

**ISCKMC 2022****International Scientific Congress «KNOWLEDGE, MAN AND CIVILIZATION»****THE IMPACT OF THE INSURANCE MARKET ON INFLATION  
IN THE COUNTRY**

Alkhozur Kharonovich Tsakaev (a)\*, Zaurbek Aslanbekovich Saidov (b)

\*Corresponding author

(a) Kadyrov Chechen State University, Grozny, Russia, tsakaev@inbox.ru

(b) Kadyrov Chechen State University, Grozny, Russia, z.saidov@chesu.ru

**Abstract**

The article presents the study of the essence of the economic category of *insurance* in the context of such categories as *finance*, *credit*, and *money*. The influence of insurance (as a branch of the financial economy) on inflation in modern state public legal entities with developed and developing economies is revealed. It is shown that the insurance market is more developed in countries with developed economies. The level of insurance penetration into the national gross domestic product (hereinafter, GDP) is noticeably higher than the threshold of 2.0 %. In emerging economies, the level of insurance penetration into GDP is significantly below this threshold. In advanced economies, the inflation rate is usually below 2.0 %. In emerging economies, the inflation rate is sometimes double-digit. The authors formulated and substantiated a working hypothesis about the impact of insurance on the level of inflation in the country – the higher the level of penetration of insurance into the national GDP, the lower the level of inflation in the country, and vice versa – the lower the level of penetration of insurance into the national GDP, the higher the level of inflation in the country. In modern Russia, where the level of insurance penetration into GDP is unacceptably low for a superpower claiming the status, it is necessary to adopt a special program for accelerated development of the national insurance market, including institutional and functional changes.

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## 1. Introduction

Insurance as a branch of the financial economy, acting to protect economic entities from risks in the process of their production of goods and services, natural disasters, and loss of health. At the early stages of social production, insurance had a natural form of damage distribution, and insurance funds were formed by natural contributions – grain, fodder, and other tangible assets. The object of insurance is a risk that has a random nature of occurrence, which is understood as a random emergency event in the future. At the same time, the occurrence of this event is accompanied by uneven damage, which made it possible to use the method of closed damage layout. This was the essence of insurance in the natural form of damage distribution. Modern social production has a monetary form of damage distribution, but the method of joint closed damage distribution has remained unchanged, so the essence of insurance has not changed. Further development of insurance will follow the path of improving the monetary form of damage distribution, while maintaining the natural form.

Insurance is a systematized set of economic relations when insurers making insurance contributions to insurance funds, and the use of this funds to compensate for damage to property, health, and life from the occurrence of an insured event. Insurance is an independent economic category along with finance, credit, and money. At the same time, these categories are closely interrelated and interdependent. This is also manifested in their joint influence on economic and social processes in public legal entities – the level of economic growth, real incomes of the population, employment, inflation, etc.

## 2. Problem Statement

According to the data of the Bank of Russia (CBR, 2021), as of September 30, 2021, there were 225 insurance business entities in Russia, including 151 insurance organizations, 58 insurance brokers and 16 mutual insurance companies. The volume of insurance premiums for 2021 amounted to 1356,131.2 million rubles, the number of insurance contracts concluded – 1848,12918, the average insurance premium was 7.3 million rubles. The size of assets amounted to 4164464.3 million rubles, capital – 945030.6 million rubles and insurance reserves – 2681848.1 million rubles. Profit before tax amounted to 189785.7 million. The sliding loss ratio was 49.5 and the sliding expense ratio was 43.1. The concentration level for assets was: top-5 – 49.9 %, top-10 – 67.0 % and top-20 – 81.6 %; for capital: top-5 – 52.6 %, top-10 – 69.8 % and top-20 – 81.7 %; on insurance premiums: top-5 – 50.3 %, top-10 – 73.0 % and top-20 – 86.1 %; for insurance payments: top-5 – 44.6 %, top-10 – 69.0 % and top-20 – 85.1 %. This is the current state of the Russian insurance market.

Inflation in Russia, according to data (Rosstat, 2021) as of September 27, 2021, was 5.2 %. In this regard, the task of identifying the impact of the insurance services market on the inflation rate in a modern state, and assessing the degree of this influence, is being updated.

## 3. Research Questions

Today, there are studies of the relationship between inflation and insurance as a branch of the financial economy. Thus, David Babbel (1979) noted the impact of inflation on life insurance costs, and

even earlier, David Houston (1960) noted the impact of inflation on life insurance. Bohnert et al. (2015) note about the impact of inflation on insurance, except for life insurance. On the other hand, the impact of insurance on the inflation rate in the country is noted by the financial director of MAPFRE Fernando Mata (2021) and other representatives of the insurance industry.

Data on inflation in Japan, the EU, China, the UK, Canada, the USA, Russia, and other countries of the modern world, given in the annual report of the Bank of Russia for 2020 (CBR, 2020) show that in Japan, Germany, Italy, France and 19 other EU countries from December 2019 to December 2020 deflation has been observed for a year, and in developing countries inflation increased. At the same time, during the period under review, there was an increase in the inflation rate in Brazil, Turkey, and Russia. The calculation of the share of insurance premiums to national GDP for developed and developing countries, compiled on the basis of data (CBR, 2021), shows that countries with developed economies, in which there is a high level of development of the insurance market (the share of insurance premiums to national GDP is higher than the global average), have inflation below the global average – these are USA, Japan, Germany, Great Britain, France, Italy and others. Developing countries, such as South Africa, Brazil, India, Turkey, Russia and other emerging economies with a weak insurance market (the share of insurance premiums to national GDP is below the global average), have inflation above the global average.

The dynamics of the share of insurance premiums to Russia's GDP compiled by us, that is, the level of penetration of insurance (without life insurance) into GDP, for 2005–2021 showed a low level of development of the Russian insurance market. So, for 2021, it amounted to 1.60 %, – the level of development of insurance as a branch of the financial economy does not correspond to the current and future needs of the real economy of Russia. The level of insurance penetration into Russia's GDP during the period under review had unstable growth dynamics. Even though the increase in the share of insurance in the structure of Russia's GDP was noticeable in 2018 and 2020–2021, but it did not lead to qualitative changes to demonstrate external signs of the impact of the insurance market on inflation in the country. Thus, both the dynamics of the share of insurance premiums to Russia's GDP and the dynamics of inflation in the country during the period under review do not show a clear link between the state of development of the insurance market and the level of inflation in the country. That is, it can be recorded that the share of insurance premiums to Russia's GDP of 1.60 % does not allow us to judge whether there is a correlation between insurance (as a branch of the national economy) and inflation in the country. At the same time, it is important to note that inflation, core inflation and average annual inflation (an increase in % compared to the corresponding month of the previous year) for the period 2018–2020, presented in (CBR, 2021) showed increased volatility. It was from July 2018 to April 2019 that a jump in inflation in Russia was noticeable, and basic and average annual inflation grew with almost the same acceleration, but with a lag of 1–2 months), with a consistently low share of insurance premiums in GDP (1.36–1.43 %).

In addition, as the regulator of the entire Russian financial market, including the insurance market, the Bank of Russia notes that in 2020, factors related to the spread of coronavirus infection had a significant impact on inflation in the country. At the same time, in the market of services (including insurance), the price increase was restrained – in December 2020, their annual growth was 2.7 %, which

is 1.1 percentage points less than the level of December 2019 (CBR, 2021). Finally, in 2021, the international audit company (KPMG, 2021) prepared a report on the development of the insurance market in Russia for the period 2021–2024. Thus, according to KPMG's analysis, the total volume of the insurance market in Russia by 2024 will reach 2,323 billion rubles, and the average annual growth rate is 11.6 %. But if this volume of insurance premiums is correlated to the projected value of Russia's GDP for 2024 at 122191.5 billion rubles (based on the adjusted GDP growth rate of 3.0 % for 2022–2024 (Ministry of Economic Development of the Russian Federation, 2021), then here we get a share of only 1.90 %, which is also below the global average threshold of insurance penetration into GDP for developing countries in the region of 2.0 %, after which the impact of insurance on the inflation rate in the country becomes obvious.

It is all this that allows us to assert that there is a certain lower level (threshold) in the development of the insurance market (the level of penetration of insurance into the national GDP, in %), from which insurance (as a branch of the financial economy) begins to really affect the inflation rate in the country. Apparently, this level of development of the national insurance market is different for all countries, but it is present in every state public legal entity.

Another question is to determine the channels of influence of insurance on the inflation rate in the country. Apparently, their search should be sought in the plane of the real impact of insurance (as an economic category) on the state of money circulation in terms of the volume of money supply and GDP produced. Namely, the identification of the possibility of insurance (as a branch of the financial economy) in providing the banking sector: both the mobilization of funds into circulation and their absorption from circulation. Of course, a detailed analysis of the active and passive operations of Russian insurance companies on the Russian stock market, including on the Moscow stock exchange, will allow us to answer the question – what share of operations on the securities market account for insurance companies.

It is important to consider the chain of influence of inflation on the development of insurance, namely through the process of forming an insurance premium. So, today the dependence of the insurance premium on the capital structure of the insurance company is already obvious (Tsakaev & Saidov, 2018), which in turn depends on the processes of their mergers and acquisitions (Taimaskhanov et al., 2014).

#### **4. Purpose of the Study**

The identification of the fact itself and the quantitative and qualitative assessment of the impact of insurance (as a branch of the financial economy) on the inflation rate in Russia today is of great economic importance. Such a study is of relevance, as it allows us to reveal a wider range of influencing factors on both the dynamics of inflation and inflation expectations in modern Russia. It was this circumstance that was the basis for choosing the purpose of this study.

The purpose of the research in this article is to identify and substantiate the relationship between insurance as a branch of the financial economy on the one hand, and inflation as a state of development of society within the framework of state public legal education, on the other. Within the framework of this study, the following working hypothesis was formulated: in developed countries, inflation is lower than the global average and the share of insurance premiums to national GDP is higher than the global

average, and in developing economies, inflation is higher than the global average and the share of insurance premiums to national GDP is lower than the global average.

## 5. Research Methods

Methods of observation and collection of facts, analysis, and synthesis, as well as a systematic approach were used to study the impact of the state of the insurance services market on the inflation rate in Russia and abroad.

## 6. Findings

Studies have shown that the formulated hypothesis turned out to be correct. In developed countries, inflation is lower than the global average and the share of insurance premiums to national GDP is higher than the global average, in developing countries, inflation in the country is higher than the global average and the share of insurance premiums to national GDP is lower than the global average.

There is a lower threshold value for the penetration of insurance into the national produced GDP, after exceeding which the link between insurance (as a branch of the financial economy) and inflation in the country becomes obvious.

The level of insurance penetration into Russia's GDP has not reached its threshold value today, and therefore it can be stated that insurance as a branch of the financial economy still has little effect on the inflation rate in Russia.

The development of the insurance services market, and above all in its institutional (allocation of its own specialized regulator) and functional (expansion of the boundaries of the insurance business application) format, restrains inflation in the country.

The connection between insurance and inflation in the country is manifested through the activity of insurance organizations, primarily in the securities market. The wider the permitted list of securities for Russian insurance organizations, the greater this connection is.

## 7. Conclusion

All this allows us to make the following suggestions. During the period of a sharp increase in inflation in Russia, the regulator, and the relevant state authorities (executive and legislative) should take measures to create additional conditions for the further development of the Russian insurance market.

In addition, it is necessary to expand the list of securities for investing funds accumulated in the insurance funds of Russian insurance companies to the Pawnshop List of the Bank of Russia.

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