THE INFLUENCE OF THE FINANCIAL CRISIS ON THE ACTIVITIES OF INSURANCE COMPANIES IN RUSSIA

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ABSTRACT

This article examines the impact of the financial crisis on the scale and structure of investment portfolios of insurance companies in relation to their differences compared to other types of financial institutions, which follow from the specifics of insurance activities. The direction of investment of insurance companies should be very carefully studied in terms of their future consequences for the long-term financial well-being of insurance companies and the competent management of all risks to which they are exposed, taking into account the interdependence of these risks. Relevant recommendations in this regard have arisen from a study of relevant past experiences and current trends.
Keywords: *Financial Crisis, Insurance, Investment Portfolio, Investment Risk.*

INTRODUCTION

The recent trend of globalization and deregulation has weakened the role of classical banking institutions and strengthened the role of insurance companies as financial intermediaries. In addition, the ever increasing presence of catastrophic risks, such as natural disasters and terrorist attacks, has led to the agglomeration and concentration of capital in the insurance industry. Insurance companies' direct funds received by selling their own indirect financial instruments - insurance policies - to purchase financial instruments owned by scarce agents.

Insurance companies act as financial intermediaries. Being institutional investors, they have no influence on the amount of money in circulation, they are not subject to monetary regulation, they do not provide a payment function, and their activities are based on mutual trust. Thanks to their investment strategy, these companies contribute to the development of all segments of the financial market [15].

Their reasonable and conservative investment strategy plays an important role in stabilizing both the country's economy and the social community as a whole. The cost and structure of the assets of insurance companies, as the leading institutional investors in the world, have suffered from the corresponding negative impact of the global financial crisis. During the recovery from the crisis, insurance companies are trying to redefine their investment policy [16]. large number of problems that insurance companies face at present, as well as opportunities to overcome them, are becoming one of the most pressing issues among insurance theorists and practitioners. this, in turn, predetermines the need to study the trends and patterns of the impact of the financial crisis on the activities of insurance companies in Russia.

Main part

The situation and direction of development of the insurance market can be described taking into account two circumstances [3, 8, 10]

First, citizens have an acute need for insurance protection, which is the main reason for the creation and development of the insurance services market.

Secondly, the formation of insurance funds at the expense of insurance payments to customers and the attraction of additional investments connects the insurance market with the financial market of the country.

Insurance companies, together with specialized credit institutions, often provide credit services to various sectors of production and economic activity and occupy leading positions after commercial banks when issuing loan capital. It should be noted that the growth of capital of insurance companies due to payments of customers, the profit from sponsorship and investments, as a rule, exceeds the amount of insurance reimbursements in accordance with the concluded contract. This allows insurance companies to play a leading role in investment, as well as investing in long-term securities and huge ambitious projects.

The main function of insurance is to ensure the economic protection of subjects against the risks to which they are exposed. In an effort to best fulfill this function, insurance companies are transforming small funds collected from premiums paid by insured persons into large funds (reserves). Thanks to a reserve-based funding mechanism, insurance companies of funds deferred to cover future liabilities are free funds that can be invested before the corresponding obligations are discharged [9.]

By investing free funds, insurance companies try to get adequate income in the form of interest and capital growth as low as possible. At the same time, the insurer should not risk timely payment of obligations to the insured. For this reason, the reserves should be invested in accordance with the statistical expectations of losses in the future. We can distinguish three areas of investment of free funds of insurance companies: investment in real estate or direct approval of mortgage loans, investments in securities and deposits in banks and other financial institutions

Typically, the ratio of these investment forms to the insurer's assets is due to a large number of factors, such as the purpose of the specific insurance, the type of insurance in which the company participates, the rules, as well as special circumstances such as the degree of development of the financial market and the onset of the financial crisis. Optimization of portfolios of insurance companies assumes adherence to the principles of modern portfolio theory and management of assets and liabilities, taking into account a relatively large number of restrictions in comparison with other types of investors. The principles of the insurance policy of the insurance company with respect to liquidity, security and profitability are no different from those applied to companies in other industries [13].

Nevertheless, the purpose of the insurance business gives relative importance to these principles; that is, its sets priorities among them. Because of its primary function of providing protection against risk, each insurance company must first consider the security of its appropriations when making investment decisions. Therefore, the main direction of insurance reserves should be conditionally risky assets, such as government bonds, long-term bonds of public companies and bank deposits. In addition, the principle of security is also achieved through the diversification of investments, as well as by maintaining a share of capital and margin of solvency at a specified level when investing funds in order to prevent possible erosion of the company's capital. The types of assets into which insurance companies invest their funds, as well as the term of their placement, are also determined by the characteristics of liabilities and funding sources, such as their predictability and maturity.

The relationship between obligations and investments is more visible, since high-quality long-term funds can be invested in the capital market at the disposal of this type of insurance company, mainly in government bonds and shares. The structure of investment portfolios of the insurance company is also determined by rules, which are mainly related to the investment of funds from technical reserves, especially with the mathematical (premium) reserve that is inherent in life insurance.

The goal of the legislator is to maintain the real value of these funds in today's unstable investment situation and the rapid changes in the value of money, as well as maintaining the insurer's ability to fulfill its obligations to insurance holders at a given time. The rules strictly define the forms of ownership in which the insurers can invest and limit their share in the total amount of technical reserves. The depth and breadth of the financial market determine how much insurance companies will be able to realize their institutional function of the investor. The ability of insurers to directly or indirectly meet through their investment activities, the expectations of shareholders, controlling bodies and other interested parties is actually limited if the supply of financial instruments is low. In the undeveloped capital market, which is currently operating in Russia, insurance companies mainly appear on the money market, which affects their profitability in respect of investment transactions, especially in the field of life insurance, whose obligations require high-quality long-term investments.

One can agree with researchers who consider that the world financial crisis is the strongest determinant of insurers' investments in most countries in current conditions [2, 11, 14]. The consequences of the financial crisis, which in 2008 turned into an economic crisis, were diverse for insurance companies regarding both liabilities and assets on their balance sheets. As for the assets of insurers, the crisis manifested itself in a number of channels. The overall breakdown of the financial market, measured mainly by the fall in stock prices in the capital market, affected the cost of investments by insurers and, consequently, the promised payments to policyholders. The crisis of assets has increased not only because of the direct impact of mortgage loans, but also because of the crisis situations also affected by banks, to which the insurers were linked through their deposits and investments in securities.

A significant decrease in the demand for insurance and loss of confidence by insurers to insurers in an economic crisis, accompanied by catastrophic losses, led many companies to conduct a significant restructuring of their securities portfolios in order to reduce investment losses. One of the main features of this crisis was the adverse reaction in bond markets and a significant increase in credit risk for products and institutions that were previously considered safe [7]

The financial crisis indirectly affects the insurance sector through its impact on the holders of insurance policies, banks, capital markets and supervisory authorities. The direct impact of the crisis is manifested in investment losses due to a fall in the market value of the investment of the insurance company, and also because of the inability of issuers of debt instruments (borrowers) to pay principal and / or interest. The relatively high exposure of the assets of the insurance company to the impact of the financial crisis is due to their significant role in the money and capital markets of developed countries [12].

According to the crisis, the crisis can affect the securities portfolios of insurers in the following way: on the basis of portfolios of securities of insurance companies in developed countries, one can say that they usually invest most of their funds in bonds, since securities are characterized by lower yields, but also lower risks , than property instruments [13]. To maximize the security of their investments and obtain a certain amount of tax benefits, these companies are particularly interested in investing in government bonds. besides, insurance companies take relatively little investment in stocks because of high risks, obstacles to transfer of property rights, insufficient trading experience and insufficient transparency of the market.

The direct effect of the financial crisis due to the depreciation of the value of assets was relatively less pronounced in the case of European insurers than in their American counterparts. Their loss from financial derivatives and mortgage-backed securities was not significant. Some companies suffered losses equal to their cash deposits with banks, while insurance companies in France and the UK suffered the most because of a drop in share prices. [14]

Thus, it can be concluded that the crisis affects the insurance market in different ways in developed and developing countries. Insufficiently developed financial market, small stock of financial instruments and low level of investment activity due to insufficient free funds dictate a fundamentally different structure of the investment portfolio and less important role of insurance companies as institutional investors in Russia in comparison with economically developed countries [1].

Given the shortage of long-term government bonds and local government bonds, the lack of corporate bonds, insurance companies have limited opportunities for valorizing available funds and diversifying risks. In addition, in conditions of pronounced information asymmetry, insurance companies as investors in the Russian financial market can not really assess the risk and the expected return on their investments. It is for this reason that they can not play an important role of effective capital investors and stabilizers in the capital market [6].

In addition, in Russia the development of voluntary insurance as such, as a form of saving, remains at a low level. Consequently, small financial opportunities of insurance companies further exacerbate this unfavorable situation. The way insurers can invest their free funds is limited and limited by rules. Russian insurance companies can only invest their money if they can ensure constant liquidity and investment safety so as not to put the real value of the threatened assets. In terms of the scale and structure of the investment portfolio, insurance companies operating in Russia are still lagging behind those in developed countries. The legal framework as such is not enough to become institutional investors in the true sense of the term [5].

Unfavorable trends in financial markets pose a threat to insurance companies, which, as a rule (except for so-called single products, which imply the transfer of some investment risk to insurance policyholders) are exposed to financial risk of lowering interest rates (due to a decrease in investment income and discounted interest rate on liabilities), high market volatility (due to an increase in the cost of guarantees), and a drop in the capital market due to the increase of credit spreads, rather than changes in the risk-free interest rate.

Simultaneous trends in asset valuation in accordance with market prices and discounting of reserves by applying a risk-free interest rate have led insurers to increasingly invest their free funds in low-profit as well as low-yielding instruments. A further increase in these pressures leads to a long period of low profitability of investment operations of insurers, even after the consequences of the crisis are completely overcome, which ultimately affects not only the interests of insurers, but also the policyholders who have entrusted their funds to them.

The global financial crisis, which began in 2008, did not have a radical impact on the Russian insurance market. Voluntary types of insurance, such as corporate property insurance / from accidents and the auto insurance sector have really suffered from a recession. At the same time, it led to a change in the payout ratio (Figure 1)

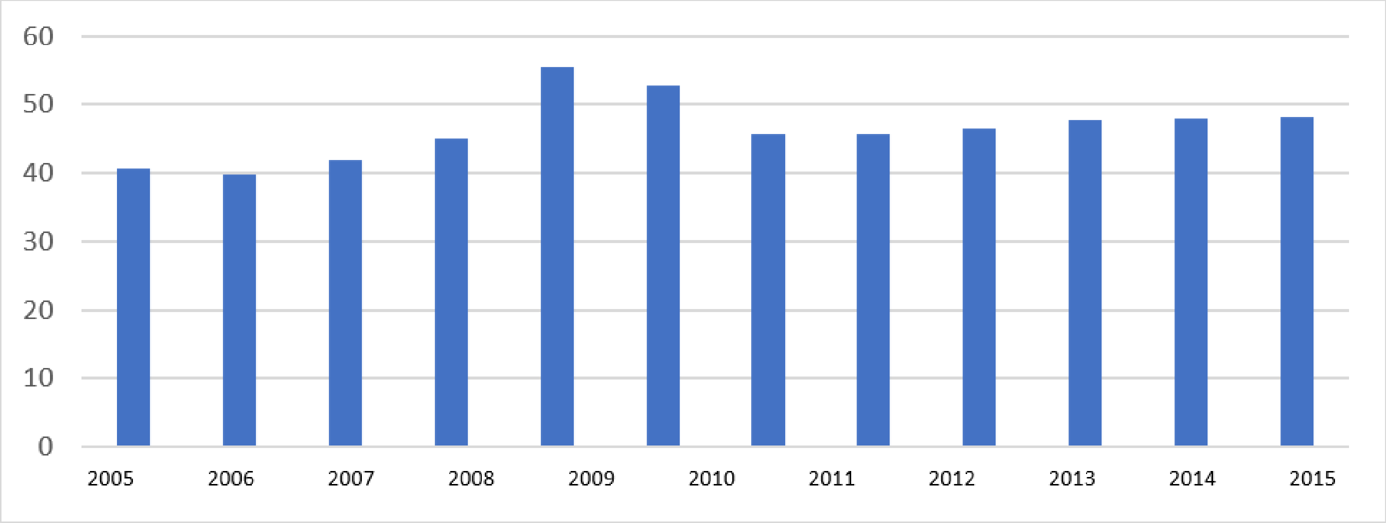

Figure 1. Dynamics of the payout ratio in the insurance industry of Russia, % [4]

As can be seen from the figures in Figure 1, in 2009 the payout ratio increased significantly by 10.5%. Then this indicator decreased, but already in 2014 it began to increase again, which allows us to talk about the connection of this phenomenon with the crisis situations that are related to the sanctions of developed countries, geopolitical pressure, inflation, the growth of the national currency.

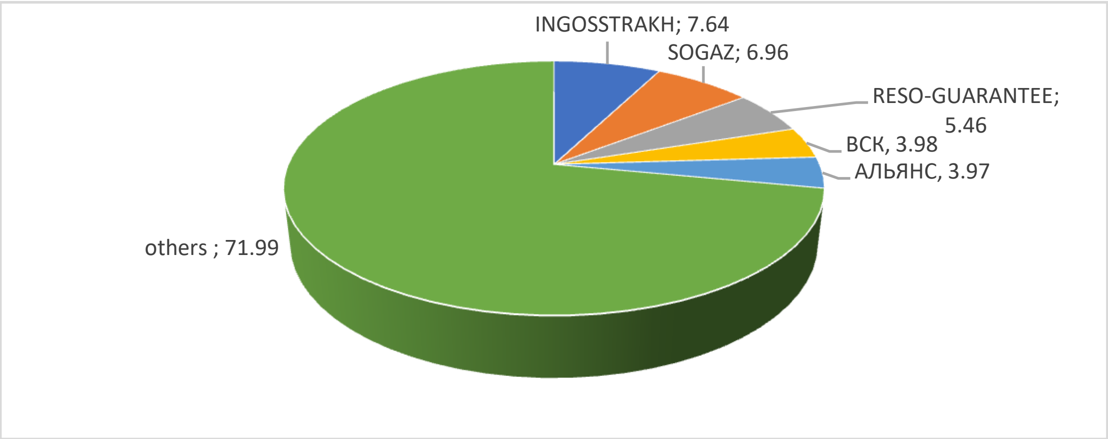

Figure 2. The concentration of the insurance market in Russia in 2008, [4]

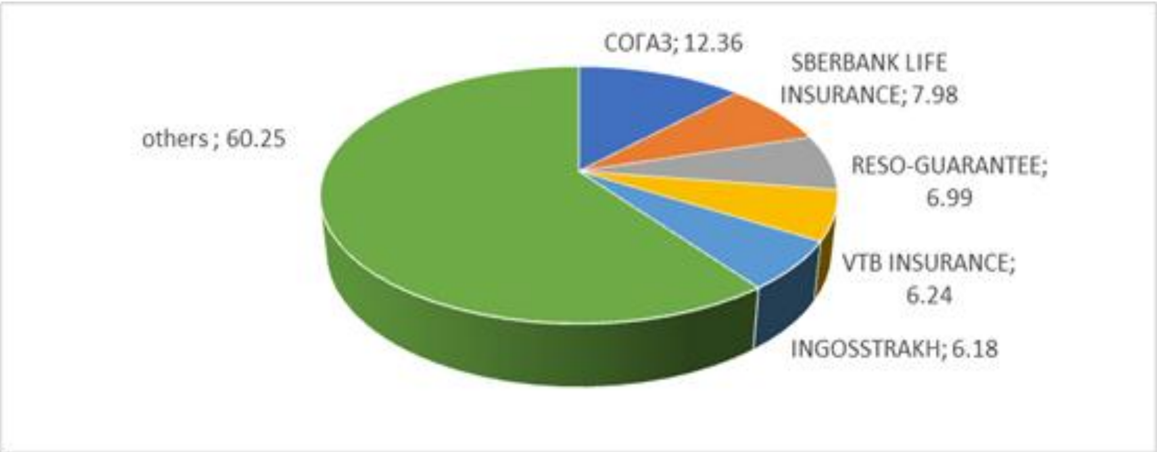

Figure 3. The concentration of the insurance market in Russia in 2017, % [4]

The data presented in Figures 2 and 3 demonstrate the strengthening of the concentration of the insurance market. Thus, in 2008, five insurance companies accounted for 28.01% of total revenues, and in 2017 this indicator increased by 11.74% and reached the level of 39.75%. Analysis of capitalization for the period from 2003 to mid-2016 showed that its highest level in the ruble equivalent in January 2015 was 222 billion rubles, and in dollar terms in January 2008 it amounted to 6.3 billion dollars [4].

Currently, the insurance market in Russia has many problems that have accumulated over a long period of time. These problems include: the modest scale of the Russian market is explained by the low level of income of the majority of the population, which does not allow them to purchase insurance products; low quality of insurance products; in general, in the country. As a result, at the end of 2014, the population expressed a negative attitude to the insurance market, and this was due to a largely low quality of supervision by insurance companies [1].

It should be noted that at present, corporate insurance is usually reduced, companies are trying to cut costs in all possible ways; however, we can not say that they completely abandoned insurance products. Such companies, like individuals, refuse some additional services; nevertheless, they are trying to keep the basic package. Thus, taking into account the above statistics, it can be noted that there are a number of economic and non-economic reasons that affect the economic sector, such as insurance, and, anyway, they damage the people's confidence in this type of economic activity.

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Summarizing the above, it can be concluded that the Russian insurance sector is at a stage of crisis. Therefore, it is important to continue the development of insurance companies that increase their authority and responsibility for the reliability of actuarial expectations and results, and also begin implementing the principles of solvency ensuring, to determine the possibility of introducing new requirements to the reinsurance policy of the insurance market entities. It is also important to increase the requirements for the authorized capital, which will help to change and expand the differentiation of insurance companies depending on the types of activities performed.

In particular, for companies that are not engaged in compulsory insurance and socially significant types of insurance activities (responsibility of tour operators and developers, other contractual obligations with high insurance coverage), the size of the authorized capital should be maintained at the current level, and for companies that provide a full set of types property insurance, life insurers and reinsurers, multiplying factors are applied. The second step may be the use of risk-based market surveillance, differentiation of the depth and frequency of reporting, taking into account the scope and types of insurance operations. At the same time, the main task of insurance companies for the next few years is not to increase sales by all means, but to structure sales channels, improve the skills of employees, reduce costs,

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