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## **MODERN APPROACHES TO DEVELOPMENT OF MOTOR INSURANCE AS A MEANS OF PROTECTION AGAINST FINANCIAL LOSSES**

*The paper includes a comparison of the main characteristics of the two types of car insurance. The analysis of the market of car insurance in Ukraine in 2013–2015 is conducted. The analysis of existing insurance products is included. The additional insurance products are offered.*

**Key words:** *insurance products, insurers, car insurance.*

### **F**ormulation of the problem.

Insurance is an important element of state economic security, it impacts on investment and innovation potential. In terms of chaotically structured economy Ukrainian insurance market isn't stable and capitalized enough, and are not always able to respond quickly to changing internal and external environments. Motor insurance services represent a significant share of Ukrainian insurance market, and quality of insurance services influence the performance of insurers and trust of policyholders to the insurance industry.

Motor insurance in Ukraine is implemented in an incomplete way that does not reveal its potential. Despite some positive trends in growth of quantitative indicators, institutional and functional characteristics of Ukrainian motor insurance market in general do not meet the real needs of the state and European standards. Analysis of current approaches to the development of the motor insurance will allow to identify problems and outline their perspectives as a means of protection against financial losses.

In the current market conditions in the Ukrainian insurance market car insurance (auto CASCO) actively began to emerge only during last 5–10 years, but its development can not be considered as consistent and dynamic. This situation is caused by unstable socio-economic situation and the result of cultural and historical traditions of Ukrainian society [1].

So there is an immediate need to solve the problem of analysis of modern approaches to the development of motor insurance as a means of protection against financial losses and provide recommendations for improving existing products.

### **Analysis of recent research and publications.**

Problems of motor insurance development is increasingly attracting the attention of both foreign and domestic scientists.

The issue of research current trends, problems and prospects of voluntary insurance of motor vehicles in the context of development of motor insurance is dedicated in pa-

per of N.V. Tkachenko and S.O. Krynica [1], the question of dynamics of the insurance industry in Ukraine, its problems and prospects is devoted in the research of local scientists O.S. Moskalenko, K.S. Kozlov, M.Yu. Kusiya [2], the national insurance market trends dedicated to the scientific study of P.A. Horyslavets [3], the issue of systematization of issues that hamper the development of the domestic insurance market, is explored by I.Yu. Rud and I.V. Kopytina [4].

But the analysis of specialized literature has shown that there are certain risks in the development of the auto insurance, which require detailed study and make recommendations for its expansion and improvement.

#### **Tasks.**

To solve some outlined problems let's analyze modern approaches to the development of motor insurance, using a synthesis of world scientific and practical experience of the specific characteristics of insurers and a study of theoretical and practical aspects assessment investigated issues.

#### **The main research.**

Insurance is a component of finance, which has a number of features:

- money relations in insurance relate to the possibility of insurance claims that are harmful;
- damages are distributed among participants of insurance;
- losses are redistributed among areas and over time;
- associated with the return of money contributed to the insurance fund [5].

Car insurance is one of the most traditional types of insurance in the world. In 2015 in Ukraine car insurance includes two types of products offered to owners of vehicles: car insurance (Casco) and compulsory insurance of civil liability of vehicle owners (forward – CICIVO).

Casco is insurance of any ground vehicle from physical damage, robbery, embezzlement or theft. Such insurance is given for cars, trucks, including buses, trailers and any equipment that is installed on the insured car. This insurance does not cover compensation for damage as any other payments, including the responsibility of the owner of transport to a third party in the event of an accident.

Casco is carried out on a voluntary basis and contains a set of risks associated directly with the car and cover losses arising in the event of damage, total loss or loss of vehicles (all or some of its parts), accidents (collision, collision, etc.); fire ignition; natural disasters; theft and damage during abduction; theft of parts, broken glass and other unlawful acts of third parties [1]. However, most insurance companies give customers the right to choose between full Casco (includes all of the risks) and its individual programs (partial Casco). For example, you can not only insure the vehicle in case of an accident, but of all the risks associated with the disaster. With the risk of “hijacking” case is more complicated: if a private insurance company agreed to insure a car of this extraordinary event, the cost of such insurance coverage is very high, and the franchise will be considerable. Typically, insurers prefer to sell this risk in a package with other risk [1]. Vehicle insured against: a traffic accident; stealing; illegal actions of third parties; unintentional injury; damage caused by natural disasters; explosion, self-ignition or fire of car; other external physical impacts; unintentional cabin damage.

Compulsory insurance (CICIVO) is acting under the Law of Ukraine “On compulsory insurance of civil liability of vehicle owners” [10].

The main features of these types of insurance are noted in the table 1. Analysis of table 1 shows that CICIVO and Casco have many differences and should complement each other. We should also remember that insurance is divided into two types – a full and partial. Full CASCO insurance allows you to insure against all kinds of risks: theft, accidents, fires, natural disasters, illegal actions of third parties, falling objects, etc. on the car. According to partial insurance policyholder has the right to decide which risks are most important.

Table 1

## Key features of CICIVO and Casco

Features	CICIVO	Casco
Form of insurance	Mandatory	Voluntary
Type of insurance	Responsibility	Property
Compensations	Is limited by legislation	Fully reimburse the damage (in the absence of the franchise)
Insurance tariff	Is stated by legislation	Depends on the car value
Insurance cases	Insure the property interests of third parties. That is, in case of damage in an accident of your fault, they are reimbursed losses. Thus there is a limit of compensation	Fire, theft, damage vehicle with third party, accident (perpetrator is not important), the impact of items such as falling icicles. The loss is compensated in full. There can be included extras: towing the car from the scene, drafting in an accident, participation of emergency commissioner
Cost (value)	Available to everyone, and therefore is mandatory	Expensive kind of insurance. Tariff depends on motorist driving experience, its age, the age of the car, location
Deal of contract	The insurer must insure the insured (client)	The insurer may refuse contract

It should be noted some benefits of CICIVO and Casco (table 2).

Let's explore the current situation on the market of auto insurance: insurance premiums, functions of insurers to protect the property rights of policyholders.

Insurance industry remains one of the most capitalized among other non-bank financial markets. The total number of insurance companies as of 31.12.2015 amounted to 361, including 49 IC "life", 312 IC "non-life" (as of 31.12.2014 – 382 companies, including 57 IC "life", 325 IC "non-life").

The number of insurance companies tends to decrease, so by 2015 compared to 2014 year, the number of companies decreased by 21, compared to 2013 decreased by 46 [6].

Increase in net insurance premiums for 2015 (+20.2%) was formed by a significant increase in income payments on auto insurance (+23.1%), insurance third party liability (+107.2%), cargo and luggage insurance (+45.9%), health insurance (+23.6%), aviation insurance (+60.6%), financial risks insurance (+7.6%), medical expenses insurance (+45.9%). However, the decline in net premiums was observed in the following types of insurance: accident insurance (–30.6%), credit insurance (–48.4%), insurance against transport accidents (–34.8%) [6].

Table 2

## Advantages of CICIVO and Casco

Advantages of CICIVO	Advantages of Casco
Insurance period of 15 days (minimum) and up to 1 year (maximum) If client choose the maximum period, the owner of the vehicle receives a card that, in some cases, make it possible to get advice or any requested information; call the tow truck; deliver fuel; technical assistance on the way In addition to payments, the rules of which are spelled out in the documentary, accompanied by insurance, the driver also receives services for himself, which sometimes is very useful	Compensations, despite the fact that the previous sum of total payments may be greater than the sum of insurance Money for worn parts that must be replaced during a repair, not deducted from the amount of compensation If an accident occurs, the detection of level of intoxication of the driver is not required (the medical test), except for the requirements of a police officer (in accordance with the legislation of the country) No more than three times over the period of the contract insured has to call a tow truck because of accidents and the complete inability to move car after an accident itself. The value paid by the evacuation is no more than 2000 UAH. If the sum is greater then the difference is paid by owner Cash compensation is paid regardless of the perpetrator of the accident. The exception is departure on railroad tracks at the lowered barrier

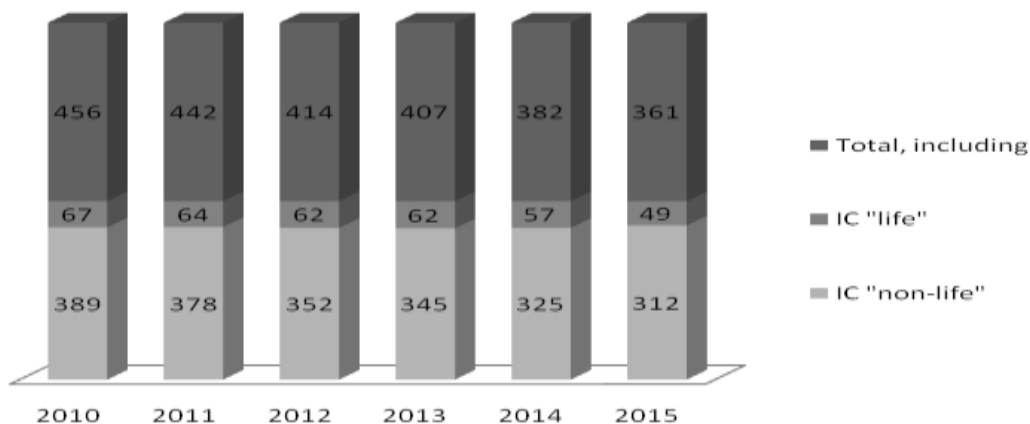


Fig. 1. The number of insurance companies for the period 2010–2015

The structure of premiums less the share of premiums paid by reinsurers resident, by type of insurance as of 12.31.2015 the largest share belongs to that kind of insurance as car insurance (Casco, CICIVO, Green Card) – 7322,4 mln UAH (or 32.8%) (as of 31.12.2014 the figure was 5947.5 mln UAH (or 32.0%)); property insurance – 2188,1 mln UAH (or 9.8%) (as of 31.12.2014 the figure stood at 2045,1 mln UAH (or 11.0%)); life insurance – 2186,6 mln UAH (or 9.8%) (as of 31.12.2014 – 2159,7 mln UAH (or 11.6%)); financial risk insurance – 2172,9 mln UAH (or 9.7%) (as of 31.12.2014 – 2019,1 mln UAH (or 10.9%)); medical insurance (permanent health insurance) – 1862,1 mln UAH (or 8.3%) (as of 31.12.2014 – 1507,1 mln UAH (or 8.1%)); insurance third party liability – 1391,5 mln UAH (or 6.2%) (as of 31.12.2014 – 671.7 mln UAH (or 3.6%)); insurance against fire risks and risks of natural disasters -1292,1 mln UAH (or 5.8%) (as of 31.12.2014 – 1255,4 mln UAH (or 6.7%)); cargo and baggage – 1255,4 mln UAH (or 5.6%) (as of 31.12.2014 – 860.4 mln UAH (4.6%)) [6].

Dynamics of the major indicators of car insurance – insurance of ground vehicles (Casco), insurance of civil liability of owners of vehicles for domestic contracts (CICIVO) and by international agreements (Green Card) are represented in Table 3.

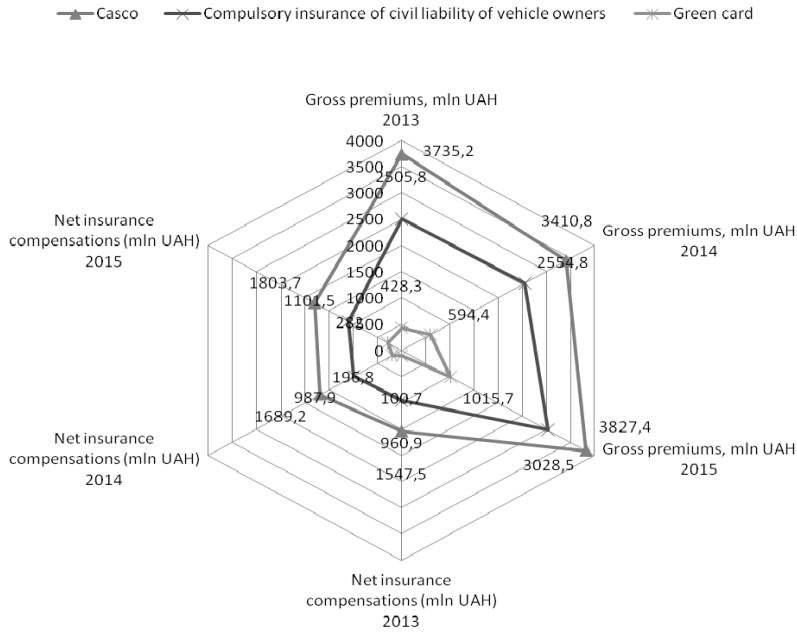
According to table 3, during 2015 the volume of gross premiums from motor insurance (Casco, CICIVO, Green Card) increased by 20.0%, gross insurance premiums grew by 10.9%. The share of gross premiums and gross claims paid insurance of civil liability of vehicle owners in motor insurance is 38.5% and 34.6% (respectively).

Gross premiums for insurance of ground vehicles (Casco) for 2015 increased by 12.2% compared with 2014 and amounted to 3827.4 mln UAH; in insurance of civil liability of vehicle owners (MTPL) gross insurance premiums increased by 18.5% and amounted to 3028.5 mln UAH.

Gross premiums for insurance of ground transport (Casco) for 2015 amounted to 1803.7 mln UAH, which is 6.8% more than in 2014 and 16.6% more than in 2013; gross claims paid for insurance of civil liability of vehicle owners (CICIVO) amounted to 1101.5 mln UAH, which is 11.5% more than in 2014 and 14.6% more than in 2013.

Structure of gross payments and gross insurance compensations in the motor insurance sector is shown in Fig. 2.

Over 25 years of Ukraine's insurance market existing insurers services didn't become truly effective, since the population has no confidence in the insurance companies. Among the main reasons of mistrust of the population there are: bankruptcy of insurance companies, paying compensations incomplete or unpaid, permanent denial of paying compensations, violating the terms of payment and fraud on the part of insurers.



**Fig. 2. Structure of gross payments and gross insurance compensations in the motor insurance sector for 2013–2015**

*Table 3*

**Dynamics of the major indicators of motor insurance for the period 2013–2015 [6, 7]**

Data / Type of insurance	Gross payments, mln UAH			Gross compensations, mln UAH			Rate of gross compensations, %			Growth rate			
	2013	2014	2015	2013	2014	2015	As of 31.12.13	As of 31.12.14	As of 31.12.15	2014/2013		2015/2014	
										Gross payments	Gross compensations	Gross payments	Gross compensations
Insurance of public vehicles (Casco)	3735,2	3410,8	3827,4	1547,5	1689,2	1803,7	41,4	49,5	47,1	-8,7	9,2	12,2	6,8
Compulsory insurance of civil liability of vehicle owners (CICIVO)	2505,8	2554,8	3028,5	960,9	987,9	1101,5	38,3	38,7	36,4	2,0	2,8	18,5	11,5
Compulsory insurance of civil liability of owners of vehicles (international agreements) Green Card	428,3	594,4	1015,7	100,7	196,8	282	23,5	33,1	27,8	38,8	95,4	70,9	43,3
<b>Total</b>	<b>6669,3</b>	<b>6560</b>	<b>7871,6</b>	<b>2609,1</b>	<b>2873,9</b>	<b>3187,2</b>	<b>39,1</b>	<b>43,8</b>	<b>40,5</b>	<b>-1,6</b>	<b>10,1</b>	<b>20,0</b>	<b>10,9</b>

Because of dynamic development of Ukrainian insurance market it is necessary to conduct ongoing monitoring of its operations to identify patterns of problematic aspects, change of indicators for different types of insurance, the optimal number of insurance companies that meet the needs of policyholders.

So important is the separation of the major recommendations for developing services of insurance companies to improve their efficiency. Here in the table 4 we have comparative characteristics of existing products of insurance companies and those which are in need.

Table 4

**Characteristics of the existing products of insurance companies and those which are in need**

Existing insurance products	Insurance products offered by authors
Free shipping fuels	«Gold-Package”: – Package services of partners – Discounts – VIP-client
Free tow truck	
Free hotline around the clock	
Communication in client’s language	Fee for emotion
Refunding (paying compensation) within 15 days	Cross-selling
	Discount when lending

Consider more detailed each component of existing insurance products of insurers.

Most existing insurance companies offer insurance products that help them expand their services and they have to be more creative in relation to their competitors. Among the most creative insurance products we distinguish the following:

Free shipping fuels – this product helps attract more customers through adding service that allows insurance companies to work with the stations and distribute new insurance products;

Free tow – this product is in addition to the insurance agreement, which allows insurers to attract more customers;

Free hotline around the clock – using this app in the contract the customer can contact the insurer at any time and receive help;

Refund compensations within 15 days – this service allows insurers to attract customers who value time, and encourages clients to receive funds faster than from insurers-competitors;

Communication in customers’ language means such work with a client when the insurance agent sets this confidence that the customer agrees to buy it. With such trust it is easier to sell any products, customer listens to the agent’s recommendations and trust him absolutely. If trust is missing, the client will treat with suspicion by checking every word and action. Customer can be naturally covered with alarm for the purchase of the policy, it can be stuck on the idea that he is imposed on goods worse or more expensive. And any seller’s argument seller for him will be useless.

But in order to survive in the insurance market insurers have to improve existing products to attract customers and improve their services. Thus, the authors propose to introduce the following new products:

“Gold Package” – a product, which includes a range of services for customers. The company makes agreements with other companies which on the same system will receive additional benefits of the activity. This package includes the following services: package services for partners, discounts and VIP-service. That is the work of filling stations, banks, stations of technical service.

Fee for emotion – it is a product that allows customers to get the little pleasures of life. For example, the stations offer you free coffee because you are a customer of a certain insurance company, or in the insurance contract you are offered coffee and candy to spend time with taste.

Cross-selling is selling of different services or products to one customer. The basic idea of cross-selling is to use existing customer relationships to sell him additional goods or services that will increase the number of customers through partners.

Discount in lending is option associated with cross-selling if the car was purchased through a loan from a bank partner, then the owner of the car is given a discount on Casco insurance policy, as well, and the bank, offering its borrower to insure car purchased on credit at insurer-partner may reduce credit rate by a few points.

#### **Findings and forecasts.**

The analysis made it possible to find that in 25 years of Ukraine's insurance market services insurers were not the most effective, as the population has no confidence in the insurance companies. The main causes of mistrust are: bankruptcy of insurers (often through bankruptcy banks where they hold their reserves), violation of the terms and amounts of payments, refusal fraud.

Today, motor insurance is one of the most traditional types of insurance in the world, which includes two types of insurance products offered to owners of vehicles: Casco and CICIVO.

Overall analysis of motor insurance showed that in 2015 the volume of gross payments from motor insurance (Casco, CICIVO, Green Card) increased by 20.0%, gross insurance compensations grew by 10.9%. The share of gross payments and gross compensations of CICIO is 38.5% and 34.6% (respectively). Gross payments of Casco for 2015 increased by 12.2% compared to 2014 and amounted to 3827.4 mln UAH, gross insurance payments in CICIVO increased by 18.5% and amounted to 3028.5 mln UAH.

Today, there are many services and products that are provided by insurers, but in order to survive in the insurance market insurers have to improve existing products to lure customers and increase the efficiency of its services. Thus, the authors proposed to introduce new products such as: "Gold-Package", which includes services such as packet service of partners, discounts and VIP-service; fee for emotion; cross-sales and discount in lending.

Implementation of new products proposed by authors will help to improve service quality, increase customer base through cross-selling of partners to increase the effectiveness of communication with customers.

In further studies the attention should be paid to macroeconomic stability in which inflation will fall, living standards and solvency of population will arise, credit market and market for car sales will increase, which gradually lead to the expansion of the auto insurance.

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*Проведено порівняння основних характеристик двох видів автострахування ОСЦПВ та КАСКО. Проаналізовано ринок автострахування України за період з 2013 по 2015 рр. Здійснено аналіз існуючих продуктів страховиків. Виокремлено і обґрунтовано додаткові страхові продукти.*

**Ключові слова:** страхові продукти, страховик, автострахування.

*Проведено сравнение основных характеристик двух видов автострахования ОСАГО и КАСКО. Проанализирован рынок автострахования Украины за 2013–2015 гг. Выполнен анализ существующих продуктов страховщиков. Предложены дополнительные страховые продукты.*

**Ключевые слова:** страховые продукты, страховщик, автострахование.

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