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INSURANCE MARKET AND SYSTEM-BASED RISK OF FUNCTIONING

Abstract. The article deals with the factors and conditions for the emergence and spread of systemic risks in the insurance market within the framework of the interaction of insurance companies with each other and other financial institutions. These are forms of identifying the features of systemic risk manifestation. Focused attention is paid to factors such as competition between financial institutions, mergers and acquisitions, accumulation of individual risks, and their impact on the characteristics of the insurance market, markets of other financial intermediaries. The conditions of distribution of systemic risks — the increase of the level of capitalization of the insurance market, a separate insurance company, the presence of the transfer of risks from one to another financial intermediary.

It is revealed that the possibility of diversifying the directions of formation of own assets of the insurance company determines its interaction with financial intermediaries of the stock, currency, investment market, banking services market, which causes an increase in the threat of systemic risk.

The comparative characteristics of monitoring of manifestations of systemic risk on the insurance market by domestic and European financial regulators are given. The issue of insufficient attention to the degree of unevenness of the concentration of insurers' assets in different financial markets is considered, taking into account the corresponding risks that can accumulate and exacerbate each other. The necessity of expansion of objects of monitoring by types of risks of insurance activity is established. The necessity for financial regulators to pay special attention to systemic risk is substantiated.

It is proposed to assess the systemic risk in the insurance market to use a systematic approach to the diagnosis of the state of the insurance market as an open complex economic system. The main methodological principles for assessing the systemic risk of the insurance market and the individual insurance company are formulated. Concerning the specifics of the interaction of insurance companies with banking institutions, it was considered necessary to combine the risks of the insurance market and the influence of systemically important banks on the activity of a separate insurance company.

Keywords: financial sector, financial institutions, insurance market, system-based risk, system-based approach.

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СТРАХОВИЙ РИНОК І СИСТЕМНІ РИЗИКИ ФУНКЦІОНУВАННЯ

Анотація. Розглянуто фактори та умови виникнення й поширення системних ризиків на страховому ринку в межах взаємодії страхових компаній між собою та іншими фінансовими інститутами. Вони є формами виявлення особливостей прояву системного ризику. Зосереджено увагу на факторах, таких як конкуренція між фінансовими інститутами, злиття і поглинання, накопичення індивідуальних ризиків, та їхньому впливові на характеристики страхового ринку, ринки інших фінансових посередників. Визначено умови поширення системних ризиків — підвищення рівня капіталізації страхового ринку, окремої страхової компанії, наявність передачі ризиків від одного до іншого фінансового посередника.

З'ясовано, що можливість диверсифікації напрямів формування власних активів страхової компанії зумовлює її взаємодію з фінансовими посередниками фондового, валютного та інвестиційного ринків, ринку банківських послуг, яка спричиняє посилення загрози системного ризику.

Надано порівняльну характеристику моніторингу проявів системного ризику на страховому ринку вітчизняними та європейськими фінансовими регуляторами. Розглянуто питання недостатньої уваги до ступеня нерівномірності концентрації активів страховиків на різних фінансових ринках з урахуванням відповідних ризиків, які можуть акумулюватися і посилювати один одного. Установлено необхідність розширення об'єктів моніторингу за видами ризиків страхової діяльності. Обґрунтовано необхідність для фінансових регуляторів приділяти особливу увагу саме системному ризику.

Запропоновано для оцінки системного ризику на страховому ринку послуговуватися системним підходом до діагностики стану страхового ринку як відкритої складної економічної системи. Сформульовано основні методичні принципи оцінки системного ризику страхового ринку та окремої страхової компанії. Стосовно до специфіки взаємодії страхових компаній із банківськими установами визнано необхідним поєднання ризиків страхового ринку і впливу системно важливих банків на діяльність окремої страхової компанії.

Ключові слова: фінансовий сектор, фінансові інститути, страховий ринок, системний ризик, системний підхід.

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СТРАХОВЫЕ КОМПАНИИ:

ВЗАИМОДЕЙСТВИЕ И РИСКИ НА ФИНАНСОВЫХ РЫНКАХ

Аннотация. Рассмотрены факторы и условия возникновения и распространения системных рисков на страховом рынке в пределах взаимодействия страховых компаний между собой и другими финансовыми институтами. Они являются формами выявления особенностей проявления системного риска. Сосредоточено на факторах, таких как конкуренция между финансовыми институтами, слияния и поглощения, накопления индивидуальных рисков, и их влияния на характеристики страхового рынка, рынки других финансовых посредников. Определены условия распространения системных рисков — повышение уровня капитализации страхового рынка, отдельной страховой компании, наличие передачи рисков от одного к другому финансового посредника.

Выяснено, что возможность диверсификации направлений формирования собственных активов страховой компании обуславливает ее взаимодействие с финансовыми посредниками фондового, валютного и инвестиционного рынков, рынка банковских услуг, которая приводит к усилению угрозы системного риска.

Предоставлено сравнительную характеристику мониторинга проявлений системного риска на страховом рынке отечественными и европейскими финансовыми регуляторами. Рассмотрены вопросы недостаточного внимания к степени неравномерности концентрации активов страховщиков на различных финансовых рынках с учетом соответствующих рисков, которые могут аккумулироваться и усиливать друг друга. Установлена необходимость расширения объектов мониторинга по видам рисков страховой деятельности. Обоснована необходимость для финансовых регуляторов уделять особое внимание именно системному риску.

Предложено для оценки системного риска на страховом рынке пользоваться системным подходом к диагностике состояния страхового рынка как открытой сложной экономической системы. Сформулированы основные методические принципы оценки системного риска страхового рынка и отдельной страховой компании. Применительно к специфике взаимодействия страховых компаний с банковскими учреждениями признано необходимым сопряжения рисков страхового рынка и влияния системно важных банков на деятельность отдельной страховой компании.

Ключевые слова: финансовый сектор, финансовые институты, страховой рынок, системный риск, системный подход.

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Introduction. The financial services market is represented by separate segments of participants that, on the one hand, compete with each other for customers of financial services. On the other hand, the competition occurs in the process of forming a resource base. The individual financial institutions need to constantly interact with each other. There are both operations of different financial intermediaries that meet the same needs of clients, and operations that cannot fully meet the needs of customers, unless there will be no interaction with another financial institution.

At the financial market there are most active the financial institutions of the banking sector, insurance sector, investment funds, which are managed by asset management companies (AMC), etc. Increasing frequency of manifestation and complication of organization of processes of activity and interaction of individual participants in the financial services market increase the number of threats to the stability of the market and increase the level of risks of conducting financial transactions.

Research analysis and problem statement. The risks of insurance activity within the insurance market were considering by Ukrainian scientists V.D. Basilevich, K.Y. Baissa, V.P. Bratiuk, O.Y. Zhabinets, A.M. Iermoshenko, O.V. Kozmenko, R.V. Pikus, T.A. Rotova, N.V. Tkachenko, V.M. Furman and others. It is necessary to distinguish authors who consider the systemic nature of insurance risks, manifestations of systemic risk at the insurance market: D. Bila, A.M. Iermoshenko, T.A. Rotova. The authors have different approaches to interpreting the concept of systemic risk of the insurance market, which defines the necessity to clarify the field of activity, factors and conditions of occurrence of this risk at different levels of the financial system. The assessment of the systemic risk of the insurance market also doesn't have the necessary level of consideration in scientific researches.

The purpose of the research is to investigate the features of systemic risk manifestation, to identify its characteristics within the joint activity of insurance and other financial intermediaries at the insurance market and in the interaction of different segments of the financial market under regulatory conditions.

Research results. The risks of insurance activity are presented by researchers according to different classification approaches. The types of risks inherent in the activity of an insurance

company are offered by N.V. Tkachenko [1, p. 88]. Among the risks types offered by the author, the most of them reflect the macro level of their occurrence. Only a partial characteristic of market risk corresponds to the influence of the company on the factors of meso- and macro-levels. In its turn, the Regulation of the National Commission that makes state regulation in the financial services Market [2] establishes a classification of risks of insurance companies with a market component as well, but more specifically it is identified as subspecies - counterparty default risk, the market concentration risk, and membership risk of financial group.

Indeed, one of the results of competition between financial institutions, their desire for financial stability may be considered by increasing the level of capitalization of individual participants and the insurance market as a whole. Institutional capitalization processes also address mergers and acquisitions (M&A) between them. Researchers point out the lack of information about M&A transactions between insurance companies [3, p.125-126], which is reflected in the insufficient level of research of these processes and their impact on the characteristics of the insurance market, markets of other financial intermediaries, the financial market as a whole, the sector of real economy. One of the effects of such impact is the ability to transfer and accumulate individual risks of insurers from one insurer to another. As well as transferring risks to participants of one financial group.

Risk classification proposed by A.M. Iermoshenko [4, p. 211] contains individual, systematic and system risks. System risks are considered to be related to the state economy. Not only the risks of financial and economic but also political, social and technological changes are considered among the system risks. These risks are considered by the author as a possible negative impact on the activity of the insurance company.

In the opposite sense, system risk as a threat that events in a financial system of a certain level, such as the insurance market, can cause high losses, the destruction of this system and can cause significant losses in the real economy, said the head of the European Central Bank Jean-Claude Trichet [5].

Thus, system risk (or system risks) is considered as a manifestation of exogenous market risk. The impact of system risk is initially directed at the activity of an individual insurance company, which ultimately covers all market participants and is a destructive factor for its functioning. The promotion of system risk in the market occurs in a short period of time. It is spread across different segments of the financial market.

The important segments of interaction in the insurance business are the stock market, the foreign exchange market, the investment market. It is this interaction that enables the insurance company to diversify the directions of formation of its own assets in the process of accumulation of insurance reserves.

Independent insurance companies also have to constantly interact with various banking institutions in their activities. Firstly, insurance companies act as a traditional bank customer who can open accounts with several banks to optimize their financial activities. Secondly, insurance companies and banks should be partners in conduction of separate types of business. The insurance company carries out financial risk insurance, insures mortgage property, customers lives and bank employees.

Also, the formation of system risk is due to the dangerous uneven concentration of assets, the direction of financial flows. This can cause financial disparities and cause system risk to occur or increase in the insurance market. Finally, the general economic downturn can simultaneously affect all market participants that can be also a risk factor.

Since 2015, the Financial Stability Board, composed of representatives of the leadership of all mega-regulators of Ukrainian financial market, reviews the system risks to the overall situation in the financial sector of the country's economy. Identifying and monitoring system risks are identified by one of the main objectives of the Board. In 2017, in order to clear the financial market, the quality requirements of insurers' assets were strengthened. In 2018, according to the Financial Stability Board's report, the risk level remains stable and does not fluctuate significantly [6].

The activity of the insurance market is characterized by increased risks. Insurance companies meet such financial risks as operating, currency, credit, interest rate, liquidity risk, market, reputational and others. One of the risks that take into account the impact of the insurance market on the company's operations is system risk, which is defined as a cumulative effect from dynamic interaction of individual financial institutions. A financial institution that influences by its scope and a scope of its activity a large number of counterparties in terms of scale and can be identified as systemically important as a result of their activities. Such financial institution, in the period of its own financial instability, is able to adversely affect the financial stability of not only an individual counterparty, but also the financial stability and financial security of the relevant financial services market.

In recent years, there are considerable amount of researches of domestic and foreign scientists devoted to the study of system risks and systemically important financial institutions [7]. It is supported the position of the necessity to develop macro prudential regulation to reduce system risks [3, p.128].

In Ukraine, the National Bank of Ukraine identifies yearly the systemically important banks whose bankruptcy or malfunctioning may cause the increase of system risks not only for the banking market but also for the whole financial system. JSC CB Privatbank, JSC Ukreximbank and JSC Oschadbank are designated systemically important banks for 2018 [8]. These banks have set higher standards of liquidity and capital.

The Mega regulator of the Insurance Services Market - the National Commission, which makes the state regulation of financial services markets, is steadily increasing its prudential oversight of non-banking financial institutions [9]. But the implemented "risk profiles" are still focused on financial risk, underwriting risk, market risk. The regulatory requirements are set to the level of capital adequacy of the insurance company, to the size of its regulatory capital (MCR, SCR, add-on Capital). Unlike the National Bank of Ukraine, systemically important insurance companies of Ukraine are not established due to the insufficient level of their capitalization and the lack of systematic influence of their financial stability on other financial institutions.

The Financial Stability Board (FSB) is a financial institution that provides global financial stability by coordinating the development of regulatory and supervisory and other financial sector policies and identifies globally important insurance companies annually. In November 2016 it was determined [10] by the appropriate methodology [11], and in 2017 the following insurance companies were confirmed by Aegon N.V., Allianz SE, American International Group, Inc., Aviva plc, Axa S.A., MetLife, Inc., Ping An Insurance (Group) Company of China, Ltd., Prudential Financial, Inc. and Prudential plc.

The methodological setting of system risk assessment in the market is the application of a systematic approach to the diagnosis of the insurance market as an economic system and its elements - individual insurance companies. They act as market subsystems. At the same time, we consider each insurance company as an independent open complex economic system. The assessment should be performed in accordance with the following principles: the systemic risk assessment is based on the results of the systematic analysis of the insurance market and the individual insurance company; it is necessary to take into account the accumulation of disproportions in insurance activity; financial market imbalances; the quantitative value of the level of systemic risk is determined both by the indicators of endogenous factors of influence and exogenous factors; impact factors that are exogenous to individual insurance companies are endogenous factors for the whole insurance market; the evaluation should be done at the expense of quantitative and qualitative indicators. By conducting a systematic analysis of the insurance market, it is determined a measure of the influence of systemically important financial institutions on the activity of the insurance market by the banking services and the stock market. For an individual insurance company the structure of the portfolio of assets is considered and compared with the average market structure of assets of the insurance market. The uneven asset concentration and orientation are indicators of increased system risk. A hierarchical model of the insurance market is built to determine the impact of an individual participant in the insurance market on its financial

stability, the value of which is also used as an indicator of increasing system risk. A comprehensive indicator of the systemic risk assessment of the insurance market consists of the following elements: assessment of the financial stability of the insurance market, assessment of the impact of systemically important financial institutions with domestic and foreign capital; analysis of the sensitivity of the market portfolio of assets to significant fluctuations in macroeconomic indicators.

Conclusions. Therefore, increased competition and globalization are factors for intensifying the interaction and interaction of different financial institutions. Factors and conditions of occurrence and distribution of system risk reveal features of its manifestation in the insurance market. This determines the necessity to identify and evaluate system risk not only of individual markets, including insurance, but also of their isolation among the financial risks of participants - insurance companies. A systematic approach to assessing system risk should be applied both at the stage of market diagnosis as a whole and at the stage of risk assessment. Taking into account the influence of systemically important foreign insurance companies and companies with foreign capital on the activity of the domestic insurance market is combined with the corresponding influence of systemically important banking institutions on insurance activity in the processes of interaction of these sectors of the financial market. Mega regulators of financial market should to expand their monitoring object by insurance risk types.

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