

Chapter IV
**FINANCIAL POTENTIAL OF THE INSURANCE MARKET:
THEORETICAL AND PRACTICAL ASPECTS OF
DEVELOPMENT**

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Introduction. The insurance market in each country is an indicator of the economy and sustainable business development. When the stability and well-being of a country reaches a certain level, both workers and employers begin to think about their future, to ensure their old age, to finance the risks that exist in everyone's life, property insurance, and so on. The rapid aging of the world's population is depleting the financial capacity of citizens, leading to low levels of health care and pensions. Insurance makes it possible to provide daily human protection – both today and in the future. This leads to two effects – the state has additional long-term funds that provide financing for investment projects, which contributes to the further development of the country's economy; citizens receive insurance protection, savings for future periods, and thus – protection of human interests.

The insurance market in Ukraine is at the stage of constant formation. The main obstacles and problems of its development are the unstable socio-economic situation at the present stage and the peculiarity of the cultural and historical traditions of Ukrainian society, the problems of the COVID–19

pandemic and unstable economic development. Therefore, even with significant changes in the legal framework, the insurance market is quite weak in the economy and requires changes in government regulation, namely: strengthening legal and economic mechanisms to protect the interests of the insured and encourage the public and employers to conclude contracts; improvement of investment and credit legislation, directions and spheres of activity of the insurer.

Literature review. A significant scientific contribution to the development of insurance was made by domestic scientists who studied the problems of insurance in Ukraine A. Alexandrova, M. Alexandrova, E. Andrievsky, V. Bazylevych, K. Bazylevych, V. Baranova, N. Vnukova, K. Vobly, I. Gabidulin, O. Gamankova, V. Hetman, L. Gorbach, N. Dolgosheya, O. Zaletov, O. Zaruba, M. Klapkiv, O. Kneisler, M. Malovany, Yu. Melnychuk, D. Martsenishin, S. Osadets, A. Tarkutsyak, I. Tkachuk, L. Chvertko, T. Fedorov, J. Shumelda, V. Furman and many others. Foreign scientists V. Garkusha, V. Gorin, J. Monkievich, T. Nazloyan, M. Piccard, M. Popov, V. Reicher, T. Sangovskiejo, B. Serbinovsky, V. Tulinov, V. Shakhov deal with insurance issues. R. Yuldashev and others.

Results. However, the problems of insurance of the population of Ukraine, insurance of their property and financial interests remain insufficiently studied. Insurance needs to be improved, which necessitated their further study. Insufficient level of theoretical developments and the need to solve problems of improving the legal framework of insurance, intensification of investment activities of the insurer, balancing the interests of the insurer and the insured determine the relevance of the research topic.

4.1. Theoretical foundations of insurance business

In all countries with developed market economies, insurance is the most important element of the economic and social system of the state and allows to solve economic and social problems of society, to meet the needs of legal entities and individuals in providing sustainable guarantees of property interests related to various economic activities. maintaining a certain level of human well-being and health.

The formation of a market economy in Ukraine, the emergence of new areas of management for all subjects of market relations necessitates the theoretical clarification of the essence of insurance, the search for new

methods of insurance protection and compensation for losses of all market participants.

In many countries, insurance is seen as a powerful factor in stabilizing the economy, investment opportunities as the most prestigious field of activity, in which, for example, in the EU, the number of employees exceeds one million and this figure increases by two percent annually [1].

The concept of “insurance” in the language of most European countries means confidence, reliability, well-being. In English, “insurance” means “confident”; the one who made sure; faithful, infallible; safe, reliable; unconditional. In Spanish, “Seguro” means confidence. In Italian, “assicurare” means to provide, guarantee, assure, promise [2].

The explanatory dictionary of the Ukrainian language defines the word “insurance” as “to protect someone from something undesirable, unpleasant” [3, p. 962].

The Russian Explanatory Dictionary explains “insurance” as the prevention of material loss by paying contributions to an institution that undertakes to reimburse possible damage incurred in special cases [4].

The Law of Ukraine “On Insurance” defines insurance as a type of civil law relations to protect the property interests of citizens and legal entities in the event of certain events (insured events), defined by the insurance contract or applicable law, at the expense of funds formed by citizens and legal entities of insurance payments (insurance premiums, insurance premiums) and income from the placement of funds of these funds [5].

In the legislation of countries with developed insurance, legislators generally do not interpret general concepts, considering them a field of science rather than practical legislation. For example, the Law of the Republic of Poland “On Insurance Activity” does not define insurance.

Modern insurance literature, economic dictionaries and encyclopedias offer more than 100 different definitions of insurance. We have systematized some definitions in the following approaches:

- in terms of the interests of the insurer and the type of activity;
- from the point of view of the insured (insured);
- in terms of economic relations between the subjects of insurance (as an economic category).

From the point of view of the insurer’s interests and type of activity, insurance is considered by domestic and foreign scholars in the context of

general methods of fund creation, indemnification, risk operations, type of economic activity, etc.

According to Professor V. D. Bazylevych, the essential characteristic of insurance protection provided by the method of insurance is its social and public orientation, as the funds accumulated by the insurer are used to form the insurance fund and are used to protect only those participants who suffered [6, p. 50].

Considering the essence of insurance from the standpoint of risk management, O. V. Kneisler notes: “insurance as a method of risk neutralization in all spheres of life and economic activity provides mobilization of a significant amount of capital, which is a significant source of compensation for possible financial losses in case of risk events” [7, p. 125].

As you know, the main subject of insurance coverage in the modern world are insurers. However, the scientific works of researchers in the theory and practice of insurance emphasize the importance of the state in the implementation of insurance protection. In particular, O. M. Ostapenko emphasizes that the state acts as a guarantor of insurance protection and one of the main subjects of insurance relations [8, p. 83].

Thus, the economist T. A. Fedorova gives a modern definition that “insurance is the creation of trust funds of funds intended to compensate for losses incurred as a result of unexpected, accidental events” [9, p. 29]. This definition, in our opinion, does not cover the completeness of the concept of insurance, but only reflects the material part of the process.

Shakhov V. V. interprets insurance as “a way to compensate for losses incurred by an individual or legal entity by distributing them among many persons” [10, p. 14]. Based on this interpretation, insurance is an expression of the method or action of protection from adverse circumstances; means of protection against losses and damages.

Scientist Monkievich T. I. and other Polish economists, among whom insurance practices predominate, define it as the most common method, a combination of known methods of risk transactions, which consists in the transfer of risk, its layout and control over it [11, p. 50]. This interpretation reduces insurance to a single concept of “risk”, which reflects more the concept of “risky transactions” than “insurance”.

T. Sangovskievsky and others give a broad definition of insurance, considering it from different points of view. From the point of view of management, insurance is considered as a method of risk management, from

the economic point of view – as an economic tool that provides compensation for future property needs caused by individual events by random events, by allocating costs to many entities at risk; from the organizational and financial point of view – as a form of organization of the centralized insurance fund from decentralized sources; from a legal point of view – as a legal relationship that binds the insurer and the insured, assigning them specific responsibilities [12, p. 57–58]. This definition is only a financial reflection of the concept of “insurance”, and does not clarify the essence of the insurer and the insured, their relationship.

From the point of view of the insured, insurance is considered as a direction of satisfaction of interests of the insured person at occurrence of certain circumstances.

So, the economist V. D. Bazylevych believes that “insurance in a market economy is based on the previous creation of insurance funds for insurance premiums and compensation for victims, i.e. insurance, in his opinion, is a way to protect the property interests of citizens in a market economy. Everyone should know how, on the other hand, insurance business is a profitable type of entrepreneurship, which is just beginning to develop in Ukraine. The regularity here is as follows: the more subjects covered by insurance, the less it costs an individual” [13, p. 8]. The scientist puts a person in the basis of insurance, because meeting the needs of the insured and is one of the main areas of insurance.

K. G. Vobly, a Russian scientist, considers insurance as “a type of economic activity based on solidarity and predictability, the purpose of which is to cover future shortages or needs caused by the occurrence of an accidental insured event” [14, p. 30–32]. In our opinion, these views are built on the interests of the insured, but insurance is also a type of activity.

Dolgosheya N. O. defines “insurance” as “a system of measures organized by special insurance state and non-state bodies to protect the property interests of citizens and organizations and institutions (individuals and legal entities) in the event of certain events, unforeseen negative circumstances (insurance cases) due to specially created funds” [15, p. 14]. This interpretation does not confirm the economic relations that arise during insurance. From the point of view of economic relations between the subjects of insurance, the concept of “insurance” covers the positions of the insurer and the insured and other participants in the insurance market.

A number of scientists, such as N. Vnukova, V. Reicher, V. Shakhov believe that insurance is associated with economic relations in the process

of creating and using insurance funds [16]–[18], This interpretation is not taken into account economic interests of the insurer, although insurance ensures the implementation of all subjects of insurance relations.

Osadets S. S. gives the following definition: “insurance – a bilateral economic relationship, which consists in the fact that the insured, paying a cash contribution, provides himself (or a third party), in the event of an event due to contract or law, the amount of payment by the insurer the scope of liability and to ensure it replenishes and effectively allocates reserves, takes preventive measures to reduce risk, and if necessary, reinsures part of its liability” [19, p. 24]. This interpretation clarifies the process of insurance transactions and reflects the movement of funds from their payment to receipt, but does not reflect the purpose of insurance by the insurer and the insured.

According to Horbach L. M.: “the economic nature of the relationship that arises and reflects the content of insurance is associated with the transfer of interested persons, for a fee to another (legal entity), usually an insurance company (commercial organization or mutual insurance company) risk possible damage and further compensation of actual losses in the event of an insured event, such a person, the participants of the insurance” [20, p. 7]. That is, this interpretation does not reflect the full essence of the relationship, but only a brief reflection of them.

As an economic category of “insurance” is considered by scholars in a broad sense, including all possible aspects of this category. Insurance is aimed at creating conditions and sources of compensation, primarily for extraordinary losses incurred as a result of insured events. As the development of technological and economic progress increases the risk nature of production, due to the growing man-made load on the environment, the contradictions between human activities and environmental potential, which increasingly loses the ability to naturally recover. The possibility of technological catastrophes is a reality, and hence the need to compensate for such losses becomes a mandatory factor in production. Therefore, taking into account the insurance risk and protective measures against it form the content of the economic category of insurance.

The material basis of insurance as an economic category, says Zaruba O. D., is “permanent provision of part of the gross national product to prevent and compensate for material losses from the insured event, i.e. the formation of the insurance fund. Based on this, in the economic system of society material embodiment in insurance stocks, which include the

accumulation of means of labor, objects of labor, products of personal consumption and monetary insurance funds” [21, p. 5]. This interpretation reduces the concept of “insurance” to a source of increasing means and objects of labor, products, etc., and does not reflect its essence in the direction of meeting human needs.

It is worth agreeing with Kneisler O. V. that “insurance as an economic category – a set of redistributive relations that arise between two entities – the insurer and the insured – on the formation of funds by paying the latter insurance premiums to protect property interests in case occurrence of insurance cases and replenishment of these funds in the process of effective placement of temporarily free funds on the stock market” [22].

The economic essence of insurance, according to Alexandrova A. A., is determined by two main mechanisms inherent in insurance:

- the effect of rare events, when the insured event during a certain period of time does not occur in all participants in the formation of the insurance fund;

- the effect of accumulation, when the insurance premium is always less than the insurance payment, because insurance payments are not issued simultaneously, which is taken into account through the discount factor on the investment income of the insurance company [23, p. 24].

Insurance always involves the accumulation of funds of many persons (insurance participants) in special trust funds, which are managed by a legal entity entitled to do so by law or in the manner prescribed by law, and are used solely to compensate victims of accidents. Therefore, the insurance relationship is about the conditions of formation and use of the target insurance fund [24]. Thus, the economic essence of insurance activity, in any field of insurance, is the formation of specialized organizations – insurers of the insurance fund in monetary terms, which is formed on the basis of contributions of policyholders to compensate for losses caused to individual policyholders as a result of insurance insurance or current legislation [25].

Based on the above, we can conclude that insurance as an economic category expresses the system of relations through:

- 1) monetary redistributive relations due to the probability of insured events;

- 2) the distribution of damage between insurance participants – policyholders, which is always closed (this is due to the fact that the accidental nature of the loss entails material or other costs, which usually do

not cover all farms, not the entire territory of a country or region, but only their part, which creates conditions for compensation of losses by distribution of losses of one farm among all insured, and, consequently, – the more participants of insurance, the smaller share in distribution of losses falls on each insured);

3) closed distribution of losses (provides for the return of funds mobilized in the insurance fund (insurance premiums of each insured, contributed to the insurance fund, have only one purpose – compensation for the probable amount of losses in a certain territorial scale and during a certain period, and therefore the entire amount of insurance payments returned in the form of compensation for losses for a certain period in the same territorial scale);

4) redistribution of losses both between territorial units and in time (for effective territorial redistribution of funds of the insurance fund within one year requires a fairly large area and a large number of objects subject to insurance. The distribution of losses over time is random This creates the need to reserve part of the received insurance premiums to create a reserve fund as a source of compensation for losses).

We believe that based on the statements of economists, you can form your own vision of the insurance category.

Thus, insurance, in our opinion, is a system of financial relations between the insurer and the insured to create insurance (money) funds, at the expense of persons interested in protecting their interests, property, health and life in the event of insured events and full or partial compensation these persons from unforeseen events and providing them (or their families) with assistance in the event of insured events by the insurer, which is regulated by the insurance contract.

Because insurance is a system of economic relations, and as any relationship requires the presence of at least two entities. In the insurance business, the insurer and the insured are the main subjects.

The basis of insurance relations is the insured, who is obliged to pay the insurer insurance premium (insurance premium, payment) and the insurer, which undertakes to compensate the insured for the loss or the established amount in the event of a certain event [26].

4.2. Insurance classification

The subjects of insurance are: the insured, the insurer, the insured, insurance agents, insurance brokers. Insurers – financial institutions established in the form of joint-stock, general, limited partnerships, or companies with additional liability, taking into account the features provided by the Law of Ukraine “On Insurance”, which have received a license to conduct insurance activities.

The emergence and specificity of insurance relations, in our opinion, is due to four main features:

- accidental nature of the insured event;
- the extraordinary nature of the damage (damage) in kind, in monetary terms;
- the objective need to prevent and overcome the consequences of the event;
- compensation for material and other losses.

Since the accident in the insurance is accompanied by an inherent risk and has its own characteristics for each case, you should consider the classification of insurance.

In the economic literature there are different classifications of types of insurance. Most often, insurance is classified according to the form of implementation (Figure 4.1).

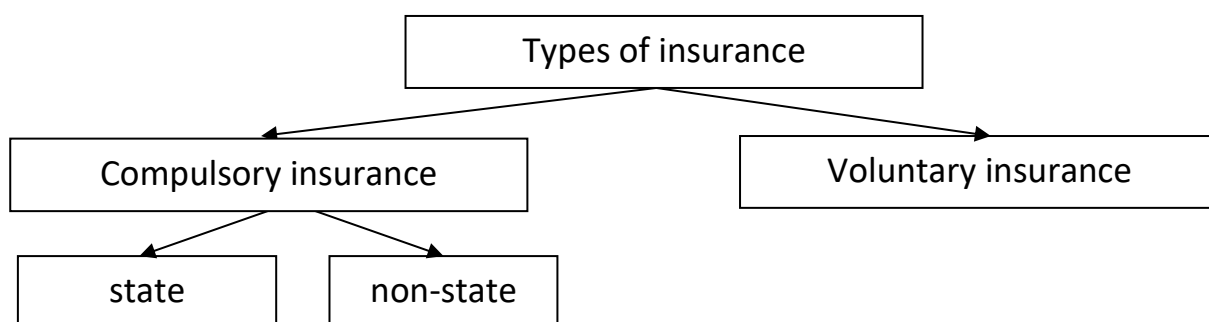


Figure 4.1. Classification of insurance by form of implementation

The Law of Ukraine “On Insurance” as of December 22, 2010 provides for 43 compulsory and 22 voluntary types of insurance. The Cabinet of Ministers of Ukraine establishes the procedure and rules for their implementation, forms of standard contracts, special conditions for obtaining a license, the amount of insurance amounts and maximum

insurance rates, the method of their actuarial calculations for the implementation of compulsory insurance.

Compulsory insurance means that an entity that owns certain types of property or performs certain types of work must insure that property or liability for damages caused by its actions or omissions to a third party.

Voluntary insurance, according to the law, is insurance that is carried out on the basis of a contract between the insured and the insurer [27]. The procedure and general conditions of voluntary insurance are determined by the rules of insurance, which are established by the insurer independently in accordance with the requirements of the Law of Ukraine “On Insurance”. On the basis of this law the specific conditions of insurance which are defined at the conclusion of the insurance contract are established also. One type of voluntary insurance is life insurance.

Voluntary types of insurance are regulated by current legislation and are carried out on the basis of an insurance contract. To conclude contracts and fulfill obligations under it, insurers develop insurance rules in accordance with current legislation and coordinate them with the supervisory authorities for insurance activities. Insurance contracts define specific conditions of insurance, taking into account the characteristics of the objects of insurance.

As the insurance contract defines specific conditions of insurance taking into account features of objects of insurance, the Law of Ukraine “On insurance” defines objects of insurance as property interests which do not contradict the legislation of Ukraine and are connected:

- with the life, health, ability to work and additional pension of the insured or the insured person;
- with the possession, use and disposal of property;
- with compensation by the insured for the damage caused to the person or his property, as well as for the damage caused to the legal entity.

The subject of insurance is life, property, money, material values, liability of various kinds, contractual obligations, including leasing, transport, cargo, other interests of citizens and legal entities [28].

In Ukraine, the following areas of insurance are defined by objects, in contrast to the generally accepted practice: risk insurance; life insurance.

According to the Law of Ukraine “On Insurance”, these areas of insurance are divided into three main areas of insurance (Figure 4.2):

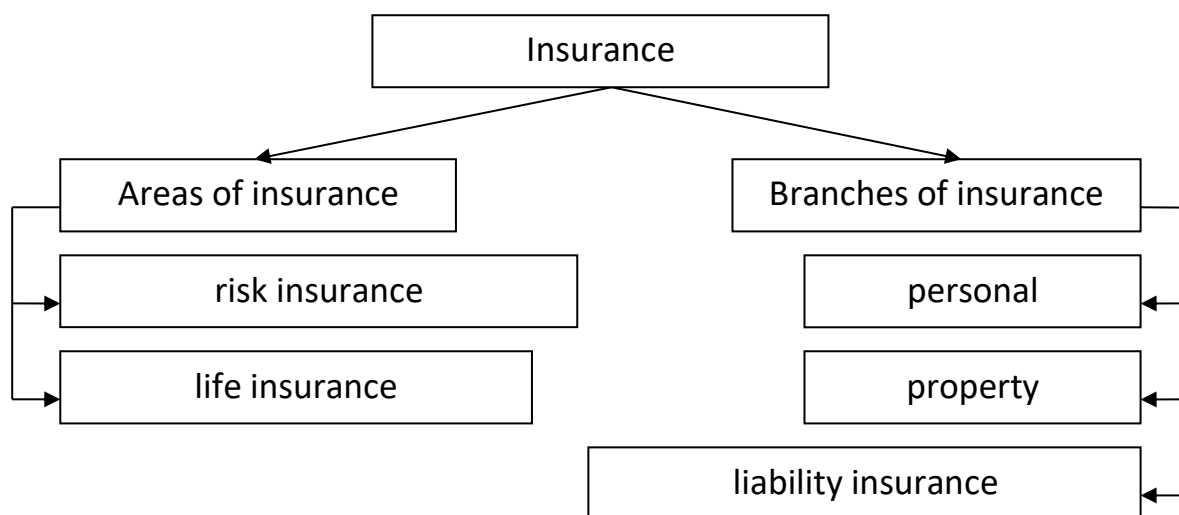


Figure 4.2. Areas and branches of insurance in Ukraine [2]

The objects of insurance may be property interests that do not contradict the current legislation of the state. Therefore, depending on the objects – insurance is divided into personal, property, liability insurance.

Personal – insurance of property interests related to life, health, ability to work and pension of the insured or the insured person. Personal insurance includes: life insurance, accident insurance, health insurance.

Property – insurance of property interests related to the possession, use and disposal of property [29, p. 75]. In property insurance, the objects of insurance are property interests related to the possession, use and disposal of property. Property insurance includes: insurance of land, air, water transport; cargo, other types of property; financial risks.

Liability insurance – related to the indemnification of the insured caused damage to the life of a third party or its property, as well as damage caused to legal entities by their activities or omissions. Liability insurance is a branch of insurance where the object is property interests related to compensation by the insured for damage to a person or his property, as well as damage caused to a legal entity [30, p. 63].

One of the most relevant types of insurance is life insurance, which belongs to the category of personal insurance, so consider in more detail this group of insurance.

4.3. Features of life insurance and insurance of the interests of the population

Personal insurance stipulates that the object of insurance is property interests related to life, health, ability to work and supplementary pension. In personal accident insurance there are: insurance of children and schoolchildren; compulsory passenger insurance; insurance of employees of risky professions (servicemen, customs officers, tax specialists, etc.); individual insurance, etc.

Personal insurance is divided by law into: life insurance; accident insurance; Medical Insurance. In personal life insurance there are: children's insurance; death insurance; rent insurance; pension insurance; medical Insurance; mixed life insurance, etc.

In the late twentieth century, economist Picard M. interprets life insurance as “a contract in which in exchange for payment the insurer undertakes to pay the insured or third parties a certain amount of money (capital or rent) in the event of death of the insured, or in the event of his survival age stipulated in the insurance contract. Given that historical period of formation of life insurance, such a definition is relevant to him, but does not fully reflect modern life insurance”.

The Russian scientist M. Popov believes that “life insurance is a special type of economic activity that creates the provision of one-time or permanent payments” [31]. This interpretation tells us about the end result of insurance, but does not include the economic and social significance of life insurance.

By definition, P. T. Yuldasheva: “life insurance – a type of personal insurance that provides economic protection against damage associated with the death of the insured during the insurance period under a contract under which a certain amount of money is paid in favor of the beneficiary, which is either a family member or company In the case of life insurance, the amount is paid in connection with the death of the person whose life was insured or after the expiration of the prescribed period – depending on what happens earlier” [25]. This definition reflects the risks of life insurance and the conditions of their implementation, but does not formulate economic relations and sources of financial compensation.

Russian scientists V. V. Tulinov and V. S. Gorin believes that “life insurance is insurance that covers the risks associated with the life of the

insured (insured)” [30]. This interpretation is very concise and one-sided reflects life insurance and does not cover the essence of this category.

According to Zaletova O. M.: “life insurance – the most affordable way to manage risks or their consequences in the event of certain events in a person’s life or death. It provides incentives to increase savings, compensation for income losses due to deterioration health or death of a family member, organization of medical care in case of illness or accident” [29]. In addition to the above, savings from life insurance, worldwide, are also used to purchase housing, pay for children’s education, etc., because life insurance is focused on the specific needs of the population, which contributes to the implementation of its life plans.

It is worth agreeing with E. P. Andrievsky that “life insurance is a modified factor of national savings in the narrow sense of the word, but in no case can fit the definition of “property insurance”. Personal insurance should be dominated by an ethical element, and its legal side should be strictly regulated by law” [31].

Life insurance, according to the Law of Ukraine “On Insurance” – a type of personal insurance, which provides for the insurer’s obligation to make an insurance payment under the insurance contract in case of death of the insured person, as well as, if provided by the insurance contract, in case of life expiration of the insurance contract and (or) achievement by the insured person of the age specified in the contract [36]. One of the terms of the life insurance contract may provide for the obligation of the insurer to make an insurance payment in the event of an accident that happened to the insured person and the insured person’s illness, in which case the contract includes basic and additional risks. If, in the event of an insured event, the insurance contract provides for regular consecutive life insurance payments (life pension insurance), it is mandatory to insure the risk of death of the insured person during the period between the insurance contract and the first life insurance payment. The terms of a life insurance contract may provide for the insurer’s obligation to make an insurance payment in the event of an accident to the insured person and the insured person’s illness.

Summarizing the considered interpretations of the concept of “life insurance”, in our opinion, life insurance – a type of material protection of the person (insured, insured) by the insurer in case of accident or illness, as well as the death of the insured person or life, due to insurance contract between the insurer and the insured on the terms of regular insurance

premiums by the insured and payment of the sum insured in the event of insured events – by the insurer.

Life insurance is carried out exclusively on a voluntary basis on the basis of an insurance contract. According to the legislation of Ukraine, life insurance is carried out for a period of at least 3 years [25].

Life insurance is classified by types of capital insurance and annuity insurance. Capital insurance includes insurance during the accumulation process, and rent insurance – the accumulated amounts.

Death insurance provides insurance for one type of risk – “death of the insured person”. The sum insured, in this case, is not received by the insured, but by a person appointed in advance.

In the case of life insurance, the insured event is the risk of “survival of the insured person until the expiration of the insurance contract or until the age specified in the insurance contract”. The sum insured is received by the insured.

Summarizing the considered interpretations of the concept of “life insurance”, in our opinion, life insurance – a type of material protection of the person (insured, insured) by the insurer in case of accident or illness, as well as the death of the insured person or life, due to insurance contract between insurer and insured, on the terms of regular insurance premiums by the insured and payment of the sum insured in the event of insured events – by the insurer.

Mixed types of insurance include various combinations of types of insurance or risks. At the present stage, mixed types of life insurance with accident insurance are more common.

Annuity insurance differs from capital insurance only in the way of payment of the sum insured, which is carried out in the first case in installments, repeatedly, and in the case of capital insurance – once in full.

Among the types of insurance built on the mechanism of annuity insurance (annuities), the most widespread are products intended for education, purchase of real estate and payment of additional pensions.

Lifelong pension insurance or pension insurance is a new type of insurance in Ukraine, which provides for the creation of private savings with payments from it in the form of capital or rent in case of retirement, full or partial disability, death.

This type of insurance cannot yet replace social pension insurance. Because social insurance is characterized by centralized formation of funds and payments from the budget only to certain categories of citizens. And for

pension insurance there is a possibility of private accumulation and use of such fund irrespective of a category of citizens. Characteristic features of pension and social insurance are that the basis for the payment of pensions and benefits are funds paid in the form of insurance premiums.

One of the best ways to solve the problem of pensions is when a person takes care of his own future, and will not rely on the state. That is why you should carefully consider life insurance, which contains elements of pension provision.

In our opinion, among all insurance products, the types of life insurance, which include the accumulation of funds, are the most effective tool for ensuring old age, maintaining it throughout life. Such products are reflected in mixed life insurance, when one insurance contract combines life and death insurance.

Insurance protection can be provided only if the company has the appropriate means to prevent and compensate for material losses. Hence the objective need to separate for this purpose part of the gross national product, i.e. the formation of an insurance fund, which is a reserve stock of material and money to ensure the continuity of the process of social reproduction and assistance to people in the event of insurance events [32].

Gradually in our country the norms of accumulation in combination with life insurance adapt. Accumulative insurance policy for citizens of most countries is the norm. The average Swiss invests 3.4 thousand dollars a year, a Hungarian – 50 dollars, a Slovak 80 dollars, a Russian – 10 dollars. In Ukraine, this figure is 10 cents [33].

The laws of many countries of the world oblige a person to take care of his future on his own, which provides a stable income for retirement or medical expenses for various cases, the opportunity to start your own business, or achieve a certain goal. However, each state takes into account the economic, political situation and features of socio-cultural development of the country for the formation of the legal framework for life insurance.

The positive experience of economically developed countries in using the insurance mechanism in the risk management system confirms its effectiveness and feasibility.

In the current conditions of Ukraine's economy, insurance is one of the most dynamic components of the country's financial system, which guarantees the protection of property interests of all members of society, ensures their security and promotes sustainable development. Insurance protection provided by insurance companies stimulates the development of

business activity and investment processes in the country. The financial condition of insurance companies is a basic element of market economy development. Insufficient attention to the problems of financial potential of insurers leads to negative consequences in the activities of the insurers themselves, as well as slows down the development of the entire insurance market [34].

The formation and active functioning of the insurance market is an important condition for ensuring sustainable socio-economic development of the state and guaranteeing its economic security, so ensuring its comprehensive development in Ukraine is one of the most pressing social challenges.

According to researchers, the modern insurance market combines two categories: on the one hand – it is a specific area of monetary relations, the object of which is the purchase and sale of insurance services, i.e. “secondary service”, the demand for which largely depends on the state. Primary market “of goods and services; on the other hand, the insurance market is a complex integrated system of insurance and reinsurance organizations, which together carry out insurance activities” [35]. The main functions of the insurance market are the accumulation and distribution of the insurance fund to protect the property interests of individuals and legal entities.

4.4. Overview of the insurance market of Ukraine

Unlike general insurance, long-term life insurance (more than 3 years) can be designed to enrich the insured, Article 9 of the Law of Ukraine “On Insurance” of 4.10.2001, provides for the possibility of obtaining part (85 %) of the insurer’s investment income from placement of insurance reserves.

Article 12 of the Law of Ukraine “On Financial Services and State Regulation of Financial Services Markets” No. 2664–III of 12.07.2001 [21] discloses access rights to information on the activities of the insurer, which is obliged to provide information on the following at the request of the client:

- information on financial indicators and economic condition, which are subject to mandatory disclosure;
- list of management and administration of the company;
- intersection of services provided;

- tariffs for services;
- the number of shares of the insurer, the owners of which are members of the executive body, the list of persons whose shares in the authorized capital exceed 5 % [36].

According to the Law of Ukraine “On Amendments to the Law of Ukraine “On Insurance” of 07.07.2005, insurance activities in Ukraine are carried out exclusively by resident insurers, and established requirements for the formation of the authorized capital of the insurer, its funds and reserves.

The law sets the minimum size of the statutory fund for life insurance companies in the amount equivalent to 1.5 million euros, at the exchange rate of Ukraine, which is paid exclusively in cash. Thus, the legislation establishes restrictions:

- it is allowed to form the statutory fund of the insurer with securities issued by the state at their nominal value in the manner prescribed by the Financial Services Commission, but not more than 25 % of the total authorized capital;

- it is prohibited to use promissory notes, insurance reserves, budget funds, funds received on credit, loan and collateral for the formation of the statutory fund, and to contribute intangible assets.

The total amount of the life insurance company’s contributions to the statutory funds of other insurers of Ukraine may not exceed 30 % of its own statutory fund, including the amount of the contribution to the statutory fund of an individual insurer may not exceed 10 %.

The insurer has the right to start insurance business if:

- accounting and registration system meet the requirements established by regulations;

- the internal rules of the insurer meet the requirements of the laws of Ukraine and regulations of state bodies that regulate and supervise the financial services markets;

- professional qualities and business reputation of the staff meet the requirements established by regulations.

In order to protect policyholders from non-performance by the insurer of its obligations, state control over investment activities is established. The directives of the European Union set the amount of investment in insurance reserves, namely:

- real estate investments – no more than 10 % of the total reserves for each object;

- investments in quoted shares and guaranteed loans – not more than 10 % of the amount of reserves for each of the types of these deposits;
- investments in unsecured loans – not more than 5 % for each type;
- in unquoted shares – not more than 10 % of the total investment;
- in cash – not more than 3 % of the total amount of reserves.

The funds of the insurance company involved in the circulation of funds can be divided into own and borrowed. These funds are the financial resources of the insurer. The financial resources of the insurance company are cash income and receipts available to the latter for direct insurance and reinsurance operations from the moment of concluding the relevant contract to the fulfillment of obligations in the form of payments of insurance sums and indemnities, as well as for other expenses provide the process of insurance, economic incentives for employees, costs aimed at improving, improving the quality of insurance services.

According to Article 41 of the Law of Ukraine “On Insurance” [36], if the insurer is not liable for the obligations of the state, and the state – for the obligations of the insurer. Any centralized regulation (unification, restrictions, mandatory, etc.) of the amount of insurance payments (tariffs) and insurance amounts (insurance indemnity), conditions of concluding insurance contracts, the relationship between the insurer and the insured, unless they contradict the legislation of Ukraine, is not allowed. Compulsory types of insurance, life insurance, property of individuals, reinsurance, insurance of export-import deliveries under the guarantee of the state and activity of insurance intermediaries. The state guarantees observance and protection of property and other rights and legitimate interests of insurers, conditions of free competition in carrying out insurance activities. The main components of the state insurance system are the regional departments of state insurance and inspection.

Currently, the insurance market of Ukraine is characterized by the dynamism and expansion of the list of insurance services for voluntary types of insurance, as well as increasing requirements for the establishment of the insurance company.

According to the current legislation, insurers are financial institutions that are established in the form of joint-stock, general, limited partnerships or companies with additional liability in accordance with the Law of Ukraine “On Business Associations”, taking into account the features provided by this Law, carrying out insurance activities [36]. The legislation of Ukraine stipulates that companies that have received a license to conduct

life insurance are not entitled to conduct general types of insurance, and vice versa. This approach is typical of many Western European countries.

Assessment of the dynamics of the number of insurers in the market of insurance services in Ukraine shows that during the study period 2015–2019 there was a decrease in such companies (Table 4.1). In particular, in 2015, 361 insurance companies were registered in Ukraine, while in 2019 their number decreased by 35.5 % and amounted to 233. According to official statistics in the field of financial services markets as of the end of 2020 in Ukraine 210 insurance companies are registered. Regarding the structure of insurance companies, the market of insurance services in Ukraine is dominated by companies that do not belong to life insurance (“non-Life”).

Table 4.1. Number of insurance companies in Ukraine in 2015–2020

Indexes	2015	2016	2017	2018	2019	2020
Number of insurance companies, pcs.	361	310	294	281	234	210
including non-life insurance companies	312	271	261	251	211	191
including life insurance companies	49	39	33	30	23	19

The trend of reducing the number of insurers has been going on for several years, which is due to the application of the standard of solvency and capital adequacy of insurance companies. Today, a significant number of insurers leave the market on their own initiative. This is due to today’s requirements of the National Bank of Ukraine. Characteristic features of excluded insurers are non-transparent ownership structure, absence of individuals in the insurance portfolio, as well as violation of the insolvency and capital adequacy ratio of insurers and some other regulations. According to official statistics, only in the first half of 2020, 20 insurers were excluded, 2 were included; In the second half of the year, the NBU received 8 applications from insurers for license revocation, 7 of which were satisfied [37].

In 2021, 29 insurance companies lost the status of a financial institution compared to 2020. The number of insurance companies (IC) at the end of the first half of 2021, according to the state regulator, was 181, of which 19 are life insurance companies (IC “Life”), and 162 – insurance

companies operating in the segment insurance, except life insurance (non-Life Insurance Company).

In 2019, despite the significant number of companies, in fact, the main share of gross insurance premiums in the market (98.1 %), according to official statistics of the insurance market regulator, will accumulate 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), 60 non-Life insurers with the lowest insurance premiums account for less than 1 % of total insurance premiums on the market (Table 4.2).

Table 4.2. Concentration of the insurance market for 2019

The first (TOP)	Life insurance		Non-Life Insurance		
	Receipt of awards (million UAH)	Fraction on market, %	Receipts of premiums (UAH million)	Fraction on market, %	The number of ICs that received more than 50 % of insurance premiums from reinsurers
TOP 3	2,662.4	57.6	6,739.4	13.9	1
TOP 10	4,471.2	96.7	18,358.0	37.9	3
TOP 20	4,624.0	100.0	29,035.2	60.0	6
TOP 50	x	x	42,843.6	88.6	13
TOP 100	x	x	47,469.0	98.1	13
TOP 150	x	x	48,279.3	99.8	17
Total market	4,624.0	100.0	48,377.2	100.0	21

Examining the main indicators of the insurance market (Table 4.3), we note that during 2015–2017 there was a decrease in the number of insurance contracts, while during 2017–2018 their number was characterized by a tendency to increase. However, 2019 again showed a decrease in the activity of policyholders in purchasing insurance services and concluding insurance contracts. In general, in the insurance market of Ukraine during 2015–2019, this indicator decreased by more than 18.5 million contracts, or almost 9 %.

It should be noted that in 2019–2020 one of the main factors influencing the development of the insurance market and all economic processes in the country and the world was the spread of the COVID–19 pandemic.

During 2019, the number of concluded insurance contracts decreased by 4.15 million units (or 2.1 %), while the number of voluntary insurance contracts increased by 0.3 million units (or 0.5 %), including the number of concluded medical insurance contracts increased by 2.02 million units (or

45.4 %), the number of concluded third party liability insurance contracts increased by 0.9 million units (or 58.6 %), the number of concluded insurance contracts from accidents decreased by 3.5 million units (or 9.3 %). The number of concluded compulsory insurance contracts decreased by 6.4 million units (or 4.8 %) due to a decrease in the number of insurance contracts against transport accidents by 6.9 million units (5.6 %).

Table 4.3. The main indicators of the insurance market of Ukraine in 2015–2019

Indexes	2015	2016	2017	2018	2019
Number of contracts, except for contracts on compulsory insurance against accidents on transport, thousand units	109,106.8	61,272.8	70,658.2	7,7495.0	80,271.1
Number of contracts for compulsory personal insurance against accidents on transport, thousand units	106,321.2	118,198.4	114,824.7	123,582.5	116,652.6
Gross insurance premiums, UAH million	29,736.1	35,170.3	434,31.8	49,367.5	53,001.2
Gross insurance payments, UAH million	8,100.5	8,839.5	105,36.8	12,863.4	14,338.3

During 2015–2019, there was an increase in such qualitative indicators of market development as gross insurance premiums and insurance payments. In particular, as of 2015, gross insurance premiums amounted to UAH 29,736.1 million, and in 2019 they increased by 78.2 % and amounted to more than UAH 53.0 billion. Insurance payments in 2019, compared to 2015, increased by more than 77 % and amounted to almost UAH 14.34 million. This trend was caused by an increase in insurance premiums from individual and legal entities. As for insurance premiums from reinsurers, their value increased only in 2017. That is, insurers have used reinsurance more intensively as a way to increase their reliability for customers. But in general, the trend of this indicator was negative (Table 4.4).

In 2019, UAH 21.6 billion of gross insurance premiums were received from individual insurers, which is 17.4 % more than in 2018. The majority of these revenues are insurance premiums received by types of insurance other than life insurance (79.1 %). At the same time, in recent years, life insurance has become increasingly popular among the population. In

particular, in 2019, this type of insurance received UAH 4.5 billion or 18.4 % more than in 2018.

Table 4.4. The structure of gross insurance premiums for 2017–2019

Indexes	2017	2018	2019	Growth rates	
				2018/ 2017	2019/ 2018
	million UAH			%	%
Gross insurance premiums, of which:	43,431.8	49,367.5	53,001.2	+13.7	+7.4
from insured individuals	15,555.6	18,431.0	21,632.0	+18.5	+17.4
from legal entities	12,937.7	17,348.1	19,034.8	+34.1	+9.7
from reinsurers	14,938.5	13,588.4	12,334.4	-9.0	-9.2

Under conditions of quarantine measures and a decline in economic activity in 2020, insurers reporting to the National Bank of Ukraine demonstrated an increase in gross insurance premiums (+ 4.4 %) in the first half of the year. Under such conditions, such a positive trend for life insurance was more noticeable. However, during the year the total gross insurance premiums decreased by 12 %, which was primarily due to the exit of a number of insurers and the reduction of risk insurance in the crisis quarter of the second quarter.

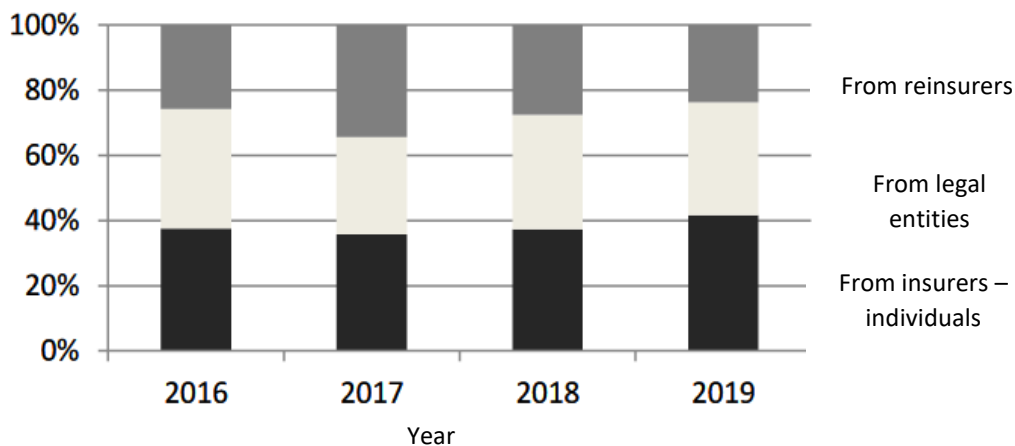


Figure 4.3. Dynamics of the structure of insurance premiums in Ukraine, including from insured persons-individuals, legal entities and reinsurers for 2016–2019

Analysis of the structure of gross insurance premiums (Figure 4.3) shows that in 2016–2019, the largest share in the total amount of insurance premiums are premiums from individuals. The level of activity of legal

entities is slightly lower. At the same time, risk insurance provides economic entities with stability of production, a guarantee of profit in the event of unfavourable situations. The share of insurance premiums from reinsurers shows that insurance companies in Ukraine are quite active in using reinsurance in their activities as a way to reduce their risk.

Gross insurance payments increase during the analyzed period (Figure 4.4). This phenomenon is the reason for the increase in gross insurance premiums, an increase in the number of insured events that are the reason for concluding an insurance contract. This proves once again the importance of insurance as a way to reduce risk.

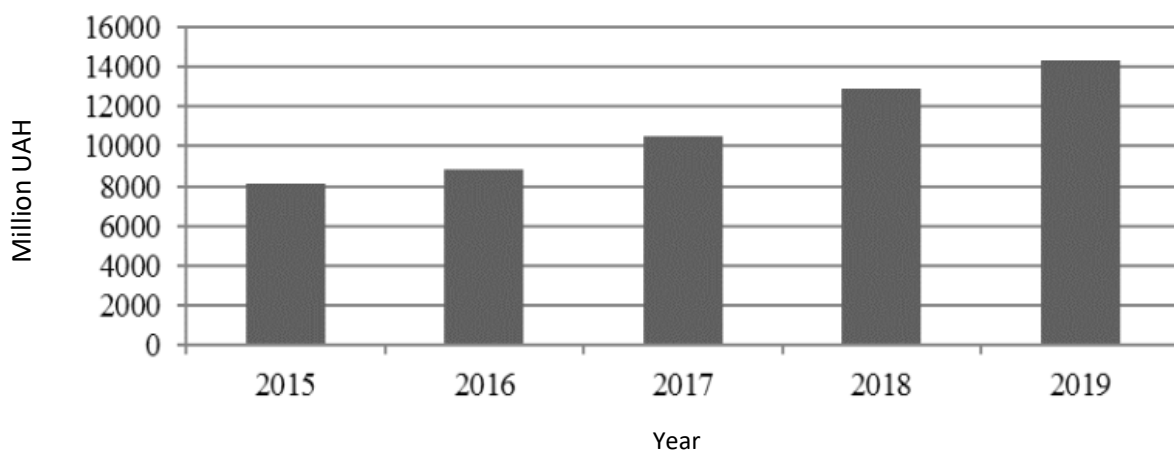


Figure 4.4. Dynamics of insurance payments in Ukraine for 2015–2019

Analysing the ratio of gross insurance payments to gross insurance premiums, it should be noted that their share is quite small and averages 26 % in 2015–2019. In 2019, the level of gross insurance payments in Ukraine was 27.1 % (Figure 4.5), while, for example, in the Polish insurance market, this figure reached 60.2 % [38, p. 54].

That is, it can be argued that more than 70 % of insurance premiums remain at the disposal of insurers, which not only covers the cost of insurance activities, but also allows you to invest significant amounts of money to increase your income. That is why the insurance market is considered the most capitalized compared to others in the financial market. This is also evidenced by the value of total assets of insurers.

In the total amount of insurance premiums, the majority is income from risk insurance contracts. In particular, in 2019, gross insurance premiums for all types of insurance amounted to only 8.7 % of life insurance premiums. Whereas in world practice, on the contrary, about 60 % of the volume of insurance premiums provides accumulative life insurance, and

about 40 % – risky types of insurance. That is, the structure of the volume of insurance premiums in economically developed countries is dominated by insurance premiums received by insurance companies under life insurance contracts.

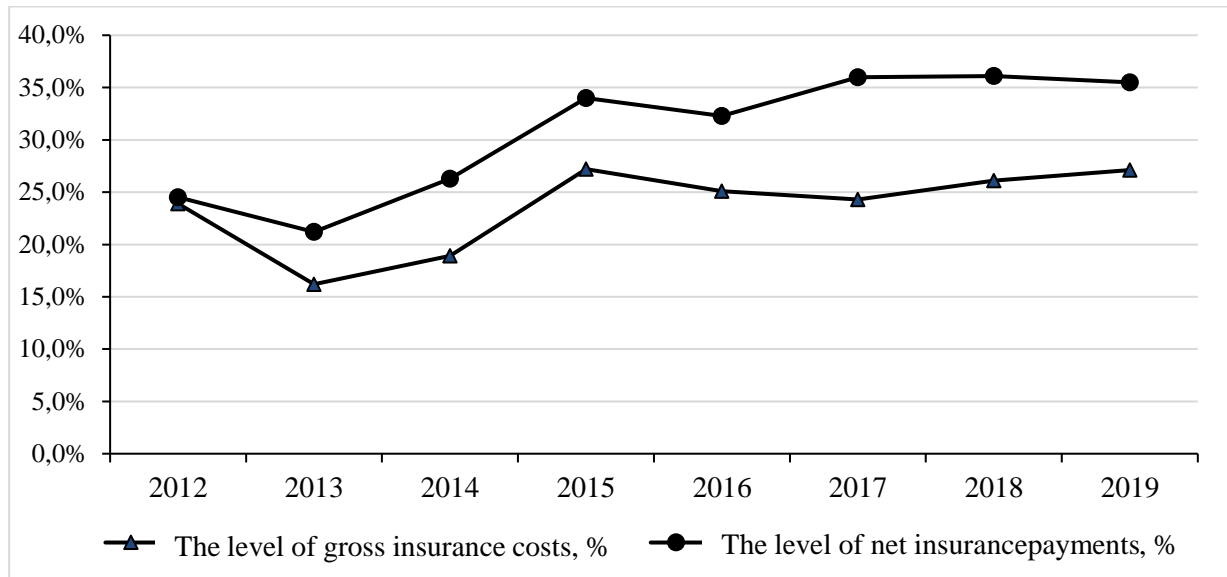


Figure 4.5. Dynamics of the level of insurance payments in the insurance market of Ukraine during 2012–2019, %

The dynamics of insurance premiums by type of insurance for 2018–2019 (volumes, structure and growth rates) are shown in Table 4.5.

In 2019, compared to 2018, as can be seen from the data presented in the table, the highest growth rates were shown by such types of insurance as medical expenses insurance (increase in gross insurance payments by UAH 539.6 million (40.1 %)); medical insurance (increase in gross insurance payments by UAH 983.6 million (28.2 %)) and car insurance (CASCO, compulsory insurance of civil liability of vehicle owners (CSCLVO), “Green Card”) (increase in gross insurance payments by UAH 2,135.1 million (16.5 %)). At the same time, in 2019, gross aviation insurance premiums decreased (decrease in gross insurance payments by UAH 338.0 million (32.4 %)); financial risk insurance (reduction of gross insurance payments by UAH 737.9 million (14.4 %)); third party liability insurance (reduction of gross insurance payments by UAH 328.5 million (12.8 %)); cargo and luggage insurance (reduction of gross insurance payments by UAH 64.0 million (2.2 %)).

The changes in the structure of revenues were largely due to the influence of COVID–19 pandemic insurers. This primarily explains the

increase in the number of health insurance contracts. Today, the demand for health insurance in case of coronavirus infection is growing.

Table 4.5. Insurance premiums by type of insurance for 2018–2019
(volumes, structure and growth rates)

Types of insurance	Insurance premiums, UAH million				Structure of insurance premiums, %				Growth rates of insurance premiums, %	
	Gross net premiums		Clean		Structure of gross insurance premiums		Structure of net insurance premiums		gross premiums	net premiums
	2018	2019	2018	2019	2018	2019	2018	2019	2019/2018	
Life insurance	3,906.1	4,624.0	3,906.1	4,624.0	7.9	8.7	11.3	11.7	+18.4	+18.4
Types of insurance other than life insurance, including:	45,461.4	48,377.2	30,518.2	34,962.0	92.1	91.3	88.7	88.3	+6.4	+14.6
Voluntary personal insurance	7,078.7	8,912.1	6,144.7	8,044.5	14.3	16.8	17.8	20.3	+25.9	+30.9
Voluntary property insurance	27,692.2	28,472.1	15,342.4	17,374.4	56.1	53.7	44.6	43.9	+2.8	+13.2
– including insurance of financial risks	5,135.5	4,397.6	1,663.8	2,151.2	10.4	8.3	4.8	5.4	–14.4	+29.3
Voluntary liability insurance	3,116.7	2,790.8	2,085.5	1,910.3	6.3	5.3	6.1	4.8	–10.5	–8.4
Non-state compulsory insurance	7,573.8	8,202.2	6,945.6	7,632.8	15.3	15.5	20.2	19.3	+8.3	+9.9
– including civil liability insurance of vehicle owners	6,002.7	6,976.3	5,671.6	6,583.2	12.2	13.2	16.5	16.6	+16.2	+16.1
State compulsory insurance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	–
TOTAL (all types of insurance)	49,367.5	53,001.2	34,424.3	39,586.0	100.0	100.0	100.0	100.0	+7.4	+15.0

In 2020, the most common types of insurance, as in the previous year, are car insurance (CASCO, CSCLVO and Green Card) and personal insurance (health and life). During the year, the volume of premiums for these types increased. Compared to 2019, only property and fire risk insurance premiums have decreased significantly, mainly due to the exit of market leaders in this area.

Negative political (military actions, aggravation of the domestic political situation, changes in the political course, changes in the geopolitical situation) and socio-economic changes taking place in the

country affect both the security status of insurance companies and their formation of financial resources for insurance compensation. This situation leads to a decrease in insurance premiums from both individuals and legal entities.

Indicators of the development of the insurance market, as research shows, are largely determined by the level of material security of the population, the availability of quality insurance products, the degree of confidence in financial institutions and so on. It should be noted that in the country only about 3 % of the population independently and prudently insure their lives, while in Europe and the United States – 85 % and 80 %, respectively [39]. However, in economically developed countries, policyholders usually have several insurance programs in different insurance companies for different periods. In these countries, compared to Ukraine, the range of services for accumulative insurance is much larger, as well as the number of reliable insurers that offer them.

As of the end of 2020, 19 life insurance companies operated in the domestic insurance market, which is 4 companies less than at the beginning of the year. According to experts, of all the companies operating in this field in Ukraine, less than a dozen meet international standards.

The results of insurers providing life insurance services indicate the complete dependence of the situation in this area on macroeconomic stability and the level of business activity in the country. The analysis of life insurance premiums shows that before the financial crisis of 2008–2009 their volumes gradually increased. During the financial crisis, there was a significant decrease in revenues from life insurance premiums, as well as total insurance revenues in general in the insurance market. Since 2009, there has been a positive trend in the receipt of insurance premiums under life insurance contracts and a gradual increase in their growth rates. In particular, in 2010 the growth of this indicator was insignificant – compared to the previous year, the growth rate was 9.6 %. More accelerated growth of insurance revenues was observed in 2011–2013: the growth rate in 2011 was 48.5 %, in 2012 – 34.4 %, in 2013 – 36.9 %. However, in 2014 the volume of insurance income from life insurance compared to 2013 again significantly decreases (by 12.8 %), and the increase in insurance premiums in 2015 was only 1.2 % [40, p. 172]. The negative dynamics of the rate of insurance revenues is directly related to significant fluctuations in macroeconomic indicators and lower living standards.

During 2016–2019, the life insurance market was characterized by a revival of activity: there is an increase in insurance premiums received under life insurance contracts: the increase in net insurance premiums in 2017 compared to the previous year is 5.7 %, in 2018 – 34.1 %, for 2019 – 18.4 %. At the end of 2019, more than UAH 4.6 billion in insurance premiums were collected, which is 2.1 times more than in 2015 and 4.2 times higher than in 2008 (Figure 4.6).

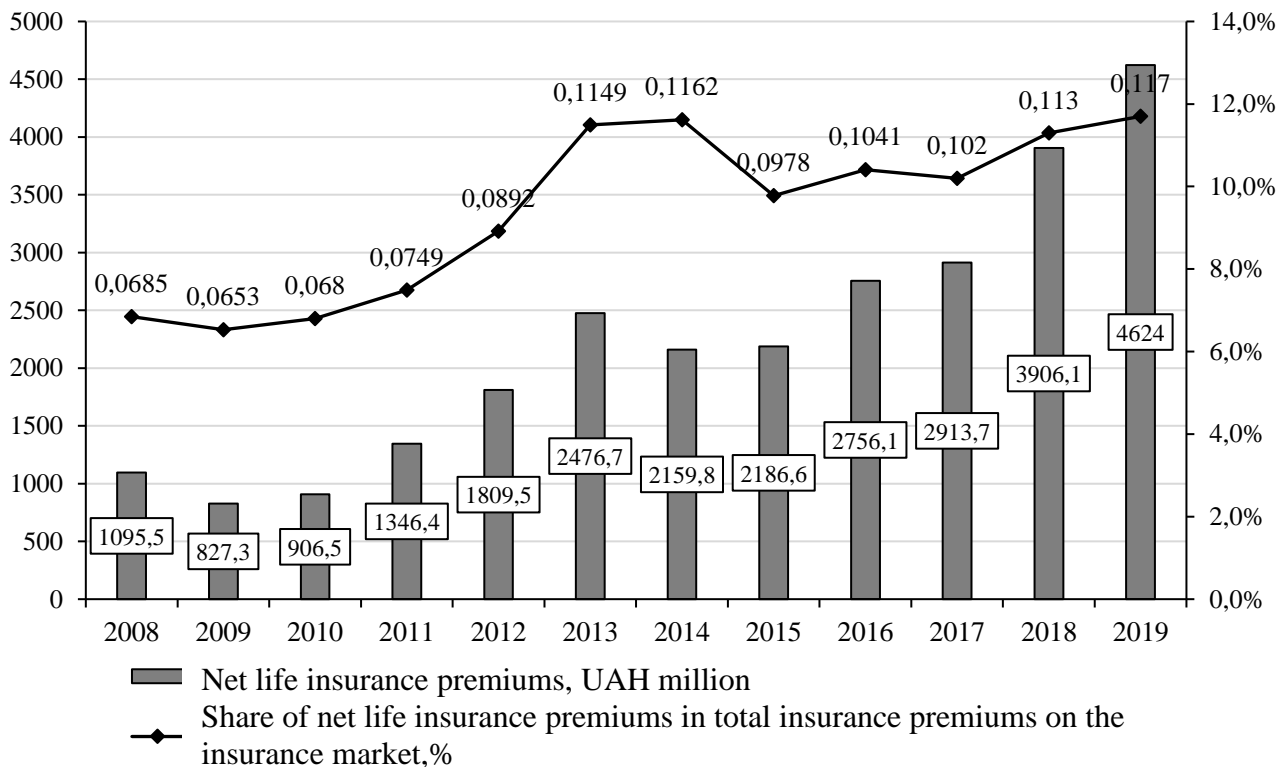


Figure 4.6. Dynamics of net life insurance premiums in 2008–2019

At the same time, there was an increase in the share of life insurance premiums in the total net insurance premiums in the market: from 6.85 % in 2009 to 11.7 % in 2019. 2015–2016 are characterized by a decrease in the share of net premiums under insurance contracts life in total insurance income: at the end of the study period, this indicator became important due to significantly higher growth rates of insurance premiums for non-life insurance, types of insurance (in 2015 and 2016, these figures were 42.3 % and 27.6 %). It should be noted that according to the Methodology for calculating the level of economic security of Ukraine [41], the optimal value of the share of net life insurance premiums in the total amount of insurance premiums on the market is at least 30 %. In EU countries, life insurance

accounts for more than 60 % of insurance premiums, and in some countries this figure exceeds 80 % [42, p. 57].

The number of concluded contracts and insured persons is growing. However, it should be noted that services in the Ukrainian life insurance market in recent years are mostly bought by individuals. In general, life insurance contracts are concluded by the working population, which in this way provides confidence in old age and / or uses life insurance as a way to accumulate funds for an event. According to I. I. Kozma, the decrease in the number of policyholders is an extremely negative phenomenon and “a clear sign of deteriorating conditions for the functioning of the life insurance market in Ukraine” [43]. This change is due to the refusal of employers to include the option of life insurance in the social package of the employee due to the deteriorating economic situation. After all, this allows you to reduce the costs of the enterprise, while maintaining existing wage levels. In addition, according to researchers, the trend of excluding life insurance from the social package of employees is due to a change in the procedure for calculating a single contribution to compulsory state social insurance on the amounts paid by employers under long-term life insurance contracts.

Among the factors hindering the development of life insurance in Ukraine are: reduced propensity of the population to save; unformed insurance culture; distrust of potential insurers to financial institutions; unstable tax legislation; adverse economic processes, including inflation; lack of reliable state guarantees of receiving insurance payment in case of bankruptcy of the insurer, etc. Support for this sector at the state level is needed to intensify the development of the life insurance market. It is expedient to introduce a system of guaranteeing insurance payments, in particular, the creation in Ukraine of the Fund for guaranteeing insurance payments under life insurance contracts.

It should be noted that now the Financial Stability Board, which unites the National Bank of Ukraine, the Ministry of Finance of Ukraine, the Deposit Guarantee Fund and the National Commission on Securities and Stock Market, has already taken the first step towards resolving this issue: agreed concept creation of a guarantee system on the basis of the current Deposit Guarantee Fund for Individuals (DGF). According to experts, on the basis of the DGF it is possible to launch a reliable system of guaranteeing deposits of credit unions and payments under life insurance contracts as soon as possible. First, the fund is an established institution with specialists, many years of experience in guaranteeing deposits and withdrawal of

insolvent banks from the market. With this in mind, the institution will have a greater credibility and level of trust compared to the alternatives that would have to be created for this mission. Second, the DGF has worked closely with the National Bank of Ukraine, other public authorities, and regulators in recent years. Third, the creation of a single guarantee fund for banks and other credit institutions is one of the best world practices and meets the requirements of the European Directive 2014/49 / EU.

Analysing the Ukrainian insurance market, we note that the insurance portfolio of almost every Ukrainian insurance company is formed at the expense of motor insurance: land transport insurance and compulsory insurance of civil liability of vehicle owners. In particular, in 2015–2019 the share of gross insurance revenues by type of auto insurance (CASCO, CSCLVO under domestic contracts and international car insurance contracts “Green Card”) in such revenues in the insurance market of Ukraine as a whole (Table 4.6) averaged more than 26.6 %. The share of car insurance in net insurance premiums is more than 35 % of the total net insurance premiums in the insurance market.

Table 4.6. Indicators of gross and net insurance premiums under motor insurance contracts in the insurance market of Ukraine in 2015–2019

Types of insurance	Insurance premiums, UAH billion										Growth rates insurance premiums, %	
	gross	net	gross	net	gross	net	gross	net	gross	net	gross awards	net awards
	2015		2016		2017		2018		2019		2019/2015	
Car insurance (CASCO, CSCLVO, under domestic contracts and “Green Card”)	7.9	7.3	9.3	8.7	10.6	9.9	13.0	11.7	15.1	13.8	+91.1	+89.0
Total (all types of insurance)	26.8	18.6	35.2	26.5	43.4	28.5	49.4	34.4	53.0	39.6	+97.8	+112.9
Share of car insurance in total insurance premiums, %	29.5	39.2	26.4	32.8	24.4	34.7	26.3	34.0	28.5	34.8	–	–

Annually, the increase in insurance premiums in the insurance market of the country was formed due to a significant increase in revenues from car insurance payments: the growth rate of net insurance premiums in 2016 was 18.2 %, in 2017 – 13.9 %, in 2018 – 17.1 %, in 2019 – 17.8 %. At the end of 2019 compared to 2015 the growth rate of net insurance premiums is 89.0 %.

The role and high social significance of car insurance are evidenced by indicators of gross and net insurance payments. During 2015–2019,

almost half of the total amount of insurance payments in the insurance market of Ukraine are payments under motor insurance contracts, among which the compulsory insurance of civil liability of vehicle owners plays an important role.

The high level of gross insurance payments (higher than the market average) in recent years is characterized by such types of insurance as: compulsory insurance of civil liability of vehicle owners (in 2019 – 45 %, in 2018 – 44.7 %, 2017 – 47.1 %), voluntary personal insurance (in 2019 – 36.1 %, in 2018 – 37.2 %, in 2017 – 38.7 %) (Table 4.7).

Table 4.7. The level of insurance payments by type of insurance in 2010–2019, %

Types of insurance	2011	2012	2013	2014	2015	2016	2017	2018	2019
Life insurance	5.2	4.5	6.0	11.1	22.5	15.2	19.1	18.0	12.5
Risk types of insurance, including:	22.5	25.7	17.2	19.6	27.6	26.0	24.6	26.7	38.5
voluntary personal insurance	39.8	39.9	34.6	42.0	46.2	40.8	38.7	37.2	36.1
voluntary property insurance	19.1	23.3	12.2	13.8	24.5	23.4	21.1	24.2	24.6
voluntary liability insurance	2.4	3.7	2.2	3.6	22.5	3.8	2.9	2.5	12.4
non-state compulsory insurance, including CSCLVO	32.8 38.9	29.8 37.8	31.3 36.2	31.5 37.6	28.8 34.2	33.4 38.9	37.9 47.1	36.2 44.7	39.0 45.0
Total for all types of insurance	21.4	23.9	16.2	18.9	27.2	25.1	24.3	26.1	27.1

The indicators of the level of insurance payments for health insurance contracts are quite significant: in 2019 their value was 58.2 %, in 2018 – 60.1 %, in 2017 – 58.0 %.

Estimation of the values of the level of insurance payments under life insurance contracts allows to assert about their instability and significant growth of indicators in certain periods, for example in 2015 this indicator had the highest value – 22.5 %, in 2017 and 2018 – 19.1 % and 18.0 % respectively. This is evidence that these periods include payments under long-term insurance contracts, which have expired, and confirms the fulfillment of obligations by insurance companies that provide life services to policyholders.

At the same time, according to analysts, 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.

Despite the steady increase in indicators, the functional and institutional characteristics of the insurance market do not meet the real

needs of the economy, which in turn slows down its development in today's globalization [44, p. 58].

At the same time, insurers in Ukraine, from the point of view of researchers, do not perform their proper role of active institutional investor, and the performance of insurance companies in Ukraine indicate a lack of investment opportunities for these financial institutions [45, p. 110]. According to research, the financial potential of the insurance market has its own specifics, priorities and development trends. Currently, the share of the classic insurance market in the structure of Ukraine's GDP is unjustifiably small.

The financial potential of the insurance company is the financial resources that are in economic circulation and are used during insurance operations and investment activities [46, p. 63].

The financial potential of the insurer, as a business entity, is formed by two components, namely equity and borrowed funds. The own capital includes: authorized capital; additional capital formed as a result of revaluation of non-current assets and as a result of the difference between the sale price and the nominal value of shares obtained in the process of forming the authorized capital (for a joint-stock company); reserve capital, which is intended to cover losses, as well as to repay bonds and repurchase shares in the absence of other funds; retained earnings and profits and reserves. The amount of equity of insurers is regulated by regulations. In particular, the Law of Ukraine "On Insurance" stipulates that the minimum size of the statutory fund (guarantee deposit) of an insurer engaged in types of insurance other than life insurance is set at the equivalent of 1 million euros, and an insurer engaged in life insurance, 10 million euros at the exchange rate of the currency of Ukraine [47].

Borrowed capital may consist of borrowed capital and insurance reserves – the insurer's obligations under insurance, co-insurance and reinsurance contracts. Thus, in the structure of the insurer's own capital the largest share is the authorized capital, and in the structure of the borrowed capital the means of insurance reserves prevail [48, p. 286].

Carrying out insurance operations involves the formation of insurance reserves by the insurer at the expense of accumulated contributions of policyholders, as well as the payment of insurance indemnities on the obligations under this fund in the event of insured events. These funds, which are formed at the expense of insurance premiums and are intended exclusively for future payments of insurance sums and indemnities, are

considered relatively or temporarily free. The specifics of the insurance contract allow the insurer to dispose of them for a certain period of time.

According to the Law of Ukraine “On Insurance”, insurance reserves are divided into technical reserves and reserves for life insurance (mathematical reserves). Funds of such specific financial reserves are a source of investment resources in the insurance market, and their availability determines the specifics of the insurance business. Accordingly, the investment activity of insurers also becomes a factor in shaping the financial potential of insurance companies. After all, investing temporarily free funds allows insurers to obtain significant investment income.

The dynamics of the volume of insurers’ assets in 2012–2020, despite the termination of a number of market participants, shows a slight increase in the volume (after the decline in 2015–2016) of total assets. In particular, at the end of 2020, the total assets of insurers amounted to UAH 64.9 billion, which is 1.6 % more than the corresponding figure of the previous year (Figure 4.7).

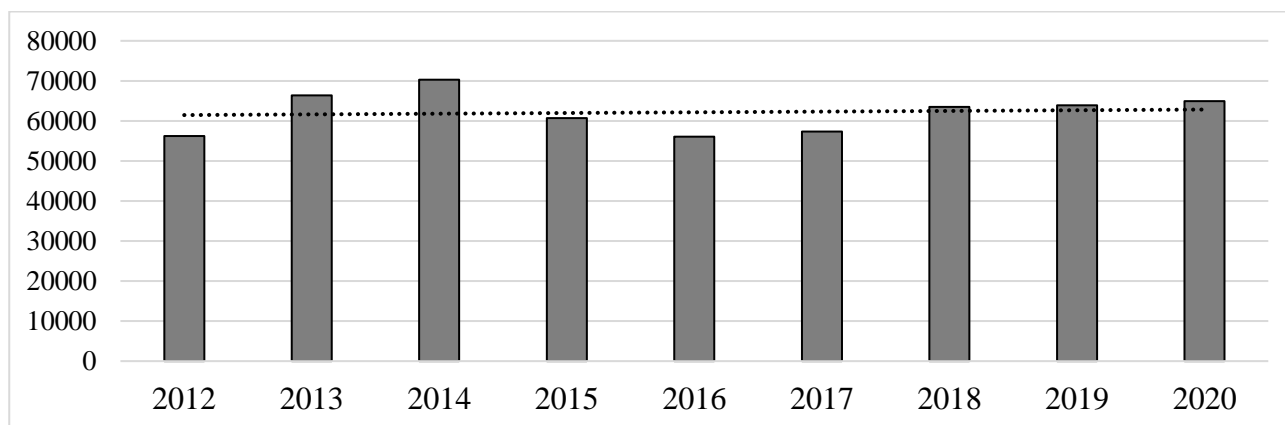


Figure 4.7. Dynamics of assets of insurance companies in Ukraine in 2012–2020, UAH million

During the analysed period, the value of insurance reserves increases. That is, insurers increase their solvency and reliability to avoid situations that could lead to bankruptcy.

Studies show that for a long-time domestic insurer have been actively increasing the amount of statutory funds paid. However, given the fact that in recent years in Ukraine the number of insurance companies is declining (in 2019 compared to 2012 by 181 companies), there is also a decrease in this indicator: from UAH 14.6 billion in 2012 to 11, UAH 1 billion in 2019, or almost a quarter [49]. The average amount of paid-in authorized capital

per company in hryvnia equivalent during 2012–2019, despite the slowdown, tends to increase (Table 4.8). However, the conversion of this indicator to the official average annual exchange rate of hryvnia to the euro currency indicates a decrease in the solvency of insurance companies: in 2019 compared to 2012, such a decrease was more than 50 %.

Table 4.8. Volumes of paid-in authorized capital of insurance companies in Ukraine in 2012–2019, UAH million

Indexes	2012	2013	2014	2015	2016	2017	2018	2019
The amount of paid-in authorized capital	14,579.0	15,232.5	15,120.9	14,474.8	12,661.6	12,831.3	12,636.6	11,066.1
The average amount of paid-in share capital per company	35.2	37.4	39.6	40.1	40.8	43.6	45.0	47.5
Growth rates of the average size of paid-in authorized capital per one insurance company, %	–	6.25	5.88	1.26	1.75	6.86	3.21	5.56

It should be noted that from an economic point of view, the insurance market of Ukraine is small in scale. Despite some positive developments in the insurance market of Ukraine, the level of insurance penetration in the country still remains too low. In particular, the ratio of gross insurance premiums to GDP over the past ten years did not exceed 2 %, moreover, there is a downward trend (to the end of 2019 – up to 1.3 %), while in developed countries this figure is more than 7 %. The volume of net insurance payments (excluding insurance payments transferred to reinsurance to residents) in the structure of GDP is also characterized by a clear negative trend and in recent years (from 2017 to 2019) is maintained at 1.0 % (Figure 4.8). However, the development of high-risk insurance, in particular in the energy and construction sectors, agriculture, risks of mass insurance, in particular, health insurance, life insurance and the formation of strong long-term financial resources through attracting savings of households and corporations in the investment process is impossible without insurance reform. sector of the economy [49, p. 17].

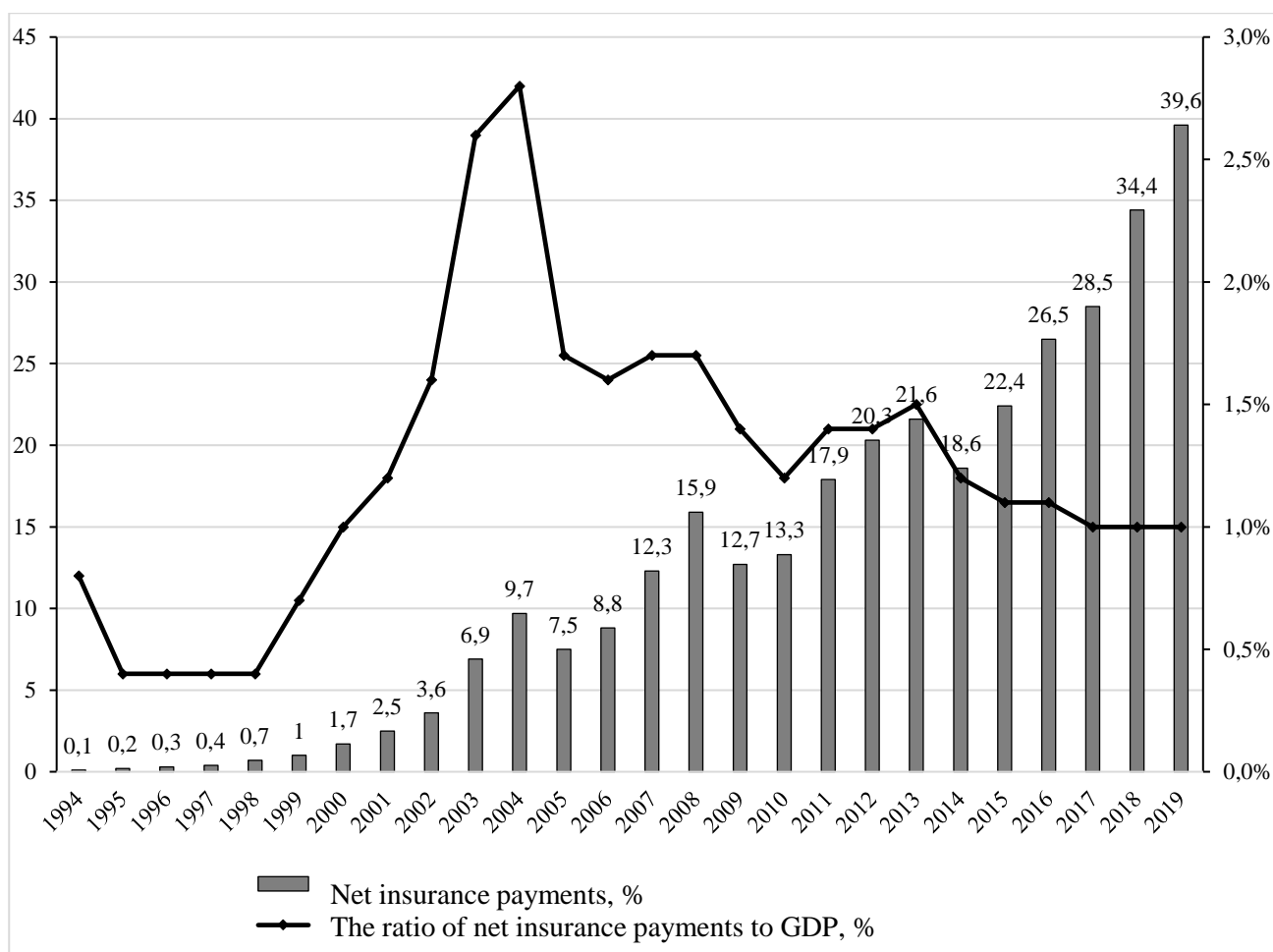


Figure 4.8. Dynamics of the volume of net insurance premiums and their share in the GDP of Ukraine for 1994–2019.

The investment portfolio of insurance companies in Ukraine is imperfect, typical of underdeveloped insurance markets of transition economies, where risky types of insurance predominate. As of the end of 2019, in the structure of assets of insurance companies, determined in accordance with Article 31 of the Law of Ukraine “On Insurance”, the largest share are assets allowed for bank deposits – 35.6 % – in 2014 – 22.3 %). About a third of the total (32.2 %) are assets allowed for the presentation of securities (in 2014 – 56.0 %), including: 21.6 % – securities issued by the state (in 2014 – 8.4 %); shares – 8.4 % (in 2014 – 44.4 %); bonds – 2.1 % (in 2014 – 2.0 %); mortgage certificates – 0.1 % (in 2014 – 1.2 %). Claims to reinsurers account for 11.9 % (in 2014 – 9.5 %) of the total, 7.1 % – represented by cash on current accounts (in 2014 – 6.9 %) (Table 4.9).

Thus, in recent years, the assets of insurance companies have increased due to the positive dynamics of bank deposits, real estate, government-

issued securities and investment in housing construction. At the same time, insurers are showing less and less interest in purchasing corporate securities – in 2019, compared to 2014, the volume of the latter decreased almost 5 times. Insurers did not invest at all, or did not invest at all, in some types of assets.

Table 4.9. Structure of insurers' assets in Ukraine in 2014–2019, %

Indexes	2014	2015	2016	2017	2018	2019
Assets defined in Art. 31 of the Law of Ukraine “On Insurance”, including:	100.0	100.0	100.0	100.0	100.0	100.0
1) cash on current accounts	6.9	7.0	8.3	7.6	7.3	7.1
2) bank deposits	22.3	34.6	32.9	33.9	34.7	35.6
3) bank metals	0.1	0.1	0.1	0.1	0.1	0.1
4) real estate	5.0	6.1	7.4	7.4	7.4	9.2
5) shares	44.4	32.7	22.7	18.4	12.5	8.4
6) bonds	2.0	2.0	2.4	2.5	2.2	2.1
7) mortgage certificates	1.2	0.1	0.3	0.2	0.2	0.1
8) securities issued by the state	8.4	7.2	15.8	18.2	19.4	21.6
9) claims against reinsurers	9.5	10.3	9.9	11.2	13.3	11.9
10) investments in the economy of Ukraine in the areas defined by the Cabinet of Ministers including	0.2	0.002	0.1	0.3	2.8	3.8
10.1) development and implementation of high-tech equipment, other innovative products, resource- and energy-saving technologies	0.1	0.001	0.006	0.01	0.3	0.345
10.2) development of tourism infrastructure	0.0	0.001	0.1	0.1	0.1	0.3
10.3) extraction of minerals;	0.0	0.0	0.0	0.0	0.0	0.0
10.4) processing of waste from mining and metallurgical production;	0.0	0.0	0.0	0.0	0.0	0.0
10.5) housing construction	0.0	0.0	0.0	0.02	2.2	2.78
10.6) development of transport infrastructure, including construction and reconstruction of roads	0.0	0.0	0.0	0.1	0.1	0.1
10.7) development of the communications and telecommunications sector	0.0	0.0	0.0	0.02	0.1	0.3
10.7) development of the mortgage lending market through the purchase of securities issued by the State Mortgage Institution.	0.0	0.0	0.0	0.0	0.0	0.0
11) loans to insured citizens issued in the manner prescribed by the Authorized Body and agreed with the NBU	0.01	0.001	0.03	0.04	0.04	0.05
12) long-term loans for housing construction, including individual developers	0.0002	0.0003	0.0003	0.0003	0.0005	0.0004
13) cash at the box office	0.04	0.02	0.05	0.04	0.03	0.02

This, in particular, applies to investments in the economy of Ukraine in certain areas defined by the Cabinet of Ministers of Ukraine, banking metals, mortgage certificates, long-term loans for housing construction, including individual developers used in the manner prescribed by the

government, loans to insurers, issued in the manner prescribed by the regulator of the insurance market, etc.

It should be noted that the choice of areas for investment by domestic insurers is radically different from the approaches to investing in their foreign counterparts. In particular, in world practice, the assets of institutional investors are formed only by 4–7 % due to banking instruments, while the bulk of funds are invested in stocks (about 60 %) and debt securities (about 25 %). This situation is due to the low yield of bank deposits in developed market countries and high yield of stock market instruments. At the same time, in Ukraine, bank deposits remain a traditionally popular area of investment: compared to other financial market instruments, they provided a fairly high guaranteed income. In addition, working with banks to place funds on deposit accounts is characterized by low costs.

Comparison of the structure of assets, which represent the insurance reserves of insurers in Ukraine and the EU gives grounds for concluding on the feasibility of cooperation of insurers with such entities of the financial market infrastructure of Ukraine as asset management companies and rating agencies [50, p. 39–40]. After all, as world practice shows, the use of insurers of the capabilities and experience of asset management companies can increase the profits of insurance companies from investing insurance reserves and minimize their investment risks.

From July 1, 2020, the National Bank of Ukraine became the regulator of the non-banking financial services market, the key tasks of which are defined in the update of the legal framework governing the provision of financial services by financial institutions; restoring confidence in the market of non-banking financial institutions; strengthening the protection of the rights and interests of consumers of financial services; development and improvement of financial services taking into account the requirements of today. The new regulatory model provides for the improvement of licensing requirements, assessment of solvency and liquidity, corporate governance and risk management system, application of risk-oriented prudential supervision. In general, the introduction of a new model of regulation and supervision of the insurance market will help increase the financial potential of the country's insurance market and the effective use of its financial capabilities.

Ensuring the financial stability of insurance companies, according to V. Bratyuk, strengthening their position in the insurance market involves

work on deep and comprehensive management of insurance operations [51, p. 71]. An objective assessment of the profitability and prospects of insurance operations, the identification of reserves for further expansion of the insurance field will contribute to the effective use of the existing potential of the insurance company.

The difficult economic situation in Ukraine, burdened by the demographic crisis, impoverishment of the population, as well as the decline in business activity in the country and the world due to the coronary crisis create additional challenges for Ukrainian insurers. The atmosphere of growing uncertainty encourages insurers to develop such insurance products that will provide policyholders and insured with adequate protection against the latest risks [52, p. 65]. Given that the country covers only 10–15 % of the insurance field in the country, Ukrainian insurance companies have a task to respond quickly and adequately to the needs of the target audience, thereby gradually expanding it.

The quarantine situation has greatly affected the behaviour of insurance clients. In this unstable situation, people felt the need for resistance, not wanting to risk the already unpredictable reality – the COVID–19 pandemic. Thus, the demand for health insurance and life insurance has increased in the insurance market. This trend is evidenced by the increase in the share of insurance premiums for these two types of insurance in 2020, compared to 2019, by 2 % and 3 %, respectively.

In the near future, special attention will be paid to the effects of insurance coverage in case of infection with the COVID–19 virus, as well as the feasibility of its expansion. According to experts, most likely, the virus will not be an exception to the standard accident insurance policies and life insurance policies [53, p. 4]. Under the conditions of development and commercialization by domestic insurers of new insurance products and strengthening of requirements of the legislation concerning qualitative filling of insurance products for tourist's insurance will become the key tool of development of sphere of tourism on a safe basis [54, p. 72]. Because nowadays, when the problem of ensuring the safety of tourism has become especially relevant, the success of the tourism industry is largely determined by the effectiveness of the use of insurance mechanisms for consumers of tourism services and tourism entities.

According to experts, the corona crisis has a major impact on the development of the insurance sector due to increased demand for a new segment of potential consumers. In particular, the current situation has a

positive effect on the decision to purchase insurance policies for low-income people. This is primarily due to the growing awareness of the risk of non-insurance against the risks associated with the COVID–19 pandemic, which has led to a significant increase in the demand for health insurance. Accordingly, it opens up new opportunities for insurers, which are estimated to be the largest in recent decades.

The insurance market in each country is an indicator of the economy and sustainable business development. An efficient insurance sector provides significant benefits to households, businesses, businesses, the government and the financial sector. Given the achievement of economic stability and a certain level of welfare, insurance, satisfying the desire for security and providing a guaranteed level of income, can improve the quality of life – then reveals a person’s desire to recover, travel, rest, and so on. Insurance allows people to choose which risks are acceptable to them and from which they would like to protect themselves.

The growth of the values of indicators of environmental protection expenditures in Ukraine testifies to the extreme urgency of introducing an effective mechanism of environmental insurance. After all, significant funds are allocated annually to ensure environmental safety and maintain ecological balance in the country. According to the State Statistics Service of Ukraine, total expenditures on environmental protection are constantly growing, in particular, if in 2017 their volume amounted to UAH 31.5 billion, in 2019 this figure was already equal to UAH 43.7 billion, or in 1, 4 times more. This indicates a strengthening of state control over the environmental situation. At the same time, for the period from 2017 to 2019, the volume of capital investments in environmental protection increased significantly: in 2019, their volume amounted to UAH 16.3 billion, which is 1.5 times more than the corresponding indicator in 2017. Another indicator that indicates on the problem of deteriorating environmental situation in Ukraine, there is the amount of current expenditures on environmental protection. During the study period, the value of this indicator increased by UAH 7 billion. At the same time, the largest part of the total amount of current expenditures in 2019 (UAH 27.5 billion) is directed to such areas as return water treatment and waste management. Among the environmental problems in our country, the greatest threat is industrial and household waste, as well as emissions into the atmosphere.

Damage caused by the activities of enterprises, which creates an increased environmental risk, provided they enter into environmental

insurance contracts is compensated by insurance funds formed by insurance companies. After all, insurance as a type of economic relations, which are associated with the formation and use of trust funds intended for insurance protection, is a kind of mechanism for transferring risk from one entity to another for a fee [55, p. 8].

However, environmental insurance policies, given the complexity of determining the amount of damage and significant amounts of insurance amounts aimed at compensating third parties, may be unprofitable for insurers. As you know, when calculating the amount of insurance payments using a complex system of mathematical and statistical calculations. Specialists who have the technique of these calculations are called actuaries. It is the actuaries' responsibility to ensure that insurance reserves are sufficient at the time the insurer has to meet its obligations under insurance contracts.

When calculating environmental risks, actuaries must assess the probability of an environmental accident at a specific facility subject to environmental insurance and the amount of damage that may be caused by the occurrence of the insured event.

When determining the level of danger of industrial production is taken into account [56]:

- list of hazardous and harmful chemicals that are present in this facility in critical quantities;
- limit norms and possible multiplicity of exceeding the limit norms of environmental impact of dangerous and harmful chemicals;
- the amount of hypothetical damage that can be caused to the environment in the event of an undesirable situation.

It should be noted that currently environmental insurance in the country is carried out mostly on a voluntary basis, providing insurance protection of civil and property liability of policyholders for damage caused by environmental pollution. The domestic market of environmental insurance is fragmented. Due to regulatory reasons, insurance companies are usually not ready to fully engage in this type of insurance. Although there are a large number of laws and regulations in the country that regulate environmental activities, they are not integrated into a single system, and are often contradictory and belong to different concepts of nature management.

The optimal combination of government regulation of state environmental policy and the use of levers of influence on insurance

companies and enterprises is the basis of its effectiveness. To achieve this, first, it is necessary to improve the legal framework that will ensure the functioning of the structure of the national environmental insurance system with fundamental state support. Secondly, it is expedient to create a National Fund, which will provide compensation for environmental damage in case of failure to identify the perpetrators of environmental incidents. This will provide a state mechanism for providing financial guarantees to compensate for damage to the environment [57, p. 102]. A positive consequence of the implementation of these measures will be the growing popularity of environmental insurance among both insurers and policyholders, as well as reducing the burden on the state budget in case of compensation for losses caused by man-made accidents.

In the economic realities of Ukraine, the issue of involvement of the insurance sector in the development of foreign trade becomes relevant [58]. Given the current features of international trade, only recently began to highlight the international nature of certain insurance services, including transit and transport insurance, export credit insurance [59]. At the same time, some studies point to the key role of insurance in the development of foreign trade and investment [60], as only risk insurance is sufficient to cover foreign trade risks.

Insurance services have long been closely linked to foreign trade operations and are an important prerequisite for their conduct, indirectly affecting the trade balance and thus contributing to economic growth. At present, such insurance services as cargo and transport insurance, civil liability insurance, etc. have become widespread in this area.

The introduction of quarantine has given impetus to the rapid development of e-commerce in insurance, which is beginning to compete with the classic territorial sales networks and become an integral part of them. Insurers' business processes were actively restructured into telecommuting. Some insurers have decided to keep these changes after the quarantine.

The introduction of quarantine gave impetus to the rapid development of e-commerce in insurance, which is beginning to compete with the classic territorial sales networks. In particular, the scale of sales of electronic policies OTSPV is constantly growing. The number of electronic contracts of OTSPV in Ukraine in 2020 amounted to 3.1 million units. Thus, the growth was 152.8 % (Table 4.10).

Table 4.10. The main indicators of the implementation of compulsory insurance of civil liability of owners of land vehicles under domestic contracts in 2019 and 2020 [58]

Indexes	2019	2020	Growth, %
Number of agreements that have entered into force, pcs.	8,003,279	8,333,824	+4.1
including electronic insurance contracts, pcs.	1,224,419	3,095,479	+152.8
Amount of accrued insurance payments, UAH	5,089,744,903	6,136,584,507	+20.6
including under electronic insurance contracts, UAH	922,605,574	2,584,011,801	+180.1
Number of claims settled by payment of insurance indemnity, pcs.	139,551	147,117	+5.4
including settled with the use of the “European protocol”, pcs.	47,529	50,272	+5.8
Accrued amount of insurance indemnity, according to settled requirements, UAH	2,526,624,427	2,851,856,419	+12.9
including those regulated with the use of the “European protocol”, UAH	447,830,114	503,162,786	+12.4

At the same time, the amount of insurance premiums under e-policies are UAH 2.6 billion, which is 180.1 % more than in the previous year. More than a third of the total number of car insurance contracts are concluded in electronic form: the share of electric policies in 2020 exceeded 37 %, while in 2019 it was 15 %, and in 2018 – about 2 %. Significant dynamics was demonstrated by the indicators of the use of the electronic European protocol, having increased 2.8 times: in 2019, 1,620 electric European protocols were issued, in 2020 – already 4,628 units.

Last year, the participants of the accident were able to draw up an electronic European protocol not only through the MTIBU website, but also through the mobile application “My Policy”, which increased the availability of the service [61].

On some sites, online offices have been created for the insurance company’s clients, where the client can mainly get acquainted with the list of valid insurance contracts, see the paid insurance premium and when to pay the next insurance premium. The share of such insurers is quite low and is only 9 % [61].

It is worth noting that today the official statistics provide very limited data on the level of innovative development of the domestic insurance

market. According to the results of statistical studies [62], for 2016–2018 in the areas of financial and insurance activities 580 organizations were surveyed, of which 222, or 38.3 %, declared themselves innovatively active, including only 67 institutions, or 30.2 %, implemented product and / or process innovations, and 155 (69.8 %) – marketing and / or organizational. In the total sales of services of innovative organizations in the field of financial and insurance activities, products and services that were new to the market in 2018 were absent, and new to the organization amounted to 4.2 %. 53.7 % of innovative financial and insurance institutions independently implemented innovations.

It is clear that the above information, firstly, does not reflect the state of affairs directly in the field of insurance, and secondly, does not contain information about the types of innovative services and processes that have been implemented, which makes their qualitative and quantitative characteristics impossible.

In modern conditions, when the range of dangers and threats to businesses is not reduced, but tends to increase, there is an objective need to expand the scope of insurance activities, more persistent and effective use of innovative approaches, improving the manageability of these processes.

In their activities, insurance companies, responding to the demands of time, widely use modern organizational and innovative management and marketing technologies. The priority of improving approaches to conducting insurance business, developing innovative sales channels and providing services and service technologies is to meet the needs and wishes of policyholders and insured persons [62, p. 49].

Transfer of emphasis from the “insurance market of the seller” to the “insurance market of the consumer” [63] is determined not only by the need to attract new customers and increase the number of policyholders, but also the need to “retain” them. When selling an insurance product, insurers are interested in building relationships with policyholders that will be long-term. To ensure such relationships between insurance market participants, insurance companies, carrying out their marketing activities, now widely use the concept of consumer-oriented marketing.

It should be noted that the main task of consumer-oriented marketing is to study the consumer, his wishes, motivations, priorities, as well as the conditions and factors of their formation and development.

The use of this concept in the field of insurance is the most acceptable. Numerous studies show that one of the reasons for the low demand for

insurance services is the low level of trust in insurance companies caused by the negative experience of insurance in Soviet times and the first years of Ukraine's independence, as well as the lack of real state guarantees of insurance payments. his fraudulent actions. For example, according to the results of annual national monitoring surveys conducted by the Institute of Sociology of the National Academy of Sciences of Ukraine, in 2002–2015 more than 60 % of respondents distrusted insurance companies [64, p. 162]. Most Ukrainians do not see the need to ensure their own lives and health, or the lives and health of their loved ones, property or liability insurance, and do so only when absolutely necessary, when the situation requires it. In addition, the mentality of the domestic consumer generates distrust in advertising, sales promotion and more.

All this indicates the need to pay special attention to potential consumers of insurance services by both insurance companies and other participants in the insurance market, on whose behavior depends the decision of the insured to purchase insurance services. It is known that the process of providing insurance services by the insurer to potential policyholders often takes place with the participation of such entities of the insurance market infrastructure as: insurance intermediaries in the implementation of insurance services; indirect insurance intermediaries (underwriters, surveyors, adjusters, emergency commissioners, dispatchers, etc.) in risk and loss assessment; other entities (assistance companies, insurance guarantee funds, etc.), the operation of which creates conditions for the effective operation of insurance companies.

In recent years, insurers have been trying to regain lost confidence. The development of competition in the country's insurance market encourages them to modernize, as well as to develop, form and distribute new insurance services. In order to interest potential consumers and provide information about such services, as well as to successfully implement them, the company's fears use various marketing tools and methods in the market, primarily aimed at communicating with potential consumers and developing effective sales channels.

The formation of demand for insurance services is through the influence and persuasion of potential customers through targeted advertising, a wide range of organizational measures for concluding insurance contracts, the introduction of differentiation of tariffs for insurance services, combining insurance services with various forms of trade and legal services [65, p. 175].

Currently, the issue of insurance management should be considered from the standpoint of managing the process of providing insurance services. The activities of the insurer should primarily be determined by changes in the market environment. Flexible response to the requests of policyholders and trends in the sale of insurance products will be possible only through an effective policy of marketing management of the insurer [66, p. 281].

The incentive for the active introduction of innovative sales channels is the development of technology, increasing the level of financial education and customer requirements. Internet marketing helps the insurer to diversify the sales channels of its services and significantly increase the coverage of potential consumers. The use of digital technologies by insurers in the implementation of insurance services has great prospects and is already an integral part of doing business. However, so far online sales only complement traditional sales channels and, today, can not completely replace them. According to research, despite the growing use of digital channels for the sale of goods and services, which is typical of the modern world, potential buyers of insurance services, making their choice, still want direct contact with other people. In the near future, “the provision of financial services will take place through meetings, telephone, video or web chat”, and the success of financial companies, as rightly noted by D. V. Kondratenko, will determine the optimal balance between automation and human interaction [67, p. 359].

In economically developed countries, mediation is an integral part of insurance relations. Insurance agents and brokers, providing professional intermediary services, create opportunities for the implementation of insurance services, accelerate and facilitate the conclusion and implementation of agreements, ensure the formation of insurance relations between insurance market participants. In our country, as research shows, insurance mediation is traditionally widely represented by the practice of insurance agents. To this day, these participants in insurance relations, who act on behalf of and on behalf of the insurer and perform part of its insurance activities, receiving a commission for their work, occupy a significant niche in the system of sales of insurance products. At the same time, the demand for the services of insurance brokers, despite the positive dynamics of some indicators of these insurance market participants, is too low.

As insurance intermediaries are the link between insurance companies seeking to sell their insurance services and insurers aiming to provide

insurance coverage, there is a need in Ukraine to strengthen the role of insurance intermediaries in promoting insurance services. Recently, scientists have been emphasizing the need to improve the legal framework for regulating the activities of these insurance market entities and increase the level of awareness of potential consumers of insurance services about the benefits of insurance mediation.

4.5. Investment potential in insurance activities

Due to the fact that the insurance system implements economic relations between various subjects of insurance activity. For the insurance market of Ukraine there is an urgent need to improve its subject structure, increase the efficiency of its individual entities and intensify the role of the state in this process. The implementation and coordination of economic interests of individual participants is the driving force of the insurance market and determines the direction of its dynamics.

It is necessary to ensure high-quality training of personnel in life insurance risk assessment and to develop a methodology for this activity. At this stage of development of the insurance market, the role of underwriters is performed by insurance intermediaries, and this has a negative impact on the size of insurance rates, risk assessment and finances of insurers in general. It is necessary to motivate insurers to use the services of qualified specialists in this field.

The level of insurance services directly depends on the level of qualification of employees. To do this, it is necessary to raise standards for company employees, create an appropriate educational infrastructure, provide (for students who have chosen insurance as their future profession) the opportunity for internships and internships in domestic insurance companies and similar financial institutions outside Ukraine. It is necessary to provide an opportunity for insurance workers to improve their skills.

Domestic insurance companies, in order not to lose competitive advantage, must constantly improve their operations and services, increase the level of capitalization of the insurance system and consolidation of domestic insurance business, introduce advanced management technologies to improve service quality and efficiency of insurance companies.

After analyzing the financial support of insurance companies, the formation of their financial resources, we found that the temporarily free financial resources of the insurer participate in investment projects in order

to obtain additional income. Such temporarily free funds are insurance reserves. Investment funds received from policyholders and included in insurance reserves are subject to state regulation.

Insurance reserves, according to Article 31 of the Law of Ukraine “On Insurance” may be represented by the following assets:

- cash on current account and bank deposits (deposits), credit rating of banking institutions must correspond to the investment level on a national scale;

- foreign currency deposits;

- Real Estate;

- shares, bonds, mortgage certificates of issuers whose credit rating corresponds to the investment level on a national scale;

- securities issued by the state;

- rights-requirements to reinsurers;

- bank metals;

- loan to policyholders within the redemption amount of the insurance contract;

- availability of cash at the box office within the limit.

Before liquidation National Commission for State Regulation of Financial Services Markets controlled the placement of assets of insurance companies and in accordance with the Order No. 3104 of 17.12.2004 restricts the areas of investment of insurance reserves (Figure 4.9).

Within such restrictions, the insurer must carry out its investment activities, with important attention paid to the choice of investment project.

The complexity of the problem is that in addition to a purely economic evaluation of the option when making a decision, it is necessary to take into account the goal that follows from the general investment policy of the company – consolidating market position, improving the general condition of the company, introducing new approaches ideas, maximum reliability of the company, simplification of management, gaining credibility in the team. However, for all the variety of different components of the goal, the main one – profit maximization, which is the basis for the formation of investment policy [68]. It is impossible to separate such issues of the company’s development as ensuring its smooth operation, consolidating the economically stable state and preserving its independence.

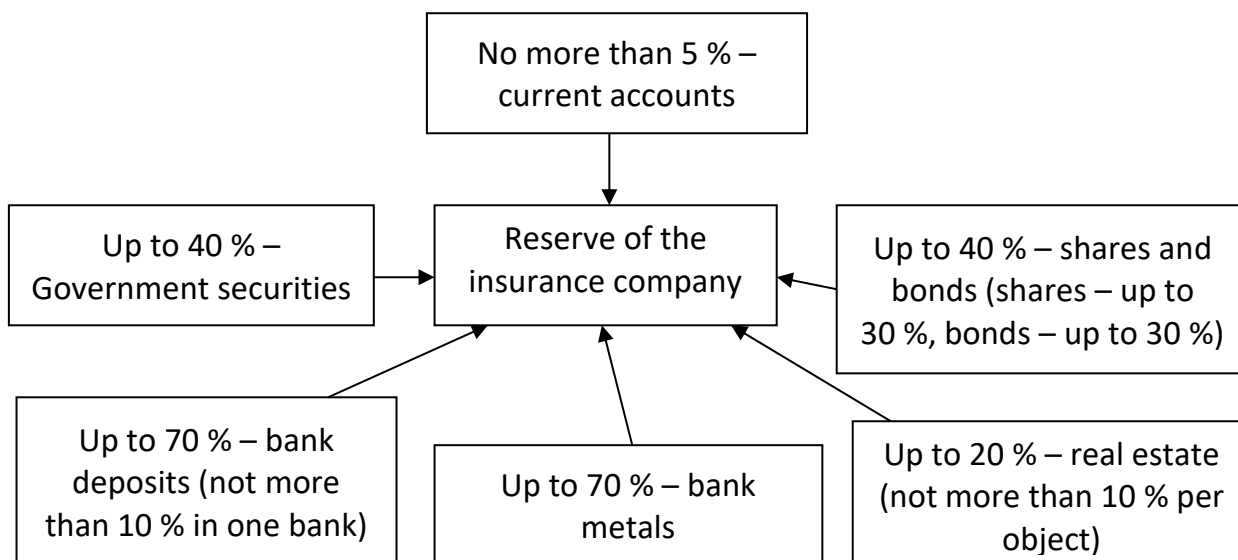


Figure 4.9. Directions and restrictions on investment of insurance reserves by life insurance companies [2]

The decision to invest is influenced by a number of factors – the type of investment, the cost of the investment project, the number of available projects, limited financial resources, the risk of decision-making and more.

The size of the expected investment is an important issue in making an investment decision. The level of responsibility associated with the acceptance of projects with an investment amount of 50 thousand UAH or UAH 50 million is different. But the depth of analytical elaboration of the economic block of the project, which precedes the decision, must be maximized in both cases [69].

Often the conditions for decision-making are a number of alternative or mutually exclusive projects, i.e. there is a need to choose one or more projects based on certain formalized criteria. There may be several such criteria, and the probability that this project will be better than others in all respects, usually much less than one. That is why it is necessary to give preference to any one criterion, to determine their hierarchy or to use additional informal evaluation methods.

Investment decision-making, like any other type of management activity, must be based on the use of various formalized and informal methods and criteria and depends on the manager's acquaintance with the existing apparatus used in a particular case.

In the field of accumulative insurance, the social effect and zero profit does not satisfy both the insurance company and its customers. Therefore, the purpose of the investment process for insurers is to obtain maximum

profit, with minimum risk and costs. Of course, to achieve this goal you need to achieve the following goals:

- search for new promising, most profitable areas of free capital investment;
- development of marketing and financial, engineering and technological forecasts;
- preparation of the capital investment budget;
- evaluation of alternative projects, determination of the sphere of influence of risks;
- assessment of the consequences of the implementation of previous projects.

From investment activities, i.e. from the placement of temporarily free funds, insurers receive:

- bank interest is accrued on the amounts of the balance on the current account;
- bank interest on the placement of funds on deposit accounts;
- interest on mortgage certificates and bonds;
- dividends on shares;
- income from the implementation of corporate rights, i.e. participation in the profits of legal entities, the founders of which are the insurance company.

For the insurance company's clients, the main and most interesting area of the company's profitability is its investment activity, as 85 % of the insurance company's investment profit is distributed among clients.

When investing funds should take into account their size. From the very beginning of the insurer's activity, a significant share of investments is the company's own funds, including the authorized capital. The main source of investment is insurance reserves.

The insurer chooses its own investment policy based on the types of insurance, term and amount of accumulated funds. Life insurance companies, in contrast to insurers that carry out risky types of insurance, have longer ownership of funds and can invest them in real estate, government securities and other long-term assets. For companies that carry risky types of insurance, the emphasis should be on more liquid investment funds [61].

None of the insurance companies today dare to invest in mortgage certificates or lend to borrowers. A similar picture has developed with investments in the economy – the volume of investments by insurers in this

area is close to zero. But such an asset as real estate insures insurers more confidence. However, some insurance companies, investing in real estate, pursue their own mercantile goals. They invest the money of policyholders in the purchase of their own offices, then declaring them in the structure of reserves. Thus, insurers save on rent. However, the profitability of such investments is very questionable. In addition, experts note that it is currently difficult to make reliable forecasts of the domestic real estate market in the long run. The practice of many Eastern European countries has shown that a dizzying rise in prices may be followed by a sharp decline, and real estate prices are comparable to the average European.

Another asset that is gradually being raised by life insurance companies is government securities. Although this type of investment is considered one of the most reliable worldwide, it is sceptical in Ukraine. The exception is, except that Eurobonds, but they, by today's standards, bring a fairly modest income [70].

To increase profitability, some insurance companies are willing to take risks, including violations of the law. By concluding long-term contracts in dollars or euros, they invest reserves in the national currency. Such actions of life insurance companies are quite clear: the profitability of hryvnia deposits today is much higher than in foreign currency contributions. At the same time, the insurance law requires that reserves be invested in the same currency in which the contract is placed.

Experts consider this practice very dangerous, because in the event of a financial crisis, such companies will find it very difficult to fulfil their obligations to customers. According to R. Denis, that one of the well-known Western insurance companies worked on this principle in Russia. But when the 1998 crisis erupted, the insurance company's liquidity plummeted. Of course, her maternal structure helped her by sending money from abroad. The company was able to repay the debt, but it was very expensive [71].

The total amount of the life insurance company's contributions to the statutory funds of other insurers of Ukraine may not exceed 30 % of its own statutory fund, including the amount of the contribution to the statutory fund of an individual insurer may not exceed 10 %.

According to Ukrainian insurance legislation, investment income is added to the contribution reserve in three ways:

1. Joining the paid net contributions of the part for which the tariffs were understated during the calculation (not more than 4 %);

2. Joining bonuses (bonuses) to the allocated part of investment income (participation of policyholders in the insurer's profits);

3. Joining the contribution reserve to the value of the inflation rate (indexation according to the inflation rate), due to which the accumulated amounts are protected from depreciation.

The insurer has the right to start insurance business if:

– accounting and registration system meet the requirements established by regulations;

– the internal rules of the insurer meet the requirements of the laws of Ukraine and regulations of state bodies that regulate and supervise the financial services markets;

– professional qualities and business reputation of the staff meet the requirements established by regulations [70].

The Law of Ukraine “On Amendments to the Law of Ukraine “On Insurance” No. 2774–IV of 07.07.2005 [20], which enters into force five years after Ukraine's accession to the WTO, stipulates that insurers who have the right to exercise insurance activity on the territory of Ukraine, there are permanent representative offices registered in accordance with the legislation of Ukraine in the form of branches of foreign insurance companies that have received a license to carry out insurance activities in the prescribed manner.

To ensure the solvency, financial stability and reliability of the insurer, a prerequisite for its activities are:

– availability of paid-in authorized capital (EUR 1 million and EUR 1.5 million);

– the presence of a guarantee fund, which consists of special funds, reserve funds, retained earnings;

– creation of insurance reserves sufficient for future insurance payments;

– the availability of free reserves, which are created from profits;

– excess of the actual solvency margin of the insurer over the estimated regulatory margin [34, p. 85].

The formation of the authorized capital is not possible at the expense of loans, collateral, insurance reserves, promissory notes.

The main goal of the insurance company is to preserve and increase capital in reverse accumulation programs, as well as support in case of disability or death of a breadwinner. Insurance programs can also be seen as “the possibility of creating a pension capital or another source of permanent

income” – says the American scientist W. Dilendorf It should be agreed that due to the increased capital, i.e. the profit, the company not only ensures the solvency of insurance claims, but also ensures the reliability and competitiveness of its company.

The legislation pays special attention to ensuring the solvency of the insurer and clearly regulates the conditions for the creation of funds and reserves to ensure the appropriate level of the actual solvency margin of the life insurance company.

The actual solvency margin (net assets) of the insurer is determined by deducting from the value of the property (total assets) of the insurer the amount of intangible assets and the total amount of liabilities, including insurance. Insurance liabilities are accepted equal to the amount of insurance reserves [36]. Insurance reserves are formed by the insurer to ensure future payments of insurance indemnity and insurance amounts depending on the types of life insurance.

To please customers, insurers are even sacrificing their own profits. In particular, some financial groups that already have banks and insurance companies are also creating investment funds, which in the future will manage the money of policyholders. Although the law prohibits an insurance company from transferring clients' money to investment funds, insurers have found a way out. “We can't buy investment certificates for clients' money”, says A. Gavrilchenko, “but no one forbids us to invest our own assets in this way. Therefore, the part of the profit we will earn by investing in an investment fund (which is much more than deposits can bring), we will distribute among clients, but at the same time we will risk not money of insurers, and own” [72].

The insurance process is reflected in the conclusion of a contract between the insurance company and the client, on the terms previously discussed and set out in the contract. And the choice of insurer depends on the decision of the person who seeks to insure his life, property or liability. That is why the financial condition of the insurance company plays an important role in making such decisions.

The main indicator of the state of the insurance company according to the law is to ensure its solvency, due to a set of indicators, the threshold values of which are set separately for companies that provide life insurance, as well as other types of insurance and reinsurance companies. Under the solvency of insurance operations means a constant balance or excess of income over the costs of the insurer as a whole in relation to the insurance

fund. In this case, the factors that ensure the solvency of the insurance company include: sufficient equity, insurance reserves (including technical reserves), positive results of investment policy, the use of the reinsurance system, if necessary, effective tariff policy.

A company with an appropriate level of solvency is financially stable, i.e. one that at its own expense covers the funds invested in assets (fixed assets, intangible assets, current assets), does not allow unjustified receivables and payables and pays its obligations to the specified term. Financial security, in this case, is to ensure the financial stability of the insurer.

The urgency of the investment issue knows no bounds, because behind it is the company's profit and well-being, the trust of its customers. The company's well-being is confirmed by a number of indicators in assessing the effectiveness of the insurer's life insurance business. Therefore, it is necessary to make such an assessment and analyze the effectiveness of the insurer.

Conclusion. Thus, the formation of a market economy in Ukraine, the emergence of new areas of management for all market participants necessitated a theoretical clarification of insurance, life insurance, social and property insurance, finding new methods of insurance protection and compensation to all market participants.

Studies of a number of definitions of "insurance" have shown that considering insurance as an economic category, from the point of view of the insurer and the insured can reveal its essence. Therefore, in a broad sense, insurance – is expressed by the system of financial and economic relations that arise between the insurer and the insured to create insurance funds, at the expense of persons interested in protecting their interests, property, health and life in insured events and full or partial compensation losses of these persons from unforeseen events and providing them (or their families) with assistance in case of insured events by the insurer, which is regulated by the contract.

Today, any country with a stable economy must have a reliable insurance system that effectively mitigates uncontrolled and unpredictable risks that can cause damage and threaten the existence of not only individuals but also unbalance the activities of economic entities.

Analytical assessment of the use of accumulative insurance funds is related to the analysis of the financial condition of life insurance insurers. The comparative characteristics of similar indicators of their activity make

it possible to identify the advantages and disadvantages of the financial condition of such companies and their position in the insurance market. According to the official data of the State Commission for Regulation of Financial Services Markets in Ukraine and the NBU, the total number of insurance companies in Ukraine as of June 30, 2021 is 181, while on the same date a year earlier – 215, including life companies – 19 (20). At the same time, 166 insurance companies submitted reports on the activities of the regulator. The Ukrainian insurance market is attractive to foreigners because, firstly, it is only developing and competition is insignificant, and secondly, favorable legal conditions interest foreigners to work in the Ukrainian market.

For the period 2015–2020, the insurance market of Ukraine is characterized by the dynamism and expansion of the list of insurance services for voluntary types of insurance, as well as increasing requirements for the establishment of the insurance company. At the same time, the current state of the insurance market is characterized by the presence of many negative trends and significant disparities in its development, which require increased attention from government agencies to supervise insurance activities and consideration in the development management of an individual insurance business.

Ukraine's insurance market still needs significant transformations in order to meet the needs of legal entities and individuals and the requirements of the global insurance market. The number of insurers has been declining in recent years due to the application of the solvency and capital adequacy ratio of insurance companies; there was a decrease in the number of insurance contracts due to the difficult economic situation and the corona crisis; the level of insurance penetration in the country is too low – the ratio of gross insurance premiums to GDP for the last decade did not exceed 2 %; The level of insurance payments is low – on average for 2015–2019 it is 26 %, although the volumes of received gross insurance premiums and made gross insurance payments are steadily growing.

The financial potential of the insurance market has its own specifics, priorities and development trends and is determined by the amount of equity and borrowed funds of insurers that can be used at a given time. Currently, the financial potential of the insurance market of Ukraine, despite the fact that it shows a slight increase in total assets (after the decline in 2015–2016), is assessed, compared with economically developed countries, as insufficient.

The investment portfolio of insurers in Ukraine is assessed as imperfect primarily due to the predominance of technical reserves in the structure of formed insurance reserves. In addition, in recent years the structure of insurers' assets has mainly increased due to bank deposits; the volume of assets represented by stock instruments, in particular, corporate securities, decreased; Insurers did not invest in some types of assets – investments in the economy of Ukraine in certain areas defined by the Cabinet of Ministers of Ukraine, mortgage certificates, etc.

At the same time, in the insurance market of Ukraine there is an insufficient use by insurance companies of modern opportunities to develop communications with customers, as well as the use of information technology to improve internal business processes.

Improving the insurance business, increasing its efficiency, ensuring the growth of economic development in modern conditions should be based on the use of various innovations, as well as identifying and eliminating the reasons that hinder the development and implementation of innovative approaches to creating effective insurance products and services.

Given today's trends for domestic promising are: expansion of the digital insurance system, which includes a range of technologies offered by insurers to their potential customers: insurance calculator, online payment for the insurance contract, ordering and purchasing an insurance contract online, online consultation, consultation in video mode and others; formation of a mobile insurance system through the creation of mobile applications; introduction of telematics in the field of insurance business; use of cloud technologies; introduction of automated systems for checking insurance contracts, etc.

The successful functioning of the domestic insurance market, ensuring the growth of its financial potential will contribute to the introduction of a new model of regulation and supervision of the insurance market, bringing Ukrainian legislation in line with European Union standards, transition to international financial reporting standards.

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