

EUROPEAN VECTOR OF DEVELOPMENT OF THE INSURANCE COMPANIES INVESTMENT ACTIVITY

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Introduction. Current trends in the development of the economy, as well as the specifics of the insurance companies functioning, necessitate the search for ways to multiply financial resources for effective functioning of the insurance companies. Investment activity is one of the main sources of capital formation of the insurance companies in conditions of limited funds.

Recent research and publications review. The issue of European vector of development of the insurance companies' investment activity is topical for a great number of researchers of different scientific branches and practice including the following: T.M. Artyukh, V.G. Baranova, V.D. Bazilevich, O.O. Gamankova, S.S. Osadets, N.N. Vnukova, O.M. Zaletov and others. Meanwhile the issue of development of the insurance companies' investment activity remains relevant. The researchers' attention is mainly concentrated on adaptation of the insurance market to the Solvency II directive. At the same time the issues of European vector of development of the insurance companies' investment activity are still unclear.

The article aims is development of theoretical positions and practical recommendations to development of the insurance companies' investment activity in the context of European integration.

Basic material and results. In developed countries, insurance company's profit mainly formed from the successful implementation of the investment policy.

Specificity of insurance determines different approaches to investing insurance companies. Life insurance companies usually invest in long-term investment instruments, because incomes of life insurance companies exceed their insurance premiums and costs. Costs can be paid from premiums and investments revenues. Therefore allocation of life insurance reserves in short-term securities is pointless. However, annuities and revenue coupon with guaranteed redemption amount requiring a different approach to investment – namely investments in short-term investment instruments [1].

The subject of direct business insurer may be only insurance, reinsurance and financial activities related to the formation, allocation of insurance reserves and their management [2].

So can say, that insurer activities associated with the allocation and management of insurance reserves is investment activity.

The insurer's investment activity is one of the main factors ensuring the effective functioning of the insurance company [3].

The social importance of insurance companies' investment activities is closely associated with accumulative function of insurance. Its essence lays in the accumulation insurant individual funds and returning its capitalized value in the certain period. The main functions of insurance companies as portfolio investors are: mobilization of individual investors' financial resources in the insurance fund and transformation it in investment capital; Investing accumulated funds and equity capital in assets permitted by law; balancing supply and demand on the capital market through the redistribution of financial resources between providers and consumers of investment capital; diversification of investing risk in different types of assets; creating conditions for increasing the liquidity of financial instruments by using services of company with professional asset management; funding of the economy sectors, etc. [4].

The main purposes of investment of insurance reserves and own funds of insurance company is capitalization their cost. The investment policy of the insurance company should be designed to ensure maximum reliability and profitability of investments and at the same time support liquidity insurance liabilities by assets diversification [5].

For European insurance companies investment function is equivalent on other functions. But Ukrainian insurance companies often underestimate the importance of the investment function. The vast majority of Ukrainian insurance companies earn money directly from the insurance operations. They satisfied with low profitable investment instruments such as deposits. European insurance companies have its inherent opposite behavior in financial markets.

European insurance companies investment activity strictly regulated by law. Considering protecting the interests of insurant, insurance companies may invest only in high-quality assets, including investment grade securities, and especially in higher-yielding financial obligations (bonds), including government obligations.

Ukrainian insurers should consider legislation that is legally regulated trends, standards and principles of deployment. Allocation of insurance reserves regulated by the Law of Ukraine "On insurance" [2] and Provision «On the mandatory criteria and standards of adequacy, diversification and quality assets of the insurer».

Insurance reserves should be allocated considering safety, profitability, liquidity and diversification and should be presented following categories of assets: cash on current account, bank deposits, foreign currency investment according to currency insurance, real estate, stocks, bonds, mortgage certificates, government securities, investment in Ukraine by directions to Cabinet Ministers of Ukraine, precious metals, loans to insurant – individuals who have entered into a life insurance contract, cash on hand.

According to the National Commission for State Regulation of Financial Services Markets [6] funds of risky insurance reserves, life insurance reserves allocated primarily in bank deposits, securities, current accounts, legal requirements for reinsurers and real estate.

The bank deposits are priority areas of insurance reserves allocation for risky insurance companies and life insurance companies, but life insurance companies invest in government securities almost three times as much. The structure of technical reserves occupies a significant share of the requirements for reinsurers. Life insurance companies allocate their reserves in long-term financial instruments given their reliability and profitability (Fig. 1).

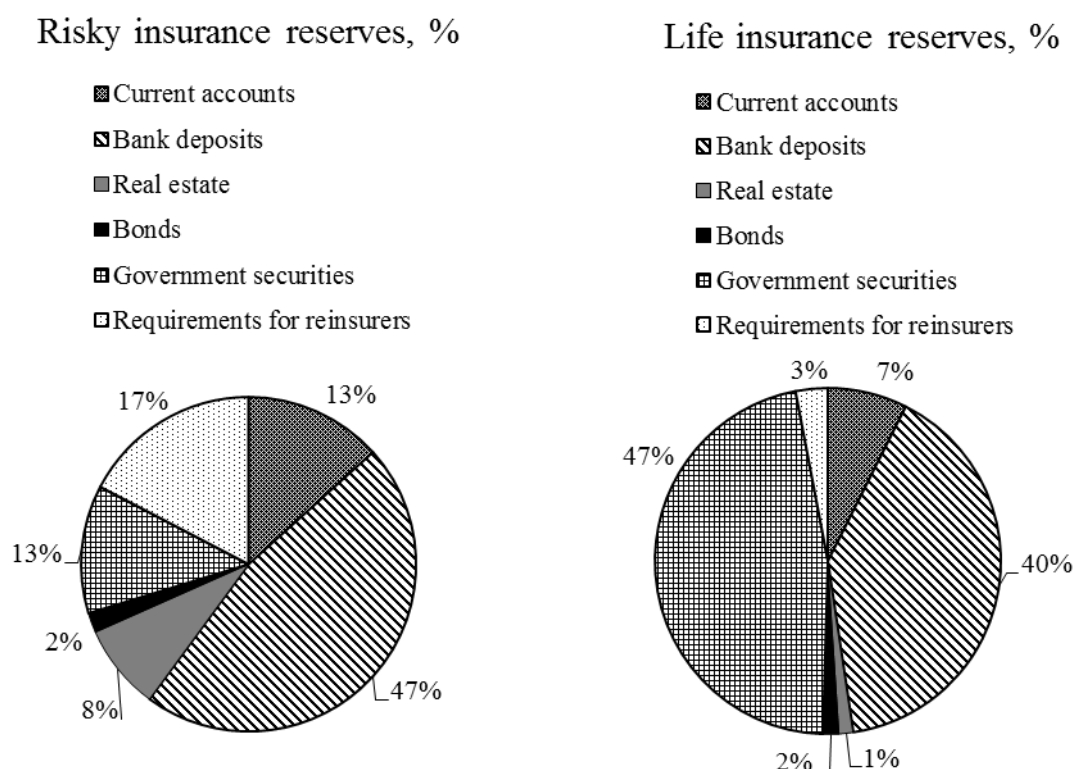


Fig. 1. The structure of risky insurance reserves and life insurance reserves

In 2016 insurance companies have placed around 0.1% of insurance reserves in investments in Ukraine by directions to Cabinet Ministers of Ukraine. This indicates a very low investment activity of insurance companies. On the other hand it demonstrates the adverse investment climate in Ukraine. Also, not priority areas for investments for Ukrainian insurance companies are precious metals, stocks and mortgage certificates. Loans to insurant – individuals who have entered into a life insurance contract were not provided at all in 2016.

Increase the resource base and the volume of insurance premiums is very important for the insurance sector of Ukraine. Limited financial resources prevent insurers implement investment operations.

Achieve real inflow of investments in Ukraine is possible only in conditions of coordination across the country all types of investment flows - both internal and external.

European insurance market based on the integration of insurance markets highly developed countries, encourages less developed national insurance markets adapt local standards of insurance to international standards of insurance, which requires the creation of appropriate institutions and mechanisms.

Most European insurance companies allocate assets in the following instruments: international and corporate securities, stocks, government and municipal securities. Life insurance companies are more active participants in the financial market, because they have the large amounts of financial resources.

Usually, European insurers have specialized departments, whose main task is to determine the current investment policy and formation of an investment portfolio. Typically, revenues from investments are used to finance insurance operations, development of new insurance products, training and subsidies to loss-making insurance. Also, legally established norms of the assets are important aspect of investment activity of European insurance countries. They can be set separately for each type of insurance on the basis of the principles of diversification and localization. This practice is usually performed in order to increase the liquidity of investments, to reduce currency risk and to direct investment resources in those industries that require the development of a specific period of time.

Each EU country has its own system of insurance regulation, but there is coordination of EU Directives. These regulations are made to eliminate restrictions on insurance services trade between EU countries and to give opportunities to other EU countries operate in the international insurance market on the same conditions as in their country.

Some EU Directives set number of mandatory standards should be implemented into national insurance legislation.

For example Solvency II Directive requires the establishment and / or strengthening of the main functions of insurance companies, including risk management, actuarial, internal audit, internal control and compliance. Also, the directive provides a three-tier system "Basel II" of adequacy requirements risk-based capital, requirements for the implementation of risk-based supervision and disclosure by market participants.

Large-scale processes of mergers and acquisitions on the European insurance market occurred because of fierce competition due to the implementation of Directives EU on the establishment and functioning of the free market of services.

The volume of investments of European insurance companies is consistently more than 25% of EU GDP. UK insurance companies have more than 25% of shares of all listed on the London Stock Exchange insurance companies and the stock market of the country is currently in circulation more than 80 kinds of long-term government securities.

UK insurance market is the largest in Europe and ranks third in the world. Insurance regulations that apply here became the basis of national rules in many countries. UK insurance market play a very important role in the economy because insurance companies manage investments of more than 1.8 trillion pounds and allocate to budget about 12 billion. pounds. UK insurance companies preferred invest in debt securities of private sector (23% or 411 billion. pounds) and mutual funds (18% or 330 billion. pounds). The least attractive are investing in real estate (7 to 5% or 88 billion. pounds) [7].

Most funds, insurers invest in debt securities and securities with fixed income. They are the most profitable. Their volume exceeded 50% of the investment portfolio of European insurance companies. The least attractive are considered deposits in credit institutions – 3.1%. At the same time, Ukrainian insurance companies prefer bank deposits and government securities.

The development of the Ukrainian insurance market inhibit the following factors: the gaps in national insurance laws, the low size of payments for compulsory types of insurance, high dependence of Ukrainian insurance market from the world insurance market and international capital flows, literacy lack of people in the insurance and financial sector, the inability to implement international standards for Ukrainian insurance practices, underdeveloped of Ukrainian financial market, low volume of investments by insurers in the real economy.

To solve the problem of development of the insurance companies investment activity, it is proposed measures to promote the development of Ukrainian insurance market:

financial market development for effective financial investment by insurance companies;

development of life insurance as a long-term source of investments for life insurance companies;

development of more active investment policies of Ukrainian insurance companies;

development of more effective marketing policy of insurance companies in order to increase the number of provided insurance services.

Conclusions. So, we can conclude insurers' important role in the financial market. It should also be noted quite a big impact of public authorities on the investment activities in almost all countries. This is due

to order large amounts of financial resources of insurance companies which allocated in different financial instruments and therefore insurance companies have great responsibility to clients. Also, the development of the insurance market is facilitated by open economy that attracts foreign investors to the country.

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UDC 368

Viktor Smoliak, PhD, Associate Professor. Kharkiv National Simon Kuznets University of Economics. **European vector of development of the insurance companies investment activity.** The article investigates Ukrainian insurance market problems and peculiarities of the insurance companies investment activity. The author defined the differences between Ukrainian insurance companies investment activity and European insurance companies investment activity. There are justified the main directions of development of Ukrainian insurance market in the article.

Keywords: insurance, insurance company, investment activity, insurance market, development of insurance.

УДК 368

Смоляк Віктор Анатолійович, кандидат економічних наук, доцент. Харківський національний економічний університет імені Семена Кузнеця. **Європейський вектор розвитку інвестиційної діяльності страхових компаній.** Досліджено проблеми страхового ринку України і особливості інвестиційної діяльності страхових компаній. Визначено відмінності між інвестиційною діяльністю українських страхових компаній та європейських. Обґрунтовано основні напрямки розвитку страхового ринку України.

Ключові слова: страхування, страхова компанія, інвестиційна діяльність, ринок страхування, розвиток страхування.

УДК 368

Смоляк Виктор Анатольевич, кандидат экономических наук, доцент. Харьковский национальный экономический университет имени Семена Кузнеця. **Европейский вектор развития инвестиционной деятельности страховых компаний.** Исследованы проблемы страхового рынка Украины и особенности инвестиционной деятельности страховых компаний. Определены различия между инвестиционной деятельностью украинских страховых компаний и европейских. Обоснованы основные направления развития страхового рынка Украины.

Ключевые слова: страхование, страховая компания, инвестиционная деятельность, рынок страхования, развитие страхования.