

# РЫНОК ТОВАРОВ И УСЛУГ

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## MARKET PERFORMANCE AND DEVELOPMENT PROSPECTS OF UNIT-LINKED INSURANCE PLANS IN RUSSIA

### Introduction

Unit-linked life insurance, or “the English method of investment”, was invented in England in the 1960s by management companies investing in mutual funds; this method received further development in European insurance companies. Today, unit-linked insurance plans (ULIPs)<sup>1</sup> are one of the most popular tools in the insurance and investment services market, as this instrument represents a symbiosis of these two areas. These ULIPs are intensively used by people in North and South America, Europe, and Asia.

Nowadays, the insurance market in Russia is considered to be one of the most profitable and dynamically developing fields. The ULIPs which were introduced in Russia at the beginning of 2000s experienced the most substantial growth. We can observe a 75% increase in premiums in 2016, which fact indicates that ULIPs will have a huge potential in the future. Even though this type of life insurance is rather new on the Russian market, a growing number of life insurance companies are becoming interested in unit-linked insurance and starting to offer ULIPs to their clients. According to such researchers of the field as Mitram, Khan (2012), Melville (1970), Ekern, Persson (1996), ULIPs are a hybrid instrument of insurance and investment. It consists of a “protection element”, which a sum is guaranteed to be paid to the policyholder or his legal successors, and an “investment component”, which is invested in different financial instruments, according to the investment strategy of the customer, with an implication of a potentially high additional income.

The main goal of this paper is to research the features of ULIPs offered by Russian insurers, and to determine possible opportunities for the development of ULIPs on the Russian insurance market by:

- reviewing Russian and foreign scientific researchers, dedicated to a ULIP vehicle and its effectiveness and investment risk;
- analyzing features of selected Russian ULIPs, analyze their market performance;
- evaluating risk and profitability of Russian ULIPs funds;
- revealing possible directions for future growth of the market.

Even though foreign unit-linked insurance markets and the ULIPs have been thoroughly researched, there are a lot of gaps in the studies of ULIPs in Russia. The works that do exist to general. For this reason, this paper sets out to investigate the ULIPs offered on the Russian market, as well as the degree of their attractiveness to private investors.

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<sup>1</sup> On the Russian insurance market, the terms “unit-linked plans”, “unit-linked schemes” and “unit-linked products” are synonymous.

This work enables both researchers and potential policyholders to get better understanding of ULIPs on offer in Russia: to know the main characteristics of the contracts, the profitability and volatility of ULIP funds and how all these indicators vary among plans of different insurance organizations. Moreover, basing on acquired findings about products of unit-linked insurance market in Russia, some suggestions about weak points of ULIPs were made which are likely to be useful and can be taken into account when considering ways of subsequent development in this field in Russia. Additionally, the results of this work can be used in future researches in the field.

### Literature overview

Such major authors of the field as Melville (1970), Mitra, Khan (2012) defined two groups of life insurance plans: traditional plans, and ULIPs. Both traditional plans and ULIPs include two parts: the first one is the guaranteed protection part to be paid out in case of the death of the insured person; the second part is the saving component to be invested in different assets. The main difference of ULIPs from traditional plans is that the former imply a potentially high income as portfolios of ULIP funds include risky and profitable securities.

Therefore, ULIPs provide both insurance protection and investment income. The constituents of saving part of ULIPs are invested in different assets, according to the investment strategy of the policy owner and his investment purposes and strategy. The income gained from allocating the constituents to profitable assets is to be received by the client account (Melville, 1970; Gavriletea, 2009).

According to Melville (1970), ULIP instruments introduce a completely new method of surplus distribution. Melville suggests that life insurance companies limit their services only to the protection, the costs connected with it, and investment management. It means that policyholders now take all investment risks on themselves. However, researchers Finogenova (2011) and Frolkina (2014) reported that this does not apply to Russian ULIPs. Russian legislation does not yet provide an opportunity for insurers to offer their customers ULIPs in their original form. It is legally prohibited to transfer investment risks from insurance organizations to individuals, so all ULIPs, offered by Russian life insurance companies differ from their foreign counter parts in this respects.

Khurana, Goyal (2010) and Akula, Kanchu (2011) examined Indian life insurance plans, their market performance, and general characteristics of Indian insurance policies. The authors identified an abundant supply not only of ULIPs but also traditional plans on the Indian market. The authors compared the most popular ULIPs offered on the Indian life insurance market and chose the best one for each of the following features: entry age, policy duration, fund options, different types of charges, and market performance of the ULIP funds. Khurana&Goyal (2010) also suggested some points which should be considered when making on decision about investing in ULIPs. For instance, the pointed out that it is important to preserve the balance between protection and profitability; that long-term policies are the most profitable ones (long-term contacts are more favourable for clients).

Mitra, Khan (2012) also discussed and compared the performance of ULIPs and traditional plans in India. Based on the growth in the volume of collected premiums and in the number of policies, they noticed that public sector insurance company LIC focuses on traditional plans rather than on ULIPs; furthermore, the authors pointed out that private insurers do their business majorly in ULIPs. However, ULIPs showed a more considerable growth than traditional plans. Akula, Kanchu (2011) also confirmed this fact. The authors concluded that ULIPs are the best option for investors who would like

to transfer their risks and maximize the income from their investments. This conclusion was made based on the growth of fees and the number of plans; however, there is no information about the profitability and risk of either ULIP or traditional funds.

Samajpati (2012) and Jodish (2014) also researched the performance of Indian ULIPs. What distinguishes their work from the ones mentioned earlier is that the authors use different quantitative methods when analysing ULIPs market performance. Researchers employed Scheme Return, Standard Deviation, and Sharpe ratio to evaluate the profitability and volatility of ULIP funds and statistical tools which enabled them to make a strongly reasoned conclusion about the plans that showed the best performance. According to the findings of Jodish (2014), from the point of view of overall market performance, there is no difference between investing either in ULIPs or traditional schemes, as both types of plans are affected by market fluctuations equally. The researcher came to the conclusion that the age of the insurance company influences the returns generated by its plans. It means that the longer the company has been in business, the greater its returns are.

Gavriletea (2009) researched the performance of five ULIPs, with six to eight ULIP funds available under each plan. All the ULIPs were offered by five insurers on the Romanian market. The author conducted qualitative analyses and gave a description of ULIP funds:

- performance of the ULIP funds are connected with market fluctuations;
- it is significant for policyholders to control their investments;
- it is rational to allocate money in low risky funds during depreciation trends in the international markets and redirect it to medium or risky ones after downward trends.

Ostrowska-Dankiewicz (2015) conducted research of the effectiveness of selected ULIPs in Poland. Ostrowska-Dankiewicz selected four measures — Rate of Return, Information Ratio, Sharpe Ratio and Standard Deviation — to evaluate the risk and the profitability of allocating money to selected ULIPs. The author emphasized that the profitability of ULIPs can be measured with the help of multiple methods and that results for the same fund can be different. Therefore, it is important for clients to understand what ULIPs to invest in, using indicators used by the insurer. In this case, the potential client will have the opportunity to compare the performance of available ULIPs and to choose the optimal one correctly.

In some studies, excellent qualitative analyses were employed, but there were no quantitative parts at all and vice versa. This does not allow one to see the big picture of the field and makes the impression incomplete. Moreover, we observed lack of research focusing on Russian ULIPs. There are some qualitative works dedicated to the nature of ULIPs, however, there are no studies aimed at evaluating the effectiveness and risks of ULIPs in Russia. Hence, the authors would like to fill in the gaps and conduct research of market performance of ULIPs in Russia.

### **Data and research methodology**

The study is based on both primary and secondary data from different courses, such as the news, specialized websites, and webpages of insurance providers, brochures of ULIPs, newspapers, magazines, as well as information received through direct contact with representatives of the companies, analyzed. Information about eight ULIPs offered by eight Russian life insurance companies was collected for the research. The factors used in our study dates back to the period from 2009 to 2016 inclusive. The authors emphasized that only ULIPs that exist more than eight years are considered in order to make the research maximally indicative and relevant.

The research is divided into two parts. The first part of the research (the qualitative and the comparative analyses) will consist of an examination of several ULIPs in term

of their features, such as: entry age; duration of policies; entry sums; currencies of the policy; cancellation conditions; policy management; insurance risks; variety of investment strategies (funds); the opportunity to change them coefficient of participation; in case of death benefits. In the second part of the research, we will analyze the effectiveness of ULIPs. There are several methods of analyzing market performance of ULIPs with the help of indicators, which measure profitability and risk of investments into ULIPs. In this research Return Rate or Scheme Return, Standard Deviation, Beta coefficient, Information Ratio, Sharpe Ratio, Treynor Ration and Jensen's Measure will be used.

**Analysis of ULIPs.** The unit-linked insurance market in Russia has been showing a significant growth in the recent years. According to the Central Bank of Russia, in this segment the number of contracts has increased by 53,3% and was equal to almost 371,000 at the end of 2017. In that year, ULIPs accounted for 63,4% of all life insurance premiums. (Expert RA, 2017). Our research examined eight ULIPs of eight insurance companies, which were selected for several reasons. First, the chosen insurers are the pioneers offering the first ULIPs on the Russian market. Moreover, these companies are the leaders that collect the largest premiums in Russian unit-linked insurance market, enjoying an overwhelming 86,4% market share (Kucherova, 2017; Source: <http://www.banki.ru/news/daytheme/?id=10063487>). Therefore, the analysis of the selected ULIPs will be rather representative for the whole industry.

The authors noticed that Sberbank Life, which has almost 30% of the market, and RGS-Life (holding an almost 20% market share) provide the longest ULIPs. They are regarded as more profitable and less risky (Khurana, Goyal, 2010). Later, the authors discuss the key characteristics of the selected ULIPs. The minimal entry age is 18 years, and the maximum age of policyholders varied from 72 (VTB Life Insurance) to 83 (Renaissance Life) years. The minimal term of the ULIPs is 3 years; the maximum possible term is 10 years. The entry sum and the currency are also represented.

As far as insurance risks are concerned, traditional ULIPs provide coverage for the following: survival of the insured person until a specified date; death of the insured person, including death as a result of an accident. Some insurance companies — for instance, Sberbank Life — set time frames for the risk of death as a result of an accident. It means that if an insured person dies within 180 days after an accident, his death will be regarded as a result of this accident, and the insurance payment will be paid accordingly. It is important to emphasize that these insurance risks can vary from company to company (Table 1). The table presents discuss the variation in this part.

Table 1

#### Insurance risks of ULIPs in Russia

№	Insurer Life	Insurance risks	Insurance payment <sup>1</sup>
1	Sberbank, URALSIB, RGS, SG	surviving before the expiration of the policy	100%
		death of insured for any reason	100%
		death of the insured in a result of an accident	200%
2	VTB	surviving before the expiration of the policy	100%
		death of insured for any reason	150%
		death of the insured in the result of an accident	300%

<sup>1</sup> Calculated as the insurance premium percentage, which in increased by investment income.

End of table 1

3	AS	surviving before the expiration of the policy	100%
		death of insured for any reason	100%
		death of the insured in a result of a plane crash / shipwreck / train derailment	100%
4	Renaissance	surviving before the expiration of the policy	100%
		death of insured for any reason	200%
5	Ingosstrakh	surviving before the expiration of the policy	100%
		death of insured for any reason	100%
		death of the insured in a result of an accident	200%
		death of the insured as a result of an traffic accidents	300%

The policies of VTB Life Insurance and Ingostrakh-Life offer the maximum financial insurance protection. These policies include the standard insurance payment of 100% of the insurance premium, increased by the investment income, based on the risk of the survival of the insured person until the due date. However, there are limitations in term of what accidents are classified as insurance events. For example, the death as a result of sports activities, the death of the insured person in prison, the death of the insured person in state of intoxication (alcoholic, narcotic, or toxic), and the disappearance of the insured person.

Characteristics of the insurance risks and the insurance payments of Sberbank Life, URALSIB Life, RGS-Life and SG Life Insurance are the same. Ingostrakh-Life expanded the list of insurance risks and stated the death in the result of a traffic accident as a separate insurance risk with triple insurance premium increased by investment income as an insurance payment. The product Capital in Plus, offered by AS-Life, has the poorest insurance protection among the investigated insurers. The policyholder receives only 100% of the insurance premium in case of any of the three risks, increased by the investment income if it occurs.

The following section discusses the different aspects of the selected ULIPs. Russian policyholders can alter their ULIPs; for example, policyholder can change the fund (investment strategies), the premiums, and the prolongation of the contract. Sberbank Life (the strategy of the smart policy) provides the widest range of all the available options. VTB Life Insurance, URALSIB Life, and Ingosstrakh-Life allow their clients to change the investment strategy during the period of the contact as well as fix the earned investment income. These opportunities show the intention of these insurers to continue the development in this field. The authors of this paper also point out that RGS-Life, with its rather significant market share and its available resources for making its policy better for policyholders, does not provide any options of policy management. It might indicate that the company management responsible for the products and their development is not aimed at further expansion or development in this field of activity.

ULIPs always have a specified duration. However, there is an opportunity to cancel the policy before the date of its expiry, and to receive a particular part of the redemption sum. The sum is set by the insurer and can vary depending on how many years are left before the contract expires. (Table 2, 3). Ingosstrakh-Life offers the most advantageous cancellation conditions among the 3-year policies. VTB Life Insurance redemption sums differ from these of Ingosstrakh-Life by the margin of 2%.

Table 2

**Redemption sums of three-year ULIPs in Russia**

№	Insurer Life	Product	Redemption sum, % <sup>1</sup>		
			1	2	3
1	VTB	Maximum	78	85	92
2	URALSIB	The right decision	71	81	88
3	RGS	Capital Management	71	80	89
4	Ingosstrakh	Growth vector	80	87	94
5	SG	Prime invest	75	80	90

The cancellation of the 5-year ULIPs is not of benefit to the policyholders in the first year, because in this case they can return only from 57% to 65% of the insurance premium. It is important to mention that this difference is comparatively significant. SG Life Insurance provides the best cancellation conditions and allows the insured person to return from 65% to 90% of the insurance premium. URALSIB Life redemption sums differ only slightly (1–2%). RGS-Life has the lowest redemption sums in most cases.

Table 3

**Redemption sums of five-year ULIPs in Russia**

№	Insurer Life	Product	Redemption sum, %				
			1	2	3	4	5
1	URALSIB	The right decision	63	71	76	82	88
2	RGS	Capital Management	57	64	71	80	89
3	SG	Prime invest	65	70	75	80	90

Thus, in three-year-policies, Ingosstrakh-Life, with its 4% of market, has the best cancellation conditions. URALSIB Life and SG Life Insurance, which have only 1–2% of the market, provide the most favourable policy cancellation conditions under 5-year contracts. Moreover, RGS-Life, with almost 20% of the market, has relatively small redemption sums, especially for 5-year ULIPs.

Apart the term of the ULIPs, there are several factors that influence the size of the redemption sums. The first factor is insurance service charges and fees. They are not clearly stated in the Russian ULIP contracts. Secondly, the setting up ULIPs in place has a multiple costs such as administration, fund management, mortality charges, associated with it (Valluvan, Sivasakthi & Ida, 2015). Thus, the insurers attempt to recoup the expenses by increasing any associated fees and charges, the size of which can vary dramatically from company to company. As a consequence, the size of the redemption sums paid by insurers can vary as well.

Thirdly, the profitability of the funds (strategies) offered by insurer impacts the size of the redemption sums. Fourthly, the state of the stock market has a bearing on the size of the redemption sums: if ULIP funds perform poorly, the size of the corresponding redemption sums drops. Finally, the size of the insurance company may be a factor in the size of redemption sums: smaller companies attempt to attract new clients by offering more

<sup>1</sup> The redemption sum is calculated as a percentage of the insurance premium paid by the client.

favourable conditions; in contrast, bigger companies, which have a large client base, are not concentrated on providing more profitable conditions.

Each ULIP of selected companies has from one to three investment strategies (funds). In the research, the authors collected information about directions of funds, and, based on it, benchmarks for every fund were specified. The authors recognized some of the main and more frequent the investment strategies of the selected ULIPs, which were analyzed. The most popular strategy among ULIP funds is investing in the most profitable and successful corporation from all over the world which are market leaders of their fields. For example, the portfolio of Sberbank Life US Equity Market fund is focused on the stocks of leading corporations of the United States of America. VTB Life Insurance World wealth fund majorly consists of securities of corporations from Europe, the USA and Japan. High dividends fund of AS-Life invests in market leaders of the following sectors of economy — financial services, industry and FMCG.

Moreover, innovative medicine is also one of the most common investment directions of ULIP funds in Russia. VTB Life Insurance and URALSIB Life funds called “Medicine of the future” and Ingosstrakh-Life Innovative Pharmaceuticals fund concentrate on investing in giants of medicine who are focused on development of pharmaceutical industry with the help of modern technologies. Some ULIPs have funds which are concentrated majorly on governmental and corporate bonds. As a rule, these funds have from 75% to 85% of different kinds of bonds in their portfolio and the rest of portfolio consists of stocks of the largest and the most profitable companies from Europe and America. Ingosstrakh-Life and Sberbank Life have these kinds of fund on offer.

Further the authors researched the performance of ULIP funds of Russian insurance companies during the period, starting from 2009 to 2016 inclusive. The author started the analysis with calculations of average returns rates of observed ULIP funds. During observed period, the highest average return rate was observed under RGS-Life Sure choice fund and was equal to almost 17%. Moreover, this fund also had one of the largest maximum of 33.8% and did not have any negative returns during the period from 2009 and until 2016. Sberbank Life US Equity Market and Sberbank Life New technologies funds were also rather successful with average return rate of 14.2% and 13% respectively. Maximum rates of return of these funds are also very high (33.6% in 2014 and 39.8% in 2009 respectively).

However, the portfolios of these funds were a bit volatile during the observed period. Sberbank Life US Equity Market fund minimal rate of return was observed in 2017 and was equal to  $-8.7\%$ . Sberbank Life New technologies fund received  $-4\%$  in 2011. The poorest performance was shown by both funds of VTB Life Insurance with rates of return a little bit less than 3%. The best 18.4% return of VTB Life Insurance Medicine of the future fund was noticed in 2013, however, negative rates of return were observed in 2009, 2014, 2015 and 2016 which indicates the high volatility and risk of the portfolio. VTB Life Insurance World wealth fund shown the best rate of return in 2009 which was equal to 24.7%. However, the portfolio is also not stable, as the minimum return rate of the fund was  $-24\%$  in 2009.

When analyzing rates of return of funds of selected ULIPs, it was figured out that some companies had rather significant difference between return rates during observed years, which shows its volatility. Further the authors decided to compare standard deviation of selected ULIPs funds which serves to evaluate the amount of risk, associated with each portfolio (Table 7). The largest volatility of more than 25% is observed in RGS-Life Food fund. It can be explained by the fact that the minimum rate of return of this fund was  $-54\%$  in 2009 and in the following year the maximum return rate was almost 30%. Ingosstrakh-Life Innovative Pharmaceuticals funds is also regarded as risky with

standard deviation of more than 20%. It is also connected with rather significant difference between maximum and minimum rates of return as well as several negative returns during the observed period.

The least standard deviation of 3% is observed in Sberbank Life Global Bond Fund. This fund does not have any negative returns during the period, thus, its overall performance is rather successful with average rate of return 8,2%. For example, SG Life Insurance Portfolio of shares fund with standard deviation of 5,31% has only 5% average return rate. Therefore, Sberbank Life Global Bond Fund earns more income with less risk. RGS-Life Sure choice fund with the highest average rate of return of 16,6% has almost 9% standard deviation. However, Sberbank Life US Equity Market and Sberbank Life New technologies funds which are also rather profitable (14,2% and 13% respectively) have even higher standard deviations of 16,38% and 13,36% respectively. Thus, RGS-Life Sure choice fund performs better than both Sberbank funds, as it more profitable and less risky.

As a rule, portfolios with average rates of return have average standard deviations. However, the authors identified that there are some funds which receive average level returns, but very risky from the point of standard deviation. For example, URALSIB Life Medicine of the future fund with almost 18% standard deviation returns only 7,1% in average. Thus, these investments are associated with excess risk which is not paid off. Moreover, it was figured out that VTB Life Insurance funds which shown the poorest performance during 2009–2016 has rather high standard deviation dimensions. Thus, it can indicate poor management of the fund, as not only significant income was not earned, but also a lot of risk was taken in vain.

Further the authors evaluate the performance of selected ULIP funds in comparison to benchmarks and risk-free instruments profitability. Information ratios (IRs), which measure the ability of the portfolio generate excess profits relative to its benchmark, for all selected ULIPs were calculated. The best dimension of this ratio was observed in Sberbank Life New technologies fund and was equal to 0,81. It means that this fund overperformed its benchmark which is MSCI World index and earned excess return in comparison with the index. Moreover, with respect to retrospective data of IR, this fund had rather high IRs and only one negative dimensions of IR in 2010 during the observed period. Additionally, in 2008 the portfolio had outstanding IR of more than 2,5. These facts demonstrate long-term fund overperformance with regard its benchmark.

Ingosstrakh-Life Balanced growth fund averagely performed better than its benchmark with mean IR of 0,61 which is regarded as quite good. In 2009 and 2010 this fund overperformed the benchmark rather significantly with great results of IR equaled to 2,36 and 1,81 respectively. RGS-Life Sure choice fund, which shown successful performance from the point of average return rate and standard deviation, has 0,60 as the mean IR in the observed period of 2009–2016. Despite the fact that the portfolio shown negative dimensions of IRs in 2009 and 2010, all the rest 6 years were rather successful with ratios of 0,33–1,63 depending on the year. Thus, it demonstrates the consistency of the fund management and their rational investment decisions which results in higher profits with lower risk relative to its benchmark.

Sberbank Life US Equity Market fund, Renaissance Life Sputnik fund and SG Life Insurance Multifund also had shown positive average IRs. In some years, rather significant values of more than 2 were identified. Therefore, long term all aforementioned funds performed quite successful and beaten the benchmarks receiving more income with less risk.

All the other ULIP funds received negative values of average IRs. For example, the worst performance of  $-0,8$  was observed in VTB Life Insurance World wealth fund. It is connected to the fact that in six out of eight years the fund returns were less than

benchmark return rates and, respectively, the fund received negative IRs in these years. Thus, the author considered this fund as underperforming relative to its benchmark.

There are other funds which had negative values of IRs. The authors explain that they had rather significant tracking errors which demonstrate quite high differences between the fund and the benchmark returns. In combination with even small underperformance of the fund relatively to the benchmark, it results in negative IR values.

In order to compare the average return of funds with risk-free instruments performance the author calculated Sharpe ratios for selected ULIP funds. It was figured out that almost all chosen funds have positive mean values of Sharpe ratio during 2009–2016. The vast majority of them had shown the average performance in relation to risk-free instruments. However, three ULIP funds — Sberbank Life Global Bond Fund, RGS-Life Sure choice fund and Renaissance Life Sputnik fund — shown rather outstanding values of Sharpe ratio which were equal to more than 1,5. It indicates that these funds generated rather significant returns in excess of the risk-free rate per unit of its total risk. Thus, the risk which was taken by the funds is considered to be justified and well compensated by extra income.

The only one fund which received negative Sharpe ratio was VTB Life Insurance World wealth fund. As it was said earlier, this fund had the one of the lowest return rate and rather large value of standard deviation which indicates high volatility of the portfolio. Thus, the negative value of Sharpe ratio proved that the fund was taking too much risk during the period and did not receive excess income for that. Moreover, it means that a risk-free asset would perform better than this security.

Moreover, VTB Life Insurance Medicine of the future fund which also had rather low rate of return only marginally performed better than risk-free instruments with the value of Sharpe ratio equal to 0,01. Moreover, this fund received negative values of Sharpe Ratio in four years during the observed period which tells about the fact that the excess risk, taken by the fund, was not compensated with extra return on investments. RGS-Life Food fund with the highest standard deviation of more than 25% had rather insignificant Sharpe ratio of 0.08. In 2009 the value was  $-2,31$ ; thus, the high volatility of the portfolio was not compensated and even caused losses in comparison with risk-free securities performance. During the following years Sharpe ratio was not greater than 1 which is also not very good indicator for the portfolio with the large standard deviation.

The authors also employ Treynor ratio which is also utilized to measure the excess returns, generated by the portfolio per unit of its risk with respect to risk free investments. However, when calculating Treynor ratio, instead of standard deviation as a risk indicator the beta coefficient is used which measures the volatility of the portfolio in comparison with the market. Analyzing beta coefficients of the funds the authors figured out that Sberbank Life US Equity Market fund, Sberbank Life New technologies fund, VTB Life Insurance World wealth fund and Ingosstrakh-Life Innovative Pharmaceuticals fund are considered to be more volatile than the market as they have betas more than 1. URALSIB Life World brands fund and both funds of SG Life Insurance received negative values of beta coefficient which can be interpreted as the indicator of the opposite movement of the funds in comparison with the market. However, absolute values are less than one; thus, these portfolios are less risky than the market.

All other funds shown betas less than 1 and are theoretically considered to be less risky than the market and rather stable. Exceptionally low beta coefficients were observed in Renaissance Life Sputnik fund and AS-Life High dividends which demonstrate low level of volatility of these portfolios.

Further, using beta coefficients of analyzed ULIPs, the authors calculated Treynor ratios of selected ULIP funds. The best value of Treynor Ratio was identified in Renaissance

Life Sputnik fund, it was averagely equal to 3,38 during the period. This ratio indicates that the fund generated outstandingly high returns on each of the market risks it has taken. AS-Life High dividends fund performed quite good as well with the mean Treynor ratio of 1,46. However, as the authors said earlier, these funds had very small betas which indicated the low volatility of the portfolios relatively to the market. Hence, such a significant Treynor ratios might be received due to the overall low risk of the funds.

URALSIB Life World brands shown the results of  $-0,98$ . However, negative values of Treynor ratio do not always mean the failure of the fund manager to pay off the additional risk that was taken. If a negative ratio was obtained because of a negative beta, which only demonstrates the opposite movement of the fund in comparison with the benchmark, the value can be interpreted in absolute value. Thus, the author concluded that the risk of investments in this fund was rather good compensated. Oppositely, VTB Life Insurance World wealth fund also had the negative value of Treynor ratio which was received since risk-free asset return was higher than the plan's return. In that case, the negative Treynor ratio indicates that excess risk of this fund was not paid off.

Other funds have rather small dimensions of Treynor Ratio which are regarded as the proof that extra risk that was taken by these funds received compensation. Another measure of risk-adjusted ULIP funds' performance that was employed by the authors is Jensen measurement or Jensen alfa. This measure evaluates the portfolio performance in relation to value of CAPM (Capital Assets Pricing Model).

Basing on the previous analyses of return rates, standard deviations, beta coefficients, Information, Sharpe and Treynor ratios, the performance of both VTB Life Insurance funds, RGS-Life Food fund and Ingosstrakh-Life Innovative Pharmaceuticals fund already was regarded as one of the worst. Calculation of Jensen measurement also confirmed these conclusions with significant negative values of Jensen alfa. Sberbank Life US Equity Market fund also received negative Jensen Alfa of  $-0,96$ . It was identified in earlier parts of the research that this fund had the large standard deviation, which reported about rather significant level of risk, associated with the portfolio. Thus, the authors concluded that the fund did not manage to compensate the excess risk that was taken.

All the other funds performed quite well. For example, RGS-Life Sure choice fund which had one of the best values of earlier analyzed ratios had the Jensen measurement outstanding value of more than 11% as well. It also confirmed that this fund was rather successful in earning excess returns for extra risk. Renaissance Life Sputnik fund which also had exceptionally good values of Sharpe and Treynor ratios received almost 8% as a Jensen alfa. Thus, this result of Jensen measurement confirmed that fund's returns compensated for the risk it had taken.

### **Development Prospects**

The authors were able to identify the drawbacks of Russian ULIPs, the elimination of which will help improve the development of ULIPs of the market. First, the maximum possible duration of ULIPs in Russia is currently capped by different providers at three to ten years. In comparison, the duration of Indian ULIPs lasts, on average, 75 years. Thus, this policy characteristic can be regarded as one of possible limitations that make Russian ULIPs not as profitable and popular as they can be, thus slowing down the development of the sphere. Moreover, in comparison with foreign ULIPs, the vast majority of Russian ULIPs are much less flexible. Generally, ULIP clients are not able to make any major changes to their contracts (such as adding capital to the policy, prolongation, or withdrawal of investment income). Possible policy management options provided by the vast majority of Russian ULIP insurers include a change of the investment fund

and a fixation of profitability. Some companies do not provide any options at all. Hence, this fact also can be regarded as a limiting factor which prevents the market from growth.

The number of investment strategies (funds) available to Russian policyholders is also very limited relative to that of foreign policyholders. For example, in India and Romania, each ULIP has from six to ten funds to allocate the money to (Khurana & Goyal, 2010; Gavrilitea, 2009). Russian insurers provide only up to three funds to choose from. Moreover, foreign ULIP funds are more diversified. Thus, the choice being limited — or even absent — could also have led to a decline in the popularity of ULIPs.

On the other hand, taking into consideration the character and mentality of Russian citizens, the low level of the financial literacy of the population, and the overall scarcity of information about ULIPs, the authors suggest that Russians are not likely to invest their capital in financial instruments for the duration of more than a couple of years. Moreover, due to the aforementioned reasons, people might not even properly research all these policy features and benefits of ULIPs. Hence, before taking steps to improve the product itself, several problems are to be solved to lay the groundwork for changes in the current state of affairs.

First, the low level of the financial literacy of the population significantly slows down the growth of the ULIP market in Russia. For a successful development of unit-linked insurance in Russia, citizens need to understand at least the basics of the way different financial instruments, such as bank deposits and loans, stocks, securities and overall stock market functioning, insurance service operation operate (Logacheva, 2016). Lack of this knowledge very often leads to clients being disappointed in ULIPs. It happens when clients, upon becoming involved with ULIPs, do not fully realize how much risk they take and, therefore, do not fully understand all the possible outcomes of this risk. Eventually, this ignorance can result in unjustified expectations about the profitability of ULIPs, as well as financial losses for customers, which fact leads to a general dissatisfaction with the product and to the slowing down of its development. As ULIPs are a rather difficult product to understand, a gradual improvement in the financial literacy of the population is necessary for any future development of the field. It will not only help potential clients understand the product structure, but also allow to mitigate the current misunderstanding of the risks and profits associated with ULIPs. Hence, a higher financial literacy of clients will allow the sphere to grow significantly, as well as make the quality of its services even better.

Another factor which can be regarded as a development obstacle is the scarcity of professionals who have the necessary skills and knowledge to develop ULIPs in Russia. According to the research which was conducted by author, this assumption can be true, as some ULIP consultants were not fully competent to provide potential consumers with detailed information about ULIPs and fineness of their operation. Thus, the incompetence of ULIP providers, together with the overall low financial literacy of the population, makes it almost impossible for clients to understand how ULIPs operate. Hence, educational lectures and seminars for employees can be extremely effective and useful. Moreover, it is necessary to involve more competent professionals in the sphere. This can be attained by the creation of special career programs for top university graduates.

Furthermore, lack of information about ULIPs and statistical retrospective data about their profitability also play their part in not allowing this market to develop. In comparison with foreign experience, where both unit-linked insurers and the government officially publish the results of performance of this market, nobody does it in Russia, and there is no public information about ULIP market performance in the country (Expert RA, 2017). Sometimes, insurance companies promise a certain profitability in their promotional brochures, which makes the situation even worse, as they demonstrate the best performance, which is not reached every year. Thus, the profitability of Russian ULIPs is not transparent, and it

causes clients to mistrust the companies, and makes them unwilling to invest in ULIPs, which is understandable from the point of rationality. Moreover, insurance companies informed that the clients did not want to prolongate their ULIP contracts after the expiry date which can be regarded as the signal of unjustified expectations and disappointment in the product. Thus, for the future development of unit-linked insurance, it is extremely important to make the statistical information about the market performance of ULIPs public. Moreover, attention from the government to this sphere and official reports on the profitability of ULIPs can also have a positive influence on people's attitude to this product, which also will be of benefit to the development of ULIPs.

Lack of the legal framework for this kind of service, in conjunction with an unsuitable tax system; do not allow the sphere to keep growing. Nowadays, in Russia, there are no official references to unit-linked insurance in ten Russian legislation. Consequently, there is no legally-fixed control or regulatory mechanisms, or general principles that manage the functioning of ULIPs. Additionally, the authors pointed out that some reformations are needed in the taxation system of income received from ULIPs. Nowadays, a tax deduction of the insurance premium paid by the taxpayer under a unit-linked insurance contract in the amount of up to 120 000 rubles is provided, according to Tax Code of the Russian Federation, article 219, paragraph 2. However, this tax benefit is only applicable to ULIP contacts that last for five or more years. As it was said earlier, on the Russian market, the vast majority of contracts are short-term and last for three years. Thus, it is not possible to have tax deductions for most ULIPs in Russia. In order to increase the attractiveness of ULIPs in Russia, the amount of tax deduction needs to be increased. Moreover, the period of contract under which the client can receive the tax benefits should be decreased to three years. This reformation is rather realistic, as, for example, for the users of individual investment accounts, tax deductions of up to 400 000 rubles and a minimum of three years of investment are in place. Therefore, homogenizing ULIP taxation conditions and those of similar products will help increase the attractiveness of ULIPs from the point of view of potential policy owners and may become one of the drivers of growth in unit-linked insurance.

Based on the conducted research, the future development of unit-linked life insurance will only be possible if the aforementioned steps are taken first. The authors also suggested that the growth of this sphere can have positive effects on the economy and the society in Russia. The unstable macro-economic situation in the county, including the constantly changing political situation and a high inflation, as well as the poor development of the Russian stock market slows down the growth of ULIPs. However, a strengthening and further expansion of ULIPs can benefit the Russian economy. The authors reveal Sberbank Life took attempts to implement investment strategies which are concentrated on investing in leading Russian companies and the RTS index in order to direct the investments in Russian industry and support domestic economy. However, these strategies were not successful. This is understandable, as Sberbank is more the exception than the rule, and the desire of one firm to develop the Russian stock market is not enough. More resources are needed to make the change. However, with the growth of ULIPs in Russia, the idea about supporting and developing the Russian stock market and the overall economy will have a chance to come to life.

## Results and Discussion

The following results of the Russian ULIP were obtained on the subject of the qualitative characteristic (Table 4). Therefore, foreign ULIPs can be more profitable than Russian ones. However, Russian ULIPs provide their clients with quite a good insurance coverage in comparison with foreign ULIPs. The authors suggested that this fact might signify that Russian ULIPs are more an insurance rather than an investment instrument,

while foreign ULIPs are real hybrids of insurance and investment. This shows how the product is modified to fit a particular country.

Table 4

#### Major characteristics of Russian ULIPs

Entry age		Duration		Minimum entry sum	Insurance payment	Policy management	Funds
Minimal	Maximal	Minimal	Maximal				
18	83	3	10	30 000 RUB	100–300%	5 options	3

Taking about Policy management options of Russian ULIPs, there are five of them: change of the fund; fixation of profitability; depositing additional sums of money; withdrawal of income; prolongation. However, not all insurance companies in Russia provide their clients with the opportunity to manage their policies. Some insurers allow only a couple of options from the whole list; some companies do not provide policy management at all. In comparison with foreign ULIPs, where policy management is available under every ULIP, this factor can also be regarded as a limitation and a weak point of Russian ULIPs. Considering about investment strategies and funds available under Russian ULIPs, there are four main directions of ULIP investment strategies: the most profitable companies from all over the world; innovative medical corporations; corporate and governmental bonds. The authors investigated that the investment strategies of ULIPs in Russia have a lot in common with foreign ULIPs.

Moreover, there are no pure Russian bond ULIP funds, as bonds are always mixed with the stocks of the leading corporations. In comparison with Indian and Romanian ULIPs, which normally have from eight to ten funds available for investment, Russian plans have only from only to three funds. The authors suggested that the lack of choice also can act as a fact which slows down the Russian ULIP market and its development. Furthermore, a more developed stock market and bank system, vast experience in this sphere, and competent professionals contribute to the promotion and variety of ULIP funds abroad and explain the difference between foreign and Russian ULIPs. This fact also emphasizes the necessity of developing ULIPs in Russia. Based on the conducted study, Smart Police from Sberbank Life was considered the most preferable from the point of view of major policy characteristics.

To sum up, the authors suggested possible activities which can be useful for future market growth and development:

- improving policy characteristics, such as extending the duration of policies, widening policy management options and increasing the number of ULIP funds and diversification investment strategies;
- increasing the level of the financial literacy of the population;
- attracting professionals into the sphere;
- providing transparency of the field by making the information about the profitability of ULIPs public;
- establishing a legal framework for this kind of service;
- mitigating tax regulation of ULIPs and making them more favorable for clients.

Thus, it can be seen from the research that this market and its products require dramatic changes that should be done as soon as possible. The future development is only possible if the government, insurance companies, as well as the population take relevant steps in that direction. In case the activities proposed by the authors are applied, the subsequent growth of ULIPs can have an extremely positive impact on the Russian society and economy, and facilitate the development of other spheres.

## Conclusions and Implications

The findings of the research are expected to be very useful for the scientific world. Since there are no studies which have explored in detail ULIPs in Russia, this research fills this gap in knowledge and provides a broad analysis of Russian ULIPs. Moreover, the study outcomes can be used in future domestic and foreign studies in this field.

The research can attract attention of the government and society to unit-linked life insurance, which can also have a positive influence on the development of the market. In addition, suggestions about the existing problems in the field that slow down the growth of the ULIPs can be used by both life insurance companies and public authorities on their way toward development of unit-linked life insurance in Russia. Furthermore, the work can facilitate the growth of awareness of unit-linked life insurance among the population and make ULIP products more transparent and understandable for Russian citizens.

Private investors who are interested in ULIPs or need help in making a decision about investing in ULIPs can also find useful information in the research. Since the study provides a detailed overview of the features of the most popular Russian ULIPs, as well as their performance, potential policyholders obtain an opportunity to explore the supply and make the right choice when choosing a ULIP. Moreover, the research can be useful for the education of the population about financial instruments and contribute to the rise of the level of financial literacy and the overall education of Russian citizens.

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