

AREAS FOR INNOVATIVE PRODUCTS IMPLEMENTATION IN THE INSURANCE MARKET OF UKRAINE

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Abstract. *The aim of the article* is to assess the prospects for the implementation of the investment life insurance in Ukraine. The study analysed the experience of foreign countries in the investment life insurance market development. Also, an analysis of existing definitions for the "unit-linked" term is carried out; the result is the conclusion that they are limited to only a descriptive characteristic that relates to a particular aspect of the product. Upon that, a comprehensive definition is absent at all now. *Methods.* The study is based on a comparison of "unit-linked" products with the traditional life insurance, which exist in the world practice. *Practical importance.* Increase in the inflow of long-term resources in the Ukrainian economy through the implementation of an innovative unit-linked product. Transformation of the life insurance industry into the high-margin business sphere in Ukraine. *Importance/originality.* A technique of constructing an innovative unit-linked product depending on the specifics of the domestic insurance market performance is developed. *Results.* The article considers in depth the specific features of unit-linked products, which distinguish this life insurance type from the classic accumulative insurance. In addition, it highlights other important characteristics such as a high level of flexibility and transparency of all the components. Also, the advantages and disadvantages of unit-linked products are considered as compared to alternative products, its classification is held for the selected parameter group. The estimations of the unit-linked product development prospects, as well as its influence on the growth of the insurance market, are made. The study justifies the legislative consolidation of the investment life insurance along with a number of expansionary measures successfully implemented in Eastern European countries, which are similar to Ukraine. The result within the framework of this direction is the development of steps for the implementation and development of the unit-linked product in Ukraine.

Key words: life insurance, innovative insurance products, unit-linked, investment income, stock market.

JEL Classification: G23, H55

1. Introduction

The current state of the insurance market requires insurers to increase their performance standards through the introduction of innovative products. Now it is impossible to go without innovations because they are always associated with the demand for innovation in a particular situation and the availability of an investment potential. This innovative direction will enhance the scope of insurance activities, whereby there would be a trend towards the introduction of innovative approaches, conditions for attractive insurance products would be created, which, in turn, would improve the economic performance of the insurance companies and the whole insurance market (Denisenko, 2015).

So, a comprehensive unit-linked product, which is an innovation in the insurance market of Ukraine, has been developed by Western insurance companies in the process of improvement of accumulative insurance programs and in order to increase their profitability.

The orientation of insurance companies' activities to life insurance is actual in the situation of a slowdown in the growth of the insurance market, and a lot of losses in certain types of insurance activity. Despite the crisis and reduced solvency of the population, life insurance is promising due to the uniqueness of its content, providing the state long-term investments and reducing social tension.

Investment life insurance market development can play an important and multifaceted role in the economic growth of Ukraine. We should expect not only changes in the volume and structure of the insurance market but also the impact on other sectors and areas, as well as Ukraine's economy as a whole.

2. Genesis of unit-linked products.

Large financial institutions of the world financial market are mainly represented by the insurance companies. The prevailing type of insurance in the

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international insurance market is life insurance; it takes up to 70% of the market structure. The main flows of insurance premiums are observed in the United States, Japan, Britain and France. The experience of these countries shows that life insurance is a highly cost-effective type of business (Sharyfyanova, 2015).

The history of the origin and evolution of funded products is quite long. Back in the 1930s, the first ideas for the modification of traditional life insurance products were made. Thus, in 1928 H.E. Raynes presented the work "The Place of Ordinary Stocks and Shares (as distinct from Fixed Interest bearing Securities) in the investment of Life Assurance Funds" which has pointed to the need to find a method that could make it possible to counteract the impairment of the cash flows generated by policies of classical accumulative insurance. As a part of that work, the most suitable means for this purpose was called investment in shares, because the placement of insurance reserves in them was also possible at that time. However, the increase in the equity investment ratio in itself is not a transition to investment products, due to an availability of other, much more important properties of the action (Rodger, 2009).

Only more than 20 years after the publication of the H.E. Raynes's work, first unit-linked products began to appear in the insurance markets of developed countries. That is, the first half of the 1950s can be identified as the beginning of the first stage for developing those products. At this time, the investment component of a policy was pointed out for the first time: customers have received an opportunity to choose an object of investment (Kutty, 2011).

Further, during the 1960s and the beginning of the 1970s, other key steps were taken, which led to the formation of a full-fledged unit-linked product, the nature of which corresponded to the modern understanding of this type of products. It was at this time when a course has been held for a unit-linked product transparency for a customer in terms of both investment and insurance components (Zevnik, 2010).

Now unit-linked policies are among the most sold in the investment and insurance markets in the world. In the US, 60% of all accumulative insurance programs represent an investment life insurance. In Europe, its share in different countries makes from 30 to 70%, for example, in Lithuania – 80.5%, Hungary – 66%, Poland – 24.6% (European Insurance – key facts, CEA Insurers of Europe).

3. The essence of the unit-linked product and its comparison with the traditional policies of accumulative life insurance.

At the present stage of development of the insurance market, there is a huge amount of long-term life insurance programs, among which are the following:

- classical accumulative life insurance when the rate of return is taken into account in the calculation of insurance rates and is constant throughout the term of the contract;
- life insurance with the accounting of a coverage in the capital reserve (used mainly in Europe) when a part of the insurance premium includes a certain standard of savings invested by the insurance company. Thus a reserve fund for coverage is formed, but the yield on such contracts is low;

Table 1

Comparison of the main unit-linked parameters and traditional life insurance policies

Parameters	Traditional products	Unit-linked products
Product goal	1. Insurance cover. 2. Accumulation of funds for the time left to live without the possibility of their augmenting.	1. Full-fledged investment. 2. Insurance protection.
Investments	There is no possibility of choosing investments. A minimum guaranteed yield accrual on capital is proposed.	A policyholder has the choice of funding for investment. A policyholder assumes full or most part of the risk in return for an increase in investment yield potential.
Payments	A current amount of the policy is usually not known to the policyholder.	The price of an investment fund unit and the current value of the policy are known to the client.
Guarantees	Availability of guarantees on payments.	Availability / unavailability of some guarantees of payments depending on customer preferences.
Transparency	'Black box' for a client. Elements of the insurance premium (investments, risk premiums and costs) are usually indistinguishable. Investments are directed to the general fund of an insurance company.	Elements of the insurance premium are usually clearly presented to the insurer. Investments are strictly personal, customers are able to track the details of their return.
Flexibility	Extremely limited flexibility of the product in relation to the product parameters. Lack of flexibility concerning the investment component of the product.	Ability to select the maximum number of product parameters. Choice of investments in accordance with a risk profile, and asset growth expectations: the choice from a number of the proposed funds. The possibility of subsequent changes in investment.

Source: compiled by the author

Table 2

Comparative analysis of a unit-linked product and a policy with sharing in company's profits

Comparison criterion	A policy with sharing in company's profits	Police unit-linked
Investment risk	Investment risk is incurred by an insurer in connection with the need to guarantee security for the insurance policy. However, a small portion of investment risk is incurred by a policyholder through variations in the size of the insurance premium.	Mainly the investment risk is incurred by the policyholder.
Choosing an investment vehicle	Insurer	Policyholder
The size of payment in case of death	Guaranteed payout in the event of death, plus the accumulated bonus (depending on the method of profit distribution).	The guaranteed amount of payment in case of death, plus the value of the investment shares.
Accumulative part	The guaranteed yield plus a percentage of the profits of the company (based on investment income).	The cost of the investment shares.
The amount of payment in a case of early termination of a contract	The cost of purchase (is specified in the policy and is calculated using mathematical methods) plus the accumulated bonus (depending on the income distribution system).	The cost of investment shares on the date of termination of the contract.

Source: compiled by the author

- life insurance with sharing in the company's profits (with-profits policies) when after the annual assessment of insurance assets and liabilities, the company allocates a share of its profit as a bonus in favour of a policyholder. This bonus is payable only at the end of the contract;

- investment life insurance (unit-linked) is an investment method registered with the use of a life insurance contract taking into account investment risks. This new investment instrument with the guaranteed safety of invested funds (stability) and the expected high investment income.

Let us consider the main differences between unit-linked products and traditional life insurance policies (table 1). Also, we carry out a comparative analysis of this innovative product with life insurance with a share of company profits (table 2).

Summing up, we can say that from the point of view of an insurance company, unit-linked products are attractive for several reasons:

- 1) a higher return on investment compared to investment instruments, which are traditional for insurance companies (deposits, government securities, and so on);
- 2) a possibility to transfer an investment risk to a policyholder;
- 3) more soft-shell requirements for coverage of insurance reserves for the companies involved in unit-linked activity compared to traditional insurers of life. In recent decades, this practice is observed in many European countries (Kazakova, 2012).

There are different options for unit-linked products of the western market; their diversity is composed of various combinations of the parameters presented. In each country, there is a certain set of products popular both for insurers and policyholders. For example, in the UK, France and Spain, unit-linked market mainly consists of programs, for which an insurance premium is paid as a lump sum (Mrochkovskyy, 2008).

4. Dependence of the demand for unit-linked products on a situation in the stock market.

The sales volume of unit-linked policies significantly depends on a situation in the stock market. The fall of the stock market not only leads to a decrease in investment income but also entails the need to reduce the insurer's cost of doing business. In the long run, the unfavourable current situation in the stock market leads to a decrease in profits of insurance companies what is amplified by the lack of ability to quickly make significant changes in a structure of placement of insurance reserves and assets in connection with the long-term obligations under the contracts.

Due to the fact that the investment life insurance, as well as accumulative insurance, is a long-term project, it is difficult enough to predict the situation in the stock market for a few decades. From there, a part of the insurers come through the situation as follows: only a portion of the insurance premium is invested in investment instruments selected by the policyholder, the remaining part is invested in other instruments at the discretion of the investment department of insurance company experts (Kazakova, 2012). Thus, a risk diversification is ensured. In addition, the American version of unit-linked insurance policy assumes that a policyholder may decide to change the set of investment instruments and some other parameters of the insurance contract during the term of the contract (see table 3).

For a company, a significant share of which business comprises deals with unit-linked products, the operational risk lies in a potentially higher probability of the insurance contract termination before it expires, compared with products with sharing in the company's profits. Policyholders often consider unit-linked products more as a savings tool. Therefore, they want to make a profit in a favourable situation in the stock market, as well as to minimize

Table 3

Alternatives for the transition from one type of life insurance contract to another (unit-linked)

European alternative (may be implemented only after expiration of a contract)	American alternative (may be implemented during the term of a contract)	Guarantees
Guaranteed choice of converting the rent: a possibility of payment at the end of the insurance contract or a possibility of its investing in a unit-linked insurance policy.	The transition from a policy of sharing in company profits to a unit-linked policy.	Guaranteed minimum accumulated amount.
The guaranteed period of pension payment: monthly payment of pensions regardless of whether the insured person is alive (in the event of his/her death, payment should be made to the heirs up to the end of the contract).	Rejection of the unit-linked policy. The ability to move away from unit-linked insurance policy conditions for some time (for the unfavourable situation in the stock market). Guaranteed minimum amount of refund in case of early termination of the contract.	The guaranteed minimum payout for the risk of "death".

Source: compiled by the author

their losses when the market declines. Upon that, the early termination of the policy with sharing in the company's profit is unprofitable for a policyholder.

5. The main problems that hinder the investment life insurance implementation in Ukraine

Currently, the Ukrainian insurance companies do not offer unit-linked programs. This is related to the laws and regulations in the area of insurance. The fact is that unit-linked policies covering longevity risk do not prescribe an insured amount and do not ensure guaranteed return. Also, according to the law, an insurance company cannot pool its risks of investing to its clients. Some insurance companies sell insurance policies with an investment component, but these programs are far from what is usually called unit-linked; they are usually invited to peg the yield to quotations of certain assets. What is more, the choice is usually limited to two or three types of them. So, it is possible to purchase a fully-fledged policy of investment life insurance only abroad so far.

Thus, it is possible to specify the following main issues that do not allow the implementation of the investment life insurance programs in Ukraine:

- 1) slow pace of financial market development;
- 2) fairly significant fluctuations in the securities market, which make it impossible to predict future volumes of additional revenues as a result of investment in assets;
- 3) low volume of profitable securities traded in the domestic stock market, which can provide an acceptable return-to-risk level;
- 4) unstable macroeconomic situation in the country (an instability of the national currency, high inflation level);
- 5) rather ad hoc and unbalanced state supervision over the activities of financial intermediaries; the lack of an effective long-term strategy of financial market development, and others.

6. Advantages of the investment life insurance implementation in Ukraine both for insurers and for policyholders

The attractiveness of unit-linked products to customers is as follows:

- possibility of direct participation in the investment, independent choice of investment instruments;
- psychological protection. Care for children and families in difficult life situations;
- reliability and professionalism about. It requires strict control by the public authorities over the activities of investment funds;
- lower operating costs due to scale (a large number of shareholders of a fund);
- additional tax benefits under certain conditions (in particular, the minimum duration of the contract and the availability of insurance cover for the risk of "death"), which are used in unit-linked programs in most countries of the world;
- professional risk diversification. The professionalism of a management company allows timely to revise the fund's assets and monitor effectiveness of investments;
- high degree of transparency of revenues under insurance products, particularly in comparison with policies on sharing in the company's profits. In the latter case, it is often difficult to keep track for a policyholder of how company's shareholders distribute profits from investment activities;
- a possibility of additional income (much higher in comparison with other life insurance products).

7. Conclusions

The analysis of the problems and prospects for the introduction of the innovative unit-linked insurance product in Ukraine leads to the following main conclusions. Today, the Ukrainian insurance market is not ready for the introduction of unit-linked insurance given the insignificant pace of development of life insurance companies and the stock market. But with the solution of these problems and in the longer term,

an introduction of the investment life insurance can be a target for the development of the domestic insurance market. To do this, the following steps should be performed:

- increase transparency, capacity, and stabilize the stock market;
- form a preferential tax regime for unit-linked policy incomes;
- improve the legal framework in the financial market;
- increase the level of awareness of citizens about the possibilities of investing savings in the financial market;
- reform the pension system. Unit-linked policies will potentially ensure a higher level of return than other products on accumulative life insurance;

- control the entire production cycle, from product development to its direct sale to customers.

Also, the development of the investment life insurance in Ukraine needs the state support, at which insurers will be able to generate a significant portion of long-term financial resources to address the important problems of economic development of the country. The implementation of all the proposals and the achievement of the goals will contribute to attracting long-term resources in the Ukrainian economy, significantly increase the degree of participation of local investors in the stock market transactions, create a new category of institutional investors, ensure the long-term growth of life insurance sector, and increase its importance in the national economy.

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Диана ТРЕТЯК

НАПРАВЛЕНИЯ ВНЕДРЕНИЯ ИННОВАЦИОННЫХ ПРОДУКТОВ НА СТРАХОВОЙ РЫНОК УКРАИНЫ

Аннотация. Целью статьи является оценка перспектив внедрения инвестиционного страхования жизни в Украине. В ходе исследования был проанализирован опыт зарубежных стран в развитии рынка инвестиционного страхования жизни. Также был проведён анализ существующих определений unit-linked, результатом стал вывод о том, что они ограничиваются лишь описательной характеристикой, которая касается того или иного аспекта данного продукта. При этом полноценное определение вовсе отсутствует. **Методика.** Исследование основано на сравнении unit-linked с традиционными продуктами страхования жизни, которые существуют в мировой практике. **Практическое значение.** Повышение приплыва долгосрочных ресурсов в экономику Украины за счет внедрения инновационного страхового продукта unit-linked. Преобразование отрасли страхования жизни в высоко рентабельную сферу бизнеса в Украине. **Значение/оригинальность.** Разработано методика конструирования инновационного продукта unit-linked в зависимости от специфики функционирования отечественного страхового рынка. **Результаты.** В статье были подробно рассмотрены специфические черты unit-linked, отличающие этот вид страхования жизни от классического накопительного страхования. Помимо этого выделены иные важные его характеристики, такие как высокий уровень гибкости и прозрачности всех составляющих. Также были рассмотрены преимущества и недостатки unit-linked, в сравнении с альтернативными продуктами, проведена его классификация по выделенной группе параметров. Сделаны оценки перспектив развития unit-linked продукта, а также влияние его роста на рынок страхования. В исследовании обосновано законодательное закрепление инвестиционного страхования жизни, вместе с рядом стимулирующих мер, успешно реализованных в схожих с Украиной стран Восточной Европы. Результатом в рамках данного направления стала выработка шагов, по внедрению и развитию unit-linked продукта в Украине.