

COMPETITIVENESS OF INSURANCE COMPANIES IN NATIONAL ECONOMICS

© 2009 O.A. Moshkina*

Keywords: Insurance, Insurance sector, Insurance market, competitiveness, factors of competitiveness.

Competitiveness of Russian insurance companies within modern market conditions had been studied. Main factors, influencing competition level, have been revealed and analyzed.

During last decades great changes in character in nature and drives of world-wide economic processes have occurred, these changes influence world economic order, institutes and mechanisms of economy regulation. Wide variety of goods, services, entrepreneur's capital and monetary assets is involved into international turnover. Rapidly growing trans-border turnover of material, informational and financial resources has a bigger influence over national economics and countries are more involved in international labor differentiation and moving of production factors. Interdependence became not only the feature of national economies, but macro-economic policy in general. Globalization processes in virtue of their universal nature, can not cease influencing economic stability in different regions and countries. Instability and risks, connected with globalization have increased, especially with aggravation of international competitiveness. Immense growth of world-wide agents has occurred in a historically short period. In spite of economic recession in the beginning of century, growth of comparatively small companies acting on world market has kept on going. The very thing of unprecedented increase of world market subject is not only the result of markets deregulation, but is mostly due to change of economic development strategy and it's priorities by national states. International competitiveness, not the economic power, measured by material wealth produced, became the basic thing. This means the whole system of criteria, that define level of firms, industries and countries competitiveness, enable more free orientation of community, business and power in complex global economics and develop economic strategy in compliance with existing capabilities and prospective from benefits if international specialization and integration.

Insurance, being one of most important components of county financial system providing protection of state and citizens property inter-

ests can not be left behind economical integration. It is the mechanism of protection business and population from unforeseen events, damaging their property interests. Efficiency of insurance business in protection of these interests is obvious and had been proved in the course of modern social and economic relationships development.

In total, insurance sector as a part of market finical infrastructure takes an important place in acquisition of national competitive advantages. In order to enforce infrastructure and to facilitate its efficiency, development of insurance institution and increase of Russian insurance companies is essential altogether with rest of national infrastructure institutions. This becomes more and more vital in connection with future deregulation of world-wide market, joining WTO and elimination of limitation for foreign insurers, which shall influence intensity of sector competitiveness and establish more tough requirements to competitiveness of insurance companies, acting on Russian insurance market.

Works of such Russian scientists as A.N. Zaharov, I.B. Gurkov, O.A. Klochko, I.S. Korolev, O.V. Mihaylov had been devoted to study of competitiveness problems of Russian economics on macro-, meso-, and micro-level of competitiveness assessment, rationale of dependence between economic agents, national economics and economical security of country and main trend of competitiveness of Russian economics enforcement. Altogether with that, the whole number of up-to-date issues, connected with Russian insurance companies competitiveness has not been studied enough.

Development of insurance institution - is the integral part of Russian market economics development, and, as a consequence, of state economical security enforcement, during globalization of world economics. Thus, enhancement of Russian insurance companies' competitiveness shall enable it to increase competitiveness

* Olga A. Moshkina, post-graduate student, Samara State University of Economics.

of Russian economics in whole. At present time competitiveness of Russian security sector is significantly below that of developed countries, that is reflected as in limited capabilities of insurance companies and insurance market in whole in part of retaining of insurance risks and thus requires the necessity of reinsurance of average and major risks by foreign companies. In current situation Russian insurance market looks rather moderate in comparison with developed countries markets: collections of insurance premiums from whole Russian insurance market equals to collections of developed country average market.

Even in comparison with countries of Eastern Europe our native insurance market is not large, in spite of growing indexes. Comparison with insurance market of Eastern Europe is most indicative, as market (non-government) insurance markets development periods are the same, economical situation also had common features and tendencies. Accordingly, it would be better to compare competitiveness of home companies and national competitive environment with insurance companies and markets of Eastern Europe, but not with insurers of developed countries, that had been growing for centuries.

By results of 2006 Russia had 40% of insurance premiums among Eastern Europe countries, Poland - 25%, Czech Republic - 10%, Hungary - 7%. Share of insurance premiums within GDP had made 3.4% in Czech Republic, 3% in Poland, 2.4% in Hungary, 2% in Russia. As for volume of premiums for one person, Poland is the leader (183 \$), then goes Czech Republic (114 \$), Hungary (108 \$) and Russia (30\$). This means that Russian market is significantly behind Eastern Europe in insurance market development ratio. Besides, if "doubtful" premiums are excluded from Russian market insurance premiums sum, Russian insurance market shall be underdeveloped even in comparison with Eastern Europe market.

Today assessment cost of Russian lead insurers makes 60 - 100 MM \$. Level of leading insurance companies' capitalization, for example in Poland or Czech Republic is 5-10 times higher, and mostly due to take off needless limitations in transnational insurance capital activities and market deregulation.

One of country insurance market development values is ratio of cumulative volume of

insurance premiums to GNP volume, and in this index Russia is behind all developed and part of developing countries. Insurance prospective is largely dependent on Russia economics development, including GDP. But, in spite of that net weight of insurance premium collections by Russian insurers do not exceed 0.3% of worldwide volume, but Russian insurance market has high growth potential. This is due to Russia economic potential, numerous population and immense natural reserves.

Other index, evaluating stage of insurance development in country economy is volume of insurance premiums per capita. Although absolute values of this index are significantly behind corresponding European indexes, index dynamics in its absolute expression, is positive. Most experts consider that Russia is very close to "boom". Its upcoming can be connected with crossing of so called poverty threshold. According to statistics, Russian consumer starts paying interest to insurance services when level of revenues per family member exceed 400\$ [1]. So the client base and, accordingly insurance premium, increase with growth of purchasing power.

By evaluation of Russian insurers, level of competition within the sector is very low. Main factors, influencing level of competition, are: barriers of sector entry, level of competition among acting firms, pressure of suppliers and consumers to producers, influence of macro-environment and state economical policy, threat on behalf of alternative products. On 9-scores scale of analyzed factor influence on competition level, sector entry barriers, got 3.5 scores by insurance market experts. This evaluation is firstly due to the requirement of insurance activity licensing; also there is deficit of qualified personnel.

Next factor featuring competition level within the sector is competition among existing companies. Competition exists, but there are no significant factors, increasing its level on insurance markets yet, although there some fully monopolistic segments, as some kinds of insurance, often obligatory one, can be performed only by one company in the region. Intensity of competition had been evaluated by experts as 4 scores maximum.

Influence of economic environment can both create positive motivation for insurance development and limit it - 6 scores.

Level of competition inside the sector also depends on pressure value by resources suppliers on one hand and by customers on the other hand. Experts considered to review pressure by suppliers as low - 2 scores, pressure by consumers is high - 7.5 scores. Experts interviewed unanimously considered that the threat on behalf of alternative production is insignificant and production elasticity ratio is low, so the influence of this factor on competition was evaluated with 1 score.

Thus analysis of main factors, influencing competition in insurance sector enables us to calculate aggregate, reflecting competition level. It is calculated as arithmetic mean value for all six factors and makes 4 scores = $(3,5+4+6+7,5+2+1)/6$. Now this index is below its average value and its growth has currently slowed down, as there is no significant improvement of influencing factors. Index of competition can be significantly facilitated by foreign insurance companies entering Russian insurance market. This assessment also reflects simplicity of "conquering" Russian insurance

market by foreign investors and weak competitiveness of Russian insurance market in whole.

To summarize it is necessary to mention weak development of home insurance market in comparison with markets of developed countries and some under-perform in development compared to most Eastern Europe markets in all indexes of insurance sector development. Nevertheless, insurances market, except life insurance, shows dynamic growth and outstrips rates of economics development as a whole. Its further development largely depends on general economic development, including 'playability' of organizations and citizens, and further perfection of legislation and regulatory systems.

1. *Smirnova N.* Foreign Investments into Russian Insurance: New Glance at Old Problem. //http://www.ins-union.ru/

2. *Smirnova N.* Foreign Investments into Russian Insurance: New Glance at Old Problem. //http://www.ins-union.ru/

3. *Repina A.A.* Investments and Insurance Services. Thesis of Candidate of Economics: 08.00.01. - M.:RGB, 2003.