

DEVELOPMENT OF A COMPETITIVE ENVIRONMENT AS A FACTOR OF THE QUALITATIVE GROWTH OF THE RUSSIAN INSURANCE MARKET

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Abstract: The current conditions for the functioning of the Russian insurance market at a macroeconomic level cause the emergence of a complex of problems, taking into account the economic sanctions of Western countries, and the microeconomic conditions. As a consequence, the number of insurance entities is decreasing, the number of unprofitable insurers is growing, the licenses are being massively withdrawn, the financial stability of participants in the insurance market as a whole is being reduced. Reduction of financial stability occurs on a number of parameters, including the volume of transferred reinsurance, there is an increase in the amount of self-deduction by insurers. It is necessary to revise the very ideology of insurance, the value of insurance for a client, and the revision of approaches to the concept of insurance supervision. Not only the solution of market problems, but also its planned development should be seen at the heart of the goal setting in insurance supervision. Last years the vector of state regulation of insurance business in Russia is aimed at toughening of supervision and control over insurance companies. Obviously, the main goal of supervision is to ensure effective control over the subjects of insurance business in order to protect the rights of consumers, that is, policyholders. However, the task of achieving this goal should be the development of the market itself. Moreover, the development of the insurance market should be determined primarily by qualitative indicators.

Keywords: insurance market, insurance premiums, state supervision, self-regulatory organizations, risk-oriented approach, risks of the insurer.

1 Introduction

Currently, the insurance market is changing rapidly. The development of the insurance market is influenced by institutional transformations of the economic system, as well as structural factors (prerequisites). At the present stage, the Russian insurance market needs to rethink its development paradigm. It seems that one of the main threats to the Russian insurance market the concentration of internal risks of the Russian insurance system.

For three decades, the competitive environment of the insurance market was represented by a large number of participants. In the current situation, the number of subjects of insurance business is rapidly declining. Reducing the number of insurance companies leads to the oligopolistic insurance market, and to the deterioration of the competitive environment.

The vector of development of the insurance market largely coincides with the vector of development of banking services. Logic suggests that the success of the business model of technology banks developing business as IT companies should also be reflected in the building strategies of the leaders of the insurance market (Kaigorodova et al, 2018; Mobbalegh Naseri et al, 2018).

An important element of the stability of the insurance market is that the state supervisory authority should require insurers to realize the full range of risks that accompany their activities, while simultaneously assessing them adequately and finding effective ways to manage them.

2 Methodology

The purpose of the study was to identify the internal risks of the Russian insurance market and the directions for the development of state supervision over it.

We used for research the general scientific methods of analysis, as well as induction and deduction. In addition, a hypothetical approach has been used to draw conclusions on the insurance industry development vector based on the analysis of the insurance market risk system and directions of state supervision development.

Scientific sources have studied the influence of insurers on the formation of systemic risks. As a whole, the insurance sector makes a small contribution to system losses, but the level of contribution depends on how significant the insurance company is and on directions of its activities (Kaserer & Klein, 2018). In this case, insurers themselves face a variety of risks that require management. This requires a comprehensive solution within the insurance company, and an integrated risk management infrastructure that can be developed through the decision tree interface (Ai et al, 2017). The issues of risk management of an insurer are given great attention to (Mustafina et al, 2017). So, it is noted that property insurers and insurers from accidents face a variety of risks. It was investigated that the quality of the risk management program of such insurers largely determines their productivity and allows diversifying the product line (Mustafina, 2018). At the same time, the asymmetry in information is an important factor in the appearance of risks for the insurer (Dardanoni et al, 2018; Villalobos Antúnez, 2003).

Researchers note that state supervision, and requirements to capital of insurers limit these risks. Therefore, the introduction of risk-based supervision and Solvency II standards is necessary. Based on the set of risks, the risks of distribution of assets of insurers are identified and analyzed according to the classical portfolio theory and taking into account the requirements of Solvency II standards. But the development of the competitive environment in the insurance market should become the main strategy of the state (Fischer & Schlutter, 2015).

3 Results and discussion

If analyze the dynamics of changes in the number of subjects of insurance business and the total authorized capital, we can see the trends of a catastrophic decrease (more than 3 times) of the number of the insurance business subjects with a slight absolute increase in the authorized capital index. Growth of the total authorized capital for 2007 -2018 did not exceed 30%, which is significantly lower than the inflation rate for this period and indicates low market capitalization and low attractiveness of the market for investors.

When analyzing the dynamics in the number of the insurance business subjects and their aggregate authorized capital, there are even more pronounced the negative trends in the reduction of the number of participants with insignificant growth of the authorized capital, which does not cover inflation rates and market demand (Fig.1).

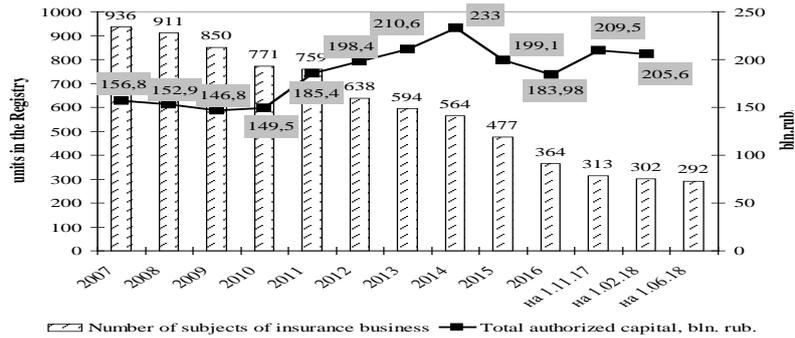


Fig 1. Dynamics of the number of insurance business subjects in the Russian Federation and their total authorized capital

The presented dynamics in the number of insurance companies shows that if since 2007 to 2014 the growth of the total authorized capital of insurers at least partially covered inflation,

then since 2014 the total insurers' authorized capital declines in absolute terms (Fig. 2).

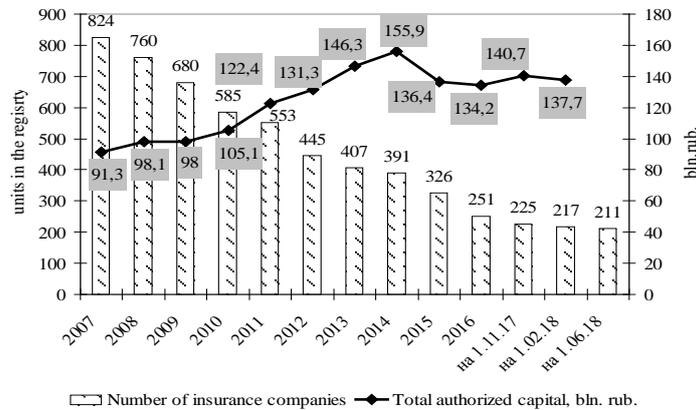


Fig 2. Dynamics in the number of insurance companies in the Russian Federation and in the total authorized capital

With significant territorial expanse and differentiation of regions in the Russian Federation, there are not enough insurance companies in the country. A comparative analysis of the saturation index by insurance companies in Russia, EU countries and the US at the end of 2016 indicates a weak saturation by insurance companies in the Russian market. If in Russia one insurance company accounts for 523 thousand people, in the EU countries - one company for 132 thousand people, and in the US - for 109 thousand people. This factor must be considered in conjunction with the level of penetration with insurance service, which continues to be extremely low (Braun, et al, 2017).

All these aspects have a very negative impact on the competitive environment of the insurance market and on the quality of insurance services provided to consumers.

The level of penetration with insurance service for the period from 2004 to the present is shown in Figure 3. Over the past 11 years, this indicator continues to be extremely low, despite the introduction of compulsory types of insurance.

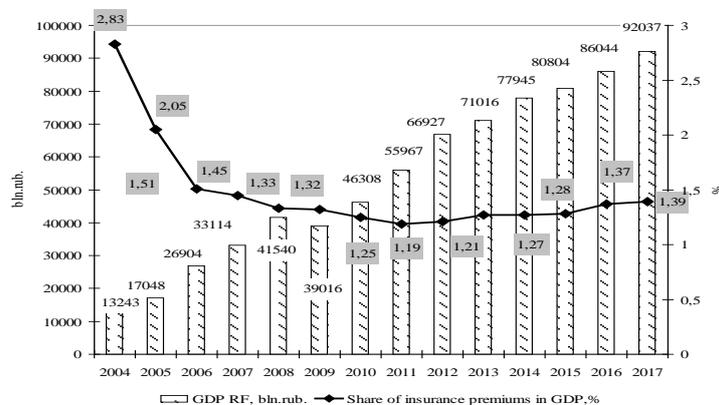


Fig 3. The share of insurance premiums in the GDP of Russia

Analyzing the quality of the competitive environment in the insurance market, we need to turn to the concentration indicator of the insurance market (Table. 1).

Table 1. Concentration of the insurance market of the Russian Federation

Insurance companies	Years					
	2015		2016		2017	
	Receipts, bln. Rub.	Share, in%	Receipts, bln. Rub.	Share, in%	Receipts, bln. Rub.	Share, in%
TOP 10	671.8	65.6	763.0	64.6	835.1	65.3
TOP-20	793.3	77.5	921.5	78.1	1020.2	79.8
TOP-30	852.7	83.3	996.1	84.4	1100.4	86.1
Total by market	1023.8	100	1180.6	100	1278.8	100
Total, insurance companies	305		245		216	

The above data indicate that the concentration of the market is growing. If the share of the first 10 companies remains practically unchanged (about 65%), the first 20 companies account for 77.5% of premiums in 2015 and 79.8% of premiums in 2017. The distribution of insurance organizations' income is far from the natural distribution. So, for example, TOP-30 accounts for 83.3% of premiums in 2015, and already in 2017 this share has increased to 86.1%.

All of the foregoing allows us to assert that the Russian insurance market operates by the principle of an oligopolistic market far from the market of pure competition. We absolutely agree as to this issue with the researchers that the Russian market has exceeded the concentration limit, after which natural stable functioning ceases and the risks of unexpected collapse sharply increase. The opinion of A. Laikov that the super

concentrated domestic insurance system not only becomes unstable to unexpected damages, but also hinders the development of the income insurance base, replacing the development competition with the competition of redistribution, is quite justified.

Therefore, it is not surprising that the Russian insurance market in 2017 showed results that are not inspiring optimism. According to the Bank of Russia, the annual increase in insurance premiums was 8.3% (15.3% in 2016), and the total premiums for all types in 2017 reached 1.279 trillion rubles. It is quite expected that the dynamics of unprofitableness of the insurance market shows a decline, as the life insurance market grows for a long time, since its loss-making ratio is quite low (Table. 2).

Table 2. Dynamics of unprofitableness of the insurance market in the Russian Federation

Year	2013	2014	2015	2016	2017
Insurance premiums, bln. Rub.	904.4	987.8	1 023.8	1 180.6	1 278.8
Insurance payments, bln. Rub.	420.8	472.3	509.2	505.8	509.8
Losses, %	46.52%	47.81%	49.74%	42.84%	39.86%

From the point of view of a buyer of insurance service, a question arises of the practical significance, the price and value of insurance, the validity of the insurance tariff with a tendency

to reduce the level of unprofitability. The dynamics of insurance premiums has a positive growth pattern (Fig.4).

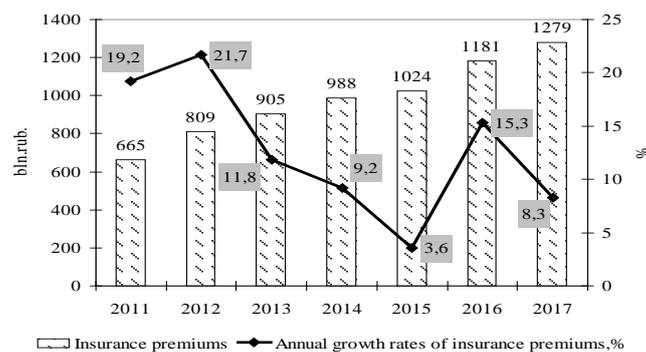


Fig 4. Dynamics of insurance premiums in the Russian Federation

However, if to "clear" the indicator of total premiums from life insurance fees, we get a different picture (Fig5.).

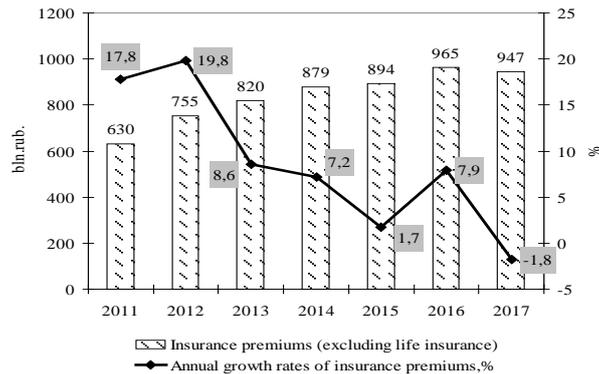


Fig 5. Dynamics of insurance premiums in the Russian Federation without taking into account life insurance

In fact, the market is shrinking without premiums on life insurance, experiencing stagnation against the background of inflation and a decline in KASKO (comprehensive and collision car insurance) and corporate insurance segments that have become profitable in recent years. In our opinion, the development of life insurance remains doubtful because of the significant risks caused by aggressive sales of life insurance policies through banks, which is accompanied by a lack of understanding by customers of the product at the stage of purchase and the lack of understanding of the real profitability of such a policy.

In our opinion, overcoming the internal threats of the insurance market will be facilitated by a "reset" of the goal setting of insurance supervision and a self-regulatory organization of the All-Russian Union of Insurers.

It is obvious that market development is possible only in the situation of improving its qualitative indicators: increasing the availability of insurance services for the population, developing a competitive environment, increasing the level of insurance penetration. At the heart of the goal setting for insurance supervision there should be the planned development of the market. From the point of view of the insurance activity state regulation model development for Russia, approaches to regulating the insurance business of the International Association of Insurance Supervisors (IAIS) are of interest. Obviously, "regulation is not an abstract concept, but rather one in which supervision must make sound decisions about what should be regulated, and what methods should be used in doing this" (Turbina, 2008). In order to protect policyholders, the state should not hinder the development of the market, but should contribute to the creation of new market niches and segments. However, it is necessary to increase the importance of identifying and evaluating all risks in the company's activities and finding effective methods of managing them. To do this, insurers must comply with certain standards and regulations.

Recent years, risk management systems are undergoing significant changes. International industry standards for risk management include Solvency I (solvency requirements for European insurance companies) and Solvency II (a synthesis of 13 guidelines on solvency in the form of three chapters: 1. Directives, 2. Requirements, 3. Norms). The introduction of a risk-based approach and elements of the Solvency II model into the insurance supervision system in the Russian insurance market should occur very gradually, meaningfully, in the long term, as insurers become ready for it. When implementing this approach, it is necessary to take into account the influence of conceptual differences in approaches to the basic elements of the system of state insurance regulation in Russia and abroad. The practices of building a risk management system in Russia and in the world are seriously different. In the world practice, the government formalizes risk management standards based on self-regulating organizations (SROs), the tasks of building a risk management system are put by owners in front of management; risk management serves as an additional efficiency tool for the

companies. In the Russian practice, the state creates regulatory requirements on the basis of a regulator, and Russian business owners regard the cost of risk management as involuntary.

The activities of the All-Russian Union of Insurers, as a SRO insurance organization, should be focused on the development of the insurance market. To realize this goal, it is necessary to update the market development strategy taking into account the current realities and development of the country's economy. Evident is importance of introducing professional standards, financial literacy and standards for protecting the rights of policyholders as part of the strategy. In this regard, it is important to form the opinion of the insurance community on a whole range of issues: a differentiated approach to insurers, regulatory requirements for supervision, assessment of the relevance of the idea on proportional regulation of the market, preparation of a package with proposals on insurance legislation, development of approaches with the Central Bank and principles for innovation of supervision (for example, risk-oriented supervision). Goal setting of the Russian Union of Insurers as a SRO of insurers should be focused on the possibilities of developing the insurance field, voluntary types of insurance, the preservation of insurance entities, increasing competition and creating new types of insurance. In this regard, it is important to form the opinion of the insurance community on a whole range of issues: on a differentiated approach to insurers, regulatory requirements for supervision, assessment of the market relevance to the idea of proportional regulation, preparation of a package of proposals on insurance legislation, and development of approaches and principles to innovations in supervision jointly with the Central Bank. The path to civilized insurance lies through improving the financial literacy of the population and building the skills of effective protection of financial rights.

4 Summary

In world practice, the state's activities are aimed at reducing the uncertainty of entrepreneurial activity, and the state is the subject of ensuring security. In Russia, the state is at the same time the subject of security and a source of uncertainty (for example, regarding legislative initiatives). We have to talk about the huge difference in approaches to standards in Russia and in the world. In the world, a general concept is given, and companies develop detailed corporate standards on its basis. In Russia, there are very detailed state standards, and companies are trying to "place" their standards as to fit them to the public ones. For insurance companies, the main risks are legislative, credit, regulatory, financial and interest risks.

Thus, to manage the internal risks of the insurance system, it is necessary to change the qualitative approach of the insurance system to insurance and to see the growth points in changing the goal-setting of the system, changing the ideology of the insurance community, and, most importantly, forming insurers and insurers' attitude to insurance as a civilized cover mechanism damage. Ideally, the balance between interests of consumers of insurance services and the interests of market

participants should be observed in the name of its qualitative development.

5 Conclusions

We believe that the main problems of the Russian insurance market are concentrated in the following areas:

1. The relationship to the insurance mechanism on the part of the supervisory authorities and society leads to an imbalance of the economic interests of insurers and their customers.
2. It is difficult to predict the further development of the market in conditions of general uncertainty in the legal field.
3. It is necessary to introduce standards, improve the systems of corporate management by insurers, primarily in terms of risk management, solvency, compliance of assets with obligations, and transparency.

Key elements of effective supervision for the Russian insurance market in modern conditions:

1. The state body exercises the supervisory function through the phased implementation of standards and "rules of the game". Implementation of the principle of capital adequacy provided by the Solvency II model is necessary.
2. Implementation of reporting in XBRL-format. The aspect of automation of insurance activities is closely related to the use of financial technologies. It is obvious that the business models and competitive advantages of companies will be determined by the level of technological innovation.
3. SRO of insurance organizations will perform the function of developing the insurance market.

At the same time, at the level of each insurer, the owners of the business will be focused on building a corporate management model for an insurance company, which allows taking into account the variety of risks and ensuring the financial stability of insurance operations.

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