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Translated Article†

INVESTING ACTIVITY OF INSURANCE COMPANIES: OPPORTUNITIES, PROSPECTS AND DEVELOPMENT COURSE

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Abstract

Subject The research focuses on the investing activity of insurance companies, evaluates development opportunities and interaction with other actors of financial markets.

Objectives The research examines opportunities for investing activities of insurers, substantiates prospects and aspects for further improvement.

Methods We applied analytical and statistical methods.

Results We reviewed the opportunities of the Russian insurers to develop their investing activities, focusing on trends in insurance premiums, growth in insurance reserves and equity, accumulation of capital and premiums in the insurance market, interpenetration of the insurance and banking sectors. The article points out key aspects to invest in and provides the rationale.

Conclusions and Relevance The Russian insurers have good opportunities for investing activities as life insurance reserves and capital increase. Bank deposits will remain the main financial vehicles. The banking sector becomes more reliable and lucrative for insurers, allowing them to make a marketable and reliable portfolio, albeit less profitable. Trust management may take the leas among other services. Optimizing the investment portfolio through trust management, entities will gain a profitable investment option, though a more risk one.

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Introduction

Being a part of the financial market, the insurance market is influenced by developments in other segments of financial markets. However, it has some distinctions since insurance companies play a special role. Insurance companies may cooperate with actors of financial markets in a variety of formats. As a matter of fact, they compete with other financial institutions, targeting at available funds of the population. Insurance companies consume services of other businesses operating in financial markets. Furthermore, they provide services to other actors of the financial market, say, hedging investors or issuers against risks and acting as guarantors, etc. Attracting considerable funds of the insured and considering the probabilistic nature of payouts, insurers may possess some available financial resources to invest and derive additional income.

The financial potential of insurers comprises their equity and raised funds, including borrowings. Actuarial reserves, which are made to perform contractual obligations under insurance contracts, account for a substantial part of the raised funds, being the main source of investment. Equity is another source. In regulatory documents, investing activity is viewed through dealing with actuarial reserves and equity (capital)[1].

The Russian insurance companies are allowed to make a variety of investment decisions, concerning, for example, government securities, stocks, bonds, certificates of eligibility to subsidized housing, units of investment funds, deposits, immovable property, precious metals, etc. However, such investments are legislatively required to be diversified, marketable, repayable and profitable. Such principles are contradictory by nature since the most reliable assets usually generate low income, while more profitable ones entail a high risk of losses. The principles are balanced with diversified investment portfolios.

In the course of their investment operations, insurers have to hew to the megaregulator's policy which pursues the liquidity and reliability of investment portfolios. Such policy basically supports the banking sector, protects insurers' capital through the diversification of their assets, puts up the capital in low-risk assets, stimulates the development of the governmental financial sector.

Hence it is unlikely that insurers focus on cost effectiveness in their investing activities. In some systems of investment laws, insurers' profit is often lower than the inflation rate. In such cases, an investment policy may pursue only incidental profits, namely, gaining a reciprocal business opportunity from an investee. For example, collateral protection insurance when reserves are placed as bank deposits, or performance of relevant standards that must be observed to keep the license, access to customers of banks for credit insurance, offering their insurance plans, etc. However, such restrictions are unavoidable because insurance companies play a special role, being guarantors of stability for other market actors. Profit-making insurers and governmental regulators may reach the optimal trade-off by leveraging investment portfolios in accordance with the given instructions.

Evaluation of Investment Opportunities and Prospects for Insurance Companies in Russia

The scientific literature provides a deep insight into investment aspects, such as the evaluation of the investment potential of insurers and modeling of the investment portfolio. Some studies[2] [1] present a set of metrics reflecting the investment potential of insurers and determining factors. Other ones[3] [2] investigate the formation of the most preferable investment portfolio of insurers. Investing is viewed

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[1] Instructions of the Central Bank of Russia of February 22, 2017 № 4297-У, *On the Procedure for Investment of Actuarial Reserves and List of Assets Permitted for Investment*; of February 22, 2017 № 4298-У, *On the Procedure for Investment of Insurer's Equity and List of Assets Permitted for Investment (in combination with Asset Structure Requirement*.

[2] Turgaeva A.A. [Investment potential of insurance companies and their competitiveness evaluation]. *Finansy i Kredit = Finance and Credit*, 2017, vol. 23, no. 2, pp. 89–109. (In Russ.); Zhuravka E.S. [The specifics of creating the investment potential of insurance companies]. *Bankovskaya sistema: Ustoichivost' I perspektivy razvitiya: materialy nauchnoi konferentsii* [Proc. Sci. Conf. The Banking System: Sustainability and Development Prospects]. Pinsk, Polessky State University Publ., 2016, pp. 56–59.

[3] Akimova T.V. [The need and opportunities for leveraging the structure of an investment portfolio of the Russian insurance companies today]. *Strakhovanie v sisteme finansovykh uslug v Rossii: Mesto, problemy, transformatsiya: materialy nauchno-prakticheskoi konferentsii* [Proc. Sci. Conf. Insurance as part of financial services in Russia: The Role, Issues, Transformation]. Kostroma, Kostroma State University Publ., 2017, pp. 109—112.

microeconomically, considering the insurer's prospects, first of all, in terms of insurance, marketing and organizational process. We approach the subject macroeconomically in terms of the insurance market development and its trends, sectoral structure, accumulation of capital and development of other financial markets. Substantiating investment prospects of insurance companies, we refer to the same stances.

The factors below have a positive effect on investing activities of insurance companies, streamlining their evolutionary process. These are trends in insurance premiums, expansion of long-term insurance services, dynamism of insurance reserves, equity trends, accumulation of capital in insurance, interaction of the banking and insurance sectors.

Dynamics of Insurance Premiums and Expansion of Long-Term Insurance

Insurance premiums serve as the main source of insurance companies' income, laying the basis for actuarial reserves. Companies offering compulsory insurance services mainly have the social mission. So, investing is not a priority for them at all. Investing seems interesting and lucrative for companies dealing with voluntary insurance services. Insurance premiums from voluntary insurance contracts (*Table 1*) are higher than those under compulsory ones, setting a positive tendency. We should mention the year 2015 as an exceptional case when insurance premiums shrank dramatically and absolutely under traditional insurance contracts and due to insurers' focus on the banking sector then facing a reduction in the retail and other lending during the crisis, which had been the key source of credit insurance premiums. In 2015, automobile liability insurance was the main driver of the insurance market, which was quite logic because lawmakers raised insurance tariffs. However, the pricing maneuver came to its end, thus letting the dynamics go down to 5.2 percent for the following two years in 2016 and demonstrating an absolute reduction of 5 percent in 2017.

Insurance companies offering long-term life insurance services demonstrate the highest interest in investing. Analyzing *Table 1*, we point out that life insurance as part of loan contracts shows good dynamism. What drives the life insurance market is investment insurance generating fees of credit institutions distributing it[4] [3]. People seek to conclude such contracts because they can have greater yields on investment insurance policies than on bank deposits. A growth in retail lending also allows to expand investment insurance services since it is a good alternative to bank deposits, being both profitable and reliable.

Companies offering life insurance services compete with banks, vying for the available funds of the population. However, what gives them an advantage is that banks mostly work with short-term and mid-term capital, while life insurance accumulates long-term capital since its liquidity is not a top requirement [4].

Positive dynamism of life insurance premiums contributes to investment opportunities of insurers since the insurance portfolio is made for a long-term period, being less dependent on risks, and respective payouts can be estimated with mortality statistics and actuarial mathematics. First of all, investment opportunities relate to long-term life insurance, rather than short-term hedging against risks, which is unstable.

Dynamics of Actuarial Reserves

As for raised funds, actuarial reserves constitute the central pipeline of investment. *Table 2* shows trends and composition of actuarial reserves by type of insurance. In 2016, actuarial reserves amounted to RUB 1,136,727.8 in absolute values.

Analyzing the way actuarial reserves are broken down among companies offering life insurance and the other, we see that the latter possess the most substantial amount of resources, which can be utilized to fees investing activities. The ratio of long-term resources (life insurance reserves) to short-term ones significantly changes year-on-year, with the first ones prevailing. Throughout the analyzable period, the ratio was 1 to 6 in 2013, 1 to 5 in 2014, 1 to 3 in 2015 and 1 to 2 in 2016. Life insurance expands its market niche, thereby enabling insurers to capture resources which are beyond strict liquidity requirements, inducing more long-term investment, better financial standing of insurers and positive economic effects of such investment.

[4] Kozlova O.N., Kushnir O.G. [Life insurance: Prospects of implementing UNIT-LINKED programs in Russia]. *Strategiya razvitiya strakhovoi deyatel'nosti v RF: Pervye itogi, problemy, perspektivy: materialy nauchnoi konferensi*i [The strategy for Insurance Development in Russia: The First Outcome, Issues, Prospects]. Yaroslavl, Yaroslavl State University Publ., 2015, pp. 445–449.

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Dynamism of Equity

Similarly to actuarial reserves, equity nurtures investing too. In 2016, the Russia insurers' equity amounted to RUB 461,987.3 million, with the authorized capital making RUB 216,362.4 million. The authorized capital is almost the only category having a variable tendency (*Table 3*). The reason is that the Central Bank of Russia recalled licenses of some insurance companies, transferring their assets to the renown insurers.

Equity may serve for further development of insurers, protecting their stability and ability to perform their obligations. Whereas such resources are usually not encumbered with any liabilities, some of them can be used for comparatively long-term and less liquid types of investment. All insurers have been seeing their equity grow, accounting for 25–30%. The authorized capital makes 45–50 percent of all insurers' equity. However, actuarial reserves grow faster than equity, with the life insurance reserves demonstrating the fastest pace. Investment mainly proceeds from the employed resources, with actuarial reserves of long-term life insurance increasing.

Capital Accumulation in Insurance Sector

The accumulation of capital takes place due to a decrease in the number of insurers and increase in the volume of insurance transactions. In 2016, there were 256 insurance companies in the insurance market (420 ones in 2013).

If, in 2013, an insurance company collected RUB 2.3 billion in insurance premiums, the amount reached RUB 4.65 billion in 2016. The withdrawal of insurers from the market caused the accumulation of capital and premiums in the insurance sector and certain market segments. For example, for nine months of FY 2017, five major insurance companies came to holding of 41.7 percent of assets, 47.6 percent of capital, 41.7 percent of premiums, 53.8 percent of insurance payouts[5].

An increasing concentration of financial businesses may generally have a positive impact on its performance and efficiency of a certain entity's investment. Comprising a certain number of entities, the high-concentration financial system, including the insurance one, stabilizes the system since it enable the said institutions to be more profitable, diversified and simplifying the oversight for controlling authorities. Major insurance companies, which pertain to financial groups of companies, enjoy substantial advantages. Drawing upon the scale effect, they reduce their conditionally fixed costs. Large financial groups (for example, Gazprom, VTB) set up an insurance company that *a priori* outperforms other ones acting on their own, thus providing for their expansion and cutting marketing costs. The concentration of financial businesses and their financial advancement differs across countries, thus proving the above statement [5].

Interaction of Banking and Insurance

The interaction of the banking and insurance sectors has been intensified for the recent years, including insurance companies pertaining to banking structures). Banks and insurance companies may cooperate on a variety of issues, which are vastly described in the scientific literature. As mentioned in the researches indicated herein[6] [6] the interaction of banks and insurance companies is characterized with the amount of insurance policies sold by banks, and insurance premiums. According to estimates of the Central Bank of Russia, banks seek to directly cooperate with insurers not only to secure loan repayment, but also to gain ever increasing fees. In 2016, insurance premiums under insurance contracts concluded through credit institutions accounted for 24.7 percent of total insurance premiums (13.1 percent in 2013). Insurance premiums under life insurance contracts concluded through credit institutions accounted for 84.2 percent of intermediaries' premiums in 2016. Credit institutions earn a stable percentage of intermediaries' fees and even exceed 86 percent of such fees for life insurance services.

Insurers have good investment opportunities. They are quite sustainable institutions whose assets do not tend to change abruptly. Therefore, they can quite freely engage in investing activities without being exposed to a dramatic change in the market environment, which would make them revise the structure of assets.

Insurers' resources help them rapidly increment their assets mainly by making actuarial reserves. Insurance companies are quite an important part of the Russian economy, demonstrating a strong resilience to the unstable economic conditions. The Russian

[5] *Obzor klyuchevykh pokazatelei strakhovshchikov za III kvartal 2017 goda. Informatsionno-analiticheskie materialy* [Overview of Key Indicators of Insurers for Q3 2017: Information and Analytical Data]. Moscow, Central Bank of Russia Publ., 2016, 29 p.

[6] Tret'yakova T.A., Mazaeva M.V. [A symbiosis of banks and insurers as a need for modern economic conditions]. *Finansy i Kredit = Finance and Credit*, 2015, no. 8, pp. 41–47. (In Russ.)

insurance market sees a growth in the investment potential year-on-year that is held by a few insurance companies. As mentioned above, it stabilizes the market, rather than threatens to it. When banks and insurance companies unite in pursuit of common interests, the dual and bilateral effect is generated, including a choice of investees.

Investment Portfolio of Insurance Companies

Analyzing the Russian insurance companies' opportunities, we consider the current investment portfolio and determine what would be quite reasonable to invest in.

The efficiency of investing activities are measured by the vitality of the investment market. This can be assessed with the following metrics:

- return on investment of the insurance sector;
- the diversification of insurers' investment.

The Return on Investment (ROI) varies among insurers. Few insurance companies disclose their ROI. For example, as for some insurance leaders in 2015, their ROI was as follows: AO SOGAZ, Ingosstrakh Insurance Company – 10 percent, VTB Insurance – 11.13 percent. Insurers were generally satisfied with their ROI in 2015 and 2016. However, although a declining trend in interest rates of the Central Bank of Russia and market rates have a favorable effect on the economy, this will undermine the return of insurers and institutional investors on investing activities. In 2016, insurers experienced risks inherited from the banking sector. After the Central Bank of Russia revoked banking licences of some banks, deposits of some insurance companies got trapped by major banks. Such losses turned to be rather painful due to a decrease in the business profitability and austerity measures.

According to *Table 4*, bank deposits, receivables and bonds account for the greater part of assets. Although accounts receivable from insurance transactions are treated as assets acceptable to cover actuarial reserves, being subject to terms of diversification, collectibility, profitability and liquidity, it is unreasonable to consider it as an investment instrument in the given context because it is just an additional product rather than the main profit generating vehicle.

Insurers opt for bank deposits most of all among all possible investment decisions. In 2016, their amounted to RUB 487,859.5 in absolute terms. At the end of 2016, bank deposits accounted for 32.2 percent, remaining stable throughout the recent period of time. The phenomenon is no surprise because many insurance companies are set up as part of the existing group of companies, including banking ones, which let them place a deposit with a bank pertaining to the same group. For example, AO SOGAZ within Gazprom, VTB Insurance within VTB Group, Sberbank Life Insurance, a subsidiary of Russia's major bank, within Sberbank of Russia.

Bonds follow bank deposits in terms of popularity. Investing in corporate bonds is a more preferable option. As compared with promissory notes, for example, they are associated with lower operational risks, generating higher profit and taking a shorter period of time for repayment. What makes them advantageous is high liquidity and low par value. Knowing their return and repayment beforehand, insurers can do financial planning, timely arrange for certain insurance payouts, thus increasing the return on assets as much as possible. However, bank deposits remain very competitive for the same reasons as an alternative option of bonds and investment.

Governmental and municipal securities take the same position as monetary funds, stocks and real estate, i.e. instruments without definite return, reflecting the low demand of insurers for them. The low rate of return is the main reason for this. Tax benefits cannot even ignite the demand among holders of such securities. Municipal securities have some disadvantageous features. They are less reliable since federal debt securities can be secured with money issue, while this option is not applicable to municipal assets. They are exposed to high risk because, in case of any legislative amendments, lawmakers, first of all, respect interests of those ones holding securities of federal issuers, while holders of municipal securities are often simply neglected.

Insurers also invest in technology, such as databases and insurance history records, telematics and automated systems for processing data on customers, losses, etc., which is posted as *Other assets*. However, due to the specifics of investment, high uncertainty and risks, such investment is scarce, accounting for about 4 percent of total portfolio.

Based on data of the RF Federal State Statistics Service, *Table 5* presents flows of income from various investment and estimates of its efficiency.

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The financial result of investment is measured by collating income and expenses. Investment expenditures include the maintenance of the insurer's department in charge of investment management, fees of the specialized depository, etc. ROI has shrunk by 25 percent for five years, but the result of investment transactions more than doubled. This may be evidence that capital is managed more effectively and more insurers opt for long-term investment (instead of short-term ones) as the insurance sector evolves. Hence, insurers keep their funds in long-term projects in order to derive profit in the future, though they could withdraw the funds and turn them into the return on income today. According to *Table 5*, the financial result of investment stem from resources raised (actuarial reserves). We can assess the effectiveness of actuarial reserves as a source of investment by comparing the resul and amount of actuarial reserves. The real return on investment will be different because all actuarial reserves are attributed to income-generating investment. For example, accounts receivable are formed in the course of insurance activities as an additional product, rather than a dedicated investment decision.

We can conclude that, despite the economic instability of the Russian economy, insurers have positive and more than satisfactory profit trends. Such returns mainly result from bonds, bank deposits and benefits insurance companies gain dealing with the banking sector. Investing activities got optimized, which is corroborated with the better result of investment transactions. However, a decrease in the return on investment signifies that ROI remains positive, resulting from a reduction in the insurance market actors. This can be explained with the natural cause-and-effect relationship, without warning that insurers stepped back as investors.

Investing Activities of Insurance Companies: Focal Points

Having analyzed the investment portfolio, we determined key avenues of investing activities that insurance companies will follow in the nearest future.

1. The development of financial markets.

Investment opportunities depend not only on what insurers can, but also how financial markets evolve.

Evaluating the percentage of assets in the Russian insurers' investment portfolio, we infer than the development course will have the most palpable effect on the banking sector and terms of deposits, securities market (stocks and bonds), market of governmental securities in the coming years.

Banking indicators for 2017 show that the banking system is recovering after the 2014–2015 developments. Capital stock was considered to suffice for further expansion of lending and banking. The key interest rate and cost of funding were declining slowly, thus having a positive impact on financial indicators of the banking sector. Lending volumes grow faster than GDP, while interest rates on loans repeat a drop in the inflation rate and key interest rate of the Central Bank of Russia. The overwhelming majority of banks increment their profits, with the number of unprofitable credit institutions decreasing. In 2017, the banking sector's assets grew by 9 percent (except for an impact of the foreign exchange rate), up to RUB 85.2 trillion (a 3.4-percent increase in 2016).

Nowadays we can observe the effect of the policy the Central Bank of Russia has been implementing for several recent years, purging weak and *mala fide* actors from the banking market. In 2017, the Central Bank recalled twice as less banking licenses as in 2016. We can say that it has completed a greater part of its *banking market cleaning plan*[7]. The job will be entirely done within the coming two or three years.

The future development of the banking sector will mostly depend on rates of economic growth, inflation, oil prices and other aspects. Considering the forecast of the Central Bank of Russia[8], we dare say that the aggregate loan portfolio will be growing slowly within 2018–2020, while the inflation rate and cost of funding gradually decrease. Given the structural excess liqudity, in 2017, credit institutions borrowed less from the Central Bank of Russia. Such liabilities of banks decreased from 3.4 to 2.4 percent, meaning that banks mainly employed market sources of funding, including raising funds of the insurance sector as well. This is due to the fact that insurers *have to* deal with mortgage lending, thus placing their funds as bank deposits on rather meager terms (while alternative placements generate much greater returns). In such circumstances, the banking sector strongly influences insurers and

[7] Report of the Central Bank of Russia for FY 2017. URL: https://www.cbr.ru/publ/God/ar_2017.pdf (In Russ.)

[8] The Main Lines of the Uniform National Monetary Policy for FY 2018 and 2019–2020 Period. URL: https://www.cbr.ru/publ/ondkp/on_2018(2019-2020).pdf (In Russ.)

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unavoidably depreciates the cost of funding, which is beneficial for banks as opposed to insurance companies. The trend will become more entrenched as mortgage lending expands. In 2017, mortgage loan balance increased by 15.7 percent as the government subsidized the interest rate on mortgage loans. However, as we have already noted, this disadvantage for insurance companies is offset with opportunities they can seize offering other insurance services supplementing banking products.

Although the Central Bank of Russia implements the strict policy of purges, the banking sector is expected to regain stability and assume to grow, contributing to the return on insurers' investment in deposits [7]. Therefore, the banking system is anticipated to recover within the coming 3–5 years. Mortgage lending is expected to grow or at least keep the same growth pace, thus opening good opportunities for insurers that dedicate their resources to mortgage, lending and other insurance services prevailing in the banking sector. Some researchers investigate what impact the insurance market have on the stock market[9]. In this research, we focus on prospects of investment in securities in terms of the securities market development.

Although becoming more popular among insurers, the market of bonds and stocks demonstrates rather a sluggish growth. At the end of 2016, the capitalization of the Russian securities market hardly accounts for 45 percent of the national GDP (35 and 30 percent in 2015 and 2014 respectively). The indicator may reach 250 percent of GDP in the most economically advanced countries like the USA. However, an annual capitalization increase of 5 to 10 percent debunks any concerns about the stagnation or crisis of this segment. The further development of the securities market and bond segment in particular, which insurers consider the second priority, is very likely to continue and receive the aid of the banking sector. Banks enjoy some privileges in the bond segment. Their significant balances, capital and bond deals helps them take leading roles in arranging IPOs of debt securities and ensuring the liquidity of bonds.

Raising traditional concerns about the legislative regulation, in 2015, the governmental securities market fell like it did in 2009 as a result of the global financial crisis. That is the reason for so low capitalization and high trading volume in the market. Having dipped in 2014, it regained its previous maximum. Currently, the Russian governmental securities market continues evolving, taking into account and adopting successful practices of foreign countries. Comparing how the governmental securities market is governed and regulated in Russia and in the USA, United Kingdom, Switzerland, we notice their resemblance in terms of laws, issuance rules, types of circulating instruments [8]. They are similar due to the fact that Russia uses and actively implements foreign expertise and practices. Although the Russian securities market grows, the growth pace is much slower than was planned. Fluctuations also prevent insurers from strengthening their positing in it as institutional investors.

Deposits with the State-owned banks (the more the State is involved, the better) turn out to be the only option for insurers, considering the recovery of the banking sector, effects of credit risks for insurers that hold deposits with small banks, growing bank-driven distribution of insurance services, increasing profits of banks as intermediaries and insufficient development of the securities market. Choosing this option, insurers may not possibly derive high profit, but have lower risks and greater reliability, which corresponds with the substance of investing activities insurance companies are supposed to engage in, from perspectives of the megaregulator.

2. Optimization of Investment Management.

As mentioned in some studies referred to herein[10][9], insurers are mostly exposed to risks of insurance, rather than insuring. However, investment risks may affect their financial stability. Securing the reliability and liquidity, the Central Bank of Russia restricts a choice of investment options. Therefore, the optimization of management can improve the quality of the investment portfolio. Insurers are entitled to transfer up to 50 percent of their actuarial reserves for trus management. Trust management of actuarial reserves is the competence of investment and managing companies. The latter distribute funds they accept to mutual investment funds, which may be multiple within the same managing company and usually have a

[9] Fedorova Yu., Yablochkina E. [Key amendments to Rules for placement of actuarial reserves, their impact on the stock market and investment policy of insurers]. *Vestnik KhGAEP*, 2009, no. 3, pp. 24–28. (In Russ.)

[10] Larionov A.V. [The role of the Bank of Russia in risk management of insurance companies]. *Finansy i Kredit = Finance and Credit*, 2018, vol. 24, no. 3, pp. 679 –690. (In Russ.)
URL: https://doi.org/10.24891/fc.24.3.679

sectoral determination. There are more mutual investment funds than insurance companies, thus providing plenty of options to allocate assets. There were 1,275[11] mutual investment funds in Russia in the middle of 2018. Thus, trust management becomes a relevant investment decision for insurers due to tis popularity, investment potential of insurance companies, and legal infrastructure that allows to transfer the significant amount of actuarial reserves for trust management. As part of trust management, the managing company is bound with some responsibilities and restrictions ensuring the protection of assets from the unintended use. They must be accountable to the megaregulator additionally to the responsibility to disclose their performance information. The managing company carries out its investing activities in accordance with the investment declaration, which indeed sets forth all legislative restrictions and requirements, including the composition and mix of the investment portfolio.

The trust management segment is mostly dominated by managing companies pertaining to banking groups. This provides access to the existing assets tp a recently incorporated managing company. For instance, Sberbank Assets Management, Reiffeisen Capital, Alfa Capital, UralSib. Many managing companies is responsible not only for assets of third parties, but also for assets of the banking group they pertain to. Over 70 percent of mutual investment funds were incorporated with the intention to serve the power engineering sector of the Russian economy. Therefore, investing in certain mutual investment funds, the insurance company may cut its financial market research costs. This is in contrast with the situations when investors make a portfolio of securities issued by different and unrelated issuers. In such circumstances, there should be an analysis of several sectors.

There are no vast amounts of actuarial reserves in assets major managing companies handle. Thy are scarcer than reserves of non-governmental pension funds, military mortgage, etc. However, they are far to be the last to mention. Managing companies hold different percentage of actuarial reserves. For example, they account for 4.7 percent of Sberbank Assets Management's assets, 7.5 percent of Reiffeisen Capital's assets and 0.28 percent of Alfa Capital's assets.

[11] Data of the National Association of Stock Market Actors (NAUFOR). URL: http://nlu.ru/stat-count_pifs.htm (In Russ.)

Top-15 managing companies, in terms of net assets under trust management, take 94 percent of the trust management market. Therefore, the information about actuarial reserves they hold allows to make quite a reliable judgment how many actuarial reserves may be held in trust management. The above companies handle RUB 78,420 million which they obtain from insurers as reserves, i.e. only 7.34 percent of total actuarial reserves of the insurance market[12].

Regulating financial markets, authorities demonstrate a consistent tendency of protecting investors' rights and interests, contributing to the complete disclosure of trust managers' information, reducing fraud instances as much as possible. Making an investment portfolio for its customer, the managing company is guided by the rate of return the customer expects to get and probable tolerable loss. If the risk exceeds the tolerable threshold as part of portfolio management, the managing company informs the insurer of it in order to jointly adjust and amend the investment strategy they should follow. There are also firm principles managing companies should adhere to when informing the customer of the value of an investment portfolio and itsoverall performance [10].

The return on such investment is most lucrative in comparison who other types of investment. Although it fail to generate 100 percent of return annually, it is still higher than the inflation rate and return of conservative instruments in the majority of cases. Virtually, mutual investment funds have a sectoral dedication, facilitating a choice of mutual investment funds to invest in and allowing decision-makers to focus on a specific sector. The trust management market provides robust analytical mechanisms concerning investment as compared with the insurance market since insurers is meant to insure, while investment is secondary and additional.

Currently, the Russian trust management market has not lured many insurers into. Nevertheless, it has the very good potential, from perspectives of insurers and legislature. As noted in the research[13], trust management of assets is a very effective solution

[12] Ratings and rankings of mutual investment funds and managing companies. URL: http://investfunds.ru/ (In Russ.)

[13] Osmanov R.R. [The future of trust management of insurance companies' actuarial reserves through mutual investment funds]. *Aktual'nye voprosy finansov i strakhovaniya Rossii na sovremennom etape: materialy nauchnoi konferentsii* [Proc. Sci. Conf. Current Issues of Finance and Insurance in Russia Today]. Nizhny Novgorod, Minin University Publ., 2016, pp. 84–87.

promising the high returns for the decision-maker (as compared with bank deposits and bonds which insurers mostly prefer) and turns out to be beneficial for both parties (insurers and managing companies).

What inhibits the development of this practice is an insufficient track record of the Russian investment institutions due to the recent transition to the market economy and ranging difference of the rate of return mutual investment funds offer, which results from the instability of certain sectors of the Russian economy, especially during the current economic and political tensions.

Conclusion

Voluntary insurance and long-term life insurance in particular become the land of opportunities for the Russian insurance companies. Insurers accumulate substantial actuarial reserves for long-term life insurance, while their equity and accumulation of capital increase in the insurance market. Considering the stringent legislative regulations, insurers have to observe requirements of the Central Bank of Russia and optimize their investment portfolio. Investing activity of the Russian insurers demonstrate the high efficiency level, thus enabling them to resist the inflation. Insurers may interact with other financial institutions (banks) on specific terms, which provides additional advantages for both parties. They enjoy such opportunities.

Despite the satisfactory rate of return and high efficiency of investing activity, there are still methods to improve it. Entering the banking sector is the main course for investing activities to follow. Investing in banking generates less profit, but it is more reliable and liquid, providing additional opportunities, such as growing insurance premiums, clientele, financial instruments to invest in.

Having its own legislative framework, trust management of some actuarial reserves may help optimize the investment portfolio. The Russian insurers have not yet mastered this option completely, though it is a new and promising solution. Trust management of some actuarial reserves will boost the return on investment, notwithstanding their more risky nature.

Table 1
Trends in insurance premiums in Russia, 2014–2017

Growth (Drop) rates of insurance premiums, percentage points	2014	2015	2016	2017
Overall insurance	9.2	3.6	15.3	8.3
Voluntary insurance	9.4	−4	18.4	23.8
Compulsory insurance	7.9	37.6	5.2	−5
Life insurance	27.8	19.5	66.3	53.7
Insurance, other than life insurance	7.1	−7.5	8.9	−0.8

Source: Authoring

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Table 2

Trends in actuarial reserves of the Russian insurance companies, 2012–2016

Metrics	2012	2013		2014		2015		2016	
	Million RUB	Million RUB	p.p.	Million RUB	p.p.	Million RUB	p.p.	Million RUB	p.p.
Life insurance	70,395	100,822	43.2	159,686.4	58.4	232,930	45.9	354.052.1	52
Insurance, other than life insurance	577,116	630,503	9.3	737,740.8	17	739,951	−0.2	782,075.6	5.6
Actuarial reserves, total	647,511	731,325	12.9	897,427.2	22.7	972,881	8	1,136,727.8	16.7

Source: Authoring

Table 3

Trends in equity of the Russian insurance companies, 2012–2016

Metrics	2012	2013		2014		2015		2016	
	Million RUB	Million RUB	p.p.	Million RUB	p.p.	Million RUB	p.p.	Million RUB	p.p.
Equity	325,648	363,968	11.8	387,471	6.46	395.135	1.3	461,987.3	16.8
Authorized capital	198,644	224,157	12.8	220,192	−1.8	189.822	−13.8	216,362.4	21.2

Source: Authoring

Table 4

The composition of insurance companies' insurance portfolio, 2014–2016, percentage

Metrics	2014	2015	2016
Bank deposits	18.3	24.7	26.1
Receivables	18.9	19	17.7
Bonds	13.2	15.6	17.4
Percentage of reinsurers in actuarial reserves, including	10.4	8	8
Monetary funds	10.8	7.9	6.2
including			
– denominated in the Russian rubles in accounts with credit institutions	8.7	5.3	4.2
– denominated in foreign currency in accounts with credit institutions	1.9	2.6	1.9
– cash	0.08	0.03	0.02
Governmental and municipal securities	6.1	6.4	8.9
Stocks	8.1	7.2	6.6
Real estate	5.7	5.1	4.2
Unit investment of mutual investment funds	1.3	0.9	0.6
including			
– promissory notes	1	0.5	0.09
– other assets	6.1	4.9	4.2
– assets	100	100	100

Source: Authoring

Table 5

Return on investment and results of investment transactions, 2012–2016

Показатели	2012	2013	2014	2015	2016
Return on Investment, total, million RUB including	958,264.1	582,154.7	544,419.7	470,879.4	737,074.9
– interests receivable	27,647.1	49,137.7	45,096.7	61,191.5	75,050.1
– income from shareholdings, million RUB	42,071.9	19,560.1	33,205.4	23,466.8	14,904.8
– changes in the value of financial investment due to adjusted valuation, million RUB	10,029.9	6,347.1	21,182.3	32,713	21,115.4
Result of investment transactions (+, –), million RUB including	34,109.4	36,759.3	37,608.4	87,065.4	75,546.3
– from actuarial reserves, million RUB	23,314.5	25,170.6	33,360.4	75,357	49,371.9
Life insurance	5,910.3	5,681.1	4,193.5	23,310.3	10,867.1
Efficiency of actuarial reserves as a source of investment, percent	3.6	3.4	3.7	7.7	4.3
Efficiency of actuarial reserves for life insurance as a source of investment, percent	8.4	5.6	2.6	10	3.1

Source: Authoring

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We, the authors of this article, bindingly and explicitly declare of the partial and total lack of actual or potential conflict of interest with any other third party whatsoever, which may arise as a result of the publication of this article. This statement relates to the study, data collection and interpretation, writing and preparation of the article, and the decision to submit the manuscript for publication.