

**INVESTIGATION OF INTEGRATION PREREQUISITES AND RESULTS OF BANKS
AND INSURANCE COMPANIES IN UKRAINE**

Bashlay S., ph. d. economic sciences, associate prof.

Ukrainian Academy of Banking of the National Bank of Ukraine, Ukraine

The article deals with the content and direction of the interaction of banks and insurance companies in the financial market. The author examines the economic and social conditions, as well as explores forms and prospects for integration of financial services companies of the banking and insurance business in Ukraine.

Keywords: bank, insurance company, integration, financial market, consolidation

Introduction. Financial market development and strengthening of economic processes in the individual segments encourage its members to seek new forms and ways of positioning their services. The aggressive nature of the banking sector, continuous improvement of financial services technology and the universalization of the financial and credit activities in general - the main factors of new forms and methods of savings and investment business.

Historically developed, that the banks and insurance companies are the main backbone of the financial institutions market. Globalization, international integration and increased competition forced these financial institutions constantly to increase and reformat the range of its services. Not least in the list of motivating factors of integration processes development in the banking and insurance sectors takes place tendency of financial institutions constantly provide and increase the positive result of their activities. A viable way to achieve the goal is to use a competitive advantage through the consolidation of capital and the supply of new integrated products.

Based on the interpretation of the universal essence of integration as "an intensification process of relations between the relevant agencies" subject to the such research areas of cooperation between banks and insurance companies are the following: joint formation and use of financial, technological and human resources; the creation of complex financial products; a joint marketing strategy.

The basis for the integration of banks and insurance companies is quite similar nature of the interests of financial institutions. Mutual interest in the consolidation of the banking and insurance business may be in the following steps:

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- financial institutions have the opportunity to create combined financial products for a consumer (general client);
- banks and insurance companies provide opportunities for comprehensive development, diversification and risk;
- banking is full of risky areas - insurance companies realize its mission, minimize banking risks and their possible negative effects and, simultaneously, get reliable customers.

Consequently, the investigation of trends in the development of integration processes in the financial sector with banks and insurance companies is the **main objective of this study**.

Issues of interaction, determination the forms and directions of the integration of banking and insurance companies in the light of increasing competition and permanent condition of the market have been the subject of a number of studies of foreign and domestic scholars. The length and versatility of the learning process of the integration processes in the economy, in general, and with the participation of the subjects of banking and insurance segments of the financial market itself, helped to create an appropriate methodological framework. As evidence of the practical application of scientific advances on this issue can be considered the frequent use of the essence of the phenomena, actions, tools in their regulatory and legal acts of recommendation, legislative, guidance and international institutions by financial supervisory authorities of individual countries, agencies and marketing departments of banks and insurance companies.

Proposed in the article calculations and reasoned interpretation of trends in most of its statements are based on earlier results of research and the provisions of regulations at different levels.

Result. The results of the study of historical conditions allow asserting that for a number of countries integration process of banking and insurance sectors of the financial market began in the last century.

The main motives for close cooperation with insurance companies for banks are:

- reinforcement (collateral) of credit and deposit products;
- ensuring their competitiveness in the market and promoting banking among the participants in the insurance market;
- increase of financial flows at the expense of credit and investment support to insurers;
- increasing of market share and expanding of customer base.

In turn, insurance companies receive financial support, additional channels of its products and sources of income, fixed on the financial market thanks to new savings programs and investment instruments based on the consolidation efforts with the banks.

In the current circumstances Ukrainian banks are also seeking to increase the range of its both traditional and nontraditional financial services, develop new sources of revenue. The first step in the formation of the corporate structure of financial and banking activities (establishment of subsidiary banks, investment, leasing and factoring companies), in Ukraine the specialization of separate divisions of the bank's financial services - consumer credit, mortgage, lease has become. Thus, the diversification of the banking business, has allowed developing forms of consolidation efforts with institutions whose sphere of activity are not available or limited for the banks.

The next step in ensuring the competitiveness of banks in the market has become the development and implementation of a comprehensive program of customer service resulting a new form and positioning of financial services ("in one place with one hand") - a single financial center ("financial supermarket"). At present, a variety of interaction mechanisms in tandem "bank - insurance company" have been practiced and numerous marketing scheme in view of both internal (strategy, scope, financial condition, experience) and external factors (macroeconomic situation, the rules of law) have been developed.

Thus, being attractive (as a way to expand the business), functionally similar and favorable (as the scope of the confrontation to other non-bank financial deposit and investment-related institutions - credit unions, non-state pension funds, investment companies) the insurance market in Ukraine has been effectively "captured" by banks as institutionally so as functionally.

In Ukraine institutional integration, first of all, involves the intersection of the two institutions' capital flows of the financial market. Based on the works of a number of Ukrainian and Russian scientists [2, 4, 6] four main forms of integration of banking and insurance capital: functioning under the auspices of the (composed) holding group, maternal-child relationship, joint participation in the capital and cross (indirect) ownership of capital by the third company were distinguished.

Determination of the overall scope of consolidation and the corresponding market share "in the same hands" allows general (for bank and insurance company) investors to implement their projects through appropriate management decisions aiming to unite the financial resources, to improve results and their performance, competitiveness and market value of the company as a whole.

Defined by the Basel Committee on Banking Supervision, the new parameters of the structure and quality of capital (the introduction of supervision on a consolidated basis) [7-9], as well as increased requirements of National Bank to domestic banks capital [10] became substantial stimulants of banks' intensification in integration activities. In addition, a direct connection through the capital with insurance companies allows banks to position themselves in financial services with

no other intermediaries, entering prohibited by law the right market segment. According to the NBU in the charter capital of about twenty banks the direct participation of domestic and foreign insurance companies with a total amount of about 600 mln grn. are registered. In this case only in one bank insurance company owns 100% equity stake. In other three banks the insurance companies directly own controlling stakes of their shares.

However, there is involvement of insurance companies in the authorized capital of only medium and small banks. Consequently, the proportion of their participation in the total capital of Ukrainian banks is only half a percent [1].

Taking into consideration the current requirements of national legislation with respect to activities in the insurance sector (the minimum authorized capital of the insurer – 1-1.5 million euro) [5], a perfectly normal phenomenon can be considered the active participation of banks in the capital of insurance companies.

In this case the investment aspect is complemented by the following motives of mutual submission (ownership) by banks of insurance companies:

- in the implementation of various schemes of credit insurance services are relevant to the bank;
- conflicts of interest of the bank and the insurance company is virtually absent, and the functions of financial institutions in the market are clearly divided;
- conditions for increasing their income from the joint activities of the companies are being created.

Hence, the insurance market is attractive to banks as the sphere of expanding its business in connection with the functional closeness and mutual benefit.

Banks constantly need the formation of the necessary, personal and balanced (on the timing, volume and origin) total capital (credit resources), its efficient and diversified location, and insurance of own and clients' risks.

The result of this integration (capital interweaving of financial institutions and the consolidation of their activities within the association) has been the emergence of economic prerequisites for the definition of the new common function – a single financial center (the "financial supermarket"). The nature of its implementation is the desire to provide comprehensive services to clients in financial services. Moreover, like banks insurance companies have an opportunity to create a more versatile and attractive financing programs for private and corporate clients. As a result of such integration the conditions for financial institutions competitive advantage in the market are created.

The next area of integration processes for banks and insurance companies, as it is defined in the objectives of the study, deals with the providing conditions for comprehensive development, diversification and risk. The content of the manipulation of insurance companies involves significant resources, formed as a result of getting the insurance premiums from customers. These insurance reserves they must invest in the appropriate asset classes, a list of which is determined by the existing legislation [5].

The significant part of the approved investment instruments is directly related to the activities of banks (cash on current accounts, bank deposits (deposits), foreign currency investments, etc.). Considering that banks have the experience and opportunities for management of investment resources, funds of insurance companies may be located in other assets (corporate and government securities, precious metals) with the support of banks.

Results of the assets dynamics investigation according to the State Commission for Regulation of Financial Services Markets of Ukraine over the past five years, give grounds to assert that by insurance companies of Ukraine the bank investment channel (deposits (deposits) in national and foreign currency, precious metals, as well as free cash balances in current accounts) was the most actively used.

And if the total assets as defined in Article 31 of the Law of Ukraine "On Insurance" the share of bank instruments inferior only to the investments in shares of corporations (not without the participation of banks), then in the assets which includes the technical reserves and reserves for life insurance practically all banking sources have increased in their absolute values [3].

Also do not forget that the cooperation with the bank as a client and deposit even small amounts of the assets offers the insurance company access to its customer base and customers in choosing the insurance companies have targeted the bank's recommendations [6].

Functions of the formation and preservation of the banks assets are complemented by insurance companies providing the latest conditions for a substantial income. The dynamic components of the structure of the financial income of insurance companies in Ukraine over the past few years have shown gradual increase of the bank source of their obtaining [3].

Compared with other financial instruments bank deposits continue to provide the largest part of financial income to insurers, and their reserves of cash are generated, despite the relative stability and maturity, and they are desirable sources of forming the credit and investment resources. Despite some activity in the use of stock investment tools (stocks, corporate and government bond) interest on deposits continue to provide more than half of revenues to insurers.

The active cooperation on the basis of functionality, as market participants, is also based on the warning function of insurance - insurance companies assume the risks and finance possible

losses of banks. Insurance companies consider the banks as one of the largest clients-insurers. The average amount of premiums paid by banks to insurance companies tens times exceeds the payment on the insurance industry or commercial enterprises [2].

In turn, the banks at the expense of insurance companies receive income from the additional services (acting as an insurance agent, foreign exchange, portfolio management) or provide the conditions for this (settlement-cash servicing of policyholders, the promotion of bank credit cards, etc.). Therefore, an integrated approach of financial support for customers of banks and insurance companies is often enough crossed with their services and the combination of communication-sales and marketing technology. So, using banks by insurance companies as distribution channel of their products provides them access to customers in the territory or market segments where they are underrepresented or limited in their ability to access. Increased competition encourages insurance companies to look for alternative channels for sales of insurance policies.

Expanding the range of product line for customers has a positive effect on the image of the bank and creates the prerequisites for obtaining additional benefits in moving a joint as well as their own programs. In addition, lately the branding became economic factor for the subjects of financial market, significantly influencing the effectiveness of their activities and investment attraction. The cooperation of the insurance company with a large and well-known bank and vice versa, generally leads to customer confidence increase.

Conclusion. Thus, it can be argued that the integration processes in the banking and insurance business in Ukraine are caused by combination of common and basic function of financial institutions infrastructure – mediation in the transferring of financial resources from the subjects of the savings-deposit to the subjects of credit – investment activities. Common to them is an investment, risk, and preventive function and function of payment and settlement services. Creating the conditions for access to the maximum required number of interested in such customer service is a prerequisite for the formation of an effective mechanism and competitive advantage achievement of any financial company. Consequently, the integration of banks and insurance companies is based on the intersection of their functions and interests and is caused by profitability for both parties and is determined by market conditions.

Activation of integration processes in the present conditions is due to the numerous advantages and the interest of both financial institutions in joint ventures, and cooperation is beneficial to both parties and has the potential to develop and expand. Investigation of the nature and advantages of banks and insurance companies' integration is also important in determining the necessary steps of regulatory and supervisory activities of government agencies, as well as to promote further development of the financial market of Ukraine.

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