

ANALYSIS OF THE INSURANCE SERVICES MARKET OF UKRAINE: FORMATION, PROBLEMS AND PROSPECTS

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The key element of the national economy of any country is the insurance market. With the strengthening of the openness of the Ukrainian economy to the international economic space, the issues of competitiveness of the insurance market and reforming the insurance industry are becoming increasingly important. However, due to the protracted financial crisis, the continuation of the military conflict, and due to underestimation of the social role that insurance should play, the level of its development in Ukraine today does not meet the growing needs of the national economy and social reforms. It is no more than 10% of potential risks while in most developed countries it is at least 90-95%. The share of our country in the world insurance market reaches only 0.01% and is equal to 0.05% of the volume of insurance services, which is 400 times less than in the US, 60 times less than in Germany, and 50 times less than in France [1, p. 413]. This is despite the fact that Ukraine is home to more than 7% of Europe's population and has significant industrial, agricultural, and scientific potential.

Despite the fact that the modern Ukrainian insurance market began its development in the early 90s of the last century, there is still a constant improvement of the legal framework, changes in the activities of state bodies of state regulation and supervision of insurance activities. Therefore, the issue of the functioning of the insurance market and identifying prospects for its development does not lose its relevance today.

The study of the theory and practice of the insurance market was considered in the works of many domestic scientists V.Bazilevich, S. Vynohodov, T.H. Marenych, O.A. Lutsenko [12, 13], L.A. Polyvana [12, 13], H.M. Puriy and others. However, despite a fairly wide range of research and a significant amount of work related to the analysis of processes occurring in the insurance market of Ukraine, the dynamic nature of its development requires constant deepening of research, including a conceptual approach to assessing major problems, trends and prospects of the insurance market.

The purpose of the article is to assess the current state of development of the domestic insurance market, identify features and problems of its operation and justify the main directions of further development in order to increase the competitiveness of business entities.

According to the National Commission for State Regulation of Financial Services Markets, the insurance services market is the second largest capitalization market among other non-banking financial markets [2]. Therefore, the insurance market of Ukraine has significant attractiveness and potential for further development.

The main indicators of the insurance market of Ukraine for 2010-2019 are presented in the Table 1 [3].

Analysis of the main indicators of activity and development of the insurance market gives grounds to claim that today the insurance market is characterized by underdevelopment, lack of structure, weak development of reinsurance, instability of financial condition of some insurance

companies, uneven development, when we can see the formation and strengthening of some insurance companies and the bankruptcy of others [13].

Table 1. The Main Indicators of the Insurance Market of Ukraine

Indicators	Years					
	2010	2011	2013	2015	2017	2019
Number of registered insurers	456	442	407	368	294	233
among them: life insurance companies	67	64	62	50	33	23
Number of concluded insurance contracts, mln grn	619,1	618,0	185,2	171,9	185,4	196,9
Assets on the balance sheet, UAH mln.	45234,6	48122,7	66387,5	60588,9	57381,0	63866,8
Volume of paid-in authorized capital, UAH mln grn	14429,2	14091,8	15232,5	14483,7	12831,3	11066,1
Formed insurance reserves, UAH mln grn	11371,8	11179,3	14435,7	17244,7	22864,4	29558,8
Gross insurance premiums, UAH million, of which:	23081,7	22693,5	28661,9	21718,7	43431,8	53001,2
from insured individuals	6 171,1	7 478,7	10267,5	7 269,2	15555,6	21632,0
from legal entities	966,8	12549,0	12607,9	17864,6	12937,7	19034,8
from reinsurers	7 050,3	4 111,9	5 521,4	4 564,1	14938,5	12334,4
including from non-resident reinsurers	192,3	429,1	324,0	38,1	46,1	56,8
Gross insurance payments, UAH million, of which:	6 104,6	4 864,0	4 651,8	4 674,8	10536,8	14338,3
insured individuals	2 436,4	2 210,6	2 637,5	2 308,3	4976,5	6618,1
to reinsurers	2 045,4	724,3	112,5	98,9	18333,6	16713,4
the level of gross payments,%	26,4	21,4	16,2	21,5	24,3	27,1
Net insurance premiums, UAH mln grn	13327,7	17970,0	21551,4	16746,4	2849,4	39586,0
Net insurance payments, UAH mln grn	5 885,7	4 699,2	4566,6	4577,9	10256,8	14040,5
Level of net payments,%	44,2	26,2	21,2	27,3	36,0	35,5
Amount of insurance payments paid to reinsurers, UAH mln grn	10745,2	5 906,2	8744,8	6726,3	228864,4	29558,8

Source: compiled by source [3]

It should be noted that during the study period the number of insurance companies tends to decrease, and the number of contracts on the contrary increases, especially for health insurance services from both individuals and legal entities.

The main share of gross insurance premiums (98.1%) is accumulated by 100 non-life insurance companies (47.6% of all non-life insurance companies) and 96.7% by 10 life insurance companies (43.5% of all insurance companies) "Life", with their share in the market is 15%, which indicates a high concentration in the insurance market "Life". The concentration ratio of the insurance market (CR-3) for life insurance in Ukraine is 57.6%, and for "non-life" insurance (13.9%). According to Bazylevych V.D., such a high concentration of the insurance market in Ukraine indicates an overload of the domestic insurance market with a large number of insurance companies, some of which are unable to provide quality insurance services, pay for their obligations and generally compete for at least a small market segment. [4, p.5]. Also, according to experts, the redistribution of the insurance market will be slower due to the adoption of the law on "split" and the transfer of regulatory functions of the National Bank, as provided by the Memorandum of Cooperation between Ukraine and the International Monetary Fund [5].

According to the results of the assessment of the level of concentration of the insurance market according to the Herfindahl-Hirschman index (NIS), which shows the impact of the largest companies on the market, the life insurance market in 2019 amounted to 1517.18, the market of risky types of insurance – 230.88. In general, in the insurance market, this index was equal to 203.90. Such results can be traced throughout the study period and indicate that the risk insurance market is unconcentrated, in

contrast to the life insurance market, which is characterized by moderate concentration, which indicates that the insurance market in Ukraine is developing on an oligopolistic model.

The state of the insurance market is characterized by dynamic development: increasing the volume of gross insurance premiums, especially from legal entities, and insurance payments (2.2 years), which is an important characteristic of market development and reflects the degree of its specific functions related to with protection, financing, assurance, and risk reduction [12, 13].

Thus, the increase in gross insurance premiums occurred in almost all types of insurance, in particular: insurance of financial risks, car insurance, insurance against fire risks and natural disasters, property insurance, third party liability insurance, Medical Insurance, accident insurance, cargo and luggage insurance, aviation insurance, and medical expenses insurance [3].

As for personal insurance, the most common type of insurance in Ukraine is compulsory motor third party liability insurance. Compared to motor hull insurance or voluntary health insurance, where the penetration rate is not more than 3-4%, compulsory insurance covers at least 85% of vehicles. Today, about 7.5 million car owners insure their liability to third parties. More than 50 insurance companies have a license for this type and are members of the Motor Transport Bureau of Ukraine [6].

Regarding the amount of gross insurance benefits, a high level of gross insurance benefits was observed for the following types of insurance: health insurance – 58.2%; compulsory civil liability insurance of vehicle owners – 45.0%, voluntary personal insurance – 36.1%, non-state compulsory insurance – 39%, and financial risk insurance – 36.9%. The share of gross non-life insurance payments was 94.7% and life insurance – 5.3%, respectively [3].

However, the level of insurance payments during the study period is quite low and averages 25%, due to the high level of distrust in insurance companies, weak stock market development, low production growth and high inflation [13]. Ukraine ranks as 13th country in the world in terms of inflation, which in 2019 amounted to 4.0%. It should be noted that in most developed Western countries the level of insurance payments reaches 75%.

It is possible to assess the state of development of the insurance market and determine its impact on the socio-economic development of the country by the volume of insurance transactions. This indicator is quite low and averages 1.5% of GDP in Ukraine. However, the Comprehensive Program for the Development of the Financial Sector of Ukraine plans to gradually increase this indicator by the end of 2020 to 7%, to the level of developed Western countries [7]. For example, the volume of insurance transactions in Finland reaches 11.8%, in the UK – more than 11%, in Italy – 9.09%, in France – 9.73%, in the US – 7.3%, in Germany – 6,84% [8].

We believe that the result of the low level of insurance penetration in Ukraine is an underestimation of the social role that insurance should play, low development of the insurance culture of the population, instability of the economic situation, and distrust of insurance companies.

During the study period, the total assets of insurers increased by 40%. A detailed analysis of the structure of assets of insurance companies shows that the largest share among the areas of investment are investments in securities – 21.7% (in shares – 8.4% while securities issued by the state – 21.6%) and bank deposits – 35.6%. It should be noted that the choice of approaches to investing in foreign insurers is the opposite of domestic, where the assets of institutional investors are only 4-7% formed by banking instruments, and the bulk of funds are invested in stocks (about 60%) and debt securities (25%). The main reasons for this difference between Ukraine and Western countries in terms of investment are economic instability in Ukraine and weak stock market development, which prevents the use of securities as a category of assets for safe placement of insurance reserves, sustainable production growth and high inflation.

The structure of gross insurance payments under property insurance contracts is dominated by payments from legal entities. To ensure their activities from time to time they need to take loans from banks secured by property. At this stage, banks play the role of catalyst, requiring collateral insurance. In addition, the property of legal entities is their productive resource, without which they will not be able to continue to operate, so they need to provide a contingency fund to protect themselves from production downtime in case of unforeseen circumstances. Insurance in this case is an ideal tool, because it allows you to compensate for possible losses without withdrawing a significant amount of

funds from circulation. This, in turn, makes it possible to direct the "saved" funds for development to modernize production.

According to "Insurance Top", there is now a huge demand for lending in the market, but banks are in no hurry to invest in the real sector of the economy. Enterprises lack working capital and investment for business development. This dependence of the banking and insurance sectors of the economy proves once again that the state policy of insurance development should be based on strengthening the market principles of its participants, the priority of the rights of consumers of insurance services.

Another indicator that reflects the prevalence of insurance coverage and makes it possible to assess the level of development of the insurance market is the indicator of insurance density (the amount of insurance premium per person), the amount of which should reach 140 dollars. However, in Ukraine this indicator is only 65.4 dollars, which indicates a low prevalence of insurance services. For comparison, in Poland the value of this indicator is 140 dollars, in Germany – 1482 dollars, and in Japan – 5-6 thousand dollars [10].

An important indicator of the assessment of the insurance market's performance of its investment function is the share of long-term insurance in the total amount of insurance premiums. It should be noted that life insurance in the market of insurance services of Ukraine is the smallest share – 6.7% (Insurance Market Program), while in countries with developed economies; this figure reaches over 60%. Despite the fact that due to the corona virus pandemic in Ukraine, policyholders have changed their attitude to life insurance and the population has felt the need for this type of insurance, but this type of insurance still remains at a very low level of development, especially among voluntary types of insurance.

Activation of life insurance is important both for the development of the insurance market and for the national economy as a whole, because it is in the field of life insurance that domestic long-term resources accumulate, which can be directed in the form of investments in various sectors of the economy. In countries with developed market economies, life insurance companies provide more than 30% of investment in the national economy, and the experience of European countries shows that developed life insurance allows to effectively addressing a number of social problems without creating additional burdens on the state budget [11, p.243].

Successful development and improvement of the situation on the Ukrainian market of insurance services requires coherence and coordination of work of both the state and insurance companies. At the same time, the state must provide the market with a stable regulatory framework, light state supervision, and on the other hand, insurance companies must be as honest and fair as possible in the process of cooperation with their clients.

It should be noted that the stable functioning of the insurance market is significantly influenced by the quality of the national reinsurance market, which provides financial stability of all market participants, additional opportunities to invest insurance resources, ensure profitable activities of insurers, etc.

Examining the current state and development trends of the domestic reinsurance market, we note that the original reinsurance operations increased significantly in 2019 compared to 2011 in 2.8 years, due to the increase in reinsurance within the country from 4723,5 in 2011 to 13,415.2 in 2019, and due to reinsurance operations with non-resident insurers from 1,182.7 in 2011 to 3298.2 in 2019. However, the share of reinsurers of residents and non-residents remains unchanged and is 80 and 20%, respectively, throughout the study period.

Residents' reinsurance was carried out in the following countries: Germany – 22,3%, Austria – accounts for 19,4% of the total reinsurance; 17,3% come to Great Britain; Poland – 10,0%; Switzerland – 7,0%; France – 6,0%; USA, occupying 3,6%.

In the structure of initial reinsurance by types of insurance as of 31.12.2019, the largest share of insurance premiums was paid by such types of insurance as: property insurance – or 22,0; insurance against fire risks and natural disasters – or 17,2%; financial risk insurance – 14,3%; cargo and luggage insurance (luggage) – 9,2%; land transport insurance (CASCO) – 8,4%; third party liability insurance – 6.2%; civil liability insurance of vehicle owners ("Green Card") – 2,9%.

The share of incoming reinsurance occupies a small market share in terms of premiums and payments and is 0,10% of non-residents in 2019 and it did not exceed 2% during the study period, due to the significant economic and political crisis and the refusal of foreign companies to operate in the domestic market under such unfavorable investment climate, as well as the low level of insurance market development, lack of confidence in domestic insurers and reliable reinsurance mechanisms.

It should be noted that the participating domestic reinsurance market is characterized by underdeveloped infrastructure and imperfect legal regulation. Due to the lack of licensing of reinsurance activities, these operations are carried out by insurance and reinsurance companies and their associations, mainly non-resident reinsurers who have a license to conduct insurance activities.

This situation in the reinsurance market is caused by an increase in the cost of reinsurance services in the amount of brokerage fees, as well as the use of the principle of "mutual exchange of risks" to balance financial flows, which does not involve reinsurance brokers. In addition, the reinsurance market in Ukraine is represented mainly by optional reinsurance, which means that it is not focused on the use of intermediaries.

Another disadvantage of the reinsurance market is the low level of its capitalization compared to the markets of developed countries and the low competitiveness of domestic reinsurers.

Thus, the domestic reinsurance market is at an early stage of formation. It should be emphasized that for active integration of the reinsurance market into the international space it is necessary to increase the capacity of the domestic reinsurance market and ensure the stability of insurers, develop domestic legislation close to world standards, ensure high quality reinsurance operations, and increase their openness and transparency.

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The study found that the market of insurance services in Ukraine is characterized by underdevelopment, lack of structure, weak development of the reinsurance institution, instability of the financial condition of individual insurance companies, and uneven development. However, in recent years there has been an intensification of this industry. The market of insurance services in Ukraine is in the process of transformation into the international economic space.

The main factors hindering the development of the market are: the lack of a unified state strategy for the development of the insurance market in the country, instability of the economic situation in the state and in the population, weak stock market development, low level of insurance culture, and distrust of insurance.

The main prospects for the development of the insurance market can be outlined as follows: stabilization of the financial position of all economic entities; development of the legal framework of insurance, which would take into account the current situation in the insurance market; formation of stable and reliable insurance companies; intensification of the role of the state and its bodies in strengthening and developing the insurance market; formation of state priorities in the development of insurance, creating a competitive environment in the insurance market; integration of the insurance market of Ukraine into the world insurance market and creation of a modern model of effective management of insurance reserves; further development of reinsurance; development of practical marketing and organization of risk management in insurance activities.

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