

TYPES OF COMPETITION IN THE INSURANCE MARKET OF UKRAINE

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Summary: The article examines the state of competition in the insurance market of Ukraine, studied its characteristics, types of competition. Determined the specific features insure and their impact on the insurance market. The analysis of behavioral, structural and functional competition. Through the help of statistical data estimation concluded the prevalence of structural competition in the insurance market of Ukraine. Conducted a comparison with the individual countries in terms of insurance market structure. Studied types of competition allow the assessment out-of-date competitive advantage of the market and identify new directions of development.

Keywords: insurance, competition, insurance market, insurance company, functions.

1. Introduction. Insurance as part of the financial system is separated on base of the selection of specific functions of social and economic orientation. The functions of social orientation are providing protection from social risks and risks of the violation people property interests both the private and the collective. Economically oriented functions are built on the principle of conservation (recovery) assets value, which was lost as a result of occurrence of provided events that negatively affected the financial position of the policyholder. Implementation of the aforementioned functions is carry out by financial institutions, which received license by law for insurance contracts that require payments to policyholders in the insurance case. Insurers are operating in the insurance market, development of which depends on several factors. Identifying the most significant of them for Ukraine is the subject of this study.

The insurance market is the embodiment of two types of processes by criterion interaction between participants:

- the first type - a process of interaction between business and government to build institutions and law, which necessary for the development of insurance;

- the second type - is the process of interaction between entrepreneurs and their clients (interests exchange), in which government should provide the protection for both sides from illegal violations of the rules of

interaction. Herewith government has no right to interfere in the relationship between customers and entrepreneur, except the removal of unfair conduct in violation of legal rights of a party.

Both types of processes are recognized as market when they were built on the free decision of every participant to enter into certain relationships that provides competition, which is important determinant of the market development.

Consider the competition in the insurance market of Ukraine through behavioral, functional and structural approaches.

The behavioral approach is a permanent mechanism of free competition, commodity contest for the most favorable conditions for production and selling of products in order to achieve the best results of its business activities. This form of competition leads to monopolization of markets. The main criterion, which is base for establishment of monopolization fact is the market share of the company. For example, the requirements of US and Ukraine law respectively 33 and 35 percent for one company, 50% or more - for three, 66.6% and 70% - for five. Table 1 shows the proportion insurers in total premiums in Ukraine.

Table 1. The share of Ukraine the first five insurers in total premiums (%)

Groups insurers	Restrictions	Market share by year			
		2012	2013	2014	2015
TOP 1	35%	3,99	2,98	7,1	7,1
TOP 3	≥ 50%	14,7	13,2	7,8	9,3
TOP 5	66,6 – 70%	20,8	17,8	12,4	16,1
Note: The total number of insurers / including Life insurance		414/62	407/62	382/57	361/49

Source: own processing according by Forinsurer

As can be seen, the situation in the insurance market is far from its monopolization by first major insurers. More information about the competitive situation in the insurance market can be provided by comparison of share of the premium top 10 insurers and companies that begin in the ranking from number 201, is the last in the list (tab. 2).

A decline in the share of premiums in group companies 201 number from 1.3% to 0.6% while the share of such premiums accumulate almost half of the companies. It is also not correct to recognize data about premiums, which include also the amount of compulsory insurance, where price competition is minimized and the greatest impact is performed by mechanisms of customers attraction.

Table 2. Shares of insurance companies in Ukraine in terms of insurance premiums, %

Year	Indicator TOP 10		Indicator 200+	
	The share premium in the amount of	% of the total number of insurers	The share premium in the amount of	% of the total number of insurers
2009	31,4	2,2	1,3	55,6
2010	34,9	2,2	0,9	56,1
2011	37,8	2,3	0,8	54,8
2012	36,4	2,4	0,6	51,7
2013	37,9	2,5	0,7	50,9
2014	36,7	2,6	0,6	48,6
2015	36,3	3,2	0,4	35,9

Source: own processing according by Forinsurer

A manifestation competition is specific by the presence of a significant number of registered participants, most of which produces a tiny share of insurance services. Most of the insurance market participants is not interested to reveal the real situation, ways to attract and retain customers.

The behavior of market participants by its purpose associated with survival - every economic entity is trying to strengthen its market position with resources, knowledge, improved management processes and so on. "Insurance market, despite the large number of insurance companies isn't inherent in free competition. The main reason - a very heterogeneous structure of the market environment, inadequate level of market transparency, the lack of expanded official information about the activities of each individual insurance company and the structure of its insurance portfolio. The market has a distinct "cell" character, and almost every insurance company operating in the "cell", which linked to certain financial and industrial group or government, almost devoid of competitors, being a monopolist in the own closed area. It gives an opportunity, by making no market forces and without feeling of competition, receive substantial income, at one time leading to increase of competition between other companies in the public areas of the market" [1, p. 107].

The main purpose of the competition is to ensure free access of market participants to resources, which forming effective limit the influence of individual participants in terms of general insurance services.

In behavioral competition in the insurance market of Ukraine there is still anticompetitive actions in the form of agreements between insurers and individual companies or governments to create the conditions for uncontested purchase services on compulsory insurance in certain insurers.

This is a form of collusion that leave consumers without free choice right in the market.

According to functional approach, competition is considered under performed its functions and role in the market process. Among the most recognized competition distinguishes features: regulated production volume, allocation of resources and their concentration at the points of maximum efficiency, innovative and allocative, which provides allocation of created property. Functional approach to competition is opening up new opportunities for existing resources and creating new resources. Competition appears to improve products and technologies, the formation of new markets, new sources of raw materials or new types of production. Innovations in insurance associated with the development of Digital - insurance. This means introduction and using new technologies (Internet, mobile devices and other electronic delivery channels) in the activities of the insurance company for distributing content, information and implementation of insurance services. These technologies contribute readjustment business processes in order to increase their effectiveness. Digital Development - Insurance causing factors such as new technologies, reducing costs, growing competition, increasing demands of consumers of insurance services.

Functional competition in insurance is based on a range of insurance and their service support. Overall CRM in insurance involves the formation of customer loyalty programs and customization¹ of insurance services, which is essential to take into account the specific risks and formation of effective insurance protection. Functional competition combined with the functions of competition. For example, risk insurance function is transformed into regulation of services amount through reinsurance mechanism (if the sum insured under a separate insurance subject of the contract more than 10% of the paid-up share capital and free reserves and existing insurance reserves, the insurer contracts for reinsurance). Control function of insurance related to the management of the resources of the insurer as the most important function of competition. Preventive function reduces risk and determines the possibility of concentrating resources in the most effective point of use. Formation of the service component of insurance services for insurance business is the most important area of competitive advantage.

For structural approach competition is considered as market situation, which characterized by a number of factors: the market has a large number of independent producers, production amount is so small that none of them

¹ Customization – it's adaptation of the existing (mass) of the product to the needs of specific customer

are able to influence market prices; companies that compete in the market, producing similar goods; buyers and sellers have complete information on prices; sellers operate independently without agreeing on prices; firms can freely enter the industry and out of it. The analysis of the insurance market for these factors describes it as weak and undeveloped, but the number of insurers more than 3 times higher than the Canadian market, where there is the highest share of insurance premiums (Table. 3).

For Ukraine, specific is the structure of the market, which among companies of insurance forms other than life in 2015 for the first 100 (of 312 companies) accounted for 96% of total payments, that is the last 212 insurers gathered together 4%, of which 3.8 accounted for 99% of insurers and 0.1% for 113 companies.

Table 3. Number of insurers and insurance payments amount per one insurance company

(mln. dollars. USA)

Country	Number of insurers		Premiums for one company	
	2013 p.	2014 p.	2013 p.	2014 p.
Canada	101	101	960,7	975,4
France	325	314	848,1	935,2
Germany	379	373	880,1	907,1
UK	461	449	738,3	814,9
USA	4667	4669	490,7	520,7
Poland	58	57	315,7	305,5
Czech Republic	34	33	235,4	230,5
Turkey	59	62	223,8	198,6
Ukraine	411	382	8,8	6,4

Source: own processing according to OECD data, 2014

Thus, the average amount of insurance premiums per one insurance company is: in the first group (the first one hundred companies) - 12 mln. USD., in the second group (total of 99 companies with 101 to 200) - 0.5 mln. USD. And third, the most numerous (total 113 companies, ranging from 201 to 312), only 0.01 mln. USD. This market distribution suggests a number of factors: motives of creation of insurance companies in Ukraine, including tax features that existed prior to 2015; insurance companies use as a tool for the legalization of funds through insurance business; tax optimization, etc.

The insurance market by its parameters and character is fully consistent with structural factors of competition - the number of independent sellers is great, price is open, all sellers produce the same

products as intended – insurance service. Prices are not the subject of conspiracy between insurers and base rates of mandatory insurance in the country are unified, that creates equal access of consumers to services. The potential participants of insurance market haven't barriers to enter the market – there is only the financial constraints on the size and sources of formation of the registered capital and legal - with the number of participants and prohibition of establishment of the insurer by adding changings to the Statute for business entity with another activity profile.

Conclusion. Besides structural competition in the insurance market is by Brand - the customer chooses insurance not only by type and price, but the insurance company for its popularity, term of existence and the absence of noisy negative information about the company.

For effective monitoring of the Ukrainian insurance market and construction of the antimonopoly regulation system should be developed a methodology for assessing the type of competition and distribution companies which participate in terms concentration and monopolization of the insurance premiums. Studies have shown that the larger the index value of the monopolization of the insurance market, the greater the volume of insurance premiums and income from insurance activities. This proves the direct impact of competition on the volume of the insurance market. Also, you should take into account the ratio of the company's assets and the amount of services sold.

LITERATURE

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