Kyiv National University of Trade and Economics
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FINAL QUALIFYING PAPER
on the topic:

Integration of the market of insurance services in the global financial space

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INTRODUCTION

Relevance of research. Insurance sector is an important part of the financial system and a tool for economic growth in all developed countries. Insurance serves as risk management tool for business and households, as it helps to minimize the impact of unexpected financial losses. It also ensures financial stability by providing long-term investment in the economy, as insurance premiums, accumulated by insurance companies, can be used as credit and investment resources. Considering the continuous economic and political instability, insurance is especially relevant for the participants of economic activities in Ukraine as a mean for protection from negative factors and potential threats. Given Ukraine's course towards European integration, it is essential to bring the domestic insurance market to international standards and successfully integrate it in the global financial space, which explains the need for the study.

Conceptual principles of functioning of the insurance services market are covered in the works of such authors as: O. Zhuravka [9], V. Vyhovska [6], O. Vovchak [6], O. Stoyko [26] and D. Dema [8]. The scientific works of such scientists as L. Nechiporuk [14], O. Kozmenko [13], N. Fedorova [30] and others are devoted to the study of theoretical and practical problems of integration of the domestic insurance market into the global financial space. However, considering the developments occurring in the field of insurance in Ukraine and constant changes of the economic environment, further research into the theories and practices of the insurance market continues to be relevant, which led to the choice of the topic of this research, determined its purpose and objectives.

Purpose of the project is disclosure of theoretical principles, development of methodological approaches and practical recommendations for integration of the market of insurance services of Ukraine in the global financial space.

To achieve this purpose, the following **tasks** were formulated:

- review the literature and justify the need and essence of providing insurance services in the context of the global financial space;

- to analyze the target segments of the market of insurance services of Ukraine and to access the regulatory acts concerning the interaction of subjects of the market in the context of international requirements;
- develop recommendations on the unification of insurance services in Ukraine according to international requirements.

Object of the research is the interaction of subjects of the market of insurance services of Ukraine within the context of the global financial space. **Subject of the research** is the unification of insurance services in Ukraine according to international requirements.

Research methods. In the study of the selected topic were used general scientific and special methods of cognition such as methods of analysis and synthesis, systems approach, information analysis, grouping, systematization and generalization of the material.

The **information base** of the study is laws and regulations on the activities of insurance services market participants; official data of the National Commission for State Regulation of Financial Services Markets; data from the European Insurance and Occupational Pensions Authority, EIOPA; analytical reviews of the insurance market; monographic researches and scientific publications on the researched problem.

The scientific novelty of the obtained results is as follows**:**

received further development: definition of the term "insurance services market", periodization of the formation of insurance legislation in Ukraine;

improved: state supervision over the provision of insurance services in Ukraine, recommendations were provided on the unification of insurance services in Ukraine through the standardization of the order of interaction between the insurance subjects.

The practical significance of the obtained results. The results obtained can be used by the Verkhovna Rada of Ukraine when making amendments and additions to the Law "On Insurance" of 07.03.1996 № 85/96-ВР and other regulations governing the activities of participants in the insurance market. Practical recommendations for the unification of insurance services in Ukraine, presented in the study, can be used to create a strategy for the development of the insurance sector.

Personal contribution of the master. The final qualifying work is an independent completed research of the author.

Publications. Some results of the study were reflected in a scientific article: Haponenko T. The state and prospects of the Ukrainian insurance market // Financial and credit systems: problems of theory and practice: All–Ukrainian. stud. conf. of science / resp. ed. N.P. Shulga. - K.: Kyiv. Nat. Trad. - Econom. Univ., 2020. - 382 p. (P.: 360-363).

Volume and structure of work. The work consists of 3 sections, introduction, conclusions, list of used sources and appendices. The core of work is presented on 60 pages. The paper presents 4 tables, 6 figures, 2 appendices and uses 46 scientific sources.

PART 1
THEORETICAL BASE OF FORMATION OF INTERACTION OF SUBJECTS OF THE MARKET OF INSURANCE SERVICES WITHIN THE CONTEXT OF THE GLOBAL FINANCIAL SPACE

Before starting the search for ways to integrate the domestic market of insurance services into the global financial space, it is necessary to determine the theoretical foundations of the insurance market and its subjects and to justify the need for insurance services in the world economy.

Insurance is one of the main components of the country's financial system, which ensures the stability of the economy, guarantees compensation for the losses of property and income for businesses, provides a way to protect the lives and health of individuals and creates a mechanism for attracting investments in various sectors of the economy. The experience of foreign countries shows us that the insurance sector is of great importance for the field of social protection of the population and employees, especially in case of emergencies. Insurance also might serve as one of the effective tools for guaranteeing qualitative changes in Ukraine's economy, its active integration and interaction with the world economic space, increasing the country's competitiveness and image, taking into account the challenges of the new economy and the principles of socially responsible state formation.

The objective reason for the emergence and development of insurance is that any human activity is accompanied by a certain level of risk, i.e. the likelihood of certain unforeseen losses. All risks might be united into groups, based on the main reasons of their occurrence, scale, prevalence, management objectives and other characteristics. The most common insurance risks for businesses are the ones associated with natural disasters (earth quakes, floods, forest fires, etc.), accidents (eg. in the workplace), illegal actions of third parties (theft, robbery, fraud, etc.) and FLEXA (Fire, Lightning, Explosion, Aircraft crash) [28]. Due to the current developments of society, new types of risks are emerging nowadays, such as cyber security risks, climate change risks and others.

Insurance provides the financial support for businesses and individuals, which helps to reduce the negative impact of risk events and allows to ensure the continuity of the process of production of material goods. The relations that develop in society in this regard are objective in nature and together form the content of the economic category of "insurance protection" [6].

Ukrainian scientists V. Bazylevych and K. Bazylevych explain the need for insurance protection by several factors: economic, social, natural, legal and international [6].

The economic factor is explained by the need to develop a mechanism for the accumulation of funds for compensation of the damage caused by the occurrence of risk events, in order to provide favorable conditions for a process of social reproduction.

According to the social factor, insurance is a form of participation of the state, employers and citizens in the protection of personal interests of citizens and a method of creating in this way the conditions for social and political stability in society.

The natural factor explains insurance protection as a mean of preserving material well-being by distributing the cost of damage caused to individuals in the event of accidents among many other members of society.

By legal factor, insurance is a form of civil law relations about the protection of the property interests of customers in case of insured events, defined by the insurance contract or current legislation at the expense of funds formed by insurance payments of customers.

The international aspect of insurance protection means elimination of national differences in the laws of different countries, unification of the ways to protect the interests of economic entities and development of legal norms that would provide insurers with sufficient financial guarantees.

With the development of market relations, the degree of risk for individuals and legal entities increases and, therefore, the society's need for insurance is growing. In market economies, insurance is an economic category and is usually part of the state's financial system. As a part of said system, insurance is characterized by set of economic relations, the content of which is the redistribution of income and funds for accumulation with the purpose of compensation for material or other losses.

In the economic literature there are different definitions of the economic essence of insurance. Scientist O. Vovchak summarizes varied views on the essence of insurance as an economic category as follows: «…it is a system of economic, closed, redistributive relations, covering, firstly, the formation of contributions from individuals and legal entities special fund, and secondly, its use to recover property losses due to natural disasters and other accidental phenomena, as well as to provide assistance to citizens in various situations in their lives» [6].

The essence of insurance as an economic category and its role in the economy is most fully manifested in its functions. Together, they specify the content of this category in modern conditions of its application. There is no single approach among scientists to the definition of insurance functions, which might explain the different interpretations of insurance as an economic category. The most relevant insurance functions are, as follows (table 1.1):

Table 1.1

Insurance functions

Function	Characteristics
Risk function	This function is about transferring a liability for the consequences of the risk caused by insured events, the list of which is provided by applicable law or insurance contract, from the policyholder to the insurer in exchange for a fee. The amount of insurance fee depends on the probability of occurrence of the insured event. Due to this function, the objective nature of the economic necessity of insurance protection is realized.
Creation and use of insurance reserves	Insurer creates a system of insurance reserves in order to be able to pay compensation to the insured individual in case of the occurrence of a natural disaster, accident or other insured event. Formation of a specialized insurance fund ensures the stability of insurance, guarantee of payments and reimbursements, distributing the consequences of risk among all policyholders.
Preventive function	Is used to prevent or minimize losses as a result of insured events. Legal prevention includes reservations concerning the deprivation of the insured of insurance indemnities. Financial prevention implies that part of the insurance premiums is used to finance preventive measures (purchase of medicines, financing of measures to prevent traffic accidents, etc.)

End of a table 1.1

Function	**Characteristics**
Investment function	Through the mechanism of redistribution of the temporarily free funds of the insurer, insurance sector might influence the state of money circulation in the state, increasing the purchasing power of the national currency, investment opportunities and so on.
Savings function	This function appears due to use of life insurance. In the absence of insurance events, the accumulated funds of the insured are returned to them in case of a living to a certain age, specified in the insurance contract. Life insurance might serve as beneficial alternative to the banks or pension funds for people who are saving money for the retirement.
Control function	According to this function, financial insurance control is carried out over the correct conduct of insurance operations, the targeted use of insurance funds.
Budget substitute	Insurance allows the state to reduce the use of budget funds, because it compensates the unexpected losses of individuals and legal entities.
Stabilization	Is about ensuring the dynamic stability of the economic complex and social sphere of the state, continuity of the process of social reproduction.
Consulting	Provision of consulting services by insurance intermediaries to insurers.
Distribution	Influences the process of distribution of income and free funds of enterprises and households, redistribution of funds between policyholders.

Note. Complied by the author on the basis of [4]

The most important among this list of functions is the risk function, which most accurately explains the need to provide insurance services in the system of economic relations, it's role in the protection of security and property interests of citizens. Other main functions of insurance include the formation of a specialized insurance funds and prevention of the insured event and minimization of damage (prevention function).

The implementation of insurance functions takes place in the insurance market, where insurers, policyholders and other market participants (subjects of insurance) interact, concerning the objects of insurance to which the insurance protection is directed. The objective conditions for the existence of the insurance market are the public need for insurance services and the presence of an insurer capable of satisfying it. The insurance market is a complex structured system, which has a mechanism of interdependent relationships between its units. Naturally, nowadays exists the large number of different methodological approaches of defining the concept of "insurance market".

Summarizing scientific research on this topic, V. Vyhovska singled out four basic approaches concerning the interpretation of the essence of the insurance market and the relationship between its subjects: reproductive, systemic, political-economic and institutional (table 1.2):

Table 1.2

«Insurance market» definition approaches

Approach	Representatives	Meaning
Reproductive	Y. Yevchenko O. Zaletov N. Feoktistova V. Plisa	Insurance market is seen as a set of economic relations concerning the distribution and redistribution of funds accumulated in insurance funds, which are intended for insurance protection of tangible and intangible assets of policyholders by insurers. The peculiarity of the reproduction approach is that in the conditions of expanded reproduction the developed insurance market prevents reduction of stability in economic relations and narrowing of the reproduction process.
Systemic	V. Bazilevich O. Zhuravka O. Gamankova I. Jurgens N. Vnukova	The insurance market is viewed as a set of interrelated elements (insurers, insurers, reinsurers, etc.), which composes an insurance system that is also a subsystem of the financial system. It creates the conditions for the organization of purchase and sale of insurance services and redistribution of insurance premiums The interaction between the elements of the insurance market is represented by a system of direct and indirect relationships and relationships.
Political-economic	O. Gvozdenko S. Mocherny S. Osadets V. Shakhov D. Navrotsky W. Furman J. Schumelda	Generalization of the insurance market through the relations that arise between market participants in the process of buying and selling market objects under the condition of free market pricing of goods exchange. The subjects of the insurance market are represented by policyholders, insurers and intermediaries. Evident is the creation of a complex system of economic relations, the carriers of which are the main subjects of the insurance market, and organizational-economic relations, the carriers of which are complementary subjects of the insurance market.
Institutional	O. Kozmenko A. Tsiganov	The essence of the insurance market is determined by a set of different institutions and mechanisms in place for the creation, sale and consumption of insurance services.

Note. Complied by the author on the basis of [6]

V. Vyhovska provides a comprehensive definition of insurance market as «economic relations about protection the economic interests of the state, corporate sector, households and ensuring the sustainable functioning of market institutions through the mechanism of risk redistribution through the mobilization of financial resources in insurance funds through the payment of insurance premiums and cash flows in the economy».

It is worth noting that so far, there is no clear distinction between “insurance market” and “insurance services market” concepts in the domestic scientific literature. O. Kozmenko points out that even in the Law of Ukraine “On insurance” these definitions are considered synonymous [32].

V. Zyubin, however, notes that, based on different interpretations, in some cases, the object of purchase and sale in the insurance market is insurance protection, and in others it is the insurance service. With this in mind, Zyubin comes up with the next definition of insurance services market: “…a set of subjects of insurance, united by a certain system of economic relations to meet the needs of insurance protection, where the object of sale is not only this insurance protection, but also certain factors of social security, especially environmental [11].” This definition takes into account features of an insurance service as a specific product.

Considering the above information, we could interpret insurance services market as a system of economic and organizational relations, which arises between the market subjects in the process of creation, acquisition and consumption of insurance services, and all the institutions and mechanisms, involved in said process. The characteristics of insurance subjects and the order of interaction between them determines the elemental structure of the insurance services market and is vital for understanding its nature.

The internal structure of the insurance services market is generally represented by the following participants:

- authorized state regulation bodies;
- insurers;
- association of insurers;
- policyholders;
- intermediaries:
  - direct insurance intermediaries;
  - indirect insurance intermediaries;

- non-insurance intermediaries. (Fig 1.1).

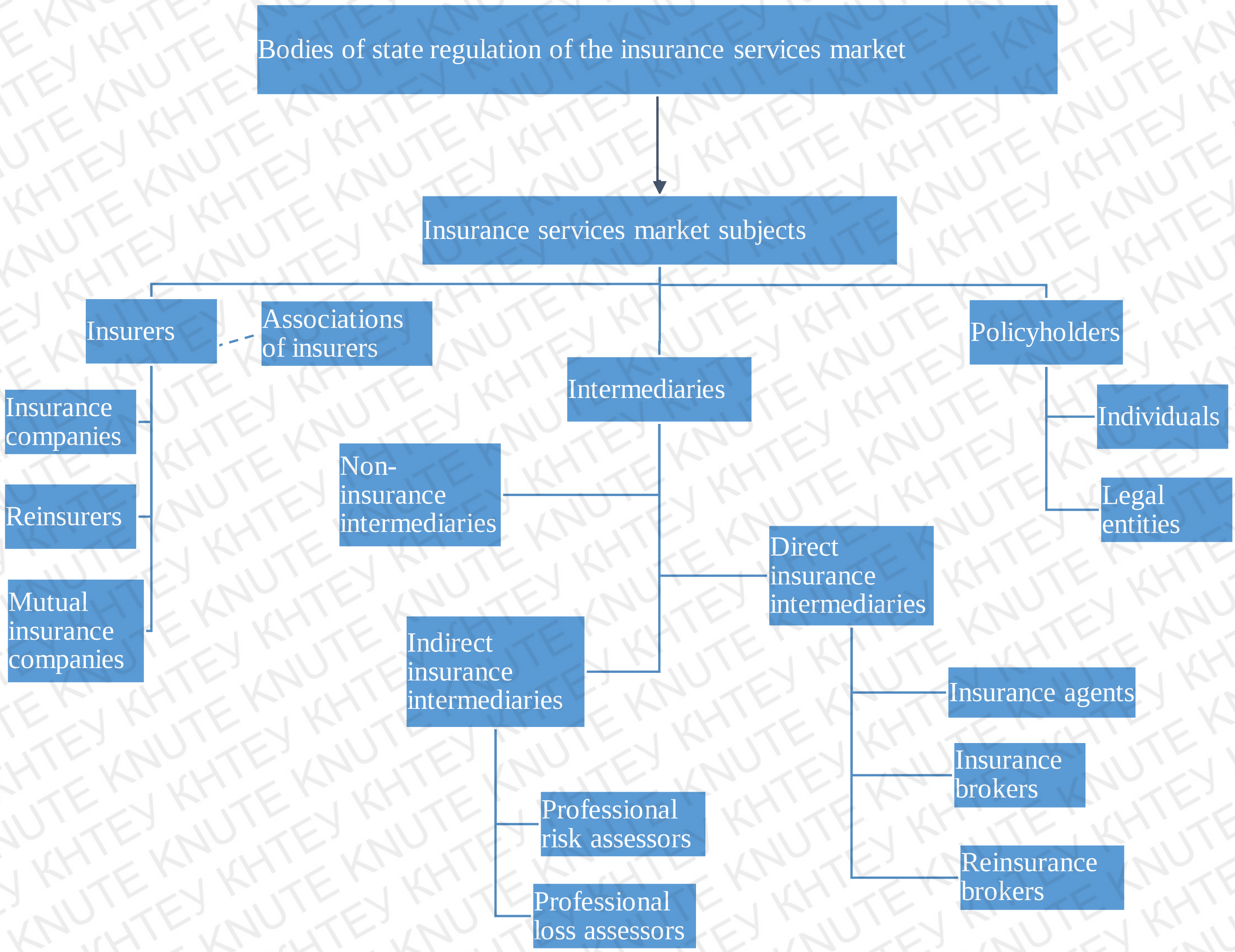


Fig. 1.1 Insurance services market subjects

Note. Complied by the author on the basis of [26]

The main place in the market of insurance services belongs to the insurers, who are engaged in the provision of insurance, reinsurance and insurance brokerage services to legal entities and individuals for profit. Insurers might be classified by:

- organizational and legal form (joint-stock companies, additional liability companies, general, limited partnerships);
- form of ownership (private and state);
- specialization (life insurance, risk insurance, reinsurance)
- criterion of profitability (commercial and non-commercial);
- range of insurance services [26].

Insurers who are allowed to carry out insurance activities on the territory of Ukraine are insurance companies:

- financial institutions established in the form of joint-stock companies, general, limited partnerships or additional liability companies that meet the conditions provided by the Law of Ukraine "On Insurance" and have received a license for carrying out insurance activities (resident insurers);

- registered permanent establishments in the form of branches of foreign insurance companies, which also received a license to carry out insurance activities and meet the criteria, set by the law (branches of non-resident insurers) [23].

At the same time, non-resident insurers are allowed to carry out only a limited list of insurance activities. Such norms were created with the goal of protecting the interests of domestic insurance market.

In some cases, established by the Ukrainian legislation, insurance companies can be created in form of state organizations.

Insurance companies must have at least three members and meet the requirements for the authorized capital, related to the amount of authorized capital and its sources.

In addition to insurance companies, insurers include mutual insurance companies and reinsurance companies.

Mutual insurance is a form of mutual exchange of risks. The main difference between a mutual insurance company (MIC) and an insurance company is that the former provides insurance coverage to its members on a non-profit basis, and the latter provides insurance coverage as a means of making a profit. The biggest drawback of MICs is the possibility of discrepancy between the size of the insurance fund and the amount of losses [18]. MICs are present in the markets of most developed countries across all continents. International Cooperative and Mutual Insurance Federation, the global representative body of the cooperative and mutual insurance sector, lists 198 members from all over the world [42]. On the other hand, while national legislation allows citizens and legal entities establish MICs in Ukraine, this institution de facto is absent in the country.

Reinsurance companies are companies that provide insurance services to insurance companies. Reinsurance is used to transfer insurance liabilities from insurer to the reinsurer through a process called cession. It helps to reduce risk for the insurer, reduce capital requirements, and lower claimant payouts [43]. In Ukraine, reinsurance market, while growing, is still poorly developed. No reinsurance pools exist, which forces Ukrainian insurance companies to make reinsurance agreements with foreign companies. Reinsurance pool would help companies to equalize the costs from insurance operations for big risks, to expand their insurance portfolio and to solve the issue of insignificant capacity of the insurance market, increasing the competiveness of the market [29].

Ukrainian legislation allows insurers to form unions and associations to coordinate their activities, protect the interests of their members and implement joint programs. The procedure for the establishment and operation of insurance associations is regulated by the law of Ukraine “On Insurance”. As of now, the following organizations operate in Ukraine: League of Insurance Organizations of Ukraine, Association “Insurance business”, Motor (Transport) Insurance Bureau, The National Association of Insurers of Ukraine, Aviation Insurance Bureau, Association "Ukrainian Insurance Federation", National Nuclear Insurance Pool, etc.

The other key subjects of insurance services market are policyholders. Policy holders are individuals or legal entities, who have concluded insurance contracts with insurers, in order to protect their personal and property interests.

An individual acquires the right to independently conclude insurance contracts with the achievement of insurance legal personality at the age of 16, which may not coincide with the achievement of general civil legal personality. In some types of personal insurance, the rules of insurance also set a maximum age, above which a person cannot independently enter into an insurance relationship.

A legal entity may become policyholder regardless of the form of ownership and organizational and legal form. As a rule, a legal entity concludes an insurance contract for the benefit of its employees and the insurance protection is valid for the period of the employee's work in the organization.

The order of interaction between insurers and policyholders is determined by conditions of insurance contract and in accordance with the legislation of Ukraine.

Insurance intermediaries have a special place in the insurance services market as they serve as a link between policy holders and insurers. Insurance intermediaries might be divided into two group: direct intermediaries (insurance agents, insurance brokers, reinsurance brokers) and indirect (professional risk and loss assessors).

Insurance agents are individuals or legal entities that act on behalf of the insurer and perform part of its insurance activities for remuneration on the basis of a power of contract with the insurer.

Insurance brokers are legal entities or individuals who are registered as business entities and carry out an intermediary insurance activity on their own behalf on the basis of a brokerage agreement with a person in need of insurance.

Reinsurance brokers are legal entities that, for a fee, carry out intermediary activities in reinsurance on their own behalf on the basis of a brokerage agreement with an insurer that needs reinsurance.

According to the data of Insurance Europe (European insurance federation), non-life insurance products in Europe are mainly sold through insurance agents and brokers and life insurance products - through bancassurance, as opposed to the insurers. As of 2017, agent's services were mostly used in Italy (76.3%), Poland (67%), Slovenia (64.6%), Turkey (62.7%) and Germany (58.1%) in non-life sector. However, in some countries, like Croatia (59.4%), Finland (51.7%), Luxembourg (47.6%), Ireland (42.9%) non-life products are mostly sold directly by insurers [38]. In Ukraine, the use of insurance agents and brokers' services is not widespread. As of 2020, only 63 insurance brokers are registered there [12].

Professional risk and loss assessors participate in the insurance market as indirect insurance intermediaries. The former includes underwriters and surveyors, the latter includes adjusters, emergency commissioners and dispatcher.

Underwriter has the right on behalf of the insurer to insure the proposed risks to determine the tariff rates and terms of the insurance contract of these risks on the basis of insurance law and economic feasibility.

A surveyor inspects the property accepted for insurance, its evaluation and determines the probable degree of occurrence of the insured event;

An adjuster carries out risk assessment after the insured event and tries to reach an agreement with the insured on the amount of insurance indemnity;

An emergency commissioner, who establishes the causes, nature and amount of damage due to the insured event, usually an accident.

A dispatcher is a specialist in the field of maritime law and performs calculations in case of a general accident [26].

Non-insurance intermediaries, that do not provide insurance-related services, but nevertheless support the activities of insurance entities, include consulting firms, advertising agencies, auditors, etc.

The last element in the insurance services market is the state in the form of authorized state bodies, which supervises and regulates the activities of market participants.

From July 2020, the responsibilities for supervising the insurance market were transferred from the National Financial Services Commission to the NBU. The NBU plans to introduce a new regulatory model aimed at improving the licensing process, assessing solvency and liquidity, corporate governance and risk management systems, and the use of risk-oriented prudential supervision. The NBU stressed that the changes were encouraged by Ukraine's international partners [20]. The peculiarity of insurance regulation in Ukraine is its centralized nature, the lack of involvement of non-governmental or supranational bodies in the regulatory process.

The relationships between the insurance subjects is based on certain principles: free choice of the insurer by the policyholder, insurance risk, insurance interest, maximum honesty, compensation within the actual losses, franchise, subrogation, contribution, co-insurance and reinsurance [16]. Let us explain the meaning of some of these principles.

Insurance risk is about the distribution of losses between the insurer and the policyholder in the insured event.

Insurance interest is about protecting the property and personal interests of a policyholder from unforeseen circumstances.

Maximum integrity is due to the need for high trust between the parties.

The franchise is a part of losses determined by the insurance contract, which in case of an insured event is not subject to reimbursement by the insurer.

Subrogation is the transfer by the insured to the insurer of the right to recover damages from third parties within the amount paid.

The contribution is the insurer's right to apply to other insurers, which are liable for the sold policies to one and the same specific insured, with a proposal to share the costs of indemnification.

So, based on the conducted research we could define insurance services market as a system of economic and organizational relations, which arises between the market subjects in the process of creation, acquisition and consumption of insurance services, and all the institutions and mechanisms, involved in said process. Insurance services market has a special role in the world's economy and performs a number of important functions, including the risk, investment, preventive and control functions, creation and use of insurance reserves. Insurance subjects, between which there is a developed system of horizontal and vertical connections, interact in the market, concerning the objects of insurance, and base their relationships on specific principles. In general, Ukrainian insurance services market has a typical structure, but some of its elements such as insurance intermediation, mutual insurance and reinsurance, regulation, remain underdeveloped compared to other countries.

Having defined the general principles of the insurance services market, we can begin to assess the current state of the insurance market of Ukraine and to form recommendations for its integration into the global financial space.

PART II

PRACTICE OF THE ORDER OF INTERACTION OF SUBJECTS OF THE MARKET OF INSURANCE SERVICES OF UKRAINE WITHIN THE CONTEXT OF THE GLOBAL FINANCIAL SPACE FOR 2015 – 2019

2.1. Assessment of regulatory acts concerning the interaction of subjects of the market of insurance services in Ukraine in the context of international requirements

Assessment of the current state of the insurance services market in Ukraine involves the analysis of regulations governing the activities of insurance entities, assessment of key market segments over the past five years, identifying problems in providing insurance services in the context of Ukraine's integration into the global financial space and ways of problems' solution.

The insurance market as part of the financial system is the object of state regulation and control, aimed at ensuring the development and efficient functioning of the market, creating the necessary conditions for insurance subjects' activities, ensuring the compliance with insurance legislation. State regulation of insurance activities includes a set of methods: legal, administrative, economic, investment and social [8].

The main forms of state regulation of insurance services market are carried out through legal regulation and supervision of insurance activities. Legal regulation of insurance is made up of the adopted legislative and regulatory acts concerning the insurance activities, both in general and in its individual areas. These documents contain requirements for insurers and insurance intermediaries, requirements for insurance contracts and insurance rules; detail the procedure of forming insurance reserves, licensing, accounting and reporting; set responsibilities for insurers and policyholders; define the rights and functions of a state body, established to exercise control over insurance activities.

Domestic legal regulation of insurance activities has been constantly evolving since the proclamation of Ukraine's independence. In this regard, we can identify five periods of development of insurance legislation, the last of which begins in 2014 and continues to the present time (table 2.1):

Table 2.1

Periods of development of insurance legislation in Ukraine

Period	Years	Main features
I	1991-1996	The beginning of the formation of the insurance market in Ukraine; lack of methodological and legal framework for insurance; the first attempts at state regulation of the insurance market through the adoption of the Decree of the Cabinet of Ministers of Ukraine "On Insurance" of May 10, 1993.
II	1996-2001	Adoption of the Law of Ukraine "On Insurance" of March 7, 1996, which is the main legislative act in the field of insurance relations; introduction of a number of bylaws, in particular, resolutions and orders regulating certain issues of insurance activity; introduction of new requirements for the activities of insurers and insurance intermediaries, development of consumer protection.
III	2001-2008	Adoption of a new version of the Law "On Insurance" from 04.10.2001, which significantly increased the minimum size of the statutory funds of insurance companies and expanded investment opportunities for insurers; the State Commission for Regulation of Financial Services Markets of Ukraine was established to regulate the insurance market (Derzhfinposlug).
IV	2008-2014	In connection with Ukraine's accession to the World Trade Organization, amendments are made to the insurance legislation, according to which non-resident insurers have the opportunity to work in the insurance market of Ukraine; liquidation of Derzhfinposlug as a regulator of the insurance market and creation of the National Commission for Financial Services.
V	2014 and beyond	The signing of the Association Agreement with the EU marked the beginning of updating national regulations in the field of insurance in order to harmonize it in accordance with European standards; liquidation of National Commission for Financial Services and transfer of functions of the insurance market regulator to the NBU.

Note. Complied by the author on the basis of [17], [19], [10]

The first period, which stated in 1991 was characterized by the lack of state regulation of insurance activities and a rapid increase in the number of insurance companies until the adoption in May 1993 of the Decree of the Cabinet of Ministers of Ukraine "On Insurance" and the establishment in October 1993 of the Committee on Insurance Supervision (Ukrstrakhnadzor). The most important in the Decree was the consolidation of state regulation and supervision of insurance activities, including registration of insurance companies, licensing of insurance activities, the creation of bodies that control and supervise the market of insurance services.

The decree of the Cabinet of Ministers of Ukraine "On Insurance" was a temporary legislative act and contained a number of significant shortcomings, which necessitated the adoption of a new specialized law. On March 7, 1996, the Law of Ukraine "On Insurance" was adopted, which marked the beginning of the second period of the development of insurance legislation. The new law made a mandatory division of insurance companies into life insurance and non-life insurance companies; established a minimum share capital for the insurance companies; regulated the types of compulsory insurance; introduced technical and mathematical reserves; increased licensing requirements. In 1997, insurers were re-registered in accordance with the new provisions of the insurance legislation on the requirements for solvency. Further formation of the legal basis of activity in the field of insurance was implemented through the adoption of the bylaws, such as Resolutions of the Cabinet of Ministers of Ukraine "On the procedure for conducting reinsurance operations", "On the implementation of insurance intermediaries", "On the procedure and conditions of compulsory insurance of civil liability of vehicle owners", etc.

The third period started with the adoption of a new version of the Law "On Insurance" from 04.10.2001. The requirements for the minimum size of the statutory fund of insurers were increased, insurance legislation was brought closer to national accounting and reporting standards, investment limits for insurers were expanded and reinsurance brokers were introduced. A number of legislative acts were adopted, namely: the Law “On Compulsory State Social Insurance in Connection with Temporary Disability and Expenses Due to Burial”, the Law “On Compulsory State Pension Insurance”, the Law “On Compulsory State Pension Insurance”, the Law “On financial services and state regulation of financial services markets”. The development of insurance legislation was facilitated by the adoption in 2003 of the Commercial and Civil Codes of Ukraine. On December 11, 2002, the State Commission for Regulation of Financial Services Markets of Ukraine (Derzhfinposlug) was established to supervise financial markets, including the insurance market.

The fourth period is connected to the joining of Ukraine to the World Trade Organization in 2008. Ukraine committed to providing market access in the financial services sector, including insurance services market. The requirement to provide services by non-resident insurance and reinsurance brokers only through permanent offices in Ukraine was abolished, non-resident insurance and / or reinsurance brokers were obliged to notify the Authorized Body in writing of their intention to operate in Ukraine, foreign insurance companies received the right to provide insurance services through their branches in 5 years from the date of Ukraine's accession to the WTO. On November 23, 2011, the Financial Services Commission was liquidated and the National Commission for State Regulation of the Financial Services Market (Natskomfinposlug) was established.

The fifth period began in 2014 in connection with the adoption of the Association Agreement between Ukraine and the EU, which provides for the introduction of a European system of regulation of the financial market, including the insurance market. The draft Law “On Insurance” of February 6, 2015 has been introduced to implement European principles of regulation. In 2020, the National Commission for Financial Services was liquidated and its functions were transferred to the NBU.

Let us consider the state of the legal regulation of insurance in Ukraine by analyzing the relevant normative legal acts, which regulate the activities of the subjects of the insurance market in order to identify areas for improvement of the legal framework of insurance in accordance with international standards.

The system of legal regulation of insurance activity in Ukraine contains norms defined by the Constitution of Ukraine, international agreements, laws and resolutions of the Verkhovna Rada of Ukraine, decrees and orders of the President of Ukraine, resolutions and orders of the Cabinet of Ministers of Ukraine, legislative acts of the state regulatory body [16].

Insurance normative legal acts can be divided into groups according to certain criteria.

According to their legal power, all regulations are divided into laws (Law of Ukraine "On Financial Services and State Regulation of Financial Services Markets", Law of Ukraine "On Insurance", Law of Ukraine "On Compulsory Insurance of Civil Liability of Land Vehicle Owners", etc.) and bylaws (orders, resolutions). Separately, the laws are divided into ordinary and constitutional. The latter primarily include the Constitution of Ukraine and the laws mentioned in it.

N. Patsuria classifies the legislation, governing insurance relations by scope and by legal subjects, on whom the action of normative acts is directed [17].

According to the legal subjects, the legislation is divided into:

- legislation of general action, which applies to all individuals, appearing in the field of insurance;

- departmental legislation, the effect of which extends directly only to the subjects of insurance activity (insurance companies, insurance intermediaries and other participants in the infrastructure of the insurance market);

- local legislative regulation

According to the legal subjects, the legislation is divided into:

- general legislation on entrepreneurship;

- legislation on insurance activities as a separate type of entrepreneurship;

- specialized legislation, which covers certain rules of law and is part of the legislation governing the obligatory relations in the field of insurance, and applies to all participants in insurance relations.

Simplified, the legislation governing insurance activity can be divided into general and special legislation. General legislation is the one that applies to all types of business activity and to insurance sphere, in particular. These include:

1) norms of the Constitution of Ukraine on property, entrepreneurship, competence of the highest bodies of state power in normative regulation of economic activity, etc.;

2) codified acts of the Civil Code of Ukraine, the Commercial Code of Ukraine, the Tax Code of Ukraine;

3) laws that establish the organizational and legal forms of all business entities regardless of their specialization, the procedure for establishing business associations, the scope of their rights and responsibilities and other general provisions (Laws of Ukraine "On state registration of legal entities and individuals - entrepreneurs", "On companies", "On joint stock companies", "On securities and stock market", etc.);

4) bylaws, such as decrees and orders of the President of Ukraine, resolutions and orders of the Cabinet of Ministers of Ukraine, regulations of ministries, departments.

Special legislation relates directly to insurance activities and its rules apply to subjects that are directly involved in insurance activities. There are:

1) Law of Ukraine "On Insurance", other laws, which regulate the implementation of insurance activities (e. g. Law of Ukraine "On Financial Services and State Regulation of Financial Services Markets", Law of Ukraine "On Compulsory Insurance of Civil Liability of Land Vehicle Owners");

2) resolutions of the Verkhovna Rada of Ukraine on insurance activities;

3) decrees of the President of Ukraine and resolutions of the Cabinet of Ministers of Ukraine on the provision of insurance activities;

4) resolutions and orders of other competent authorities on the regulation of insurance activities (e. g. orders of the National Commission for Regulation of Financial Services Markets);

5) local regulations of insurance companies (local documents that determine the individual legal status of insurers, rules and conditions of voluntary types of insurance, which are developed and adopted by insurance companies independently and should not contradict the requirements of applicable law) [19].

The main legal act regulating the activities of insurance entities in Ukraine is the Law of Ukraine "On Insurance", which has 5 main sections.

The first section defines basic concepts as insurance, insurers, policyholders, insurance intermediaries, etc. It also defies types of voluntary and compulsory insurance, provides the requirements for the insurer during its creation and registration.

The second section provides the requirements for contracts and rules of insurance and the relevant currency, establishes the responsibilities of insurance subjects.

The third section defines the conditions for ensuring the solvency of insurers. It details the mechanism of formation of insurance reserves and guarantee funds, specify accounting and reporting procedures, publication of financial statements by insurers.

The fourth section defines the authorized body exercising state supervision over insurance activities and establishes its rights and functions, relationship between the insurer and the state, guarantees of the rights and legitimate interests of insurers. This section presents the procedure for licensing insurance activities and the process of liquidation, reorganization and rehabilitation of insurers.

The fifth, section provides general points such as the consideration of international law, the procedure and stages of application of certain rules, etc.

The Association Agreement between Ukraine and the EU provides for the introduction of a European system of insurance market regulation in terms of liberalization of insurance services, harmonization of domestic technical standards. It is first necessary to bring the legal framework in line with European norms. Ukraine has committed itself to implementing EU rules based on:

- Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation;

- Directive 2009/103/EC of the European Parliament and of the Council of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability;

- Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision;

- Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings;

- Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) [25].

The Law "On Insurance" does not meet the standards and requirements of European directives and recommendations of the International Association of Insurance Supervisors (IAIS). Now the insurers and the regulator are working on a new version of the law. The draft Law on Insurance of February 6, 2015, which is currently being prepared for the second reading, has to implement part of Ukraine's obligations in the insurance sector and introduce European principles of regulation. The draft law is developed taking into account the provisions of Solvency II [24].

Solvency II is a new concept of insurers' solvency supervision, which is based on risk assessment. The purpose of the Solvency II is to establish the framework for the activities of insurance companies and to ensure the financial stability of insurance markets by increasing the transparency and discipline of market participants. The Solvency II framework is divided into three pillars.

First pillar provides quantitative requirements for the amount of capital, including solvency capital requirements (SCR), minimum capital requirements (MCR) and risk valuation. SCR is calculated using VaR formula (Value-at-Risk) with a confidence interval of 99.5% The calculation takes into account different types of risks and can be done both according to the standard formula and according to the internal or partially internal model. MCR is calculated using VaR formula with 85% confidence interval and should be between 25-45% of the calculated SCR.

Second pillar provides qualitative assessment of the company management, risk management, supervisory process. The purpose of assessment is to ensure the integration of the regulatory framework with each company's own risk management system in order to facilitate business decisions;

Third pillar is about external reporting. It concerns transparency, supervisory accountability and public disclosure, which leads to strengthening market discipline and increasing comparability, and thus increase competition [45].

In order to comply with the Solvency II Directive, changes needs to be made to the current Law "On insurance" concerning the requirements to the size of the authorized capital for the insurance companies (from 1 million euros for non-life insurance organizations to 2,2 million euros for non-life insurance organizations, including captive insurance companies; 3,2 million euros for reinsurance undertakings, other than controlled reinsurance undertakings); include the list of solvency conditions of the insurer provided in the Solvency II; define the liability of auditors; improve reinsurance regulation.

So, as we can see, insurance activity in Ukraine is regulated by a significant amount of legal acts, in particular, laws, decrees, orders, directives and instructions, some of which contradict each other, which can be considered a negative trend in the regulation of insurance activities.

The current legislation is not yet fully in line with European standards, and therefore active work is underway to harmonize legislation with EU norms.

In general, the regulatory regulation of insurance activities in Ukraine today is almost a complete system of legislation, which, however, requires further improvement.

2.2. Characteristics of the target segments of the market of insurance services of Ukraine

Despite the crisis processes in the economy, domestic insurance market has been steadily developing in recent years. By now it is the second largest market by level of capitalization among other non-banking financial markets. To conduct a comprehensive assessment of the insurance services market of Ukraine in the context of the global financial space, we need to:

1. Identify target segments of the insurance services market of Ukraine.
2. Analyze the main indicators of development of target segments of the insurance services market of Ukraine.

3. Analyze the main indicators of development of the insurance services market of Ukraine as a whole and to compare these values with the same indicators of developed countries.
4. Make a conclusion about the state of current domestic insurance services market in the context of global financial space.

The study of the target segments of the insurance market in Ukraine provides more in-depth look into transformation processes that are taking place in this area. According to the volume of the net insurance premiums as of 31.12.2019, the following types of insurance have the largest market shares in Ukraine: auto insurance – 34,9%; life insurance – 11,7%; health insurance –10,8% and property insurance – 8,9% (Fig. 2.1). So, as for now, we may consider these types of insurance as target segments of the market.

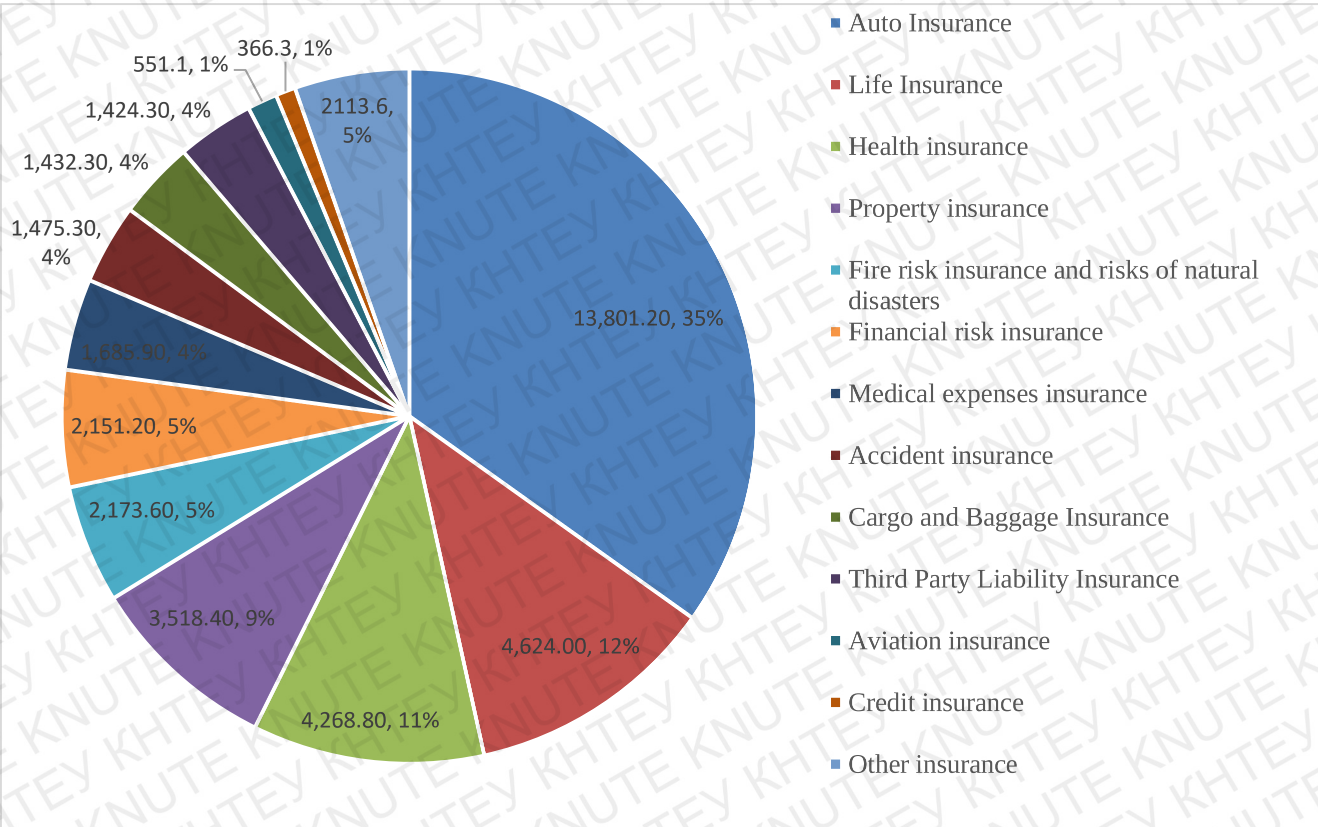
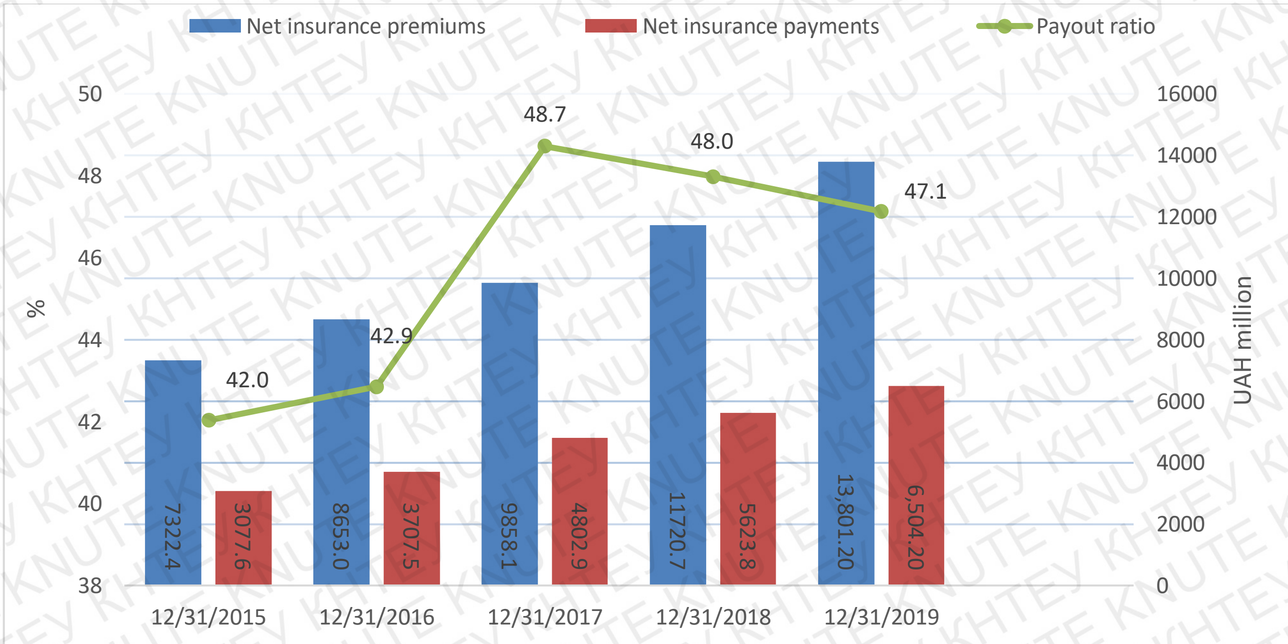


Fig. 2.1 Structure of net insurance premiums in Ukraine by type of insurance as of 31.12.2019, UAH million

Note. Complied by the author on the basis of [41]

The most common type of insurance in Ukraine is auto insurance with the average market share of 34,9% by net insurance premiums. It includes CASCO (non-compulsory insurance of a land vehicle against damage, in particular, road accidents, weather conditions, unlawful acts of third parties and theft.), MTPL (compulsory motor third party liability insurance) and "Green Card" (compulsory third party liability insurance of vehicle owners in the territory of countries participating in the Green Card international system).

Auto insurance market has been growing for the study period, although growth rate (by insurance premiums) has been decreasing in all years, except for 2018 (Fig. 2.2). Net insurance premiums as of 31.12.2019 amounted to 13 801,2 UAH million, which is 17.8% more than in the same period of 2018, while net insurance payments amounted to UAH 6 504,2 million, which is 15.6% more. Average growth rate for the insurance premiums made up 18.4%, for the insurance payments – 18.98%. Average payout ratio, which is correlation between insurance payments and premiums, was 45.7%. Also over 2019, the number MTPL insurance contracts concluded increased by 274.7 thousand units (or 3.6%). Detailed calculations of indicators are in the Appendix A (table A.1).



%	2015	2016	2017	2018	2019
Net insurance premiums growth rate	23,1	18,2	13,9	18,9	17,8
Net insurance payments growth rate	12,2	20,5	29,5	17,1	15,6

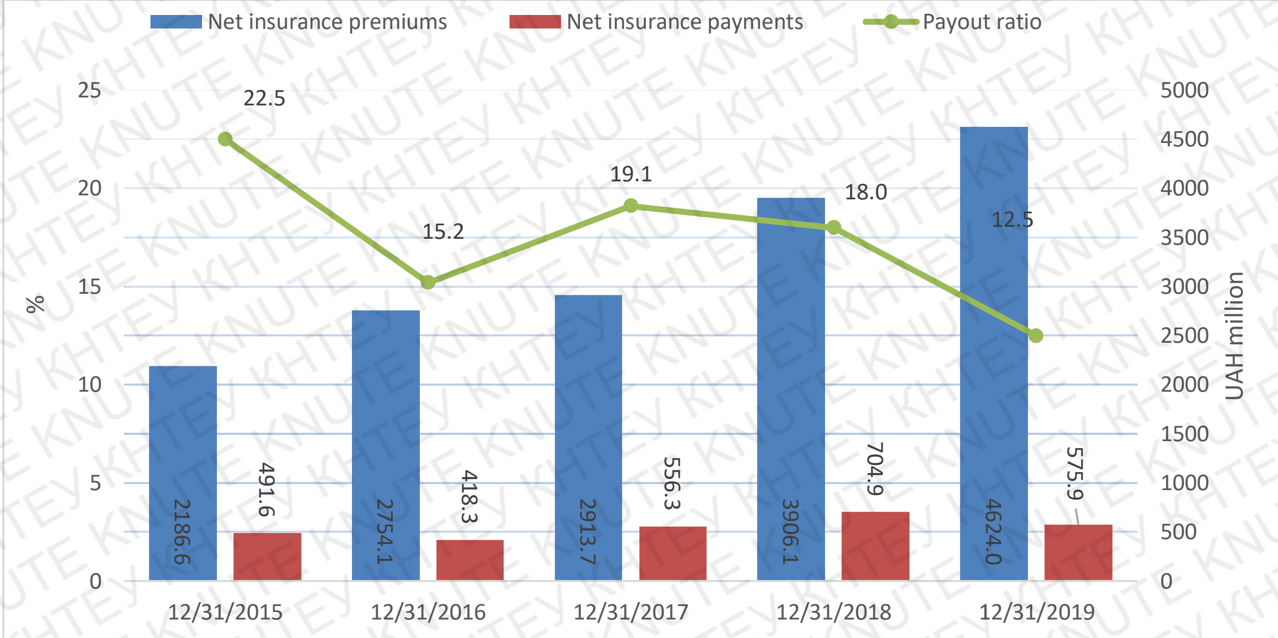
Fig. 2.2 Main indicators of auto insurance for 2015-2019 in Ukraine, UAH million

Note. Complied by the author on the basis of [41]

Auto insurance market growth is closely connected to the growth of the car market. There were over 63 000 cars sold in Ukraine in 2019, which is 12% more compared the same period in 2018. A lot of cars are bought on credit, which means that it has to be compulsory insured as a collateral property. The growth of insurance premiums is linked to the growth of insurance policies price in this segment. In September 2019, the National Financial Services Commission introduced new auto insurance regulations [21]. In accordance with them, limitations on the amount of insurance payments and tariff coefficients for cars using foreign registration were increased. As a result, the price of MTPL policies went up to 20%. The Green Card insurance is also intensely growing (the volume of gross insurance premiums increased by 25,7% in 2019). Since the beginning of the year, possession of the Green Card policy is automatically checked at the border crossing points for cars with Ukrainian registration, which makes impossible travelling without insurance certificate.

The second largest segment on insurance market belongs to life insurance (11,7%). As of now, there are 23 life insurance companies in the Ukrainian market. From 2015 to 2019, this number decreased by 26 companies (53%). Herfindahl-Hirschman Index on the life insurance market amounted to 1 517,18 in 2019 (1 441,37 in 2018), indicating a moderate monopolization.

In general, life insurance market has been growing, albeit the growth rate differed through the years (Fig. 2.3). Average growth rate for the insurance premiums during the study period made up 17.1%. Average payout ratio was 17.4%, which is relatively low compared to other segments. Net insurance premiums as of 31.12.2019 amounted to 4 624,0 UAH million, which is 18,4% more than in the same period of 2018. During 2019, the number of individuals with the life insurance contract increased by 659 138 persons (14,7%) and reached 4 596 863 persons. On the other hand, as of December 31, 2019, the amount of change in life insurance reserves amounted to UAH 1,016.9 million, which is UAH 1.4 million less than in 2018, which is due to the early termination of insurance contracts. Detailed calculations of indicators of life insurance sector are in the Appendix A (table A.2).



%	2015	2016	2017	2018	2019
Net insurance premiums growth rate	1,2	26	5,8	34,1	18,4
Net insurance payments growth rate	105,5	-14,9	33	26,7	-18,3

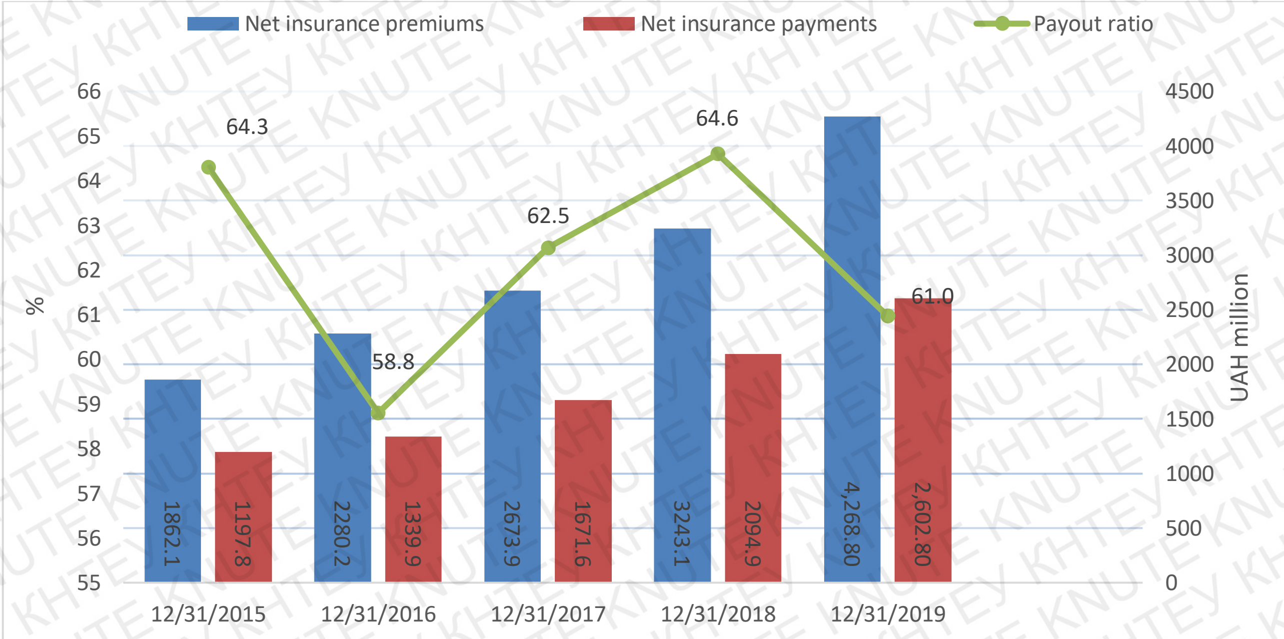
Fig. 2.3 Main indicators of life insurance for 2015-2019 in Ukraine, UAH million

Note. Complied by the author on the basis of [41]

The development of the life insurance market in Ukraine is closely tied to the welfare of the population, inflation expectations and the development of the national economy, since it is used for accumulation of significant long-term investment resources. In 2018, Ukrainian life insurance market entered the TOP-3 of the most dynamic markets in the world, according to Swiss Re, one of the world's leading providers of reinsurance and insurance [37]. Despite this, life insurance still remains a small part of the Ukrainian insurance market, even compared to CEE countries, where its market's share due to gross premiums written (GWP) is about 32% on average, as of 2019 [46].

Health insurance is a type of personal insurance that provides customers with medical care and financial help in case of insurance event. It can be compulsory and non-compulsory. Health insurance market has also been growing in the recent years with the average growth rates of 23.3% and 18.9% by net insurance premiums and payments respectively (Fig. 2.4). Over the course of 2019, net insurance premiums in this segment increased significantly compared to the same period of 2018 and amounted to 4 268,8 million (31,6%), while net insurance payments amounted to UAH

2 602,8 million, which is 24,2% more. Average payout ratio made up to 62.5%, which indicates a high amount of insurance events in the health insurance. In general, payout ratio and insurance premiums volume’s growth are increasing. Average market share of the health insurance is 10,8% (by net insurance premiums), which is essentially lower compared to the auto insurance segment. Detailed calculations of indicators of health insurance sector are in the Appendix A (table A.3).



%	2015	2016	2017	2018	2019
Net insurance premiums growth rate	23,6	22,5	17,3	21,3	31,6
Net insurance payments growth rate	8,1	11,9	24,8	25,3	24,2

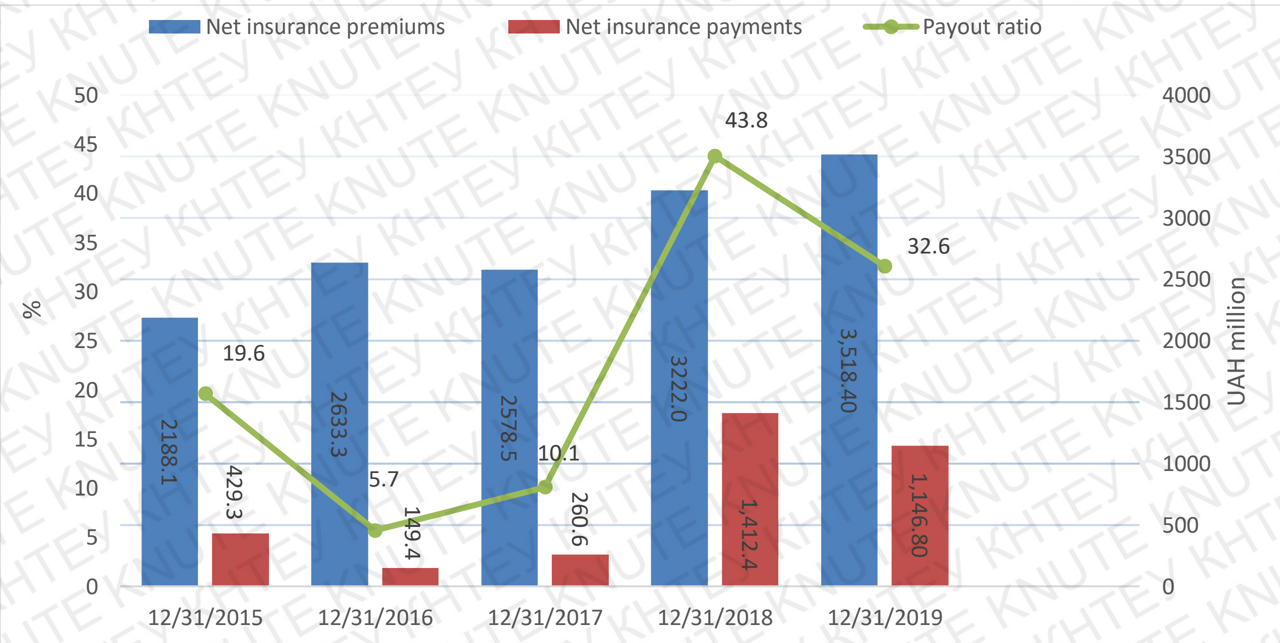
Fig. 2.4 Main indicators of health insurance for 2015-2019 in Ukraine, UAH million

Note. Complied by the author on the basis of [41]

Health insurance market is greatly influenced by the state of medical services in the country. One of the factors hindering the development of non-compulsory health insurance in Ukraine is the moderate share of private institutions in the market of medical services. In 2018, the private sector occupied only 14,3% of the market, while the same indicator for the developed countries of Europe is 4-5 times higher [40]. On the positive note, the growth trend of the private segment is strong and will continue to persist, furthering development of the health insurance market. There is also growing demand for health insurance services from enterprises, which use it as a part of benefits packages for their employees.

Property insurance is the type of insurance, which offers property protection against damage or theft. It also includes liability insurance, which is in the form of non-compulsory insurance. Under property insurance contracts, any part of the property may be insured. Legal entities and individuals can insure property as in its full assessment, i.e. at real, real value, and in a certain proportion.

During the study period, property insurance market has been growing in all years, except for 2017 with 2.1% fall (Fig. 2.5). Over the course of 2019, net insurance premiums amounted to 3 518,4 million (9.2% growth), while net insurance payments amounted to UAH 3 1 146,8 million (18.8% fall). Average payout ratio made up to 23.26%. Detailed calculations of indicators of property insurance sector are in the Appendix A (table A.4).



%	2015	2016	2017	2018	2019
Net insurance premiums growth rate	7	20,3	-2,1	25,0	9,2
Net insurance payments growth rate	148,9	-65,2	74,4	442,0	-18,8

Fig. 2.5 Main indicators of property insurance for 2015-2019 in Ukraine, UAH million

Note. Complied by the author on the basis of [41]

For property insurance, growth rate and numbers of insurance premiums and payments, as well as payout ratio, were differing significantly through the years, which might be connected to the prolonged insurance claims settlement process in the segment. It is possible that part of the insurance claims of 2018-2019 will be covered by insurers only in 2020. The development of the property insurance market is mostly stimulated by legal entities. This is largely due to the fact that the business always faces the problem of property damage.

So, based on the analysis, we may conclude that the target segments of insurance services market in Ukraine are steadily growing. The biggest share in the market belongs to auto insurance – 34,9% as of now, while the second biggest segment, which is life insurance, has only 11,7% share. In the same time, health insurance segment has the highest growth rate for net in insurance premiums, which averages on 23.3%. Life insurance market has relatively small market share and is underdeveloped, compared to the developed countries of Europe. Property insurance market may face struggles due to the large sums of insurance payments in case of insurance events.

For a full study of the insurance services market of Ukraine in the context of the world financial space, it is essential to compare the main indicators of its development with similar indicators of other countries, such as the amount of gross written premiums and paid claims on a regional and international scale, penetration ratio, insurance density ratio. The table 2.1 contains these indicators for the insurance market of Ukraine and neighboring countries for 2019.

Table 2.1

Insurance market's main indicators by country as of 31.12.2019

Indicator	Country					
	Ukraine	Poland	Hungary	Romania	Bulgaria	Turkey
GDP, current prices (EUR million)	152270	529930	137140	215000	58990	640170
GDP per capita (EUR)	3637	13955	14054	11013	8475	7711
GWP (EUR million)	2006	14989	3481	2298	1488	10375
Paid claims (EUR million)	543	9596	2049	1426	620	4853
Insurance penetration (%)	1.32	2.83	2.54	1.07	2.52	1.62
Insurance density (EUR/capita)	48	395	357	118	214	125

Note. Complied by the author on the basis of [46]

Ukraine takes the last place among the 6 countries by paid claims (gross insurance payments) – 2006 EUR million, and second to last by the amount of gross written premiums, exceeding only Bulgaria, - 543 EUR million.

Insurance penetration rate calculated as the ratio of insurance premiums to country's GDP. This is the most important indicator that assesses the role of insurance in the socio-economic development of the country. Insurance penetration rate in Ukraine is 1,32%, while in analyzed countries its averages on 2,2%. The average insurance penetration rate for whole Europe is 5%.

Insurance density rate is calculated as the ratio of the sum of gross insurance premiums to the population and can be used as an indicator of insurance consumption per capita. This indicator in Ukraine is 48 EUR per capita, which is 2,8 times lower compared to Romania, who has the second lowest value.

Based on the above data, we can conclude that the insurance services market of Ukraine differs from others in the following aspects:

- domestic insurance market has relatively low share in the country's GDP of 1.32%;
- domestic insurance market has very low level of insurance premium per capita ratio, even compared to developing countries;
- Ukraine has small share in the Eastern European market by the amount of gross insurance premiums;
- a certain level of monopolization exists for some segments of insurance market, life insurance in particular;
- the number of insurance companies tends to lower in recent years (2015 year – 361 companies, 2019 year – 210 companies);
- there is a small share of life insurance in the market, compared to non-life insurance;
- European market is more unified in terms of types of insurance present on the market, while Ukrainian market is more diversified.

2.3. Problems in providing insurance services in Ukraine according to international requirements and ways to solve them

Given the likely consequences of Ukraine's accession to the EU, there are opportunities and threats for Ukraine's insurance market. The integration process means the penetration of domestic insurers into European insurance markets and vice versa. The main task for local insurers in this case is to ensure the competitiveness of insurance services compared to foreign counterparties. Based on the analysis from the previous section, we can assess the current state of the insurance market in Ukraine, identify the problems of the market and ways to solve them in the context of integration processes.

Judging by the current state of the insurance market, Ukraine is far behind from advanced countries:

- overall, Ukraine has one of the lowest level of GDP and GDP per capita among the developed countries;
- the level of insurance penetration in Ukraine is also quite low, which indicates insignificant role of insurance in the country's economy;
- the low level of social protection in the country is explained by the indicator of insurance density, which shows how much money one person spends on insurance protection. The amount of insurance premiums per person in the country must be at least 140 dollars USA. The low level of insurance density indicates that insurance is not properly used as a risk financing mechanism;
- the overall amount of gross insurance premiums collected by Ukrainian insurers is quite small, compared to other countries;
- despite the constant drop in the numbers of companies in the insurance market, 98.1% share of gross insurance premiums is accumulated by 100 non-life insurance companies (47.6% of all non-life insurance companies) and 96.7% - by 10 Life Insurance companies (43.5% of all Life Insurance companies). This situation indicates a high concentration in the life insurance market and indicates the existence of many insurers, who are not able to provide quality insurance services, pay for their obligations and generally compete for at least a small market segment.

Therefore, we can conclude that in general insurance market of Ukraine does not perform its role effectively enough in the functioning of the financial system. It requires reforming the domestic system of insurance supervision, taking into account the requirements of the EU to national supervisors, as well as adapting the classification of insurance activities in Ukraine, as well as bringing the national insurance market to meet European requirements.

There are a lot of problems hindering the development of Ukrainian insurance market and its integration into the global financial space. These problems belong to different aspects: economic, regulatory, organizational, information-analytical and social.

The main economic problems of the insurance market of Ukraine include the following:

- insufficient capitalization of insurance companies and low quality of assets;
- low indicators of solvency and liquidity of the insurance companies;
- disproportions in the development of insurance business in the regions;
- underdeveloped investment instruments for the long term placement of insurance reserves.

According to the NBU, non-life insurers at the end of 2019 showed low efficiency, as costs associated with the conduct of insurance by 23-25% exceeded premiums [15]. This is mainly due to the fact that insurance rates for many areas of insurance are not economically and statistically justified, and therefore do not allow to cover all potential insurance payments. After the end of transition period for full compliance with the requirements for ensuring the solvency, there were 57 insurance companies (which is 27% of all insurers), that did not fully comply with the requirement for solvency and capital adequacy. The main reason for it was the low quality of assets. Poor asset quality also leads to liquidity problems, which forces insurance companies to lower insurance payments.

Elimination of economic problems in the activities of insurers requires the introduction of a risk-oriented approach, the introduction of new capital requirements, based on the provisions of Solvency II and taking into account the principle of proportionality and specifics of the domestic market, the formation of a system of monitoring and control of insurers.

Disproportions in the development of insurance business in the regions are caused by weak financial base of local insurers, the transformation of local insurers into branches of large insurance companies, the cash outflow through branches of large insurers from other regions and a limited number of insurance products on the regional markets.

In developed countries, insurers receive 20-30% of total income from investment activities, while Ukrainian insurers find it difficult to obtain such a result due to the underdevelopment of the domestic stock market [7]. The main problem of investing funds is the small number of areas of investment and the lack of developed long-term investment instruments for insurers. Insurance companies in general invest in the form of bank deposits, which account for 35.6% of all assets of insurers as of 31.12.2019. This type of assets is characterized by low profitability and reliability, which is due to the low level of financial stability of domestic banks. Acceptance of preferential taxation for investment insurance might further its development and help to attract money to the stock market and the corporate bond market. It is also necessary to harmonize the taxation of income from different investments.

The main regulatory problems of the insurance market of Ukraine include the following:

- imperfection of the regulatory framework in terms of insurance legislation;
- unstable state policy in the field of insurance;
- excessive number of legally defined types of compulsory insurance.

The main shortcomings of insurance legislation include the presence of a large array of codes, laws, regulations governing insurance activities, the existence of contradictions between these acts, the inconsistency of insurance legislation with the requirements of European directives and the recommendations of the International Association of Insurance Supervisors, the insufficiency of legal regulation insurance intermediaries. Also, the current legislation defines 43 types of compulsory insurance, even while most it practically does not gather sufficient insurance premiums, except for MTPL. Although, in the future it is envisaged to introduce insurance classes and reduce the types of compulsory insurance.

Unstable state policy in the field of insurance is explained by frequent change of state regulators of the insurance market, failure to fully achieve the goals set by the official strategy for the development of the financial sector. Only 64% of plans of the Comprehensive Development Program 2020 were implemented in full or at least by one regulator. About 36% of plans, including the development of the insurance market, will be taken into account in the 2025 Strategy [10].

The positive development is that, according to Strategy for the development of the financial sector of Ukraine until 2025 the next actions for the improvement of insurance legislation are expected: further harmonization of legislation according to norms of the EU, development and adoption of legislation on actuarial regulation, development of legislative changes on regulation in the nuclear insurance market, resolving the issue of taxation of resident insurers, modernization of licensing procedure.

The major organizational problems of the insurance market of Ukraine are:

- the underdevelopment of infrastructural elements of the insurance market, in particular the institution of insurance intermediation;
- imperfection of the business model of insurance companies;
- insufficient use of the potential of public-private partnership in insurance;
- low level of personnel qualification.

Underdevelopment of insurance market infrastructure is due to a large number of insurance companies in the absence of professional brokers, agents and other intermediaries. Majority of insurance contracts is sold directly through the insurance companies, as opposed to insurance intermediaries. It was estimated that insurance brokers occupy a niche of only 5% of the insurance market in Ukraine. For the development of the institution of insurance intermediation it is necessary to create favorable conditions for intermediaries, to ensure the legal regulation of their activity, to form a register of insurance intermediaries.

There is also need to strengthen the role of professional risk and loss assessors, in particular, the role of actuaries in the risk management process, establish the liability of actuaries in the event of a false risk assessment.

The institute of co-insurance needs to be developed with the adoption of legislation on mutual insurance companies.

Given that the role of reinsurance in Ukraine is gradually growing along with the growth of the insurance market as a whole, insurance companies need further financial support and additional capital, so it is advisable to create insurance and reinsurance pools. Creating a reinsurance pool would redistribute insurance payments and risks among pool members, diversify risks across the territory in case of joining regional insurers, help to reduce the risk burden on participating insurers.

The vast majority of insurers work without a clear development strategies and business models. More attention needs to be paid to the building of optimized structure of the insurance portfolio, diversification of products and insurance risks.

To improve the work of staff, managers of the insurance company and persons responsible for key functions must meet the qualification requirements, such as professional suitability, no conflict of interest among the high management and impeccable business reputation. It is necessary to implement a system of monitoring the compliance of personnel with the qualification requirements established for them, to develop a system of institutions for the training of insurance specialists.

The public-private partnership in insurance sector might be beneficial to the development of certain types of insurance. The example of such partnership now is state support of insurance in agricultural sector. Agricultural insurance is a prerequisite for effective agriculture, as it helps to protect farmers from the risks of death of agricultural products due to adverse natural conditions. Insurance of agricultural products with state support will be introduced in Ukraine from 2021 [1]. The government plans to allocate 672 UAH million for it. In addition, work is underway to develop accumulative life insurance and liability insurance.

The main information-analytical problems of the insurance market of Ukraine stem from:

- lack of transparency in the insurers' activity;
- non-transparency of data on the ownership structure of domestic insurance market;
- flawed financial reporting process;
- absence of rating systems for evaluation insurance companies.

Lack of transparency in the insurers' activity is connected to the imperfection of the process of reporting the financial results of insurers. There are also no effective control mechanisms for proper disclosure of the ownership structure for insurers, no established standards and requirements for business reputation owners and key executives, no structured approach to building corporate governance and system internal control.

It is necessary to introduce requirements for transparency of the ownership structure of insurance and reinsurance companies, disclosure of information on the owners of significant participation, to introduce liability for insurance companies with signs of non-transparent ownership structure.

The main social problems of the insurance market of Ukraine are connected to potential policyholders and include the following:

- lack of trust of the population and business entities, to insurance companies;
- low insurance culture among the population;
- problems of consumer protection;
- low incomes due to the unstable economic and political situation in the country.

The low level of consumers' trust is related to consumer protection problems and is caused by the lack of a mechanism to guarantee insurance payments under long-term life insurance contracts, the frequent cases of exiting market by insurers, which leads to losses of policyholders funds, low quality of provided insurance services, low level of qualification of insurance personnel, etc. Consumer protection must be guaranteed by ensuring the stability and reliability of the insurance market; ensuring transparency of insurance companies and availability of information; establishing the system of legal and regulatory requirements to avoid the sale by insurers and intermediaries of low quality products, misleading claims settlement practices.

Low level of effective demand for insurance services is explained by low level of household income. The purchasing power of citizens is affected by the financial and economic situation in the country, which is characterized by a constant crisis processes. Demand for insurance services is also affected by the high cost of insurance services, which is associated with high costs of insurers for the formation of reserves and other costs associated with the conduct of insurance activities. The way out of this situation is to optimize the costs of the insurer by reducing administrative costs (for example, through digitalization), the introduction of more efficient methods of doing business.

The low culture of insurance is explained by the insufficient level of insurance and financial literacy among the population, which raises lack of understanding the need for insurance as a method of protection from possible risks. It is necessary to expand the range of potential policyholders and promote it among young people through educational programs.

So, based on the analysis, we may conclude that the market of insurance services in Ukraine is backward from the developed countries of the world and faces a number of problems of the economic, regulatory, organizational, information-analytical and social nature. However, it shows some positive developments, such as overall steady growth of the market, liquidation of financially unstable companies, deregulation of the market and improvements in legislation. In order to ensure the successful integration of the market into the global financial space, it is important to continue to further growth of the insurance sector by improving the living standards and increasing salaries of the population; improving the legislation of insurance market participants' activities; de-monopolization of life insurance sector and in the same time withdrawal of insolvent companies from the market; creating of favorable tax regime in order to stimulate the development of the insurance industry and strengthening the stability and reliability of insurers.

PART III
RECOMMENDATIONS ON THE UNIFICATION OF INSURANCE SERVICES IN UKRAINE ACCORDING TO INTERNATIONAL REQUIREMENTS

3.1. Improvement of the state oversight of insurance services provision

Having analyzed the current state of development of the insurance services market of Ukraine, we can form recommendations for its integration into the global financial space. The main prerequisite for successful integration of the domestic market is the unification of the procedure for providing insurance services according to international requirements. Unification in legislation means the process by which laws from different jurisdictions are made more similar. Unification of insurance services depends on the standardized order of interaction of the subjects of the insurance services market in the context of the world financial space.

One of the aspects of unification of insurance services is the improvement of the system of state supervision over insurance activities in Ukraine and its approximation to the systems of European countries. This raises the question of studying domestic state supervision and studying the experience of foreign countries.

The balanced development of the insurance services market in Ukraine largely depends on the establishment of effective state regulation of insurance activities, harmonized with international standards and focused on consumer protection. The system of state regulation of the insurance market has three main components:

- indirect state intervention through the use of economic methods of influence;
- legislative regulation;
- special supervision over the activities of insurance market participants, which is made in accordance with programs of general economic development of the state.

State insurance supervision is carried out by a specially authorized state body that controls the compliance of market participants with current insurance legislation, monitors the stability and reliability of insurance market and ensures the rights of consumers of insurance services. The authorized body conducts supervision of insurance activities by checking insurance companies for their solvency and transparency, registering insurance companies, issuing licenses for certain types of insurance, etc.

State supervision over insurance activities in Ukraine is carried out by authorized state body and its local bodies. According to the Law of Ukraine “On Insurance” the main functions of the authorized body are: maintaining state registers of insurers and (re)insurance brokers; issuance of licenses for carrying out insurance activities; monitoring the compliance with insurance legislation; development and adoption of insurance legislation; exercising control over the solvency of insurers; establishment of rules for the formation, accounting and placement of insurance reserves; participation in international cooperation; implementation of organizational and methodological support for actuarial calculations.

In Ukraine at the present stage, the main supervision of the insurance market is carried out by the National Bank of Ukraine. The National Bank is planning to introduce a new model of insurance market regulation, which will take into account the provisions of European Union directives, IAIS international principles, world practices, and will be implemented gradually during the transition period. The National Bank has published a White Paper "Future regulation of the insurance market in Ukraine", which describes the planned changes in the market regulation, namely:

- improving licensing standards;
- establishing the responsibility of the ultimate beneficial owners for the activities of the insurance company or reinsurer;
- setting requirements for corporate governance and internal control systems;
- setting requirements for the risk management system;

- strengthening the requirements for the acceptability of assets and assessment of their quality, assessment of reserves, capital structure and the level of its adequacy;
- formation of a system of early detection of risks and timely response;
- development of the procedure for resumption of the insurance company's activity;
- development of the procedure for reorganization or withdrawal of the insurer or specialized reinsurer from the market;
- establishing accounting and reporting requirements in accordance with IFRS;
- ensuring openness and communication between the regulator and regulatory entities in the process of building regulatory policy and supervision of the insurance market [3].

The appointment of the NBU as an insurance market regulator provoked mixed reactions from insurance market participants. Some experts believe that the actions of the new regulator will lead to the purification and monopolization of the financial market in the interests of international corporations, while others note that the market will develop at the expense of competitive companies that remain.

Given the integration of the domestic insurance market into the world economy, foreign experience should be taken into account when determining ways to improve state supervision of insurance activities.

In general, researchers distinguish several models of organization of state regulation. According to the method of regulating insurance activities, there are liberal, continental and mixed regulatory systems.

The liberal model of insurance regulation is based on the Anglo-American system of law and is inherent in the economies of the UK, the United States, and Canada. The peculiarity of the model is that in it the main source of law, in addition to the law is judicial precedent. Insurance supervision is relatively lenient and is characterized by a lack of clear regulation of the activities of insurance market participants. The main focus of supervision is on solvency control and analysis of financial statements of insurance companies.

The continental model of insurance regulation is based on the system of continental law and is typical for Germany, Italy, Russia, Japan and other countries. The main feature of this model is strict legal regulation of insurance activities. The state introduces standards and requirements for insurers (approves insurance rates, establishes limits for fluctuations in tariffs, approves the content of insurance contracts) and exercises systematic control over compliance with the law.

Some researchers single out a mixed model, which is a transitional between the two and is typical for France. This model combines regulatory and flexible methods of market regulation, which ensures a sufficient level of competition in the insurance market.

Depending on the specifics of the subject of state supervision of insurance activities, there are centralized, decentralized and dualistic systems.

The centralized model is characterized by the unification of the regulatory system. The regulation of the insurance market is carried out by a single governing body, to which other state bodies are subordinated. All insurers in the country are subject to general rules and regulations.

The decentralized model is typical for states with a federal system. There is no single insurance supervision body. The basic rules of insurers' activity are determined by the local authorized bodies, who perform control and supervisory functions. Majority of the standards and requirements for each federal unit.

The dualistic model is a mixed model, which characterized by the regulation of insurance activities both at the national level and at the level of local authorities [30].

Now let's consider in detail the systems of state insurance supervision of some countries. Let's start with France, where the model of state regulation is similar to the Ukrainian one. The French insurance industry is the largest in the EU27 and therefore the largest in the European Union after Brexit. Implementation of Solvency II in France occurred in 2016. Although, at the end of 2017, 142 insurers out of 742 continue to be supervised according to Solvency I. These insurers are all very small representing 0.03

percent of the assets of the insurance market and 0.17 percent of the premiums of the insurance market.

The French supervisory authority Autorité de contrôle prudentiel et de résolution (ACPR) ensures a permanent supervision of the insurance sector by controlling the compliance with the current laws and regulations. The ACPR's work is based on a combination of permanent controls and on-site controls.

Permanent control is done through documentary control and includes the in-depth examination of the accounting and prudential statements transmitted on a quarterly or annual basis by the insurance organizations; the analyses of internal control, solvency and reinsurance reports, annually provided to the ACPR departments.

On-site insurance control missions are field missions to organizations that have risk factors and require in-depth investigations. The following are analyzed in particular: the level of provisioning and compliance with prudential rules; the quality of management; governance rules; tools, procedures; reinsurance; knowledge and control of risks; the prospective solvency of the organization.

The ACPR adjusts the intensity of its supervision to the risk and the impact assessed for each insurance undertaking or group. More specifically, the prudential supervision process is structured around three consecutive stages during which the authorized body: assesses the impact on the market and risk of each group and each insurance organization; conducts a detailed review of the risks relating to these groups and organizations; take supervisory measures where necessary.

As part of the prudential supervision process, the ACPR assesses the compliance by companies with requirements for the governance system, for technical provisions, capital requirements, investment rules, requirements concerning the amount and quality of own funds.

A feature of the French supervision system is the identification of systemically important insurers (which are too large or too interconnected to fail, given the risks it poses to the financial sector) and the implementation of specific supervisory measures in relation to them in order to mitigate the risks posed by these institutions [36].

Given that Poland and Ukraine have close economic ties, it is advantageous to study Polish system of insurance supervision. Poland is a model of rapid economic development, including in the field of insurance. Polish insurance sector consists of 60 insurance companies and one specialized reinsurance company. There is a high degree of foreign capital in the market, which accounts for about 50 percent of total GWP and total assets. Distribution of insurance products is carried out mainly through insurance agents.

The Polish Financial Supervision Authority (PFSA) is the main supervisory agency of the insurance sector. The Ministry of Finance is responsible for preparing insurance regulations. The Office of Competition and Consumer Protection (OCCP) is the body responsible for consumer protection.

Insurance work is carried out by different departments of the PFSA, reflecting in part a division of off-site and on-site supervisory work. There are separate functions for licensing, external oversight, risk management and inspection. The licensing department also supervises intermediaries.

PFSA supervisory framework includes three main components:

1. Risk assessment framework (SREP);
2. Detailed supervisory reviews (off-site analysis and on-site inspection);
3. Early warning systems (stress tests, monthly EWS, On-going EWS).

SREP framework is used for annual comprehensive risk assessment of all financial institutions. The evaluation methodology is reviewed annually and published on the PFSA website. The SREP includes financial reporting and information about the insurer’s management and controls. Risks are assessed individually taking into account both the exposure and the quality of risk management, capital adequacy and governance (including business model, control functions etc.). The additional demand is developing detailed self-assessment by insurers in response to an extended questionnaire and submitting it to the PFSA. The final output of SREP is a scored assessment that takes into account the impact of the insurer in case of failure.

There are separate processes (and staff) for off-site analysis and on-site inspection. The off-site supervisory approach involves regular reporting to the PFSA and taking supervisory action. There is quarterly internal report evaluating information at group and solo insurer levels, including financial information on a PAS basis and solvency. There is also less detailed monthly reporting (Early Warning System, EWS), aimed at detection of early risks. Other off-site supervisory work includes regular stress tests and cross-firm analysis, which are taken into account in the SREP.

On-site inspections are conducted on a structured basis with immediate feedback to management as well as a detailed report. The term of inspections is up to 60 days. They cover quantitative issues, management and control. The inspection report itself focuses in largely on identifying areas of non-compliance, but also identifies broader areas of risk where action is required, but requirements have not yet been violated. The PFSA also conducts brief follow-up visits in addition to full inspections.

The PFSA's supervisory work includes the assessment of insurance companies' key personnel. The PFSA approve the chairman and risk management member of the management board of insurers. All defined role-holders have to be notified to the PFSA and it checks on qualifications and assesses suitability for the particular role [44].

Insurance supervision there is based on the Insurance Supervision Act (VAG). The German Federal Financial Supervision Authority (BaFin) oversees economically important private insurance companies and public insurance companies that operate outside any federal state. BaFin oversees 413 insurance companies. The supervisory authorities of the federal states have primary responsibility for the supervision of public insurers whose activities are limited to that federal state and have less economic importance.

The surveillance process includes an assessment of the quality requirements for the management system, an assessment of risks, and the ability of enterprises to assess and bear these risks. The review process applies to both individual insurance companies and insurance groups. Key information obtained from the financial statements of enterprises.

The risk classification system takes into account the nature, volume and complexity of the business and the associated risks. The classification of individual insurance companies is based on a two-dimensional matrix that uses market impact and company quality as classification criteria. An enterprise's quality assessment is based on financial performance, growth and management quality.

Information on the aggregated results is provided in BaFin's Annual Report and is used for annual oversight planning. It determines the frequency and depth of on-site inspections and off-site supervisory processes which, in particular, include the assessment of documents and information that are submitted in accordance with the reporting requirements.

In case of negative developments in the insurance company, the supervisory authority may appoint a special commissioner to replace the board of management, the supervisory board or other governing bodies of the company, revoke a company's right to operate [39].

After analyzing the current state of the insurance supervision system in Ukraine and taking into account the experience of foreign countries, we can formulate the following recommendations for its improvement:

1. For Ukraine, the most optimal is a centralized (as for a unitary state) and mixed (contributes to the flexibility of methods of supervision and increase market competitiveness) models of government regulation;
2. Considering the high concentration of domestic insurance market, it makes sense to establish process of identification of systemically important insurers by French example. Special supervision on such insurers will help to reduce the possibility of market destabilization;
3. It will be appropriate to regulate the intensity of supervision for insurance companies or groups, based on the risks they face and their impact on the insurance market;
4. Implement the system of regularly on-site insurance control missions, aimed at identifying a non-compliance with insurance requirements and risk areas;
5. Introduce an early warning system for premature detection and response to potential risks;

6. Develop a methodology and introduce a rating system for regular comprehensive assessment of financial institutions;
7. Start an assessment of insurance companies' key personnel, provide for the possibility of appointing a special commissioner to governing bodies of the company in case of non-compliance with regulator's requirements;
8. Strengthen the system of control over the activities of foreign insurers.

It also should be noted that the prudential supervision system, which the NBU plans to introduce, is typical for the EU countries and generally meets international requirements.

3.2. Standardization of the order of interaction of subjects of the market of insurance services

According to the Law of Ukraine "On Standardization", standardization is defined as an activity that consists in establishing provisions for general and repeated use of existing or potential tasks and is aimed at achieving the optimal degree of order in a particular area. Objects of standardization are:

1) materials, components, equipment, systems, their compatibility;

2) rules, procedures, functions, methods, activities or its results, including products, personnel, management systems;

3) requirements for terminology, marking, packaging, packaging, marking, labeling, etc.

The purpose of standardization in Ukraine is to ensure compliance of standardization objects with their purpose; diversity management, applicability, compatibility, interchangeability of standardization objects; ensuring rational production through the application of recognized rules, guidelines and procedures; ensuring the protection of life and health; ensuring the rights and interests of consumers; ensuring occupational safety; preservation of the natural environment and saving of all types of resources; removing technical barriers to trade and preventing their occurrence, supporting the development and international competitiveness of products [22].

Standardization processes in the field of insurance in the world market is represented by:

- the activities of supranational regulators of insurance market development, such as the International Association of Insurance Supervisors, European Insurance and Occupational Pensions Authority;
- unification of reporting through the gradual transition of the insurance market to international financial reporting standards (IFRS), which provide transparency and openness of financial information of the company about their assets, certain types of insurance and their profitability, which can facilitate cooperation of national insurers with the international insurance market;
- denationalization of national standards, for example, the gradual transition of national markets to Solvency II, which is a model for assessing the solvency and financial stability of companies in the EU. The purpose of this project is to improve the risk management of insurers, the impact on the cost of the industry, especially capital requirements [14].

Standardization of the insurance sector in Ukraine is implemented, in particular, through the gradual adaptation of legislation to EU requirements in accordance with the areas set out in the Association Agreement, and ensuring its effective implementation. The strategy for the development of the financial sector of Ukraine until 2025 provides for the adoption of measures to promote the development of the insurance market, harmonization of legislation and international cooperation, namely:

- Implementation of the regulatory requirements of the EU-Ukraine Association Agreement, in particular licensing requirements, capital requirements, liquidity, disclosure and qualification requirements;

- Increasing of the level of international cooperation, including with foreign regulators EIORA and IAIS;

- Implementing a roadmap on the "Basic Principles of Insurance" IAIS and adapt EU legislation to the legislation of Ukraine on the regulation of insurance activities, taking into account the specifics of the national market;

- Ensuring the development and submission of legislation of Ukraine on the regulation of actuarial activities;

- Ensuring the development to the legislation of Ukraine on the regulation of the nuclear insurance market and to introduce state supervision over the activities of the Nuclear Insurance Pool;

- Making changes to the requirements for ratings of financial reliability (stability) of non-resident insurers and reinsurers;

- Developing and implementing mechanisms for early response to risks of insurance companies and their withdrawal from the market;

- Ensuring legal regulation of insurance intermediaries;

- Ensuring admission of Ukraine to IAIS.

The roadmap for the implementation of the 2025 Strategy also details legal norms that will be implemented as part of the process of harmonization of insurance legislation, namely:

- Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 relating to the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II);
- Directive 2009/103/EC of the European Parliament and of the Council of 16 September 2009 on insurance against civil liability in respect of the use of motor vehicles and on ensuring compliance with the obligation to insure against such liability (codified version);
- Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution;
- Core principles of insurance of the International Association of Insurance Supervisors (IAIS);
- Article 127 of the EU-Ukraine Association Agreement [27].

Directive 2009/138/EC (Solvency II) introduces the requirements for insurers concerning solvency, sets out management and supervisory rules. The key parts of Solvency II system consist the following requirements:

1. Capital requirements (MCR and SCR);
2. Risk management system (effective governance system and implementation of own risk and solvency assessment (ORSA));
3. Supervision (Supervisory Review Process and Group supervision) [35].

In general, the consequences of the implementation of Solvency II in the EU are seen as positive, but due to strict requirements, some negative tendencies have occurred, such as high cost of implementation, reduction the investment attractiveness and competitiveness of the industry, reduction in the number of insurance companies, complicating supervision process. Work is underway to review the rules of Solvency II by EIOPA and other European insurance organization [31].

With that in mind it is important to adapt the requirements of the directive in accordance with the realities of the domestic insurance market. The direct implementation of Solvency II may have a negative effect on the activities of insurers in Ukraine, in particular, high capital requirements will lead to the exit of insurers that will not be able to meet the new criteria and reduce the return on capital for large insurers. This may have a negative impact on potential policyholders, who will be affected by rising insurance costs due to increased market monopolization. The new solvency requirements should be applied depending on the performance of the insurer.

Directive 2009/103/EC relates to civil liability insurance for motor vehicles. Motor insurance represents a significant proportion of non-life insurance sector, both in Ukraine and in EU. The Directive originally is aimed on protection of EU residents, involved in a road accident in another EU country. Under the Directive, subscribers to compulsory motor insurance policies in all EU countries are covered for motoring throughout the EU.

The Directive requires all motor vehicles to be covered by compulsory third-party liability insurance; abolishes border checks on insurance so as to facilitate international travel within the EU; prescribes minimum third-party liability insurance cover; specifies exempt persons and authorities responsible for compensation; introduces a mechanism to compensate local victims of accidents caused by vehicles from another EU country; requires the quick settlement of claims arising from accidents occurring outside the victim's EU country of residence (so-called ‘visiting victims’); entitles policy holders to request a statement concerning the claims (or absence of claims) involving their vehicle during the 5 years preceding the contract [34].

The Law of Ukraine “On Compulsory Insurance of Civil Liability of Land Vehicle Owners” regulates the same legal relations as the EU Directive. The provisions of the law will need to be systematically updated, taking into account changes in European and domestic legislation, the imperfection of the system of compulsory civil liability insurance in Ukraine. In order to improve the law, it is necessary to revise the approved amount of insurance payments for damage caused to the lives and health of victims, improve the system of insurance compensation, introduce an electronic form of insurance contract, establish a procedure for payment of insurance indemnity in case of insurer bankruptcy, increase the level of state supervision over the MTIBU, get rid of contradictory and vaguely defined rules.

Directive (EU) 2016/97 regulates insurance subjects’ activity in the area of insurance distribution. The aim of the directive is to improve the process of sale of insurance products in a way that will be beneficial to customers and retail investors. Those benefits will stem from greater transparency of insurance distributors in regard to the price and the costs of their products; better and more comprehensible information about insurance products, so that potential customers can take more informed decisions; offering insurance products in a package with another good or service; implementing rules for insurers on transparency and business conduct to prevent consumers from buying products that do not meet their needs; introducing stronger safeguards for the sale of life insurance products with investment elements, such as unit-linked life insurance contracts [33].

The implementation of the provisions of the directive provides for amendments to the legislation of Ukraine in the field of regulation of insurance distribution, namely: to expand the objects and limits of regulation for the sale of insurance products; to settle the issue of cross-selling of insurance products; requirements for ethical and professional conduct of the insurance distribution; disclosure of information to consumers about the status of the seller of the insurance product and the type of remuneration they receive; to introduce continuous professional training for the insurance distributors; introduce the obligation to have a professional liability insurance policy for the insurance distributors.

Aside from Euro directives, Ukraine is planning to implement insurance core principles of the IAIS. IAIS was established in 1994 to facilitate cooperation between insurance supervisors around the world. IAIS coordinates its work with other international bodies and helps shape financial systems around the world.

ICPs were adopted in 2011 and subsequently updated several times. ICPs are a system of principles, standards and guidelines for the regulation and supervision of the insurance sector. They serve as a base for supervisors in all jurisdictions and are designed to be flexible enough to apply to different insurance supervision regimes, regardless of maturity, as well as to legal entities and insurance groups.

ICPs govern the objectives, powers and responsibilities of the supervisory authority; requirements for confidentiality, licensing, capital adequacy; corporate governance; risk management; supervisory control and reporting; preventive and corrective measures; termination and withdrawal of insurers; reinsurance; investment; activities of intermediaries; disclosure of information; counteraction to insurance fraud, etc. [46].

As part of the adaptation of the ICPs, changes will be introduced to the licensing procedure (change of the procedure for entering the insurance market, transition from licensing of certain types of insurance to licensing by insurance classes, reduction of compulsory insurance types, authorization of insurance intermediaries, requirements about transparent ownership structure, revision of corporate governance requirements, development of risk management system), implementation of risk-oriented prudential supervision, development of consumer protection and proper market behavior, financial monitoring, reporting and external audit (automation, periodicity increase).

Article 127 of the EU-Ukraine Association Agreement is about effective and transparent regulation. According to the article, each Party of the agreement shall make every effort to ensure the implementation of international standards of regulation and supervision in the field of financial services and to combat tax evasion throughout its territory.

Thus, we can conclude that the unification of insurance services according to international standards is a guarantee of integration of the insurance services market of Ukraine into the global financial space. Unification of insurance services can be achieved by standardizing the order of interaction between insurance entities, which is realized by harmonizing domestic legislation with European legislation. The system of regulation of insurance services in Ukraine and European countries were revised and ways to improve insurance supervision in Ukraine were identified, using the experience of foreign countries. It was concluded that the requirements of European directives should not be copied, but adapted to the current market environment.

CONCLUSIONS

In the final qualifying work were considered the process of integration of the market of insurance services of Ukraine in the global financial space.

In the process of analysis, the necessity and essence of providing insurance services in the context of the global financial space were substantiated. It was detected that insurance sector is an important part of the financial system, which contributes significantly to the economic development of the world. Due to the developed market of insurance services, legal entities and individuals are provided with financial support in case of unforeseen hazardous events, which reduces the negative impact and the burden of social protection of state. Apart, from that well-developed insurance sector contributes greatly to GDP growth, provides workplaces and invest significant funds in the country's economy.

A new definition of the " insurance services market " category has been proposed: a system of economic and organizational relations, which arises between the market subjects in the process of creation, acquisition and consumption of insurance services, and all the institutions and mechanisms, involved in said process. The interaction between the subjects of insurance takes place in the market of insurance services. The order of interaction of subjects of the market of insurance services is determined by the policy of the state, which deals with direct (through legislation and insurance supervision) and indirect (through economic instruments) regulation of the insurance market. Subjects of the market of insurance services include insurers, associations of insurers, policyholders, intermediaries and authorized state bodies.

The current state of the national market of insurance services was assessed, namely the target segments of the insurance services market of Ukraine and regulatory acts concerning the interaction of market participants were analyzed, market problems and their solutions in the context of international requirements were identified.

It was concluded, that despite the constant growth of insurance indicators, the Ukrainian market of insurance services occupies a lagging position compared to European insurance markets and its activities are characterized by a number of economic, organizational, social and informational problems, which negatively impacts the integration processes. The Ukrainian insurance market in comparison with the European markets distinguishes the following:

- low level of basic insurance indicators (volume of insurance premiums and payments, insurance density, level of loss coverage) and small role of the insurance market in the economy;
- falling number of insurance companies in the market;
- high market concentration, the presence on the market of "pseudo insurers";
- a small share of life insurance in the total share of insurance, moderate monopolization of the insurance market;
- under development of alternative to insurers sales channels of insurance services;
- underdeveloped reinsurance and mutual insurance;
- underdeveloped investment activities of insurers.

Some results of the research became the basis for a report at the scientific conference: Haponenko T. The state and prospects of the Ukrainian insurance market // Financial and credit systems: problems of theory and practice: All–Ukrainian. stud. conf. of science / resp. ed. N.P. Shulga. - K.: Kyiv. Nat. Trad. - Econom. Univ., 2020. - 382 p. Also, based on the results of the final qualifying work, an article was published: Haponenko T. Characteristics of the target segments of the market of insurance services of Ukraine // Business processes in credit and financial institutions: Coll. science art. stud. full-time and part-time study / resp. ed. N.P. Shulga. - Kyiv: Kyiv. nat. trad. - econ. university, 2020. - 426 p.

It was found that, in the field of state regulation, the Ukrainian insurance market is distinguished by inconsistency of current legislation with IASB standards and EU directives; chaotic structure of legislation and its very large number; the presence of outdated, vaguely defined norms; lack of insurance code; insufficient legislative regulation of insurance intermediaries; a large number of compulsory types of insurance that, have lost relevance; frequent change of insurance market regulators; lack of purposeful state policy in the field of insurance. For the first time, the full periodization of the development of the insurance legislation in Ukraine was developed.

Based on the conducted research, were developed recommendations on the unification of insurance services in Ukraine according to international requirements, which is the main prerequisite for the integration of the market of insurance services of Ukraine in the global financial space.

It was concluded, that unification of insurance services in Ukraine depends on the standardized order of interaction between the subjects of the insurance services market, which can be achieved through the changes to the domestic insurance regulation system, based on international requirements. Standardization process in Ukraine is based on revision of the insurance supervision system and adapting of core principles of insurance of IAIS, provisions of EU's Directives and international financial reporting standards. As part of the standardization process, recommendations were made to improve state supervision of insurance activities and harmonize domestic legislation with European standards.

Insurance supervision system might be improved by establishing process of identification of systemically important insurers; establishing a risk-based approach for an assessment of insurance entities; implementation of the system of regularly on-site insurance controlling; increasing the frequency of inspections of insurance entities; introducing an early warning system for premature detection and response to potential risks; developing a methodology and introducing a rating system for regular comprehensive assessment of financial institutions; improving the requirements to insurance entities in the sphere of corporate governance, transparency, ethical business conduct, solvency and liquidity.

Harmonization of insurance legislation should take place through the adaptation of EU directives, taking into account the specifics of the national market. The main changes in the legislation that need to be made are:

1. Changes to the procedure for licensing, entry of insurers on the market; establishing insurance classes; reduction of compulsory insurance types;

revision of corporate governance requirements; requirements to financial monitoring, reporting and external audit;

2. Development of legislation in the field of consumer protection, regulation of insurance intermediaries, co-insurance, motor insurance, actuarial activities, nuclear insurance;
3. Introduction of new requirements for insurers for solvency, supervision and external reporting, based on Solvency II. The size of authorized capital for the insurance companies needs to be changed from 1 million euros for non-life insurance organizations to 2,2 million euros for non-life insurance organizations, including captive insurance companies; 3,2 million euros for reinsurance undertakings, other than controlled reinsurance undertakings. At the same time for a company with a low level of capitalization (54% of companies in 2019 accumulate insurance premiums of less than 50 UAH million) it is recommended to leave Solvency I requirements.

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APPENDICES

Appendix A

Table A.1

Main indicators of auto insurance for 2015-2019 in Ukraine, UAH million

Indicator	As of 31.12.2015	As of 31.12.2016	As of 31.12.2017	As of 31.12.2018	As of 31.12.2019
Net insurance premiums	7 322,40	8 653,00	9 858,10	11 720,70	13 801,20
Growth rate	1 374,90	1 330,60	1 205,10	1 862,60	2 080,50
Growth rate, %	23,1	18,2	13,9	18,9	17,75
Net insurance payments	3 077,60	3 707,50	4 802,90	5 623,80	6 504,20
Growth rate	333,5	629,9	1 095,40	820,9	880,40
Growth rate, %	12,2	20,5	29,5	17,1	15,65
Payout ratio, %	42,03	42,85	48,72	47,98	47,1

Note. Complied by the author on the basis of [41]

Table A.2

Main indicators of life insurance for 2015-2019 in Ukraine, UAH million

Indicator	As of 31.12.2015	As of 31.12.2016	As of 31.12.2017	As of 31.12.2018	As of 31.12.2019
Net insurance premiums	2 186,60	2 754,10	2 913,70	3 906,10	4624,0
Growth rate	26,90	567,50	159,60	992,40	717,90
Growth rate, %	1,2	26	5,8	34,05979	18,38
Net insurance payments	491,60	418,30	556,30	704,90	575,9
Growth rate	252,4	-73,3	138,00	148,6	-129,00
Growth rate, %	105,5	-14,9	33	26,7	-18,30
Payout ratio, %	22,5	15,2	19,1	18	12,5

Note. Complied by the author on the basis of [41]

Continuation of add. A

Table A.3

Main indicators of health insurance for 2015-2019 in Ukraine, UAH million

Indicator	As of 31.12.2015	As of 31.12.2016	As of 31.12.2017	As of 31.12.2018	As of 31.12.2019
Net insurance premiums	1 862,10	2 280,20	2 673,90	3 243,10	4 268,80
Growth rate	355,00	418,10	393,70	569,20	1 025,70
Growth rate, %	23,6	22,5	17,3	21,3	31,63
Net insurance payments	1 197,80	1 339,90	1 671,60	2 094,90	2 602,80
Growth rate	89,3	142,1	331,70	423,3	507,90
Growth rate, %	8,1	11,9	24,8	25,3	24,24
Payout ratio, %	64,32522	58,76239	62,51543	64,5956	61,0

Note. Complied by the author on the basis of [41]

Table A.4

Main indicators of property insurance for 2015-2019 in Ukraine, UAH million

Indicator	As of 31.12.2015	As of 31.12.2016	As of 31.12.2017	As of 31.12.2018	As of 31.12.2019
Net insurance premiums	2 188,10	2 633,30	2 578,50	3 222,00	3 518,40
Growth rate	143	445,20	-54,80	643,50	296,40
Growth rate, %	7	20,3	-2,1	25	9,20
Net insurance payments	429,3	149,4	260,6	1 412,40	1 146,80
Growth rate	256.8	-279,9	111,2	1 151,80	-265,60
Growth rate, %	148,9	-65,2	74,4	442	-18,80
Payout ratio, %	19,60	5,70	10,10	43,80	32,6

Note. Complied by the author on the basis of [41]

Appendix B

Kyiv National University of Trade and Economics

Banking department

Presentation for the final qualifying paper

on the topic:

Integration of the market of insurance services in the global financial space

Student of the 2nd year, group 5am, Haponenko T.A.
specialty 072 «Finance, banking and insurance»
specialization «Financial intermediation»

Scientific adviser
PhD in Economics, Avanesova I.A
Associate Professor

Insurance services market is a system of economic and organizational relations, which arises between the market subjects in the process of creation, acquisition and consumption of insurance services, and all the institutions and mechanisms, involved in said process. The characteristics of insurance subjects and the order of interaction between them determines the elemental structure of the insurance services market and is vital for understanding its nature.

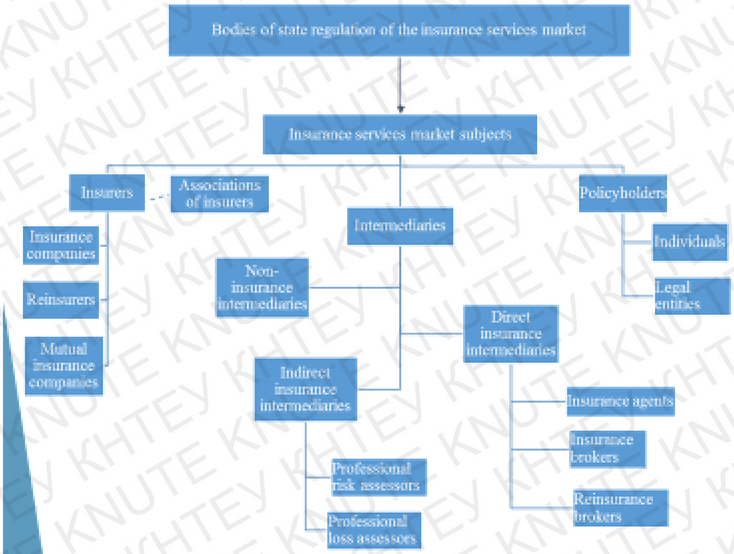
Insurance functions

Note. Complied by the author on the basis of [4].

Function	Characteristics
Risk function	This function is about transferring a liability for the consequences of the risk caused by insured events, the list of which is provided by applicable law or insurance contract, from the policyholder to the insurer in exchange for a fee. The amount of insurance fee depends on the probability of occurrence of the insured event. Due to this function, the objective nature of the economic necessity of insurance protection is realized.
Creation and use of insurance reserves	Insurer creates a system of insurance reserves in order to be able to pay compensation to the insured individual in case of the occurrence of a natural disaster, accident or other insured event. Formation of a specialized insurance fund ensures the stability of insurance, guarantee of payments and reimbursements, distributing the consequences of risk among all policyholders.
Investment function	Through the mechanism of redistribution of the temporarily free funds of the insurer, insurance sector might influence the state of money circulation in the state, increasing the purchasing power of the national currency, investment opportunities and so on.
Preventive function	Is used to prevent or minimize losses as a result of insured events. Legal prevention includes reservations concerning the deprivation of the insured of insurance indemnities. Financial prevention implies that part of the insurance premiums is used to finance preventive measures (purchase of medicines, financing of measures to prevent traffic accidents, etc.)
Savings function	This function appears due to use of life insurance. In the absence of insurance events, the accumulated funds of the insured are returned to them in case of a living to a certain age, specified in the insurance contract. Life insurance might serve as beneficial alternative to the banks or pension funds for people who are saving money for the retirement.
Control function	According to this function, financial insurance control is carried out over the correct conduct of insurance operations, the targeted use of insurance funds.
Budget substitute	Insurance allows the state to reduce the use of budget funds, because it compensates the unexpected losses of individuals and legal entities.
Stabilization	Is about ensuring the dynamic stability of the economic complex and social sphere of the state, continuity of the process of social reproduction.
Consulting	Provision of consulting services by insurance intermediaries to insurers.
Distribution	Influences the process of distribution of income and free funds of enterprises and households, redistribution of funds between policyholders.

Continuation of add. B

Insurance services market subjects



The relationships between the insurance subjects is based on certain principles:

- Free choice of the insurer by the policyholder;
- Insurance risk;
- Insurance interest;
- Maximum honesty;
- Compensation within the actual losses;
- Franchise;
- Subrogation;
- Contribution;
- Co-insurance;
- Reinsurance.

Periods of development of insurance legislation in Ukraine

Period	Years	Main features
I	1991-1996	The beginning of the formation of the insurance market in Ukraine; lack of methodological and legal framework for insurance; the first attempts at state regulation of the insurance market through the adoption of the Decree of the Cabinet of Ministers of Ukraine "On Insurance" of May 10, 1993.
II	1996-2001	Adoption of the Law of Ukraine "On Insurance" of March 7, 1996, which is the main legislative act in the field of insurance relations; introduction of a number of bylaws, in particular, resolutions and orders regulating certain issues of insurance activity; introduction of new requirements for the activities of insurers and insurance intermediaries, development of consumer protection.
III	2001-2008	Adoption of a new version of the Law "On Insurance" from 04.10.2001, which significantly increased the minimum size of the statutory funds of insurance companies and expanded investment opportunities for insurers; the State Commission for Regulation of Financial Services Markets of Ukraine was established to regulate the insurance market (Derzhfinposlug).
IV	2008-2014	In connection with Ukraine's accession to the World Trade Organization, amendments are made to the insurance legislation, according to which non-resident insurers have the opportunity to work in the insurance market of Ukraine; liquidation of Derzhfinposlug as a regulator of the insurance market and creation of the National Commission for Financial Services.
V	2014 and beyond	The signing of the Association Agreement with the EU marked the beginning of updating national regulations in the field of insurance in order to harmonize it in accordance with European standards; liquidation of National Commission for Financial Services and transfer of functions of the insurance market regulator to the NBU.

Continuation of add. B

Regulatory acts concerning the interaction of subjects of the market of insurance services in Ukraine

General legislation include:

- 1) norms of the Constitution of Ukraine on property, entrepreneurship, competence of the highest bodies of state power in normative regulation of economic activity, etc.;
- 2) codified acts of the Civil Code of Ukraine, the Commercial Code of Ukraine, the Tax Code of Ukraine;
- 3) laws that establish the organizational and legal forms of all business entities regardless of their specialization, the procedure for establishing business associations, the scope of their rights and responsibilities and other general provisions;
- 4) bylaws, such as decrees and orders of the President of Ukraine, resolutions and orders of the Cabinet of Ministers of Ukraine, regulations of ministries, departments.

Special legislation includes:

- 1)Law of Ukraine "On Insurance", other laws, which regulate the implementation of insurance activities;
- 2) resolutions of the Verkhovna Rada of Ukraine on insurance activities;
- 3) decrees of the President of Ukraine and resolutions of the Cabinet of Ministers of Ukraine on the provision of insurance activities;
- 4) resolutions and orders of other competent authorities on the regulation of insurance activities;
- 5) local regulations of insurance companies

The Association Agreement between Ukraine and the EU provides for implementing EU rules based on:

- Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation;
- Directive 2009/103/EC of the European Parliament and of the Council of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability;
- Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision;
- Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings;
- Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)

Continuation of add. B

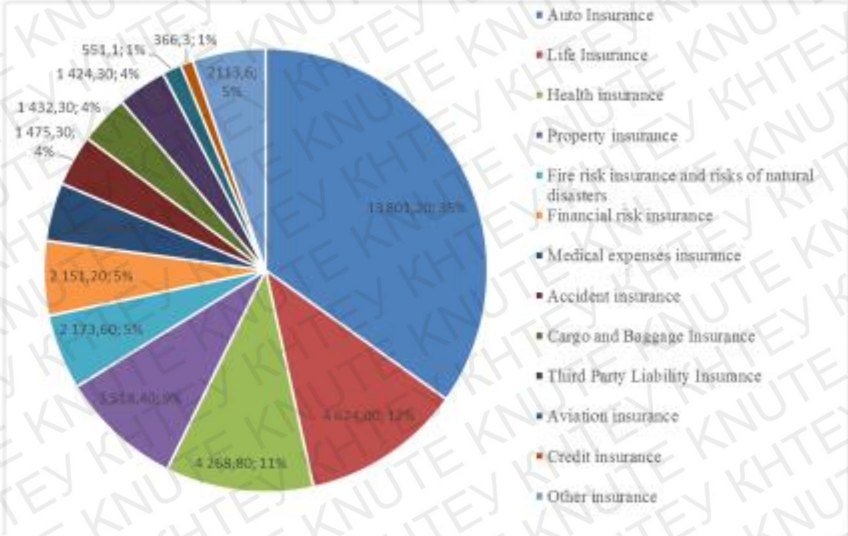
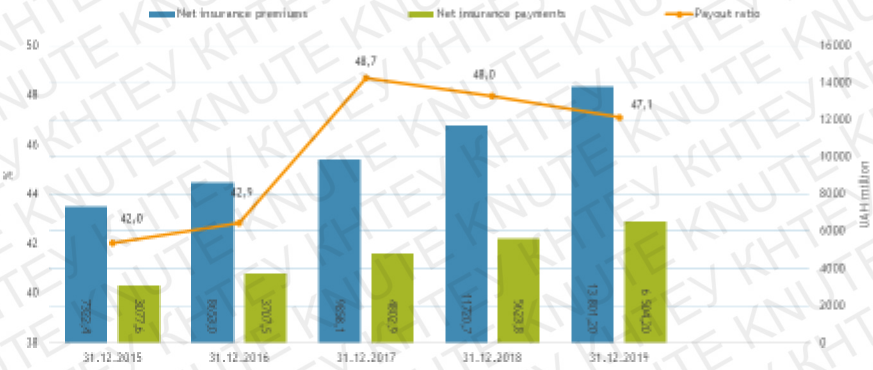


Fig. 2.1 Structure of net insurance premiums by type of insurance as of 31.12.2019, UAH million [41]

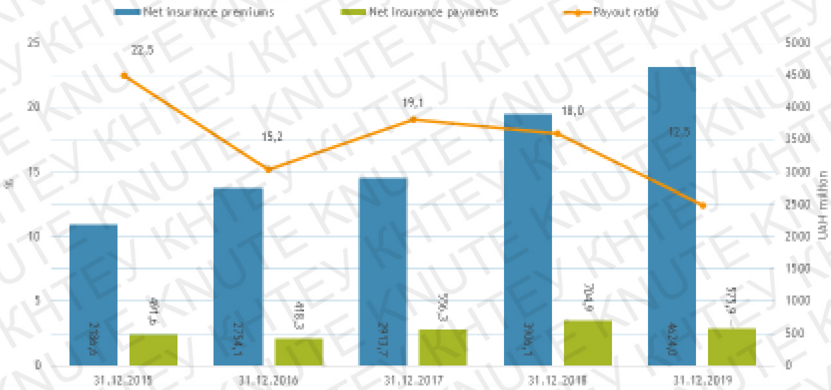
Main indicators of auto insurance for 2015-2019 in Ukraine, UAH million



%	2015	2016	2017	2018	2019
Net insurance premiums growth rate	23,1	18,2	13,9	18,9	17,8
Net insurance payments growth rate	12,2	20,5	29,5	17,1	15,6

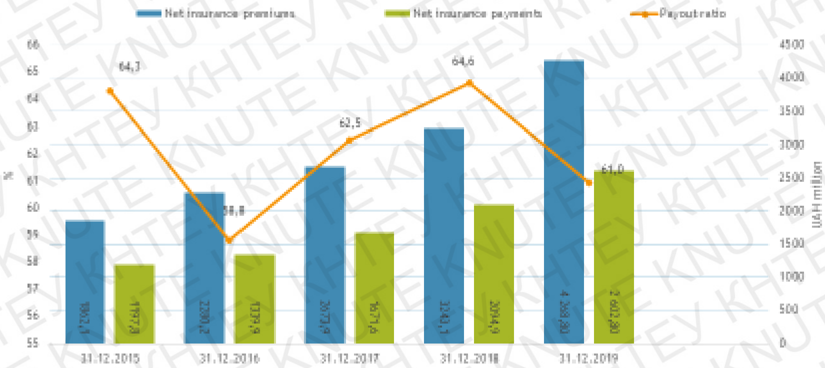
Continuation of add. B

Main indicators of life insurance for 2015-2019 in Ukraine, UAH million



%	2015	2016	2017	2018	2019
Net insurance premiums growth rate	1,2	26	5,8	34,1	18,4
Net insurance payments growth rate	105,5	-14,9	33	26,7	-18,3

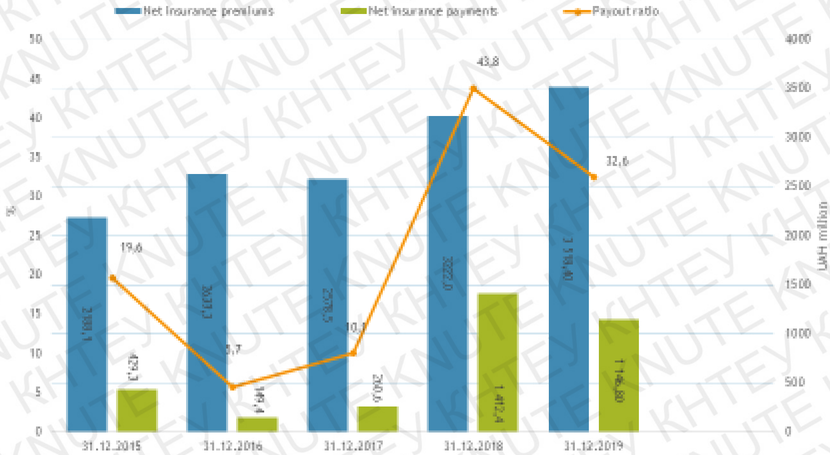
Main indicators of health insurance for 2015-2019 in Ukraine, UAH million



%	2015	2016	2017	2018	2019
Net insurance premiums growth rate	23,6	22,5	17,3	21,3	31,6
Net insurance payments growth rate	8,1	11,9	24,8	25,3	24,2

Continuation of add. B

Main indicators of property insurance for 2015-2019 in Ukraine, UAH million



%	2015	2016	2017	2018	2019
Net insurance premiums growth rate	7	20,3	-2,1	25,0	9,2
Net insurance payments growth rate	148,9	-65,2	74,4	442,0	-18,8

Insurance market's main indicators as of 31.12.2019

*Note. Complied by the author on the basis of [46].

Indicator	Country					
	Ukraine	Poland	Hungary	Romania	Bulgaria	Turkey
GDP, current prices (EUR million)	152270	529930	137140	215000	58990	640170
GDP per capita (EUR)	3637	13955	14054	11013	8475	7711
GWP (EUR million)	2006	14989	3481	2298	1488	10375
Paid claims (EUR million)	543	9596	2049	1426	620	4853
Insurance penetration (%)	1.32	2.83	2.54	1.07	2.52	1.62
Insurance density (EUR/capita)	48	395	357	118	214	125

Continuation of add. B

Economical problems

- insufficient capitalization of insurance companies and low quality of assets;
- low indicators of solvency and liquidity of the insurance companies;
- disproportions in the development of insurance business in the regions;
- underdeveloped investment instruments for the long term placement of insurance reserves.

Organizational problems

- the underdevelopment of infrastructural elements of the insurance market, in particular the institution of insurance intermediation;
- imperfection of the business model of insurance companies;
- insufficient use of the potential of public-private partnership in insurance;
- low level of personnel qualification.

Regulatory problems

- imperfection of the regulatory framework in terms of insurance legislation;
- unstable state policy in the field of insurance;
- excessive number of legally defined types of compulsory insurance.

Social problems

- lack of trust of the population and business entities, to insurance companies;
- low insurance culture among the population;
- problems of consumer protection;
- low incomes due to the unstable economic and political situation in the country.

Information-analytical problems

- lack of transparency in the insurers' activity;
- non-transparency of data on the ownership structure of domestic insurance market;
- flawed financial reporting process;
- absence of rating systems for evaluation insurance companies.

Improvement of the state oversight of insurance services provision

- Considering the high concentration of domestic insurance market, it makes sense to establish process of identification of systemically important insurers by French example. Special supervision on such insurers will help to reduce the possibility of market destabilization;
- It will be appropriate to regulate the intensity of supervision for insurance companies or groups, based on the risks they face and their impact on the insurance market;
- Implement the system of regularly on-site insurance control missions, aimed at identifying a non-compliance with insurance requirements and risk areas;
- Introduce an early warning system for premature detection and response to potential risks;
- Develop a methodology and introduce a rating system for regular comprehensive assessment of financial institutions;
- Start an assessment of insurance companies' key personnel, provide for the possibility of appointing a special commissioner to governing bodies of the company in case of non-compliance with regulator's requirements;
- Strengthen the system of control over the activities of foreign insurers.

Continuation of add. B

Standardization processes in the field of insurance in the world market is represented by:

- the activities of supranational regulators of insurance market development, such as the International Association of Insurance Supervisors, European Insurance and Occupational Pensions Authority;
- unification of reporting through the gradual transition of the insurance market to international financial reporting standards (IFRS), which provide transparency and openness of financial information of the company about their assets, certain types of insurance and their profitability, which can facilitate cooperation of national insurers with the international insurance market;
- denationalization of national standards, for example, the gradual transition of national markets to Solvency II, which is a model for assessing the solvency and financial stability of companies in the EU. The purpose of this project is to improve the risk management of insurers, the impact on the cost of the industry, especially capital requirements

Standardization of the insurance sector in Ukraine is implemented, in particular, through the gradual adaptation of legislation to EU requirements in accordance with the areas set out in the Association Agreement, and ensuring its effective implementation.

- Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 relating to the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II);
- Directive 2009/103/EC of the European Parliament and of the Council of 16 September 2009 on insurance against civil liability in respect of the use of motor vehicles and on ensuring compliance with the obligation to insure against such liability (codified version);
- Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution;
- Core principles of insurance of the International Association of Insurance Supervisors (IAIS);
- Article 127 of the EU-Ukraine Association Agreement

Continuation of add. B

Directive 2009/138/EC (Solvency II) introduces the requirements for insurers concerning solvency, sets out management and supervisory rules. The key parts of Solvency II system consist the following requirements:

- Capital requirements (MCR and SCR);
- Risk management system (effective governance system and implementation of own risk and solvency assessment (ORSA));
- Supervision (Supervisory Review Process and Group supervision)

Directive 2009/103/EC relates to civil liability insurance for motor vehicles.

- The Directive requires all motor vehicles to be covered by compulsory third-party liability insurance; abolishes border checks on insurance so as to facilitate international travel within the EU; prescribes minimum third-party liability insurance cover; specifies exempt persons and authorities responsible for compensation; introduces a mechanism to compensate local victims of accidents caused by vehicles from another EU country; requires the quick settlement of claims arising from accidents occurring outside the victim's EU country of residence (so-called 'visiting victims'); entitles policy holders to request a statement concerning the claims (or absence of claims) involving their vehicle during the 5 years preceding the contract

Directive (EU) 2016/97 regulates insurance subjects' activity in the area of insurance distribution.

- It ensures greater transparency of insurance distributors in regard to the price and the costs of their products; better and more comprehensible information about insurance products, so that potential customers can take more informed decisions; offering insurance products in a package with another good or service; implementing rules for insurers on transparency and business conduct to prevent consumers from buying products that do not meet their needs; introducing stronger safeguards for the sale of life insurance products with investment elements, such as unit-linked life insurance contracts

Harmonization of insurance legislation should take place through the adaptation of EU directives, taking into account the specifics of the national market.

The main changes in the legislation that need to be made are:

1. Changes to the procedure for licensing, entry of insurers on the market; establishing insurance classes; reduction of compulsory insurance types; revision of corporate governance requirements; requirements to financial monitoring, reporting and external audit;
2. Development of legislation in the field of consumer protection, regulation of insurance intermediaries, co-insurance, motor insurance, actuarial activities, nuclear insurance;
3. Introduction of new requirements for insurers for solvency, supervision and external reporting, based on Solvency II. The size of authorized capital for the insurance companies needs to be changed from 1 million euros for non-life insurance organizations to 2,2 million euros for non-life insurance organizations, including captive insurance companies; 3,2 million euros for reinsurance undertakings, other than controlled reinsurance undertakings. At the same time for a company with a low level of capitalization (54% of companies in 2019 accumulate insurance premiums of less than 50 UAH million) it is recommended to leave Solvency I requirements.

Continuation of add. B