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Regulatory reform

IF IT DOESN'T WORK, FIX IT

Many elements of Franz Kafka's *The Castle* came true in the systems which both fascist and communist states devised to control their people, and are still deeply imbedded today in the Ukrainian subconscious, even after nine years of independence. This is particularly true in the sphere of public administration, the reform of which has turned out to be not so straightforward. Understandably, it is difficult accepting something as 'white' which, for so many years, was perceived to be 'black.' At issue here is a change in commonly-held notions regarding the role and functions of the state and its citizens.

Post-Soviet Syndrome

The need for fundamental change became particularly visible in the economic sphere because the main cause of the collapse of the Soviet economy was the legacy of an inert command administrative system. Surviving as the left-overs from an earlier time, old ways of doing things and the people that enforced them have been totally unable to adapt to new social and economic conditions and essentially stand as a barrier to serious reform and the development of democracy in Ukraine. The situation is indeed paradoxical. On the one hand, the state is advocating the notion of a *laissez faire* market economy, while at the same time, it is resorting to the direct and premeditated intervention of pre-market days.

Because of the propensity of the powers-that-be to govern in the old way, and the

inability of the business class, which still lacks a consciousness as such, to live in that way, an understandable chasm has developed between the interests of the state and the interests of society. Under the slogan of 'socio-economic reforms,' ministries and departments have been transformed into unique administrative machines that have started to churn out reams of regulatory acts which are usually introduced to protect the interests of certain bureaucracies or cliques represented within the executive structures, and which openly contradict the interests of both society and the state itself. Sensing that the state is not an advocate of their interests, entrepreneurs attempt to resolve their own problems by buying off corrupt officials or escaping into the shadows.

Cumbersome and economically inefficient regulations cause an unnecessary rise in business expenses and a frivolous waste of state money, and this only further expands the shadow economy and creates an unfavorable investment climate. The Ukrainian government began to act blindly, unaware of the social implications of its decisions. Moreover, there was an absence of dialog between the government and society from which the former could assess those decisions.

Legislative Trap

Notwithstanding these problems, the economic structure of Ukraine has undergone deep rooted changes in recent years. The private sector which is adapting

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Politics/Commentary

Subtleties of a strategic partnership

KYIV. While the US presidential election was taking place Nov. 7, President Leonid Kuchma made what was ostensibly a preliminary assessment of future relations between Washington and Kyiv. However, in some ways these tentative thoughts actually sounded more like a final summing up.

The president said that the US attitude towards Ukraine would not change until Ukraine itself changed. The president called upon his compatriots to "stand up for themselves," and not to sell themselves out for nothing. For some reason, however, he neglected to mention the strategic relationship between Washington and Kyiv.

Continued p. 4 Prospects for partnership

Art: D. Borodayev



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Photographs
by Kyiv street children

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Insurance survey

A developing market

The introduction of compulsory third-party insurance for vehicle owners from Oct. 1 meant that developments on the insurance market were once again at the center of public attention. The introduction of legal regulation of the financial services market is an important step towards Ukraine's integration with European structures. While the general indicators for the operation of the insurance market are quite encouraging as regards creation of market infrastructure, most of the insurance companies working on the domestic market are still short of experience, while the insurance market itself is still not sufficiently developed in terms of volume of insurance capital, scope of insurance operations and market segment coverage.

Growth Trends

The domestic insurance market is developing dynamically and is one of the few sectors of the Ukrainian economy that has been able to boast of a steady growth in turnover over the last couple of years.

Proceeds from insurance premiums are growing steadily well ahead of the inflation rate. Proceeds from insurance premiums in the first half year were nearly twice what they were in the corresponding period of 1999.

A look at the dynamics for proceeds from insurance premiums and indemnity payouts for different types of insurance reveals a number of clear trends.

Proceeds from premiums have increased for nearly all types of insurance except life insurance. The strongest growth has been seen in the areas of property and liability insurance, except for life insurance. Proceeds from these two sources grew 216% and 144% respectively.

The average size of property insurance

premiums in the first half of 2000 was Hr 202 compared to Hr 49.2 in the same period last year.

Motor Insurance

The effect of the Cabinet's resolution on compulsory insurance of third party liability of motor vehicle owners was not felt on the insurance market in the first half year, although the number of policies increased by 240% compared to the same period last year.

Of the 269 companies registered in the Unified State Registry of Insurers and Reinsurers, only 66 have been licensed by the Ukraine's Motor Insurance Bureau to provide this kind of insurance. 10% of vehicle owners have already been insured.

In the first six months, the total number of liability insurance policies was 480,278, or 1% of all types of insurance. The number was 0.3% more than in the same period last year.

The biggest problem with the introduction of third-party insurance is that penalties for non-compliance have not yet been determined. It is practically impossible to introduce the needed changes in a number of legislative acts at the 6th Verkhovna Rada session because of lack of coordination between the executive and legislative branches.

Payouts

Indemnity payouts declined for all types of insurance except for liability, state and personal insurance. In the mean time, payoffs in compulsory insurance, except for state insurance, increased by an impressive 319.7%.

The contribution of property insurance

Insurance market dynamics, first half 1999, 2000

Insurance types	first half 1999		first half 2000	
	premiums	indemnity	premiums	indemnity
Actual size, '000 Hr in the corresponding year's prices				
Life insurance	4,391.80	5,774.80	4,079.54	3,512.34
State insurance	9,280.40	9,658.40	24,658.60	23,017.90
Voluntary insurance:				
Personal (excl. life insurance)	39,465.85	47,293.09	56,846.51	52,912.60
Property	248,378.32	148,381.81	535,967.56	49,016.36
Liability	74,561.61	9,966.53	104,483.88	18,743.10
In total	362,405.77	205,641.44	697,297.95	120,672.06
Mandatory insurance (excl. state)	59,883.13	2,660.36	102,114.93	8,503.95
Total (all types)	435,961.10	223,735.00	828,151.02	155,706.25
Structure of insurance premiums and indemnities, %				
Life insurance	1.007	2.581	0.493	2.256
State insurance	2.129	4.317	2.978	14.783
Voluntary insurance:				
Personal (excl. life insurance)	9.053	21.138	6.864	33.982
Property	56.973	66.320	64.719	31.480
Liability	17.103	4.455	12.617	12.037
Total (all types)	86.264	98.811	87.670	94.538
Mandatory insurance (excl. state)	13.736	1.189	12.330	5.462
Growth rates, first half 2000 against first half 1999, %				
Life insurance			92.890	60.822
State insurance			265.706	238.320
Voluntary insurance:				
Personal (excl. life insurance)			144.040	111.882
Property			215.787	33.034
Liability			140.131	188.060
Total (all types)			189.960	69.594
Mandatory insurance (excl. state)			170.524	319.654

Source: Department of Financial Institutions and Markets under the Finance Ministry of Ukraine

to total insurance premiums grew by 8% while those of all other types of insurance shrank. Only the structure of insurance receipts from individual insurers remained at the same level. Insurance indemnity pay-offs grew in all types of insurance, in particular in state insurance.

Reinsurance

Activity on the reinsurance market in the first half of 2000 was characterized by the following indicators:

- a total of Hr 15.277mn was paid out by reinsurers, accounting for 9.8% of total payouts and insurance indemnification. This was 7.8 times less than in the same period of 1999;
- the total share of insurance premiums paid to re-insurers, including non-resident companies, was Hr 306.16mn, which is 36.96% of the total receipts in all types of insurance. This was nearly the same amount as in the first half of 1999.

Ukrainian insurers and foreign re-insurers maintained high levels of cooperation. The total volume of insurance premiums paid outside Ukraine was Hr 179.128mn, which is 21.65% of the total receipts for all types of insurance. A total of Hr 694,300 was paid out to reinsurers including non-resident reinsurers under life reinsurance policies.

Reserves and Profits

The volume of insurance company reserves was Hr 628.057mn, including:

- technical reserves Hr 607.677mn;
- life insurance reserves Hr 20.254mn.

Insurers' bottom-line profits were Hr 182.498mn, while insurance activity proper generated Hr 204.129mn. Finally, the volume of paid statutory funds as of July 1, 2000 was Hr 475.544mn.

The above analysis attests to the growth of the insurance business in Ukraine as a result of increased public awareness and development of the insurance industry. •

— Y. Brydun

Advertorial

SKAID-VEST CELEBRATES

KYIV. The Ukrainian insurance company Skaid-Vest announced 7 years of operation in Ukraine. The company was founded in 1993 with US \$5,000 in capital, and as of Oct.1, 2000 it had grown to US \$377,000. Reserves constitute US \$1.8mn. Insurance payments are US \$3.3mn, and insurance payouts were US \$600,00mn. The company offers 30 insurance products and is planning to add 6 more by the end of the year. The company has 206,700 clients, according to Skaid-Vest President Andriy Peretyazhko.

(Y. Panchenko, Nov.9)