

UDC: 336.368**FUNCTIONAL PURPOSE OF THE INSURANCE SYSTEM****Ph.D. in Economics, Associate Professor, Prykaziuk N.V.**

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The approaches to separating out the functions of insurance are analyzed. The views of scientists on the functions of the insurance market are investigated. The functional purpose of the insurance system in the country is defined under current socio-economic conditions, the respective functions are grouped.

Keywords: insurance system, function, functions of insurance, the insurance market functions, functions of the insurance system, financial system

Introduction. Since recently there has been an increase in the various kinds of risk in the activity of both physical and legal entities, and the state in general, it is necessary to provide protection from their negative effects. This requires the establishment of an effective, well-developed insurance system in the country. In turn, activation of the insurance system development is possible only under elaboration and adopting of a number of practical measures for certain reforms in the insurance sector. Deepening of theoretical principles of functioning of the insurance system, rethinking its functional purpose in the state should be the basis of the above-mentioned process.

Analysis of recent research and publications. At present, the domestic and international scientific literature pays very little attention to the investigation of the nature and purpose of the insurance system. For the most part, scientific studies provide theoretical justification of insurance functions, less often - of the insurance market. In the scientific works of

such domestic scientists as V.D. Bazylevych, N.M. Vnukova, A.A. Hamankova, V.S. Komadovska, L.V. Nechyporuk, S.S. Osadets, V.Y. Plysa, L.I. Reitman, N.V. Tkachenko, I.V. Fysun, V.M. Furman, T.A. Yakovleva and others, the functions of insurance are thoroughly investigated. The works of the following scholars provide a prominent place to the research of the insurance market functions: V.V. Vygovska, D.A. Navrotskyi, A.A. Mamedov, L.G. Skamay, L.T. Huzhamov, I.Y. Jurgens and others. Accordingly, the works of these authors improve and deepen the theory of insurance. Therefore it is necessary to deepen the insurance system theory in the context of its functional purpose in the present socio-economic conditions of Ukraine.

The purpose of the article is to deepen the theoretical basis for determining the functional purpose of the insurance system in the country in the current socio-economic conditions.

Basic Results of the Research. Since the studies on the insurance system functions are virtually absent in the scientific literature, it is useful analyzing the approaches to the separation of insurance functions, through which, as well, the essence of features of the insurance market and insurance system as a whole are partially disclosed.

Having analyzed the definitions provided in the explanatory and philosophical dictionaries and encyclopedias, it can be concluded that the function (from the Latin “functio” - implementation, performing) is an external manifestation of the qualities of an object in a certain system of relations; the role played by some institution or process in relation to the whole (eg, state functions in society).

It is worth noting that functions of insurance are not stable, over time, they acquire new characteristics and develop, evidencing of the dynamic nature of the insurance itself. Thus, the characteristic feature of determining the functions of insurance in times of administrative-command economy

was not taking into account its deeper meaning. Proof of that is in the approach, according to which the insurance functions "... are the external forms, which reveal features of insurance as one of the parts of the financial system. Category of finance reflects its economic essence, primarily through the distribution function, which takes the determined, specific manifestation in the intrinsic insurance functions - preventive, savings and risk" [1].

Like Reitman L.I., only three basic functions of insurance are distinguished by Vnukova N.M., Uspalenko V.I., Vremenko L.V.: preventive, savings and risk function [2]. At the same time, apart from these, many scientists determine other features that, in our opinion, comprehensively examine the essence of insurance in the context of modern development of the insurance system.

Osadets S.S. complements these functions, offering also the feature of creation and utilization of insurance reserves (funds) [3]. Instead Komadovska V.S. determines together with basic three, a different one - finance function [4]. Yakovleva T.A. and Shevchenko O.Y., other than traditional, also distinguish the investment and control functions [5].

According to Nechyporuk L.V., the preventive, savings and risk functions are integral functions of a higher order - the distribution function, in addition to which, the scientist determines the control function of insurance, which ensures proper use of insurance funds [6].

Tyuptya L.T. also considers the control function [7]. However, unlike L.V. Nechyporuk, the researcher selects only risky and preventive functions, excluding the savings one. Only preventive and risk functions are determined by Fedorova T.A. [8], but are complemented with functions of financing and opportunities to focus on the risks that can not be insured. The four determined functions are referred by the scientist to the level of

individual production, and also the insurance functions at the level of the entire economy are provided.

Only two among the three basic functions are considered by Fysun I.V. and Yarova G.M.: preventive and savings. At the same time, scientists distinguish control and reproductive functions of insurance, while the latter means “the distribution of cash form of value among insurance stakeholders in the aftermath of insured events” [9].

Bazylevych V.D. expands the list of insurance functions proposed by the mentioned authors, highlighting in addition to traditional functions: risk taking (risk), capital saving, and use of prevention (preventive), and the other three - forming insurance reserves, compensation, investment [10]. Similar functions are determined by Tkachenko N.V., however, the scientist specifies the essence of function of forming insurance reserves, complementing it with the “use of insurance reserves” [11] and replacing the compensation function with control function.

Quite a wide range of insurance functions are introduced by Furman V.M, according to whom, in addition to the basic, you can also determine the stabilizing, production, investment, budget-compensating, control and repressive [12].

Despite the availability of approach, according to which, the insurance functions are identified with the functions of the insurance market [12], in our opinion, they are different. This is due to the fact that the insurance market, as the insurance system, inherent its own, individual functions.

It should be noted that the research questions of the insurance market functions are discussed in the scientific literature quite limitedly. Considering the few scientific papers on the subject, we notice the absence of an integrated approach in some of them.

So, A.A. Mamedov [13] considers the function of regulating the insurance market as a principal, the essence of which is associated with

providing balanced and continuous nature of social production, including with reserve funds of insurers. More broadly the insurance market functions are considered by I.Y. Jurgens, who distinguishes the economic, social and financial functions [14]. However, this approach is very limited.

More broadly the insurance market functions are given by Navrotskyi D.A., who determines the following: protection of insured against accidental loss of property; social protection of the population; stimulating investment. Separately, the scientist highlights the integrative function of the insurance market, which he suggests considering in terms of overall international economic integration and mutual integration of insurance markets [15].

Quite complex and versatile can be considered an approach given by Skamay L.G. [16], according to which, two groups of features of the insurance market are distinguished: general market and specific. General market functions are suggested to include the commercial, pricing, informational and regulatory functions. In contrast, the specific include: risk coverage, facilitating access to additional sources of funding, preventive function and formation of specialized insurance fund.

A similar separation of functions of the insurance market is given by Vygovska V.V. [17], who also distinguishes the general market and specific functions. At the same time, the researcher fills in the given groups with several other functions: general market functions - pricing, decreasing the transaction costs associated with the implementation of insurance protection; specific functions - mobilization, accumulative, transformative, compensative, stabilization and adjustment function.

An approach suggested by Huzhamov L.T. can be considered fairly wider [18]. Researcher identifies the following groups of insurance market functions:

1. General market (commercial, pricing, informative and adjusting functions);

2. Related to the specific nature of the insurance market (compensatory);

3. Group of functions that characterizes the interaction with the financial market system (redistributive, savings, investment);

4. Group of functions characterizing the ability to manage risk (protective, preventive and risk distribution function);

5. Related to social production (productive and social functions).

We believe that the separation of the functions of the insurance market into certain groups allows a more complex approach to the disclosure of the investigated problem, and fully highlighting its purpose.

Regarding the functional purpose of the insurance system, we believe that the overall objective of the insurance system is to provide insurance protection, mobilization and allocation of financial resources, money and promoting socio-economic development. That is, the insurance system has a special role in the socio-economic development, which shows that the insurance system acts as an “immune system” of the state, providing protection against accidental unforeseen events that can cause damage to property interests of the state, entities and the population.

The insurance system, as an “immune system” of the state, contributes to uninterrupted reproduction process by funding losses from adverse events. However, it “reduces the financial costs of the state”. That is, through the insurance system the significant insurance reserves are mobilized, which can be used to compensate for losses as a result of catastrophic risks (natural disasters, man-made disasters, epidemics, etc.), thus reducing the burden on the state budget.

One can not decrease the role of the insurance system in developing the confidence of businesses and individuals in the “future”, the sense of security. The feeling of security is essential to ensure their proper functioning and development. Having developed insurance system, efficient

insurance, creates the possibility of providing financial guarantees for different subjects, the ability of the latter to plan financial, economic and other activities in the future and to fulfill these plans.

In this context it is important that the insurance system reduces the financial, commercial and other risks of different subjects. The developed insurance system, extending insurance to all areas of activity, makes efforts to reduce the probability of the insured event. Relevantly, the qualified entities of the insurance system develop recommendations for specific subjects and promote the implementation of recommendations to avoid the risky events, improving risk management, on preventive measures.

Thus, the insurance system is the “immune system” of the state, which promotes reducing the risks, formation of confidence in the future, financing the losses in unfortunate unforeseen events, and thus - economic development.

Insurance system also plays a significant role in the socio-economic development of the country, accumulating large cash funds (especially in cumulative types of insurance) that can make up a powerful investment resource. The developed insurance system is a source of investments in priority sectors of the economy, thus contributing to solving global economic problems.

It should be noted that the insurance system is an important subsystem of the financial system, which definitely affects the development of the latter.

The insurance system redistributes the funds, namely: the transformation of temporary free funds (received from insurers) in active equity (through investment); redistribution of funds among the participants of insurance in the aftermath of insured events.

Insurance system affects the money turnover, providing cash flow, and helps accelerating capital turnover, which in turn contributes to the activation of economic processes in the country.

In addition, the insurance system plays an important role in socio-economic development of the country, contributing to the creation of new jobs, because the insurance system involves a significant number of employees of insurance companies, insurance agents, appraisers of insurance risk and insurance losses, workers of insurance unions and government regulators, and of other bodies.

Typically, the insurance system is an attractive area for the foreign capital investment, especially in countries where there are “non-occupied” areas in the insurance market, that is, the insurance system may be a target for foreign investment in the country.

Insurance system also contributes to the development of other systems through the formation of demand for their products. The subjects of the insurance system have financial and economic relations with subjects of other systems, utilizing their services and products; they create demand for the latter, and contribute to the development of the system and national economy as a whole.

And finally, it should be noted that the insurance system provides revenues to the state budget and off-budget special-purpose funds, by paying taxes and mandatory payments. Cash flow to the state from the developed insurance system partially replenishes the budget revenues, which makes it possible to use the funds for the needs of the state, and thus, contribute to its development.

In line with this, we believe that all the functions of the insurance system can be grouped into three blocks, namely: the specific functions of the insurance system; insurance system functions that are common to the financial system (ie, similar functions inherent in the financial system);

insurance system functions that are common to other systems of the state (ie similar functions inherent in other systems of the state) (Figure 1).

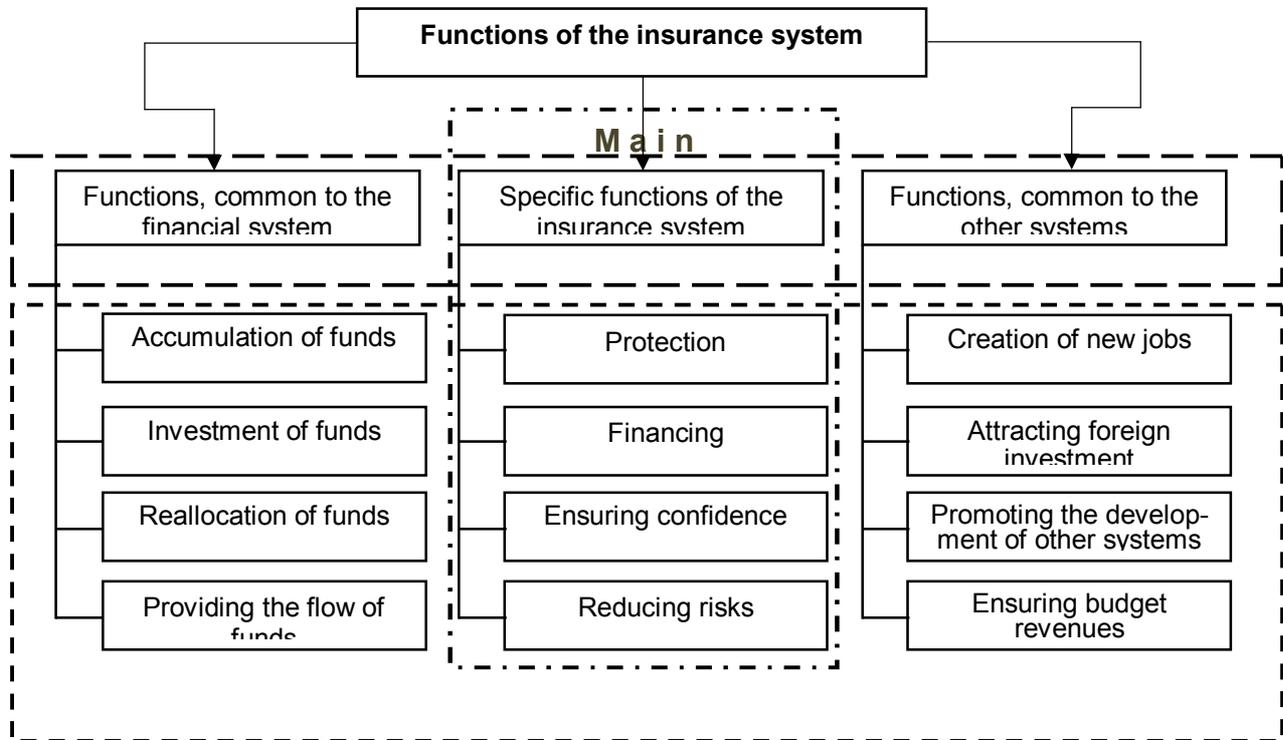


Figure 1. Arranging the insurance system functions

Source: developed by the author

Conclusions. So, today the domestic and foreign scientific literature pays very little attention to the investigation of the nature and purpose of the insurance system. For the most part, scientific studies provide theoretical justification of insurance functions, less often – of the insurance market. In view of this, the approaches to separation of the functions of insurance and insurance market are analyzed.

The functional purpose of the insurance system in the country is defined in the current socio-economic conditions, and respective functions are grouped. The first group of functions, which are fundamental to the insurance system, is classified as follows: protection; financing; assurance; reducing the risks. The second group includes the following functions related to cash flow, namely: the accumulation of funds; investment of funds; reallocation of funds; providing the flow of funds. The third group

contains the functions that can be performed by the insurance systems, in general, and by the insurance system, in particular: the creation of new jobs; attracting foreign investment; promoting the development of other systems; ensuring budget revenues.

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