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Insurance as a way for reducing the market risks level associated with the collective investments

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Abstract

This article focuses on the need to introduce an insurance mechanism in the implementation of investment funds in the Russian economy. Management companies in order to obtain high profits try to buy securities with high risk level. However in conditions of financial crisis and recession of the share market only highly liquid securities can keep money of shareholder. Moreover, any mutual fund possesses the important feature - if rigidly not to control a structure of its portfolio, it becomes superprofitable, but superrisky. Due the scale of collective investment market any error of management company, which operates with money resources of investors, can lead to serious consequences. There is a kind of insurance like - double insurance. Double insurance occurs when the object is insured against the same risk in the same period of several insurance companies and insurance claims for all contracts, taken together, exceed the cost of insurance. In this article the authors substantiate the need for a mechanism of double insurance. This insurance system, in our opinion, will reduce the level of risk in implementation collective investments, but, despite a slight decrease in the profitability of funds, it will increase investor interest to mutual funds. © IDOSI Publications, 2014.

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Keywords

Collective Investments, Insurance, Management Company, Market risk, Mutual Fund, Net Assets