

Problems and Prospective Lines of Development of the Liability Insurance System

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Abstract: In connection with instable political and economic situation in the world economics, the mechanism of liability insurance of the subjects of financial relations of the Russian economy. The liability insurance market is one of the most prospective sectors of economic development of the country by virtue of its orientation to general legal principle of equity requiring correspondence between the actions and their social consequences. Thus, liability insurance indemnifies the aggrieved party against injury for material stability. To achieve the objective of the research, it is necessary: to consider the essence of liability insurance on the Russian financial market; analyze the market of liability insurance; to identify the problems in this segment and outline the ways of their solution. In the research, it has been analyzed the Russian insurance market and the market of liability insurance by means of comparative and analytical methods. It has been presented the results of a poll conducted among the population of the town of Stavropol regarding liability insurance. It has been substantiated, the trends of improvement of liability insurance in the bank insurance sector. Forming the state insurance organization and implementation of the program of liability insurance for non-discharge or discharge of obligations under the contract of rendering insurance services will allow “to straighten up” on the market of liability insurance to instill confidence in population for instruments of bank insurance policy which the country’s development of economy will benefit from.

Key words: Liability insurance, government insurance organization, to straighten up, population, Stavropol

INTRODUCTION

Insurance is in the researchers judgment an important instrument of insuring of national and regional economic safety. During successful growth of economy in Russia and rise in the living standard of population and also under conditions of crisis great importance must be attached to the factors maintaining economic security of the citizens, business entities and state. The principle in security system is formation of package of measures to compensate for material damage done by different undesired events. One of the forms of counteraction of such threats is insurance (Rusetskaya, 2010).

Problems and perspectives of development of insurance sector: Professor Yuldashev (2011) in his interview substantiates that “Russia’s insurance market is so underestimated that I can’t stop mavelling”. Executive authority of the country “does not see vast possibilities”.

The problems of the present Russian insurance market which continue to be pressing over a period of 10 years have become aggravated considerably and acquired system character. The most significant of them one can consider the following:

- Retentive disproportions of the market
- Worsening of interaction with consumers of insurance services and insurance product sales slowdown
- Growth of unprofitability in the main segments of insurance and fall of common profitability
- Problems of functioning insurance infrastructure, its legal constituent part in particular (Prokopeva, 2015)

It should be also noted, the cardinal today’s problem of insurance sector absence of social orientation of insurance business. The very essence if the Russian economy determines public necessity to form the system of insurance not as “market” gain instrument for

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individual representatives of “insurance business” but as official instrument providing stable functioning of the economy of Russia. The ability to perform this role is a priority criterion of the estimate of existence necessity of professional participants of insurance relations and the efficiency of government management of insurance system (Laikov, 2015).

Liability insurance implies liability before the citizens and business entities in consequence of one or another activity or inactivity from the insured person (Fedorova and Ekonomist, 2012).

It has considerable distinctions from the other lines of insurance. So in contrast with property insurance where the objects are definite property rights or property goods, the liability insurance protects welfare on the whole. Liability insurance being obligation of the insure consisting in reparation of damages when the loss occurs within a fixed limit also differs from personal insurance that means payment to the insured person or benefit to the acquirer of a certain amount at risk when the occurrence of events connected with life or earning capacity of the insured person.

Thus, liability insurance for insured persons implies protection of certain claims to liability gives opportunity to shift the risk of liability to the insurance company and makes the insurer a mediator between the insured person and the aggrieved party when the loss specified occurs.

According to the liability insurance contract under article 931 of the CC of the RF the risks of liability for obligations occurring as a result of causing damage to the life, health or property of other people and also the risks of liability of an insured person or another person who are rested with this obligation are insurable.

At the same time, it is necessary to have three essential conditions for occurrence of legal relations between the parties within the liability insurance (Tsyganov and Sahirova, 2013):

- Occurrence of damage (physical, moral, material and so on)
- Occurrence of guilt, unlawful act or act of omission
- Existence of ties between these conditions

At that the most important feature of liability insurance is the mechanism of interaction of the subjects of insurance relations (Fig. 1).

So by occurrence of contingency the injured party presents a claim to the insured person for reparation of damages or directly to insurance company where liability of the insured person has been secured by the moment of the occurrence of contingency. The insurer under the contract of insurance with injurious person makes

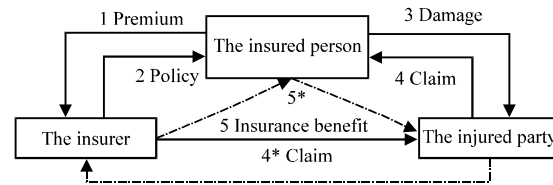


Fig. 1: The mechanism of interaction of the parties under liability insurance

decision on the payment of insurance indemnity to the damaged party. In case of absence of disagreements between the parties on adjustment of claims on the insurance case, the insurance company pays insurance compensation to the damaged party directly or through the insurer. In case of disagreement between the parties, the further settlement of issues on the insurance indemnity is effected by judicial means (Rusetsky and Ushakov, 2015).

Thus, insurance of liability is an economic instrument charged with not only high social significance but able to become an effective mechanism in the system of government economic regulations.

At the same time, quantitative and risk constituents of the insurance activities security against which provides maintaining balance of socioeconomic processes in society and ensuring stability of the financial system are subject to individual consideration. Risks of the insurance companies are considered not only as the factors of internal and external action accompanying their activities but as the causes of occurrence and development of insurance relationship. At the same time, overall risk of the insurance organization is a probability of change of assets quality, their impairment that affects the level of the financial stability and forming the finance result of the insurance activity (Rusetskaya *et al.*, 2010).

In risk classification of the insurance organizations, the general and specific risks can be differentiated. There by the general risks are characteristic to all the parties of the financial and economic system of the country and include political, economic and psychological risks. The specific risks are conditioned by the peculiarities of the rendered services insurance protection and include technical, investment and non-technical risks. Here, the categories of specific risks contain the subcategories of the concrete risks for example, the technical risks include a risk of inadequate tariffs, a risk of reinsurance, a risk of insufficient policy reserve, a risk of severe losses and others (Kovalev, 2011).

At the same time, risk is a combination of probability of the occurrence of the insured event and its consequences at different levels of interrelations of the

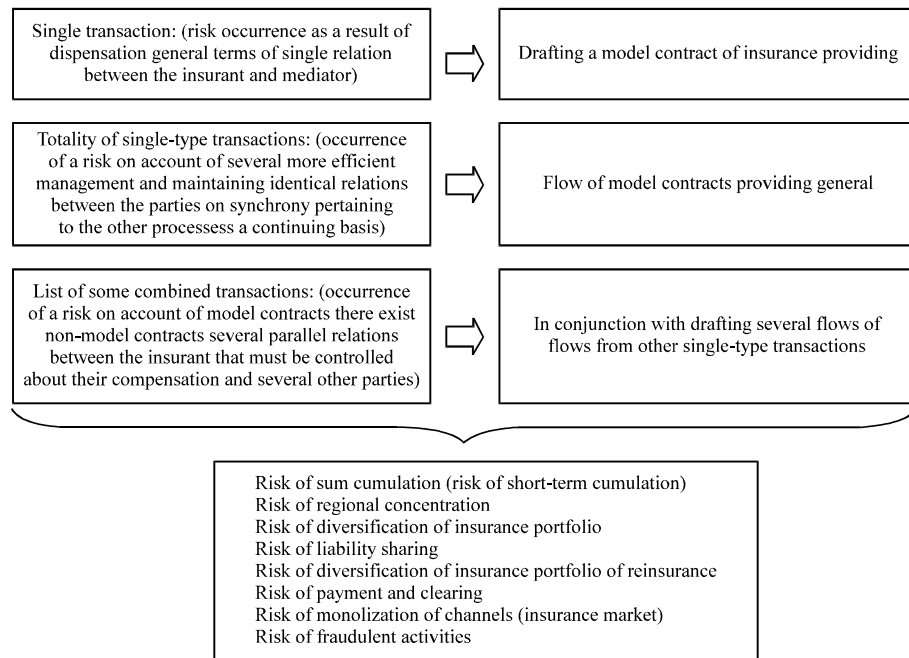


Fig. 2: Levels of the interrelation of the insurance market subjects in the context of their own risks; it has been developed by the researchers according to the source data (Fedotov, 2009)

subjects of the insurance market (Zhurko, 2008). So it is obvious that degrees of risk for single agreement, totality of single-type agreements and enumeration of total agreements will be different. Though in spite of different degrees and possibilities of the risk occurrence for mixed degrees of the interrelations between the subjects of the insurance market and peculiarities of their functioning, the list of possible risks is the same for all the degrees. Thus, the insurance relations are exposed to the risks of sum cumulation, regional concentration, diversity of insurance portfolio and reinsurance portfolio, risks of liability share, monopolization of the insurance market and the risks of cheating from all the parties of the insurance process (Fig. 2).

Thus, the risks of various effects and manifestations at all levels and stages of development of the interrelations of the insurance market subjects are inherent to the insurance activity. And under these conditions for securing capacity to pay and further development, it is necessary for the insurance organizations to conduct efficient policy on management of risks by means of ensuring relative safety of risk transformation, adapted system of their qualitative and quantitative estimate, informative, reliable and efficient control over determining negative tendencies in activity of the subjects of insurance.

MATERIALS AND METHODS

Dynamics of development of the insurance market in Russia: Concerning qualitative manifestation, the Russian insurance market currently is characterized by sudden reduction of rate of increase of inpayments, increase of unprofitableness of the insurance activity, considerable lowering of economic efficiency of internal funds of the companies, high level of population's dissatisfaction with qualities and terms of claims settlements after insurance cases that undoubtedly, creates general negative background at the insurance market.

So inpayments from the whole of the market in 2014 accounted for 987, 772, 587 thousand rub. (the rate of increase over a period of 2012-2014, 22.09%), insurance benefits 472, 268, 587 thousand rub. (the rate of increase 27.83%), pay-out ratio 47.81% (Fig. 3).

It should be noted that general slowdown of rate of the insurance payments is connected with the current negative situation in the country's economy. Hereby, the pay-out ratio over the analyzed period is characterized by considerable increase to 2.15 pp that is caused by share increase of judicial settlement of the losses to considerable extent.

At the same time, the greatest rates of payment increase in 2014 characterize the insurance of liability in contract (increase over the analyzed >5 times) and the

Table 1: Insurance leading companies of the Russian insurance market in 2014

Places	Inpayments			Pay-outs		
	Insurance companies	Milliard rub.	Percentage	Insurance companies	Milliard rub.	Percentage
1	Rusgovinsurance	129.866	13.15	Rusgovinsur	55.0612	11.66
2	Cogas	105.230	10.65	Ingovinsurance	48.3964	10.25
3	Ingovinsurance	65.774	6.66	Cogas	42.173	8.93
4	Reko-guarantee	65.252	6.61	Reko-guarantee	38.296	8.11
5	Alfa insurance	47.780	4.84	Agreement	27.000	5.72
	The whole market	987.773	100.00	The whole market	472.269	100.00

It has been made up by the researchers according to the source data

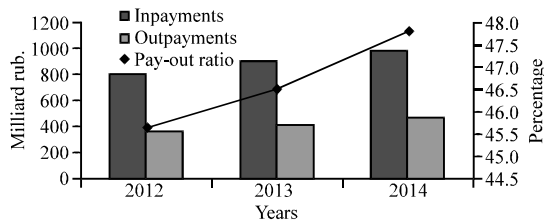


Fig. 3: Dynamics of the Russian insurance market over the 2012-2014s; it has been developed by the authors according to the source data

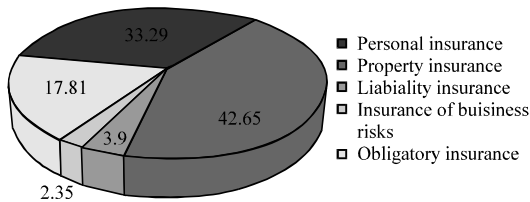


Fig. 4: Structure of the insurance market in 2014 (%); it has been made up by the authors according the source date

insurance of life (>2 times). This tendency is caused in the first case by the increased interest of the society in protection of liability in contract in the second case by practice of the insurance of debtors' lives in consumer lending. The structure of the Russian insurance market is subject to individual characteristic (Fig. 4).

Thus, the greatest unit weight of the insurance market in 2014 of property insurance amounted to 42.65% of the whole of the market and personal insurance to 33.29%. Hereby, over the analyzed period a share of the personal insurance has been greater to 4.09 pp that is caused by fast growing life of decrease of specific weight if automobile insurance.

Overall inpayments on voluntary and civil liability in 2014 amounted to 37, 850, 808 thousand rub., pay-outs 10, 304, 472 thousand rub., pay-out ratio 27.22%. Thus, increase of the insurance contribution over the analyzed period amounted to 26.37%, pay-outs 94.08%. At the same time, insurance in contact liability is characterized by the greatest increase of inpayments (Fig. 5).

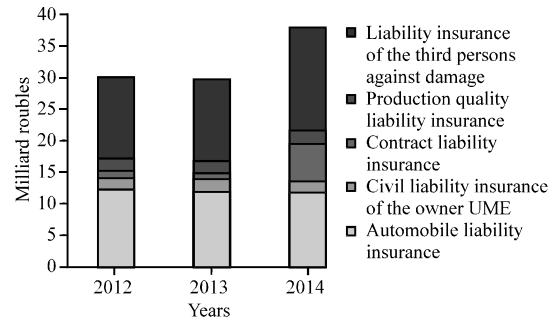


Fig. 5: Structure dynamics of civil liability insurance for years 2012-2014; it has been made up by the authors according to the data source

At the same time, civil liability insurance of the third persons against damage 42.92%, automobile liability insurance 31.27% and contract liability insurance 15.74% are characterized by the greatest share of the whole of the market of the civil liability in 2014.

It should be noted that over the analyzed period, it occurred the decrease of contributions of civil liability insurance of the owners of Unsafe Manufacturing Entities (UME) to 8.5 pp and automobile liability insurance to 4.09 pp that was caused by considerable increase of the tariffs on corresponding types of insurance coverage. At the same time, a considerable increase of the share of contract liability insurance indicates an enhanced role of security of contractual relationship between society and business. It should be also characterized, the leading insurance companies of the Russian insurance market in 2014 (Table 1).

Thus, the leader of the Russian market in 2014 is the insurance company Rusgovinsurance, the total value of inpayments amounted to 129,866 milliard rub. (13.15%), pay-outs 55,061 milliard rub. (11.66%). Also, the leading insurance companies on insurance payments and pay-outs are cogas, ingovinsurance and reko-guarantee.

At the same time, it should be noted that according to the insurance companies poll on the forum "future of the insurance market" in November 2014, the most

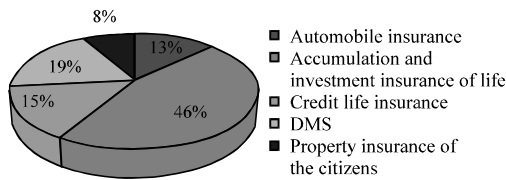


Fig. 6: Data of the poll of insurance companies on the forum "Future of the insurance market"

needed perspective and developing segment in 2015 will be accumulation and investment insurance of life (Fig. 6).

Thus, the Russian insurance market in the period analyzed Russian on the one hand, having the problems in individual insurance sectors, prevents sharp decrease of quality of the settlement of losses that is promoted by existing court practice. On the other hand, there exists probability of bankruptcy and voluntary exit of the insurance companies from the market caused by financial difficulties. At the same time, the insurance companies under these conditions conduct an active work on search and creation of new models of sales, development and launch of new insurance products and also on increase of confidence of population and business in the insurance sector.

RESULTS AND DISCUSSION

Investigation on the study of preferences of the clients of the insurance sector: In connection with the above-stated there has appeared a long-felt need to study the population's attitude to liability insurance that characterizes preferences of potential clients, their shaped outlook and also perspectives of the further developed of this insurance sector.

Within the scope of this investigation, we have conducted the questionnaire in the town of Stavropol polled 493 respondents. At that the greatest part of the polled were the respondents aged from 20-40 with a higher education (48.28% of all polled respondents) and also office staff and specialists (38.34% of all polled respondents).

The main results of the investigation indicate that 46.86% of the respondents (231 people) have heard about liability insurance but know little about it, 30.02% (148 people) know enough. At that 11.97% of the respondents (59 people) know nothing about this segment about this segment of the insurance market (Fig. 7).

At the same time, the level of awareness of liability insurance directly depends on the level of education. Thus, 55 respondents who have noted that they are well-aware of liability insurance, 43 respondents have got a higher education and 48 of 59 who do not know

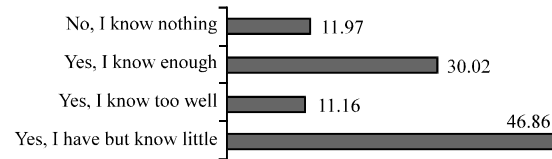


Fig. 7: The structure of the polled respondents according to the level of liability insurance awareness (%); it has been made up by the authors according to the data of the questionnaire poll; do you anything about liability insurance?

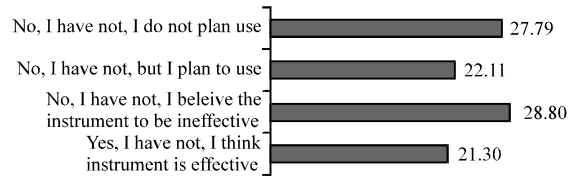


Fig. 8: The structure of the polled respondents according to consumer preferences in relation to liability insurance (%); it has been made up by the authors on the data of questionnaire have you used or do you plan to use instruments of liability insurance

anything about this segment of insurance have secondary, special or only secondary education. The structure of the polled respondents according to consumer preference in relation to liability insurance is reflected in Fig. 8.

Thus, the greatest number of the polled respondents 28.80% (142 people) have used the instrument of liability insurance but believe them to be ineffective. At the same time, 27.79% of all the respondents (137 people) have not used these instruments and do not plan to use them. At that 99 of 142 respondents who have used the instruments of liability insurance but think them to be ineffective are males and 75 of 109 polled respondents who have not used but plan to use these instruments are females. At the same time, 83 respondents have higher education and 47 are business owners or hired manager of 105 respondents who believe the instruments of liability insurance to be effective. The structure of the polled respondents in relation to rates of dues of liability insurance is presented in Fig. 9.

Thus overwhelming majority of respondents 48.07% (237 people) believe that the rates of dues and insurance premiums on insurance of liability are speculatively inflated, 32.05% of all polled respondents (158 people) think the rates to be biased that has been caused by financial and economic situation. This circumstance is a restrictive psychological factor of the development of the liability insurance market as any consumer will agree to deal with reluctance if he is convinced that the cost of this

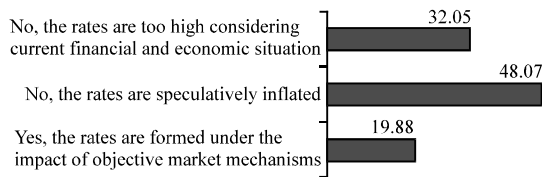


Fig. 9: The structure of the polled respondents in relation to rates of dues on liability insurance percentage; it has been made up by the authors on the data of questionnaire poll; do you think the rates of dues on liability insurance to be objective?



Fig. 10: The structure of the respondents to be polled in relation to upward bias of liability insurance rates percentage; it has been made up by the researchers on the data of questionnaire poll; who is to blame upward bias of liability insurance rates?

service is inflated. At the same time, 19.88% of respondents (98 people) note that the rates of dues and insurance premiums are not inflated and formed under the impact of the objective market mechanisms. The structure of the polled respondents in relation to upward bias of rates on liability insurance is presented in Fig. 10.

According to the respondents, the cause of upward bias of rates and insurance premiums of liability insurance lies in “big appetites” of the insurance companies that 46.04% of all respondents to be polled (227 people) have pointed to.

The recommendations of acquaintances and friends have profound influence on the choice of offers on liability insurance and insurance company. This fact has been confirmed by 36.71% of the polled (181 respondents) and the value of insurance rate by 33.06% of all respondents (163 people), this bias is reflected in Fig. 11.

It should be noted that the value of the insurance rate is conspicuous, psychologically tangible figure that can push a potential insured person towards or away the choice of concrete offer on liability insurance.

The structure of the polled respondents in relation to the limiting factor of liability insurance development is reflected in Fig. 12.

Lack of confidence in the pursued sectoral policy is of much concern to the potential insured persons 29.01% of all respondents (143 people), instability of economy and uncertainty about future 22.72% of the

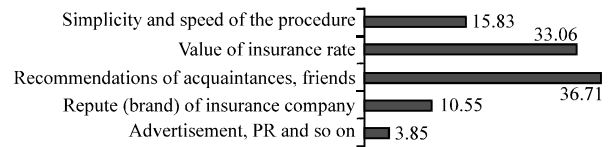


Fig. 11: The structure of the respondents to be polled in relation to the choice of insurance company (%); it has been made up by the authors according to the data of questionnaire; what factor is the most important for you when choosing liability insurance company

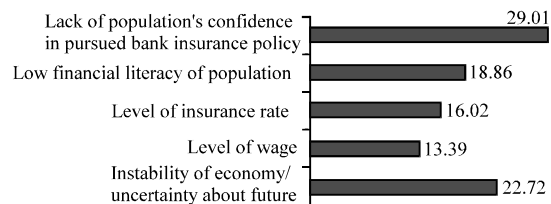


Fig. 12: The structure of the polled respondents in relation to the limiting factor of liability insurance development percentage; it has been developed by the author; define the main limiting factor of the development of liability insurance instruments

polled (112 people) and low financial literacy 18.86% of all the respondents (93 people). These circumstances push the potential insured away from receipt of the liability insurance protection in many ways.

According to the majority of respondents, liability insurance has not become more available over the last 3 years that 43.61% of all the respondents (215 people) point to. At the same time, they are more who think that this sector of insurance has become more available over the last 3 years 31.85% (157 people) or remained unchanged 24.54% (121 people). This bias is reflected in Fig. 13.

On the basis of the above-stated one can conclude that the population of the town of Stavropol has rather negative attitude to the market of liability insurance. Most respondents to be polled believe the instruments being ineffective, the rates are speculatively inflated by the insurance companies and the main deterrent for this sector is discredit upon the pursued bank and financial policy.

To instil confidence of population in activity of pecuniary institutions in whole and insurance policy in particular all the subjects of finance and economic relations must be liable, the principal instrument of it is insurance.

It has been also implemented a lot of programs on bank insurance presupposing insurance protection



Fig. 13: The structure of the polled respondents in relation to availability of liability insurance percentage; it has been made up according the results of questionnaire; has liability insurance become more available over the last 3 years

against such risks as intended acts of the staff, loss from document and signature forgery, transactions on the securities market, market cards loss, loss from false coins from electronic and computer-related frauds.

At the same time at the financial markets, it is realized the program of liability insurance of pecuniary institutions for infliction of loss that provide insurance protection with regard to damage inflicted on the clients or contractors in consequence of negligent activities, errors or dereliction of the staff and managers of the pecuniary institution.

It should be noted that in spite of variety of programs on liability insurance of pecuniary institutions, there is no effective mechanism of liability insurance of the very insurance companies. Mechanism of reinsurance being in use at the insurance market implies transfer by the insured person under the contract to another insured person of some of his liabilities to clients and as a rule, the case in question is reinsurance of big risks (Elembayeva, 2014).

CONCLUSION

In our judgment to solve this problem, it is necessary to establish government insurance organization, the objective of which will be not only liability insurance of the Russian insurance companies in relation to all the categories of consumers of insurance services but control of their activities including insurance rates, commitment fees and the issues of pretrial settlement of claims.

At that the program on insurance of liability for nonperformance or improper performance of the contract for rendering insurance services. In compliance with this program the insurer is government insurance organization being entitled to insure liability for nonperformance or improper performance of the insurance contract, the insured person is an insurance company being entitled to insure in the territory of the RF and the beneficiary is a person entering into agreements with the insurant on rendering insurance services.

Thus, establishment of government insurance organization and realization of the program on insurance of liability for nonperformance or improper performance of the contract for rendering insurance services will allow “to look some effective actions” on the insurance market, instil confidence in population for the instruments of insurance policy that will favour decrease of risk load to economy of the country.

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