

On the Issue of Directions for Improving Investment Life Insurance in the Russian Federation

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Abstract—The article is devoted to the study of aspects of investment life insurance in the Russian Federation. In the article the assumptions were formulated and received confirmation that at present the growth of investment life insurance is largely due to the active work of banks, rather than the voluntary desire of investors to diversify their investment portfolios.

To further develop such a product in the Russian insurance market, it is necessary to implement certain actions on the part of the legislator and market actors aimed at improving investment life insurance.

Keywords— investment life insurance, investment portfolios, insurance market.

I. INTRODUCTION

Products on investment life insurance appeared in the segment of life insurance in the mid-70s of the last century and by the end of the decade began to gain popularity in many countries (USA, Canada, Asian and European countries).

For the whole history of its development, investment life insurance has experienced many ups and downs. Each financial crisis had a negative impact on the indicators of its development. Despite this, the interest in investment life insurance is preserved, as more and more potential insurers want to take advantage of investments in various financial instruments in conjunction with insurance protection.

At the same time, they agree to pay a higher insurance premium, being sure that they get more for this than with traditional accumulative life insurance. The essence of investment life insurance is that the insurance premium is divided into two parts: one is directed to traditional life-saving

life insurance; other - are invested in various financial instruments. The insured receives additional investment income at the expense of the second part. The payment also contains two components: insurance and investment.

Thus, investment insurance includes two components: insurance and financial. It is this combination that makes this type of insurance product popular and popular on the developed financial markets.

II. RELEVANCE OF THE PROBLEM

Studies on various issues of investment life insurance (pricing, hedging and risk management under these contracts) abroad have been carried out for a long time. The first articles on this topic were published at the dawn of the development of investment life insurance Brennan and Schwartz [4], Boyle and Schwartz [3]. Subsequently, these studies were expanded by Hardy [7], Argesanu [1], Gaillardetz [6], Romanyuk [9], Reichenstein [8], Augustyniak and Boudreault [2], CIUMAŞ [5]. These articles examined the modeling and management of risks in the field of investment life insurance; stochastic modeling of built-in safeguards; risk analysis and hedging of annuity variables in incomplete markets, proper pricing of life insurance contracts; pricing of annuities focused on shares, etc. Interest in investment life insurance among researchers was determined by the development trends of this segment (Table 1)

Based on the data presented, we can say that the largest development of investment life insurance abroad was received in the 90s of the last century, having occupied for a relatively

short period of time a substantial share of the insurance market.

Table 1. Data on the development of investment life insurance in some countries

Country	Sale from the year	Share of the life insurance market, %	Period of significant growth
Belgium	1993	2-48	1995-1999
Canada	1970	8-54	1986-1999
France	1970	13-38	1990-1999
Germany	1970	4,7-12,4	1996-1999
Italy	1980	48-59	1998-1999
Holland	1980	14-43	1993-1998

All this allows us to say that investment life insurance is an important component of the entire insurance market, and its presence testifies to a stable financial market in the country.

III. STATEMENT OF THE THEORETICAL PROBLEM

In Russia, life insurance investment appeared relatively recently. The first appearance of these insurance products can be attributed to 2009-2011. At the same time, identify the Russian products for investment life insurance and foreign products "unit-linked insurance". Foreign contracts are inherently a classic version of an investment product with a relatively small share of the guaranteed re-serve. In Russia, most of the insurance premium goes to traditional funded insurance (only 15-25% of the entire insurance premium is spent on investing).

The growth in demand for products on investment life insurance raised the issue of legislative consolidation of this concept. According to the All-Russian Union of Insurers, the lack of legislative norms aimed at regulating this particular segment of life insurance makes it ineffective in terms of increasing fixed capital, leaving only an addition to the long-standing programs of life-saving life insurance. Legislative restrictions give rise to number of problematic moments in the development of investment life insurance.

First of all, the restriction on investing the insurance reserves of insurers, arising from the need to implement the Instruction of the Central Bank of the Russian Federation "On the procedure for investing the funds of insurance reserves and the list of assets allowed for investment" No. 3444-U of November 16, 2014. This forces insurers to invest in risk-free or low-risk assets. Secondly, the requirements for capital adequacy under investment life insurance contracts are identical to those under standard life insurance savings agreements, which leads to the inability to share investment risk with the insurer and increase the profitability of investment operations (which is used in foreign practice).

As a result, many insurers that concluded investment insurance contracts at the dawn of its development, were dissatisfied with the profitability of their closing. At the same time, in recent years there has been a significant increase in demand from Russian insurers for products of investment life insurance. And before the domestic insurers is now a difficult task - to meet the interests and expectations of policyholders on the newly concluded contracts of investment life insurance. Until now, there is a hope that insurers will be able to take their place in the renovated pension system of the Russian Federation.

The economic realities are now formed in such a way that the share of social expenditures in the budget decreases, the state can not fully finance medicine, education, pensions, and appropriate insurance products can help to fill the missing financing. Life insurance is a socially significant industry, and foreign pensioners in other countries of the world have the most important direction of voluntary pension insurance. Two years ago, the Central Bank of Russia and the RF Ministry of Finance announced the concept of individual pension capital and the need to stimulate citizens and employers to create their own individual or corporate voluntary pension plans. It is obvious that the more financial institutions will offer their different products in this strategic direction, the better will be the development of pension insurance. Therefore, it is necessary to study possible directions for improving investment life insurance. This article is devoted to this article, the topic of which is relevant in the current Russian realities of the development of the entire financial market.

IV. PRACTICAL IMPORTANCE

Investment life insurance is quite a new product of life insurance, its implementation on the Russian market is a period of just over five years, when the implementation of "unit-linked insurance" insurance abroad has a long enough history and results already. In the past, 2017, life insurance became the leader among all types of insurance. For the period 2012-2017 years. the volume of such insurance increased by 30 times (Figure 1), from 9 billion rubles. up to 285 billion rubles. Prior to -investment of life insurance began to account for more than 85% of the total volume of premiums on life insurance.

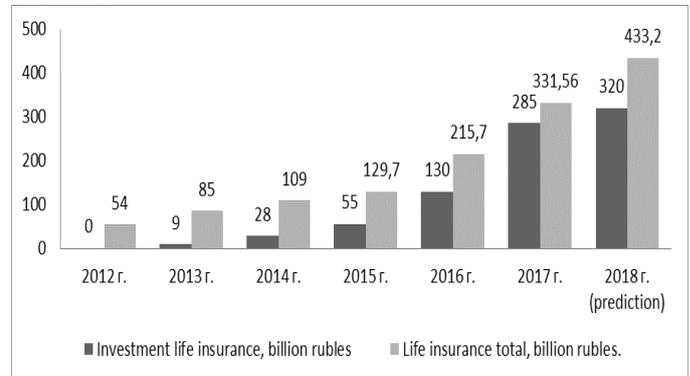


Fig. 1. Dynamics of the volume of premiums on life insurance*
* based on source [13] and [14]

Table 2. Some programs of investment life insurance

Insurance organization and product	Basic conditions	Investment directions	Program duration	Special conditions	Other conditions
RGS "Capital Management +"	Accumulative product with guaranteed insurance amount and accrued investment income on the investment account.	The investments will consist of two parts - a fixed (bond) and a trade (share).	In rubles - 3 years and 5 years;	The policyholder has the right to choose the balance of investment directions.	The minimum insurance premium is 100 thousand rubles. (1500\$)
RGS "Capital Management"	A savings product with a guaranteed insured amount and an accrued bonus on the front investment account.	Investment part - bank deposits, bonds and other highly reliable financial instruments with advance certain urgency and profitability;	5,7,10 years	The investment strategy under the insurance contract is determined by the Insurer	60 000 rub. with an installment payment of insurance premiums; 150 000 rubles. when paying a lump sum premium.
SberBank "SmartPolis"	Guarantee of safety 100% of the invested amount.	The Global Bond Fund; the US consumer sector, new technologies; Real estate, precious metals.	Minimum period - 5 years	Ability to fix the current investment income	
VTB "Maximum"	Guarantee of return of the invested funds	"World Wealth" and "Health lead-ers"	Minimum period - 3 years	Protection of the targeting of the transfer of funds	Insurance fee is one-time at least 350 000 rubles.
VTB "Fixed income"	Fixed income for the whole period	Investment assets of the program - highly reliable income instruments	The minimum period is 3 years	100% investment protection	
AlfaStrahovanie "Capital in plus"	Guarantee of return of invested funds	Investing in reliable bonds and shares of promising companies, the average ratio: 75% - bonds and 25% - shares	The minimum period is 3 years.	The investment strategy under the insurance contract is determined by the Insurer.	The minimum payment is 30,000 rubles.
AlfaStrakhovanie «Forward Maximym»		Investment in stocks and bonds of high-tech IT companies	Term - 3 years	The income is calculated by the maximum value of the index of the strategy for three years.	The minimum payment is 50,000 rubles, the maximum - 6 million ru-bles.
Binbank "Growth Line"	Full protection of the invested capital	Two strategies: Stable growth. Placement of funds in a diversified asset class and geography basket of funds from leading investment companies;	Term - 3 years or 5 years	The contribution is placed in two funds: Guarantee Fund, Investment Fund	Minimum contribution - 50 000 rubles.

The same dynamics occurred in China when the appearance of unit-linked insurance products in their insurance market affected the increase in life insurance premiums from \$ 730 million in 2002 to \$ 68 billion in 2010, which was more than 60% of the total amount of life insurance premiums. These products are quite widespread in the insurance markets of developed countries, but they are not a driving force for the growth of premiums for life insurance in Russian Federation, but are used as tools for the diversification of investment portfolios of private investors. Quite a lot of domestic life insurance insurers offer products and investment life insurance.

Table 2 shows the main products from this product line. At the same time, new players appear in the investment insurance segment, which, as a rule, are the "daughters" of the

largest credit organizations. More than 90% of the Russian life insurance market is banking sales, which demonstrates the importance of this sales channel for the development of this segment of the insurance market.

Having studied products on investment life insurance offered by domestic insurance organizations, it is possible to single out the main strategies that are offered to current and potential insurers, one can deduce their main directions. The main financial assets, which are based on strategies for investment life insurance, include: the RTS index; shares; government bonds; corporate bonds; gold; the property; assets of foreign companies (Standart & Poor's).

Let's analyze the profitability of these financial instruments for the last five years (Table 3).

The presented data testify to the instability of the profitability index for the main financial instruments, which, as a rule, form the basis for the formation of strategies for investment life insurance. Recent years for the Russian financial market have been volatile because of the financial crisis and the sanctions in relation to the Russian economy. It is the fall in yield due to the crisis of 2014-2015. on instruments for which growth was expected (RTS index and gold), led to dissatisfaction of policyholders, whose life insurance contracts ended in late 2017.

Among the unstable rates of development of the yield of financial instruments, we can identify more or less stable - gold, shares of foreign companies and state and corporate bonds.

Table 3. Dynamics of profitability of the main financial instruments on the Russian financial market, %¹

Financial instrument	2013	2014	2015	2016	2017
RTS index	-1,6	-42	0,4	59,4	5,8
shares	6,3	-1,8	32,3	32,8	-0,2
government bonds	3,8	-	29,6	14,8	12,8
corporate bonds	8,9	0,9	16,7	12,7	12,2
gold	21,9	69,7	16,6	9,7	6,2
the property	3,3	17,3	-6,1	-6,1	-2,5
assets of foreign companies	32,2	13,5	1,4	11,7	21,6

At the same time, despite the unstable dynamics in the financial market, investment life insurance is gaining popularity.

In Russia, the situation with the development of investment insurance is different from foreign counterparts. Thus, the demand for this product on the Russian financial market is conditioned not by the desire of private investors to diversify their investments in financial assets, but by the insurers of aggressive marketing policies carried out by banks and specially created for these purposes with them to sell such financial products. It is with the activation of sales through the bank channel that the rapid growth of investment life insurance is associated. At present, such dynamics are due to the aspirations of banks to increase their profits from non-banking activities due to number of the following objective circumstances:

1) The fall of interest rates on the resources attracted to banks. In the context of the interest rate policy pursued by the Bank of Russia on reducing the key rate and simultaneously targeting inflation, which is due to number of macroeconomic reasons for maintaining the national currency rate under conditions of a floating exchange rate, credit institutions reduce the cost of attracted resources (bank liabilities). Clearly quarterly dynamics of the value of individuals' deposits attracted to deposits is shown in Figure 2.

In the conditions of falling interest rates on deposits, banks, in order to retain and increase bank liabilities, and

reduce the risk of falling interest income, willingly offered alternative ways to save savings and transfer them to savings - a product of investment life insurance that has a higher potential income.

2) There is no need for the bank to pay insurance premiums to the Deposit Insurance Fund. Since investment life insurance is a product of an insurer, not a bank, insurance reserves form the first. As a rule, a mutually beneficial partnership is established between the bank and the insurer, involving the placement of insurance reserves in deposit accounts with the bank, which ensures the formation of the client portfolio to the insurer. Thus, the bank benefits from the formation of bank liabilities from deposits of legal entities for which contributions for deposit insurance are not provided, and the insurer is a cost-effective channel for distributing and expanding its client portfolio. This proof is the dynamic growth of the number of captive insurers of almost all the largest banks in the Russian insurance market at the present time.

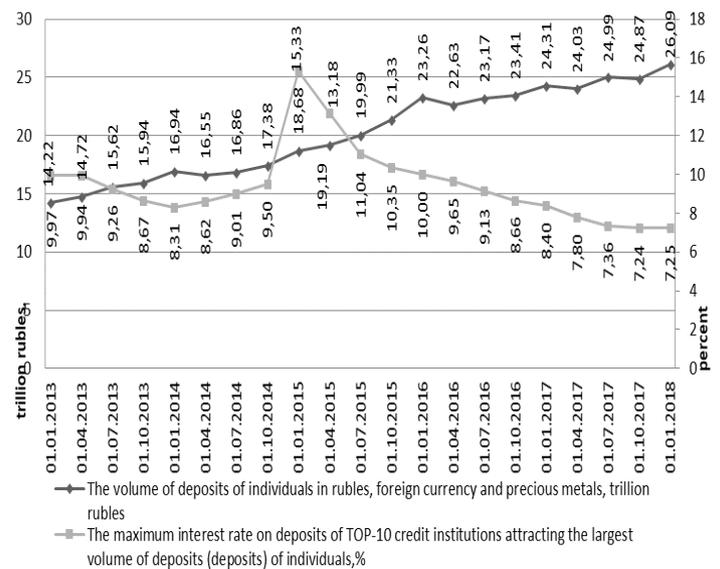


Fig. 2. Quarterly dynamics of the volume of deposits and interest rates on deposits of individuals

3) Receiving banks additional commission income. In 2013-2015, when this product only appeared on the Russian insurance market, the cost of its distribution through banks to insurers cost 5-7% [11] of the cost of the policy. After 2015, the commission increased to 11-15%, according to the results of 2017, the share of remuneration in contributions to life insurance was 17.3% [13]. In this way. The commission for banks consists of super-profits in the formation of a reserve, which, like the choice of instruments, rests with the insurers. Rates on instruments with fixed yield depend on the reliability of the issuer: the lower its reliability, the higher the yield on the instrument. Today, investments of some insurers in low-quality assets have become a key risk for the industry [11]. Thus, the high level of the commission encourages banks to increase sales of investment life insurance even in the non-targeted client segment (pensioners).

¹ Based on source [10]

Also, thanks to banks, the availability of this product has increased. So, initially, investment life insurance is a product of prime segment of clients of insurers and banks with an average amount under the insurance contract from 700-1 000 thousand rubles. At present, the insured amount under the policy has dropped to 50-100 thousand rubles. This allowed banks to reach many clients with a low level of financial literacy and awareness of the essence of investment products. This ultimately affects the reputation and confidence in the insurance sector on the part of policyholders, and not the banking sector.

Based on the foregoing, it can be assumed that the target segment for investment life insurance is mainly the clients of the bank, wishing to open a deposit for a period of more than three years. It is known that such deposit agreements, like life insurance, do not imply the withdrawal of funds before the end of the contract, and, therefore, can be considered as a potential insurance field for investment life insurance. At the same time, it could be an incoming new business (offer of insurance instead of opening a deposit for more than three years), as well as "prolongation" of relations with the client, but already with the offer of an insurance product. Therefore, to determine what volume can be covered by investment life insurance, consider the dynamics of deposits of individuals over three years (Table 3).

Table 3 - Dynamics of the volume of deposits of individuals

Period/ indicator	The volume of deposits (deposits) of individuals, billion rubles *		Average annual share of deposits (deposits) of individuals over 3 years, % **		The volume of deposits (deposits) of individuals over 3 years, billion rubles.	
	in rubles	in foreign currency and in precious metals	in rubles	in foreign currency and in precious metals	in rubles	in foreign currency and in precious metals
2014 г.	13699,1	4 983,9	2,51	5,50	343,8	274,1
2015 г.	16347,1	6 912,4	0,73	1,50	119,3	103,7
2016 г.	18471,9	5 831,4	0,48	1,52	88,7	88,6
2017 г.	20640,8	5 451,8	0,36	3,70	74,3	201,7

* Funds of organizations, bank deposits (deposits) and other attracted funds of legal entities and individuals in rubles, foreign currency and precious metals - URL: <http://www.cbr.ru/statistics/UDStat.aspx?TbIID=302-21> (date of circulation: 04/25/2018)

** Calculated based on interest rates and the structure of deposits for maturity http://www.cbr.ru/statistics/?PrtId=int_rat (circulation date: April 25, 2013)

Thus, the data in Table 3 indicate a general increase in the volume of deposits of individuals in rubles for the analyzed period, in foreign currency and precious metals, on the contrary, it should be noted that the amount of deposits opening is decreasing. However, the current economic situation in Russia determines the need of citizens to make medium-term investments in foreign currency (the share for 2017 has doubled). At the same time, it should be noted that the share of deposits with a maturity of more than three years in rubles has declined sharply, from 2.51% in 2014 to 0.36%

in 2017, in absolute terms from 343.8 billion rubles. up to 74.3 rubles. (4.6-fold). Here we can assume that the reasons for the fall in the volume of deposits in rubles can be: the opening of similar deposits in foreign currency; opening of deposits for a shorter period; purchase of investment life insurance as an alternative medium-term financial product with a higher yield when buying a policy in rubles and foreign currency.

Our assumption is proved by the dynamics of the volume of deposits over three years and the volume of investment life insurance presented in Figure 3. Thus, the figures show an increasing demand for the insurance product, while the life insurance curve grows against the background of a fall in the volume of deposits in rubles and foreign currency term over 3 years. Therefore, market experts expect a slowdown in the growth rate of investment life insurance from 70-80% per annum to 30-40% in the coming years [14].

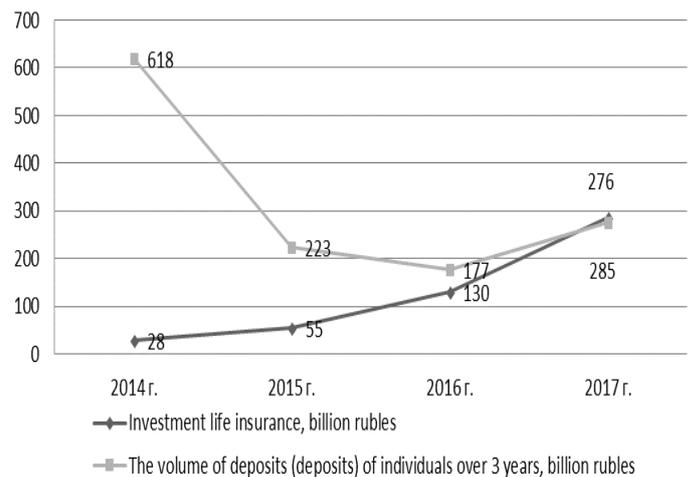


Fig. 3. Dynamics of the volume of investment life insurance and deposits of individuals, billion rubles.

V. CONCLUSION

In our opinion, at present the growth of investment life insurance is largely due to the active work of banks, rather than the voluntary desire of investors to diversify their investment portfolios.

To further develop such a product in the insurance market of Russia, it is necessary to implement certain actions on the part of the legislator and market actors aimed at improving investment life insurance.

In our opinion, such actions include:

1) improving the regulation of investment life insurance by introducing requirements for disclosure of the underlying asset, investment risks, determining the formulas and coefficients of the client's participation in the income of the selected underlying asset; on the administration of customer funds on the principles of accounting and physical segregation of assets, it is possible to fully involve the institution of specialized deposits;

2) introduction of compulsory certification of insurance agents, including employees of agent banks and insurer employees who sell this product on the market. This is necessary so that the seller has enough competence in the field

of financial planning and investment, and the consumer has a proper understanding of the essence of such financial products;

3) disclosure of information on the amount of bank commissions in a separate line in official statistics on the amount of remuneration to intermediaries selling insurance products. In practice, the Bank of Russia is aware of the size of commission fees, but this information does not appear in the insurance contract, which increases the amount of transaction costs from insurers (the product becomes more expensive);

4) the division of responsibility in the implementation of hybrid insurance products between insurers (forms insurance reserves, bears responsibility for insured events) and the bank (realizes the insurance product, is responsible for disclosing information about the terms of the contract, risk and return). In this case, the experience of the Netherlands is of interest, where the client necessarily receives a memo with the main parameters of the agreement, including details of its investment parameters;

5) expansion of the product line due to the development of new investment strategies (including those involving balanced risk and profitability strategies), the development of remote services both in the acquisition of the program and with further maintenance.

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