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NORTH AMERICAN INSURANCE MARKETS: FEATURES AND EXPERIENCE FOR UKRAINE

Summary. The article is devoted to the analysis of the insurance markets development in the North American countries. On the basis of the data analyses, main changes of the financial indicators of the companies' activity in the insurance sectors of the United States, Canada and Mexico are found. The article presents the results of the Ukrainian insurance market study. Based on the successful experience of the insurance markets development in the United States, Canada and Mexico, recommendations for Ukraine are suggested.

Keywords: insurance market, financial indicators, United States, Canada Mexico, Ukraine, development perspectives.

Problem statement. The modern Ukrainian insurance market cannot be considered as developed and effective, although it is at the stage of active integration into the world financial space. It is proved by the low share of personal insurance payments in Ukraine at total insurance payments – 4-5%, whereas in Western Europe and the USA this type of services is about 60%, in Japan – 80%, in the UK – 70%, and in the world average – 58.3%. The total

volume of insurance services in the financial market of Ukraine in the last decade for collected awards was 0.06% of the world's volume and was less than 400 times compared to the USA, 60 times – with Germany, 50 times – with France [1].

Nevertheless, the Ukrainian insurance market is still interesting for foreign investors. For instance, French AXA insurer has left the Ukrainian market, but its place has been taken by Canadian holding

Fairfax, and the share of North American capital in the insurance market of Ukraine has increased to almost 10%.

However, there are a number of negative factors. These are: the lack of a decent regulatory framework, the availability and transparency of the insurance market for the population; low profitability of certain types of insurance; 3) low competitiveness of insurance companies, in comparison with commercial banks, in the struggle to attract free funds of businesses and individuals; insufficient level of state regulation and control does not allow the insurance market to develop effectively. Analysis of the integration processes in the insurance market of Ukraine allows us to conclude about the insufficient degree of its development and the need for further liberalization, designed to promote integration into the global insurance industry. In Ukraine, as in the global insurance market, there is a process of increasing the capitalization of national insurers, the merger of insurance, banking and industrial capital.

Thus, the study of the international experience in the development of the insurance market of the leading countries is interesting and useful for the formation of the insurance market of Ukraine.

Analysis of recent research and publications. The direct study of the state of economic and financial indicators of national insurance markets are carried out by many domestic and foreign scientists, including: V. Bazylevch, O. Hamankova, O. Kiselova, Y. Stepanyuk, N. Vnukova, O. Zolotaryova. In addition to these scientists, the following international and national organizations are involved in studying and comparing insurance markets of various countries: World Bank, Eurostat, OECD, and Ukrainian National Commission for State Regulation of Financial Services Markets, etc.

The purpose of the article to identify the reasons that hinder the development of insurance activities in Ukraine, as well as determining the development directions of the insurance market on the basis of the developed insurance markets of Canada and the USA, as the emerging market of Mexico.

Presentation of the main material of the study. Insurance is an important element of the national economy and the world economy. Insurance occupies an important place in the aggregate system of macro- and microeconomic relations and should become the macroeconomic stabilizer of the national economy. As the occurrence in the operation of economic entities of adverse circumstances of a natural, man-made, or financial nature, insurance covers losses, and the previously achieved level of activity and financial results are restored.

The organizational and financial stability of the insurance sector in the national economy guarantees insurance protection and timely compensation for damage, which contributes to the uninterrupted operation of the enterprise, restoring personal property, income, health and living standards for citizens. The value of insurance at the macro level is transmitted to the micro level and reaches a specific participant in the insurance relationship.

Through insurance protection, the level of effective demand in the economy is restored and maintained. From an economic point of view, insurance is the process of redistributing funds. It is the presence of redistributive relations that determines the essence of insurance and allows you to put it on a par with such economic categories as finance and credit. The features of such redistribution are as follows:

1. Redistributive relations arise due to the presence for participants of insurance relations of a certain probability of occurrence of a random event about which the insurance is carried out, that is, they are risky in nature.

2. The redistribution of funds is limited mainly to persons taking part in insurance (with the exception of that part of the funds related to the expenses of the insurance organization for carrying out insurance operations and with its profit, if it is provided for by the terms of the insurance business), i.e. closed character.

3. The basis of the redistributive relations, on which, essentially, the idea of insurance is built, is the redistribution of funds between the persons participating in insurance, in favor of those of whom the event occurred, about which the insurance is carried out. The essence of this redistribution is that the funds contributed to the insurance fund by all its participants are used to make payments from it only to those persons in respect of whom an event has been agreed in advance. Such a redistribution is based on the fact, that the number of persons contributing to the insurance fund will be substantially higher than the number of persons receiving payments from it. Since the receipt of the insurance payment assumes that the legal and physical person acquires new material values to ensure their own functioning or functioning. With the help of insurance, savings are mobilized for the development of the national economy. Thus, the insurance performs an investment function.

It is well known that countries that able to save more, tend to more rapid economic growth. In contrast to commercial banks that specialize in raising funds for a short period, insurance companies (especially life insurance companies) have received funds in the form of insurance contributions for a long time (10 or more years). It is enough for the state to carry out several legislative and administrative actions that should realize the powerful economic potential embodied in insurance.

The American insurance business is huge and confidently leads the global insurance market for all possible indicators. About 9 thousand property insurance companies and about 2 thousand life and health insurance companies work in the USA. The assets of all insurance companies are about \$2.5 trillion. On average, assets of one company amount to \$950 million, while the 12 largest companies account for \$60 billion [4-5].

The American insurance business has a huge scope and is unmatched in the world. American insurance monopolies control about 50% of the entire insurance market in the industrialized countries of the world.

On the US insurance market, there are 2 types of insurance organizations – mutual insurance societies and companies. State-owned companies are not represented in the US insurance system. To work in the market, a company must obtain a license in the state in which it plans to market and sell its products.

Organizations that specialize in personal insurance in the United States are engaged not only in their immediate, but also in investment activities – they are willing to trust their funds to US pension funds. Thanks to a reasonable investment policy, life insurance companies not only increase their clients' funds, but also make huge profits.

The insurance system in the USA is represented by insurers and numerous intermediaries. Insurance

policies in the United States are issued through brokers or insurance agents. In America, there are several hundred thousand such intermediaries [6].

Insurance agencies in the United States, as all other countries, have 5 basic, but different in their orientation, functions: risk, investment, preventive, saving, and, finally, control. There are a large number of different companies that are engaged in the execution of these functions.

American International Group, Inc is the largest American insurance company. It is ranked as 1st in the United States in life insurance, and 2nd in property insurance, yachts, telephones, diamonds and even dogs. In addition to its main functions, AIG is engaged in financing pension and social funds throughout the country. One of the first places the corporation occupies in the field of auto insurance, among which are representatives of such well-known brands like Toyota, Renault, Chevrolet, BMW, Mercedes, Nissan, Opel, Ford, Audi, Volkswagen, Mazda and Kia. In addition to a solid share in this market, American International Group is a big employer. The company hires 92,000 employees, which in turn serve about 50 million customers. The total capital of the corporation is about \$100 billion. However, it should be mentioned that during the last global crisis in 2008, AIG suffered significant financial losses – the company lost about \$10 billion [7].

The United States, among other things, is the first country where a system of insurance of bank deposits appeared (insurance of bank investments against the threat of bank or bank ruin takes place). This system became necessary during the Great Depression, which was discussed above. Initially, the amount of the deposit, which could be insured, was equal to five thousand American dollars. Over time, this amount is constantly growing and now is 250 thousand [8].

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For the second year in a row, the commercial insurance marketplace in Canada continued to move forward in an uncertain manner under what can only be described as very challenging trading conditions. Economic growth in Canada trailed that of the US, in large part due to declining commodity prices and, as a result, premium volumes growth has been limited.

The Canadian market is dominated by several key indicators that will continue to influence short- and medium-term market trends: of the approximately \$45 billion in Canadian net written premiums, automobile premiums account for almost 50% (excluding government managed insurance schemes). As a result, automobile results can have a significant impact on insurers' overall results and strategic directions one year to the next. On average out of every net premium dollar, insurers pay out 54 to 56 cents on claims, 20 to 22 cents on operating expenses and close to 16 cents in taxes. That leaves on average about 6 to 8 cents in profit, and over the past several years that number has been gradually reduced. Despite declining returns as a result of the low interest rate environment, capital continues to flow into the insurance market both globally and in Canada providing an abundance of choices and competition for most risks. This trend is helping keep rates and premiums for some coverages at historic lows [9].

In Canada, as well as the United States, the responsibility for regulating the insurance market is shared between central and local governments. At the federal level, insurance is not regulated, each province has its own regulatory system. Federal authorities monitor only very important objects such as flood insurance, nuclear insurance, crime and more. Coordinates all self-regulatory system

of the federal level – the National Association of Insurance Commissioners, which regulate individual states, it is not a federal authority. It stabilizes the laws on state insurance with its activity [10].

Insurance premiums are determined based on risk. Insurers consider the likelihood of a customer (or a group of customers with a similar set of circumstances) making a claim, and how much those claims will likely cost. The price for premiums is based, in part, on an insurer's best estimate of the amount it will be required to pay out in claims on the policies it wrote in any given year. Insurers pool the premiums of their many policyholders to cover the losses claimed by the few in that year. Along with covering claim costs, premiums are calculated to cover taxes, operating expenses and expected profits.

There are more than 198 private P&C insurers actively competing in Canada to sell insurance policies on homes, cars and businesses. In 2017, private Canadian insurers wrote \$54.7 billion in direct written premiums (\$47.8 billion in net written premiums) for insurance on consumers' homes, cars and businesses.

Of the \$47.8 billion dollars in net written premiums, 42.5% was for one line of business: automobile, including commercial vehicle insurance. (Figures do not include government-owned auto insurers in British Columbia, Saskatchewan, Manitoba and Quebec, which generally provide the compulsory component of auto insurance in those provinces, in addition to some optional coverages). Personal property, commercial property and liability made up most of the rest. Specialized lines of insurance, such as boiler and machinery, marine and aircraft, and surety and fidelity, make up about 7.4% of the business. The smallest portion of the business is accident and sickness insurance, which a few P&C insurance companies sell. Most of this type of insurance is sold by life and health insurers [11].

Mexico's insurance industry continues to show strong growth driven by the country's economic stability in the past decade. In this context, an incessant increase in the penetration of financial services has led to a strong desire by local and foreign companies to significantly augment their market share.

Potential for the Mexican insurance market is huge. The population is close to 130 million, yet the insurance penetration rate is only 2.3% – below 4.2% in Chile (the best in the region), 3.0% in Brazil, 2.5% in Argentina and Colombia, and 2.3% in Costa Rica. To maximize its full potential, the industry must resolve several key challenges:

- Advocating for a regulatory environment that provides mandatory civil liability coverage for automobile and services companies and mandatory home earthquake and flooding coverage.

- Establishing obligatory insurance for vulnerable segments of the population that engage in high-risk activities (mineral extraction, the foundry industry, etc.).

- Fostering Mexico's insurance culture with initiatives that include early age prevention and mandatory financial education.

- Building trust and confidence in Mexico's insurance market by offering flexible products that are well-adapted to the needs of customers and unbiased advice on coverage, terms, conditions and exclusions of insurance products.

In Mexico the market with the highest potential is health insurance. Mexico's health care spend is 5.8% of GDP, compared with a 9% average among member countries of the Organization for Economic

Co-operation and Development (OECD). Only 7% of Mexico's population has health coverage, with 2.8% holding private health care. This contrasts with the 20.5 million Mexicans who currently lack access to health care. Finding a sustainable solution to this challenge will require a joint effort between the federal government and the private sector. Together, they will need to develop service arrangements between insurers and public health care agencies to broaden the portfolio of health services available to the public and reduce medical negligence rates.

Although, the Mexican insurance market presents a significant opportunity for growth – well above rates seen in developed countries. However, the potential to bring the market into a position of leadership in the Latin America region has yet to be achieved. It's believed that the sector must continue to focus on developing an agenda related to the introduction of mandatory insurance rules intended to provide coverage to high-risk populations and events, such as vehicle civil liability insurance and home hurricane coverage. The industry also needs to implement long-term initiatives to integrate financial education (including insurance) into the curricula of schools at all academic levels – from elementary school to post-graduate programs – and have teachers play a role in promoting financial education. An important challenge for the sector is to adopt a customer-based approach to communicate directly with all customers. Most companies currently invest in their largest-traditional distribution channels. However, those that focus on winning customers based on the principle of “in the right place at the right time” and that shift from consumer preferences to self-service models – which have been growing exponentially in the past two years – will be the best positioned to lead the market in the future. The main driver behind this is a cultural shift to meet customers' needs by providing effective solutions at all levels in the organization. Transforming the business, changes in customer behaviors, significant regulatory changes and the need to strengthen risk management and controls are key forces shaping the Mexican insurance industry. Insurers need to design viable plans and build effective teams to be the best at tackling these challenges [12].

The insurance market is a component of the financial market, its development in Ukraine is rather contradictory and it is far from world standards. Based on this, Ukraine should take an example from the Canadian and American insurance markets. Among the factors that hold back the development of the insurance market in Ukraine, the following should be noted: the slow pace of market restructuring and economic restructuring; significant scale of the shadow economy; imperfect tax legislation; a significant part of state guarantees for the support of unprofitable enterprises and other losses; low solvency of the population.

According to the estimates of individual experts [13], in Ukraine only a third of the insurance market's funds work on the economy of Ukraine, and the remaining funds fall on shadow capital, in contrast to the US and Canadian markets.

Almost 300 insurance companies work in the Ukrainian market, of which 50 companies collect more than 90% of all insurance premiums. That is, the remaining 80% of companies account for less than 10% of customers.

After 2004, large international insurers («AXA», «PZU», «GENERALI», «UNIQA», «VIENNA INSURANCE GROUP», «FORTIS», «AIG», «AEGON» and

others) came to Ukraine, investing, besides many years of successful insurance business, modern IT technologies and intellectual developments, more \$500 million of direct investment. Unfortunately, by now «GENERALI», «FORTIS», «SEB», «HDI», «AEGON», «AIG» and «QBE» have left the market. The reason is in its opacity, mistrust of customers, and the chaos of legislation. As a result, the Ukrainian market has become not so attractive for the global insurance giants that they turned down work here [13].

The volume of reinsurance in 2017 increased by 72%. Eight insurers sent over 90% of the money received for reinsurance of the 30 largest insurance companies (in terms of premiums collected). Such figures may indicate the use of insurance companies for tax optimization. After strengthening the requirements for banks in the context of disclosing information about owners, non-bank financial institutions remained the “last resort” for questionable operations, because many schemes now “moved” to non-bank financial institutions, access to information about their beneficiaries is still very limited.

In 2018 the insurance market was the second in terms of capitalization among other non-bank financial markets of Ukraine. The total number of insurance companies on December 31, 2018 was 281, including IC “life” – 30 companies, non-life insurance company – 251, (on December 31, 2017 it were 294 companies, including IC “life” – 33 companies, non-life insurance company – 261 companies).

These figures mean, that the number of insurance companies continues to decline, in 2018, compared to 2017, when the number of companies decreased by 13, compared to 2016, it decreased by 29 IC. By 2018 gross insurance premiums in relation to GDP amounted to 1.4%, which is 0.1 percent less compared to 2017; the share of net insurance premiums in relation to GDP remained at 2017 level and was

1.0%. Compared to 2017 the volume of gross insurance premiums has increased on 5935.7 million of UAH (13.7%), net insurance premiums increased on UAH 5929.9 million of UAH (20.8%) [14]. These figures show that the insurance market of Ukraine is developed rapidly and is still attractive for national and foreign investors.

Conclusions. Thus, the study of the experience of the development of insurance markets of the North American countries can justify the following recommendations for improving the insurance market of Ukraine:

- 1) The formation of the effective legislative base for the insurance market development;
- 2) Development of compulsory and voluntary types of insurance;
- 3) The creation of an effective mechanism for state regulation and supervision of insurance activities;
- 4) Stimulating the transfer of household savings to long-term investments using long-term life insurance mechanisms;
- 5) Phased integration of the national insurance system with the international insurance market.
- 6) Political stability, economic growth and improvement of the welfare of the population;
- 7) Availability of effective demand of organizations and citizens for insurance services;
- 8) Formation of favorable tax system for the insurance companies’ activity;
- 9) Improving the regulatory framework of the insurance business.
- 10) Formation of the insurance culture of the population and understanding of the economic feasibility of insurance.
- 11) Long-term and long-term planning for the development of insurance business.
- 12) Attracting strategic, first of all foreign investors in the insurance industry of Ukraine.

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ПІВНІЧНОАМЕРИКАНСЬКИЙ РИНОК СТРАХУВАННЯ: ОСОБЛИВОСТІ ТА ДОСВІД ДЛЯ УКРАЇНИ

Резюме

Статтю присвячено аналізу рівня розвитку страхових ринків у країнах Північної Америки. На основі аналізу даних виявлено основні зміни фінансових показників діяльності компаній у секторі страхування у США, Канаді та Мексиці. Представлено результати дослідження українського страхового ринку. На основі успішного досвіду розвитку страхових ринків у США, Канаді та Мексиці запропоновано рекомендації для України.

Ключові слова: страховий ринок, фінансові показники, США, Канада, Мексика, Україна, перспективи розвитку.

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СЕВЕРОАМЕРИКАНСКИЙ РЫНОК СТРАХОВАНИЯ: ОСОБЕННОСТИ И ОПЫТ ДЛЯ УКРАИНЫ

Резюме

Статья посвящена анализу уровня развития страховых рынков в странах Северной Америки. На основе анализа данных выявлены основные изменения финансовых показателей деятельности компаний в страховом секторе в США, Канаде и Мексике. Представлены результаты исследования страхового рынка Украины. Исходя из успешного опыта развития страховых рынков в США, Канаде и Мексике, предложены рекомендации для Украины.

Ключевые слова: страховой рынок, финансовые показатели, США, Канада, Мексика, Украина, перспективы развития.