

РОЗДІЛ III

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PROBLEMS AND PROSPECTS OF UKRAINIAN INSURANCE MARKET DEVELOPMENT IN MODERN CONDITIONS

Annotation. Imperfect insurance legislation, lack of proper regulation and supervision of the activities and market behavior of insurance companies and intermediaries have led to the accumulation of systemic problems that need to be solved immediately in order to intensify the development of the insurance market of Ukraine. In general, all of them lead to low confidence in the companies of the insurance sector and do not allow it to develop properly.

In modern conditions, the market of insurance services goes through a stage of transformation in the field of supervision and regulation in connection with the change of regulator, which became a new structural unit of the NBU – the Department of Insurance Market Supervision. Therefore, it is important to investigate what innovations the new regulator will introduce in order to eliminate those problems that hinder its development.

Key words: insurance market, insurance companies, insurance payments, problems of insurance market development, NBU.

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ПРОБЛЕМЫ И ПЕРСПЕКТИВЫ РАЗВИТИЯ СТРАХОВОГО РЫНКА УКРАИНЫ В СОВРЕМЕННЫХ УСЛОВИЯХ

Аннотация. Несовершенное страховое законодательство, отсутствие надлежащего регулирования и надзора за деятельностью и рыночным поведением страховых компаний и посредников привели к накоплению системных проблем, требующих немедленного решения для активизации развития страхового рынка Украины. В общем все они приводят к низкому доверия к компаниям страхового сектора и не дают ему должным развиваться. В современных условиях рынок страховых услуг проходит через своеобразный этап трансформации в сфере надзора и регулирования в связи с изменением регулятора, которым стало новое структурное подразделение НБУ -Департамент надзора за страховым рынком. Поэтому важно исследовать, какие новации будут внедряться новым регулятором с целью устранения тех проблем, которые сдерживают его развитие.

Ключевые слова: страховой рынок, страховые компании, страховые платежи, проблемы развития страхового рынка, НБУ.

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ПРОБЛЕМИ І ПЕРСПЕКТИВИ РОЗВИТКУ СТРАХОВОГО РИНКУ УКРАЇНИ В СУЧАСНИХ УМОВАХ

Анотація. Недосконале страхове законодавство, відсутність належного регулювання та нагляду за діяльністю та ринковою поведінкою страхових компаній і страхових посередників призвели до накопичення системних проблем, які потребують негайного вирішення задля активізації розвитку страхового ринку України. Загалом усі вони призводять до низької довіри до компаній страхового сектору та не дають йому належно розвиватись.

В сучасних умовах ринок страхових послуг проходить через своєрідний етап трансформації у сфері нагляду та регулювання у зв'язку із зміною регулятора, яким став новий структурний підрозділ НБУ – Департамент нагляду за страховим ринком. Тому важливо дослідити, які новачії будуть впроваджуватися новим регулятором з метою усунення тих проблем, які стримують його розвиток.

Страхові компанії відіграють важливу роль в економічному житті країни. Головною функцією страхування є захист фізичних та юридичних осіб від ймовірних збитків у разі настання страхових подій. Водночас страхові компанії підпадають під потенційний негативний вплив ризиків, які можуть загрожувати їх

платоспроможності та мати негативні наслідки для споживачів послуг страхування. Саме впевненість споживачів у надійності страхової компанії є однією з основних засад розвитку страхового ринку. Ефективне регулювання та нагляд за ринком роблять можливою таку впевненість та довіру до страховиків.

Проте, на сьогоднішній день, розвиток вітчизняного страхового ринку стримує ряд факторів, зокрема у низки страхових компаній наявні проблеми з платоспроможністю та ліквідністю, а рівень управління ризиками і корпоративного управління є низьким. Усе це робить ринок непрозорим та неконкурентним. Зазначені проблеми на ринку страхування в Україні спричинені перш за все неналежним правовим регулюванням, а також недосконалою регуляторною політикою та браком належного нагляду за її реалізацією. Тож розбудова стійкого та надійного ринку страхових послуг потребує значних зусиль як від нового регулятора, так і від учасників ринку страхування.

Ключові слова: страховий ринок, страхові компанії, страхові платежі, проблеми розвитку страхового ринку, НБУ.

Formulation of the problem. Insurance companies play an important role in the economic life of the country. The main function of insurance is to protect individuals and legal personalities from probable losses in the event of insured events. At the same time, insurance companies are exposed to the potential negative impact of risks that may threaten their solvency and have negative consequences for consumers of insurance services. It is consumer confidence in the reliability of the insurance company is one of the main principles of the insurance market. Effective market regulation and supervision make such confidence and trust in insurers possible.

However, today, the development of the domestic insurance market is constrained by a number of factors, in particular, a number of insurance companies have problems with solvency and liquidity, and the level of risk and corporate management is low. All this makes the market opaque and uncompetitive.

These problems in the insurance market in Ukraine are caused primarily by inadequate legal regulation, as well as imperfect regulatory policy and lack of proper supervision over its implementation. Therefore, the development of a stable and reliable market of insurance services requires significant efforts from both the new regulator and the participants in the insurance market.

Analysis of recent research and publications. Theoretical principles of insurance market development are covered in the works of such specialists as V. Bazylevych, O. Baranovsky, G. Vozniuk, S. Velekh [2], S.O. Gamankova, A. Zagorodniy, O. Zaruba, O. Zaliyev [3], O. Zolotareva, Yu. Kolupaev, N. Melnichuk, R. Pikus [7], I. Rud, O. Slobodyanyuk, I. Fisun, V. Furman, I. Shevyrev and others. But despite the existence of thorough research in this area, the study of the problems that constrain the insurance market of Ukraine requires more profound scientific study, especially according to the change of the regulator.

Highlighting previously unresolved components of a common problem. The purpose and objectives of the article is to define the problems and factors that restrain the development of the insurance market in Ukraine and identify perspective directions for further development of insurance services in connection with the change of the regulator.

Presentation of the main material. In September 2019, the Law of Ukraine “On Amendments to Certain Legislative Acts Concerning the Improvement of Functions on State Regulation of Financial Services Markets” (the so-called “Split” Law) was adopted, according to which the National Bank of Ukraine (NBU) became regulator and supervisor of the insurance market.

Forming of solvent, stable, competition market of insurance became the goal of the National bank in Ukraine with adequate protection of the rights of consumers of insurance services. To achieve this goal, the National Bank of Ukraine plans to introduce a new model of insurance market regulation, which takes into account the provisions of EU directives, global practices of regulation and supervision of the insurance and reinsurance market, as well as features of the insurance market in Ukraine.

At the same time, taking into account the general economic situation caused by the recession and the coronavirus disease pandemic (COVID 19), the NBU will implement a new regulatory model after carefully studying the state of the insurance market and discussing it with market participants.

The adoption of legislation important for the development of financial markets, in particular the law on “split” is also one of the points of the memorandum of cooperation with the IMF under the stand-by program [1, p.267].

Thus, Ukraine agreed to the implementation of international standards and norms in the insurance market for its further development and, in general, significant changes in the reorganization of regulation and supervision by the state.

Let's analyze the main trends in the development of the insurance market of Ukraine in modern conditions.

Thus, the number of insurance companies as of 31.03.2020 was 225, of which 22 insurance companies for life insurance (“Life”) and 203 insurance companies that provided insurance, other than life insurance (“non-Life”) . As of March 31, 2020, compared to the same period in 2019, the number of insurance companies decreased by 40 insurance companies (Table 1).

Table 1

*Number of Insurance Companies in Ukraine**

Number of insurance companies	By the state on 31.12.2018	By the state on 31.12.2019	At the end of the quarter	
			I quarter 2019	I quarter 2020
the total number of	281	210	265	225
including SK “non-Life”	251	210	238	203
including SK “Life”	30	23	27	22

*source [4; 5]

The rate of loss of risky types of insurance (lossratio) in the second quarter of 2020 was 26%. It decreased slightly during quarantine compared to the beginning of the year. For compulsory types of insurance, it is higher and amounted to 37%. The sharp jump in this indicator in the first quarter of 2020 is explained by the formation of provisions for losses due to the UIA plane crash in Iran in January 2020.

On June 30, 2020, the transition period for full compliance with the requirements for ensuring the solvency of insurance companies ended. As a result, there were problems in some insurance companies that violate the requirements of the regulator. In particular, 57 insurers did not fully comply with the requirement for solvency and capital adequacy. The main reason is the low quality of assets. A positive change since the beginning of the year was the decrease in the share of receivables in assets, which covers the requirements for the solvency margin. Instead, the share of cash and balances in the MTIBU increased. The greatest risks are currently associated with a significant share in the assets of illiquid real estate, the value of which may also be inflated.

The leaders in life insurance payments were such insurance companies as Matt Life, TAS, Unika Zhyttya, PZU Ukraine Life Insurance and Aska-Zhyttya (Table 2).

Table 2

*Insurance Payments for Life Insurance for 9 months of the year**

numb	The company name	Insurance payments, thousand		hryvnya 9 month 2018	Growth rate, %	
		9 month. 2020	9 month 2019		2020/2019	2019/2018
1	MetLife	1 092 299,0	874 103,0	670 330,0	24,96	30,40
2	TAS	483 834,2	401 804,0	365 427,0	20,42	9,95
3	Unika Zhyttya	459 444,0	657 344,0	460 559,0	-30,11	42,73
4	PZU Ukraine Life Insurance	391 202,0	370 688,6	301 088,9	5,53	23,12
5	Aska-Zhyttya	301 907,0	270 873,0	358 860,0	11,46	-24,52

* source [4; 5]

If we consider the rating of insurance companies engaged in risky types of insurance, such insurance companies as ARX, Unika, TAS SG, USG, Arsenal Insurance, INGO and others (Table 3), occupied the leading position during the study period.

Table 3

Volume of Insurance Payments on Risk Insurance as of 30.09.2020 year *

number	The company name	Total Insurance Payments on 30.09.2020, hryvnyas.			
			Personal insurance (except insurance life)	Property Insurance	Insurance of responsibility
1	ARX	1 919 384,2	310 156,0	1 391 760,6	52 254,4
2	Unika	1 889 851,0	799 565,0	870 422,9	91 738,5
3	TAS SG	1 451 020,1	220 992,8	388 000,9	54786,7
4	USG	1 368 045,8	177 340,2	740 139,8	51 487,2
5	Arsenal Insurance	1 364 805,0	77 171,0	998 061,0	21 668,0
6	INGO	1 191 079,0	374 366,0	490 285,0	53 344,0
7	PZU Ukraine	1 115 556,6	286 583,8	509 235,4	49 880,7
8	Alfa Insurance	789 058,6	528 169,2	214 710,8	9 230,6
9	Vuso	759 606,4	258 651,8	315 291,7	21 576,5
10	Oranta	713 091,8	30 121,9	105 730,5	15 264,5

* source [2; 4]

At the same time, during the study period, such insurers dominated the level of equity in the insurance market of Ukraine as ARX, PZU Ukraine, UNICA and others (Table 4).

Table 4

Volume of Assets of the Largest Non-Life Insurance Companies on 30.09.2020 year *

number	Company Name	There is a property asset on 30.09.2020 thousands of hryvnyas	
		Total	paid regulation capital
1	ARX	894 428,0	261 975,0
2	PZU UKRAINE	786 434,0	19 407,0
3	UNIKA	776 945,0	155 480,0
4	INGO	747 096,0	305 543,0
5	TAS	677 614,7	102 000,0
6	USG	651 727,1	278 659,5
7	OMEGA	464 794,8	55 000,0
8	ARSENAL INSURANCE	397 583,0	202 500,0
9	VUSO	390 711,0	86 560,0
10	UNIVERSAL	329 398,0	192 700,0

* source [4; 5]

At the same time, the volume of insurance payments made by the largest insurance companies during the study period were UNICA, PZU Ukraine and ARX (Table 5).

All insurance payments on Insurance

All insurance payments on Insurance on 30.09.2020 thousands of hryvnyas						
№	Company Name	Total	Personal insurance (except insurance life)	Property insurance	Insurance to responsibility	Compulsory insurance (except state)
1	UNICA	977 418,0	346 230,6	565 544,1	3 003,7	62 639,6
2	PZU Ukraine	740 154,6	96 306,9	531 912,6	5893,2	106041,9
3	ARX	732 029,0	128 610,3	525310,7	6477,3	71630,7
4	USG	696 021,4	95 713,2	337 817,8	4 463,5	258 026,9
5	TAS	620 918,4	91 119,3	195 737,4	4 532,0	329 529,7
6	INGO	559 450,0	160 654,0	235 279,0	4 241,0	159 276,0
7	Arsenal Insurance	485 331,0	23 870,0	389 810,0	1 173,0	70 478,0
8	Providna	347 961,8	269 112,2	40 405,8	115,0	38 328,8
9	Oranta	287 116,8	7 885,8	27 555,6	1 737,2	249 938,2
10	Vuso	260 695,3	76 106,8	112 676,1	1 273,4	70 639,0

* source [4; 5]

At the same time, it should be noted that imperfect insurance legislation, lack of proper regulation and supervision of the activities and market behavior of insurance companies and intermediaries have led to the accumulation of systemic problems that need immediate solution to intensify the insurance market of Ukraine. In general, all of them lead to low confidence in the companies of the insurance sector and do not allow it to develop properly.

Solvency is the ability of an insurer to meet its obligations under an insurance contract. Today, the solvency assessment system of insurance companies is a simplified adapted form of the European solvency assessment system Solvency I.

The current system of assessing the financial condition of insurers does not allow the regulator to obtain objective data on the company's activities in a timely manner and to respond in a timely manner to solvency problems. As a result, the NBU does not have the necessary mechanisms to monitor compliance with the requirements for the solvency of insurers.

Under the current regulation, insurance companies have the opportunity to significantly reduce reserves and overestimate the value of assets (deferred acquisition, inflated value of corporate securities, real estate, receivables). Because of this, it is almost impossible to assess the real solvency of insurers, as formally available capital may actually be insufficient.

Also, the insufficient amount of high-quality liquid assets to make potential payments creates liquidity problems. This situation motivates insurance companies to underestimate payments. At the same time, the NBU does not have information on the maturity of potential payments and assets, which makes it impossible to assess liquidity gaps.

As a result, the level of solvency and liquidity of many insurance companies is extremely low and need to be increased.

The next problem is the imperfection of business models of insurers. The vast majority of insurance companies in Ukraine operate without a clear development strategy and business model. Features of pricing lead to the formation of a concentrated structure of the insurance portfolio, non-diversification of products and insurance risks. As a result, the dumping of insurance companies further exacerbates the problems in the market.

Today, due to the shortcomings of current legislation and, in particular, regulatory policy in the market, insurance services are used to reduce the tax base. An analysis of some existing insurance companies

suggests that the main business goal of individual insurers is to withdraw capital, legalize illegal income, optimize taxes, including by converting non-cash funds into cash.

The activities of companies that provide life insurance services today are aimed at attracting customers under short-term insurance contracts. Lack of products to attract long-term resources does not allow businesses to grow and become more sustainable.

The next deterrent factor is the lack of transparency of the insurance market and problems in corporate management. Yes, the reflection of the financial results of insurance companies is also imperfect. In particular, a significant proportion of insurance premiums are actually commissions to agents (on average 30-50%). Insurance rates for many areas of insurance are not economically and statistically justified (not always based on actuarial calculations), and therefore do not allow to cover all potential insurance payments. Liquidity problems due to poor asset quality encourages insurance companies to lower payments. Gross profit from insurance operations is mainly used to cover significant operating costs. Therefore, the insurance sector is mostly operationally inefficient.

To date, there are no effective control mechanisms for proper disclosure of ownership structure of insurance companies, no proper standards and requirements for business reputation of owners and persons performing key functions in insurance companies, no structured approach to building corporate governance and internal control system. This, among other things, makes it possible to practice non-transparent activities and reporting. In addition, there are many insurers in the market, the ultimate beneficial owners of which are unknown, which does not allow to establish liability in the event of insolvency of the company.

The next is the problem of protecting the rights of consumers of insurance services. Thus, in Ukraine there is no mechanism for guaranteeing insurance payments under long-term life insurance contracts, which is also one of the reasons for the unpopularity of this type of insurance.

The current exit procedure does not protect the rights of consumers insurance services properly. It is very long-lasting and, due to its imperfections, often allows unscrupulous insurers to leave the market without fulfilling their obligations under insurance contracts.

At the same time, the low demand for insurance services in Ukraine is primarily due to the following factors:

- distrust of the non-transparent insurance market and the financial system in general;
- there is no effective system of protection of the rights of consumers of insurance services;
- financial ignorance of citizens in insurance products;
- low solvency of the population;
- non-market behavior of insurers towards consumers;
- low level of qualification of insurance intermediaries.

Conclusions and Prospects for Further Research. To change the model of regulation and supervision of the insurance market, the National Bank of Ukraine takes into account the basic requirements of European Union law, which Ukraine is obliged to comply with under the Association Agreement with the EU. The National Bank will take steps to become a member of the International Association of Insurance Supervisors (IAIS), of which there are currently 150 member states, in order to increase the efficiency of its functions as an insurance market regulator.

Particular attention will be paid to the development of good practices of insurers and good behavior towards policyholders. The National Bank will introduce supervision of market behavior and develop appropriate supervision tools designed to ensure more effective protection of the rights of policyholders.

Construction and implementation of a new model of insurance market regulation in Ukraine will include:

- strengthening licensing standards, in particular, disclosure by insurance companies of ownership structure, ultimate beneficial owners, increasing the requirements for business reputation of shareholders and persons performing key functions, procedures for assessing the professional suitability of persons performing key functions in insurance companies;
 - establishing the responsibility of the ultimate beneficial owners for the activities of the insurance company and the specialized reinsurer;
 - setting requirements for corporate governance and internal control systems;
 - setting requirements for the risk management system;
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- strengthening the requirements for the acceptability of assets and assessment of their quality, assessment of reserves, capital structure and the level of its adequacy;
- formation of a system of early risk detection and timely response;
- development of the procedure for resumption of the insurance company's activity;
- development of the procedure for reorganization or withdrawal of the insurer or specialized reinsurer from the market;
- openness and communication between the regulator and regulatory entities in the process of forming regulatory policy and supervising the insurance market.

The introduction of the new model of regulation and supervision will be carried out gradually during the transition period, which will be determined after a thorough analysis of the insurance market. Insurance market participants will have time to build a proper corporate governance and internal control system, risk management system and code of market behavior, determine the development strategy and business model, create adequate capital adequacy, ensure the necessary level of liquidity and asset quality, which will contribute to financial stability the companies themselves, restoring the transparency of the business environment and consumer confidence in the insurance market in general.

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