

Russian insurance companies: questionable achievements of recent years, credibility issues¹

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Abstract. It is revealed that the accelerated development of the Russian insurance market over the past two or three years was due to the rapid growth of investment life insurance (ILI) and of household lending combined with a drop in personal income. It is stated that insurers and their agents promoted ILI very aggressively and frequently unscrupulously: they promised super profits from ILI, but glossed over its shortcomings. The study demonstrates that the role of banks that control major insurance companies and act as insurance intermediaries has increased in the insurance market. Providing loans, the banks imposed on borrowers needed and unneeded insurance contracts at an inflated price (borrower life insurance, accident and health insurance, etc.). It is shown that almost all insurance fees paid under these contracts were “guzzled away” by insurers and intermediary banks, and only a small part of payments (10-20%) was used to cover insurance monies. By the end of 2019, these factors of the insurance market growth had largely exhausted their potential (the completed ILI contracts profitability was extremely low; the Bank of Russia took measures against reckless personal loans and unfair insurance activities). Some recovery of the insurance market can be expected in the coming years. But for its rapid development, it is necessary that personal incomes rise significantly and that the population believes in the long-term sustainability of the Russian financial system.

Keywords: insurance market, bankassurance, investment life insurance, borrower life insurance, insurance intermediaries, protection of policyholder rights

Among the countries with developed economies the Russian insurance market is at the earliest stage of its

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development. According to the figures from OECD², by the end of 2017 the assets of Russian insurance companies were dozens of times smaller than those of the insurance companies of the USA, Great Britain, Germany or France. In these four countries, the insurance companies play a major role in the long money market along with pension and investment funds. In this respect, of greater significance is the long-term insurance (the 'life insurance' segment), which may accumulate formidable funds to be invested in long-term financial assets. In 2017, as for the volume of assets in this segment, Russia lagged behind the USA, Great Britain, Germany, and France 339, 185, 100, and 51 times respectively. Even Polish assets of this type exceeded в 2.4 times those in Russia although the Russian economy is 3-4 times bigger than that of Poland.

The reasons the Russian insurance market is poorly developed are well-known. The Strategy of development of insurance activity in the Russian Federation to the year 2020³, which was approved by the government in 2013 explained the low demand for insurance services by the low level of popular income, people's distrust towards insurance companies, low returns on life insurance savings compared to other savings instruments (bank deposits, above all). The Strategy put forward some goals for improving the operation of insurance agencies without specifying any details of this endeavor.

Until recently, the Russian insurance market developed slowly and only in the last couple of years its rate of growth soared. The acceleration was not based on fundamentals but sprung from two short-term circumstances – a fast growth of consumer loans when banks sold both useful and useless insurance products to borrowers and a flurry

² URL: <https://stats.oecd.org/Index.aspx?DatasetCode=INSIND> (date of access: 11.12.2019).

³URL: https://img.rg.ru/pril/83/84/88/1293_strategiia.pdf(date of access: 11.12.2019).

of investment life insurance (ILI) that combined life insurance with a chance of investment income. Insurance companies as well as their intermediaries aggressively pushed forward ILI with promises of super profits on investment and leaving out shortcomings of this tricky type of insurance.

Skyrocketing consumer loans against the backdrop of falling popular incomes raised some concerns of the Bank of Russia. In October 2019 it introduced a debt load level for borrowers that banks needed to consider prior to approving loans⁴. In 2018 the first ILI agreements came to maturity and their returns turned out to be 2-3 times lower than that of bank loans. As a result – in 2019 the insurance market stopped growing. The said factors (fast growing consumer loans in a stagnating economy and mythical high returns on ILI agreements) that contributed to the rise of the Russian insurance market have almost exhausted their potential.

In the pages that follow we consider and analyze the problems we described and related issues in greater detail. The emphasis is on the voluntary insurance (excluding the voluntary insurance of property). We do not consider the problems of mandatory insurance, which is not significant in the country's financial sphere.

The paper mostly employs the statistical data of the Bank of Russia, All-Russian Insurance Association, OECD and US FRS.

The problems of the Russian insurance market

In the last few years the concentration of the Russian insurance market shot up and from 2012 to 2018 the number of insurance firms dropped from 579 to 199. Most insurance firms exited the market because they broke the law or

⁴ URL: <https://www.cbr.ru/press/event/?id=2821> (date of access: 11.12.2019).

voluntarily gave up their licenses. In the years to come the list of insurance companies will be further abridged. On 29 June 2018, they adopted the Federal law #251-FZ⁵, which prescribes a staged rise of the minimum authorized share capital of insurance companies by 1 January 2022 from 120 to 300 mln Rubles while that of life insurers – from 240 to 450 mln Rubles. Significant restriction of insurance laws will probably reduce the number of insurance organizations down to 150 by 2022.

In 2018, 10 biggest insurers collected 65.4% of all insurance premiums. By the end of the current year, the assets of insurance companies comprised 2919 billion Rubles (Table 1) or \$42 billion according to the actual exchange rate. By international measurements this is a pitiful sum. For comparison, by the end of 2017 the counter numbers in the UK and France, the economies of which are compatible with the Russian one amounted to \$3249 and \$3292 billion respectively *соответственно* (OECD).

Table 1. Assets and liabilities of insurance companies, by the end of year, billion Rubles

Assets and liabilities	2015	2016	2017	2018
Assets, total	1 626,6	1 871,4	2 429,7	2 918,9
Deposits in banking institutions	401,5	487,9	589,5	626,9
Bonds	253,7	324,8	512,4	597,1
State and municipal securities	103,7	166,5	311,7	580,1
Including:				
RF government stock	90,4	151,9	291,4	549,3
Accounts receivable	309,4	330,9	293,6	328,9

⁵ URL: <http://www.consultant.ru/cons/cgi/online.cgi?req=doc&base=LAW&n=303534&fld=134&dst=100008,0&rnd=0.5918116705828579#012004314735165111>

Assets and liabilities	2015	2016	2017	2018
Reinsurers' share in contingency reserve	130,4	150,4	149,0	194,0
Deferred acquisition cost	–	–	111,6	175,0
Cash	128,0	115,6	134,7	109,8
Shares	116,7	124,7	98,9	88,4
Real estate	82,8	79,1	78,3	70,8
Investment units in mutual funds	14,0	11,6	9,3	7,7
Other assets	86,4	79,9	140,6	140,1
Total liabilities	1 626,6	1 871,4	2 429,7	2 918,9
Capital	395,5	462,0	605,4	677,3
Insurance reserves	973,5	1 136,1	1 448,5	1 831,1
Other liabilities	257,5	273,3	375,8	410,5

Source: Bank of Russia. A review of key performance indicators of insurers. URL: https://www.cbr.ru/analytics/analytics_nfo/ (date of access: 11.12.2019).

Notes to the table 1. There is a time gap (up to dozens of years in some types of insurance) between payment of insurance premiums and payouts. That is why insurance companies may accumulate significant financial resources that the companies invest along with their own capital into various financial instruments (assets in the table) for the purpose of getting returns in the form of interest, dividends, etc. The obtained returns minus taxes and interest are distributed (e.g. with actuarial means) between the own capital of insurers and insurance reserves.

The liabilities of insurers reflect the distribution of property between the capital that belongs to the company owners, insurance reserves for insurance payouts and other liabilities (insurance companies may also borrow from banks).

The Russian people are reluctant to use insurance services for objective reasons. These include low quality of insurance obligations fulfillment, low integrity of insurance

brokers who rarely act in the interests of the insured or as their experts. The performance of insurers leaves much to be desired in terms of efficiency, lavish administrative expenses, and steep rewards to intermediaries (more on this – in the following sections of the paper). On top of that, the population has long felt deep mistrust towards the Russian financial system in general and insurance companies in particular.

The managers of the All-Russian insurance union have admitted the shortcomings of the insurance market. Its president I. Yurgens has reproached in his review⁶ the Bank of Russia and lawmakers for insufficient attention to the problems of insurance market. He also stated that the market has its faults “the malpractice of many insurers that demanded court decisions on insurance payment, a bad aftertaste from some unscrupulous insurers leaving the market without fulfilling their obligations.” People’s trust in insurance companies can not be high if they do not duly disclose information about themselves and their operations. There are some publications dedicated to practical measures for exercising the rights of the insured to obtain information on insurance services [Tsiganov, Bryzgalov, 2014; Bryzgalov, 2015; Bryzgalov, Tsiganov, 2016]. As noted in the last of the publications, the law on the insurance industry in the RF contains a list of information to be disclosed by insurance entities although its scope and content is not specified on many of its criteria. The authors estimate that the share of undisclosed information reached 46%. It is conspicuously deficient in regard to their tariffs and their place in the professional rating lists.

Public opinion polls conducted by the National Agency for Financial Studies (NAFI) demonstrate that in November

⁶ Yurgens I.Yu. The insurance market in 2014: challenges and prospects // Internet site “Insurance today”. 2014. URL: <http://www.insur-info.ru/analysis/953/> (date of access: 11.12.2019).

2018 the confidence level of Russians to insurance companies amounted to 36%, to banks – 65% (Table 2). NAFI put together the number of people who have full confidence together with those who rather trust than not. Full trust was represented by 16% of Russians, rather yes than not – by 49%. No such date was provided for insurance companies. If we extrapolate the ratio of people having full or partial confidence in banks we shall see that full confidence is found in about 9% (0,090,36(16/65) of Russians. According to some research [Akhvlediani, 2016], 78% of consumers' recourse to the Bank of Russia concerning activities of non-credit organization falls on insurers.

Table 2. The confidence level of population to financial organizations, %

Financial organizations	November 2015	July 2016	July 2017	November 2018
Confidence level towards:				
banks	59	67	60	65
insurers	34	40	35	36
Investment companies	16	18	17	15
Non-government pension funds	22	24	15	15

Source: NAFI. URL: <https://nafi.ru/analytics/doverie-rossiyan-k-bankam-rastet/> (date of access: 11.12.2019).

In many developed countries of the world most citizens have pension programs (pension annuities) in insurance companies. Thus, in the USA the accumulated funds of the population in pension annuities were estimated at \$ 3256 bln by end of 2018 (FRS data)⁷. Russian citizens can open voluntary pension programs in insurance companies but they scarcely use this opportunity. In 2018 insurance premiums in this insurance segment reached just 1.6 bln Rubles (about \$ 25 mln).

⁷ Here and further on, the USA FRS data signifies "Financial Accounts of the United States - Z.1". URL: <https://www.federalreserve.gov/releases/z1/default.htm>.

The reason why the prospective Russian pensioners ignore insurers as well as non-government pension funds is obvious: retirement savings require confidence in the financial stability in the country, which the Russians do not have. Besides that, life insurance contracts do not bring high returns as over half of the insurers' assets consist of liabilities of various economic agents with profitability often below the inflation rate. For instance, cash, money in correspondence accounts and some other assets readily convertible to cash have zero or almost zero profitability.

Six years have passed from the time the 'Strategy of insurance activity development till 2020' was adopted, yet no significant improvement has taken place in the performance of insurance companies. As the latest opinion polls show [Spletukhov, 2019], the reasons of people's negative attitude towards insurers remain the same: inflated value of insurance products, mistrust in insurers, low popular incomes, their low financial literacy, vague prospects of the economy and financial sphere.

2017-2018: the rally of insurance market

Over a period from 2009 to 2016, the average annual growth rate of insurers' assets was 3.1% in real terms (adjusted for inflation). This is a very slow growth if one takes into account the pitiful size of the Russian insurance market. But in 2017-2018 the volumes of insurance started growing faster and the insurers' assets doubled over the two years (increased by 56% in real terms). The locomotives of growth were 'Life insurance' and 'Insurance from accidents and illnesses'. In 2018 contributions in all types of insurance grew by 298.9 bln Rubles compared to 2016 with the surge in the two mentioned segments being 298.2 bln Rubles. As we explain below, the acceleration was mostly caused by a fast growth of consumer loans and investment life insurance. The other segments (voluntary medical insurance, mandatory

insurance) have not shown any increment and dropped a little in real terms (due to inflation).

According to the bank of Russia⁸, over 2017-2018 the balances of consumer loans in credit organizations grew from 10.8 to 14.9 trl Rubles (upsurge of 38%). Such upsurge was caused by two circumstances. First, in the last two-three years falling incomes of the population pushed up the demand for consumer loans. Secondly, the authorities strongly supported crediting mortgage housing (tax benefits, government mortgage programs). Mortgage was favored by the policies of the Central bank to bring down the inflation rate. The interest rates for house mortgages in 2016-2018 went down 1.5 times. According to the bank of Russia, in 2016 the volume of extended mortgage loans reached 1481 bln Rubles, and in 2017 and 2018 – respectively 2028 and 3018 bln Rubles⁹.

When banks extend loans, they try to transfer a part of credit risk to insurance companies and at the same time make some profit from intermediation, so they often pressure borrowers into buying various insurance products. Those are primarily life insurance policies (when the insured event occurs the policy of insurance covers the debt of the insured to the bank) or consumers insure themselves from accidents or maladies. When mortgage loans are extended, the mortgage property is insured and banks often recommend to sign agreements of title insurance¹⁰. The said types of insurance do not always guarantee debt recovery in full when borrowers default on mortgage loan. Such risks are covered by one more type of insurance – mortgage insur-

⁸ Review of the banking sector of RF, March 2019 (Table 12). URL: https://www.cbr.ru/Collection/Collection/File/15719/obs_197.pdf (date of access: 11.12.2019).

⁹ URL: <https://www.cbr.ru/statistics/table/?tableId=4-1> (date of access: 11.12.2019).

¹⁰ In the case of mortgage loan, title insurance protects from the risk of inadequacies in the title of ownership of the mortgaged real estate.

ance [Yazykov, Kamyshev, Tsiganov, 2014]. No wonder that a rapid growth of consumer and mortgage loans in 2017-2018 brought about an upsurge of life insurance and accident and health insurance: in 2016 contributions for both types of insurance reached 145,5 bln Rubles and in 2018 – 228,7 bln Rubles.

Investment life insurance (the full name is life insurance with participation of insurer in the return on investment of the insured) first appeared in Russia in 2010 but prior to 2015 it was not widespread. The ILI programs divide the contributions of the insured into two funds: the insurance fund and the investment fund. The purpose of the first one is to guarantee the repayment of the down payment (excluding the return on investment) while that of the other one is to provide high returns on investment. Thus, the money from the guarantee fund is invested in financial instruments with fixed income and the money from the investment fund – in potentially high-return yet risky instruments. Insurers were liberal with promises regarding returns on ILI agreements and those insurance premiums grew from 137,5 bln Rubles in 2016 to 306,3 bln Rubles in 2018.

Insurance intermediaries and their compensation

According to the table 3, in 2018 insurance payments were estimated at 1479.5 bln Rubles. On top of that, insurance companies received 164.9 bln Rubles in the form of investment profits (after taxes). If we exclude from the sum of both insurance payments (523.2 bln Rubles) we have 1121.2 bln Rubles. The same year the assets of insurance companies grew by 489.2 bln Rubles. The difference between the two was impressive 632 bln Rubles and the big question is where it went. No less than half of it was the remuneration of insurance intermediaries.

In practice, the activities of attracting clients and executing insurance agreements is done not by the insurance

companies but intermediaries acting on their behalf – lending institutions, other companies, individuals, brokers. In 2018 insurance premiums for agreements concluded by intermediaries reached 1084.9 bln Rubles (73.3% of the total collected premiums). As demonstrated in Table 3, the intermediaries received 277,9 bln Rubles of emoluments for services, which equaled 25,6% of the premiums they collected. Is this too much or too little? For comparison, the insurance markets of most European or North American countries demonstrate levels, which vary between 12 and 18%¹¹.

Table 3. Insurance premiums, insurance payouts, and emoluments to intermediaries in insurance organizations in 2018, bln Rubles.

Types of insurance	Insurance premiums	Insurance payouts	Emoluments to intermediaries	
			Total	Including Lending organizations
Insurance (без ОМС) – всего	1479,5	523,2	277,9	150,6
Voluntary insurance				
Life insurance	452,4	67,1	77,2	68,2
including:				
Creditor health insurance	59,2	6,9	24,9	20,1
Pension insurance	1,6	0,9	0,1	0,0
Personal insurance	321,4	128,3	87,7	57,6
Accident and illness insurance	169,5	16,4	77,5	55,0
Voluntary health insurance	151,8	111,9	10,2	2,6
Property insurance	453,7	176,0	102,1	н.д.
Compulsory insurance				
Compulsory personal insurance	19,3	12,8	0,0	0,0
Compulsory property insurance	231,6	139,0	10,9	н.д.

Source: Bank of Russia. URL: https://www.cbr.ru/analytics/analytics_nfo/ ; https://www.cbr.ru/finmarket/supervision/sv_insurance/ (access date: 11.12.2019).

Particularly handsome rewards are paid to intermediaries for credit life insurance as well as accident and illness insurance. According to the Bank of Russia, in 2018, emolu-

¹¹ Davydov I.I. Insurance agents – on the cusp of change. 2019. URL: <http://www.insur-info.ru/analysis/1296/> (access date: 11.12.2019).

ments to intermediaries for accident and illness insurance constituted 45.7% of premiums collected both through intermediaries and without them. As for credit life insurance the corresponding amount was 42.1%. In I-III quarters of 2019 they both went up to 61.1% and 52% respectively. The cited figures underscore rewards received by intermediaries in the both types of insurance because some premiums were collected without intermediation. We see that intermediaries get from one half to two thirds of collected premiums. Besides, some funds go to pay for materials, rent of premises, etc. This leaves little for insurance payouts in the two types of insurance. Thus, in 2018, payouts for accident and illness insurance were estimated at 16.4 bln Rubles (9.7% of collected premiums). According to the insurer PAO “Ingosstrakh”¹², the standard duration period of such contracts is one year. It follows that in this type of insurance the insurers together with intermediaries ‘guzzles away’ about 90% of contributions of the insureds. The situation appears grotesque but in Russia the level of commission fees in voluntary insurance is not regulated at all (by contrast with compulsory insurance types) and the insurer together with the intermediary determine it by agreement.

The principal intermediaries in life insurance of borrowers as well as accident and illness insurance are lenders. Their emoluments for intermediation in both types of insurance in 2018 amounted to 75.1 bln Rubles (table 3). It is understandable as shareholders of many insurance companies are banks and financial-industrial groups that include banks. A telling example would be captive insurance firms controlled by financial companies. Their use is a form of insurance for parent companies that are simultaneously the owners of such companies and their clients (policy holders) [Yuldashev, Odinkova, 2016].

¹² URL: https://www.ingos.ru/health_life/ns/dogovor/ (access date: 11.12.2019).

Partnerships between banks and insurers (bancassurance) that allow selling insurance products to the clients of partner banks are widely practiced around the world. Bancassurance appeared thanks to laws adopted in many countries, which allowed banks and insurance companies to own shares of each other (Davis, 2007; Bunich, Stoyanova, 2017). This is profitable for both parties: insurance companies broaden their client base while banks receive income from insurance intermediation. For its clients the bank becomes a universal provider of various financial instruments. The critics of bancassurance point out that central banks can hardly control the conglomerates of banks and insurance companies, which may lead to malpractice on their behalf. That is why some countries still prohibit bancassurance.

In Russia almost all of the insurance companies are comprised into financial conglomerates. Thus, Sberbank of Russia has a subsidiary insurance company “Sberbank life insurance”, which in the former’s name concludes insurance agreements in its offices. Sberbank is the largest bank in Russia and, it is a small surprise that its subsidiary is a leading insurer in the volume of collected premiums – 181.5 bln Rubles in 2018 (the Bank of Russia data). The second place on the insurance market belongs to AO ‘SOGAS’ from the insurance group ‘SOGAS’ – 160.5. At the moment, out of seven members of its board of directors, three are top managers of Gazprombank and bank “Rossiya’. In the third position (125.1 bln Rubles) we see ‘VTB Strakhovaniye’. In 2018 the VTB group sold this company to the insurance group SOGAZ but received 10% of shares a place on board of directors of the SOGAZ group. ‘VTB Strakhovaniye’ collects almost half of insurance premiums for accident and illness insurance – 78.8 bln Rubles in 2018. Form this sum intermediaries got paid 42,2 bln Rubles (most of it to the VTB bank as likely as not).

What are the reasons for high emoluments to intermediary banks? When lending money to individuals on behalf of controlled or related insurers they have the power to impose on their clients (at a steep price) things they need or maybe don't concerning life insurance or accident or illness insurance of the borrower. The banks understandably do not want to share the difference between too high and reasonable (actuarially sound) rates of insurance. Besides, excessively high fees may be a form of legal (but actually dubious) disinvestment from insurance companies into parent lending institutions. As pointed out above, the authorities lately pursue the policy of low interest rates on mortgage loans. As a result of that, interest rate income of banks plunged and exaggerated returns from insurance intermediation (based on inflated prices of insurance products) is one way of making up the shortfall. In such cases the client wins from lower interest on mortgage but loses from higher insurance premiums.

Most investment insurance agreements are also concluded with bank intermediation and handsome compensation for such services. That is why the banks promised exaggerated investment income for insurers and spoke very little about risks related to this kind of insurance (no guarantees from Deposit Insurance Agency, no investment return commitments, penalties to the insured for earlier termination of contract, etc.).

The current asset structure of insurance companies gives clear evidence that promises of high investment returns on behalf of insurers and intermediaries were obvious fraud. According to table 1, by the of 2018 over three fourths of Russian insurance companies' assets were accounted for by financial instruments with low or even zero return (bank deposits, corporate bonds, RF state securities, cash, accounts receivable). Higher returns than bank deposits or debt securities could come only from corporate equities or

PIF shares but they represented only 3.3% of the assts. By way of contrast, at the end of 2018 the portion of equities and shares in mutual funds of the total assets of American life insurance companies was 25.7% (data of US FRS). In the same year, the investment returns of Russian insurers were estimated at 204.1 bln Rubles and after tax –164.9 bln Rubles. Their return (the ratio of investment returns to the average over time amount of assets during a year) was 7.6%, adjusted for taxes – 6.1%. the latter was close to the average interest rate on bank deposits for one to three years. However, this does not mean that on average insurance companies provide the insured with the same returns on their premiums as banks to their clients. In fact, insurance companies incur some administrative costs, which are partially covered by money from the insured. It follows that the return on insurance premiums is eventually lower than returns on their investment.

This raises the question why the assts of insurance companies contain such a tiny share of corporate equities and mutual investment fund units. The answer appears obvious: in unstable Russian economy shares are considered risky because their market value may fall over time. Another factor at play here is immaturity of Russian mutual funds. According to the FRS of the USA, by the end of 2018 mutual fund shares constituted 18.5% of assets of American life insurance companies and were valued at \$ 1399 bln. In Russia unit investment funds represent less than 0.3% of insurance companies' assets – 7.7 bln Rubles (a little over \$ 0.1 bln exchange-rate adjusted). Strictly speaking, only open mutual funds in the US may be considered direct counterparts of open unit investment funds and their role is yet insignificant on Russian financial markets.

Promises of high returns from life insurance agreements against the backdrop of falling interest rates on bank deposits made an impression on inexperienced policyholders

who not always understood that on having signed an insurance agreement at bank offices they would no longer deal with banks (that enjoy a higher trust) but with insurance companies. Volumes of investment life insurance skyrocketed and premiums in this type of insurance grew from 13.5 bln Rubles in 2016 to 306.3 bln Rubles in 2018.

Overall, 2017-2018 were record years for growth rates of insurance intermediation of lending institutions. In 2018 collected insurance premiums reached 548 bln Rubles, which is 88% above the level of 2016. As a result, their share in the total insurance premium collection rose from 25% in 2016 to 37% in 2018.

2019: another stagnation of insurance market?

The fast growth of insurance market in 2017-2018, which was largely based on fraudulent advertising of investment life insurance and thrusting insurance agreements at lending institutions could not last long. Already in 2018 signs of crisis in investment life insurance became apparent. As mentioned previously, when agreements were concluded the banks promised their clients investment super returns. But in 2018, when agreements matured en masse, their results turned out to be quite modest. According to the data of the Bank of Russia¹³, the average nominal rate of return of three-year investment life insurance agreements was 3.3% p.a., that of five-year – 2.4% p.a. As estimated at 30.06.2018 the average return on actual tree-year agreements with market leaders was 0.9% p.a. and that of five-year ones – 1,6% p.a. In real terms (adjusted for inflation) the returns were negative. For example, the nominal returns of three-year investment life insurance agreements that finished in 2018 amounted to 3.3% while consumer prices in 2016-2018 grew on average at 4.1% a year.

¹³ URL: https://www.cbr.ru/Content/Document/File/51259/concept_20181030.pdf (access date: 11.12.2019).

Low returns on investment life insurance agreements (that of bank deposits was several-fold higher) could not inspire optimism concerning the future of this type of insurance. In fact, in I-III quarters of 2019 insurance premiums for investment life insurance in 2018 fell by 10.5% compared to the same period (in real terms – approximately by 15%). The president of the Life Insurers Association A. Zaretskiy¹⁴ warned about a possible crisis in investment life insurance. According to him, the clients flow may dry up within 5 years if the insured continue getting much lower returns than expected or were promised.

Probably, the plunge of investment life insurance happened not only due to low returns from contracts but also to measures of enhanced client awareness at sales of voluntary life insurance policies promoted by the All-Russian Union of Insurers and the Bank of Russia.

In June 2018 the All-Russian Union of Insurers adopted an internal standard on interaction of the insured and the insurers for conclusion of life insurance and accident and illness agreements¹⁵. The standard included reminders that insurers and their intermediaries were obliged from February 2019 to provide to their clients. The reminder for investment life insurance agreements in particular states that such an agreement is not a bank deposit and does not enjoy Deposit Insurance Agency guarantees; investment returns are not fixed; in the case of early termination of contract a client is paid a redemption sum, which may be less than inpayments. One must note that the law always required that insurers and their agents inform the insured concerning those matters but they hardly followed such instructions.

¹⁴ Zaretskiy A.M. Looking over the horizon – life apart of ILL. 2017. URL: <http://www.insur-info.ru/comments/1171/> (access date: 11.12.2019).

¹⁵ URL: http://www.ins-union.ru/assets/files/VNYTR_STANDARTI_VSS/vnytr_standart_po_strahov_zhizni.pdf (access date: 11.12.2019).

The developers of the internal standard for the insurers ‘omitted’ stating that conclusion of an agreement requires informing the insured about a settlement procedure of investment returns and what part of contributed funds would go towards covering business and administrative costs of the insurance organization and a commission paid to an intermediary. Meanwhile, the law has long ago required that insurance agents “disclose the list of provided services and their costs including their remuneration”¹⁶. The omission in the reminders of the All-Russian Union of Insurers was partially rectified in the Guidelines of the Bank of Russia on minimal requirements for the terms and procedures of voluntary life insurance¹⁷ that came into force on 1 April 2019.

As for the other types of insurance, the base standard of the Bank of Russia on protection of rights and interests of the insured¹⁸ stipulates that the insurance organization must inform its client about *their right* “to ask for information about the size of remuneration to be paid to the insurance agent or insurance broker”. The said provision of the base standard appears rather hypocritical. In fact, an ordinary client may shy away from asking an intermediary about the latter’s remuneration or out of ignorance presume the size of remuneration to be insignificant and, thus, not deserving attention. It is also worth pointing out that the reminders of the All-Russian Union of Insurers and the base standard of the Bank of Russia do not contain effective measures against fraudulent promises of insurance organizations and their agents about returns on investment life insurance agreements.

Hard selling of insurance services by banks when granting loans to customers has recently attracted the attention of the

¹⁶ The Federal Law from 23 июля 2013 г. N 234-FZ «On introducing amendments to the Law of RF “Concerning the Organization of Insurance in the Russian Federation». URL: <https://rg.ru/2013/07/26/delo-dok.html> (access date: 11.12.2019).

¹⁷ Vestnik of the Bank of Russia, № 22 (2074), 27 March 2019, P. 55-58.

¹⁸ URL: <https://www.cbr.ru/Queries/UniDbQuery/File/47448/15> (date of access: 11.12.2019).

Ministry of Finance, which proposed to prohibit making consumer credit conditional on acquisition of additional paid services excepting cases when this follows requirements to insure a collateral¹⁹. It seems, however, that this proposal of the Ministry of Finance (if it is approved) may not change much as it is actually quite hard to establish whether an additional service was imposed by the bank or the insured customer purchased it voluntarily.

A recession on the market of investment life insurance in I-III quarters of 2019 did not reduce the volume of insurance premiums. The total nominal amount even grew by 0.7% compared to the same period of 2018 (in real terms there was some reduction as the average level of consumer prices in I-III quarters of 2019 was almost 4% higher than in I-III quarters of 2018. The compensation was achieved due to the increased contributions for life insurance of borrowers (+55% to the same indicator in 2018) and in accident and illness insurance (+20.5%). Banks continued to step up lending to the population accompanied by those insurance products.

An explosive growth of individual borrowing amidst falling real incomes bears testament to the fact that a large part of the population live beyond their means. In May 2019 the minister of economic affairs M. Oreshkin declared the need to introduce restrictions on such borrowing²⁰. As he put it “if we don’t do something about it, in 2021 this factor might bring us a recession”. The Bank of Russia spoke against feckless consumer lending. In accordance with its decision from 1 October 2019 when giving out loans banks must calculate the borrower’s debt load rate (the ratio of total average payment for all their credits to their average monthly income). Introducing this rate does not directly limit lending to individuals with

¹⁹ Samuseva S. Penalty to your additional services. Banks to pay for imposing insurance on borrowers. URL: <https://www.kommersant.ru/doc/4120088> .

²⁰ URL: <https://rg.ru/2019/06/06/nabiullina-posporila-s-oreshkinym-o-prichinah-rosta-dolgov-grazhdan.html> (access data: 11.12.2019).

a high debt load but it is to be taken into consideration when calculating the statutory capital ratio of lending institutions.

The introduced debt load rate immediately impacted the volumes of consumer loans. In January – September 2019 the monthly growth of individual debts varied from 1.2 to 2.0% while in October the increment was 0.9%. It is highly likely that in the months to come consumer lending will diminish, which will lead to shrinking volumes of life insurance, accident and illness insurance, and the whole of insurance market.

The measures taken by the All-Russian Union of Insurers and the Bank of Russia were undoubtedly indispensable for recuperation of the Russian insurance market although they will surely bring about its short-term contraction. With time the customers' trust towards insurers must strengthen and this will positively affect the dynamics of the insurance market. However, even after streamlining the operation of life insurance one should not expect a fast growth here if the population's incomes remain low, the economy stays bogged down, and people do not believe the long-term stability of the financial system.

Brief conclusions

Development of insurance market in Russia, the volumes of which have so far been insignificant by the standard of developed countries, in 2017-2018 greatly accelerated. The acceleration was caused by two short-term factors – the spread of investment life insurance that was aggressively promoted by insurers and their agents with promises of extra returns (without any guarantees) and understatement of drawbacks of this type of insurance, and also a fast growth of consumer and mortgage lending. When issuing loans large agent banks, many of which own shares in insurance institutions engaged in hard selling life, accident and illness insurance agreements to their clients while many of such agreements were not always called for. In cases of mortgage lending, additional

offers included insurance of mortgaged property, the title of property, and finally mortgage insurance, which guarantees full foreclosure of mortgage debt at borrower's default. That is why consumer lending went along with expansion of other types of insurance.

Investment life insurance agreements as well as well as accident and illness agreements were sold to clients at exorbitant prices. The collected contributions were generally used not for payouts but 'consumed' by insurance institutions and intermediaries. The banks that concluded such agreements on behalf of insurance organizations scooped up about half of contributions they collected as enumeration for intermediation. A larger part of the other half was spent by the insurers themselves (administrative and business costs, dividends paid to shareholders, etc.) and only the remainder (10-20%) went to insurance outpayments.

By the end of 2018 investment life insurance as a factor of insurance market growth exhausted its potential. Firstly, the early investment life insurance agreements started maturing and their returns were 2-3 lower than those of bank deposits. Secondly, the Bank of Russia finally took notice of multiple facts of malpractices of insurance organizations to their clients and in spring of 2019 it introduced mandatory requirements for terms and procedures of voluntary life insurance. As a result of this, contributions for this type of insurance in I-III quarters of 2019 perceptibly dropped. The same year the Bank of Russia introduced measures against feckless consumer lending. From 1 October borrowers had to be considered in terms of debt load rate. The banks that would lend money to clients with a high debt load rate are penalized with a higher ratio of capital adequacy. The introduction of this ratio must lead to reduced volumes of consumer lending and followed up insurance products.

The measures introduced to regulate relations between the insurers and their clients must bring down the level of

malpractices in the field of insurance and therefor facilitate people's trust towards the insurers. But a fast growth of voluntary insurance also requires a significant rise in people's incomes and credibility of the long-term stability of the country's financial system. That is why one can hardly expect a significant rebound of the insurance markets (life insurance in particular).

A convergence of Russian banks and insurance institutions with capital flows between them promoted the emergence of various malpractices in their operation. For this reason, we need additional measures of regulation (or prohibition) of the practice of joint sale of loans and insurance.

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