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Insurance Market in Ukraine and Europe: Current Parallels

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Abstract

The article presents the results of the comparative analysis of insurance market development in Ukraine and Europe on the basis of its quantitative characteristics (in the context of the number of insurance companies, size of insurance premium and insurance payment) and macroeconomic indicators (indexes of insurance penetration and density, the level of insurance payments). The current state of above-mentioned insurance markets in general and in the context of their segmentation (life insurance and non-life insurance) was estimated. It has been determined that the European insurance market is characterized by a high level of organization and efficiency and differs considerably in its structure from the Ukrainian one. The results of the research enabled us to detect the number of problems in the development of Ukrainian insurance market and to determine the key ones among them: formation of imbalanced structure of the insurance portfolio of some insurance companies that lead to the disproportions in the development of different types of insurance; low level of insurance payments and the problem of moral responsibility of insurance companies; distrust of the population in insurance companies and low interest in insurance products; insufficiency of reliable and liquid financial tools to implement the investment activity of insurance companies.

Keywords: insurance, insurance market, development trends, Ukraine, Europe.

Introduction

In the global market economy the functioning of the insurance sector that allows to evaluate economic development of a country as well as the level of population welfare is an important indicator of development and integration of a country's economy. Insurance sector promotes a considerable accumulation of capital in the long-term period and helps the population to achieve stability and confidence. At the same time, it is necessary to mention that the Ukrainian insurance sector is at the stage of development and formation, experiencing a number of problems and uncertainties. Therefore its further development should be of priority importance in the economic and social aspects of the state policy, taking into account its European integration.

Movement of Ukraine in the direction of the European integration determines the necessity to carry out a comparative analysis of the national and European insurance market in order to find out and overcome the main drawbacks and disproportions in the functioning of the Ukrainian insurance market as well as achieving its stability and competitiveness.

Analysis of the latest studies and publications

Insurance business activity in the modern world is many-faceted and ambiguous and requires constant research of insurance relations that provide social and economic security of business entities and determine the stability of a national economy.

Different aspects related to the functioning the Ukrainian insurance market were investigated by Ukrainian scientists and practitioners, among them it is worth mentioning the following researchers: Martseniuk-Rozaronova, (2010); Navrotskyi, (2012); Nesterchuk, (2018); Erastov (2016).

In their scientific papers the researchers investigated the main development trends of the insurance market in general and some problematic aspects of its development, studied the characteristics of insurance legislation, clarified the structure of the investigated market. Current state and prospects of the European integration of insurance market of Ukraine were the focus in the research papers of Popova & Pistryak (2016), Rusul & Daraban (2017).

Some theoretical and practical aspects related to the functioning of insurance system are profoundly studied by foreign scientists Barros & Wanke (2017); Enjolras & Sentis (2011); Finger & Lehmann (2012); Santeramo (2018); Zubor-Neme at al. (2018); Lee at al. (2007); Mayers at al. (1997); Nourani at al. (2018); Verhoef at al. (2001).

It is necessary to mention that the works of foreign scientists deal with a wide range of issues related to the peculiarities of implementing insurance activity. A considerable amount of scientists research the range of insurance products that are supplied at the insurance markets of different countries in general and in Europe in particular. Other scientists focused on the research of insurance industry in the context of particular countries, and parts of the world.

At the same time, despite a great deal of groundwork and best practices, it is necessary to note that the Ukrainian market of insurance services is at the stage of development and formation and has a number of problems and uncertainties. Operation of a full-fledged insurance market is an important pre-requisite for the improvement of the population well-being and sustainable economic growth, which determines the topicality of the present research and determines the necessity to deepen scientific research in this area.

Research Methods

To achieve the stated goal the following general scientific methods of scientific cognition and research of economic phenomena were used, in particular, the dialectical cognition method was used to analyze scientific research papers on national and foreign issues of effective functioning of the insurance market.

To evaluate the current state and development of the object of our research we used the empirical research method. Mathematical methods were applied to calculate macroeconomic indicators of development of insurance market of Ukraine and Europe(parameters of insurance penetration and density, the level of insurance payments);

Comparative analysis is used to compare key parameters of insurance market development in Ukraine and European countries in general, and in the context of sectoral division on the basis of quantitative characteristics and macroeconomic indicators of the insurance market and to draw parallels between the development levels of the analyzed insurance markets. Tabular and graphical methods were applied to systematize and visualize numerical material, abstract-logic approach allows to generalize the findings of the research and to draw the conclusions.

Aims

The aim of the article is to carry out a comparative analysis of the key parameters of insurance market development in Ukraine and in Europe in general and in the context of sectoral division on the basis of quantitative characteristics and macroeconomic indicators of the market, to find out the main problems in the functioning of the national insurance market.

Results

General description of the insurance market in Ukraine and Europe

Insurance market in Europe is one of the most developed in the world, it accumulates the third part of insurance premiums of the world insurance market (figure1).

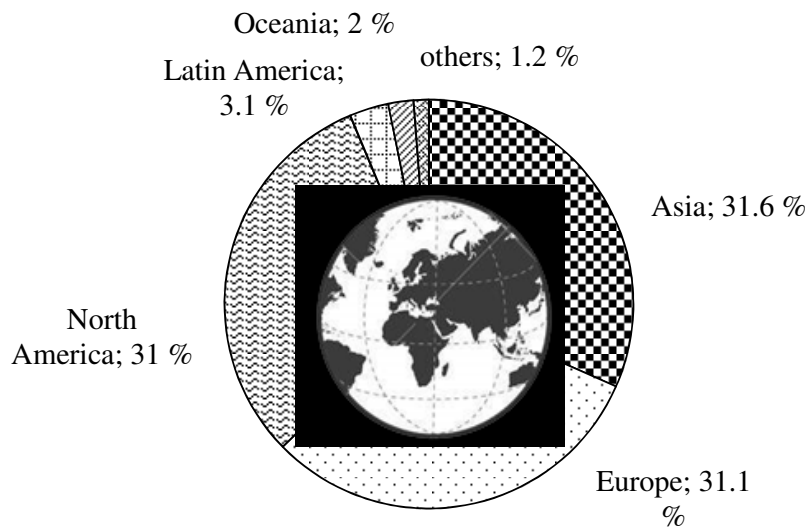


Fig. 1: Distribution of insurance premiums according to the regions, (2017) %

[Source: European Insurance in Figures, 2017].

High level of insurance culture has established in developed European countries: the share of voluntary property insurance is high, types of personal insurance are quite developed, in particular, medical insurance, life insurance, and casualty insurance. In comparison to European countries, the insurance market of Ukraine has a considerably lower level of development, it has insufficient capitalization and financial stability of insurance companies, imbalanced development of some types of insurance, low interest of the population in insurance services.

The most general criteria, allowing to study the state of the insurance market, its structure and development level are the indexes of insurance companies (fig.2), volumes and structure of collected insurance premiums, the level of insurance payouts, coefficients of insurance density and penetration (table 1; table 2). The number of insurance companies in Ukraine is quite significant. 294 insurance companies were registered in 2017, which is by 67 companies less compared to 2015. (fig. 2).

However, it is necessary to accentuate, that the high index of the number of insurance companies in Ukraine doesn't mean the high level of competition and efficiency of the insurance market, because a great number of insurance companies is in a "frozen" state and has extremely low volumes of insurance activity.

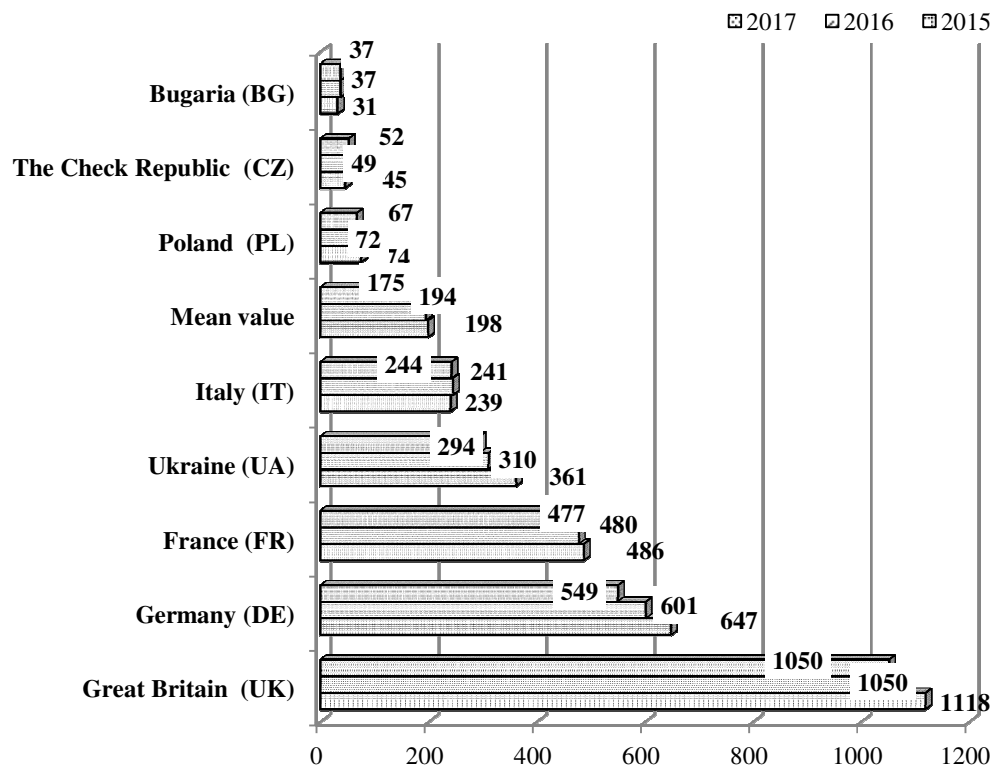



Fig. 2: The number of insurance companies in some European countries in 2017, %

[Source: *European Insurance in Figures, 2017* (generalized and presented by the authors)].

There are countries with a large number of insurance companies in Europe, in particular, Germany (549 insurance companies in 2017) and Great Britain (1050 companies in 2017), that are world leaders at the insurance market. Though, in the most European countries the number of insurance companies is at the level of 50-80, average European index makes up 114 companies.

The key parameters of the insurance market development in Ukraine and Europe are presented in table 1 and in the context of sector classification of the market, in particular, life insurance and risk insurance – in table 2.




Table 1: Key indexes of insurance market development in Ukraine and Europe in 2015-2017

 Index	2015		2016		2017	
	Ukraine	Europe	Ukraine	Europe	Ukraine	Europe
Insurance penetration, %	1.50	7.4	1.48	7.1	1.64	7.2
Insurance density, Euro per person	28.6	2022	29.1	2001	33.9	2018
the level of gross insurance payments, %	25.4	80.3	25.6	80.9	26.3	80.7
gross insurance premiums, bn euros	1.22	1216.0	1.21	1189.0	1.33	1212.0
Gross insurance payments, bn Euros	0.31	977.0	0.31	963.0	0.35	978.0

*Source: *European Insurance in Figures, 2017* and *Data of the National Commission for the state regulation of financial service markets* ((calculated and proposed by the authors)].

At the same time, it is necessary to mention that the most informative are relative indexes of the insurance market development in different countries for conducting the comparative analysis.

Table 2: Key indexes of the insurance market development in Ukraine and Europe in terms of sectoral division in 2015-2017

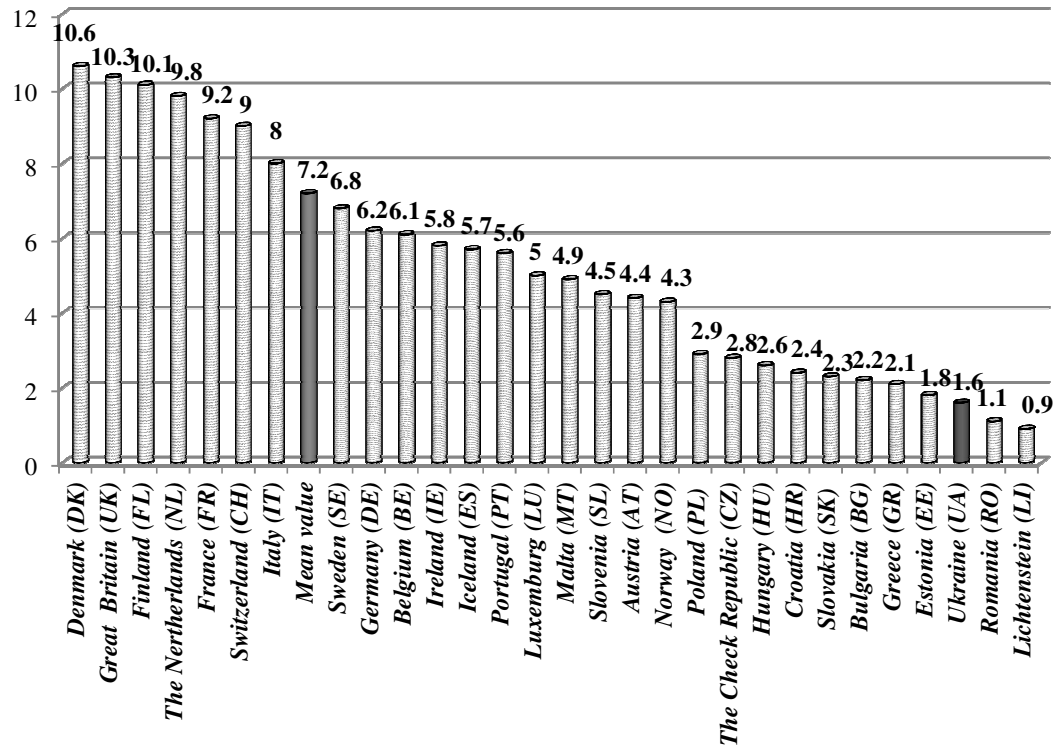
Index	2015		2016		2017	
	Ukraine	Europe	Ukraine	Europe	Ukraine	Europe
 Life insurance						
Insurance penetration, %	0.11	4.49	0.12	4.21	0.11	4.35
Insurance density, euro per person	2.10	1238	2.28	1159	2.28	1165
the level of gross insurance payments, %	22.2	86.9	10.0	88.4	20.0	87.6
Gross insurance premiums, bn Euros	0.09	739	0.10	697	0.10	710
Gross insurance payments, bn Euros	0.02	642	0.01	616	0.02	622
 Medical insurance						
Insurance penetration, %	0.12	0.78	0.13	0.79	0.14	0.81
Insurance density, Euro per person	2.43	213	2.55	215	2.95	217
the level of gross insurance payments, %	46.2	80.5	54.5	81.4	53.8	81.7
Gross insurance premiums	0.13	128	0.11	129	0.13	131
Gross insurance payments, bn euros	0.06	103	0.06	105	0.07	107
 Property insurance , liability insurance and accident insurance						
Insurance penetration, %	1.23	2.12	1.83	2.20	1.21	2.24
Insurance density, Euro per person	23.40	600	23.29	621	25.12	625
The level of gross insurance payments, %	23.00	66.48	24.00	66.67	23.63	67.71
gross insurance premium, bn Euros	1.0	349	1.0	363	1.1	371
Gross insurance payments, bn Euros	0.23	232	0.24	242	0.26	249

Description of the key indexes of insurance market development in Ukraine

Now we are going to dwell on the description of each index in detail.

Index of insurance penetration

The important index that characterizes the development of insurance market is the insurance penetration, that is the share of insurance premiums in GDP. Index of insurance penetration is one of the parameters that shows the state of financial security of the insurance market and the development level of insurance activity in the economy of the country. According to this index Ukraine left behind such countries as Romania (1.1%) and Liechtenstein (0.9%). (Fig.3).



**Fig. 3: The level of insurance penetration in some European countries
in 2017, %**

[Source: *European Insurance in Figures*, 2017].

In general we can state that in the most developed European countries (Denmark, Finland, Great Britain, France, the Netherlands, Switzerland, Italy) the level of insurance penetration is the highest and is at the level within 8-11% of GDP.

The second group of the countries is characterized by the high level of insurance penetration (4-7% of GDP) that is somewhat lower than average European value and makes up 7.2%. This group includes Sweden, Germany, Belgium, Ireland, Iceland, Austria, Luxembourg, etc.

The next group of the countries includes mainly the countries of Eastern Europe (the Czech Republic, Poland, Hungary, Bulgaria, Slovakia and others) and has the lowest index of insurance penetration, that doesn't exceed 3%.

Insurance Density Index

Let's analyze the index of insurance density in detail (amount of insurance premiums per capita). On average, 2018 euros were spent per capita in the European countries according to the data of 2017 (table 1). Life insurance premiums make up the main share of this amount (1165 euros per capita) (table 2). The index of insurance density made up 33.9 euros per capita in Ukraine (according to the annual average currency rate of the National Bank of Ukraine).

Compared to the European countries this index is extremely low and three times lower than indexes of the countries with the lowest values of the insurance density index: Romania (97 euros per capita), Lithuania (112 Euros), Bulgaria (138 euros).

According to the amount of premiums per capita in the context of insurance types life insurance in Ukraine lagged behind considerably from European countries: the index of life insurance in 2017 in Ukraine made up 2.28 Euros, while the smallest gap according to the index of insurance density was in the property insurance: spending of the citizens of Ukraine on this insurance type in 2017 made up on average 25.12 euros per capita, while in Europe it made up 625 euros per capita.

Index of gross claims payments

Another index characterizing the development of insurance market is the level of insurance payments. Taking into account the fact that in European countries there is a considerable share of life insurance when the insurance claim is obligatory covered and besides insurance coverage it includes also investment income, that is why general level of insurance payments in the EU countries is high and makes up on average 81 %.

The insurance payments are three times lower in Ukraine compared to the average European index (mean value is approaching 26 %). On the one hand, the reason of this situation is a small share of life insurance in the structure of the insurance market in Ukraine. On the other hand, the reason for the low level of insurance payments in Ukraine could be the inefficiency of the performance of the national insurance companies, low paying capacity, and their dishonesty in paying insurance coverage.

The structure of the insurance market in Ukraine according to the sectoral division (that is according to the ratio of life insurance and non-life insurance types) is absolutely different compared to the European countries. In the most developed European countries life insurance is used as a tool for the formation of savings of physical persons, including pension savings, therefore the share of premiums, obtained from life insurance in these countries is high (for example, in Sweden it makes up 83 %, in Finland – 82 %, in Italy – 78 %).

Besides, a considerably higher share of life insurance premiums in these countries can be explained by a high level of living standards of the population, sufficient monetary resource of citizens for the formation of savings including life insurance.

Analyzing the average European indexes we can state that the share of gross life insurance premiums in the general amount of gross insurance premiums makes up on average about 60% over the investigated period (fig. 4).

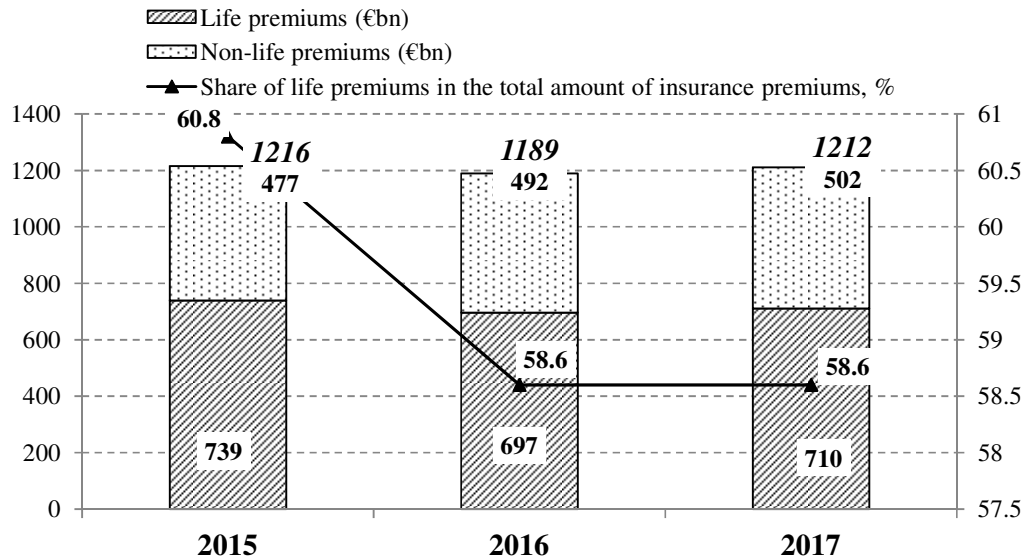


Fig. 4: Amount of gross insurance premiums in Europe (total and in the context of Life premiums and non-life premiums) over the period from 2015-2017, bn Euros

[Source: *European Insurance in Figures*, 2017].

However, in Ukraine the situation is dramatically opposite: there is a considerable prevalence of non-life insurance premiums, their share was on average 92% over the studied period (Fig.5).

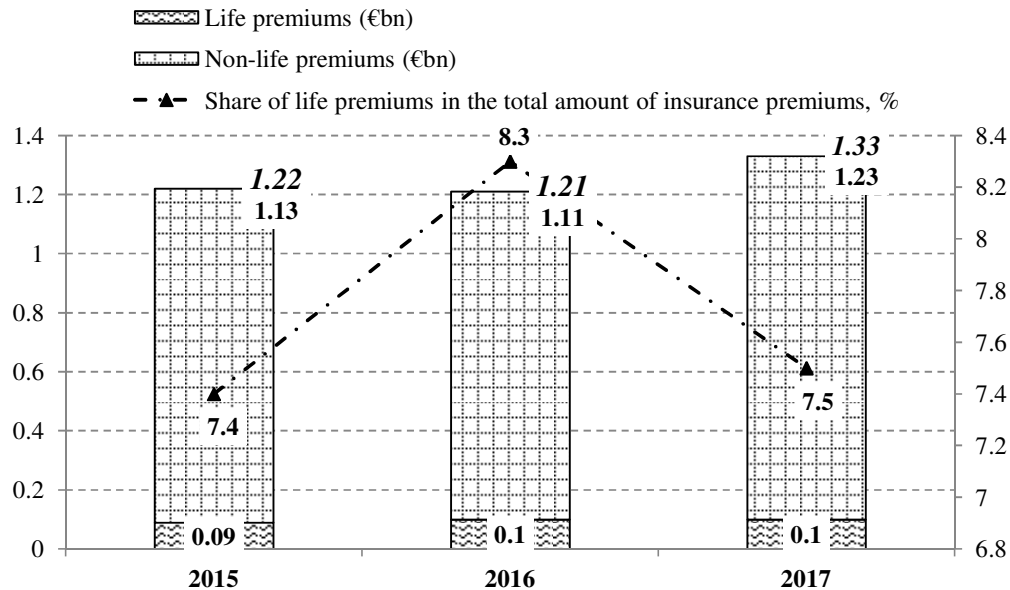


Fig. 5: Amount of gross insurance premiums in Ukraine (total and in the context of life premiums and non-life premiums) over the period from 2015-2017, bn Euros.

[Source: *Data of the National Commission for the state regulation of financial service markets ((calculated and proposed by the authors))*].

Share of life premiums in the total amount of insurance premiums, %Specific weight index of life insurance premiums in the general amount of gross insurance premiums in Ukraine is one of the lowest in Europe and makes up 8% on average over the period from 2015 to 2017. These indexes are also low in Iceland (8%) and Turkey (12%). It should be mentioned that life insurance as one of the segments of the insurance system is considered to be a strategically important component of insurance life protection and health of citizens. Moreover, it is a powerful catalytic agent of the country's development through the accumulation of considerable funds of cash resources in the form of insurance reserves with their further allocation in different sectors of the economy.

For Ukraine, as socially-oriented state, the provision of the efficient life insurance market is extremely important, because it will allow, on the one hand, to implement social policy and, on the other hand, it will activate the performance of related branches.

Key problems in the development of the insurance market in Ukraine

Despite constant market transformations and reforms over the recent years, Ukraine hasn't managed to create an effective and stable market of insurance services yet. Comparing the current development state of the insurance market of Ukraine and Europe, it is possible to single out several problems of its functioning in the national practices.

The main problems of the development of the Ukrainian insurance market are:

- formation of unbalanced structure of insurance portfolio of some insurance companies resulting in the disproportion of the sectoral development of different types of insurance;
- low level of insurance payments and the problem of honesty of insurance companies;
- Mistrust of the population in the insurance companies and low interest in insurance products; limited number of reliable and liquid financial instruments to implement investment activity of insurance companies.

All detected problems and disproportions in the development of insurance market of Ukraine are interrelated and require a comprehensive solution.

Conclusions

Therefore, the article presents a comparative analysis of the main development trends of insurance market in Ukraine and Europe, key parameters of their functioning were made in the context of sector segmentation on the basis of quantitative characteristics and macroeconomic indexes of the development of insurance market.

Conducted research enables to make the following conclusions:

1. Nowadays, Ukrainian insurance market is at the stage of development and formation and has a number of problems and uncertainties. Despite a great number of unsolved problems, it is necessary to mention, that it has great potential for growth in its quality and quantity. Thus, its further development should have priority importance in the economic and social aspects of the state policy, taking into account its European integration.
2. European insurance market has a high level of organization and efficiency and considerably differs from the Ukrainian according to its structure.
In particular, it refers to the peculiarities of sectoral division, that is the ration of life and non-life insurance.

Common European practices is the use of life insurance as the tool for the formation of savings of physical persons, including pension savings (the share of gross life insurance premiums in the total amount of gross insurance premiums makes up about 60% over the studied period).

However, the situation in Ukraine is absolutely opposite: there is a considerable share of non-life insurance premiums, their share on average over the researched period made up 92% and life insurance is 8% correspondingly.

3. A number of problems was detected in the development of the Ukrainian insurance market, the most important among them are: formation of unbalanced structure of insurance portfolio of some insurance companies that cause disproportions in the sectoral development of different types of insurance; low level of insurance payments and the problem of honesty of insurance companies; mistrust of the population in the insurance companies and low level of interest in insurance products; limited amount of reliable and liquid financial tools for the implementation of investment activity of insurance companies.

4. European insurance market as an example of an effective and integral system in the most general sense is the guideline for the development: the trust of the population and the amount of income of European companies speak for themselves.

First of all, Ukrainian insurance market should focus on the coordination of all participants which provides the trust of the population in the Ukrainian insurance companies, transparency and standardization of services will increase the number of clients.

This variant of the development is possible under condition that there is a legal segment, which generates the necessity to renovate and reform the legislation on the regulation of the Ukrainian insurance sector.

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