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## Development Trends for the Insurance Industry in Russia

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**Abstract:**

*The paper considers the main problems and trends for the insurance market in Russia. Threats and risks that may affect its further development are also presented in it.*

*The work reveals the issues of improving the mechanisms of insurance protection of business entities and identifies priority types of insurance.*

*The analysis of the current trends in the modern insurance market of Russia, important statistical indicators of the importance of insurance in the modern financial system are also provided in the research.*

*Research of the insurance market and its problems is aimed at understanding the processes taking place in the insurance in order to improve the interaction of the state, insurance companies and consumers of insurance services.*

**Keywords:**

*Insurance market, insurance market development strategies, compulsory insurance, imputed insurance, new insurance products, life insurance.*

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## **1. Introduction**

The current state of the domestic insurance market is closely correlated with general economic trends in Russia. Insurance, being a unique way of ensuring the preservation of property interests of individuals and business entities, is currently in a policy and institutional trap that does not allow this industry to fulfil its basic purpose. Undergoing significant changes under the influence of unfavorable factors of the external sanctions policy, the Russian financial market inevitably causes the transformation of established relations in the insurance environment, thus affecting the deep foundations of the Russian insurance market. Functionally, this trend is determined in the form of redistribution of emphasis in the specific structure of the insurance industry in favor of mandatory and imputed types of insurance (Shirshov, 2015; Gorbunova, 2016). Traditional types of voluntary insurance are not so profitable due to the lack of financially sound motivation among potential insurers. Potential consumers of insurance services are forced to largely save on insurance coverage against the background of falling real incomes, resorting in most cases to self-insurance and accumulation as a secondary way of securing the preservation of property interests in the event of adverse events.

Taking into account modern economic trends, it is possible to single out the main trends characterizing the development of the insurance industry in Russia as follows:

- 1) low rate of the penetration level of insurance in GDP, due to the lack of growth in effective demand for insurance products;
- 2) an increase in the share of life insurance in the fee structure for voluntary types of insurance against the background of falling fees for classical types of property insurance;
- 3) the growth of the importance of mandatory and imputed types of insurance in the structure of insurance fees and payments;
- 4) reorientation of outgoing reinsurance flows towards Asian countries and growth of the importance of the Russian National Reinsurance Company (RNRC) in the domestic reinsurance market;
- 5) decrease in the total number of subjects of insurance business due to the continuing consolidation of insurers against the background of tightening of the regulator's requirements to the level of their financial stability (Nerovnya and SamoiloVA, 2016).

## **2. Materials and methods**

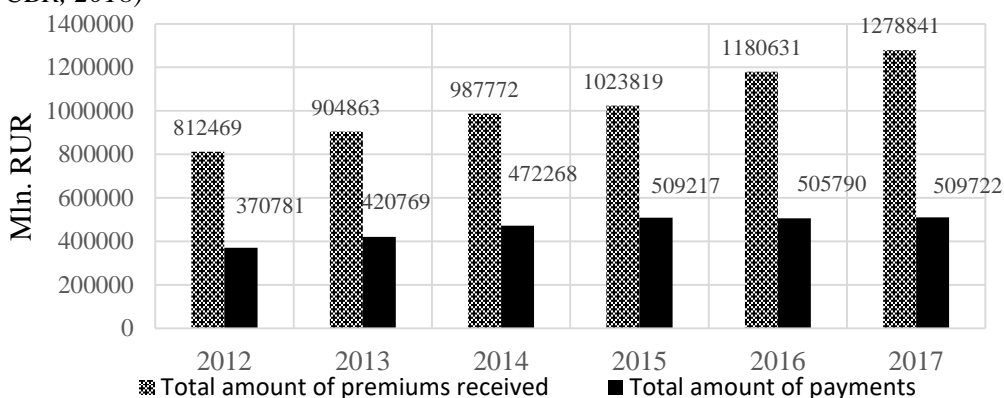
In the course of the research, the authors rely on the works of Russian scientists which are dedicated to the development of the modern insurance market in Russia, regulation and supervision in the insurance system, state licensing of insurance activities, the introduction of new insurance products in the practice of Russian insurers, a comprehensive analysis of aggregated rates of insurance fees and payments for various segments of the Russian insurance market, as well as directions

of transformation of the insurance market. Taking into account the nature of the object under the study, the research is based on a systematic approach to the analysis of the subject of the research. The authors used various statistical methods, a comparative analysis and an extrapolation method.

### 3. Results

Despite the nominal 57% increase in insurance premiums that had been demonstrated since 2012 (Figure 1), the level of insurance penetration in GDP was still low and amounted only to 1.38% of GDP in 2017.

**Figure 1.** Dynamics of insurance premiums and payments in the insurance market (CBR, 2018)

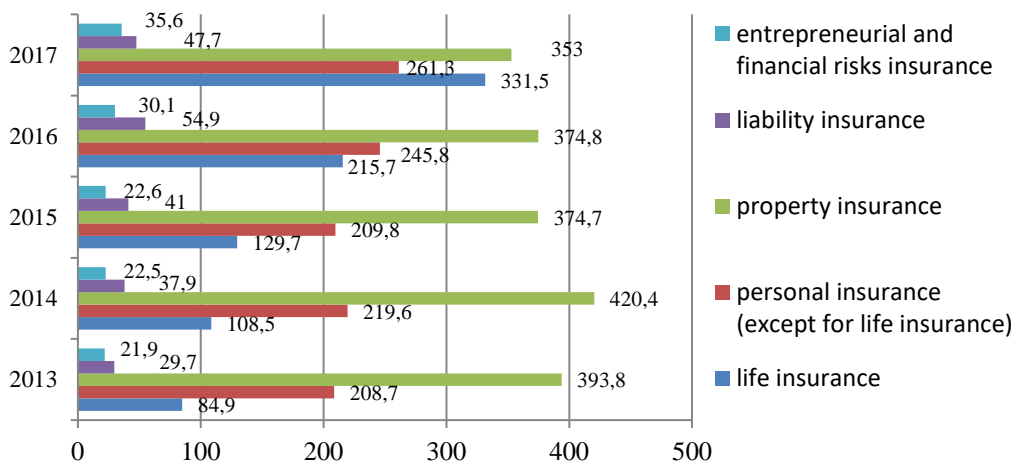


This indicator is insufficient and testifies to underestimation of insurance mechanisms in the system of redistribution of GDP of the Russian Federation. Meanwhile, in OECD countries, the share of insurance against GDP varies from 1% to 20%. The leader is Luxembourg, where the ratio of insurance premiums to GDP is 36.5% due to life insurance (33.7%). In the regional section of the groups of countries, the highest rates are observed in the countries of the North American union North American Free Trade Area (NAFTA) about 10.3% of GDP, mainly due to high US indicators.

The countries of this group, as well as Russia, are characterized by a higher index in insurance other than life insurance (6.1%). The ratio of the total insurance premium to GDP for the EU countries is 8.1%. At the same time, the indicator for life insurance (5.3%) is almost twice as higher than for life insurance (2.8%). Countries in Latin America, Eastern Europe and Africa traditionally have a lower penetration rate of insurance, from 2% to 3.5% of GDP on average. The values of a similar indicator of Hong Kong, China, and also South Africa are higher (14.7%-14.8%) due to a much higher weight of life insurance (13.3% and 12% respectively).

According to the established trend, the main generator of insurance premiums growth in the target segment of voluntary types of insurance and the market as a whole is life insurance (Figure 2). It should be noted that, in accordance with the consolidated accounts of the subjects of insurance business published by the Central Bank of the Russian Federation, the volume of the insurance market without taking into account life insurance revenues showed negative dynamics of growth in 2017 decreased by 1.8%. While in absolute terms the increase in insurance premium receipts is fixed at 98 billion rubles. At the same time, almost 116 billion rubles in total growth were provided by the segment of life insurance. Thus, without taking into account life insurance, the insurance market lost more than 17 billion rubles of the premium. As a result of 2017 compared to 2016, the overall growth rate of the insurance market amounted to 8.3%, its aggregate volume reached 1.278 billion rubles (Figure 2).

**Figure 2.** Dynamics of insurance premiums for voluntary insurance from 2013 to 2017, bln. RUR. (CBR, 2018)



The insurance industry in Russia is characterized by its deviation from the long-term algorithm for the formation of quantitative indicators of the insurance market by means of the extensive growth of mortgage transactions and car loans to more credit-dependent and credit-linked types of insurance (for example, endowment life insurance, investment life insurance, etc.). In this relation there is a modern dynamic of substitution of classical types of property insurance with types of life insurance. In nominal terms, growth conditioned by the development of life insurance (+223 billion rubles from the level of 2014) more than compensates the observed decline in the segment of property insurance (-67 billion rubles).

However, it should be understood that growth in the life insurance segment is not due to the development of the insurance segment as such, but to the strengthening of the role of banks and “insurance surrogates” in the modern insurance market (Cristea

and Thalassinou, 2016). Today, it can be definitely claimed about the emergence of a number of new insurance products in the insurance market in Russia.

This situation is primarily conditioned by the activation of the bank sales channel and the increased involvement of the population in life insurance investment programs against the background of lower interest rates on deposits, as well as an increase in the volume of credit life insurance. Thus, according to the Central Bank of the Russian Federation, the weighted average interest rate on ruble deposits of individuals up to one year, including deposits “on demand”, decreased by 1.2 percentage points to 6.0%, for dollar deposits, by 0.5 percentage points, for deposits in euros, by 0.3 percentage points, the indices for deposits over 1 year decreased by 1.9, 0.9 and 0.7 percentage points respectively. The growth of bank deposits of individuals slowed by 10.6 percentage points to 6.9% in the 2<sup>nd</sup> quarter of 2017 compared to the same period last year (Shirshov, 2018).

Simultaneously, after the reduction in rates, the credit market is recovering. So, with a decrease in rates for loans under 1 year by 1.1 percentage points in the II quarter of 2017 (up to 20.2%), the volume of loans and other funds provided to individuals increased by 4.8%, to 11.2 trillion rubles (Shirshov, 2018). These changes have influenced the structure of the life insurance market. The amount of life insurance premiums with the participation of the insured in the insurer’s investment income (excluding contributions under pension insurance agreements with the participation of insured persons in the investment income of the insurer) increased by 68.7% to 52.3 billion rubles for the year in the 2<sup>nd</sup> quarter of 2017. The amount of credit life insurance premiums reached 12.8 billion rubles (+ 41.7% over the same period). The volume of pension insurance is still insignificant (0.4 billion rubles). As a result, the share of investment life insurance (excluding contributions from pension insurance contracts with the participation of policyholders in the investment income of the insurer) was 64.2% of the life insurance market (-1.1 percentage points for the year), credit insurance accounted for 15.8 % of premiums (-3.3 percentage points), the share of pension insurance still does not exceed 1%. The number of life insurance contracts is steadily growing: for the 2<sup>nd</sup> quarter of 2017 it increased by 12.6% compared to the same period of the previous year (1.1 million contracts), which is caused by the growth of contracts on investment life insurance (+ 37.8%), as well as credit life insurance (+ 8.5%).

The growing segment of life insurance according to its structure is a combination of such types of insurance as investment types of insurance, cumulative types of insurance, life insurance with payment of rent, pension insurance and credit life insurance. Most of the above types of life insurance do not carry a risk insurance component, but they are an additional mechanism for involving temporarily free money of commercial banks depositors in the investment turnover. Thus, for example, one of the leaders in the life insurance market is Sberbank Life Insurance LLC, offering its potential insurance customers an insurance investment product, indicating that the funds raised can be invested in a global bond fund, or in the US

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consumer market, or in new technologies. Insurance protection in case of investment life insurance is a kind of addition, a bonus for the main financial product.

The fact that life insurance provides the largest amount of insurance premiums collected in countries with developed market economies should not be forgotten. In this regard, in our opinion, this segment of personal insurance deserves special attention. The dynamics of the collected insurance premiums in the context of three main types of insurance is shown in Figure 3 and indicates that the overwhelming majority of insurance premiums fall on life insurance in case of death, survival to a certain age or term, or the occurrence of another event. The volume of insurance premiums for this type of insurance is growing every year, their growth rates not only decreasing, but increasing: in 2014 the growth rate was 16%, in 2015 16.1%, in 2016 103%, in 2017 61.1%. Life insurance with the condition of periodic payments brings a more modest amount of insurance premiums to insurers. In 2014, compared to 2013, the volume of premiums increased by 70.8%, in 2015, by 29% in 2016, the volume of collected insurance premiums decreased by 9%, in 2017, it showed an increase by 20.3% again (GT Report, 2016).

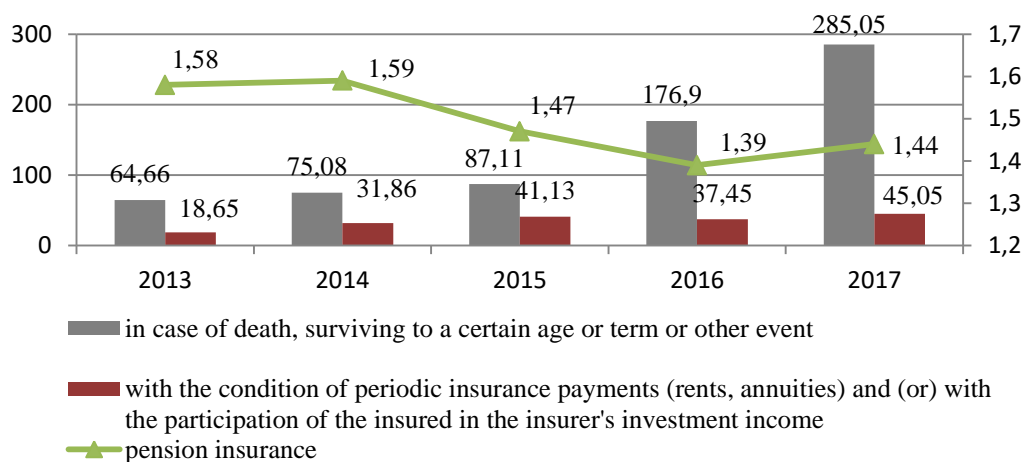
Insurance premiums on voluntary pension insurance are approximately at the same level. This type of insurance is not popular due to the following reasons. Firstly, a part of the young population does not think about what income will be a source of satisfaction of needs in the future, and most of them simply cannot afford paying insurance premiums in favor of the insurer because of low wages in most regions of our country. Secondly, current pensioners also can not afford to accumulate an additional pension, since their real incomes are falling behind the growth of prices for goods and services. In this regard, it can be argued that the demand for this type of insurance will increase only if the standard of living in Russia increases.

Following the official statistics, the volume of insurance payments by types of life insurance does not exceed the volume of collected insurance premiums in this segment, therefore, it can be judged that this industry of personal insurance is highly marginal for insurers.

The volume of insurance payments for life insurance in case of death, survival to a certain age or term, or in case of other event throughout the period under review demonstrated positive dynamics except for 2016, and the rates of growth are quite impressive. Thus, in 2014, compared to 2013, the volume of insurance payments increased by 10%, in 2015, compared to 2014, it increased by 75%, in 2016, compared to 2015, it decreased by 39%, in 2017, compared to 2016, increased by 163%.

Life insurance under the condition of periodic payments also showed an increase in premiums except for 2016. The volume of premiums showed an increase by 160% in 2017 compared to 2013.

**Figure 3.** Dynamics of insurance premiums by types of life insurance from 2013 to 2017 (CBR, 2018)



Pension insurance, similar to the previous ones, had a positive trend with the exception of 2016 throughout the period under review. In general, voluntary types of insurance brought 1.031,59 billion rubles of insurance premiums and 316,33 billion rubles of losses in 2017. In 2017, the share of compulsory types of insurance accounted for 246,25 billion rubles of insurance fees (19.1% of total market fees) and 193,21 billion rubles of payments (37.9% of total payments on the market). Based on data in Figure 2, it can be concluded that the largest share of collected insurance premiums for voluntary types of insurance accounts for property insurance, except for 2016, when this position was taken by personal insurance (including life insurance), providing 461,5 billion rubles of premiums against 374,8 billion rubles on property insurance. In 2017, personal insurance (including life insurance) brought 592,8 billion rubles of insurance premiums to the insurers, while property insurance brought 353 billion rubles.

It should be noted that the volume of insurance premiums for all types of insurance except property insurance in 2015 and civil liability insurance in 2017 showed exceptionally positive dynamics throughout the period under review. The volume of insurance premiums for property insurance in 2014, compared to 2013, increased by 6.8%, and, in 2015, compared with 2014, decreased by 10.9%, in 2016, almost did not change its value (from 374.7 billion rubles to 374.8 billion rubles), and decreased again by 5.9% in 2017.

Civil liability insurance demonstrated a positive trend throughout the period under review except for 2017. So, in 2014, compared to 2013, the growth of insurance premiums increased by 35.8%, in 2015, the growth rate slightly slowed down and amounted to 8.1%. In 2016, compared to 2015, the positive dynamics by 34% is shown again, and following the results of 2017 the volume of premiums decreased

by 13.1%. The volume of insurance premiums for insurance of business and financial risks slightly increased from 2013 to 2015, but, in 2016, compared to 2015, it increased by 33.1%, which amounted to 30.1 billion rubles against 21.9 billion rubles. In 2013 and 2017, the growth rate slowed slightly and amounted to 18.3%.

As of the beginning of March 2018, the register of the Central Bank includes 301 insurance organizations. This indicator decreased by 49 units compared to the same period last year. Small companies left the market, which practically did not affect the concentration of the industry on contributions: according to the results of the 2<sup>nd</sup> quarter of 2017, the share of the top 20 insurers was 79.2%, the share of the top-10 was 63.3% (77.7% and 65.5% according to the results of the 2<sup>nd</sup> quarter of 2016 respectively). Thus, the reduction in the number of participants in the insurance market is caused in particular by:

- a rigid position of the CB RF regarding companies the assets of which do not meet regulatory requirements;
- general cooling of the interest of potential investors to the insurance industry;
- increased bankruptcy of insurance companies caused by systemic managerial and actuarial misses as well as aggressive behavior in the insurance market and price dumping.

The reforms implemented by the Central Bank of the Russian Federation had a positive effect on the structure of the insurer's assets as a whole and, as a consequence, on their solvency and other financial indicators. Thus, according to the regulator's data, at the end of the 2<sup>nd</sup> quarter of 2017, the volume of insurance reserves amounted to 1312,8 billion rubles (+ 22.9% compared to the same date of 2016), which is also due to the new methodology of reserve formation introduced since 2017. The growth rate of reserves under life insurance contracts for the year amounted to 62.8% (up to 452,5 billion rubles). The growth rate of reserves under insurance contracts other than life insurance was 8.8% (up to 860,4 billion rubles), which correlates with the growth premiums (59.0 and 0.2% respectively). Return on assets for the year decreased by 3 percentage points up to 4.8% for the first half of 2017.

As noted earlier, the current stage of development of the Russian insurance market is characterized by a decrease in the number of insurance companies. Comparing these facts, we can state that the processes of increasing the level of capitalization occur by means of mergers and acquisitions. These processes have become widespread in recent years, as some of the insurers are unable to cope with the tightening of the requirements of the Bank of Russia in respect of their solvency. It is worth noting that in the long term these processes may have a double impact on the development of the life insurance segment. On the one hand, as was noted above, mergers and acquisitions will lead to an increase in the assets of existing insurers, which will strengthen their positions in the market and fully fulfill their obligations. On the other hand, such processes will contribute to the increase in the market



concentration, and thus reduction of competition, which, as is known, often leads to a decrease in alternative offers and the quality of services provided (Mishalueva, 2015). The implementation of the second scenario will further reduce the level of confidence in insurance services, which will become a serious barrier to the development of voluntary types of insurance, in particular life insurance. A significant event of recent years has been the decision to create the Russian National Reinsurance Company, the main objectives and tasks of which are:

- ensuring higher financial stability of Russian insurers (and, due to this, better insurance conditions for the population);
- providing reinsurance capacity for insurance of organizations and objects falling under foreign economic sanctions;
- providing reinsurance protection in the insurance of state orders, as well as unattractive risks from the commercial point of view, which have important social, general economic, sectoral or state significance;
- control over the transfer of risks by Russian assignors to a foreign cession, combating the illegal export of capital under the guise of reinsurance operations.

The idea of creating and functioning of a state reinsurer is not new. There are dozens of examples in the world, including successful ones, of the creation of national reinsurance companies: in China, India, Brazil, Argentina, Belarus, etc. For example, the state reinsurer China Reinsurance (Group) Corporation established in China to increase the capitalization of the national insurance market occupies the 8th place in the world in terms of the volume of the collected reinsurance premium. Today, the only effective force that can resist the influence of supranational financial capital or at least resist its policies is the state, in view of the lack of control of its leadership and the elite of supranational management.

As a result of 2017, the Russian National Reinsurance Company collected 7.7 billion rubles of reinsurance premiums, securing a 22% share in the total volume of reinsurance premiums in the domestic insurance market and received 1.56 billion rubles of net profit. The Central Bank of the Russian Federation decided to provide the company with a parental guarantee for reinsurance of risks up to 71 billion rubles for the company to take larger risks (primarily sanctioning) in reinsurance (Shirshov, 2018).

In 2017, about 14% out of 1300 billion rubles of collected premiums were reinsured (taking into account that OSAGO and life insurance are not subject to reinsurance). Compared to 2016, a slight decrease in the volume of reinsurance premiums can be observed. The tendency to reduce the volumes of the incoming reinsurance market was preserved in 2017. The fall in the market for the year was only 2.6%. If there was no RNRC in the market, the drop would be 24%.

The creation and development of the system of state reinsurance in Russia will allow to repeatedly increase the capacity of the domestic market, its attractiveness to

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foreign partners, and attract additional volume of incoming reinsurance (Nerovnya and Samoilova, 2016).

Firstly, the creation of a state reinsurance company helps to retain significant amounts of funds inside the country, which usually go through reinsurance channels to Western markets. Thus, the reinsurance capacity of the domestic market will increase, the tax base will increase, the financial stability of the national insurance market will increase, which at the moment is heavily dependent on foreign ones. We can also expect an increase in the incoming volume of reinsurance from abroad.

Secondly, the presence of a state reinsurer reduces the dependence of the Russian Federation on Western insurance markets and enhances the country's economic security and independence.

Thirdly, the above said will partially solve the problem of outflow of funds under the scheme reinsurance and tax optimization, as at the moment some reinsurance operations (especially in CIS countries) are not related to real reinsurance.

Fourthly, the state reinsurance company will reinsure the risks of objects under sanction pressure, as well as objects of a special status.

#### **4. Conclusion**

The findings and proposals formulated on the basis of the conducted research of the trends of the modern Russian insurance market will allow to ensure a steady increase in the share of insurance premiums in the state's GDP and, consequently, increase the importance of the insurance institution in the system of social protection of the population through an invariable increase in the level of financial literacy of the population and the degree of state guarantees for the performance of obligations under insurance contracts by the insurers.

As a result of the study, the authors concluded that the modern Russian insurance market can be characterized as undercapitalized, subject to direct exposure to foreign sanctions and having a weak protection mechanism against them. In addition, low domestic solvent demand for insurance products creates conditions for the growth of the share of mandatory and imputed types of insurance in the structure of insurance fees, while reducing the share of classical types of property insurance.

The implementation of the proposed measures will allow: (1) to ensure the sustainable development of basic types of insurance in Russia; (2) to increase the level of capitalization of insurers; (3) to adjust the existing regulatory framework for insurance in line with market requirements; (4) to ensure an increase in the level of effective demand of potential insurers; (5) to identify criteria for increasing the level of financial literacy and insurance culture of Russian citizens.

The implementation of the above activities contributing to the development of the domestic insurance market in general and its individual segments in particular can provide a significant increase in business activity in the financial markets and be an effective method for ensuring the continuity of social reproduction.

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