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Developing insurance coverage of population in order to improve the financial stability of the regions

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***Abstract* — This article considers the events to cover not the individual citizens, but the households in order to improve financial stability and increase human wellbeing which meets the development goals of the regions. It is proposed to develop the insurance protection of the population on the basis of the family life cycle concept. In accordance with this concept, the authors propose households to use certain insurance products taking into account the distinctive characteristics of the household, composition of assets and obligations, incomes and expenditures, the household risks at each life-cycle stage that will let insurance companies to generate an optimal set of insurance types and insurance products. Developing insurance protection of the population will reduce financial risks for separate households and the insurance market as a whole, increase the financial stability of the population, struggle against poverty, encourage sustainable development of the regions.**

Keywords— household, life-cycle stages, insurance protection, insurance products, sustainable growth of the regions

I. INTRODUCTION

One of the key objectives of sustainable growth was proclaimed to be the struggle against poverty [1]. Social and insurance protection systems of the population are essential to raise living standards of the population and contribute to the growth of households financial stability. The households financial stability promotes sustainable economic growth of the regions through reducing social and financial risks. Nowadays Russian insurance market witnesses the domination of insurance products for individuals, but the formation of insurance protection for households meets the interests of all insurance market participants. The households coverage system will take into account the financial situation not only of the individual but of the household as a whole which will reduce financial risks for households and insurance companies and will ensure the society stability in general.

Therefore, it becomes currently important to develop the system of households insurance protection in Russian economy.

Nowadays the study of households insurance coverage in Russia are carried out only by a few scientists. In scientific research the main emphasis is placed on individual citizens, but not on the household itself. Studying the finance of households is held by such scientists as: V.V. Glukhov [2] , V. V. Glushchenko [3], A. A. Zemtsov [4], A. A. Malecki [5], M. A. Mosesian [6], L. A. Nikolaeva [7], L. A. Mytareva [8], L. D. Orlov [9], V. D. Fetisov [10], etc. The analysis of the household concept is highlighted in the works of the following scientists: S. A. Belozerov [11], L. N. Kirillov [12], K. A. Kirsanov, V. N. Podobedov, V. I. Razdobarin [13], G. A. Shakhnazaryan [14], V.V. Sehovetc [15].

Among the researches devoted to the nature, essence, forms and instruments of financial risks management for households and their members we should note the works by O. S. Baidina [16], S. A. Bocharov, S. Ya. Oleynikov [17], M. E. Argeewa [18].

The research is aimed at the substantiation of perspective trends to form domestic households insurance protection on the basis of the life cycle concept of the household.

II. MATERIALS AND METHODS (MODEL)

To develop insurance coverage of households we used the life cycle concept of the household. It is based on the fact that any family passes several stages when developing which are allocated according to the following criteria: 1) family structure, family members' age, 2) peculiarities of forming incomes and expenses of the family.

This concept was applied to prioritize insurance products depending on the stage of the household`s life cycle.

III. RESULTS AND DISCUSSION

The process of providing financial risk insurance for households represents a complex of relations between insured individuals and policy holders, the policy holders and the insurance underwriters, insured individuals and insurance underwriters to protect personal and property interests. These interests include the interests of both any physical person as a member of this household and the unity of these persons as the whole household.

At present we can confidently say that the insurance development level of physical persons is quite poor, and the practice of insurance coverage of households is not provided. This is associated with such factors as:

- low availability of insurance products;
- poor information richness about the insurance products, their features and risks;
- population disinterest in insurance products;
- population distrust to insurance companies;
- low level of insurance literacy of the population.

The low level of insurance of the Russian population is testified by the following facts: in 2014 the national average size of income not spent on consumption by each member of the household was equal to 5 027 rubles per month (or 25.6 per cent of the per capita money income), in cities – 5488.6 rubles per month (or 25.1% of per capita money income), in villages – 3 695.8 rubles per month (or 27.7% of per capita money income). For comparison, in 2013 these values were the following: the average size of income not spent on consumption by each member of the household was equal to 4 365.7 rubles per month or 24.1% of per capita money income of national households, 5 277.1 rubles per month or 25.5% of per capita money income of urban households, 3 097 rubles per month or 26% of per capita money income of rural households [19]. Thus, households have free cash for the purpose of insurance protection.

To attract interest of potential customers, insurance companies should create innovative lines of insurance products that will meet the expectations and requirements of "customers" and be easy for them to understand.

Taking into account the development specificity of the Russian insurance market and other segments of the financial market, as well as the specifics of the financial risks, the financial status and behavior of the population in Russia, we consider it necessary to introduce such a comprehensive and innovative financial product with an insurance component as the family's financial support.

Based on the role division between household members in arranging and providing family with financial resources, it makes sense to distinguish among the members of the same household:

-the head of family (decides and is responsible for the implementation) and the other members;

-the principal earner (provides family income) and dependents (are not able to earn themselves and at the current time depend on the income of the principal earner (supporter of the family).

While each of these mentioned roles may be encumbered with roles of the owner (the person who legally owns a larger family property lot) and the borrower (person who legally acts as the borrower on any credit and loan linked relationships of the family).

For households and their members it is possible to draw up financial risk maps based on the life-cycle stages. Life-cycle stages of the individual in the family (household) can be represented as his or her motion along a trajectory of the household (family) type changes. The singled stages and their characteristics are conventional.

To develop the insurance protection system of the family and its members from financial risks we need more of such households characteristics as: directing (orienting) family is the family where the individual was born and grew up; produced family (household) is created by the individual oneself; the so-called nuclear family is a classical family with two parents and children (one child). Insurance protection for the household and its individual members from financial risks should be built on the basis of a combination of their roles performed and their individual characteristics influencing the probability of financial risk occurrence (gender, age, health, status and qualification on the labor market, mental characteristics, financial literacy, tendency to risk and save, and other personal traits) and in accordance with the life-cycle stages of the family (household).

The life-cycle stage of the individual and the family is a key factor in building a family and personal insurance coverage, since each stage is accompanied by a certain set of the inevitable characteristics and events in the life of an individual or a family associated with spending spree and declining incomes, savings and investment, in other words financial risks. For example, spending spree can be caused by such life-cycle stages as making a family (marriage) which means wedding costs; obtaining professional education; birth of a child and maternity leave of the wife; the purchase of durable goods; retirement; illness; accidents or force majeure, and other factors. Conventionally, these risk events can occur at different life-cycle stages of the individual or the family as expected and predictable (and sometimes even scheduled), or can became unexpected, unpredictable and certainly unplanned.

It is possible to compare the life-cycle stage of the household and the types of insurance that are usually required and recommended for consumption at this stage (Table I.)

TABLE I. REQUIRED AND RECOMMENDED TYPES OF HOUSEHOLD RISK INSURANCE AT DIFFERENT LIFE-CYCLE STAGES OF THE HOUSEHOLD

Stages	Description	Typical features	The recommended insurance types
Solo-family 1	Single individuals, under 45, without children	- low income; -lack of sustainable requirements for goods; -free cash available; - the part of the money is used to buy durable expensive things (car, flat); - focus on the satisfaction of current needs, exposure to the influence of fashion and advertising (branded clothes, expensive alcoholic drinks, restaurants, vacation, hobbies, etc.)	-cash-value life insurance (for yourself) -bank assurance
Newly-married couples (just-married couples)	Young families when one of the spouses is under 45, without children	- a higher family income as compared to solo-households; - more than one source of income (both spouses have income); - the part of the money is used to buy durable expensive things (car, flat); -more things of long-term use; - exposure to the influence of fashion and advertising	-cash-value life insurance (for yourself and parents) -bank assurance
Nuclear family 1	Mature family, one of the spouses - under 45, having children / child	- reduction of income connected with forfeiture of a part of income by one of the parents; - changes in the structure of the household spending in connection with the emerging wants of the children / child; - negative saving of the family	-cash-value life insurance (for the earner and dependents) -bank assurance -voluntary types of medical insurance
Nuclear family 2	Mature family, one of the spouses – 45-64 years old, having dependent children / child	- the growth of the spouses' income; -improving the financial status of the family; -the dependence of the spending pattern on the needs of the children; - large operating costs.	- cash-value life insurance (for all family members); -voluntary types of medical insurance -property insurance
Nuclear family 3	mature family, one of the spouses – 45-64 years old, having adult children / child who live with parents or/and are dependent	- improving the financial status of the family; - both spouses go on working and increase their income; - considerable expenses on children education; - the increase in expenses on medicine;	-property insurance
Elderly family 1	one (both) of the spouses - retired	-stable financial position of the family; - cost reduction on children; - the increase in expenses on leisure and travelling;	-property insurance
Elderly family 2		- the spouses' retirement and income reduction; - the increase in expenses on health care; - purchase of a new housing is possible in connection with the change of status and priorities of the family	-property insurance
Solo-family 2	a widower, working	- regular income; - sale and purchase of a new housing is possible; - considerable expenses on vacation, medical goods and services	-property insurance
	widower, retired	-reduction of income; -increased demand in care, nursing and attention	-property insurance

Source: compiled by the authors.

We recommend the types of insurance and insurance products on the basis of minimizing costs while maximizing their benefit. Insurance with a funded element has a peculiarity: the result is greatly influenced by the insurance horizon – the earlier such insurance agreement is concluded, the more money you will accumulate. In the conditions of permanent deficit of the family budget it is the consumption horizon of the insurance product that is a significant factor for minimizing its cost.

Priority insurance type at the first two stages - solo-families and newly-married couples - is the bank assurance. *At the stage of the "Solo-family 1"* there are no dependents and only one "earner", the income is not respectively diversified according to recipients, in addition, the income is low because career is just beginning. Insurance becomes personified, and this household can only form personal insurance protection. The problem often appears because a young single individual has a lack of motivation to get the insurance from their financial risks. Motivation usually depends on the financial behavior inherited from their parents or the inevitability of consuming the insurance product that may be imposed with the another product consumption, for example, when buying a car or a flat on credit the borrower is obliged to insure one's life, liability and property. In this case insurance is regarded as a kind of costs associated with owning movable and real property acquired on credit. That is why the key role is played by the cost of such insurance, but not by the reliability of the underwriter, the quality and peculiarities of the insurance product.

At the household life-cycle stage "Couple" incomes are diversified according to two beneficiaries, the total expenditures of the household grow, but per capita calculation shows some reduction owing to cost saving on high-priced goods of long-term use, the amount of free money increases to compare with the previous calculation. As a rule financial support of parents continues. When buying goods on credit one spouse plays the role of a borrower and the second - a co-borrower. Liability insurance on credit is demanded if the borrower has dangerous or unstable work or principal and interest payments exceed the co-borrower's potential. Motivation to voluntary consumption of insurance products is rather low as at the previous stage.

Young parents "Nuclear family 1" with the advent of the first child in their household face domestic dependents – the wife left on maternity leave (until the child reaches the age of 1.5-3 or even longer) and the child, and the working husband becomes the principal "earner". The parents of the couple become external dependents as they have usually reached the retirement age, their income has declined and health - deteriorated. In such situation the family financial status is getting worse in spite of the growth of the husband's income (which is due to traditional career growth commonly occurring at the age of 30-45), and the costs increase. Firstly a conscious motivation for the insurance products consumption appears to protect internal and external dependents from the consequences if the accident happens with the principal "earner". Credits are also more consciously taken and liability insurance for them is not viewed only as borrowing cost, but also as a protection of the wife-co-borrower who is not able to cancel a credit of the husband. At this stage the extended family insurance protection is usually formed.

Mature family "Nuclear family 2" represents the situation when children grow up, both spouses are working and income is consequently increasing. Consumption is focused on children's interests, which enables the parents to think about the insurance coverage of their children's education. Reserves and savings are usually formed to secure the future of the children (money for higher education, wedding, buying a housing, etc.). Motivation to financial risk insurance increases and financial opportunities also grow. The couple start to think about their future retirement and are looking for tools to maintain their living standard after retirement. In the Russian context financial and non-financial alternatives and investment are often competing. The pride of place goes to the purchase of additional housing to acquire rental income and preserve the capital. Cash-value life insurance is one of the competitive trends.

Mature household "Nuclear family 3" is the most financially stable period for the household itself. Incomes are growing, grown children can generate their own income. Motivation to insurance increases. The same concerns voluntary medical insurance.

Within the elderly household (of three types "Elderly family 1", "Elderly family 2" and "Solo-family 2") children provide themselves and sometimes help parents. The motivation to property insurance increases as the property has already been accumulated and, when it becomes damaged or lost, the couple have not financial opportunity regain the balance. Property insurance is one of the most important household insurance types from financial risk.

IV. Conclusion

The authors conclude about the expediency of forming the household insurance coverage on the basis of the concept of family life-cycle stages. The family life-cycle stages were singled out: Solo-family 1, Newly-married couple, Nuclear family 1, Nuclear family 2, Nuclear family 3, Elderly household, Solo-family 2.

The typical characteristics of each life-cycle stage were highlighted depending on the family structure and characteristics of forming family financial resources.

There were proposed insurance types with highest priority for each life-cycle stage of the household.

A holistic view of personal characteristics of household members and the basic composition of the household finance at each life-cycle stage will allow insurance companies to generate the most efficient set of insurance types and insurance products.

The proposed model is useful for developing integrated insurance products taking into account the family life-cycle stage and being individualized based on peculiarities of households that will meet the expectations and requirements of the clients.

The authors proposals are aimed at forming the strategic nature of the insurance industry in the Russian economy, increasing its effectiveness and social stability and reducing financial uncertainty of the population, which will contribute to the achievement of sustainable development of the regions.

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