

## INSURANCE BUSINESS DEVELOPMENT IN GLOBALIZATION AGE

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For the insurance market of Kazakhstan the changes, which manifest themselves in the increase of the insurance companies' number, owned capital, insurance reserves, assets, insurance premium revenues and insurance payments volume are indicative. Together with that the rate of Kazakhstan insurance business growth are not high enough. In connection with this the insurance supervision institution needs to take measures on the insurance market development security.

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In the present-day international economics the financial sector has become the defining one. And the insurance can be recognized as one of the most integrated forms of the financial industry.

As a whole the processes of integration and globalization have actively influenced on the qualitative and quantitative parameters of the international insurance market, changed its structure, the system of international trade in insurance services, state regulation of insurance activities within the framework of national economies. It is becoming evident that both at the world-wide and regional levels there is a global integration of insurance markets, which promotes the movement of cross border capital flows to their most productive use.

The national insurance market integration into the international economics promotes, on the one hand, the increase of the insurance market capital intensity and strengthening the financial soundness of insurance companies, and on the other hand, hazards and risks, which the state and national insurers concern about, appear. Undoubtedly, under such circumstances a reasonable state policy taking into account the national insurance market interests is needed.

Being one of the most important elements of the modern economics system, the insurance business tests the globalization influence for itself to the full extent. In connection with this the native insurance business evaluation for the purpose of defining its competitive power on the threshold of the WTO accession is especially topical for Kazakhstan. The insurance business, one can say, is at the stage of development.

As the main distinctive feature of the present-day insurance business of Kazakhstan one can segregate a high level of the regulatory structure development and state regulation. Really, many regulatory legal acts dedicated to regulating the relations in the area of insurance are based on the EC legislative provisions and the acts adopted within the framework of the WTO. The RK Agency on the financial market and financial institutions regulation and supervision (AFS), which carries out a dedicated policy on the insurance operations clarity and legality promotion appears as the main state regulatory authority.

The Kazakhstan insurance market at the present stage is comparatively small both in terms of the gathered premium and insurers' volume (41 insurance companies, 6 of which are with foreign participation), that, however, derogates its dignities and importance among insurance markets of other countries of the CIS by no means. A sustainable growth of the republican business life in recent years and the measures taken by the state on the national insurance industry reforming promoted an accelerated development of this branch. For the insurance market of Kazakhstan the changes, which manifest themselves in the increase of the insurance companies' number, owned capital, insurance reserves, assets, insurance premium revenues, insurance payments volume, which are shown in table 1, are indicative. As a whole the dynamics of the main showings of the insurance market development for the period of several years is characterized positively.

**Table 1.** Showings of Kazakhstan insurance market development (MIO tenge)

№	Showings	2005	2006		2007	
			sum	rate of growth	sum	rate of growth
1	insurance companies number	37	40	8,1	41	0,3
2	total assets	73 346,3	135 489,7	84,7	223556,1	65,0
3	owned capital	45 259,8	80 200,7	77,2	126276,8	57,5
4	insurance premiums	67123,1	120265,9	79,2	147343,3	22,5
6	insurance payments	10769,8	14092,2	30,8	45749,5	2,6 times
6	obligations	28 086,5	55 289,0	96,9	97279,3	75,9
6.1	pure insurance reserves among them	21 010,5	45 749,5	2,2paza	86359,8	88,8
6.2	other obligations	7 076,0	9 539,5	34,8	10919,5	14,5

Note – made up on the basis of the RK AFS statistical data

The data of table 1 confirm the qualitative shifts in the Kazakhstan insurance market development. For the analyzed period a noticeable consolidation of native insurance companies in the volume of total assets, owned capital and insurance reserves took place. The insurance operation volumes increased considerably in the Republic, therefore the revenue of insurance premiums and payment of insurance indemnities, which testify to carrying out of accepted obligations by the insurance companies under insurance contracts, increased as well.

A serious positive tendency of the native insurance business development is the insurance companies' financial stability elevation. Since the 31<sup>st</sup> of December, 2007, a third stage of the severization of requirements to the insurance companies' minimal authorized capital has become operational. According to the Kazakhstan Republic Agency Instruction on the financial market and financial institutions regulation and supervision from March, 25, 2006, N87 "On regulation values and design procedures of insurance (reassurance) institution prudential standards, forms and time for prudential standards completion reports submission" depending on the character of their carried out activity the minimum permissible dimen-

sion of the insurance companies' authorized capital should make:

at the "comprehensive insurance" license receiving – 430 (four hundred and thirty) million tenge;

at the "life insurance" license receiving – 670 (six hundred and seventy) million tenge;

at the "comprehensive insurance" license and reinsurance license receiving – 450 (four hundred and fifty) million tenge;

at the "life insurance" license and reinsurance license receiving – 690 (six hundred and ninety) million tenge;

at the reinsurance license receiving with performing reinsurance as an exclusive kind of activity – 530 (five hundred and thirty) million tenge [1].

The main causes of the severization of requirements to the minimal owned capital are the high rate of the gathered insurance premium volume growth insecured by the corresponding rate of the owned capital growth and the convergence to the requirements established by the EC Directives, that is 2-3 Mio Euro.

In spite of such achievements and not bad insurance market development growth ratios, according to analysts' estimates, the rate of Kazakhstan insurance business devel-

opment is insufficient, and the insurance companies' level doesn't satisfy the growing requirements of economics and financial services market. Like in other CIS countries, in the structure of joint insurance premium of Kazakhstan insurers the "comprehensive insurance, i.e. different from life" branch, the share of which on 1.01.2008 made 96,8%, while the share of life insurance revenues - 3,2% in all, dominates.

To our opinion, the very sector of long term funded life insurance of natural persons – the capital intensive sector requiring substantial investments and serious consumer confidence credit, will turn out to be the most sensitive in conditions of integration processes intensifying. Here native insurers trail large multinational companies with multiyear history and billionth capitals. To tell the truth, it isn't followed by the fact that all the life insurance companies today will have to leave it. As a whole, the native life insurance market should gain credence and occupy its niche in the future.

As it is known, one of the insurance operations' financial stability security terms is reinsurance. Complex risks guaranteeing the payment of a gross premium in the cases, when the local market capacity is not enough to cover the risk, are generally reassured outside Kazakhstan. The volume of the Kazakhstan reinsurers' insurance premiums transmitted for the reinsurance of nonresidents made 61681,2 Mio tenge or 33,5% from the total insurance premiums volume. The share of premiums transmitted to Russian reinsurers made 13,8 %, the USA – 21,2%, Germany - 15,8%, Sweden – 7,1%, Switzerland – 3,9%, Great Britain – 6,9%, Bermuda Islands – 2,1%. In the aggregate amount of insurance premiums transmitted for reinsurance the main part occupied by the premiums on voluntary property insurance - 94,3%, voluntary private insurance - 1,5%, obligatory insurance - 4,2% [2].

As the analysis results show there is no need now to speak about the full-blooded insurance service market of Kazakhstan. For years of market changes they failed to form a

stable, corresponding to modern wants of the society, insurance service market in full. A sluggish demand of legal and natural persons for insurance services both by virtue of low income level and the formed failure of trust to the security of insurance institutions; the immaturity of market relations in the sector; the low life insurance level; the absence of a developed market of capital issues in the country, that limits the possibilities of insurance reserves distribution; the imperfection of insurance regulatory and legal framework; the national reinsurance market underdevelopment; the high volume of the insurance premiums transmitted abroad by the reinsurance channels [3] prevent the insurance market from the proper development.

In the long term, for the existing insurance market problems solution we think the performance of the following principal measures to be important:

- the every possible use of the insurance system potential as one of the sustained industrial development mechanisms of the Republic;
- the accelerated development of life and other socially meaningful types of insurance;
- the creation of optimal conditions for the development of fair competition in the insurance market, that is linked with the relevant rate reduction of insurance services, insurance products quality input, guaranteeing of clarity and security in the activity of insurance (reinsurance) institutions and insurance brokers;
- the step solution of reinsurance problems with due consideration of the restricted national insurance and reinsurance markets' potential on risk-taking, the volumes of which increase every year;
- the gradual expansion of foreign presence in the insurance market, that will allow using foreign insurers' resources for the reproductive market base development by attracting new service consumers on voluntary types of insurance.

For the purpose of government insurance enterprises' and other professional mar-

ket participants' activity supervision perfection, and also the protection of rights and interests of its subjects it is necessary to: improve the insurance system reliability by means of establishing of standard requirements and norms; provide the insurance services practiced internationally; establish rules, standards and solvency ratios and financial stability on the basis of the accounts composed according to the international standards of price formation for insurance services; promote the insurance campaign's financial recovery including obligatory growth of the capital and the performance of enforcement procedures on its assets management.

For the purpose of more accurate organization and functioning of the obligatory insurance system the following measures are necessary to take:

the stipulation of conditions for the receipt of a license for the right to perform the activity on obligatory types of insurance by insurance enterprises;

the continuation of the work on the pro-forma financial statements perfection;

taking measures on the part of the Government on the organization of state control for the obligatory legislation observation by the insurers.

From our point of view, these measures taking will allow providing the Kazakhstan insurance market development, promoting the competitive power of insurance companies, that is necessary under the conditions of globalization and integration of the insurance market of Kazakhstan into the world's insurance market.

#### References:

1. Instruction "On regulation values and design procedures of insurance (reassurance) institution prudential standards, forms and time for prudential standards completion reports submission" / Annex 1 to the Kazakhstan Republic Agency's Government Decree on the financial market and financial institutions regulation and supervision from March, 25, 2006, N87 // [www.afn.kz](http://www.afn.kz)
2. Insurance market current state (on 01.01.2008) // [www.afn.kz](http://www.afn.kz)
3. Financial sector development concept of Republic of Kazakhstan for 2007-2011 / [www.afn.kz](http://www.afn.kz)