National Bank of Ukraine

# Non-bank Financial Sector Review

May 2023

In Q1 2023, a number of non-bank financial market sectors continued to slowly increase their transaction volumes. However, they were still significantly below the pre-war levels. As usual, at the start of the year, insurance premiums declined slightly compared to the previous quarter. Life insurance premiums were even lower than a year ago, and premiums on nonlife insurance were only slightly higher. That said, claims paid increased for both life and nonlife insurance. The cost-to-income ratio did not worsen, given the growth in income from investments in domestic government debt securities and deposits. Insurers were profit-making as of the end of the quarter. Finance companies gradually resumed lending to households, and volumes of factoring and leasing transactions also picked up. Pawnshops' activity revived: loan volumes increased, incomes went up, and business became profitable. The credit union sector continued to stagnate: asset volumes and credit portfolios shrank, and the segment was once again loss-making.

**Sector Structure and Penetration**

In Q1, the number of non-bank financial services providers decreased again: 79 finance companies, 12 pawnshops, 9 legal entity lessors, 6 insurers, and 5 credit unions were taken off the Register. Most of the financial institutions left the market through voluntarily surrender of their licenses. One finance company was registered for the first time since August 2022.

In Q1, 19 finance companies and 1 insurer voluntarily surrendered some of their licenses. The regulator revoked the licenses of four finance companies and four insurers. Following the elimination of detected violations, licenses were renewed for a number of finance companies, legal entity lessors, and pawnshops.

In Q1, assets of non-bank financial services providers increased by 3.5% overall. Assets grew at finance companies (despite a sizeable decrease in the number of institutions) and pawnshops. In contrast, insurers' assets declined slightly over the quarter, and the credit union segment saw its assets decreasing for the fifth quarter in a row. Overall, the share of non-bank financial institutions (NBFIs) in total assets of the NBU-regulated financial sector rose to 12% in Q1 2023.

**Insurers**

In Q1, life insurers' assets grew, whereas assets of nonlife insurers decreased as six insurers left the market.

As usual in Q1, life insurance premiums decreased compared to the previous period, by 15%. The premiums also remained 13% yoy lower, so the segment has not yet recovered. At the same time, claims paid by life insurers increased by 8% qoq and by 65% yoy. The ratio of claims paid to premiums in the life insurance segment has been growing for the fifth consecutive quarter and has reached a five-year high.

Volumes of gross premiums dropped by 6% qoq in nonlife insurance, but grew by 7% compared to Q1 2022. Claims paid increased by 9% qoq and by 17% yoy. The ratio of claims paid to premiums returned to the level of 2021.

In Q1, earned premiums decreased for main types of insurance: comprehensive and collision car insurance (C&C), mandatory third-party liability insurance (MTPL), and life insurance. Meanwhile, incomes mostly grew for other types of insurance. In particular, premiums on Green Card insurance remained almost unchanged quarter-on-quarter but more than doubled compared to Q1 2022. At the same time, claims paid on Green Card insurance almost doubled in the first three months of the year and grew more than fivefold compared to Q1 2022. In general, car insurance (C&C, MTPL, and Green Card) and personal insurance (health, life) consistently dominated the market in terms of premiums and claims paid.

Resumed reinsurance payments to nonresidents brought the volume of premiums ceded to nonresident reinsurers closer to the pre-war level. Domestic reinsurance almost stopped.

Dynamics of loss ratios varied across insurance types. For compulsory insurance, this indicator rose (deteriorated) to 46% as a result of a pickup in claims paid and an increase in loss reserves. The voluntary insurance loss ratio remained almost unchanged at 41%. The companies continued to gradually reduce loss reserves for voluntary types of insurance, which they started to do in the previous quarter. The overall loss ratio of insurers stood at 43%.

The combined ratio slightly increased (deteriorated) in Q1, reaching 94%. This was due to insurers' high administrative expenses and an increase in the cost of concluding and renewing reinsurance agreements (up by 16% qoq and almost twofold year-on-year).

Income from investments of nonlife insurers continued to increase and amounted to UAH 690 million in Q1 (+14% qoq). Yields on deposits accounted for a larger part of this income.

Such an increase in investment income helped maintain the cost-to-income ratio at 87%.

Life insurers' investment income grew by 9% qoq. Over the past few quarters, the companies have been gradually increasing the share of deposits in their portfolios. As a result, income from deposits almost equaled the yields on domestic government debt securities.

Over the quarter, nonlife insurers generated profits comparable to previous years and achieved a return on equity of 3%. Return on equity of life insurers was record high in recent years (10%) as a result of lower operating expenses and higher investment income.

As of 1 April 2023, nine insurers violated at least one of solvency, capital adequacy, and risk requirements (seven as of 1 January 2023). The share of companies violating the requirements increased to 1.5% of total assets.

**Credit Unions**

In Q1, credit unions' assets declined, albeit more slowly than in the last six months. Assets fell more rapidly at deposit-taking institutions.

The volume of new loans increased by 12% qoq, mainly due to a sharp increase in loans to private farms. However, this did not stop the overall decline in the loan portfolio, which decreased by 3% in Q1. The share of nonperforming loans remained high, at 32%.

Operating income – in particular, net interest income from transactions with credit union members – declined by more than a third from Q1 2022 and by 17% from the previous quarter. In addition to shrinking portfolio, average interest rates continued to decline for all types of loans. Administrative expenses also declined, but at a slower pace. The ratio of operating expenses to operating income thus increased by 18 pp, to 91%. Moderate operating profit was not enough to cover loan loss provisions. Therefore, the segment recorded a net loss.

Volumes of the main types of funding raised by credit unions continued to decline: additional share contributions by 6% and deposits by 5%. Due to the losses, capital declined as well.

As of 1 April 2023, 11 institutions violated the capital adequacy ratio, which was 2 institutions less than at the start of the year. Another three financial institutions are operating with capital adequacy ratios close to the minimum required levels.

**Finance Companies and Pawnshops**

Despite a sizeable decrease in the number of institutions, the segment's assets grew in Q1. Volumes of provided financial services have been recovering for three quarters running, but have not yet reached their pre-war levels.

Finance companies increased their lending to households: retail loans have been growing for three consecutive quarters, in particular by 37% in Q1. However, this was around 20% less than in Q1 2022.

Factoring transaction increased by a third in Q1. Financial leasing transactions grew by almost 40% and, as before, were mostly provided by legal-entity lessors. Leasing agreements were concluded primarily to purchase trucks, and less often to buy cars and agricultural machinery.

As a result, some finance companies made record profits as of the end of Q1 2023.

The pawnshop sector showed signs of recovery. Assets and new loans increased in Q1, although capital was still low. Interest income and income from the sale of pawnshop property increased slightly. This resulted in a profit.

**Prospects and Risks**

A little more than a month remains until the new eligible assets requirements for insurers come into force. From 30 June 2023, less liquid assets, such as land plots, and residential real estate for nonlife insurers, will not be taken into account by the NBU in assessing compliance with the requirements. In order to continue their business, insurers must bring their operations in line with the new requirements in a timely manner.

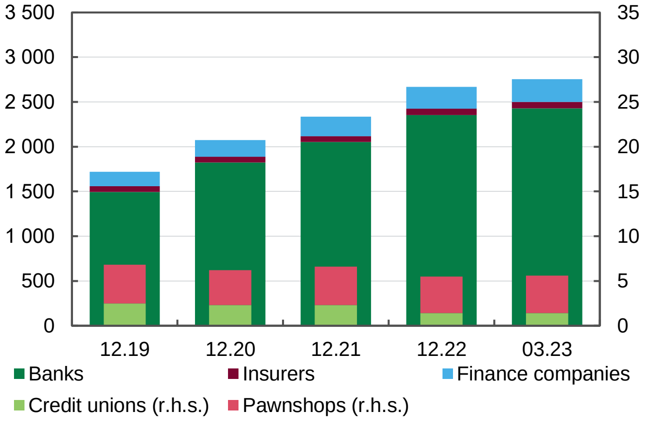
The NBU also updated the procedures for supervising non-bank financial services providers. In particular, the NBU updated the criteria for assessing the risk of market participants' activities, the procedure for exercising control and the timing of providing information on changes in the ownership structure, and the procedures for offsite supervision and onsite inspections.

Further on, non-bank financial market participants should improve their responsible lending practices in compliance with consumer protection laws. The NBU launched a public discussion of changes to the procedure for lenders to inform consumers about loan terms. Changes to the procedure for concluding loan agreements are also being discussed. At the same time, in order to prevent an excessive debt burden on borrowers amid the economic downturn and the war, the NBU initiated a cap on maximum interest rates on microloans. Specifically, the regulator proposed that the maximum real daily interest rate should not exceed 0.8% per day.

# Sector Structure and Penetration

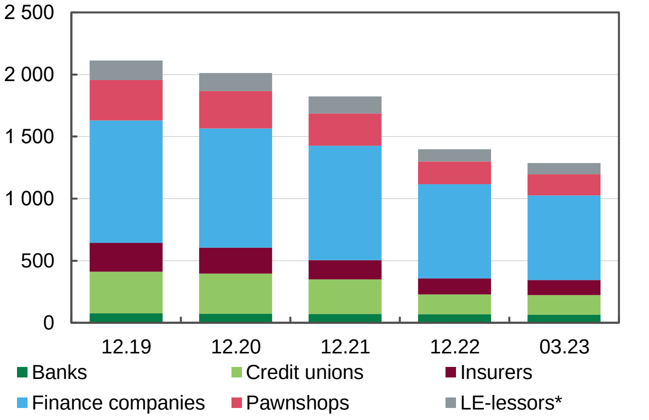
**In Q1, asset volumes increased somewhat at finance companies and pawnshops, decreased slightly at insurance companies, and declined for the fifth consecutive quarter at credit unions. The number of institutions in the Register fell by 112 institutions, which were mainly finance companies and credit unions. One finance company was registered in Q1.**

Figure 1. Financial sector asset structure*, UAH billions




* Reports submitted by non-bank financial services providers as of 8 May 2023.

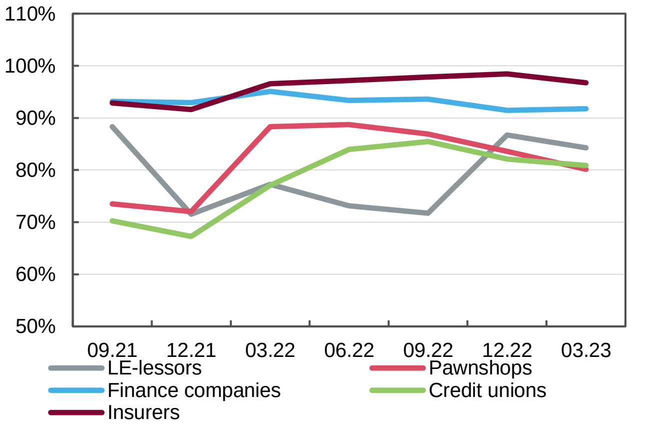
Figure 2. Number of financial services providers




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

**In Q1, the reporting status remained almost unchanged. The share of reporting finance companies increased markedly as dormant companies were removed from the Register.**

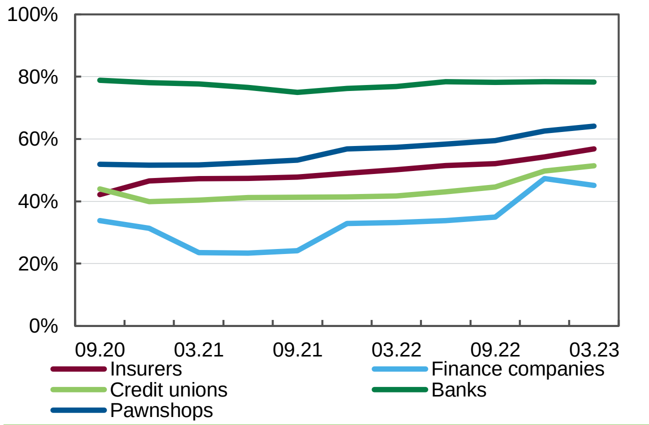
Figure 3. Financial institutions that submitted reports, as a share of the number of entities in the Register*




* Reports submitted by non-bank financial services providers as of 8 May 2023.

**From the start of the full-scale war, the concentration rate has risen across all segments of non-bank financial services providers.**

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




**In Q1, the banks' assets grew in parallel to assets of non-bank financial services providers. The total share of NBFIs in the financial sector's assets has been on the rise for two quarters in row, reaching 12% as of 31 March 2023.**

Table. Financial institutions regulated and supervised by the NBU*

| | | 2019 | 2020 | 2021 | 2022 | 03.2023 | Change in Q1, qoq |
|---|---|---|---|---|---|---|---|
| Insurers | Assets, UAH millions | 63,867 | 64,903 | 64,209 | 70,298 | 69,546 | -1.1% |
| | Numbers | 233 | 210 | 155 | 128 | 122 | -6 |
| Credit unions | Assets, UAH millions | 2,502 | 2,317 | 2,330 | 1,449 | 1,380 | -4.7% |
| | Numbers | 337 | 322 | 278 | 162 | 157 | -5 |
| Finance companies | Assets, UAH millions | 162,197 | 186,572 | 216,407 | 243,997 | 255,988 | 4.9% |
| | Numbers | 986 | 960 | 922 | 760 | 682 | -78 |
| Pawnshops | Assets, UAH millions | 4,265 | 3,854 | 4,289 | 4,101 | 4,234 | 3.2% |
| | Numbers | 324 | 302 | 261 | 183 | 171 | -12 |
| Banks | Assets, UAH millions | 1,493,298 | 1,822,841 | 2,053,232 | 2,353,939 | 2,429,610 | 3.2% |
| | Numbers | 75 | 73 | 71 | 67 | 65 | -2 |

* Along with submitting Q1 2023 reports, NBFIs could update their reporting data for Q4 2021, Q1–Q4 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 8 May 2023.

# Insurers

**Assets of life insurers grew by 4% and those of nonlife insurers have been on the decline for three quarters straight. Volumes of deposits and government securities together accounted for 60% of eligible assets.**

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

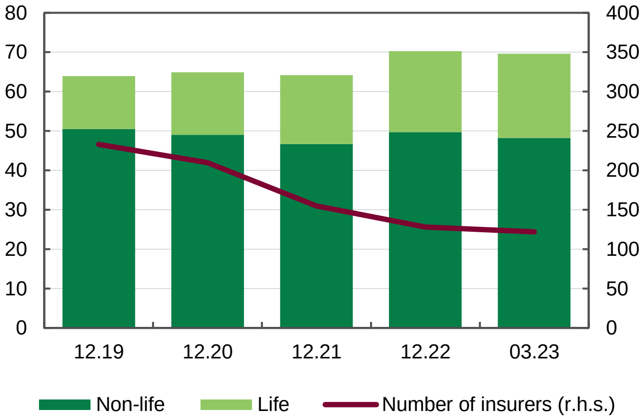
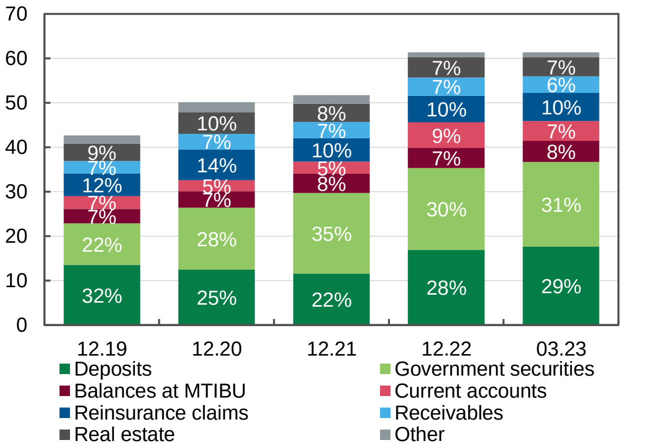



Figure 6. Structure of assets eligible to cover insurers' reserves, UAH billions




**The share of cash held by life insurers reached 23%. The share of current investment of nonlife insurers increased as a result of a decrease in cash.**

Figure 7. Asset structure of life insurers as of 1 April 2023

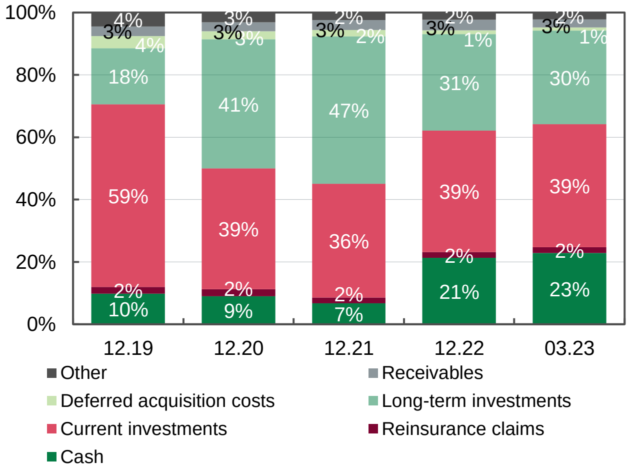
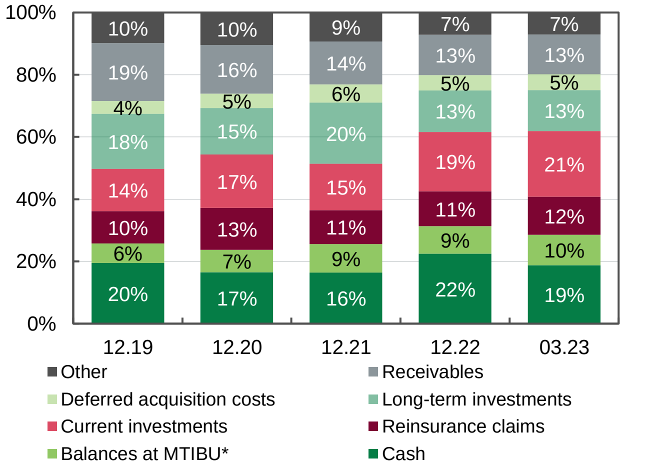
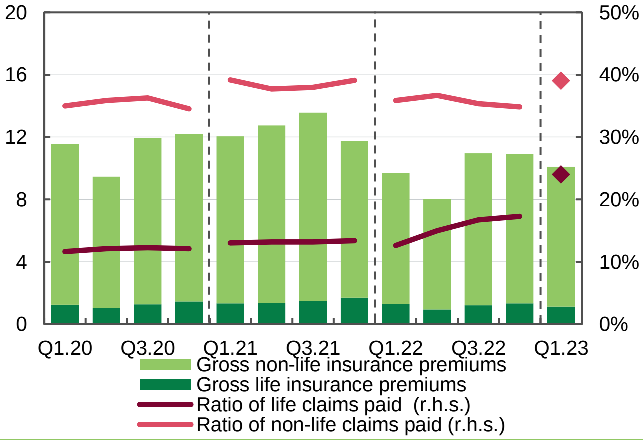



Figure 8. Asset structure of nonlife insurers as of 1 April 2023



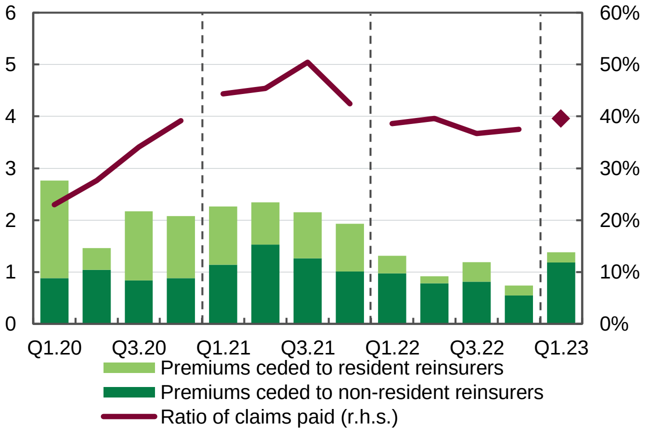

**Volumes of gross premiums fell by 15% qoq in life insurance. In nonlife insurance, they dropped by only 6%. In contrast, claims paid rose by around 9% in both types of insurance.**

Figure 9. Premiums and ratios of claims paid, by type of insurance UAH billions



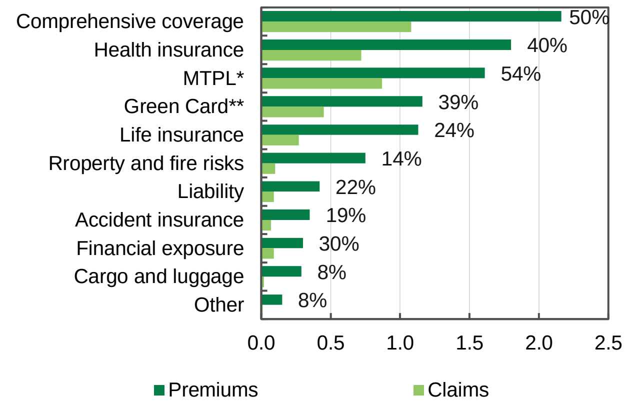

**Gross reinsurance premiums paid to nonresidents more than doubled over the quarter, while claims paid increased by 30%.**

Figure 10. Premiums due to reinsurers and ratio of claims paid, UAH billions



**Among insurance types, personal insurance and car insurance further dominate in terms of the share of premiums and claims paid.**

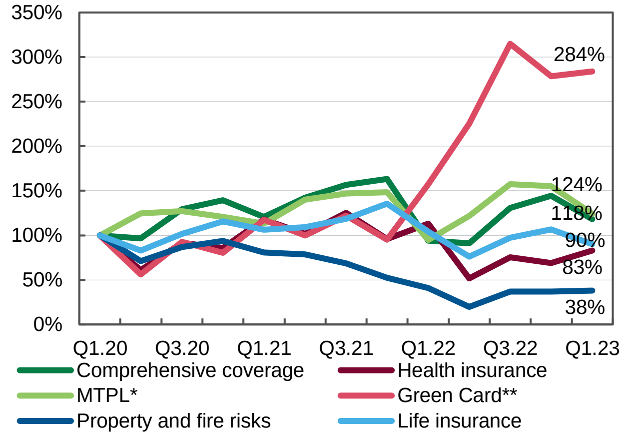
Figure 11. Breakdown of insurance premiums and claim payments by most popular types of insurance in Q1 2023, UAH billions




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.

**Volumes of premiums on Green Card insurance more than tripled since the start of the full-scale invasion.**

Figure 12. Insurance premiums on dominant types of insurance, Q1 2020 = 100%




* Compulsory motor third party liability insurance. ** International Motor Insurance Card System.

**In Q1, insurance premiums that nonlife insurers received from their retail clients declined by 9%, while those received from corporate clients remained almost unchanged.**

Figure 13. Gross insurance premiums by type of insurance (excluding domestic reinsurance), Q1 2020 = 100%

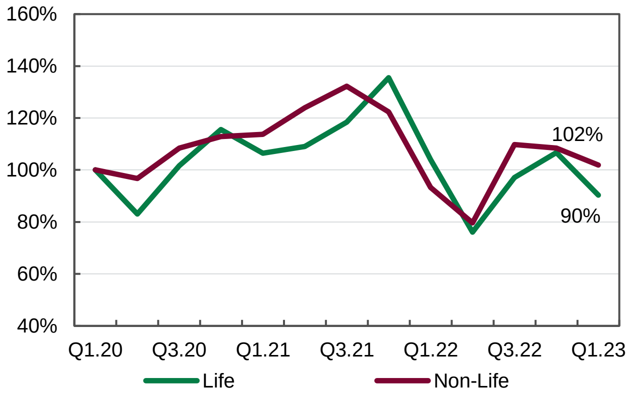
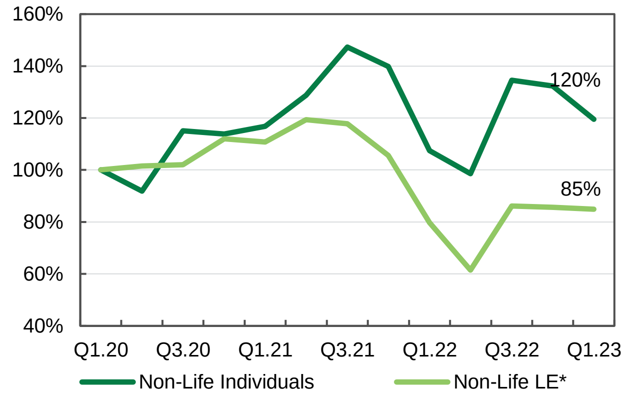


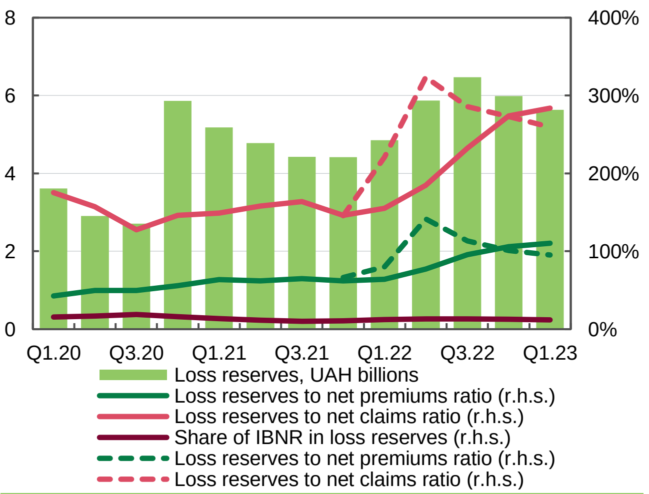

Figure 14. Gross non-life insurance premiums by type of policyholder, Q1 2020 = 100%




* Legal entities.

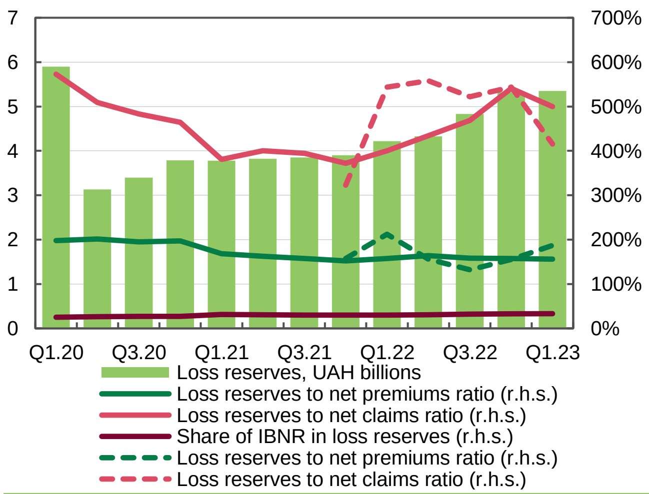
**Loss reserves continued to decrease in voluntary insurance and were little changed in compulsory insurance. Provisioning ratios remain all-time high.**

Figure 15. Loss reserve ratios* of voluntary insurance




* Annualized provisioning ratios.

Figure 16. Loss reserve ratios* of compulsory insurance




* Annualized provisioning ratios.

**The share of premiums on compulsory types of insurance decreased markedly over the quarter, and the loss ratio of compulsory insurance slightly rose (worsened). The loss ratio of voluntary types of insurance remained almost unchanged. Green Card continued to have the highest loss ratio among insurance types.**

Figure 17. Share of compulsory insurance premiums and loss ratio of nonlife insurance

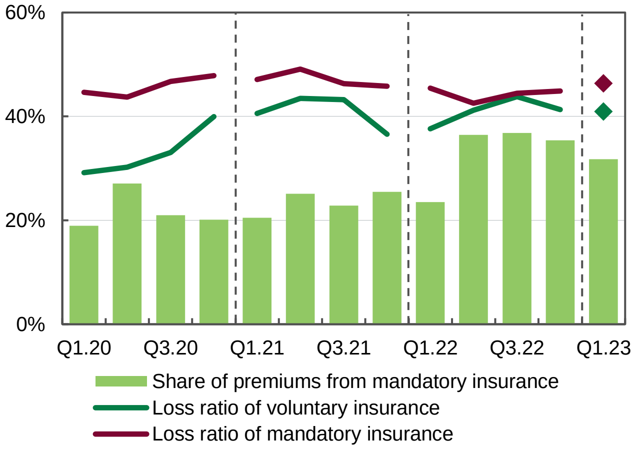
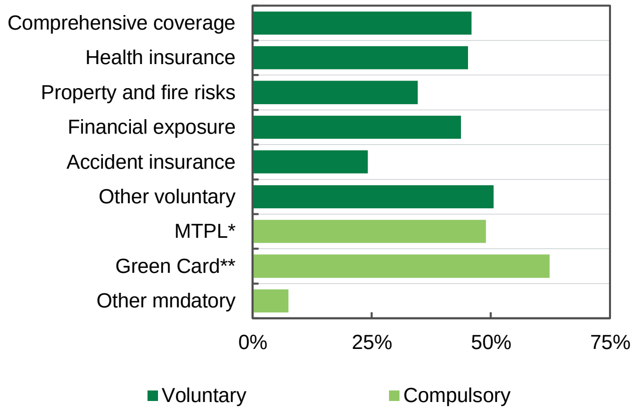



Figure 18. Loss ratios of some types of insurance, yoy




* Compulsory motor third party liability insurance. ** International Motor Insurance Card System.

**Cost-to-income ratios of nonlife insurers have been worsening in gross terms since the onset of the full-scale invasion. The combined ratio increased (worsened) the most over the quarter, to 94%. However, as of the end of the quarter, insurers generated profits that were comparable to previous years.**

Figure 19. Cumulative profit or loss and operating performance indicators of nonlife insurers, UAH billions

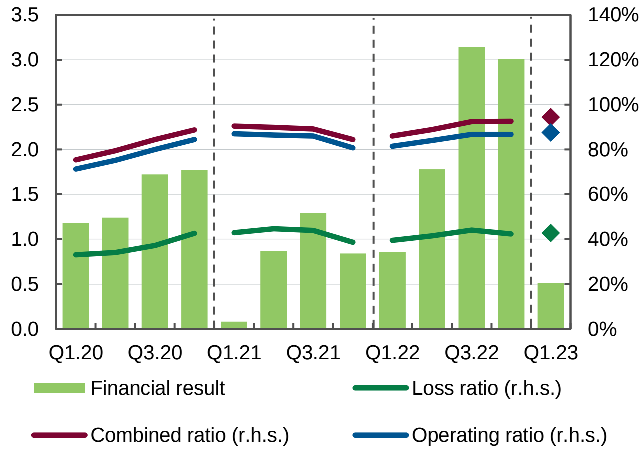
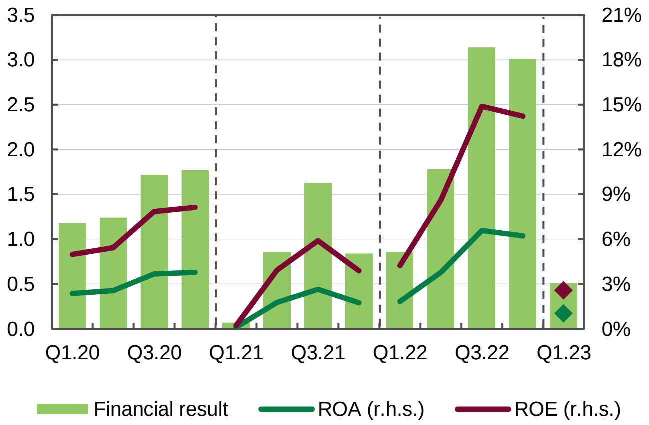
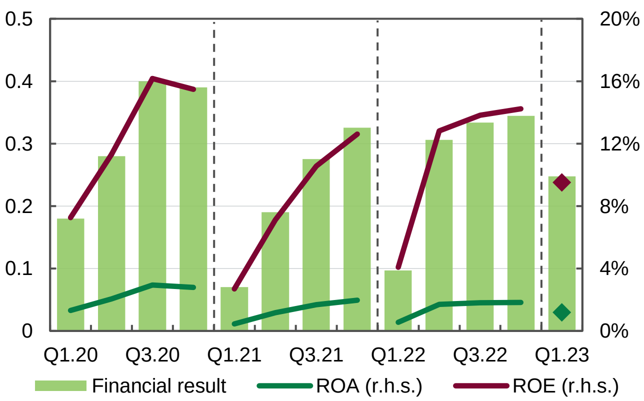



Figure 20. Cumulative profit or loss and profitability of nonlife insurers, UAH billions



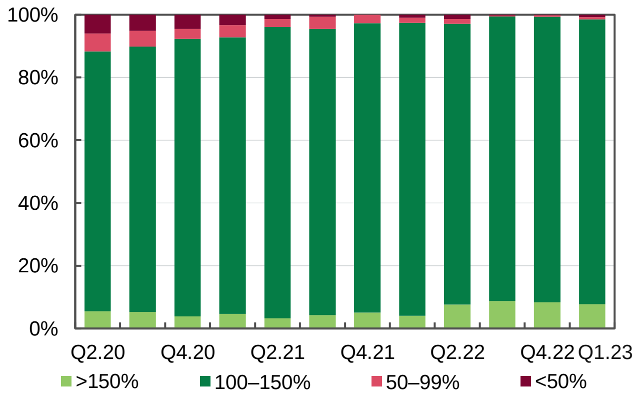

**Life insurers made sizeable profits in Q1 and recorded return on equity of 10%.**

Figure 21. Cumulative profit or loss and profitability of life insurers, UAH billions




**The number of violators of solvency and capital adequacy requirements grew from seven to nine, and their share in assets rose from 0.6% to 1.5% over the quarter.**

Figure 22. Distribution of insurers' assets by ratio of eligible assets to required solvency margin

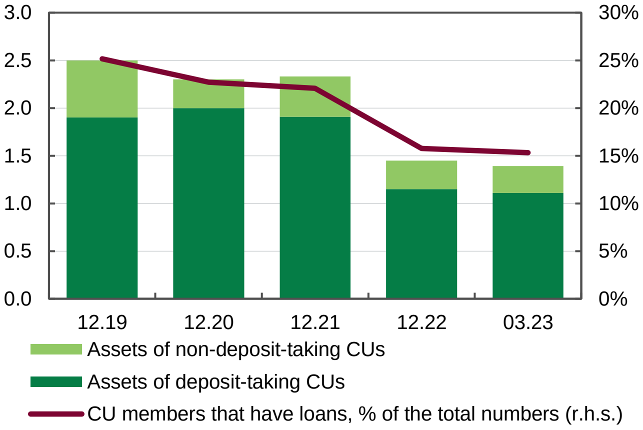



* This figure draws on data from 119 companies.

# Credit Unions

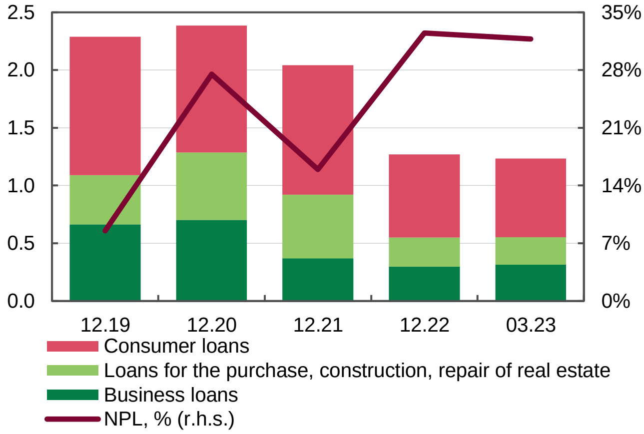
**Credit unions' assets decreased by 5% over the quarter. A fifth of operating credit unions do not take deposits. The share of credit union members that have outstanding loans shrank to 15%.**

Figure 23. Total assets of credit unions and share of credit union members who took out loans, UAH billions



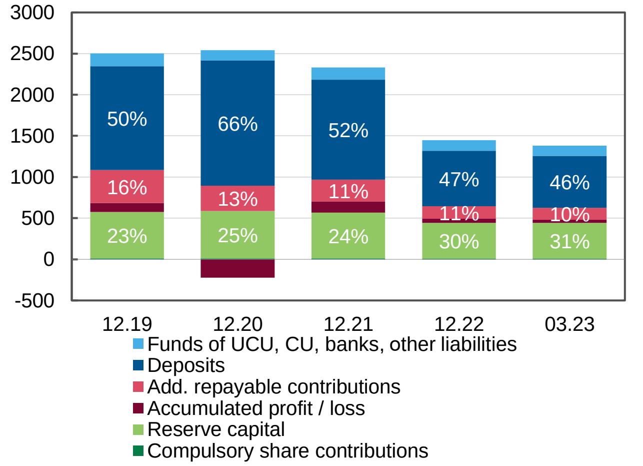

**The loan portfolio shed 3% qoq. Declared loan quality remained unchanged, with a large percentage of loan payments (32%) being past due for more than 90 days.**

Figure 24. Breakdown of the principal amount of outstanding loans due from credit union members, UAH billions




**All funding components continue to decrease. Given a faster decline in other components, the share of reserve capital in liabilities keeps growing.**

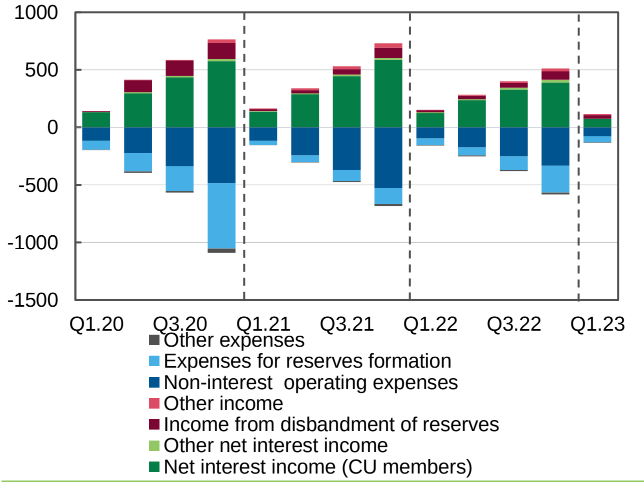
Figure 25. Equity and liabilities structure




Percentages show the share of components in the funding structure.

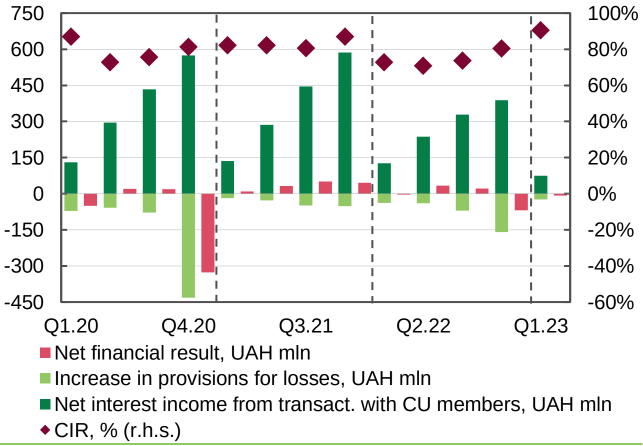
**Net interest income from transactions with credit union members decreased considerably in Q1. Operating expenses and provisioning costs also declined, albeit at a slower pace.**

Figure 26. Income and expenses of credit unions*, UAH millions



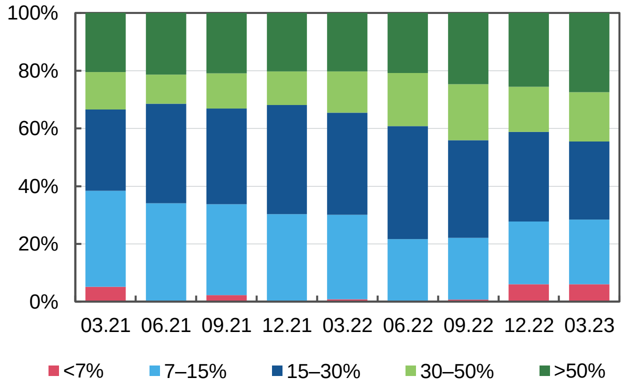

**Operational efficiency of credit unions decreased significantly in Q1. The main negative effect came from the large decrease in operating income.**

Figure 26. Operational efficiency of credit unions (on a cumulative basis), UAH millions




**As of 1 April 2023, the number of violators of minimum solvency requirements almost tripled year-on-year and declined somewhat quarter-on-quarter.**

Figure 28. Distribution of capital adequacy ratios by share of credit unions' assets



# Finance Companies

**In Q1, assets of finance companies grew by 5% (+20% yoy), although 78 institutions left the market. The assets and liabilities structure remained unchanged.**

Figure 29. Finance companies' asset structure, UAH billions

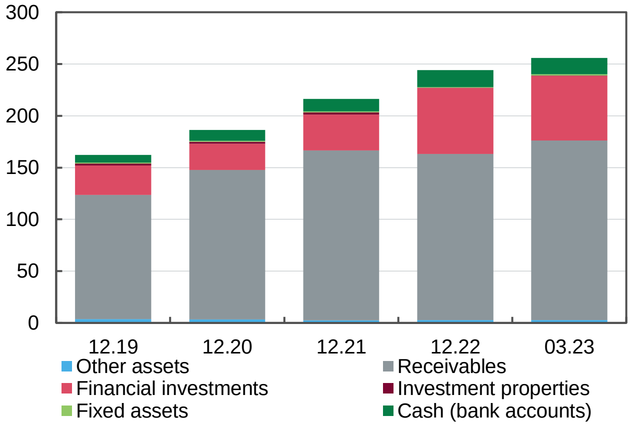
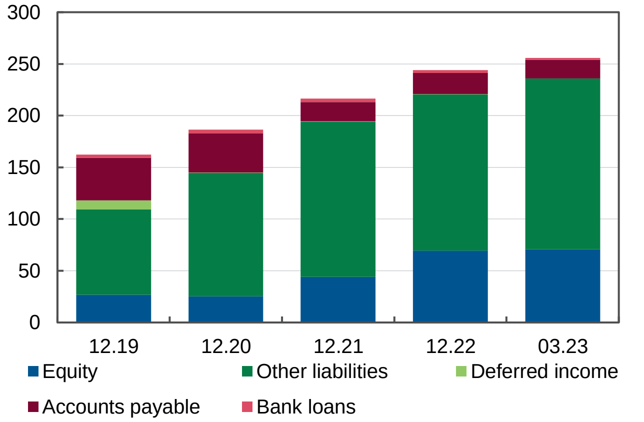
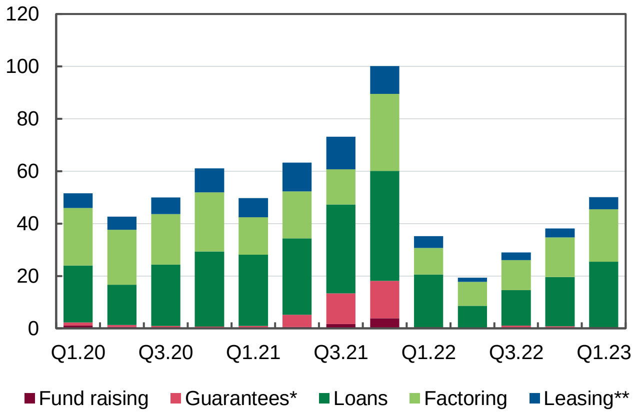



Figure 30. Breakdown of finance companies' equity and liabilities, UAH billions



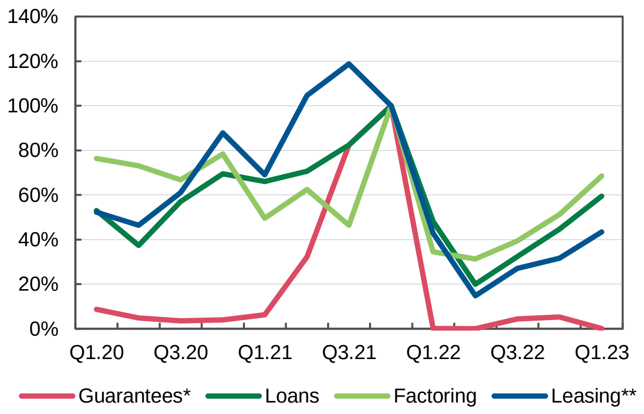

**In Q1, all types of financial services grew, except for guarantees. Lending accounted for almost half of the services provided by finance companies. At the same time, lending volumes have been on the rise for three quarters straight. Factoring and leasing transactions also grew. Legal-entity lessors provided the bulk of financial leasing services. Despite the gradual recovery in volumes of financial services, they remain much below the pre-war levels.**

Figure 31. 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.

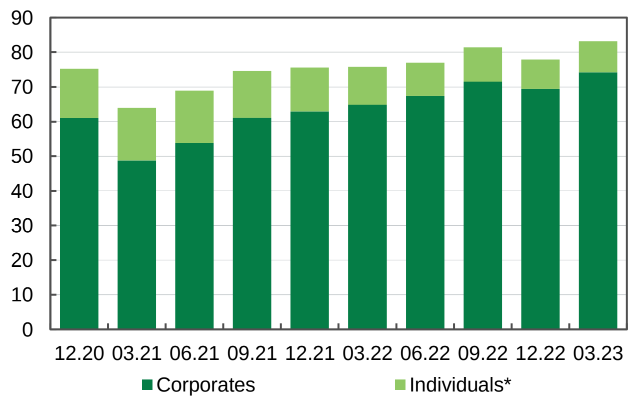
Figure 32. Financial services provided by finance companies, by type of service, Q4 2021 = 100%




* 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.

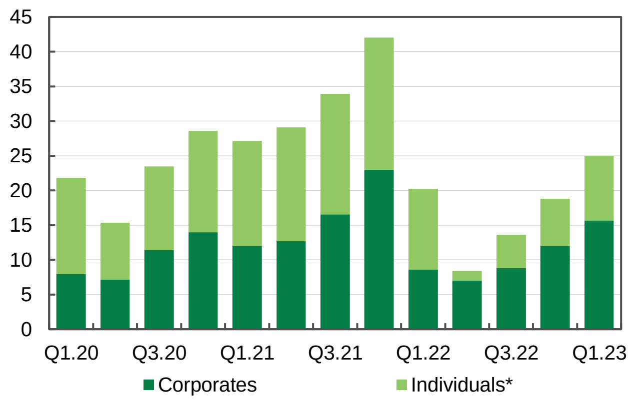
**In Q1, the gross loan portfolio of finance companies increased by 7% qoq (+10% yoy). Outstanding retail loans rose by 6% (-17% yoy) and corporate loans by 7% (+14% yoy). Portfolio structure remained unchanged, with corporate loans prevailing. In particular, most new loans were issued to businesses in Q1. Corporate lending increased by 30% qoq and retail lending by 37% qoq.**

Figure 33. Gross outstanding loans of finance companies, UAH billions




* Including sole proprietors.

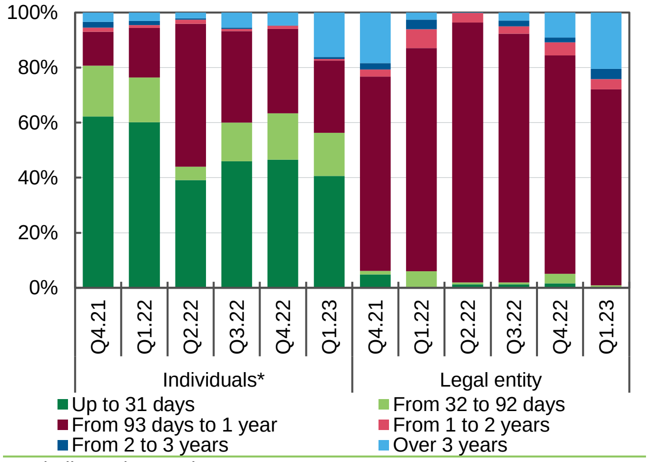
Figure 34. Loans issued during quarter by finance companies, by borrower category, UAH billions




* Including sole proprietors.

**In Q1, the maturity of new loans somewhat grew: the share of loans issued for more than three years increased. However, the term of most loans issued to households and businesses were shorter.**

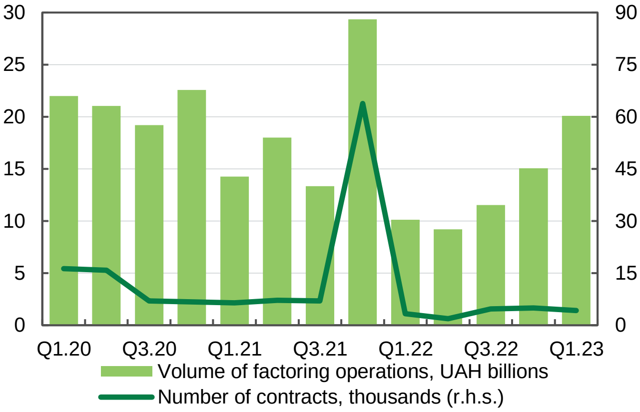
Figure 35. Breakdown of loans issued by finance companies during quarter, by maturity and type of client




* Including sole proprietors.

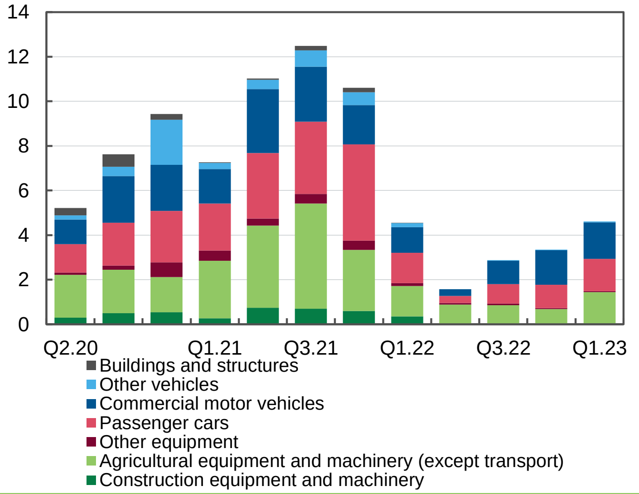
**Volumes of factoring transactions grew by almost a third over the quarter.**

Figure 36. Volume and number of factoring agreements



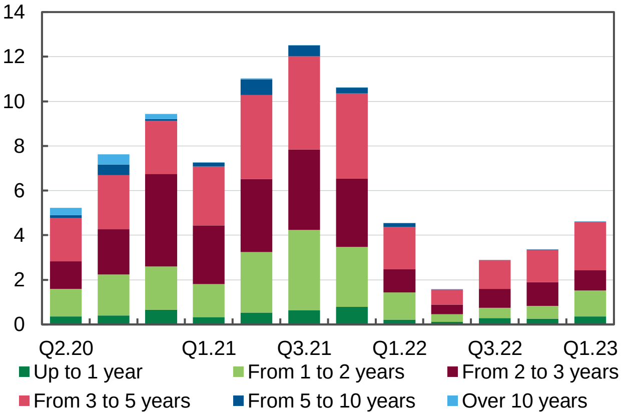

**Volumes of financial leasing transactions rose by a third in Q1. The structure of new leasing agreements remained almost unchanged in the past three quarters: almost all agreements were concluded to purchase cars, trucks, and agricultural machinery.**

Figure 37. Volumes of financial leasing agreements by type of equipment, UAH billions




**The structure of leasing transactions by term was little changed in Q1. Around 92% of transactions were medium-term, made for one to five years.**

Figure 38. Volumes of financial leasing agreements by maturity, UAH billions




**In Q1, some finance companies' profits were record high compared to the same periods of previous years. Their profitability ratios were higher than in the pre-war years.**

Figure 39. Cumulative profit or loss of finance companies, UAH billions

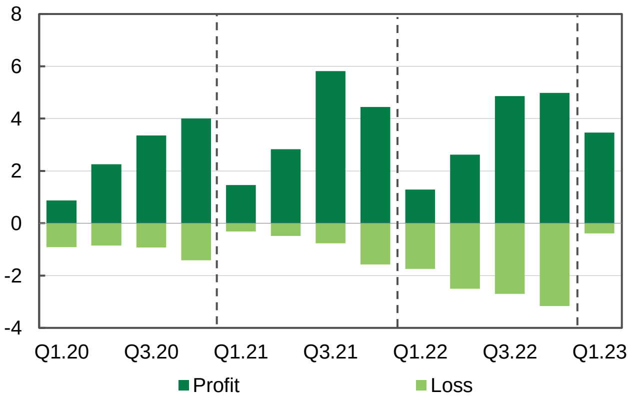
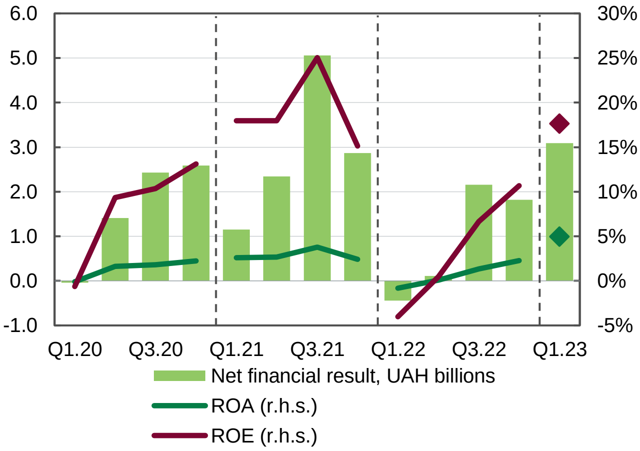



Figure 40. Cumulative profit or loss of finance companies and their return ratios



# Pawnshops

**Pawnshops' assets slightly increased in Q1. Loan volumes rose by 7%, while fixed assets and cash declined. Equity of pawnshops did not change and was the lowest in the past years.**

Figure 41. Assets of pawnshops, UAH billions

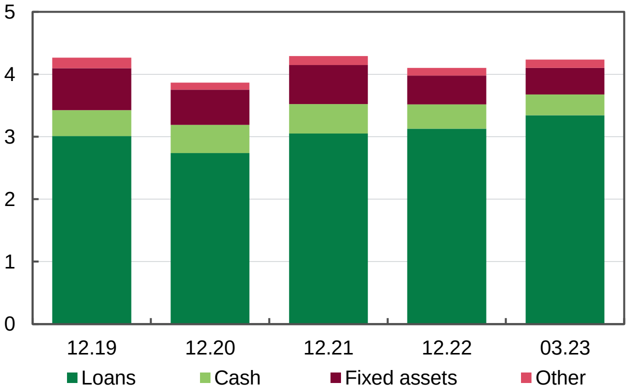
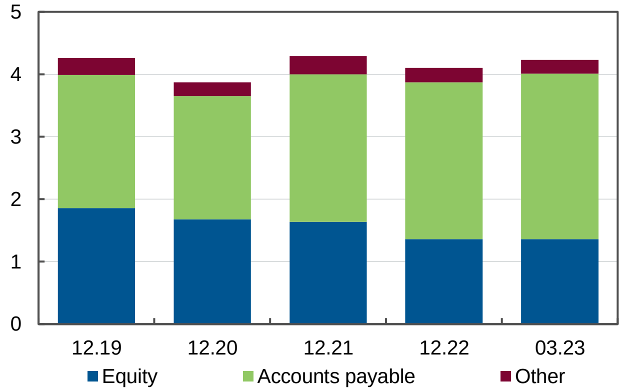



Figure 42. Pawnshop's liabilities and equity, UAH billions




**In Q1, volumes of new loans increased by 15% qoq but decreased by around 25% yoy. The collateral coverage ratio grew to 129%. The loan portfolio structure by type of collateral was unchanged.**

Figure 43. Loans issued by pawnshops over the quarter and collateral coverage ratio

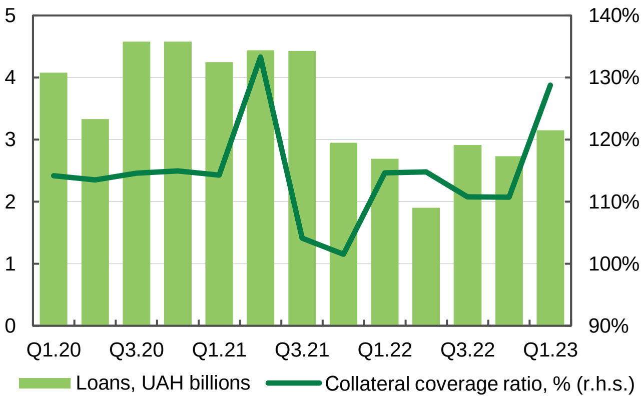
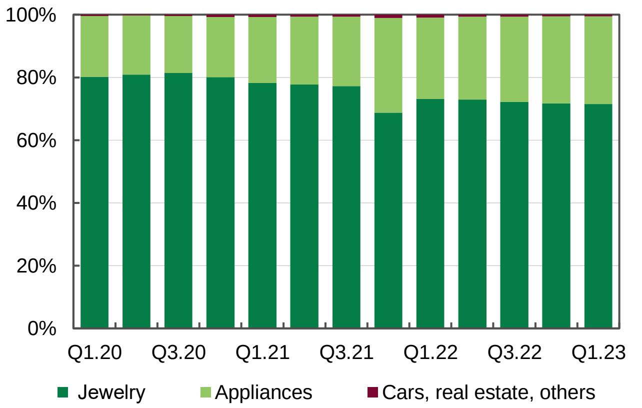


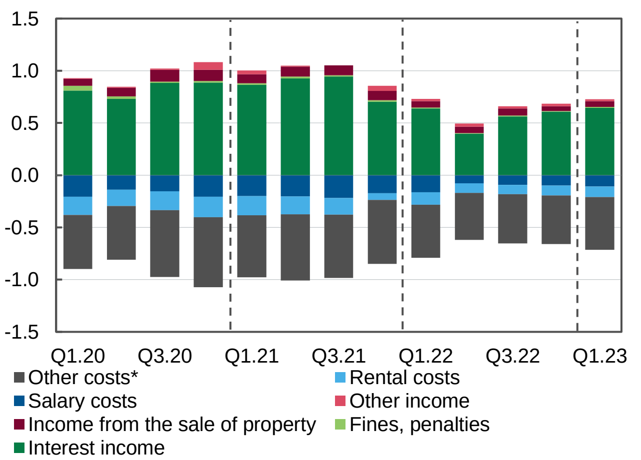

Figure 44. Loans issued by pawnshops by type of collateral




The share of loans secured with cars, real estate, and other assets was 0.58%.

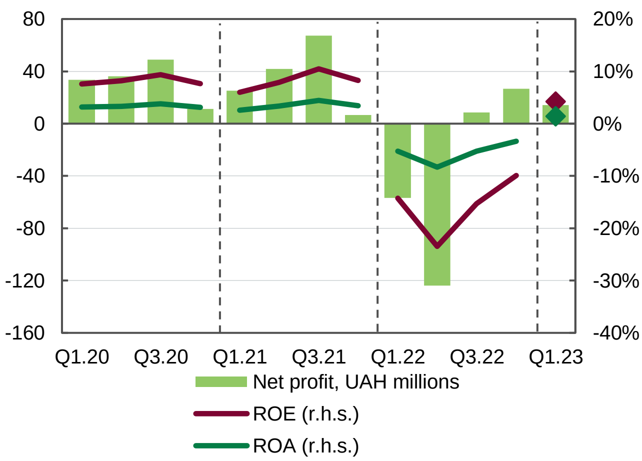
**Interest income increased by 6% in Q1. Income from property sales rose as well. Pawnshops thus were profitable as of the end of Q1. Return on assets and return on equity have turned positive for the first time since the start of the full-scale war.**

Figure 45. Structure of pawnshops' income and expenses, UAH billions




* Including expenses related to selling and maintaining pledged property.

Figure 46. 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.

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.

As they filed their earnings reports for Q1 2023, NBFIs, at the regulator's request, adjusted their reporting figures or submitted reports for previous periods (in particular, for Q4 2021 and Q1–Q4 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 8 May 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 |
| C&C | Comprehensive and collision car insurance |
| 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 |