Regionalization

Olga ZHABYNETS

IMPLEMENTATION OF CLUSTER INITIATIVES WITH INSURANCE COMPANIES IN UKRAINE: STATUS, EXPERIENCE AND PROSPECTS

Abstract

The article analyzes the prospective directions of realization in Ukraine cluster initiatives involving insurance companies in the article. It commits retrospective analysis of the establishment and functioning of clusters in Soviet Ukraine, Ukraine and abroad (EU and USA). Outlines the prospects and create conditions in our country insurance and financial clusters.

Key words:

Clusters, cluster initiatives, insurance companies, insurance clusters, insurance financial clusters.

JEL: G22.

© Olga Zhabynets, 2014.

Zhabynets Olga, Cand. of Economic Sciences, Assist. Prof., Lviv Ivan Franko National University, Ukraine.

Introduction. The globalization of the world insurance space and its significant impact on the national insurance market, increasing competition in the financial sector require domestic insurance companies find and use effective forms of improving their competitiveness. Cluster form of cooperation, recognized by international practice as effective system, can ensure the creation of competitive advantages through partnership, helping to attract and implementation of business ideas, increase productivity, development of innovations and more.

The range of forms and types of cluster structures are quite broad and creates significant difficulties in the formation of clusters, especially in the field of finance. However, clusters are recognized as one of the most efficient production systems of the era of globalization and knowledge economy, because oriented to prioritize their development.

Analysis of researches and publications, a highlighting of unsolved aspects of the problem earlier. A significant contribution to the development of cluster theory made such foreign scholars as Enright M., Fezer E., Porter M., Rosenfeld S. et al. Features and clustering problems in the financial sector, including in insurance, are discussed in the works of such domestic scholars as Achkasova S., Vnukova N., Zarichna N., Zheleznyak V. et al. However, not all issues of participation of domestic insurance companies in implementing cluster initiatives, including a creation of insurance, financial and insurance clusters in Ukraine, thoroughly researched. It defines the goal of this article.

The aim of the research. The aim of the article is to analyze the prospect of fulfillment of cluster initiatives with insurance companies in Ukraine and outline the conditions of creation of insurance clusters and financial – insurance clusters.

The main material. In English the term «cluster» means beam, bunch, and group. The founder of the classical theory of clusters is Harvard professor Michael Porter, who gave such definition: «a cluster – is geographically concentrated groups of interconnected companies, specialized suppliers, service providers, firms in related industries, and other organizations associated with their activities for example, universities, agencies of standardization and trade associations) in certain areas, that compete, but, at the same time, are working together» (Porter, 2005, p. 256). The purpose of clusters – is an opportunity to provide the competitiveness of enterprises – members of clusters in the long run. The success of the cluster lies in a competition, orientation on leaders, getting a support of leaders and state power in the region.

It should be noted, that clusters are not new concepts in Ukrainian economy. In 70-80 years of the twentieth century it was appeared production associa-

tions, concerns in the Soviet Ukrainian. These names are names of clusters in the Soviet economy. The difference between the cluster and the concern was only in the way of their formation: in the first case companies are combined on a contractual basis, in the second – combined of companies is a result of decisions of the relevant ministries in government.

An example of a cluster during this period in Ukraine it can be considered State concern «Elektron», which was created in 1989. The concern included production association and enterprises of trade and service. The concern consisted of about 450 trade representations throughout the Soviet Union. On the other hand, Lviv television factory was basis for creating of Lviv production association «Elektron» in 1970. Lviv television factory was the leading enterprise in the association. The association consisted of 5 manufacturing units, 10 factories were located in Lviv region and Transcarpathian region, 4 research institutions, college.

State concern «Elektron» funded a number of social development projects, urban infrastructure of the city. In particular, the concern founded and funded own football club «Karpaty», built stadium «Druzhba» (nowadays, the stadium is called «Ukraina»), built a mass housing for its workers and social infrastructure in the neighborhood of Lviv — Ryasne, built a water supply line from underground springs near Holohory village to the city (distance is 60 km).

In 1990 the concern produced goods to 1.5 billion rubles, it was equal to 25% of Lviv region's GDP, or 4% of GDP of the Soviet Ukraine (Syrotenko). These results show a high effectiveness of cluster within not only the city, but the region and the country.

In independent Ukraine clustering process has begun in 1997 in Khmelnytsky region. Despite the specifics of Ukrainian difficulties disorder of legal framework, lack of business infrastructure, Association «Podillya pershyi» united scientists, entrepreneurs, financiers and government officials. In the period from 1997 to 2000 the association formed several industrial clusters, including sewing, construction, food, tourism, food and green tourism, which operate to this day.

Should be noted, that from the middle of 1980s all EU countries have started form a regional policy aimed to increasing competitiveness at national level and European level. In 2007 the EU had already registered 154 regional clusters. Leading positions in the implementation of modern cluster regional policy occupy Budapest, Warsaw and Prague in the EU. There are seven largest clusters of EU, which differ by high employment rates: food industry, construction, transportation and logistics, financial services, hotel business and tourism, manufacturing of metal constructions, equipment and service. These seven clusters employ about 50% of the population of the EU.

Number of workplaces is growing every year, and geographical proximity of economically connected regions helps to create a competitive economy, increase the productivity and innovation. In Europe clusters are formed depending

on the specialization, they can be both inside the country and abroad (Vnukova, 2010, p. 103).

After independence in Ukraine it was established European principles of economic development, based on the theory of clusters through the creation of European regions. In 1993 it was created the first – Carpathian European region. It consists of border regions of five countries. European regions on the western border of Ukraine have become the cooperation vector of Ukraine – EU. In April 2003 it was formed the first European region with Russia – Dnipro. In addition to Ukraine and Russia the cluster includes one more partner – Belarus.

European regions of Ukraine promote the development of cross-border cooperation between the relevant authorities of States. In addition, during the process of cooperation with neighboring countries Ukraine can benefit from the experience of developed countries in order to improve the economic, political, environmental and social situation both in domestic and foreign activities. Also, Ukraine will be able an investment-attractive partner for the EU.

Activity of the European regions is improved every time. The regions become such independent subjects of global competitive market, as a state, a transnational company. As of July 2012, in Ukraine it was founded 10 European regions that covers the entire perimeter of the borders of Ukraine.(electronic source # 4 in bibliography)

It is planned a development of clusters in European regions. Today, there is only one project of finance cluster – in European region «Sloboganschyna». This European region was established in November 2003 within the Kharkiv region (Ukraine) and Belgorod region (Russia). For today, unfortunately, it is only generated a development strategy for cooperation within European region «Sloboganschyna». It is not until now formed a clear institutional structure, the European region uses potential very little and needs concrete implemented projects to solve urgent common problems.

European region «Sloboganschyna» has reason to be regarded as a cluster. The European region could have as a core – joint Ukrainian-Russian project of building the world class airport «Kharkiv-Belgorod» on the border. This project creates real economic conditions for cluster initiatives, especially in finance. A distinctive feature of this cluster is a forming own financial system from banks, insurance companies and other financial market participants.

Despite of a large number of cluster initiatives, until now in the national legislation there is no definition of «cluster». It is not given kinds of clusters, establishment and operation features. There are some developed projects of regulations to format principles of the state policy in the clustering of the economy. But these projects have not been approved: «The concept of clusters establishing in Ukraine» (Ministry of Economy of Ukraine, 2008), «National strategy of formation and development of trans-border clusters» (Ministry of Regional development)

opment and Construction of Ukraine, 2009). Currently the only existing document in this area is the Resolution of the Presidium of National Academy of Sciences of Ukraine from 08.07.2009, № 220 «About formation and functioning of innovative clusters in Ukraine.»

Insurance companies, as financial intermediaries, in the implementation of cluster initiatives in Ukraine may, in our opinion, be involved through:

- 1. The formation of own branch clusters (insurance or financial insurance clusters);
- 2. The participation in other clusters (tourism, medical, medical pharmaceutical, transportation logistics, etc.) As an auxiliary component;
- 3. An underwriting of risks of participants of industry clusters and other clusters.

The beginnings of clusters in insurance in the former Soviet Union can be seen in the following example. In 1990, the insurance company «Transmedstrah» (head office in Moscow) was first to introduce the health insurance. It should be noted, that this insurance company was founded on the basis of Railways under the Ministry of Transport of the USSR. Later it was selected basic medical organization, which was central transport Lviv Railway Hospital in Lviv. It was the first step to form cluster of insurance medicine. However, this cluster initiative could not be realized because in 1991 the development of the insurance cluster was stopped by the collapse of the USSR.

The formation own branch clusters (insurance, financial – insurance) can be considered as a priority direction in the implementation of cluster initiatives involving insurance companies. Moreover, in the global financial practice there are many examples of effective functioning of the financial – insurance clusters.

Today the largest cluster of insurance in the world is a cluster of Insurance and Financial Services (IFS) in Connecticut (USA). Founded in 2002, IFS cluster is strategic corporate initiatives aimed at creating a strong market of insurance and financial services, strengthening the economy of Connecticut as a whole. In the cluster demonstrated partnership between branch companies – leaders, government and academia. This partnership is intended to promote the growth of all segments of the insurance and financial services (Connecticut insurance market report, 2012).

Activity of IFS cluster aims to improve the business climate for existing and future companies of cluster. The cluster provides a framework for cooperation and collaboration of branch leaders across the state. This is manifested in the creation of competitive advantages for attracting and retaining business ideas, hiring and growing of skilled labor, increasing productivity, development of innovations and improvement of conditions in manufacturing.

IFS cluster has grown significantly since its establishment. In 2011 it included 29 corporate sponsorship organizations (banks, insurance companies, etc.). Staff of insurance sector totaled 61,583 people, or 3.1% of all workers in Connecticut (the highest percentage in the country). At the same time, in general, insurance sector workers make up about 1% of all employees in the USA. Wage fund of insurers is 5.7% of the total the fund of the state, while the overall the USA wage fund of employees, involved in the insurance business, is 0.5%.

The insurance created 9% of Connecticut's GDP, other financial services totaled 11% of GDP. According to our calculations based on the data source (Total Gross Domestic Product by State for, 2013), in monetary terms, it was 20 and 25 billion dollars respectively.

As the legal status of the cluster is not defined legally in Ukraine, in practice can be applied cluster approach (Degtyaryova, 2011). According to the approach companies already operate: associations, corporations, consortiums, trusts, business entities and more.

In view of this, insurance groups can be considered as some kind of cluster formations in the insurance market of Ukraine. Insurance companies – members of an insurance group, despite of a competing with each other, complement each other (through the exchange of insurance products and experiences). Also these companies follow a common insurance strategy and common insurance, financial and investment policies, thereby increasing their competitive advantages over other insurance companies that operate independently.

Thus, in 2000 it was established «Insurance Group «Garant», which included such insurance companies, located in Kiev, as «Garant-Auto», «Kyiv», «NFSK «Guarant RE», insurer of life insurance «Garant-life», as well as pension fund «Autoalliance», Ukrainian center of post-accident protection «Expert Service», companies: «Garant-Consulting» and «Garant-Assistance». In 2001 formed «Insurance Group «DASK», which united insurance companies from Dnipropetrovsk region: «DISCO», «DASK», «DASK-SP», «DASK-Pavlograd», life insurer «DASK-life» and 11 insurance brokers, enabling this group to provide a full range of insurance services for both corporate clients and individual clients. Today these insurance groups no longer exist.

In 2002 it was created «Insurance Group «Universalna», which brought together local insurance companies: «Karpaty» (c. Uzhgorod), «Universalna» (c. Lviv), «Teren» (c. Ternopil), «Salamandra – Desna» (c. Chernihiv) and life insurer «Arta» (c. Ternopil). After 2 years «Insurance Group «Universalna» was eliminated in connection with the performance of the tasks, assigned to the group: the participants of group were formed the success of branch leading company – Open Joint Stock Company «Insurance company «Universalna». Now «Insurance company «Universalna» includes in the holding company «Universal Investment Group».

A participation of insurers in other clusters can be traced, in particular, through the creation of the medical cluster, the core of which are insurance companies, of course. We consider that the clustering development of healthcare is a promising direction of government policy. It should be directed to improve the quality of medical services and reducing the cost of their provision.

Cluster initiatives in this direction have already implemented in Ukraine. 14–15 June 2013 in Kherson region it was "The First Baltic-Black Sea Economic Forum", which has become the starting point of a number of projects, including a creation of international medical and pharmaceutical cluster "Industry of Health", as well as the development of international health insurance (electronic source #8 in bibliography). Due to the fact, that Kherson region is annually visited by about 2 million tourists, the worked out mechanisms of health insurance will attract additional funds into health care. In addition, in the framework of the international medical and pharmaceutical cluster citizens of Baltic region can be recreated at the local hospital. It is funded by insurance companies.

For insurance companies, as financial institutions, function of safeguard of economic units by providing insurance protection from unforeseen events (risks) is a priority now. Because of risks in business and other activities are inevitable in the current economic conditions. In particular, during the functioning of industrial clusters it can be arise following groups of risk:

- 1. Non-receipt of income by basic enterprise because of enterprisessuppliers failed their obligations
 - 2. The property risks of a customer and property risks of suppliers
 - 3. Forced stop business activity as a customer and suppliers.

Consider the different types of insurance in relation to a particular group of risks arising from the functioning of industrial clusters:

- I. Supplying enterprises have certain obligations in relation to the main enterprise. Failure to meet these obligations (insufficient supply raw materials, products, etc.) leads to a reduction in economic activity or stop production, which results in failure to obtain profit. The insurance company undertakes to compensate the losses. Supplying enterprises own fixed assets and working capital. In this case it can be concluded an agreement of insurance of fixed assets in favor of the supplier. But working capital can be insured in favor of the customer.
- II. Any company that is part of the cluster owns material resources: buildings, special facilities, warehouses, land, building facilities, transportation, etc. All these facilities are at risk of fire, explosion, accident, natural disasters and other emergencies. A damage may be caused to the property as the main enterprise, as and property of the supplier. In this case, the insurance company will reimburse loss incurred by the enterprise.

III. Insurance against loss of income due to forced break in production (also known as insurance against business interruption or insurance from idle). Damage of property due to fire, accident water supply systems, natural disasters, robbery, etc. can be so serious that entail a stop of production. It will bring additional losses: loss of profit, operating costs – staff salaries, rents and other costs. The company has the costs regardless the state of means of production. In this case also there is insurance coverage. For a policyholder the insurance contract provides a compensation of missed revenue due to business interruption or reduction of normal business activity. Contract of insurance against business interruption may also provide reimbursement of expenses required for an early resumption of functioning of the company.

So, insurance is an effective instrument for protecting of material resources of the company and reducing of business risks. Today an availability of insurance coverage guarantees the stability work of the company in the future. Insurance can not protect the company from the onset of these risks, but may take on the compensation of losses in the event of unexpected damages.

Conclusions. Today Ukraine is only at the initial stage of formation of clusters in the financial sector. Such facts, as a globalization of the world market, the hard pressure from foreign insurance companies encourage domestic insurers to unite in order to increase their competitiveness. In view of this, the establishment of insurance, financial – insurance clusters in Ukraine can be considered as logical and inevitable. In addition, perspective directions of insurance companies participating in the implementation of cluster initiatives should be: participating insurers in clusters as an auxiliary component and underwriting of risks of insurance cluster members. However, the implementation of cluster initiatives will depend on government support as a determining factor in the formation of national cluster policy.

Bibliography

- 1. Porter M. (2005), Competition. Moscow: Williams. 608 p.
- 2. Sirotenko (Verbitskiy) V., Life of the «Elektron» of Stepan Petrovsky, http://www.ogas.kiev.ua/library/zhytye-elektrona-stepana-petrovskogo-508.
- 3. Vnukova N., The conceptual basis for the formation of cross-border financial clusters // Economic Rehabilitation of Russia. 2010. № 1 (23). P. 100–109.
- 4. European regions created with Ukraine, http://association.kharkov.ua/ index.php?option=com_content&view = article & id = 398:2012-04-05-07-43-53 & catid = 154:2012-07-03-15-21 21 & Itemid = 27.

- 5. 2012 Connecticut insurance market report, November 9, 2012, http://www.connecticutifs.com/Libraries/pdfs/2012_CT_Insurance_Market_R eport.sflb.ashx.
- 6. Total Gross Domestic Product by State for Connecticut (CTNGSP), 2013-06-27, http://research.stlouisfed.org/ fred2/series/CTNGSP.
- 7. Degtyaryova I., Scientific and practical aspects of cluster approach in managing of the competitiveness of regions of Ukraine, Public Administration: Theory and Practice, 2011, № 1, http://www.academy.gov.ua/ej/ej13/txts/Degtyaryova.pdf.
- 8. The results of the 1st-Baltic Black Sea Economic Forum, http://forum.bsbl.biz/итоги-форума/

The article was received on November 4, 2013