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УДК 368.1.022:330.13(477)

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## **MAIN TRENDS OF THE INSURANCE SERVICES MARKET DEVELOPMENT IN UKRAINE**

## **ТЕНДЕНЦІЇ РОЗВИТКУ РИНКУ СТРАХОВИХ ПОСЛУГ В УКРАЇНІ**

*ABSTRACT. The article analyzes the dynamics and assessment of the structure of the insurance market of Ukraine, defines the problems of effective activity and priority directions of insurance protection development.*

*KEY WORDS: insurance market, insurance companies, insurance premiums, gross insurance payments, net insurance payments.*

*АНОТАЦІЯ. В статті проведено аналіз динаміки та оцінка структури страхового ринку України, визначення проблем ефективної діяльності та пріоритетних напрямів розвитку страхового захисту.*

**КЛЮЧОВІ СЛОВА:** страховий ринок, страхові компанії, страхові премії, валові страхові виплати, чисті страхові виплати.

**АННОТАЦІЯ.** В статті проводиться аналіз динаміки і оцінювання структури страхового ринку України, визначення проблем ефективною діяльності і пріоритетних напрямків розвитку страхової захисти.

**КЛЮЧЕВЫЕ СЛОВА:** страховой рынок, страховые компании, страховые премии, валовые страховые выплаты, чистые страховые выплаты.

**Introduction.** The process of becoming a contemporary insurance market in Ukraine began with deep socio-economic reforms. The creation of insurance companies network has become a prerequisite for the formation of a new economic, social, information-analytical and policy environment associated with different types of risk. Insurance has a significant influence on the socio-economic stability of society and belongs to a range of factors that directly determine the level of the country economic security. The insurance market is one of the essential elements of a market infrastructure that is closely linked to the market for consumer goods, the capital and stock market, labor market. At the current stage of deepening of the market transformation and structural adjustment of the national economy, such elements of management become increasingly important, which would contribute to the creation of optimal conditions for entrepreneurial activity. These include insurance, which in many countries of the world is seen as a powerful stabilizing factor and an essential source of long-term investment in the national economy [1.3].

The works of Ukrainian scientists — S. Osadets, V. Bazilevich., K. Bazilevich, V. Plis, K. Shelehov, N.Vnukov, M. Aleksandrov, J. Shumelda and others — are devoted to the solution of theoretical issues and the formation of the concepts of "insurance", "insurance service", their essence and significance in modern economic conditions. At the same time, many problems related to the development and functioning of the insurance services market have not yet been resolved. This requires clear and transparent market analysis, the search for effective solutions to the insurance coverage of various groups of subjects, the allocation of priority areas of state regulation of insurance activities.

**The purpose of the article.** Analysis of the dynamics and assessment of the structure of the Ukrainian insurance market, identifying the problems of effective activity and priority areas and the prospects for increasing the effectiveness of insurance protection.

**The main material.** The development of the national insurance market at the present stage takes place in a context of increasing interest of legal entities and individuals in protecting their property interests, developing the financial services market and forming a national system of mortgage lending, and introducing a system of non-state pension provision.

The current stage in the development of insurance relations in Ukraine is characterized by a reduction in the number of insurance companies and high competition. However, everything happens in conditions of low real demand of the population for insurance services. At the end of 2016, 310 insurance companies were registered in the Ukrainian insurance market, 39 of them are engaged in life insurance (IC "Life" 12.6 % of the total), 271 — other types of insurance (IC non-Life, 87.4 %) Disproportion in the direction of property insurance is primarily due to the lack of appropriate traditions of life insurance, insufficient number of operators and agency networks, and the unsettled domestic legislation on the subjects of insurance business, especially with foreign capital, etc. (Table 1).

*Table 1*

**NUMBER OF INSURANCE COMPANIES IN  
THE UKRAINIAN MARKET IN 2010-2016**

	Number by the end of the year							Change, %, 2016/2010
	2010	2011	2012	2013	2014	2015	2016	
Total number of insurance companies	456	442	414	407	382	361	310	-32
IC "Life"	69	64	62	62	57	49	39	-43
IC "non-Life"	389	378	352	345	325	312	271	-30

*Source:* calculated according to [6] for the relevant years

The number of insurance companies tends to decrease, so in 2016 compared with 2015, the total number of companies decreased by 51, the number of non-Life insurance companies was the most noticeable (-41 companies), although for the whole analyzed period 2010-2016 the largest decrease was observed occurred in life insurance (-43 %).

In general, very insignificant, in comparison with world values, is a segment of life insurance, which has an institutional significance in

the development of the country's economy. The largest share is occupied by property insurance, and the personal insurance and liability insurance industry remains weakly developed. Insurance premiums by type of insurance for 2016 and their structure are shown in Table 2.

*Table 2*

**GROSS AND NET INSURANCE PREMIUMS AND THEIR STRUCTURE BY TYPE OF INSURANCE, 2016**

Type of insurance	Insurance premiums, mln UAH		Insurance premiums structure, %	
	2016		2016	
	Gross	Net	Gross	Net
<b>IC "Life"</b>	2756,1	2754,1	7,8	10,4
<b>IC "non-Life"</b> including:	32414,2	23709,7	92,6	89,6
voluntary personal insurance	4 212,1	3969,2	12,0	15,0
voluntary property insurance	20221,5	12811,0	57,5	48,4
voluntary liability insurance	2 336,2	1669,6	6,6	6,3
non-state compulsory insurance	5644,3	5259,9	16,0	19,9
state compulsory insurance	0,0	0,0	0,0	0,0
Total	35130,3	26463,8	100,0	100,0

*Source:* calculated according to [6] for the relevant years

Comparative analysis of the gross and net premiums structure by type of insurance shows that significant changes took place in the context of financial risks — 57,5 % were subject to internal reinsurance, about 7 % liability insurance, liability distribution for the risks of voluntary property insurance between the insurers was 126441,4 mln UAH.

The insurance market of Ukraine is characterized by changes in the main indicators of the activity of insurance companies depending on the general economic situation in the country and changes in the legal acts regulating the relations in the field of insurance. Thus, the size of gross insurance premiums for 2016 amounted to 8 839.5 mln UAH, including for types of insurance, other than life insurance — 8 421.2 mln UAH (or 95.3 %), from life insurance — 418.3 mln UAH (or 4.7 %). Volumes of gross insurance payments / reimbursements increased by 739.0 mln. UAH compared to 2015. (9.1 %), net insurance payments increased by 958.2 mln UAH (12.6 %). Growth of gross insurance premiums for 2016 took place in most major system-generating types of insurance. The gross insurance premiums increased from the following types of insurance: loan insurance (increase of gross insurance payments by 799.1 mln UAH or 264.1 %), motor insurance (increase of gross insurance payments by 681.1 mln UAH or 21,4 %), cargo and luggage insurance (increase of gross insurance payments by 276.4 mln UAH or 237.5 %), health insurance (increase of gross insurance payments by 142.9 mln UAH or 11.9 %) At the same time, gross insurance premiums on insurance of financial risks decreased by 467.2 mln UAH (-33.3 %), property insurance (reduction of gross insurance premiums by 284.4 mln UAH (-65.5 %), life insurance (reduction of gross insurance payments by 73.3 mln UAH (-14,9 %)).

Particular attention also deserves analysis of the general level of insurance payments in Ukraine (gross rate of loss) — this indicator clearly demonstrates the effectiveness of insurance business, as it gives an opportunity to estimate which part of the funds received by insurance companies to pay, certifies the quality of insurers' work on the material protection of legal and individuals from a variety of risks [2].

According to the results of 2016, gross insurance premiums totaled 25.1 %, compared to the same period in 2015, it decreased by 2.1 percentage points, while the net income decreased by 32.3 %, which is less by 1.7 percentage points. in comparison with the same period last year. (Fig. 1 and Fig. 2). The level of net insurance payments exceeds the gross amount, since, when they are calculated, the share of payments paid under the contracts of internal reinsurance of risks and the share of insurance premiums paid for internal reinsurance operations are not taken into account. In state compulsory insurance, internal reinsurance operations were not carried out, therefore the net insurance payments in this type will be equal to the gross insurance premiums.

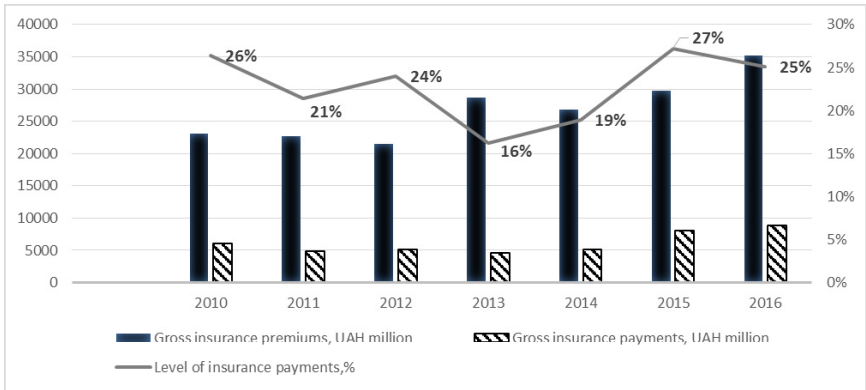


Fig. 1. Dynamics of gross insurance premiums and gross payments

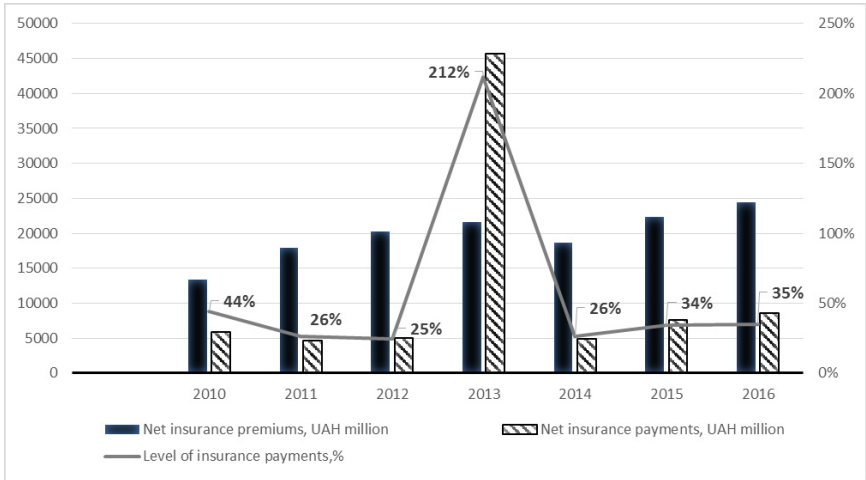


Fig. 2. Dynamics of net insurance premiums and net insurance payments

Analysis of the level of payments by type of insurance (Table 3) shows that the high values of this indicator is acquired in voluntary property and personal insurance, as well as state compulsory insurance (94.4 %)

Net insurance payments level (net insurance claims ratio up to net insurance premiums) as at 31.12.2011 amounted to 26.2 % (as at December 31, 2010 — 44.2 %). Significant level of net insurance payments was observed by types of voluntary personal insurance - 43.7 %, from voluntary insurance of financial risks — 39.9 %, from

non-state mandatory civil liability insurance of vehicle owners — 40.4 %, as well as from voluntary property insurance — 24.5 %. However, for types of insurance, where the vast majority of insured persons are individuals (auto insurance, medical insurance), the level of net insurance payments is relatively low.

Table 3

LEVEL OF INSURANCE PAYMENTS BY TYPE OF INSURANCE, 2016

Type of insurance	Level of insurance payments, %	
	Gross payments	Net payments
<b>IC "Life"</b>	15,2	15,2
<b>IC "non-Life"</b> including:	26,0	34,3
Voluntary personal insurance	40,8	43,2 %
Voluntary property insurance	23,4	35,8
— <i>including financial risk insurance</i>	26,0	41,4
Voluntary liability insurance	3,8	5,2
Non-state compulsory insurance	33,4	33,4
— <i>including civil liability insurance of motor vehicle owners</i>	38,9	38,9
Total	25,1	32,3

Source: calculated according to [6] for the relevant years

It should be noted that in the economically developed countries, the level of insurance payments ranges from 30 % to 70 % [5]. The comparatively low level of insurance payments in Ukraine is due to the lack of awareness of policy holders on their rights; unreasonably overestimated insurance rates; the insurers' reluctance to develop and market new products with a rather high degree of risk, compared with the existing, low development of classical insurance; failure by certain insurers to take out obligations to policyholders.

Now days, reinsurance activity in Ukraine is a full-fledged segment of the insurance market. The high share of the insurance premium transferred to reinsurers is due to the fact that there are many risks in the portfolios of Ukrainian insurers. requiring reinsurance protection (Fig. 3). Insurance premiums paid for reinsurance as of

December 31, 2016 in comparison with the corresponding period of the last year increased by 27.8 % or UAH 2 757.4 million. The increase in initial reinsurance took place in almost all types of insurance. Redistribution in the structure of initial reinsurance as of December 31, 2014 compared with 2015 was in favor of such types of insurance as: insurance of cargoes and luggage (from 24.0 % to 27.5 %); health insurance (from 1.5 % to 1.8 %). At the same time, the structure of initial reinsurance reduced the following types of insurance: insurance liability to third parties (from 10,6 % to 8,2 %); financial risk insurance (from 17.3 % to 15.9 %).

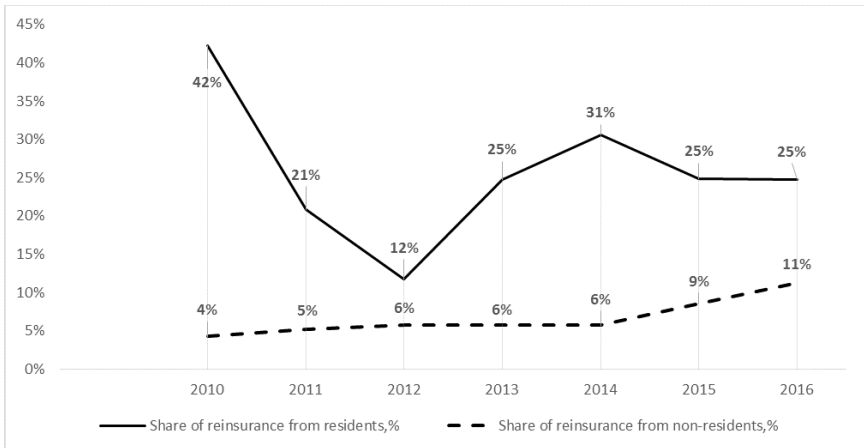


Fig. 3. Share of reinsurance in relation to gross insurance premiums for 2010 — 2016

In proportion to gross insurance premiums, the share of initial reinsurance as at 31.12.2016 amounted to 36.0 %, which is 2.7 pp more than the same indicator of last year and by 0.3 pp less than in 2014 (as of December 31, 2015 — 33.3 %, as of December 31, 2014 — 36.3 %.) The largest amount paid to Great Britain from the total amount of insurance premiums paid for reinsurance to non-residents (UAH 1,182.7 million) — 16.5 %, Germany — 10.5 %, India — 8.9 %, Poland — 8.6 %, Switzerland — 7.6 % and Malaysia — 7.0 %.

**Conclusion.** An analysis of the current state and structure of the domestic insurance market shows some achievements and numerous disadvantages inherent in the functioning of both individual insurance companies and the entire insurance system. However, the development of the insurance market is hampered by the lack of a



unified state policy on the development of both the economy as a whole and the program for the development of financial services markets, the imperfection of tax legislation, the instability of the financial environment of economic actors and the population, the weakness of incentives in the development of the insurance sector. Now days, the insolvency of liquid financial instruments for effective policy of investing funds remains a major problem for insurers. Particularly acute is the problem of providing long-term obligations under life insurance contracts.

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