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REINSURANCE SERVICE AND ITS ECONOMIC NATURE**Тkachenko K.V. / Ткаченко К.В.***PhD in Economics, associate professor/к.е.н., доцент.*

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Abstract. *The main legislative and scientific-theoretical approaches to the definition of "reinsurance" are studied, as well as its legislative nature is revealed. Theoretical and applied approaches to clarifying the essence of reinsurance are analyzed. According to the theoretical approach, the economic essence of reinsurance is determined. The pragmatic approach clarifies the modern content of the concept of "reinsurance".*

Key words: *reinsurance, reinsurers, reinsurance relations, insurance, insurance relations, reinsurance protection, reinsurance reinsurer, reinsurance legislation.*

Introduction.

In the current conditions of transition to a market economy, as well as the formation of free competition, the institution of reinsurance plays an extremely important role, namely: acts as an effective mechanism for protecting the property interests of insurers. After all, reinsurance allows insurers by attracting funds from other insurers / reinsurers to ensure proper fulfillment of obligations under the insurance contract, as well as maintain the stability of their own financial position. However, despite the need for reinsurance, the rapid development of the reinsurance market, the emergence of new types of reinsurance services, the expansion of their geography, in modern legal science there is no comprehensive study of this institution. Quite a few issues remain unexplored or debatable. The legal framework in the field of reinsurance is also insufficiently developed and needs to be improved.

Main text

When transferring risk from a reinsurer to a reinsurer on the basis of a contract between them, the process of buying and selling a service - reinsurance protection, the reasonable price of such protection is determined, demand and supply for it are formed.

Purchase and sale of reinsurance service allow some reinsurance participants (reinsurers) to receive additional financial guarantees (compensation by another entity for part of the liability for risk) to fulfill their obligations under insurance contracts, and other participants (reinsurers) to expand their own insurance portfolio by reinsurance of part of new objects of the insurance field.

According to Art. 2 of the Law of Ukraine "On Insurance" [1] reinsurance together with insurance and activities related to the formation and use of insurance reserves, refers to the direct activities of insurers, i.e., allocated to a separate area of the insurer, but as for the essence of reinsurance services in Ukrainian law it is not so.



In essence, the reinsurance service is a financial service, because it reflects the redistribution of liability for the insured risk and provides for the financial nature of the relationship between the reinsurer and the reinsurer.

Domestic legislation is harmonized with European legislation, because in accordance with the domestic Classification of Economic Activities (NACE) [2] a separate section K includes financial and insurance activities. It should be noted that reinsurance is issued as a separate segment of insurance.

Thus, according to European and domestic legislation, reinsurance is a separate area of insurance, characterized by a specific relationship between special entities (reinsurer and reinsurer), service offer (reinsurance), which is separate from other insurance services, although based on the original (insurance) agreement (cannot exist without it). Due to these features, the reinsurance service requires further study of its economic essence.

Examining the economic nature of reinsurance services in the reinsurance market, scientists consider it in various aspects.

Ukrainian scientist Vnukova N.M. considers reinsurance services as insurance guarantees for the direct insurer [3], revealing their important role - ensuring the financial security of the direct insurer.

Mashyna N.I. defines it as "the property situation of the original insurance company, acting as a assignor" [6]. We believe that the definition does not reveal the essence and specificity of the service, but shows it as a tool to improve the property situation of the assignor (reinsurer).

According to the scientist Kozmenko O.V. reinsurance service - "a new type of services related to the conclusion of a new contract - reinsurance" [4]. This interpretation indicates a special (new), separate from insurance type of services, as well as the need for legal relations between the participants of reinsurance.

Ukrainian scientist Shumelda Ya.P. defines reinsurance service as a combination of special and different from insurance elements [4]: participation of several insurers in the distribution of liability for insured risk, determination of direct insurer responsible for risk to the insured, distribution of paid insurance premium between insurers, full payment insurance indemnity by the insurer, the possibility of further distribution of liability for risk. The author highlights the characteristics of the reinsurance service, without disclosing the specifics of its implementation, important participants in the purchase and sale of services in the reinsurance market.

Ukrainian scientist O.V. Kneisler defines reinsurance service as one that "characterizes the set of contractual relations between the reinsurer and the reinsurer to determine the terms and rules of reinsurance and their implementation in order to obtain a beneficial effect in the form of reinsurance protection and economic interests of both participants" [4]. We consider this definition the most complete and one that reveals the essence of reinsurance service.

For a more complete disclosure of the economic nature of reinsurance services, we should consider the features of its implementation and price formation.

Russian scientist Turbina K.E. notes that "reinsurance as an independent service has an independent price, which is formed as a result of supply and demand for certain types of reinsurance services and depends on the form and type of



reinsurance" [4]. Yes, indeed, as mentioned earlier, a separate area of direct activity of the insurer is reinsurance and therefore reinsurance service can be defined as a specific service, the price for it (service) is formed depending on the chosen method, form and type of contract.

In contrast to the general scientists and practitioners, Ukrainian scientist Okhrimenko O.O. defines that the insurance service is a "complex concept and includes: basic insurance product, additional services, support" [4].

Given the derivative nature of reinsurance from insurance and many similar features and characteristics, we share and project the view of Okhrimenko O.O. on the complexity of the service for reinsurance. Thus, the reinsurance service includes: basic reinsurance service (characteristics of the risks that are transferred to reinsurance, determination of the limits of liability of the parties, the price of the reinsurance service); accompanying services (legal assistance; damage assessment, etc.). This characterizes the reinsurance service as a specific and at the same time comprehensive service on the market with the appropriate design.

The complexity of the reinsurance service is determined by Komadovska V.S. [4], noting the combination of the main reinsurance service and additional service (recommendations for underwriting, product design, loss control, etc.).

Reinsurance services, despite legal uncertainty, are financial in nature and in their content, respectively, relate to the financial services market and financial infrastructure [6].

The reinsurance service directly correlates with the insurance service, because reinsurance is secondary, derived from insurance and therefore, like the insurance service, acts as a financial service. Because of this, the features that characterize the insurance service are embodied in the reinsurance service.

The key characteristics of the reinsurance service are: intangibility (due to the inversion of the insurance cycle, the reinsurance service is intangible and intangible at the stage of concluding the contract, and the mechanism of this service is manifested only in the event of an insured event under the insurance contract); unsaved (reinsurance service cannot be saved and accumulated for the following periods); the inseparability of the reinsurance service from the source (reinsurance company) indicates the impossibility to delegate or sell as a franchise the reinsurance service to other market participants, in particular intermediaries; The inconsistency of the quality reinsurance service reflects the uniqueness of each contract depending on the individuality of the insured objects and the risk package.

In addition to the features that are characteristic of all services, an important feature of the reinsurance service is its bilateral nature of the agreement exclusively between the two insurance companies.

A unique feature of the reinsurance service is the possibility of its re-transfer to reinsurance - the division of responsibilities between the retrocedent and the retrocessionaire. The number of retrocessions is not legally limited, which can lead to the involvement of a wide range of reinsurers both within the country and abroad - this is a kind of confirmation of the internationalization of reinsurance services.

The reinsurance service can be provided both on a permanent basis (compulsory reinsurance) and once, individually under separate reinsurance contracts (optional



reinsurance). In addition, there are forms of service: proportional and disproportionate, which determine the specifics of the types of reinsurance contracts and the organization of cash settlements between the parties to the contract.

Reinsurance service is characterized by a redistributive nature, i.e. is formed by the redistribution of liability for already insured risk between the reinsurer and the reinsurer.

Thus, the reinsurance service reflects the specific relationship between insurance companies regarding the re (secondary) distribution of liability for risk. Reinsurance service is a financial service and is characterized by a number of features that are inherent in it.

Reinsurance service, as an object of purchase and sale in the market, is characterized by the current supply and demand in the reinsurance market.

Demand for reinsurance service is formed in accordance with the need to redistribute the insured risk and ensure the solvency and stability of the reinsurer's operations and the ability to perform its obligations to the insured.

Bozhenko A.S. defines the demand for reinsurance as a process that "forms insurance companies that diversify their risks, thus avoiding significant financial losses" [3]. This definition of the essence of the demand for reinsurance can not be considered complete, because the market is represented by other entities, in addition to sellers - insurers, which directly or indirectly affect the formation of demand for reinsurance services.

Given the peculiarities of the formation of the need for reinsurance services in the insurance market, we determine that demand is a conscious and financially secure desire to purchase reinsurance services.

Indeed, the main influence on the formation of demand for reinsurance services have insurance companies that need additional financial support for the risks accepted for insurance. The need for the level of reinsurance support is embodied in the calculation of the amount of liability for the risk due to the other party (reinsurer).

In addition to the direct participants in reinsurance, the formation of demand is indirectly influenced by other institutions of the market environment. Among them is the state, which by creating appropriate legal conditions cares about maintaining the solvency of insurers and therefore promotes reinsurance operations with residents and non-residents with the appropriate rating, stimulating income tax benefits for premiums transferred to reinsurance at rates of 0% and 12 % (if the reinsurer does not have a statutory rating).

The next instrument of state influence on the use of reinsurance operations is the establishment of a standard for reinsurance of the object, the sum insured of which exceeds 10% of the amount of authorized capital, insurance and free reserves [1].

Insurers also indirectly influence the formation of demand for the reinsurance service. Among them are large clients (TNCs), who, understanding the importance of reinsurance protection, can influence the choice of reinsurance programs and reinsurers of the insurance company.

In accordance with current legislation, policyholders may not be aware of the possibility of reinsurance operations when concluding an insurance contract, as the insurer (reinsurer) who has concluded a reinsurance contract with the reinsurer



remains liable to the insured in full under the insurance contract [1].

Therefore, policyholders do not have a direct influence on the formation of demand for reinsurance services. But, in some cases, the agreement to conclude an insurance contract by the insured is his requirement to further transfer the risk to a foreign partner of the assignor with high rating positions in the market. On the other hand, the growth of trust in insurers by the population and business entities affects the increase in the number of concluded contracts, increase the value of the insured objects. This leads to the need to reinsure risks to maintain the financial soundness and solvency of insurers. Thus, insurers influence the formation of demand for reinsurance service, but indirectly.

Conclusions.

Reinsurance service has its own special characteristics that distinguish it from other financial services. The reinsurance service is always legally formalized - through the conclusion of a contract. The contract is concluded only between two legal entities (insurers). In addition, the reinsurance service as an object of purchase and sale in the reinsurance market has its value, which is expressed in determining the price of the service and includes both costs and profits of the reinsurer and consumer value, which determines the reinsurer's costs associated with the sale services. The possibility of allocating the cost and consumer value of reinsurance services indicates its specific nature in the market along with insurance services or other financial services. Thus, the reinsurance service is a fundamental factor in the functioning of the market environment, combines the interests of supply and demand and directly affects the quality characteristics of the market, acting as its dominant, which determines its development and effective functioning on a market basis.

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