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## **THE ANALYSIS OF FORMING THE MARKET OF TYPES OF LIABILITY INSURANCE IN UKRAINE**

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**Abstract:** *The paper presents the analyses of forming the significant segment of the Ukrainian insurance market viz. liability insurance. It is ascertained that nowadays the given segment in Ukraine has positive trends of development, but it also has substantive problems in the formation of the market, especially in the field of the obligatory civil liability insurance of land transport owners. In particular, there is large proportion of counterfeit insurance contracts in the market. There exist problems in the system of organizational and legal foundations for the insurance of civil liability of land transport owners. Low financial capabilities of Ukrainian insurance companies lead to their exclusion from the Motor (Transport) Insurance Bureau of Ukraine that undermines the financial basis of automobile liability insurance.*

**Keywords:** *liability insurance, liability insurance market, mandatory civil liability insurance of land transport owners, insurance premium, payments, level of payments*

### **INTRODUCTION**

The formation of the market of types of liability insurance goes along with the technical progress and is supported by various statutory acts, as it affects virtually all spheres of life. Foreign practice has a fairly large number of types of liability insurance. The civil liability insurance of land transport owners has received the largest development in Ukraine. The introduction of this type of insurance in a mandatory form has caused a number of problems that are still unresolved and need to be improved. In the context of the reforms being carried out in Ukraine, as well as in connection with active European integration processes in particular and with the prospect of forming a common zone of motor vehicles free movement, the range of problems related to reforming the institution of civil liability insurance of land transport owners becomes more and more relevant.

### **MATERIALS AND METHODS**

The *aim of this work* is to study the theoretical and methodological problems of forming the market of types of liability insurance based on the analysis of this segment of the insurance market. The *object of the research* is the process of forming the market of types of liability insurance. The *subject of the study* is the set of relations concerning the development and formation of civil liability insurance of land transport owners.

A dialectical method of cognition was chosen as the basis for the study. A number of other methods have been used to solve specific tasks. The statistical and economic method has been used to study the major trends in forming the market of types of liability insurance in Ukraine as well as the civil liability insurance of land transport owners. The abstract-logical method has been used to outline the problems in the development of this segment of the insurance market.

Ukrainian scientists and practitioners working on this problem are O. Masharo, Y. Malashenko, Y. Lesko, R. Abduramanov. They are investigating into certain types of liability insurance. But along with the existing scientific works the issues of forming the market of types of liability insurance are highlighted insufficiently. Regulatory acts in the field of insurance protection, official materials of the Motor (Transport) Insurance Bureau of Ukraine and the National Commission, which carries out the state regulation in the field of financial services markets of Ukraine, constitute the information base of this study.

## RESULTS

Let's analyze the market of the types of liability insurance that has been formed in Ukraine today. According to the National Commission, which carries out the state regulation in the field of financial services markets, voluntary liability insurance and obligatory civil liability insurance of land transport owners belong to types of insurance related to the field of liability insurance. The dynamics of insurance premiums according to these constituents in the field of liability insurance is positive, which is confirmed by data of the *Table 1*.

**Table 1**

**Dynamics of gross insurance premiums and payments for risky types of insurance in Ukraine during 2014-2016, million UAH**

Types of insurance	Gross insurance premiums			Gross insurance payments		
	2014	2015	2016	2014	2015	2016
Risk types of insurance	24607,5	27549,4	32414,2	4626,2	7608,9	8421,2
incl. voluntary liability insurance	1582,4	2290,8	2336,2	56,6	516,5	88,1
Non-state mandatory insurance	3835,5	4922,4	5644,3	1207,9	1415,5	1883,1
incl. civil liability insurance of land transport owners	3149,3	4044,2	4673,5	1184,7	1383,5	1818,2
Total (all types)	26767,3	29736,0	35170,3	5065,4	8100,5	8839,5

*Source: according to the data of National Commission carrying out the state regulation in financial services markets*

Insurance premiums for voluntary liability insurance grew up at the end of the period, which was almost 1.5 times higher in 2016, and the increase was equal to 47% in comparison with 2014. A similar positive dynamics can be observed with insurance premiums for civil liability insurance of land transport owners. The dynamics of payments for voluntary liability insurance has a tendency to fluctuate depending on the payments made. For automobile liability insurance, there exists a traditional tendency to increase payments. Thus, in 2016 gross payments grew by 633.5 million UAH compared to 2014. The index of the level of payments of the third party liability insurance coverage is the highest compared to the general index

for risk insurance types and it ranges from 34.2% to 38.9% in 2014-2016 (*Table 2*). Under the voluntary liability insurance, the level of payments for the specified period does not exceed the general level of payments on risky types of insurance.

**Table 2**

**The level of insurance payments for risky types of insurance in Ukraine during 2014-2016, %**

Types of insurance	Gross insurance payments			Net insurance payments		
	2014	2015	2016	2014	2015	2016
Risk types of insurance	19,6	27,6	26	28,3	35,3	34,3
incl. voluntary liability insurance	3,6	22,5	3,8	7,2	17,9	5,2
Non-state mandatory insurance	37,6	34,2	38,9	39,0	34,8	38,9
incl. civil liability insurance of land transport owners	31,5	28,8	33,4	32,5	29,1	33,4

*Source: according to the data of National Commission carrying out the state regulation in financial services markets*

The branch of liability insurance has positive trends in its development, the volume of insurance premiums and payments is increasing, but the industry has problems in forming its separate segment, in particular the mandatory civil liability insurance of land transport owners. Judging by the data from *Table 3* it becomes obvious that according to internal agreements on motor liability insurance there was a decrease in their number by more than 430 thousand units. It strongly suggests a decrease in the use of vehicles on the roads of Ukraine. But it didn't lead to any changes in the amount of insurance premiums collected by insurers for this type of insurance.

**Table 3**

**Basic indices of mandatory civil liability insurance of land transport owners under internal agreements in Ukraine during 2014-2016**

Indices	2014	2015	2016	Changes
Number of insurance contracts, pcs.	7 479 697	6 826 118	7 049 462	-430235
Insurance bonuses, mln. UAH	2475	2970	3406	+931
Number of regulated claims, pcs.,	107 877	98 785	119 186	+11309
incl. using the European Accident Statement, pcs.	7 594	12 429	20 487	+12893
Insurance indemnity, mln. UAH,	978	1089	1405	+427
incl. using the European Accident Statement, mln. UAH	39,4	72, 7	151,6	+112,2

*Source: according to the data of the Motor Transport Insurance Bureau of Ukraine*

There is also a positive dynamics indicating to an increase in the level of insurance culture and improvement of the conditions of motor liability insurance. This is an increase in the number of regulated claims using the European Accident Statement by more than 12 thousand units in 2016. This practice is still rather unpopular in Ukraine, but every year the number of regulated traffic accidents is increasing through this mechanism. The main trends in the development of international civil liability insurance of land transport owners in 2014-2016 testify that the number of international civil liability insurance contracts concluded in Ukraine increased by almost 13 thousand units (*Table 4*). A raise in the dynamics of insurance premiums by 511 million UAH during the indicated period has been

observed respectively. This situation is explained by the introduction of a visa-free regime with the countries of the European Union.

**Table 4**

**The main indices of the development of international insurance  
"Green Card" in 2014-2016**

Indices	2014	2015	2016	Changes
Number of insurance contracts pcs.	703 578	764 636	716 553	+12975
Insurance premiums, mln. UAH	494, 0	845, 5	1 005	+511
Number of claims paid over the reporting period, pcs.	4 393	4 216	4 857	+464
Amount paid on demand over the reporting period, thousand euros	9 632	8 961	10 697	+1065

*Source: according to the data of the Motor Transport Insurance Bureau of Ukraine*

It is also important to note that according to data provided by MTIBU the market share of the first 10 insurance companies maintaining the motor liability insurance is 53.6%. This is due to the fact that a fairly large number of small insurers have entered the market of types of liability insurance. But market conditions as well as the strengthening of requirements for the insurers' financial solvency will promote the displacement of the latter from the market.

**CONCLUSIONS**

Along with the positive dynamics of the development of motor liability insurance, this type of insurance has several basic problems. In particular, nowadays the Ukrainian insurance market has a great number of forged auto liability insurance contracts. According to experts, the market of such insurance policies makes up 10% of the total number of the contracts. The amount of short-received payments by the insurance market exceeds 300 million UAH annually. It correspondingly leads to the default on budgetary payments and infringements of financial fundamentals in MTIBU activity. An important achievement of MTIBU in the market of the mandatory motor liability insurance was the creation and implementation of a register of insurance agents that sell such policies. But the problem of drawing up forged insurance contracts hasn't been solved completely. A separate problem is the lack of insurance coverage for drivers with a falsified policy. No insurer will make a reimbursement on false policies. The offender will have to pay the damage caused out of pocket in case of a traffic accident. It is believed that the introduction of the electronic policies on civil liability insurance of land transport owners from February 7, 2018 will contribute to reducing the proportion of counterfeit contracts under this type of insurance.

The current problem of the liability insurance market is the existing tendency to exclude insurers from the members of MTIBU. Due to debts to MTIBU funds 17 insurance companies were excluded and 2 insurance companies came out voluntarily in 2014. 4 insurers and 3 insurance companies were excluded in 2015 and 2016 respectively. We can state a significantly high dynamics of the exclusion of insurers from the MTIBU, especially in 2014 due to the annexation of the Crimea, low financial solvency of domestic insurance companies and a general decrease in the number of insurers.

We fully agree with Masharo (2014), who also focuses on the problem of the bonus-malus system in the civil liability insurance of transport owners, and points to its disadvantages. Taking into account the bonus-malus system the author also emphasizes the inadequacy of insurance tariffs that can lead to the collapse of the insurance market in the liability insurance sector. As a result, the Ukrainian insurance market is currently experiencing the price dumping which leads to the insurers' insolvency. Yet another problem arises in the relationships occurring in the process of automobile insurance liability. Under current legislation the dissatisfied parties can get the reimbursement from MTIBU funds on debts of bankrupt insurers only after the completion of the bankruptcy proceedings and in case of the insurers' funds deficiency for servicing their own obligations. The liquidation balance approval is considered to be the document confirming the insufficient funds of the bankrupt insurer. The lawsuit in bankruptcy lasts for years, and sufferers of the traffic accidents are awaiting payments from MTIBU for years, which is unacceptably long for them nowadays. In addition, the hryvnia devaluation does not contribute to protecting the interests of sufferers in traffic accidents.

In Ukraine, the settlement of losses in the case of traffic accidents is carried out in the company of the perpetrator. That is why the insurance company sometimes withholds the payment and affects directly its size. In European countries, there is a direct settlement of damages when dissatisfied party applies to his insurance company in order to receive payments of insurance indemnity. This arrangement facilitates a faster settlement of losses, and proves to be a very important quality indicator in the settlement of damages to the injured parties under the insurance contract.

Hence, the liability insurance market in Ukraine remains poorly developed and unstable to some extent, but it has a steady tendency to increase key indicators. Despite the imperfection of certain processes of obligatory civil liability insurance of land transport owners this type of insurance is the basis of liability insurance and has a sufficient background for further development and improvement in Ukraine.

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