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PRUDENTIAL REGULATION OF INSURANCE ACTIVITIES: THEORETICAL AND APPLIED IMPERATIVES IN THE CONTEXT OF FINANCIAL UNCERTAINTY

Object of study. The object of the study are the processes of prudential regulation in the field of insurance. One of the most problematic issues is the lack of developed theoretical and methodological and applied approaches to determining the features of prudential regulation and supervision of insurance activities in terms of financial uncertainty.

Methodology. The information base of the research is the regulations of the National Bank of Ukraine, standards and recommendations of the International Association of Insurance Supervisors and the Committee of European Insurance and Occupational Pensions Supervisors. The basic methods used are the following: dialectical, which allows to explore the combination of factors which are interrelated; analysis, synthesis, induction and deduction (with clarification of the categorical system of research; study of international practice, comparisons and special legal (when considering the legal framework, identifying problems with the functioning of insurance regulation, study of the existing model of supervision), which provided an opportunity to formulate conclusions and develop recommendations to ensure prudential regulation of insurance business.

Results. On the basis of empirical generalizations in the article it has been proved that it is expedient to investigate the prudential regulation of insurance activities in terms of the system of regulation of insurance activities aimed at ensuring the stability of the insurance system (macroprudential regulation), as well as protecting the interests of clients of insurance companies and the financial stability of insurance companies (microprudential regulation). The fact that the development of insurance is characterized by a change in the regulatory framework under the regulatory supervision of the National Bank of Ukraine has been emphasized in the article. The main problems of institutional support of functioning and development of prudential regulation of insurance activity have been determined.

Scientific novelty. The article has proposed to deepen the theoretical approaches to the implementation of prudential regulation of insurance activities in the modernization of the financial market, taking into account the interests and goals of participants in the financial ecosystem.

Theoretical and (or) practical significance. The practical significance lies in the fact that insurance supervision should be based on the principles of financial security control in order to ensure sustainable development of the insurance market; prudential regulation should help control, prevent systemic risks and the main object of attention should be systemically important insurance organizations.

Keywords: spatial development of economy, state regulation, prudential regulation, prudential supervision, insurance business, financial market, financial uncertainty, split.

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ПРУДЕНЦІЙНЕ РЕГУЛЮВАННЯ СТРАХОВОЇ ДІЯЛЬНОСТІ: ТЕОРЕТИКО-ПРИКЛАДНІ ІМПЕРАТИВИ В УМОВАХ ФІНАНСОВОЇ НЕВИЗНАЧЕНОСТІ

Об'єкт дослідження. Об'єктом дослідження є процеси пруденційного регулювання та нагляду в сфері страхування. Одним з найбільш проблемних місць є відсутність розроблених теоретичних і методично-прикладних підходів до визначення особливостей пруденційного регулювання та нагляду за страховою діяльністю в умовах фінансової невизначеності.

Методологія. Інформаційною базою дослідження є постанови Національного банку України, стандарти та рекомендації Міжнародної асоціації органів нагляду за страховою діяльністю та Комітету європейських органів нагляду за страхуванням і пенсійними фондами. Основними використаними методами є: діалектичний, що дозволяє досліджувати сукупність у взаємозв'язку; аналіз, синтез, індукція й дедукція (при уточненні категоріального апарату дослідження); вивчення міжнародної практики, порівняння та спеціально-правові (при розгляді нормативно-правової бази, виявленні проблем функціонування страхового регулювання, дослідженні існуючої моделі нагляду), що надало можливість сформулювати висновки та розробити рекомендації щодо забезпечення розвитку пруденційного регулювання страхового бізнесу.

Результати. На підставі емпіричних узагальнень в статті доведено, що доцільно досліджувати пруденційне регулювання страхової діяльності з точки зору системи норм регулювання страхової діяльності, спрямованої на забезпечення стабільності системи страхування (макропруденційне регулювання), а також на захист інтересів клієнтів страхових компаній і фінансову стійкість страхових компаній (мікропруденційне регулювання). Акцентується увага на тому, що розвиток страхування характеризується зміною нормативно-правової бази під регуляторним наглядом Національного банку України. Визначено основні проблеми інституційного забезпечення функціонування та розвитку пруденційного регулювання страхової діяльності.

Наукова новизна. У статті запропоновано поглиблення теоретичних підходів до розвитку пруденційного регулювання страхової діяльності при модернізації фінансового ринку з урахуванням інтересів та цілей учасників фінансової екосистеми.

Практична та (або) теоретична значущість. Практичне значення полягає в тому, що страховий нагляд повинен базуватися на принципах контролю фінансової безпеки з метою забезпечення стійкого розвитку страхового ринку; пруденційне регулювання має сприяти контролю, запобіганню системних ризиків і основним об'єктом уваги мають бути системно значимі страхові організації.

Ключові слова: просторовий розвиток економіки, державне регулювання, пруденційне регулювання, пруденційний нагляд, страховий бізнес, фінансовий ринок, фінансова невизначеність, спліт.

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ПРУДЕНЦИАЛЬНОЕ РЕГУЛИРОВАНИЕ СТРАХОВОЙ ДЕЯТЕЛЬНОСТИ: ТЕОРЕТИКО-ПРИКЛАДНЫЕ ИМПЕРАТИВЫ В УСЛОВИЯХ ФИНАНСОВОЙ НЕОПРЕДЕЛЕННОСТИ

Объект исследования. Объектом исследования являются процессы пруденциального регулирования и надзора в сфере страхования. Одним из самых проблемных мест является отсутствие разработанных теоретических и методико-прикладных подходов к определению особенностей пруденциального регулирования и надзора за страховой деятельностью в условиях финансовой неопределенности.

Методология. Информационной базой исследования являются постановления Национального банка Украины, стандарты и рекомендации Международной ассоциации органов надзора за страховой деятельностью и Комитета европейских органов надзора за страхованием и пенсионными фондами. Основными использованными методами являются: диалектический, который позволяет исследовать совокупность во взаимосвязи; анализ, синтез, индукция и дедукция (при уточнении категориального аппарата исследования);

изучение международной практики, сравнения и специально-правовые (при рассмотрении нормативно-правовой базы, выявлении проблем функционирования страхового регулирования, исследовании существующей модели надзора), что позволило сформулировать выводы и разработать рекомендации по обеспечению развития пруденциального регулирования страхового бизнеса.

Результаты. На основании эмпирических обобщений в статье доказано, что целесообразно исследовать пруденциальное регулирование страховой деятельности с точки зрения системы норм регулирования страховой деятельности, направленной на обеспечение стабильности системы страхования (макропруденциальное регулирование), а также на защиту интересов клиентов страховых компаний и финансовую стойкость страховых компаний (микропруденциальное регулирование). Акцентируется внимание на том, что развитие страхования характеризуется изменением нормативно-правовой базы под регуляторным надзором Национального банка Украины. Определены основные проблемы институционального обеспечения функционирования и развития пруденциального регулирования страховой деятельности.

Научная новизна. В статье предложено углубление теоретических подходов к развитию пруденциального регулирования страховой деятельности при модернизации финансового рынка с учетом интересов и целей участников финансовой экосистемы.

Практическая и (или) теоретическая значимость. Практическое значение заключается в том, что страховой надзор должен базироваться на принципах контроля финансовой безопасности с целью обеспечения устойчивого развития страхового рынка; пруденциальное регулирование должно способствовать контролю, предотвращению системных рисков и основным объектом внимания должны быть системно значимые страховые организации.

Ключевые слова: пространственное развитие экономики, государственное регулирование, пруденциальное регулирование, пруденциальный надзор, страховой бизнес, финансовый рынок, финансовая неопределенность, сплит.

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Statement of the problem in general.

The formation of fintech-ecosystems, the development of globalization's ties between states, the risks of global financial crises and their immediate spread through financial channels are the most significant reasons for the development of prudential regulation of insurance activities, covering more and more countries in order to ensure financial stability, trust and transparency of insurance activities.

Implementation of measures to increase financial significance and diversify risks, to strengthen the regulatory perimeter in the field of cybersecurity intensify the process of adaptation of national legislation to international standards of prudential regulation of insurance activities. The above mentioned proves the relevance of research topic, determines its purpose and objectives.

Object of research and analysis of existing solutions to problems.

The object of research are the processes of prudential regulation in the field of insurance. One of the most problematic issues is the lack of developed theoretical and methodological and applied approaches to determining the features of prudential regulation and supervision of insurance activities in terms of financial uncertainty.

In order to form recommendations for the development of methods of prudential regulation of insurance activities, the problems of the subjects of this regulation and their legal status are studied. Particular attention in these works is paid to the problems of changing the characteristics of regulatory regimes, which include quantitative requirements, qualitative requirements, requirements for market discipline, as well as the principles of supervision.

Thus, the emphasis on the problems of supervision is made in a monographic study [1, p. 11]. Scientists note that from a methodological point of view, there are two possible approaches to its implementation: based on risk assessment and based on verification of compliance with certain standards and requirements. The analysis of the world practice of supervising the activities of insurance companies was carried out in the study [2]. The author highlights its types (at the stage of licensing, prudential supervision and business supervision) and notes that the prudential aspects of insurance regulation include supervision of the financial condition and professionalism of insurance companies. The consequences of Solvency II's influence on various aspects of Serbian insurance companies' activities are discussed in [3, p. 49]. Scientists examine in detail the main characteristics of Solvency II and prove that the new directive gives insurance companies the freedom to choose in almost every business segment, provided that the business does not threaten their interests and solvency. Among the reasons for the formation of an effective system of state regulation of the insurance sector in Ukraine are the problems of functioning of insurance companies [4, p. 225, 227], namely: general economic, affecting the development of all sectors of the national economy;

specific and inherent in the insurance market in general; micro-level obstacles. Emphasis is made on the fact that the state plays a supporting role in their leveling. At the same time, it is noted that insurance companies should be interested in reducing the impact of these groups of problems on their activities. According to the source [5, p. 139], “Solvency II introduces [5, c. 139], “Solvency II introduces features to improve a firm’s understanding and management of its risks, which should result in improved resilience to shocks... some of which seek to ensure that firms identify, quantify and manage their risks on a proportionate and forward-looking basis. Other features will provide greater transparency to markets and supervisors” [5, c. 144].

Thus despite a fairly substantial literature on the topic, there are a number of issues requiring in-depth research, in particular the identification and understanding of the essence of prudential regulation of insurance activity in the conditions of formation of the modernization of the national financial market, which should be based on modern theoretical and methodological foundations of the market economy and the insurance market.

Selecting previously unsolved parts of the overall problem.

Most publications on the problems of regulation and supervision of insurance activities focus on the issues ensuring the efficiency of the insurance market, the disclosure of certain problematic aspects of their implementation. At the same time, scientists emphasize the feasibility of eliminating existing problems. However, paying tribute to the scientific achievements of scientists and taking into account the impact of financial globalization, reassessment of economic processes, revision of basic concepts and proposed forecasts, there is a need for specific scientific and methodological developments to improve state regulation of the insurance business, considering the interests and goals of all participants in the financial ecosystem. In particular, a unified (conceptual) approach to understanding the prudential regulation of insurance needs to be developed both in terms of determining its scope and entities engaged in this activity, and in the systematization of measures of prudential regulation and supervision.

Formulation of purpose of the article and research objectives.

The purpose of the article is to develop theoretical foundations for the implementation of prudential regulation of insurance companies. Achieving the goal of the study requires solving the following tasks:

1. Analyze the legal framework for the development of insurance regulation.
2. Characterize the legal status of the supervisor and the functioning of the existing supervisory model.
3. Identify problems of functioning and development of prudential regulation of insurance activity.
4. Develop recommendations for providing the development of prudential regulation of the insurance business.

Presentation of the main research material with a full justification of the obtained scientific results.

In 2020, international cooperation involved political, economic, and regulatory mechanisms to overcome the global emergency. The COVID-19 epidemic dealt an unprecedented blow to the global financial markets: the prices of risky assets fell sharply, and the cost of borrowing increased significantly (especially in high-risk credit markets); emerging economies and border economies experienced a sharpest reversal in portfolio capital flows in the history of official observations; fiscal, monetary and financial policies have been developed to support the economies of countries affected by the pandemic. These volatile market conditions have led to a “flight to quality” [6].

Banks have large amounts of capital and liquidity, and have also undergone stress testing, and liquidity support from central banks has helped reduce financing risks, putting them in a more favorable position than at the beginning of the global financial crisis. However, the stability of banks can be tested in some countries in the face of large market and credit losses, and this may make them reduce the volume of loans to the economy, which will increase the slowdown in activity.

The international nature of financial activity causes a unification of approaches to the activities of financial market participants. In international practice, the basic principles of effective banking supervision have been developed by the Basel Committee on Banking Supervision. The objectives and principles of securities regulation are developed by the International Organization of Securities Commissions. Basic insurance principles and methodologies developed by the International Association of Insurance Supervisors [7–10].

Financial services are defined in international treaties. Financial markets are divided into three sectors: banking services; securities market services; insurance services. Insurance services sometimes include the services of private pension funds.

The development of the modern economy necessitates changes in the forms and principles of regulation of the financial system. Colaert V., Panzavolta M. and Sara de Moor in the publication “The future of the institutional architecture of the European Supervisory Authorities” determine that in the plea for “structural action, two lines of reasoning can be followed: one line consists of arguments that lead to a cross-sectoral structure for European micro-supervision by putting forward the overall assertion that the present, complex sectoral model is not able to absorb the many challenging innovations that lie ahead of Europe and its Member States; the other line of arguments upholds the sectoral structure: it draws attention to the fact that another structure might neither be feasible nor imperative” [11].

In the formation of the unified insurance market in Europe, the signing of the Rome Agreement of 1957 was done. This agreement served as the basis for the formation of a single insurance space and uniform national insurance legislation of the countries of the European Union (EU). The adopted Directives of the EU (from 1973–2020) established:

- the creation of a single conceptual toolkit (for the formation of a single insurance law for the approximation and harmonization of the laws of the Member States of the European Union);
- the principle of dividing insurance companies into life insurance companies and companies dealing with risky types;
- common legal grounds that determine the procedure and conditions for the establishment of insurance organizations (requirements for the size of the authorized capital, business plans, personnel of insurance organizations);
- a unified classification of types of insurance for licensing and insurance supervision;
- unified rules and composition of the formation of insurance reserves (investment, unified rules for assessing and controlling the financial stability of insurance companies);
- determination of the functions of supervisory authorities, differentiation of powers between the supervisory authorities of the Member States of the EU;
- removal of control of supervisory authorities in the field of pricing and development of insurance products.

The rules of a single license for insurance activity (single license), valid in any member state of the EU, were also introduced [7–10].

A stable financial system requires protection of the interests of policyholders and beneficiaries. The insurance industry is changing under the influence of global, social and technological changes in the economy. The world economy has accumulated vast international experience in insurance supervision and the formation of a prudential insurance regulation system. In formalizing the system of financial regulation of insurance activities, the mechanism of prudential regulation should be used.

The use of instruments of state regulation of insurance should be consistent with the strategic goals of economic and financial market development. In the economic literature there are three levels of state regulation in insurance:

- macroregulation – adoption of legislation governing the implementation of insurance activities; development of programs, of insurance development strategies; provision of state guarantees;
- ensuring a fair competition;
- microregulation – state supervision of the activities of insurance entities [12, p. 69]. Regulation in institutional theory is presented in the form of a “principal-agent”. The state as a principal gives authority to the agent represented by the mega-regulator.

At the international level, in the field of supervision in the financial services sectors, relevant international regulations, standards and guidance are applied.

The type of regulation of insurance activity is prudential (from the English prudential – prudent, cautious) regulation, through which the state monitors compliance by insurance companies with the norms and rules of insurance activities, compulsory licensing, as well as the supervision of insurance organizations in order to identify and to deter violations.

The Solvency II mandate requires insurance agencies: 1) to hold capital comparable to their risk profiles to ensure that they have enough money related assets to withstand monetary challenges; 2) insurance companies need to set up a sufficient and straightforward administration framework; 3) insurance companies need to lead their own risk and solvency evaluation all the time. The mandate empowers managers to survey and assess whether insurance agencies agree to the principles; requires these organizations to answer to administrative specialists and uncover data freely.

Guideline (EU) 2015/35 (known as the Solvency II appointed guideline), sets out itemized necessities for applying the Solvency II system. It is the center of the single prudential guideline book for protection and reinsurance firms. The Solvency II appointed guideline covers, in addition to other things: 1) resources and liabilities valuation, including the long-term ensure measures; 2) how to set the degree of capital for resource classes an insurer is planning to invest in; 3) the qualification of insurers' own reserves to cover capital prerequisites; 4) how insurance agencies ought to be overseen and represented; 5) evaluating the proportionality of non-EU nations' solvency systems with EU standards; 6) standards on the utilization of "inward models" to compute prerequisites on solvency capital; 7) explicit standards identified with insurance companies; 8) streamlined strategies and exclusions to make Solvency II simpler to apply for smaller assurers.

Solvency II standards acquaint prudential prerequisites custom fitted with the particular dangers which every assurer bears. They advance transparency, interpersonal comparisons and competitive capacity in the insurance division. The system comprises of a directory, executing rules and technical rules. The Solvency II order (corrected by the Omnibus II mandate), turned out to be completely relevant to European insurers and reinsurers on 1 January 2016. It covers 3 primary zones, identified with capital prerequisites, risk administration and administrative standards [13].

The mandate requires insurance agencies 1) to hold capital according to their risk profiles to ensure that they have enough monetary assets to withstand money related challenges; 2) insurance agencies need to set up a sufficient and straightforward administration framework and direct their own risk and solvency evaluation all the time. The order empowers directors to survey and assess whether insurance agencies conform to the guidelines, requires these organizations to answer to administrative specialists and unveil data freely.

Under the Solvency II order the European Commission: 1) can embrace designated and actualizing acts, including specialized measures and data for the figuring of specialized arrangements and fundamental own assets; 2) the Commission is at present thinking about checking on the Solvency II designated guideline. The Solvency II assigned guideline was changed by Regulation (EU) 2016/467 as a major aspect of the Commission's capital markets association activity to expel hindrances to interest in the EU and channel cash-flow to foundation and long-term feasible ventures.

The alterations to the Solvency II appointed guideline intend to make better motivations for assures to put resources into those activities: 1) under the new guideline, "qualifying foundation ventures" will shape an unmistakable resource class and will profit by a fitting, lower risk adjustment; interests in European Long-Term Investment Funds and values exchanged on multilateral exchanging offices will likewise profit by lower capital charges; 2) further to the progressions on "foundation ventures", Delegated guideline (EU) 2017/1542 presented another class ("infrastructure corporates") in the advantages that can profit by a lower risk alignment; 3) further to the progressions on "foundation ventures", Delegated guideline (EU) 2017/1542 presented another class ("infrastructure corporates") in the advantages that can profit by a lower risk alignment.

Specifically, the new standards will supplant the current qualification between "type 1" and "type 2" securitisation with the differentiation among standardised securitisations (STS) and non-standardised securitisations; supplant the part explicit arrangements on due perseverance and risk maintenance with references to the orchestrated STS structure; present risk touchy capital prerequisites for senior and non-senior tranches of STS; accommodate transitional standards concerning interests in securitisation that were given before utilization of the STS system [7-10; 13].

The study of practical problems of prudential regulation of insurance activities, such as shadow insurance activities, improvement of insurance standards based on international standards and norms, systemic financial crises requires an appropriate conceptual framework and the formation of a unified approach for understanding of prudential regulation and its boundaries.

The global macroeconomic dynamics significantly affects the strategy and activities of insurance companies in Ukraine. The total number of insurance companies in Ukraine on December 31, 2019 was 233, including life insurance companies 1 – 23 companies, non-life insurance companies – 210 companies (on December 31, 2018 – 281 companies, in including life insurance companies – 30 companies, nonlife insurance companies – 251 companies). The number of insurance companies has decreased significantly, so in 2019 compared to 2018, the number of companies decreased by 48 insurance companies, compared to 2017 decreased by 61 insurance companies.

In 2019, the share of gross insurance experience decreased to gross domestic product, which amounted to 1.3%, which is 0.1 percentage points to reduce in comparison with 2018. The share of net insurance victories in relation to gross domestic product was achieved in 2018 and amounted to 1.0%. The share of net

insurance premiums in gross insurance premiums for 2019 was 74.7%, which is 5.0 percentage points more compared to 2018 year [14, p. 1].

In the study [1, p. 9] scientists consider prudential supervision as a component of prudential regulation process, as well as an independent function of the supervisory body, which does not absorb other functions of supervision, but penetrates them, affecting the effectiveness of state regulation. In the universal dictionary-encyclopedia the term “regulation” has a clear definition as the impact on a particular process in order to reduce deviations from its desired course [15]. In order to differentiate regulatory goals, we consider it appropriate to study the prudential regulation of insurance activities, by which we mean the system of regulation of insurance activities aimed at ensuring the stability of the insurance system (macroprudential regulation), as well as protecting the interests of clients of insurance companies and the financial stability of insurance companies (microprudential regulation).

In the segment of prudential supervision of insurance activities, the following was gradually introduced: stress testing and disclosure of information on key risks, which will be conducted by insurers (order of Natskomfinposlug dated from 13.02.2014 No. 484); introduction of the insurance company’s passport with the help of tools and data of the “Integrated Information System”, which contains all the necessary information about the financial institution (data on the founders, key performance indicators, applied measures of influence, etc.); setting of stricter requirements for insurers’ assets and changing of the investment policy of insurers to preserve real assets.

In Ukraine, state regulators paid special attention to improve the system of prudential supervision of insurance companies: they changed regulations in the field of insolvency of insurers (Methods of forming insurance reserves in accordance with types of insurance other than life insurance; Regulations on mandatory criteria and standards of sufficiency, diversification and quality of the insurer’s assets; Methods of insurance reserves’ forming in accordance with type of insurance, other than life insurance and others).

The changes were made to the methods of forming of the reserve for unearned premiums; supplementing of the list of methods of forming the reserve of unearned premiums by the method of “loss ratio”; methods of forming of the reserve of declared but unpaid losses; increase in actuarial methods, which allow the formation of a provision for losses that arose but were not declared; methods of formation of the reserve of losses fluctuations; establishing a methodology for verifying the adequacy of insurance liabilities in accordance with the requirements of International Financial Reporting Standards. The introduction of progressive approaches to the assessment of the insurer’s insurance liabilities should be combined with measures to clean the finances of insurers from low-quality assets.

The issue of taking into account the needs of the insurance market for the formation of insurance reserves, which will more accurately take into account the actuarial nature of the insurer’s obligations under insurance contracts; updating of approaches and methodology for assessing the amount of insurance liabilities in accordance with international experience and International Financial Reporting Standards to verify the adequacy of insurance obligations of the insurer; formation of insurance reserves in accordance with types of insurance, other than life insurance, concerning a correct formation of the volume of insurance liabilities.

The provisions on mandatory criteria and standards of sufficiency, diversification and quality of the insurer’s assets require ensuring compliance with the appropriate level of solvency of the insurer by setting capital requirements; calculation of the asset adequacy ratio by increasing it by the amount of equity; establishment of the standard of capital adequacy of the owner of significant participation; increase the list of assets of acceptable quality for inclusion in such standards.

The purpose of the Strategy for the Development of the Financial Sector of Ukraine until 2025 is to ensure further reform and development of the national financial sector in accordance with leading international practices and implementation of measures provided by the Association Agreement between Ukraine and the EU and other international obligations of Ukraine [16].

It provides obvious benefits for the insurance business: increasing of the financial services competitiveness, ensuring of diversification, maintaining of solvency and improving of the insurance activities efficiency. The reasons for the high level of risks in insurance activities are the lack of transparency of insurance companies, financial interdependence with other participants in the insurance market, as well as competition in the insurance market.

The strategy of modernization of the national financial market in the main areas of financial stability strengthening, financial inclusion expanding and innovations’ introducing actualizes the following positions of development of state regulation of the insurance business.

On September 12, 2019, the Verkhovna Rada of Ukraine adopted the law on improving the functions of state regulation of financial services markets (“Split”), which provides for the liquidation of the National

Commission for State Regulation of Financial Services Markets and the transfer of its functions to the National Bank of Ukraine and the National Securities Commission of securities and stock market.

In 2020, the National Bank of Ukraine received an extension of its mandate to protect the rights of consumers of financial services, increasing of financial literacy, and regulation and supervision of a significant number of non-banking institutions.

During the transition period, during which the functions of regulators will be transferred, special attention will be paid to the procedure for providing administrative services, the peculiarities of supervision, in particular prudential supervision, reporting procedures, and law enforcement.

The National Bank is transforming its internal organizational structure to ensure an effective implementation of the functions of regulating of non-banking financial services markets, which it will receive from July 1, 2020 within the framework of the “Split” project:

1. The National Bank has created two new departments: methodologies for regulating the activities of non-banking financial institutions in the Monetary Stability block and insurance market supervision in the Prudential Supervision block. The Insurance Market Supervision Department will be responsible for prudential supervision of insurance companies, specialized reinsurers and insurance intermediaries, and the Department for Methodology of Regulation of Non-Banking Financial Institutions – for the development and maintenance of regulations and administrative acts on non-banking financial market regulation. These units will facilitate an effective succession of functions from the National Commission for State Regulation of the Financial Services Market.

2. The current structure of the National Bank is being updated: the Department for Supervision of Non-Bank Credit Institutions and the Department for Supervision of Financial Companies have been established within the Department for Supervision of Financial Institutions, and the Department for Inspections of Non-Bank Financial Institutions has been established within the Department for On-Site Inspections. The structure of the Licensing Department has also been completely renewed, which will now include four departments: licensing of credit institutions, licensing of insurance companies, licensing of financial companies and expert-analytical management, as well as the licensing department of payment services.

Under the Memorandum of Understanding and Cooperation, in order to comply with the provisions of the Law on Split, the regulators undertook to: share information and hold regular consultations; coordinate the preparation of draft regulatory acts; organize the transfer of documents, reports, information, messages and other information; opportunity to get acquainted with information systems, databases, software and hardware, and related documentation.

Insurance supervision should be based on the principles of financial security control in order to ensure sustainable development of the insurance market. Prudential regulation should help control and prevent systemic risks. The main object of attention is systemically important insurance organizations. State regulation in the insurance industry is implemented through the application of appropriate measures at the microlevel. The insurance company operates under the influence of insurance, business, investment, currency, and political risks. The implementation of a risk management system is an important element in the formation of a risk-oriented management system of an insurance company.

Conclusions and prospects for further development of this area.

1. The legal framework for the development of insurance regulation is analyzed. From which the following conclusion is made that:

– the current stage of insurance development is characterized by a change in the legal framework for financial and insurance business under the regulatory supervision of the National Bank of Ukraine (Split program), the formation of the White Paper “Future regulation of the insurance market in Ukraine”, changing trends and tendencies in the global financial markets;

– approval by the financial market regulators of the Strategy of Development of the Financial Sector of Ukraine until 2025, Strategy and Program of Action of the National Bank of Ukraine in 2020 [17; 18] and implementation of the main provisions of the United States Agency for International Development, USAID Project “Financial Sector Transformation” allow purposefully form proposals for the creation of an effective system of state regulation of the insurance business in modern conditions of modernization of the financial sector of Ukraine;

– state regulators have recorded the intention to timely and effectively ensure the implementation of the provisions of the law on the Split and the application of ethical standards in professional activities in the process of developing a professional community Code of Professional Ethics for stock market participants.

This will contribute to the introduction and successful operation of a new model of insurance market regulation in Ukraine.

2. The legal status of the supervisor and the functioning of the existing model of supervision are described, namely it is determined that:

- the National Commission for State Regulation of Financial Services Markets was liquidated;
- the internal structure of the National Bank of Ukraine was transformed, its functions of regulating the markets of non-banking financial services were expanded. This will improve the functions of state regulation of financial services markets.

3. It is determined that the basic problems of functioning and development of prudential regulation of insurance activity are:

- the institutional problems of reviewing and filling with new content of state regulation of financial services markets (“Split”), including insurance business (the creation of liquid markets for financial instruments; deregulation of non-bank financial services with low levels risks; ensuring effective legal regulation of insurance intermediaries). This highlights the need to create a complete regulatory and supervisory system which is necessary to maintain a fair, safe and stable insurance sector.

4. Based on the above mentioned, it is necessary to develop recommendations aimed at:

- analysis of the content and fundamentals of the emerging model of a mega-regulator of the financial market and its correlation with other models for the implementation of prudential regulation and supervision in order to identify positive and negative aspects of its application;

- study the applied issues of insurance regulation; application of international capital market infrastructure standards on a consolidated basis (requirements CSDR, EMIR, MIFID II, MIFIR, PFM); insurance regulation in accordance with Solvency II and International Association of Insurance Supervisors principles;

- improvement of state supervision over insurance activities (organization of internal system of risk management and control, ensuring transparency of financial reporting, identification of shortcomings in the activities of insurance companies at the early stages of their development, etc.);

- application of a risk-based approach to regulation and supervision of insurance companies;

- ensuring equal opportunities for the provision of insurance services to all market participants, preventing the monopolization of insurance activities;

- ensuring the information exchange among executive bodies, increasing the effectiveness of macro-prudential supervision by the Ministry of Finance of Ukraine and the National Bank of Ukraine.

Prospects for further development in this area of research are the exploration of the issues of introducing of insurance companies differentiation, regulatory requirements for them and the state of prudential regulation after the introduction of Split standards.

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