

Improving the Accounting of Direct Investments in Insurance Companies

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Abstract:

The article discusses the problems of managing the investment activities of an insurance organization. The established types of strategic investment schemes used in managing the investment activities of the insurer are shown. An investment portfolio structure is proposed that maximizes profitability with the aim of possibly reducing the tariff rate to provide the company with a significant competitive advantage.

Keywords: investment activity, structure of the investment portfolio, return on investment.

Introduction. Attention to the investment activities of an insurance organization is due to the significant impact of its results on the financial condition of the insurer as a whole. The financial result to a certain extent is a reflection of the correctness of the investment policy.

Analysis of statistical data characterizing the efficiency of the insurer's activities in the post-crisis period records a decrease in the profitability of the business of insurance organizations. At the same time, the profitability of the insurer's own funds exceeds the inflation rate (6.1%), but is inferior to that of credit institutions (Figure 1). And the key factors in reducing profitability must be recognized as a decrease in investment income and an increase in the share of business expenses.

The negative dynamics of return on investment is recorded against the background of a 50% increase in the volume of insurance reserves transferred to trust management and ensuring the growth of the trust management market in 2023 (Table 1).

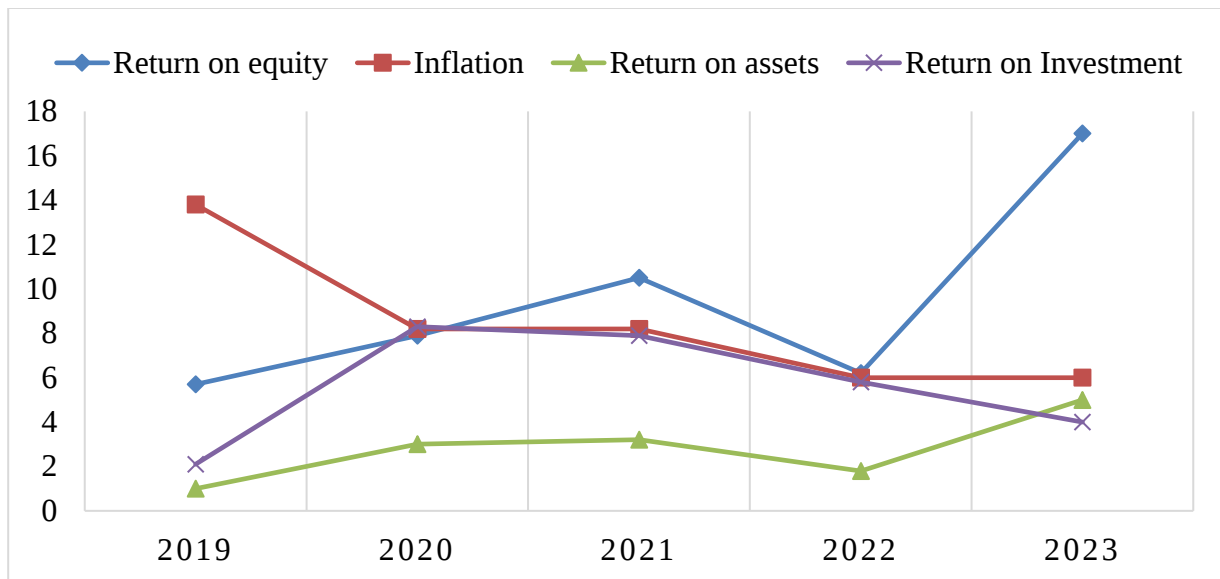


Figure 1. Dynamics of annual profitability and inflation indicators.

Table 1. Volume of reserves of insurance organizations in trust management of management companies in 2022–2023.

Index	The volume of assets for 2022 is billion soums.	The volume of assets for 2023 is billion soums.	Absolute change for the period, billion soums.	Relative change over the period, %
Amount of funds under management	2091244	1712934	467811	27
Insurance company reserves	47607	31828	15779	50

The risks of increased costs are based on the increased cost of reinsurance coverage (as a result of major catastrophes in 2022) and the increase in insurance premium rates to off-budget funds to 34%. The average share of business expenses for insurance companies is about 42%, almost twice the average for European insurance markets. Experts admit that high commission rates for banks (taking into account the accelerated growth of bancassurance), the increase in fines of the public service for financial markets, the costs of preparing reports under IFRS and other factors determine a further increase in the indicator to 46% [6]. These circumstances make the problem of optimizing approaches to managing the investment activities of the insurer extremely urgent.

Historically, investment income has not been viewed as the main source of profit for an insurance organization. Some authors attribute this to the predominance of the state mechanism for regulating investment activity over the market one (which indicates the immaturity of the domestic insurance market) [4]. A number of researchers assess the activities of insurers in the area of managing the investment potential of an organization as ineffective and insist on the need to improve the quality of asset management, including through outsourcing [1, 3].

Analysis and results.

The main condition for the implementation of the investment policy of an insurance organization is the formation of investment resources as a set of funds at the disposal of the company, which can be used for investment in order to obtain investment income. The main sources of investment resources are equity capital and attracted capital (prevailing in the capital structure of the insurance organization). The procedure for forming the investment portfolio of an insurance organization is

presented in Figure 2. By investment portfolio we mean a purposefully formed set of investment instruments intended for carrying out investment activities in accordance with the investment strategy of the insurer.

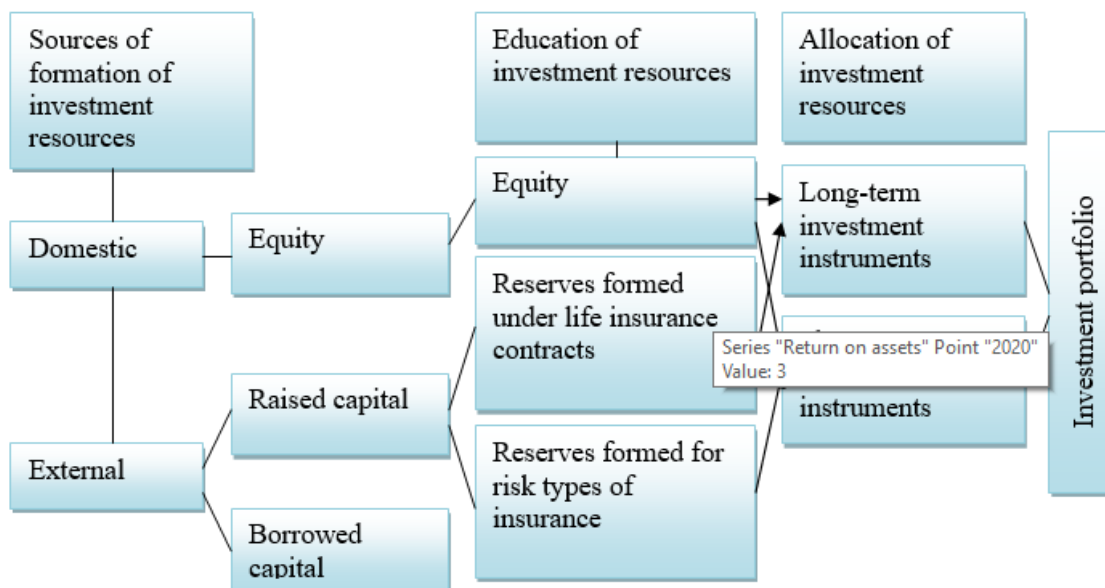


Figure 2. Model for forming an insurer's investment portfolio.

The analysis shows that investing resources within the framework of the investment strategies used is not highly effective, since the insurer is offered suboptimal conditions for placing funds both in terms of profitability and in terms of financial risk management. The strategic investment schemes used provide the insurer with minimal opportunities to optimize investment activities and are mainly reduced to the following (Table 2) [2].

Recognizing the close connection between investment and insurance activities, the “secondary” nature of investment activities in relation to insurance, taking into account the clearly regulated nature of state regulation of investment activities of Russian insurance organizations, we believe it is necessary to intensify efforts to structure the investment portfolio in order to increase the insurer's return on investment.

The results of a study of the Russian insurance market indicate a change in the structure of assets of the largest insurance organizations towards a reduction in the level of diversification.

Table 2. Types of strategic investment schemes in managing the investment activities of the insurer

Strategic investment scheme in investment management	Forms of implementation in practice	Possible threats to business
Merger of insurance and investment activities	Creation of subsidiaries and affiliates (considered as sales channels for insurance products) and placement of deposits in them; obtaining access to insurance of relevant risks in exchange for placing funds in deposit accounts at the bank; territorial-geographical placement of investments influenced by the	Concentration of financial risks; threat of loss of financial stability; market risks, liquidity risk.

	relationship between the insurer and regional authorities	
Implementation of “forced” investments within a single financial and industrial group		Deprivation of the right to choose investment directions; Minimizing the possibility of optimizing investment activities
Transfer of investment resource management functions to a management company	Creation of your own management company, as a rule, part of a single financial and industrial group; Transfer of investment resources for management to several management companies	Concentration of financial risks; risk of loss of solvency and financial stability; redistribution of financial risks between management companies, but increasing the risk of outsourcing
Investment portfolio structuring	“70 to 30%” scheme (placement of 70% in bank deposits and 30% in stock market instruments); dividing the portfolio into three components: to ensure liquidity, to generate income, to maintain coverage of insurance reserves with a moderate approach; carrying out high-risk transactions on the stock market in large volumes, followed by bringing the asset structure through repo operations into compliance with legal requirements.	Optimal for large businesses, as it provides the necessary level of portfolio liquidity and maximum income (due to a large volume of investment resources) with a controlled level of financial risk; The need for a “competent” proportional division of the portfolio, taking into account the structure of the insurer’s investment resources and the nature of the insurance business; the scheme contains elements of aggressiveness, and although it provides a high return on investment, it is not legitimate

During the analyzed period of time (2021–2023), the total increase in assets amounted to more than 60%. The receivables of policyholders and reinsurers have more than doubled, and good growth is observed in the share of reinsurers in insurance reserves. The share of investments in assets, on the contrary, is declining (Figures 3, 4) [9].

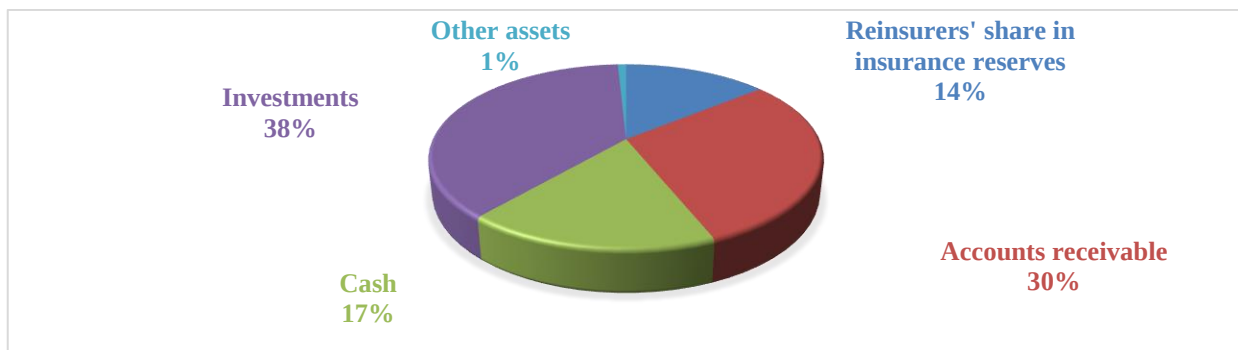


Figure 3. Structural ratio of assets of an insurance organization for 2021

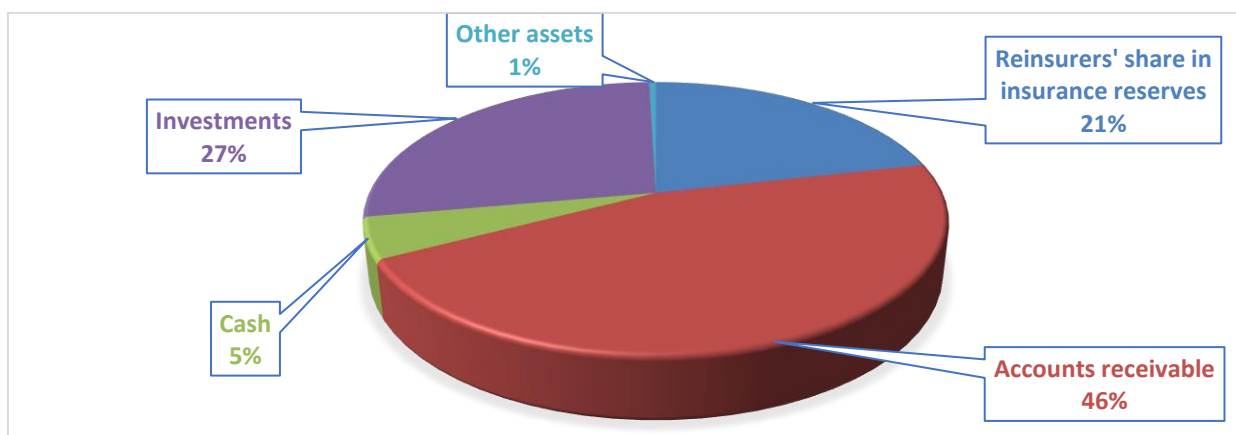


Figure 3. Structural ratio of assets of an insurance organization for 2023

The results of the analysis of the structure of the organization's investment portfolio demonstrate susceptibility to general market trends: a significant share of investments falls on bank deposits (70–80%), and this ratio only increases from year to year (from 75% in 2021 to 83% in 2023) . And the quantitative size of investments in deposits increased by 28% over 3 years.

Conclusion:

Such a distribution can hardly be called balanced, which is confirmed by the value of the indicator of the effectiveness of the investment activities of the insurance organization. Having assessed the value of the indicator (as the ratio of annual income from investment activities to the average annual volume of investment assets), we state that the return on investment barely reaches the refinancing rate, without exceeding the inflation rate.

Obviously, investment activities for this company are more of an auxiliary nature and it receives its main income exclusively from insurance activities. At the same time, optimizing the investment portfolio in order to increase profitability can provoke a reduction in tariff rates, which will provide the company with a significant competitive advantage.

All other things being equal, taking into account the average yield of the specified instruments and the average deposit rate in 2023, the projected yield of the optimized portfolio exceeds the actual yield by almost a third and amounts to 9.04%. The portfolio has the characteristics of return, profitability and liquidity, is formed by the diversification method and complies with the legislative requirements governing the lists of assets accepted to cover the equity and reserves of insurance organizations.

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