

Assessment and Analysis Financial Risks in Insurance Companies of the Kazakhstan

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ABSTRACT

The article substantiates the importance and role of studying risks in insurance companies, as well as the analysis of data presented in tabular form, montage and a set of data annually (growth and decline trends). Dependence of risks on the growth of financial indicators. Identification of problems in this industry and the impact of these problems on the financial situation of the country and their solution.

Keywords: *Insurance, Companies, Financial risks, Financial sector.*

1. INTRODUCTION

Financial risk means the likelihood of adverse financial consequences in the form of loss of income and capital in a situation of uncertainty in the conditions for carrying out its financial activities. The structure of the Kazakh insurance market is presented by its participants and branches of insurance. The questions of study financial risks in national insurance companies activity are very actual, especially in pandemic COVID-19 conditions. The aim of research is the creation recommendations based on assessment and analysis financial risks in insurance companies of the Kazakhstan

2. MATERIALS AND METHODS

During the research have used scientific knowledge method, statistical methods and economical analysis methods. The activities of participants in the insurance market are regulated by the normative legal acts, which are based on the Constitution of the Republic of Kazakhstan, the Citizens Code of the Republic of Kazakhstan and the Law "On Insurance Activity". The

materials for article served official data of Republic Kazakhstan National bank, official statistic data of Agency for Strategic planning and reforms of the Republic of Kazakhstan Bureau of National statistics.

3. RESULTS

The active participants of the developed insurance market are insurance agents and brokers. Insurance agent - a natural or legal person who carries out intermediary activities for the conclusion of insurance contracts on behalf of and for the order of an insurance company in accordance with the prescribed powers. An insurance broker is a legal entity that carries out consulting activities on insurance and insurance issues and acts as intermediary for the conclusion of insurance contracts on its own behalf and on behalf of the transfer or on behalf of the contract. The research demonstrates that, for commercial lines, large national insurers tend to show poorer underwriting results than small regional companies. This calls for methodological improvement in the rating agency reviews of large versus small companies [1].

As of January 1, 2020, 28 insurance companies

operate licensed activities in the insurance market of Kazakhstan, 8 of them are active in the field of fun, at the same time. However, at the beginning of the analyzed period, in 2016, 33 insurance companies were operating. In addition, at the beginning of 2020, the licensed activity was carried out by 13 insurance brokers and 57 operators. It is also possible to note the changes in the number of actuaries operating in Kazakhstan. As of January 1, 2016, 61 operations were

in operation, then a decline has been observed, and by January 1, 2020, only 57 are in operation. As of January 1, 2020, the amount of liabilities of the insurance (overseas insurance) organizations amounted to 652,807 million tenge, which is 21.65% more than the same indicator as of January 1, 2019.

For the previous periods, an increase of about 29% can be noted.

Table 1. Structure of the insurance sector of the Republic of Kazakhstan

The structure of the insurance sector	data for the first of January				
	2016	2017	2018	2019	2020
Number of insurance companies	33	32	32	29	27
including for the safety of life	7	7	7	6	8
Number of insurance brokers	15	15	16	15	13
Number of actuators	61	59	59	56	57
The number of insurance (insurance) organizations are members of the Insurance Fund for Insurance Payments	30	22	22	23	25
Number of representative offices of non-resident insurance companies of the Republic of Kazakhstan	3	3	3	3	3
Footnote - [2]					

Table 2. Assets of the insurance sector of the Republic of Kazakhstan

indicators	2018		2019		2020	
	million tenge	%	million tenge	%	million tenge	%
Cash flow	42 068	4,5	40 739	3,9	25 066	2,1
Inputs placed	208 348	22,5	190 438	18,2	180 988	15
Valuable papers	424 820	45,9	543 778	51,9	775 134	64,3
Operation "reverse. REPO"	52 891	5,7	71 014	6,8	34 071	2,8
Insurance premiums to be received from insurance holders and media.	31 436	3,4	29 411	2,8	38 682	3,2
Basic tools	18 621	2	17 560	1,7	18 046	1,5
Insurance assets	110 237	11,9	111 843	10,7	69 055	5,7
Other	37622	4,0	43728	4,2	65099	5,4
Total assets	926 043	100	1 048 510	100	1 206 141	100
Footnote - [3, 4]						

According to data of table 2 the assets of insurance companies at the end of October 2019 amounted to 1.2 trillion tenge, an increase of 18% compared to the same period in 2018 (990.4 billion tenge). Over the past five years, the amount of assets of insurers has grown by an average of 14.9% per year. At the same time, the role of the insurance sector in the economy of Kazakhstan has also increased. The ratio of insurance assets to GDP at the end of October last year amounted to 1.9% (a year earlier - 1.6%). There is a significant increase in highly liquid assets. At the end of October 2019, the amount reached 897.6 billion tenge, or 76.8% of total assets, an increase from the beginning of the year by 16.5%. At the end of 2019, 27 insurance companies operated in the country's insurance market, including seven in life insurance. The share of the top 10 insurance companies in total assets was 83.9%. The dynamics in the segment of insurance premiums is also positive. In January-October last year, the receipts of insurance premiums reached 416.2 billion tenge, which is 31% more than in the corresponding period of 2018 (317.7 billion tenge). The volume of insurance premiums per capita amounted to 22.4 thousand tenge (a year earlier - 17.3 thousand tenge). According to the concept of development of the

financial sector of the Republic of Kazakhstan until 2030, the volume of insurance premiums in the market will increase by 2-2.5 times. Basically, the amount of premiums will increase due to the expansion of coverage of the population with retail voluntary insurance, including endowment life insurance. Already at the end of ten months of this year, the receipts of premiums on voluntary personal insurance increased by 64%, to 170.5 billion tenge, which is 41% of the total amount of premiums (a year earlier - 103.9 billion tenge, or 32.7%). In general, at the end of last year, a full-fledged infrastructure of the national insurance market was formed in Kazakhstan.

At the same time, the role of the insurance sector in the economy of Kazakhstan has increased (table 3).

The ratio of insurance assets to GDP at the end of October last year amounted to 1.9% (a year earlier - 1.6%). There is a significant increase in highly liquid assets. At the end of 2019, 27 insurance companies operated in the country's insurance market, including seven in life insurance. The share of the top 10 insurance companies in total assets was 83.9%. The dynamics in the segment of insurance premiums is also

positive. According to the concept of development of the financial sector of the Republic of Kazakhstan until 2030, the volume of insurance premiums in the market will increase by 2-2.5 times. Basically, the amount of premiums will increase due to the expansion of coverage of the population with retail voluntary insurance, including endowment life insurance. Thus, we can see that a sharp increase in GDP occurred in 2018, having increased this indicator by more than 19% compared to 2018. However, since 2019, GDP growth has been slowly decreasing and by the beginning of 2020 it was just over 5%. At the same time, not looking at the GDP growth in the indicated period, there was a decline in assets in relation to GDP and in 2018 reached a minimum level of 1.74% with a further rise. But not looking at the dynamics in growth on January 1, 2020, the indicator of assets was significantly lower compared to the same period in 2016. Proceeding from the above information, we can come to the conclusion that the

macroeconomic indicators were not only unstable, but also some of them, such as the ratio of assets to GDP and the ratio of private capital to GDP, could not have been able to deliver the same. One of the possible factors of these changes may be a reduction in the volume of media involved in the activity, which can be attributed to a reduction in the sources of media involved. At the same time, the macroeconomic indicator, responsible for the ratio of insurance premiums per capita, has grown rapidly from year to year, having increased its indicator by 67% since the beginning of 2020 from the beginning of 2016. Having shown a significant jump in recent periods, that is, from 2019 to 2020, this indicator has grown by 6 370.1 tenge or by 30%. The emotional acceptance for the soul of the population is also an indicator of the density of insurance. But not looking at the growth, he remains extremely in connection with the low indicator of the level of income per person.

Table 3. Macroeconomic indicators and concentration of the insurance sector

The main indicators of the insurance sector	2016	2017	2018	2019	2020
GDP, billion tenge	40 884,1	44 354,0	53 101,3	58 785,7	61 819,5
Ratio of assets to GDP, in%	2,02	1,93	1,74	1,78	1,95
Ratio of equity to GDP,%	0,99	0,91	0,77	0,80	0,90
The ratio of insurance premiums to GDP, in%	0,70	0,80	0,70	0,65	0,82
The ratio of insurance premiums per capita, in tenge	16 331,4	20 103,6	20 387,30	20 920,4	27 290,5
Footnote - [5]					

4. DISCUSSION

In addition to everything we can see decrease in the number of insurance companies. From tab 1 we see that in 2016 the number was 33, for nowadays is 27. Also we can see Ratio of equity to GDP in Table 3 and it shows 0.9%, only 10 percent is accounted for by discounts. These parameters are talking about profitability in this area. Insurance companies have to • put in place an adequate and transparent governance system; • conduct their own risk and solvency assessment on a regular basis [6]. During the analyze of the data, it became clear such risks as: -Macroeconomic risk is still the most obvious, with trade and pressure on the tenge remaining potential channels of influence. According to preliminary estimates of the National Bank, in 9 months of 2018, the current account deficit decreased 5.4 times to \$ 0.9 billion, compared to \$ 4.6 billion in 9 months of last year. Favorable pricing environment in the world raw materials markets contributed to a significant increase in the export of goods, which increased by 28.2% or by \$ 10 billion and amounted to \$ 45.3 billion [7]. The value of oil and gas condensate exports, which account for over 62% of total exports, increased by 45.6%, mainly due to an increase in contract prices with a less significant increase in physical supplies. The National Bank notes that an increase in export earnings, mainly due to revenues from the export of mineral products, led to an increase in income of foreign direct investors by 37.1%, to \$ 16.7

billion. However, half of these revenues were directed to financing subsidiaries of Kazakhstani enterprises. A fundamental change in recent years is the introduction of free floating of the tenge, which makes it possible not to accumulate imbalances in crisis situations and to reduce the expectations of large one-time shocks. Moreover, free floating looks to a large extent precisely an anti-risk decision taken under the pressure of circumstances as a result of a series of crises associated with a decline in oil prices and an outrunning and deeper devaluation of the Russian ruble[8]. REER is located near its equilibrium values, which allows maintaining internal and external balances in the economy. Consistently high oil prices, reduced REER volatility and its presence in the long-term trend contributed to the reduction of the current account deficit. One of the main problems of the implementation of macroeconomic risks in connection with the leveling of the influence of the currency channel is the instinct of the macroeconomic authorities to respond to various challenges, including those associated with sanctions, outstripping the weakening of national currencies. - Chronic credit risk. One of the favorite comparisons of rating analysts when they talk about the weaknesses of emerging banking systems is comparing liquidity crises in banks with fleeting heart attacks and strokes, while the increase in the share of bad loans often deserves comparison with chronic diseases that lead to limb shrinking[9]. At the end of 2016, the share of loans overdue more than 90 days - 6.72%, in 2017 - 9.37%, at

the end of September 2018 - 8.5%. At the same time, the statistics of the last few years have caused lively discussions about the extent to which the problems were recognized and estimates, according to which the share of problem loans in the banking system remained above 30%. [10]. -Slow dollarization. From a certain point, the "raid of foreign currency depositors" has been mentioned as a significant risk for the banking system. The share of foreign currency deposits remains traditionally high in the Kazakh banking system, despite the fact that these funds cannot be used as full-fledged funding due to the lack of foreign currency earnings from the overwhelming majority of borrowers of Kazakh banks. Attempts to discourage the volume of foreign currency deposits, primarily in retail, due to the difference in rates with tenge and the consistent application of the inflation targeting policy, yielded limited results[11]. At the same time, in recent months, progress in terms of dollarization has been very slow. During the last increase in the base rate by 0.25%, the desire to increase interest in tenge assets sounded as one of the motivations of the "second tier", after the desire to limit inflation out of the target levels. At the same time, the regulator probably would not want to increase the cost of funding for banks, or even more so the rates on loans for the real sector. To a large extent, the rate increase is due to the desire to keep the withdrawal of the available excess short-term tenge liquidity in the financial sector, so that it does not leak into the foreign exchange market. It is obvious that it is difficult to expect any radical positive changes with the dollarization of deposits, although a system of tenge savings deposits is being created for individuals with a maximum rate of 13.5% for long-term deposit of funds.

5. CONCLUSION

To solve many risks in this area, the stability of financial and macroeconomic indicators is necessary, while our market is very unstable, until our currency becomes stable and strengthens in the market, the risks will remain in insurance companies, because to make a forecast for next year is almost impossible with such an increase in inflation (5-7%), the unemployment rate is growing (due to the pandemic), small and medium-sized businesses are collapsing, almost all companies are switching to economy mode, and budgets are being cut. As a result of all this, staff is also reduced, as a result, insurance companies are losing customers. Many companies begin to reduce or abandon insurance, the purchase of transport or housing decreases, the low repayment capacity of loans, which again leads to the loss of customers and loss of demand. Also, in my opinion, many insurance companies are tied to banks, as mentioned above, at the moment banks are suffering a "credit" crisis, due to attachment to banks, insurance companies are suffering this crisis. In practice, it is clear that attachment to banks does not lead to the best,

perhaps it is worth getting out of the bank and collaborating in creating a single form.

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