

Insurance Supervision Under Extreme Distress

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NBU actions on insurance market after full-scale invasion of russia on the Ukrainian territory

NBU actions invasion of russia on the Ukrainian territory

Stage 1. Shock from the outbreak of war and prevention of a systemic crisis in the non-banking financial services market

The NBU changed its regulatory requirements to ensure the safety and financial stability of the financial system, support the market, and continue to operate in wartime.

**NBU Resolution
On regulation of the activities of
financial services market
participants during martial law**

**Resolution of the NBU
On the operation of the banking
system during martial law**

1) **non-application of enforcement measures** for a specific list of violations, including:

violation of required criteria and ratios of capital adequacy, solvency, liquidity, profitability, asset quality, and risk of insurers by insurers;

violation by market participants of the deadlines for submission of both statistical and financial (consolidated, interim) reports;

violation of the requirements for submission of documents and information to the Regulator.

2) **prohibition to pay additional material remuneration** to insurer's executives, pay dividends to shareholders/participants, and carry out transactions that may lead to non-compliance with solvency and capital adequacy ratios and/or riskiness ratios.

3) cancelled a number of operational obligations, in particular, **postponed the need for the Regulator to approve** insurer CEO, acquisition of significant participation, and registration of separate divisions.

4) **a ban on cross-border currency transfers** was introduced.

NBU actions invasion of russia on the Ukrainian territory

Stage 2. Stabilizing operations in the context of the ongoing war

Over 2022 the NBU has been constantly adapting its regulatory requirements to meet the needs of the times and business environment



1) supervisory approaches were updated in the middle of the year:

enforcement measures against insurers for violations of the most critical required criteria and ratios were resumed;

reporting was resumed;

the list of cross-border transactions permitted to insurers was expanded;

the deadline (10.10.2022) for insurers to bring their activities in line with the updated licensing requirements was set, which was postponed until the end of the war



2) some regulatory burden relief has been left for insurers:

the application of enforcement measures for violation of the asset quality standard was cancelled;

the regulator's right not to apply enforcement measures for violations caused by changes in the fair value of lost, damaged or destroyed real estate as a result of the military aggression of the russia and the value of domestic and foreign government bonds owned by the insurer was fixed;

the percentage of eligible assets in the form of cash on current accounts, deposits and funds on escrow accounts in the total amount of insurance reserves was increased (up to 90%);

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Stage 3. Restoring classical regulation in view of the protracted nature of the war

In order to maintain stability in the financial market, establish market discipline, and protect consumer rights, the NBU is gradually returning to classical approaches to regulating and supervising market participants.



supervisory approaches are coming back to the usual ones



additional restrictions on certain types of eligible assets taken into account for compliance with the standards have been set for insurers (land plots are excluded, and residential real estate for non-life is also excluded)



IFRS 17 "Insurance Contracts" was introduced from the beginning of 2023



active work has begun to prepare for the introduction of the new Insurance Law



the main restrictions on currency transfers to reinsurers were lifted

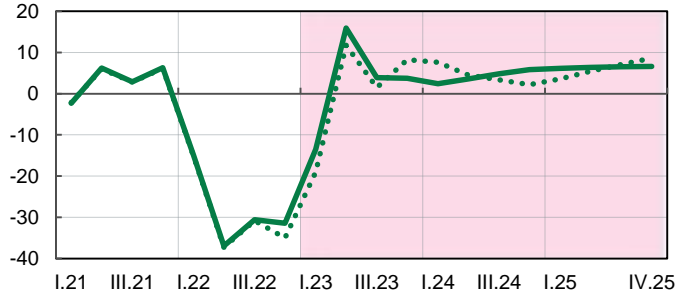


Overview of macroeconomic situation in Ukraine and insurance market development

Ukraine: macroeconomic situation

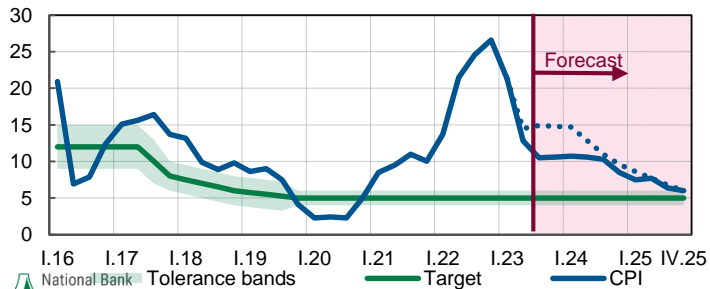
Real GDP, % yoy

Ukraine's economy decreased by around 30% in 2022.



Consumer price index, end of period, % yoy and inflation targets

Inflation of 26.6% in 2022 (19,4% in 1H2023).



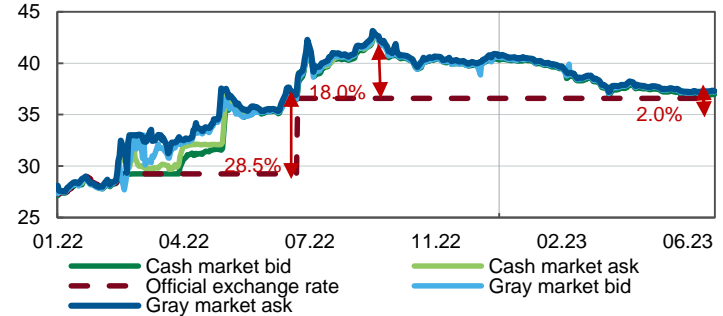
National Bank of Ukraine
Tolerance bands

Target

CPI

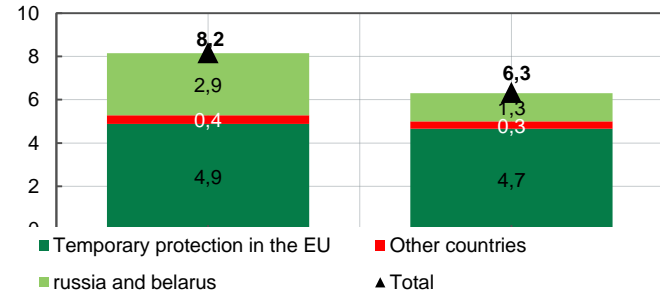
Exchange rate UAH/USD

NBU has abandoned the floating exchange rate and introduced a fixed exchange rate. NBU has cut the key policy rate from 25% to 22% in July 2023



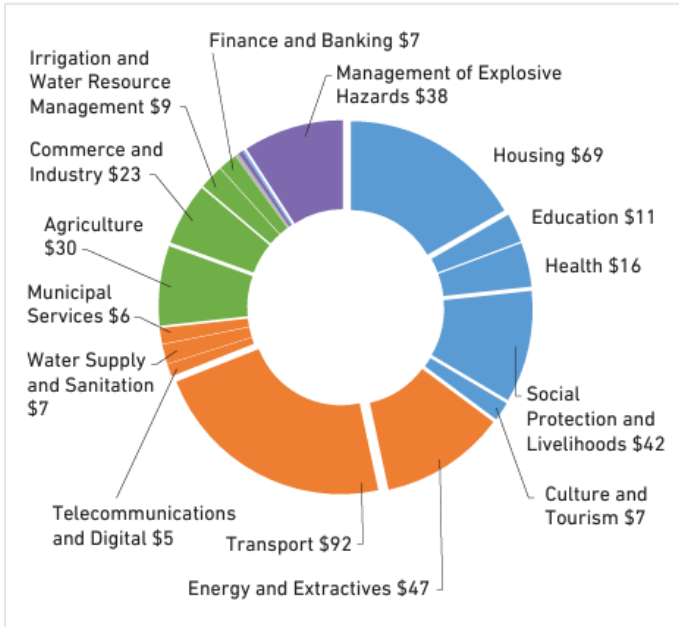
Migration: estimation of the number of Ukrainian migrants abroad, million people

Since the beginning of the war, it is estimated that up to 20% of Ukraine's population has moved abroad (near 6 mln people).



Ukraine: macroeconomic situation

Total recovery and reconstruction needs (US\$ billion)



Second [Ukraine Rapid Damage and Needs Assessment](#), February 24, 2022 – February 24, 2023 (RDNA2), released by the Government of Ukraine, the World Bank Group, the European Commission, and the United Nation

- The full year of war has resulted in more than **US\$135 billion** in direct damage to buildings and infrastructure.
- The most affected sectors have been housing (38 %), transport (26 %), energy (8 %), commerce and industry (8 %), and agriculture (6 %).
- Total estimated reconstruction and recovery needs exceed **US\$411 billion**, which is 2.6 times the actual GDP of Ukraine in 2022.

These calculations do not take into account the damage after 24 February 2023, including the damage caused by the explosion of the Kakhovska hydroelectric power station

The final amount of damage cannot be determined at this time, as most of the affected territories are temporary occupied, and new facilities are destroyed every day as a result of hostilities and shelling.

Insurers' adaptation to the war

Since the start of the war, market participants have faced significant challenges:

Challenges:

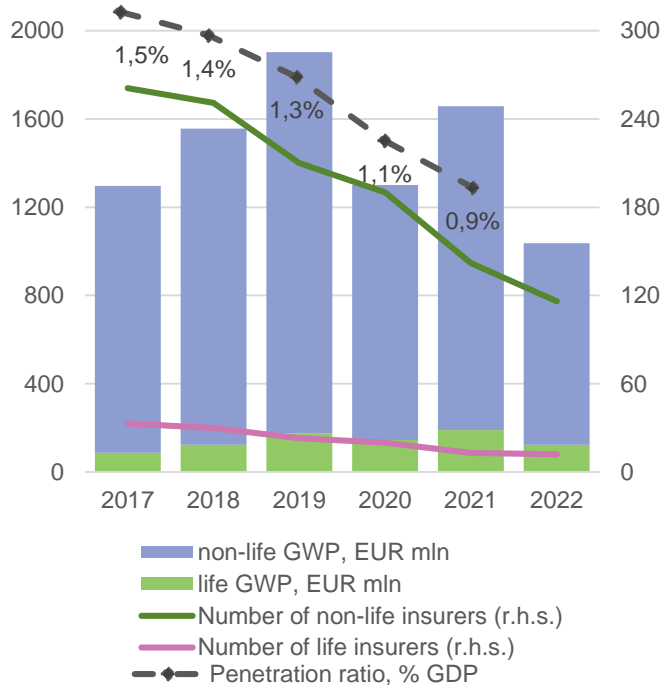
- inability to operate in the regions of active hostilities and in the occupied territories
- blackouts due to large-scale attacks on energy infrastructure by russia
- reduced customer buying capacity
- lack of staff
- loss of access to certain documents
- problems with the organization of insurance claims settlement in the regions where military operations are taking place
- problems with reinsurance, ban on currency transfer

Solution:

- ✓ financially weak companies left the market
- ✓ temporary simplification of the NBU's regulatory requirements
- ✓ gradual easing of restrictions on currency transfers
- ✓ reduction of administrative expenses by insurers
- ✓ increasing the list of products that can be purchased online
- ✓ postpone of regular insurance premium payments
- ✓ new services for the insured located in the areas of active war or abroad (telemedicine services)
- ✓ distance settlement of insurance claims (based on scans, photos, phone calls, including payments and refusals of payments)

Ukrainian insurance market

Penetration ratio, number of insurers and GWP



The total number of resident insurers as 01/08/2023 was 115, including:

- 12 insurers carrying out life insurance activities,
- 102 insurers engaged in non-life insurance activities,
- 1 insurer with a special status (Export Credit Agency).

The structure of GWP by clients:

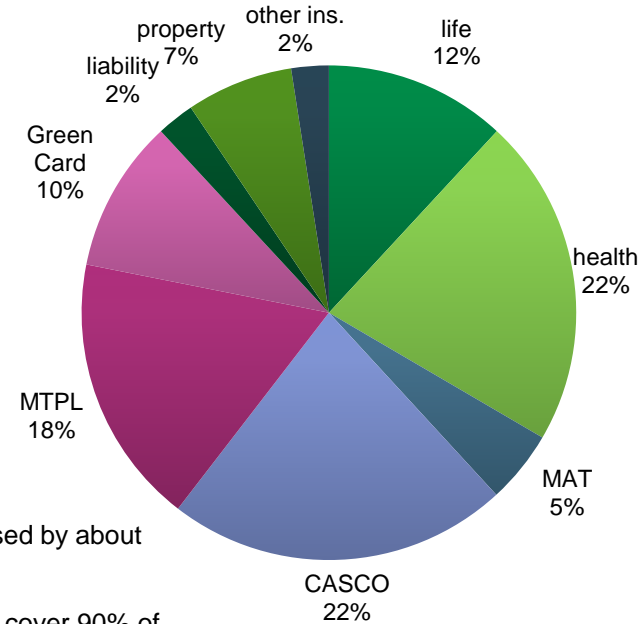
- 37% - corporate,
- 61% - retail,
- 2% - reinsurers.

❖ Non-life insurance premiums decreased by about 20% during 2022

❖ Premiums for MTPL and Green Card cover 90% of the mandatory insurance

❖ The main new sales of life insurance products are term life insurance, death and riders (bankassurance)

Portfolio as 31/12/2022





New challenges faced by the Regulator

New challenges faced by the Regulator

- 1 Introduction of new regulation and supervision in the insurance market (new Insurance Law No. 1909)
- 2 The need to launch a war risk insurance mechanism in Ukraine
- 3 Market support and the need to adapt to the conditions of a long war
- 4 The need to update the regulation of the market of compulsory motor third party liability insurance (including the requirements of the Motor Directive)
- 5 Clean up the market by withdrawing insurers with non-transparent ownership structures
- 6 Implementation of risk-based supervision
- 7 Supporting the development of distance provision of services

New insurance regulation

The insurance market is regulated in accordance with the requirements of the Law of Ukraine "On Insurance".

Currently, the Law of Ukraine "On Insurance" dated 07.03.1996 (No. 85/96-BP) is in force in Ukraine.

Starting from 01 January 2024, the **new Law of Ukraine "On Insurance"**, which was adopted on 18 November 2021 (No. 1909-IX) will come into force in Ukraine. Its provisions are designed to introduce a new model of regulation and supervision of the insurance market. It is based on the requirements of:

Directive 2009/138/EU (Solvency II)

Directive 2016/97/EU (IDD)

New regulation timeline

New Law on Insurance

- introduction of Solvency I calculation
- new regulatory reporting to the market
- implementation of Pillar 2 and Pillar 3 of Solvency II

Introduction of Pillar 1 of Solvency II for big insurers

2023

New restrictions and limits of eligible assets

2024

2025

New requirements for insurance intermediaries (IDD)

2027



The NBU has already started the work on preparing new regulations and amending the current ones in order to implement new prudential requirements set in Law of Ukraine No. 1909 *On Insurance*.



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