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Development of the Insurance Market in Ukraine in the Context of Transformation Changes

Abstract. *The article substantiates the feasibility of ensuring the development of the insurance market in Ukraine in the context of digital transformations. It has been determined that the latest digital technologies are penetrating deeper into the global insurance market, without bypassing any area of activity, but the volume of the insurance market in Ukraine is several times less than in the developed countries of the world. The indicated factors which restrain the development of the insurance market in Ukraine and characterized existing problems of the insurance market lead to low confidence in the companies of the sector and do not allow it to develop properly. It has been established that in modern conditions of digital transformations, insurance companies widely use innovative technologies that ensure the achievement of both short-term effects and long-term competitive advantages. The directions of digitalization of the insurance market in Ukraine have been characterized and it has been substantiated that the processes of digital transformation based on the development of information technologies of insurance companies contribute to increasing competitiveness. In order to improve the situation in the domestic insurance market and maintain competitive positions, insurance companies should actively use European and world experience, introduce and change models of insurance functioning, and intensively introduce innovative technologies in insurance activities. The use of new technologies and management models in practice will increase the efficiency of the provision of insurance services, require insurance companies to develop new insurance products, taking into account the individual wishes of customers, and will also contribute to expanding the scope of using insurance as a method of risk transfer in an integrated risk management system, as well as will ensure the creation of a unique competitive advantage for those insurance companies that are able to introduce innovative digital technologies in accordance with the individualized requests of customers.*

Keywords: insurance, information technology, management of insurance companies, insurance market

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Розвиток страхового ринку України в умовах трансформаційних змін

Анотація. *Сучасна економіка, перебуваючи в процесі модернізації, знаходиться на тій стадії розвитку, коли новітні ІТ-технології проникають в усі сфери життєдіяльності її суб'єктів. Ринок небанківських фінансових послуг не є винятком. Технології та нові джерела даних принципово змінюють економіку, а також трансформують страхову галузь. Метою статті є визначення теоретичних, методичних та практичних засад розвитку страхового ринку України в умовах трансформаційних змін. У статті здійснено обґрунтування доцільності забезпечення розвитку страхового ринку України в умовах цифрових трансформацій. Визначені фактори, що стримують розвиток страхового ринку України та охарактеризовані існуючі проблеми ринку страхування, що призводять до низької довіри до компаній сектору та не дають йому належно розвиватись. Встановлено, що в сучасних умовах цифрових трансформацій страховими компаніями широко використовуються інноваційні технології, які забезпечують досягнення як короткострокових ефектів, так і довгострокових конкурентних переваг. Охарактеризовані напрями цифровізації страхового ринку України та обґрунтовано, що процеси цифрової трансформації на засадах розвитку інформаційних технологій страхових компаній сприяють підвищенню конкурентоспроможності. З метою покращання ситуації на вітчизняному страховому ринку та втримання конкурентних позицій страхові компанії повинні активно використовувати європейський та світовий досвід, впроваджувати та змінювати моделі страхового функціонування, інтенсивно впроваджувати інноваційні технології у страхову діяльність. Використання на практиці нових технологій та моделей управління дозволить підвищити ефективність надання страхових послуг, вимагатиме від страхових компаній розробки нових страхових продуктів із врахуванням індивідуальних побажань клієнтів, а також сприятиме розширенню сфери використання страхування як методу передачі ризику в комплексній системі ризик-менеджменту,*

а також забезпечить створення унікальних конкурентних переваг для тих страхових компаній, які здатні впроваджувати інноваційні цифрові технології відповідно до індивідуалізованих запитів клієнтів.

Ключові слова: страхування; інформаційні технології; управління в страхових компаніях; страховий ринок

Problem statement. Modern economic conditions are impossible without the use of digital technologies, and their development is becoming increasingly important and leads to significant changes in the global economy. The modern economy, being in the process of modernization, is at the stage of development when the latest IT technologies penetrate into all spheres of life of its subjects. The non-bank financial services market is not an exception. Technology and new data sources are fundamentally changing the economy as well as transforming the insurance industry. The use of information technologies radically changes the meaning and activities of participants in insurance relations in risk management, there are changes in consumer behavior, thanks to which policyholders have round-the-clock and unlimited geographical access to information about insurance conditions, the procedure for paying insurance payments and the likelihood of receiving compensation, possible promotional offers; the risks that insurers cover, ways of mitigating them, allocating and managing claims are also changing. In an increasingly digitalized world, some risks will become less common, while others, like cyber risk, are gaining more weight. Consequently, an important factor in the successful competitive activity of insurance companies is their readiness for transformation and the ability to implement digital technologies.

Analysis of recent research and publications. The problematic issue of the development of the insurance market, its competitiveness in the context of global economic development and informatization of society, the definition of the role of insurance companies in the context of digital transformations are described at the work of such scientists as Volosovych S. V., Demianchuk M. A., Nahaichuk N. H., Zhelizniak R. Y., Kraus N. M., Mandra N. H., Prikaziuk N., Shirinian L. V., Hunt J., Schwab K., Lovells H., Sangit V. and others. Without diminishing the importance of scientific achievements of scientists, it should be noted that the issues concerning the peculiarities of the development of the insurance market in the context of digital transformations remain insufficiently studied.

The objective of the study. The objective of the article is to determine the theoretical, methodological and practical foundations for the development of the insurance market in Ukraine in the context of digital transformations.

Statement of basic materials. The latest digital technologies penetrate deeper and deeper into the global insurance market, not bypassing any area of activity [19, p.101]. In line with society's demands, insurance companies will be forced to follow the path of digital transformation and find ways to provide customers with more options to customize the services they buy. Individuals are only willing to pay for those items that they actively use, assuming that specialists in all fields provide

a product of the highest quality [6]. It should be noted that the volume of the insurance market in Ukraine is several times less than in the developed countries of the world. According to foreign insurance companies that are active in the market, they began to introduce digital technologies into their activities much earlier and offer online insurance to customers. According to the rating, which is covered by The Balance commerce team, Lemonade, Insurify, Root, Metromile, Oscar Health are considered to be the best digital insurance companies [5]. These are the companies that maximize customer satisfaction, given their digital needs.

Today, the development of the Ukrainian insurance market is constrained by a number of factors, in particular, a number of insurance companies have problems with solvency and liquidity, there is no clear business model, the level of risk management and corporate governance is low [9]. All this makes the market non-transparent and non-competitive. Since 2013, some large insurance groups, in particular AEGON, AXA, SEB, AIG and HDI, have withdrawn from Ukraine, including due to unfair competition in the market.

As of December 31, 2019, 233 insurance companies were registered in the State Register of Financial Institutions, 23 of which provided life insurance services (hereinafter referred to as "life"), and 210 companies provided insurance other than life insurance (hereinafter referred to as "general insurance" / "non-life" insurance). Since the 2000s, the number of insurance companies has been relatively constant, however, after the crisis of 2008-2009, it began to decline. So, in 2019 compared to 2018, the number of companies decreased by 48 insurance companies, compared to 2017 decreased by 61 insurance companies [11].

In Ukraine, the insurance market is insignificant in terms of assets and consumption of insurance services. The penetration index (Insurance Penetration ratio), which is defined as the ratio of the volume of attracted insurance premiums to GDP, is 1.4% (of which "non-life" is 1.3%). For comparison, according to the World Bank, Statista, the level of penetration of insurance services into the German economy in 2018 was for "life" - 3.2%, "non-life" - 1.9%. Note that despite a significant number of companies, in fact, in the insurance market, the bulk 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% - 10 Life insurance companies (43.5% of all Life insurance companies) [11]. In 2019, gross insurance premiums received by insurers in insurance and reinsurance of risks from insurers and reinsurers amounted to UAH 5,300,120,000. The share of gross premiums for "non-life" in 2019 amounted to 91.2% of the total gross premiums, and only 8.7% was received from life insurance. For comparison, in the EU, the share of premiums under life insurance contracts is over 50%

and is a source of long-term financing for the financial sector.

In the structure of general ("non-life") insurance, the largest share is occupied by auto insurance (KASKO (Comprehensive Cover), OSTsPV (Compulsory insurance of civil liability of car owners) (internal) and "Green Card") - 28.5% of the total volume of insurance premiums received in 2019. Many insurance companies, entering the market, primarily focus on the implementation of motor insurance. Life insurance under endowment insurance contracts in Ukraine is unpopular and is carried out mainly as an initiative on the part of employers. This is due to the weakness of the country's economy, low demand for insurance services, public distrust of insurance companies and other factors. The existing problems of the insurance market reduce confidence in companies in the sector and do not allow it to develop properly. Among them:

1) Low solvency and liquidity. Today the system for assessing the solvency of insurance companies is a simplified adapted form of the European solvency assessment system Solvency I.

2) Imperfect business models of insurers. The overwhelming majority of insurance companies in Ukraine operate without a clear development strategy and business model. The specifics 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 deepens the problems in the market.

3) Lack of market transparency and problems in corporate governance. To date, there are no effective control mechanisms for the proper disclosure of the ownership structure of insurance companies, and there are no proper standards and requirements for business reputation. In addition, there are many insurers on the market, the ultimate beneficial owners of which are unknown, making it impossible to establish liability in the event of a company's proof of insolvency.

4) The problem of protecting the rights of consumers of insurance services. The Unified state register of court decisions on the contextual search for "insurance", as of November 18, 2020, contains more than 9 million court acts related to insurance disputes, over the last year - more than 20 thousand. The above statistics prove the need to apply appropriate alternative mechanisms for solving an important practical problem - protection of the rights of consumers of insurance services. Note that in Ukraine there is a public union "Ukrainian Insurance Ombudsman", created to protect the interests of policyholders free of charge for them. In Ukraine, there is also no mechanism for guaranteeing insurance payments under long-term life insurance contracts; it is also one of the reasons for the unpopularity of this type of insurance.

It should be noted that in the modern conditions of the development of the digital economy, insurance companies widely use innovative technologies that ensure the achievement of both short-term effects and long-term competitive advantages [14]. More than 90% of European

insurers expect COVID-19 to accelerate digital innovation in the sector, according to a new study by the consulting and research firm Information Services Group [12].

The influence of the latest technologies in the modern financial market today is very difficult to overestimate. The fintech industry is rapidly and continuously developing, penetrating into all areas of financial activity and demonstrating new and convenient financial services and tools to clients [15]. High-tech alternative insurance projects appear on the insurance market, which, over time, may become serious competitors to traditional insurers. A new generation of customers is emerging who trust less well-known brands, giving an advantage to unique cheap products [10].

The digitalization process of the Ukrainian insurance market is currently at its initial stage. Modern insurance technologies can only be introduced by companies that have the financial capabilities and modernization of the main business processes, since modern technologies are fundamentally changing the schemes of interaction with clients. The introduction of technologies allows insurers, first of all, to reduce costs and optimize their business processes, and, accordingly, create new high-tech methods of interaction with customers. So, in 2017, high-tech companies in Ukraine increased their income by an average of 6.2%, while other participants in the insurance market only by 3.4% [17].

We support the opinion of scientists [4, 8, 3, 18], that the main directions of development of the insurance market in Ukraine in the context of digital transformations are now several phenomena: internetization, individualization and digitalization of insurance activities.

The Internetization of insurance activities is implemented in insurance companies through not only the Internet sale of insurance services, but also the collection of information about the policyholders via the Internet, as well as the settlement of insurance claims via the Internet [13].

Factors contributing to the development of the Internet of the insurance market are: increase in the number of Internet users and persons engaged in Internet commerce operations; emergence of legislative norms regulating the interaction of the insurer and the policyholder via the Internet; higher profitability of online sales of insurance services and settlement of insurance claims via the Internet;

– more active use of Big Data technologies by insurers aimed at personalizing insurance services, offering them and settling losses [8].

Individualization of economic relations, that is, a shift away from mass standardized products in the insurance market, manifests itself in the development of an individual offer for insurance (at rates, risks and other conditions) through the use of large databases, new production technologies and wireless communication technologies based on obtaining the widest possible set of information about the insured (including potential) and the object of insurance.

Table 1. Directions of digitalization of the insurance market in Ukraine

Directions	Characteristics	Technology
Internetization	Use of the Internet, new production technologies, wireless technologies and cloud technologies in the business processes of the insurance company.	«Internet of things» (IoT) BigData, insurance marketplaces (EWA)
Individualization	Development of an individual insurance proposal using large databases, new manufacturing technologies and wireless technologies.	BigData, telethemes, telemedicine, virtual reality, augmented reality, smart contracts, cloud technology, chatbots
Digitalization	The use of digital technologies in the internal and external business processes of an insurance company	Blockchain, smart contracts, mobile supplements, remote access, ERP system, CRM system

Source: prepared by the authors

Digitalization has a huge impact on the economy, society and the development of the insurance market. Digitalization in the insurance market implies the use of digital technologies (digitization) in the internal and external business processes of an insurance company [4]. Digitalization has also affected insurance products: insurance companies are increasingly offering to buy their products online. At the same time, most of the online sales are still the merit of aggregators and marketplaces. In Europe, aggregator websites are one of the main sources of digital financial product sales. According to the report of the consulting company McKinsey&Company, more than 40% of all insurance premiums in developed markets are generated by financial marketplaces, while the share of mobile traffic for market leaders exceeds 50%. Users are attracted by the opportunity to compare products of different companies comfortably and at a convenient time, to analyze the pros and cons, to make the best choice on one site, even starting a choice from a smartphone, and completing a purchase from a personal computer [12].

In many respects, the interest of insurance companies in the digitalization of the insurance business is determined by the degree of development of blockchain technologies and the possibility of their use in various business processes [7]. Distribution databases in combination with smart contracts (digital contracts in computer execution) can be used by insurers at the stage of concluding insurance contracts, including when selling policies related to other insurance services, as well as at the stage of settling an insured event.

We believe that information technology directly affects the competitiveness of insurance companies. Firstly, information technologies dictate modern principles of competition by changing the structure of the insurance market. Secondly, information technology provides additional productivity opportunities, creating a competitive advantage. Thirdly, information technology is capable of generating new types of insurance business based on existing processes and operations in insurance companies. Fourthly, information technology has a flexible infrastructure, promotes the development of dynamic interconnected organizational relations (IORS), business process reengineering (BPR), product and service diversification and scalability.

Therefore, we agree with the opinion of scientists [3], that in order to increase the competitiveness of insurance companies, it is advisable to introduce into their activities a real-virtual digital marketing concept as a kind of business philosophy focused on the full or partial functioning of the insurance company on the Internet with the implementation of specific for a virtual environment marketing strategies, appropriate means and methods of doing business with the aim of providing qualitative and quantitative value to customers in a specific target segment

Digital transformation processes based on the development of information technologies of insurance companies contribute to increasing competitiveness through:

- increase in the efficiency and profitability of insurance activities through the development of the internal market based on the convergence of mutual and commercial insurance;
- saving time in the implementation of customer service operations and the sale of insurance products and services, as well as costs associated with all types of activities of insurance companies;
- development and implementation of new digital insurance products and services through the socialization of insurance relationships;
- realization of competitive advantages through innovative business models, products and services provided with the help of innovative insurance technologies.

Conclusions. The conducted studies of the peculiarities of the development of the insurance market in Ukraine indicate that it is at the stage of formation and adaptation to the requirements of the world insurance market, as well as to modern globalization challenges associated with the development of information and communication technologies and the formation of the digital economy. In order to improve the situation in the domestic insurance market and maintain competitive positions, insurance companies should actively use European and world experience, introduce and change models of insurance functioning, and intensively introduce innovative technologies in insurance activities.

The use of new technologies and management models in practice will increase the efficiency of the provision of

insurance services, require insurance companies to develop new insurance products, taking into account the individual wishes of customers, and will also contribute to expanding the scope of using insurance as a method of risk transfer in an integrated risk management system, as well

as will ensure the creation of a unique competitive advantage for those insurance companies that are able to introduce innovative digital technologies in accordance with the individualized requests of customers.

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