

Risk Analysis of National Insurance Markets in Eurasian Economic Union Countries

Amir Kateyevich Sembekov*, Gulzira Salmaganbetovna Serikova, Zhanar Oralkhanovna Lukpanova, Nazar Sayranovich Ulakov, Musiraly Smailovich Utebayev and Serikbol Kuanyshevich Aitbek

Karaganda Economic University, Karaganda, The Republic of Kazakhstan; ainuraphd@mail.ru

Abstract

Abstract: In the context of the Customs Union and the Eurasian Economic Union functions, a common insurance market is being formed. Common approaches to regulations in the insurance sector are observed in the five EEU member states, though the insurance legislation in each state has its own specific features that, in fact, hinder the process of integrating the insurance markets followed by failure to unify the norms and rules. Rapprochement in the EEU insurance market legislation should begin with identifying the paramount objectives of creating the common market. One of the first steps to operate the common market is stipulated by the necessity to harmonize legislation within the framework of the established insurance space. Harmonizing legal relations would not be a simple task, inasmuch as the level of each national insurance market is not the same; in particular, statutory instruments, conditions of regulation, market operating factors differ considerably. **Methods/Statistical Analysis:** In the course of this study, the methodology of alternative forecast scenarios has been applied. **Findings:** Insurance markets of Russia, Kazakhstan and Belarus are underdeveloped. The factors and the prerequisites for competition in the context of the insurance market Eurasian integration differ in many parameters. General level of insurance coverage in Belarus, Kazakhstan and Russia has been low for many years. The insurance companies with foreign capital occupy only a negligible share on the market. There are certain risks in the structure of the investment portfolio of the insurance market assets. Insurance as an element of social protection has not gained any considerable social and economic importance in the countries of the Eurasian Economic Union. **Applications/Improvements:** An important prerequisite for normal operation of the common insurance market in the Eurasian economic area implies eradicating different forms and methods of supporting national, industry-specific and regional monopoly.

Keywords: Customs Union, Eurasian Economic Union, Harmonization of Legislation, Insurance Market

1. Introduction

National insurance market in a member state of an integration union always has to interact with global market of international reinsurance operations, as without the real split of the risks and without breaking the losses down on the side, it would fail to perform its protective functions. At the same time, none of the national insurance market could permit excessive openness for foreign insurers from neighboring countries and beyond, which could lead to lower competitive power of the national insurers. It should be noted that the sizes, the capacities of the national markets are different. Russian

insurance market is characterized by large capacity, and could be called colossal as compared to other participants in terms of the financial strength of the insurance companies, the level of capitalization and other factors; however, the opportunities of all insurance markets have to be estimated in order to predict further activities on the markets under the conditions of the integration union. Integration potentials of the EEU member states are notable for the uneven composition and structure of their investment and financial capabilities¹.

Consider general indicators, characteristic features and operational factors of the national insurance markets describing the levels of their development (Table 1).

* Author for correspondence

Table 1. Principal parameters of insurance markets in EEU member states in 2013

Indicators	Belarus	Kazakhstan	Russia
Insurance premium, USD Million	728.8	1,632.7	30,061.7
Market growth, %	45.2	19.6	1.8
Insurance sector capitalization	0.7	1.6	6.8
Number of insurance companies	25	34	420
Insurance share in GDP, %	1.1	0.74	1.5
Insurance share per capita, USD	80	96	200
% of premium associated with non-life insurance	94%	80%	91%
Combined loss ratio	80%	92%	100%

Note: prepared based on sources^{3,4}

To analyze the national insurance markets of the EEU member states, the whole range of risks should be taken into account: Both systemic and non-systemic risks of national economies, interrelations of those risks with sectors of economy in a particular country. At macroeconomic level, the analysis should be focused on two major types of risks, country (political) risks and industry-specific risks, which can be followed by further detailed analysis of industry-specific risks.

Country risks include macroeconomic risk of the business climate, political risk, country's financial system risk and the risk of changes to legislation².

Industry-specific risks include the level of capitalization, insurance capital profitability, loss ratio, risk of competition between the insurance products and services, legislative barriers for entering the insurance market, prospects of the insurance companies for the market growth, institutional structure risks, etc.

2. Concept Headings

The objective of this study is to provide theoretical analysis and justification of methods for the long-term planning of the country's insurance market development in the context of integration.

The methods of alternative forecast scenarios makes it possible to form a comprehensive vision of the financial system development within the limited number of strategic scenarios; also, the method of extrapolation by analytical trend equalization has been applied.

The models obtained by means of regression analysis facilitate predicting the options of the economic processes and phenomena development, studying the trends of changing economic indicators, i.e., they are the tools for scientifically justified predictions.

3. Country Risks

According to expert evaluations of international rating agency Standard and Poors (S&P) the key and the most critical for the EEU countries are the country risks that take into account the effects of the macroeconomic factors produced on the economies of Russia and other countries of the union. Based on the last estimation of S&P rating agency in January 2015, the sovereign rating of Russia was downgraded to the level of BB+, to so-called "junk" status. Rating estimations show direct dependency and influence of the economic factors of the country on the insurance sector development; this dependency is represented in Table 2.

Table 2. Country ratings of Russia, Kazakhstan and Belarus

Insurer	Premium, RUB bn	Share, %	Payments, RUB bn	Level of payments, %	Insurer rating quotient
Rosgosstrakh	129.8	13.1	55.0	42.4	0.42
SOGAZ	105.2	10.7	42.1	40.1	0.40
Ingosstrakh	65.7	6.7	48.3	73.6	0.74
RESO	65.2	6.6	38.2	58.7	0.59
Garantia					
AlfaStrakhovanie	47.7	4.8	24.7	51.9	0.52
VSK	37.6	3.8	20.8	55.3	0.55
VTB	36.6	3.7	14.5	39.8	0.40
Insurance Sberbank Life	36.4	3.7	0.5	1.4	0.01
Insurance Soglasie	33.8	3.4	26.9	79.7	0.80
Allianz	24.6	2.5	21.5	87.4	0.87
Total Top Ten	583.2	59.0	293.1	50.3	0.50
Total in RF	987.7	100.0	472.2	47.8	0.48

Note: prepared based on the data of the Central Bank of the Russian Federation

4. Industry-Specific Risks

The market of the economic union represents a population of more than 170 million people, an area of 20 million square kilometers and 15 % of the world's firm land that is quite a huge territory. However, the amount of written insurance premiums in three countries does not exceed the amount of written premiums in just one European country. An absolute leader among the three countries is Russia (USD 28.4 bn) which amount of collected premiums is 15 times larger than the amount of collected premiums in Kazakhstan (USD 1.7 bn) and in Belarus (USD 0.7 bn)³.

Special risk is represented by the low level of the national markets capitalization, which leaves much to be desired. In terms of finances, Russian market possesses the largest insurance capital among the EEU countries, however, when the minimum requirements to authorized (equity) capital stock for national insurers are considered, in Kazakhstan they make EUR 5.5 million, in Russia – EUR 3 million, in Belarus – EUR 1 million, which is incommensurably low as compared to the existing levels of capitalization of even not the largest foreign insurers. Capitalization of the insurance markets of Russia, Kazakhstan and Belarus put together is lower than the capitalization of an average foreign insurer that amounts to circa USD 10 bn.

Another indicator giving rise to the insurers' special concern and causing many arguments is the combined loss ratio. The growth of this indicator occurs due to the following factors: Growth of insurance payments and acquisition expenses. In Russia and Kazakhstan, the growth is observed in both directions, while for Belarus the increased level of insurance payments is more characteristic, given the existing regulations of the acquisition expenses. From year to year, a trend is observed for poorer financial indicators of the markets and for faster growth of the combined loss ratio, which is, primarily in Kazakhstan, associated with low tariffs for insuring civil liability of vehicle owners and with the unreasonably high commission expenses of the agents.

The risks related to the insurance products are also similar and specific for the countries of the union. The following types of insurance are most widely spread all over the union: Vehicle insurance, compulsory insurance of civil liability of vehicle owners, property insurance and

private insurance. Other types of insurance have not been gaining any considerable development so far; and it should be noted, that, in general, the compulsory types have been exactly the types that developed. Over recent years, in Kazakhstan two types of compulsory insurance have become the most popular 1. Compulsory insurance of civil liability of vehicle owners (CI CL VO); 2. Compulsory insurance of employees for industrial injuries in the performance of their duties (CI II). Characteristics of the insurance products in such countries of the Eurasian Economic Union as Russia, Kazakhstan and Belarus are shown in Figures 1-3.

4.1 Modeling Dynamics of the Insurer Rating Quotient of the Largest Insurance Companies

Quantitative analysis is undertaken to forecast the dynamics of the insurer rating quotient development of the largest insurance companies based on formalized method of extrapolation by analytical trend equalization.

The models obtained by means of regression analysis facilitate predicting the options of the economic processes and phenomena development, studying the trends of changing economic indicators, i.e., they are the tools for scientifically justified predictions.

The results of the forecast represent the foundations for setting real economic tasks and objectives, for identifying and making the best possible managerial solutions, for developing economic and financial strategies in future.

Forecasts based on extrapolating the dynamic series can be represented as specific values of the function as follows:

$$Y_{t+l}^* = f(y_i, l, a_j) \quad (1)$$

Where Y_{t+l}^* is the predicted value of the dynamic series; l is the lead forecast period; y_i is the level of series taken as the basis of extrapolation; a_j is the parameter of trend equalization.

Upon adjusting the time series by applying the least square method, the following linear trend dependency is obtained:

$$\hat{Y}_t = f(t) \quad (2)$$

Extrapolation is carried out by inserting the value of independent variable t , corresponding to the value of the lead (forecast) period, in the trend equation.

Extrapolation makes it possible to obtain an individual forecast value, i.e., the estimated value of the predicted indicator in a point of equation that describes the trend of the predicted indicator. It represents an average estimation for the forecast period.

The value of the confidence interval of the trend extrapolation is determined as follows:

$$Y_{t+l}^* \pm K^* \times S_y \tag{3}$$

$t = n, \quad l = 1, 2, \dots, L$
 where

Y_{t+l}^* is the point prediction at time $(t+l)$; S_y is the root-mean-square error of the trend; K^* is the factor, found in the table to specified accuracy.

Value K^* depends only on the number of observations (number of the levels of n series) and l (lead forecast period). As value n increases, values K^* become lower, and as l increases, those values become higher.

Standard (root-mean-square) error of estimated predicted indicator S_y is determined by the formula as follows:

$$S_y = \sqrt{\frac{\sum_{t=1}^n (Y - \hat{Y})^2}{n - m}} \tag{4}$$

Where,

Y is the actual value of the level;

\hat{Y} is the calculated estimation of the relevant indicator according to the model;

n is the sample size;

m is the number of parameters within the dependency $f(t)$.

Application of this method is exemplified by forecasting the insurer rating indicator for the largest companies of Russia in 2014.

Table 3. Ratings of 10 largest insurance companies of Russia in 2014

Rating evaluation	Russian Federation	Kazakhstan	Republic of Belarus
Country rating	BBB/Negative	BBB+/Stable	B-/Stable
BICRA evaluation	7	8	10
Insurance companies	B+ to BBB	B to BB+	B-

Note: prepared based on source⁴

The adjustment of the time series is implemented by means of one of the basic methods of regression analysis, namely, by the least root-mean-square method. As a result, the following linear trend dependency is obtained:
 $\hat{Y}_t = 0.016 t + 0.440$

Calculation results are presented in Table 4.

Table 4. Rating forecast for the largest insurance companies in Russia

t	Forecast	Confidence interval of forecast		Values	
		Lower range value	Upper range value	K^*	S_y
11	0.62	0.52	0.76	2.463	0.58
12	0.63	0.53	0.78	2.639	0.58
13	0.65	0.55	0.79	2.836	0.58

*The table has been prepared based on the authors' calculations

Value K^* for estimating the confidence intervals of the forecast has been tabulated.

This method of exponential adjustment made it possible to obtain the estimated parameters of the trend that characterize the tendency formed at the time of the last observation.

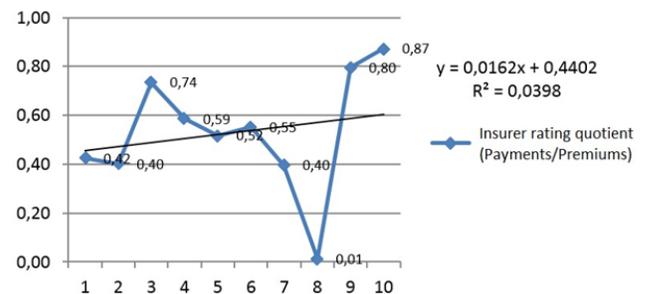


Figure 1. Trend model of insurer rating dynamics of the largest companies in Russia in 2014.

Similarly, further quantitative analysis is undertaken to forecast the dynamics of the insurer rating quotient development of the largest insurance companies in other countries, in Belarus and Kazakhstan.

Belarus: In 2014, the insurance market of Belarus brought about BYR 7,318,853.2 Million (USD 682 Million); the payments amounted to BYR 3,260,435.1 Million (Table 5). The level of payments within the total amount of insurance premiums made up 44.5%, thus

exceeding the previous year figure of 41.6%. On the insurance market, the most characteristic features are still the same, represented by the high level of state monopoly and strict governmental regulations.

Table 5. Ratings of 10 largest insurance companies of Belarus in 2014

No.	Insurer	Premium, BYR Million	Payments, BYR Million	Insurer rating quotient
1	Belgosstrakh	3,518,843.4	1,284,032.9	0.36
2	Task	535,850.4	206,988.5	0.39
3	Promtransinvest	448,684.9	17,218.0	0.04
4	Belneftstrakh	442,329.4	76,007.2	0.17
5	Belexingarant	426,600.1	-34,120.6	-0.08
6	PPF Insurance	229,165.2	139,957.8	0.61
7	Belrosstrakh	227,300.1	4,035.2	0.02
8	Belcoopstrakh	203,953.7	10,554.7	0.05
9	B&B Insurance	193,547.1	-94,919.8	-0.49
10	DeltaStrakhovaniye	120,034.6	119,626.8	1.0
Total Top Ten		6,346,308.9	1,729,380.7	0.27
Total on the market		7,318,853.2	3,260,435.1	0.45

Note: prepared based on the data of the Ministry of Finance of the Republic of Belarus

The amount of collected premiums in just one largest company Belgosstrakh in 2014 amounted to 48.08% of the total insurance premiums; at the same time, the payment share of Belgosstrakh made up 55.6% of the amount of collected premiums. Total growth in premiums all over the market amounted to 113.1% as compared to the previous year. The amount of insurance premiums collected by ten largest companies made up BYR 6,346,308.9 Million or 86.7% of the concentration market of Belarus; the general trend for lower concentration is observed. The payments of ten largest companies amounted to BYR 1,729,380.7 Million (or 53.0%).

The adjustment of the time series is implemented by means of one of the basic methods of regression analysis, namely, by the least root-mean-square method. As a result, the following linear trend dependency is obtained:

$$\hat{Y}_t = 0.001 t + 0.212$$

Calculation results are presented in Table 6.

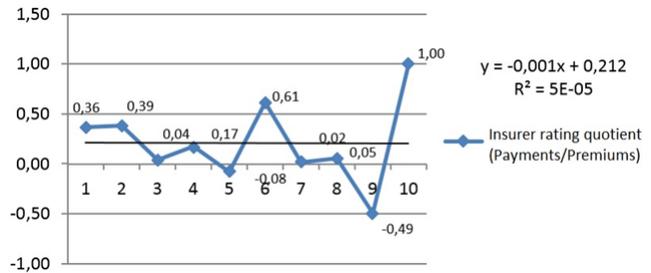


Figure 2. Trend model of insurer rating dynamics of the largest companies in Belarus in 2014.

Table 6. Rating forecast for the largest insurance companies in Belarus

t	Forecast	Confidence interval of forecast		Values	
		Lower range value	Upper range value	K*	S _y
11	0.22	0.19	0.37	2.463	0.21
12	0.22	0.19	0.37	2.639	0.21
13	0.23	0.20	0.37	2.836	0.21

* The table has been prepared based on the authors' calculations

Belgosstrakh insurance company (48.08% of the total market) is the only largest company in Belarus that monopolized the market of compulsory insurance; no private insurance companies are admitted to participate in any type of compulsory insurance. The amount of compulsory insurance service charges on the market, notwithstanding some decrease over recent years, made up 45% of the total amount of insurance premiums. Life insurance companies are not included in the top ten largest companies of Belarus.

Kazakhstan: Contracted insurance premiums in 12 months of 2014 amounted to KZT 266.1 bn, which represents growth by 103.2% as compared to the previous year. The amount of payments effected under all insurance contracts in 2014 made almost KZT 71.0 bn, the increase amounted to 15.5% as compared to the previous year.

Ten largest insurance companies of Kazakhstan were in 2014 accountable for 63.8% of the total amount of premiums collected by Kazakh insurers; there is a trend for lower concentration on the market, and the payments made 55.9% or KZT 39.7 bn of the total amount of payments (Table 7).

Table 7. Ratings of 10 largest insurers of Kazakhstan in 2014

No.	Insurer	Premium, KZT Million	Payments, KZT Million	Insurer rating quotient
1	Eurasia	33,395.9	9,269.2	0.28
2	Halyk – Kazakhinstrakh	26,762.2	7,936.2	0.30
3	Nomad Life	20,946.5	3,936.8	0.19
4	Life European Insurance Company	15,112.1	1,059.9	0.07
5	Nomad Insurance	14,898.5	4,627.9	0.31
6	Kaspi Strakhovanie	14,018.3	1,378.6	0.10
7	Oil Insurance Company	12,470.8	3,340.1	0.27
8	Halyk Life	11,609.8	2,121.0	0.18
9	Tsesna Garant	10,719.4	4,070.1	0.38
10	Kazakhmys	9,908.4	1,944.0	0.20
Total Top Ten		169,841.9	39,683.8	0.23
Total on the market of Kazakhstan		266,120.9	70,980.3	0.27

Note: prepared based on the data of the National Bank of the Republic of Kazakhstan

The adjustment of the time series is implemented by means of one of the basic methods of regression analysis, namely, by the least root-mean-square method. As a result, the following linear trend dependency is obtained:

$$\hat{Y}_t = 0.001 t + 0.219$$

Calculation results are presented in Table 8.

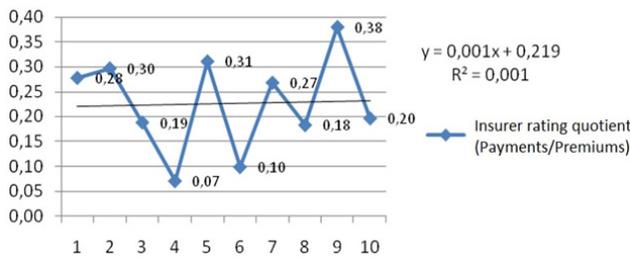


Figure 3. Trend model of insurer rating dynamics of the largest companies in Kazakhstan in 2014.

Table 8. Rating forecast for the largest insurance companies in Kazakstan

t	Forecast	Confidence interval of forecast		Values	
		Lower range value	Upper range value	K*	S _y
11	0.23	0.20	0.38	2.463	0.22
12	0.23	0.20	0.38	2.639	0.22
13	0.23	0.20	0.38	2.836	0.22

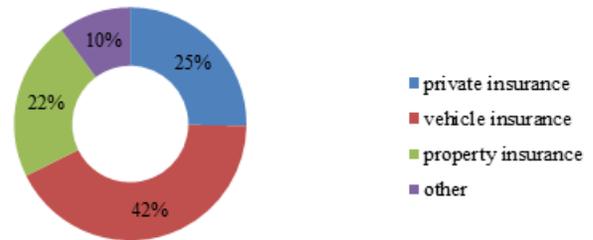


Figure 4. Characteristics of insurance products in Russia.

Russia: The insurance market of Russia is considerably exposed to the risks related to natural disasters of conventional seasonal nature and to the unexpected disasters. There are risks of institutional development, the growing risks associated with settlement of claims in the court of law, which primarily concerns the vehicle insurance segment. In the upcoming 2016-2017 the business climate in the country may deteriorate affecting the insurance growth negatively. The most popular type of insurance in Russia is the compulsory Motor Third Party Liability insurance (MTPL). Some concerns as regards the market development are aroused by the “grey schemes” of compulsory medical insurance that hinder the normal process of the market development.



Figure 5. Characteristics of insurance products in Kazakhstan.

Kazakhstan: The market of Kazakhstan observes continuously increasing risks associated with the occurrence of catastrophic events (for example, earthquake), as well as those associated with the industry-specific monopoly (banking insurance) and low tariffs in compulsory insurance of civil liability of vehicle owners. There are risks of introducing changes into insurance legislation (developing new insurance products). The drop in economic growth is possible because of such external factors as lower prices for energy sources, indirect impact on Kazakhstan economy produced by sanctions against Russia, which will result in slower growth of the insurance market for the next few years.

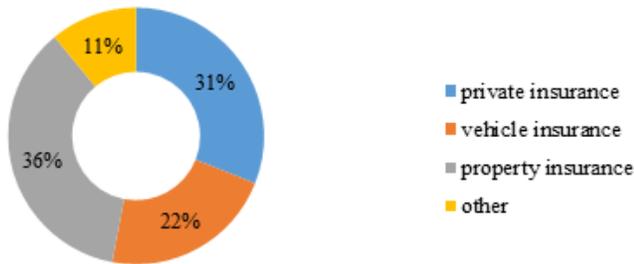


Figure 6. Characteristics of insurance products in Belarus.

Belarus: In Belarus the risks are related to the state monopoly on compulsory insurance and to legislative limitations applied to non-governmental and foreign insurance companies; there are also currency risks occurring due to depreciation of Belarusian currency. The slowdown in Belarus economy growth is possible due to such external factors as slower economic growth in Eurozone and Russia, the major trading partners of Belarus. Indirect effect of lower energy prices will also result in slower growth of insurance services for the next few years.

5. Risk of Entering the Insurance Market

In this case, a number of factors limit the amount of players on the insurance market. Major factor is represented by the more demanding requirements to authorized (equity) capital stock of the company together with the prudential measures aimed at tightening the policies for the insurance company operation (solvency margin, indemnity bond etc). Analyzing the dynamics of the number of the insurance companies on the markets

shows that in Russia the number of insurers becomes drastically lower, but in Kazakhstan and Belarus the dynamics is preserved at a constant low level. On the one hand, the mid-sized and small companies as well as the unscrupulous companies leave the market, which, in fact, helps keeping the market clean (Figure 7). According to recent data, the number of insurance companies in Russia became lower (416); in Belarus, as of year-end 2014, two insurance companies left the market; in Kazakhstan the number of the companies is still 34.

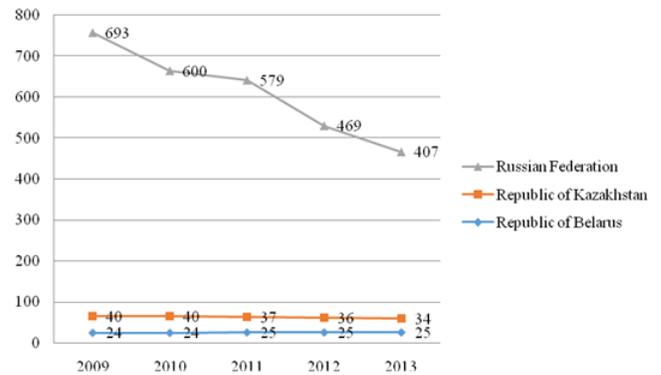


Figure 7. Number of insurance companies in EEU countries.

6. Investment Risks

The world insurance sector always has special investment potential for the national markets. With respect to insurance markets of the EEU member states, it is safe to say that today the markets of both Russia and Kazakhstan are hardly attractive for foreign players, mostly because of the limited share of foreign equity that, according to national legislation, should not exceed 50% of the capital of all insurance companies, and also because of the low dynamics of the insurance premium growth (at the level of 10%). Besides, upon joining the WTO, these countries are supposed to undergo a transition period of seven years, when the access to the national market should be restricted. In Belarus, the share of foreign equity should not be higher than 30% in the capital of all insurance companies; moreover, there is a restriction to participation in compulsory insurance and the monopoly of state. The dynamics of premium growth is at the level of 34%, which can now arouse the foreign investors' interest in the insurance market of Belarus; furthermore, another positive thing should be taken into account, namely, the fact that Belarus can smoothly connect with the markets in Eastern Europe.

7. Market Concentration Risk

The authors believe that high concentration of insurance sector in these countries will negatively affect the dynamics of development. Besides, the factors of territorial concentration in the insurance sector should not be neglected; in particular, the major share of collected premiums falls on large cities of the countries of the Eurasian Economic Union (Moscow and Saint Petersburg in Russia, Minsk in Belarus, Almaty in Kazakhstan). There is also an industry-specific concentration; thus in Kazakhstan the shareholders of 17 companies are represented by bank structures, and, as regards the amount of premiums, over 40 % of the market belongs to such companies; in Belarus the state-owned insurance companies occupy more than 80 % of the market. The concentration analysis of ten largest insurance companies of Russia, Kazakhstan and Belarus over 2009-2013 testifies of the trend for further growth of concentration (Figure 8).

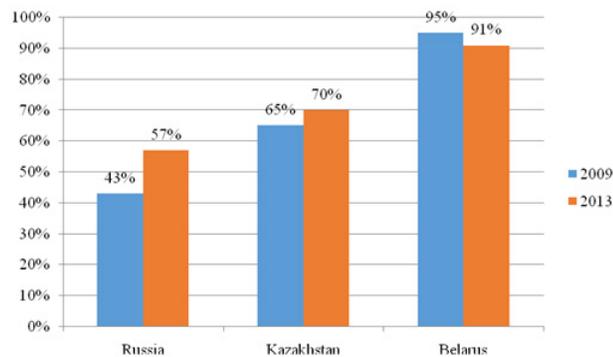


Figure 8. Insurance portfolio concentration of 10 largest insurers in EEU countries.

The data analysis shows that the overall level of concentration on the markets has grown considerably in Russia and Kazakhstan, to 57% and 70% accordingly, as compared to 2009. On the market of Belarus, there is a monopoly of the state-owned companies, which concentration share is still high, and which in 2013 amounted to 91%.

Having identified the overall level of concentration on all insurance markets, a more detailed analysis should be carried out for ten largest companies in each country of the integration union in respect of the amounts of the collected premiums (based on 2014 data), which will help estimating the competitive possibilities of the insurers in the context of integration.

Russia: On the market of Russia, RUB 987.7 bn (without Compulsory Health Insurance) of total insurance premiums have been collected in 2014, and the share of ten largest insurers amounted to RUB 583.2 bn or 59% of the total amount of collected premiums, as compared to 56.8% in 2013. Total amount of payments all over the market amounted to RUB 472.3 bn, and ten largest companies account for RUB 293.1 bn. The growth in the share of payments falling on ten largest companies is observed; as of year-end 2014, it reached 50.3% against 49.9% in the previous year (Table 9).

Table 9. Ratings of 10 largest insurance companies of Russia in 2014

Insurer	Premium, RUB bn	Share, %	Payments, RUB bn	Level of payments, %
Rosgosstrakh	129.8	13.1	55.0	42.4
SOGAZ	105.2	10.7	42.1	40.1
Ingosstrakh	65.7	6.7	48.3	73.6
RESO Garantia	65.2	6.6	38.2	58.7
AlfaStrakhovanie	47.7	4.8	24.7	51.9
VSK	37.6	3.8	20.8	55.3
VTB Insurance	36.6	3.7	14.5	39.8
Sberbank Life Insurance	36.4	3.7	0.5	1.4
Soglasie	33.8	3.4	26.9	79.7
Allianz	24.6	2.5	21.5	87.4
Total Top Ten	583.2	59.0	293.1	50.3
Total in RF	987.7	100.0	472.2	47.8

Note: prepared based on source ⁵

Thus, the trend for growing concentration of the insurance companies on the Russian market is preserved. The share of the insurance companies running at a loss in Russia increased to 47.8%. The share of Gosstrakh (without Compulsory Health Insurance) in the total amount of collected insurance premiums amounted to 13.1%, the share of SOGAZ amounted to 10.7%, that of Ingosstrakh made 6.7%.

The leaders of the ten largest insurers, in terms of collected premiums, are represented by four companies in 2014, just as they were in 2013. The succession includes Rosgosstrakh, SOGAZ, Ingosstrakh and RESO Garantia. It is for the first time now that Sberbank affiliated company specializing in insurance services joined the top ten insurers of Russian insurance market (position 8).

Last year, Renaissance Life, occupying the tenth position based on the results of total collected premiums in 2013, has left the list of the top ten leaders.

Belarus: In 2014, the insurance market of Belarus brought about BYR 7,318,853.2 Million (USD 682 Million); the payments amounted to BYR 3,260,435.1 Million (Table 10). The level of payments within the total amount of insurance premiums made up 44.5%, thus exceeding the previous year figure of 41.6%. On the insurance market, the most characteristic features are still the same, represented by the high level of state monopoly and strict governmental regulations. The amount of collected premiums in just one largest company Belgosstrakh in 2014 amounted to 48.08% of the total insurance premiums; at the same time, the payment share of Belgosstrakh made up 55.6% of the amount of collected premiums. Total growth in premiums all over the market amounted to 113.1% as compared to the previous year. The amount of insurance premiums collected by ten largest companies made up BYR 6,346,308.9 Million or 86.7% of the concentration market of Belarus; the general trend for lower concentration is observed. The payments of ten largest companies amounted to BYR 1729380.7 Million (or 53.0%).

Table 10. Ratings of 10 largest insurance companies of Belarus in 2014

No.	Insurer	Premium, BYR Million	Payments, BYR Million
1	Belgosstrakh	3,518,843.4	1,284,032.9
2	Task	535,850.4	206,988.5
3	Promtransinvest	448,684.9	17,218.0
4	Belneftestrakh	442,329.4	76,007.2
5	Beleximgarant	426,600.1	-34120.6
6	PPF Insurance	229,165.2	139,957.8
7	Belrosstrakh	227,300.1	4035.2
8	Belcoopstrakh	203,953.7	10,554.7
9	B&B Insurance	193,547.1	-94,919.8
10	DeltaStrakhovanie	120,034.6	119,626.8
Total Top Ten		6,346,308.9	1,729,380.7
Total on the market		7,318,853.2	3,260,435.1

Note: prepared based on source⁶

Belgosstrakh insurance company (48.08% of the total market) is the only largest company in Belarus that monopolized the market of compulsory insurance; no

private insurance companies are admitted to participate in any type of compulsory insurance. The amount of compulsory insurance service charges on the market, notwithstanding some decrease over recent years, made up 45% of the total amount of insurance premiums. Life insurance companies are not included in the top ten largest companies of Belarus.

Kazakhstan: Contracted insurance premiums in 12 months of 2014 amounted to KZT 266.1 bn, which represents growth by 103.2% as compared to the previous year. The amount of payments effected under all insurance contracts in 2014 made almost KZT 71.0 bn, the increase amounted to 15.5% as compared to the previous year.

Ten largest insurance companies of Kazakhstan were in 2014 accountable for 63.8% of the total amount of premiums collected by Kazakh insurers; there is a trend for lower concentration on the market, and the payments made 55.9% or KZT 39.7 bn of the total amount of payments (Table 11).

Table 11. Ratings of 10 largest insurers of Kazakhstan in 2014

No.	Insurer	Premium, KZT Million	Payments, KZT Million
1	Eurasia	33,395.9	9,269.2
2	Halyk – Kazakhinstrakh	26,762.2	7,936.2
3	Nomad Life	20,946.5	3,936.8
4	Life European Insurance Company	15,112.1	1,059.9
5	Nomad Insurance	14,898.5	4,627.9
6	Kaspi Strakhovanie	14,018.3	1,378.6
7	Oil Insurance Company	12,470.8	3,340.1
8	Halyk Life	11,609.8	2,121.0
9	Tsesna Garant	10,719.4	4,070.1
10	Kazakhmys	9,908.4	1,944.0
Total Top Ten		169,841.9	39,683.8
Total on the market of Kazakhstan		266,120.9	70,980.3

Note: prepared based on source⁷

Top ten of the largest insurers of Kazakhstan include three life insurance companies, which testifies of the fact that life insurers are gaining the market gradually. Six captive insurance companies, associated with banking capital, are included in the top ten premium collecting companies. Some famous companies, such as BTA Insurance and Kazkommerce Polis, have showed lower amounts of collected premiums and, consequently, have

lost their positions in the top ten list, thus again proving the impact of systemic risks associated with banking capital stock. Following the merger of BTA Bank and Kazkommerce Bank, their affiliated insurance companies started losing their positions in terms of collected premiums.

There is a trend on the market of Kazakhstan showing that the bank affiliated insurance companies depend on contracting large legal entities. Any unfavorable market situation affecting big economic agents can affect the activities of the largest insurers of this country.

The analysis of the insurance premiums collected by ten largest companies of the EEU member states shows that not a single insurance company of Kazakhstan or Belarus could join the top ten largest insurers of Russia.

Thus, the peculiar features of insurance market development in Kazakhstan are as follows:

- Solvency I norms of the financial activity prudential regulations have been introduced to the routine practices of the insurance companies, based on the previous experience with the European standards.
- There is 40% limitation on business expenses to prevent financial decline of the insurance companies.
- Low level of capitalization of the insurers in Kazakhstan; there is no national reinsurance market in place.
- Considerable share of compulsory types of insurance inefficient in most cases.
- Propagation of insurance services and the share of insurance sector in GDP have been low over recent years; based on 2014 calculations, the share of insurance in GDP was as low as circa 0.69%. The amount of insurance premiums per capita amounted to circa KZT 15297, which was by KZT 975 lower as compared with the previous year.

8. Market Growth Risk

Kazakhstan has a small market in the insurance space of the Eurasian Economic Union, it cannot considerably increase the amount of collected premiums and is not, from this prospective, interesting for large retail insurance companies. Kazakhstan sector of corporate insurance is of some interest for foreign insurers that serve their corporate clients all over the world including Kazakhstan. At the same time, some prospects for the market growth in the insurance sector do exist even with the present moderate level of development. In terms of insurance expenses per capita of population, these countries are falling behind even as compared to the countries of

Eastern Europe. As regards this particular indicator, the leadership belongs to Russia (USD 200), the level of this indicator in Kazakhstan is 2 times lower, and in Belarus it is almost 3 times lower. The share of insurance premiums in GDP of these countries (0.7-1.3%) is also considerably lower than the same indicator in the developed countries (up to 5-8%). Although the adopted programs for the insurance market development in these countries envisage the growth of this indicator, it has been actualized quite poorly over the last 10 years.

9. Infrastructure Risk

Institutional context of the insurance markets in the countries of the union is characterized by different level of development. The insurance market infrastructure is best of all developed in Kazakhstan where the following infrastructure elements of the market have been developed and are operational: Insurance payment guarantee fund, insurance ombudsman institution, actuary and auditor institution, motor insurance service, Common Insurance Database (CID), a self-regulating organization called Association of Insurers. Russia has not been intensively developing the infrastructure links of the market; however, many of such links operate efficiently, particularly, the self-regulating civil society organizations, such as All-Russian Insurance Union etc. The reinsurance markets have been established in both Belarus and Russia. Consequently, there is a state-owned reinsuring company in Belarus, and there are several specialized reinsuring companies of different types of incorporation in Russia; moreover, international Green Card system functions in both those countries, whereas no such structures have been implemented in Kazakhstan, where there is no national reinsurance system at all. An efficient prudential regulation practice has been adopted in Kazakhstan based on the earlier experience of the European Union, and this should be adopted by the partners as well. There are some discrepancies in organizing the state regulation and supervision on the insurance market. Kazakhstan was one of the first countries to implement a common financial authority to regulate and control the financial market and the financial organizations within the structure of the National Bank of the Republic of Kazakhstan. In Russia, similar control and regulation agency has been created within the structure of the National Bank of Russia in 2014, and in Belarus, the issues of regulation and control

have been entrusted to the Ministry of Finance of the Republic.

10. Conclusion

Thus, as regards the insurance market risk evaluation the following conclusions can be made.

- Insurance markets of Russia, Kazakhstan and Belarus are underdeveloped, which is, to a considerable degree, characterized by the fact, that the level of capitalization and the amounts of the insurance premiums collected by the insurance companies are significantly lower as compared to similar indicators of the developed markets. For example, the amount of the premiums collected in 2014 on Kazakhstan market with the capacity of KZT 266.12 bn makes less than 10% of the Russian market (RUB 987.7 bn).
- The factors and the prerequisites for competition in the context of the insurance market Eurasian integration differ in many parameters. For example, the largest company in Belarus (Belgosstrakh) can join the list of 13 largest companies of the Russian Federation in terms of collected premiums. Comparing the statistics provided by the financial supervision authorities in Russia and Kazakhstan in 2014, Kazakh insurance company Eurasia, with the amount of collected premiums of KZT 33.4 bn (or RUB 11.8 bn at the currency exchange rate of January 2015) can only be included in the list of 15 largest companies of Russia in terms of collected insurance premiums alongside with such insurance companies as Uralsib and MAKS.
- General level of insurance coverage in Belarus, Kazakhstan and Russia has been low for many years; however, Russia is ahead of its neighbors in terms of a number of indicators. In particular, according to 2013 data, the insurance expenses per capita in Belarus and in Kazakhstan were in the range of USD 80-90, while in Russia this indicator reached the figure of USD 200. Nevertheless, those figures are incommensurably low as compared to the same indicators of the developed markets of the world, which clearly testifies of general underdevelopment of insurance as a sector of national economy. The level of propagation of the insurance services in the Russian Federation amounts to 1.3%, and in Kazakhstan and Belarus, it is much lower and amounts to 0.7% and 0.9% accordingly.
- Insufficient attractiveness of the national insurance markets is confirmed by the fact that the insurance companies with foreign capital occupy only a negligible share on the market, and this is to a smaller degree

related to the existing limitations on engaging foreign capital in the insurance business of these countries.

- There are certain risks in the structure of the investment portfolio of the insurance market assets, as long as a considerable share of capital is invested in banking instruments; banking capital usually prevails in the authorized capital stock of the insurance companies. For example, in Kazakhstan, the shareholders of 17 out of 34 operating companies are represented by commercial banks, and this makes the systematic risks higher. Just over several recent years, a number of insurance companies went bankrupt in Kazakhstan through the financial problems of the shareholder banks.
- Credit risks of the banks directly affect the insurance sector.
- Insurance as an element of social protection has not gained any considerable social and economic importance in the countries of the Eurasian Economic Union because the insurance payments spent on social security on the national markets are considerably lower as compared to the developed markets where the loss ratio reaches (70-90)%, as larger payments serve the citizens' interests and protect them.
- An important prerequisite for normal operation of the common insurance market in the Eurasian economic area implies eradicating different forms and methods of supporting national, industry-specific and regional monopoly. All over the territory of the union, there should be an efficient competition mechanism in place, a factor of equal conditions and opportunities.

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