
Social/Economic Preconditions and Prospects for the Development of Education Insurance in Russia

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Abstract:

Over recent years, amid the world economic recession, the issue of funding education has become a major concern for many nations throughout the globe. A crucial trend that has been observed of late is rising costs of education against a background of declines in the number of state-financed openings. In Russia, this has been accompanied by declines in demand for paid educational services on the part of business and private individuals.

The lack of funding has, in turn, given rise to a number of other issues, including the sub-par quality of much of today's education. Today, many institutions of higher learning are reporting poor preparation levels among high school graduates, while employers are getting increasingly concerned about those among college graduates. There has been a considerable amount of research into financial instruments covering the various educational risks.

Conversely, education insurance has, for the most part, been confined to a secondary role. In this paper, the author examines some of the latest theoretical approaches to construing the essence of education insurance, fine-tunes its semantic definition, proposes a special classification structure for it, and provides a rationale for its role in the development of the financial mechanism underpinning the sphere of education.

An attempt is made to come up with the optimum model for education insurance by reference to present-day Russian reality.

Further, the author views the prospects for the development of education insurance, above all, from the perspective of improvements in the quality of educational activity.

Keywords: *funding education, financing education; educational services; quality of education; education insurance; prospects.*

JEL Classification: I20, I21

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1. Introduction

Today, the development of Russia's sphere of education is accompanied by a number of major issues which, in large part, are the consequence of imperfections in legislation, the sector's poor institutional development, as well as the economic situation in the country which has worsened over the last few years. These issues require immediate and efficient action, since education is crucial to fostering the nation's human potential, which is one of the fundamental components within the system of resources for the nation's strategic development. One of the most pressing issues facing Russia's sphere of education at this time is the lack of funds allocated by the state to finance the operation of this area of human activity.

Over recent years, amid the world economic recession, the issue of funding education has become a major concern for many nations throughout the globe. In Russia, this process has been accompanied by declines in state demand for specialist training and drops in demand for paid educational services on the part of business and private individuals (Chepyzhova, 2012; Ivanova and Bikeeva, 2016).

The lack of funding has, in turn, given rise to a number of other issues, including the sub-par quality of present-day education (Makarov and Makeikina, 2014). Today, many institutions of higher learning are reporting poor preparation levels among high school graduates, which is testimony to the low quality of secondary education. Employers, likewise, are getting increasingly concerned about the preparation levels of graduates from institutions of higher and secondary-level vocational learning, for their lack of relevant experience and practical skills may result in considerable costs for employers to bear to train and prepare them for work. Thus, at present the development of Russian education is accompanied by a number of major issues, some of the more salient ones being those of a financial nature and those related to declines in the quality of education.

Issues related to lack of state funding for the sphere of education and problems that may arise due to this have been investigated in recent years extensively by Russian scholars (Ataeva, 2013; Grishanova & Sokolova, 2012; Zhuk & Seleznev, 2016; Il'in, 2017; Panichkina, 2013; Khazieva, 2012). Similarly, there has been a great deal of attention to education financing on the part of the international scholarly community, which has produced in recent years a variety of novel approaches and models on the subject (Yilmaz, 2001; Montolio & Piolatto, 2011; Diris & Ooghe, 2015; Schindler & Weigert, 2008; December; Schindler & Weigert, 2008; Schindler, 2008; Gorina 2016). By and large, the need for reform in and adjustments to the mechanism underlying the financing of the sphere of education has been acknowledged today by just about any nation around the world.

In the conditions of market economy, special relevance is being attached to augmenting responsibility for the expenditure of taxpayer money and ensuring the quality of services provided, including in the sphere of education. Market economics

presupposes a reduction in the role of the state, including based on cuts in government spending on education. However, the state may still administer tight control over the education sector.

Based on the model for funding education predicated on the theoretical works of scholars M. Friedman, F.A. von Hayek, and T.M. Moe (Hoffman, 2000), all participants in the educational process are encouraged to take part in the shared financing of education and search for new sources of funding. Right now, many developing nations are exhibiting a trend toward paid education becoming a key component within the education sector (Dang & Rogers, 2008). It, nevertheless, is worth noting here that under conditions of market economics, even if education is free, households still have to bear additional costs associated with proper support for the educational process (Johnstone, 2001).

The above signals the need to develop a novel organizational/financial mechanism that matches the conditions of a market economy and is intended to ensure the attraction and rational use of resources needed for the effective and efficient development of the sphere of education.

2. Materials and methods

Present-day practice offers various ways of and instruments for funding education (alongside direct state financing). This, above all, includes the actual use of households' personal savings. However, given the persistent recession-driven declines in the solvent portion of the nation's population, increasingly many households are struggling today to make ends meet trying to support their children's education. There are also certain market instruments for funding education, like, above all, education loans and education insurance.

The essence of education lending has been the object of extensive research starting in the 2nd half of the 20th century, a period of education reform in the majority of the world's advanced nations. The emergence of education lending programs during the 1950–60s and the sector's active development during the 1980–90s in the US and countries of Europe were brought about by the shift to accepted liberal doctrine and the spread of D.B. Johnstone's concept of cost-sharing in education (Johnstone, 1986; Ilina, Kryukova, Potekhina, Abyzova and Shadskaja 2017; Nakhratova, Ilina, Zotova, Urzha and Starostenkov, 2017). Based on the above approach, certain foreign scholars, including M. Woodhall, J. Le Grand, and I. Crawford, suggested expanding the sphere of financing education through the engagement of funds from citizens and business (Woodhall, 1988; Woodhall, 1990).

Despite the fact that in recent years certain measures have been taken in Russia to create the conditions for sustainable partnerships between certain commercial banks and educational organizations, the Russian market for educational loans is still pretty much underdeveloped. Loans for education still constitute a minor share in the loan

portfolios of Russian banks. The current terms of extending education loans will not let you recognize this market instrument as either widely available or affordable for most citizens. On top of that, education lending as a way to fund educational services has a number of major weaknesses as well. Thus, for instance, the size of a loan will, normally, depend on a person's solvency, rather than the actual cost of the education (Komleva & Gadzhikurbanov, 2012). Given the instability in the financial market and the emerging recessional phenomena, many banks are expected to reduce their supply of loans, including education-related ones, and stiffen lending terms and requirements to borrowers. This fact has been substantiated by the latest research into education lending conducted by foreign scholars (Chapman, 2016). An alternative to education lending is education insurance.

Accumulating financial funds for the pursuit of major financial objectives, like your children's education, using the insurance mechanism is quite a common practice today in many countries around the world. For these purposes, they mainly resort to endowment life insurance. Note that, due to the expansion of functions performed by life insurers, this type of insurance is regarded now as a mechanism for not just accumulating funds in the form of term life insurance but also for achieving certain investment objectives (Dash, Lalremtluangi, Snimer, & Thapar, 2007).

A theoretical analysis indicates that Russian science has yet to produce a clear-cut definition of the term 'education insurance'. Likewise, the term has yet to be clearly defined in legislation. Some of the literature has alluded to the potential possibility of actually putting this kind of insurance in place. Further, insurance education is viewed as a variety of life insurance and is not set apart into a separate sub-sector, like, say, medical insurance. Shakhov defines education insurance as insurance intended to guarantee parents material funds for paying for their child's education and care during college. This kind of insurance policy pays the insurance sum on a fixed date regardless of whether the policy holder survives the term (Kolomin & Shakhov, 1992).

Among some of the top latest works dealing with risk management in the sphere of education, including using insurance mechanisms, are those by B.S. Burykhin, O.A. Zatepyakin, and A.V. Zverev, who, in the author's view, have thus far made the most substantial contribution to the theory and methodology of insurance for educational risks.

Zatepyakin and Burykhin are mainly focusing on the prospects of institution in Russia of obligatory education insurance. These authors have identified some of the social and professional risks that are the object of education insurance, provided a rationale for the public need for education insurance, identified some of its social/economic functions, and proposed a financial model for the establishment and operation in Russia of a state education insurance fund (Burykhin & Zatepyakin, 2011; Zatepyakin, 2009; Zatepyakin, 2010a; Zatepyakin, 2010b).

The above authors place and view education insurance within the context of the system of social insurance and propose the following definition of it: “Education insurance as an economic category is a collection of economic relations that ensure the reproduction of labor power upon the occurrence of an insured event, i.e. when there arises a threat of a worker’s material hardship due to their inability to take part in the production process on account of their lack of education. Further, the scholars suggest instituting legally throughout the Russian Federation a provision whereby one will be able to receive an education only on a paid basis through the system of state education insurance, with the State Education Insurance Fund serving as a central link (funded based on obligatory insurance payments for education, federal appropriations, donations, its commercial activity, and payments made under a voluntary education insurance plan) (Burykhin & Zatepyakin, 2011). Zatepyakin defines voluntary education insurance as a supplement to the system of obligatory education insurance: “A mechanism for compensating citizens for the costs and losses associated with the arising of the need to obtain a certain level of education” (Zatepyakin, 2009).

Thus, Zatepyakin and Burykhin view education insurance, on the one hand, as a policyholder’s (an assured person’s) subjective goal of having their income insured to cover their future expenditure on education, and, on the other hand, as a mechanism for easing the strains on the state budget associated with outlays on public education.

For Zverev, a possible instrument for boosting the quality of educational services is insurance for the liability of educational institutions. In the scholar’s view, liability insurance is intended to cover the costs borne by parents to pay tutors hired to help remediate the gaps in the child’s learning, refund the expenses incurred to pay for college in the event of failure to pass the institution’s final assessment or due to improper guarantees of employment for the graduate, etc. Thus, it has been suggested that the participation of colleges and schools in the liability insurance program will help these institutions enhance their standing in the education market and provide society with guarantees of higher-quality educational services (Zverev, 2016; Shpilina, Kryukova, Vasiutina, Solodukha and Shcheglova, 2017).

There are also some other types of insurance that are associated with the sphere of education insurance. It is medical insurance and accident insurance for students and instructors. For the most part, risks associated with paying for medical services and having one’s work capacity restored are covered through the system of obligatory social insurance. The essence of any economic category is reflected in its functions, and gaining a thorough insight into these will help to not just fine-tune its substantive characteristics but identify its role in social development as well.

Based on notions commonly upheld within Russian science now, the fundamental functions of insurance are protection against risk, accumulation of funds, prevention of similar events in the future, and control over the funds.

In addition to the above functions, it has become customary internationally to view insurance as one of the backbone institutions serving public interests, as it facilitates the creation of a mechanism that provides people with access to justice, obviating the need to use a lawyer (Talesh, 2012). Insurance policies are not regarded as mere contracts but, rather, are believed to be intended for fulfilling special risk management functions that are crucial to ensuring economic and social order (Stempel, 2010). Another crucial function of insurance is its information function, for insurance markets collect and spread information about expected risks, the probability of accidents occurring, the degree of harm, and relevant precautionary measures (Grossman, Cearley, & Cole, 2006).

Russian researchers have treated the functions of education insurance in alignment with commonly accepted approaches. Thus, for instance, Zatepyakin has identified the following functions of education insurance: its risk-covering function at the level of an individual; its preventive function at the level of an individual; its function of concentrating investment resources and stimulating scientific/technical progress (Zatepyakin, 2010b). Based on the findings of a theoretical analysis of existing approaches to establishing the functions of education insurance, the following have been identified as its most significant ones:

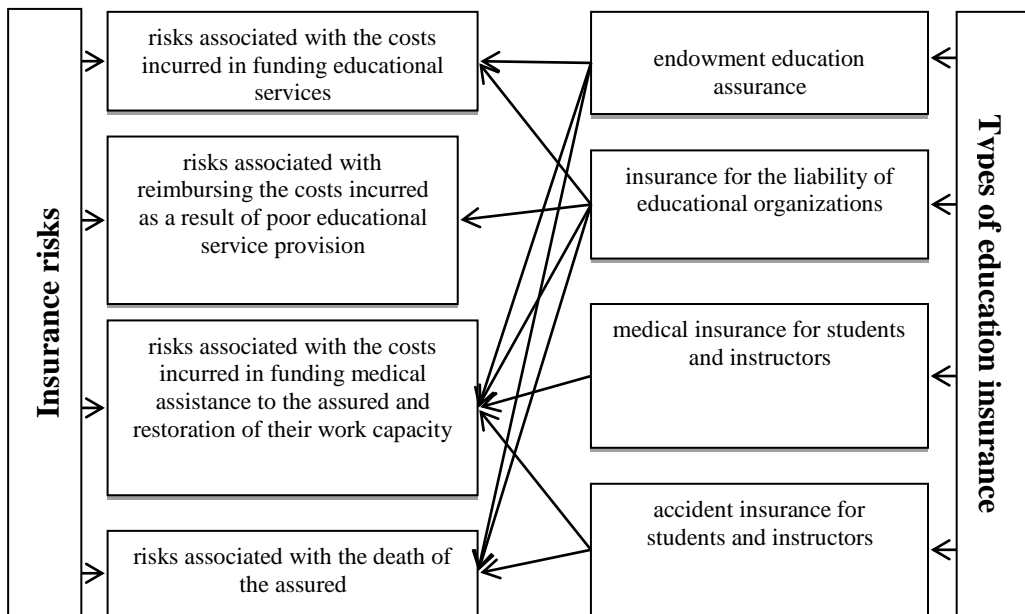
- 1) the function of financial support for the educational process, which consists in compensating the costs borne by a household to pay for educational services or other costs associated with the educational process. These may include expenses associated with medical assistance to the student and having their work capacity restored (accident insurance for students); transportation expenses; expenses associated with using the services of a tutor in preparing to enter a college, etc.);
- 2) the function of guaranteeing the quality of educational services, which is aimed at ensuring social/legal order and protection for the interests of policy holders and the assured within the sphere of education and may be implemented by way of both insurance for the liability of educational institutions *and* endowment education assurance;
- 3) the information function, whereby insurers operating within the education insurance segment are able to amass and systematize information on crucial trends in the sector, insurance statistics, etc.

The above clearly indicates that education insurance is a complex, multifaceted category. On balance, it may be possible to define education insurance as follows: education insurance is a specific sphere of economic relations that brings together various types of insurance aimed at ensuring insurance protection for policy holders (parents, legal guardians, educational organizations, and public authorities) and assured individuals (students and instructors) in case of risks associated with the educational process materializing. Further, some of the major risks covered by education insurance include:

- risks associated with spending on all kinds of educational services and covering additional costs required to ensure proper support for the educational process;
- risks associated with reimbursing the costs incurred by a person funding education (public authorities, parents, legal guardians, organizations, students) as a result of poor educational service provision;
- risks associated with the costs incurred in funding medical assistance to the assured and restoration of their work capacity in the event of an accident during the educational process;
- risks associated with the death of the assured.

The classification structure of the sphere of education insurance could be illustrated as follows below (Figure 1).

Figure 1. Author-designed classification structure of the sphere of education insurance.



The above classification structure clearly illustrates that, alongside endowment education insurance, the focus within the system of educational risk management should also be on insurance for the liability of educational organizations. The issue of putting together the optimum model for the development of the system of education insurance in Russia currently remains quite a complicated one.

Russia's market segment for education insurance is still weak with a limited supply of products offered to the public. Insurance, mostly, covers risks of a social nature

that are inherent in said sphere's development. Among the major types of insurance currently employed in education risk management in Russia are the following:

- savings insurance, which is aimed at accumulating money that will be used to pay for educational services;
- mixed life insurance, which, apart from accumulating funds to pay for school, also covers certain risks associated with the assured person's life and health;
- medical insurance and accident insurance for instructors and students.

Note that not all companies operating in the insurance market are prepared to provide their clients with insurance protection against risks associated with education. On top of that, none of the products offered today by Russian insurers within the context of education insurance ensures guarantees about the quality of educational services provided, entry into a top college, and demand for the graduate in the labor market after college.

As was mentioned above, most researchers deem it most advisable to institute obligatory education (endowment) insurance. By way of positive and normative analysis, the author has concluded that today the idea of instituting obligatory endowment education insurance in Russia based on the scheme proposed by most of today's researchers is not only invalid from the legal perspective but is also fraught with the risk of affecting the quality of education and escalating social tensions within the nation.

Pursuant to Article 43 of the Constitution of the Russian Federation, the Russian state "guarantees commonly available and free pre-school, basic general, and vocational secondary education in state or municipal educational institutions and in enterprises". Conversely, instituting obligatory education insurance will virtually mean an all-out shift to paid education.

It is also important to stress that instituting obligatory education insurance as a mechanism for funding educational activity contravenes the priorities in development of insurance and the insurance market stipulated in the Strategy for the Development of Insurance Activity in the Russian Federation Through to 2020 (Ordinance No. 1293-r of the Government of the Russian Federation of July 22, 2013). Under the Strategy, one of the major drawbacks of instituting obligatory insurance is that forcing you to enter into an insurance agreement may trigger a reaction of rejection and a feeling of insurance services being foisted upon you. Further, there is a lack of orientation toward the client in terms of selling insurance services. The above document also states that, given the current situation in the market for obligatory insurance, the future development of Russia's insurance sector ought to be aimed at stimulating the development of voluntary types of insurance, as well as boosting the attractiveness of insurance to citizens.

The rationale provided for the institution of obligatory education insurance, as a mechanism for funding education activity, by its proponents is the successful

experience of employing the financial mechanism underpinning the system of obligatory medical insurance. However, in the author's view, this kind of parallel is invalid. Medical services and educational services are different from each other in essence and in nature. Indeed, just about anybody may have needs for medical services throughout their life, whereas educational services are something that people need only at certain stages in life.

When it comes to the prospects for instituting obligatory endowment education insurance, it is also worth considering in this regard the so-called "free rider problem". The problem consists in that, under the theory of public goods, a portion of economic agents will get access to public goods without actually taking part in funding them. Attempts to solve this crux have been made since the beginning of the 20th century (Zhuk, 2012), although efficient mechanisms for minimizing the effect of the "free rider problem" have still yet to be worked out. Note that, based on data from the Russian Federal State Statistics Service, in 2015 Russia's informal sector employed 14.8 million people, i.e. 20.5% of the total number of people employed within the nation's economy.

In addition, when people have virtually a 100% guarantee that their education costs will be covered, this may reduce the incentive for them to strive for the best results in learning. The condition that only a certain portion of the population are able to receive a higher education free of charge and that the entitlement to receive this kind of education will depend on the individual effort put in by the student is one of the key factors in learners stimulating the quality of education.

Another fact that is worth considering is that entering a college does not yet guarantee successful graduation and employment within a skilled sector of the labor market (Schindler & Weigert, 2008). This translates to a great deal of risk for households, as their investment in education (in the form of obligatory payments for education insurance) may, simply, fail to pay off.

An analysis of theoretical tenets and practices underlying the use of insurance instruments in educational risk management has helped identify the following relevant criteria that should govern the present-day model for education insurance in Russia:

1. Being aligned with the nation's current legal and regulatory framework.
2. Being predicated upon the availability of legal mechanisms for and guarantees of protection for the rights of policy holders and the assured.
3. Being predicated upon a systematic approach to developing the interrelationship between the sectors of public and private funding of education.
4. Being managed in such a way as not to allow for the escalation of social tensions within the nation.
5. Being aimed at resolving crucial issues in education.

Thus, the system of education insurance must facilitate the resolution of major issues that may arise in the sphere of education, must not contravene existing legislation, and must meet the interests of all subjects of educational activity.

3. Results

At present, the making of the institution of education insurance is taking place in Russia under conditions of lack of a firm theoretical/methodological groundwork and a proper legal framework for it. A good testimony to this is the findings of an analysis of theoretical solutions developed by Russian scholars with respect to the topic under review and present-day legislation regulating the insurance sector. Russia's existing information/analytical system for the insurance market lacks the indicators that would help characterize the institution of education insurance and give a quantitative assessment of the present-day state of and trends in its development using the latest research methods.

The development of various types of voluntary education insurance is impeded by a number of issues of a general nature governing the poor development of Russia's insurance market as a whole. These include: the low level of the population's insurance culture; lack of efficient instruments for state support for the insurance market; unfair competition practices; the market's poorly developed infrastructure and sectoral structure. Further, a key problem that is hindering the development of voluntary insurance is the inability of most households to afford insurance due to financial strains.

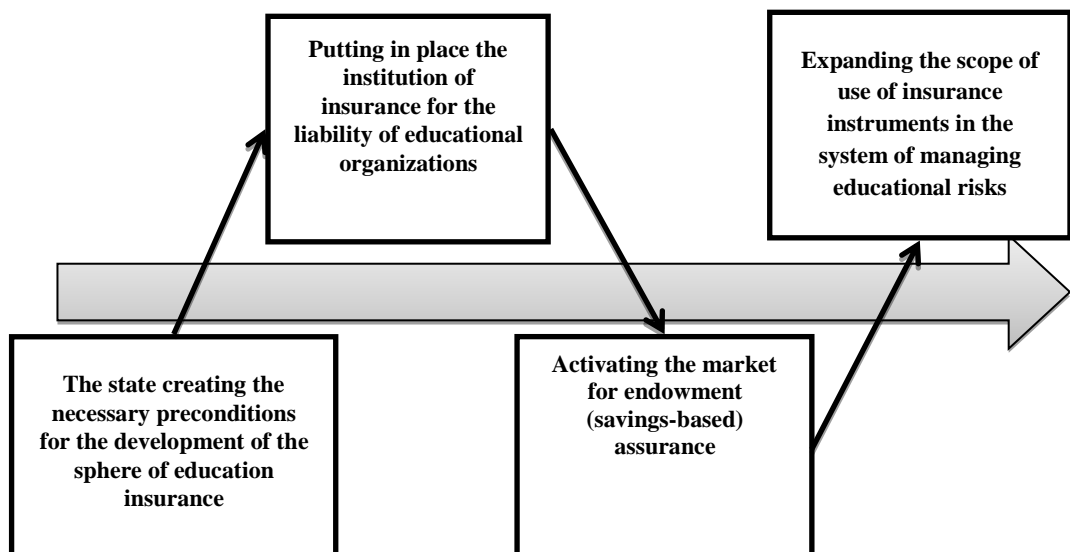
Thus, now services related to education insurance are not in mass demand among the population, and its role in the effective development of the education sphere is virtually reduced to a minimum. The time has come to develop a totally different concept on directing people's money to educational needs through the insurance mechanism. In the author's view, it will help to implement principles of obligations in the sphere of education insurance in a stage-by-stage manner – in step with the emergence of relevant preconditions. It may be worth having a bridging phase that would help adapt society to the new changes and get it to view insurance as an indispensable part of the sphere of education.

The findings of an analysis of legal and social/economic factors influencing the development of Russia's education insurance sector indicate that at the initial stage in its development it may most definitely help to institute prescribed (obligatory) insurance for the liability of educational organizations. This is not going to be a mainstream type of insurance for households – here the obligation to make insurance payments will rest on educational organizations, which should minimize the potential negative effects from instituting it. Putting in place a mechanism of this kind will not only result in additional guarantees for the quality of educational services but help boost the overall level of citizens' insurance culture as well.

Russia's present-day market for insurance services is currently not offering insurance for the liability of educational organizations, although the necessary preconditions for its implementation have existed for quite a long time now, one, above all, being the growing volume of paid educational services. That being said, implementing insurance for the liability of educational organizations based on principles of obligations, or using the prescribed insurance model (for organizations providing paid educational services), appears to be quite a difficult task at this time due to lack of a proper legal and regulatory framework and the unpreparedness of professional participants in the insurance market to do it on account of lack of steadfast rules and a proper statistics database for this kind of insurance.

Based on the above, a possible conceptual model for the development of education insurance could be illustrated as follows below (Figure 2).

Figure 2. *The author's conceptual model for the development of the sphere of education insurance.*



It is obvious that the development of the institution of insurance for the liability of educational organizations will hardly be possible without sufficient participation on the part of the state. Above all, one will need to establish the fundamental legal tenets of the model for the sector's operation, as well as create incentives for encouraging the participation of insurance companies in it. Further, the development of the market for insurance for the liability of educational organizations ought to be viewed not just as a tool for resolving the issue of the quality of education but also as a relevant stage in the development of education insurance as a whole. The gradual implementation of insurance instruments in the sphere of education will facilitate the

creation of the necessary information and legal environment and may, eventually, have a substantial stimulating effect on the market for voluntary endowment (savings-based) education insurance and create the preconditions for expanding the scope of use of insurance instruments within the system of educational risk management.

4. Discussion

The author-conducted study is testimony to there being enough social/economic preconditions for the development of education insurance as a tool for managing educational risks. On the one hand, there is the need to develop efficient mechanisms for attracting private resources into the sphere of education, expanding the roster of sources of funding for it, and, also, and, at the same time, boosting the quality of education, and on the other hand – the need to ease the financial strains on households associated with expenditure on education. It is worth noting that the idea of instituting obligatory education insurance as a mechanism for accumulating funds that will be used to finance education is not novel in Russia. In the late 20th century, the nation witnessed broad discussion about the prospects for instituting obligatory education insurance. In 1998, a group of rectors at some of Russia's institutions of higher learning and several insurance companies brought up for discussion a project entitled 'Education Insurance'.

The project triggered tense debate among both the nation's authorities and general public, for present-day Russian legislation simply rules out the possibility of organizing education insurance on an obligatory basis, the latter, essentially, regarded as a mechanism for forcing the population to pay for educational services.

The development of education is one of the key components of the cultural/educational and social functions of just about any state around the world. In many countries, education is obligatory and free. Most researchers concerned with issues related to funding education have, likewise, acknowledged in their works the dominant role played by the state in terms of funding education (Chapman, 2016). It is hard to disagree with this, as the state has the capacity to regulate the structure of the nation's labor capital. Besides, a question mark was put over the proposed scheme's "economic efficiency". The project was viewed as an outright pyramid scheme and implementing it was believed to eventually result in negative consequences. The project's authors were accused of lobbying their own interests in pursuit of purely commercial objectives.

Thus, the concept of obligatory education insurance has never really been fully implemented in Russia. However, the key idea underlying the scheme in question remains a subject of intense interest among scholars, and the issue of which principles endowment education assurance – those of obligations or those of voluntariness – should be implemented on is pretty much still an open question at this time.

5. Conclusion

Without question, education insurance has great prospects for development in the future. Specific types and forms of insurance may be quite diverse, which makes it possible to take the most accurate account of client interests. On the whole, insurance is more flexible than lending and is a tool that offers a number of undeniable advantages. In the case of education insurance, it not only facilitates the accumulation of funds for financial support for the educational process, but also helps ensure protection from the many social risks that one may face. In addition, insurance normally requires no collateral or guarantors. This significantly improves access to education insurance products as opposed to education lending services. Thus, education insurance offers a number of undeniable advantages in comparison with other market instruments for funding education, and, going forward, it can become one of the most significant mechanisms for not just funding educational activity but boosting the quality of education as well.

However, for the time being the development of said institution has been impeded by several factors of an economic, legal, and methodological nature, and the prospects for the development of education insurance will depend largely on the extent of the state's participation in the process.

Competing interests

The author declares no conflict of interests regarding the publication of this paper.

Acknowledgements

The reported study was funded by RFBR (Russian Foundation for Basic Research) according to the research project No. 17-32-01057, a2. The author extends sincere gratitude and appreciation in recognition of the foundation's support for and commitment toward these research efforts.

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