

**Kyiv National University of Trade and Economics**

Banking department

## **FINAL QUALIFYING PAPER**

**on the topic:**

### **Interaction security between parties of insurance services**

Student of the 2<sup>nd</sup> year, group 5am,  
specialty 072 «Finance, banking and  
insurance»  
specialization «Financial  
intermediation»

\_\_\_\_\_

*(student's signature)*

Olha V. Lykova

Scientific adviser  
PhD in Economics,  
Associate Professor

\_\_\_\_\_

*(signature of a  
scientific adviser)*

Iryna A. Avanesova

Manager of the educational program  
PhD in Economics

\_\_\_\_\_

*(signature of the  
Manager of the  
educational program)*

Iryna A. Avanesova

**Kyiv, 2019**

## Content

<b>INTRODUCTION.....</b>	<b>3</b>
<b>PART I THEORETICAL BASIS ABOUT A PROTECTION BALANCE OF RIGHTS AND INTERESTS OF THE INSURANCE SERVICE PARTIES.....</b>	<b>6</b>
<b>PART II A PROCESS OF SECURING AN INTERACTION OF INSURANCE SERVICE PARTIES IN UKRAINE DURING THE YEARS OF 2014-2018.....</b>	<b>19</b>
2.1 Analysis of regulatory legal acts of insurance service parties interaction.....	19
2.2 Target segments of the insurance services market and their characteristics.....	24
2.3 Disadvantages of the process of securing an interaction of insurance service parties and ways towards solving them.....	32
<b>PART III ADVICE ON THE PROCESS OF SECURING AN INTERACTION OF INSURANCE SERVICE PARTIES IN UKRAINE.....</b>	<b>39</b>
3.1 Financial monitoring of insurance service parties and implementation of international experience in balancing of protection of insurance service parties' rights and interests into the Ukrainian insurance market .....	39
3.2 Unification of the protection for insurance service parties .....	50
<b>CONCLUSIONS AND RECOMMENDATIONS.....</b>	<b>55</b>
<b>REFERENCES .....</b>	<b>58</b>
<b>APPENDICES .....</b>	<b>66</b>

## INTRODUCTION

**Relevance of the research.** In the present day, insurance affairs mean financial protection against losses arising out of happenings of an uncertain event. In recent years, demands regarding insurance protection have been increasing in all market participants in Ukraine, whereas the national economy of Ukraine is still under the influence of destabilizing factors and threats. One of the existing problems relates to the shortcomings of the Law of Ukraine “On Insurance”. Some legal concepts are poorly defined, and there are conflicting points between various legislative acts that control the issue of insurance. Thus, both policyholders and potential insurers often remain unprotected from doubtful advice and agreement. That is why proper insurance protection can help both insurers, insured persons and the state. Also, proper functioning of protection concerning an interaction of each subject of insurance market will be able to ensure further development of the insurance market of Ukraine, will give a push to the stable economic growth of the country, will be able to increase the welfare of the population.

One of the tasks of building an economic system is its sustainability and constantly growing. Insurance is a powerful factor in ensuring the sustainability of the economic system and ensuring its reproduction in an appropriate form.

To begin with, insurance is a mechanism for protecting people against losses, damage, injuries, and costs associated with unforeseen events. It provides protection against a predictable event that arises unexpectedly. Undoubtedly, for the last few years, there has been a demand regarding insurance in all market participants in Ukraine. On the other hand, insurants, having concluded the insurance contracts with insurers, are often under the threat of not obtaining the compensation in case of an insured event occurring. On the other hand, a lot of insurance companies suffer from “insurance frauds”, done by insurants.

Today, the legal regulation of the organization and providing activities, connected with insurance and reinsurance are characterized as those which show significant gaps and conflicts between the legal norms, while the special legal

regulation of reinsurance activity is almost absent. Consequently, there is an issue to work out how to secure, protect and balance both insureds and insurers rights and interest, to make them confident in each other, to improve the insurance market regulation system in Ukraine.

**Analysis of recent research and publications.** The state regulation of the insurance market, protection of rights and interests of insurance service subjects and the essential conditions for the balance of those rights and interests are considered in many domestic scientists writings, such as A.T. Golovko [1], L.M. Gorbach [27], S.S. Osadets [52] and scientist who conducted researched in a sphere of theoretical and practical aspects of insurance protection, such as T.I. Caspin [9], S.L. Efimov [14], O.D. Vovchak [70], N.V. Tkachenko [67], M.M. Alexandrova [3], V.D. Basilevich [8], S.K. Kazantsev [37], A.V. Galimov, I.M. Mikhailovsk [24], N.M. Vnukova, V.I. Uspalenko and L.V. Vremenko [69] and so on. However, such important aspects of scientific research as the determination of the purpose, tasks, subject, and object of the research remain unsolved.

**A purpose of this work** is a development of methodological and practical recommendations for the understanding the balance of protection of rights and interests of insurance service subjects in Ukraine.

**The task** is to identify ways and means to improve protection of rights and interests of insurance service subjects

**An object of the work** is the processes of formation and functioning of the balance rights and interests of insurance service subjects at the Ukrainian insurance market.

**The subject** is a set of theoretical and practical aspects of the formation and implementation of the rights and interests of insurance service subjects and their successful operation in Ukraine insurance market.

**The scientific novelty** of the obtained results is to substantiate the theoretical and methodological foundations of the interaction of the subjects of insurance services and to unify the protection of the subjects of insurance services as one of the ways of the proper functioning of the Ukrainian insurance market.

**Research methods.** Various general scientific and special methods of research were used to solve the tasks. The work is based on a systematic approach, which made it possible to consider the insurance market and the interaction of its participants comprehensively and fully. The abstract-logical method is used for theoretical generalizations, the definition of basic categories and concepts, the formation of conclusions of researches. The methods of analysis and synthesis are used to determine the functions of the state, insurance companies and insured, their role in the insurance market. The structural and functional method allowed to study the activity of insurance market participants and methods of regulating their relations. The statistical and comparative analysis made it possible to study and compare the key indicators of the Ukrainian insurance market activity in 2014-2018. Graphic analysis is used to visualize the number of insurance companies during 2014-2018, structure of gross insurance premiums and insurance payments in 2018 in Ukraine and in the global insurance market.

As the sources of information, special economic literature, legislative and regulatory acts in the field of liability insurance and regulation of the insurance industry, materials of the National Commission for Regulation of Financial Services Markets of Ukraine, information-analytical and periodicals, financial reporting data, scientific publications in national and foreign periodicals and special editions, materials of scientific and practical conferences were used in this work.

**Master's personal contribution.** Graduation is a self-completed study, conducted by the author. Also, it was written a scientific paper on the subject of “Practical approaches towards understanding the balance of protection of rights and interests of insurance service parties” and participation in a scientific conference.

**Scope and structure of work.** The work consists of 3 sections, introductions, conclusions and recommendations, a list of used sources and appendixes. The volume of work is 57 pages. The paper presents 7 tables, 10 figures, 9 appendixes and used 73 sources.

## **PART I**

### **THEORETICAL BASIS ABOUT A PROTECTION BALANCE OF RIGHTS AND INTERESTS OF THE INSURANCE SERVICE PARTIES**

Having observed the insurance market of Ukraine and having conducted researches of securing an interaction of insurance service providers helped us discover a scientific novelty which was based on foundations of the interaction of the subjects of insurance services and their securing, unification of the protection in the Ukrainian insurance market. We have formed suggestions on the formation and strategic development of the insurance market in Ukraine, which contain some elements, based on other scientific researches. Deep analyse of the insurance market in Ukraine allowed us to obtaining theoretical and practical results containing scientific novelty, and in particular, outlining the prospects for its development in modern conditions and development and implementation of a necessary protection for all subjects in the insurance market. The practical significance of the results of the study is that the proposed conclusions and recommendations for improving the development of the insurance market of Ukraine can be used in practical insurance activities to ensure the protection of the rights and interests of insurance service subjects.

Insurance is one of the oldest categories of social relations. Having arisen in the period of decomposition of the primitive communal system, it gradually became an indispensable companion for co-production. The original meaning of this concept is related to the word fear. Property owners, engaging in industrial relations, feared for property preservation, for the possibility of destruction or loss that could be caused by natural disasters, fires, robberies, and other unforeseen dangers [16]. Hence the idea of compensation for material losses arose among the interested owners of the property. The greater the number of farms involved in the distribution of the loss responsibility, the smaller the part of the fund to share per one participant. So there was insurance, the essence of which is based on solidarity closed layout of the loss.

In Ukraine, the insurance market existed during the USSR, but was represented by one insurer-monopoly, so the beginning of the development of the insurance market

in its modern sense, is 1991, in which our state gained independence, freedom of action and democracy, but at the same time, a considerable number of problems [64].

The emergence of Ukraine as an independent democratic state could not but cause the creation and development of the insurance market. The process of de-monopolization of the economy, which has covered all sectors of the economy, immediately affected the sphere of public legal relations, such as insurance. The elimination of the state monopoly in resolving legal and economic issues of insurance business and the emergence of non-governmental insurance companies created the necessary basis for organizing market relations in insurance activities and prerequisites for the formation of the Ukrainian insurance market.

With a help of retrospective analysis, we have analysed the formation and development of the Ukrainian insurance market in the period of independence with the identification of stages of development. Such leading scientists in the field of insurance such as: Alexandrova M.M. [3], Golovko A.T. [1], Gorbach L.M. [27], Osadets S.S. [52], and others in their works allocate the following stages: The first 1991 - 1993; Second 1993 - 1996; Third from 1996 to 2001 and Fourth from 2001 to the present. Here is a comparative description of these steps in tbl 1.1

The first stage (1991-1995) is the period of creation and adoption of the first legislative acts regulating the activity in the insurance market. The development of insurance companies was facilitated by the adoption of the Decree of the Cabinet of Ministers of Ukraine "On Amendments to the Law of Ukraine" On Banks and Banking "of April 26, 1993 No. 38-93, which prohibited commercial banks from insurance activities, and the Decree" On Insurance " dated May 10, 1993. The current legal framework regulating the activity of insurance companies is mainly aimed at protecting the interests of consumers of insurance services, preventing the onset of insolvency and ensuring the financial stability of financial institutions. The risk of insolvency of financial institutions, in particular insurance companies, should be the main focus in implementing the state policy of reforming the financial sector in order to increase its ability to sustain the economic growth of Ukraine [54].

Table 1.1

## Stages of Ukrainian insurance market development

Factors of the insurance market	Stages of development of the Ukrainian insurance market			
	I 1991-1993	II 1993-1996	III 1996-2001	IV from 2001
Inflation level	High	Hyper	Middle	Lower than average
Number of companies	More than 1000	800 - 500	300 - 283	283 – 281 (till 2018)
Insurance services	Standardized	With Options	Differentiated	differentiated / complex
The minimum size of the authorized capital	-	\$ 5'000	€ 100'000 for Ukrainian insurers and € 500'000 for foreign capital insurers	€ 1.5 mln. for life insurers and € 1 mln. for other risk insurers
Licensing	None	Introduced	Applies	Applying and improving
Existence of a Supervisory Body	No	Committee on Insurance Supervision	Committee on Insurance Supervision	Since 2011 National Commission for the State Regulation of Financial Services Markets
Maximum percentage of foreign persons in the authorized fund of the insurer	Not restricted	Not more than 20%	Not more than 49%	The restriction was abolished in 2001.
Consumer loyalty	Average	Average	Insignificant	Minor, but there is an improvement
The presence of an institute of insurance brokers	Missing	Missing	Origin	Gradual development

\*developed by the author on the basis of [28]



At the same time, the quantitative growth of the insurance market in Ukraine did not go to this stage in quality, no clear directions of market development were identified, there was no appropriate methodological base and qualified personnel. There was no effective government supervision and licensing (until 1993) of the insurance business. Despite the fact that in 1993 a state structure was established in the sphere of insurance market regulation - Ukrstrakhnaglyad, a turning point in the development of the insurance market, control over the activity of insurers, etc. did not take place. Most insurance companies were insolvent [63].

The second stage (1996-2002). A significant event for the market was the adoption of the Law "On Insurance" by the Verkhovna Rada of Ukraine on March 7, 1996. This law, as well as about 20 government decrees, 11 instructions and regulations adopted during this period, reflected the needs of the transition period from planned to market economy, and directly defined the conditions of activity in the field of insurance, where the dominant role was played by non-governmental insurance companies.

The requirements of Ukrstrakhnadzor (from 1998 to the end of 2001 of the Ministry of Finance of Ukraine as the controlling body of insurers) regarding solvency, liquidity, provisions, structure of assets, investment policy, etc. increased. Since 1996, insurers have been obliged to, under each type of insurance they intend to carry out, develop insurance policies and approve them in the supervisory authority [63]. A characteristic trend of this stage was the continuation of the policy of servicing and establishing closer links between captive insurers and the structures that created them.

The third stage (2002 and up to now) is a period of rethinking what has been worked out and the transition to new standards and approaches in market regulation and development. Competition, professionalism in the work of insurers has increased significantly. A new regulator has emerged - the State Commission for Regulation of Financial Services Markets (hereinafter referred to as SCRCRF), established in late 2002, has become more stringent in terms of market capitalization [2]. Revised at the end of 2001, the Law of Ukraine on Insurance established new requirements for statutory funds of insurers of at least EUR 1 million for those who carry out risky types

of insurance and EUR 1.5 million for insurers who carry out insurance life. Since 2011, the state regulation of the insurance market and the supervision of the activity of insurance companies in Ukraine is carried out by a National Commission for the State Regulation of Financial Services Markets (further NatComFinServices) which is a state collegial body subordinated to the President of Ukraine, accountable to the Verkhovna Rada of Ukraine [2].

The state regulation of the insurance market of Ukraine is built on the principle of the system of “continental” law, which provides for the legislative regulation of the activity of market entities, with laws and codes being the main sources [40]

Legal regulation of insurance activity and state supervision over the activity of insurance companies is carried out on the basis of norms defined by: the Constitution of Ukraine, the Economic Code, the Civil Code, the laws of Ukraine "On Business Companies" , "On Joint Stock Companies", "On Financial Services and State Regulation of Financial Services Markets", "On compulsory insurance of civil liability of owners of land vehicles" as well as other normative legal acts of Ukraine [45].

Due to insurance, significant resources are accumulated and insurance funds are created, which are used to compensate for losses incurred as a result of disasters or other unforeseen events. Compensation is done to persons who paid premiums. In the broadest sense, the subjects of insurance legal relationships are human aggregate involved in these legal relationships. An insurer and an insured must be involved in these relationships.

Insurance providers are legal entities of any organizational and legal form that have a state license (license) to carry out insurance operations, are responsible for the formation and spending of an insurance fund. Insurers may be state-owned insurance organizations, joint-stock insurance companies, mutual insurance, and reinsurance companies [50]. In a market economy, joint-stock companies or joint ventures of are the most common types of insurance companies. The concentration of capital on a shareholder basis ensures the financial independence of insurance organizations.

Insurers (policyholders) are legal and natural persons who have an insurance interest and enter into relations with insurance provider under law, other regulatory

actions or based on a bilateral agreement in the form of an insurance contract. In order to confirm the concluded insurance contract, the insurance provider extradites to the insurer an insurance certificate (policy), which contains the rules of insurance, the list of insurance risks, the amount of the insurance amount and insurance premium (contribution), the procedure for changing and termination of the contract and other conditions governing the relations of the parties [53].

An insurance provider offers its customer an insurance service which is treated as a specific product in the insurance market. Compared to conventional goods, the insurance provider does not create any tangible product. Its product can be defined as intangible activity and, in this regard, refers to the concept of "service". Insurance service belongs to the category of financial services, as the services of banks, financial institutions.

Insuring, an insurance provider sells a promise that if an insured event occurs with the insured object that will result in material losses or related to life and health, he (the insurance provider) guarantees the indemnity on the contractual terms. In contrast, the insurer will pay the insurance provider a certain amount in the form of insurance premium (payment, insurance premium) [34].

In insurance practice, there are two fundamental rules: the golden rule of the insurance provider and, accordingly, the golden rule of the insurer.

The golden rule of the insurance provider is to maximize the value of the insurance payment and their timely receipt from insurers. The golden rule of the policyholder is that when concluding voluntary insurance contracts, the policyholder is interested in the minimum amounts of insurance payments and the maximum amount of compensation in the event of an insured event [35].

Unfortunately, when the insured event occurs, both parties may face difficulties related to insurance payment for one reason or another. Logically, in insurance relations, each and every party tries to protect its rights and legitimate interests as much as possible to the extensive social and legal norms allow. The parties of the contract use loopholes in the law and vague wording of insurance contracts to, on the one hand, minimize insurance payments or refuse insurance payments, and on the other, seek to

obtain insurance indemnities and force insurance providers to fulfill obligations under the terms of insurance contracts, sometimes without sufficient legal basis. As a rule, the resolution of such conflict situations goes to the court, where everyone proves their correctness on the principles of competitiveness. One of the most common in the legal relationship insurance categories of cases is disputes about collecting insurance payments under insurance contracts. An analysis of the case-law of resolving disputes concerning the execution of insurance contracts and collecting insurance payments reveals examples of how insurers use the imperfection of legislation in certain matters.

The existence of risk elements that accompany social production, entrepreneurial activity in the conditions of market economy development and life of individual citizens, requires prevention of possible risks, compensation, and reduction of possible negative consequences. This need can be met by providing insurance protection. The economic content of the category "insurance protection" is shaped by the relationship between people regarding the provision of stable guarantees for the protection of their property interests.

Theoretical and practical aspects of insurance protection were studied in the works of leading foreign and domestic scientists. Nevertheless, the definition of insurance protection has different interpretations which depend on the approach of scientists to its research (tbl. 1.2).

Thus, from the set of approaches presented above, we can summarize that insurance protection is a set of economic relations related to the prevention, overcoming or reducing the negative impact of adverse events (risks) and compensation of their consequences in order to ensure continuous and uninterrupted social production, financial stability of the state, its sustainable economic development and overall well-being. Taking it further, economic interest is the basis of insurance relations, which in different subjects of the insurance system and different branches of insurance has its form of manifestation. Insurance interest is the subject of attention of anyone who in any way participates in insurance relations or studies and researches them. Such great importance for insurance interest is explained by the fact that it is the basis of insurance, without it there is no insurance.

Table 1.2

## Approaches towards understanding of insurance protection

Author	Definition
T.I.Caspin [9]	Insurance protection is an individuals and legal entities conscious need to create special funds for the restoration of property, health, working capability and personal income of both participants in the creation of these funds and third parties
S.L.Efimov [14]	Insurance protection is an economic category, a set of forms and methods of formation of trust funds and their use to compensate for losses in various adverse events, as well as to assist citizens and (or) their families in the occurrence of certain events in their lives (life, death , trauma, disability and so on)
O.D.Vovchak [70]	Insurance protection is a relationship that is formed in the society regarding preventing, overcoming or reducing the negative impact of risks and compensating for losses
N.V.Tkachenko [67]	Insurance protection is the accumulation and spending of money and other resources to take measures to prevent, overcome or mitigate the risks and to reimburse carried expenses.
M.M.Alexandrova [3]	Insurance protection "is the totality of redistributive relationships for overcoming and compensating losses, losses incurred by a particular object of social production - for example, insurance protection for agricultural production or crops, property, liability, health, life, income, etc
V.D. Basilevich [7]	Insurance protection is a service that has social, public (social) orientation, since the money accumulated by the insurance provider is directed to the protection of the victims at the expense of all participants of the formation of the insurance fund.
S.K.Kazantsev [37]	Insurance protection is a two-way response of humanity to the possible dangers of natural, man-made, economic, social, environmental and other origins. On the one hand, insurance protection is caused by the objective need of individuals and legal entities to maintain their property interests associated with different aspects of life. On the other hand, this need is accompanied by an adequate ability of people to pursue their interests.
A.V. Galimov, V.S.Bastrichev, I.M.Mikhailovsk (a group of authors) [24]	The essence of insurance protection is reflected in the accumulation and expenditure of money and other resources to take measures for preventing, mitigating or reducing the negative impact of risks and compensate for their losses.
N.M. Vnukova, V.I.Uspalenko, L.V. Vremenko and others (a group of authors) [69]	Insurance protection is an economic category that reflects the totality of distributive and redistributive relationships associated with overcoming and compensating losses that may be caused by different exceptional circumstances

\*developed by the author

By covering the content of the concept of insurance interest and insurance protection in the system of coordinates of insurance relations, it shows that these economic categories create a fundamental basis for the organization of insurance activities in society. At the same time, the financial and economic relations between the participants of the insurance market are somewhat contradictory. This is due to the need to reconcile the opposite goals of the subjects of the insurance process. The achievement of the desired compromise between the participants of the insurance process through the mechanism of reconciling their insurance interests is shown in fig. 1.1.

Even though insurance interest is a system-forming category in insurance, its definition is absent in the current legislation of Ukraine. There is also no single approach in the scientific literature to determine the nature and role of insurance interest. For example, O.A. Gvozdenko believes that insurance interest is the degree of material interest of a natural or legal person in insurance. The carriers of insurance interest are both insurers and insured. In turn, in property insurance interest is determined by the value of the insured property, a guarantee of receiving insurance compensation in the cases stipulated by the insurance contract [28].

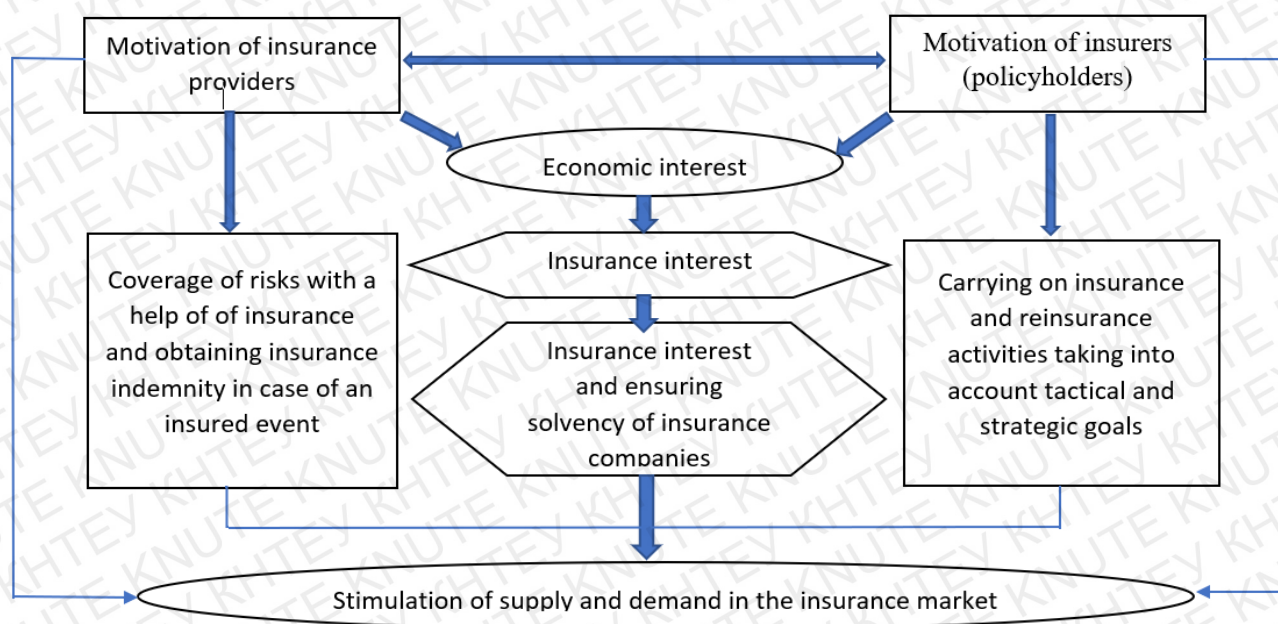


Figure 1.1 Transformation of insurance interest and insurance protection in financial and economic relations in the insurance market

It should be noted that in property insurance, insurance interest is associated with an insurance obligation. In personal insurance, insurance interest is the basis for the insurance agreement and the insurance obligation. In his absence, the personal insurance contract would lose its meaning, becoming an "insurance game". But, unlike property insurance, insurance interest, as the basis of an insurance agreement, usually remains out of legal content. Grinyuk O.V. and Ivanov A.I. [32] view insurance interest as the subjective attitude of a natural or legal person, caused by a certain objective need to secure the object of insurance protection, based on a legal title, according to which that person may be harmed during a certain event. By insurance interest, the aforementioned scientists understand the law or contract based on the objectively determined interest of the insured to conclude an insurance contract. Kogdenko N.Y. indicates that insurance interest is a form of expression of the subject's needs for insurance protection, which is determined by the totality of environmental conditions (objective component) that has passed through the subject's consciousness (subjective component), that is to protect the financial position of the insured, and provided through the volitional activity of the subject, the purpose of which is satisfaction of its needs [38].

However, to have an insurable interest and to sustain a financial loss may not only insured, but the person in whose favor a contract (an advantage for the purchaser or the insured). Yuldashev R. T. defines insurable interest as the degree of interest in insurance (any legal or natural person cannot resort to insurance if it has no insurable interest in the insured item or not waits for it) [73]. That is, the implementation of insurable interest suggests that the probability of occurrence of damage which shall be incurred by the policyholder in case the insured event.

The specific meaning and importance of interest in the context of the insurance contract to the insured. Most scientists explain the nature of insurable interest as a subjective interest of the policyholder, leaving out of attention the interest of the insurer. In Particular, N. In. Tkachenko distinguishes between two kinds of interest. The interest of the policyholder, which can be not only the property but also liability for damages that may arise in connection with the ownership of property, that is loss

of profits. Standard terms of insurance generally involve insurance coverage on the property only. The volume of liability insurance could be considered insurance other interest related assets. In any case, the interest of the insured shall not exceed the sum insured under the contract that is not eligible for double insurance. The interest of the insurer is a liability insurer due to the insurance conditions. In this responsibility the insurer has an insurance interest that may reinsure but may not pay reinsurance in broader terms compared to the original). The main interest of the insured to provide insurance protection may not be the main interest of the insurer, though, and is it a relevant interest [67].

To sum up, we consider that insurance protection is a form of manifestation of the degree of protection of the interests of the main insurance participants and is a polysubjective because not only insurance companies and insurers are subjects of insurance protection. Also, there are several subjects of insurance protection - the state, financial institutions and so on. Until recently, the insurance company has traditionally been the main subject of insurance protection in the modern world. However, at this point, the importance of the state in the implementation of insurance protection is emphasized, that is, the state acts as a guarantee of insurance protection and is one of the main subjects of insurance relations.

Insurance, as an economic and social category, expresses the relationships in which several entities that have an interest in functioning participate, are characterized by a certain level of contradiction, emerge, develop and cease to exist, and have a specific purpose of realization. After all, insurance interest is not one-sided, as it is present in all subjects of insurance and has several directions of manifestation: economic interest of the insurance provider is at the micro-level, economic interest of the state is at the macro-level and property interest of the insured. The interest of the insurance providers is that the premiums are paid systematically, despite the low likelihood of damage and, therefore, low probability of payment of insurance indemnity. The insurer has an interest in preserving the property because, in the event of occurrence a risky event, there is a need to compensate for the loss. The basic contradictions between the main subjects of the insurance arise mainly through



problems of payment of insurance claims, bad faith insurers and failure to comply with the ration "price-quality" insurance services. However, the conflict of interest between the insurer and the policyholder is reflected in the implementation of the insured event, because the insured seeks to obtain the maximum insurance compensation, in turn, the insurer is interested in maintaining the insurance fund.

The resolution of economic contradictions between the entities and the insurance market is possible through the harmonization of economic interests, which minimizes the scope of differences and leads to their effective implementation.

For the effective implementation of insurance activities, which are able to meet individual and collective needs, it is required to build a system of insurance relations. Those relations are based on economic and insurance interests. The conveyed research shows that these are not straightforward concepts. A property interest is the object of insurance relations which manifests itself as insurable interest for insurance provides and for other entities, as economic interest. Insurance functionality is provided by a combination of and harmonization of interests of all subjects of insurance relations. This reinforces the role of economic and insurance interests in the development of insurance relations. Also, determination of the usefulness and effectiveness of insurance, establishment of quantitative parameters of their measurement are important in the formation of an effective system of insurance relations. As a standard for assessing the state of insurance relations in the state, we suggest to use the ratio of economic interests of the subjects of these relations is the very meaning of the "golden section".

To sum up all mentioned above, With a help of scientists writings which were done in the sphere of formation and development of the Ukrainian insurance market by such leading scientists as Golovko A.T. [1], Gorbach L.M. [27], Osadets S.S. [52] and scientist who conducted reseached in a spehere of theoretical and practical aspects of insurance protection, such as T.I. Caspin [9], S.L. Eefimov [14], O.D. Vovchak [70], N.V. Tkachenko [67], M.M. Alexandrova [3], V.D. Basilevich [8], S.K. Kazantsev [37], A.V. Galimov, V.S. Bastrichev, I.M. Mikhailovsk (a group of authors) [24], N.M. Vnukova, V.I. Uspalenko, L.V. Vremenko and others (a group of authors) [69] an in-

depth study was done on the topic of theoretical basis of a protection balance of rights and interests of the insurance service subjects. Also, for the first time was formed the definition of "Securing an interaction of insurance service providers".

## **PART II**

### **A PROCESS OF SECURING AN INTERACTION OF INSURANCE SERVICE PARTIES IN UKRAINE DURING THE YEARS OF 2014-2018**

#### **2.1 Analysis of regulatory legal acts of insurance service parties interaction**

Regulation of insurance activities is an important component of the financial management system, in particular, its security subsystem. After all, regulation in the part of financial management is implemented mainly through the formation of a legislative and regulatory framework for the regulation of insurance activities. This type of regulation takes place at the international, national and internal organizational levels.

As the basis of the market economy is economic (entrepreneurial) activity with use of different forms of ownership, the mechanism of state regulation of relations in the sphere of economy, in the conditions of today's economy functioning there is a need of economic entities to protect their property rights and interests from various risks is increasing (appx. F.1).

The state regulation of insurance activity and legal provision of insurance is carried out by adopting acts of legislation and normative acts that regulate insurance activity as a whole, as well as in its separate directions and issues.

The system of legislation on regulation of insurance activity consists of general legislation; specialized insurance legislation which can be classified according to levels of their regulation, such as national and internal organizational levels (appx. G.1, H.1). Norms and principles of legal regulation of insurance activity are defined by the Constitution of Ukraine, international agreements, laws and decrees of the Verkhovna Rada of Ukraine, decrees and decrees of the President of Ukraine, decrees and decrees of the Cabinet of Ministers of Ukraine, instructions, methods, orders, letters of ministries and departments, normative acts of the profile bodies supervising insurance activities, namely NatComFinServices market.

The Constitution of Ukraine stipulates that the laws of Ukraine set the foundations for the creation and functioning of the financial market (Article 92), and the Cabinet of Ministers of Ukraine provides for the implementation of financial policy (Article 116). Thus, the Constitution of Ukraine establishes general rules for the legal regulation of financial policy, an integral part of which is insurance [44].

Legal regulation in the field of financial management at the insurance inter-organizational level is directly dependent on the regulation at the international and national levels since even organizational and administrative documents of an insurance company are formed taking into account the requirements and rules established in the insurance sector. Many significant changes have taken place in the insurance market over the last couple of years. Since 2016, new requirements for introducing improved financial reporting systems, enhancing solvency requirements, creating more detailed actuarial models and more have come into force. As a result, most insurance companies have undergone significant changes. In order to "survive" in the highly competitive struggle, insurers had to relate to the introduction of new standards with full impact. The transition to new methods requires insurers to use cutting-edge technology. Yes, most major insurers already in 2015 actively invested in technology improvements (digital platforms, front-end programs that not only strengthen their customer relationships but also improve the efficiency of managing backend operations and managing costs) [31].

Also, on October 11, 2017, a number of amendments were introduced to the Law of Ukraine "On Compulsory State Social Insurance" of September 23, 1999 No. 1105-XIV. These changes detail, extend the existing and establish new conditions for the acquisition of the right to social security and social services in connection with a temporary disability, pregnancy and childbirth, accidents at work and occupational diseases [40].

Talking about the market for compulsory motor third-party liability insurance, there have also been some qualitative changes. In 2017, the insurance market began to move to the direct settlement of damage to the motorcycle, and drivers were able to not only purchase the policy online but also to regulate it with a smartphone. According

to Volodymyr Shevchenko, Director of Motor Transport Insurance Bureau of Ukraine (further MTIBU), in 2017 a voluntary project "Direct Settlement" started, which was joined by 18 insurance companies. The driver had the opportunity to settle an insurance event in the UK, where he himself bought the Compulsory motor third party liability insurance (further MTPL),, not to contact the culprit's insurance company (but only if both companies joined the Direct Settlement project). MTIBU acts as a clearing and clearing center and provides further settlements between insurance companies. During 9 months in 2017 within the framework of direct settlement, UAH 42 million were paid in about 5 thousand cases [48].

From 2018, instead of the usual paper policy, it was possible to conclude an agreement in electronic form. This made it possible to reduce policy fraud, simplify the vetting process for police and reduce the cost of manufacturing and storing policies. Insurance events have also been translated into electronic form. Conventional Ukrainians "Euro protocol" is now available from any smartphone or tablet with Internet access. A simple interface with many schematics and tips helps every driver quickly resolve accidents and avoid traffic jams.

On September 21, 2019, the order of the National Financial Services Commission comes into force, according to which the insurance protection under the MTPL policies is increased by 30%. Thus, insurance companies will be able to pay more to victims than before. If the law had so far stipulated a maximum payment for a damaged car in the amount of UAH 100 thousand, now the amount has increased to UAH 130 thousand even earlier (until February 2016) the victim could receive a maximum of UAH 50 thousand. The new limit of liability for the damage caused to the life and health of the victims will be a maximum of UAH 260 thousand.

They touched on the innovations and the cost of insurance, namely a number of factors that determine the price. Electric car drivers can now get a discount of 10%. But owners of cars with foreign registration will have to pay several times more for insurance. Now for Euro cars it is allowed to apply any factor in the range of 5-10, not 4, as before.

The principle of determining the territorial coefficient has also been transformed. Now the place of residence or registration of the car owner will be taken into account instead of the place of registration of the vehicle [48]. Also, Ukraine's entry into the global financial system requires a transition to government regulation and oversight of international standards defined by relevant EU directives, standards of international associations and organizations. Therefore, it is appropriate to mention the legal regulation of insurance activities at the international level (appx H.1).

One of the most up-to-date decision in 2019 was done of the Verkhovna Rada of Ukraine which adopted the draft Law of Ukraine "On Amendments to Certain Legislative Acts on Improving the Functions of State Regulation of Financial Services Markets" [29]. The adopted law provides for the so-called "split", the liquidation of the National Commission for Regulation of Financial Services Markets and the allocation of powers to regulate the financial market between the National Bank and the National Securities and Stock Market Commission. In particular, the National Bank will become the regulator of insurance, leasing, financial companies, credit unions, pawnshops and credit bureaus, and the National Securities and Stock Market Commission (further NSSMC) will regulate non-state pension and construction financing funds. It is believed that this Law will provide a balanced and systematic approach towards the effective development of the non-banking financial sector, the transition from a sectoral regulatory model to a more integrated model, and will allow for integrated development of the regulation of market behavior and consumer protection in the financial market. The split law is going to help the country get a financial system that meets international standards. In particular, the adoption of this Law was one of the key requirements of Ukraine's international partners.

The law provides for a transition period during which functions will be transferred from the National Financial Services Markets Regulation Commission to the National Bank of Ukraine (further NBU) and NCSSMC. It will run until July 1, 2020. During this time, the National Bank, together with the Commission, will set up the necessary processes and structures to assume the functions and, in parallel with the involvement of a wide range of experts and participants in the non-banking financial

sector, will work to improve legislation and regulations. Until June 30, the regulation of the market will continue to be dealt with by the National Financial Services Commission. As of July 1, 2020, this function will be performed by the National Bank [29].

At the international level, insurance activities are governed by European Union Directives. According to the First Generation Directives, a single terminology and classification has been established, which is applied in the insurance legislation for the countries of the European Union. Also, it was expected the establishment of requirements for the formation and composition of insurance reserve funds, as well as the placement of assets that cover insurance reserve funds. The Second Generation Directives set out the principles for assessing the financial position of insurance companies and the rules for supervising insurance activities. Finally, they formed the basis of regulation in the field of insurance in the Third Generation Directive. They are based on: mutual recognition of the legal regulation systems of insurance activities in EU countries; supervising the activities of insurance organizations, including financial regulation; change of conditions of funds investment from insurance reserve and guarantee funds [56].

The international level of regulation is complementary to the Solvency project developed by the European Insurance Markets and Pension Board. The Solvency project consists of two parts. Solvency I provided control over the solvency standards of insurers, but the Solvency II project was much more powerful in its ideological sense. Because it is based on an assessment of the investment risk of the system, as well as rules regarding the own funds of the insurance entities. Solvency II has established requirements for financial resources of the company, solvency margin, corporate processes, control systems, a single form of reporting [61].

Taking everything into consideration, the imperfect system of state regulation of the domestic Ukrainian insurance market is characterized by a small period for its formation and functioning. So far there is no complete perspective view of the strategic directions and conceptual foundations for further development of the supervision and regulation systems, both for individual segments of the financial sector and beyond it.

The imperfect financial system reflects on solving social, economic problems and securing national financial interests. To create a quality supervision system in Ukraine, it is necessary to develop meaningful risk-oriented approaches to supervise insurance activities, based on the impact of potential threats to the financial stability of insurance companies, from a realistic assessment of the risks of insurance providers [4].

It should be noted that entrusting the National Bank with additional tasks may impede the performance of basic functions and lead to incompetent decisions (for example, in the insurance market). To date, the NBU does not even have enough professional staff with experience in non-bank financial services markets, especially insurance (accounting for insurance reserves). It should be noted that from 2020 the NBU will be able to set the rules on its own (without expertise or agreement with the Ministry of Justice, the State Regulatory Service, without proper parliamentary oversight). Thus, the new bill envisages a transition from clear legislative regulation of the financial services market to manual regulation by new regulators through their regulatory acts, with unlimited powers (checks, penalties, re-licensing). This accurately increases the risks of corruption.

## 2.2 Target segments of the insurance services market and their characteristics

The insurance market is segmented for more accurate orientation of the insurance provider in the market, proper positioning and development of a competitive product, segmentation is used to optimize the insurer's market strategy.

Segmentation of the insurance market is the allocation of groups of insurers, insurance products, and services, insurers that have certain common features. When segmenting the market for insurance products, the following features are taken into account: geographical, demographic, socioeconomic, psychographic, and behavioral [53] (appx I.1).

The segmentation of the insurance market for natural persons can also be divided on the basis:



- of the existence of an insurance policy (then in this segmentation there will be real insurers, intentionally insured or those who radically refuse to insure);
- by the ability to pay an insurance premium (solvent and insolvent customers);
- from the activity of purchasing a policy ( active independent consumers and passive policyholders).

Passive policyholders are those who choose the insurance service not on their own but are oriented towards the opinion of friends and colleagues;

The segmentation of the insurance market for legal entities mainly takes into account the following features: geographical location; branch affiliation; major risks; characteristics of the enterprise (size of the enterprise, financial condition). One of the important criteria is the financial condition of the corporate client, which, in turn, determines its ability to insure a large number of objects, risks, and ability to pay the insurance premium in time. Thus, in this segmentation, it is possible to distinguish by:

- unprofitable and profitable companies
- classification by the level of solvency;
- size (large, medium and small);
- number of employees (potential insurers) [64].

Segmentation of the insurance market also determines how many objects will be covered by the insurance of a particular insurer. This is called the insurance field. The insurance field represents the maximum number of objects that can be insured. The percentage of the insurance portfolio to the insurance field means coverage of the insurance field or the level of insurance development.

According to Forinsurer (an official site called "<https://forinsurer.com/>"), magazine # 1 on insurance in Ukraine, one of the largest online media on insurance topics, the insurance market is the second largest in the capital market among other non-banking financial markets. The total number of insurance companies in Ukraine continues to decrease, and based on December 31, 2018, there were 281 companies. In 2018 compared to 2017, there was a decline by 13 companies (tbl. 2.1) [59] .

Table 2.1

## Number of insurance companies in Ukraine 2014 – 2018

Insurance companies	Year				
	2014	2015	2016	2017	2018
Total	382	361	310	294	281
"non-life"	325	312	271	261	251
"life"	57	49	39	33	30

\*developed by the author on the basis of [55]

According to the National Insurance Market, the amount of gross insurance premiums (received by insurers from insurance and reinsurance) increased by UAH 5'935.7 million, consequently amounted UAH 49'367.5 million (13.7% change) in 2018 compared to 2017 (tbl 2.2).

Table 2.2

The main indicators of activity of the Ukrainian insurance market and its dynamics  
2014-2018

Indicator (mln UAH)	Year				
	2014	2015	2016	2017	2018
Gross insurance premiums	26'767.3	29'736.0	35'170.3	43'431.8	49'367.5
Amount of insurance payments	5'065.4	8'100.5	8'839.5	10'536.8	12'863.4
Assets of insurance companies	70'261.2	60'729.1	56'075.6	57'381.0	63'493.3
The volume of formed insurance reserves	15'828.0	18'376.3	20'936.7	22'864.4	26'975.6

\*developed by the author on the basis of [59]

Considering the volume of gross insurance payments/indemnities, according to the National Financial Services Commission, in 2018 compared to 2017 it increased by UAH 2'326.6 million up to UAH 12'863.4 million (22.1% change to the previous year) (fig 2.1).

The level of payments is not always correlated with the real state of affairs in the company and directly depends on the structure of its portfolio. In fact, the higher the share of high-loss types of insurance, such as Insurance of means of transport, Compulsory civil liability insurance for vehicle owners, voluntary health insurance, the level of payments will be higher, up to 60-70%. If the work of the insurer is concentrated in a narrow segment, taking into account the specific nature of his activities, and 5-10% may be a normal indicator.

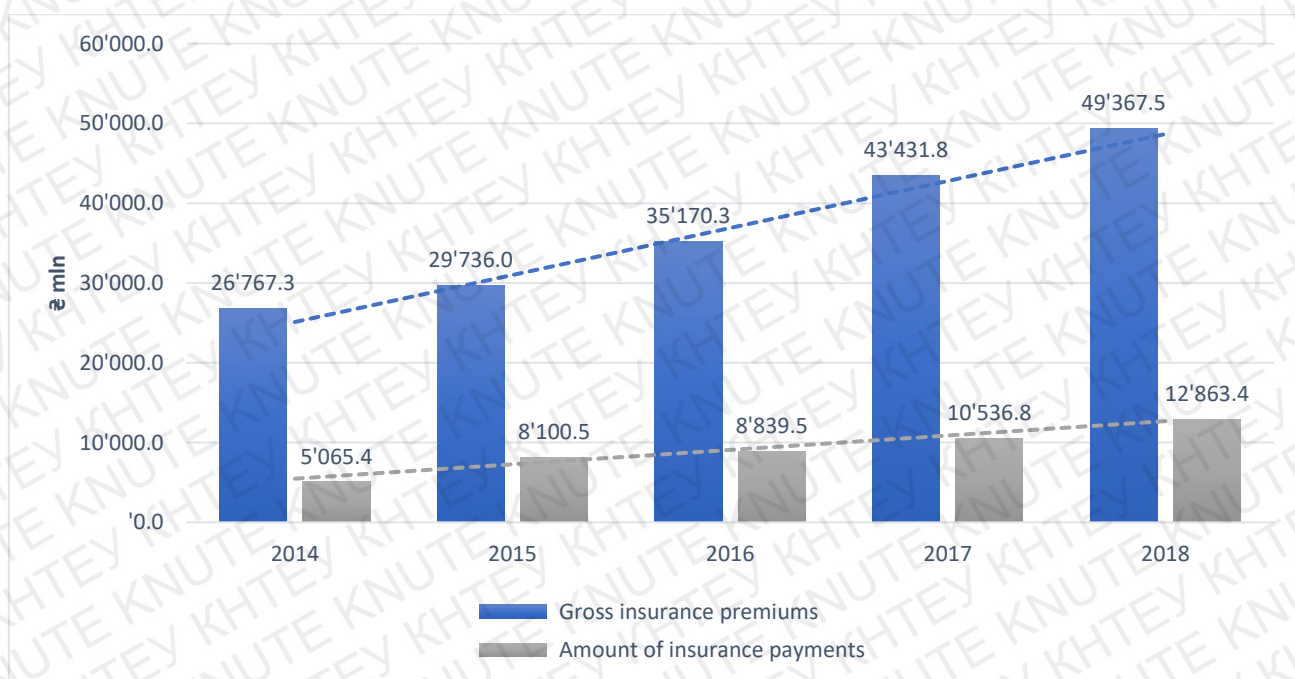


Figure 2.1 Gross insurance premiums and insurance payments in Ukraine 2014-2018

\*developed by the author on the basis of [33]

As the NatComFinServices noted that in 2018 comparing to 2017 the increase in gross premiums has occurred in almost all types of insurance : auto insurance (CASCO, OSAGO, "Green card") by UAH 2'362.1 million (22.3%); property insurance by UAH 1'341.3 million (26.3%); life insurance by UAH 992.4 million (34.1%); insurance against fire risks and natural phenomena by UAH 899.0 million

(25.0%); credit insurance by UAH 748.6 million (2 times); medical insurance by UAH 605.4 million (21.0%); medical insurance by UAH 454.9 million (55.1%); insurance against accidents by UAH 445.7 million (34.1%).

At the same time decreased gross premiums in insurance of: cargo and baggage by UAH 1'787.7 million (38.1%); financial risks by UAH 458.9 million (8.2%); third party liability by UAH 357.8 million (12.2%).

Increased gross insurance benefits for such types of insurance: property insurance by UAH 1'161,2 million (4 times); car insurance by UAH 833.8 million (16.7%); medical insurance by UAH 423.3 million (25.3%); life insurance by UAH 148.6 million (26.7%).

At the same time decreased gross insurance payments under insurance: financial risks by UAH 294.3 million (15.7%); loans by UAH 183.3 million (70.1%) [33].

The structure of insurance premiums by each of these types of insurance in Ukraine in 2018 is shown in fig. 2.2.

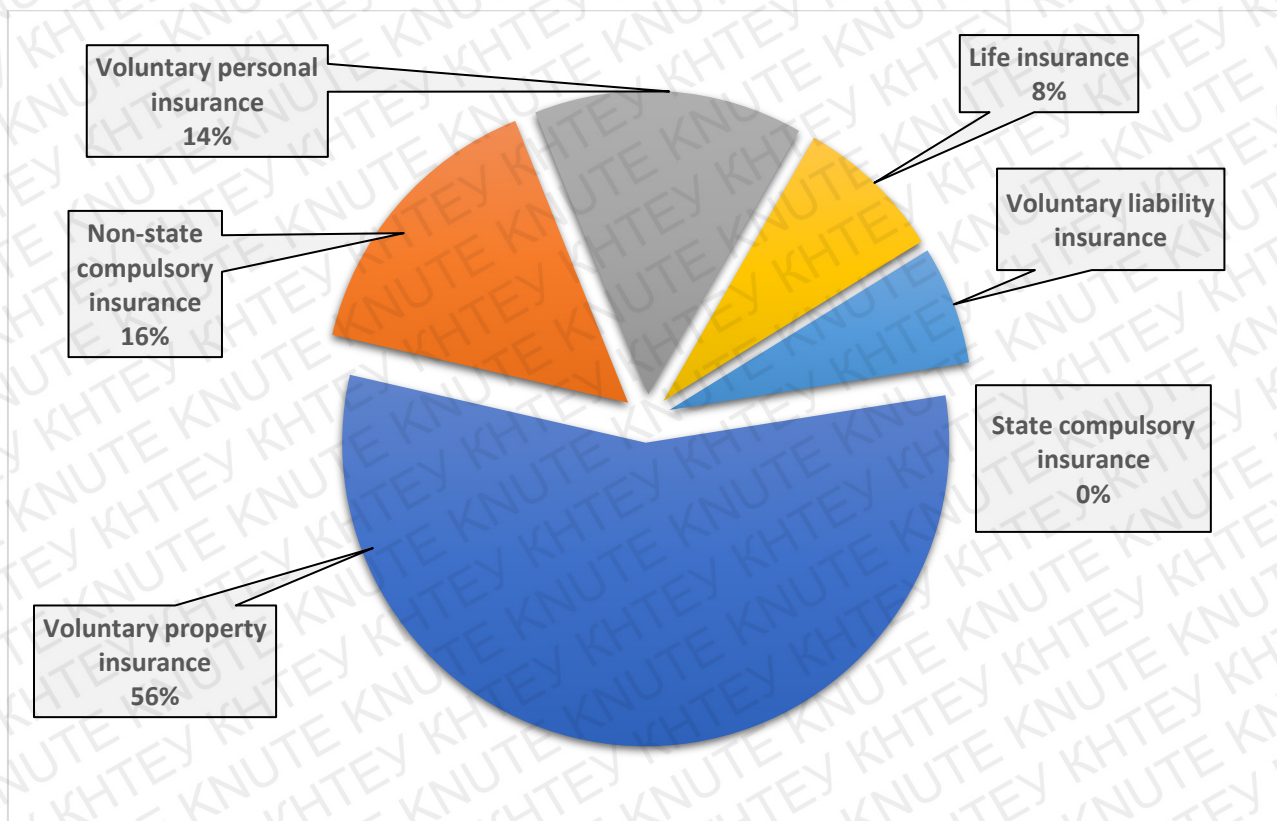


Figure 2.2 Structure of gross insurance premiums in Ukraine as of 31.12.2018

\*developed by the author on the basis of [59]

In the structure of gross insurance premiums by type of insurance as of 31.12.2018 the largest share belongs to such types of insurance as: car insurance; property insurance; financial risk insurance and third party liability (appx. A.1).

In the structure of gross insurance payments by type of insurance as of 31.12.2018 the largest share belongs to such types of insurance as: car insurance; medical insurance; financial risk insurance and and property insurance (fig. 2.3, appx. B.1).

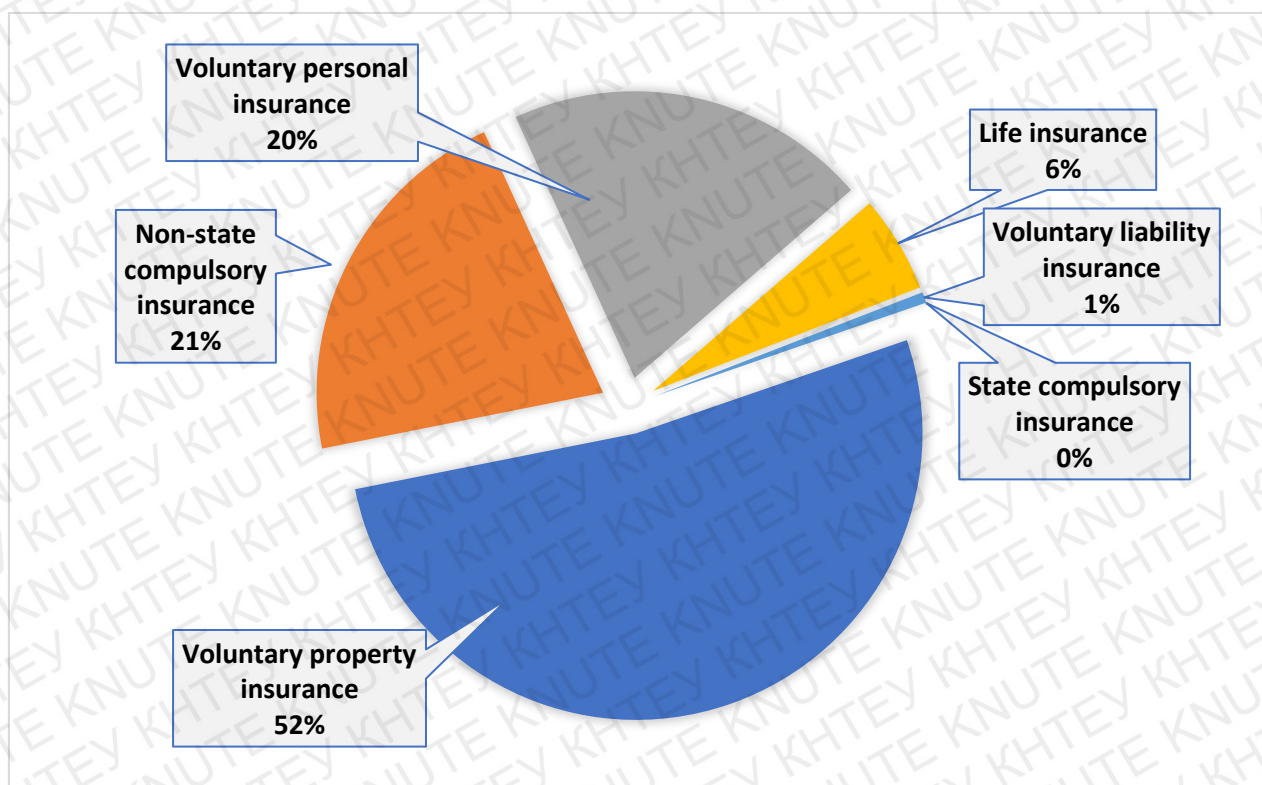


Figure 2.3 The structure of gross insurance payments in Ukraine as of 31.12.2018

\*developed by the author on the basis of [59]

Therefore, the Ukrainian insurance market is characterized by a low level of development and has several unresolved problems. During the years 2014-2018 there was an increase of the following indicators: in gross insurance premiums from UAH 26'767.3 million to UAH 49'367.5 million (85% higher in 2018 than in 2014), in gross insurance payments from UAH 5'065.4 million to UAH 12'863.4 million (154% higher in 2018 than in 2014), and in insurance reserves UAH 15'828.0 million to UAH 2'6975.6 million (70% higher in 2018 than in 2014). Despite the increase in these indicators, the total assets of insurers, the volume of paid-up share capital decreased,

which was primarily due to the decrease in the number of life and non-life insurance companies. Based on the analysis of macroeconomic indicators of the development of the insurance industry, we can conclude that Ukraine has a low level of insurance penetration.

In today's market environment, competition is a driving force for the development and improvement of business activities of various business sectors. According to the results of 2017-2018, "AXA Insurance" is the leading insurance company among the insurers in the Ukrainian market (according to Insurance TOP magazine). In 2018, AXA insurance company scored a record profit and collected UAH 2 Billion of insurance premiums [5].

"AXA Insurance" specializes in auto insurance (CASCO), property insurance, civil liability insurance (OSCSP), accident insurance, health insurance and other types of insurance. In general, the company has licenses for 21 types of insurance.

Analyzing the competitiveness of an insurance company in the market allows us to find out the factors that influence the attitude of customers to the firm and its services and as a result - changes in the market share of the firm (Figure It is the indicators of the financial condition of insurers that most closely assess the market position and the state of competitive potential at a particular date. These indicators should include the following (tbl. 2.3).

Table 2.3

## Indicators of competitive position of the insurer

Indicator	Formula for calculation	What characterizes
Business activity	Insurance premiums/ Balance sheet currency	The efficiency of using of resources of the insurer
Equity to the authorized capital	Equity/ Authorized capital	>1 - profitable activity, ability to develop <1 - an absence of owners of the company before its development

Continuation of Table 2.3

Load factor	Costs of running a joint venture/Insurance Premiums	Evaluates of the rationality of insurance fund expenditures
Indicators of own funds	Equity/ Technical Reserves	Evaluates the financial stability of the insurer
Reserve leverage	Technical reserves/ Equity	Evaluates the flexibility of the company's capital management
A revenue generation indicator	Net Cash Flow/ Average Annual Value of Assets	Determines the aggregate potential of resources and the quality of their management
Endurance index	Insurance Premiums (current year)/Insurance Premiums(previous year)	Determines the ability of the company to maintain a high rate of development over a long period

\*developed by the author on the basis of [39]

Having calculated the competitiveness indices of “AXA Insurance”, using the formulas given in table 2.4, we can conclude that the level of competitiveness of “AXA Insurance” is at a high level, about the revival of business activity and positive dynamics for further development.

Table 2.4

Competitiveness indicators of insurance company "AXA Insurance"  
during 2015-2018 in Ukraine

Показник	2015 p.	2016 p.	2017 p.	2018 p.
Business activity	0,7188	0,7625	0,9638	1,0075
Equity to the authorized capital	1,7256	2,0812	2,3226	2,3226
Load factor	1,2397	1,2160	-	-
Indicators of own funds	1,0588	1,0719	0,8290	0,6007
Reserve leverage	0,9445	1,2063	1,6647	1,8020
A revenue generation indicator	-0,1027	0,1798	0,0243	0,9820
Endurance index	1,2922	1,390	-	-

\*developed by the author

The assessment of the competitive (market) position of an insurance company is carried out by qualitative and quantitative parameters, which allows to take into account the essence of competition in the insurance market, the specifics of the insurance service and the nature of formation and management of the company's cash. The assessment of the level of the insurance company should also be carried out on the level of security of equity, because if the capital of the company is sufficient, it is able to protect the company from unexpected shocks, protect policyholders, balance the probable differences that may arise in the overvaluation of assets and undervalued liabilities . The level of risk will, therefore, be lower than the higher the level of capital relative to the assets and liabilities of the company.

Having examined the structure of gross insurance premiums, it can be said that their redistribution in 2018 was in favor of insurance such as auto insurance (25% in 2018 comparing to 2017), property insurance (12% each in 2018 comparing to 2017) and financial risk insurance (10% in 2018 comparing to 2017). The analysis of the Ukrainian insurance market during 2014-2018 shows a low level of social protection of the population of the country, since the incomes of life insurance premiums and the number of insurers of this type are too small in comparison with non-life insurers for sustainable development.

### 2.3 Disadvantages of the process of securing an interaction of insurance service parties and ways towards solving them

An important component of a country's financial security is financial security of its the insurance market. Its security contributes to the creation of an effective protection system of the population, economic entities, and the state. The insurance market is also an important source of long-term investment that can be forwarded into the country's economy. Increasing the level of financial security of the insurance market helps to accumulate the necessary funds and develop the economy.



Financial security of an insurance company can also be considered as a measure of harmonization in time and space. Those interests arise among the insurer and the interests of environmental components: the state, the market, competitors. Thus, the insurance market is in a financially secure state when the financial interests of insurance companies are, in some degree, consistent with those of other entities (insurers, creditors, competitors, the state, borrowers, investors, etc). It contributes to minimizing the external threats impact on the overall level of financial security of the insurance market.

The concept of insurance market security can be considered from several perspectives. In a broad sense, the security of the insurance market is the ability of the subjects of this market to counteract existing and potential threats, their ability to eliminate the negative factors which influence on the insurance market functioning [26].

In the strict sense, the financial security of the insurance market can be considered as such level of insurance companies financial resources that allow them to fulfill their obligations in a timely manner and fully achieve their goals.

Factors that threaten the insurance market safety should be considered in terms of their origin. They are exogenous (external) and endogenous (internal). External threats, related to exogenous factors of influence, are conditioned by the state and nature of the development of the macroenvironment, the impact of the global financial markets. In particular, the external threats to the Ukrainian insurance market security are:

- instability of socio-political situation;
- low level of the population and economic entities solvent demand;
- increasing inflation, reducing employment and the real average monthly income of the population;
- a large number of low-profit and loss-making enterprises;
- lack of attractive destinations for insurance companies reserves;
- cyclical development of the financial market;

- insurance companies functioning dependence on the stability of the banking system;
- global financial markets crises;
- insurance companies dependence on foreign sources of financing [60].

The emergence of internal threats to the security of the insurance market is conditioned by the influence of endogenous destabilizing factors. These include threats related to imperfect government regulation of insurance activities, deficiencies in the work of insurance companies themselves, insurers' activities and factors related to the structural features of the insurance market. The internal threats to the security of the Ukrainian insurance market at the present stage are:

- low capitalization of insurance companies;
- unbalanced structure of insurance portfolios;
- inadequacy of risk management systems;
- inefficient allocation of insurance reserves;
- insufficient amount of reserve funds formed by insurance companies;
- bankruptcy cases of large insurance companies;
- the imperfection of the current regulatory support in the insurance sector;
- inadequacy of state policy regarding strategic development of the insurance market;
- inefficient functioning of self-regulatory organizations of the insurance market;
- fraudulent actions by insurers;
- low level of insurance culture;
- low level of competition in the insurance market;
- poor quality of insurance services [23].

A significant financial threat to the modern insurance market is the outflow of capital abroad. There is now a situation where foreign-owned insurance companies perform the function of insurance intermediaries, transferring about 90-95% of the risks of the parent company into reinsurance, thereby diverting financial flows abroad. This situation is peculiar to more life insurance companies, because with risk insurance

together with capital risks are exported, and with life insurance 80-90% of long-term investment resource and only 10-20% of risks [31].

As the number of those wishing to protect themselves from a property and personal losses increases, the number of insurance disputes being considered by the courts of Ukraine increases proportionally. That is why, when considering threats to the financial security of the insurance market, we also paid attention to fraudulent actions by the subjects of the insurance market. Fraud in the insurance sector is quite widespread and is gaining momentum every year. In most cases, criminal activities are aimed at maximizing profits or generating non-taxable income. In particular, insurance companies resort to illegal actions to reduce the amount of insurance compensation, their employees to obtain their material benefits.

In Ukraine, cases of insurance fraud are most often recorded in such areas as health insurance, auto insurance, insurance traveling abroad, and, sometimes, accident insurance. That is, in those segments of insurance, where losses are widespread, and insurers are not able to independently control the entire process of paperwork and examination and are forced to seek help from "intermediate" authorities [44].

By the number of insurance crimes on the domestic market, the leading leaders are health insurance and insurance traveling abroad. However, given the size of the payments, the biggest loss Ukrainian insurers receive from car fraud.

Anyway, it is very rare for insurance companies to deal with property insurance fraud since this type of insurance is not yet as widespread in Ukraine as it is in the West. Typically, fraudsters have two basic settings. The first is the receipt of undue compensation when the policyholder fakes documents or intentionally creates circumstances that give rise to the insurance payment. The second type of fraud is increasing the amount of damage done. As practice shows, the second option is most commonly used in Ukraine [66].

Today, it is difficult to say when there will be regular trials in Ukraine in which insurance companies will hold fraudsters liable. At this stage, this is unlikely to be possible because by refusing to pay compensation and initiate proceedings against a client, the insurer risks harming its image and scare off other clients. Insurance

companies try to protect themselves from fraudsters by conducting a thorough examination of insurance cases, ensuring the maximum involvement of their employees in the investigation of events that could cause significant harm. However, most often, insurers turn a "blind eye" to fraud cases, as the administrative costs of investigating and gathering evidence can often exceed the amount paid. Therefore, to such measures, insurance companies resort in that case when the amount of damage(fraud) is very significant. So, the issue of creating a unified database and system for the exchange of information about suspicious customers and insurance cases, especially in the field of auto insurance, is urgent [66].

Along with said above, the following actions are required for financial security measures by insurance companies against internal threats:

- providing your information security (protection of information databases, distribution of access rights to information, software protection against errors);
- setting up a clear scheme of actions of insurance units and main specialists and monitoring their compliance;
- deepening the financial analysis of clients before concluding an insurance contract and preventing fraud with the help of the latest technologies (use of information of anti-ratings, publications about financial frauds, etc.);
- creation, maintenance, and use of "blacklists" of unscrupulous clients;
- carrying out work in the direction of increasing the insurance culture of the population;
- development of the overall strategy of the insurance organization and setting priorities of financial management aimed at achieving a safe level of its activity;
- constant forecasting of probable threats of activity of an insurance company;
- ensuring a balance of the insurance portfolio, tariff, investment and reinsurance policy of the insurer;
- substantiation and implementation of the most rational forms, methods, methods, and ways of creation, improvement, and development of the financial security system of an insurance organization;
- ensuring continuous control and management of financial security;

-compliance with the appropriate level of training of employees of the insurance company in compliance with them all established rules aimed at ensuring financial security [15].

On the part of the state the main methods of ensuring the financial security of the participants of the insurance market are:

- improving the quality of life of the population and the insurance culture;
- establishment of increased requirements for the activity of insurance companies with foreign capital;
- inclusion in the functions of the supervisory state body the function of monitoring external threats for participants of the insurance market;
- supervision and control of mergers and acquisitions in the insurance market [60].

Being a necessary attribute of the market economy, insurance provides strong lifeguards of violations of property rights and interests in cases of losses caused by fire, natural disasters, technological accidents, transport accidents, and other unforeseen circumstances. At the same time, the insurance not only frees the government from spending on compensation of losses at the occurrence of insurance events but also significantly affects the strengthening of the state finances. Insurance is an effective form of citizens' assets-building and a significant source of stable long-term investments.

The insurance market refers to the financial services market, and is, consequently, in the system of ensuring the financial security of the state. Financial security is a state budget, monetary, banking, monetary systems, and the financial markets, characterized by balance, resistance to internal and external negative threats, the ability to ensure the effective functioning of the national economic system and economic growth. Financial security, in turn, includes the following components: budget security; exchange security; monetary security; the debt security; the effective operation the security of the stock market. Security of the insurance market is the level of security of insurance companies with the financial resources which would give them

the opportunity, if necessary, to reimburse losses of their clients (which are specified in the insurance contract).

On the basis of analytical data, based on the development of the domestic insurance market, we calculated the level of the Ukrainian insurance market and its economic security during 2014-2018. Obtained results indicate that the level of economic security of the insurance market of Ukraine does not correspond to strategic orientations of its development. Analysis of the main indicators of economic security of the insurance market shows that the level of economic security domestic insurance is quite low and therefore vulnerable to internal and external threats. Considering threats to the financial security of the insurance market, we also paid attention to fraudulent actions by the subjects of the insurance market. Fraud is quite widespread and is gaining momentum every year in the insurance sector. In most cases, criminal activities are aimed at maximizing profits or generating non-taxable income, speaking about insured. On the other hand insurance companies resort to illegal actions in order to reduce the amount of insurance compensation.

To sum up, the insurance market and the financial security of its participants is an important component of a market economy and is, on the one hand, a means of protecting business and human well-being, and on the other a business that generates profit and significant investment in the economy. The role of insurance companies in a market economy obliges them to pay particular attention to the organization of their own finances and, as a consequence, to ensure the financial stability and solvency of the entire market.

### **PART III**

## **ADVICE ON THE PROCESS OF SECURING AN INTERACTION OF INSURANCE SERVICE PARTIES IN UKRAINE**

3.1 Financial monitoring of insurance service parties and implementation of international experience in balancing of protection of insurance service parties' rights and interests into the Ukrainian insurance market

Developed financial oversight is the main precondition for the existence of a stable and efficient financial sector. Financial supervision acts as an integral part of financial management in insurance companies and at the same time an effective tool of state supervision over insurance activity.

Insurance organizations perform an important function in protecting society from various dangers and risks. Compliance obligations by insurers to the insured and the state has to facilitate a robust system of efficient financial control.

There is a different interpretation of the concept "financial control", in particular as a complex category, which combines two kinds: public and private (the enterprise level and independent monitoring of audit firms (fig. 3.1).

The main tasks of financial control include:

- ensuring compliance with applicable tax legislation, proper accounting and budgeting, and financial plans;
- checking the status and efficiency of financial resources, identify growth reserves for the company;
- state, communal and private property usage lawfulness and efficiency
- preventing decisions that may have adverse effects on the controlled entity, etc

[44].

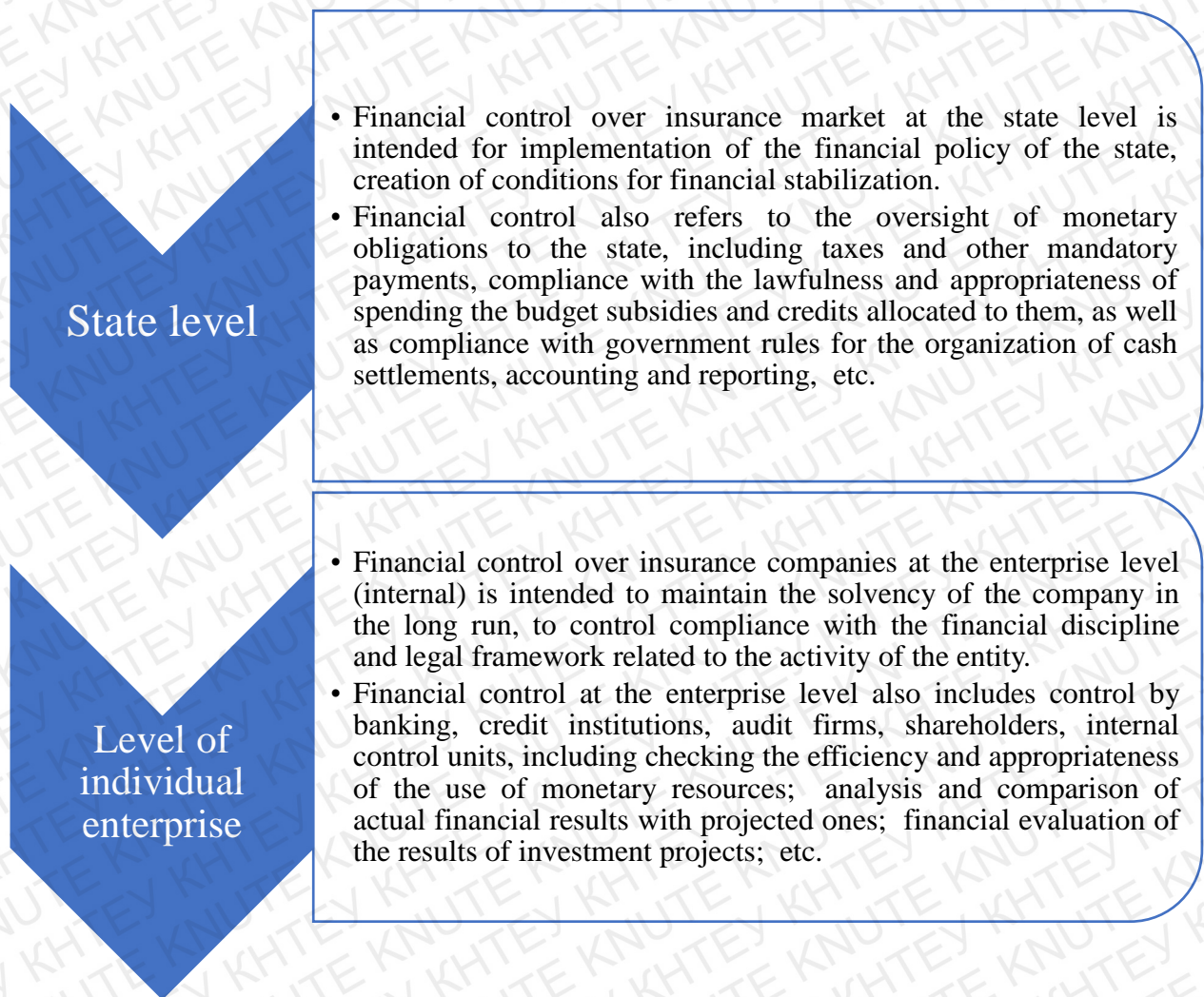


Figure 3.1 Levels of financial control of the Ukrainian insurance market

\*developed by the author on the basis of [20, 62]

Therefore, the need for financial control for the economy, the state, and the enterprise is to preserve the solvency of the entity in the long run by adhering to its legislative and financial discipline to fulfill its obligations both to the state and to society (tbl. 3.1).

The subject of financial control is almost all activity of the insurance company, namely: receiving insurance premiums; registration of insurance contracts; determination of insurance rate; payment of insurance indemnity; accounting; observance of cash discipline; solvency of the insurance company; activities of insurance intermediaries (agents and brokers); reinsurance; completeness of payment of taxes and fees to the state budget; regulation of settlements with budget institutions,



participation in tenders; the lawfulness of work of company employees and their social protection following the law of Ukraine; observance of the rights of consumers of financial services [62].

Table 3.1

## Levels of control over the activity of an insurance company

Internal control	Board, Chief Accountant, Chief Financial Officer Security and Control Service (Controlling Service) Accounting sector Financial analysis, reporting and planning State Financial Inspection of Ukraine Asset Management Sector National Bank of Ukraine Risk management sector Internal Audit Service
External control	National Commission for the State Regulation of Financial Services Markets in Ukraine State Fiscal Service State Financial Monitoring Service of Ukraine Antitrust Committee Social Insurance Funds: -Pension Fund of Ukraine -Fund for Social Protection of Persons with Disabilities -Fund for Social Insurance of Ukraine -Fund for Compulsory State Social Insurance of Ukraine for Unemployment Motor (Transport) Insurance Bureau of Ukraine Auditors

\*developed by the author on the basis of [44]

Therefore, the overall purpose of insurance supervision is to maintain transparent, safe, efficient and stable insurance markets for the benefit of market participants, both insurers and insureds. That is, insurance supervision should ensure the balance of interests of all subjects of insurance relations of the state.

Borrowing overseas experience in organizing and conducting insurance business should become an effective means of addressing the problems of the institute existing at the present stage of its development, improvement and reform in Ukraine.

According to the annual study published by Insurance Europe, the European (re)insurance federation, Europe is in third place of the world global insurance market in 2017, behind Asia and North America [17].

Insurance Europe is the European insurance and reinsurance federation. Through its 34 member bodies — the national insurance associations — Insurance Europe represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development [32].

The EU's Solvency II insurance regulation, which has been applied since January 2016, is the most comprehensive and sophisticated regulatory framework developed on such a large scale in the entire global insurance industry. It places risk management at the center of the management of insurance companies and promotes advanced risk management practices. Solvency II continues to be strongly supported by European insurers. There are many positive aspects to Solvency II that create clear improvements to the regulation of EU insurers and give rise to benefits for their customers. Solvency II notably allows for advanced and tailored economic management of the business and the balance sheet through a risk-based approach that includes using refined tools such as internal models. [61].

In 2017, total insurance premiums in Europe were EUR 1'213 billion, increasing by 4.7% compared to 2016 (appx. E.1) [18]. The largest players in the European insurance market are France, Germany and the United Kingdom (fig. 3.2).

In 2019 in its European life insurance outlook EY analysis pointed out the major European regulatory changes (fig. 3.3). As EY mentioned, insurance providers have an opportunity soon to optimize their business models in ways that streamline compliance and create business value. New approaches to compliance are already showing the way forward. For example, some European insurers are investing more than the minimum for IFRS 17 and building systems that create broader strategic value beyond compliance. They recognize that minimalist approaches to compliance do not necessarily equate to minimum investments. In all cases, compliance efforts are multi-dimensional, involving stronger data and governance models, new or updated systems and enhanced processes [19].

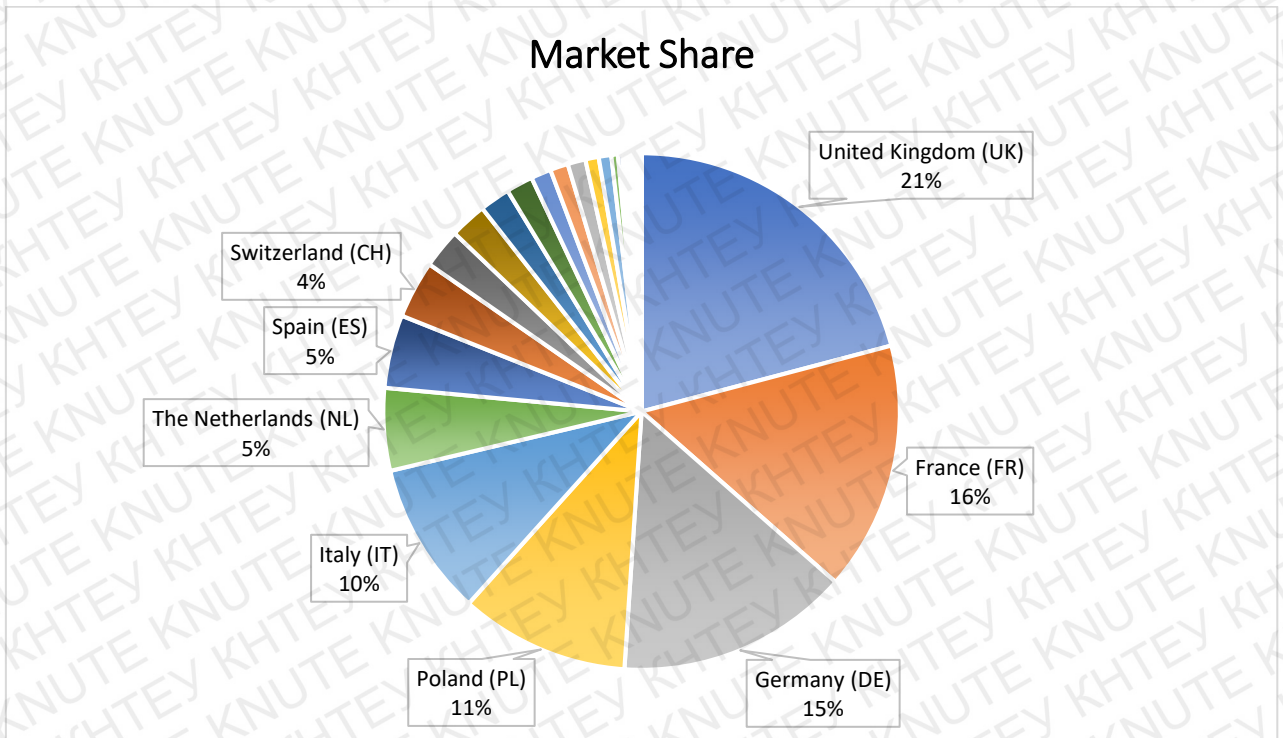


Figure 3.2 Insurance premiums by country in % of total insurance premiums in 2017  
 \*developed by the author on the basis of [18]

The internationalization of the insurance business in the European Community, of course, required uniformity in its regulation. The sheer EU countries that were the first to enter the global insurance market nowadays are ahead of all others on the path of internationalization of its regulation.

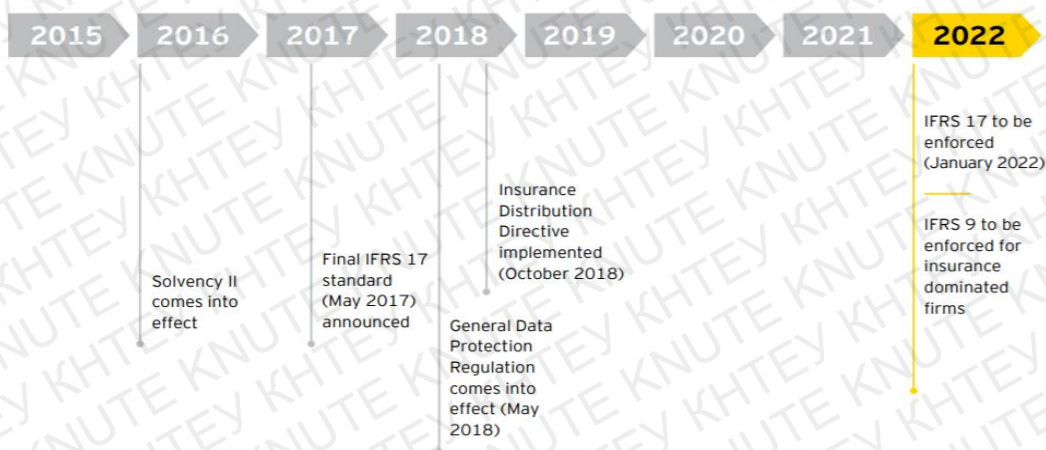


Fig. 3.3 Timeline of major European regulatory changes during 2016-2018 and changes to be done by 2020

\*developed by the author on the basis of [19]

According to the Law of Ukraine "On Financial Services and State Regulation of Financial Services Markets", one of the main tasks of the National Financial Services Commission is to supervise the provision of financial services and comply with the legislation in this field. State regulation of financial services is carried out by:

- 1) keeping state registers of financial institutions and registers of persons, which are not financial institutions but are entitled to provide separate financial services, and licensing of financial services activities;
- 2) regulatory regulation of financial institutions;
- 3) supervise the activities of participants in the financial services markets (except for consumers of financial services);
- 4) application of measures of influence by authorized state bodies;
- 5) carrying out other measures on state regulation of financial services markets [51].

For the period from 01.01.2018 to 31.12.2018 5'381 petitions of individuals and legal entities were received by the National Complex Services, which is 8 times less than in 2017. (including appeals from the People's Deputies of Ukraine, letters from the Cabinet of Ministers of Ukraine, the Administration of the President of Ukraine, committees of the Verkhovna Rada of Ukraine, ministries and agencies).

The total amount of insurance indemnity payments by insurance companies, as a result of consideration of the National Financial Services Commission of appeals for 2018, amounted to more than UAH 97 million [32].

Regarding the content of applications:

- 63% of appeals concerned the non-fulfillment (improper fulfillment) obligations of insurance companies under agreements of compulsory insurance of civil liability of owners of vehicles (further – insurance) the decision on payment or refusal in payment of insurance compensation and/or the payment of insurance compensation and penalties; which is 15% less than in 2017;
- 24% of complaints dealt with issues voluntary insurance of land transport, life, health insurance, accident, property; which is 13% higher than in 2017;

- 8% of complaints about the absence of claims to insurance companies (feedback, appreciation); which is 1% less than in 2017;
- 5% of the requests concerned the clarification of norms of the legislation and/or agreements [32].

The commission has the right to inspect the insurer for its obligations to the insurers under the concluded insurance contracts for types of insurance.

Under the law of Ukraine "On the basic principles of state supervision (control) in the field of economic activity" provides for planned and unplanned measures of state supervision (control), which are carried out by carrying out checks, audits, inspections, surveys and other actions [43].

In 2017-2018, the National Audit Committee did not carry out routine inspections due to the moratorium on planned government oversight activities), during 2018, the National Audit Service performed 11 unscheduled inspections of insurance companies (which is 72% more than in 2017) (fig. 3.4) [52].

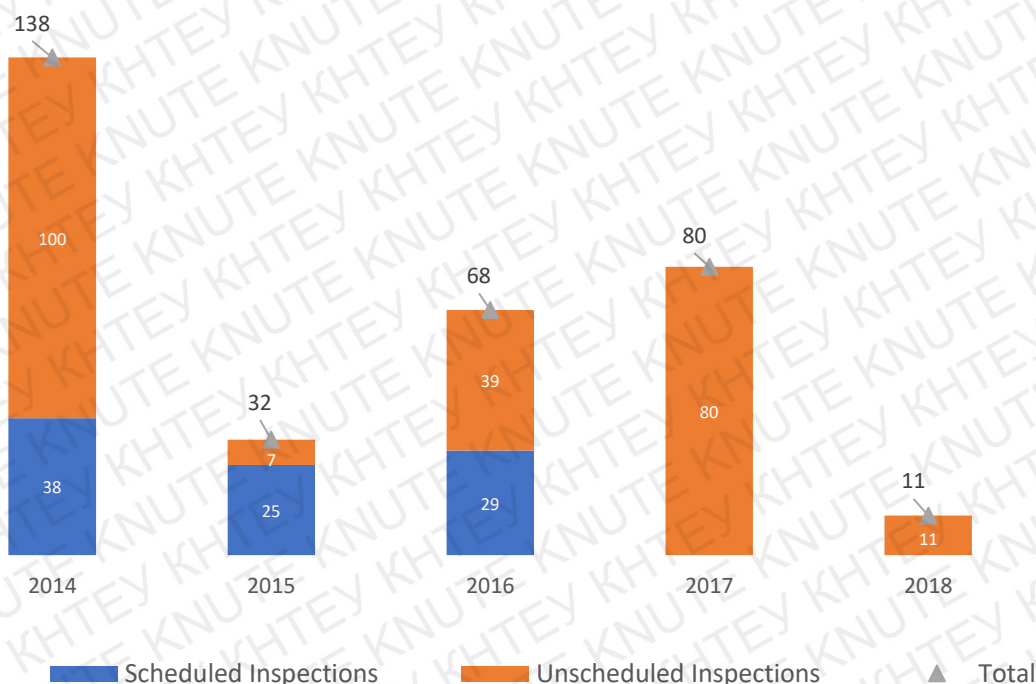


Figure 3.4 Results of supervision of insurance companies in Ukraine in 2014-2018 by the National Financial Services Commission

\*developed by the author on the basis of [52]

The main violations, established in 2018 as a result of scheduled and unscheduled inspections of insurance companies, were:

- failure to comply with the asset adequacy ratio and the asset diversification standard;
- inconsistency of insurance rules with the requirements of the legislation;
- failure of the insurer to fulfill its obligations under the concluded insurance contracts following the requirements of the law [56].

Regarding the revocation of licenses, in 2018 the National Financial Services Commission revoked the licenses of 21 insurance companies and expelled financial institutions from the State Register and revoked the certificate of registration of 17 insurers. Over the past 10 years, the commission has revoked licenses for 133 insurance companies, of which 119 for the last four years, and the first two months of 2019, 15 insurance companies have revoked their licenses [35].

This was made possible by both the planned inspections that the NatComFinServices has been authorized to carry out this year and the new regulatory requirements for the quality of assets and the solvency of insurers. The significant reduction in the number of insurance companies not only did not reduce the volume of insurance services but, on the contrary, contributed to their growth, especially in the part of retail insurance, the volume of which has more than doubled in the last four years. Also, the regulatory environment has contributed to improving the quality of assets and insurance reserves of insurers [48].

Taking into account globalization and integration processes of today and the proximity of our state to the world insurance market, it is important to appeal to the international experience of administrative-legal regulation of insurance activity in developed countries, where for many years there has been a steady development of the economy, in particular through effective state regulation of national insurance markets, aimed at legal protection of property interests of participants of insurance relations, economic security and financial stability in general. The complexity of insurance companies, which primarily occurs in the process of evaluating insurance risks, grouping of risks according to uniform signs, management of accepted risk, etc.

requires licensing and administrative-legal regulation of the admission of these organizations to exercise their activities in the market of insurance services. Legal and administrative regulations that govern these procedures, quite hard in most countries, especially in France and Germany [37].

Along with licensing, administrative law regulates relations which arise directly in connection with the practical implementation of the insurance supervision bodies of their powers, namely: maintenance of the unified state register of insurers (reinsurers), the register of associations of subjects of insurance business; the results in the cases stipulated by the legislation, permits an increase in the size of statutory capital of insurance companies at the expense of foreign investors, for transactions involving foreign investors on disposal of shares of companies and opening of branches of foreign insurance companies, etc [46].

Also, a rather important area of legislative activity in the field of innovation and investment insurance is the regulation of administrative and legal requirements for the content of investment risk insurance contracts, as well as for the regulation of relations arising from the conclusion and implementation of these contracts, because the main purpose of such legal regulation is to protect the rights and interests of policyholders (investors).

Comparing Ukraine with top 10 countries which are leaders in global insurance market in 2018, Ukrainian insurance market is anything but miniscule. Taking a closer look, it is said that a share of Ukrainian insurance market among global market is 0.03%. Sadly, but our country still has undeveloped insurance market that is a small niche in the overall financial market (appx. C.1).

Speaking about life insurance, it is an important element of the overall functioning of the economy, which allows for solving many social problems. Today, in many developed countries, life insurance is, first, the effective tool for solving many social problems, and secondly, the source of long-term financial investment (fig. 3.5). In 2019 the Swiss reinsurance company Swiss Re published “World insurance in 2019” report. As we can see, top countries which have high developed insurance markets, life insurance premiums are more than non-life. Also, those countries and their

insurance market can be characterized as that, which has a more self-regulated nature of the activity (appx. D.1).

Ukraine has a low level of demand for insurance services in this area due to several reasons. Lack of traditions of life insurance due to the small time of development of the domestic life insurance market to insurance companies, low living standards and low salaries of the population are the main reasons hampering the life insurance development. Voluntary life insurance in developed countries began with salaries at USD 500 per month. In Ukraine, this figure does not reach USD 200. Therefore, the life insurance payout is usually quite problematic for an average citizen [4].

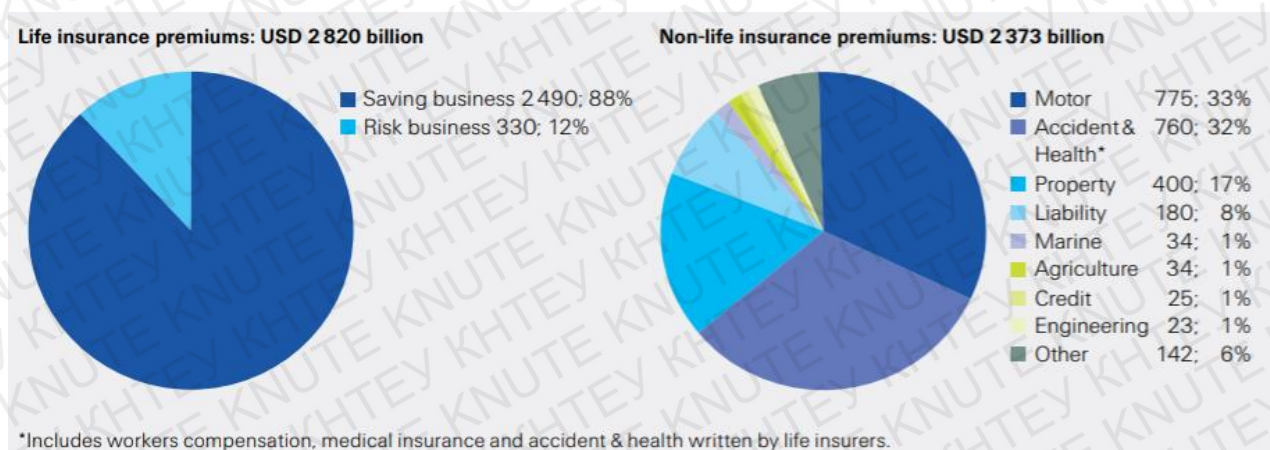


Figure 3.5 Life business split in global life and non-life premiums (in USD billions and %) 2018E

\*developed by the author on the basis of [17]

Reliable reinsurance is one of the most important criteria for a balanced policy of an insurance company. This is an additional guarantee for the insurer to make payments upon the occurrence of an insured event. Around 5% of global insurance premiums were ceded to the reinsurance market in 2018. Like in the primary industry, the US and Canada are the dominant markets in reinsurance (a third of global premiums in non-life and 53% in life) [59].

Licensing of reinsurance activities also plays an important role in the operations of reinsurance. In Ukraine to carry out operations on reinsurance all insurers that



received a license for a particular type of insurance. This creates a lack of uniform standards and requirements to reinsurance contracts. The licensing of reinsurance activities is relevant and necessary in modern conditions of development of the reinsurance market in Ukraine.

To sum up, nowadays a lot of new risks become increasingly popular in insurance sphere. Respectively, as those risk are fast evolving, insurance companies are interested in finding the additional financial capacity to hold these risks to encourage a much greater number of customers, increase the scope of insurance operations, increase the revenue of their own business. An insurance company being the main entity of the insurance market wants to remain financially robust and competitive. With the combination of the interests of reinsurers and the reinsured, creates the supply and demand in the market, the reinsurance market is also beginning to play an increasingly important role in the insurance market and the economy as a whole. Without international reinsurance Ukrainian market can only develop at a very slow pace, and the Ukrainian insurers can only to a limited extent to perform the function of protecting the national economy and its subjects. Therefore, it becomes obvious that all that prevents the Ukrainian insurers to obtain effective reinsurance protection and related services makes them too expensive and ultimately detrimental not only by the Ukrainian insurers, and thus the development of the Ukrainian economy as a whole.

Financial control, on the other hand, is an integral element of the system of management of the insurance organization, and also an effective tool of state regulation and supervision. A process of financial control requires an appropriate information and analysis that will provide an adequate assessment of the financial condition and solvency of the insurer, the forecasting of possible internal and external risks of the company's activities, compliance with necessary and sufficient amounts of financial resources for timely execution of insurance obligations.

### 3.2 Unification of the protection for insurance service parties

Unification is the bringing of certain types of documents, situations to uniform standard rules of design and formulation of a concept. The main purpose of unification of documents is to reduce all documents to one standard, reduce the number of species and varieties and reduce the presence of any unnecessary documents; create a specific requirement that all documents must meet.

Improving the insurance business by improving the efficiency of its staffing, unifying the insurance legislation, the use of advanced technologies in this area is a prerequisite for its development and ensuring stability, especially if insurance goes beyond national borders. The harmonization of legislation must comply with international norms and standards [68].

In the countries that are members of the European Union, uniform rules have been drawn up, including financial and legal regulations governing insurance relations and the functions of government regulation of insurance activities:

- the procedure of licensing of insurance activities, including monitoring financial status, conditions of insurance and validity of insurance tariffs;
- single procedure for the formation of an insurance reserve funds;
- rules of placement of funds of insurance reserve funds;
- the ratio between the assets and liabilities of insurance organizations (margin of solvency);
- forms and terms of submission of accounting and statistical reporting;
- the order of registration of insurance brokers;
- the registry of insurance organizations;
- the order of suspension and revocation of licenses to carry out insurance activities [36].

Today, European insurance legislation is based on three generations of EU Directives to regulate insurance activities. These guidelines relate to monitoring the solvency of insurance companies, protect the rights of consumers of insurance services regulation of insurance intermediaries, etc [fig. 3.6].

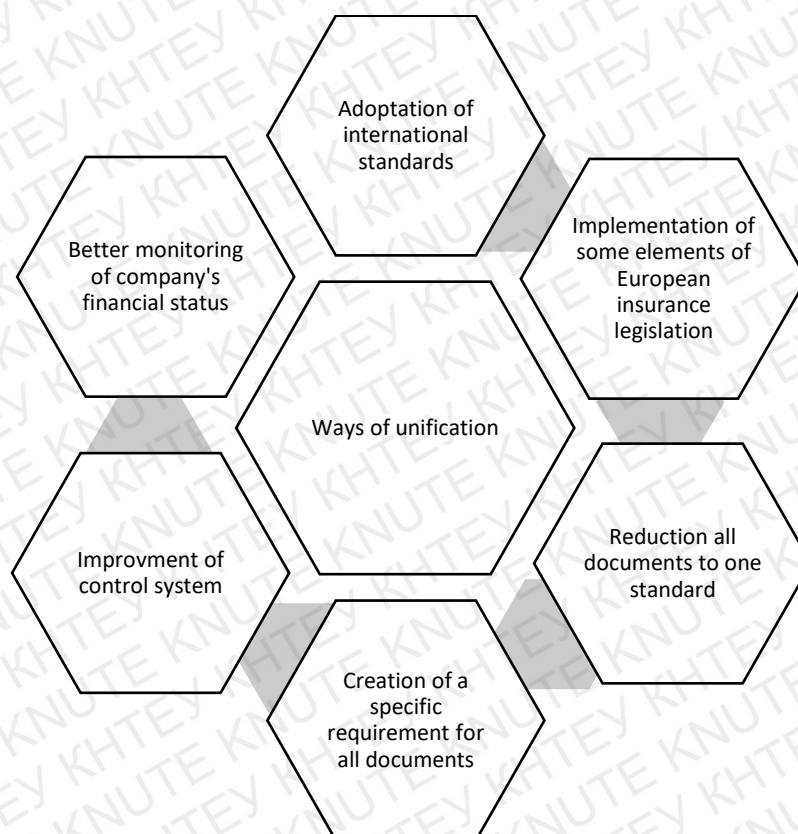


Figure 3.6 Ways towards unification of a protection for insurance service parties in Ukraine

\*developed by the author

The Ukrainian insurance market can be described as a market where is absence of a single mechanism for harmonization of documents regulating the activity of the subjects of the insurance products marke, inconsistency of actions of the legislative and executive branches of power aimed at forming the regulatory base of the insurance market of Ukraine, the imperfection of the legal framework, its incompleteness and fragmentation, which is a significant factor that hinders the development of insurance in Ukraine (all the normative acts on which insurance activity in Ukraine is based require improvement) [26].

Disadvantages of the regulatory framework for insurance, such as the lack of proper protection of the rights of insurers, the imperfection of tax legislation, the absence of legal guarantees for contributions by insurers in the event of insurer bankruptcy, the defects of the state regulation of the insurance sector inevitably affect the insurance market. The state has a significant impact on the development of the

country's insurance market. However, the imperfect legal framework, unstable political situation, and the decline in the standard and quality of life present in Ukraine do not contribute to the development of the insurance market [65].

Thus, it is necessary to do the following steps in Ukrainian insurance market:

- to develop a clear concept for the development of the industry by 2021;
- to adapt the Ukrainian insurance market to the global requirements of financial regulation and supervision, actively cooperating with international organizations;
- to provide legal conditions for full implementation of investment and pension insurance;
- adopt international standards for accounting and analysis of insurance companies;
- create: a single self-regulatory organization, of which all insurance companies must be members, to protect the rights of consumers of insurance services, ensure fair competition in the market, a centralized database of fraud in the insurance market, which will be accessible to all insurers, as well as an independent institute of examination of contracts and insurance cases;
- improve the modern system of control over the financial condition of insurance companies; ensure the formation of investment instruments for the placement of long-term insurance reserves with the help of state guarantees;
- improve monitoring of insurers' activities and strengthen control over their compliance with requirements for solvency, financial soundness, size of net assets, authorized capital and persons with a significant proportion of insurers' capital;
- promote the creation of insurance guarantee funds, including under life insurance contracts;
- develop and implement incentives for insurers voluntarily adhering to transparency and higher solvency requirements and the implementation of international financial reporting standards;
- introduce a stimulating tax policy for the development of personal insurance, long-term life insurance, including investment, the participation of insurers in the non-state pension insurance system, compulsory health insurance by using a share of

contributions from these types of insurance on gross expenses of legal entities and improving personal income tax [26].

Based on the aforementioned, it can be seen that the insurance market is integrated into the global market, operates on market principles and insurance companies based on requirements of Ukrainian legislation. In our opinion, the Ukrainian insurance market is efficient for compliance with the current market conditions in Ukraine, however, not ideal for its potential capacity. This potential concerns the provision of financial services to consumers and the use of accumulated insurance premiums in the financial system of the country.

The analysis of the development of the insurance market of Ukraine shows that Ukraine is among the last positions in terms of penetration and level of insurance payments comparing to European countries. The domestic insurance market is not only has a significant gap with such developed countries as Germany, Sweden, Finland, France, but is also much weaker in comparison with the countries of Eastern Europe, such as Bulgaria, Hungary, the Czech Republic, Poland, Slovakia. The major problems of insurance market development are formation of an unbalanced structure of the insurance portfolio and private insurance companies; low insurance payments and the problem of integrity of insurance companies; public mistrust of insurance companies, low interest in insurance products; the limitations of safe and liquid financial instruments for implementation of investment activities of insurance companies. All certain problems and disproportions in the development of the insurance market of Ukraine are interrelated and require comprehensive solutions.

To achieve the strategic targets of the long-term development of the Insurance market of Ukraine requires the implementation of structural reforms. The main tasks for today are to ensure the formation of a full-fledged insurance market in our country, and therefore to increase the level of its economic security. Thus, the development and implementation of effective state policy in the sphere of insurance, bringing the legislation in compliance with the rules, regulations and requirements of the EU, ensuring conditions for development of competition, creating conditions for the improvement of state supervision over insurance activities are to be brought into force.

As there are constant changes in conditions and character of the insurance market functioning, it is necessary to develop a strategy for the insurance market development, aiming at improving economic security.

To increase the efficiency of the national insurance services market, it should be done next actions: improve the mechanism of its state regulation; reduction to the international standards of the legislation regulating insurance activities; introduction of new technologies in insurance and the new service quality standards in this area. In connection with the emergence of new types of risks, it is necessary to increase the types of insurance services. The implementation of the above will certainly contribute to the effectiveness of the national insurance market in particular and national economy in general.

## CONCLUSIONS AND RECCOMENDATIONS

The final qualification work considered the impact of securing of interaction of insurance service parties in Ukraine, changes to be done towards the implementation of necessary leads to improve the security of those parties and to develop Ukrainian insurance market as a whole.

According to the research conducted in the work, we can draw the following conclusions.

1. The scientific novelty of the obtained results is to substantiate the theoretical and methodological foundations of the interaction of the subjects of insurance services and to unify the protection of the subjects of insurance services as one of the ways of the proper functioning of the Ukrainian insurance market. Having observed the insurance market of Ukraine and having conducted researches of securing an interaction of insurance service providers we came up with a scientific novelty which was based on foundations of the interaction of the subjects of insurance services and their securing, unification of the protection in the Ukrainian insurance market. We have formed suggestions on the formation and strategic development of the insurance market in Ukraine, which contain some elements, based on other scientific reseaches. We consider that insurance protection is a form of manifestation of the degree of protection of the interests of the main insurance participants and is a polysubjective because not only insurance companies and insurers are subjects of insurance protection. The importance of the state in the implementation of insurance protection is emphasized, that is, the state acts as a guarantee of insurance protection and is one of the main subjects of insurance relations.

2. Having observed the insurer's and insured's main duties, we must understand the importance of fulfillment these rights and obligations of each and every participant. Unfortunately, there are more and more cases involving fraud, misinformation, lies, which are essentially unlawful acts. The analysis of literary sources regarding the commission of crimes in the field of insurance showed that today there are about two hundred methods of committing, the essence of which depends on the type of insurance: compulsory or voluntary, life insurance, health, property,

vehicles, travel and travel, civil or professional liability and other types. The conducted studies indicate that the insurance market of Ukraine is at the stage of formation, gradually adapting to the requirements of European and world markets. In order to improve the situation, domestic insurers need to take foreign insurance experience and change their own operating models, in particular: to improve the mechanism of state regulation of the activity of insurance companies; to adapt the insurance legislation to the world standards; to implement the latest insurance technologies and the latest standards of service quality in this area, etc. In the insurance sector, the most common objective reasons for criminal actions are: 1. Amendments to the insurance law (in particular, the adoption of the Law of Ukraine "On compulsory insurance of civil liability of vehicle owners") led to a significant expansion of the range of persons involved in the field of insurance, which included criminal elements, persons with antisocial behavior and professional criminals; 2. Familiarity with a large number of individuals with the characteristics of insurance relationships led to a general awareness of the possibility of deceiving an insurance company without serious consequences; 3. Due to the understanding of the insurance business features, namely the specifics of collecting the necessary documents for the insured event, all unscrupulous insurers and victims realized the insecurity of insurance companies (lack of an effective system of pre-contractual verification, investigation, interaction between insurers, lack of a single database, etc.) and began to actively establish own "rules of the game"; 4. Insurance fraud today became the most massive type of offense, which society does not treat it as a crime; 5. The general tendency of legal nihilism, unwillingness, and inability to comply with the law led to the fact that the falsification of documents for an accident or the receipt of counterfeit medical certificates became a normal phenomenon; 6. Corruption in law enforcement agencies and the judicial system has led to the emergence of "legal" schemes of insurance fraud, strengthened by "necessary" official documents and court decisions; 7. Practically, the government absolutely neglects of the problems of the participants in the insurance market, which daily undergo criminal activity by individual criminals and organized criminal groups;



8. The absence of an official record of committed crimes in the insurance sector which should be carried out primarily through the analysis of information, provided by insurance organizations, can not contribute to the formation of public opinion about the true scale of these crimes and does not allow to build a stable and effective system of measures to prevent crime in the insurance industry.

3. Last but not least, there is still a problem with the lack of a proper licensing and accreditation system for domestic insurance intermediaries. Today, the agent of an insurance company can become almost any person, and as a result of the sale of counterfeit insurance policies, the client remains without insurance coverage. In our opinion, in order to deal effectively with insurance crimes, there is a need for insurance companies to exchange information and to form the data collection about objects and subjects with high risks. It is anything but impossible to ignore the role of the state in this process. The development condition of the insurance institute along with the development of the banking system and the stock market determines the development of the financial system of the country as a whole. And the state is obliged to protect one of the levers, which forms the economy of the country, namely: to improve the legislation in aspects of combating fraud in insurance, both on the part of the insurer and on the part of the insured. And only in this case, when the balance between insurers and insured is reached, the Ukrainian insurance market will be able to operate properly and will bring money into the economy of our country.

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## APPENDICES

## Appendix A.1

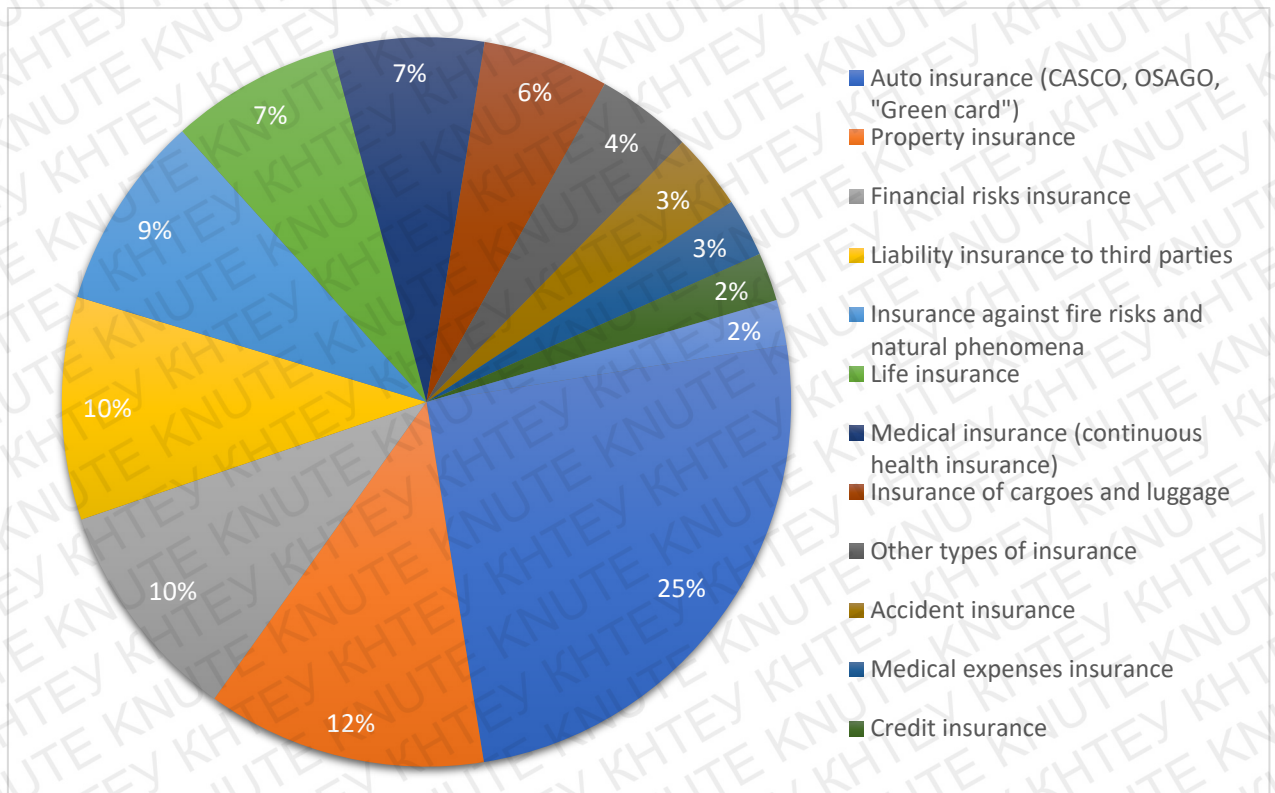


Figure A.1 Structure of gross insurance premiums by type of insurance in Ukraine as at 31.12.2018

\*developed by the author on the basis of [64]

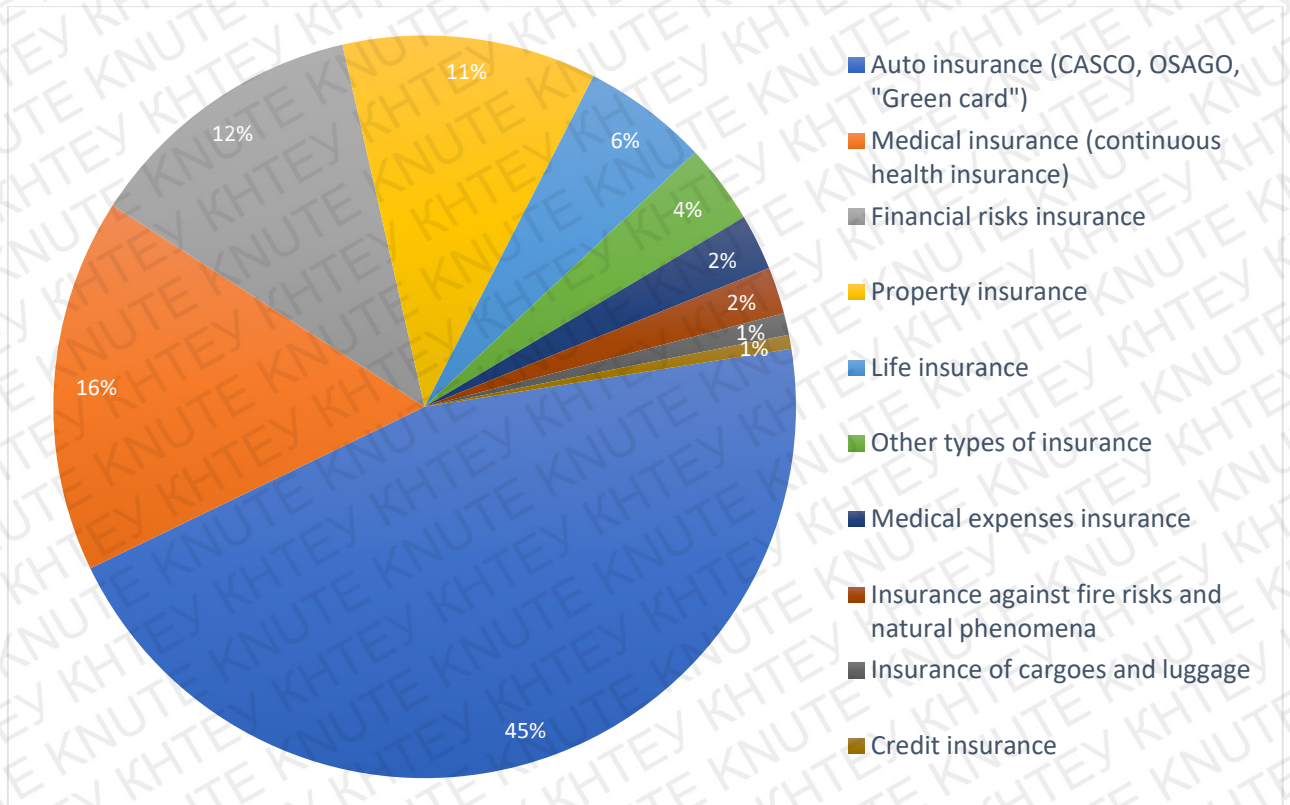


Figure A.2 Gross insurance payments by type of insurance in Ukraine as at 31.12.2018

\*developed by the author on the basis of [64]

Top 10 countries which are leaders in global insurance marker 2018

Ranking	Country	Premium volume (in millions of USD) 2018 E	Share of world market 2018E (in %)
1	USA	1'469'375	28.29
2	China	5'74'877	11.07
3	Japan	440'648	8.49
4	Great Britain	336'510	6.48
5	France	257'963	4.97
6	Germany	241'485	4.65
7	Sauth Korea	179'024	3.45
8	Italy	170'273	3.28
9	Canada	127'903	2.46
10	Taiwan	121'908	2.35
60	Ukraine	1'774	0.03
World		5'193'225	100.00

\*developed by the author on the basis of [65]

Appendix D.1

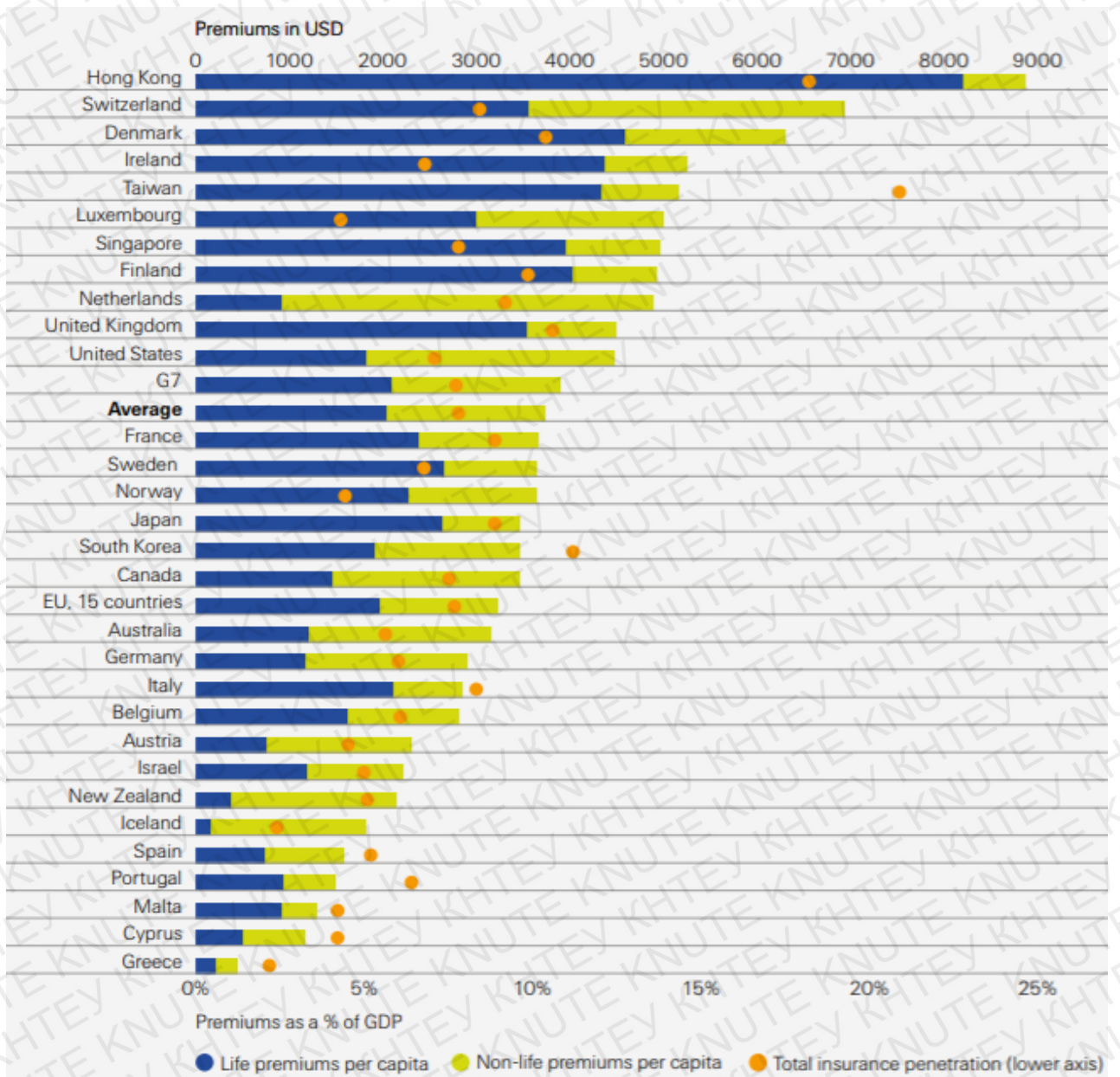


Figure D.1 Insurance density (USD) and penetration (%) in advanced markets, 2018E

\*developed by the author on the basis of [65]

## Insurance premiums by country in billions Euros (2017)

United Kingdom (UK)	283.6	Portugal (PT)	10.7
France (FR)	211.6	Czech Republic (CZ)	5.6
Germany (DE)	198	Greece (GR)	3.7
Italy (IT)	130.9	Hungary (HU)	3.1
The Netherlands (NL)	70	Luxembourg (LU)	2.5
Spain (ES)	62.2	Romania (RO)	2.1
Switzerland (CH)	48.9	Slovakia (SK)	2.1
Sweden (SE)	33.5	Slovenia (SI)	2.1
Denmark (DK)	31.2	Croatia (HR)	1.2
Belgium (BE)	25.8	Bulgaria (BG)	1.1
Finland (FI)	22.8	Cyprus (CY)	0.9
Austria (AT)	17.1	Malta (MT)	0.5
Irland (IE)	15.3	Estonia (EE)	0.3
Norway (NO)	15.2	Latvia (LV)	0.2
Poland (PL)	14.4	Liechtenstein (LI)	0.06
Turkey (TR)	11.3		

\*developed by the author on the basis of [14]

## Classification of methods of regulation of insurance activities

Legal	Constitution of Ukraine, Codes and Laws of Ukraine, the Ukrainian Cabinet of Ministers Resolutions, Order of National Financial Services Commission
Administrative	Licensing, insurer solvency conditions, information services
Financial and economic	Requirements for the formation of centralized insurance reserve funds, taxation and incentives
Social	Social protection of citizens and legal entities, capitalization of citizens' incomes

\*developed by the author on the basis of [64]

National and internal organizational level of insurance market regulation in Ukraine

	Codified acts	<ul style="list-style-type: none"> <li>- Civil Code of Ukraine</li> <li>- Legal regulation of insurance relations, in particular in financial management and control (Chapter 67)</li> </ul>
		<ul style="list-style-type: none"> <li>- Economic Code of Ukraine</li> <li>- Financial Activities of economic entities and Insurance in sphere of management (Art. 333, 352)</li> </ul>
		<ul style="list-style-type: none"> <li>- Tax Code of Ukraine</li> <li>- Financial administration in the field of insurance activities taxation (Art.141,164-166)</li> </ul>
National level	Laws	<ul style="list-style-type: none"> <li>- The Law of Ukraine "On Insurance"</li> <li>- Rating of financial reliability (Art. 2 point 6).</li> <li>- Terms of security solvency of insurance providers (Art. 30).</li> <li>- Insurance reserves (Art.31).</li> <li>- Guarantee Funds (Art. 32)</li> </ul>
		<ul style="list-style-type: none"> <li>- The Law of Ukraine "On Financial Services and State Regulation of financial services markets</li> <li>- Licensing of activities (Art. 34)</li> </ul>
	By-laws (regulations, disposals, commands)	<ul style="list-style-type: none"> <li>- Regulation of the the NatComFinServices, which regulates the financial services market № 850</li> <li>- Mandatory standards of capital adequacy, payment capacity, liquidity, profitability, assets quality and insurance provider's risk of operation</li> </ul>
National level	By-laws (regulations, disposals, commands)	<ul style="list-style-type: none"> <li>- Regulation of the NatComFinServices for financial services market regulation № 295</li> <li>- Requirements for the insurance provider concerning the organization and operation of the management system risks</li> </ul>
Internal organizational level	Organizational documents of an insurance company	<ul style="list-style-type: none"> <li>- Current and operational financial plans</li> </ul>
		<ul style="list-style-type: none"> <li>- Reporting and internal documents verifying the fact of carrying out control and so on.</li> </ul>

\*developed by the author on the basis of [64]



## Appendix H.1

Table H.1

International organizational level of insurance market regulation in European  
Union

<p style="text-align: center;">International level</p>	<p style="text-align: center;">EU Directives on regulation of insurance business</p>	<ul style="list-style-type: none"> <li>- Establishment uniform principles for assessing the financial condition insurance organizations;</li> <li>- uniform order of insurance reserve funds formation;</li> <li>- the ratio of assets to obligations of the insurance organization;</li> <li>- forms and terms of accounting submission and statistical reporting, etc.</li> </ul>
	<p style="text-align: center;">Project Solvency</p>	<p>Requirements for financial resources of the company, size of capital, corporate processes, control systems, and reporting.</p>

\*developed by the author on the basis of [64]

## Signs and features of the insurance market segmentation

Name of the characteristic	Characteristic of the insurance market segmentation
Geographical	<p>When segmenting the insurance market, it is advisable to consider groups of buyers with the same or similar consumer preferences, determined by residence in a given territory (for example, continents, countries, regions, cities, streets, houses)</p> <p>The insurer decides to work in one or more areas, taking into account differences in the needs and preferences of policyholders</p>
Demographic	<p>Segmentation of the insurance market involves dividing it into separate groups, taking into account factors such as gender, age, family size, stage of the family life cycle. Insurance needs arise and change with aging, increasing incomes and level of life of the population.</p>
Socio-economic	<p>When segmenting the insurance market, groups of buyers are distinguished taking into account the level of income, education, membership of civil-society associations, profession, number of employees in the family etc.</p>
Psychographic	<p>Such segmentation requires a correct understanding of consumer motives, which makes it possible to adapt better insurance products to the requirements of a particular market segment. Social status and lifestyle are taken into account. Lifestyle is seen as a global product of individual values, relationships, activity, consumption. This allows representing more accurately the characteristic of insurance needs, psychographic profiles. Here, customer groups are distinguished by ways of living, personality type, lifestyle, character traits, and a tendency to innovation.</p>
Behavioral	<p>Segmenting the insurance market, groups of buyers are distinguished depending on the motives of making a purchase, intensity of consumption, loyalty to the organization, type of buyer.</p>

\*developed by the author on the basis of [63]