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Trends in the Development of the Insurance Market of Ukraine in the Conditions of Transformational Changes

Abstract. Introduction. In modern conditions, the result of globalization processes are rapid changes in the world economic system, in particular in its financial sphere, which cause not only positive but also negative consequences. Therefore, there is an objective need to deepen research on the functioning and identify promising areas of insurance market development. After all, in the process of their activity, insurance companies ensure the formation of effective market mechanisms for attracting investment resources into the national economy.

Purpose. The purpose of the study is to study the main trends in the insurance market of Ukraine in modern conditions of transformational change and globalization processes and substantiation of promising areas to increase its efficiency.

Results. It is established that the main destructive factors that hinder the development of the insurance market of Ukraine include: reducing the level of solvency and liquidity; lack of a clear business model; unfounded approaches in financial risk management; uncertainty of the strategy and program of formation of financial security of the insurance market as a component of security of the non-banking financial sector and others. During 2011-2021 there is a clear trend to reduce the number of insurance companies. At the same time, the level of insurance penetration and concentration of the insurance market of Ukraine in premiums is much lower than similar world and European countries. Insurance companies belong to high-risk financial institutions. Therefore, the obligatory structural elements of the strategy of strengthening the financial security of the insurance market of Ukraine are substantiated. In addition, the principles of financial risk management in the financial security system of the insurance market are presented. It is established that in order to increase the competitiveness of insurance companies it is necessary to first adapt their business models to digital requirements, modernize major technology platforms, expand analytical capabilities of databases, improve interaction with all members of the insurance ecosystem.

Conclusions. Modern dynamic conditions of globalization and a number of destructive factors necessitate the development of a strategy for the formation of financial security of the insurance market of Ukraine, as well as the justification of rational approaches to managing financial risks of insurance companies. It is established that the reorientation of the insurance market to digital technologies is a defining requirement of the transformational world. The period of implementation of digitalization processes causes insurers to move from outdated sales channels of insurance products to find new ways to communicate with customers, develop innovative approaches to the insurance business. We are convinced that the simultaneous development of internetization, individualization and digitalization will provide a synergistic effect in the process of digitalization of the insurance market of Ukraine and bringing it to a qualitatively new level of development in the conditions of transformational changes.

Keywords: insurance market; globalization; transformational changes; financial risks; digitalization of insurance.

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Тенденції розвитку страхового ринку України в умовах трансформаційних змін

У сучасних умовах результатом глобалізаційних процесів є стрімкі зміни у світовій економічній системі, зокрема в її фінансовій сфері, які викликають не тільки позитивні, а й негативні наслідки. Відтак, виникає об'єктивна потреба поглиблення досліджень проблем функціонування та визначення перспективних напрямів розвитку страхового ринку. Адже, у процесі своєї діяльності, страхові компанії забезпечують формування ефективних ринкових механізмів залучення інвестиційних ресурсів у національну економіку.

Метою статті є вивчення основних тенденцій розвитку страхового ринку України в сучасних умовах трансформаційних змін і глобалізаційних процесів та обґрунтування перспективних напрямів підвищення його ефективності.

Протягом 2011-2021 рр. спостерігається чітка тенденція до зменшення кількості страхових компаній. При цьому рівень проникнення страхування та концентрація страхового ринку України за преміями є значно нижчими, ніж аналогічні світові показники та показники європейських країн. Відтак, обґрунтовано необхідність розробки та обов'язкові структурні елементи стратегії зміцнення фінансової безпеки страхового ринку України. Крім того, наведено принципи управління фінансовими ризиками в системі фінансової безпеки страхового ринку.

Встановлено, що переорієнтування страхового ринку на цифрові технології є визначальною вимогою трансформаційного світу. Період впровадження цифровізаційних процесів зумовлює страховиків переходити від застарілих каналів збуту страхових продуктів до пошуку нових способів зв'язку з клієнтами, розробки інноваційних підходів до ведення страхового бізнесу. З метою підвищення конкурентоспроможності страховим компаніям необхідно,

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в першу чергу, адаптувати власні бізнес-моделі до цифрових вимог, модернізувати основні технологічні платформи, розширювати аналітичні можливості баз даних, покращити взаємодію з усіма учасниками страхової екосистеми. Переконані, що одночасний розвиток інтернетизації, індивідуалізації та діджиталізації забезпечить синергетичний ефект в процесі цифровізації страхового ринку України та виведенню його на якісно новий рівень розвитку в умовах трансформаційних змін.

Ключові слова: страховий ринок; глобалізація; трансформаційні зміни; фінансові ризики; цифровізація страхування.

Formulation of the problem. Globalization processes create global problems that increase the field of potential conflicts and financial instability in the world. The result of globalization processes is rapid changes in the world economic system, in particular in its financial sphere, which cause not only positive but also negative consequences. In the current dynamic conditions of globalization there is an objective need to deepen research on the problems of functioning and identify promising areas of development of the insurance market. After all, in the process of their activity, insurance companies ensure the formation of effective market mechanisms for attracting investment resources into the national economy.

Analysis of recent research and publications. Questions of factors of development, estimation and perspective directions of functioning of the insurance market are reflected in researches of modern scientists, in particular: N. Vnukova, O. Zhuravka, N. Nagaichuk, A. Poltorak, L. Shirinyan and others. A number of researchers (O. Hrybinenko, Y. Klapkiv, M. Lehmann, R. Picus, etc.) substantiate the role of digitalization, digitalization and virtualization processes in the development of the insurance market of Ukraine. However, the current trends in the development of the insurance market of Ukraine in the conditions of transformational changes and the main factors that determine them need in-depth study.

Formulation of research goals. The aim of the study is to study the main trends in the development of the insurance market of Ukraine in the current conditions of transformational changes and globalization processes and substantiation of promising ways to increase its efficiency.

Outline of the main research material. The current state of the insurance market in Ukraine indicates existing problems and potential threats. The main destructive factors that hinder its development include: reducing the level of solvency and liquidity; lack of a clear business model; unfounded approaches in financial risk management; uncertainty of the strategy and program of formation of financial security of the insurance market as a component of security of the non-banking financial sector and others.

Note that the dynamics of development of insurance companies indicates a clear trend to reduce their number (Fig. 1). Thus, compared to 2011, the number of insurers at the end of the third quarter of 2021 decreased by more than 60% - from 442 to 169 companies, of which: IC "Life" decreased from 64 to 17 companies, and IC "non-Life" - from 378 to 152 companies. This is primarily due to the strengthening of regulations on solvency and capital adequacy, as a result of which a number of insurance companies do not meet these requirements and close their operations. In addition, the situation with the COVID-19 pandemic also had a significant impact on the decline of key insurance market indicators.

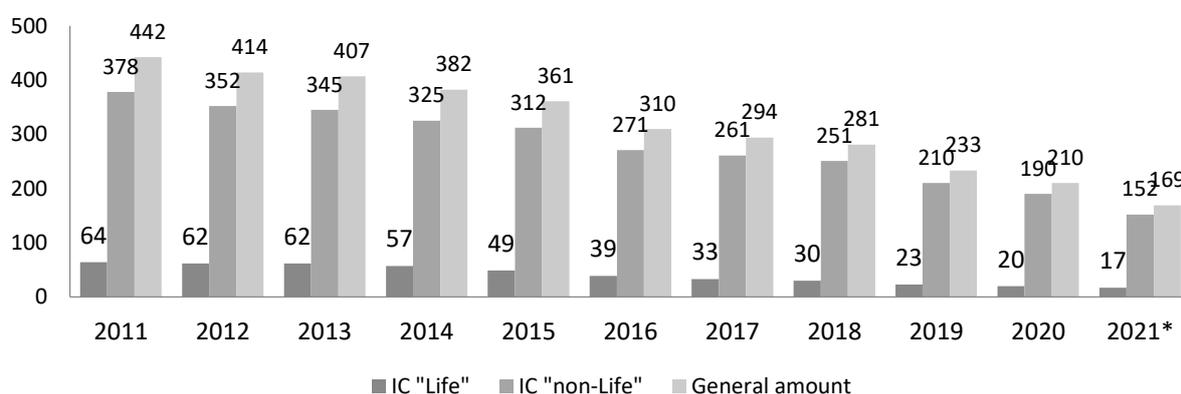


Figure 1 - Number of insurance companies in Ukraine by types of insurance "Life" and "non-Life" in 2011-2021 *

Source: built by the author on the basis of data [13]

* Note: 2021 (data for 3 quarters)

It should be noted that the change in the NBU's requirements for the activities of insurance companies necessitated an increase in the assets of insurers, which explains the growth of their assets in 2018-2020 (Table 1). Thus, the total assets of insurers in 2020 compared to

2016 increased by 15.8% (UAH 8,849.4 million) and amounted to UAH 64,925 million.

Despite the reduction in the number of insurance companies in the market, the volume of gross insurance premiums during 2016-2019 had a positive upward trend. However, due to the destructive factors mentioned

above, in 2020 compared to 2019 their volume decreased by 14.7% (due to the non-life segment) and amounted to 45,200 million hryvnias.

As for the level of insurance payments, in 2020 compared to 2018 and 2019 it increased significantly and

amounted to 33.8%, but remains relatively low, as almost 67% are still at the disposal of insurance companies and cover their costs during the implementation of insurance services and provide favorable conditions for investment in order to increase their own income [12].

Table 1. The main indicators of the insurance market of Ukraine in 2016-2020

Indicators	Years					2020 comparing to 2016	
	2016	2017	2018	2019	2020	+/-	%
Total assets of insurers, UAH million	56075,6	57381,0	63493,3	63866,8	64925,0	8849,4	115,8
Assets defined in Art. 31 of the Law of Ukraine "On Insurance" for the presentation of insurance reserves, UAH million	35071,9	36084,6	40666,5	44609,9	48705,2	13633,3	138,9
Insurance premiums, UAH million	35170,3	43431,8	49367,5	53001,2	45200,0	10029,7	128,5
Insurance payments, UAH million	8839,5	10536,8	10536,8	14338,3	14340,2	5500,7	162,2
The level of gross payments,%	32,3	36,0	26,1	27,1	33,8	1,5	-

Source: built by the author on the basis of data [7]

Insurance companies today are considered high-risk financial institutions. As a result, a new model of insurance market regulation is gradually being implemented in Ukraine, taking into account international IAIS principles, world best practices and European Union directives. Along with this, it should be noted that the level of financial security of the insurance market of Ukraine today remains low. In particular, indicators such as the level of insurance penetration and the concentration of the insurance market for premiums are much lower than similar global and European countries [11]. Such trends necessitate the development of a strategy for the formation of financial security of the insurance market of Ukraine, as well as the justification of rational approaches in managing the financial risks of insurance companies.

Mandatory structural elements of the strategy for strengthening the financial security of the insurance market should be:

- characterization of internal and external threats to financial security that actually exist or are potentially possible;
- definition and consideration of national interests in financial relations, their parameters and criteria;
- formation of effective financial and regulatory policy and development of a mechanism to neutralize the impact of destabilizing factors;
- identification of long-term priorities in the implementation of a set of tasks to strengthen financial security in the context of globalization;
- implementation of the system of measures defined in the strategy, taking into account long-term priorities.

Given the relevance of the risk-oriented approach in the regulation and supervision of insurance companies, we have identified a set of principles that should take into account the process of financial risk management in the financial security system of the insurance market of Ukraine (Fig. 2). Among

them, the fundamental principle of legal certainty, which is to establish clear and understandable for compliance with the requirements of the activity through a system of laws and regulations, including with schedules to bring the activities of insurance companies in line with the new requirements. This principle is basic in the current regulatory policy of the NBU [15], as its observance will create an appropriate basis for further development and growth of reliable insurers, as well as provide conditions for proper performance of insurers of their functions in economic terms as a whole.

In the context of globalization and transformational changes, the main factors in the development of the insurance market are economic instability, increased regulatory requirements, natural risks and reduced return on investment. These data were obtained by the Economic Intelligence Unit as a result of a survey of 322 heads of insurance intermediaries from North America, Europe and Asia on the prospects for the development of the industry until 2030 [14]. In order to prepare for future global changes, insurance market participants are updating and changing the architecture of their activities. In addition, world insurance market leaders are focusing on deepening specialization, moving from traditional insurance to digital platforms, creating new cross-sectoral products and more.

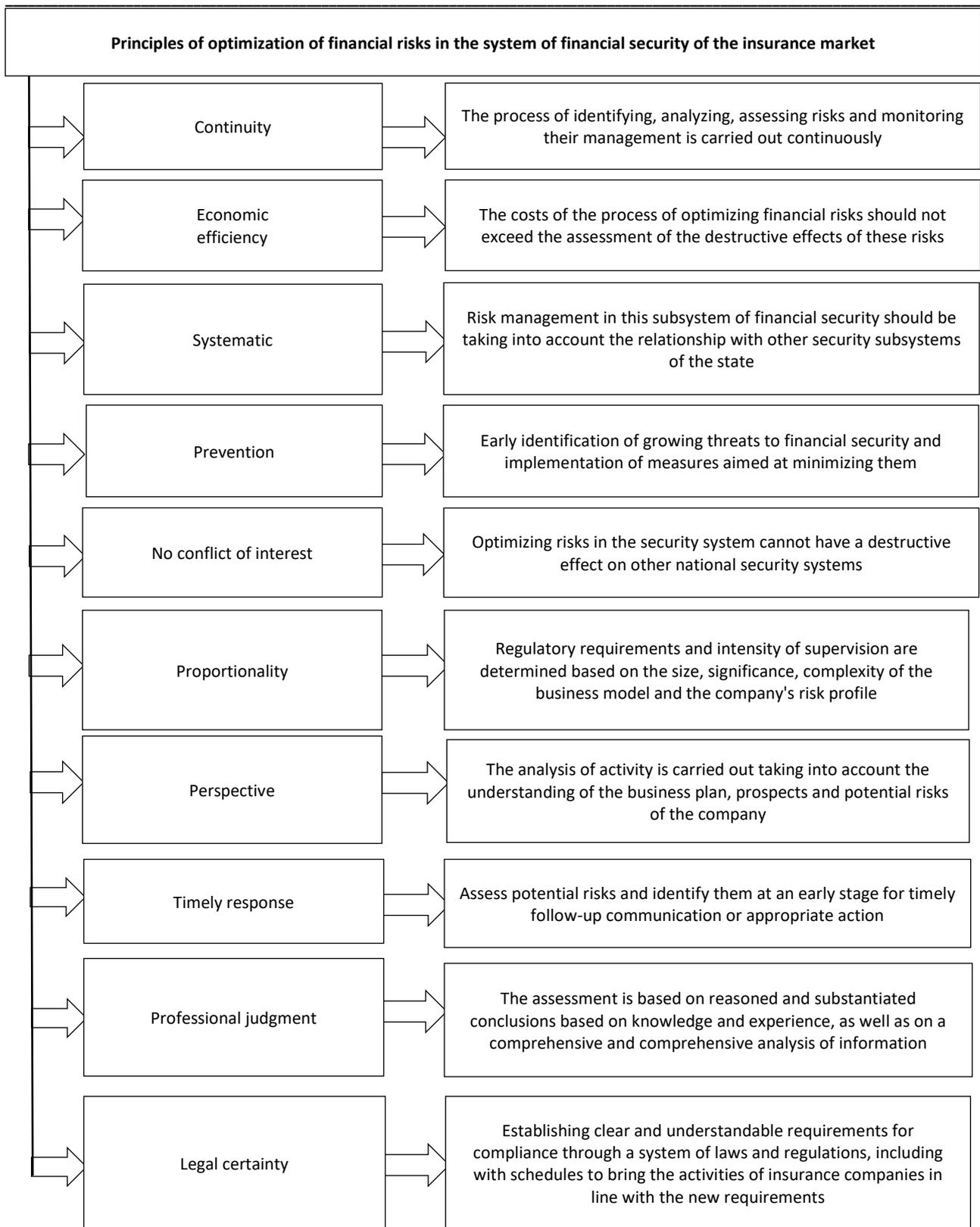


Figure 2 – Principles of financial risk management in the financial security system of the insurance market

Source: proposed by the author on the basis of systematization [10, 15]

It should be noted that the transition of the insurance business to digital technology is a defining requirement of today. After all, in conditions of intensified competition, growing demands from consumers and supervision, the insurance market is rapidly taking a leading position at the

forefront of technological progress [3]. Every year, remote claims settlement services are developing, the number of online sales of insurance products is growing, mobile applications, chatbots, etc. are being introduced.

To determine the capabilities of our country in digitalization (including the insurance industry) is important modern project "Ukraine 2030E - a country with advanced digital technology" from the Ukrainian Institute of the Future [1]. This project contains an analysis of the current state of digitalization, proposals for improving the automation of business processes, promising areas and guidelines for the future. In order to increase competitiveness, insurance companies must first adapt their business models to digital requirements, modernize major technology platforms, expand the analytical capabilities of databases, improve interaction with all members of the insurance ecosystem.

In total for the last 10 years the sum of investments in digitalization of world insurance activity has made 24,4 billion dollars. Despite the year of the global economic crisis due to the Covid-19 pandemic, the number of transactions registered at the end of the third quarter of 2020 was 275 units for investments worth more than \$ 5 billion (Fig. 3).

By the third quarter of 2020, almost 60% of agreements were concluded outside the United States, which reinforces the general trend of previous years in the world. Investment in insurance technology is increasingly worldwide, with the number of transactions increasing by 50% in the UK and almost 45% in the US [4].

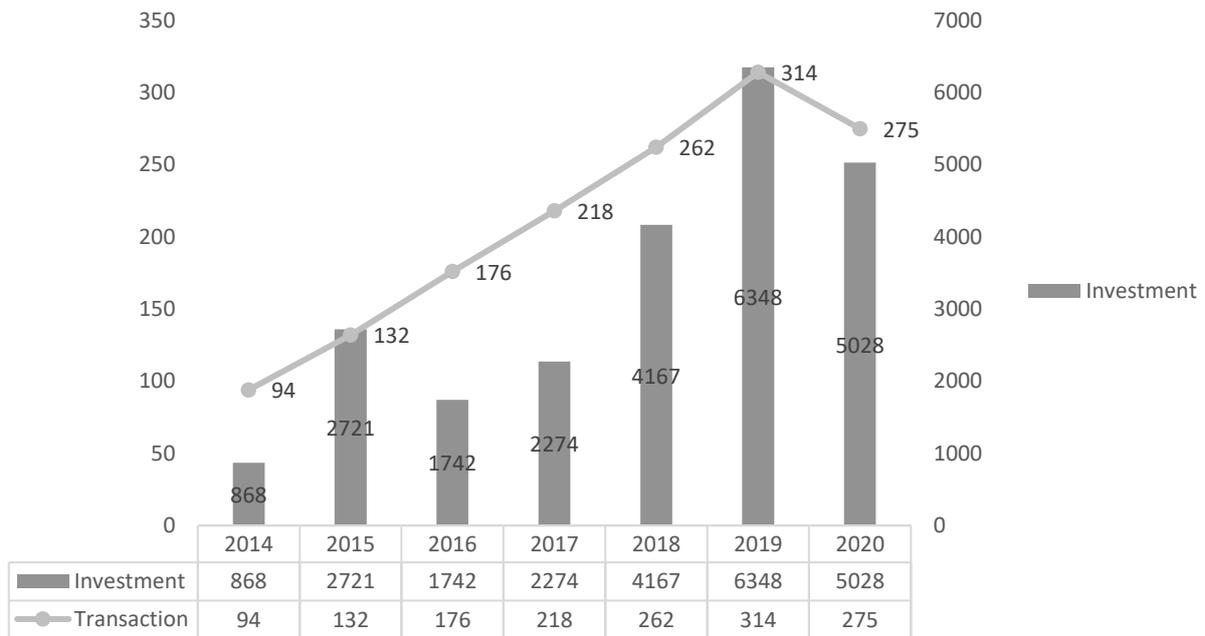


Figure 3 – Number of transactions and volume of investments in digitalization of insurance in the world, 2014-2020 *, million dollars

Source: built by the author according to [4]

* Note: 2020 (data for 3 quarters)

Researching the insurance market of Ukraine, it is necessary to identify the following areas of digitalization, which are actively developing: the formation of electronic policies (Fig. 4), remote recording of accidents, online sales, etc. Among the most popular technological solutions used in insurance are the following: big data, artificial intelligence and machine learning (20%); insurance based on the time of use (on the principle of "pay when you drive") (13%); telematics (13%); insurance for the IoT sphere (Internet of Things) (12%); robot advisors and chatbots (10%), blockchain (4%) [2].

According to Insurance TOP in 2021, the most popular among insurers in Ukraine were the following online

services: concluding new insurance contracts or extending existing ones (51%); online settlement without a visit to the office (29%) and remote referral of the insured event (25%). Such data were obtained by insurers through a survey to calculate the Digital Insured Index for the second half of 2021, which showed its growth by 1 percentage point (from 43% to 44%) compared to the first half of the same year [5]. In the Ukrainian market of Internet sales, the leaders are CICLO policies. This became possible due to the amendments to the order of the National Financial Services Commission dated 31.08.2017 № 3631 on the peculiarities of concluding contracts of compulsory insurance of civil liability of owners of land vehicles [8].

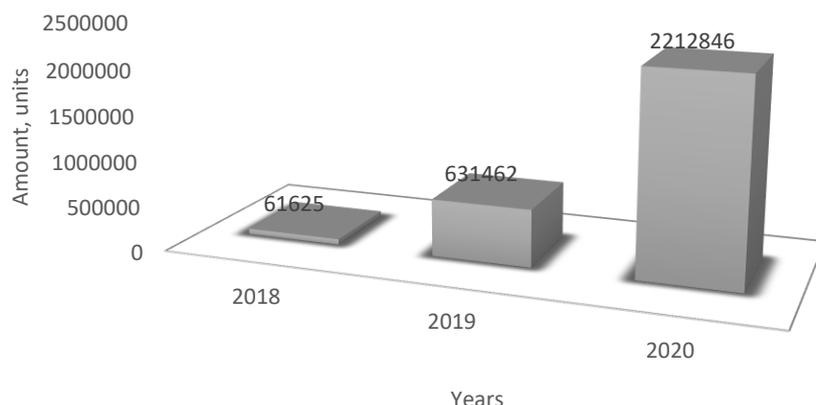


Figure 4 – The number of concluded electronic policies in Ukraine, 2018-2020, units

Source: built by the author according to [6]

During 2020, more than 2 million electronic policies were concluded. This shows that for consumers of insurance services, obtaining policies online is a very convenient process, as it avoids paperwork and reduces the time spent on the contract. Note that for the period January-November 2021, this figure increased almost 2 times compared to the same period in 2020.

It should be noted that recently there has been a significant increase in investment in the activities of InsureTech - technology companies, whose significant growth is associated with the growth of the digital economy. The main goal of InsureTech - technology companies is to develop IT solutions for insurance companies [9]. InsureTech actively uses the latest technologies when working with commercial clients. In particular, in such areas of cooperation as peer-to-peer and digital brokerage operations, the target audience of which is small and medium-sized enterprises.

Digitalization processes contribute to the entry of the insurance market into a new modern stage of development, allow insurers and policyholders to use innovative global technologies and receive a wide range of benefits. Yes, for the insured, the ability to make online inquiries in the field of insurance is a convenient process, as it allows you to perform the necessary procedures without visiting the office and saving time. In turn, for the insurer the main benefit of the implementation of digital technologies is to increase sales and, as a result, to increase financial revenues from insurance policies and investments. In the future, the effective functioning of the

digital sales of insurance products requires the efforts not only of insurance market participants and investors, but also the state, which through the application of laws and regulations will regulate insurance transactions on the Internet and stimulate digital infrastructure.

Conclusions. Thus, in the current dynamic conditions of globalization, the insurance market of Ukraine needs the latest integrated approaches to ensure the efficiency of operation and increase competitiveness. First of all, current trends necessitate the development of a strategy for the formation of financial security of the insurance market of Ukraine, as well as the justification of rational approaches to managing financial risks of insurance companies. In addition, it is established that the reorientation of the insurance market to digital technologies is a defining requirement of the transformational world. The period of implementation of digitalization processes causes insurers to move from outdated sales channels of insurance products to find new ways to communicate with customers, develop innovative approaches to the insurance business. The digitalization of the insurance market is significantly influenced by such processes as internetization, individualization, digitalization. We are convinced that the simultaneous development of these areas will provide a synergistic effect in the process of digitalization of the insurance market of Ukraine and bringing it to a qualitatively new level of development in the conditions of transformational changes.

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