

ФИНАНСЫ И ДЕНЕЖНОЕ ОБРАЩЕНИЕ В ЭКОНОМИКЕ FINANCE AND MONEY CIRCULATION IN THE ECONOMY

Investment risk insurance in the Republic of Belarus

Страхование инвестиционных рисков в Республике Беларусь

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The article examines the development of the insurance market of the Republic of Belarus, its impact on the economic growth of the national economy. The aim of the study is to develop the main provisions of investment risk insurance as an effective component of state investment policy. Particular attention in the article is paid to the current state of the insurance market of the Republic of Belarus, which makes it possible to determine the key directions of the strategic development of the insurance market. A study of the mechanism of insurance of investment risks in the Republic of Belarus was carried out. The modern economy, which is in an increasingly competitive environment, is characterized by the accelerated development of financial institutions, which leads to an increase in investment for the purpose of stable operation and development of the organization, creation of new types of products, diversification of assets, and additional income. Investment activity is accompanied by a fairly large number of different risks, which can be minimized with the help of insurance. Insurance allows you to anticipate possible benefits in the future when investing. The modern insurance system is a set of measures aimed at reducing the likelihood of a risk or compensation for the consequences of its implementation. Insurance is an important tool for risk management and investment protection. Insurance of investment risks will allow an investor to assess risks, avoid mistakes when investing, and get the maximum level of return on invested capital. This, in turn, will allow solving the problem of increasing the investment attractiveness of the Republic of Belarus by strengthening the security of organizations, forming long-term resources for the economy, as well as creating conditions for the inflow of foreign capital. Based on the analysis of statistical data, the problems of the development of insurance of investment risks were identified and directions were proposed for the formation of an effective insurance system in the Republic of Belarus (creation of state guarantee insurance funds for insurance of investment risks, the introduction of compulsory insurance of socially significant investment projects in the Republic of Belarus).

Keywords: *insurance, investments, risks, insurance market, participants of the insurance market.*

В статье рассмотрено развитие страхового рынка Республики Беларусь, его влияние на экономический рост национальной экономики. Целью исследования является разработка основных положений страхования инвестиционных рисков в качестве эффективной составляющей государственной инвестиционной политики. Особое внимание в статье уделено текущему состоянию страхового рынка Республики Беларусь, что позволяет определить ключевые направления стратегического развития рынка страховых услуг. Проведено иссле-

дование механизма страхования инвестиционных рисков в Республике Беларусь. Для современной экономики, находящейся в условиях усиливающейся конкуренции, характерно ускоренное развитие финансовых институтов, что приводит к увеличению объемов инвестиций с целью стабильного функционирования и развития организации, создания новых видов продукции, диверсификации активов, получения дополнительного дохода. Инвестиционной деятельности сопутствует достаточно большое количество различных рисков, минимизировать которые можно с помощью страхования. Страхование позволяет предусмотреть возможные преимущества в будущем при инвестировании. Современная система страхования представляет собой комплекс мероприятий, направленный на уменьшение вероятности возникновения риска или компенсацию последствий его реализации. Страхование является важным инструментом управления рисками и защиты инвестиций. Страхование инвестиционных рисков позволит инвестору провести оценку рисков, избежать ошибок при инвестировании, получить максимальный уровень доходности на вложенный капитал. Это, в свою очередь, позволит решить задачу повышения инвестиционной привлекательности Республики Беларусь путем усиления защищенности организаций, формирования долгосрочных ресурсов для экономики, а также создания условий для притока иностранного капитала. На основе анализа статистических данных выявлены проблемы развития страхования инвестиционных рисков и предложены направления по формированию эффективной системы страхования в Республике Беларусь (создание государственных гарантийных страховых фондов по страхованию инвестиционных рисков, ввод обязательного страхования социально значимых инвестиционных проектов на территории Республики Беларусь).

Ключевые слова: *страхование, инвестиции, риски, страховой рынок, участники страхового рынка.*

Introduction

In carrying out their business activities, business entities face various types of risks, including investment risks. In order to reduce the negative consequences in the event of unsuccessful investment in the financial and economic activities of the organisation, a mechanism such as risk insurance is used for the successful implementation of investment projects.

At present, the state does not have sufficient financial resources to invest in priority areas of the Belarusian economy, which generally hinders the process of structural transformation and does not contribute to the competitiveness of domestic producers.

On the one hand, insurance companies, accumulating money received from business entities in the form of insurance premiums under insurance contracts, act as investors, thus ensuring the development of the country's economy. Funds from insurance reserves are invested by insurance organisations, mainly in government securities and placed in bank deposits. On the other hand, upon the occurrence of an insured event, an insurance premium is paid to the policyholder, which prevents the insurance organisation from incurring losses, thus not worsening the financial situation.

Research Theory

The essence of insurance is the formation of a certain monetary (insurance) fund and its distribution in time and space for the purpose of indemnification of possible damage (loss) to its participants in the event of accidents, natural disasters and other circumstances resulting in the loss of material and other types of property and assets stipulated in the terms and conditions of the insurance contract [1, pp. 89-90], [2, pp. 42-45].

Firstly, insurance funds are formed solely based on the redistribution of cash income and savings generated by the initial distribution of national income. This makes insurance particularly susceptible to economic development trends. Lower economic development and higher inflation have an immediate impact on the collection of premiums for insurance funds.

Secondly, insurance is characterised by a closed allocation of losses within this fund. The funds are used only to compensate for losses incurred by the participants in the fund.

When purchasing an insurance service, the customer is relieved of the risk and the insurance organisation has the obligation to pay the insurance indemnity in the event of an event caused by reasons defined in the contract.

Thirdly, the insurance provides for redistribution or equalisation of damage by territory and time. The irregularity of the occurrence of damage in time makes it necessary to reserve a part of insurance payments to compensate for extraordinary losses in adverse years [3, pp. 106-109].

Due to the specifics of the operating process, an insurance company is able to dispose of funds received from policyholders during a certain period of time by investing them in various areas, including the real economy. The concentration of significant financial resources by insurers makes insurance an important factor in the development of the national economy. Insurance transforms temporarily free funds received from various policyholders into active capital operating on both the domestic and global investment market [4, pp. 8-13].

Insurance acts as a financial stabiliser, allowing business entities to compensate for losses without using state resources [5].

Insurance companies are long-term investors in various sectors of the economy, which allows stabilising the development of economic processes in the country. Thus, profit before taxation of insurance companies of the Republic of Belarus for the last five years amounted to more than 80.00 million rubles annually, in 2015 and 2018 reached 140.00 million rubles. Net profit of insurance companies was established for 60 million rubles in 2013-2018, in 2019 it was a little more than 20 million rubles. (Table 1).

Table 1

**Profit before tax and net profit of insurance companies
Republic of Belarus (million rubles)**

Indicator	Year						
	2013	2014	2015	2016	2017	2018	2019
Profit before tax	85,61	81,52	142,50	90,72	107,30	139,42	63,59
Net profit	63,70	61,41	93,24	61,77	73,86	94,21	20,42
Net profit for the country as a whole	4 084,99	4 336,10	2 588,30	3 945,00	8 336,00	5 515,00	10 421,00
Share of net profit of insurance companies in total net profit	1,56	1,42	3,60	1,57	0,89	1,71	0,20

Source: compiled by the authors based on data [6; 7].

The growth rate of net profit of insurance companies in 2019 as compared to 2018 was 21.67%, in 2018 as compared to 2017 — 127.56%, in 2017 as compared to 2016 — 119.56%. The maximum value for the past years was 151.82% in 2015 (Figure 1). In 2019, compared to 2018, the net profit growth rate decreased to 21.67%, in 2016 compared to 2015 — to 66.25%.

Insurance companies are stable payers of taxes and non-tax payments to the budget and non-budgetary funds. Thus, in 2018 insurance companies transferred 131.9 million rubles to the budget and non-budgetary funds, in 2017 — 137.7 million rubles, which is 23.3% more than in 2016 (111.7 million rubles).

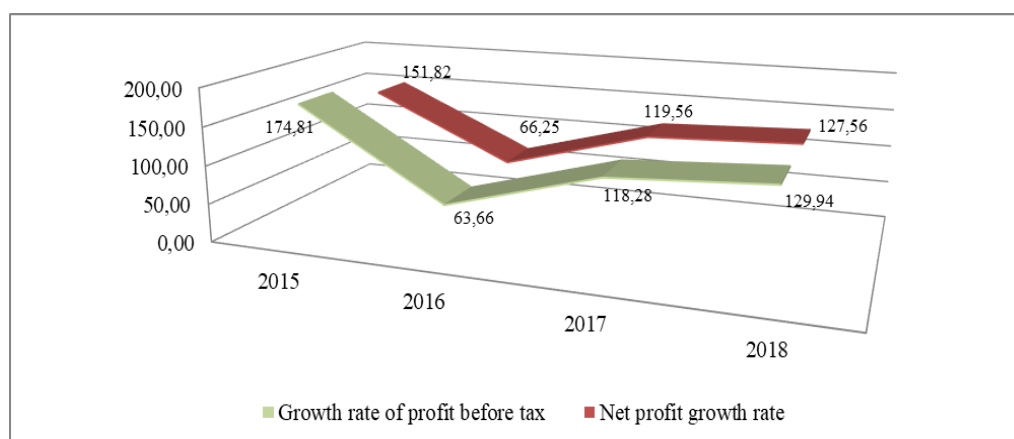


Fig. 1. Rates of growth in pre-tax profit and net profit Insurance companies of the Republic of Belarus (%).

Source: compiled by the authors based on data [6; 7]

The increase in equity allows insurance companies to increase their financial stability, which also increases their ability to insure large risks. The insurer's equity capital is the basis for its financial stability at the initial stages of its operations, and as the organisation develops, it is considered, along with insurance reserves, as an additional source for meeting obligations to policyholders. In this regard, the financial stability of an insurance

company is influenced not only by the amount of equity capital, but also by its adequacy, (matching the amount of obligations assumed).

As at 01.01.2018, the equity capital adequacy ratio was 120 percent. The relatively high value of this indicator indicates that there are additional sources for insurance companies to meet their obligations to policyholders in the event of insufficient insurance reserve funds [8].

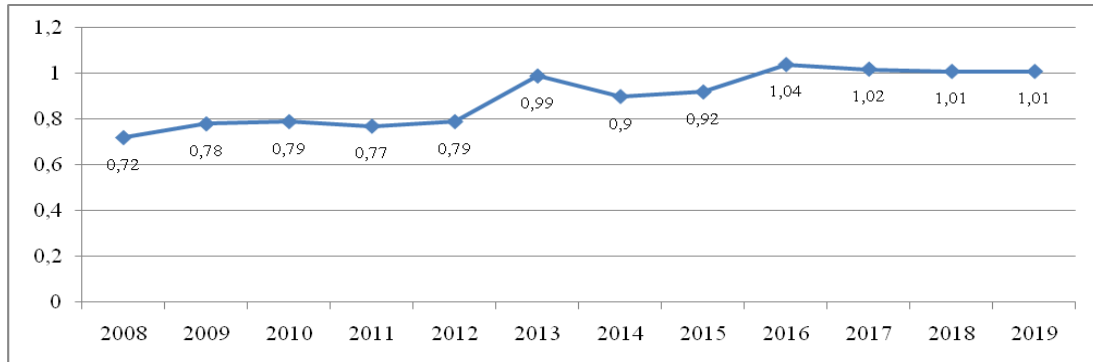


Fig. 2. Insurance premiums to GDP ratio in the Republic of Belarus (%)

Source: compiled by the authors based on data [6; 7]

One of the key performance indicators of insurance companies is the ratio of insurance premiums to GDP, which shows the status and development of the insurance market. Growth of insurance premiums is also observed with the growth of GDP of the Republic of Belarus. Thus, in 2016–2018 the ratio of insurance premiums to GDP was slightly more than 1.00%, in 2008–2012 the value of this indicator was less than 0.80%.

For comparison, the ratio of insurance premiums to GDP in the Republic of Belarus for 2015 was 0.92%, in some European countries the value of this indicator reached 10–11% — the UK (10%), the Netherlands (10.7%), Finland (11.4%), the lowest value was Lithuania (0.9%) (Figure 3).

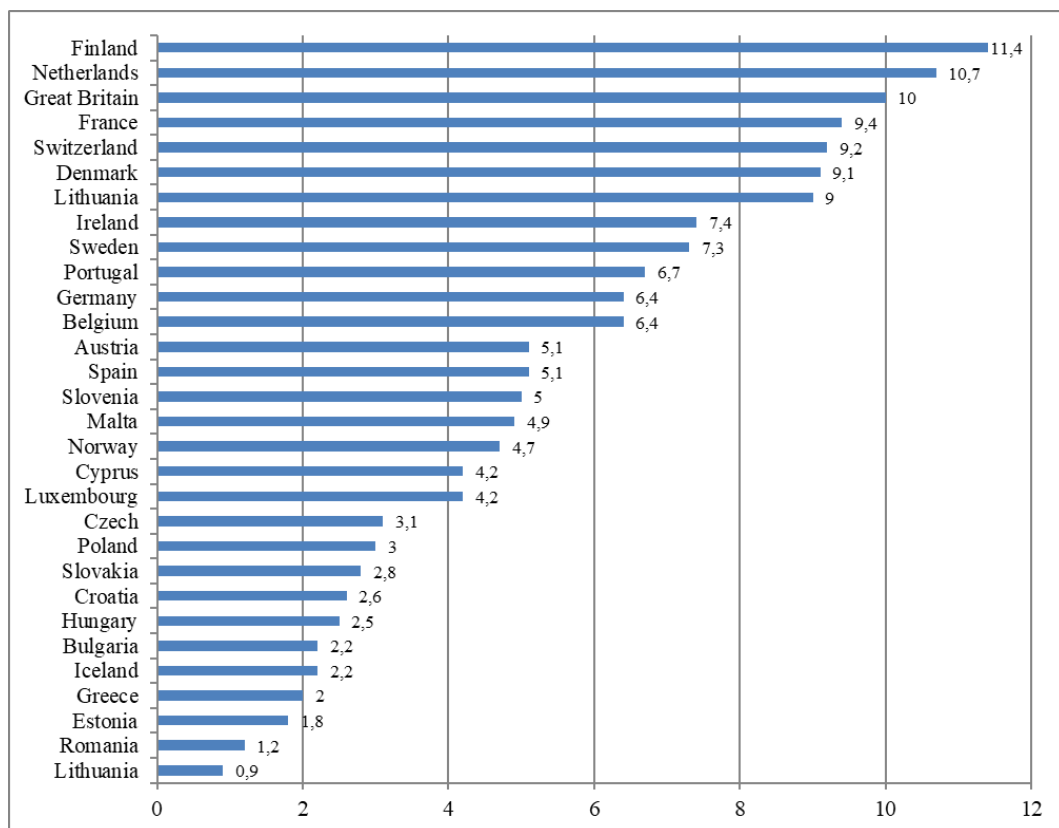


Fig. 3. Ratio of insurance premiums to GDP in Europe for 2015 (%).

Source: compiled by the authors based on data [9]

The countries with the highest premium-to-GDP ratio are Taiwan (21.3%), the Cayman Islands (19.6%), Hong Kong (17.9%), South Africa (13.8%), South Korea (11.6%), Finland (10.7%), Denmark (10.2%), the UK (9.6%), the Netherlands (9.6%) and France (9.0%) (Figure 4) [10, p. 4].

In 2018, the largest insurance market was the USA — more than 28% of world turnover. However, many insurance experts argue that by 2028 China could become the world's largest insurance market [11].

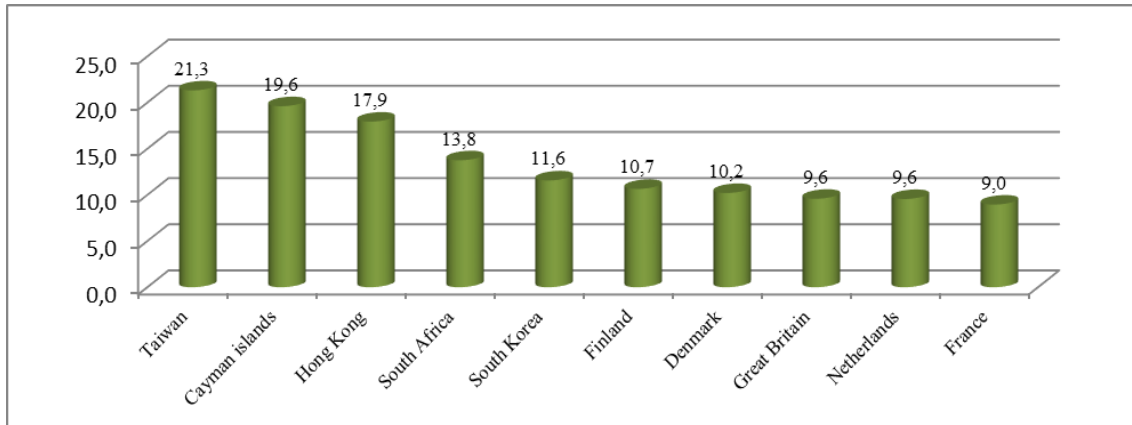


Fig. 4. Countries with the highest insurance premium to GDP ratio in 2017 (%).

Source: compiled by the authors based on data [10, p. 4]

Many people in the European Union are critical of risk. Figure 5 shows that business entities in different countries prefer not to take risks (the higher the score, the higher the risk aversion). In Poland, this indicator has been set at 93 points. Above this indicator, Belgium has 94 points, Malta has 96 points, Portugal has 99 points and Greece has 100 points.

Denmark has the lowest score of 23, Sweden has 29, the United Kingdom has 35, and Ireland has 35. These countries have a rather high ratio of insurance premiums to GDP — over 7.3%.

The rest of the countries mostly do not accept risk, among them countries with a high ratio of insurance premiums to GDP — more than 9.4%, such as Finland — 59 points, the Netherlands — 53 points, France — 86 points.

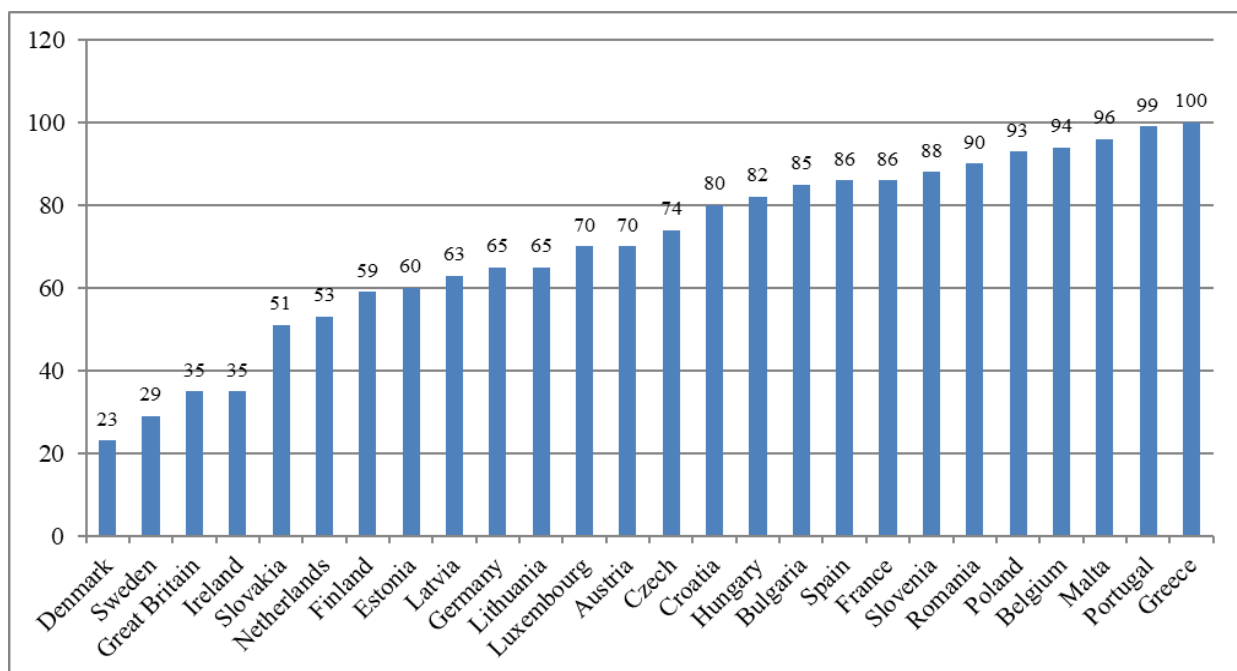


Fig. 5. Country Critical Risk Assessment Scale (2017), scores.

Source: compiled by the authors based on data [9]

The image of the insurance industry is mainly influenced by agents who gain the trust of customers and respond to their needs, as well as help clarify the terms of the contract and understand the functioning of the insurance system as a whole.

In Poland, a low level of savings and, as a result, a lack of capital limits the investments of organisations in various areas. This slows down the process of success in the richest countries. The insurance industry is the third largest institutional investor in Poland. Every tenth zloty is borrowed by the state from insurance companies [9].

In 2018 there were 528 insurance organisations in Germany, 402 in England, 336 in Sweden, 270 in Ireland, 1 445 in France, 1 155 in Spain, 147 in the Netherlands, 145 in Switzerland, 1 265 in Italy, 93 in Denmark, 294 in Luxembourg, 111 in Austria, 102 in Belgium, 36 in Bulgaria [12].

The insurance sector in the Republic of Belarus consists of organisations, brokers and other intermediaries (Table 2). As at 1 January 2019, the insurance sector of the Republic of Belarus consisted of 16 insurance companies, 29 brokers and 337 insurance agents. In 2017, there were 17 insurance companies, 30 brokers and 285 insurance agents operating in the insurance market. The number of insurance companies in the insurance market of the Republic of Belarus has decreased from 24 to 16 in 2018. At the same time, the number of brokers increased from 4 in 2009 to 29 in 2018, and of insurance agents from 153 in 2014 to 337 in 2018.

Table 2

Insurance sector of the Republic of Belarus

Participants	Год										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
The organisation of everything, including:	24	24	25	25	25	24	19	19	17	16	16
state ownership	4	8	4	4	4	4	4	4	4	4	4
parastatal ownership	4	4	4	4	4	4	4	4	4	4	4
private form of ownership	0	8	17	17	17	16	11	11	9	8	8
with the participation of foreign capital	11	8	13	13	11	11	8	8	7	6	6
Insurance brokers	4	-	6	8	9	25	29	29	30	29	30
Insurance agents	-	-	-	-	-	153	203	241	285	337	377

Source: compiled by the authors based on data [6].

The increase or decrease in the number of organisations is due to the appearance of private insurers on the market (leaving the market), as the number of state and parastatal insurers remains constant — 8. In 2010 alone, there were 12 state insurance organisations.

In the Russian Federation, the number of insurance organisations and brokers decreased from 334 in 2015 to 199 in 2018 and from 134 in 2015 to 64 in 2018 respectively. The number of mutual insurance companies, on the contrary, increased from 10 in 2015 to 12 in 2018 (Figure 6).

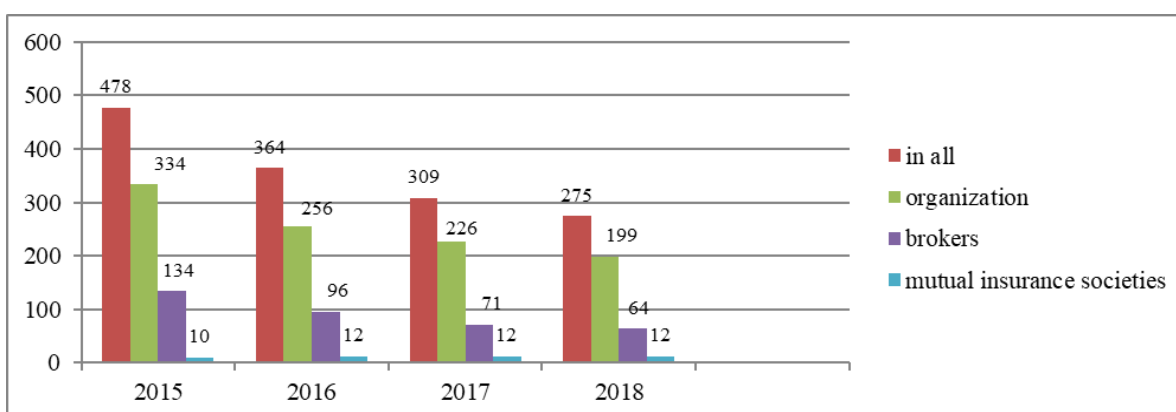


Fig. 6. Number of insurance companies in the Russian Federation.

Source: compiled by the authors based on data [13]

For insurance companies in many countries, bonds are a stable source of investment income as of 2018. On average, insurers allocated 52.3% of their assets to promissory notes and bonds. Of all countries, the largest number of insurers in Hungary (81.6%) have invested in promissory notes and bonds, mainly in government bonds.

Austrian insurance companies held more than 50% of their assets in the form of shares, while more than 25% of their assets were held in such countries as El Salvador (32.3%), France (26.1%), Iceland (29.7%), Poland (28.4%) and Sweden (29.4%).

Turkish insurance companies mainly held cash and deposits, representing 64.9% of insurers' assets. Over 25% of assets were also held in cash and deposits in the Czech Republic (26.4%), Estonia (29.9%), Guatemala (29.2%), Indonesia (39.9%), Russia (28.2%) and Sri Lanka (26.3%).

Insurance companies were also able to invest in instruments other than bills of exchange, bonds, shares, cash and deposits. For example, in Bolivia insurers invested more than 15% of assets in land and buildings and 5.8% in private equity funds [14, pp. 17-19].

Research results

The insurance market, along with the stock and banking sectors, is an important component of the state's financial system, which ensures the transformation of savings into investments. Insurance acts as a financial stabiliser, allowing business entities to compensate for losses without using state resources [5].

With the adoption in the Republic of Belarus of the Law "On Public-Private Partnership" of 30.12.2015 No 345-3 [15], the state and private partner can unite their available resources to implement infrastructure and other socially significant projects. There is an urgent need to insure large investment projects, especially if the state is the customer of the project. Attracting private investment into the public sector for the implementation of large-scale PPP projects involves huge risks, which can be minimised by insuring investment risks.

One of the main directions for establishing an efficient insurance system in the Republic of Belarus is the interaction of the national insurance system with the international insurance market [16, pp. 38-42]. At the same time, in order to ensure the protection of economic entities, create long-term resources for the economy and create conditions for attracting foreign capital, it is necessary to develop the domestic insurance market more intensively.

The majority of insurers currently face various difficulties, consisting not only of marketing, financial and technological issues, but also of providing the consumer with new insurance products, which must take into account the needs of the region as a whole and of each insurer in a particular case [17, pp. 7-9].

The survey results show that the level of development of the national insurance market is not high enough. Thus, the share of insurance in Belarus' GDP remains lower than in many European countries, including the Russian Federation.

The efficiency of the insurance market depends on a set of measures taken to improve the insurance system, infrastructure and competitiveness of the insurance market. A number of measures are proposed to address the current challenges in the national insurance sector:

- intensification of the state policy in the area of national insurance, aimed at increasing the share of insurance in the country's economy, increasing the level of investment opportunities for insurance through incentive measures;
- introduction of compulsory insurance of socially significant investment risks in the Republic of Belarus;
- establishment of a full-fledged system of insurance protection for business entities, full satisfaction of their needs through the quality and variety of insurance products;
- creation of state guarantee insurance funds to insure investment risks, which will make it possible to safeguard the interests of all insurance market participants in relation to socially significant investment risks;
- formation of information exchange between participants of insurance cooperation of Belarusian insurers with foreign partners.

Thus, the practical implementation of the proposed measures and proposals to improve the national insurance market will make it possible to increase the competitiveness of each insurance participant in both the national and foreign markets.

Conclusion

The development strategy of the investment risk insurance system is to increase the competitiveness of the national insurance market by creating an efficient insurance system in the Republic of Belarus in cooperation between the national insurance system and the international insurance market.

The insurance market is an important component of the Belarusian financial system, which ensures the process of transformation of savings into investments. Insurance acts as a financial stabiliser, allowing business entities to compensate for losses without using state resources.

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