

**Svitlana Achkasova**  
 PhD (Economics), Lecturer,  
 Simon Kuznets Kharkiv National University  
 of Economics, Kharkiv, Ukraine  
 9a Lenin Ave, Kharkiv, 61166, Ukraine  
 svet\_achk@meta.ua



## The governmental regulation of the insurance market in the European integration processes

### Abstract

**Introduction.** The entry of Ukraine into the global financial system requires a gradual transition to state supervision and regulation based at international principles set by the agreements and standards of international organizations. Thus, the study and implementation of a range of activities and innovations at the state level aimed at introducing new conditions in the insurance industry, which does not change the fundamentals of the system but leads to the elimination of problems and contradictions in the insurance market is relevant.

**The purpose** of this article is to define approaches to improve state regulation of the insurance market in the European integration processes.

**Methods.** Insurance theory and insurance concepts are the methodological basis of the study.

**Results.** This article describes an experiment in defining an influence level of a mega-regulator on the Ukrainian insurance market. The alternative options of creating an effective governmental regulation of the Ukrainian insurance market were justified with the use of hierarchical analysis method.

**Conclusions.** The options include introduction of a mega-regulator for the financial services market and improvement of the insurance market regulations according the best EU standards, protection of customer interests in the insurance market and an increase in their trust in insurers, which will bring insurance regulation in accordance to EU Directives. The obtained results have scientific and practical value and they could be used by governmental regulation institutes to improve European integration processes.

**Keywords:** European Integration; Ukrainian Insurance Market; Insurance; Market of Financial Services

**JEL Classification:** G22; G20

### Ачкасова С. А.

кандидат економічних наук, викладач,  
 Харківський національний економічний університет імені Семена Кузнеця, Харків, Україна

#### Державне регулювання страхового ринку в умовах європейської інтеграції

**Анотація.** У статті описано проведений експеримент із визначення впливу створення мегарегулятора ринків фінансових послуг на пріоритетність цілей розвитку страхового ринку України. Із використанням методу аналізу ієрархій обґрунтовано вибір альтернатив забезпечення ефективного державного регулювання страхового ринку України до яких належить: створення мегарегулятора ринків фінансових послуг та удосконалення регулювання страхового ринку відповідно до кращих європейських практик, захист інтересів споживачів страхових послуг та відновлення довіри до страховиків, приведення законодавства про регулювання страхових компаній у відповідність до директив ЄС.

**Ключові слова:** євроінтеграція; національний страховий ринок; страхування; ринок фінансових послуг.

### Ачкасова С. А.

кандидат экономических наук, преподаватель,  
 Харьковский национальный экономический университет имени Семена Кузнеця, Харьков, Украина

#### Государственное регулирование страхового рынка при европейской интеграции

**Аннотация.** В статье описан эксперимент по определению влияния создания мегарегулятора рынков финансовых услуг на приоритетность целей развития страхового рынка Украины. С использованием метода анализа иерархий обосновано выбор альтернатив обеспечения эффективного государственного регулирования страхового рынка Украины к которым относятся: создание мегарегулятора рынков финансовых услуг и усовершенствование регулирования страхового рынка в соответствии с наилучшими европейскими практиками, защита интересов потребителей страховых услуг и восстановление доверия к страховщикам, приведения законодательства о регулировании деятельности страховых компаний в соответствие к Директивам ЕС.

**Ключевые слова:** евроинтеграция; национальный страховой рынок; страхование; рынок финансовых услуг.

**1. Introduction.** The issue of the effective governmental regulation of the insurance market in Ukraine corresponds to the Strategy of Reforming of the Governmental Regulation of Non-banking Financial Services in the years 2015-2020 [1], the Comprehensive Program for the Development of Ukraine's Financial Market until 2020 [2], the Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Ukraine, of the other part [3], the Strategy for Reform of Consumer Protection System in Financial services Markets for

2012-2017 [4] and the Concept of Ensuring Prudential Supervision of the Non-bank Financial Institutions [5]. Thus, the study and implementation of a range of activities and innovations at the state level aimed at introducing new conditions in the insurance industry, which does not change the fundamentals of the system but leads to the elimination of problems and contradictions in the insurance market is relevant.

As Ukraine is joining the global financial system, it requires a gradual transition to governmental supervision and regulation according to the international principles defined by

the existing agreements and standards of international organizations.

**2. Brief Literature Review.** Determination of modern condition and main development directions of the insurance market is getting more and more important especially in the area of state regulation. It is worth mentioning that the problems of formation and development of insurance have been researched in the works of such scientists as N. Vnukova (2010) [6], O. Kuzmenko (2014) [7], N. Tkachenko (2010) [8], L. Rahl, Z. Esseghaier (2000) [9] and others. Nevertheless, theoretical and methodical ensuring of improvement of governmental regulation of the insurance market is not fully developed. The present research is conditioned by the expediencies of the solution to the previously mentioned problem and the lack of its theoretical and methodological grounds.

**3. The purpose** of this article is to define approaches to improve state regulation of the insurance market in the European integration processes.

**4. Results.** The main aim of the State Commission for Regulation of Financial Services Markets should be the full reforming of the insurance and financial sector for further merging with European and international markets. For these reasons, it is planned to significantly simplify procedures and make the Ukrainian market more transparent. Firstly, changes will cover an adaptation of European financial standards which Ukraine is bound to fulfil after signing the Association Agreement with the European Union. Also the President's Program of Ukrainian Development «Ukraine-2020» and the Coalition Agreement are taken into account as they provide reforms of regulatory system, changes in the registration of financial institutions and general measures of the development of financial services.

The adoption and implementation of the Strategy of Reforming of the Governmental Regulation of Non-banking Financial Services in the years 2015-2020 [1] and the Comprehensive Program for the Development of Ukraine's Financial Market until 2020 [2] are immensely important steps towards ensuring an effective governmental regulation of non-banking financial services, particularly insurance market, and their integration into European financial area. It is believed that a better use of the European experience will help to achieve the defined directions and goals during the reforming process. These two valid regulations indicate the need to reform governmental regulation in Ukraine, on the one hand, and the effective functioning of Ukraine's financial space on the other.

Therefore, the establishment of an effective governmental regulation of financial market is based on: enhancing the quality of its governmental regulation in order to ensure more pondered consolidated prudential supervision; harmonization of requirements for the insurance market members according to EU Directives and strengthening control over the implementation of the prudential requirements with further increase in the participants' reliability in this market; bringing legislation relevant to regulation of activities of insurance companies in accordance to EU Directives.

A grounded necessity of social insurance identifies the need of effective functioning of the insurance market, which in the first place leads to an increase in the number of insured people, their property interests and rights, minimizing the cost of emergencies and, which is most important, to the creation of mechanisms to prevent negative consequences due to the investment development of society's priority spheres using, therefore, modern market infrastructure and different financial instruments. Moreover, it is the insurance market that most scientists consider to be regulated.

D. V. Kondratenko [10] highlights protection of insurers' interests, registration of insurance organizations, licensing of insurance operations and monitoring the compliance of insurers' legislation as the basis of governmental regulation.

The review of the mentioned definitions shows that normally the governmental influence creates conditions for implementation of the law principles. A more exact definition is stated in the Ukrainian Law «On Financial Services and State Regulation of Financial Services Markets» [11], according to which govern-

mental (state) regulation of financial services markets is taking a set of measures by the State as to regulation and supervision over financial services markets, with the purpose of protecting interests of financial services consumers and preventing crises events.

Thus, the regulation of insurance market is targeted with regard to consistent application of a set of measures to form an effective system of civil relations for members of the insurance market in order to enhance security of the policyholders' property interests and also to enhance the investment potential of the insurance industry.

Based on the researches conducted in 2010 [6] which were dedicated to the problems relevant to the formation of an effective model of governmental regulation of insurance activity, defining the ways to increase the effectiveness of insurance activity in Ukraine and to problems of legal regulation as an important component of a sustainable development of the insurance market considering international standards, it is advisable to improve their approach, which allowed to introduce multiple-management system associated with a change in the structural elements at every level. For these reasons, the existing model of direct governmental regulation of the Ukrainian insurance market was created as well as it is suggested to make a future model of direct governmental regulation of the process by creating a single mega-regulator.

The probability of realization of scenarios of Ukraine's insurance market development using different models was also estimated. The regulation of insurance market as a comprehensive system could be due to the existing model of state regulation and the model of direct governmental regulation by creating a single mega-regulator.

Adverse factors, especially baselessness of the insurance market regulatory mechanism considering risk possibilities, are the result of the imperfect reformation of the governmental regulation system. A hierarchy analysis built on the phased prioritization of governmental regulation adverse factors, instruments and subjects should be systemic. Moreover, justification of expediency of creating a mega-regulator for financial service markets in order to increase the effectiveness of governmental regulation of insurance industry development, especially increasing of insurance services export, gaining more customers' trust and creating alternative ways to carry out governmental regulation of insurance market development needs lots of fundamental researches.

The creation of a mega-regulator, which is a body that will provide effective regulation of financial services market, will be effective and justified. Considering positive and negative aspects related to the creation of a body that will regulate and monitor financial institutions, we can assume that Ukraine will have to consider consolidation of the supervising institutions. Despite the great number of functions that belong to financial services market regulators in Ukraine there can be a problem with their backup.

The mega-regulator created in the Republic of Kazakhstan can be an example of functioning of such a unified governmental institution, which could unite all mentioned functions and carry out common policy in the financial services market. This regulator is the Kazakhstan Republic's National Bank, which also includes Regulation and Supervision of the Financial Market and Financial Organizations Agency and Regulation of the Regional Financial Centre of Almaty Agency. In Hungary, the Governmental Commission for Supervision of Financial Services Markets was joined to the National Bank of Hungary.

The evaluation of the priority goals for the Ukrainian insurance market development considering the existing models of governmental regulation and creating the mega-regulator in the financial services market in the period of 2010 and 2015 years is given in Table 1 and Table 2.

Based on the data from Table 1, we can make an assumption that the creation of the mega-regulator, which comprises 63.4% was, a more prior model of governmental regulation if compared with the existing model of regulation which gains only 36.6%.

Tab. 1: Assessment of the priority goals for the Ukrainian insurance market development (2010)

Ukrainian insurance market development goals	Model of Ukrainian governmental regulation of insurance market		Priority goals for the Ukrainian insurance market development
	Existing model of governmental regulation (0.366)	Governmental regulation model on creating of the mega-regulator (0.634)	
Protection of consumers' interests and recreating of their trust to insurers	0.147	0.205	0.184
Stabilization of economy and attraction of long-term financial resources	0.062	0.079	0.073
Avoidance of the use of insurance industry to get illegal money	0.031	0.048	0.042
Development of financial services markets	0.102	0.081	0.089
Stimulation of economics development areas	0.321	0.326	0.324
Integration to the international financial market	0.337	0.258	0.287

Source: The author's calculations

Tab. 2: Assessment of the priority goals for the Ukrainian insurance market development (2015)

Ukrainian insurance market development goals	Model of Ukrainian governmental regulation of insurance market		Priority goals for the Ukrainian insurance market development
	Existing model of governmental regulation (0.438)	Governmental regulation model on creating of the mega-regulator (0.562)	
Adjustment of laws on regulating insurance companies to EU Directives	0.257	0.173	0.210
Creation of a new tax system by adding a tax on insurers' income	0.095	0.061	0.076
Avoidance of the use of insurance industry to get illegal money	0.040	0.043	0.042
Development of the insurance market infrastructure	0.066	0.104	0.087
Improvement of the insurance market regulation standards according to EU standards	0.150	0.429	0.307
Protection of consumers' interests and restoration of their trust to insurers	0.393	0.190	0.279

Source: The author's calculations

As seen from Table 1, the significance lies in three goals of the government regulatory policy of the Ukrainian insurance market. The first one is stimulation of economic development areas (0.324), the second one is integration into the international financial market (0.287) and the last but not the least one is protection of consumers' interests and the issues of credit to their insurers (0.184). This leads to the search of new ways of regulating influence in order to increase the competitiveness of the Ukrainian insurance market.

As seen from Table 2 considering the data of the year 2015, the existing governmental regulatory model is not yet in the priority; it has gained only 43.8%, whereas the creation of the regulator has 56.2%, though this is less than in the year 2010. The creation of a mega-regulator in the insurance market should be accompanied by the achievement of all the goals for Ukrainian insurance market development.

The results of Table 2 show that there are three most important goals for the Ukrainian insurance market governmental regulation: improvement of the insurance market regulations according to EU standards – the 1<sup>st</sup> place (0.307), protection of consumers' interests and issues related to restoration of their trust to insurers – the 2<sup>nd</sup> place (0.279), adjustment of the laws on regulating insurance companies activities to EU Directives – the 3<sup>rd</sup> place (0.210).

To alter the governmental regulation of the insurance market according to the best EU standards it is advisable: to pro-

tect interests of insurance services consumers; to create good conditions for the development and functioning of the insurance market; to provide equal opportunities in access to the financial services market and protection of customers rights; the members' compliance to law requirements to counter the monopolization and create the conditions for fair competition in the insurance market; to monitor the transparency and openness of the insurance market; to promote the integration into the European and world insurance market. It is worth pointing out that there exist two important ways of regulatory development according to the EU Directives. These are the adoption of requirements to the assessment of the capital adequacy and the implementation of transfer pricing in the insurance sector.

Taking into account the European integration processes, we can see that it is essential to bring the domestic legislation related to transfer pricing in accordance to the EU documents as well as to the documents of the Organization for Economic Cooperation and Development. The establishment of transfer pricing in Ukraine is considered in the context of combating money laundering and capital flight to offshore zones, etc.

Based on the results, we can make the following suggestions regarding the creation of a mega-regulator: the accelerated development of the Ukrainian insurance market is more possible by forming a mega-regulator taking into consideration the 2010-2015 period, so the perspective of reforming the governmental regulatory policy is the creation of a mega-regulator as well as improvement of the improving insurance market regulations according to the EU standards.

We used calculations relevant to hierarchical models of the Ukrainian insurance market development model as well as the existing regulatory model and the regulatory model using the mega-regulator considering data of the year 2010. Due to the concept of the Ukrainian insurance market development, the existing governmental models have

been improved in accordance to the requirements of the legal provisions for insurance. For these reasons, we have conducted calculations on the existing governmental regulation and on the regulation with the use of a mega-regulator according to the data of the year 2015. The priority goals for the insurance market development show that the reforming ways of the governmental regulation of the Ukrainian insurance market should be changed.

**5. Conclusions.** The experiment on defining the influence level of a mega-regulator on the Ukrainian insurance market main goals was held. The alternative options of creating an effective governmental regulation of the Ukrainian insurance market were justified with the use of hierarchical analysis method. The options include introduction of a mega-regulator for the financial services market and improvement of the insurance market regulations according to the best EU standards, protection of customer interests in the insurance market and an increase in their trust in insurers, which will bring insurance regulation in accordance to EU Directives.

It was stated that to improve the insurance market regulatory policy according to the best EU standards we have to consider: the protection of insurance services consumers' interests; the creation of favourable conditions for insurance market development and functioning; equal opportunities in access to financial services markets and protection of their members; observance of financial services legislation requirements; avoidance



of monopolization and creation of conditions for the development of competitiveness; monitoring of the transparency and openness of the insurance market; integration to the EU and international insurance markets.

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