

**LIFE INSURANCE MARKET IN UKRAINE:  
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**Key words:**

life insurance, life insurance market, life insurance companies, insuredal resources, Herfindal-Hirschmann index, life insurance premiums

In the article the nature of life insurance has been explored and the analysis of Ukrainian life insurance market during 2007-2017 years has been performed.

It should be noted that the total number of insurance companies has been reduced and the shrinkage of life insurance companies has taken place. It has been shown that in insurance market structure life insurance companies occupy a small niche. Special emphasis was laid on life insurance market monopolization level estimation using Herfindal-Hirschmann index. It could be seen that during the period under review the life insurance branch monopolization level corresponds to the sparingly concentrated market. This indicates the consisting growth of life insurance market and of insurance companies' activity development tendencies.

It is known that insurance resources are the main sources of investment resources and a main characteristic of the insurance market. Insurable resources are supposed to be invested according to generally accepted principles of international insurance practice. It should be noted that dynamics of insured resources of life insurance companies during the period under review shows consistent upturn tendency.

It should be also noted that the increasing of total life insurance premium value ensures investment growth and competitiveness rising of insurance companies. The dynamics of life insurance payments during the period under review shows consistent upturn tendency. The gradual increasing of life insurance payments testifies to a certain revival of life insurance companies economic activity.

The main problems and factors that hinder development of life insurance have been analysed. The deterrents could be divided into direct and indirect groups. Notice has been taken to the leading role of the state in life insurance dissemination in Ukraine. The directions of state policy in life insurance branch regulation and stimulation have been discussed.

**РИНОК СТРАХУВАННЯ ЖИТТЯ В УКРАЇНІ:  
АНАЛІТИЧНИЙ ОГЛЯД І ПРОБЛЕМИ РОЗВИТКУ****Кисільова І.Ю.***Запорізький національний університет  
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страхування життя, ринок страхування життя, страхові компанії з страхування життя, страхові резерви, індекс Херфіндала-Хіршмана, страхові премії.

Досліджено суть страхування життя; проаналізовано сучасний стан ринку страхування життя, та динаміку його основних показників. Зазначено, що за 2007-2017 рр. відбулося суттєве зменшення загальної кількості страхових компаній, зокрема кількості компаній зі страхування життя.

Оцінка рівня монополізації ринку страхових послуг зі страхування життя за індексом Херфіндала-Хіршмана показує, що рівень монополізації галузі страхування життя за досліджуваний період не перевищує показників помірно концентрованого ринку.

Страхові резерви зі страхування життя, які є основним джерелом інвестиційних ресурсів, за досліджуваний період характеризувалися постійною тенденцією до збільшення, що свідчить про збільшення конкурентоспроможності страхових компаній та розміру інвестицій. Також показано, що розміри страхових премій зі страхування життя за досліджуваний період мали тенденцію до збільшення, що означає зростання зобов'язань страхової компанії. Це своєю чергою потребує зростання власного капіталу. Динаміка страхових виплат за досліджуваний період також демонструє зростаючу тенденцію, що свідчить про поживлення економічної діяльності компаній зі страхування життя.

Проблеми й фактори, які стримують розвиток ринку страхування життя в Україні, можна поділити на фактори прямого та опосередкованого впливу. Оцінка сучасного стану вітчизняного ринку страхування життя дозволяє виділити низку позитивних тенденцій у цьому секторі економіки: зростання капіталізації та платоспроможності страхових компаній, збільшення обсягу надходжень страхових премій та страхових виплат, зростання кількості застрахованих осіб тощо. Надано рекомендації для підвищення ефективності функціонування сфери страхування життя в Україні.

### Statement of the problem

Life insurance is an important part of the state social system, a way of well-being defence and ensuring of economic stability, as well as a powerful source of internal investments. Resources formed by life insurance premiums accumulation are intended for future insurance payments and ensure the considerable part of long-term investments in the national economy.

Results of life insurance companies' activity indicate the total dependence of the situation in life insurance branch on macroeconomic stability and business activity. Low level of financial market and its instability not only drops the efficiency of life insurance, but also may cause unreasonableness of its operation.

### Analysis of recent studies and publications

Problems and perspectives of life insurance development discussion cause the interest among scientists, as well as among the general population.

The article of O.L. Poliova and V.V. Korchun [1] is devoted to investigation of the theoretical basis of life insurance as an element of personal insurance, as well as to the analysis of the current state of life insurance market in Ukraine and to the analysis of existent problems. O.V. Zolotarova and V.O. Galaganov pay the attention to classification and estimation of factors that hinder the life insurance companies development [2, pp. 592-595].

Works of V.V. Adamovich and O.S. Vasylichishin [3], O.M. Olyinyk [4] are devoted to practical aspects of the life insurance market operation. The authors carry out an ongoing assessment and an evaluation of the current situation and propose the measures of domestic life insurance market development stimulation.

In aforementioned articles the practical aspects of life insurance have been investigated as well as peculiarities of life insurance market operation. However, the changing situation in life insurance market has risen up the necessity of thorough analysis of contemporary life insurance market.

### Objectives of the article

The purpose of the article is to define the state of life insurance market in Ukraine and to define factors that constrain the development of life insurance market.

### The main material of the research

A life insurance policy is a contract with an insurance company. In exchange for premium payments, the insurance company provides a lump-sum payment [5]. It should be noted that there is no possibility of partial loss in life insurance, as there is in the case of property and liability insurance. In case of an insured event, the insurance company pays the full amount specified in the policy. There are many varieties of life insurance. Some of the most common types are described below [5].

Term life insurance is designed to provide financial protection for a specific period of time, such as 10 or 20 years. With traditional term insurance, the premium payment amount stays the same for the coverage period you select. After that period, policies may offer continued coverage, usually at a substantially higher premium payment rate. Whole life insurance is a type of permanent life insurance designed to provide lifetime coverage. Because of the lifetime coverage period, whole life usually has higher premium payments than term life.

An endowment is a life insurance with a quite short coverage period (usually in 10 to 20 years or when the insured reaches a certain age) [6].

Life insurance companies constitute one of the major segments of financial systems. As financial institutions, they are involved in financial intermediation, mobilizing financial resources and channeling them into the economy for productive uses. The particular qualities of life insurance companies' participation in investment processes are connected with insurers' double nature. From the one hand, life insurance companies possess a large amount of investment resources. From the other hand, as subjects that guarantee the defrayal of certain possible unfavourable losses as a consequence of the undesirable factors influence on investment activity. One can define the main tasks of insurance companies as institutional investors [3]:

- mobilization of individual investors' financial resources to insurance fund and their transformation to investment capital;
- investment of accumulated and own financial resources to assets permitted by legislation;
- balancing the supply and demand on capital market through reallocation of financial resources between suppliers and customers of investment capital;
- diversification of investment risks to different assets;
- financial instruments liquidity increasing by active involvement of asset management companies.

Level of life insurance market is strongly associated with the stability level of economic system stability and well-being. It should be noted that only a superficial glance defines well-being as a cause and a value of personal insurance coverage in general and of life insurance for instance consequence of the high level of well-being. As a matter of fact, a cause and a consequence interact with each other and change places. And life insurance for many insured is effective means of ensuring the high level of well-being.

As noted by scientists, life insurance development problems are often accompanied by various consequences of economical, organizational and methodological, information-analytical and staff character [1].

Salary level and living standards are important factors of life insurance development. It should be noted that life insurance voluntary market formation in well developed countries begins at \$500 per month. Mass life insurance becomes impossible if the average salary is less than aforementioned value which in Ukraine reaches the level of \$200.

Moreover, it is necessary to stress on lack of necessary methodical elaborations for domestic life insurance companies' activity increasing. Frequent changes of insurance market regulators doesn't favour the formation of an effective insurance supervision system in Ukraine. The lack of qualified insurance specialists, well-grounded scientific investigations and analytical materials of life insurance problems is appreciated. It should be also noted that there is no vision of strategic development of domestic life insurance market and its components [3].

Nonstate pension insurance system formation may become a social consequence of life insurance reforming. From the other hand, development of life insurance as a separate branch cause creation of new working places.

Increasing the amount of cheap, long-term financial resources have to conduct the decreasing of capital cost and loan resources' value. The latter is so necessary for economic transformations performing in the real economy sector.

Individual life insurance, especially its accumulative programs, contributes to gradually return of financial resources of population, including their grey part to the national economy. Money shift from monetary aggregate M0 to higher one, in particular M2 have to strengthen the national currency and positively affects the inflation expectations reducing.

This is far from all the positive transformations in national economy due to the implementation of strict economical transformations aiming at life insurance branch resurgence as important social and economical constituent element of the national economy. However, achievement of these benefits is possible only with strong political will and constructive

effort consolidation of power structures and insurance market representatives [1].

Thus, the life insurance branch plays an important role in matters of social welfare, and superannuation life insurance companies have to form the basis of the third level of superannuation system which is planned to generate as part of the pension reform in Ukraine. Financial resources obtained from life insurance operations are the reliable source of cheap and long-term investment resources necessary for the development of Ukrainian economy especially of high-tech and knowledge-intensive projects.

Let's take a look at the contemporary state of life insurance market in Ukraine during 2007-2017 years and let's perform the analysis of the insurance companies amount ( life and non-life insurance companies) ( Fig.1, table 1) (based on [7]).

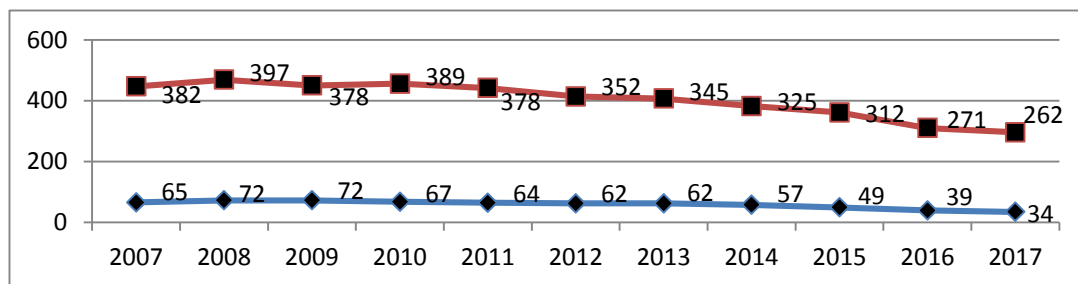


Fig. 1. Amount of insurance companies (“Life” and “Non-life”) in Ukraine during 2007-2017 years.

■ Non-life ◆ Life

It could be seen that the total number of insurance companies has been reduced. In 2007, the total number of insurance companies was 447, in 2008, their amount

increased up to 469 – the only occasion of positive growth rate, further the downward dynamic has been observed.

Table 1– Dynamics and structural changes of insurance companies amount in Ukraine during 2007-2017 years

	Absolute deviation, units	Growth rate, %	Rate of increase, %	Structure, %	
				2007	2017
		2017/2007			
“Life” insurance companies	-31	52,31	-47,69	14,54	11,49
“Non-life” insurance companies	-120	68,59	-31,41	85,46	88,51
Total	-151	66,22	-33,78	100	100

From 2014, insurance companies’ reducing tendency has been accelerated. In 2017 one could observe double deduction of the number of insurance companies comparing with 2007 year. In insurance market structure non-life insurance companies occupy the overwhelming niche (88,51%), but life insurance companies only 11,49%. The analysis of statistic data shown at Fig. 1 demonstrates that during 2007-2017 years the amount of life insurance companies shrank by 31 units and non-life insurance companies by 120 units.

Authors of article [3] note that the global financial crisis of 2008-2009, suspending growth rates, has not had so strong influence on the insurance market as military and political instability in Ukraine. The monopolization of insurance market is one of the direct consequence of

those transformations. This is particularly true for life insurance companies whose amount was initially less and the amount of shrinkage was more painful for total financial sphere. But the biggest insurance companies continue to operate and demonstrate positive results notwithstanding the negative trends of insurance market development.

Let's take a look at the life insurance branch monopolization level in Ukraine during 2007-2017 using Herfindal-Hirschmann index (HHI). It is necessary to pay an attention to Herfindal-Hirschmann classification: HHI value less than 1000 characterises not concentrated market, HHI value within 1000-1800 corresponds to the sparingly concentrated market and HHI value exceeding 1800 means highly concentrated market (Table 2):

Table 2 – Herfindal-Hirschmann index of life insurance market in Ukraine

Period	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Herfindal-Hirschmann index	1234	1279	1247	1185	1276	1312	1222	1043	983	1049	1425

It could be seen that during the period under review the life insurance branch monopolization level has not exceeded the index of the sparingly concentrated market. This means that the situation is not critical and indicates the consisted growth of life insurance market and of insurance companies' activity development tendencies in Ukraine.

Insurance resources as main source of investment resources is a main characteristic of the insurance market. They have to be invested in such an asset that allows insurance companies to increase capital and to rise their competitiveness. Insurance resources are supposed to be invested according to generally accepted principles of international insurance practice.

The essence of insurance resources lies in financial resource accumulation by collecting premiums from insurers for probable loss compensation risk-taking and relying on this money to cover insurance payments and investment in the economy in order to obtain profits. The necessity of insurance resources forming is ensured by the probability character of insurance events, by uncertainty of hazard occurrence time and loss value. Let's consider the dynamics of insurance resources' value within a period of 2007-2017. The graph (Fig. 2) presents data showing the growing tendency of life insurance resources that reflects the relevance and essential role of life insurance as a mechanism of social protection.

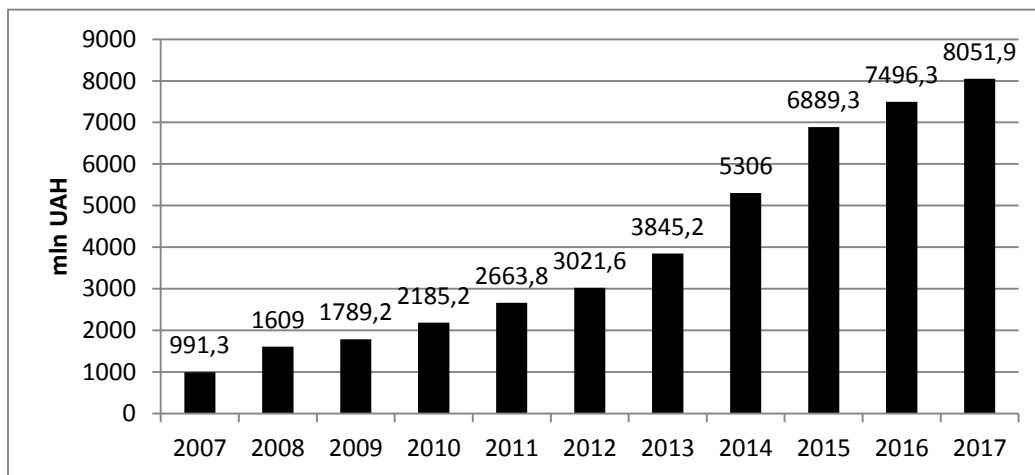


Fig. 2. Dynamics of life insurance insuredal resources (based on [7])

Thus, the dynamics of life insurance resources during 2007-2017 years shows the consistent upturn tendency. This reflects the increasing of the life insurance premium amount that ensures the growth of investments and competitiveness rising of insurance companies.

Life insurance payments increasing during the period under review means moving up insurance companies' liabilities that in their turn demand own capital growth (Tables 3,4) (based on [7]).

Table 3– Life insurance premiums and insurance payments

Indices	Period										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Life insurance premiums (mln UAH)</b>											
Gross premium	783.9	1095.5	827.3	906.5	1346.4	1204.6	1703.9	2159.8	2186.6	1978.2	2021.7
Net premium	783.4	1095.3	826.9	906.0	1346.3	1204.6	1703.7	2159.7	2186.6	1978.2	2021.7
<b>Life insurance payments (mln UAH)</b>											
Gross payments	23.9	37.7	62.7	52.6	70.6	57.1	91.4	239.2	491.6	299.1	413.6
Net payments	23.9	37.7	62.7	52.6	70.6	57.1	91.4	239.2	491.6	299.1	413.6
<b>Part in the overall grade structure of insurance payments (%)</b>											
Gross payments	0.60	0.50	0.90	0.90	1.50	1.40	2.50	4.70	6.10	4.80	5.60
Net payments	0.60	0.60	1.00	0.90	1.50	1.50	2.60	4.90	6.50	4.90	5.80
<b>Level of life insurance payments (%)</b>											
Level of gross payments	3.00	3.40	7.60	5.80	5.20	4.70	5.40	11.10	22.50	15.10	20.50
Level of net payments	3.10	3.40	7.60	5.80	5.20	4.70	5.40	11.10	22.50	15.10	20.50

Table 4 – Dynamics of life insurance premiums and payments

Indices	Absolute deviation, mln UAH			Growth rate, (%)			Rate of increase, (%)		
	2011/ 2007	2017/ 2011	2017/ 2007	2011/ 2007	2017/ 2011	2017/ 2007	2011/ 2007	2017/ 2011	2017/ 2007
Life insurance premiums (mln UAH)									
Gross premium	562,5	675,3	1237,8	171,76	150,16	257,90	71,76	50,16	157,90
Net premium	562,9	675,4	1238,3	171,85	150,17	258,07	71,85	50,17	158,07
Part in the overall grade structure of insurance premiums (%)									
Gross premium	1,50	0,50	2,00						
Net premium	1,20	2,20	3,40						
Life insurance payments (mln UAH)									
Gross payments	46,7	343,0	389,7	295,40	585,84	1730,5	195,4	485,8	1630,54
Net payments	46,7	343,0	389,7	295,40	585,84	1730,5	195,4	485,8	1630,54
Part in the overall grade structure of insurance payments (%):									
Gross payments	0,90	4,10	5,00						
Net payments	0,90	4,30	5,20						

Gradual increasing of life insurance payments testifies to a certain revival of life insurance companies' economic activity.

The wide variety of problems and factors that restrains the development of life insurance in Ukraine have been investigated by modern scientists. The deterrents could be grouped into direct and indirect factors. Indirect factors decline the life insurance companies' activity efficiency and create unfavourable conditions that restrain the development of the insurance market in general and life insurance market in Ukraine, namely:

unstability of the political situation;

absence of reliable investment instruments and of deposits safety guarantees;

low level of population incomes, absence of the complex approach of insurance products elaboration;

population unconfidence to insurance companies;

low level of economical development of the country;

inflation and instability of national currency;

lack of insurance organisations and population free money;

imperfect insurance legislation;

low insurance culture of population, insurance intermediaries and some insurers;

absence of state support of ensuring of life insurance attraction.

The existence of abovementioned problems causes objective necessity of the arrangement system elaboration for normalization of life insurance market. In our assessment the state has to take the lead in life insurance dissemination in Ukraine. The government should pursue policies that ensure stimulation of

insurance in general and of life insurance market partly. State policy in the insurance branch has to be directed at:

formation of contemporary and dynamic insurance market with highly developed infrastructure and a wide range of insurance services;

timely and wide adaptation of Ukrainian insurance market to world demands of financial regulation and supervision and active collaboration with European and world organizations;

formation of insurance supervision harmonized with global standards and oriented at financial services consumer rights protection;

insurance business and insurance companies' management systems modernization;

development of insurance intermediation and strengthening the control of intermediaries (agents, brokers and advisors);

implementation of microinsurance system for disadvantaged population and governmental support for socially valued insurance products;

formation of the insurance culture of population and increasing the financial literacy level of insurance market participants.

Thus, the estimation of the modern state of the domestic life insurance market allows identifying a number of positive tendencies as: increasing of capitalization and the payability of life insurance companies, life insurance premiums income and payments increasing and insured persons amount growth. However, despite obtained results some problems contain and even make impossible the development of life insurance. These problems are needed to be attentively examined and overcome.

The absence of the common state strategy of insurance services development, instability of the economical situation and low level of confidence to insurers have a negative effect on the insurance market in Ukraine. The decision of these problems has to include the following measures: formation of common and purposeful state strategy of life insurance market development in Ukraine, putting in correspondence of domestic insurance legislation to the rules and demands of the countries of the European Union, effective state controlling of life insurance companies' activity, life insurance popularisation explanatory work performing.

Thus, the stable annual growth of the insurance market in Ukraine could be ensured and may become a powerful instrument of social defence and source of investment resources by solving these problems.

### Conclusions

It is necessary to stress that life insurance is an inalienable compound of personal insurance and of the

insurance system in general. Unfortunately, the life insurance market in Ukraine is insufficiently developed and needs essential transformations. Military, political and economic instability during recent years has had the strongest effect on the life segment of the insurance market in Ukraine that caused life insurance companies amount reducing and the strengthening of insurance market monopolisation.

The state has to take the lead in life insurance dissemination in Ukraine. The government should pursue policies that ensure stimulation of insurance in general and of life insurance market, partly using different methods of control and regulation.

The introduction of proposed arrangements allows minimizing the effect of negative factors on life insurance market in Ukraine and create conditions for revitalization of activities in this direction in the short-term and long-term.

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