

**Honcharenko I. G.**

*D.Sc. in Public Administration, Associate Professor,  
Cherkasy State Technological University;  
Ukraine; e-mail: irynahoncharenko@gmail.com*

### **BANKRUPTCY PROBLEMS OF INSURANCE COMPANIES DURING THE GLOBAL WORLD CHANGES**

**Abstract.** Relevance of the article is that the bankruptcy of insurance companies are becoming quite common in Ukraine, and their result is economic, financial and social instability in the country and reduce of public confidence in the different types of financial institutions. The most significant reasons that led to the establishment of detected in the insurance sector trends are: political and economic instability, lack of effective regulation of insurance companies, the decline in public confidence in the insurers and the rejection of the use of insurance products and services, inability of companies to adapt the new conditions of management, lack of equity, excessive propensity to risk management, currency restrictions, lack of reinsurance services, lack of relevant information for management decisions, loss of markets in the eastern region and Autonomous Republic of Crimea, fraud by staff and customers.

The are suggested the following ways to stabilize the level of financial stability of insurance companies and improve the results of their activities for preventing their bankruptcy: additional capitalization of companies by foreign capital, improve of information transparency of insurers taking measures to improve their image and reputation, increasing of regulatory requirements for performance indicators, stabilization of public confidence in insurance companies through improved quality of service and promotion services in the media.

**Keywords:** insurance company, bankruptcy, liquidation, financial stability, financial market.

**JEL Classification:** G22, G33

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**Гончаренко І. Г.**

*д.н. з держ. упр., доцент,  
Черкаський державний технологічний університет;  
Україна; e-mail: irynahoncharenko@gmail.com*

### **ПРОБЛЕМИ БАНКРУТСТВА СТРАХОВИХ КОМПАНІЙ В ПЕРІОД ГЛОБАЛЬНИХ СВІТОВИХ ЗМІН**

**Анотація.** Актуальність статті полягає у тому, що банкрутства страхових компаній стають досить поширеним явищем в Україні, а їх результатом є економічна, фінансова та соціальна нестабільність у державі та зниження рівня довіри населення до різних видів фінансових установ. Проаналізовано динаміку кількості та значень основних показників діяльності страхових компаній на фінансовому ринку України. Визначено причини банкрутств сучасних страхових компаній. Головною ідеєю статті стало виявлення шляхів оптимізації фінансового стану страховиків та напрямів покращення результативності їх функціонування з метою запобігання їх банкрутству та ліквідації у перспективі.

**Ключові слова:** страхова компанія, банкрутство, ліквідація, фінансова стійкість, фінансовий ринок.

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**Гончаренко І. Г.**

*д.н. государственного управления, доцент,  
Черкасский государственный технологический университет;  
Украина; e-mail: irynahoncharenko@gmail.com*

### **ПРОБЛЕМЫ БАНКРОТСТВА СТРАХОВЫХ КОМПАНИЙ В ПЕРИОД ГЛОБАЛЬНЫХ МИРОВЫХ ИЗМЕНЕНИЙ**

**Аннотация.** Актуальность статьи заключается в том, что банкротства страховых компаний становятся достаточно распространенным явлением в Украине, а их результатом является экономическая, финансовая и социальная нестабильность в государстве и снижение уровня доверия населения к различным видам финансовых учреждений. Проанализирована динамика количества и значений основных показателей деятельности страховых компаний на финансовом рынке Украины. Определены причины банкротств современных страховых компаний. Главной идеей статьи стало выявление путей оптимизации финансового состояния страховщиков и направлений улучшения результативности их функционирования с целью предотвращения их банкротства и ликвидации в перспективе.

**Ключевые слова:** страховая компания, банкротство, ликвидация, финансовая устойчивость, финансовый рынок.

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**Introduction.** Over the past few years the global economy has undergone a global change. This circumstance has negatively influenced the domestic economic environment of Ukraine. The situation with the currency exchange rate, especially the rate of the national currency in relation to the United States dollar, caused significant changes in the business environment. Many organizations and individuals have difficulties in dealing with their debts during the crisis. Revenues decreased in almost all business areas. This phenomenon had an immediate negative impact on the procedure of debt repayment. Many areas of domestic business are currently experiencing mass liquidations and bankruptcy of many entities. A similar situation is observed in the financial market. A difficult economic situation in Ukraine is transforming the state of all its segments. Insurance business is not an exception to the general rule, and multi-functional financial institutions have difficulties in the course of professional activities. Significant reduction in revenues from the conclusion of new agreements and reduced backlogs often lead to financial insolvency of an insurer. In the event of a situation when a company cannot fulfill taken obligations the procedure of bankruptcy is carried out.

The bankruptcy of financial institutions is unfortunately becoming quite common in Ukraine, which has economic, financial and social implications at the macro level, and therefore the chosen topic of research is timely and relevant.

**Research analysis and problem statement.** The bankruptcy problem of insurance companies was investigated by both domestic and foreign researchers, thus it proves its topicality and urgency. O. S. Donets, in particular, A. I. Saber consider the features of economic-mathematical modelling of the insolvency risk of the insurance company [1], O. V. Zhymik I. A. Stadnyk give reasons of bankruptcy of Ukrainian insurance companies [2], A. V. Lytvyn constructs models to predict the bankruptcy of insurance companies in Ukraine in the post-crisis period [3], L. A. Onyshchenko defines the shortcomings of state management of the market of insurance services on the example of the facts of default and bankruptcy [4], V. M. Iukhymenko demonstrates the results of the bankruptcy diagnosis of insurance organizations for example, the "UIC" Guarant-Auto" [5].

L. Tuleskaska I. [6], Le Courtois O. [7], Roger Massey, D. Hart, D. Wildows, D. Lowe, K. Bhattacharia, V. House, R. Shows [8], G. Bilevska [9], Kh. Singu are among foreign scholars who investigated the bankruptcy of insurance companies. B. Starshy [10], J. T. Hansen K. V. Melchior [11] S. J. Liubben [12]. Foreign experience of legal regulation of the bankruptcy of insurance companies is presented in source [13]. However, the variability of the external environment and domestic realities of business activities on the financial market make further research in this area topical.

The purpose of the article is to study the reasons, the consequences of the bankruptcy of modern insurance companies and identify ways to minimize this phenomenon in the financial market of Ukraine. The research methods under consideration should include the monographic method, analysis, techniques of abstract-logical method, etc.

**Study results.** The phenomenon of bankruptcy and liquidation of insurance companies on the domestic financial market is becoming widespread. So, before the crisis of 2008-2009 years in Ukraine there were 400 insurance companies, 58 of which insured life, and 342 – risks. Some of them had almost never carried out any activity: according to the National Commission, only 100 of them insured. Now the market of insurance services is the second according to the level of capitalization among other non-bank financial markets. The total number of insurance companies as of 30.09.2016

amounted to 323, including "life" insurance companies – 43 companies, "non-life" insurance companies – 280 companies (as of 30.09.2015–368 companies, including IC "life"–50 companies, insurance companies,"non-life"–318). Therefore, the number of insurance companies had a rapid tendency to decrease, during 9 months of 2016 compared to 2015, the number of companies decreased to 38 [14].

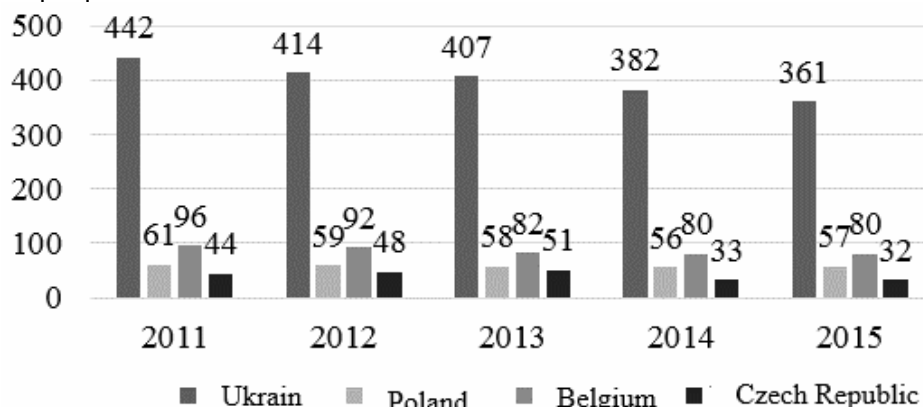


Fig. 1 The tendency to reduce the number of insurance companies because of their bankruptcy\*)  
\*) Source: Compiled by the author according to data [14, 15]

Figure 1 illustrates the tendency to reduce the number of insurance companies on the financial market of Ukraine and several European countries, the bankruptcy of insurance companies became the catalyst.

These data indicate that in general an insignificant number of insurance companies function in the European countries, due to the higher demands of regulators to the parameters of their activities. It contributes to the fact that the rates of reduction in the number of insurers in Poland, Belgium and the Czech Republic are lower than in Ukraine. In Poland during 2012–2015 years the number of insurance companies each year shrank by 1–2 companies (1–3% of insurers on the market), in Belgium there was similar dynamics – during 2012 the number of companies decreased by 2 for 2013, 2014 – by 2 for 2015 is to 1. The situation in the Czech Republic is a little different, where in 2014 there was a rapid reduction in the number of insurance companies – from 51 to 33, that is 35% professional participants of its insurance segment became bankrupts and left the market. However, in 2015 the situation stabilized, and the reduction amounted to only one company.

The number of corporate insurance in Ukraine during last 5 years reduced to 119 companies, constituting 27% of the total number of companies on the market (2011 is chosen as a basis for the calculation). Thus, we can conclude that for 5 years, one-third of insurance companies have become bankrupt and disappeared from the financial market. Taking this into consideration, the population did not trust this kind of financial institutions, thus it had led to the reduction of the number of insurance contracts and use of the insurance financial services in general.

Table 1 presents information on the results of the activities of insurance companies in Ukraine for the period of last 5 years.

Table 1

Results dynamics of insurance companies in Ukraine\*)

Indicator	2011	2012	2013	2014	2015	3 quarter of 2016
The assets of the companies, mln. USD.	48122.7	56224.7	66387.5	70261.2	60729.1	55377.2
Gross insurance premiums, mln. USD.	22693.5	21508.2	28661.9	26767.3	29736.0	24844.2
The level of net payment,%	26.2	24.5	21.2	26.3	34.0	30.9

\*) Source: Compiled by the author according to data [14]

The increase dynamics in the assets of the insurance companies can be described positively, however, it should be noted, that the volume of insurance premiums, at the same time, remained almost on the same level. The level of net insurance payments has hovered within 20–34% for the last 5 years.

Let us consider the most contentious cases of bankruptcies of insurance companies on the domestic financial market and single out the basic causes of the phenomenon. Thus, several major players in the insurance market have stopped their activity recently. The bankruptcy of the insurance company "Garant-Auto" has become the most sounding [16]. The top-10 insurance company in civil liability compulsory insurance market has become the absolute leader on the number of complaints against other insurance companies due to non-payment for recourse claims. The insurer would not pay or does not pay according to the concluded insurance contracts of civil liability of vehicles owners, in consequence of which the amount of the indebtedness of the company to customers amounted to 850 thousand UAH. The company has broken the terms of 2147 motor insurance contracts and 1284 different types of voluntary insurance contracts within six months. The company was checked by the regulator, however, the decision on the introduction of temporary administration was not adopted.

The insurance company «Warranty» also became one of the insurance bankrupts [16]. Its leaders took a decision to continue to conclude insurance and civil liability contracts of compulsory insurance even after the regulator had terminated its license. The day before the suspension of the license the insurer concluded more than 9 thousand civil liability compulsory insurance contracts. In General, the size of the debt insurance company constituted 12.231 million UAH. The bankruptcy of the leaders in the insurance market was caused by the pursuit of sales of insurance products and services. Insurance companies tried to sell as many insurance products as they could without taking into account the financial situation of their own company.

Let us consider the reasons of such a situation. In most cases, domestic insurance companies lack a clear division of responsibilities between services, and quite often the directorship makes the power centralization be of greater priority, this leads to an atmosphere of mistrust and scarcity of reliable information. In such a situation, the employees do not feel confident in the fact that their work is important for the company, and accordingly, they lose the desire to work for its benefit.

Now insurers, despite the number of ways to maintain the financial stability of the company, increase sales of insurance products without ensuring proper control. Insurance companies do not carry out analysis of the situation on the financial market, they do not study statistics, do not control the activities of insurance agents who enter into contracts of insurance, and experts to assess the damage.

Another reason for the bankruptcy of insurance companies is a planned operation of criminal structures. For example, having insured the property an owner some time later claims that he was robbed, and companies have to pay the insurance indemnity. There are different kinds of scams and each case undermines the financial stability of the insurance company.

Domestic insurers have recently not been able to return the financial assets of the banks that are deemed insolvent.

The unprofitability of insurance companies increases in the eastern regions of Ukraine. Risk reinsurance of most insurance companies is one of the consequences of tragic events in the East of the country – foreign insurers increase the tariffs on this type of service in Ukraine, as for the territory of the high level of probability of the insurance case.

Another problematic aspect of domestic insurers, was the ban on transfers of foreign currency payments abroad, introduced by the Decree of the NBU No. 540. This decision meant a failure to re-insure the risks of domestic insurance companies in overseas markets which had led to a potentially high unprofitability or refuse in payment for the whole chain of adverse insurance events. Foreign companies set stringent conditions for domestic insurers and therefore Ukrainian insurance companies in the long term may lose the opportunity to enter into contracts for the services of reinsurance.

In the conditions on the financial market the state authorities need to tighten control over the insurance companies through monitoring of the accumulation of critical debt mass according to insurance compensations. The result of the loyal attitude to this is the emergence of signs of financial insolvency in many companies, and this, in turn, will affect the economic atmosphere in Ukraine.

A proper prudential supervision is absent in the domestic insurance sector that could provide the opportunity to identify the financial problems of the insurance company in advance. As a result, clients and state authorities will learn about the problems of the company only when financial and managerial decision are impossible to be made. Usually, after the insurance company has payment problems, it takes an active damping position and continues to work, involving all new customers for a certain period of time. At this time the process of withdrawal of liquid assets of the company rapidly takes place. However, when the same scheme stops working, the insurer simply disappears from the market.

It is difficult to understand why a company declared bankruptcy. Insurers leave the market due to different reasons: had no time to adjust to the new model of the market; increased number of financial problems; dropped below the minimum limit sales of insurance policies; the amount of maximum payouts dramatically increased, etc.

To prevent getting an insurance company to financial instability and subsequent bankruptcy the following guidelines can be given:

- increase the amount of foreign capital in equity companies, take steps to achieve a positive reputation;

- ensure full compliance with the criteria which regulate the activity of insurance companies;

- involve well known and public people, about which it is easy to find the information to the founders, owners, guides, a leading management company;

- when analyzing the state of the insurance company, its own capital must be greater than the authorized (registered) one. This figure indicates that the company consistently develops and grows, its activity is profitable;

- to introduce permanent monitoring of data structure for timely detection of the trend towards the deterioration of the status of the indicators of the solvency of the company;

- to provide a high level of publicity, openness and transparency of the company. Active participation in various forms of associations, unions and associations is positive for the insurance company.

Currently, many insurers suffer negative attitude to the insurance sphere as a whole and separately taken insurance companies, in particular. This is due to a decrease in the level of trust of the population to the insurers for aforementioned reasons. Meanwhile, as experience shows, the implementation of a carefully planned PR company is able to significantly change the situation. The insurance companies that are the first to realize all possible perspectives on the implementation of targeted impact on the consciousness of citizens have a substantial advantage in the competitive struggle.

Actual state of the national insurance market is extremely favorable for holding different kinds of PR–actions, as the tradition of using insurance services is still not formed, and the loyalty of the clients regarding the specific insurance companies is almost absent. It should be noted that PR–campaign of the insurer may be carried out both independently and in conjunction with its advertising campaign. Full advertising campaign should be supplemented with the list of PR–actions aimed at improving the image of insurance companies within the minds of existing and potential customers, and thereby increase the number of consumers of insurance products and services.

To ensure their own solvency insurance companies are obliged to observe normative correlations between their assets and insurance liabilities, since the lack of collected insurance premiums and formed reserves do not relieve the insurer from the compensation of damage caused to the insured. In case of taking the following financial obligations that significantly exceed the ability of the company to perform at the expense of its own funds and insurance reserves, insurers need to reinsure the risks of implementation of commitments in foreign insurance companies.

The consumer in the process of selecting an insurance company takes into account, above all, the following important factors: the level of popularity of the insurance company on the insurance market; the duration of its work; level of service in providing services; positive experience of insurance activity; judgment of reference groups. Thus, in order to attract the

maximum number of potential customers, domestic insurance companies need to take measures to popularize their own activity, increase the level of maintenance and consulting services, as well as to improve the condition of their image and reputation. In order to establish a positive relationship to the company as a strong, leading brand in the market, it is necessary to regularly post information about it in the media. Company name must be recognizable, and the company itself has to be perceived as an expert in the insurance industry. It is obvious that the consumer will feel more confident in the insurance company that not simply monitors the quality of the services provided, but constantly improves them.

**Conclusions.** The results of the research lead to the following conclusions.

The phenomenon of the bankruptcy of insurance companies is getting wide-spread on the financial market of Ukraine. The most significant factors that led to the establishment of such trends, are: political and economic instability, the absence of effective mechanisms of regulation of insurance companies, low level of trust of the population to the insurers and the rejection of the use of insurance products and services, inability of companies to adapt to the new conditions of management, lack of equity capital, excessive tendency of management risk, foreign exchange constraints, unavailability of reinsurance services, lack of relevant information for decision making, loss of the markets of the eastern region and the Crimea region, fraud on the part of staff and clients.

The following ways of stabilizing the level of the financial strength of insurance companies and improvement of the results of their activities that can prevent bankruptcy in perspective are stated: additional capitalization of companies at the expense of foreign capital, increasing the level of transparency of insurers taking action to improve the image and reputation of insurance companies, increasing regulatory requirements to the indicators of their activities, the stabilization of trust to insurance companies by raising the level of service and promotion in the media.

The scientific novelty of the research is to identify the main reasons for the bankruptcy of insurance companies in modern conditions of managing in Ukraine that can be used by state regulatory authorities to develop strategies for stabilization of domestic financial market. Theoretical and practical significance of the study outlines the areas of the financial situation stabilization of domestic insurance companies in modern conditions of managing and identifying ways to improve the effectiveness of their activities in the future. Socio-economic impact that appears as a result of the implementation of the scientific results results in trust improvement of the population to insurance companies, which will be an incentive to the further development of insurance status and optimization of financial market of Ukraine.

The prospects of further scientific development in this research include the formation of a mechanism to protect the clients of insurance companies, their rights and interests in case of bankruptcy acceptance.

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