

## TENDENCIES OF DEVELOPMENT OF INVESTMENT ACTIVITY OF INSURANCE COMPANIES OF POLAND AND UKRAINE

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**Abstract.** The article considers the investment of insurance companies, which is an important element of the insurance market. Author considers the importance of the investment of the insurance company in various aspects. The current state of the investment activities of insurance companies, revealed the reasons that prevent the use of potential investment opportunities. The state investment insurance market in Poland and the opportunity to use the experience of a foreign country to improve the investment potential of the insurance companies of Ukraine.

**Key words:** investment potential, reserves, assets of insurer

### INTRODUCTION

For a long time the main objectives of insurance considered to reduce risks and minimize potential losses in the field of socio-economic relations. Today it is evident that the role of insurance is much wider. In all developed countries of the world accumulated through insurance costs are a source of significant investments in the national economy, and the world practice shows a steady increase in funds of insurance companies.

Insurance companies – one of the most important types of specialized non-banking financial institutions. For insurance companies their investment activity plays a major role for the following reasons:

- investment activity enables direct insurance services to customers of the company. This happens due to the fact that investment activity can generate

sufficient insurance reserve fund. Also investing activities directly affect the calculation of tariffs provided some insurance (life insurance, insurance contracts in the currency or minimum wages etc.);

- the investment activities of the insurance company directly affects the quality of services, competitive position, image of the company and the general provisions in the insurance market.

Growth of investment markets can largely be achieved through the effective use of insurance resources insurance companies in the country.

Today Ukrainian insurers put their insurance reserves on accounts with banks or invest in debt instruments of its clients in exchange for getting insurance premiums. While investment income of foreign insurers account for more than 70% of all revenues, ensuring the financial stability of the insurance company even in a high insurance risk.

An important contribution to the study of various aspects of insurance including investment made: M. Godunok, K. Vasilenko, A. Furman, V. Tkachenko, N. Zyubin. Alexandrova was considering the security function selects the investment function, which involves investment of temporarily idle funds of the insurer in business and other activities for profit [2002, s. 205].

Question investment insurers are widely represented in the literature. First, author considers the conflict that takes place between the interests of owners and policyholders. The conflict has a decisive influence on the investment process and the choice of instruments.

On the one hand, the owner requires a return of financial instruments, and most importantly, to maximize profits. In addition, insured persons primarily interested in the safety of their financial resources. From their point of view, the most important thing is to pay fair compensation in case of loss of funds. For insured persons is important not only compensation but also confidence that it will be paid.

The purpose of this study is to identify the problems and prospects of the investment activities of insurance companies in Ukraine and Poland.

## RESEARCH METHODS

The theoretical base for the study were the modern theoretical approaches of domestic and foreign scholars in the field of insurance and investments contained in scientific papers, periodicals, instructional and reference materials, methodological and practical guides.

The object of research is the insurance market of Ukraine and Poland, investment of insurance companies and conditions government regulation of the insurance business.



The study used methods of the system, and comparative analysis, statistical analysis of empirical data and graphical interpretation of the analyzed phenomena and processes.

## RESULTS

The peculiarity of investment policies of insurance companies is that the accumulated capital owned by individual policyholders temporarily held by the insurance company. Accordingly, the investment portfolio of such companies must first meet the safety requirements, and then – return.

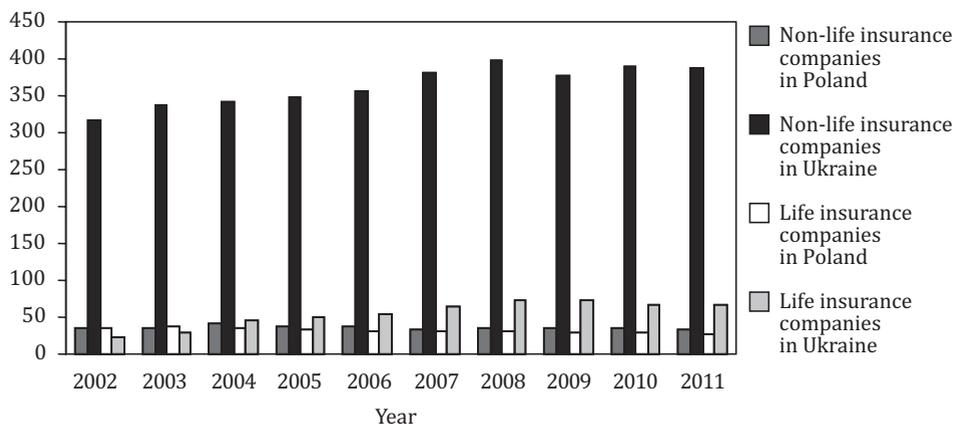
Ukrainian and Polish insurance market currently is in the process of integration into international financial center. It is therefore important to assess the situation prevailing in the insurance market in Poland and Ukraine and isolate barriers that ‘prevent’ the insurance companies make investment and invest in some innovative items. Ability of insurers to realize its investment potential depends on the overall development of the insurance market.

Consider the number of insurance companies in the financial market in Poland and Ukraine. The total number of insurance companies as of 2011 was 443, including the UK ‘Life’ – 66 companies, SK ‘Non-life’ – 387 companies that over the past 10 years, the number of insurance companies increased by 115 companies, including insurance companies, ‘Non-life’ insurance increased respectively 23% and the number of insurance companies in the segment ‘Life’ have tripled. The insurance market in Poland in 2002–2011 noticed decreased of the number of insurance companies from 71 to 61 companies. At the same time the number of ‘Non-life’ insurance companies decrease from 41 to 33, and in the segment of ‘Life’ number of companies decreased by 8 companies. Consequently, if we compare the number of insurance companies in Poland and Ukraine (Figure 1), we can see that the number of insurance companies in Ukraine with a risk types of insurance exceeds the total number of companies of risk insurance in Poland.

Increasing the number of insurance companies, on the one hand, there is an important indicator of the insurance business, increased competition and attractiveness of the insurance and, on the other hand – it does not reflect the true state of the insurance market and demonstrates the low capitalization of part of the financial market. Given the fact that most insurers are engaged in life insurance is one of the major long-term funds in the financial markets, it is clear that the current state of the insurance market of Ukraine does not contribute to the total of its evolution and has little influence on the development of the financial market as opposed to the insurance market Poland.

With the development of the insurance market, increase in insurance operations, primarily life insurance, increasing the amount of insurance reserves and



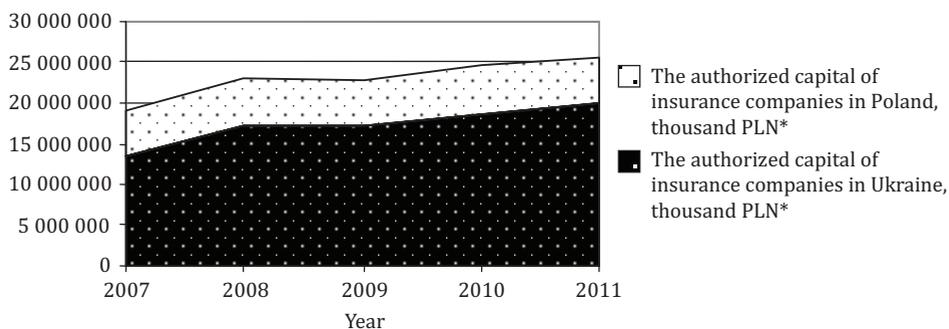


**FIGURE 1.** The number of insurance companies in Poland and Ukraine in 2002–2011

Source: State Commission for Regulation of Financial Services Markets of Ukraine and the Polish Insurance Association (PIU).

own funds of the insurer, the role of insurance in the investment process in the country. Since the main source of investment is insurance reserves and assets of insurers consider details of the structure and dynamics (Figure 2).

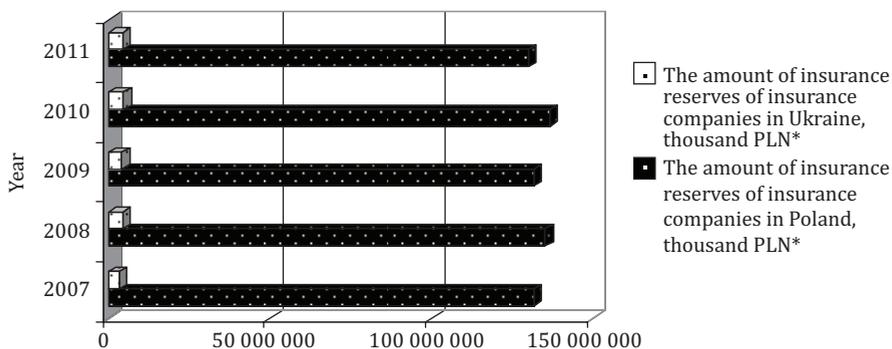
The total assets of Ukrainian insurance market is much greater for the period is mainly due to the fact that the number of insurance companies on the Ukrainian insurance market far exceeds the number of companies of the Polish insurance market.



\*Calculation on 05.31.2013 1 UAH = 0.4124 PLN.

**FIGURE 2.** The size of the assets of insurance companies in Ukraine and Poland for 2007–2011, in thousand PLN

Source: State Commission for Regulation of Financial Services Markets of Ukraine and the Polish Insurance Association (PIU).



\*Calculation on 05.31.2013 1 UAH = 0.4124 PLN.

**FIGURE 3.** The amount of insurance reserves of insurance companies in Poland and Ukraine for 2007–2011, in thousand PLN

Source: State Commission for Regulation of Financial Services Markets of Ukraine and the Polish Insurance Association (PIU).

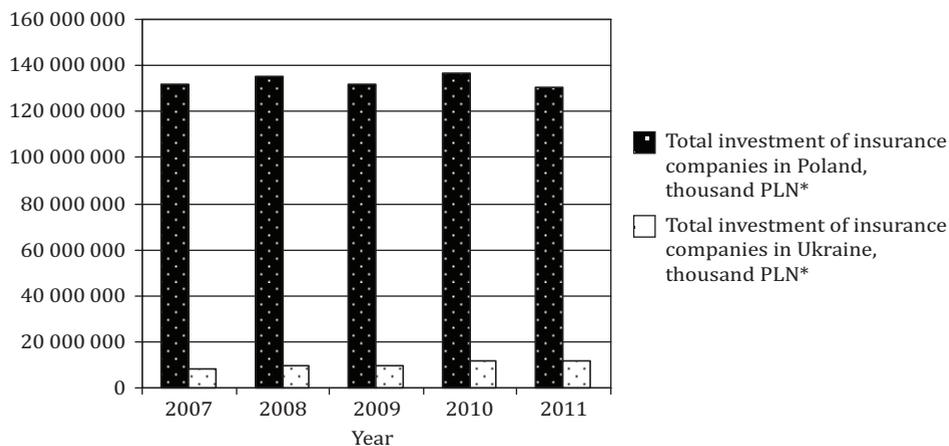
Investment potential insurance companies in Poland is much higher. This is evidenced by the amount of insurance reserves by insurance companies formed (Figure 3). Since most insurance reserves are the main source of investment of insurance companies.

Investment potential of the insurance market depends on the development of life insurance, as this sector provides a significant share of insurance investments in developed countries. The terms of contracts for risk insurance is typically account for less than one year. In connection with this investment, corresponding obligations for these types of insurance, mainly short-term. Specificity life insurance is long term of the contract, which allows to invest a significant portion of reserves in a relatively long-term investment instruments and significantly reduce the requirements for liquidity investments.

Investments of insurance companies in Ukraine and Poland (Figure 4) increases only when they are in demand in the market and if they are competitive with investments in other financial institutions. Unlike bank deposits, investments of insurance companies are guaranteed by the company.

As we see investments of insurance companies in Poland many times the investments of insurance companies of Ukraine. In other words, the resources accumulated by the Ukrainian insurance market is not great because of our small financial capacity of insurers and scope of their operations. The reason for this is primarily an underestimation of the role and place of insurance from the state and rejection of them as potential investors who are able to invest in the creation and development of insurance companies, and consumers to distrust insurance [Mukhina 2011, s. 27].





\*Calculation on 05.31.2013 1 UAH = 0.4124 PLN.

**FIGURE 4.** Investments of insurance companies in Ukraine and Poland for 2007–2011

Source: State Commission for Regulation of Financial Services Markets of Ukraine and the Polish Insurance Association (PIU).

In order to protect the insured against default by the insurer of its obligations established state control of investment activities. Consider the legal aspects restrictions on investing in investment assets of insurance companies in Poland and Ukraine (Table 1).

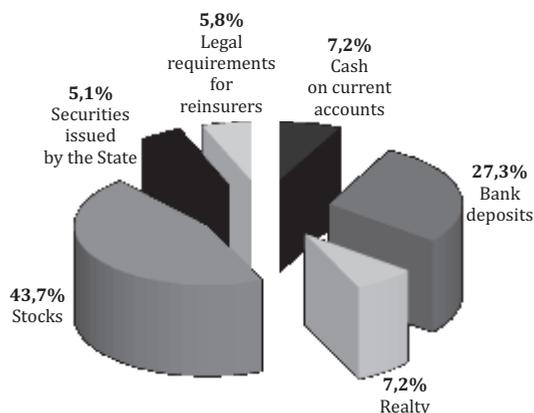
Financial management of insurers, including their investment in Poland is regulated by the Law of May 22, 2003 on insurance: impose restrictions on insurance companies to invest in the direction of financial performance (Art. 154, sect. 6), limits on the type of investment (Art. 155), establishes supervision on insurance companies of Financial Supervision Commission (Komisja Nadzoru Finansowego). In Ukraine the control of insurance companies in accordance with the Law of Ukraine on insurance.

The real market situation and priorities of insurers in Poland and Ukraine in relation to insurance reserves during 2009–2011 been reflected in Table 1, which shows that while investing insurance funds, insurers in Ukraine prefer placing them on deposit at the bank (Figure 5), and the proportion of funds that are placed there in recent years has shown a steady increase, while Polish insurers prefer their allocation in debt securities.

Thus, a very different situation on the structure of insurance reserves, we can see in the insurance market in Poland. Cost of investment provisions in insurance assets at the end of the fourth quarter of 2011 amounted to PLN92.74 billion, compared with fourth quarter of 2010 – an increase of 0.51% or PLN0.47 billion. The main item of the investment structure occupying debt securities (mainly

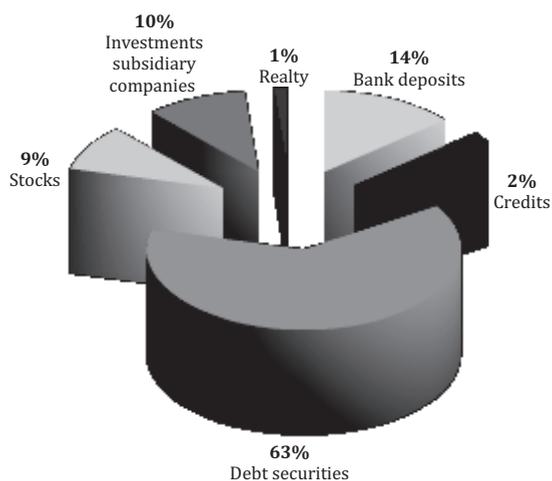
**TABLE 1.** Legal restrictions concerning investment assets and reserves limits of Polish and Ukrainian insurance companies

Limit (max)	Type of financial instrument
<b>Poland</b>	
40%	cost or technical insurance reserves in securities admitted to public trading on a regulated market, as well as the fate of investment funds
25%	cost or technical insurance reserves in real estate and investment certificates of investment funds that invest exclusively in real estate and loans secured by mortgages
10%	cost or technical insurance reserves in mortgage bonds, shares, stocks, shares not admitted to trading on a regulated market of securities and other fixed or floating rate, provided that the share capital of the insurance company to company, which is the issuer of securities tsinnnyh not exceed 10% of its authorized capital
	cost or technical insurance reserves for investment certificates of closed investment funds
	cost or technical insurance reserves in debt securities with fixed income and loans secured by financial institutions
5%	cost or technical insurance reserves in securities of one issuer or group of affiliated companies or loans to one borrower or group of related borrowers
	cost or technical insurance reserves in loans that are not secured by mortgage or financial institutions, and these assets may not exceed 1% of the technical-insurance provisions in the same position
	cost or technical insurance reserves in fixed assets, with the exception of paragraph 2
3%	the cost or technical insurance reserves of funds
	the cost or technical insurance reserves charged for rent and interest
<b>Ukraine</b>	
50%	value of technical and insurance provisions in law claims to insurers
40%	cost or technical insurance reserves in securities that provide for profit, including: <ul style="list-style-type: none"> <li>– shares that are not quoted on a stock exchange – no more than 15, including shares of one issuer – less than 2</li> <li>– shares quoted on a stock exchange – no more than 5 of the same issuer</li> <li>– bonds – no more than 5 of these bonds one company – no more than 2</li> </ul>
30%	cost or technical insurance reserves in bank deposits (deposits)
10%	cost or technical insurance reserves in property



**FIGURE 5.** Placement of insurance reserves of insurance companies in Ukraine in 2011

Source: State Commission for Regulation of Financial Services Markets of Ukraine.



**FIGURE 6.** Placement of insurance reserves of insurance companies in Poland 2011

Source: Polish Insurance Association (PIU).

Treasury debt securities) and bank deposits, which accounted, respectively, 62.8 and 13.89% (Figure 6).

Investment attractiveness of deposits for Ukraine and Poland due, on the one hand, the high liquidity of deposits, on the other – a guaranteed income. Interest rates on deposits in Ukraine is much higher than in other countries in the world. That currently makes investments in these financial assets the most profitable for the insurance companies of Ukraine.

Thus, investment for insurance companies can be a very difficult task:

- firstly to determine its place in the financial market of all financial institutions and banks,
- secondly to identify key areas of investment funds, to determine such financial instruments, which will bring the most profit.

Cooperation and the use of Polish experience in the investment of the insurance company might as insurance market both in Ukraine and Poland is developing rapidly directions first, second insurance companies in both countries have great interest in the well-functioning cooperation, especially in the context of European integration. Therefore, it is necessary to make real steps to form partnerships and exchange between Poland and Ukraine.

Author believes that the main factors of investment are:

- the level of confidence in the insurance,
- the presence of foreign companies in the market.

It should be noted infrastructure features of the insurance market in Poland. That is, the insurance market participants are acting only on the Polish insurance market is first of all necessary to note the Polish Insurance Ombudsmen, the Insurance Guarantee Fund and the Foundation (Foundation) insurance education. The first two are both mandatory insurance institutions under the law. A Polish Insurance Ombudsmen for the insured has under the law on insurance supervision and the Polish Insurance Ombudsmen.

Its main responsibility is to review complaints and insured for action by insurance companies and pension funds as well as the expertise of draft legal documents related to the activities of the insurance market. The educational role of the Polish Insurance Ombudsmen largely realized by the Foundation of insurance education. This voluntary structure based Polish Insurance Ombudsmen for spreading knowledge among the population about insurance and increase its insurance culture. There are not institutions like the Polish Insurance Ombudsmen and insured Foundation of insurance education in the Ukrainian insurance market infrastructure.

Thus, the Polish insurance market increases confidence insured to the insurance business, and in turn attract more financial resources are needed for investment and other activities. And in our opinion, the presence of Ukrainian insurance market such participants would be very appropriate.

The presence of foreign insurers in the market is a necessary condition development of investment activity of insurance companies as provide an opportunity to create new insurance products and thus attract new customers and generate additional actuarial reserves. That is, for the development and favorable investment climate to create favorable conditions to attract foreign capital in the insurance business and the introduction of foreign experience.



## CONCLUSIONS

The development of the insurance industry makes insurance companies are very important institution of the Polish and Ukrainian capital market because of the size, capacity and investment. Insurance and financial markets coexisting side by side, more and more penetrating each other. Insurance companies, on the one hand, they have become the major institutional investors, on the other hand, the nature of the products become part of the financial market. Thus, it must be emphasized that the investment activities of insurance companies determined the specific areas of activity. Investment potential insurance companies determine two factors: the amount of resources they possess, and the period during which these resources can be used.

Note that the structure of asset allocation Ukrainian insurers is quite unusual representatives, taking into account the insurers in Poland. Main types of investments are bonds, stocks and real estate. In Poland, the insurance companies preferred bonds, while in Ukraine this area of investment does not exceed 8%.

Thus, conservative investment policy of Polish insurers who prefer fixed income instruments is uncharacteristic for Ukraine, despite the fact that investments in government securities increased substantially in recent years. Domestic insurance companies instead place available cash on deposit accounts (more than 27% in 2011), which can be considered as substitutes bonds, because they are also the direction of the fixed income.

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### **TRENDY INWESTYCYJNE FIRM UBEZPIECZENIOWYCH POLSKI I UKRAINY**

**Abstrakt.** W artykule scharakteryzowano inwestycje firm ubezpieczeniowych, które są ważnym elementem na rynku ubezpieczeń. Omówiono znaczenie inwestycji firmy ubezpieczeniowej w różnych aspektach. Analiza aktualnego stanu działalności inwestycyjnej firm ubezpieczeniowych ukazała bariery wykorzystania potencjalnych możliwości inwestycyjnych. Przedstawiono stan rynku ubezpieczeń w Polsce, a także zaprezentowano możliwości zastosowania doświadczeń zagranicznych w celu poprawy potencjału inwestycyjnego firm ubezpieczeniowych na Ukrainie.

**Słowa kluczowe:** potencjał inwestycyjny, rezerwy, aktywa ubezpieczyciela



