Ukrainian realities: collection. materials I International. scientific practice. conf. (Kyiv, December 7, 2016). Kyiv, 2016. P. 81 – 84.

5. Banking management: innovative concepts and models [Electronic resource]: monograph. / L. O. Primostka [etc.]; for general and science. ed. prof. L. O. Primostki; SHEI «Kyiv National. economy. Univ. V. Hetman». Kyiv: KNEU, 2017. 380 p.

UDC 336.717: 368

Zabolotnya A. V.
Master of Economics,
Bila Tserkva National Agrarian University

INSURANCE AS A WAY TO MINIMIZE THE RISKS OF BANK LENDING

One of the most common risks in the financial and economic activities of banks is credit risk associated with the possibility of default by the borrower of its financial obligations to the bank, other creditors or investors as a result of default or insolvency risk arising in the lending process. As the development of credit relations under market conditions (competition, unstable conditions and political situation) has led to the formation of various systems of precautionary measures, the features of credit risk insurance need to be considered in more detailed way. The unity of approaches to credit insurance in foreign practice is discussed in the study [4]. In particular, in Polish law, credit insurance is separated from property insurance in an independent form. And Russian and German laws include non-repayment insurance as liability insurance. Domestic legislation – credit insurance (including liability for non-repayment of loans) to types of voluntary insurance (Article 6 of the Law «On Insurance» [5]).

Credit risk insurance is generally considered as a set of insurance services that provide insurance protection of creditors' property interests associated with the risk of non-repayment of the loan due to the insolvency of the borrower. Credit risk insurance provides reimbursement by the insurance company to the lender in the event of default by the borrower. That is, the practice of credit insurance in Ukraine has mainly three forms: insurance against the risk of default; borrower's liability insurance for non-repayment of the loan; insurance of the collateral by the borrower.

In the first form, the bank after concluding a loan agreement can independently insure the loan by signing an agreement with the insurance company on voluntary insurance of its non-repayment. In this case, the amount of insurance premiums is taken into account when setting the loan interest rate. The initiators of such insurance operations should be banks seeking protection against credit risk.

When applying for this form of loan security, the bank must make sure that the insurance company is able to meet its obligations in the event of an insured event.

Due to the risk for banks of early termination of the borrower's liability insurance contract at any time, but not later than 30 days before the expiration of the voluntary borrower's liability insurance contract (according to paragraph 3 of Article 997 of the Civil Code of Ukraine [6]), it is advisable under the terms of the loan agreement stipulates that in case of default by the borrower of insurance obligations for more than 30 calendar days, the lender (bank) has the right to decide to increase the interest rate on this loan to the level in force at the time of the loan agreement similar credit agreements without an insurance contract. In addition, the bank may require early termination of the loan agreement and repayment of the amount of debt with interest remaining to be paid to the borrower for the actual term of the loan. At the same time, the bank must notify in writing and set a reasonable loan repayment period, which may not be less than 30 calendar days from the date of notification to such borrower. It is also possible for the bank to terminate the agreement with the borrower in court (at the initiative of the lender).

With regard to loan portfolio risk management, risk insurance takes place only in the form of delcredit insurance. In this case, the insured is the bank, and the object of insurance is the liability of all or some borrowers to the bank for timely and full repayment of the loan and interest thereon, i.e. the financial risk of the bank. The sum insured for credit risk insurance is set within the loan amount and interest on the loan. The term of insurance in both cases is determined for the period of the loan agreement.

The insurance rate for loan insurance is set depending on the sum insured, the term of insurance, as well as depending on the specific conditions of the insurance contract and the degree of risk. When insuring liability for non-repayment of the loan, the insurance rate is determined taking into account the nature of the borrower, its type of activity, features of the insured agreement, the presence of the borrower's collateral and other significant factors in each case.

Today, it should be noted that there are many factors that generate credit risk, especially in banking. The need to ensure the stability of the banking sector, and through it - the financial system of the state determines the urgency of finding mechanisms and methods to minimize credit risks of commercial banks. An approach that ensures the interaction of two participants in the financial market - banks and insurance companies – can be quite innovative for our country. During the performance of each participant's specific functions, the security of not only bank lending, but also the stability of the financial sector as a whole is increased. The calculations indicate the feasibility of using credit risk insurance by banks, which reduces the loss of their work. However, further research is needed on the practice of credit insurance in foreign countries and the possibility of implementing their positive experience to ensure the stability of the banking sector of Ukraine.

References

1. Volosovych S. Development of credit insurance market infrastructure in Ukraine. *Bulletin of KNTEU*. 2011. № 5. P. 36 – 43.
2. Prikhno IM Modern trends in the development of credit insurance in Ukraine. *Bulletin of the Eastern European University of Economics and Management*. 2015. Vip. 2 (19). P. 153 – 161.
3. Pakhomova I. G. Estimation of credit risk insurance market in Ukraine. *Effective economy*. 2017. № 6. URL: http://www.economy.nayka.com.ua/?op=1&z=5635.
4. Polezhaeva S. The need for credit risk insurance for banks. *Securities Market of Ukraine*. 2015. № 1-2. P. 119 – 124.
5. On insurance: Law of Ukraine of 07.03.1996 № 85/96-VR / Verkhovna Rada of Ukraine. URL: https://zakon.rada.gov.ua/laws/show/85/96-вр/print.
6. Civil Code of Ukraine of 16.01.2003 № 435-IV Verkhovna Rada of Ukraine. URL: https://zakon.rada.gov.ua/laws/show/435-15/page#Text.