UDC: 336.368

THEORETICAL AND PRAGMATIC APPROACH TO THE CLASSIFICATION OF INSURANCE COMPANIES AS THE KEY SUBJECTS OF THE INSURANCE SYSTEM

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The approaches to the classification of insurance companies are analyzed. Types of insurance companies that can function in the insurance system are described. The complex classification of insurance companies as the main subjects of the insurance system is given.

Keywords: insurance company, types of insurance companies, insurance system, classification of insurance companies, mutual insurance company, state insurance company

Introduction. In today's conditions of the environment's volatility and increasing the riskiness the issue of ensuring the functioning of effective insurance system in the state becomes of particular urgency. Insurance institutions with their inherent relationships form the essence of the insurance system and are its basis, without which the existence of the system, achieving its specific goal is impossible. Consequently, insurers of different types are the main subjects of the insurance system and, in view of the above, require a detailed study.

Analysis of recent research and publications. The study of the nature, types and activities of insurance companies is addressed in the works by such scholars as V.D. Bazylevych, N.M. Vnukova, O.D. Lovchak, O.O. Gamankova, N.O. Dolgosheya, O.S. Zhuravka, L.V. Nechiporuk, S.S. Osadets, P.V. Pikus, V.J. Plisa, N.V. Tkachenko, K.V. Shelekhov and others. However, there is a need for further comprehensive study of possible types of insurance companies as the main subjects of the insurance system, and the introduction of an integrated generalized classification.

The purpose of the article is to study the theoretical and pragmatic approaches to the selection of types of insurance institutions and to provide the general classification of insurance companies as the main subjects of the insurance system.

Basic Results of the Research. In general, in our opinion, insurance companies are the main subjects of the insurance system - financial institutions that, in accordance with established procedure, received a license to carry out insurance activities, the main purpose of which is to provide insurance protection through the formation and use of insurance funds.

Insurance companies of various types can exist in the insurance system, ranging from different forms of ownership to various specialties of insurers. Therefore, in order to systematize the representations about types of insurance companies, it is expedient to analyze approaches to their classification and give a generalized classification.

Quite logical is the division of insurance companies depending on the organizational (organizational and legal) form, that is, the way of establishment, organization of the enterprise. In accordance with the Law of Ukraine "On Insurance", insurance companies may be created in the form of joint stock companies, full partnerships, or partnerships with additional liability, taking into account the features of the Commercial Code of Ukraine [1]. In this case, the obligatory condition is obtaining a license for the insurance activity in the established manner.

In many countries of the world, including Ukraine, the basis of the insurance system are companies created as joint-stock companies.

In general, joint stock companies are a form of consolidation of capital by issuing shares to the amount of consolidated capital. In this case, joint stock companies can be of two types: a public joint stock company (the shares of this joint stock company are not sold on the securities market, but distributed among its founders); private joint stock company (shares are freely sold on the securities market) [2].

We fully agree with the opinion of scholars on the appropriateness of the division of insurance companies by the form of ownership [3, 4, 5]. So, depending on the form of ownership, insurance companies are divided into two types:

- state insurance companies;
- private insurance companies.

State insurance companies are a public and legal form of organization of an insurance fund, which is formed by the state. The organization of state insurance companies is carried out through their establishment by the state or the nationalization of joint stock insurance companies and the return of their property into state ownership [1]. For the most part, if the name of the insurance company has the words "state" or "national", then the state is the sole owner of such an insurer.

Many countries of the world combine the existence of public and private insurance companies. And, for example, "state insurance companies do not exist" in the USA [6]. An absolute majority of Ukrainian insurance companies are private (non-state), although some have a state share in the form of contributions to state-owned enterprises or organizations in the statutory fund.

Issues of expediency of existence of the state insurance companies in the insurance system are raised in the scientific literature extremely rarely. Therefore, we consider it expedient to analyze the arguments "in favor" and "against" the existence of state insurance companies in the insurance system, based on the possible impacts of such institutions on the functioning and development of a particular insurance system.

It should be noted that in those areas and sectors of the economy where private insurance companies that are subjects of the insurance system do not have sufficient commercial interest, but there is a need for insurance protection, for the normal development of the respective areas and industries, this need can be satisfied by the state insurance companies. Consequently, in this case, the existence of a public insurance company in the insurance system is not only justified, but desirable.

Positive point in the functioning of state insurance companies is that the state controls the implementation of insurance obligations to policyholders, which increases the level of trust in insurance.

In addition, the state can provide a greater insurance capacity of state insurance companies and their ability to take more risks, which also proves the benefit of the existence of such companies in the insurance system.

And, in the long run, the existence of state-owned insurance companies can help creating the appropriate rules, regulations and strengthen "adequate" state control in a certain area of insurance, where necessary, which will lead to an improvement in the institutional environment of the insurance system.

However, the existence of state insurance companies in the insurance system can adversely affect the activities of private insurance companies through the deterioration of competition in the market. And in the worst case, state monopolization of various areas of insurance may take place.

Also, the full dependence of state-owned insurance companies in their activities from the state may become a negative factor, which can especially be actualized in conditions of economic instability, when state support or its absence can affect not only individual companies but also the insurance system as a whole.

It should be noted that there is likelihood that the state or certain subjects of state regulation use the revenues from insurance on their own needs and interests.

However, we believe that state insurance companies, under the condition of proper state regulation and "honest" behavior, have a positive influence on the functioning of the insurance system, helping to ensure the insurance coverage of all necessary areas, which in turn has a positive impact on the socio-economic development of the state.

In this case, the negative effects from the existence of state-owned insurance companies in the insurance system, for the most part, may occur in the case of unfair activity of the state represented by certain subjects of state regulation.

A number of scientists divide insurance companies by the nature (specifics) of work [3, 4, 5, 7, 8]. On this basis, all insurers can be divided into three groups, namely:

- insurance companies that carry out long-term cumulative types of insurance, that is, life insurance ("life" insurance companies);
- insurance companies, which carry out other types of insurance, i.e. general insurance ("non-life" insurance companies);
- insurance companies providing exclusively reinsurance services (reinsurance companies).

In those countries where there is no licensing of reinsurance activities, reinsurance companies are difficult to allocate, because, having received a license for a certain type of insurance, companies can carry out the corresponding reinsurance as well. If reinsurance activities are licensed in the country, then it is clear which companies are engaged in such activities.

Regarding life insurers and general insurers, it should be noted that such activities are divided, and the respective types of insurance related to each of them are licensed separately. As a rule, insurers who have received a license for life insurance do not have the right to engage in other types of insurance.

In general, common and distinctive features can be distinguished in the organization and operation of "life" insurance companies and "non-life" insurance companies.

Commercial life and non-life insurance companies operate for the purpose of profit, and their main aim in the insurance system is to provide insurance protection through the provision of high-quality insurance services.

The subject of direct activities of the insurer (both "life" and "non-life") can be only insurance, reinsurance and financial activities related to the formation, placement of insurance reserves and their management. These activities are permitted to be performed in the form of rendering services to other insurers on the basis of concluded civil law agreements, provision of services (performance of works), if it is directly related to the specified types of activities, any operations for the maintenance of own economic needs of the insurer [1]. It should be noted that “life” insurance companies carry out their activities in the field of life insurance, and “non-life” insurance companies - in the field of other types of insurance, different from life insurance.

Accordingly, the result of activity of "life" and "non-life" insurance companies is the provision of insurance services (insurance protection). In this case, the type of services provided is different, namely: “life” insurance companies are characterized by the provision of services in the field of life insurance, and for "non-life" insurers - services in the field of general insurance (other than life insurance).

It should be noted that both "life" and "non-life" insurance companies may be in the state or private ownership, and also created in any of the specified organizational and legal forms of management (joint-stock, full, limited partnerships or partnership with additional responsibility), as discussed above.

At the same time, the difference between "life" and "non-life" insurance companies is in different requirements for a minimum amount of capital.

Thus, according to the Directive of European Parliament and Council (Solvency II), the minimum required capital for an insurance company other than life insurance is set at EUR 2.2 million (in some cases, EUR 3.2 million), and for an insurance company that deals with life insurance, - EUR 3.2 million [9]. In Ukraine, the minimum amount of the statutory fund of "non-life" insurance company is set in the amount equivalent to EUR 1 million, and "life" insurance company – EUR 10 million) [1].

For insurance companies engaged in non-life insurance, and for life insurance companies, any organizational form (structure) of management may be used, namely: linear organizational management structure; line-staff organizational management structure; functional organizational structure of management; linearly functional organizational structure of management; divisional organizational structure of management (client-oriented divisional, division-product, division-regional); and others.

When choosing the organizational structure of the management of an insurance company, it is first and foremost necessary to take into account the main purpose and objectives of the insurer, the priorities of its strategy of development, the composition and qualifications of the staff, as well as the characteristics of its business processes.

As for the managers of "life" and "non-life" insurance companies, the differences in requirements are also absent. In particular, in Ukraine, managers of the insurer (head of the executive body and chief accountant of the insurer) must be capable individuals. In accordance with the Resolution of the State Commission for Regulation of Financial Services Markets of Ukraine from July 13, 2004 No. 1590 "On Approval of Professional Requirements to Heads and Chief Accountants of Financial Institutions", the chairman of the executive body of the insurer has to have higher economic or legal education, and the chief accountant of the insurer has to have higher economic education [10]. In addition, the head of the executive body and the chief accountant of the insurer must undergo an advanced training in the form of "specialization" in accordance with the programs agreed with the National Commission, which carries out state regulation in the field of the financial services markets.

It should be noted that there are also no differences for the “life” and “non-life” insurance companies in the reporting requirements, and in the forms of their submission.

Regarding the cash flow of such companies, there are also no fundamental differences. “Life” and “non-life” insurance companies receive similar cash inflows and similar cash outflows. Insurers receive cash receipts from insurance activities (operating income), investment activities (financial income) and other economic activities (other than operating). Similarly, the costs of insurance companies are shared. Only one minor difference exists for the "life" insurance companies in determining the revenue, which is that under the life insurance contracts, there is no gradual conversion of received insurance premium into the earned one.

The difference between "life" and "non-life" insurance companies lies in the approaches to the formation of reserves. Insurance reserves are formed by insurers in order to ensure future payment of insurance amounts and insurance compensation depending on the types of insurance (reinsurance). Non-life insurance companies are required to form such types of technical reserves as a reserve of unearned premiums and a reserve of losses. "Life" insurance companies must form long-term reserves (mathematical reserves) and reserves for proper payment of insurance amounts.

At the same time, there are different requirements for “life” and “non-life” insurance companies on the placement of insurance reserves due to different types of life insurance and insurance other than life insurance, as well as various terms for which insurance contracts are concluded.

Insurance companies should maintain an appropriate level of actual solvency margin (net assets) according to the volume of insurance activity. For any date of the reporting period, the actual stock of solvency of the insurer must exceed the calculated normative reserve of solvency. At the same time, there is a difference in the method of calculating the normative reserve of solvency of an insurance company, which carries out insurance other than life insurance, and the normative reserve of solvency of the insurance company, which carries out life insurance.

As we see, there is a number of common and distinctive features in the organization and activity of "life" insurance companies and "non-life" insurance companies.

Undoubtedly for the normal functioning and development of the insurance system, all of the types of insurance companies in question should be present.

Certain scholars divide insurance companies depending on the type of services offered [8, 11]. On this basis, insurance companies are divided into specialized and universal ones. Specialized insurance companies are insurance companies that specialize only in certain types (certain related types) of insurance for which they have a license. That is, such companies provide services only for a definite type of insurance. In turn, universal insurance companies provide services for various types of insurance (from various branches of insurance).

Specialized and universal insurance companies (if not prohibited by law) have the right to exist in the insurance system.

Two types of insurance companies can be distinguished under the purpose of the activity, namely [3, 11]:

- companies, whose purpose is profit (commercial);
- companies, whose purpose is to provide high-quality services to the insured (they can be called non-commercial).

Insurance companies whose main purpose is to generate profits are ordinary commercial insurance companies that have received a license for insurance activities.

Insurance companies, whose purpose is to provide high-quality services to insured persons, mostly operate in the form of mutual insurance societies.

Mutual insurance company is a specific form of organization of the insurer's activity, which consists of forming of an insurance fund on the basis of centralization of funds through the shared participation of its participants.

In our opinion, among the main characteristics of mutual insurance companies, which give a complex idea of them as separate subjects of the insurance system, it is appropriate to highlight the following: the main purpose of mutual insurance companies is to provide high-quality insurance services that would maximally satisfy the needs of policyholders; the purpose of the activity of mutual insurance societies is not related to receiving profits from insurance activities; the investment activity of the mutual insurance societies may be the only source of profit used to refill the insurance fund; the statutory fund of mutual insurance societies is formed depending on the organizational form (JSC), and the insurance fund - at the expense of insurers' contributions; insurers of mutual insurance societies simultaneously act as insurers; insurers of the mutual insurance partnership are its participants and co-owners; insurers of the mutual insurance company directly take an active part in its management; third parties who are not members of a mutual insurance partnership can not be insured; the composition of the members of the mutual insurance partnership should be homogeneous; participation in mutual insurance takes place on a contractual basis; the mutual insurance company operates on the principle of mutual responsibility; there is no regular payment of insurance premiums in the mutual insurance company and there is an individual approach to determining the amount and term of payment; in the mutual insurance partnership there is a guarantee of insurance payments in the required amount, despite the absence of the corresponding insurance amount, as prescribed in the contract; the mutual insurance company follows the principle of targeted use of the funds from insurance fund.

It should be noted that mutual insurance societies, provided that they have the necessary institutional support and infrastructure, are generally characterized by higher reliability and stability compared to commercial insurance companies. This is due to the fact that policyholders, who at the same time act as owners and managers of the company, act in their own interests and do not tend to excessive risk in maximizing profits in the investment process, but prefer reliable investment instruments. Thus, mutual societies are less affected by adverse external factors and remain more stable and reliable in terms of insurance reimbursement.

The existence of mutual insurance companies in the insurance system is conditioned by the necessity to meet the need in providing insurance protection in those areas where it is difficult to make it on a commercial basis. Not always commercial insurance companies are ready to accept (or accept for an "available" fee) the insurance risks that are characterized by high probability of occurrence, possible significant losses (high insurance amounts), etc. Under these conditions, the respective risks can be insured by mutual insurance companies.

Thus, in order for the insurance system to be able to fully fulfill its purpose, that is to provide a comprehensive insurance protection, it is expedient to have both commercial and non-commercial insurance companies in its structure.

By the size (amount) of the authorized capital and volume of insurance payments, other organizational and economic indicators that determine the place of insurance companies in the market, they are divided into large, medium and small insurance companies [5, 8]. In our opinion, such a division is rather arbitrary, since there are no substantiated criteria for the division of insurance companies on this classification basis. In addition, the division of insurance companies according to one criterion (indicator) does not reflect the integrated rating of a particular company.

It is understandable that insurance companies with different parameters, that is, different in size, can operate in the insurance system.

S.S. Osadets and O.D. Vovchak also suggest the division of insurers for the territory of service into local, regional, national and transnational (international) [4, 5]. Similar types of insurance companies in the service area are also allocated by N.V. Tkachenko [8]. At the same time, we agree with the idea that it is difficult to separate insurers operating only within a certain region or city, mainly because of the lack of statistics on contracts concluded by each company within a certain territory (region) [5]. If, for example, in the United States a license is issued with the permission of an insurer in a certain state, then you can clearly identify the region in which a certain insurer operates. In the vast majority of countries, licenses for insurance activities are issued to insurance companies without restriction of the territory of the activity, that is, insurers are allowed to work in the whole country.

In foreign practice, in particular of the United States and the United Kingdom, the division of insurance companies into the following categories is accepted: captive insurance company is a company that exists to provide insurance services to its parent company (this concept can also be used to provide insurance for a group of related companies); internal is an insurance company operating in the state within which it is registered; foreign is an insurance company registered in accordance with the laws of another country; London Lloyd is a market where meetings of underwriters with insurance brokers take place in order to conclude insurance and reinsurance contracts; mutual insurance company is a long-term agreement between the group of persons on compensation to each other of losses in certain parts in case of occurrence of insurance cases; joint stock insurance company is a company organized as a corporation with shareholders [12].

As we see, the approach to the classification of insurance companies, which is applied in foreign practice, is fundamentally different from the approaches used by domestic scientists, because it involves simple division of insurance companies into types, without distinguishing classification features. In our opinion, it is expedient to classify them according to certain features for the purpose of making the aggregate of existing types of insurance companies more organized.

Scientific literature often refers to captive insurance companies, however these companies do not stand out as one of the types when classifying insurers. We believe that it is possible to classify insurance companies by dependence (or purpose of creation), while defining the following types:

- "free" insurance companies (independent);
- captive insurance companies.

We can say that "free" insurance companies are companies created by a group of persons in the organizational form defined by law in order to carry out insurance activities and serve the insurance interests of ordinary insurers.

A captive insurance company is a joint-stock insurance company, which fully or mainly serves the corporate insurance interests of their founders, as well as self-employed entities that belong to the structure of multidisciplinary concerns or significant financial and industrial groups [13].

Captive insurance companies are present in insurance systems of many countries of the world, including Ukraine. However, in the domestic system, "in most cases, they do not pursue the objective of creating a reliable protection of the assets of an enterprise, which enables them to provide a variety of self-insurance and insurance combinations, but in order to optimize tax schemes and legal outflow of capital abroad through reinsurance operations" [14].

In our opinion, in addition to the classification criteria discussed above, it is advisable to classify insurance companies with the presence of foreign capital in the insurance system and the significance for the insurance system.

By the origin of capital, insurance companies can be divided into the following types:

- insurance companies without participation of foreign capital (only with domestic capital);

- insurance companies with a partial participation of foreign capital;
- insurance companies with 100% foreign capital.

In our opinion, an insurance company with foreign capital is an insurer with partial or full participation of foreign investors in its authorized capital.

According to the Law of Ukraine "On Insurance", insurance company with foreign capital is a financial institution in which the share of capital owned by at least one foreign investor is not less than 10 percent [1].

In general, an insurance company with foreign capital may be created on the basis of the ownership of a foreign company as a subsidiary entity or by the purchase (full or partial) of an existing domestic insurance company by a foreign investor.

It is necessary to draw attention to the presence of some positive and negative points, which appear with the presence of foreign insurers in the insurance system.

The positive points include the following: faster and more effective implementation of advanced methods of insurance activities; improving the quality of underwriting; expanding the range of quality services, an integrated approach to servicing different clients; introduction of new approaches to the cooperation of insurance companies and banking institutions; improvement of state supervision and regulation of insurance activity; reducing the possibility of money laundering; strengthening the efficiency of insurance companies in the investment area; providing a driver to the development of competition and accelerating the process of progressive reform of the insurance system subjects; an increase in the qualification level of insurance companies, as they will be forced to work according to European standards for the provision of insurance services [15].

It should also be noted separately about one more aspect - the social aspect of the arrival of branches of foreign insurance companies - the creation of new jobs.

On the other hand, foreign insurers, due to competitive advantages, can "take" the most profitable markets and clients, leaving local insurers to serve other (more risky) clients and thus increasing the overall level of risk of their portfolios.

At the same time, it is important that the risks and potential negative moments from the penetration of foreign insurers relate not so much to the efficiency, but to the greater stability of the insurance system and the level of economic development of the host country.

Thus, an increase in the presence of foreign capital will strengthen the implementation of the general functions of the insurance system, which will facilitate its integration into the world insurance system. An increase in the share of foreign capital in the insurance system should be gradual. At the same time, in the process of implementing the strategy of adaptation to European standards of insurance business, it is necessary to clearly identify the competitive capabilities of domestic participants of the insurance system and the insurance system itself, in general.

According to importance for the insurance system, insurance companies should be divided into the following types:

- systemically important insurance companies;
- system-building insurance companies;
- "insignificant" insurance companies.

In our opinion, "systemically important insurance companies" should be understood as insurance companies, which by the ability to generate systemic risks can potentially affect the state of the insurance system, and through it - the entire financial system.

As for system-building insurance companies, in our opinion, these are institutions that, in accordance with the parameters of the size, structure and volume of performed transactions, form the basis of the insurance system (an important part of its basis), that is, are an essential element, while taking into account the extent of the activity, may have a potential impact on it.

“Insignificant” insurance companies are ordinary insurance companies, which alone do not exert a significant influence on the functioning and development of the insurance system.

The general classification of insurance companies is shown in figure 1.

Conclusions. Consequently, we generalize the existing approaches to the classification of insurance companies on such features as the nature of the insurance company, the form of ownership, the organizational and legal form, the purpose of the activity, the type of services offered, the size of organizational and economic indicators, the territory of service, as well as enrich the classification with the following features: dependence ("free" insurance companies; captive insurance companies); origin of capital (insurance companies without participation of foreign capital, insurance companies with a partial participation of foreign capital, insurance companies with one

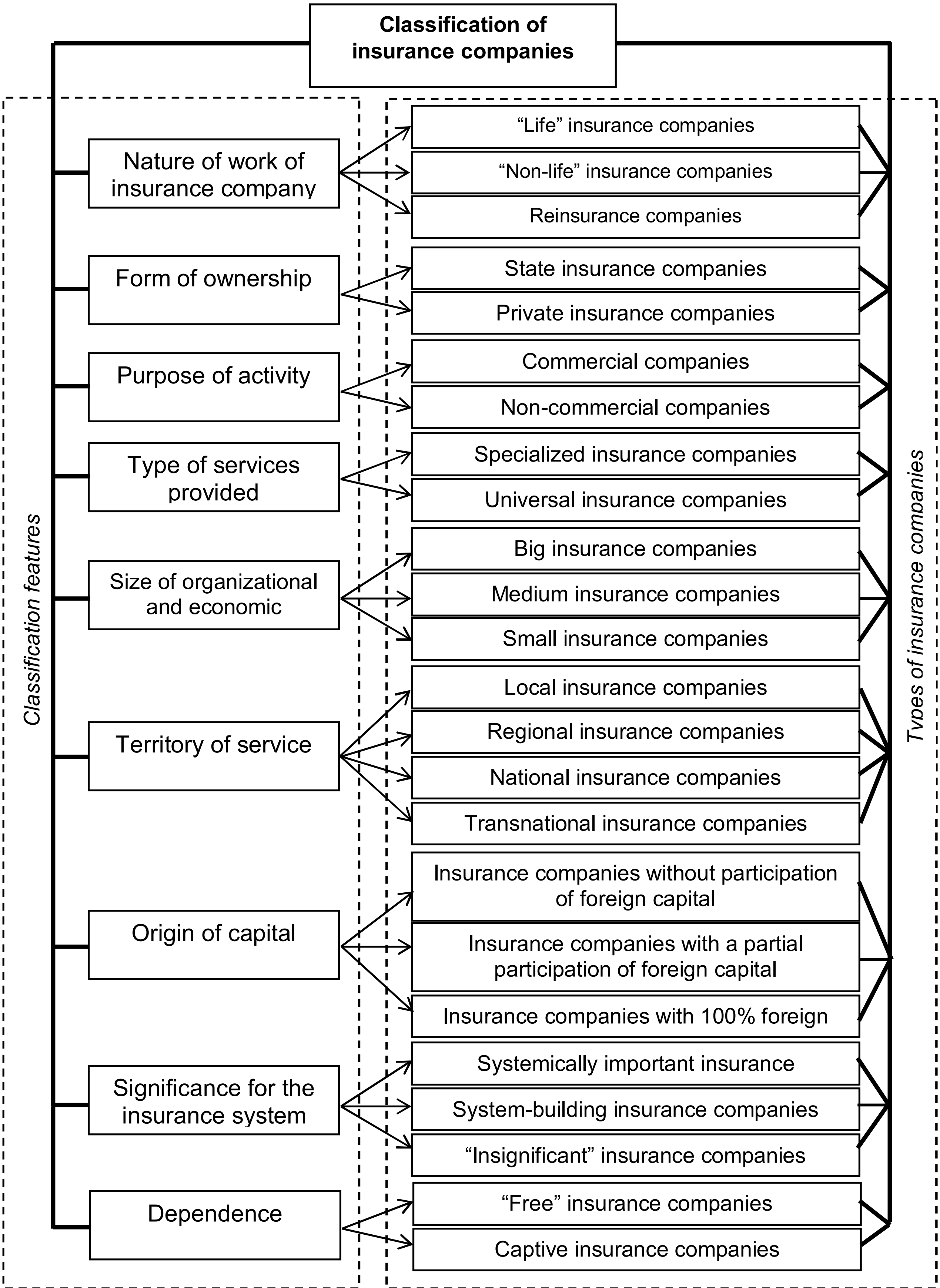

Fig. 1. Generalized classification of insurance companies as the main subjects of the insurance system

Source: author's development

hundred percent foreign capital); significance for the insurance system (systemically important insurance companies, system-building insurance companies, "insignificant" insurance companies).

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