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DEVELOPMENT PROSPECTS OF INVESTMENT INSURANCE PRODUCT “UNIT-LINKED”

The article describes the theoretical bases of investment life insurance, including the distinctive features of Unit Linked product in life investment insurance, advantages and disadvantages of Unit Linked insurance products. Given reviews on foreign experience of Unit Linked life insurance product as well as perspectives for its implementation and development in our country. An analysis of foreign and domestic practice indicators on life insurance, a comparative analysis of Unit Linked investment life insurance and cumulative life insurance, a comparative analysis of international insurance companies offering Unit Linked insurance programs were performed. The most important factors determining the development prospects of Unit Linked investment life insurance in our country and the issues related to their solution have been studied.

Keywords: life insurance, unit-linked, accumulated insurance, mutual investment fund, investment, profitability, Unit Linked Insurance Plan (ULIP), banc assurance.

UNIT-LINKED ИНВЕСТИЦИОН СУҒУРТА МАҲСУЛОТИНИ РИВОЖЛАНТИРИШ ИСТИҚБОЛЛАРИ

Мақолада инвестицион ҳаёт суғуртасининг назарий асослари, жумладан, ҳаётни инвестицион суғурталашда Unit Linked маҳсулотининг ўзига хос фарқли хусусиятлари, Unit Linked суғурта маҳсулотининг афзалликлари ва камчиликлари ёритиб берилган. Unit Linked ҳаёт суғурта маҳсулотининг амал қилишига оид хориж тажрибаси ҳамда мамлакатимизда уни жорий этиш ва ривожлантириш истиқболлари бўйича мулоҳазалар билдирилган. Ҳаёт суғуртаси бўйича хорижий ва маҳаллий амалиёт кўрсаткичлари таҳлили, Unit Linked инвестицион ҳаёт суғуртаси ва жамғариладиган ҳаёт суғуртасининг қиёсий таҳлили, Unit Linked суғурта дастурларини тақлиф этаётган халқаро суғурта компанияларининг умумий таққосланиши таҳлили амалга оширилган. Мамлакатимизда Unit Linked инвестицион ҳаёт суғуртасининг ривожланиш истиқболларини белгиловчи энг асосий омиллар ва уларни ҳал этилиши билан боғлиқ масалалар тадқиқ этилган.

Таянч сўз ва иборалар: ҳаёт суғуртаси, unit linked, жамғариладиган ҳаёт суғуртаси, инвестиция фонди, пай фонди, инвестиция қилиш, даромадлилик, Unit Linked Insurance Plan (ULIP), банк суғуртаси.

Introduction

In life insurance, unit-linked products are distinguished by the fact that the policyholder is a direct participant in the investment. The money accumulated in the account of the insured is combined into a credit fund and transferred to the management of a specialized company. The insurer, analyzing the degree of profitability and risk, selects the fund (from those proposed by the insurer) that suits him the most.

Unit-Linked is a hybrid of classic accumulative life insurance with an investment component in the form of mutual funds.

Legally, ULIP plans are life insurance contracts. This seems strange, because life insurance and investing are very different areas of personal financial planning. However, investment plans in the legal shell of life insurance are very convenient for individuals for long-term savings. The ULIP insurance account is similar to a brokerage account, and allows you to invest in various assets in the global financial markets. In this case, the ULIP contract gives a person a number of significant benefits.

ULIP (Unit Linked Insurance Plan) - allows you to invest in various assets (stocks, bonds, funds, ETFs) as part of a life insurance policy. As such, insurance in this product is nominal. The main sight is made specifically for investment. However, thanks to the insurance cover, the investor has many advantages. Among them:

- tax benefits,
- clear inheritance procedure,
- confidentiality,
- high capital protection.

In all developed countries of the world, unit-linked products are one of the most popular tools in the insurance and investment services market, as they represent a successful symbiosis of these two areas.

Literature review

There are many approaches in the foreign economic literature on investment life insurance, as well as Unit Linked life insurance products, their introduction and development. In particular, according to Professor T.A.Fedorova, the first investment life insurance policy appeared in the UK in the late 1950s and were called Unit Linked. Even today, the UK is still the leading provider of investment life insurance services, although many European countries are making effective use of this type of life insurance [1].

According to the theoretical approach of S.V.Yermasov and N.B.Ermasova, investment life insurance is an investment instrument drawn up in the form of a long-term life insurance policy. Service arose half a century ago in the UK. This is considered an English method of investing [2].

According to Gantenbein and Mata (2008, Chapter 10), a unit-linked life insurance policy is “basically a mixed life insurance that combines term coverage

with a saving and an investment component”. Unlike the traditional mixed life insurance, in these contracts premia are invested by the insurance company in the financial market on behalf of the policyholder who decides how to invest the capital [3].

According to the research of Italian scientists Claudia Ceci, Katia Colaneri and Alessandra Cretarola, Unit-linked life insurance contracts are life insurance policies whose benefits depend on the performance of a certain stock or a portfolio traded in the financial market. For the last years these contracts have experienced a clamorous success, driven by low interest rates, which have considerably reduced the returns of the classic management, and the new Solvency II rules on the insurance regulatory capital, which made the unit-linked much more affordable for the companies, in terms of lower absorption of capital [4].

Michael Barry, an economist and investment adviser at AVC Advisory, talks about investment insurance accounts and their features in his interviews. According to him, Portfolio Bond is an investment insurance account - a convenient way to invest [5].

According to Nikola Dacev. (2017), Unit-linked life insurance products refer to insurance products, which accumulate capital. They are taken with the purpose of accumulating a financial benefit for the policyholder at a future point in time (e.g. towards retirement). Thus, this type of products contain an investment risk, which is borne entirely or partially by the policyholder. The main difference between unit-linked life insurance products and non-unit linked life insurance products is that unit-linked life insurance products offered by insurance companies allow policyholders to direct part of their premiums into different types of funds (equity, debt, money market, hybrid etc.) [6].

Research methodology

Scientific abstraction, grouping, comparison, retrospective and prospective, empirical analysis, and other methods were used in the research. The article substantiates the importance and necessity of Unit Linked insurance product in life investment insurance using the method of scientific abstraction and predicts the scientific and practical significance of the development of the life insurance market. Also, a comparative analysis of Unit Linked investment life insurance and accumulated life insurance was performed using the comparative comparison method, international insurance companies offering Unit Linked insurance programs were generally compared and appropriate conclusions were drawn.

Analysis and results

In the USA, up to 60% of life insurance contracts are concluded using Unit-Linked technology. In Europe, this segment accounts for 30 to 70 percent of all money. The penetration of life insurance in the countries of Eastern and Western Europe and the USA is 2–10% of GDP. In Uzbekistan, this figure is 0.04–0.1% of

GDP. And for example, in Bulgaria, the indicator only for unit-linked is close to 0.4%, in Slovakia - 1.5%, in Estonia - 2.7% of GDP.

In developed countries, the technology of unit-linked products has long been invented and worked out, according to which the insurance company, at the request of the client, transfers part of its savings to mutual funds of bonds, stocks or mixed investments.

The leading position in terms of assets of insurance companies engaged in unit-linked life insurance belongs to the UK. In the second half of the 1990s, the active development of investment life insurance began in France, Italy and Spain. The constantly growing interest among insurers in the development of this revolutionary direction in the life insurance market was primarily due to the fact that unit-linked products allow transferring a significant part of investment risk to the insured. This gives the insurance company the opportunity to reduce the dependence of its business on the ever-changing situation in the stock market.

The first advantage is standard insurance coverage. From the very first day of investment under the unit-linked program, the client receives full insurance for the entire amount of coverage, that is, initial investments and the amount of future investments.

Insurance programs just allow you to cope with the consequences of accidents and maintain a stable financial position in unforeseen circumstances. At the same time, if we live to the end of the insurance period without any problems, then we get back the entire accumulated amount plus the interest that accrued on it.

Moreover, if suddenly after some time the client loses his ability to work, the insurance company continues to make contributions for it under the program, which is guaranteed to receive the entire accumulated amount by the end of the term.

However, all savings programs can boast of such a plus, but at the same time they have one very significant drawback - the income that we will receive from the savings program by the end of the term will be very low.

On average, the yield of insurance savings programs allows customers to rely on only 5-6% per annum, which is significantly lower than the inflation rate and yield on bank deposits, although it is comparable to the most conservative bond funds.

This is due to the fact that insurance reserves are placed in a very conservative way. Naturally, there is no particular desire to accumulate funds for 10-20 years with such a low rate - pity for the lost money.

This is where the key difference between unit-linked products comes into play. Part of the accumulated amount is invested in investment instruments that can bring the owner an income that significantly exceeds the capabilities of insurance programs. These are mainly investment funds. Based on the use of foreign experience, it is possible to make a comparative analysis of them according to the following table (Table 1).

Table 1

Benchmarking cumulative life insurance and unit-linked investment life insurance¹

Example:	Endowment Insurance	Unit-Linked
Distribution of funds	100% in the insurance program	20% – in the insurance part 80% – in investment
Program Profitability	4%	4% – in the insurance part 15% – in investment
Amount of annual investments	\$1000	\$1000
Guaranteed coverage from the first day	\$20 000	\$4000
Accumulated capital	\$30 000	\$96 000

That is, on the one hand, insurance companies slightly sacrifice the size of the guaranteed amount of insurance coverage, which, however, refers specifically to the guaranteed amount, since there are parallel accumulations in the risky investment part. And on the other hand, they get the opportunity to create more solid capital by the end of the term.

Thus, Unit-Linked products provide quality protection for life along with effective capital accumulation.

Firstly, according to the "Rules for the placement of insurance reserves funds by insurers" approved by the Ministry of Finance, the total share of assets placed in units of mutual investment funds should not exceed 10% of the value of life insurance reserves.

Secondly, according to the law, the insurance amount should be determined at the time of conclusion of the contract, which is impossible for unit-linked, since investment income is not predetermined and is not guaranteed

Thirdly, the rules for working on this product are not defined. Throughout the world, insurers maintain personalized unit-linked customer accounts. The companies have actuaries responsible for the correct calculation of investment income in these accounts. And the statements of insurers clearly reflect operations on such accounts.

In the western market, there are various unit-linked product options. The whole variety of unit-linked life insurance products consists of a different combination of the presented parameters. In each country, there is a certain set of products that is popular with both insurers and policyholders. For example, in the UK, France and Spain, the unit-linked life insurance market consists mainly of products for which a premium is paid at a time.

Unit-linked provides several types of programs:

- funded plan with periodic contributions. Suitable for accumulating capital for various purposes - retirement planning, the creation of a protective fund, the accumulation of large purchases;

¹ Prepared by the author on the basis of www.insurance-life.com.ua

- one-time investment program. Suitable for enhancing and protecting existing capital;
- lump-sum investment accounts. Professional access to any asset in the world - from stocks and bonds to hedge funds and gold.

The analysis shows that the banking channel is the most optimal sales channel for such insurance products. This postulate is confirmed by the experience of foreign countries in which the growth of unit-linked products sales is largely determined by the growing popularity of bank insurance (bancassurance).

Bancassurance is the dominant distribution channel for unit-linked life insurance in Spain, Italy, France, Finland, Belgium and Sweden. In the UK and Ireland, brokers and independent financial advisers (IFAs) take the leading positions in the volume of collected premiums in stock insurance. An important factor influencing the sales of unit-linked products is the popularity of certain types of savings, insurance and pension products in each country.

Unit-linked products are subject to three risk groups: financial risks; operational risks; regulatory risks. Due to the fact that stock life insurance, as well as endowment insurance, is a long-term project, it is rather difficult to predict the situation in the stock market for several decades. A part of insurers overcomes the situation as follows: only part of the insurance premium is invested in investment instruments selected by the insured, the remaining part of the cumulative component of the insurance premium is invested in other instruments at the discretion of the investment department of the insurance company.

In the case of unit-linked, all funds are invested in assets, usually through investment funds. Potential returns are higher, but there is usually no protection for capital from drawdowns: how assets behaved, such a result will be. But you don't have to choose from two and a half ready-made strategies, you can independently design a portfolio of many investment funds. Even in unit-linked investor can independently manage a portfolio - there is more freedom than in investment life insurance.

To use unit-linked, you need to conclude a contract with a foreign insurance company. The decision to choose an insurance company must be approached thoroughly, taking into account many factors - availability, cost, reliability. The following is a general comparison of international insurance companies offering unit linked programs. Please note that not all companies are available for the CIS countries.

Comparison of insurance companies offering unit linked programs²

Company	Availability for CIS countries	Assets Under Management	Jurisdiction, credit rating of jurisdiction	Access to online account
Investors Trust	Yes	\$ 1,25 bln.	Cayman islands / Moody's – Aa3	Yes
Hansard	Yes	\$1 bln.	o. МЭН / Moody's – Aa1 Bahamas / Moody's – Baa1	Yes
Generali International	No	€ 530 bln.	o. Gernsi / Standard & Poor's – AA-/A-1+	Yes
Custodian Life	Yes	-/-	Bermuda / Moody's – Aa2	Yes
Zurich International	No	\$ 422 bln.	Switzerland / Moody's – Aaa	Yes
RL360	No	\$10 bln.	o. Man / Moody's – Aa1	Yes
Friends Provident International	No	\$ 6 bln.	o. Man / Moody's – Aa1	Yes
Old Mutual International	No	\$ 696 bln.	o. Man / Moody's – Aa1	Yes

The main advantages of unit-linked are relative simplicity. No need to open a brokerage account, bank accounts abroad, etc. It is enough to conclude an agreement with an insurance company, transfer money and choose investment funds from the proposed ones.

You can set up automatic debit of money from a bank card to regularly deposit money under an insurance contract. Convenient for the forgetful and those who have problems with financial discipline.

There is no need to regularly report to the income tax: a declaration will need to be submitted only upon receipt of money, when the policy expires.

Funds invested in unit-linked are not subject to division upon divorce; they cannot be taken away by court order, because this is an insurance policy, and not ordinary property.

Another plus is simplified inheritance: the beneficiary does not have to wait six months, as is usually the case. The heir will receive the money in a matter of weeks.

The disadvantages of the unit-linked program. Insurance company commissions can be 1.5–2% per year or more, which in 10–15 years will be a considerable amount. If you independently create an investment portfolio through a brokerage account using Exchange Traded Funds, commissions will be noticeably

² Prepared by the author on the basis of www.unit-linked.ru

lower. At the same time, in foreign countries there is preferential taxation of investments, for example, deductions for Individual investment account.

Early termination of the contract may result in the loss of part of the capital. If you stop making money, commissions may increase or there will be other sanctions. To avoid problems, carefully study the conditions of insurance before applying for a policy.

Contributions are set in foreign currency. If your income is in the national single currency, and the rate of the single currency drops, you will have to increase the amount of contributions in terms of the single currency. It can be a problem.

The minuses also include the fact that the contract is concluded with a foreign company. In which case you have to sue a foreign insurer, and this is difficult. However, for someone, a foreign registration of an insurer, on the contrary, is a plus.

Finally, it is important to remember that this is an investment tool. Such an usually does not provide for payments for injuries and illnesses, does not provide payment for treatment, etc.insurance policy

In a market economy, life insurance serves as an important mechanism for ensuring social and economic stability in the country. This can be seen by analyzing the key indicators of life insurance. According to this approach, the analysis of key indicators in the life insurance network can be summarized as follows (Table 3).

Table 3

Analysis of key indicators in the life insurance network of Uzbekistan³

Indicators	2015	2016	2017	2018	2019
Life insurance premiums, bln. sum	33,3	59,1	138,6	417,2	586,4
Growth compared to last year,%	154,9	188,1	235,4	300,9	140,6
Life insurance coverage, bln. sum	21,9	34,7	78,3	264,0	529,4
Growth compared to last year,%	196,4	167,3	264,1	337,1	200,6
Life insurance premiums,% of total insurance premiums	6,0	8,5	14,9	25,5	25,3
Share of life insurance coverage to life insurance premium,%	65,8	58,7	56,5	63,3	90,3

Based on the analysis of Table 2, our conclusions are that the number of life insurance companies has increased in recent years, resulting in an increase in life insurance premiums, its share in GDP from 0.02% to 0.1%, and its share in total insurance premiums from 6% to 25%. Increased to 3 percent.

Conclusion and proposals.

The prospects for further unit-linked market growth are due to a combination of the following factors:

1. Improving transparency, capacity and stabilization of the stock market.
2. Formation of a preferential tax treatment of income on unit-linked policies.
3. Improving the legal framework in the financial market.

³ Prepared by the author on the basis of www.mf.uz.

4. Increasing the level of information of citizens about the possibilities of investing savings in the financial market.

5. Reforms of the pension system. Unit-linked policies will potentially guarantee higher rates of return than other endowment life insurance products.

6. Further development of bancassurance, associated with ongoing trends in financial market consolidation in recent years and the desire to expand the product line towards joint banking and insurance products, which leads to an increase in unit-linked product sales through bank windows. These factors will serve as a catalyst for the socio-economic consequences of the introduction of investment insurance products:

- growth in investment life insurance;
- market consolidation - the formation of large insurers in the insurance market for life insurance;
- attracting private investors through the mechanism of investment life insurance;
- creation of additional jobs in insurance;
- decent retirement benefits for the middle class.

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