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**CHARACTERISTIC FEATURES OF THE CORPORATE STRATEGIES OF  
THE FOREIGN CAPITAL COMPANIES ON THE LIFE INSURANCE  
MARKET IN UKRAINE**

**SPECYFIKA STRATEGII KORPORACYJNYCH Z WYKORZYSTANIEM  
KAPITAŁU ZAGRANICZNEGO NA RYNKU UBEZPIECZEŃ NA ŻYCIE NA  
UKRAINIE**

**ОСОБЕННОСТИ ФОРМИРОВАНИЯ КОРПОРАТИВНЫХ СТРАТЕГИЙ С  
ИСПОЛЬЗОВАНИЕМ ИНОСТРАННОГО КАПИТАЛА НА РЫНКЕ  
СТРАХОВАНИЯ ЖИЗНИ В УКРАИНЕ**

**Abstract**

*In the article the presence of international insurance companies on Ukraine's insurance market has been, in particular, in the area of life insurances. Influence of activity of international companies on participants of insurance market of Ukraine is analysed. The directions of development of insurance companies activity are defined.*

**Keywords:** *Insurance market, insurance company, strategy, foreign capital.*

**Streszczenie**

*W artykule została przedstawiona obecność międzynarodowych firm ubezpieczeniowych na ukraińskim rynku ubezpieczeniowym, w szczególności ubezpieczeń na życie, oraz przeanalizowane ich oddziaływanie na podmioty krajowe. Zostały wyznaczone strategie dotyczące kierunku i rozwoju firm ubezpieczeniowych.*

**Słowa kluczowe:** *Rynek ubezpieczeniowy, firma ubezpieczeniowa, strategia, kapitał zagraniczny.*

**Аннотация**

*В статье рассмотрено присутствие международных страховых компаний на украинском рынке страхования, в частности страхования жизни, и исследовано их влияние на отечественных участников, определены стратегии направления и их развития.*

**Ключевые слова:** *Страховой рынок, страховая компания, стратегия, иностранный капитал.*

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**Statement of the problem in general outlook and its connection with important scientific and practical tasks.**

The economic growth of any country is impossible without effective insurance system that is based on the best international experience. Solving many of the problems facing the Ukrainian economy (ensuring of economic growth, investment increase) depends on the effectiveness of the insurance system functioning.

The insurance market is exposed to significant external and internal risks.

**Aims of paper.** The main risks are: - global risks, caused by the cyclical nature of the global economic and financial systems and inability to predict time and scale of the next crisis; - macroeconomic and microeconomic risks, in particular, the tendencies for the decrease of the national economy or particular industries growth, investment activity, the high level of inflation and interest on bank lending, the low standard of living of Ukrainians, the insufficient level of the internal infrastructure development; – financial risks, which include insurers' unsatisfactory financial position, low asset quality, dependence of investment income on deposit policy of the banking system; – commercial risks include increase of price competition and threat of bankruptcy of a significant number of insurers, the growth of unfulfilled liabilities between insurers, including under reinsurance contracts, and in the sphere of cooperation between counterparties and partners (banks, investment companies etc.) [2].

Thus, the prospects for the development of the insurance market are: 1. Creation and development of an institutional and infrastructural environment, comfortable for the insurance business and the fulfillment of its functions. 2. Successful functioning of the insurance system capable to protect the property interests of the state, citizens and

economic entities. 3. The formation of an independent, fair and competent supervisory and monitoring system capable of ensuring balance between the control over the compliance with the established rules and interference in the activities of the insurance system companies. 4. Establishment of the procedures and rules that will ensure the identification and consideration of the interests of each group in the decision-making process at all levels of government, increase of competition and responsibility for the results and consequences of implemented decisions. 5. Developing mechanisms for the equal dialogue on key development issues between insurance organizations, insurers and the state, the results of which become the basis for regulatory decisions. 6. Support of subjects of the insurance market on self-organization issues. 7. Restoration of trust of the insurance market subjects to state or public institutions, the fight against corruption including formation of control procedures over the activities of the authorities. 8. Realization of the policy of competition development and punishment for the monopoly to ensure equal functioning and according to this policy the most effective insurance organizations will be successful. 9. Creating the conditions for insurance innovations to become the main tools of competition. 10. Full-scale integration of the Ukrainian insurance market into the world insurance market. In order to achieve the desired goals, it is necessary to create an institutional system for developing a modernization strategy compatible with existing cultural, political and institutional constraints and an interactive system for managing the growth of the insurance market. Its functioning should be based on coalitions of interests, which in the present situation have a chance to become coalitions of actions.

Foreign investments in the domestic

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insurance system become an important factor in the development and transformation of the state insurance sector.

**Exposition of main material of research with complete substantiation of obtained scientific results.** Taking into account the activity of international companies in implementing corporate strategies in the service sector, we will analyze specific features of their activities in this sector and the influence of foreign capital on it. Recent trends in the life insurance market development strategy in the world show a certain slowdown in its growth in developed countries. The dominant positions in the market were taken by the United Kingdom, the United States and Japan due to national characteristics of these countries, mentality and insurance culture [7]. Insurance market of these countries is already saturated with life insurance services. Therefore, the majority of insurance companies of world-class, trying to expand the implementation of their services, actively use markets of foreign countries to promote and ensure further development. It is also underlined that corporate, portfolio strategy is associated with a group of main company activities, and competitive strategy deals with operational issues in selected areas.

Globalization has a significant impact on the insurance market. First of all, today very often authorized capital of insurance companies use foreign capital. There are quite attractive conditions for foreign investors to enter the insurance market of Ukraine:

- Unrestricted share of non-resident participation in statutory funds of insurance companies.
- Unlimited openings of foreign insurance companies' subsidiaries.
- Equal legislation for non-resident

insurance companies and non-resident subsidiaries.

There are no restrictions for non-resident individuals who hold managerial positions in insurance companies [4].

Corporate strategies for the development of life insurance companies (developed by the Figure 1.

To enter Ukrainian insurance market foreign investors often establish a subsidiary company or purchase domestic insurance company and invest significant resources in the companies. Thus, operations can sometimes be carried out not directly, but through affiliated companies. When buying companies with a developed network of affiliates, established channels for the implementation of insurance services, investors bring the latest management strategies, sales technologies and corporate work traditions. When buying small and unpopular companies, the investor changes the name and promoting strategy in the market, which completely borrows the methods of work of the parent company [9].

In fact, since 2014 restrictions on the direct affiliates of foreign insurance companies have been cancelled. In 2015, 92 insurance companies with foreign capital were registered in Ukraine, including 16 life insurance companies (Table 1). Some of these companies show a significant development (in particular, PJSC "MetLife Ukraine", PJSC "Insurance Company TAS", PJSC "GRAVE Ukraine Life Insurance", PJSC "Jupiter Life Insurance", the annual growth of insurance premiums in some years exceeds the average market rate in 5-7 times. It should be mentioned that in the segment of life insurance, unlike risk insurance, foreigners play a dominant role in the share of premiums, registered capital and other indicators. The three leaders have more than 50% of gross premiums in the life insurance sector. Analysis showed that

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companies with foreign capital were traditionally the most active members of the insurance market.

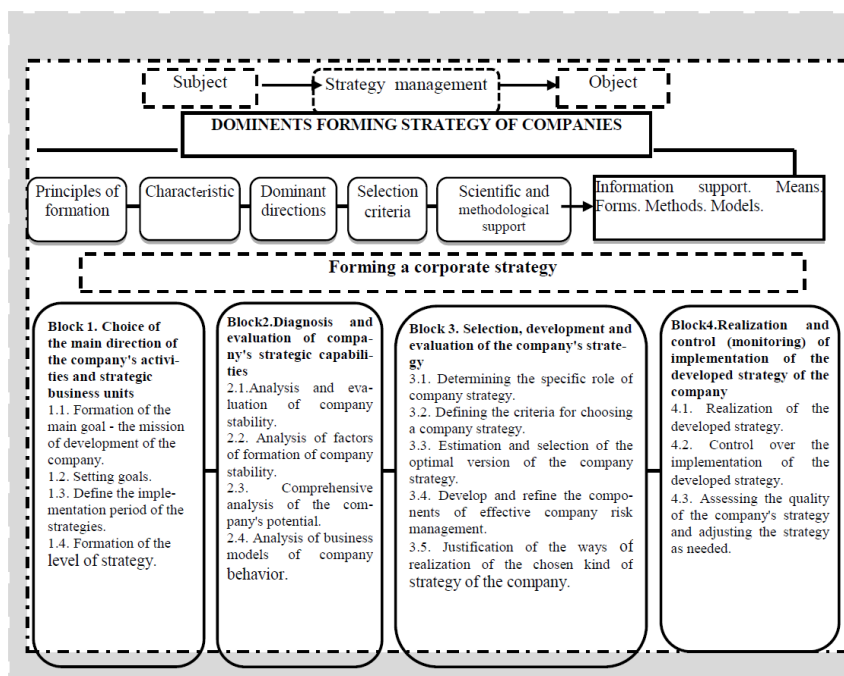


Fig.1. Corporate strategies for the development of life insurance companies (developed by the author)

Characteristics of life insurance companies with foreign capital Table 1.

Some of them, such as the Grawe concern, were interested in Ukraine in the 1990s. The first foreign company, which legally started its activity in the Ukrainian insurance market in 1991, is ЭKKO. The company started its entrepreneurial activity as a broker of the Insurance Company “Assicurazioni Generali S.P.A.”. Most foreign affiliates have begun to acquire the Ukrainian market since 2004. Foreign companies actively conquered the domestic insurance segment before the crisis of 2008-2009. After the crisis some big players left Ukrainian insurance market, for example, the Italian Assicurazioni Generali S.P.A. Foreign capital in the Ukrainian life insurance market has a European origin, which

fully corresponds to the general tendency of the influence of foreign companies on the emerging markets of Eastern Europe [10].

Asian companies also began to show interest in Ukrainian market. For instance, Korean insurance company “Korealife” is actively interested in the market of life insurance. Among the companies with foreign capital, the competitive positions hold PJSC “MetLife”, “Grawe Ukraine” and “TAS”. Insurance company “TAS”, to consolidate its position on the market, entered into agreement on cooperation with the world-wide consulting company “LIMRA”, which specializes in life insurance and consulted SC “TAS”, how to create its own network and business structure.

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Table 1 - Characteristics of life insurance companies with foreign capital (at the end of 2016 [10])

Name of the life insurance company	Country of origin of the founder	Name of the institution that owns shares of an insurance company
ALICO Ukraine, from 20.12.2013 - PJSC "MetLife"	USA	American Life Insurance Company (99.9988%), International Technical and Advisory Services Limited (0.0006%), Borderland Investments Limited (0.0006%)
Ukrainian Joint Stock Insurance Company ASKA-Life	Cyprus, Ukraine	Individual (ukr.) (44.3333%), SCM FINANCE LIMITED (55.6667%)
PJSC "GRAVE Ukraine Life Insurance"	Austria	Grazer Wechselseitige Versicherung Aktiengesellschaft (99.9170%)
"General Life Insurance", since 2013 renamed to PrAT SC "Classics of Life Insurance"	Netherlands	GRAMBLE INVESTMENTS LTD (99.98005%)
Insurance company "KD Life"	British Virgin Islands	Franden Associates Ltd (95.9906%)
Insurance company "LEMMA-VITE"	United Kingdom	Space International Holding Limited (95.2381%)
Insurance company "PZU Ukraine Life Insurance"	Poland	Powszechny Zakład Ubezpieczeń SA. (53.4723%) Insurance company "PZU Ukraine Life Insurance " (46.5224%)
PJSC «Renaissance of life»	Cyprus, United Kingdom	Renins Life Limited (73.7462%), European Bank for Reconstruction and Development
«Insurance Life Ukraine company »	Sweden	SEB Tygg Liv Holding Aktibola (99.9994%)
PJSC "TAS Insurance Company"	Cyprus	T.A.S. Overseas Investments Limited (99.9764%)
Insurance company "UNIQUE LIFE"	Austria	UNIQA internationale Beteiligungs-Verwaltungs GmbH (94.7141%)
«Jupiter Life Insurance Vienna Insurance Group»	Austria	VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe – 97.797%
Private Joint Stock Insurance Company "Life and pension"	Russian Federation	Subsidiary enterprise RESO-INTER (97.9996%) is a structure affiliated with RESAO-Garantia (Russia) based on the insurance company «Надежная жизнь»
PJSC "ASK" INGO Ukraine Life "	Russian Federation	Open Joint-Stock Company "Ingosstrakh" (Russian Federation) - 40% of shares of the Joint-Stock Insurance Company INGO Ukraine (50%), Insurance Company «Ингосстрах» (RF) – 40%
PJSC "ECCO" Insurance Company	Austria	Individual - 33.8174%
Aegon Life Ukraine (until 2011, Fortis Life Insurance Ukraine, since 2011, Fid Life LLC)	Netherlands	AEGON UKRAINE HOLDING I.B.V. – 99.3770%
SC "Oranta-Life"	Kazakhstan, Cyprus	Joint Stock Company "BTA Bank" (Republic of Kazakhstan) - 35.1723%; BACKWOOD HOLDINGS LIMITED (Cyprus) - 13.7390%; Geswood Holdings Limited (Cyprus) - 11.2842%

Global corporations tend to service standardized business in less costly regions. Markets in Eastern Europe did not meet the expectations of business growth in the early 2000s [9]. Although, companies with foreign capital state the significant potential for the development of life insurance in Ukraine due to the low rates of insurance penetration. Therefore, most insurance companies are focused more on the reorganization, rather than the curtailment of their business. However, the events of 2014 forced the foreign companies to revise their strategy dramatically.

Recalling the events of 2008-2009, experts disagree about the prospects of foreign investments in the Ukrainian market of life insurance. So, the question is, whether shareholders of such Ukrainian insurance companies as, for example, PJSC "Aliko Ukraine" and "Fortis Life Insurance Ukraine" will invest in the development of Ukraine's insurance business after the shares fall of the insurer's leader – AIG; to balance its functioning 85 billion dollars the American government were involved, and the Belgian Fortis group received 11.2 billion Euros from the government of Belgium, Luxembourg and the Netherlands.

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However, most of specialists are inclined to believe that the existing economic difficulties in Ukraine will not force companies with foreign capital to exit Ukrainian market, since in the structure of business of world insurers, Ukrainian subsidiaries make up tenths of a percent. Therefore, for companies with multibillion-dollar capitalization losses of the few years are not critical. A key position of the foreign insurers' presence in the Ukrainian market is the prospect of the Ukrainian life insurance market. Large players in the insurance market develop further, as the Ukrainian insurance market is attractive for its development strategy.

Even now (taking crisis into account) the level of coverage of potential clients with insurance, especially with regard to insurance of individuals, is still low and lags even behind the level of potential consumers income [9].

Thus, the domestic life insurance market is objectively interested for foreign investors. In particular, this interest will rise with the increase of stability and development of the economy. In this case, the corporate life insurance sector is particularly promising. According to world experience, 70-80% of foreign companies of the developed countries have social packages that are mostly supported by life insurance companies. It should be mentioned that in Ukraine such packages have less than 1% of enterprises. Therefore, the Ukrainian corporate life insurance market is potentially attractive both for foreign and domestic investors. The main methods to mitigate the negative impact of economic instability on the foreign companies' firmness are mergers and acquisitions.

The main objectives for mergers and acquisitions with the participation of foreign capital are:

- access to foreign markets (is more effective during the crisis);
- improvement of competitive positions -

companies seek growth opportunities through the purchase of additional assets or try to strengthen their position by purchasing companies-competitors and capturing their market share;

- creating a sustainable advantage through diversification to ensure greater risks control (price, currency, etc.), using of experience in other areas that are not available to competitors; reducing the time to enter this market, maintaining the stability and market capacity;
- investments – use of free funds, participation in profitable business, purchase of underestimated assets;
- implementation of managerial skills [14].

Consequently, it is very important for the Ukrainian insurance sector to achieve a controlled balance of the presence of national and foreign insurance companies in the Ukrainian market.

In accordance with the experience of Central and Eastern Europe, the presence of foreign insurers at the initial stage of expansion leads to positive effects, but when reaching a certain threshold of market saturation, it no longer gives the primary effect and only promote interests of the countries of capitals origin. However, advantages and disadvantages of the expansion of foreign companies into the Ukrainian life insurance market are actively discussed by the scientists and experts (tabl. 2).

Expansion of foreign capital in the Ukrainian life insurance market has not led to a significant advantages and benefits yet, despite functioning of world famous insurers. First of all, the prices of insurance products were not reduced; there is no significant increase of payments or the innovative technologies development.

Most subsidiaries of foreign insurers, with the exception of several powerful players in the market, demonstrate rates of

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development that are broadly comparable to those of national companies.

Table 2 - Advantages and disadvantages of the foreign companies' presence in the life insurance market of Ukraine (developed by the author [2; 7])

<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"> <li>- accumulation of foreign investment for the development of a comprehensive national insurance infrastructure;</li> <li>- use of foreign advanced insurance technologies;</li> <li>- improvement of the quality of services for insured persons;</li> <li>- for consumers, the foreign investor is able to embroider line insurance and reduce the cost of insurance products;</li> <li>- introduction of advanced development strategies, effective risk management and investment management;</li> <li>- increasing the level of competition in the insurance market, which will crowd out small companies and affect the growth of capitalization of insurers;</li> <li>- increasing requirements for the capitalization of insurers, which contributes to increasing the stability and competitiveness of insurance companies;</li> <li>- strengthening the role of the insurance system in the process of allocating investment resources.</li> </ul>	<ul style="list-style-type: none"> <li>- disposal of a large part of financial flows for foreign reinsurance;</li> <li>- the transition to international financial markets a significant share of domestic investment resources accumulated through insurance;</li> <li>- the reduction of the degree of national control over insurance reserves and investment funds, which will negatively affect the level of economic security;</li> <li>- high sensitivity to fluctuations in the world financial market, as well as to international financial speculative operations;</li> <li>- preferred interests of the country of origin of capital over the interests of the domestic business market;</li> <li>- the successful activities of foreign insurance companies can be the cause of bankruptcy and the termination of the activity of home-grown insurers when foreign large insurance companies or corporations with experience and innovative technologies absorb or displace the less developed national ones;</li> <li>- price dumping on the part of foreign SC, to which the national market is not ready.</li> </ul>

Thus, certain technological improvements have taken place. For example, JSC "Fortis Life Insurance Ukraine" was the first insurance company in Ukraine that launched in 2011 a web-project to maximize its business processes automation and improve customer services, simplify the process of issuing contracts and raise the level of operational activity of the company.

At the same time, several disadvantages of the activities of insurers with foreign capital can be noticed. First of all, the complication of insurance operations supervision, the outflow of funds abroad is observed, as there is an overriding interest of the country of capital origin over the interests of domestic market entities. Increase of foreign capital in the national life insurance market becomes the threat to

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the national security of the development and protection of the insurance system, also ensuring economic stability and maintaining the competitive advantages of domestic insurers is of great importance. Taking into account the potential of foreign insurance companies in comparison with domestic ones, it can be stated that insurance tariffs in general will decrease, which, however, can lead to increased price competition on the insurance market between foreign and domestic insurance companies. This tendency can have negative impact on insurance reliability for customers.

Thus, the consequences of increasing the inflow of foreign capital into the Ukrainian life insurance market are ambiguous. On the one hand, foreign capital will bring new opportunities both for insurers and insured persons. But on the other hand, globalization processes and financial and economic instability will lead to a further decrease in number of insurance companies. Small insurance companies, especially those which are focused on serving the interests of several corporate clients, will be forced to withdraw from the market, or to look for ways to survive by changing corporate development strategies. In addition, structural competition in the insurance

market takes place in accordance with the brands: the client chooses not only the insurance service by type and price, but also the insurance company for its popularity, existing time and the absence of loud negative information about the company.

**Conclusions.** The situation on the insurance market is quite complicated, within the period from 2011 to 2016 the insurance market lost more than 19 companies, the structure of their capital has been changed; the interest to the insurance development as a business in Ukraine among foreign investors has fallen, the insignificant growth of individual market indicators is only because of hryvnia devaluation. The market is characterized by so-called structural competition, which takes place due to a decrease of participants and unsatisfactory quality of their capital.

The Ukrainian insurance sector is greatly influenced by foreign capital and in the future its impact will be strengthened. We cannot stop globalization but there are many policies activated to improve it, for instance, to develop new approaches to regulating the national insurance market, forming of effective corporate life insurance market strategies.

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