National Bank of Ukraine

Non-bank Financial Sector Review

November 2024

The NBFI sector made gradual progress in Q3: the assets of finance companies, pawnshops, and insurers increased. Gross non-life insurance premiums rose for the second straight quarter, and the increase in insurance claims paid continued since early 2023. Growth in life insurance premiums and claims paid also resumed. Insurers' core performance indicators remained acceptable. The segment made a profit in January–September. Credit unions' assets continued to gradually decrease in volume as some of these institutions exited the market. The loan portfolio shrank as well. Credit unions are still operationally loss-making. The segment's negligible profit came from a release of loss provisions. Although finance companies withdrew from the market, the segment's assets increased. Lending to households and leasing grew gradually, but other types of financial services declined. Most finance companies retained their profitability. Pawnshop activity was recovering in Q3: assets and new loans grew, revenues rose, and the segment was profitable.

Sector Structure and Penetration

The number of NBFIs extended its decrease in Q3 2024: 40 finance companies, 15 insurers, 10 credit unions, and 3 pawnshops were removed from the Register. About half the NBFIs voluntarily surrendered their licenses and left the market. One finance company was registered in August.

In July–September, the NBU narrowed the scope of licenses for 59 finance companies and 5 insurers.

NBFIs' total assets added 5.7% qoq in Q3. Assets grew in all market segments, except for credit unions. Most gains occurred in finance companies, up 6.4% qoq. Insurers' assets[1] increased 3.7% qoq. Pawnshops' assets rose too. But credit unions' assets have decreased in volume for two straight quarters. NBU-supervised NBFIs' share in financial sector assets rose 0.3 pp in Q3, to 10.1%.

Insurers

Life insurers' assets held almost steady in Q3. By contrast, non-life insurers' assets returned to growth, up 6% qoq, despite 14 companies leaving the market.

Non-life insurers' premiums have grown for two straight quarters, by 12% qoq and 10% yoy. Life insurers' premiums rose 10% qoq and 9% yoy in Q3 after a drop in Q2.

Insurance claims paid also grew, but at very different rates. Non-life insurance claims paid rose 1% qoq in an uptrend that started in early 2023. But the pace of growth slowed significantly. Life insurers' claims paid have grown for two consecutive quarters, by 14% qoq, after falling in Q1. The annualized claims paid ratio in both segments edged 1 pp higher.

Premiums increased in all core lines of business in Q3. In transport insurance products (C&C, MTPL, Green Card), Green Card premiums grew the most (13% qoq), extending previous years' uptrend. Among personal-insurance lines of business (life, health, and assistance), most gains were in assistance (up 83% qoq). Transport and personal insurance are still making up over 80% of the market's premiums and 90% of claims paid. In other products, financial-risk (up 25% qoq) and cargo-and-luggage (up 18% qoq) lines of business led the way, but jointly accounted for just 6% of non-life insurance premiums.

The percentage of reinsurance premiums remained low, at only 8% of gross premiums. The domestic market accounted for a mere one-tenth of reinsurance premiums.

Insurers built up their loss reserves by 11% qoq in the non-life segment in Q3. The transport-insurance and property-insurance lines of business drove most of the growth in this indicator. Because loss reserves grew almost in proportion to operations, the ratios of premiums coverage and claims paid coverage with loss reserves remained unchanged.

The net loss ratio shrank 1 pp from H1 2024, to 51%, according to January–September data. A large increase in loss reserves boosted the net loss ratio in Q3, making the decrease in cumulative (year-to-date) indicators incremental.

The net combined ratio rose quarter-on-quarter in Q3 due to a significant increase in the loss ratio. In the first nine months of 2024, however, this indicator was 103%, little changed from H1 2024.

The net operating ratio was 95% in the first nine months of 2024, having sustained no substantial changes. With the net investment ratio almost constant, the net operating ratio reflected the net combined ratio's developments.

Insurers remained profitable, according to January–September earnings data. Non-life insurers' profit was almost flat from the same period last year, while return on equity edged higher. In contrast, although profits came out above last year's levels, life insurers' return on equity plunged as

[1] In accordance with regulatory requirements, the estimates are made for technical reserves under outward reinsurance agreements.

capital grew. A number of insurers recapitalized to meet updated minimum solvency requirements. The share of loss-making non-life insurers contracted, while that of loss-making life insurers expanded.

In January–September, six insurers were in breach of the solvency capital ratio (SCR) and/or the minimum capital ratio (MCR). Three of the violators either have exited or are about to exit the market voluntarily. The violators' share in assets was 2%.

Credit Unions

In Q3, credit unions' number and assets kept on declining. Assets decreased for most non-deposit-taking credit unions. The assets of deposit-taking unions were increasing, though slowly.

New loans fell 12% qoq in Q3 due to a seasonal slump, by almost a half, in loans to entrepreneurs. The volume of new consumer loans, however, has barely changed. Overall, the segment's loan portfolio shrank 3% qoq (down 7% yoy). The reported average share of loans past due for more than 90 days decreased 3 pp, to 29%.

Credit unions' net interest income grew 2% qoq (fell 16% yoy). Lending profitability rose, driven by the higher share of profitable consumer loans in the portfolio. But administrative expenses grew faster than income, pushing the cost-to-income ratio (CIR) higher to 101%. Meanwhile, net income from the release of provisions increased. Though operationally inefficient, credit unions posted higher profits.

The growth in profit contributed to a slight increase in credit unions' equity. However, the slow decline in credit union members' deposits went on, and withdrawals of additional share contributions picked up: they fell immediately by 11.7% qoq.

In early October 2024, six unions were in breach of the capital adequacy ratio. Although at the start of July there were nine violators, three of those had left the market by October.

Finance Companies and Pawnshops

Finance companies' assets gained 6.4% qoq in Q3, even though 40 of these NBFIs had exited market, primarily by order of the regulator. The volumes of most of the main types of financial services, except for leasing, shrank significantly.

Finance companies continued to lend to households: retail loans has grown for five consecutive quarters, up 2.2% qoq in Q3 alone. But lending to businesses has declined for three straight quarters: loans made in Q3 fell by almost one-third. The gross portfolio of loans to households has risen for seven quarters in a row, while that of corporate loans shrank 4.2% qoq.

In July–September, factoring slumped. Conventional factoring transactions – the financing of receivables – made up only 14% of all operations. Guarantee transactions also fell.

In January–September 2024, finance companies reported record profits compared to the same periods of the previous three years. About 80% of finance companies posted profits. Over half the segment's total profit was generated by Ukrfinzhytlo, the state-owned operator of the eOselia program. Ukrfinzhytlo's core income comes from interest payments on the domestic government debt securities in its capital. Finance companies' returns had also risen significantly since the start of the year.

Pawnshops continued to scale up operations in Q3. The volumes of assets and new loans were slightly up. Revenues from financial services increased, and the segment ended the quarter in the black even as administrative expenses rose. Return ratios increased from the start of the year. However, equity shed almost 12% over January–September.

Prospects and Risks

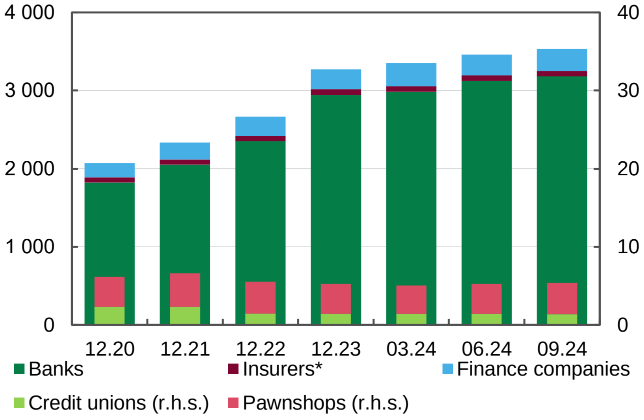
A common reason the NBU applies enforcement measures to non-bank financial service providers is because NBFIs violate AML/CFT and consumer rights requirements. Thus, the financial institutions need to pay more attention to how they manage relevant risks. The NBU has recently made recommendations to NBFIs on how to identify "business fragmentation" practices used among other things for tax evasion purposes. Having detected such practices, financial institutions must report them to the State Financial Monitoring Service of Ukraine and decide whether to stop doing business with persons engaged in such scams, considering identified risks.

Since the beginning of the year, providers of non-bank financial services have been filing reports under new rules. NBFIs should focus on improving the quality and timeliness of reporting. Starting with reports for January 2025, finance companies and pawnshops will provide data on regulatory balance sheets and off-balance-sheet liabilities on a monthly basis, whereas currently they report quarterly.

Sector Structure and Penetration

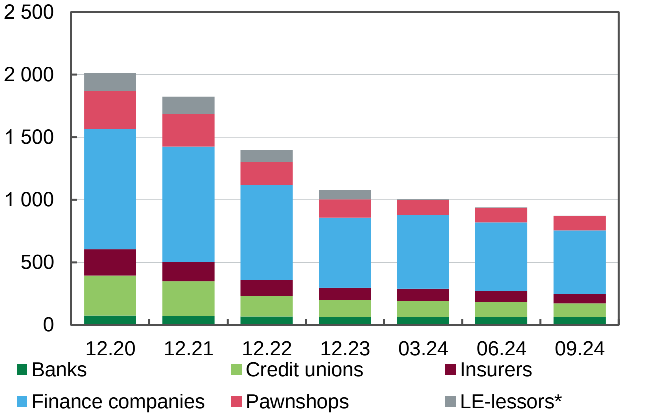
Assets of non-bank financial service providers increased in Q3, most notably at finance companies. In contrast, the number of NBFIs in the Register fell by 67 as primarily finance companies and insurers left the market. One finance company was registered in Q3.

Figure 1. Financial sector asset structure, UAH billions



* Regulatory reporting data reflect the amount of assets and liabilities of an insurer, including the amount of certain components according to prudential requirements, primarily reserves.

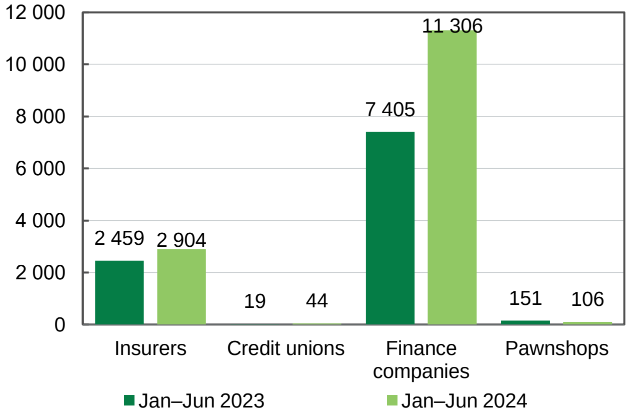
Figure 2. Number of financial services providers



* From 1 January 2024, legal-entity lessors took the status of finance companies.

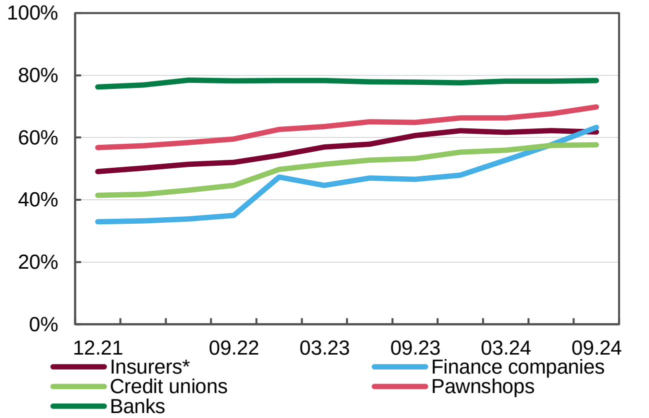
In the first nine months of 2024, all sectors of non-bank financial service providers were profitable.

Figure 3. Net profit or loss of non-bank financial services providers, UAH millions



Concentration in the finance companies segment has surged year to date.

Figure 4. Share of assets of the TOP 10 institutions in the segments



* Regulatory reporting data reflect the amount of assets and liabilities of an insurer, including the amount of certain components according to prudential requirements, primarily reserves.

In Q3, the volume of assets of non-bank financial service providers grew 5.3%, more than that of the banks. As a result, NBFIs' share in financial sector assets rose 0.3 pp, to 10.1%.

Table. Financial institutions regulated and supervised by the NBU

		2020	2021	2022	2023	03.2024	06.2024	09.2024	Change in Q3, qoq
Insurers*	Assets, UAH millions	64,903	64,737	70,298	74,412	67,284*	67,515*	70,007*	3.7%
	Number	210	155	128	101	98	90	75	-15
Credit unions	Assets, UAH millions	2,317	2,330	1,449	1,422	1,399	1,399	1,386	-0.9%
	Number	322	278	162	133	127	120	110	-10
Finance companies	Assets, UAH millions	186,572	216,406	243,997	250,454	300,212	265,466	282,365	6.4%
	Number	960	922	760	559	589	548	509	-39
Pawnshops	Assets, UAH millions	3,854	4,289	4,101	3,839	3,650	3,865	3,977	2.9%
	Number	302	261	183	146	123	116	113	-3
Banks	Assets, UAH millions	1,822,841	2,053,232	2,351,678	2,944,684	2,985,602	3,125,617	3,180,663	1.8%
	Number	73	71	67	63	63	62	62	0

* Regulatory reporting data reflect the amount of assets and liabilities of an insurer, including the amount of certain components according to prudential requirements, primarily technical reserves.

Insurers

Although 14 companies exited the market, non-life insurers' assets increased 6% qoq in Q3. Life insurers' assets did not change.

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

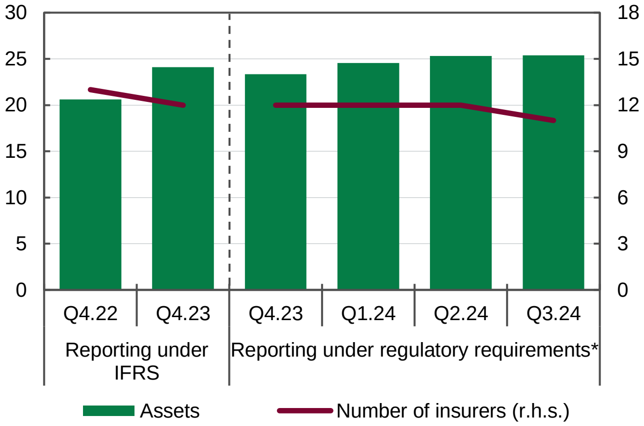
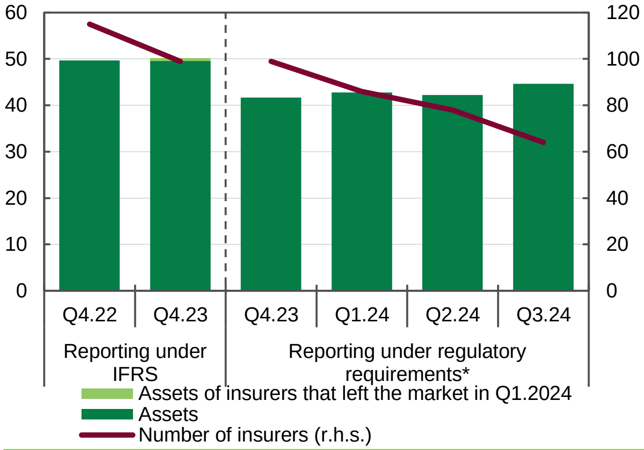


Figure 6. Number of non-life insurers and their assets, UAH billions



* Regulatory reporting data reflect the amount of assets and liabilities of an insurer, including the amount of certain components according to prudential requirements, primarily technical reserves.

In Q3, the share of deposits in life insurers' assets rose, while the percentage of bonds and current accounts shrank. The breakdown of non-life insurers' assets was little changed. The share of technical reserves in liabilities expanded.

Figure 7. Assets and liabilities* of life insurers

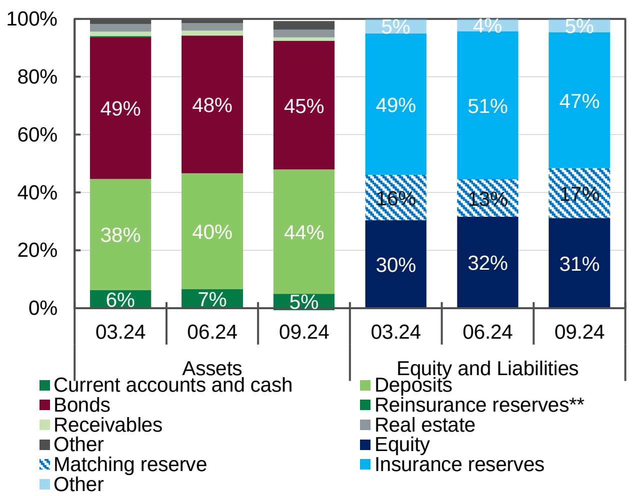
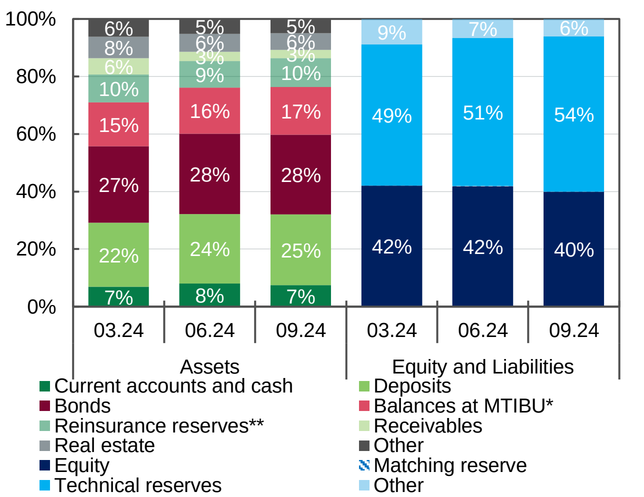


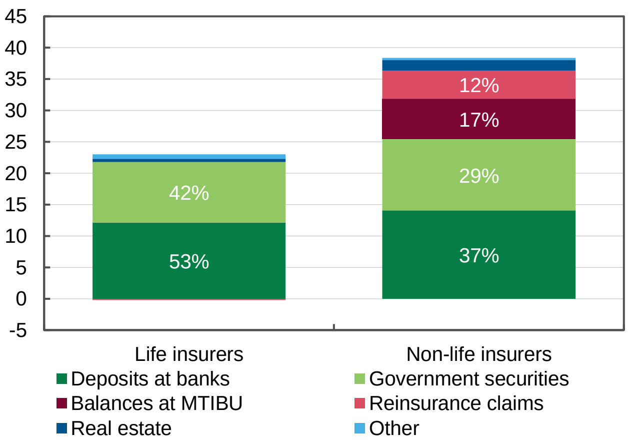
Figure 8. Assets and liabilities* of non-life insurers



* Regulatory reporting data reflect the amount of assets and liabilities of an insurer, including the amount of certain components according to prudential requirements, primarily technical reserves. ** Technical reserves under outward reinsurance agreements.

Highly liquid assets: current accounts, deposits, and government bonds make up most of life and non-life insurers' eligible assets.

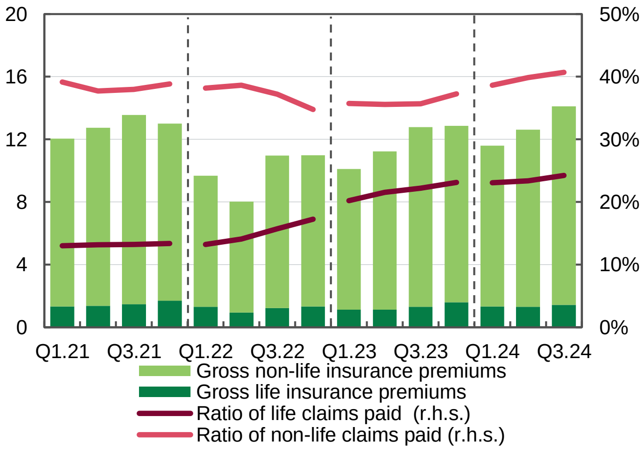
Figure 9. Structure of assets eligible to cover insurers' technical provisions as of 1 October 2024, UAH billions



* Technical reserves under outward reinsurance agreements.

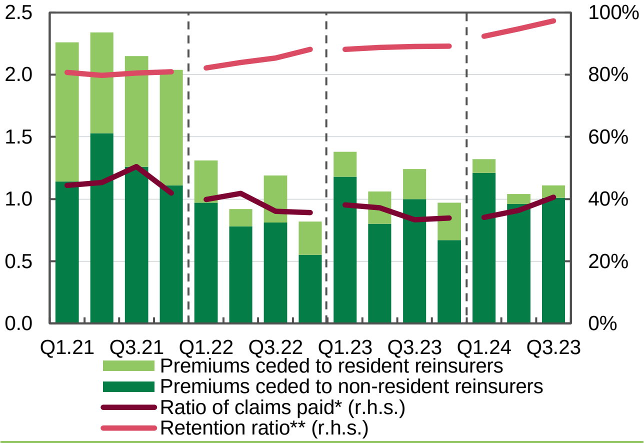
In Q3, gross premiums increased from a quarter ago in both insurance market segments: up 12% in the non-life insurance market and 10% in the life insurance market.

Figure 10. Premiums and ratios of claims paid by type of insurance, UAH billions



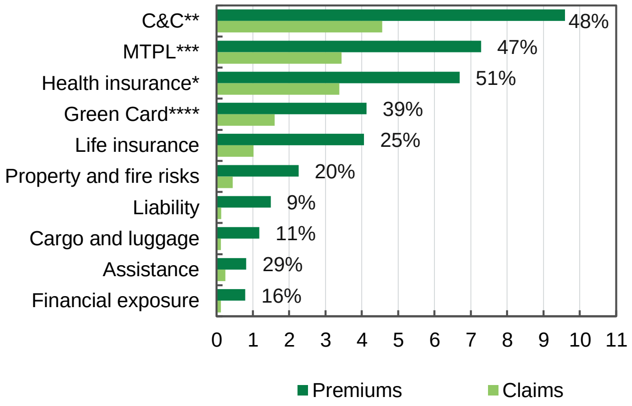
The volume of gross reinsurance premiums was up 7% qoq. The claims paid ratio for transport insurance products (C&C, MTPL, Green Card) was 3–4 pp higher in January–September than in the same period last year.

Figure 11. Premiums due to reinsurers, ratio of claims paid, and retention ratio, UAH billions



* Annualized ratios of claims paid.
** The ratio of net premiums to gross premiums.

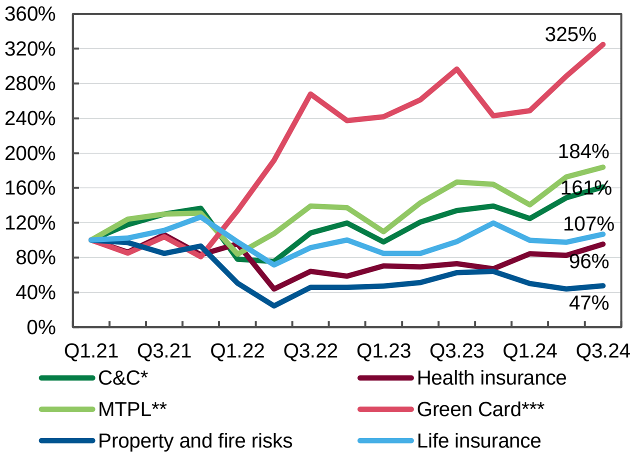
Figure 12. Insurance premiums and claims paid by most common business lines in January – September 2024, UAH billions



Percentage values indicate the claims paid ratio for the respective type of insurance. * From 1 January 2024, the class of accident insurance is included in health insurance.

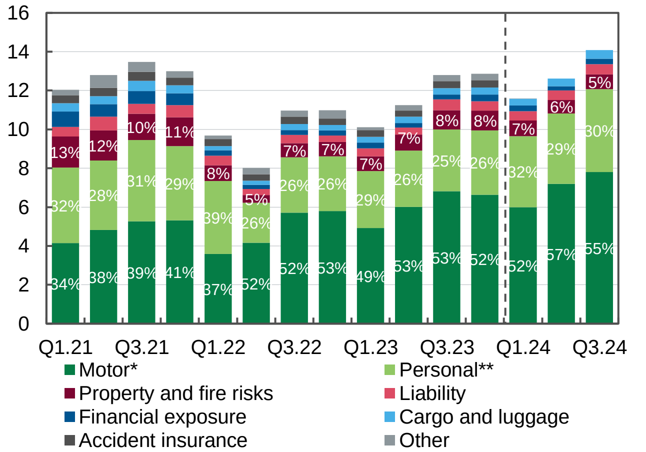
During Q3, premiums rose across core lines of insurance business, most notably in health insurance.

Figure 13. Insurance premiums by insurers' largest business lines, Q1 2021 = 100%



* C&C – comprehensive and collision car insurance; C&C includes insurance of railway rolling stock that constitute 1% of gross premiums. ** Compulsory motor third party liability insurance. *** International Motor Insurance Card System.

Figure 14. Structure of insurance premiums by main lines of insurance business, UAH billions



* C&C, MTPL, Green Card.
** Life, health, assistance.
*** Air and watercraft insurance was retroactively added to cargo and luggage insurance. The insurance of railway rolling stock, which accounts for around 1% of premiums, was retroactively added to C&C insurance.

In Q3, premiums in the retail segment grew faster than in the corporate segment.

Figure 15. Gross insurance premiums by type of insurance (excluding inward reinsurance), Q1 2021 = 100%

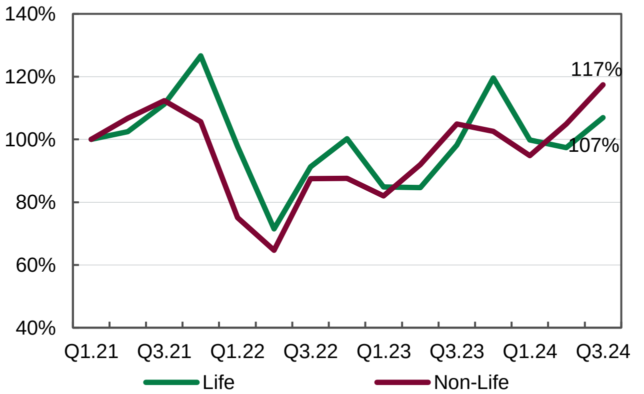
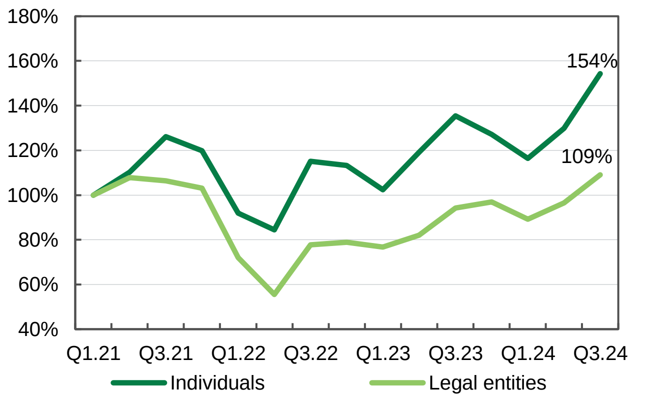
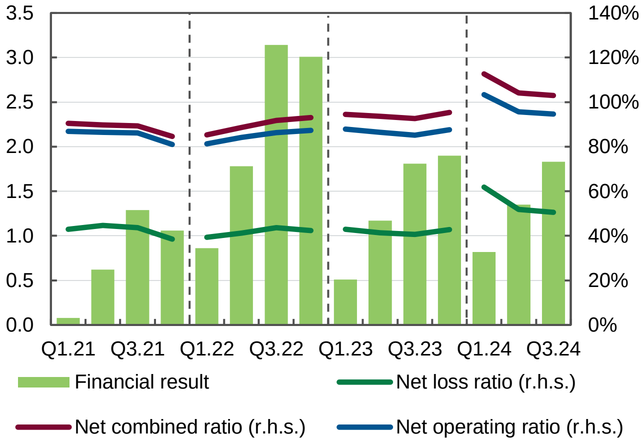


Figure 16. Non-life insurance premiums by type of policyholder, Q1 2021 = 100%



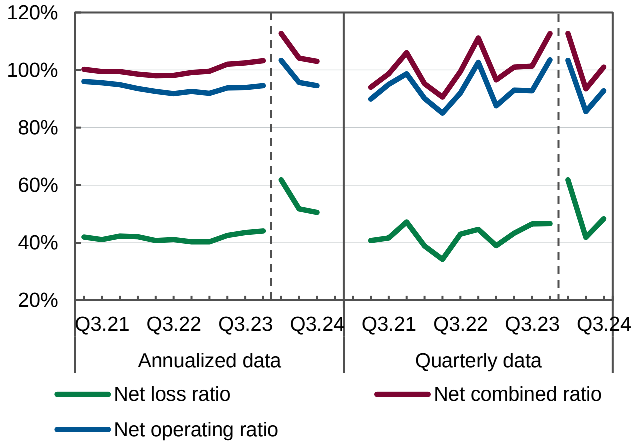
In Q3, insurers' performance indicators increased (deteriorated) quarter-on-quarter. The main reason was the rise in the net loss ratio as loss reserves grew.

Figure 17. Cumulative profit or loss and performance indicators of non-life insurers on a net basis, UAH billions



Operating performance indicators for the period up to 2023 were annualized; for 2024 they were calculated on a cumulative basis from the start of the year due to a change in the calculation approach.

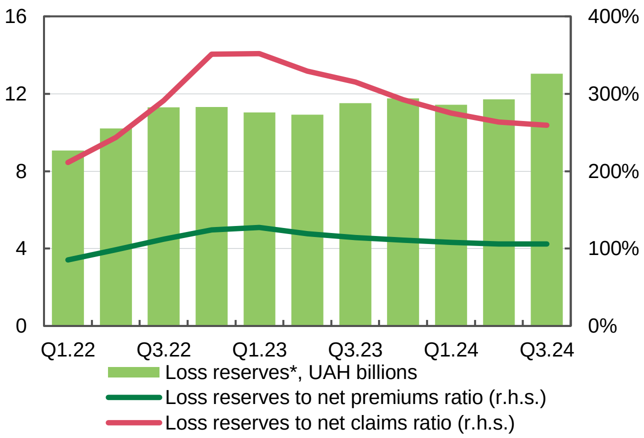
Figure 18. Performance indicators of non-life insurers on a net basis



Operating performance indicators for 2024 were annualized on a cumulative basis from the start of the year due to a change in the calculation approach.

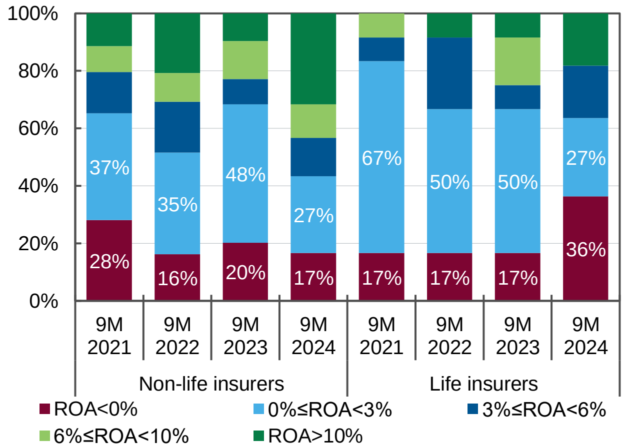
Provisioning ratios stopped falling after the loss reserve rose 11% in Q3. In the first nine months of 2024, the share of loss-making companies in the non-life segment shrank, and in the life insurance segment, rose, year-on-year.

Figure 19. Loss reserve ratios of non-life insurance



* Starting from 2024, the loss reserve is the sum of the best estimate and the risk margin assessed in accordance with prudential requirements. Annualized loss reserve ratios.

Figure 20. Insurers by return on assets



Non-life insurers' net profit in January–September 2024 remained at last year's level, and profitability edged higher. Meanwhile, life insurers' return on equity declined due to a revaluation of capital.

Figure 21. Financial performance of life insurers on a cumulative basis, UAH billions

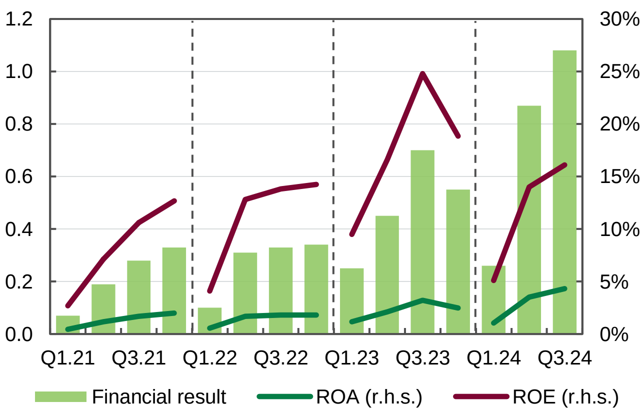
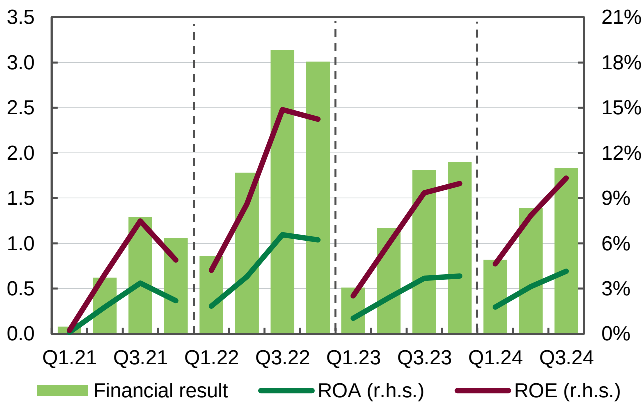
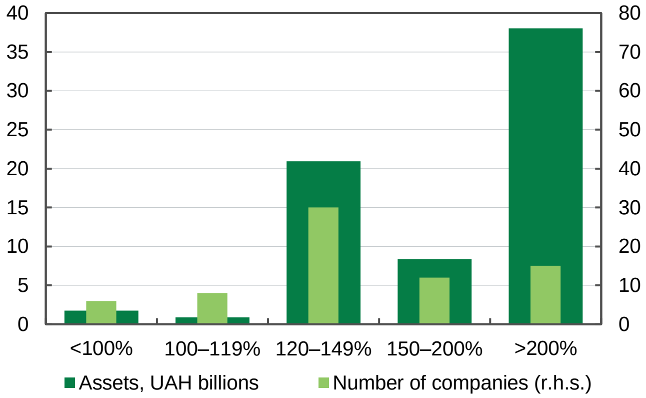


Figure 22. Financial performance of non-life insurers on a cumulative basis, UAH billions



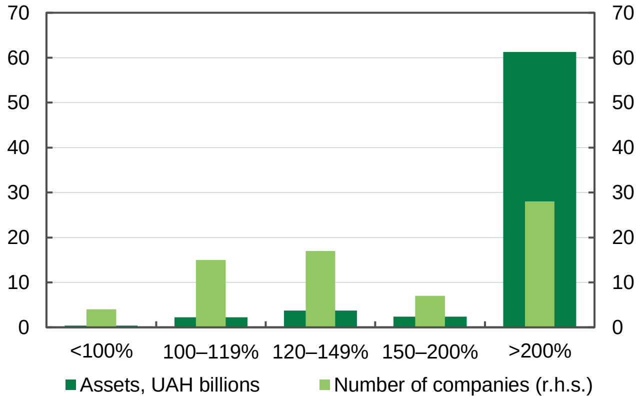
In Q3, six insurers were in breach of the solvency capital ratio (SCR) and/or the minimum capital ratio (MCR).

Figure 23. Distribution of number of insurers and their assets size* by proportion of capital eligible to meet the SCR, and the SCR as of 1 October 2024



* This figure is based on data from 71 companies.

Figure 24. Distribution of number of insurers and their assets size* by proportion of capital eligible to meet the MCR, and the MCR as of 1 October 2024

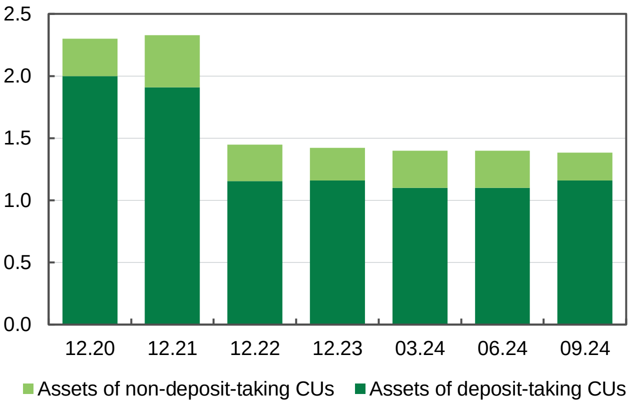


* This figure is based on data from 71 companies.

Credit Unions

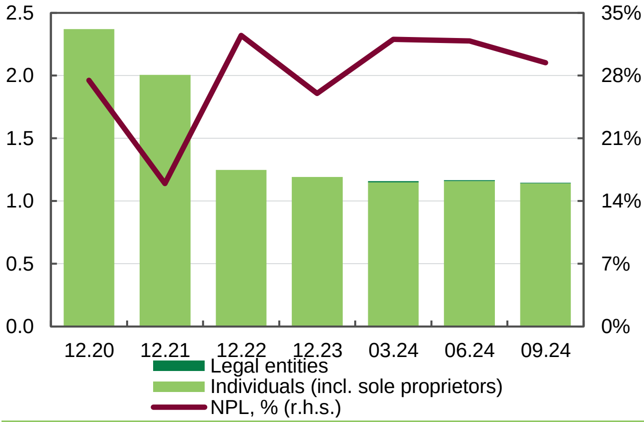
In Q3, credit unions' assets edged 1% lower. The share of deposit-taking credit unions' assets rose to 84%.

Figure 25. Total assets of credit unions, UAH billions



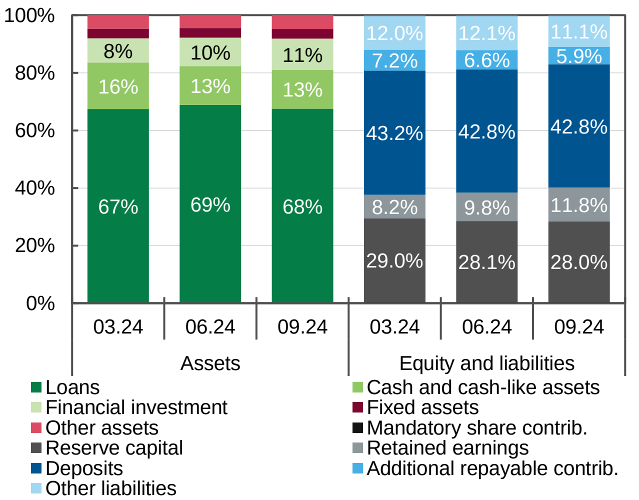
The loan portfolio shrank slightly in Q3, mainly due to loans to businesses. The reported share of loans with principal payments past due by more than 90 days decreased to 29%.

Figure 26. Breakdown of outstanding loans principal due from credit union members, UAH billions



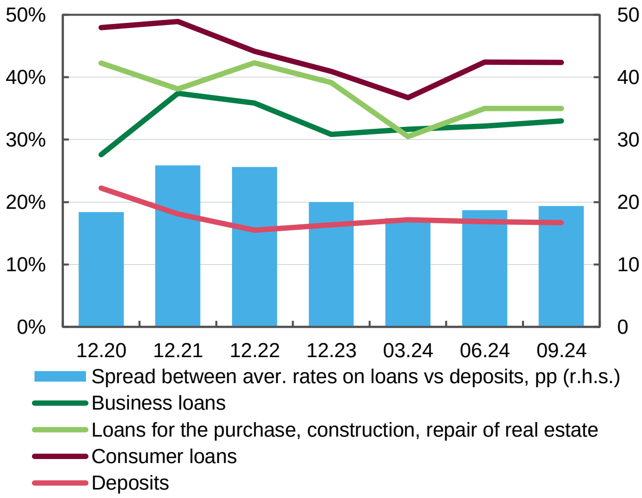
The share of loans in assets declined, while the percentage of financial investments rose. The vast majority of assets were deposits with maturities of three months to a year.

Figure 27. Assets and liabilities of credit unions



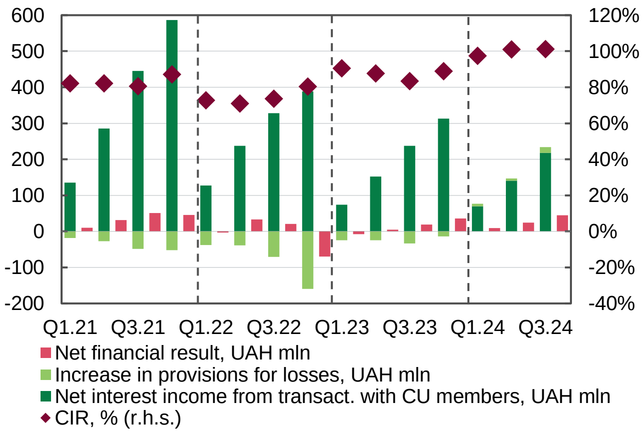
The spread between the average interest rates on loans and deposits widened slightly as the share of consumer loans in the loan portfolio expanded.

Figure 28. Average interest rates on outstanding loans and deposits of credit union members



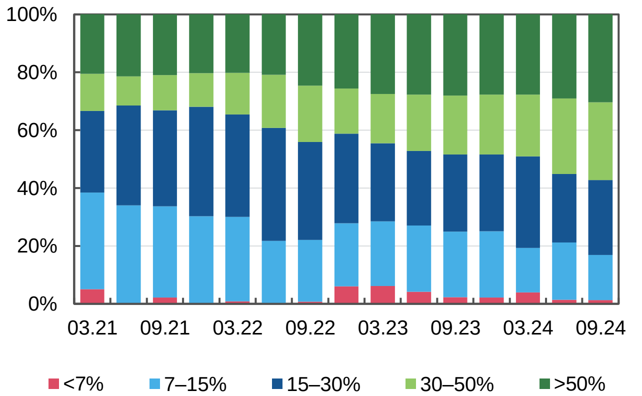
Credit unions remained operationally loss-making. Small profits were generated by a rise in income from the release of provisions as credit unions cut back on provisioning.

Figure 29. Operational efficiency of credit unions (on a cumulative basis), UAH millions



As of 1 October 2024, the share of unions violating minimum solvency requirements was almost unchanged. Those were just deposit-taking institutions.

Figure 30. Distribution of core capital adequacy ratios by share of credit unions' assets



Finance Companies

In Q3, finance companies' assets rose 6.4% qoq (11.6% yoy) due to a surge in assets at some of these NBFIs. The assets and liabilities structure of finance companies did not change materially.

Figure 31. Finance companies' asset structure, UAH billions

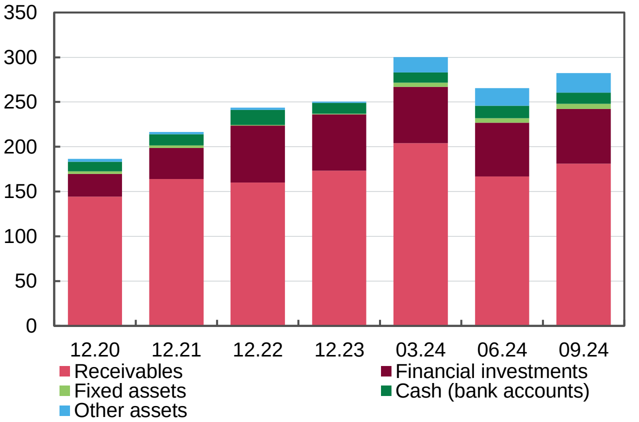
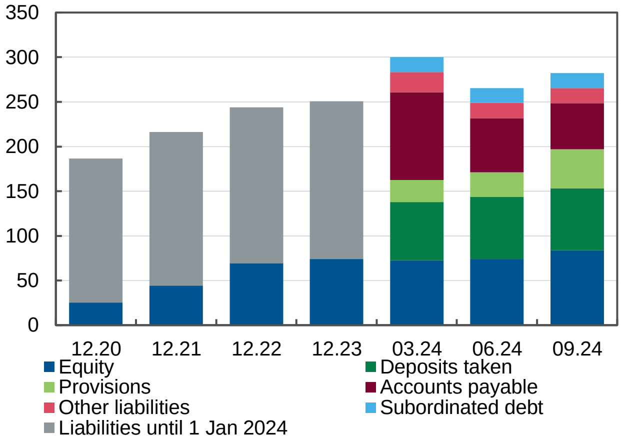


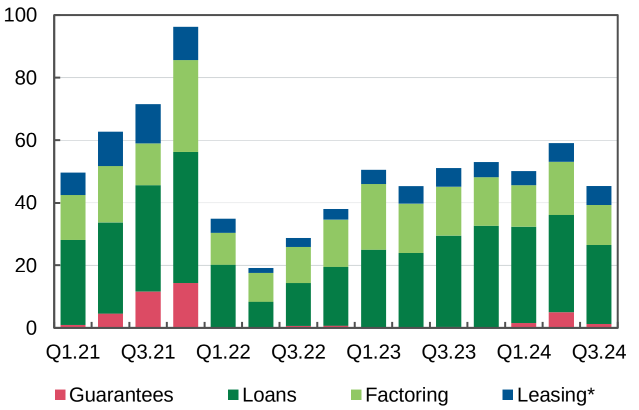
Figure 32. Composition of finance companies' equity and liabilities, UAH billions



For the period of up to 1 January 2024, the gray column shows the aggregated liabilities of institutions.

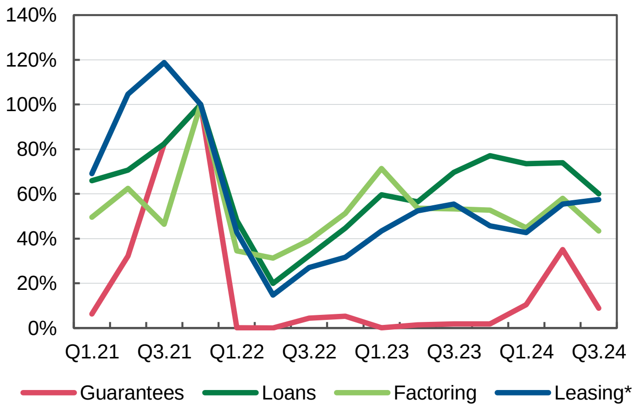
In Q3, the volumes of a number of financial services shrank significantly. As before, lending accounted for more than half the services provided by finance companies. But new loans fell by almost 19%. The volume of provided guarantees and factoring shrank significantly. Only the volume of financial leasing transactions picked up during the quarter.

Figure 33. Financial services provided by finance companies, by type of service (quarterly data), UAH billions



* From 1 January 2024, legal-entity lessors received the status of finance companies.

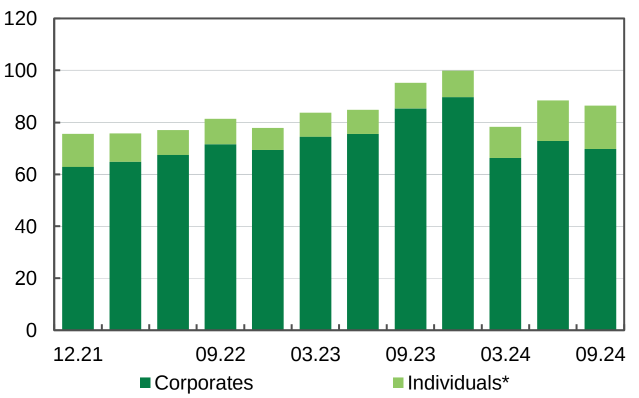
Figure 34. Financial services provided by finance companies, by type of service, Q4 2021 = 100%



* From 1 January 2024, legal-entity lessors received the status of finance companies.

In Q3, the loan portfolio edged lower due to a decrease in corporate loans (down 4.2% qoq). The retail loan portfolio has grown for seven straight quarters, up almost 7% in July–September.

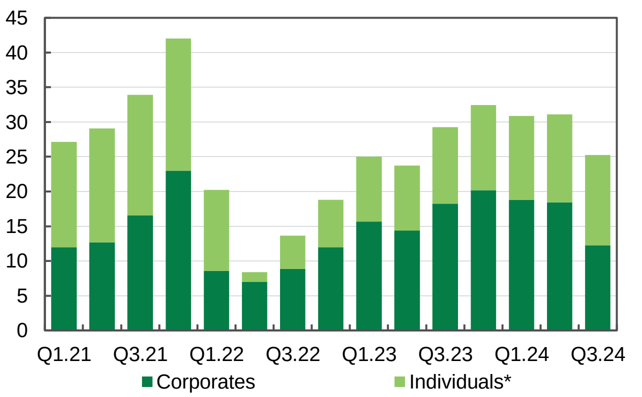
Figure 35. Amount of outstanding loans, end of the period, UAH billions



* Including sole proprietors.

The volume of new loans to households is growing slowly (up 2.2% qoq) and is still below pre-war levels. The volume of loans made to the corporate sector shrank by one-third.

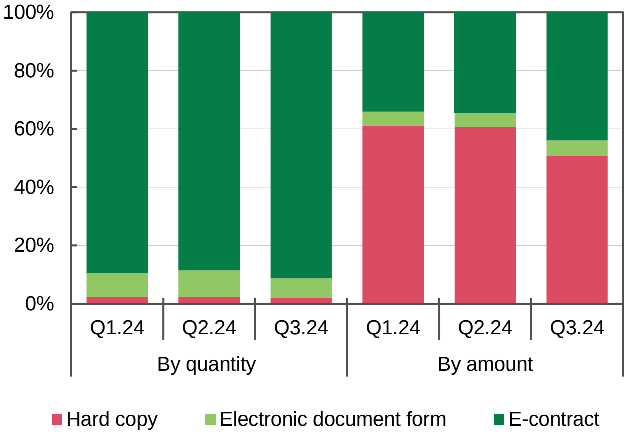
Figure 36. Loans issued during quarter by finance companies, by borrower category, UAH billions



* Including sole proprietors.

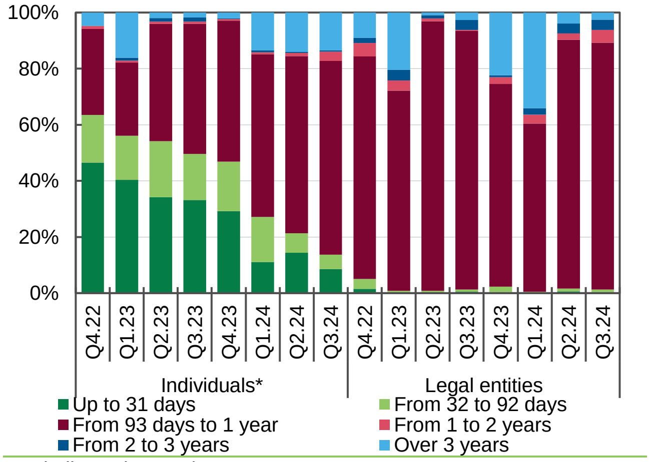
As a share of the total volume of loan agreements, the agreements concluded in paper form shrank markedly in Q3 from previous quarters.

Figure 37. Shares of finance companies' loan agreements concluded during the quarter, by way of conclusion



In Q3, the maturity of new corporate loans did not change. The maturity of loans to households edged higher year to date: there was a rise in the share of agreements with loans maturing in three months to one year.

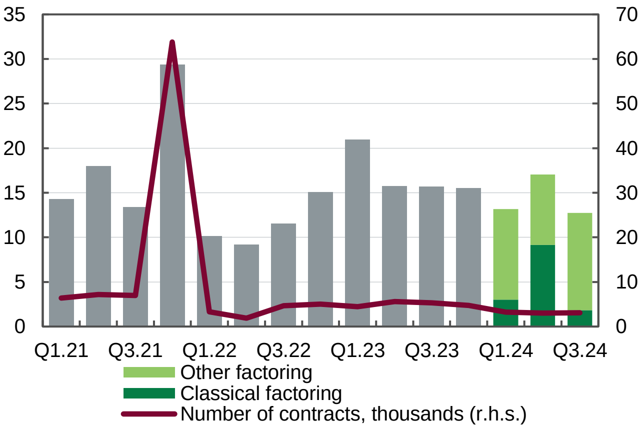
Figure 38. Breakdown of loans issued during quarter, by financial companies by maturity and client's type



* Including sole proprietors.

In Q3, the volume of factoring transactions declined. Conventional factoring fell substantially.

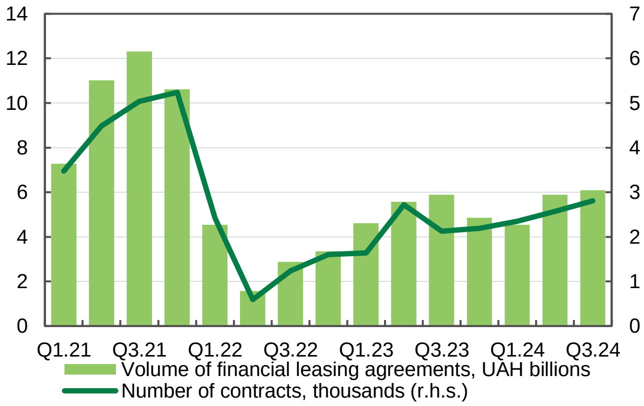
Figure 39. Volume and number of factoring agreements*



* Until 2024, factoring transactions were not broken down by type in the statistics. From 2024 onward, classical factoring refers to financing a company's accounts receivable, and other factoring refers to the assignment of claims (cession), which is usually the purchase of bad debts on loans.

In Q3, financial leasing transactions added only 3.5%.

Figure 40. Volume and number of financial leasing agreements*



* Starting from 1 January 2024, financial leasing transactions are carried out exclusively by finance companies.

In January–September, the segment made record profits, but more than half of finance companies' total profits were earned by the state institution Ukrfinzhytlo. About 80% of finance companies were profitable. Profitability metrics had risen since the start of the year.

Figure 41. Financial performance of finance companies on cumulative basis, UAH billions

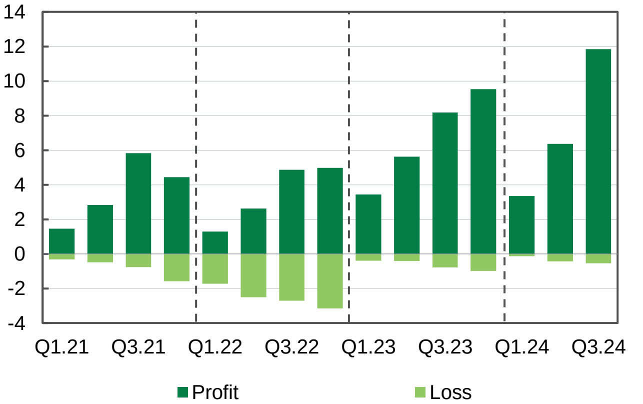
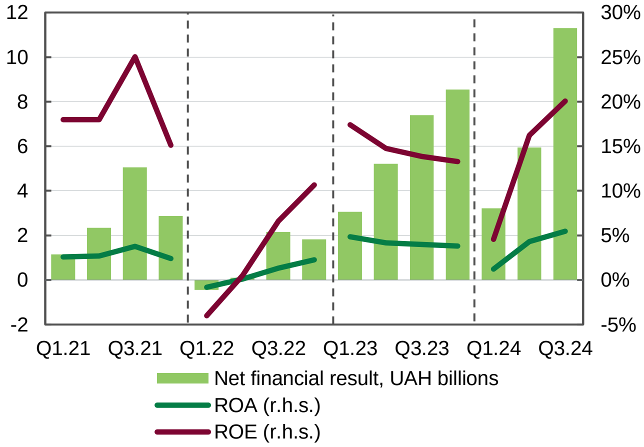


Figure 42. Financial performance of finance companies (on cumulative basis) and their return ratios



Pawnshops

In Q3, pawnshops' assets were up 2.9% qoq (down 13.5% yoy). The loan portfolio rose 3.2% qoq (fell 19.7% yoy). Fixed assets have been growing since the start of the year. Pawnshops' equity fell 11.5% in January–September.

Figure 43. Assets of pawnshops, UAH billions

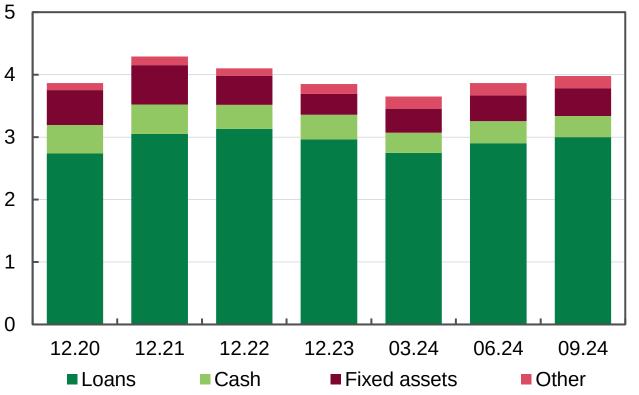
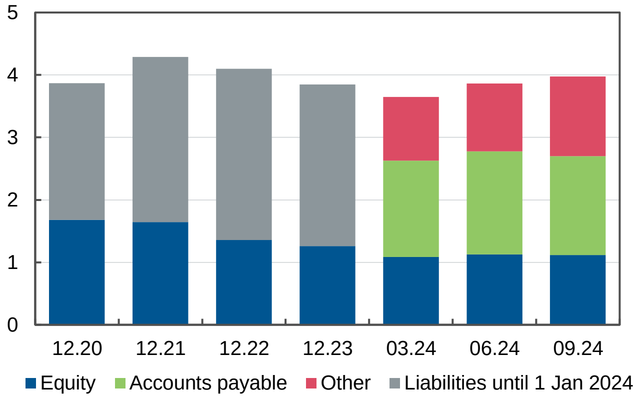


Figure 44. Pawnshops' liabilities and equity, UAH billions



For the period of up to 1 January 2024, the gray column shows the aggregated liabilities of institutions.

The volume of new loans rose 11.6% in Q3, up for the third straight quarter. The collateral coverage ratio increased to 165%. The loan portfolio structure by type of collateral was unchanged, with latter dominated by products made of precious metals and gems.

Figure 45. Amount of loans issued by pawnshops during the quarter and collateral coverage ratio

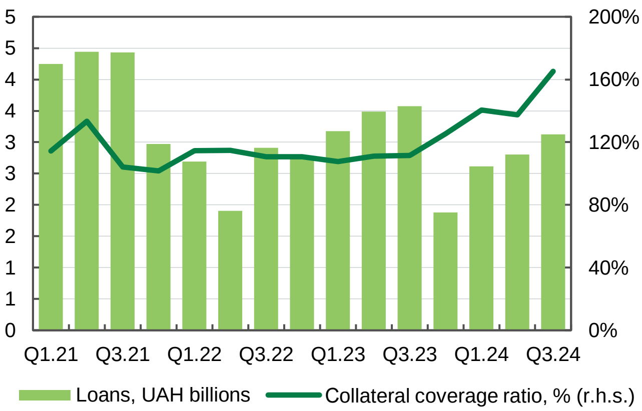
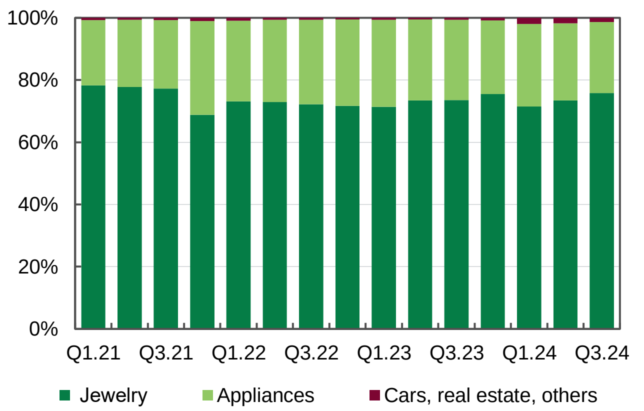


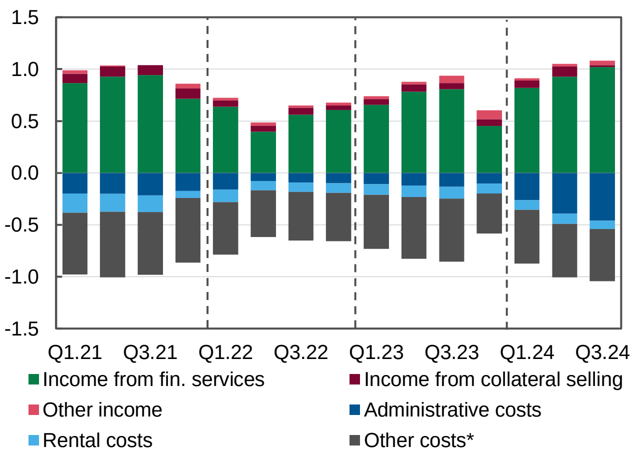
Figure 46. Pawnshop's loan portfolio structure by type of collateral



The share of loans secured with cars, real estate, and other assets was 1.32%.

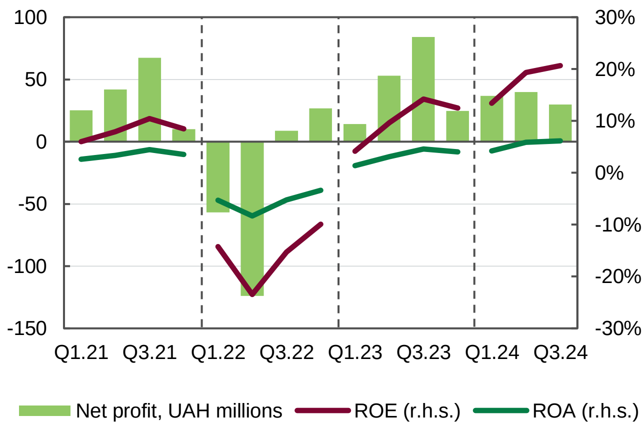
In Q3, income from financial services increased by 10%. Income from disposal of collateral was down. Pawnshops' administrative costs continued to rise. But the segment ended the quarter in the black. Return on assets and return on equity increased significantly since the beginning of the year.

Figure 47. Structure of pawnshops' income and expenses, UAH billions



* Including expenses related to selling and maintaining pledged property.

Figure 48. Financial performance of pawnshops



Notes

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

This review covers non-bank financial institutions that are regulated by the NBU, unless stated otherwise.

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

The calculation of changes in insurers' performance indicators for the period take into account data of insurers that were removed from the Register before the period in which such removal took place.

Along with filing Q3 reports, NBFIs were able to update their reporting data for Q1 and Q2. Retrospective adjustments were therefore made to some of the indicators. Any changes in the indicator calculation methodology are reflected in the respective notes to the figures. The reclassification of reporting components by market participants as a result of the transition to the new reporting forms might also have affected the dynamics of the indicators.

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

Terms and Abbreviations:

C&C	Comprehensive and collision insurance – insurance of land transport (including railway transport)
Retention ratio	The ratio of net premiums to gross premiums
CU	Credit union
MTIBU	Motor (Transport) Insurance Bureau of Ukraine
NBU	National Bank of Ukraine
NBFIs	Non-bank financial institutions
Net-based	Including the impact of reinsurance
NPL	Non-performing loan
MTPL	Compulsory Motor Third Party Liability Insurance
Register	State Register of Financial Institutions
Non-life insurers	Insurers engaged in types of insurance other than life insurance
Ratio of claims paid	The ratio of claim payments to premiums for four quarters preceding the estimate date
Life insurers	Insurers engaged in life insurance
CIR	Cost-to-income ratio. The ratio of operating expenses to operating income
MCR	The minimum capital requirement for an insurer
Net combined ratio	The net loss ratio increased by the ratio of the sum of commissions, acquisition expenses, income tax, commission income received from other insurers and reinsurers, taxes on reinsurance transactions with non-resident reinsurers, and changes in the amount of funds with the MTIBU to net premiums earned
Net investment ratio	The ratio of the sum of investment income and income from placement of funds in the centralized insurance reserve funds of the MTIBU, net of investment management expenses, to net premiums earned
Net loss ratio	The ratio of the sum of claims paid, loss adjustment expenses, and changes in loss reserves, net of income from recourse and subrogations, income from reinsurance claims, and changes in claims against a reinsurer to net premiums earned
Net operating ratio	The difference between the net combined ratio and the net investment ratio
ROA	Return on assets
ROE	Return on equity
SCR	Solvency capital requirement for an insurer
pp	Percentage point
UAH	Ukrainian hryvnia
qoq	Quarter-on-quarter
mln	Million
bn	Billion
r.h.s.	Right-hand scale
yoy	Year-on-year
H	Half of a year
Q	Quarter