

Unfair rivalry between traditional and corporate insurers in the Russian insurance market

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Abstract—In the time of globalization of the World community, one of the most important directions of development of the modern state is humanism, the main idea of which is the exceptional value of human life. Due to this, the primary task of the functioning of any civilized country is to take care of its citizens, as well as improving the socio-economic aspects of society. In the context of the market system of the economy, private sector structures are involved in the improvement of the social environment on an equal basis with the state. Thus, a significant contribution to the improvement of the socio-economic situation of the population of the country is carried out by such economic entities as insurance companies. They ensure financial protection of the company from possible consequences of adverse events through their activities. The insurance market of Russia is currently at the stage of its development, which is reflected in the presence of many problems and obstacles that have a negative impact on the effective implementation of financial and economic activities of insurers. One of these problems is unfair competition between traditional and corporate insurance companies, which increases the risk of violation not only of the insurance market, but also of the Russian economy as a whole. The article deals with the essence of unfair competition, the features and causes of its occurrence between traditional and corporate insurers, the consequences to which it can lead as a result of further development, and methods of combating it.

Keywords—banks, corporate structure, corporate insurance companies, unfair competition, advantages, risk, insurance market of the Russian Federation, traditional insurance companies

I. INTRODUCTION

In modern reality, the Russian insurance market faces many different problems, which can be divided into two types: obvious (explicit) and hidden.

The obvious problems of the insurance market are the difficulties associated with the activities in the area of insurance, which were identified by economic entities in time of its practical management, analysis and evaluation of the effectiveness and success of the provision of insurance services to the market. For example, this type of problem includes a fairly high level of financial illiteracy of the population, which is manifested in the inability to adequately assess the importance and necessity of purchasing insurance products.

However, whatever these problems are serious obstacles to the successful development of Russian insurance, they do

not cause serious damage in comparison with the consequences of the hidden difficulties of the financial sector of the Russian economy, as countermeasures are either developed or introduced against their influence.

The hidden problems of the insurance market are the difficulties that arise and develop up to a certain time in a latent form. One of the most dangerous problems, fraught with the threat of violation of the insurance business of the Russian Federation, is unfair competition between traditional insurance companies and insurers in the corporate structure with banks.

Traditional insurance companies are participants in insurance relations, which independently or as part of a corporate structure with another insurance company carries out the formation of a market offer of insurance products. These include: LLC "VSK-Line of life", LLC "Ingosstrakh-Life", etc.

Corporate insurance companies are subjects of the insurance market, which are part of the same corporate structure with the Bank and (or) were created under its auspices. Often, they implement their insurance products in close connection with the activities of the credit institution. The most well-known examples of such insurers are the following legal entities: JSC "AlfaInsurance", LLC IC "VTB Insurance" and LLC IC "Sberbank life insurance".

In a General sense, the definition of unfair competition is presented in article 4 of the Federal law of 26.07.2006 №135 "On protection of competition". Regarding the situation in the field of Russian insurance, unfair competition is manifested in the ability of corporate insurance companies to use a number of advantages that are not available to traditional insurers, which are presented in fig. 1.

Brand is a set of ideas, opinions, associations, emotions, value characteristics of the product or service in the mind of the consumer. In Russia, due to the initially low popularity of insurance products, the brand of a traditional insurance company is significantly inferior in efficiency to the corporate brand, which was formed as a result of the formation of a corporate structure between the Bank and the insurance company. This is due to the fact that the Russian consumer is used to trust "his" Bank, which means that the insurance company, which has a common corporate brand with this credit institution, will seem more reliable than others.

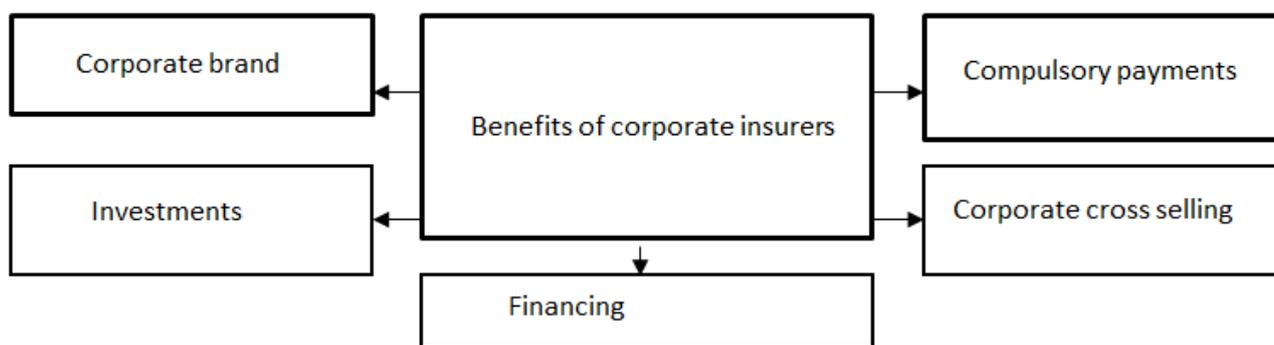


Fig. 1. Advantages of corporate insurers in the Russian insurance market

Also, the corporate brand significantly increases the possibility of obtaining, if necessary, investment resources, as investors understand that in this case, the insurance company in the event of difficulties in most cases will receive financial support from its Bank, and therefore investing in such an insurer is much less risky.

Compulsory sales of insurance services are carried out through the sale to the consumer of the Bank credit product. One of the possible requirements of a credit institution when granting a loan for a large sum of money is the existence of a life insurance policy, the acquisition of which from the insurer of one with the Bank of the corporate structure can be forcibly imposed on the credited individual.

Corporate cross-sales of insurance products are also carried out through a credit institution, but are voluntary. The essence of their implementation in the corporate structure of the Bank and the insurer is more favorable conditions for the consumer than the conditions provided by other insurance companies through this credit institution.

When forming a corporate structure between the Bank and the insurance company there are close ties that allow you to get a variety of investment and financial benefits. For example, each legal entity is obliged to keep funds above the established cash limit in the Bank, therefore, the corporate insurance company will keep the funds in the current account in its credit institution. This significantly increases the Bank's ability to carry out its economic activities, and the insurer allows, if necessary, to obtain investment and relatively

cheap financial resources.

As a result, the use of these advantages by corporate insurance companies gradually leads to the monopolization of their most profitable areas of insurance. Already now there is a significant increase in the share in the insurance market of the Russian Federation of those insurers who are in the corporate structure with the Bank. There is the histogram on the fig. 2, which shows the evolution of the share of received insurance premiums by insurance companies. In this case, the insurance premiums of the first twenty insurance companies to the entire Russian insurance market are considered.

As can be seen from the information presented in fig. 2, the share of participation of traditional insurance companies in the formation of insurance premiums during the period under review has been steadily declining, while the share of corporate insurers has more than doubled during this period. Also noteworthy is the fact that the share of the first 20 insurance companies also had a tendency to increase.

It is important to note that the construction of this histogram revealed that the number of traditional insurance companies represented in the top twenty, significantly exceeds the number of insurers in the corporate structure with credit institutions: in 2015, the ratio is 16 against 4, respectively, in 2016 – 15 against 5, in 2017 – 14 against 6, in 2018 – 14 against 6. Thus, it allows us to judge that with a significant preponderance in the number of insurers, traditional insurance companies are less effectively involved in the formation of insurance premiums, which means that

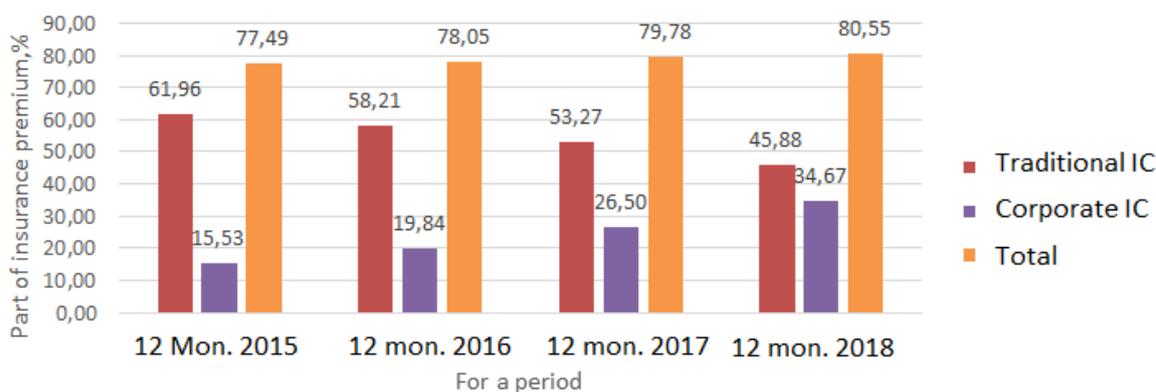


Fig. 2. Dynamics of shares received by insurers of insurance premiums, in %

there is a risk of their displacement and withdrawal from the major subjects of the Russian insurance market.

Currently, the Russian insurance market is characterized by the following situation of distribution of shares of traditional and corporate insurers by insurance industries, which are presented in table 1. In this case, the shares of insurance premiums of the first twenty insurance companies to the entire Russian insurance market are considered.

It should be noted that at the end of 2018, such a branch of the Russian insurance market as life insurance is implemented by almost two-thirds of corporate insurers. In this regard, there is a need to analyze the monopolization of the industry at the beginning and end of the study period (2015 and 2018), for which the following indicators are used: the concentration coefficient and the herfindal-Hirschman index (table 2).

TABLE I. DISTRIBUTION OF SHARES OF TRADITIONAL AND CORPORATE INSURERS BY INDUSTRY IN THE RUSSIAN INSURANCE MARKET

Type of IC	Russian insurance market share, %				Share growth rate for the period, %
	For 12 months 2015	For 12 months 2016	For 12 months 2017	For 12 months 2018	
1. Personal insurance					
1.1 Life insurance					
Traditional	46.78	48.84	44.67	37.27	-20.33
Corporate	51.99	50.51	54.30	61.19	17.70
Total (top 20 companies)	98.77	99.35	98.97	98.46	-0.31
1.2 "non-life" insurance					
Traditional	66.87	64.18	62.09	57.80	-13.56
Corporate	12.52	17.54	21.55	27.11	116.53
Total (top 20 companies)	79.39	81.72	83.64	84.91	6.95
2. Property insurance					
2.1 Insurance of the property					
Traditional	74.79	74.99	74.19	71.71	-4.12
Corporate	8.81	12.96	15.69	19.67	123.27
Total (top 20 companies)	83.60	87.95	89.88	91.38	9.31
2.2 Liability insurance					
Traditional	68.22	78.61	77.60	76.55	12.21
Corporate	10.87	9.87	11.35	12.91	18.77
Total (top 20 companies)	79.09	88.48	88.95	89.46	13.11
3. Compulsory insurance					
3.1 Compulsory personal insurance					
Traditional	53.65	98.50	100.00	51.78	-3.49
Corporate	46.35	1.50	0.00	48.22	4.03
Total (top 20 companies)	100.00	100.00	100.00	100.00	0.00
3.2 Compulsory liability insurance					
Traditional	85.86	84.91	82.79	76.27	-11.17
Corporate	4.94	5.73	8.03	15.49	213.56
Total (top 20 companies)	90.80	90.64	90.82	91.76	1.06

Thus, based on the information presented in table 1, it can be concluded that in all areas of insurance in the insurance market of the Russian Federation for the period under review there was an increase in the share of corporate insurance companies. This is especially true of the following branches of insurance: the insurance "non-life" (116.53 for %s paragraph), property insurance (on 123.27 %-s) and liability insurance (on 213.56 % s points).

To calculate these indicators, we used the value of the shares of insurance premiums of corporate insurers, included in the top 10 by share in total insurance premiums and operating in this industry.

As can be seen from the calculations presented in table 2, the growth of monopoly power of corporate insurers is observed in the period under review.

TABLE II. ANALYSIS OF MONOPOLIZATION OF THE RUSSIAN LIFE INSURANCE INDUSTRY, 2015 AND 2018

Monopolization rate	Value		Absolute change
	2015	2018	
concentration coefficient, in fractions	0.52	0.59	0.0693
the Herfindahl-Hirschman index	1283.90	1746.87	462.97

As a result, the further process of monopolization of the Russian insurance market by corporate insurers increases the threat of a negative scenario for the entire Russian economy, presented below.

The dominance of corporate insurers over traditional insurers will gradually lead to the elimination of the latter from the large participants of the insurance market of the Russian Federation, and possibly to their liquidation. This is due to the "tug-of-war" of the most profitable areas and branches of insurance by insurance companies located in the corporate structure with credit institutions. The disappearance of traditional insurance companies from the Russian insurance market will in turn lead to a reduction/elimination of the supply of unprofitable areas and branches of insurance (for example, CMTPL), which may lead to their withdrawal by the state for transfer to specially created or transformed companies. The transition of unprofitable directions and branches of insurance to the introduction of newly created companies increases the threat of the state budget deficit, which under the current economic conditions will have a negative impact on the fiscal policy of the state (the introduction of new and increase in existing taxes and fees). The result of such changes in tax revenues of the Russian Federation will be the emergence of insolvency of the country's population on loans, and hence the violation of banking activities, which will significantly reduce the availability of financial resources for all subjects of the Russian economy. With the lack of such resources and the inability to obtain them, there is a violation of the development of all spheres of the economy, i.e. there is a risk of a national economic crisis in Russia.

In this regard, with this kind of problem, as unfair competition in the insurance market of Russia between traditional insurance companies and insurers in the corporate structure with banks, it is necessary to fight. Measures to improve the state of the Russian insurance market can be as follows:

- Restriction at the legislative level of the choice of the legal form of corporate insurance companies, namely, to oblige them to reorganize and register in the status of "public joint stock company" according to Art. 96 of the civil code of the Russian Federation part 1 (this will allow to withdraw such companies from banking dependence, as well as to be able to effectively invest financial resources to traditional insurers – investing one subject of insurance in another is not limited by law);

- Ban on the creation of corporate structures between credit and insurance organizations (this will deprive all the above advantages);

- Withdrawal of the insurance market Department of the Russian Federation from subordination and control of the Central Bank of Russia (CBR is initially focused on credit institutions rather than on insurance, which means that all existing and developed development programs are aimed at banks. The Department of the insurance market of the Russian Federation, as an independent unit of state control of Finance, will directly depend on the effectiveness of its measures to improve the insurance business of Russia, and therefore will be able to more adequately solve the problems of Russian insurance).

II. CONCLUSION

In conclusion, it should be said that the Russian insurance market, as a fairly young sector of the Russian economy, will face many different problems, unfortunately, the solution of which is not always possible without government intervention.

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