

## DEVELOPMENT OF PRODUCTIVE POTENTIAL AND REGIONAL ECONOMY

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### MODERN REALITIES AND PROSPECTS OF DEVELOPMENT OF THE OUTGOING REINSURANCE MARKET IN UKRAINE

The problem trends specific to the outgoing reinsurance market of Ukraine are investigated. Prospects of development of the national market of outgoing reinsurance are determined.

**Keywords:** reinsurance protection, operations, reinsurance market, insurance portfolio, net retention.

**Statement of the problem.** The transformation of social relations that accompanied the development of entrepreneurship and the growth of the degree of business risk, the formation of a competitive environment, increased risk of functioning insurance market under uncertainty, low levels of its financial capacity and capitalization creates objective prerequisites for the development of the reinsurance market. However, the formation of the domestic reinsurance market is in an unstable political and economic relations in society; shortcomings in the legislative regulation of reinsurance relationships, inadequate insurance law challenge and the level of economic reforms, the financial crisis and the reduction of investment, low insurance culture and material welfare and their welfare [2, p. 21-26]. Accordingly, topical research current trends and priorities of the reinsurance market in Ukraine.

**Analysis of recent research and publications.** Theoretical and methodological basis of reinsurance studied Ukrainian scientists such as: V.D. Bazylevych, R. Picos N.V. Prykazyuk, T. Tatarina, A.V. Kozmenko, A. Boyko and others.

However, a shortage of specialized, extensive research related to determining the characteristics, problems and prospects of further development of the initial reinsurance.

**Problem.** The aim of the article is to determine the characteristics of the market resource its key development issues and their solutions in a crisis of national economy.

In line with the goal set out the objectives intended to achieve:

- to analyze the present state of the domestic reinsurance market;
- to justify its trends outgoing flows;
- to offer a number of activities as a result of which the reinsurance market

Ukraine gradually and purposefully integrates into the international space.

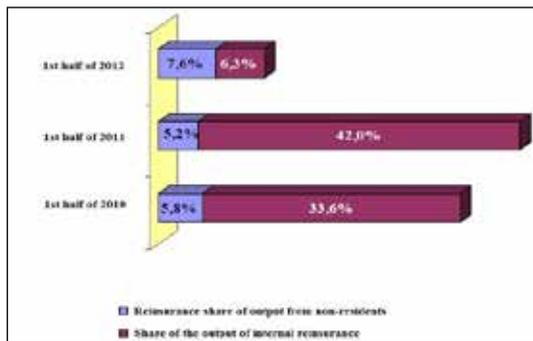
The main material. The credit risk of domestic insurance companies in recent years makes it necessary to pay attention to research: the risks that dealing reinsurance company risks arising at the macroeconomic level and must be transferred to reinsurance.

By treaty reinsurance risks for the first half of 2012 Ukrainian insurers have paid premiums for reinsurance in the amount of 1336.1 million UAH (in the first half of 2011 – 4014.1 mln. UAH) (Table 1).

Value outgoing reinsurance premiums deductible as a result of the first half of 2012 amounted to 13,9 % (in the first half of 2011 – 36,4 %). Thus, one could argue that insurers are beginning to refuse reinsurance transactions

exposed to greater risks. Failure to sufficiently reinsure can lead to negative consequences in the future.

According to pic. 1 have seen a decrease in the proportion of total output reinsurance 2010-2012. If we examine this figure by the share of premiums transferred to reinsurers residents and non-residents, with the significant reduction in its domestic market for reinsurance, but also the growth of risk transferred abroad, although not greater rate (5,1 %, 5,5%, 6,9%).

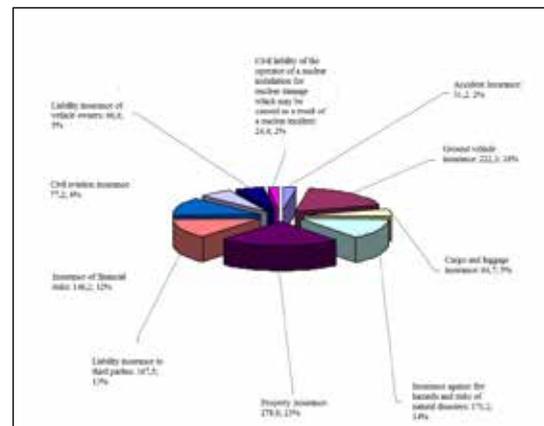


**Pic. 1. Shares of output in relation to reinsurance gross premiums for 6 months 2010-2012**

Source: Official website of the National Commission for the State Regulation of Financial Services Markets / [electronic resource]. – Mode of access: <http://www.dfp.gov.ua>

Within the initial reinsurance as a result of the first half of 2012 (see pic. 2). Most paid insurance premiums in the following types of insurance, such as: property insurance – 278,8 mln. UAH (or 23%), Motor insurance – 222,3 mln. UAH (or 18%), insurance against

fire risks – 171,2 mln. UAH (or 14%); financial risks insurance – 146,2 mln. UAH (or 12%) [6]. Is rather low share of output reinsurance of life insurance in total gross premiums of the insurance market, this negative trend due to a decline in gross premiums and premiums transferred to reinsurance under this type of insurance [2, p. 21-26]. Due to low levels of life insurance in Ukraine, as well as the impact on the insurance market of negative macroeconomic factors during the global financial crisis.



**Pic. 2. The structure of the initial reinsurance by type of insurance as at 30.06.2012 (mln. UAH)**

Source: Official website of the National Commission for the State Regulation of Financial Services [electronic resource]. – Mode of access: <http://www.dfp.gov.ua>

In pic. 3 shows the structure of the outgoing reinsurance states that domestic insurance companies handed Award for reinsurance contracts.

Table 1

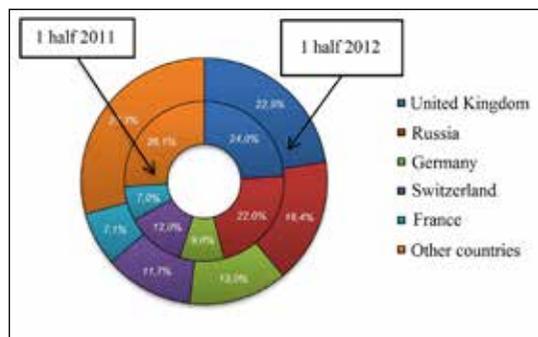
**Dynamics of premiums transferred to reinsurance**

Indicators	Units	I quarter		II quarter	
		2011	2012	2011	2012
Gross premiums	mln. UAH	6092,90	4517,20	11042,00	9581,90
Paid for reinsurance	mln. UAH	3381,00	576,40	4014,10	1336,10
	%	55,49%	12,76%	36,35%	13,94%
resident reinsurers	mln. UAH	3028,00	233,40	3429,60	604,20
	%	49,70%	5,17%	31,06%	6,31%
non-resident reinsurers	mln. UAH	353,00	343,00	584,50	731,90
	%	5,79%	7,59%	5,29%	7,64%

Source: National Rating Agency «Rurik». Analytical Review of the non-banking financial services in Ukraine for the first half of 2012 / [electronic resource]. – Mode of access: [www.rurik.com.ua](http://www.rurik.com.ua)

As you can see, the lead position, as in the first six months of 2011, is the United Kingdom (22,5% of incoming premiums), the second and third places respectively the Russian Federation (16,4%) and Germany (13,0%).

An important indicator of which is the study reinsurance market is paying compensation, offset by reinsurers (see Table 2).



**Fig. 3. The share of premiums allocated to reinsurance, by country of origin reinsurers**

Source: National Rating Agency «Rurik». Analytical Review of the non-banking financial services in Ukraine for the first half of 2012 / [electronic resource]. – Mode of access: www.rurik.com.ua

The total amount of claims paid, compensated reinsurers amounted to the first half of 2012 – 303,1 million UAH (the first half of 2011 – 212.0 million UAH). Following I half of 2012 was offset by 11,66% of total payments, including: 3,95% – domestic reinsurers 7,71% – non-resident reinsurers. Of the total shares received insurance payments received most of Kazakhstan – 71,7%, Russia – 16,3%, Latvia – 2,7% [5].

In accordance with the Cabinet of Ministers of Ukraine on the implementation of the requirements of reinsurers in reinsurance of non-resident at the time of reinsurance contracts of foreign reinsurer solvency margin should be ranked lower than the U.S.; «Fitch Ratings», UK; «Moody’s Investors Service», USA; «AM Best», USA). In addition, the country where reinsurance company resident must perform specialized supervision of insurance activities. Indeed, the legal framework in which insurers and reinsurers are important. But the introduction of a number of regulations governing the reinsurance activity sometimes hinders operations of reinsurance. The introduction in 2008 of additional requirements to prohibit reinsurance contract with insurers in countries which are not WTO members, led to changes in the structure of reinsurance contracts concluded abroad. Ratio of reinsurance premiums transferred to Russia in 2009 decreased to 12%, while in 2006 it was about 36%. Such changes once again demonstrate not always considered approaches government regulators to introduce new legal requirements in the insurance and reinsurance relationships. Later, in 2011, this legislative provision was repealed.

In order to identify the main patterns of the capacity of the Ukrainian market of reinsurance and related process problems can analyze this indicator on the basis of legally defined maximum norm own insurance company for the maintenance of a single risk, representing 10% of the paid-up authorized capital and free reserves, and generated insurance reserves.

Table 2

**Dynamics of claims made by reinsurers**

Indicators	Units	I quarter		II quarter	
		2011	2012	2011	2012
Gross payments	mln. UAH	2481,70	1458,60	2481,70	2599,60
Payments to offset reinsurers	mln. UAH	88,90	154,00	212,00	303,10
	%	3,58%	10,56%	8,54%	11,66%
resident reinsurers	mln. UAH	21,00	54,30	49,80	102,60
	%	0,85%	3,72%	2,01%	3,95%
non-resident reinsurers	mln. UAH	61,70	99,70	162,20	200,50
	%	2,49%	6,84%	6,54%	7,71%

Source: National Rating Agency «Rurik». Analytical Review of the non-banking financial services in Ukraine for the first half of 2012 / [electronic resource]. – Mode of access: www.rurik.com.ua

These calculations in Table 3 show that the capacity of the domestic insurance market to maintain the responsibility of insurers of large objects is sufficient, because the bulk of these risks (air, marine, corporate property, etc.) insurance companies transfer abroad by reinsurance treaties.

As we see in the assets specified cent. 31 Law «On Insurance», there was decrease in the share of investments in law requirements for reinsurers (from 33,0% to 9,1% of the total cost). Instead, the shares who hold bank deposits (from 34,8% to 45,4%) and securities issued by the state (from 5,6% to 14,0%). Structural changes in the rest of the items are small [5].

Given the strategic goal of Ukraine – membership in the European Union (EU), it should be noted that today the EU is a discussion to establish common approaches to state regulation of reinsurance activities, according to the International Association of Insurance Supervisors (IAIS), contributed to [4, p. 92-94]:

- strengthening the financial stability of insurance companies;

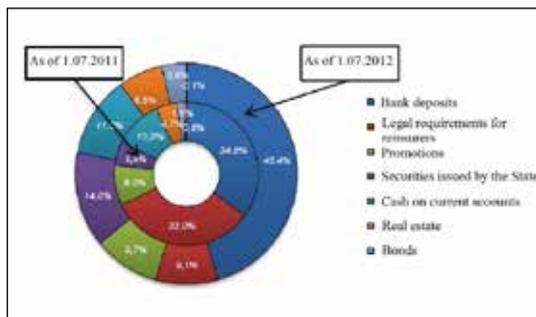
- increasing the efficiency requirements of supervisory authorities;
- increasing the efficiency of the reinsurance market;
- Lower costs and reinsurance market supervisors;

Among other things, invited to adopt uniform procedures to be established and implemented by all reinsurance companies registered in countries – EU Member States (Table 4).

This integration of the country into the world community directly affects the development of its domestic market environment, in particular to ensure the global development of the domestic reinsurance market. Our main reinsurance market integration in the world economy is to harmonize insurance laws of Ukraine and its compliance with international standards, the degree of market opening to foreign reinsurers and quality of export and import of reinsurance operations. Modern realities integration relationship involving the elimination of legal and economic barriers between national markets, insurance and reinsurance, insurance of a global space for the free movement of reinsurance services and capital across national borders.

Findings from the study. Today, the domestic reinsurance market is at an early stage of development. Particularly acute problem of effective regulation and legal support of market participants, the quality and types of services offered by reinsurance, low capitalization and capacity and infrastructure. To improve the efficiency of the reinsurance market to regulate by law the process of primary and secondary placement of reinsurance risks, improve the quality of information provision and competitive reinsurance market.

Public authorities should take over the functions of the tax reform insurance companies will reduce the maximum efficiency «circuit» and



**Pic. 4. Structure of provisions for assets as defined in Article 31 of the Law «On Insurance»**

Source: National Rating Agency «Rurik». Analytical Review of the non-banking financial services in Ukraine for the I half of 2012 / [electronic resource]. – Mode of access: [www.rurik.com.ua](http://www.rurik.com.ua)

Table 3

**The volume of authorized funds and insurance reserves in Ukraine on 1.01.2012**

The amount paid by the statutory fund (mln. UAH)	The amount of insurance reserves (mln. UAH)	The amount of authorized funds and insurance reserves, together		10% according to the requirements of legislation mln, USD)
		mln. UAH	mln. USD.	
14091,8	11179,3	25271,1	3158,9	315,9

Source: On Insurance: The Law of Ukraine from 04.10.2001 – № 2745-14 – Parliament of Ukraine / [electronic resource]. – Mode of access: <http://zakon.rada.gov.ua>

Table 4

**Procedures reinsurance**

Scope of implementation	Summary of procedure
Assessment and payment risks	Reinsurance contracts must be concluded in a way that would allow identification of the type of insurance and the types of risk accepted in reinsurance. Policies and procedures reinsurer in assessing and pricing risks should include requirements for the receipt of the insurer sufficient information about the risks that accepted in reinsurance.
Accumulation of risk	Reinsurer shall identify, monitor and measure the concentration of risk for each type of insurance. It should, where appropriate, apply modeling catastrophic events to control accumulation of losses. Reinsurer shall also set the limit of liability for the entire portfolio of risks and for each type of insurance to limit the impact of a situation where several types of insurance will involve one insured event.
Reserves	Reinsurer shall have policies and procedures for determining and shaping sufficient reserves to meet its specific activity.
Retrocession	Reinsurer shall have policies and procedures for: selecting and acquiring retrocession it cover limits retrocession retrocession program evaluation results. Reinsurer shall identify, control and monitor the conditions of retrocession agreements, in particular the cumulative liability of one retrocessionera.
Reinsurance contracts	Reinsurer shall establish a process of periodic accounting of reinsurance contracts.
Investments	Reinsurer shall: adopt procedures for determining the type of investment, to set limits on the types of assets and the types of assets that can be invested in the long-and short-term, evaluate investment risks and monitor compliance with the investment policy.

Source: Maruzhenko DS *International Reinsurance Market: New Century – New Challenges* / DS Maruzhenko // *Bulletin of Kyiv National Taras Shevchenko University*. – 2006. – № № 81-82. – P. 92-94

prevent re optimization of taxes due reinsurance operations [3, p. 24-32].

Formation of market of professional reinsurers provide an opportunity not only to solve the problems of quality and range of services and an increase in market size, but also increase the likelihood of implementation of commitments and timeliness of claims (make licensing reinsurance activity and increase the minimum amount of equity to professional reinsurers) [2, p. 21-26]. One of the areas of solving this problem may be to create a professional reinsurance companies through government funding and security of payments to government basis.

With the globalization and internationalization of financial services for the development of large reinsurance market in Ukraine shall expand its infrastructure [2, p. 24-32]. Creating pools of reinsurance, reinsurance brokers and institute appropriate professional development for reinsurance activities provide opportunities for cession and retrocession (initial and subsequent redistribution) significant in terms of risk on the national market and abroad. Due to the expansion of infrastructure Ukrainian reinsurance market can not only transfer risks to reinsurance to non-residents, but also to carry out the «export insurance guarantees».

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