

Russia's full-scale war on Ukraine revealed that a number of non-bank financial service providers had been unprepared for severe shocks. A large number of market players had to suspend or roll back their activities as operational risks materialized. Demand for basic financial services also slumped. For nonlife insurance, insurance premium inflows decreased in Q1 from a year ago. At the same time, nonlife insurers saw their insurance payouts and administrative costs decline, making it possible to maintain operational efficiency ratios and increase profitability. Life insurers' premiums and profitability remained at last year's levels. Credit union activity continued to decline as assets and lending decreased in volume. However, credit unions ended Q1 with a small profit, thanks to lower administrative expenses, higher operating income, and low-key provisioning. The volume of lending by finance companies and pawnshops also significantly decreased in Q1, affecting their financial performance: both segments posted a net loss.

Sector Structure and Penetration

The non-bank financial services market underwent significant changes in Q1 2022. The activity of financial institutions operating in the market has noticeably weakened since the full-scale invasion broke out. Nor has a single new NBF been registered since, a contrast with the pre-war period, when 25 institutions entered the market, including a pawnshop, an insurer, a credit union, two lessors, and 20 finance companies. In contrast, the number of institutions in the Register fell by 175 during Q1, most of them having exited the market in March. These institutions no longer held valid licenses and were mainly based in annexed Crimea and the parts of the Donbas under Russia's temporary occupation.

In January–February, 10 institutions had all of their licenses canceled, predominantly at their own request. The licenses of seven finance companies were only partially revoked. One finance company had its licenses suspended until identified violations were eliminated. In March, the NBU made no decisions to revoke or suspend licenses.

With market players declining in number, the volume of assets decreased in all categories of NBFs. Their share in the total assets of the NBU-supervised financial sector fell to 11% from 12%.

Insurers

In Q1 2022, the number of registered insurers continued to decrease. Most of the insurers were no longer active at the time of exclusion from the Register. Their licenses were previously revoked.

The volume of assets of nonlife insurers that filed their earnings reports remained almost unchanged in Q1, in both quarterly and annual terms. However, the full-scale war and the economic downturn had a negative impact on transaction volumes, with gross insurance premiums down nearly 14% from Q1 2021. Payouts fell even more significantly, by about 22% yoy.

Insurance premiums decreased for most insurance types, primarily for property, cargo, and financial risk insurance. In car insurance, inflows from comprehensive coverage premiums declined. In contrast, "Green Card" insurance premiums rose, driven by the departure of a significant number of citizens from Ukraine due to the war. Overall, transport and health insurance remained the largest market segments in terms of premiums earned.

In Q1 2022, life insurers' gross premiums were little changed in volume year-on-year, but they were down quarter-on-quarter. Both in quarterly and annual terms, insurance payments decreased, while assets, on the contrary, increased.

Insurers ceded for reinsurance about 14% of collected insurance premiums in Q1. The bulk of these funds went to nonresident reinsurers. With the imposition of martial law and FX restrictions, it became significantly more complicated to do business with them. Because of these restrictions, FX-denominated reinsurance premium payments for most insurance types have stopped. This makes it difficult to extend existing contracts and conclude new ones.

Nonlife insurers' loss ratios remained close to 40%, almost flat from a quarter earlier. Although payouts fell by more than premiums, nonlife insurers significantly ramped up their loss provisions for both voluntary and compulsory insurance.

In response to the sharp reduction in insurance premiums, insurers were able to significantly cut administrative costs. This kept the combined ratio at 85%, slightly higher than in Q4 2021.

In Q1 2022, nonlife insurers' investment income decreased from the unusually high level of Q4 2021, but it almost doubled from Q1 2021. The annualized cost-to-income ratio remained almost unchanged, at 80%. Deposits and government securities were the main source of investment income.

Life insurers increased investment income by 30% compared to Q4 2021 and by 43% relative to Q1 2021. Income from investments in government securities forms the basis of investment income. Income from deposits grew faster in the reporting quarter.

Insurers were profitable in Q1 2022. Nonlife insurers that filed their earnings reports posted better financial performance than in Q1 2021, despite almost unchanged operational efficiency ratios. This was facilitated by noticeable cuts in other expenses. Life insurers reported slightly higher profitability. Their return on assets remained at last year's levels.

The number of violators of regulations increased during the quarter. As of 1 April 2022, 11 insurers were in violation of at least one solvency ratio, up from just four at the beginning of the year. Requirements were breached by small insurers that previously met them. As a share of sector assets, such delinquent insurers represented only 2.6%.

Credit Unions

In Q1 2022, the sector continued to shrink. A number of dormant credit unions – mainly small ones – exited the market. The quality of reporting deteriorated significantly: credit unions that did not file their Q1 2022 earnings reports jointly accounted for almost a quarter of assets. Some of those were credit unions that remained in areas under temporary occupation or that were registered in the battle zone. Assets of institutions that did submit their reports to the NBU declined by 4% in Q1.

As a result of the slump in business activity, the volume of new loans in Q1 decreased by one-third compared to the same period last year. The average declared share of overdue loans was almost unchanged. However, today this indicator does not fully reflect the expected losses from credit risk caused by the current crisis. The recently eased regulations allow credit unions to temporarily disregard the number of days that loan payments have been overdue when making provisions for losses from loan delinquency. Assessment of portfolio quality and recognition of losses will occur over time and due to the gradual reimposition of regulatory requirements.

Credit unions that did their reporting for Q1 2022 had historically posted higher average operating performance than their peers that failed to report. Their cost-to-income ratio was 76% in Q1. At the same time, credit unions' provisioning expenses went slightly up. A reduction in operating costs, however, enabled them to maintain low-key profitability.

What little profits credit unions managed to earn drove their retained earnings slightly higher compared to the beginning of the year. Meanwhile, deposits and additional share contributions declined in volume by 5% and 11%, respectively. Funds outflows were somewhat restrained by restrictions imposed by the regulator on the early withdrawal of union member deposits and the ban on the redemption of additional share contributions for related parties.

As of 1 April 2022, only two credit unions were in breach of capital adequacy ratios.

Finance Companies and Pawnshops

The Q1 earnings reports of finance companies and pawnshops are least informative at this point. Assets of institutions that submitted reports increased slightly. However, such assets fell from the sector's pre-invasion levels, especially for pawnshops. Lending by pawnshops fell by a quarter. Lending by finance companies plunged by 45%. Finance companies and pawnshops in Q1 came out in the red.

Prospects and Risks

To gradually revitalize the non-bank financial sector, it is necessary to ensure that its participants can do business as usual and that the channels of financial service provision in wartime are effective. A major focus should be placed on ensuring the physical and cyber security of the institutions and customers. All NBFIs need to beef up their capability to provide services online with full, 24/7 customer support.

As the crisis has unfolded, in addition to operational risks, credit and liquidity risks have increased, as have underwriting risks for insurers. Lending institutions should properly reflect the quality of the loan portfolio and conduct timely restructurings for borrowers affected by the war. However, such restructurings should not cover up the borrower's inability to service the debt. Insurers should update their risk assessments and revise their tariffs, provisioning estimates, and planned performance indicators as needed.

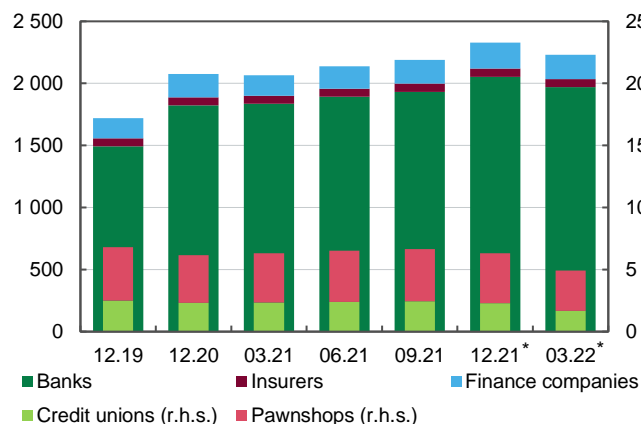
Taking into account the contraction in almost all major operations and thus revenues, it is expedient that providers of non-bank financial services optimize their expenses, primarily administrative costs. At the same time, they must continue to meet their own commitments to clients to ensure that confidence in the financial market endures.

The NBU will gradually reinstitute its temporarily suspended regulatory requirements and redeploy its supervisory tools to ensure proper supervision of NBFIs under martial law.

Sector Structure and Penetration

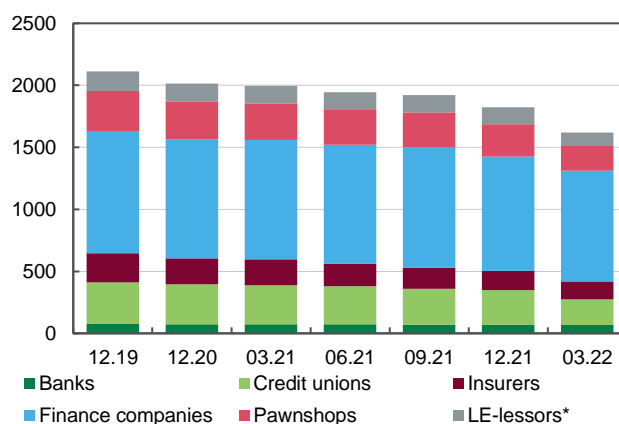
In Q1, assets of banks and insurers decreased moderately, while pawnshops and credit unions lost more than 19% of their assets. The number of financial institutions decreased. Most were excluded from the Register owing to the lack of license.

Figure 1. Financial sector asset structure, UAH billions



* Reports submitted by non-bank financial services providers as of 23 July 2022.

Figure 2. Number of financial service providers



* Legal-entity lessors are not finance companies, but they have the right to provide financial leasing services.

Reporting discipline in Q1 2022 worsened in most sectors compared to the previous period, most significantly for finance companies and legal entity lessors.

Figure 3. Financial institutions that submitted reports, as a share of the number of entities in the Register*

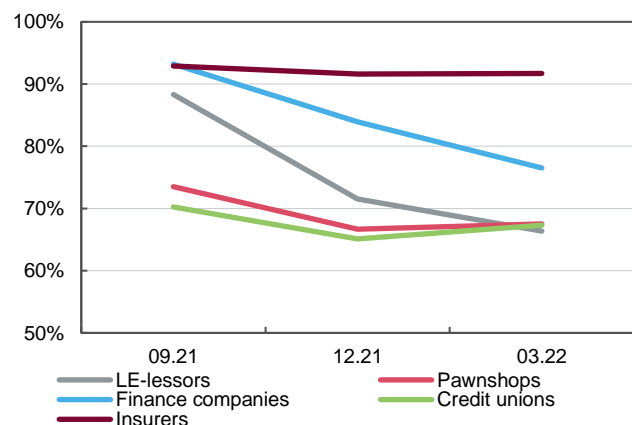
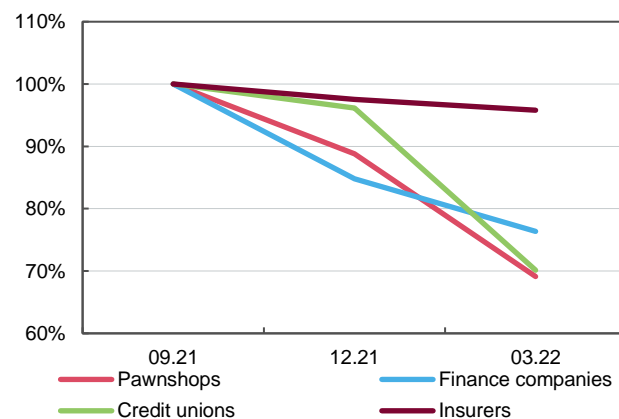


Figure 4. Assets of financial institutions that submitted reports in the corresponding period, as a share of the volume of assets of financial institutions in Q3 2021



* Until the end of Q1, the Register included companies based in the Autonomous Republic of Crimea and in the areas of Donetsk and Luhansk regions occupied by russians before February 2022. Reports submitted by non-bank financial services providers as of 23 July 2022.

In Q1, assets of banks and insurers decreased more slowly than those of other financial institutions. The share of providers of non-bank financial services shrank to 11%.

Table. Financial institutions regulated and supervised by the NBU*

		2019	2020	03.2021	06.2021	09.2021	12.2021	03.2022	Change in Q1, qoq
Insurers	Assets, UAH millions	63 867	64 903	64 271	65 178	65 636	64 803	63 888	-1.4%
	Number of companies	233	210	208	181	169	155	145	-10
Credit Unions	Assets, UAH millions	2 502	2 317	2 335	2 394	2 438	2 279	1 667	-26.9%
	Number of companies	337	322	316	308	289	278	205	-73
Banks	Assets, UAH millions	1 493 298	1 822 841	1 835 527	1 892 468	1 931 916	2 053 819	1 970 150	-4.1%
	Number of companies	75	73	73	73	71	71	69	-2
Finance Companies	Assets, UAH millions	162 197	186 572	167 038	179 862	191 114	209 396	196 312	-6.2%
	Number of companies	986	960	964	958	971	922	894	-28
Pawnshops	Assets, UAH millions	4 265	3 854	3 968	4 126	4 207	4 028	3 258	-19.1%
	Number of companies	324	302	292	287	283	261	197	-64

* Along with submitting Q1 2022 reports, NBFIs were able to update their reporting data for Q4 2021. Retrospective adjustments were therefore made to certain indicators, in particular the size of assets.

Reports submitted by non-bank financial services providers as of 23 July 2022.

Insurers

This section features Q4 2021 and Q1 2022 data about insurers that filed their earnings reports with the NBU as of 23 July 2022.

Assets of life insurers increased in volume, unlike those of nonlife insurers, which declined. Cash increased as a share of life insurers' assets by 4 pp as companies shifted away from less liquid and towards more liquid assets. The structure of nonlife insurers' assets was little changed.

Figure 5. Number of insurers and their assets, UAH billions

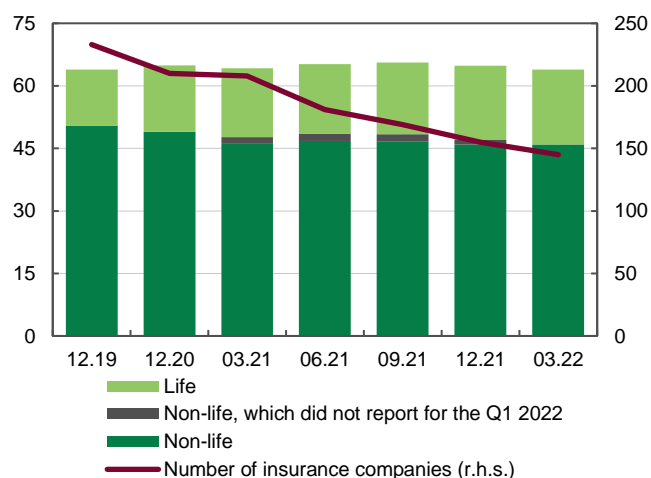
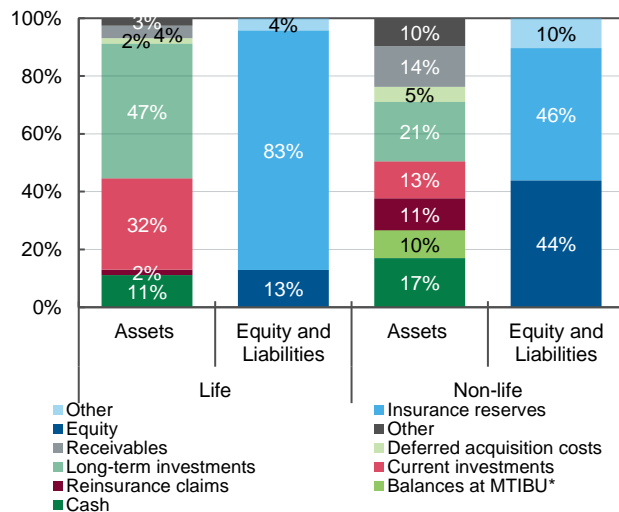
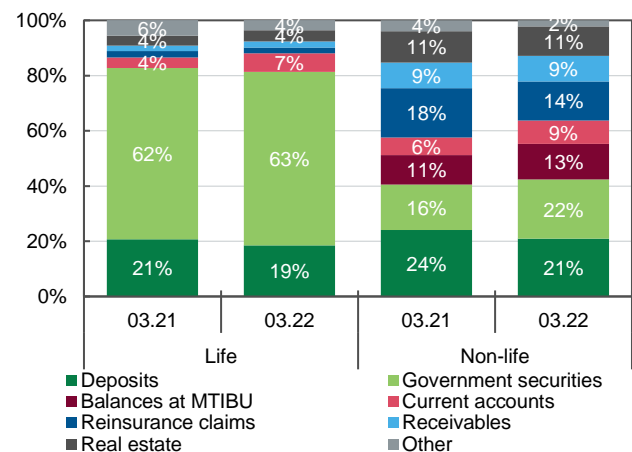


Figure 6. Assets and liabilities of insurers as of 1 April 2022



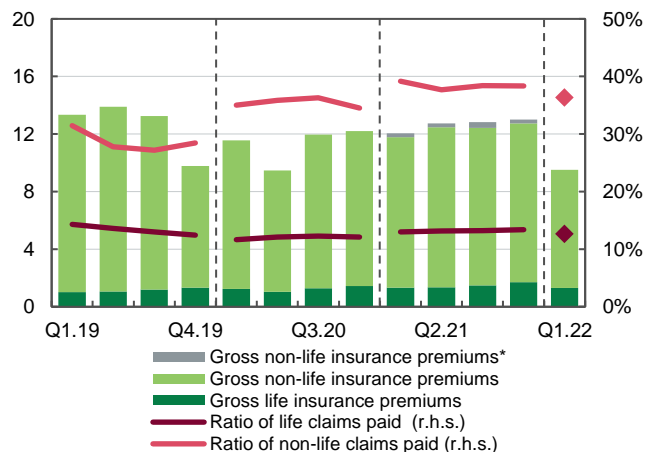
Insurers ramped up their investments in government securities. The share of deposits shrank slightly.

Figure 7. Structure of assets eligible to cover insurers' provisions, UAH billions



Compared to Q4 2021, the volumes of life and nonlife insurance premiums fell by 24% and 27%, respectively.

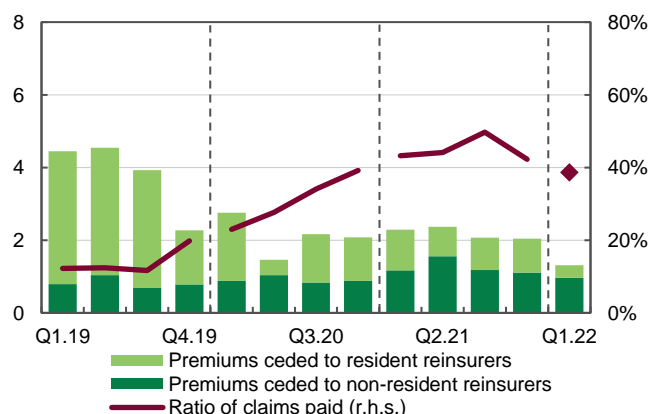
Figure 8. Premiums and ratio of claims paid, by type of insurance, UAH billions



* Insurers that did not submit their reports for Q1 2022.

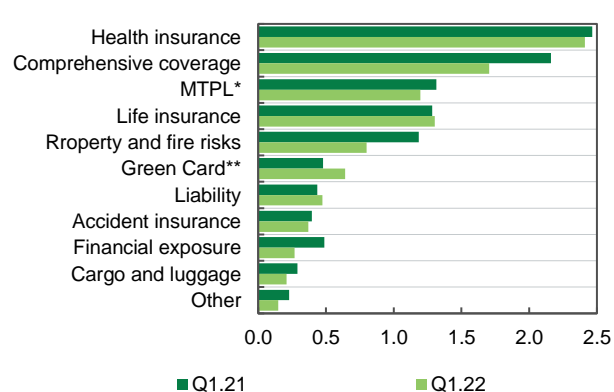
Insurance premiums payable to resident reinsurers fell by 64% qoq, and those to nonresident reinsurers by 13% qoq.

Figure 9. Premiums due to reinsurers and ratio of claims paid, UAH billions



For most types of insurance, the volume of premiums decreased compared to Q1 2021. As before, the largest volumes of insurance premiums are in auto and health insurance.

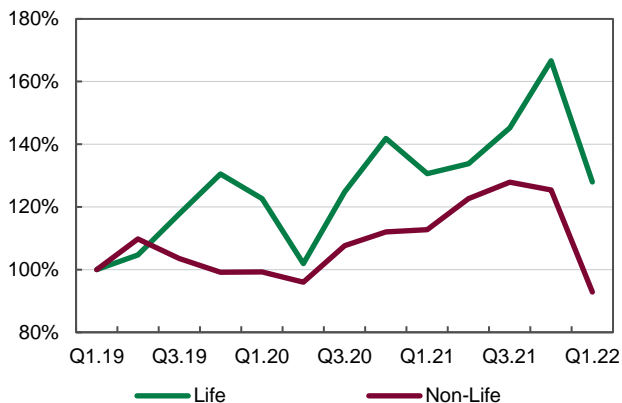
Figure 10. Breakdown of insurance premiums by most popular type of insurance in Q1 2021 and Q1 2022, UAH billions



Data from insurers that submitted reports for Q1 2022. * Compulsory motor third party liability insurance. ** International Motor Insurance Card System.

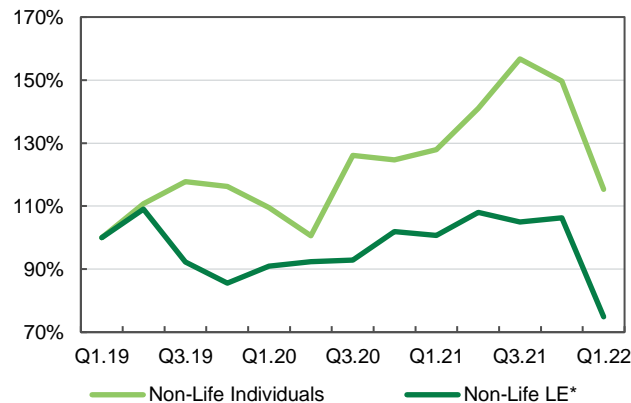
Net life and nonlife insurance premiums, both from households and businesses, decreased significantly during the quarter. Net nonlife insurance premiums came out at three-year lows.

Figure 11. Net insurance premiums by type of insurance (excluding inwards reinsurance), Q1 2019 = 100%



Figures for Q4 2021 and Q1 2022 reflect the growth only for the companies that submitted their reports for these periods.

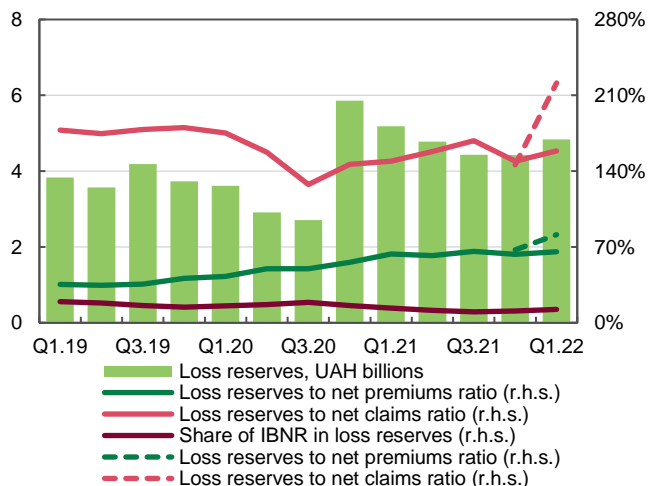
Figure 12. Nonlife insurance premiums by type of policyholder, Q1 2019 = 100%



Figures for Q4 2021 and Q1 2022 reflect the growth only for the companies that submitted their reports for these periods. * Legal entities.

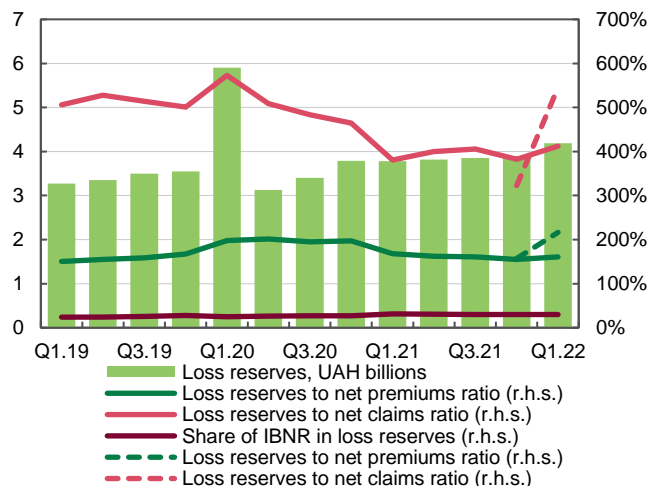
Loss reserves in voluntary and compulsory types of insurance increased significantly. Coupled with a decrease in net premiums and net payouts, this led to the growth in reserve ratios.

Figure 13. Loss reserve ratios* of voluntary nonlife insurance



* Annualized provisioning ratios.

Figure 14. Loss reserve ratios* of compulsory nonlife insurance



* Annualized provisioning ratios.

Annualized loss ratios in voluntary and compulsory insurance remained almost unchanged in Q1 2022. Auto insurance and health insurance traditionally posted the highest loss ratios.

Figure 15. Share of compulsory insurance premiums and loss ratio of nonlife insurance

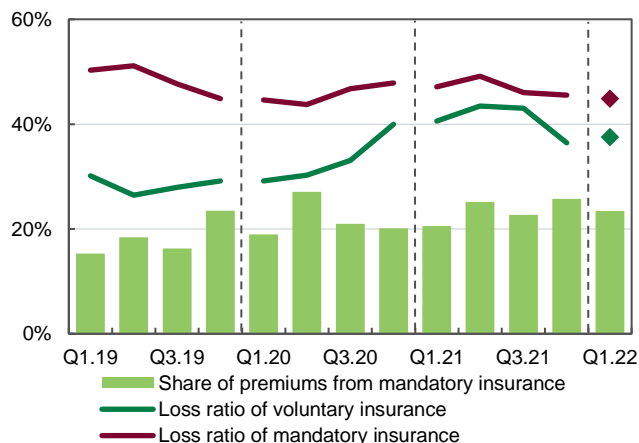
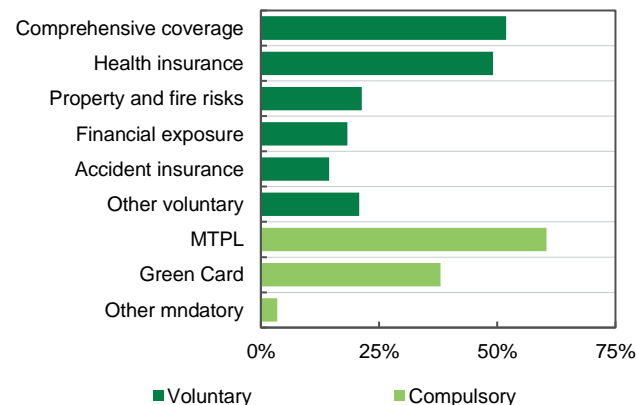


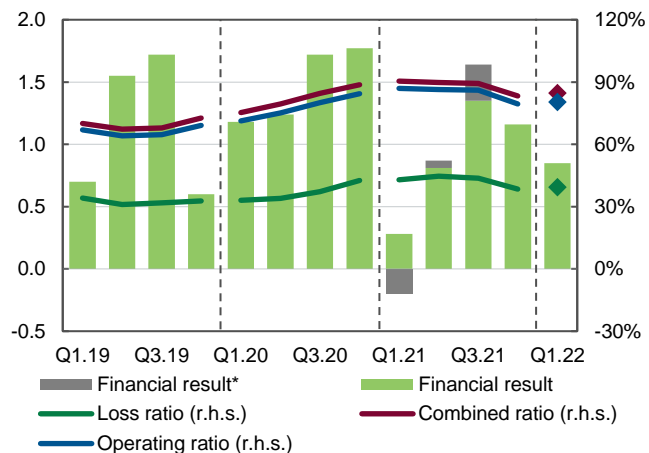
Figure 16. Loss ratios of some types of insurance



Based on data from companies that submitted their reports for Q1 2022.

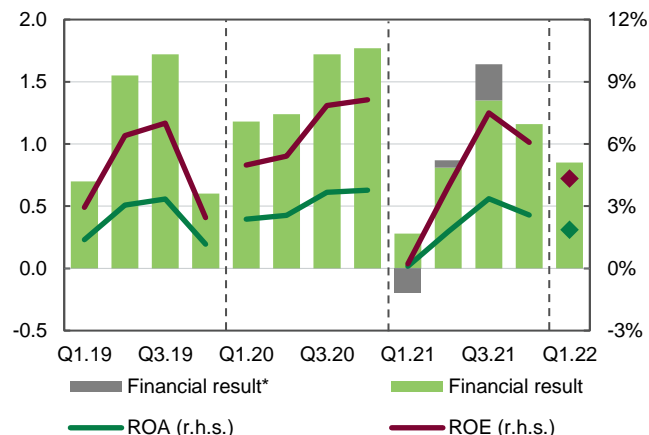
The annualized cost-to-income ratio of nonlife insurers is almost unchanged at 80%. Profitability and return on capital increased year-on-year due to a significant reduction in other expenses.

Figure 17. Cumulative profit or loss and operating performance indicators of nonlife insurers, UAH billions



* Profit/loss of companies that did not submit their reports for Q1 2022.

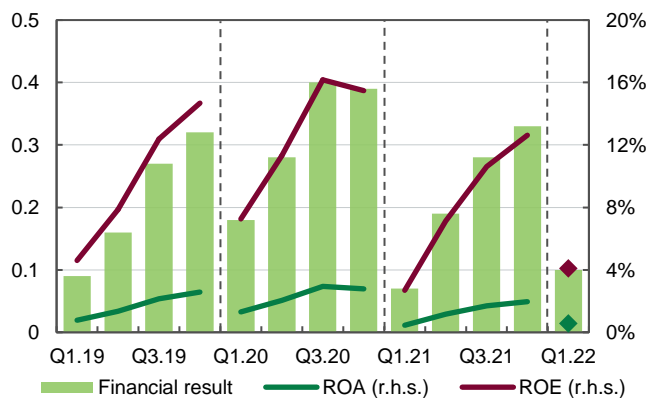
Figure 18. Cumulative profit or loss of nonlife insurers on a cumulative basis, UAH billions



* Profit/loss of companies that did not submit their reports for Q1 2022.

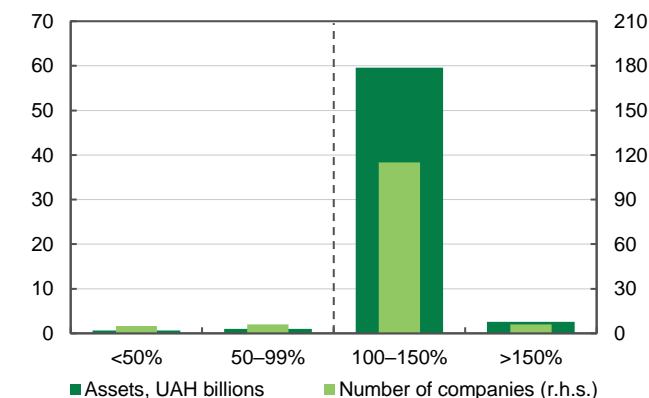
Life insurers in Q1 received profits close to historical values.

Figure 19. Profit or loss of life insurers on a cumulative basis, UAH billions



During Q1, the number of insurers that failed to meet solvency and capital adequacy requirements increased to 11 from 4.

Figure 20. Distribution of number of insurers and their assets* by ratio of eligible assets to required solvency margin, as of 1 April 2022



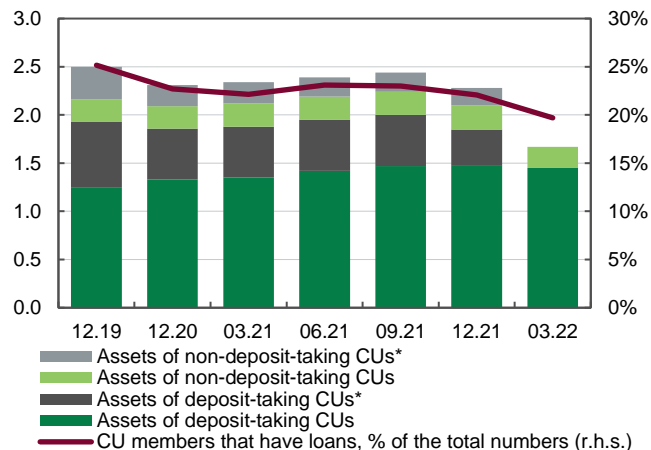
* This figure draws on data from 132 companies.

Credit Unions

This section features Q4 2021 and Q1 2022 data on credit unions that filed their earnings reports with the NBU as of 23 July 2022.

Assets of credit unions that filed their reports decreased. This drop was more pronounced for institutions that do not take deposits. The share of active members of credit unions shrank to 20%.

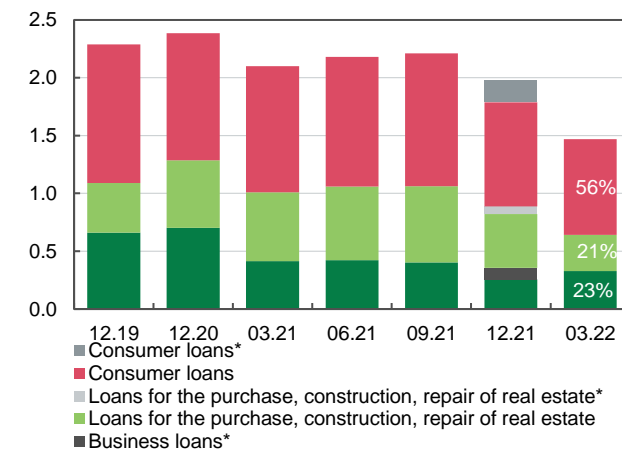
Figure 21. Total assets of credit unions and share of credit union (CU) members who took out loans, UAH billion



* Failed to submit reports in Q1 2022.

Credit portfolio of credit unions that filed reports dropped by 10% qoq. A decline in mortgage portfolio was the most pronounced.

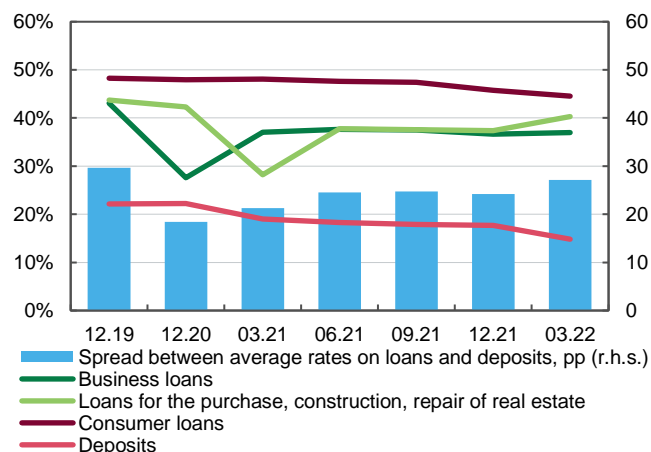
Figure 22. Breakdown of the principal amount of outstanding loans to credit union members, UAH billions



* Failed to submit reports in Q1 2022.

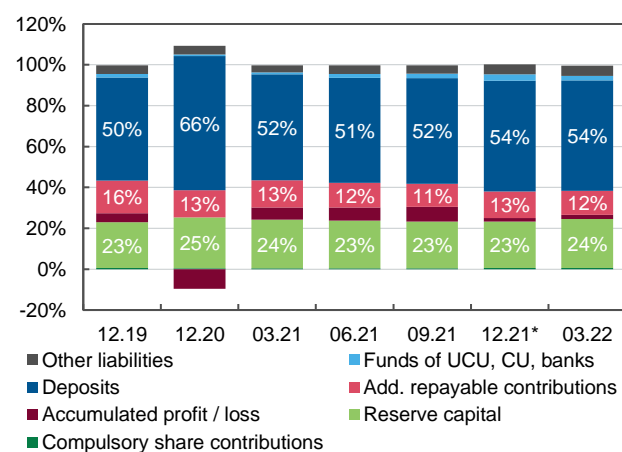
The spread between the average interest rates on loans and deposits increased in Q1 by almost 3 pp. Credit unions reduced rates on deposits amid consistently high loan rates.

Figure 23. Average interest rates on outstanding loans and deposits of credit union members



The structure of funding hardly changed. The share of reserve capital increased slightly, and the share of additional redeemable contributions decreased.

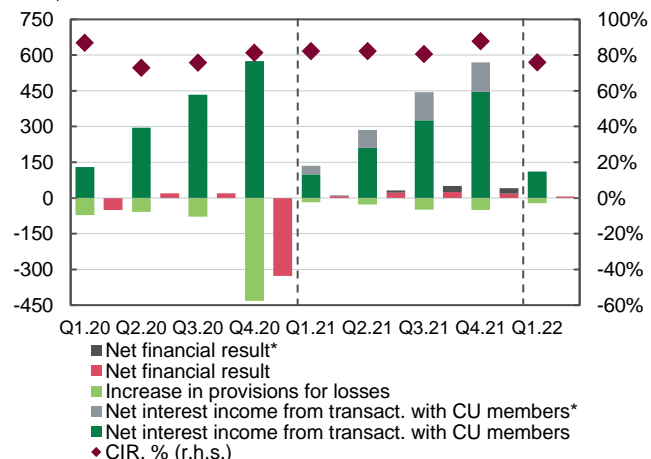
Figure 24. Equity and liabilities structure



* Based on data from credit unions that filed reports in Q1 2022.

Reporting credit unions' operating income and provisioning expenses increased slightly compared to Q1 2021.

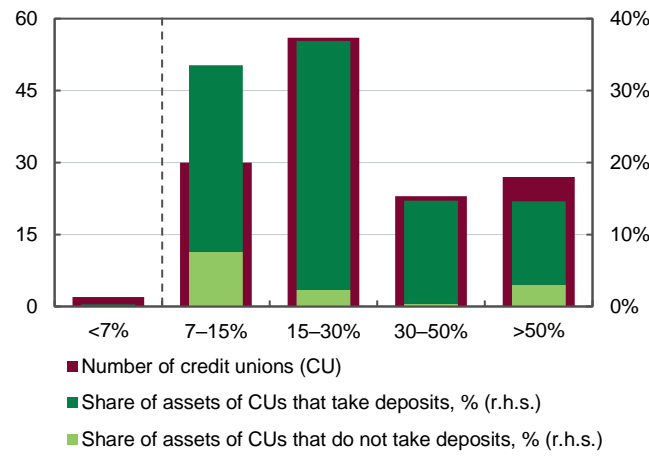
Figure 25. Operational efficiency of credit unions (on a cumulative basis), UAH millions



* Failed to submit reports in Q1 2022.

Only two unions violated minimum solvency requirements as of 1 April 2022.

Figure 26. Distribution by core capital adequacy as of 1 April 2022*



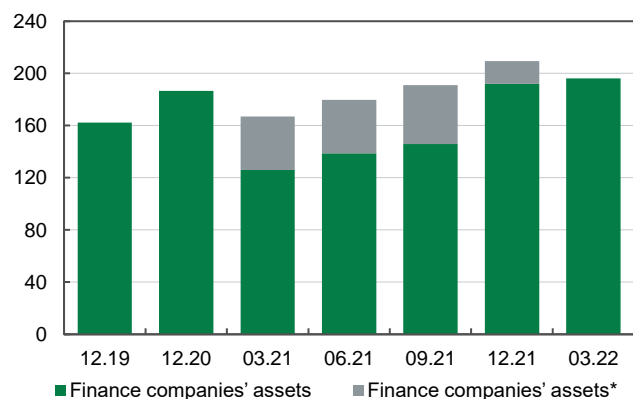
* According to reports submitted as of 1 April 2022.

Finance Companies and Pawnshops

This sections features Q4 2021 and Q1 2022 data on finance companies and pawnshops that filed their earnings reports with the NBU as of 23 July 2022.

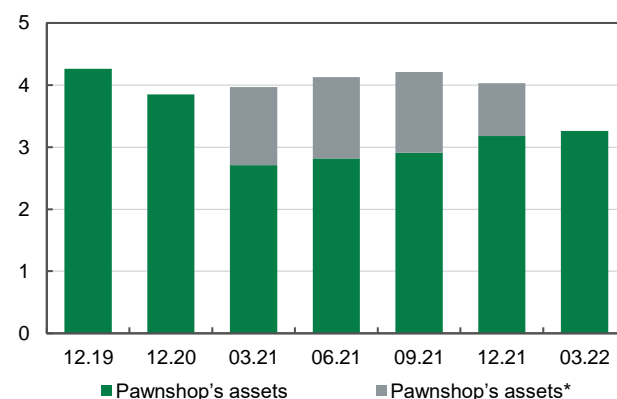
In Q1, the volume of assets of finance companies and pawnshops reporting on their activities increased by 2%.

Figure 27. Assets of finance companies, UAH billions



* Finance companies that did not submit reports for Q1 2022 or were excluded from the Register.

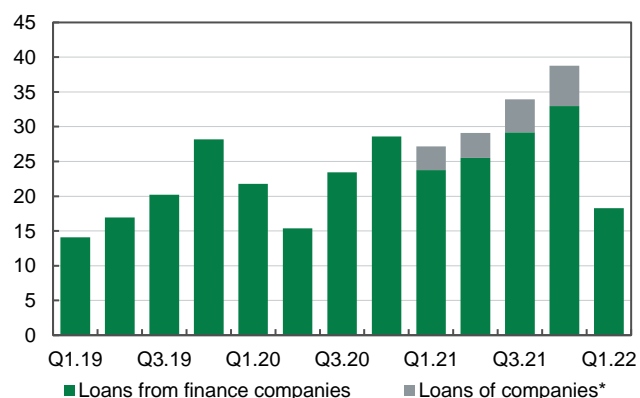
Figure 28. Assets of pawnshops, UAH billions



* Pawnshops that did not submit reports for Q1 2022 or were excluded from the Register.

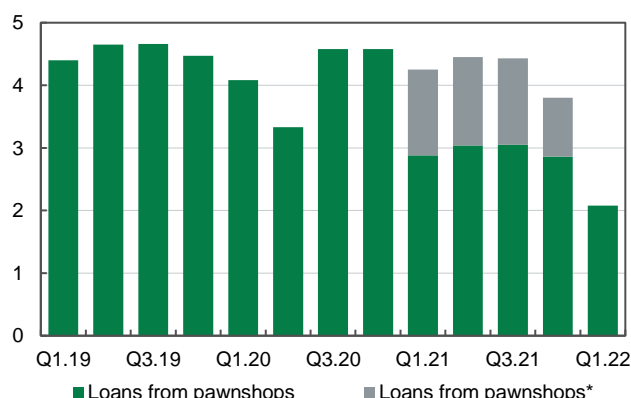
In Q1, the volume of lending by finance companies that did their reporting fell by 45%. The same trend was seen in lending by pawnshops: the volume of loans fell by a quarter.

Figure 29. Loans issued during quarter by finance companies, UAH billions



* Finance companies that did not submit reports for Q1 2022 or were excluded from the Register.

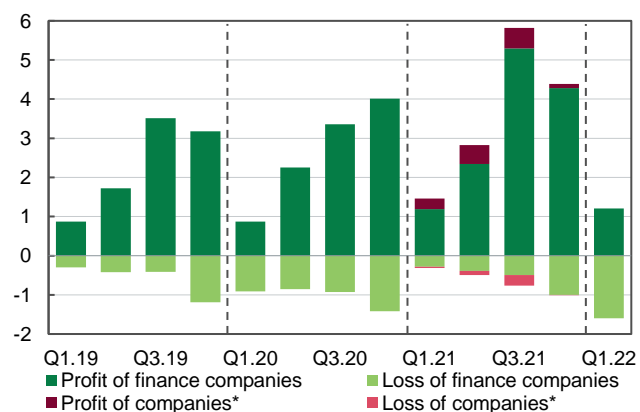
Figure 30. Loans issued during quarter by pawnshops, UAH billions



* Pawnshops that did not submit reports for Q1 2022 or were excluded from the Register.

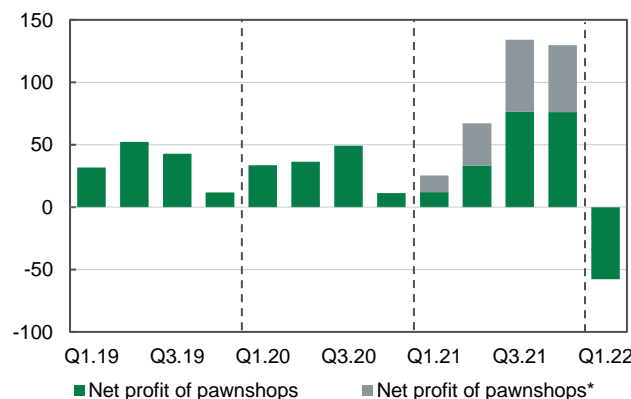
In Q1, finance companies came out as loss-making for the first time since 2020 started. Pawnshops also took significant losses, unlike when the COVID-19 crisis peaked.

Figure 31. Cumulative profit or loss of finance companies on a cumulative basis, UAH billions



* Finance companies that did not submit reports for Q1 2022 or were excluded from the Register.

Figure 32. Cumulative profit or loss of pawnshops, UAH billions



* Pawnshops that did not submit reports for Q1 2022 or were excluded from the Register.

Notes.

The source of the data is the National Bank of Ukraine unless otherwise noted.

This Review covers primarily insurers' and credit unions' markets in Q1 2022. An overview of state of finance companies and pawnshops is provided for information.

The NBU continues work to improve reporting control procedures in order to enhance data quality and ensure the full and proper disclosure of information about operations of NBFIs in the future. As they filed their earnings reports for Q1 2022, NBFIs, at the NBU's request, adjusted their improperly compiled reporting figures for previous periods (including Q4 2021). Therefore, individual indicators in this survey were adjusted in accordance with the clarifications provided.

Unless otherwise noted, the sample consists of institutions that were solvent at each reporting date and submitted their reports.

The sum of individual components and total sum may differ due to the rounding effect.

Terms and Abbreviations:

CIR	Cost-to-income ratio. The ratio of operating expenses to operating income
Combined ratio	The loss ratio plus the ratio of operating expenses to premiums adjusted for unearned premium reserves
CU	Credit unions
IBNR	Incurred but not reported (claims)
Green Card	International Motor Insurance Card System
LE	Legal entity
Legal entity lessors	A legal entity that is not a financial institution entitled to provide a single financial service which is financial leasing. They can engage in other economic activities, such as operating leasing.
Loss ratio	The ratio of claim payments adjusted for the change in claims provisions and claims handling expenses to premiums adjusted for unearned premium reserves
MTIBU	Motor (Transport) Insurance Bureau of Ukraine
NBU	National Bank of Ukraine
NBFIs	Non-bank financial institutions
NPL	Nonperforming loans
MTPL	Compulsory Motor third party liability insurance
Ratio of claims paid	The ratio of claim payments to premiums for four quarters preceding the estimate date
Register	The state register of financial institutions
ROA	Return on assets
ROE	Return on equity
UCU	Union of credit unions
pp	Percentage point
UAH	Ukrainian hryvnia
USD, US dollar	United States dollar
Q	Quarter
H1 / H2	First / second half (of a year)
mln	million
r.h.s.	Right-hand scale
yoy	Year-on-year
qoq	Quarter-on-quarter