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INVESTMENT RISK INSURANCE

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Abstract

The article presents the risks regarding investments and investment activities. The types of insurance of investment risks are considered, the main provisions of the insurance contract are determined, the concept of investment risks and the factors costing the development of investment risks are given.

Introduction

One of the most important directions in the development of foreign economic activity in a market economy is the international movement of capital, which finds its expression in foreign investment.

Investment activity in all its forms and manifestations involves risk. Its successful implementation is largely determined by the degree of success in solving the following problem: finding the optimal ratio of income and risk on purpose of more qualified and efficient risk management.

Investments according to the objects of application of investment activity are divided into financial and real investments.

Financial investments are investments of resources in financial investment instruments (assets) that involve the acquisition of rights to participate in the management of a corporation and debt rights in order to generate income: in government and corporate securities (stocks, bonds, bills, other securities and instruments), bank deposits, savings certificates, in authorized capital, the provision of financial loans and loans in a country and abroad, etc. in the stock market (securities market) and financial markets.

Real (capital-forming) investments are investments of resources in tangible and innovative intangible assets (innovative investments) that are directly involved in the production process: in the creation and reproduction of fixed production assets, including land plots, with long depreciation periods; in working capital (investments in the growth of inventories and other investment objects related to the investment activities of the enterprise or the improvement of working and living conditions of personnel).

Literature review

When using insurance, it is very important to take into account the types of risks that are inappropriate to insure. We can propose the following classification of the types of risks of investment activity, minimized by other methods:

- acceptable risks, which are compensated by self-insurance in the form of reservations;
- speculative risks compensated by diversification;
- completely unidentifiable risks (from an economic point of view);
- difficult risks due to financial and organizational problems of insufficient development of insurance risk management;
- rare risks;
- political, military, terrorist, social and environmental risks;
- major systematic risks that are neutralized by a favorable climate through government regulation;
- catastrophic risks compensated by the state or semi-state structures;
- new risks, only included in the management process [1].

Insurance of risks of investment projects can be attributed to combined types of insurance, as it includes several types of personal and property insurance. In property insurance, the object of insurance legal relations is the property and liability of legal entities in various forms. The main purpose of property insurance is compensation for damage due to the occurrence of an insured event. In liability insurance, the object of insurance is liability to third parties who may be damaged due to various actions or inaction of the insured. When considering insurance of risks of investment projects, the personal insurance industry includes, first of all, medical insurance and insurance against accidents at work [2]

For optimal risk management of investments, insurance companies have: a) considerable experience in the field of providing protection against risks, b) qualified risk assessors; c) a statistical database used in determining insurance rates, which is especially important when managing frequent systemic risks, where the advantage of insurance is undeniable [3].

Insurance risks covered by insurance investments are events emanating from authorities, administrations, state bodies, and the masses. The level of insurance coverage depends on the economic and socio-political situation in a particular country in which investments are made [4].

The specifics of investment risk insurance is that investment risks can be risks of completely different sectors of the economy. Investment risk insurance may include property and liability insurance. Insurance protection is also an additional competitive advantage, which serves as an important prerequisite for attracting new investments, increasing the sustainability of the project and the market value of the company [5].

Investment risk is the danger of losing investments, not getting a full return on them, depreciation over time of the initial investment. In other words, investment risks are understood as the property interests of investors associated with the preservation of their deposits from the risks of their destruction, depreciation or complete loss [6].

Research methodology

The methodological basis of the study is represented by theoretical provisions. As a basic research method, a logical-structural analysis of theoretical and empirical data presented in the public domain was used. The main methods are analysis and synthesis, allowing, on the one hand, to single out separate areas of investment risk insurance - generalizing and linking together the main development trends.

Analysis and results

Classification of investment risks allows the investor to identify the most vulnerable places in financial assets and highlight the most risky investments among them. In modern scientific literature, a fairly broad classification of investment risks is presented, depending on the feature underlying this or that classification.

The concept of investment insurance is considered in a broad and narrow sense.

In a broad sense, investment insurance is the protection of the property interests of the subjects of investment activity from the risks of depreciation, loss, destruction of capital investments. The objects of insurance can be any types of long-term and medium-term financial investments for the purpose of obtaining investment income, carried out by both foreign investors and resident investors:

- direct investments - fixed assets and other tangible assets of enterprises, including land, buildings, equipment, oil and gas pipelines, aircraft, water vessels, etc.;
- portfolio (stock) investments – participation rights, shares and other types of securities;
- loans and credits;
- property rights related to licensing, international leasing and other intangible values.

Table-1

General concept of investment for insurance [1]

<table>
<tr><th colspan="4">According to the nature of participation in investment, investments are classified into:</th></tr>
<tr><td colspan="2">direct - the direct participation of the investor in the choice of investment objects (instruments) and the investment of investment resources, i.e. these are real investments directly in a material object (usually they are carried out by direct capital investment in the authorized capital of other enterprises);</td><td colspan="2">indirect - investments of the investor's investment resources, mediated by other persons and characterized by the presence of an intermediary, investment fund or financial intermediary, i.e. it is portfolio investment.</td></tr>
<tr><th colspan="4">According to the investment period, there are:</th></tr>
<tr><td colspan="2">• short-term investments - investments of resources in investment objects, as a rule, for a period not exceeding one year (they are based on short-term financial investments, i.e. short-term deposits, purchase of short-term savings certificates, etc., as well as short-term investments in working capital - in inventory items);</td><td colspan="2">• long-term investments - investments of resources in investment objects (instruments) for a period of more than one year (the main form of long-term investments of an enterprise is its capital investments in the reproduction of fixed assets).</td></tr>
<tr><th colspan="4">According to the level of investment risk, there are:</th></tr>
<tr><td>• risk-free investments - investments in investment objects for which there is no real risk of loss of capital or expected income and the receipt of the estimated real amount of net investment profit is guaranteed;</td><td>• low-risk investments - investments in investment objects, the risk of which is significantly lower than the market average;</td><td>• medium-risk investments - investments in objects, the level of risk for which is close to the average market;</td><td>• high-risk investments - investments in objects, the level of risk for which usually significantly exceeds the market average.</td></tr>
</table>

In the insurance protection of investments, the following main areas are distinguished:

[1] Prepared by the author according to available information

- basic insurance of fixed working capital and other material assets of the investor against fires, explosions, accidents, various kinds of natural disasters;
- insurance of foreign investors against material losses caused by nationalization, expropriation, confiscation of the investor's property, civil unrest, any military actions, termination of the contract due to the actions of state bodies, restrictions on the convertibility of the national currency, capital export regime, etc. (political risks);
- insurance of investment loans and bank loans against the risk of non-repayment of the borrower's insolvency (commercial risks).

In a narrow sense, investment insurance is understood as the insurance of foreign investors against political risks, the implementation of which can lead to global, devastating damage to the insured.

In the field of investment insurance, three main groups of insurance organizations can be distinguished:

- national insurance agencies that insure political risks at the expense of national budgets, the main purpose of which is to stimulate credit;
- international insurance organizations included in the World Bank Group;
- a limited circle of private insurance companies.

Investment risk is an integral part of economic risk in the form of a set of specific risks generated by factors of uncertainty of internal and external conditions for the implementation of the investment activity of an economic entity, and is a measurable probability (threat) of loss of assets and resources, shortfall in income from them or the appearance of additional investment costs and (or) the possibility of obtaining significant benefits (income) in the process of investment activity of a subject of the economy.

Investment risk insurance is insurance (protection) of the property interests of an economic entity in the event of an insured event by special insurance companies (insurers) at the expense of insurance (cash) funds formed by them by receiving insurance premiums from insurers, as well as some other additional sources (in the case of political risk insurance - often at the expense of the state budget), which provides for the obligations of the insurer for insurance payments in the amount of full or partial compensation for loss of income (additional expenses) of the person in whose favor the insurance contract is concluded.

Due to the fact that investment activity is a combination of many risky operations related to different areas (industrial, commercial, construction, financial, scientific and technical, etc.), insurance protection can be carried out for the following main groups of risks:

- commercial risks, including the risks of non-fulfillment of supply contracts and non-payment for project products;
- political risks;
- risks associated with changes in market conditions, the reliability of project partners, etc., including all kinds of credit risks (including non-payment risks in foreign trade lending, the form of insurance for which should be investment forfeiting);
- natural and environmental risks associated with natural disasters; technological risks (equipment failure) or risks associated with the protection of copyright for an invention, etc.;
- risks of financial losses from criminal negligence and negligence of employees in the performance of their duties;
- risks of lower income due to business interruption due to accidents or other events;
- the risk of stopping production or reducing the volume of production as a result of events specified in the contract;
- risk associated with intangible assets of an economic entity;
- the risk of bankruptcy;
- the risk of unforeseen expenses;
- risk of non-performance (improper performance) of contractual obligations by the counterparty of the insured person who is the creditor in the transaction;
- risk of innovative products (services) and technologies;
- risk of court costs incurred by the insured person;
- credit risk, etc.

Investment risk insurance is carried out on the objects of property insurance, liability insurance and personal insurance.

The following types of insurance are considered in investment processes:

- liability insurance for non-repayment of loans;
- profit loss insurance;
- production downtime insurance;
- insurance of commercial risks, including non-fulfillment insurance of environmental risks of the project;
- insurance of machinery and equipment against breakdowns;
- life and health insurance of employees;
- political risk insurance, including export credit insurance;
- insurance against financial losses as a result of criminal negligence and negligence of employees in the performance of their duties;
- income reduction insurance due to business interruption due to accidents or other events.

Table-2

Types of investment risk insurance [2]

Property insurance
Property types of insurance are classified by objects as follows: 1. Property insurance (tangible and intangible assets); 2. Insurance of investment risks; 3. Insurance of indirect financial risks; 4. Insurance of financial guarantees; 5. Other types of risk insurance.
Liability Insurance
When insuring liability, the object of insurance is the liability of the subject of the economy and its personnel to third parties who may suffer financial and other types of damage as a result of any action or inaction of the insured. This insurance provides insurance protection for a subject of the economy against the risks of financial losses that may be imposed on him by law in connection with the damage caused by him to third parties, both physical and legal. The relations of the parties in liability insurance are determined by the following mutual obligations: the insured is obliged to pay the necessary insurance premiums (insurance premium), and the insurer is obliged to reimburse the insured for the amount of money payable by them to third parties for the damage caused. Liability insurance provides an economic entity with insurance coverage for a significant number of types of its investment risks;
Personal insurance
Personal insurance covers the life insurance of personnel, as well as possible cases of loss of their ability to work, disability and others. Specific types of this insurance are carried out by the enterprise on a voluntary basis at the expense of its profits in accordance with the collective labor agreement and individual labor contracts.

With regard to the project part of investment risk insurance, all operations can be divided into design phases:

- insurance of risks of activity at the pre-investment phase (for example, professional liability of developers of design and estimate documentation);
- insurance of risks of activities at the investment phase (cargo, construction risks, risks of non-payment under the contract, etc.);
- insurance of risks of activities at the production phase (environmental risks, various liability from production downtime, interruption of production activities, etc.);
- insurance of risks of activity at the phase of closing the project (for example, dismantling of platforms during oil production on the sea shelf).

At certain stages within a particular phase of the project cycle, specific types of insurance may be applied. For example, for a period of one to two years after the start-up of the facility, insurance of the contractor's post-start-up warranty obligations may be applied.

According to the volume of insurance of investment risks, full and partial insurance are distinguished. With full insurance, insurance protection of the subject from the negative consequences of risks is provided in their entirety upon the occurrence of an insured event. Partial insurance limits the insurance protection of the enterprise against the negative consequences of financial risks, both by certain sums insured and by the system of specific conditions for the occurrence of an insured event.

Investment risk insurance is based on an insurance contract that regulates the mutual rights and obligations of the parties. The basis of the contract is the following most important conditions of insurance.

1. The volume of insurance liability of the insurer. The volume of insurance liability of the insurer determines the full or partial level of insurance protection provided by them to the enterprise for specific types of financial risks, determines the list of risks accepted by the insurer for the object of insurance.

2. The size of the insurance valuation of the property of the insured. It characterizes the method of valuation of the relevant assets (by book value, by real market value, etc.) and its results. In the implementation of such an assessment, if necessary, third-party experts are involved - "property appraisers". The size of the insurance valuation of the insured's property is the basis for establishing the sum insured when using insurance systems at the actual cost, proportional liability and others.

3. The amount of the sum insured. The sum insured characterizes the amount of money within which the insurer is liable under the insurance contract. According to its economic content, the sum insured represents the maximum amount of insurance protection of the enterprise for specific types of financial risks insured by it.

4. The amount of the insurance rate. It characterizes the specific cost of insurance services in relation to the sum insured or the specific price of insurance of the corresponding type of risk. The current methodologies for calculating tariff rates (actuarial calculations) are applicable to investment risk insurance.

5. The amount of the insurance premium (payment, installment). According to its economic content, the size of the insurance premium determines the full price of insurance by the enterprise of the corresponding financial risk or a certain complex of them. The calculation of the amount of the insurance premium is based on the sum insured provided for by the contract, the term of insurance and the amount of the insurance tariff (tariff rate).

6. The procedure for paying the insurance premium. In

[2] Prepared by the author according to available information.

accordance with current practice, both a single premium and a current are used. A single premium is applied for short-term types of insurance of financial risks or for their long-term insurance with a low insurance premium. The current premium is distributed over specific time intervals of the total term of the insurance contract - years (if the term of the contract is set to several years), half-years, quarters, months. The amount of each current payment in this case is determined by dividing the total insurance premium by the number of time intervals (or in other amounts as agreed by the parties).

7. The procedure for determining the amount of insured damage. The insured loss characterizes the value of the destroyed or partially lost assets of the enterprise, as well as the monetary value of the financial losses of the insured or third parties in whose favor the insurance contract is concluded.

8. Procedure for payment of insurance compensation. The insurance indemnity is understood as the amount paid by the insurer to cover the financial loss of the insured upon the occurrence of an insured event. The procedure for its payment establishes the deadline for settlements, their form (type of payment), the possibility of deducting the unpaid amount of the insurance premium from it.

Taking into account the conditions of insurance of certain types of investment risks, the organization determines the effectiveness of insurance. The main indicators for evaluating the effectiveness of investment risk insurance are:

- probability of occurrence of an insured event by type of investment risk;
- the degree of insurance coverage for risk, determined by the insurance coefficient (the ratio of the sum insured to the size of the insurance valuation of the property);
- the size of the insurance tariff in comparison with its average size in the insurance market by type of insurance;
- the amount of the insurance premium and the procedure for payment during the insurance period;
- the size of the franchise - conditional or unconditional.

The effectiveness of insurance of certain types of investment risks, determined taking into account these parameters, is the basis for making managerial decisions in the foreign economic activity of an enterprise.

Conclusions and suggestions

In the context of the development of the domestic economy with increasing investment activity and innovative orientation, characterized by the presence of an increased level of uncertainty, and as a result, the risks of investment activity, the formation of a modern system of insurance protection is an urgent issue.

In domestic practice, investment insurance has not received due development at the present time for the following reasons:

- lack of the necessary regulatory and legislative framework for investment insurance;
- insufficiency of own capital to take responsibility for major risks;
- underdevelopment of the infrastructure that guarantees high-quality pre-insurance expertise of investment risks;
- lack of experience and qualified staffing.

At the same time, investment risk insurance is a promising and priority type of insurance protection for participants in foreign economic activity.

The increase in the role of insurance in the conditions of the existence of a market economy requires new theoretical and practical developments of the place of insurance in the system of market relations. To this end, it seems necessary to adjust the legal, organizational, economic, innovative and social mechanisms of insurance management. Thus, rational and balanced risk management of the investment portfolio (that is, investment risks) is a guarantee for the company to increase profits in the long term. Placing capital in risk-free investments allows to obtain a stable return, and high-risk investments provide a quick increase in profits. Competent insurance of these risks allows the company to look to the future with confidence in the dynamically changing environment of the global financial market.

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