

ECONOMIC SCIENCES

НАПРЯМИ УПРАВЛІННЯ ПРИБУТКОВІСТЮ УКРАЇНСЬКИХ СТРАХОВИХ КОМПАНІЙ В ПРОЦЕСІ МІНІМІЗАЦІЇ РИЗИКІВ ТА ЗАБЕЗПЕЧЕННІ ЕКОНОМІЧНОЇ БЕЗПЕКИ

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DIRECTIONS OF PROFITABILITY MANAGEMENT OF UKRAINIAN INSURANCE COMPANIES IN THE PROCESS OF MINIMISING RISKS AND ENSURING ECONOMIC SECURITY

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Анотація

У статті розглядаються різні підходи до визначення поняття «прибуток страхової компанії». Визначено, що прибуток є основним джерелом фінансової стійкості компанії, дозволяє їй розширювати страхові послуги, інвестувати в розвиток та покращувати конкурентні позиції на ринку. Рациональне управління прибутком забезпечує ефективність страхових операцій, мінімізацію ризиків та довгострокову стабільність компанії в умовах мінливого економічного середовища. Досліджено, що функціями прибутку страхових компаній є: фінансова стабільність, резервна, інвестиційна, конкурентна, мотиваційна, розширення ринку, соціальна та інноваційна. До факторів, що впливають на рівень прибутковості страхових компаній можна віднести зовнішні та внутрішні. До зовнішніх належать: економічна ситуація, законодавче регулювання діяльності страхових компаній, конкуренція на ринку, демографічні та соціальні фактори, технологічний розвиток, різні катастрофи, політична ситуація в країні, рівень довіри населення до страхування. До внутрішніх факторів відносять: ефективне управління ризиками, ціноутворення та тарифна політика, якість надання послуг, якість інвестиційної діяльності, рівень операційних витрат; рівень автоматизації та цифрових технологій, маркетингова стратегія, інформаційна відкритість, кваліфікація персоналу, структура страхового портфеля компанії, корпоративна стратегія розвитку. До важливих, стратегічних напрямів підвищення рівня прибутковості українських страхових компаній варто віднести: оптимізація страхових проду-

ктів та адаптація до нових реалій; оптимізація фінансового менеджменту та ризик-менеджменту; автоматизація та цифровізація процесів; оптимізація операційних витрат; покращення маркетингової стратегії та розширення клієнтської бази; налагодження міжнародної співпраці та залучення зовнішніх інвестицій; підвищення довіри клієнтів та репутації компанії.

Abstract

The article considers various approaches to the definition of the concept of 'profit of an insurance company'. It is determined that profit is the main source of financial stability of a company, allowing it to expand insurance services, invest in development and improve its competitive position in the market. Rational profit management ensures the efficiency of insurance operations, minimization of risks and long-term stability of the company in a changing economic environment. The article proves that the functions of profit of insurance companies are: financial stability, reserve, investment, competitive, motivational, market expansion, social and innovative. The factors affecting the level of profitability of insurance companies include external and internal factors. External factors include the economic situation, legislative regulation of insurance companies, competition in the market, demographic and social factors, technological development, various catastrophes, the political situation in the country, and the level of public confidence in insurance. Internal factors include: effective risk management, pricing and tariff policy, quality of services, quality of investment activities, level of operating expenses; level of automation and digital technologies, marketing strategy, information transparency, staff qualifications, structure of the insurance portfolio of companies, corporate development strategy. Important strategic areas for increasing the profitability of Ukrainian insurance companies include: optimization of insurance products and adaptation to new realities; optimization of financial management and risk management; automation and digitalization of processes; optimization of operating costs; improvement of marketing strategy and expansion of the client base; establishment of international cooperation and attraction of external investments; increase of customer confidence and reputation of the company.

Ключові слова: прибуток, страхова компанія, дохід, страхові премії, економічна безпека, ризики, оптимізація діяльності.

Keywords: profit, insurance company, income, insurance premiums, economic security, risks, optimization of activities.

Introduction. The relevance of the topic of profitability management of insurance companies in Ukraine is due to the dynamic development of the insurance market, macroeconomic instability, changes in legislation, war and economic instability. In today's environment, insurance companies face challenges related to inflation, rising risks, military operations, lack of investment resources and changes in demand for insurance services. Effective profitability management is key to the sustainable operation of insurance companies, their financial stability and ability to fulfil their obligations to customers. Successful profitability management requires a comprehensive approach, including cost optimisation, diversification of insurance products, use of innovative technologies and adaptation to changes in legislation.

An important aspect is also the development of an effective investment policy that ensures stable company income even in the face of economic instability and declining incomes. The study of mechanisms for managing the profitability of insurance companies is relevant and necessary for the development of strategies aimed at improving the financial efficiency and competitiveness of the insurance market of Ukraine.

The problems of functioning and ensuring the profitability of insurance companies in Ukraine have been studied by such scholars and economists as: M. Aleksandrova, V. Bazylevych, N. Vnukova, O. Vovchak, I. Honcharuk, O. Klepikova, G. Kozoriz, N. Lavruk, N. Nagaychuk. They determined the key areas of development of the insurance market and insurers, the directions for determining the scope of various types of services to individuals and legal entities, cooperation with other enterprises and government agencies, etc.

However, despite the large number of studies and the development of ways to improve the profitability of insurance companies in the crisis, the issue of increasing the profitability of insurance companies is still insufficiently studied and analysed. The works of scholars are mostly theoretical and do not take into account the dynamic factors of the external and internal environment that constantly weaken the position of insurance companies in Ukraine. That is why there is a need to study the key aspects of increasing the income (premiums) of insurance companies in the context of the war of economic instability.

Main research material. Today, Ukrainian insurance companies provide financial protection to clients against unforeseen risks. They enter into insurance contracts under which they undertake to pay compensation in the event of an insured event, and to cover possible payments, companies form insurance reserves. An important component of insurance companies' activities in the current environment is the identification of risks faced by the insurance company in the course of its operations and development.

The main source of profit for Ukrainian insurance companies is insurance premiums paid by clients (individuals and legal entities). Profit ensures the development of insurance companies, the ability to expand insurance services and provide them efficiently and quickly. In the modern economic literature [1-9; 11-16], the profit of insurance companies is interpreted in different ways. For example, M. Aleksandrova defines the profit of an insurance company as the financial result of its activities, which is defined as the difference between the received insurance premiums, income from investment activities and other revenues, on the one hand, and the costs of paying insurance claims, forming reserves,

operating expenses and tax liabilities, on the other hand [1].

O. Corvat and N. Mamedov consider the profit of an insurance company as the amount of funds remaining after deducting from the received insurance premiums and investment income all expenses related to the payment of insurance claims, formation of reserves, operating activities and payment of taxes [11].

And O. Shevchuk, defines a positive difference between its total income received from insurance premiums, investment activities and other financial transactions, and total expenses, including insurance payments, administrative expenses and tax liabilities [25].

In our opinion, the profit of an insurance company should be viewed as the financial result of its operations, defined as the positive difference between total revenues generated from insurance premiums, investment activities and other financial transactions and total

expenses, including insurance claims, provisioning, operating expenses and tax liabilities.

The profit of an insurance company is the main financial indicator that ensures its sustainability and ability to fulfil its obligations to customers. It makes it possible to expand insurance reserves, which increases the company's reliability and solvency. The profit generated is used to invest in new insurance products, technological solutions and improve the quality of service. High profitability allows the company to successfully compete in the market, attract new customers and maintain consumer confidence. In addition, profit helps to finance the company's development, expand its market presence and strengthen its position in the insurance industry [9; 25].

By its very nature, the profit of insurance companies performs the following functions, as shown in figure 1.

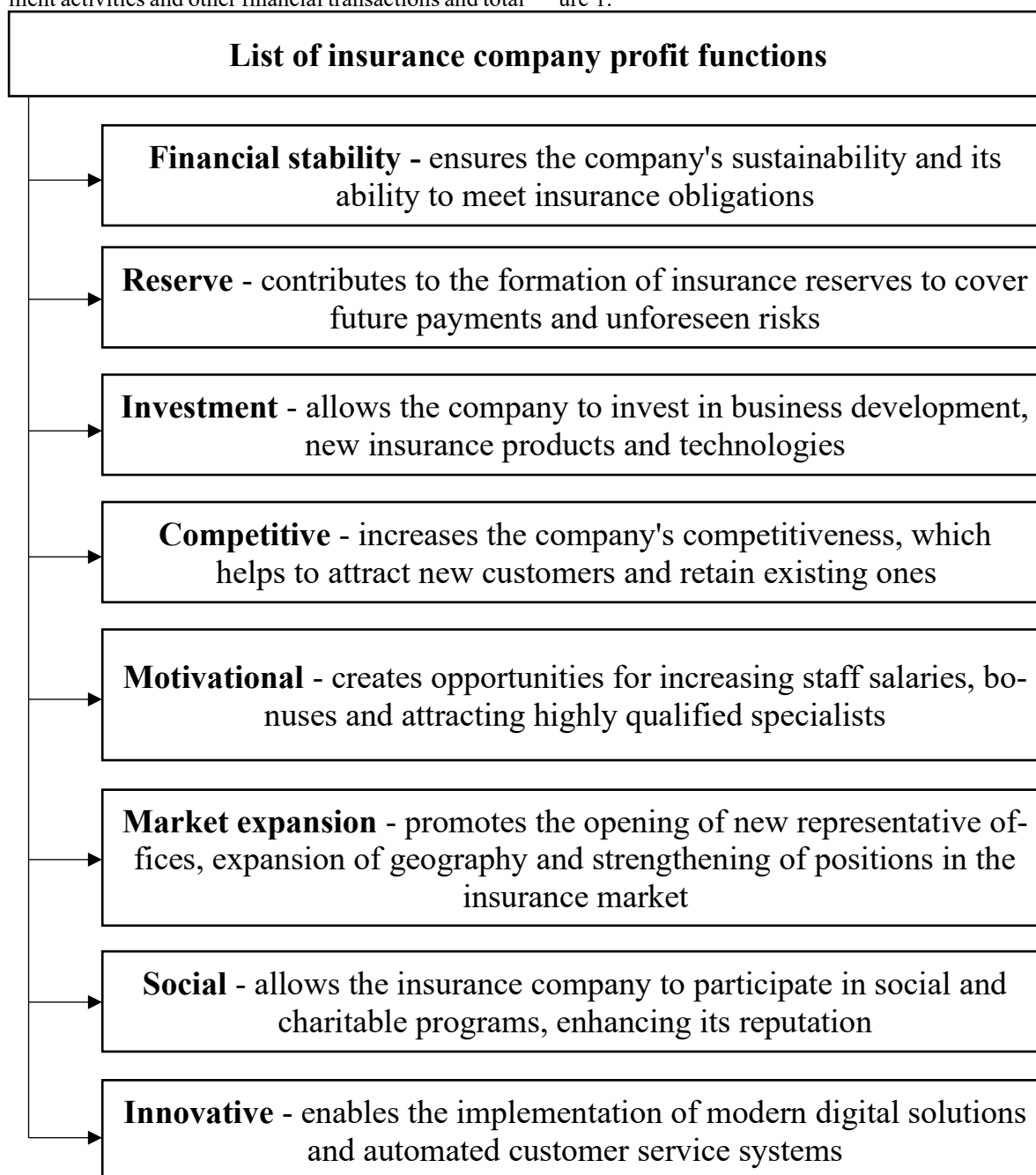


Fig. 1. Profit functions of an insurance company [1-3; 9; 15]

If we define the classification of the profit of an insurance company, depending on the elements, it consists of: gross profit, profit from ordinary activities before taxation, net profit. Considering profit depending on the type of activity, it can be divided into: profit from operating activities, profit from financial activities, profit from investment activities.

An insurance company's profit depends on a variety of internal and external factors that affect its financial stability and performance. Economic conditions,

legislative changes, competition and inflation can both drive profit growth and create financial risks. Understanding these factors allows insurance companies to develop strategies to manage profitability and increase their competitiveness in the market. In general, the factors affecting an insurance company's profit can be divided into internal and external factors (figure 2).

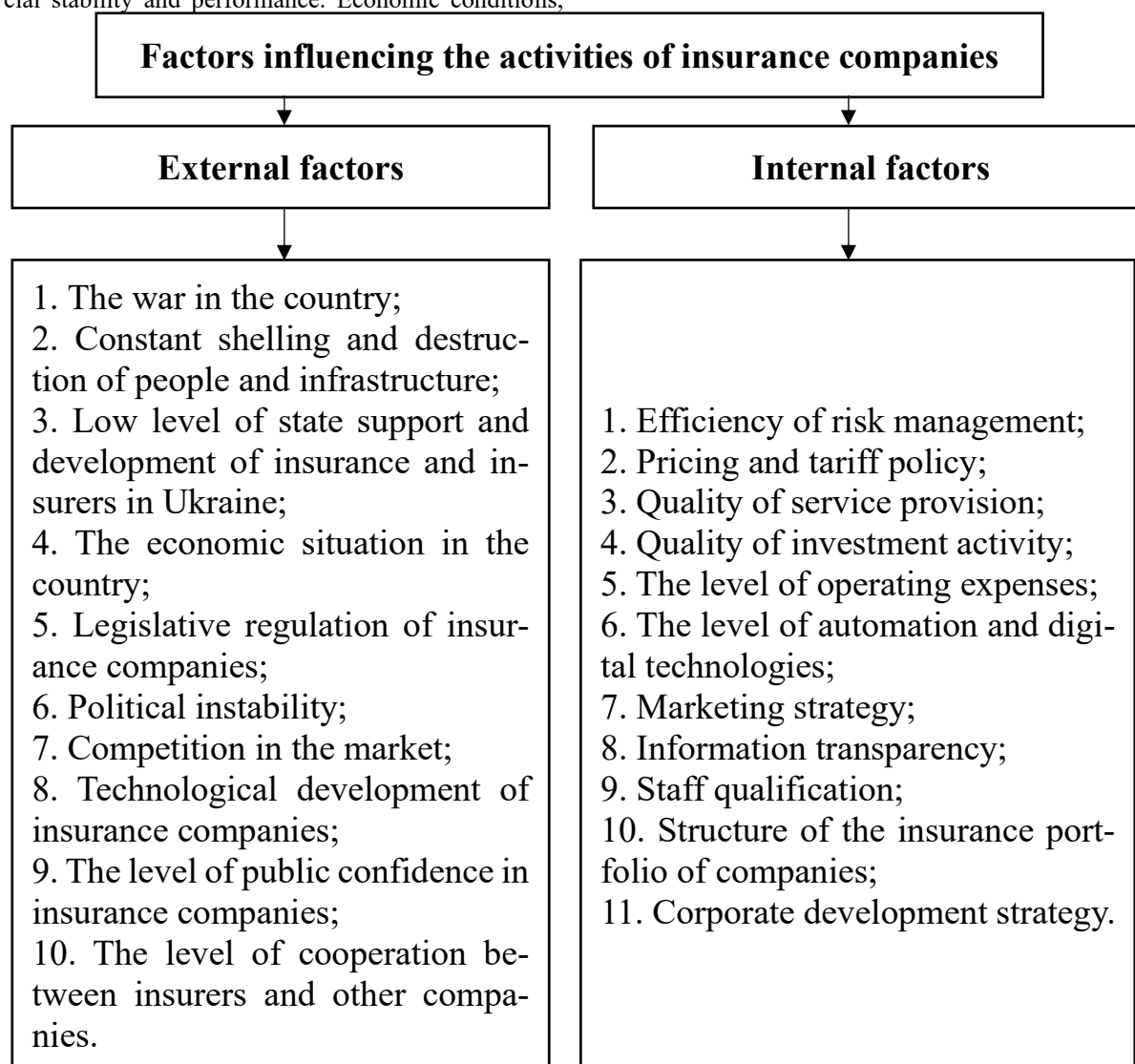


Figure 2. Factors affecting the level of profit of insurance companies in Ukraine [1-3, 7-10, 23]

According to the analysis of the external environment, the war, constant shelling, threats of destruction of infrastructure and lives of employees (especially during air raids) have the greatest impact on the operations, development and profitability of Ukrainian insurance companies. External factors also include the economic and political situation, namely:

- inflation rate and changes in GDP;
- exchange rate fluctuations (which affect the cost of insurance services)
- financial stability of financial entities and the country as a whole;
- political instability;
- military conflicts (on an ongoing basis)
- introduction of economic restrictions.

An equally important factor is the legislative regulation of insurance activities, as it is through the establishment of tax rates, requirements for the formation of reserves, licensing conditions, tariff restrictions and payment obligations that can both stimulate business development and create additional financial burdens.

The internal factors that influence the level of profit of insurance companies include: efficiency of risk management, pricing and tariff policy, quality of investment activities, level of operating expenses, level of depreciation and digital technologies, quality of customer service, marketing strategy, staff qualifications, insurance portfolio structure, corporate development strategy. It is important that the level of influence of in-

ternal factors on profitability can be regulated by insurance companies on their own by developing an effective risk management policy and optimizing insurance reserves.

The Ukrainian insurance market has experienced significant shocks in recent years: war, economic and political instability, currency fluctuations, rising prices for goods and services, and customer migration. During

2020-2024, the Ukrainian insurance market underwent significant changes, including a gradual decrease in the number of insurance companies. As of the end of 2024, there were 75 insurers operating in the market, of which 64 specialized in risk insurance and 11 in life insurance (figure 3). For example, the number of insurance companies at the beginning of 2022 (before the war) was 210.

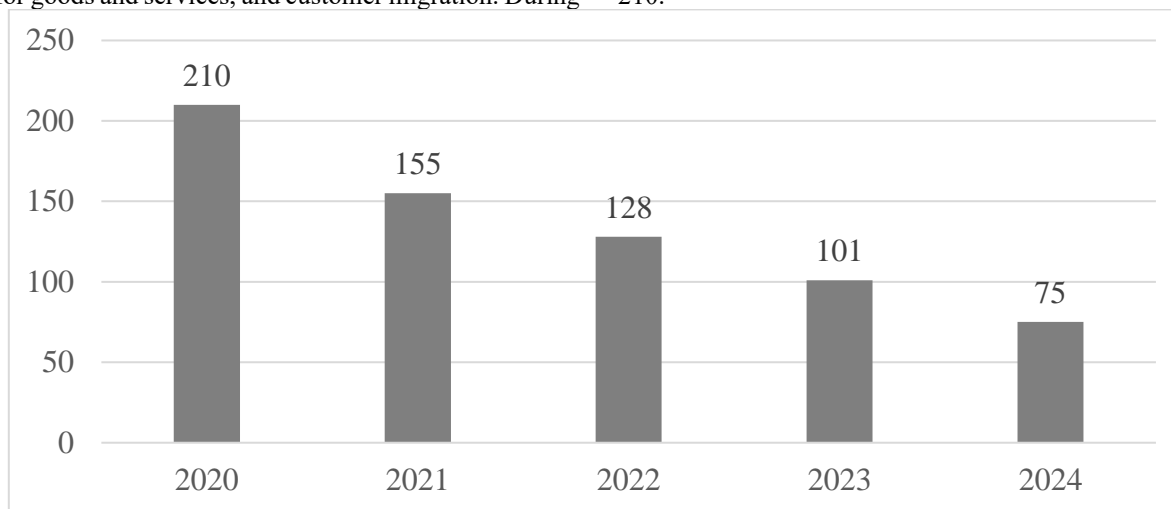


Fig. 3. Dynamics of the number of insurance companies in 2020-2024 [18].

During 2022-2024, the Ukrainian insurance market underwent significant changes in insurance claims due to the war and economic instability. The total amount of claims paid in 2024 was UAH

4,810,288,804, compared to UAH 2,769,092,760 in 2022. In 2024, the market leaders in terms of payments (figure 4) were TAS and Oranta insurance companies.



Fig. 4. Rating of Ukrainian insurance companies by payments in 2024, UAH thousand [18]

In 2023, payments under compulsory motor third party liability insurance (MTPL) increased by 24.8% to UAH 8.7 billion, driven by an increase in the number of insured events and their more frequent occurrence. In the life insurance segment, in 2023, the companies' assets increased by 17% and insurance premiums grew by 19%, which indicates a return of customer confidence in this type of insurance. In 2024, the positive trend continued: the volume of insurance payments in the life insurance sector increased by 21.32% in the first

quarter compared to the same period in 2023. In general, insurance companies have adapted to the challenging environment, ensuring growth in payments and market stability.

In addition, in the context of active digitalization, the volume of electronic insurance contracts (E-contracts) is increasing (figure 5), with the number of E-contracts totaling 4,543,729 in 2021 and 6,221,525 in 2024.

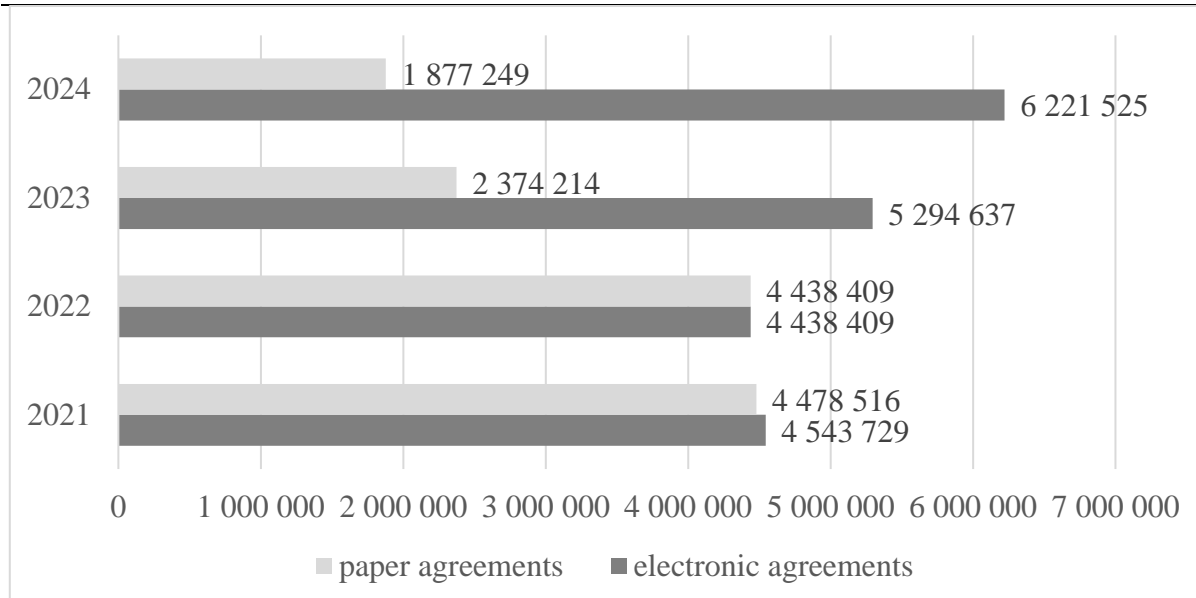


Fig. 5. Number of electronic and paper insurance contracts concluded in 2021-2024, pcs. [18]

In 2024, the Ukrainian insurance market showed growth in key segments. In the first half of the year, gross written insurance premiums reached UAH 24.21 billion, up from UAH 21.355 billion in the same period of 2023. Risk and life insurance were the most popular types of insurance. Risk insurance increased by 15.5% to UAH 10.4 billion, while life insurance increased by

18% to UAH 1.3 billion in the first quarter of 2024. These data indicate an increased demand for insurance services among households and businesses in Ukraine.

In 2021-2024, the profitability of Ukrainian insurance companies underwent significant changes, reflecting the impact of economic and geopolitical factors (figure 6).

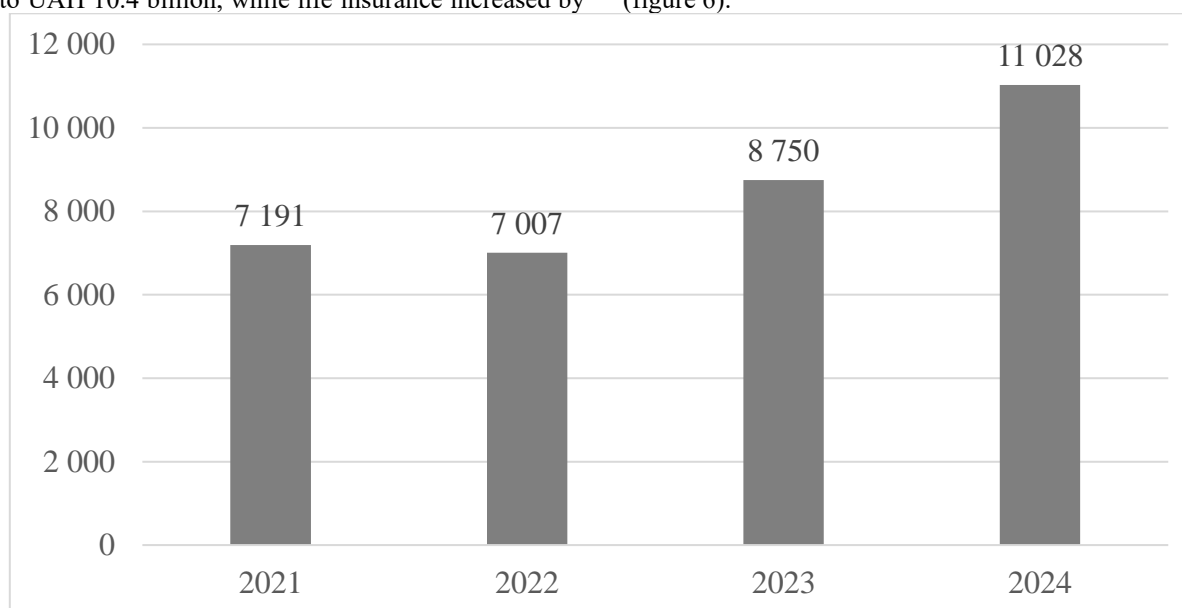


Fig. 6. Dynamics of insurance premiums of insurance companies in 2021-2024, UAH million [18]

As can be seen from figure 6, insurance premiums (which form the company's income) of Ukrainian insurance companies increased from UAH 7,191 million in 2021 to UAH 11,028 million in 2024, an increase of UAH 3,837 million, which indicates a high level of profitability of Ukrainian insurance companies despite the war and economic crisis.

During 2022-2024, the profitability of insurance companies in Ukraine changed under the influence of economic and geopolitical factors. Despite the difficult conditions, the insurance market demonstrated the ability to adapt and grow. The market leaders in terms of insurance premiums in 2024 were TAS and Oranta (figure 7).

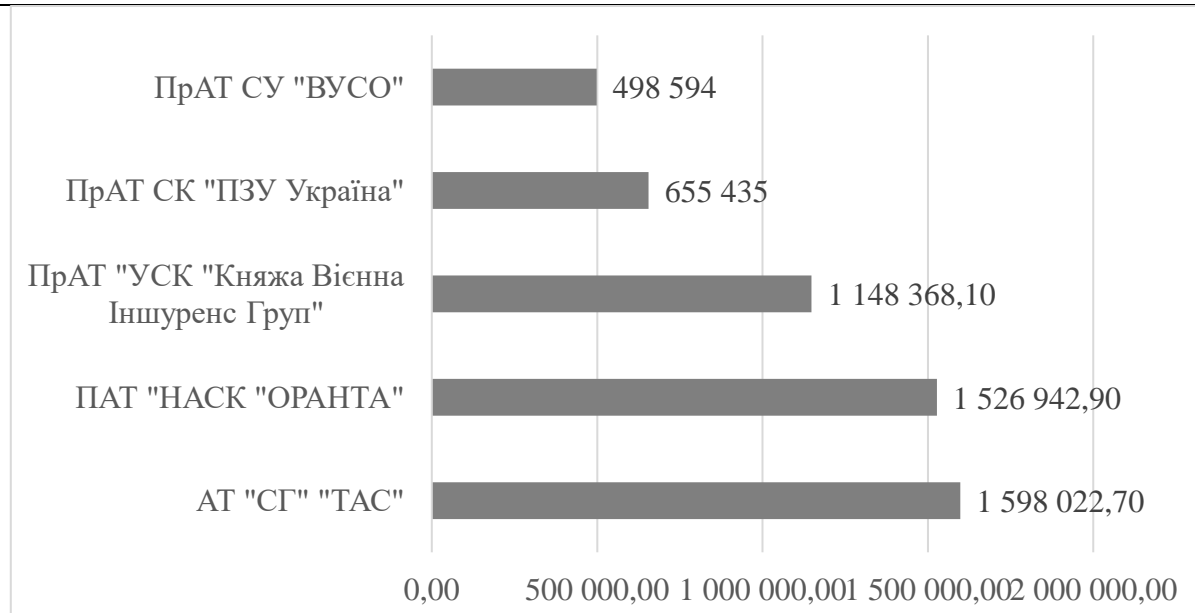


Fig. 7. Rating of Ukrainian insurance companies by payments in 2024, UAH thousand [18]

In 2022, gross written insurance premiums reached UAH 39.66 billion, and 72% of risk insurers were profitable, providing a return on equity of 6%. Life insurance companies were also mostly profitable, generating income from investment activities. In 2023, gross written premiums increased to UAH 47.01 billion, and the profitability of risk insurers amounted to UAH 1.9 billion, which ensured a return on equity of 10%. Life insurance companies earned a profit of UAH 0.5 billion from investments, which confirmed the stability of this segment.

In 2024, insurance premiums continued to grow, exceeding pre-war levels and reaching UAH 38.3 billion in the first nine months of the year. The share of the leading market players increased: the three largest companies accounted for 25% of premiums, and the top ten accounted for 63.5%. Overall, insurance companies remained profitable, indicating a gradual recovery of the market and its resilience to current challenges.

In 2022-2024, the profitability of insurance companies in Ukraine demonstrated resilience despite economic and geopolitical challenges. In 2022, most insurers remained profitable, with gross written premiums totalling UAH 39.66 billion. In 2023, the market grew, reaching UAH 47.01 billion in premiums, and the return on equity of risk insurers increased to 10%. In 2024, insurance premiums exceeded the pre-war level, indicating a stable recovery and adaptation of the industry to new conditions.

In 2023, risk insurers were operationally profitable: their profit amounted to UAH 1.9 billion, which ensured a return on equity of 10%. This is almost one

and a half times lower than in 2022, but twice as high as in 2021 [17].

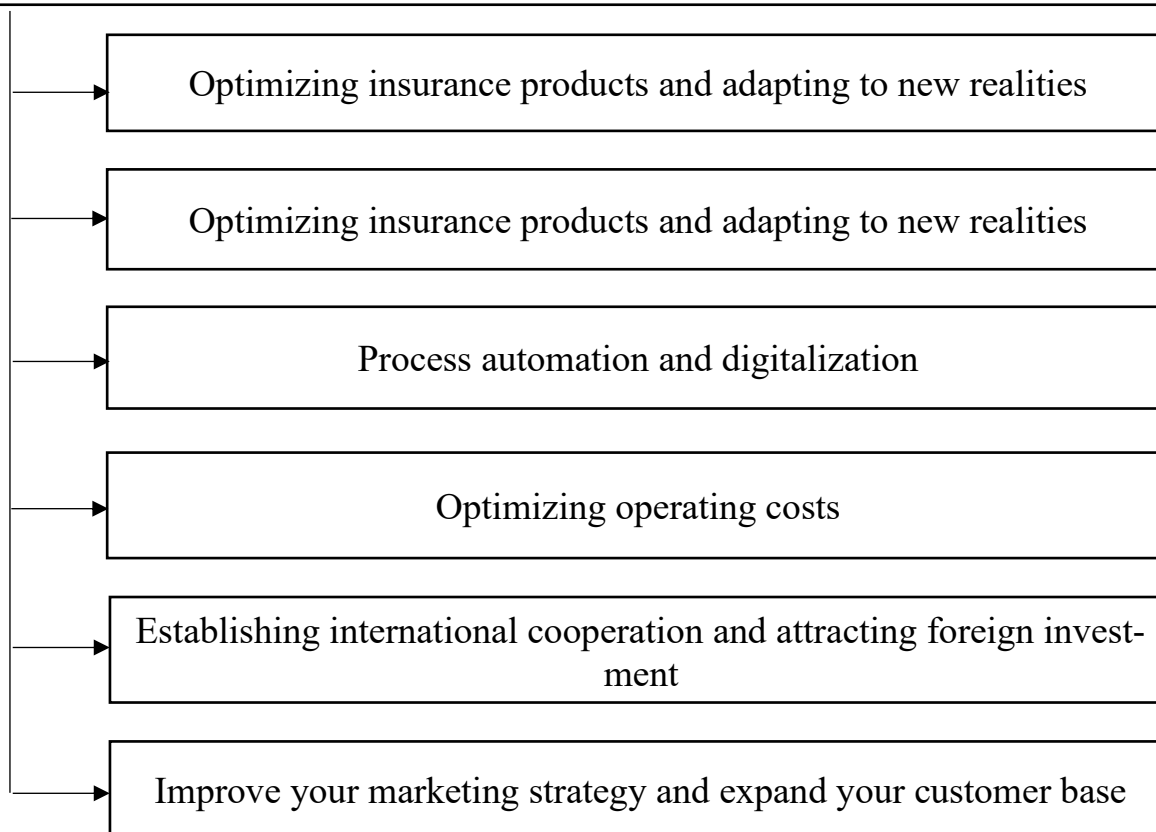
The highest financial result in 2024 according to the rating:

- IC «ARX» - UAH 409,621 thousand;
- IC «UNIQA» - UAH 325,851 thousand;
- INGO Insurance Company - UAH 227,396 thousand;
- IC «Universalna» - UAH 184,175 thousand;
- IC TAS - UAH 168,119 thousand;
- IC «Colonnade Ukraine» - UAH 140,073 thousand.

As of the end of 2024, the market leader in terms of insurance payments belongs to the city of Kyiv and Kyiv region, Vinnytsia and Volyn regions, and Cherkiv and Chernivtsi regions are the least.

Today, the development of the insurance market is an extremely important task for both the government and insurance companies to increase their profitability and improve the quality of insurance services. The main areas for increasing the profitability of insurance companies are shown in figure 8. It is worth noting that the war has had a significant impact on the activities of insurance companies, increasing the level of risks (economic, social, financial and investment), reducing the solvency of the population, and changing the structure of demand for insurance services. In such circumstances, it is imperative to introduce new directions and measures that will help maintain the profitability and financial stability of insurance companies.

Ways to increase the profitability of insurance companies in Ukraine



In our opinion, important areas for improving the management system and increasing the profitability of insurance companies in the current environment are:

1. Optimization of insurance products and adaptation to new realities, namely:

- development of new insurance products that meet the current needs of customers, for example, home insurance against destruction, military risks, health insurance for the military and IDPs;
- flexibility in the design of insurance programs with the possibility of deferred payments or partial insurance coverage for clients affected by the war;
- expansion of micro insurance offers for a wide range of people with limited financial resources.

2. Optimization of financial and risk management by strengthening the reinsurance system to reduce financial risks associated with large claims. Increasing the level of financial forecasting and scenario modeling to assess possible changes in the profit structure can be achieved by engaging specialists and independent experts to help predict possible risks. This could include diversification of income sources, including investments in stable assets such as government bonds or international financial instruments.

3. The next important area is automation and processes that reduce insurance companies' operating costs, speed up the processing of insurance claims and improve the quality of customer service, which contributes to increased profitability. By adopting modern technologies such as artificial intelligence, online platforms and mobile applications, companies can analyze risks more effectively, prevent fraud and quickly adapt

to changes in the market environment. Such systems include:

- the introduction of online services for insurance contracts, claims and customer consultations;
- the use of artificial intelligence for risk analysis and insurance decision-making, which will help reduce costs and improve the accuracy of insurance claims assessment;
- automation of insurance claims settlement processes to speed up payments to customers and reduce administrative costs.

4. Optimization of operating expenses involves reviewing and reducing non-priority expenses, optimizing staffing levels and switching to remote working to reduce administrative costs. Another important area is the use of outsourcing for processing claims, legal services and other secondary processes, which will significantly reduce processing time, but requires technical equipment of the insurance company. In this area, we can suggest the introduction of more effective internal control systems to detect fraud and reduce losses, especially in the case of fraudsters who illegally falsify insurance claims to obtain premiums (payments).

5. Improving the marketing strategy and expanding the customer base of insurance companies to increase profitability involves:

- active use of social media and digital marketing to attract new customers and expand the audience;
- conducting awareness campaigns on the importance of insurance in the context of war risks;

- creation of special insurance programs for small and medium-sized businesses, which will help stimulate economic activity and provide new sources of income.

6. Establishing international cooperation and attracting foreign investment involves not only obtaining financial support, expertise or investment, but also an opportunity to expand operations, open new branches for clients who have left or attract new ones. Also, international cooperation will provide an opportunity to use the experience and strategy of foreign countries in insuring war risks, develop effective insurance mechanisms, and introduce new unique products based on technological development.

7. Increase customer confidence and reputation of the insurance company by:

- ensuring transparency of insurance payments and fulfilment of obligations to customers even in times of crisis;
- development of loyalty programs, bonus systems and personalized insurance offers for regular customers
- implementation of the company's social responsibility through support of charitable projects and assistance to war victims;
- providing transparent general and financial information about the company's activities and insurance services;
- availability of an official website.

Managing an insurance company's profitability in times of war requires a comprehensive approach that includes adapting insurance products, optimizing financial resources, digitalization, cutting costs and expanding the customer base. Implementation of these measures will help insurance companies not only maintain their operations but also ensure long-term financial stability and competitiveness in the market.

Conclusions. In times of war, the effective management and profitability of insurance companies is of particular importance, as the financial stability of these institutions directly affects their ability to meet insurance obligations. Economic instability, rising risks and unpredictability of the market require the implementation of new strategies for managing financial resources. Optimization of insurance products, expansion of the customer base and introduction of digital technologies are key areas for improving financial efficiency. It is also important to use anti-crisis management methods to reduce risks and ensure the stability of insurance companies. Improved approaches to risk assessment and the development of adaptive financial strategies will help to increase the industry's competitiveness. Thus, the development and implementation of effective management optimization methods is a prerequisite for

the stable operation of insurance companies in a challenging economic environment.

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