
ЕКОНОМІКА ТА УПРАВЛІННЯ НАЦІОНАЛЬНИМ ГОСПОДАРСТВОМ

UDC 338.23:368(477)

V. V. Vygovska, Candidate of Economic Sciences,
Associate Professor**OUTLINES OF CREATING A STATE REGULATION SYSTEM OF UKRAINE'S INSURANCE
MARKET SECURITY**

Abstract. *A necessity of modernization of insurance market security state regulation is substantiated in the paper. The author considers questions of international experience of state influence on the sound development of the insurance market and the desirability of adapting the strategic regulation of the insurance market of Ukraine to the European standards. A theoretical construct of basic components of insurance market security state regulation is proposed, taking into account the progressive world experience. The key role of prudential supervision to ensure the insurance market security as a necessary condition in preventing the development of destructive events in the insurance sector is established. The article describes the logic and content of prudential supervision of the insurance market in Ukraine.*

Keywords: *insurance market system; insurance market security; state regulation of insurance market security; prudential supervision; mega-regulator of the insurance market.*

В. В. Виговська, к. е. н., доцент**КОНТУРИ РОЗБУДОВИ СИСТЕМИ ДЕРЖАВНОГО РЕГУЛЮВАННЯ
БЕЗПЕКИ СТРАХОВОГО РИНКУ УКРАЇНИ**

Анотація. *В цій статті обґрунтована необхідність модернізації державного регулювання безпеки страхового ринку. Автором висвітлено питання світового досвіду державного впливу на безпечний розвиток страхового ринку та наголошено на доцільності адаптації стратегічного регулювання страхового ринку України до європейських стандартів. Запропонована теоретична конструкція базових складових державного регулювання безпеки страхового ринку з урахування прогресивного світового досвіду. Встановлено ключову роль пруденційного нагляду у забезпеченні безпеки страхового ринку як необхідної умови попередження розвитку деструктивних подій у страховому секторі. В статті розглянуто логіку та зміст розбудови пруденційного нагляду страхового ринку в Україні.*

Ключові слова: *страховий ринок; система; безпека страхового ринку; державне регулювання безпеки страхового ринку; пруденційний нагляд; мегарегулятор страхового ринку.*

В. В. Выговская, к. э. н., доцент**КОНТУРЫ ПОСТРОЕНИЯ СИСТЕМЫ ГОСУДАРСТВЕННОГО РЕГУЛИРОВАНИЯ
БЕЗОПАСНОСТИ СТРАХОВОГО РЫНКА УКРАИНЫ**

Аннотация. *В этой статье обоснована необходимость модернизации государственного регулирования безопасности страхового рынка. Автором рассмотрены вопросы мирового опыта государственного влияния на безопасное развитие страхового рынка и отмечена целесообразность адаптации стратегического регулирования страхового рынка Украины к европейским стандартам. Предложенная теоретическая конструкция базовых составляющих государственного регулирования безопасности страхового рынка с учетом прогрессивного мирового опыта. Установлено ключевую роль пруденциального надзора в обеспечении безопасности страхового рынка как необходимого условия предупреждения развития деструктивных событий в страховом секторе. В статье рассмотрены логику и содержание развития пруденциального надзора страхового рынка в Украине.*

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Ключевые слова: страховый рынок; система; безопасность страхового рынка; государственное регулирование безопасности страхового рынка; пруденциальный надзор; мегарегулятор страхового рынка.

Problem statement. Insurance market security, as well as its development as a whole, largely depends upon the effectiveness of the forms and methods of state influence. Building an effective model of regulation of the insurance market is a prerequisite for the upward development of the domestic insurance market with an acceptable level of safety and its successful integration into the global insurance environment. The ability of the insurance market to withstand external threats, to neutralize the consequences of their actions, to adapt to changes and to return to an acceptable level of security depends on the overall level of economic development in the country and the market's ability to self-regulation. However, market mechanisms are not always effective in terms of restoring the balance of the insurance market and minimize the negative impact of external factors, and therefore, a regulatory influence of the state to ensure the insurance market security is necessary.

Review of recent papers and research. Considerable theoretical contribution to the development of common insurance market security issues were made by O. Baranovskiy, O. Hamankova, O. Derkach, A. Yermoshenko, A. Kyrychenko, O. Kozmenko, O. Papka, V. Plysa, N. Poida-Nosyk, T. Suslovska, V. Tymchak, N. Tkachenko and others. Noting the importance of the scientific heritage of scholars, which is essential, it should be noted that the results of the previous studies cannot fully meet the needs of the insurance market security theory. The issues of state regulation of the insurance market security remain still unresolved.

The objective of the article is to study the theoretical outlines of state regulation of the insurance market security, taking into account the world experience.

Basic material presentation. Creating conditions for the safe development of the insurance market, search of effective state influence mechanisms cannot be isolated from the processes that occur in the economy. General economic vector of development of the country directly affects the security of the domestic insurance market, which, in turn, characterizes the state of the national economy. Particular importance of the state in the regulation of insurance activity under the conditions of acquiring the emergence of the crisis in other segments of the economy in order to prevent the transfer of negative pulses in the insurance market.

So, harmonious and safe development of the insurance market is possible only provided the development of effective model of regulation insurance activity, typology and content of which is determined by the peculiarities of the national economy and the institutional structure. The model of state influence on the insurance market security is a schematic representation of the complex interactions within the system of state regulation of insurance activity (Fig. 1).

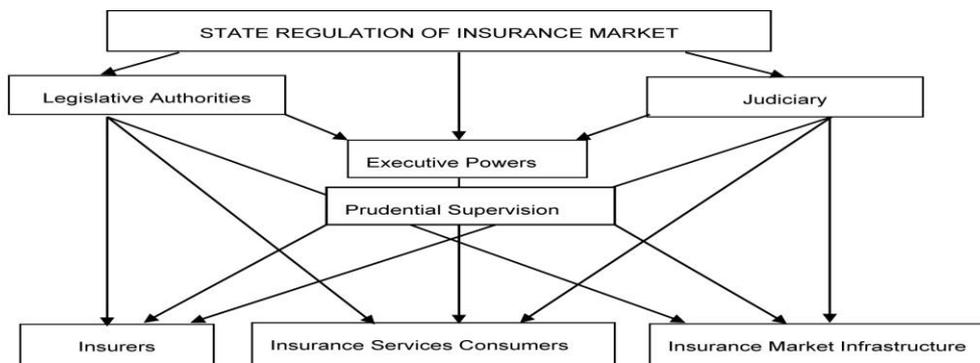


Fig.1. The model of state regulation of the insurance market security

Source: constructed by the author

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The model of state regulation of the insurance market depends upon the security level of its development and is a set of methods aimed at the organization of the state interaction with the participants of the insurance market (main, subsidiary, insurance services consumers) and reducing security risks.

Despite the significant differences in the institutional structure of various countries, which are the result of inherent constitutional, cultural, economic and other features, international experience shows that the number of types of insurance market security threats is limited. This means that they should be taken as reference points in the construction of the insurance market security system. Moreover it should be noted that the existing regulation systems of national insurance markets safety has been formed mainly under the influence of historical factors, and haven't been the result of careful planning. We note that, despite the national peculiarities of the insurance market development, the process of convergence of general trends due to the European integration and globalization is taking place. Hence the regulation models of safe development of the insurance market are standardized according to certain key parameters and at the same time are flexible to preserve the features of national economic systems.

The specifics of the national insurance market regulation models are determined by the characteristics of the insurance and the general legislative framework, the structure of prudential supervision and authority of state influence and their correspondence.

Along with the central government regulation associations of market participants - self-regulatory organizations (associations, pools, insurance offices, etc.) play an important role in ensuring the insurance market security. In addition, at the present stage, the role of international organizations and supranational bodies of regulation of the insurance market are increasing; - legislative and regulatory control of insurance activity in many countries is carried out in accordance with international standards and regulations. However, today the state regulation measures remain as the most effective and important mechanisms for monitoring the functioning of the insurance companies and providing the insurance market security.

In accordance with the basic principles of insurance, and the methodology of the International Association of Supervisors of insurance activities (IAIS), the regulatory and supervisory system is needed for the "support of efficient, safe, fair and stable insurance markets for promoting growth and competition within the sector".

Analysis of control tasks and IAIS principles allows separating certain areas of state influence [2; 7]:

- Prudential (preventive) control (prevention of instability of the financial system and preventing the insolvency of insurers);
- Legal regulation of relations (insurers, intermediaries and consumers);
- Economic regulation (tax levers to encourage or restrict certain activities in the insurance market)
- Combating money laundering and the financing of terrorism.

The key task of the state to ensure the insurance market security is regulating insurance activities, creation of a favourable environment for the efficient and safe functioning of the insurance market and protecting the interests of consumers of insurance services, supervision of insurance solutions. Identification of the relationship between state influence and safe development of the insurance market based on synergy of realization trends of state intervention is shown in Fig. 2.

The implementation of these areas of state influence enables an acceptable level of the insurance market safety and is aimed at improving the efficiency of its functioning, and this, in its turn, will bring to the high development of the economy as a whole in the future.

Thus, it is necessary to better the existing insurance legislation, introduce tax breaks and incentives to activate the insurance business, to create a full-fledged system of prudential supervision of the insurance market, corresponding to the characteristics of the national economy and its European integration development vector. Insurance activity regulation is carried out by means of traditional forms of influence, but with considering the insurance peculiarities.

The world practice reveals that two fundamental points underlie the formation of the model of insurance market state regulation: the level of centralization of control and the degree of state intervention,

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in turn, determines the selection of a complex of means and methods of influence on the security of the insurance market.

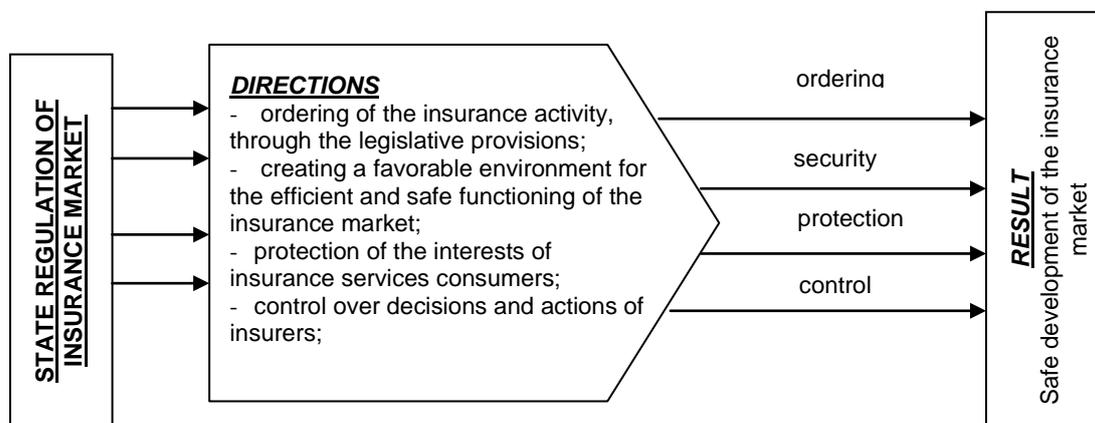


Fig. 2. Directions of state regulation of the insurance market security

Source: constructed by the author

The most common one is a strict regulation of the regulatory influence of the state on the functioning of the insurance market, involves the creation of a mega-regulator with wide control and supervision powers over the actions of insurance companies (typical for Germany).

The opposite approach to building a model of state regulation of the insurance market is based on a minimum state intervention in the organization and development of insurance business (characteristic of the UK). This approach facilitates the development of the insurance market, the creating and introduction of innovative insurance products stimulates demand for insurance services. This set of tools to counter threats to the insurance market security is relatively limited, the responsibility for safe development are actually assigned to market mechanisms.

Reasonable regulation of state's influence on the insurance market development has a dual nature, and trying to balance the advantages of the previous two types of regulation on the basis of measured use limit of market mechanisms (typical for France).

Concerning the national model of insurance safety regulation, in our opinion, it is developing in the direction of strict regulation of insurance companies. The choice of such trajectory is well founded, since the formation of the Ukrainian insurance market is at the initial stage, which is characterized by the absence of efficient control levers by society, associations of insurers, the low level of corporate responsibility of insurance companies, the development of market mechanisms and a high share of the shadow economy. So, under modern conditions of development of the national economy only the state can act as a guarantor of the insurance market security. It should be noted that any economic system evolves under the influence of many external and internal factors, respectively, and the model of state regulation of the insurance market will also alter in the context of macroeconomic reforms.

The current trend in the development of state regulation of the financial markets is the emergence of a mega-regulator system (Tab. 1), which transferred the functions of regulation and supervision of the entire financial system of the country, including the banking system, stock and insurance markets. The feasibility of forming such management body is the gradual convergence of individual financial market segments and merging of functions of various financial institutions.

In addition, under modern conditions of globalization of financial activities, the role of supranational bodies regulating the insurance market increases, which main task is to harmonize and coordinate the activities of national regulators of the insurance market. At the same time, this trend is not unique to the EU, in which the integration process has acquired the greatest expression, but also for the whole world insurance market. For this reason, some researchers speak about the occurrence of "interstate regulation of the insurance market" [5] at modern stage.

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From the point of view of the author, mega-regulation is a promising way of state influence on the development of the insurance market, especially in terms of Ukraine`s European integration. It is necessary to radically reform the insurance market regulation system in the direction of creating a regulatory field, aimed at expanding the scope of supervision of the participants of insurance relations, support for infrastructure development of the insurance market, the improvement of the tax system as an effective mechanism of regulation of the insurance sector. We consider it necessary to note that the formation of a mega-regulator in Ukraine, which at this stage is undergoing a systemic crisis, should occur evolutionarily to avoid failures in the supervision of the insurance market functioning and slow down the process of its development, since a situation of uncertainty of the activity of market participants may occur. All this may lead to loss of control over the insurance market and negatively affect its security.

- There are two basic models of integrated supervisory authority [3]: - "A unified financial management body" model. According to this model, a single supervisory body carries out all sectors of the national financial system regulation and supervision, in particular the banking, insurance and securities sector. Single regulatory body is responsible for the stability of the financial system and ensuring the application of standardized approaches and supervisory mechanisms.

- "two peaks" model. According to this model, two sectors of financial intermediation (banks and stock companies, banks and insurance companies, securities and insurance companies) are the objects of the regulation and supervision of the same body. The model presupposes the following distribution of responsibilities based on the supervision of tasks between two different authorities: one that provides prudential supervision and the second one deals with issues of business transparency. It is determined by an attempt to reach the controller, on the one hand, and macro- and microprudential stability, and on the other hand, to protect the rights of investors regardless of their activities.

A "sectoral" model of supervision peculiar to Ukraine, that presupposes that a special body is responsible for the control in a particular financial sector. Control and supervision of the insurance market is provided by the National Regulatory Commission in the field of financial services markets, which operates in accordance with the Decree of the President of Ukraine "On the State Commission for Regulation of Financial Services Markets of Ukraine" dated November 23, 2011 № 1070/2011 [6]. The State Commission for Regulation of Financial Services Markets of Ukraine powers do not allow to respond to deviations in the real-time activity of the insurance market, the regulator and the reaction occur only after the appearance of their consequences. Thus, an absolute must to ensure the insurance market security is the formation of prudential supervision as a destructive developments warning mechanism in the insurance field.

Present insurance supervision system in Ukraine cannot provide a sufficient level of safety, to carry out effective monitoring of the implementation of the insurance organizations the assumed obligations and to protect the rights of consumers of the insurance services. The insurance market regulation carried out by the State Commission for Regulation of Financial Services Markets of Ukraine is actually reduced to the requirement of formal compliance with rules and information disclosure and the monitoring is in fact dealing with customer complaints, not with improving the financial stability of insurance companies and ensuring the insurance market security.

Therefore, Ukrainian insurance market security on the basis of a balanced state influence determines the need to consider international experience. Within this process, it is necessary to implement a set of measures to bring the principles of national supervisory authorities in accordance with the rules of the International Association of Insurance Supervisors (International Association of Insurance Supervisors IAIS), which suggested for the first time the capital adequacy concept. According to the IAIS capital adequacy should reflect the risk of the insurance company [9].

In 2011, the IAIS adopted the "Insurance Core Principles, Standards, Guidance and Assessment Methodology" (ICP), which describes the basic elements that should be present in a supervisory mode to create a financially effective insurance market and ensure an adequate level of protection of the rights of policyholders. [8] These changes concerned the introduction of insurance companies in the process of managing their own risk and solvency assessment system (Own Risk and Solvency Assessment, ORSA) [1].

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Table 1

The characteristic features of the state regulation systems in foreign countries

Country	Mega-regulator	Insurance Regulation	The peculiarities of the state's regulatory power
The USA	*	Departments Of Insurance Regulation Operations in Each State	Lack of insurance legislation
The UK	*	-Financial Conduct Authority -Prudential Regulation Authority -Insurance Section in the Department of Trade and Industry	Information transparency of insurance companies and the state supervisory authorities
Japan	The Financial Supervisory Agency	Foreign insurance Committee of Japan (JAFIC), Japanese Association of General Insurance (GIAJ), The Life Insurance Association of Japan (LIAJ)	Insurance system is close to participation of foreign insurers and is heavily regulated
Canada	Financial Institutions Management Service	*	The dualistic system of regulation of the insurance market (federal and regional)
France	French Ministry for the Economy and Finance	Insurance Control Commission; Activities of Reinsurance Companies Commission	Insurance Code, normative regulation of insurers involves a flexible policy of supervision on insurance rates
Germany	The Federal Financial Supervisory Authority	*	Rigid control system of insurance companies by the federal supervision, which contains contributions by insurers
Sweden	Ministry of Finance	Insurance Supervisor	Demand test is applied, that is, the marketing approach, which takes into account the demand of insurers, making it difficult to promote marketing of new structures
Russia	Central Bank	*	Insurance companies in the context of control bodies are divided into two groups: large ones and others
Kazakhstan	Central Bank	*	Remote supervision; analysis of the activity of professional participants of the insurance market

Source: systematized by the author using [4]

It should be noted that, in national legislation there is no concept of "capital adequacy", and the requirements for its calculation have not been set. So one of the challenges of bringing the state regulatory impact assessment in accordance with the recommendations of leading international practices to ensure capital adequacy. Introduction of uniform standards regulating insurance activity requires a preparatory phase aimed at study, organization and programs development of adaptation to local conditions, legal, economic and psychological realities. Despite the fact that the domestic insurance legislation is passing the stage of formation, it is extremely important to realize that Ukraine is already in the global, multi-national insurance market. Therefore, global trends should be taken into account during the formation of the national insurance legislation.

The study of different approaches to insurance market regulation, used in the practice of developed countries, revealed that a prudential supervision plays key role in ensuring the safety of its functioning. Logic and content of prudential supervision of the insurance market in Ukraine are shown in Fig. 3.

The supervisor identifies hidden trends in the insurance market by collecting data (but not solely) on profitability, capital, liabilities, assets and facilities in the amount of insurance in which this information is available. It should also have the authority to develop and apply appropriate tools to limit significant systemic risk, take into account the nature, scale and complexity of insurers.

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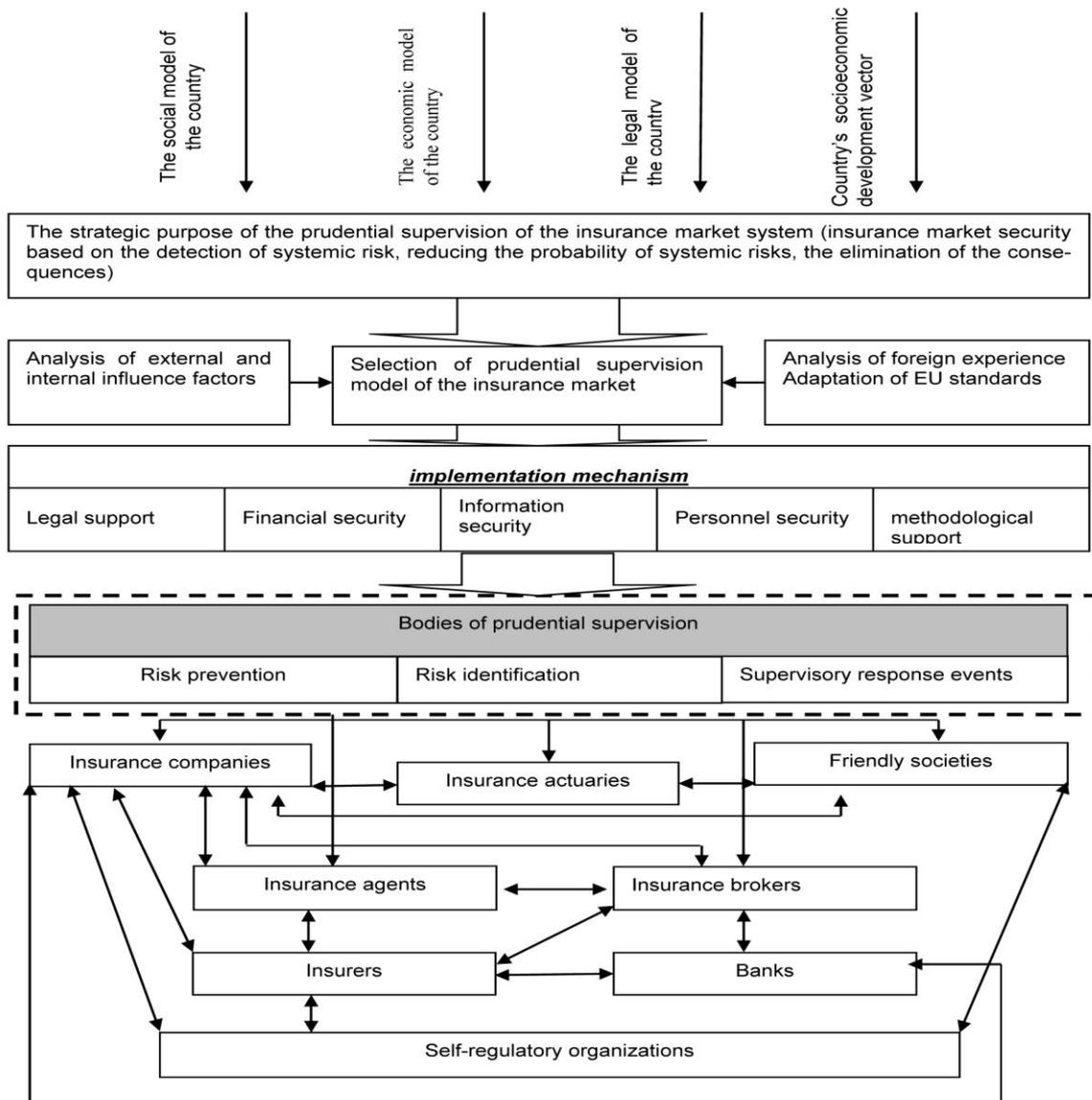


Fig. 3. Conceptual framework of prudential supervision of the insurance market and the logic of its implementation

Source: created by author

Conclusions. Thus, improvement the insurance activity regulation, especially under European integration environment is a priority, as insurance to a greater extent than other sectors of the economy, is based on the customer's trust (the insured) and the service provider (the insurer), the establishment of which is only possible provided the insurance market security. Adaptation of progressive experience gained by developed countries in this plane, enables to determine the direction of improving the state regulation and form propositions and the system of measures aimed at protection of insurance service providers, consumers and the state, to define the strategic direction of strengthening or easing the conditions of penetration of foreign insurers and capital.

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Received for publication 27.10.2016

Бібліографічний опис для цитування :

Vygovska, V. V. Outlines of creating a state regulation system of Ukraine's insurance market security / V. V. Vygovska // Науковий вісник Полісся. – 2016. – № 4 (8), ч. 1. – С. 62–69.