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CHALLENGES AND STRATEGIC PRIORITIES FOR THE DEVELOPMENT OF INVESTMENT INSURANCE IN UKRAINE

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Abstract. The *purpose* of the paper is to substantiate the feasibility of expanding the scope of investment insurance in Ukraine, taking into account its advantages over other types of insurance services as well as the possibility of minimizing the possible disadvantages. *Methodology.* The list of the research methods of the subject under consideration includes the monographic method, analysis, techniques of the abstract-logical method, etc. *Results.* The urgency of the article is that the disclosure of the internal potential of the insurance market in Ukraine should take place with the introduction or activation of modern insurance products capable of meeting several financial needs at once, not only of their consumers but of the state as a whole. The development of voluntary life insurance plays an important investment role in the country's economy, therefore, at the moment, the need to develop new financial products aimed at increasing voluntary insurance is urgent. The share of life insurance services in the insurance market of Ukraine in dynamic is analysed. The purpose and positive consequences of expanding the segment of investment insurance are substantiated. Investment insurance as a financial product has both advantages and disadvantages. The benefits include the transparent structure of the insurance product, the choice of investment strategy, the possibility of obtaining increased investment returns while preserving the benefits of the insurance contract, preferential taxation of investment income, the existence of a guaranteed amount of payment in the contract, etc.; to the drawbacks – the lack of the possibility of early termination of the contract with the receipt of all the insurance premiums paid, the absence of a guarantee fund, guaranteed income, long-term contracts, limited range of people who can be insured. To enhance the use of investment insurance in Ukraine and to minimize these shortcomings, the prospects for the development of the investment insurance market are identified. Investment insurance in Ukraine has a high potential for active use and transformation into a popular insurance product. It is necessary to carry out further adaptation of products unit-linked to the structure and specifics of the domestic insurance market. The growth of the volume of investment insurance and, as a consequence, the expansion of the life insurance market as a whole, could become one of the most important factors in the development of the insurance industry in Ukraine in the near future. *Practical implications.* The main idea of the article was to justify the expediency of providing and using the investment insurance service in Ukraine, subject to minimize the shortcomings of this type of insurance and taking into account the prospects for its further development in the domestic financial market. *Value/originality.* The conducted research allowed getting some results, such as promising directions for the development of this type of financial product in the domestic insurance market.

Key words: investment, insurance, investment insurance, life insurance, unit-linked insurance, insurance products, insurance services.

JEL Classification: G22, F36, G11

1. Introduction

The current period of the domestic economic development is characterized by numerous discussions on the financial crisis, political and social instability and negative predictions about the destabilization of the financial system of Ukraine, primarily due to the negative tendencies of the functioning of the financial

market and numerous bank failures of its professional participants. The insurance segment of the financial market is also actively debated, as it is directly dependent on the state of the economy and is closely connected with the level of state financial and economic security. In the modern world, insurance plays a very important role in the economy of any country, especially where the risks

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to the physical condition and entrepreneurial activity of citizens and legal entities are constantly growing. Given this, the importance of insurance, and the scope of insurance coverage of various aspects of private and economic life is constantly increasing. This is a positive trend, as it indicates a rise in the overall financial culture of the population, as well as in the level of participation awareness in insurance. In such circumstances, it should be remembered that the decline in demand for financial services, which is currently observed in Ukraine, is also an opportunity for the development of new areas of financial services. Therefore, at the moment, insurers carry out “brainstorming” among their own senior staff and representatives of the scientific elite in order to find ways to update insurance products; show lawmaking initiative, develop digital technologies for the promotion of insurance services.

The disclosure of the internal potential of the insurance market in Ukraine should take place with the introduction or activation of modern insurance products to meet several financial needs at the same time, not only of their consumers but of the state as a whole. For example, an increase in the number of voluntary insurance contracts can reduce social tensions in the range of persons covered by insurance, and also reduce the financial burden on the country's budget. The development of the voluntary life insurance is of great investment value in the economy of any country. Thus, it is necessary nowadays to develop financial products, which will increase voluntary insurance. The insurance companies are in active search for this job, widening insurance services. On the other hand, the majority of Ukrainians do their best to improve their finances and make it stable in order to form a firm future. Hence it is important to discuss investment and insurance products that are becoming extremely popular among the population of the developed countries.

2. Results of previous researches

The problem of insurance was investigated by domestic and foreign scholars. Thus it proves the topicality of the research. Kreidych I.M. (Kreidych, 2009) studies the particularities of the investment insurance in Ukraine, Feschenko V. (Feshchenko, 2013) specifies particularities of unit-linked investment insurance and preconditions for its implementation. Due to the analysis of the mentioned above works including the author's works (Honcharenko, 2014, 2015; Honcharenko & Berezina, 2016; Berezina, 2017), it is possible to make a conclusion. The insurance services used in Ukraine known as an investment insurance abroad has the name a unit-linked insurance. Domestic scholars quiet often combine these concepts to adjust the experience of the developed countries to the domestic situation. The research done by Stasevsky A. (Stasevskyi, 2012) “Investment life unit-linked insurance is a new

perspective for the Ukrainians” is a vivid example. The future development of the unit-linked insurance in Ukraine is also studied by Honta O.I. (Honta, 2014).

Foreign scientists (Rajagopalan & Pai 2006; Ciumaş Cristina & Chiş Diana-Maria, 2014; Straub Martin, 2011; Hochreiter Ronald, Pflug Georg & Paulsen Volkert, 2005; Preda Ana & Monea Mirela, 2011; Anant Gupta, 2015; Frantz Christophe, Chenut Xavier & Walhin Jean-François, 2003; Moller Thomas, 1998) were interested in issues of expansion of the sphere of provision and use of investment-related insurance services unit-linked. However, the issues of maximizing the benefits and minimizing the deficiencies of investment insurance in Ukraine, defining the prospects for its development in the domestic financial market are still of great scientific interest.

3. Theoretical and law bases of investment insurance

Investment insurance is a form of cumulative insurance, which is done by investing in profitable financial instruments. At present, many insurance companies active in the domestic insurance market manifest their willingness to work in this direction. Investment insurance is a new financial instrument for the practice of insurance in Ukraine, due to which an insured person not only pays insurance premiums but also influences the investment process. The size of the investment income is not fixed and depends on the results of investing reserves. The benefit to the client of the freedom of action is obvious: in addition to the mandatory minimum guaranteed sum insured, investment insurance will also be able to receive additional profits.

However, in domestic legislation, there is currently no clear definition of the concept of investment insurance, which complicates its formation and development in Ukraine. This financial product is not standardized, which prevents it from active using.

There appeared a question of the need to introduce investment insurance in the insurance markets of post-soviet countries back in 2007 when the European system of life insurance was gradually introduced into several types. At that time, these changes were seen as a progressive legislative provision for expanding life insurance companies, and it was believed that this new financial instrument could develop a new idea to joint investments for the Ukrainian insurance market. As a result of the first stage of the modernization of the laws of Ukraine on insurance, investment insurance was defined as a type of insurance in the field of life insurance, which provides for the insurer's duty in case of death of the insured person before the expiration of the contract and/or the survival of the insured person termination of the contract, and/or occurrence of an event in the life of the insured person provided for in

the insurance contract, make an insurance payment or insurance payments, the size of which depends on the results of the size the cost of technical reserves under investment insurance contracts. The terms of the investment insurance contract stipulated the insurer's obligation to make an insurance payment in case of death of the insured person in the amount not less than the sum of insurance premiums (contributions, payments) under such agreement (Draft Law of Ukraine "On Amendments to the Law of Ukraine "On Insurance", 2009).

Nowadays, in the period of post-crisis recovery of the global economic system, investment insurance is a modern civilized insurance product that is actively developing in the financial markets of many developed countries of the world – Switzerland, Germany, Hungary, Poland, Czech Republic.

4. Scopes and dynamics of investment life insurance in Ukraine

Investment life insurance in Ukraine compared to Western countries, where it plays an important role in the financial system and forms a significant part of the insurance market, is not developed enough. The share of life insurance in the total amount of the domestic insurance market ranges from 4-8% on the indicator of insurance payments (Table 1), which shows the limited market opportunities for the development of investment insurance. This situation arose as a result of unfavourable economic and political conditions in the country – life insurance is, in essence, a long-term financial product (on average, it lasts 10-20 years), but insurers cannot be sure of the effectiveness of their investments because of the instability of the domestic economy. The potential of the life insurance market in Ukraine is high, given the fact of the aging of the nation and the inability of the pension system to ensure a decent life level for the abandoned people; however, there are many factors that hinder its development. For example, the narrowness of the product line, in particular, the impossibility of introducing all unit-linked products in the domestic market over the limited investment opportunities in the financial market, insufficient level of financial literacy of citizens, for the

most part, life-saving life insurance remains difficult to understand the product, etc.

The current state of the life insurance segment in the financial market of Ukraine is characterized by the following data. Gross insurance payments (premiums, contributions) for life insurance in 2016 amounted to 2756.1 million UAH, which is 26.0% more than in 2015 (as of December 31, 2015 – 2186.6 million UAH). The volume of gross insurance premiums from life insurance in 2016 (Information on the state and development of the insurance market of Ukraine, 2017) amounted to 418.3 million UAH, which is by 14.9% less than in 2015 (491.6 million UAH). The bulk of the amount of changes in life insurance reserves has been formed under other accrued insurance contracts, namely 997.2 million UAH. According to other life insurance contracts, the value of changes in life insurance reserves is 18.9 million UAH. According to the results of 2016, 13 insurance companies "Life" received a negative value of an increase in life insurance reserves for a total amount of 37.2 million, UAH which is caused by pre-term cancellation of insurance contracts (by the end of 2015, the negative value was declared 13 insurance companies "Life" for the total amount of 11.8 million UAH). Thus, currently, there exist unfavourable grounds for the development of investment insurance but, on the other hand, a new insurance product can become a rescue mechanism that will allow the insurance market to gain new positive dynamics of its development, and the life insurance segment to take a worthy place in its structure.

The pace of the dynamics of the life insurance market in our country has an unstable tendency, which is directly related to cyclical changes in the economic situation. As we see from the statistics provided by the state regulator, the National Commission, which carries out state regulation in the field of financial services markets, the information concerning the investment insurance within the life insurance segment is not allocated to a separate analytical category, yet does not allow to make a reliable conclusion on the state of its development in Ukraine. However, this type of insurance has its own specificity, which does not allow to put a sign "=" between investment insurance and life insurance in general. Investment life insurance is the insurance protection of the life of the insured

Table 1
Scopes of life insurance in Ukraine

| Indices | Years | | | | | | | | | |
|---|-------|------|------|------|------|------|------|------|------|------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Portion of insurance companies "Life" in the total number of companies, % | 14,6 | 15,3 | 16,0 | 14,7 | 14,5 | 15,0 | 15,2 | 14,9 | 13,5 | 12,6 |
| Portion of the gross insurance premiums in the overall life insurance, % | 4,4 | 4,6 | 4,0 | 3,9 | 5,9 | 8,4 | 8,6 | 8,1 | 7,4 | 7,8 |
| Portion of the gross insurance payments for overall life insurance, % | 0,6 | 0,6 | 0,9 | 0,9 | 1,5 | 1,6 | 3,2 | 4,7 | 6,1 | 4,7 |

Resource: Compiled by the authors according to the data obtained from Information on the state and development of the insurance market of Ukraine, 2017

person plus an investment instrument (investing money in order to generate profits) with the possibility of obtaining investment income. In investment life insurance programs, the amount of cash is divided into two funds: guarantee and risk (investment). The Guarantee Fund provides for the return of the paid-in capital in any situation on the stock market. Purpose of the investment fund is to ensure the profitability of this financial product (Zhegalova E. V., 2014, p. 37).

5. Purpose, specific features, and directions for the development of the investment insurance in Ukraine

The purpose and tasks of activating the introduction of investment insurance in Ukraine are presented in Table 2.

However, one should not forget that the global experience of investment insurance generates both the benefits of this financial product and its disadvantages. Therefore, both clients and insurance companies need to study this type of insurance, find out its hidden negatives and consult with professionals to obtain maximum returns upon termination of the transaction. Only a competent approach to understanding the contract and strict adherence to its norms and regulations can provide expected income and prevent damage.

Consider the specific features of investment life insurance. Each insurance premium paid by an insurance company client is drawn up in accordance with the specifics of this type of insurance product in two parts: one part is used for the formation of a fund that is directly related to life insurance, the second is the accumulation or investment component invested in stock and money market instruments.

Prior to the introduction of investment insurance, insurers in the life insurance segment offered only risky

contracts and accumulative life insurance. In the first of these insurance products, there is no accumulation of assets at all, the second – the profitability is very low. Therefore, customers were looking for more profitable financial instruments, and insurers – an opportunity to offer consumers more profitable insurance products and services. So the idea of creating an investment tool in an insurance cover, which was called “investment life insurance”, was born. From the title, it becomes clear that in the first place – an investment product, which aims to provide customers with significant investment income.

However, it is evident that the higher the level of return on investment, the higher its risk. At the same time, insurance companies do not have the right to transfer the risk of investing to their clients. Therefore, having received a large initial down payment from the client, the insurance company divides it into two unequal parts. The guarantee portion is designed so that its investment in risk-free financial instruments allows the client to receive the amount of the down payment before the contract is completed. Thus, the client is guaranteed to preserve the money he invests in investment life insurance. Less, the investment part – is directed to assets that potentially can bring high profitability but also carry a significant risk. If assets significantly increase in price prior to the termination of the contract, the client may receive high investment returns. If sharply depreciates – the client will not get profit but, at the same time, will definitely save the capital invested in the beginning.

Unlike accumulative life insurance, where the technical interest rate is guaranteed, profits are not guaranteed for investment life insurance. It entirely depends on the success of funds that the client chooses in the insurance contract. Each investment life insurance contract has an individual account

Table 2
Purpose and tasks to activate the investment insurance in Ukraine

| Purpose | Tasks, positive consequences |
|--|--|
| Demographic potential support | Decrease in the financial burden of the state budget of Ukraine due to the compensation of a portion of the pension payments; partial solution of the pension fund deficit, connected with the life expectancy and population aging, the possibility to rise the state pension at the expense of the voluntary donations in the investment pension programs. |
| Increase in demand for the financial services | Offer of a new financial product for consumers of all ages, sex, and professions; offering a product with the active participation of the client in making financial decisions (investment component); incentive to use of maintenance costs through a transparent structure; flexible decision-making system for the transformation of individual product parameters; provision of insurance coverage for the main types of risk; improvement of service by constant communication with the client. |
| Increase of insurance products | Expansion of distribution network of insurance services due to the emergence of a new product line, unit-linked, flexible system of motivation to distribute the product, which is possible through an advance payment of commission. |
| Increase in the financial stability level of the insurance market participants | Obtaining of long-term financial resources; more efficient use of equity by insurers; the possibility of increasing the quality of the risk management system and economic security; improvement of the mechanism for assuring the quality of warranties and risks assessment at the expense of a long period of service provision. |

Resource: Compiled by the authors

specifying the actual number and type of purchased investment financial instruments, their prices and accrued payments and risk insurance premiums. Customers, as a rule, are notified once a year in writing in the form of a statement on the status of their accounts (Kreidych I. M., 2009).

Thus, it is possible to systematize advantages and disadvantages of investment insurance (Table 3).

To minimize shortcomings of investment insurance, it is advisable to propose some promising directions for the development of this type of financial product in the domestic insurance market. Among them are:

1. Formation of the industry standard of investment insurance.
2. Development of the legislative framework for the regulation of investment insurance relations.
3. Increasing the level of transparency of the insurance product for the client.
4. Implementation of standards for the calculation and distribution of additional investment income among clients.
5. Optimization of insurance protection programs.
6. Extension of the list of persons who can use the service.
7. Expanding the spectrum of investment strategies and investment tools (portfolio insurance strategies, option strategies, macro strategies, domestic and foreign promotions, precious metals and commodities, real estate, art objects, currencies, etc.).

The prospects for the development of the unit-linked investment insurance market in Ukraine are due to a combination of the following factors.

1. Overcoming legislative barriers, including improving the legal framework in the financial market.
2. Formation of the preferential income-tax regime unit-linked policies.
3. Reforming the pension system. Unit-linked policies can be a potential guarantee of a higher level of profitability, unlike other products of life insurance.
4. Increase financial literacy of the population. First of all, at the expense of citizens' awareness of possibilities of investing savings in the financial market.
5. Increase in transparency, capacity and stabilization of insurance, stock, and other segments of the financial market.
6. Further expansion of the range of banking insurance products, which has become widespread in recent times. Realization of the existing ability to sell unit-linked products through banks.

Thus, investment insurance in Ukraine has a high potential for active use and transformation into a popular insurance product. It is necessary to carry out further adaptation of products unit-linked to the structure and specifics of the domestic insurance market. The growth of the volume of investment insurance and, as a consequence, the expansion of the life insurance market as a whole, could become one of the most important factors in the development of the insurance industry in Ukraine in the near future.

Table 3

Advantages and disadvantages of the investment insurance

| Advantages | Disadvantages |
|---|---|
| Transparent structure of the insurance product (allocation of investment, insurance and expense component). | Lack of early termination of the contract with receipt of all paid insurance premiums. |
| Ability to choose an investment strategy, not limited to conservative investment instruments. | The absence of a guarantee fund that would be able to provide payment to the client in cases of withdrawal of a license or insolvency of an insurance company. |
| Correspondence of the structure of investment assets and the principles of distribution of investment income. | Not every fatal case is recognized as an insurance event. |
| Possibility to obtain higher investment returns while maintaining the benefits of the insurance contract. | Lack of guaranteed income. In case of negative development of the investment strategy, the client after the expiration of the contract will receive only a guaranteed payment of the contract. |
| Preferential taxation of investment income. | Only a small part of the one-time contribution is invested in investment instruments with a potentially high income. Major investments are risk-free, low-income financial assets. |
| Taking into account the principle of complex interest, according to which the accounting of profit is made, the final amount grows at times. | In order to prove the occurrence of an insured event, the insured person or the beneficiary must provide the insurance company with a wide range of documents. |
| Insurance terms may vary throughout the term. You can change the term, conditions, monthly amount, type of insurance, investment fund, number of heirs, etc., which allows you to control the investment. | The complexity of the insurance contract is that the more insurance risks are included in the insurance coverage of the product, the more various restrictions in terms of time, on additional terms, on the amounts of payments. |
| The existence of a guaranteed payment amount in the contract. | Agreements are concluded for a long time, and it is not known what can happen to insurance companies during this time. |
| Investment insurance keeps the money more secure than bank deposits since the priority of saving is in the first place. | Some groups of people are not accepted for insurance, for example, people with a disability, or are in an outpatient treatment. |

Resource: compiled by the authors

6. Conclusions

The study of features, problems, and prospects of investment insurance in Ukraine made it possible to draw the following conclusions.

1. Investment insurance is a new financial instrument for the practice of insurance in Ukraine, which will enable the insured person not only to pay insurance premiums but also to influence the investment process. This type of insurance comes from the field of life insurance and provides for the insurer's duty in case of death of the insured person before the expiration of the contract and/or the survival of the insured person before the expiration of the contract, and/or the occurrence of an event in the life of the insured person provided in insurance contract, insurance payment, the size of which depends on the results of placement of technical reserves under investment insurance contracts.

2. The development of investment insurance in Ukraine is restrained by the low popularity of life insurance among citizens, proving indicators of the dynamics of shares of insurance premiums, payments and companies providing such services in the insurance market in a ten-year retrospective. The current state of the life insurance segment in the domestic financial market is characterized by a drop in the level of profitability and loss-making activity of insurance companies in the life sector. At the same time, official statistics released by the National Commission for the regulation of financial services markets do not foresee the identification of information relating to investment life insurance, so

instead of concluding its use in Ukraine, we can only conclude that there is a weak basis for its formation and development.

3. Investment insurance as a financial product has both advantages and disadvantages. The benefits include the transparent structure of the insurance product, the choice of investment strategy, the possibility of obtaining increased investment returns while preserving benefits of the insurance contract, preferential taxation of investment income, the existence of a guaranteed amount of payment in the contract, etc.; to the drawbacks – the lack of the possibility of early termination of the contract with the receipt of all the insurance premiums paid, the absence of a guarantee fund, guaranteed income, long-term contracts, limited range of people who can be insured. To enhance the use of investment insurance in Ukraine and to minimize these shortcomings, prospects for the development of the investment insurance market are identified. Among them, the main ones are: legislative regulation and regulation of investment insurance services, its standardization, raising the level of financial literacy of the population, and increasing transparency of activities of insurance companies.

Prospects for further research in the chosen research area are the formation of a mechanism for protecting users of investment insurance services from all kinds of risks associated with the use of various types of investment strategies and instruments, as well as traditional risks that accompany all types of insurance services without exception.

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