National Bank of Ukraine

Non-bank Financial Sector Review

March 2023

In Q4 2022, the activity of non-bank financial services providers continued to recover gradually. Market growth was uneven, and volumes of services remained much below pre-war levels. Over the quarter, assets and insurance premiums grew in life insurance and declined in nonlife insurance. Cost-to-income ratios deteriorated due to higher operating costs. Insurers recorded a small loss in Q4 but were profit-making as of the end of the year. Lending by finance companies gradually recovered, and volumes of financial leasing transactions picked up substantially. Finance companies generated a profit and improved their profitability ratios. Pawnshop business stagnated and was loss-making. The credit union sector continued to contract: asset volumes and credit portfolios shrank, and loan quality deteriorated. The materialization of credit risk led to an increase in provisions in Q4 and resulted in credit unions generating a loss.

Sector Structure and Penetration

The number of non-bank financial services providers decreased markedly in Q4. Over the quarter, 88 finance companies, 17 credit unions, 11 insurers, 8 pawnshops, and 8 legal-entity lessors were removed from the Register. Overall, more than 420 institutions exited the market in 2022. These were mostly finance companies and credit unions.

Before companies are excluded from the Register, their licenses are usually revoked. In Q4, 121 companies – mainly finance companies and credit unions – lost all their licenses. Licenses of a third of the companies were revoked according to the regulator's decision.

Over the last three months of 2022, asset volumes shrank across the majority of market segments. Only finance companies showed growth in assets despite a sizeable decrease in the number of institutions. In 2022, the credit union segment was hit the most by war-driven shocks, losing around 45% of assets. Pawnshops' assets declined by 5%, whereas insurers and finance companies saw their assets rise slightly. Overall, the share of non-bank financial institutions (NBFIs) in total assets of the NBU-regulated financial sector shrank gradually throughout the year, to 11.97% as of 31 December.

Insurers

Assets of life insurers increased by 3% in Q4 2022 and by 18% in 2022 as a whole. Nonlife insurers' assets decreased somewhat over the quarter but increased by 6% year-on-year. Over the year, 1 life insurer and 26 nonlife insurers left the market.

Volumes of gross life premiums grew by 9% qoq in life insurance. In contrast, they dropped by 8% in nonlife insurance. Overall, in 2022, life insurance premiums shrank by 17% and nonlife insurance premiums fell by 21%. At the same time, claims paid remained almost unchanged over the quarter. Over the full year, claim payments increased by 7% in life insurance and decreased by nearly a third in nonlife insurance.

In 2022, the share of car insurance premiums (comprehensive and collision insurance, mandatory third-party liability insurance, and Green Card) rose by 10 pp, to 49%. In particular, volumes of premiums on Green Card insurance more than doubled year-on-year, while claims paid increased by almost a third. That said, premiums on property insurance, and financial risks insurance more than halved, with claim payments falling by 62%.

Volumes of gross reinsurance premiums more than halved over the year, and claims paid decreased by 60%. In Q4, reinsurers' premiums declined by 36% and claim payments by 40%. The share of reinsurance in premiums declined accordingly.

Insurers' total loss reserves remained almost unchanged over the quarter, but their dynamics varied by insurance type: loss reserves decreased somewhat for voluntary insurance (by 7% qoq from Q3) and increased for compulsory insurance (by 10% qoq). In annual terms, loss reserves grew by 36% for both voluntary and compulsory insurance.

The loss ratio of compulsory insurance stood at 45%: the negative effect from the growth in loss reserves was offset by an increase in earned premiums. For voluntary insurance, the loss ratio dropped (improved) to 42%, driven by a decrease in reserves. The overall loss ratio was 43% at the end of the year.

The combined ratio rose (worsened) throughout 2022. This trend continued in Q4 as it grew to 94%. While in the first three quarters of the year the growth in the combined ratio was mostly driven by a deterioration in the loss ratio, at the end of the year it was caused by an increase in operating expenses, namely other administrative expenses.

Investment income of nonlife insurers grew in 2022 by almost 1.5 times year-on-year. The largest share of investment income came from interest on bank deposits. However, higher investment income was not sufficient to offset a rise in operating expenses. The cost-to-income ratio increased (worsened) to 88%.

In Q4, one of the leading life insurers reclassified its investment income, which declined considerably as a result. Disregarding this firm's data, life insurers' investment income grew by 30% yoy and 12% qoq. Incomes from deposits increased by 36% qoq, while incomes from investment into domestic government debt securities did not change.

Nonlife and life insurers recorded a small loss in Q4, but both groups received sizeable profits for 2022 as a whole. Return on equity was 15% for nonlife insurers and 13% for life insurers.

As of 1 January 2023, seven insurers violated at least one of solvency and risk requirements.

Credit Unions

The decline in the number of credit unions and volumes of their assets accelerated in Q4. Seventeen institutions – predominantly non-deposit-taking ones – were removed from the Register. Assets decreased at almost all credit unions: their assets as of the end of 2022 accounted for almost a half of assets held in 2021.

The credit portfolio shed 14% qoq. New lending decreased even more rapidly, mostly on account of consumer loans (down by 23%). Untimely loan repayments affected the declared loan quality: the share of loans past due for more than 90 days rose by 1.8 times, reaching 28% – the level of the 2020 crisis.

The materialization of credit risk led to an increase in provisioning by credit unions in Q4, making the credit union market loss-making both in Q4 and in 2022 as a whole. A drop in operating income coupled with high administrative expenses also affected financial performance.

The majority of credit unions generating a loss led to loss accumulation and a decrease in reserve capital. Additional share contributions and deposits continued to decrease as funds were repaid to depositors and some credit unions left the market.

Inability to generate profits and the lack of own capital severely affected credit unions' solvency. The number of entities violating the capital adequacy ratio rose fivefold over the quarter, to ten credit unions as of 1 January 2023.

Finance Companies and Pawnshops

Although a large number of finance companies were removed from the Register, the segment's assets grew in Q4. The recovery in volumes of provided services continued, having started in Q3. Transaction volumes increased for main financial services. However, they remained much below the pre-war level.

In Q4, volumes of retail loans grew by 42% and corporate loans rose by a third. That said, lending volumes in the full year 2022 were half of that in 2021.

The leasing market recovered actively at the end of the year: volumes of leasing services increased by 2.6 times compared to Q3. In particular, financial leasing volumes rose sharply, with the growth being generated by finance companies. Their market share reached 55%, compared to 1% in previous years. Transactions by legal-entity lessors increased by 16% qoq. Leasing agreements were concluded primarily to purchase cars and, to a lesser extent, trucks and agricultural equipment. Volumes of provided guarantees and factoring transactions have been on the rise for two quarters running.

In 2022, finance companies were generally profitable.

The pawnshop sector saw almost no development throughout the year. Assets and new lending declined, and the institutions' capital fell significantly. Overall, pawnshops' lending volumes decreased by 36% in 2022. In H2, pawnshops recorded an increase in income but they still were loss-making in annual terms.

Prospects and Risks

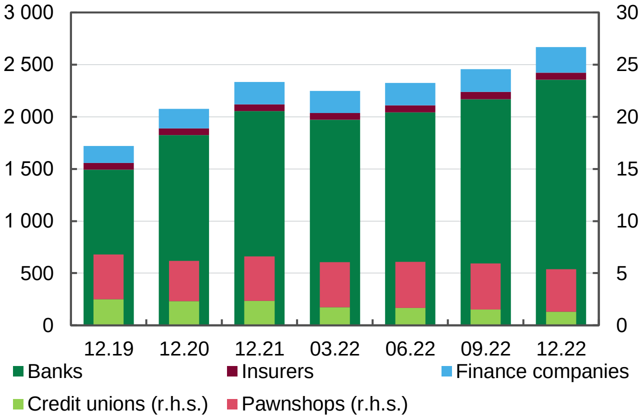
A number of changes occurred in the insurance market in the past months. A new accounting standard, IFRS 17 *Insurance Contracts*, came into force from the start of 2023. Now insurers are to work on its proper implementation. This will bring approaches to compiling financial reports closer to current European standards. After a long pause, the NBU authorized premium payments to nonresident reinsurers. This actually 'unblocks' nonlife insurance and reduces risks for the insurance market. In order to enhance the sector's resilience, the list of insurers' eligible assets was updated. From 30 June 2023, less liquid assets, such as land plots, and residential real estate for nonlife insurers, will not be considered as eligible for covering the requirements. Financial institutions with land plots dominating their eligible assets account for only 3% of the sector's assets.

Although it loosened some requirements in wartime, the NBU will apply corrective measures, including license revocation, for significant violations. In particular, ownership structures of insurers must be brought into compliance with the law within the established timeframe. Non-bank financial institutions should also pay more attention to complying with laws on consumer rights protection and AML/CFT.

Sector Structure and Penetration

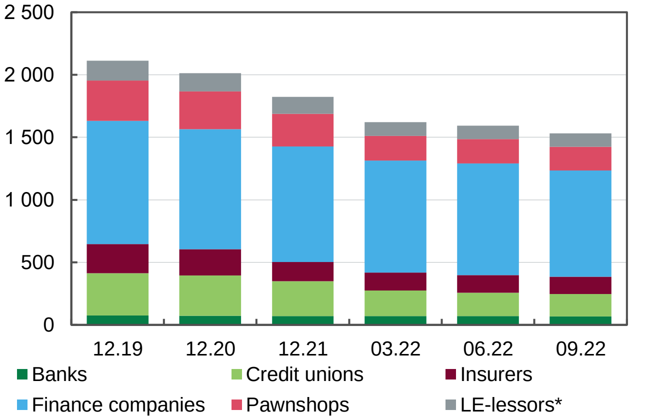
In Q4, assets of NBFIs grew on an increase in financial companies' assets. In 2022 as a whole, insurers and finance companies reported their assets to increase by around 10%. Assets of credit unions decreased markedly. Over the year, the number of institutions in the Register declined by 422, mainly due to removal of some finance companies and credit unions.

Figure 1. Financial sector asset structure*, UAH billions



* Reports submitted by non-bank financial services providers as of 25 March 2023.

Figure 2. Number of financial services providers



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

In Q4, the status of reporting of non-bank financial institutions improved. The majority of active institutions reported for all periods of the previous year. The share of insurers that submitted their reports in 2022 was the highest. The share of reporting legal-entity lessors increased significantly as dormant companies were removed from the Register. The completeness of reports submitted by credit unions and pawnshops was still insufficient.

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

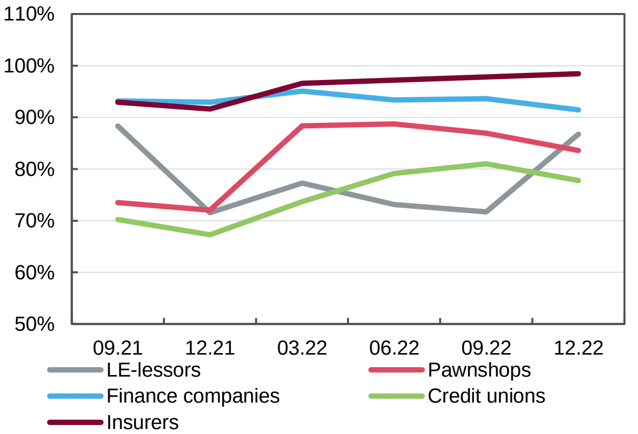
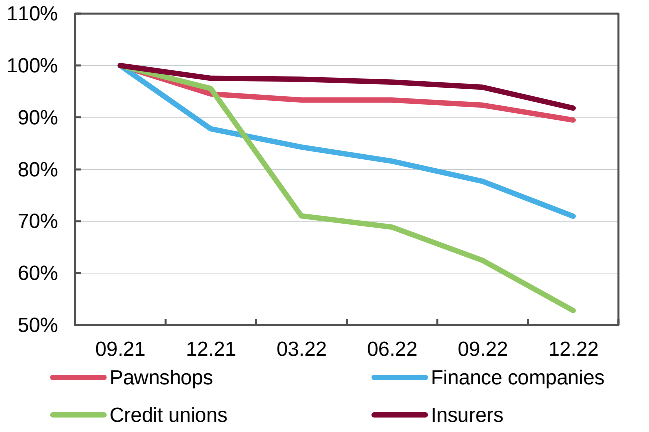


Figure 4. Assets of financial institutions that submitted reports in the corresponding period, as a share of the volume of assets of financial institutions in Q3 2021



* Reports submitted by non-bank financial services providers as of 25 March 2023.

In Q4, the banks' assets grew at the same pace as assets of non-bank financial services providers. The total share of NBFIs in the financial sector's assets thus remained unchanged, at 11.97%.

Table. Financial institutions regulated and supervised by the NBU*

		2019	2020	2021	03.2022	06.2022	09.2022	12.2022	Change in Q4, qoq
Insurers	Assets, UAH millions	63,867	64,903	64,209	64,573	65,904	70,869	70,338	-0.7%
	Number of companies	233	210	155	145	142	139	128	-11
Credit Unions	Assets, UAH millions	2,502	2,317	2,330	1,731	1,680	1,524	1,288	-15.5%
	Number of companies	337	322	278	205	187	179	162	-17
Finance Companies	Assets, UAH millions	162,197	186,572	216,407	213,792	214,427	218,109	244,345	12.0%
	Number of companies	986	960	922	894	892	848	760	-88
Pawnshops	Assets, UAH millions	4,265	3,854	4,289	4,334	4,409	4,416	4,093	-7.3%
	Number of companies	324	302	261	197	195	191	183	-8
Banks	Assets, UAH millions	1,493,298	1,822,841	2,053,232	1,970,145	2,042,918	2,167,555	2,353,592	8.6%
	Number of companies	75	73	71	69	69	68	67	-1

* Along with submitting Q4 2022 reports, NBFIs were able to update their reporting data for Q4 2021, Q1–Q3 2022. Retrospective adjustments were therefore made to certain indicators, in particular the size of assets.
Reports submitted by non-bank financial services providers as of 25 March 2023.

Insurers

In Q4, assets of life insurers continued to grow, while those of nonlife insurers declined slightly. The share of the most liquid assets, deposits, and current accounts of life insurers reached 60%, and that of nonlife insurers was 41%.

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

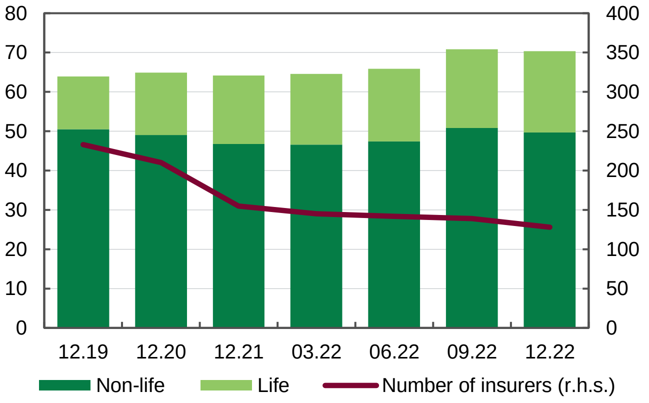
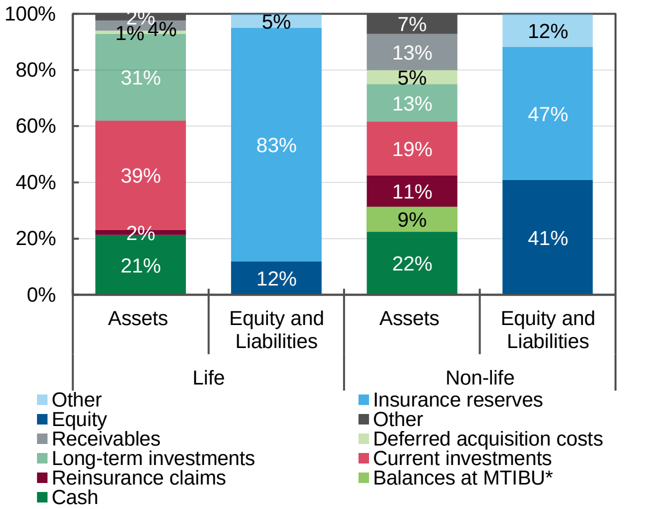


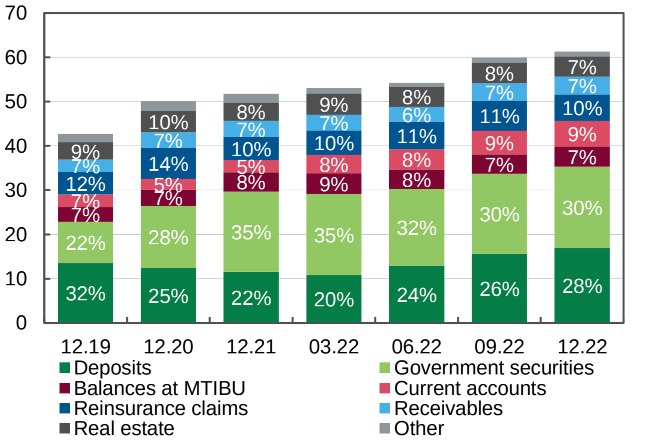
Figure 6. Assets and liabilities of insurers as of 1 January 2023



* Motor (Transport) Insurance Bureau of Ukraine.

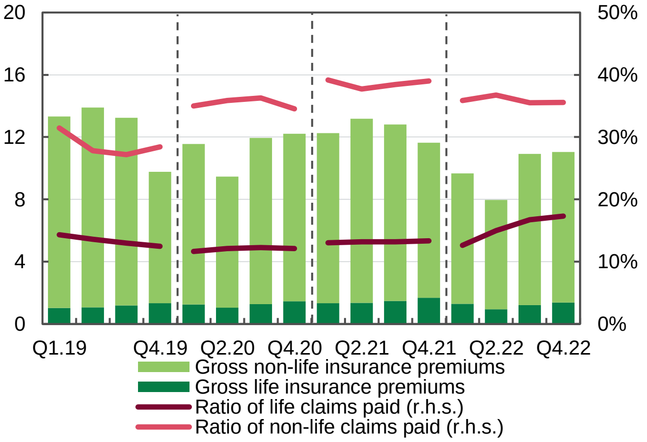
The share of insurers' eligible assets reached 87%.

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



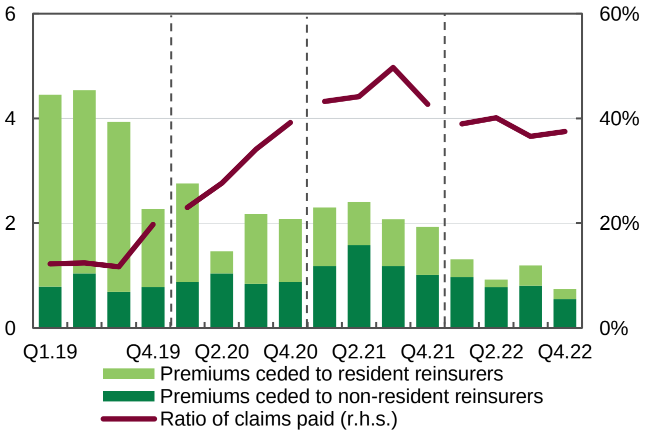
Gross premiums earned and claims paid on life insurance increased by 9% and 3% qoq, respectively. Premiums and claims paid on non-life insurance declined somewhat.

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



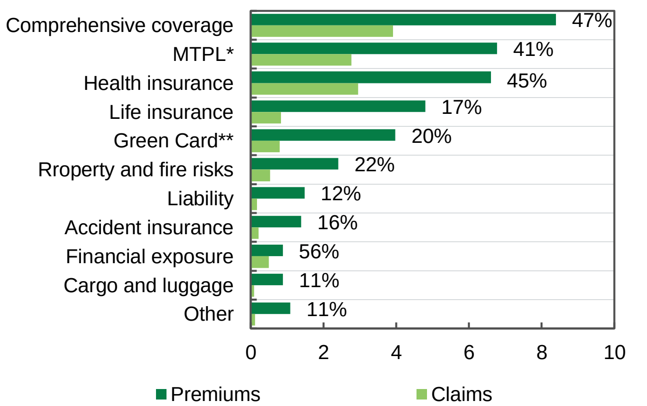
Volumes of gross reinsurance premiums almost halved over the quarter.

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



The share of car insurance premiums grew by 10 pp, to 50%, due to an increase in volumes of Green Card insurance and a decrease in all other types of insurance.

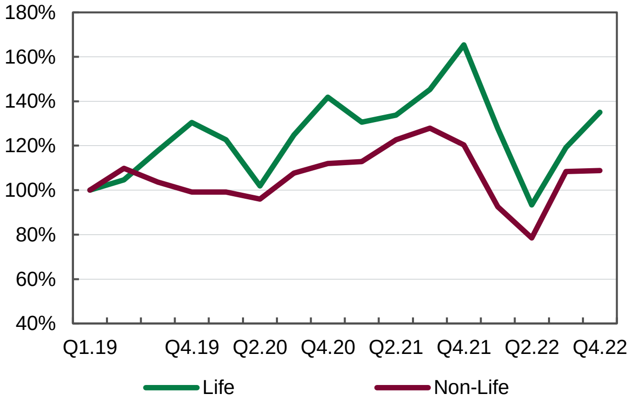
Figure 10. Breakdown of insurance premiums and claim payments by most popular types of insurance in Q4 2022, UAH billions



The percentage value indicates the claim payouts to premiums ratio of the respective type of insurance. * Compulsory motor third party liability insurance. ** International Motor Insurance Card System.

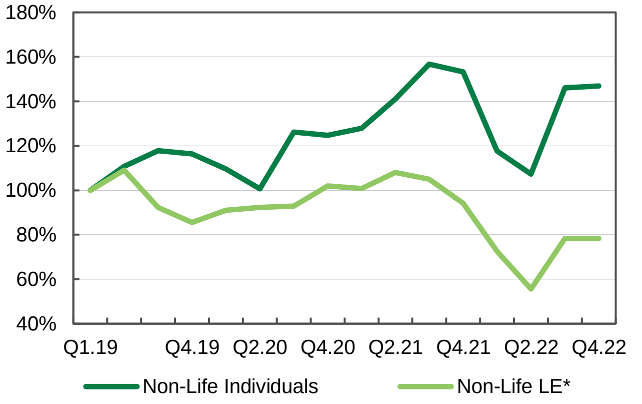
Premiums nonlife insurers received from their retail and corporate clients declined somewhat in Q4.

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



Figures from Q4 2021 onward reflect the data only for the companies that submitted their reports for these periods.

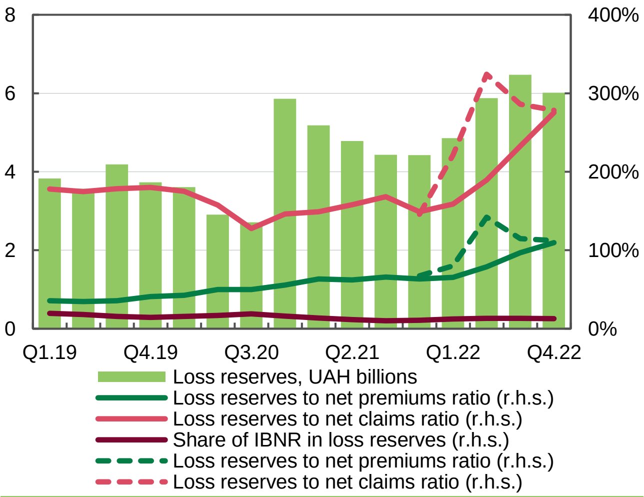
Figure 12. Gross non-life insurance premiums by type of policyholder, Q1 2019 = 100%



Figures from Q4 2021 onward reflect the data only for the companies that submitted their reports for these periods. * Legal entities.

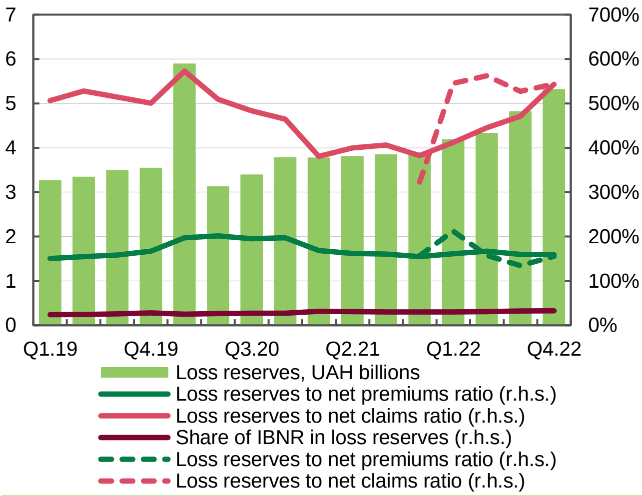
In Q4, loss reserves decreased in voluntary insurance and increased in compulsory insurance, with total loss reserves remaining unchanged. Provisioning ratios continued to grow year-on-year.

Figure 13. Loss reserve ratios* of voluntary insurance



* Annualized provisioning ratios.

Figure 14. Loss reserve ratios* of compulsory insurance



* Annualized provisioning ratios.

The loss ratio of compulsory insurance remained almost unchanged over the quarter. In voluntary insurance, the loss ratio decreased (improved) on the back of lower loss reserves. Over the quarter, losses from the Green Card product increased.

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

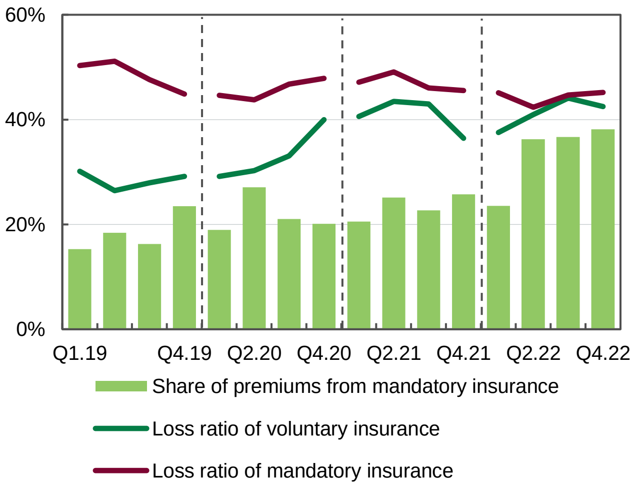
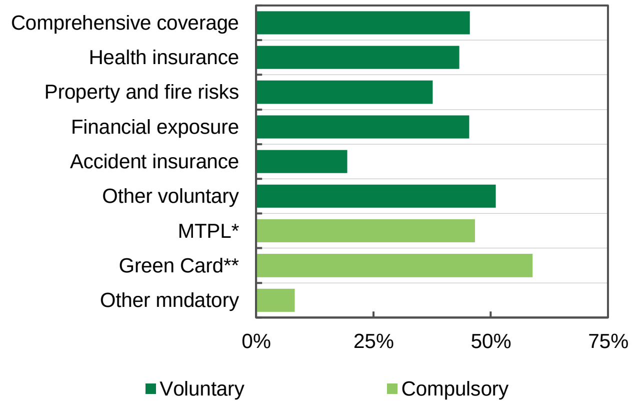


Figure 16. Loss ratios of some types of insurance, yoy



Based on data from companies that submitted their reports for Q4 2022. * Compulsory motor third party liability insurance. ** International Motor Insurance Card System.

Operational efficiency ratios of nonlife insurers continued to deteriorate: the combined ratio increased to 94%, and the cost-to-income ratio rose to 88%. In Q4, nonlife insurers incurred a small loss, but their profitability remained record high over the full year.

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

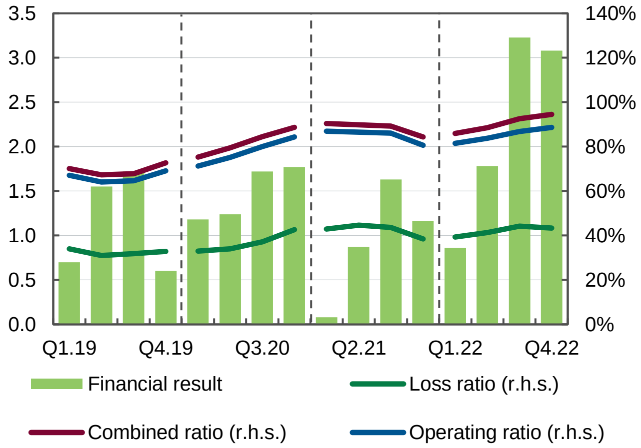
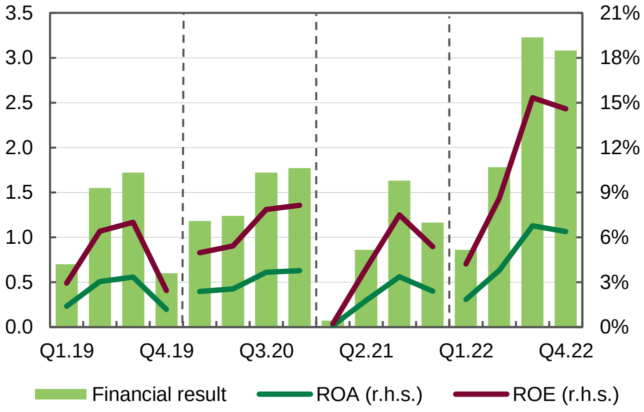
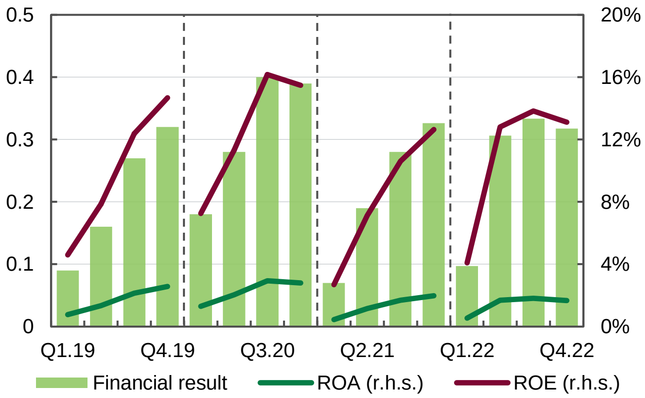


Figure 18. Cumulative profit or loss and profitability of nonlife insurers, UAH billions



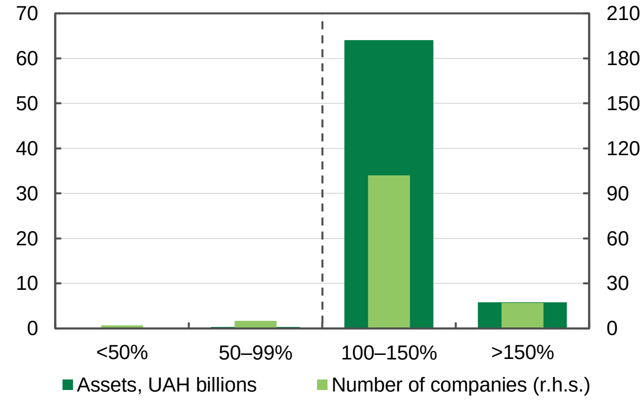
Despite a small loss recorded in Q4, life insurers remained profitable as of the end of the year.

Figure 19. Cumulative profit or loss and profitability of life insurers, UAH billions



As of the end of 2022, seven companies violated the solvency and capital adequacy requirements. These companies accounted for less than 1% of assets.

Figure 20. Distribution of number of insurers and their assets* by ratio of eligible assets to required solvency margin, as of 1 January 2023

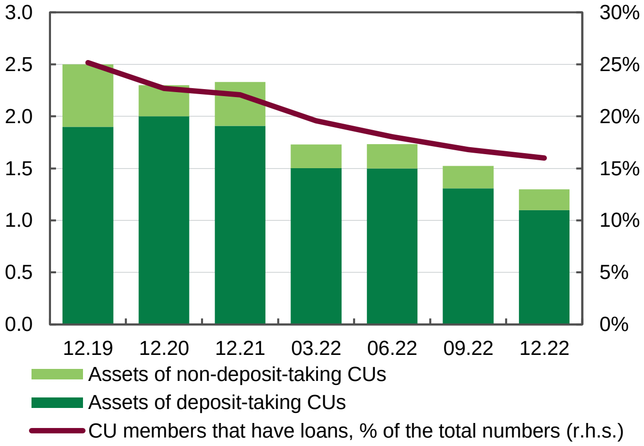


* This figure draws on data from 126 companies.

Credit Unions

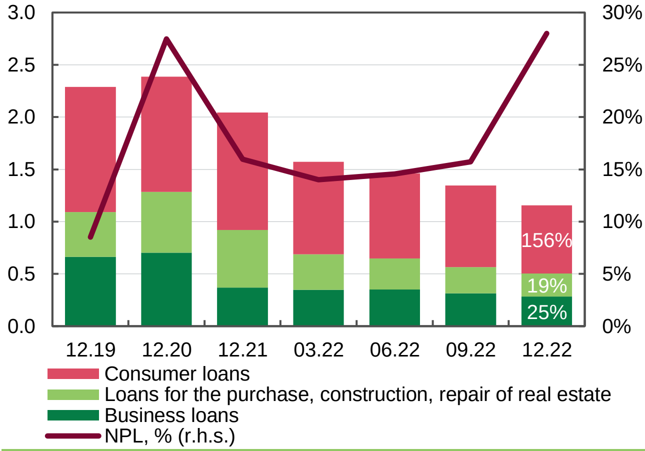
The segment's assets decreased by 16% qoq. Credit unions that did not take deposits showed a more significant decline in assets, in particular due to market exit by a third of these institutions. The share of active members of credit unions shrank to 16%.

Figure 21. Total assets of credit unions and share of credit union members who took out loans, UAH billions



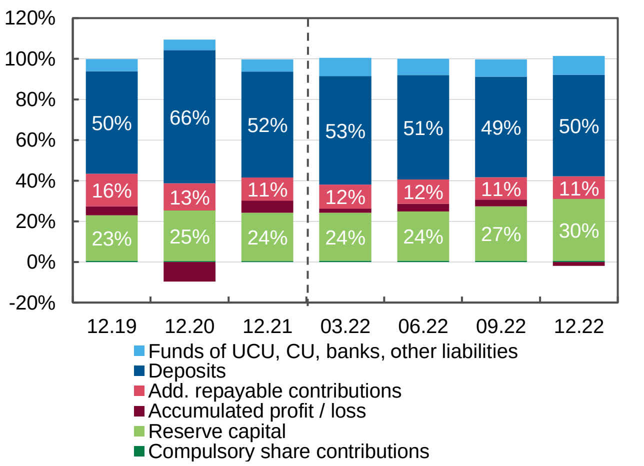
Lending decreased by 14% qoq, mostly on account of consumer loans. Loan quality deteriorated markedly – the share of loans past due over 90 days almost doubled, reaching 28%.

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



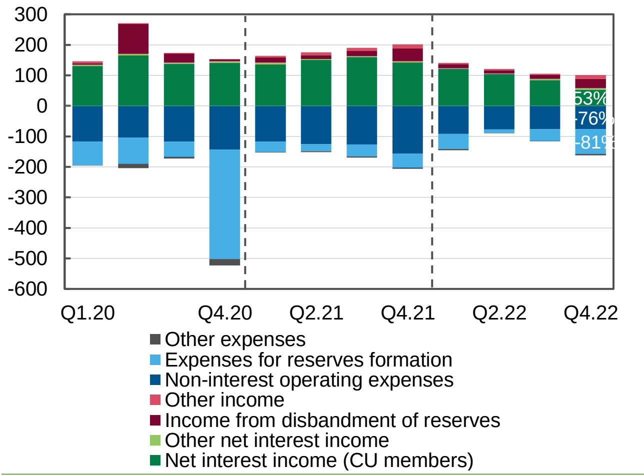
Credit unions' funding decreased across all of its components. Among liabilities, deposits decreased the most. Accumulated losses weighed on credit unions' solvency. Given a faster decline in other components, the share of reserve capital increased.

Figure 23. Equity and liabilities structure



Net operating income from transactions with credit union members decreased in Q4. At the same time, income from releasing reserves, which is an unstable source of income, increased. Provisioning expenses grew at a faster pace.

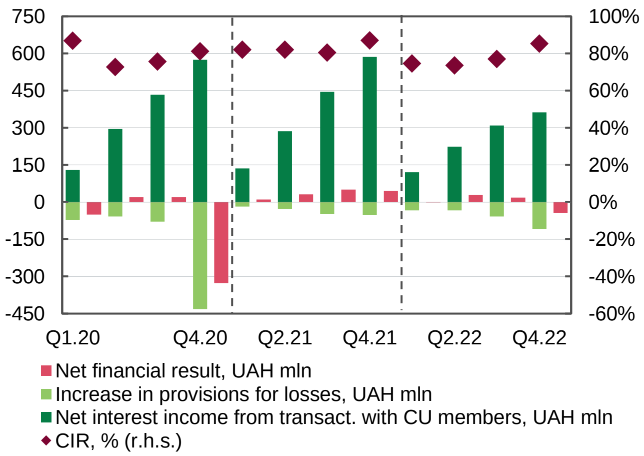
Figure 24. Income and expenses of credit unions*, UAH millions



* The figure shows percentages in relation to credit unions' income.

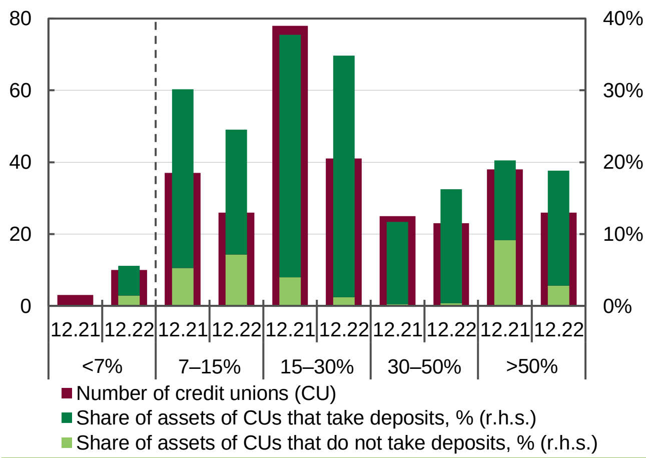
The operational efficiency of credit unions decreased at the end of 2022. Larger growth in provisions made the institutions loss-making.

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



As of 1 January 2023, the number of NBFIs violating minimum solvency requirements grew more than threefold year-on-year and fivefold quarter-on-quarter. These were mostly non-deposit-taking credit unions.

Figure 26. Distribution by core capital adequacy as of 1 January 2023



Finance Companies

In Q4, assets of finance companies grew by 12% (+12.9% in 2022), despite 160 institutions leaving the market. The structure of assets and liabilities changed slightly: respective growth was seen in financial investment and in capital.

Figure 27. Finance companies' asset structure, UAH billions

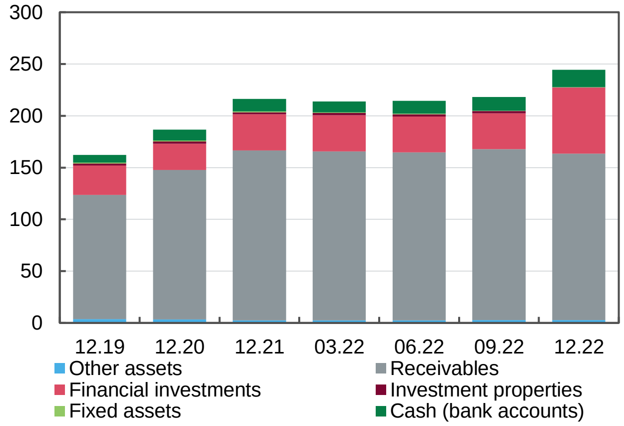
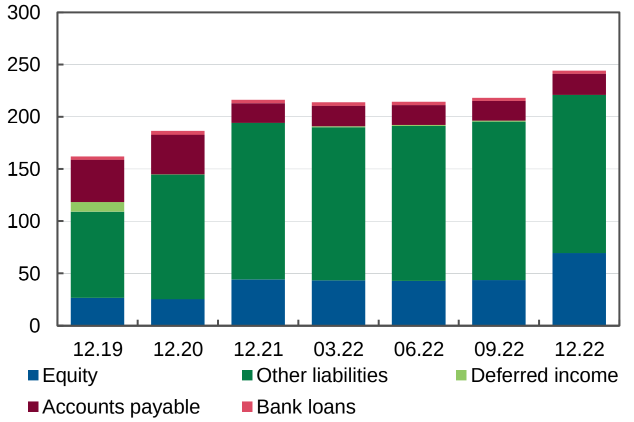
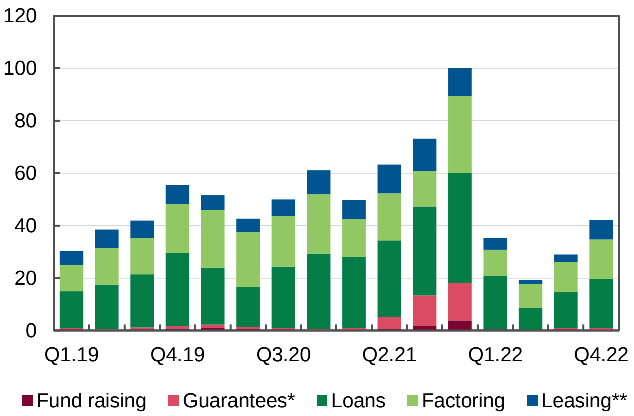


Figure 28. Breakdown of finance companies' equity and liabilities, UAH billions



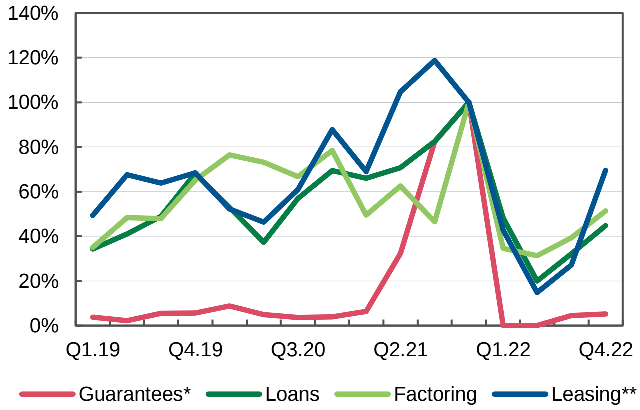
Volumes of major services provided by finance companies rose in Q4. Lending volumes continued to recover. Volumes of financial leasing increased significantly over the quarter, although they were lower than in Q4 2021. In Q4, the landscape of the financial leasing market changed: finance companies accounted for 55% of the market. Volumes of guarantee and factoring services grew slowly. Overall, the volume of services remained several times lower than before the full-scale invasion.

Figure 29. Financial services provided by finance companies, by type of service (quarterly data), UAH billions



* The data for the period up to 1 July 2020 includes information about guarantees and sureties; the data for the period starting from 1 July 2020 shows only guarantees.
** Legal-entity lessors and finance companies.

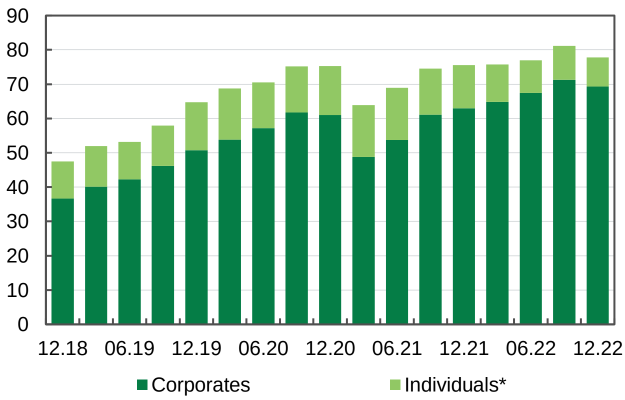
Figure 30. Financial services provided by finance companies, by type of service, Q4 2021 = 100%



* The data for the period up to 1 July 2020 includes information about guarantees and sureties; the data for the period starting from 1 July 2020 shows only guarantees.
** Legal-entity lessors and finance companies.

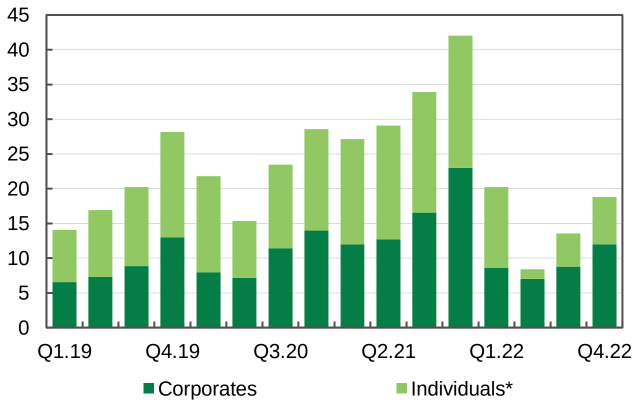
In Q4, the gross loan portfolio of finance companies shrank by 4% qoq (+3% yoy). As usual, corporate loans dominated the portfolio. Retail lending increased by 42% qoq and corporate lending by 37% qoq. However, lending volumes remained much lower than before the war: in 2022, lending volumes more than halved.

Figure 31. Gross outstanding loans of finance companies, UAH billions



* Including sole proprietors.

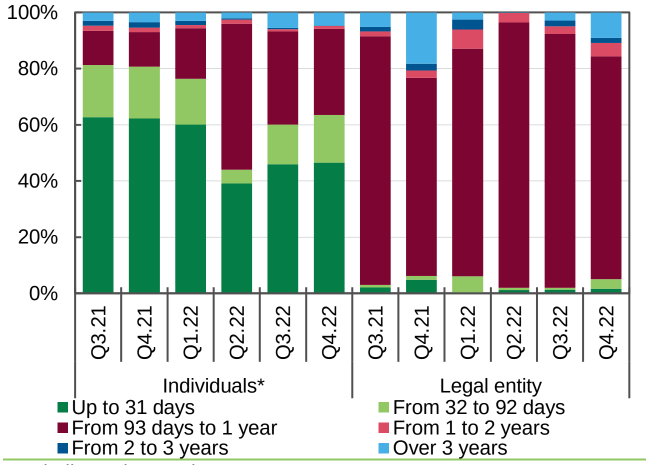
Figure 32. Loans issued during quarter by finance companies, by borrower category, UAH billions



* Including sole proprietors.

In 4Q, the term structure of new loans remained unchanged: households borrowed mainly for up to three months, while businesses borrowed for three months to a year.

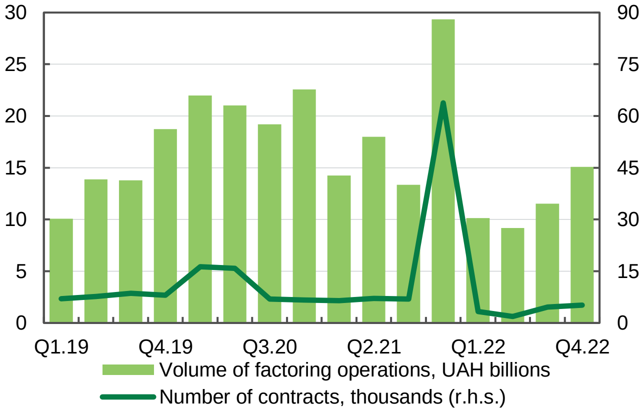
Figure 33. Breakdown of loans issued by finance companies during quarter, by maturity and type of client



* Including sole proprietors.

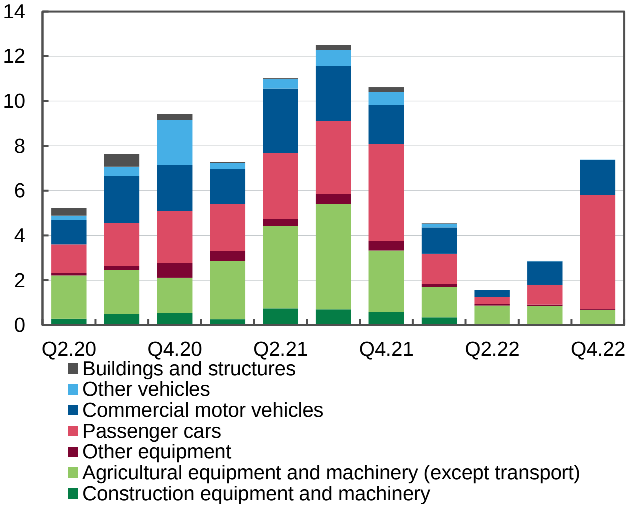
Volumes of factoring transactions grew quarter-on-quarter. Overall, factoring services volumes decreased by 39% in 2022.

Figure 34. Volume and number of factoring agreements



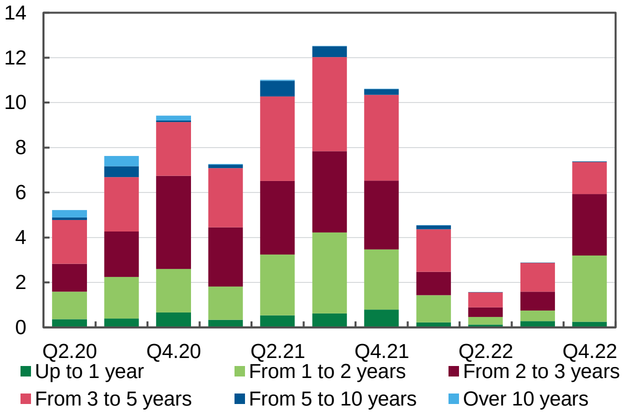
Financial leasing volumes rose by 2.6 times in Q4. Around 90% of new leasing agreements were concluded to purchase cars and trucks. Leasing of agricultural machinery decreased. Volumes of leasing fell by 60% in 2022 as a whole.

Figure 35. Volumes of financial leasing agreements by type of equipment, UAH billions



The structure of leasing transactions by term remained unchanged in Q4. Around 95% of transactions were medium-term, made for one to five years. Overall, the term of agreements shortened significantly.

Figure 36. Volumes of financial leasing agreements by maturity, UAH billions



Finance companies were profitable in 2022. The segment's profit was shaped by sizeable profits made by some companies and record losses incurred by others. Profitability ratios rose throughout the year, but did not reach the level of 2020–2021.

Figure 37. Cumulative profit or loss of finance companies, UAH billions

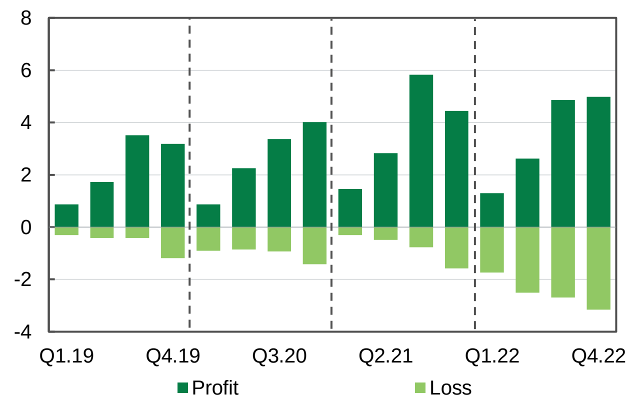
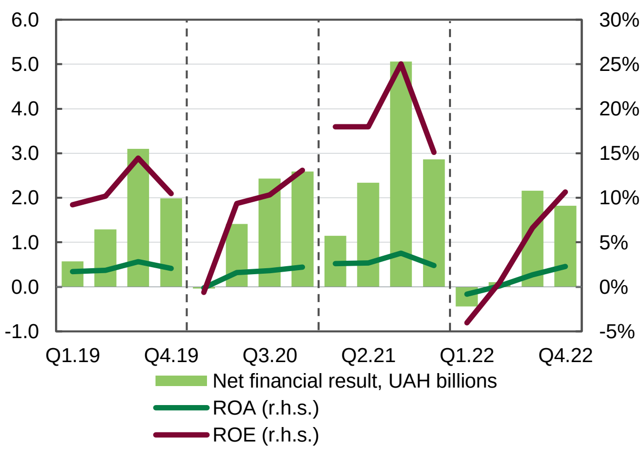


Figure 38. Cumulative profit or loss of finance companies and their return ratios



Pawnshops

Pawnshops' assets slightly decreased in Q4. Loan volumes decreased by 7.1%, while fixed assets and cash were little changed. Equity of pawnshops continued to decline and was the lowest in the past six years.

Figure 39. Assets of pawnshops, UAH billions

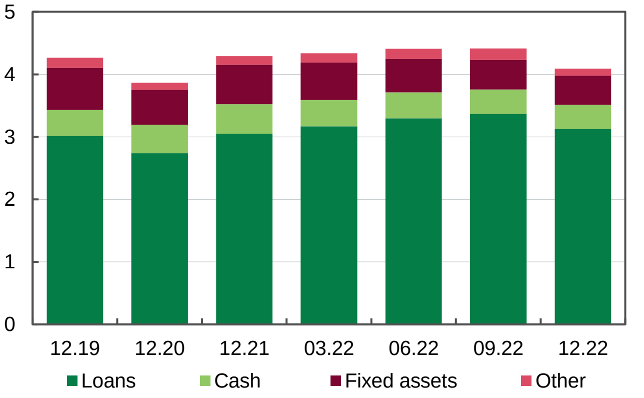
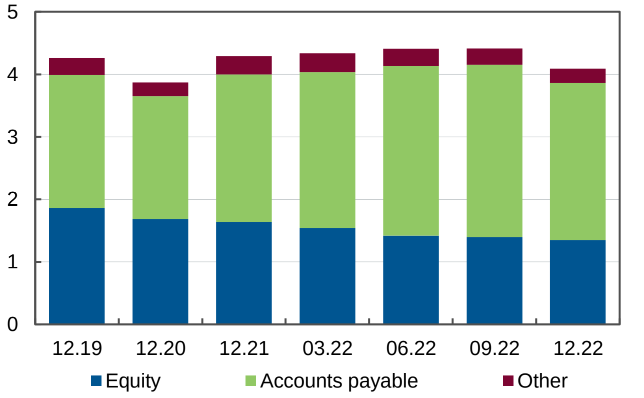


Figure 40. Pawnshop's liabilities and equity, UAH billions



Volumes of new loans decreased by 6% in Q4. Overall, in 2022, pawnshop lending fell by 36%. The collateral coverage ratio was 111%. Loans were mainly secured by precious metal products.

Figure 41. Loans issued by pawnshops over the quarter and collateral coverage ratio

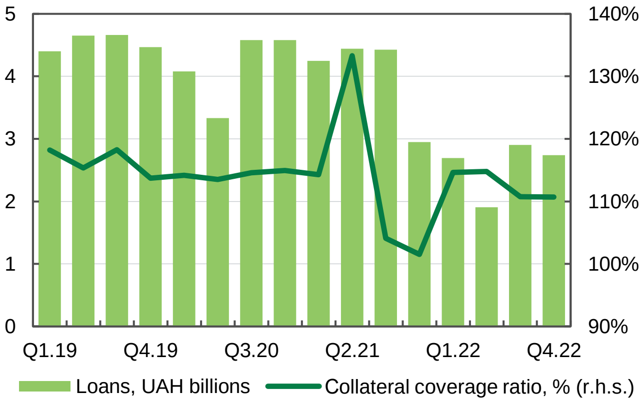
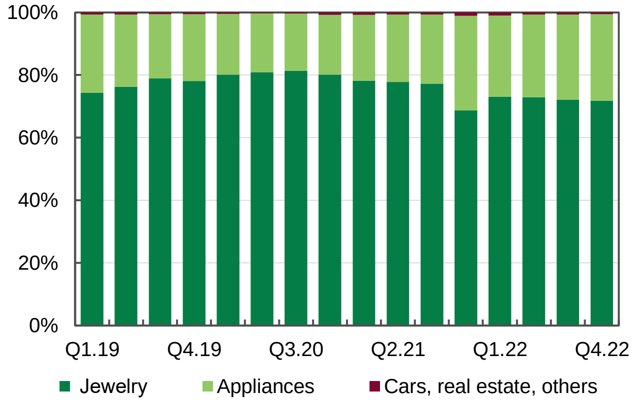


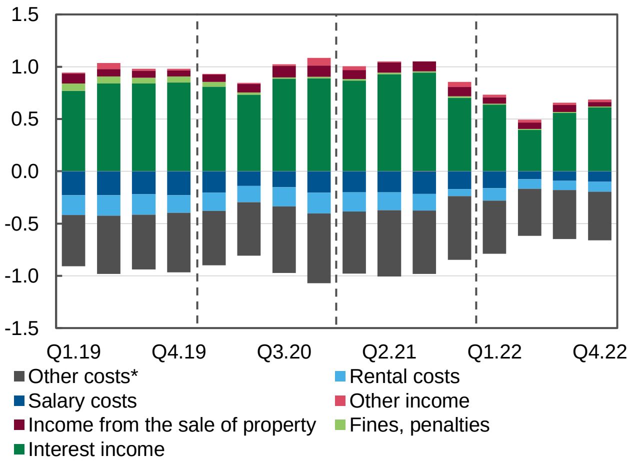
Figure 42. Loans issued by pawnshops by type of collateral



The share of loans secured with cars, real estate, and other assets was 0.57%.

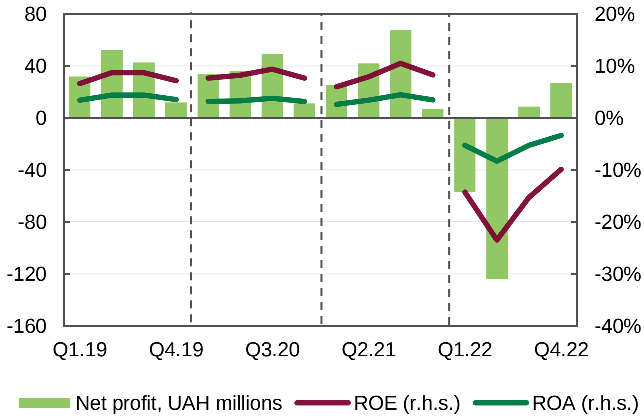
In Q4, interest income, which accounts for the larger share of pawnshops' income, increased by 9%. Although this allowed pawnshops to make a small profit for the quarter, the institutions were loss-making for the full year. Return on assets and equity improved throughout the year, but did not reach positive values.

Figure 43. Structure of pawnshops' income and expenses, UAH billions



* Including expenses related to selling and maintaining pledged property.

Figure 44. 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 National Bank of Ukraine, unless stated otherwise.

As they filed their earnings reports for Q4 2022, NBFIs, at the regulator's request, adjusted their reporting figures or submitted reports for previous periods (in particular, for Q4 2021 and Q1–Q3 2022). The review has been prepared using the information from the financial institutions that submitted their relevant reports to the National Bank of Ukraine as of 25 March 2023.

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

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

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