

THE KEY PROBLEMS OF REGIONAL DEVELOPMENT AT THE INSURANCE MARKET IN RUSSIAN FEDERATION

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Abstract: *The article is devoted to the problems of regional development at the insurance market in Russia. The insurance market of the Russian Federation is characterized by a significant asymmetry: a high concentration of insurance organizations in Moscow, St. Petersburg, the central district and the presence of subjects, where the insurance offer is practically not represented. More than half of Russia's regions there are no regional insurers, and the level of satisfaction of insurance interests is catastrophically small. Authors on the basis of data from Russian statistics analyze the main factors of disparities of regional development at the insurance market in Russia. It is necessary to modernize the Russian system of insurance regulation and the development strategy of the industry, taking into account the capabilities of regional insurers, which, as world practice shows, successfully work with specific and insignificant in terms of the potential insurance premium local and regional insurance interests, developing property and liability insurance for individuals, medium and small enterprises.*

Key words: *insurance, regional market, Russian Federation*

JEL codes: *G22, G38, G18*

1. Introduction

The importance of the well-developed insurance sector which covers majority of households and companies for welfare and economic growth is widely documented in the literature (Gaganis et al., 2016; Zhao, 2017; Lee et al., 2017; Liu et al., 2016; Pradham et al., 2015, 2016; Yang et al. 2017). However, similarly to many other regions (see Alhassan and Biekpe, 2016; Constantinescu, 2015; Kirillova and Bellucci, 2014) there is a significant asymmetry in the territorial development of Russian regions, including the asymmetric development of insurance market. Today there are several regions with relatively developed insurance markets (primarily Moscow and St. Petersburg), the presence of a structured insurance system, along with more than half of Russia's regions there are no regional insurers, and the level of satisfaction of insurance interests is catastrophically small. At the same time, there are potential insurance interests in these regions (table 1).

This is explained by the following facts (Yurgens et al., 2015; Tsyganov and Bryzgalov, 2016; Sihem, 2017):

- insufficient income of the population and small business in many Russian regions;
- features of the mentality, including national specifics (Islamic regions of the Caucasus and the Volga region, republics with Buddhist influence);

- insufficient financial literacy of the main sections of the population;
- the paternalistic consciousness of the older categories of the population (the Soviet legacy);
- low confidence in financial institutions and insurance companies in particular.

Tab. 1 Gross Written Premiums & Paid Claims in Russian Federal Districts, 2016, RUB

Federal District	Gross Written Premiums	Paid Claims
Russian Federation, total	1 180 631 588	505 790 110
Central	691 396 365	275 259 069
Moscow	585 031 353	231 202 688
North-West	115 940 422	50 216 194
St. Petersburg	79 590 624	35 054 112
Southern	55 912 558	33 242 014
Privolzhskij	137 239 841	64 088 222
Ural	68 407 254	32 530 947
Siberian	70 005 454	29 894 218
Far Eastern	27 635 943	11 999 858
North-Caucasian	14 093 751	8 559 588

Source: Central Bank of the Russian Federation (www4)

These theses should be supplemented with a hypothesis about the insufficiency of the proposal from regional insurance companies that can really take into account regional insurance interests and satisfy them completely. The practice of Russian regional markets showed a lack of supply from the branches of major insurers focused mainly on standard insurance products developed at the central office and resolving losses remotely. These factors cause dissatisfaction of the population with the level of supply of insurance services, and the non-transparency of the order of insurance payments increases the level of mistrust of insurance companies and insurance as an institution of a market economy.

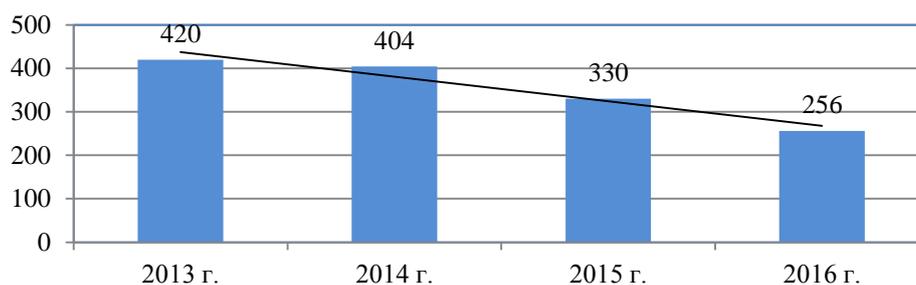
2. Methodology and data

During the research, the authors relied on the insurance statistics of the regulator of the insurance market – the Bank of Russia, the self-regulatory organization of insurers – the All-Russian Union of Insurers, regional statistics of Rosstat. A comparative analysis of the quantitative composition of insurers in the regions of Russia, the developed countries of the world (USA, Germany, the EU as a whole) and levels of penetration of insurance services was conducted. The choice of the US and the European Union was associated with the development of insurance in these countries, the comparability of population and territory.

The development of regional insurance markets is undoubtedly influenced by the general situation in the insurance market, which can be briefly described from the point of view of reinforcing the regulatory impact amid a significant increase in loss-making by motor types of insurance.

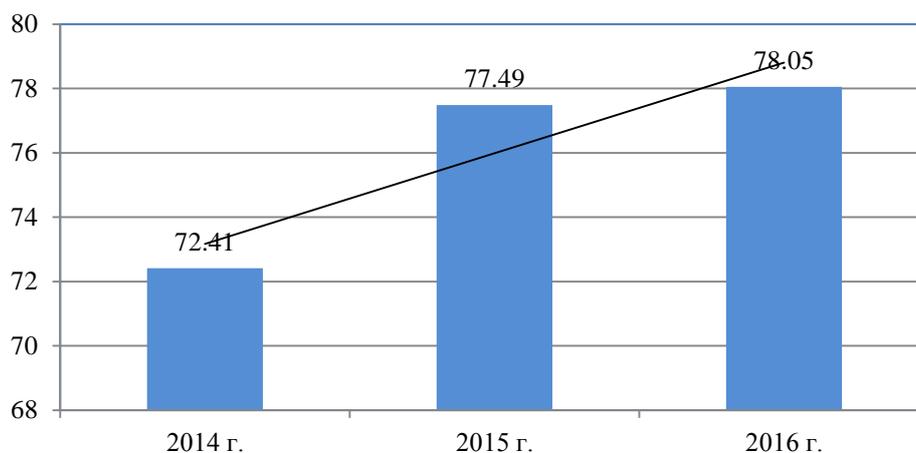
- End of the active phase of withdrawal from the insurers' market as a result of licensing measures, a reduction in the number of insurers and an increase in the concentration of the insurance business (figures 1, 2);
- Mandatory membership in a self-regulatory organization;
- The entry into force of the compulsory reinsurance standard in the Russian National Reinsurance Company (RNRC, the founder is the Bank of Russia);
- Entry into force of requirements under the ISS and ENP;
- Preparing for the transition to the XBRL reporting format;
- Continued tightening of asset allocation requirements;
- Increase of the regulator's requirements to the corporate governance and risk assessment system;
- Planned increase in authorized capital.

Fig. 1 The number of insurers in Russia



Source: Central Bank of the Russian Federation (www4)

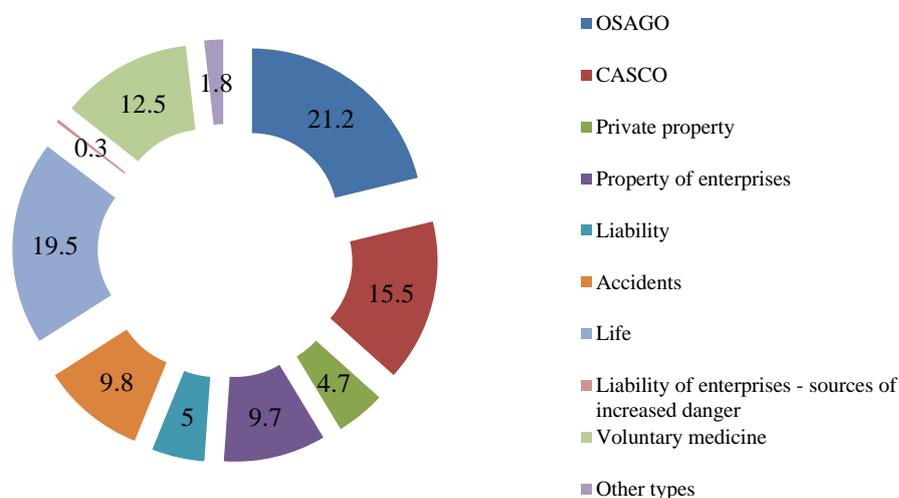
Fig. 2 The concentration of insurance business in Russia, the cumulative share of the first twenty companies



Source: Central Bank of the Russian Federation (www4)

The latter is most worrisome for owners and management of even successful regional insurance companies, which are forced to seek new markets in the face of increasing capitalization requirements. Practice shows that the only possible direction of rapid development, which allows achieving the desired profitability in the short term, is the development of motor insurance (figure 3), which in the perspective of 2-3 years leads to significant problems for most insurers. At the same time, other property insurance for individuals and liability insurance do not develop, although it is at the regional level that the most complete satisfaction of the insured's actual interests is possible.

Fig. 3 Structure of the insurance portfolio in 2016, share (%) of total insurance premiums



Source: Central Bank of the Russian Federation, All-Russian Union of Insurers

3. Results and discussion

An analysis of regional legislation conducted by the authors earlier showed that the decisions taken in the 1990-2000s the programs of regional insurance development were not implemented, and in the future there were practically no attempts to identify the reasons for their failure to implement and implement the following. This is due not only to the regulation of insurance at the federal level, but also to the settlement of the consequences of most major natural disasters and man-made disasters at the expense of the federal budget, whose possibilities are now close to exhaustion.

However, many of the specific regional features in insurance programs are not taken into account by large federal insurance companies that prefer to sell standard insurance products. As a result, in most Russian regions (43 regions), there are no insurance companies left, several insurance organizations in only a few subjects of the federation (figure 4, table 2).

Fig. 4 Distribution of insurance and reinsurance companies by region in 2016, share (%) of the total number of insurers



Source: Central Bank of the Russian Federation (www4), All-Russian Union of Insurers (www2)

Tab. 2 Gross number of insurers in the Russian region

Registration region of insurance company	Number
Moscow	128
St. Petersburg, the Moscow region	12
Republic of Tatarstan	11
Samara Region	6
Kemerovo and Sverdlovsk Regions, Khabarovsk Territory, Khanty-Mansiysk, Yugra	5
Irkutsk and Ryazan regions, Krasnoyarsk region, the Republic of Crimea	4
Krasnodar Region, Chelyabinsk Region, Yamalo-Nenets Autonomous District	3
Voronezh, Kursk, Tyumen, Ulyanovsk, Saratov, Novosibirsk Regions, Primorsky Krai, the Republic of Sakha (Yakutia), the Chuvash Republic	2
Vladimirskaya, Vologda Kaliningrad, Nizhny Novgorod, Smolensk, Tomsk, Yaroslavl, regions, Kamchatka Territory, Perm Territory, Altai Republic, Bashkortostan, Mordovia, Rostov, Udmurt Republic, Zabaikalsky Territory	1

Source: Rosstat (www1)

In the world practice, the saturation of the market by insurance companies is much higher than in Russia (in the European Union one insurance company for 150 thousand people, in the United States one insurer accounts for less than 100 thousand people, and in Russia there are more than 500 thousand people per an insurer), which significantly affects the availability of insurance services, the level of competition in the insurance market and satisfaction of insurance interests (table 3).

Tab. 3 Market saturation of insurance companies, 2016

Country (Union)	Insurance companies, un.	Population, mln	Saturation, insurer per ths. people
USA	3500	325	93
European Union	3428	510	149
Germany	539	82	152
United Kingdom	496	65	131
France	365	67	184
Russian Federation	256	146	570

Source: All-Russian Union of Insurers (www2)

In Russia, the practice of mutual insurance is developing very slowly, in 2016, according to the data of the Bank of Russia, there were only 12 mutual insurance societies for the whole of Russia, which is connected in large part with legislation that strictly regulates the creation and operation of these companies. The activity of insurance brokers, which could realize insurance interests in the regions of Russia, is also developing slowly. According to the self-regulating organization – Association of Professional Insurance Brokers (www3) in Russia in 2017, 70 insurance brokers were registered.

4. Conclusions

Comparison of a reasonable share of insurance in the economy (in the developed world – about 10% of GDP) and real effective demand in Russia (according to Rosstat – 1.4% of GDP) indicates a significant gap of at least 8.6% of GDP. The Russian insurance market, despite the presence of positive changes, does not yet fulfill its functional purpose – ensuring the safety of social reproduction. This gap will decrease as the potential solvent demand forms and the real effective demand grows, primarily in the regions of Russia.

World practice and in particular the experience of the USA, Canada, Germany show a positive example of the activity of regional insurers that are stable and long-term in existing small insurance portfolios. Significant underinsurance in the regions of Russia is associated not only with the factors of social and economic development of the region, but also with the lack of an original insurance proposal that takes into account the specifics of regional insurance interests.

The number of insurance companies is steadily declining in the conditions of a small number of insurance brokers and mutual insurance societies and targeting of branches of the largest insurers to work with the simplest standard insurance products (primarily OSAGO). However, in Russia, legislation does not yet stimulate insurance business, which, according to the authors, should change.

It is necessary to modernize the Russian system of insurance regulation and the development strategy of the industry, taking into account the capabilities of regional insurers, which, as world practice shows, successfully work with specific and insignificant in terms of the potential insurance premium local and regional insurance interests, developing property and liability insurance for individuals, medium and small enterprises.

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