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## ARCHITECTONICS OF LIFE INSURANCE IN UKRAINE

The arguments which compel the citizens to reflect on the necessity of self-sufficiency and self-financing have been presented in the article. The article has stressed the necessity and expediency of application of life insurance in the system of socioeconomic protection of the population and defines the place of life insurance companies in the circulation of households' financial resources on the financial market. The specificity of the life insurance companies as the financial intermediaries has been determined. The author has specified the elements of personal financial ambition of a potential insured, including the willingness to self-financing and awareness of the necessity of self-financing. The importance of the active phase of a person's professional activity for the life insurance has been justified. The classification of values of life insurance by levels and kinds has been proposed. The author highlighted the social, economic and financial importance of the life insurance on both the micro-and macro-levels. The article provides legal, social, economic and financial approaches to determination of the essence of life insurance. In order to fully disclose the nature and purpose of life insurance, the author recommends to explore it in the context of functions such as risk, protective, preventive, social, saving, redistributive, commercial, investment, capital forming and budget forming.

**Keywords:** life insurance, financial ambition, function, life insurance companies.

### Introduction

The situation existing today in Ukraine at the micro- and macro levels actualizes the citizens' need for reflecting on the search of sources of self-sufficiency, because:

– the system of the national social security is characterized with innumerable legal acts that regulate social services, benefits, facilities, compensations and cash grants to various categories of population, however not always supported with prompt financial warranties at the proper level;

– constantly changing character of individual needs in the course of an individual's life, in particular: the desire to have passive financial incomes; the need to maintain the level of well-being reached in the previous period till advanced age; accumulation of resources for children's education; financial assistance in their accommodation; assurance of financial stability of the family in case of the loss of breadwinner or his/her incapacity to continue active lifestyle (disability), etc.

### 1. Literature review

The role and the possibility of the application of the insurance as a whole and of the types of insurance services for the population within socio-economic processes were, in their time, widely covered in the works by O.M. Zaletov<sup>1</sup>, V.M. Furman<sup>2</sup>, the place of life insurance in the savings of the population and their investment potential were studied by R.V. Pikus, and K.O. Brazhko<sup>3</sup>, A.Yu. Ramskyi<sup>4</sup>, I.V. Kuziv<sup>5</sup>, T.O. Kizym<sup>6</sup>; the possibility of using life insurance in the system of non-governmental pension

<sup>1</sup> Залетов, О.М. (2011). Страхові послуги населенню України в нових економічних умовах. *Вісник Київського національного університету імені Т. Шевченка. Серія: Економіка*, 126, 8–11.

<sup>2</sup> Фурман, В.М. (2005). Страхування та його роль у соціально-економічних процесах. *Фінанси України*, 8, 145-153.

<sup>3</sup> Пікус, Р.В., Бражко, К.О. (2015). Місце страхування життя у процесі трансформації індивідуальних заощаджень в інвестиції. <[http://www.economy.in.ua/pdf/4\\_2015/27.pdf](http://www.economy.in.ua/pdf/4_2015/27.pdf)>.

<sup>4</sup> Рамський, А.Ю. (2007). Інвестиційний потенціал заощаджень фізичних осіб та механізми його реалізації. *Актуальні проблеми економіки*, 5, 173-178.

<sup>5</sup> Кузів, І.В. (2007). Пріоритетні напрями інвестування заощаджень домашніх господарств в Україні. *Формування ринкових відносин в Україні*, 10 (77), 68-72.

<sup>6</sup> Кізіма, Т.О. (2013). Заощадження домогосподарств: світовий досвід і вітчизняні реалії. *Інноваційна економіка*, 7, 171-176.

provision was examined by N. Derevianko<sup>1</sup>, V.H. Sakhatsky<sup>2</sup>, A.P. Lazorenko<sup>3</sup> and other leading domestic scholars of this branch.

In these papers, however, the nature and purpose of life insurance regarding its positioning in the financial market are not disclosed to the full extent. Therefore, the purpose of the research is to substantiate the architectonics of life insurance as an object of the financial market.

## 2. Life insurance in personal finance system

Life insurance is an important and inalienable tool for the socio-economic protection of the population. But it should also be noted that life insurance is a form of meeting the financial needs of a person<sup>4</sup> and serves as a financial instrument for accumulation<sup>5</sup>. This is proven by the fact that, in the process of life insurance, between the insurer and the insured there arise relationships, the result of which is that life insurance companies obtain a part of individual financial income in the form of insurance premiums, on the basis of which they create reserves and invest them to comply with the obligations assumed according to the insurance contract liabilities, get profit and thereby provide the financial sustainability of their insurance business. Thus, life insurance becomes an integral part of the financial infrastructure of a market economy, adopting a modified form of financial intermediation.

Agreeing with the definition of V.V. Korneev that financial intermediation is "... professional activity of banking and non-banking financial institutions in order to meet the economic needs of their clients by providing them with appropriate financial services ..." <sup>6</sup>, one should pay attention to the fact that the satisfaction of economic needs of some people and the provision of financial services to others is carried out through the mechanism of redistribution. It is the life insurance that is a kind of mechanism through which the temporarily free financial resources of households are redistributed into liquid financial assets of other subjects of the financial market. Life insurance companies, with the help of insurance payments received from them from insurers, accumulate households' funds in the form of life insurance reserves. At this moment, life insurance companies become managers of funds and turn them into their own investment resources. Investments accumulated over a certain period are invested in other liquid financial assets in order to generate profit (Figure 1).

The specifics of life insurance companies as financial intermediaries is that they do not become owners of the accumulated capital, that is, they act as institutional intermediaries in the financial market. But we should also remember that no matter how perfect is the place occupied by life insurance companies on the financial market, the major role in the formation and development of the life insurance is still played by an individual, that is, it all depends on his or her personal financial ambition (Figure 2).

The awareness of the need for self-finance consists in the fact that the person has to understand how relevant and important, at a certain point in time, it is to understand the need for independent formation of an additional financial income. That is, the individual has to figure out whether his or her financial revenues are sufficient to meet the current needs and whether he or she wishes to improve the well-being. Of course, it is easier to do it while the insured is in the active phase of labour activity and is more affordable for the family budget while the person is between 25 and 35.

The active phase of labour is characterized by the individual's stable and decent incomes and the possibility to increase them by changing his or her employer or kind of labour. Moreover, the effect of compounding works better in a long-term than in short-time perspective. It means that the additional financial capital that a person may require at a certain moment is easier to gather in twenty years than in ten if the matter concerns low or even poor financial possibilities. That is, life insurance is the tool that can help a person with insignificant savings today, to form a certain financial capital in the future, which, in its turn, can become the investment capital, the interest of which will become a form of passive financial income.

<sup>1</sup> Дерев'яно, Н. (2006). Особливості страхування життя та недержавного пенсійного забезпечення. *Вісник КНУ ім. Т. Шевченка. Економіка*, 81–82.

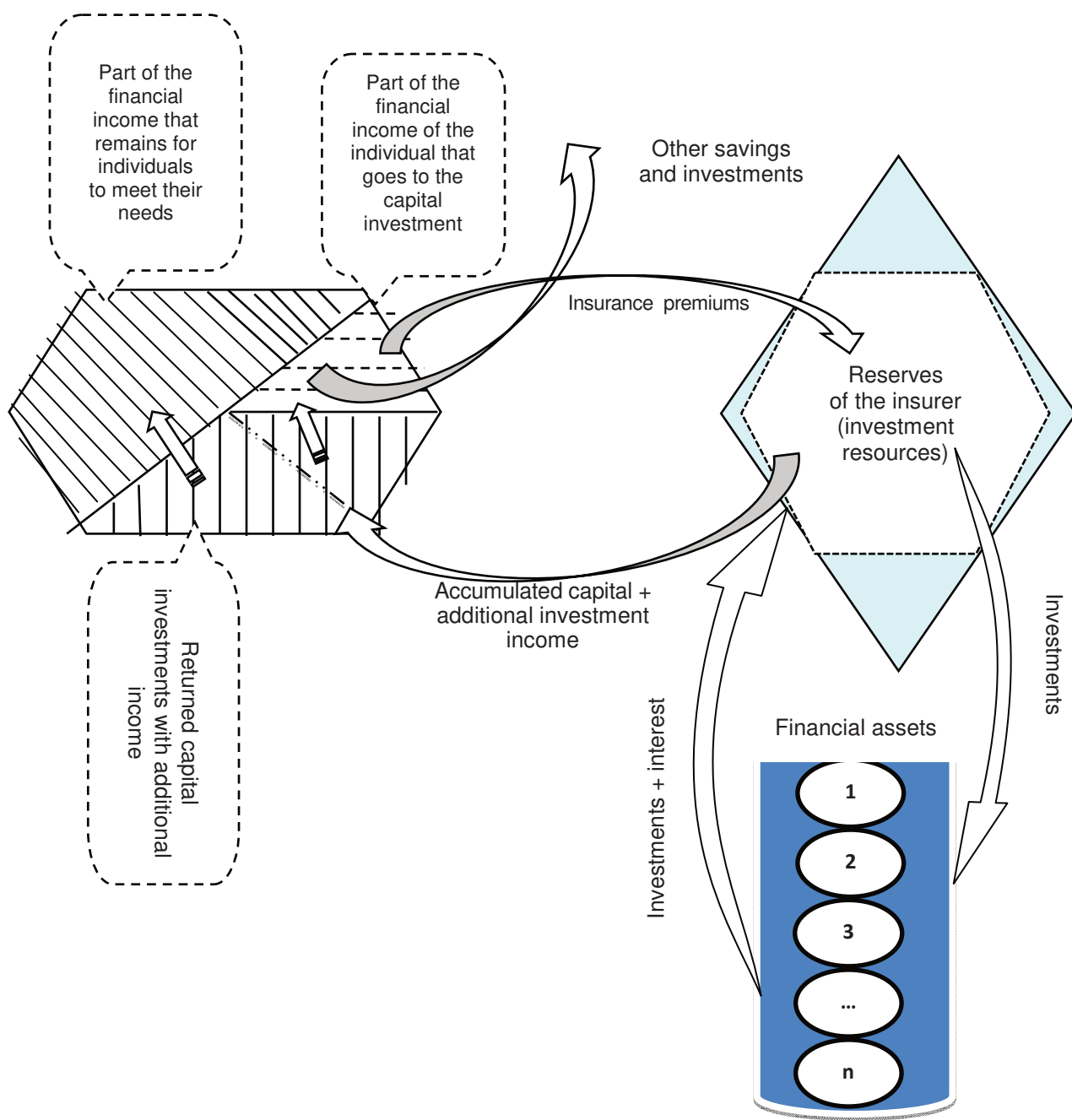
<sup>2</sup> Сахацький, В.Г. (2005). Має домінувати принцип максимальної надійності. Про участь страховиків у недержавному пенсійному забезпеченні. *Україна-Бізнес*, 36, 3.

<sup>3</sup> Лазоренко, А.П. (2005). Пенсійне страхування пропонує надійний соціальний захист. *Україна-Бізнес*, 4, 4-5.

<sup>4</sup> Ивашкин, Е.И., Оганов, С.В. Страхование жизни в системе привлечения частных инвестиций. [Электронный ресурс]. – Режим доступа: <<https://cyberleninka.ru/article/v/strahovanie-zhizni-v-sisteme-privlecheniya-chastnyh-investitsiy>>.

<sup>5</sup> Бабаджанян, Э.К. Социально-экономические предпосылки развития страхования жизни в России. [Электронный ресурс]. – Режим доступа: <<http://www.dslib.net/finansy/socialno-jekonomicheskie-predposylki-razvitiya-strahovaniya-zhizni-v-rossii.html>>.

<sup>6</sup> Корнєєв, В.В. (2008). Модифікація форм фінансового посередництва в Україні. *Фінанси України*, № 1, с.77-85.



**Fig. 1. The place of life insurance in the circulation of households' financial resources**

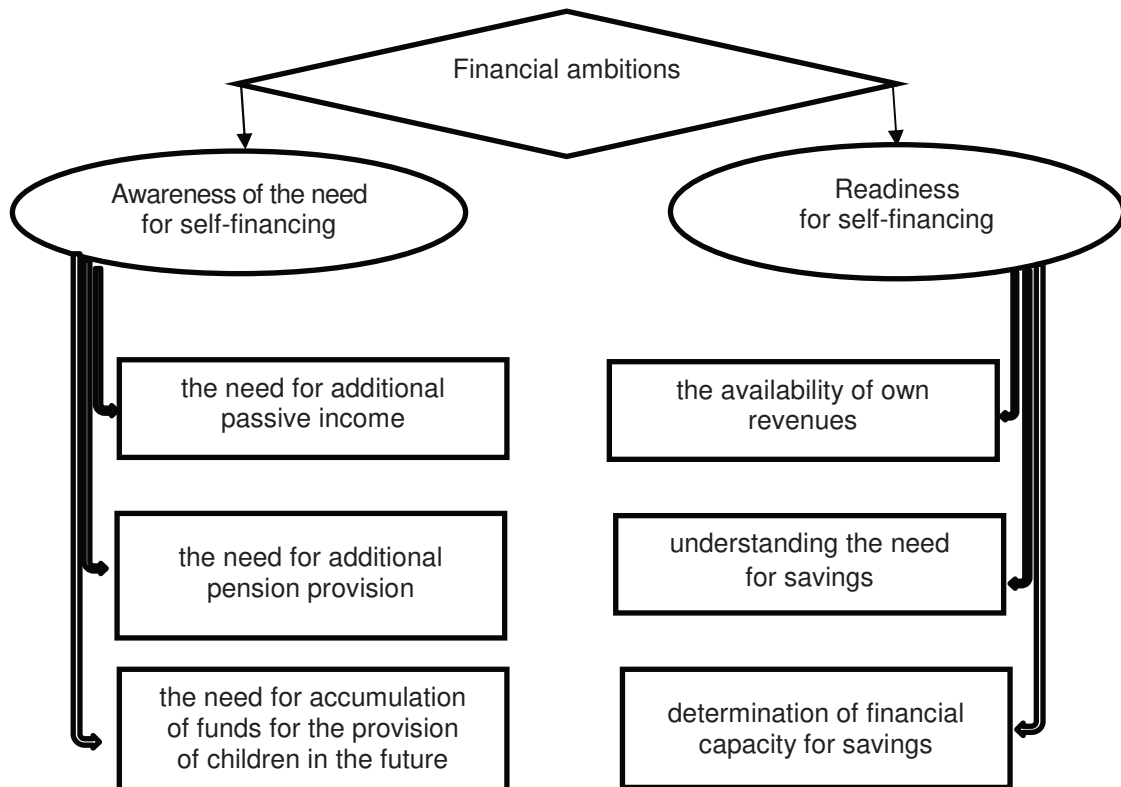


Fig. 2. Elements that form the subjective financial ambition of an individual

### 3. Values, essence and functions of life insurance

Thus, it may be noted that the purpose of life insurance is to help an individual to establish a guaranteed additional financial income in the future given his or her personal financial ambition. However, in our opinion, the importance of the life insurance is much wider and has a different perspective at different levels. First and foremost, we recommend to focus on such important values as social, economic and financial, but also suggest considering it both at the micro- and macro-level (Figure 3).

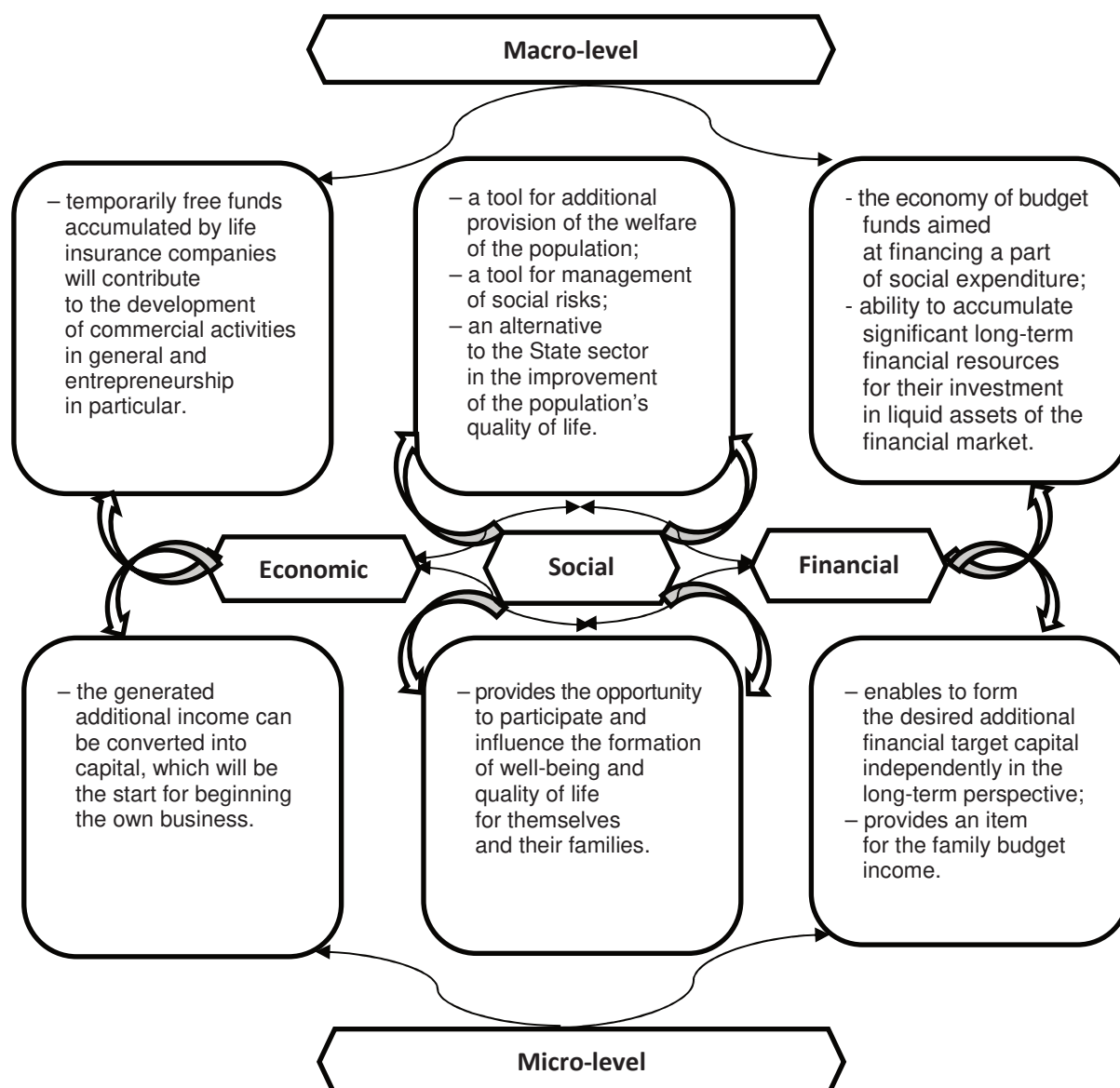
Figure 3 does not only illustrates the values of life insurance; it is a kind of approaches to the understanding of designation of a specified type by the actors of the market economy, but also describes its features and positive points that it can bring to the socio-economic development of the country.

Value of life insurance gives rise also to defining its essence. In this context, it is worth noting that the problems of the essence of life insurance has recently acquired great popularity and is more and more actualized both in the society and at the level of legislative power. Moreover, researchers can be conventionally divided into two groups: those who consider life insurance as a subkind of personal insurance, and those who single it out as an independent branch.

The legislative base adheres to the first point of view, in particular, the Law of Ukraine "On insurance" states that "... life insurance is the kind of personal insurance that provides the obligation of the insurer to make insurance payouts in accordance with the insurance contract in the event of death of the insured person, and also, if it is provided by the insurance contract, in case of living of the insured person till the expiry of the insurance contract and (or) reaching the insured person the age stipulated in the contract ..."<sup>1</sup>.

Taking into account multiple aspects of the possible manifestations of life insurance, we consider it appropriate to consider its nature using a comprehensive approach that will enable us to reveal its nature and purpose from different positions and points of view (table 1).

<sup>1</sup> Закон про страхування. <<http://zakon3.rada.gov.ua/laws/show/85/96-%D0%B2%D1%80>>.



**Fig. 3. Classification of values of life insurance by levels and kinds**

Revealing the essence of insurance from the position of the fullness of its narrative, we believe that it is not enough to focus only on the interpretation of its essence. The type of insurance under consideration is revealed more completely and meaningfully through its functional destination. That is why the definition and description of its functions is so important for the scientific cognition of life insurance. Within the scientific community, there are a lot of discussions about its types, but we recommend to single out the following:

**Non-life insurance:** a guarantee of compensation of financial expenses of the insurer or insured in the case of an insured event foreseen by the insurance contract or the legislation in force.

**Protective life insurance:** insurance companies assume the commitments to provide financial assistance to a person in the form of payment of the insurance indemnity in the event of the occurrence of such risks in his or her life as a partial incapacitation, full incapacitation (disability), loss of breadwinner, reaching the age of work incapacity.

**Preventative:** the ability of the individuals themselves to foresee, and thus, using life insurance, to minimize the risk and to limit the impact of the deterioration of the level and quality of life.

**Social:** allowing the individuals to accumulate a guaranteed amount of money for themselves and their families with the desired end-use to improve the level and quality of their lives and ensure the well-being of their families in the short- and long-term prospective.

**Approaches to definition of the essence of life insurance**

<b>Approach</b>	<b>Definition</b>
Juridical	it is a commercial agreement, according to which the life insurance company, accumulating in itself the means of individuals (insurers) in the form of insurance payments, assumes the obligation to pay them back to the insured person or insurance beneficiary (in case of death of the insured) at the stipulated time, in a specified amount with guaranteed investment income
Social	it is a specific type of saving that enables to guarantee the self-finance an individual's social needs at the proper level at a certain time
Economic	it is a set of economic redistribution relationships with regard to the formation of a monetary fund in long-term perspective at the expense of physical persons' own current revenues in order to ensure the protection of proper living standards in the future
Financial	it is a modified form of financial intermediation that promotes the circulation of financial resources of households between the actors of the financial market through life insurance companies with the view to obtaining a profit as a percent of the investment

**Saving:** the use of life insurance as a mechanism of the earmarked reserving of funds in the medium- and long-term prospective for themselves and their families. Reserving funds for a certain date or event in their life through life insurance, individuals prevent themselves from using these funds for other targeted needs that can arise at one or another moment of their lives due to both subjective and objective factors.

**Redistribution:** accumulating in themselves a part of households' financial resources and investing them in financial assets, life insurance companies, thereby, provide the redistribution of financial resources from the finance sector of households to those actors of the financial market that need to increase their capital.

**Commercial:** life insurance is a specific commercial agreement, by which individuals (the insured) trust the life insurance company a part of their financial income for a certain period (usually long-term) with a guarantee of not only 100% return of the investment, but also of an income in the form of additional investment income.

**Investment:** funds coming from insurance payments of the persons who insured their life, are accumulated by the life insurance company in the form of reserves used for investments in financial assets on such basic principles as liquidity and diversification, thereby, creating profits from investment activity, a part of which is left for the company, and a part is used for the payment of additional investment income for insurers, according to the contracts of life insurance.

**Capital forming:** it is the possibility to form a targeted capital of the desired dimension in the long-term prospective starting from the existing financial ambition at a certain moment.

**Budget forming:** formation of additional revenues to budgets of various levels and improvement of efficiency of the actors of the financial market that used in their activity the assets of life insurance companies as investment resources.

As life insurance has individual character, it enables the person to independently take care of their level of material well-being. It is life insurance that during the most productive period of their life allows citizens to form by themselves the financial capital sufficient for the insured. This a sort of formation of own financial resources that in the future will become the basis of investment capital, the interests of which will enable citizens to build passive income as an additional source of revenues for the family budget.

**Conclusion**

Therefore, it should be clearly understood that the situation we have today is the result of what we did or did not do a year, two, or ten years ago. Considering the situation created in our country for the last years, the need for self-sufficiency is increasingly actualized and realized. It can be affirmed that the life insurance is an important mechanism of and complement to the system of social protection at both the macro- and micro-level. It ensures obtaining funds with no regard to the assistance provided according to the system of the state retirement and social insurance. That is, the life insurance solves important problems

of the society because it provides an adequate level of life of the seniors and of those who have lost the ability to earn money as a result of unpredictable life circumstances.

Examining multiple aspects of the essence and functional purpose of life insurance we consider it appropriate to note that it still is one of the mechanisms to increase the individual's income or capital in general. It is the life insurance that gives the possibility to convert possible risks into benefits and/or additional revenues for both individuals and members of their nuclear or extended families. All this can be reached and ensured depending on the insurance program chosen by the potential client. It is also necessary to understand that just the desire to conclude a life insurance contract is not enough. It is important to know the opportunities existing on the market; one should clearly understand the types of life insurance, their essence, their advantages and disadvantages in order to be able to choose the most effective option in a particular moment of the life.

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