,727.8 million rubles in 2016. The ratio of long-term resources (life insurance reserves) to short-term resources varies significantly from year to year in favor of the former. Specifically, during the considered period, this ratio was 1:6 in 2013; 1:5 in 2014; 1:3 in 2015; 1: 2 in 2016. There is a rapid penetration of life insurance into the market, and along with this, insurers receive resources that are less demanding for liquidity, which entails long-term investments, improving the financial condition of the insurers themselves and the positive economic effect of such investments.

Trends in own capital. Similar to insurance reserves, own capital can also act as a source of investment activity. In 2016, the shareholders' equity of Russian insurers amounted to 461,987.3 million rubles, and the authorized capital - to 216,362.4 million rubles. The share of own capital of all insurers in recent years enjoys an upward trend of 25-30%. The share of the authorized capital in the structure of own funds for all groups of insurers is approximately 45-50%.

Concentration of capital in the insurance industry. The concentration of capital is associated with a decreasing number of insurers and an increase in the volume of insurance operations. According to [3], there were 256 insurance organizations in the insurance market in 2016 (cf. 420 in 2013). Decrease in the number of insurers has led to the concentration of capital and premiums in the industry and in certain segments of the market. For example, after 9 months in 2017, the top five insurers accounted for 41.7% of assets, 47.6% of capital, 41.7% of premiums and 53.8% of insurance payments. Increasing concentration of financial business in general may

have a positive impact on its efficiency and the efficiency of investments of this entity.

Interaction between the banking and insurance sectors. Areas of interaction between banks and insurers are very diverse, with one of their indicators being the sales share of insurance policies through banks and received rewards. The share of credit institutions in the insurance premium as intermediaries grew steadily and reached 24.7% in 2016, including 84.6% being life insurance. Banks have a stable share in the remuneration among intermediaries, and for life insurance, their share exceeds 80%.

B. Directions for the Investment Activities of Insurance Organizations

Development of financial markets. On the part of the banking sector, despite the Central Bank's strict policy of "cleaning", stabilization and growth is expected, which will support the profitability of the insurers' investments in deposits [9].

The most notable features of the banking sector development until 2020 are the following: development of securitization mechanisms that support the rapid growth of long-term credit to individuals; expansion of state support for credit for small and medium-sized enterprises (SMEs) that will create prerequisites that will help reduce the concentration of large credit risks in the banking system; increase in the scale of remote banking services that will reduce the costs of banks and increase the availability of services in the regions. 64.5% (35.3 million) of Russian Internet users aged 18 to 64 years use Internet banking for individuals [10, 11].

The stock and bond market, which is becoming more popular among insurers, is developing rather slowly. In 2016, capitalization of the Russian securities market barely reached 45% of the country's GDP, 35% in 2015, and 30% in 2014. The market of government securities in 2015 experienced a drop similar to the one in 2009 because of the global financial crisis. Currently, the Russian government securities market continues to develop, focusing on and adopting the successful experience of foreign countries [12].

Optimization of investment management. Insurers have the right to transfer up to 50% of their insurance reserves to trust management. Investment and management companies carry out trust management of insurance reserves. The latter, in turn, distribute the attracted funds in share investment funds (SIF). On the trust management market, the first 15 operating companies in terms of their net assets under management hold 94% of the market, and possess 78,420,000,000 rubles under management, received from insurers in the form of reserves, accounting for only 7.34% of the total insurance reserves on the insurance market [13].

The advantages of trust management are state regulation and protection of investors' rights, which facilitates the full disclosure of information of trustees and reduces fraud to a minimum [14, 15]. As noted in [16], partial transfer of assets to trust management is a highly effective solution that carries the potential of high profitability (compared to bank deposits and bonds that are most popular among insurers) and benefits both the insurer and management companies.

IV. CONCLUSION

Prospects of investment activity of insurance organizations of Russia are justified by the dynamic development of voluntary insurance, in particular, long-term life insurance. The investment potential of insurers is growing. The main areas of investment activity in the near future will be further penetration into the banking sector, which is less profitable but more reliable and has higher risk and gives additional advantages such as growth of insurance premiums, client base and financial instruments for investments.

Optimization of the investment portfolio might be at the expense of transferring some of the insurance reserves to trust management, which will increase the profitability of investments, although these investments have higher risk.

REFERENCES

- [1] Bank of Russia Ordinance No. 4297-U, On the Procedure for Investing Insurance Reserve Funds, and the List of Assets Eligible for Investment, <http://www.consultant.ru/cons/cgi/online.cgi?req=doc&base=LAW&n=290716&fld=134&dst=100000001,0&rnd=0.10052988534175022#014225616819183462>, last accessed 2018/04/04.
- [2] Bank of Russia Ordinance No. 4298-U, On the Procedure for Investing an Insurer's Capital and the List of Assets Eligible for Investment' (with "Requirements for the structure of Assets") http://www.consultant.ru/document/cons_doc_LAW_216616/251f7ac207ca304c6331640eb36b162351c24684/, last accessed: 2018/04/04.
- [3] Review of key indicators of insurers. Information-analytical materials, №4, http://www.cbr.ru/finmarkets/files/supervision/review_insure_290617.pdf, last accessed 2018/04/04.
- [4] Review of key indicators of non-credit financial organizations by the end of 2015, https://www.cbr.ru/StaticHtml/File/11875/review_250716.pdf, last accessed 2018/04/04.
- [5] Review of key indicators of non-credit financial organizations by the end of 2014, https://www.cbr.ru/StaticHtml/File/11861/review_270415.pdf, last accessed 2018/04/04.
- [6] Lyalin V. A.: Securities Market, pp. 154–156, "Prospect", Moscow (2014).
- [7] Federal State Statistics Service, http://www.gks.ru/free_doc/new_site/finans/strah-org.htm, last accessed 2018/04/04.
- [8] The Central Bank of the Russian Federation. Supervision over financial market participants, http://cbr.ru/finmarket/supervision/sv_insurance/, last accessed 2018/03/30.
- [9] Rozhdestvenskaya T. E.: Financial and legal regulation of banking activities. pp. 103–105. "Prospect", Moscow (2016).
- [10] Marksw Webb, <http://markswwebb.ru/e-finance/internet-banking-rank-2016/>, last accessed 2018/04/04.
- [11] Tarasenko O. A.: Banking Law: Theory and practice of banking legislation, pp. 84–85. "Prospect", Moscow (2015).
- [12] Pokrovskaya N. N., Kurilenko M. V.: The market of state securities in Russia: problems and development prospects. Internet Journal "Science of Science" <http://naukovedenie.ru/index.php?p=vol8-4>, last accessed 2018/04/10.
- [13] Ratings and rankings of funds and management companies, <http://www.investfunds.ru>, last accessed 2018/03/30.
- [14] "Regulations on uniform requirements to the rules for the implementation of securities management activities, to the procedure for disclosure of information to management, as well as requirements aimed at eliminating the manager's conflict of interests" (approved by The Bank of Russia, 2018/08/03 N 482-P), http://www.consultant.ru/document/cons_doc_LAW_190355/, last accessed 2018/04/04.

- [15] Astapov K. L.: Perspectives of trust management in the Russian Federation: a reform based on global experience. *Money and Credit*, № 4, 33-37 (2015).
- [16] Osmanov R. R. Perspectives of trust management of reserves of insurance organizations through mutual investment funds. In: *Proceedings of «Topical issues of modern Russian finance and insurance»*, pp. 84–87, Nizhny Novgorod State Pedagogical University, Nizhny Novgorod (2016).