National Bank of Ukraine

Non-bank Financial Sector Review

August 2023

The dynamics of the nonbank financial sector was mixed in Q2 2023: asset volumes increased in most segments, but finance companies' assets declined due to a decrease in the number of institutions. Insurance premiums increased slightly compared to Q1, mainly in nonlife insurance. Income from insurers' investment continued to grow, making the sector profitable. Credit unions have shown signs of recovery for the first time since the start of the full-scale war: their assets and loan portfolios grew, and the segment generated a small profit. Pawnshops continued to revive: their loan volumes grew, revenues increased, and profitability indicators improved. Only the segment of finance companies slowed down from Q1: the volume of basic financial services, except for financial leasing, decreased.

Sector Structure and Penetration

The number of nonbank financial services providers continued to decline in Q2: 38 finance companies, 8 legal entity-lessors, 7 insurers and pawnshops, and 6 credit unions were excluded from the Register. Most of the financial institutions left the market through voluntary surrender of their licenses. In accordance with the requirements of the Law of Ukraine *On Payment Services*, 16 finance companies were removed from the Register and included in the Register of Payment Infrastructure as payment institutions. One financial company and one legal entity-lessor were registered in April–June.

In Q2, 18 finance companies and 5 insurers voluntarily surrendered some of their licenses. The regulator revoked some of the licenses of only one finance company. Following the elimination of detected violations, licenses were renewed for one finance company and one legal entity lessor.

In Q2, assets of nonbank financial services providers decreased by 6.7% overall. This decline was solely due to a significant decrease in the assets of finance companies. Other segments recorded a slight increase in assets. Credit unions have increased their assets for the first time since Q3 2021. The share of nonbank financial institutions (NBFIs) in total assets of the NBU-regulated financial sector shrank by 1.2 pp, to 10.9%, over April–June.

Insurers

In Q2, life insurers' assets increased for the second consecutive quarter, rising by 4%. The assets of nonlife insurers decreased slightly as seven institutions exited the market.

Life insurers' premiums and claims paid remained almost unchanged during the quarter. However, compared to Q2 2022, the changes were significant: premiums were 18% higher, and claims paid soared by 56%.

Gross premiums on nonlife insurance rose by 12% qoq and reached the level of Q4 2021. Claims paid increased by 3% qoq. Premiums and claims paid grew by approximately 40% compared to Q2 2022.

In Q2, the volume of car insurance premiums (comprehensive and collision insurance (C&C), MTPL, and Green Card) increased by 21%, exceeding the pre-war level. Since the start of the full-scale war, the share of car insurance premiums has consistently exceeded half of nonlife insurers' total earnings. The volume of personal insurance premiums (life and health insurance) remained almost unchanged over the quarter. Property insurance premiums grew by 9% qoq, but their volume was still only about half of the pre-war level. For other types of insurance, earnings were mostly on the decline. Claims paid on the main types of insurance remained almost unchanged, except for property insurance, which decreased by 10% in Q2. Car insurance (C&C, MTPL, and Green Card) and personal insurance (health and life insurance) continued to account for around 80% of premiums and 90% of claims paid.

In the reporting period, only 9% of premiums were ceded for reinsurance, of which only a quarter was ceded on the domestic market.

Insurers have been reducing loss reserves for voluntary types of insurance for the third quarter in a row. Nevertheless, the coverage of premiums by loss reserves was 99% (year-on-year), which was still high compared to pre-war levels. On the other hand, loss reserves for compulsory insurance increased slightly over the quarter. Their current high level is due to a pickup on the Green Card market. The coverage of premiums by loss reserves is returning to historical levels, reaching 156% (annualized).

A decrease in loss reserves improved the voluntary insurance loss ratio, which shed 4 pp over the quarter and reached 37%. In contrast, the same indicator for compulsory insurance increased by 2 pp, to 49%, repeating its historical maximum. The overall loss ratio was 41%, down 2 pp. However, calculated in net terms, it had the opposite dynamics: it increased (deteriorated) by 2 pp, to 42%. This was due to the fact that claims toward reinsurers for materialized insurance events declined much faster than insurers' loss reserves.

In Q2, the acquisition costs of nonlife insurers and expenses related to the conclusion of reinsurance contracts increased slightly. They partially offset the positive effect of the decline in the gross loss ratio. Therefore, the combined ratio decreased (improved) by only 1 pp, to 94%.

Interest income on deposits and domestic government debt securities, which remained the main source of investment income for nonlife insurers, increased slightly compared to the previous quarter. The cost-to-income ratio was 86%. Income from investments of life insurers continued to increase: by 8% qoq and by 63% yoy. The growth in Q2 was mainly associated with income from bonds.

The insurance market was profitable in Q2. The return on equity of nonlife insurers was comparable to previous years, standing at 6%. Profits were generated by 72% of companies. Life insurers made record-high profits as of the end of the quarter. Profits were generated by 83% of companies.

As of 1 July 2023, eleven insurers violated at least one of solvency, capital adequacy, or risk requirements (nine as of 1 April 2023), and one more insurer violated the asset quality requirement. The share of companies violating the requirements increased to almost 1.8% of total assets.

Credit Unions

In Q2, the nearly two-year decline in credit unions' assets was interrupted: their assets grew slightly, despite a further decrease in the number of institutions. Assets grew slowly in most credit unions, mostly in deposit-taking ones. At the end of the quarter, total assets accounted for only 60% of the pre-war level.

New loans grew for the second consecutive quarter, by almost a third in Q2. The growth was the most pronounced in loans to households for construction, repairs, and reconstruction of real estate, as well as loans granted by joint credit unions (JCUs) mainly for further lending to sole proprietors. As a result, the loan portfolio grew, albeit slowly, by only 5% qoq. One third of loans in the portfolio were past due by more than 90 days.

Operating income of credit unions grew slowly during the quarter. Net interest income from transactions with credit union members increased by 4% compared to Q1. At the same time, interest rates on all types of loans dropped slightly. Lower administrative expenses resulted in an improvement (by 6 pp) of the ratio of operating expenses to operating income to 85%. A significant decrease in provisioning expenses contributed to a slight profit in the sector as a whole.

Moderate profitability provided for a 1.4-fold increase in retained earnings, given their low level. The volume of funding to credit unions by the JCUs increased by 12%. At the same time, the outflow of funds slowed significantly in Q2 compared to the previous quarter: the volume of deposits decreased by 2%, and additional share contributions by 3%.

As of 1 July 2023, ten unions were in breach of the capital adequacy ratio. This was three institutions less than in Q1, but five times more than last year.

Finance Companies and Pawnshops

A significant decline in the number of institutions in Q2 affected the segment's assets, which decreased by almost 9%. The recovery in volumes of provided financial services came to a halt: this quarter, volumes of main financial services dropped, except for financial leasing.

Lending to households slowed somewhat despite a steady upward trend in the previous three quarters. Also, factoring transactions declined by a quarter in Q2. Only the volume of financial leasing grew for the fourth quarter in a row. It grew by 21%, with the growth mainly coming from legal entity-lessors. In Q2, leasing agreements were concluded mostly for purchasing cars, and less for buying trucks and agricultural machinery.

Despite the decline in volumes of main financial services, some finance companies were profitable in H1 2023.

The pawnshop sector continued to show a recovery. The volume of assets and new loans increased in Q2, and equity grew slowly, albeit remaining low. Interest income and income from selling property rose, helping generate profit and improve profitability ratios.

Prospects and Risks

In July, the Law of Ukraine *On Credit Unions* was adopted, which will help improve the efficiency, financial resilience, and reliability of these institutions. In particular, the law expands the scope of credit union members and the range of their financial services, improves the requirements for the management system, and sets new requirements for the capital structure. Credit unions should prepare for a new risk-based regulatory approach and for the implementation of an early warning system for risks to respond quickly to potential shocks.

The regulator approved the *Concept for Reforming Factoring Regulation*, which provides for the separate regulation of trade factoring and financial debt transactions and introduces state registration of assignment of claims. This will deepen the market and make it more transparent.

Starting in August, the NBU resumes on-site inspections of nonbank financial services providers in the areas of financial monitoring, sanctions legislation, and currency supervision.

Sector Structure and Penetration

In Q1, the assets of insurers, pawnshops, and credit unions increased somewhat, while finance companies saw their assets decrease significantly. The number of institutions in the Register fell by 80 institutions, which were mainly finance companies. One finance company and one legal-entity lessor were registered in Q2.

Figure 1. Financial sector asset structure*, UAH billions

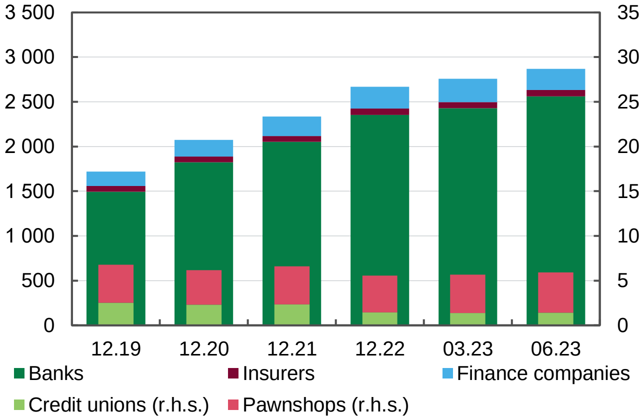
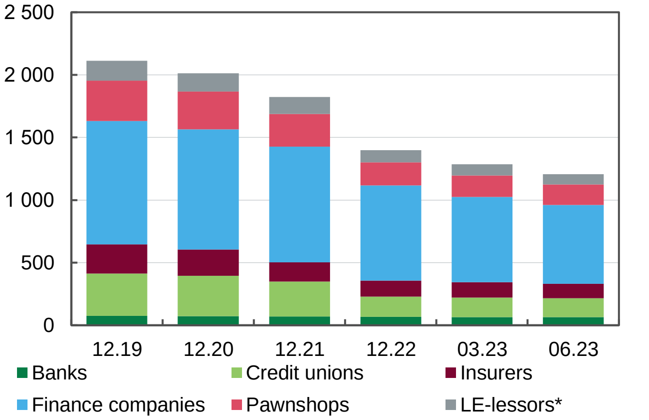


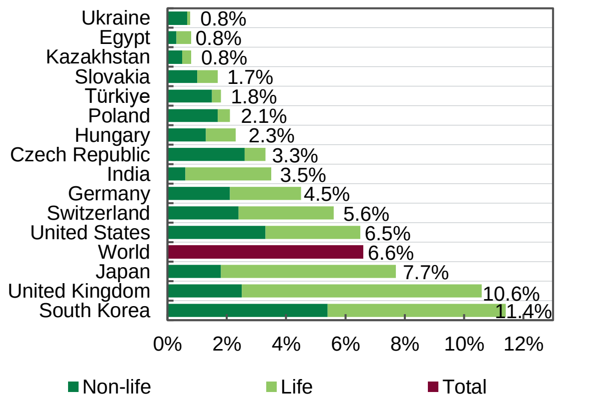
Figure 2. Number of financial services providers



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

The level of insurance penetration is low in Ukraine. Life insurance premiums made up only 0.09% of GDP in 2022.

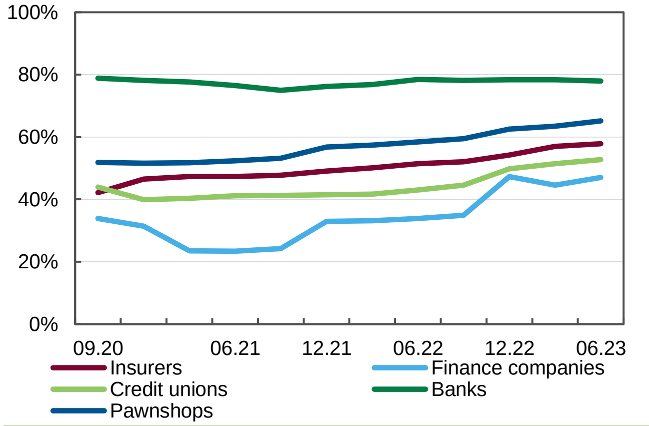
Figure 3. Ratio of insurance premiums to GDP in 2022



Source: Allianz.

The concentration rate continued to rise gradually across all segments of nonbank financial services providers.

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



In Q2, the banks' assets grew faster than assets of nonbank financial services providers. The total share of NBFIs in the financial sector's assets shrank by 1.2 pp, to 10.9% as of 30 June 2023.

Table. Financial institutions regulated and supervised by the NBU*

		2019	2020	2021	2022	03.2023	06.2023	Change in Q2, qoq
Insurers	Assets, UAH millions	63,867	64,903	64,737	70,298	70,480	70,785	0.4%
	Numbers	233	210	155	128	122	115	-7
Credit unions	Assets, UAH millions	2,502	2,317	2,330	1,449	1,380	1,393	1.0%
	Numbers	337	322	278	162	157	151	-6
Finance companies	Assets, UAH millions	162,197	186,572	216,406	243,997	259,338	236,743	-8.7%
	Numbers	986	960	922	760	682	629	-53
Pawnshops	Assets, UAH millions	4,265	3,854	4,289	4,101	4,276	4,540	6.2%
	Numbers	324	302	261	183	171	164	-7
Banks	Assets, UAH millions	1,493,298	1,822,841	2,053,232	2,353,939	2,427,204	2,562,123	5.6%
	Numbers	75	73	71	67	65	65	0

* Along with submitting Q2 2023 reports, NBFIs could update their reporting data for Q1 2023. Retrospective adjustments were therefore made to certain indicators, in particular the size of assets.

Insurers

Assets of life insurers grew by 4%. They accounted for 31% of the segment's total assets. Volumes of deposits and government securities exceeded 61% of eligible assets.

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

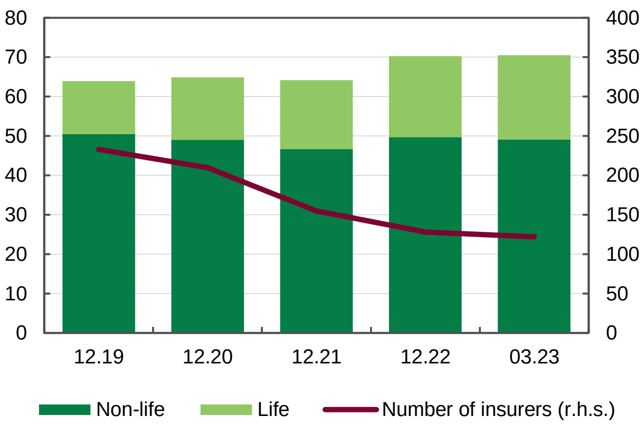
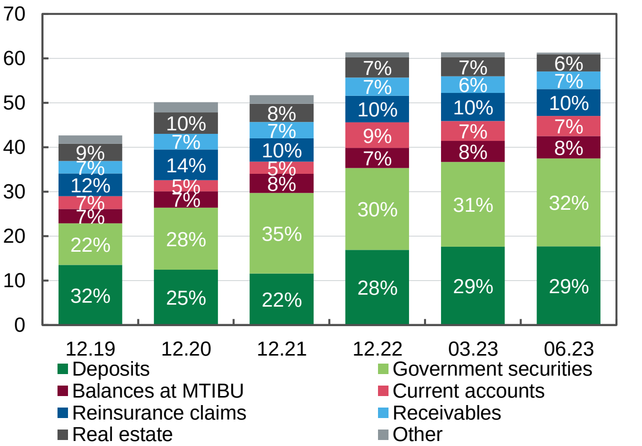


Figure 6. Structure of assets eligible to cover insurers' reserves, UAH billions



Life insurers' most liquid assets reached 64%. The share of nonlife insurers' funds with the Motor (Transport) Insurance Bureau of Ukraine (MTIBU) increased, and the share of accounts receivable decreased.

Figure 7. Asset structure of life insurers

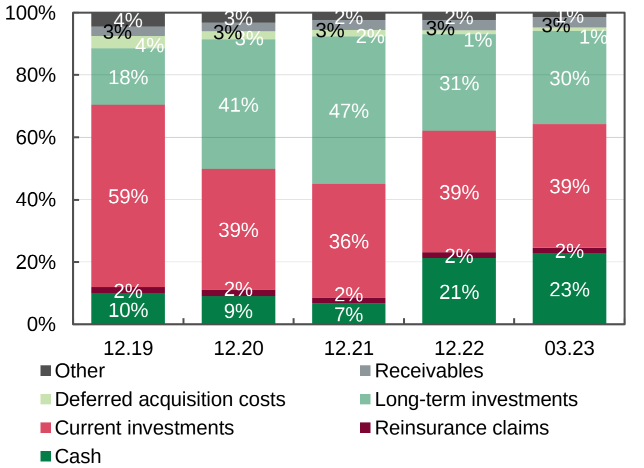
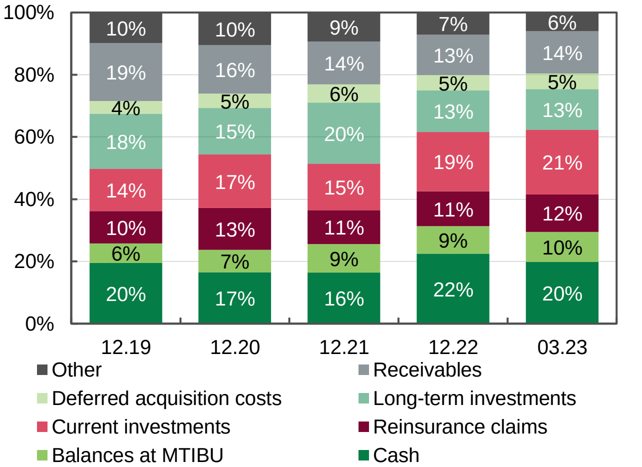
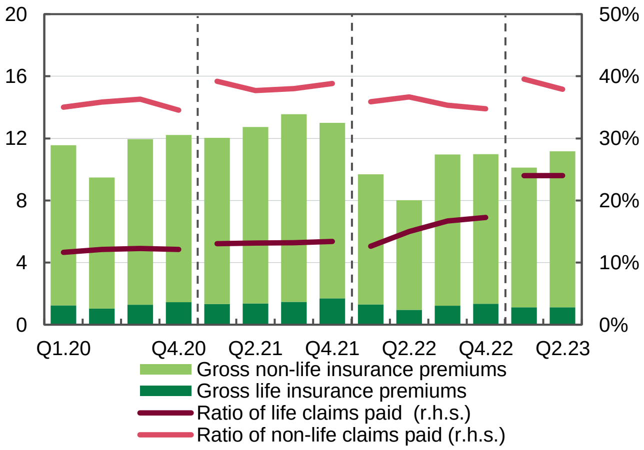


Figure 8. Asset structure of nonlife insurers



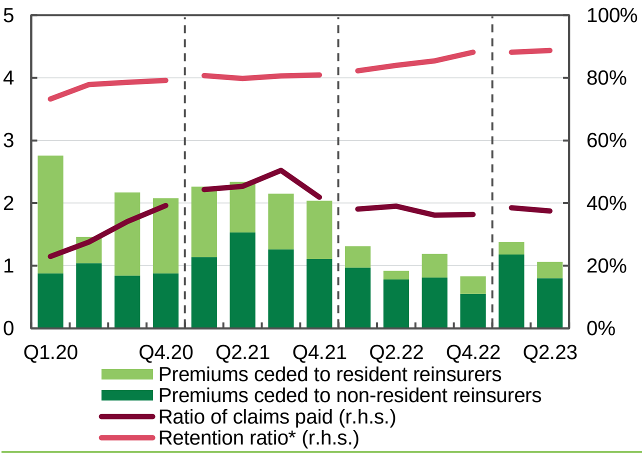
Life insurers' gross premiums and claims paid remained stable during the quarter. In nonlife insurance, premiums rose by 12% and claims paid by 3%.

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



Gross insurance premiums and claims paid declined by 23% and 12% respectively.

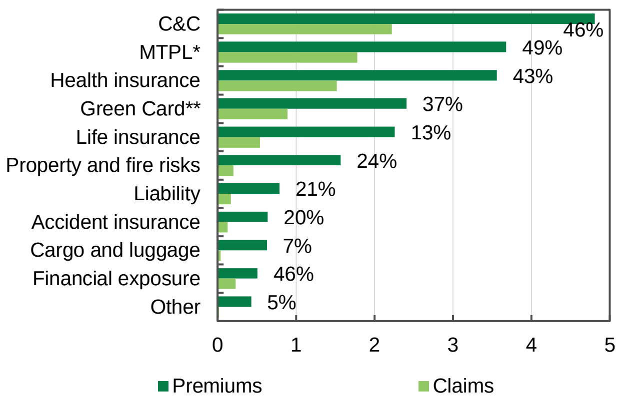
Figure 10. Premiums due to reinsurers and ratio of claims paid, UAH billions



* The ratio of net premiums to gross premiums.

Car insurance and personal insurance were traditionally the dominant types of insurance by the share of premiums and claims paid.

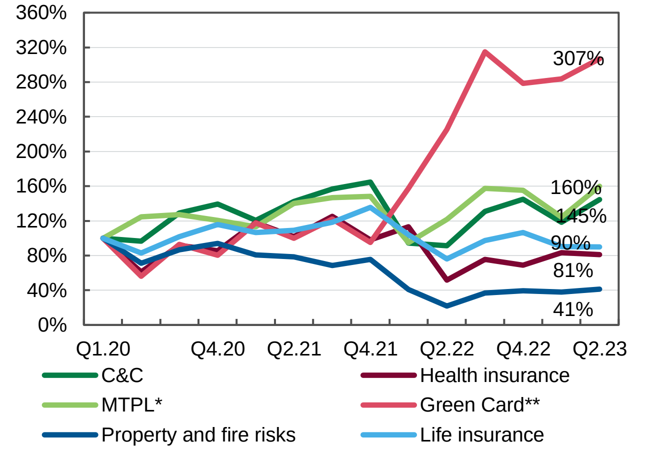
Figure 11. Breakdown of insurance premiums and claim payments by most popular types of insurance in Q2 2023, UAH billions



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.

Premiums on car insurance, property insurance, and cargo insurance grew over the quarter, while premiums on other types of insurance declined.

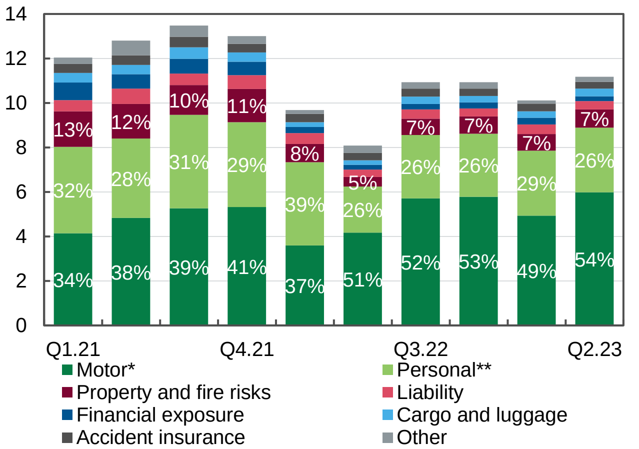
Figure 12. Insurance premiums on dominant types of insurance, Q1 2020 = 100%



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

Personal insurance and car insurance together accounted for 79% of premiums.

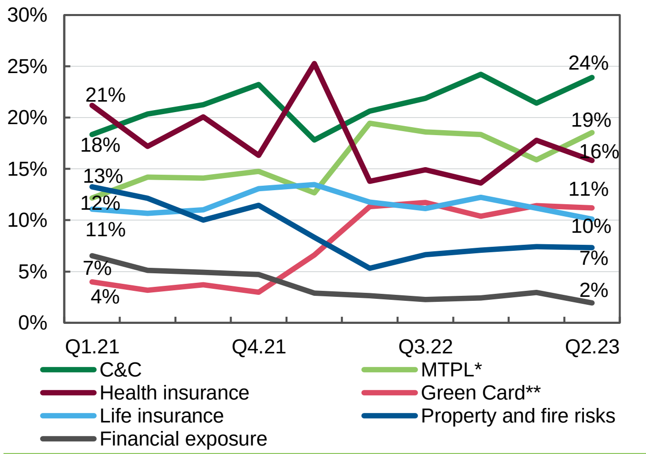
Figure 13. Structure of insurance premiums by major types of insurance, UAH billions



* C&C, MTPL (Compulsory motor third party liability insurance), Green Card (International Motor Insurance Card). ** Health insurance, life insurance.

The share of Green Card insurance has almost tripled since the start of the war, and the share of property insurance has halved.

Figure 14. Shares of insurance premiums for the major types of insurance



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

In Q2, insurance premiums that nonlife insurers received from their retail clients increased by 18%, while those received from corporate clients rose by 5%.

Figure 15. Gross insurance premiums by type of insurance (excluding domestic reinsurance), Q1 2020 = 100%

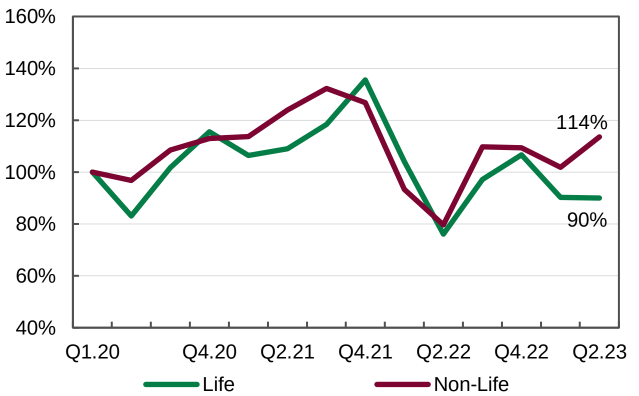
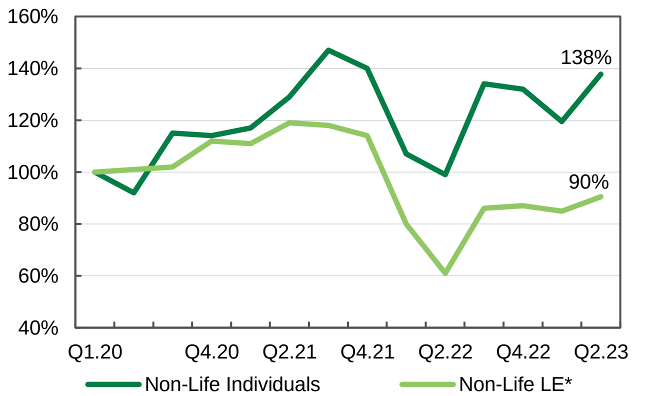


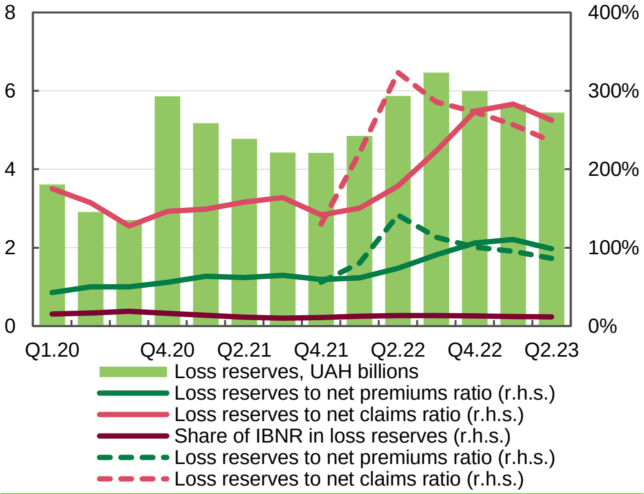
Figure 16. Gross non-life insurance premiums by type of policyholder, Q1 2020 = 100%



* Legal entities.

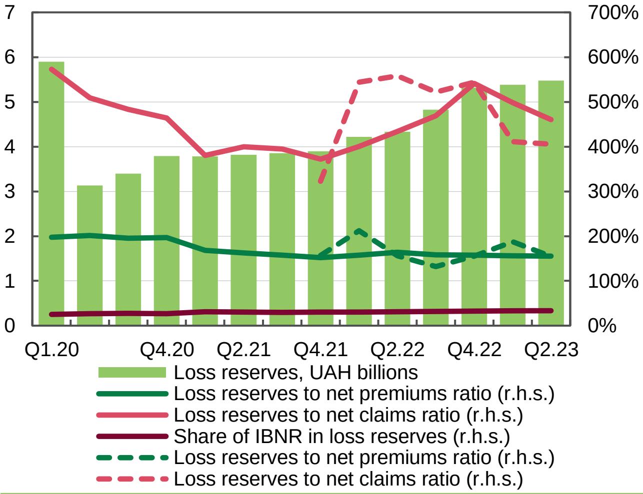
The trend in loss reserves of nonlife insurers remained unchanged: they decreased for voluntary types of insurance and increased for compulsory types. Provisioning ratios declined somewhat, but remained adequate.

Figure 17. Loss reserve ratios* of voluntary insurance



* Annualized provisioning ratios.

Figure 18. Loss reserve ratios* of compulsory insurance



* Annualized provisioning ratios.

The loss ratio of voluntary insurance decreased by 4 pp, largely due to a decline in loss reserves for property insurance and fire insurance and less significant types of insurance. For compulsory insurance, this indicator grew propelled by MTPL and Green Card insurance.

Figure 19. Share of compulsory insurance premiums and loss ratio of nonlife insurance

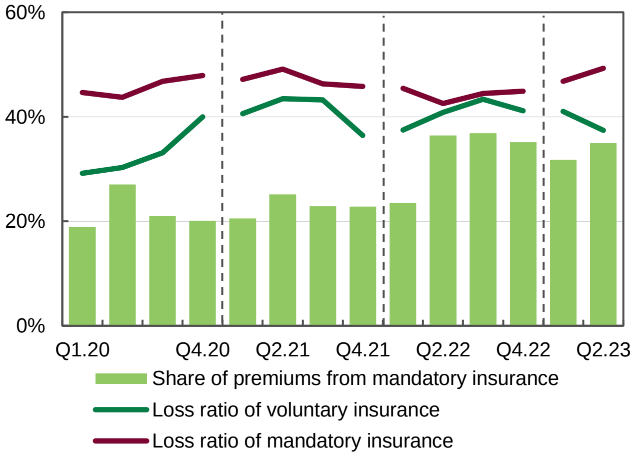
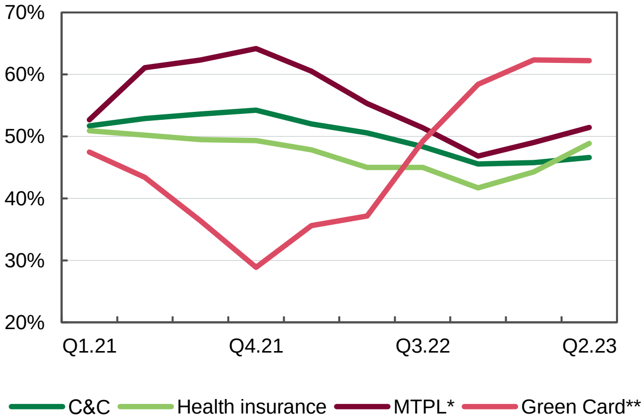


Figure 20. Loss ratio dynamics for key insurance types



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

Operational efficiency of nonlife insurers decreased (improved). The key driver of these dynamics was the loss ratio, which improved due to lower loss reserves. Insurers' return on equity was at its historically usual level of 6%.

Figure 21. Cumulative profit or loss and operating performance indicators of nonlife insurers, UAH billions

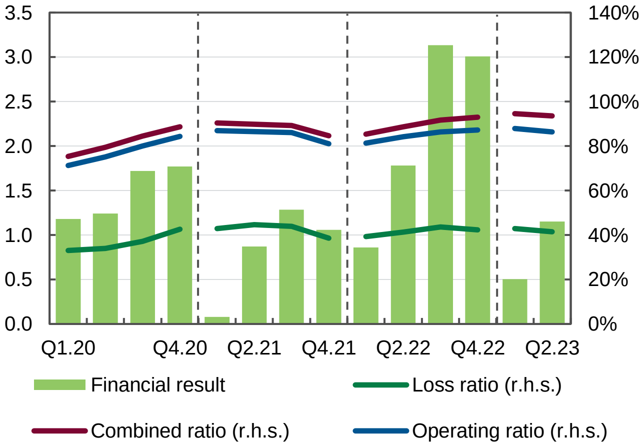
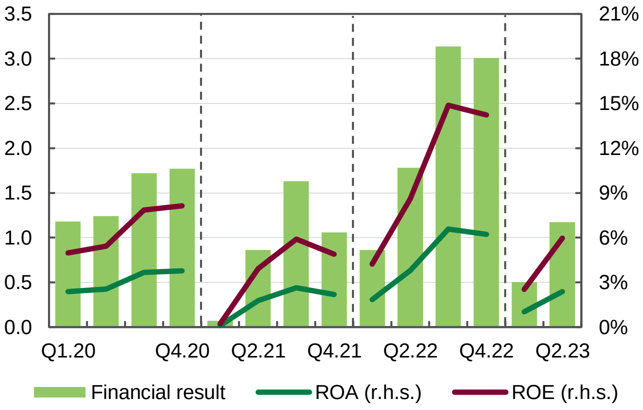


Figure 22. Cumulative profit or loss and profitability of nonlife insurers, UAH billions



Insurers' operating ratios, calculated in gross and net terms moved in diverging directions due to a significant change in the share of reinsurers in loss reserves. In the nonlife segment, 28% of companies made a loss in H1, and in the life insurance segment loss-making companies accounted for 17%. These values were little changed from previous years.

Figure 23. Net and gross performance indicators of non-life insurers

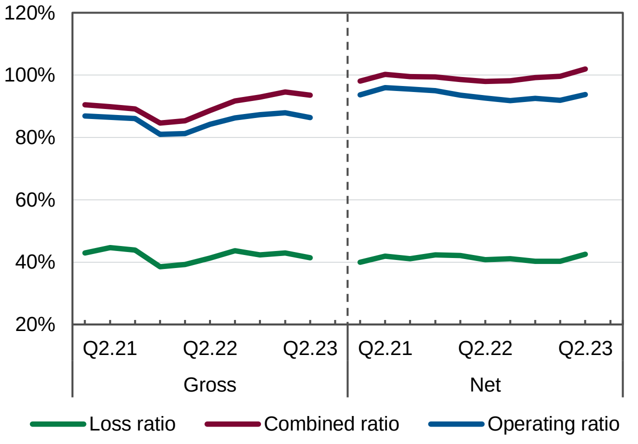
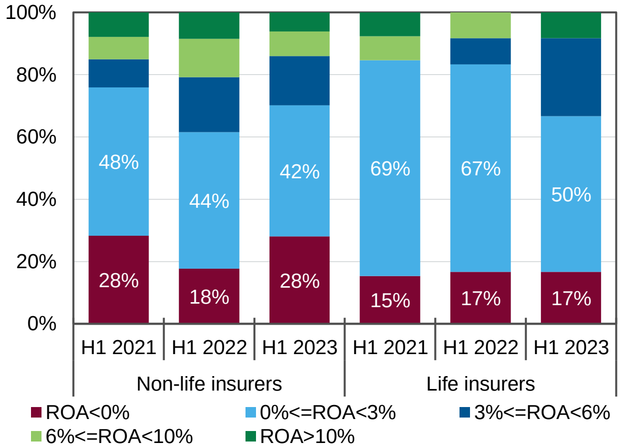
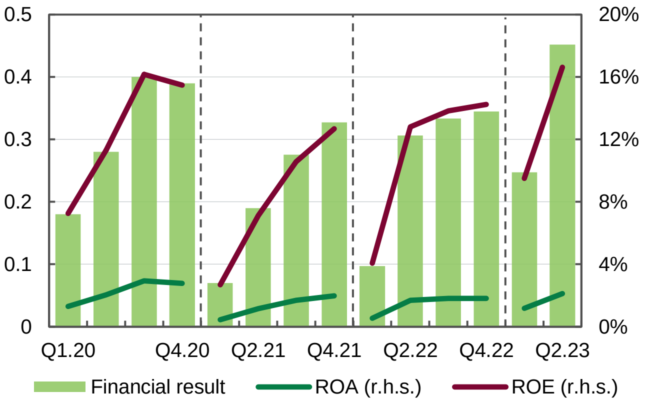


Figure 24. Distribution of insurers by return on assets



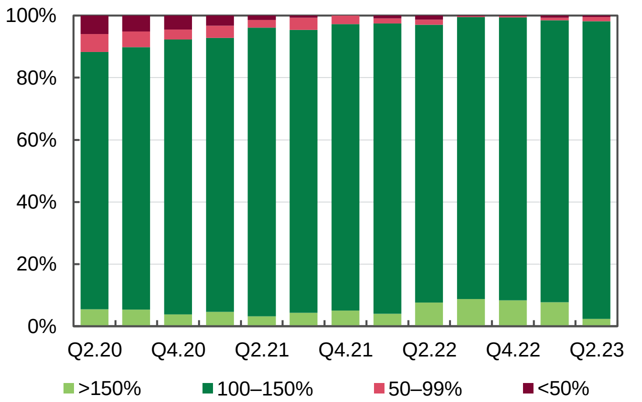
Life insurers recorded record-high return on equity of 17%.

Figure 25. Cumulative profit or loss and profitability of life insurers, UAH billions



The number of violators of solvency requirements grew from 9 to 11, and their share in assets rose from 1.5% to 1.8% over the quarter.

Figure 26. Distribution of insurers' assets by ratio of eligible assets to required solvency margin

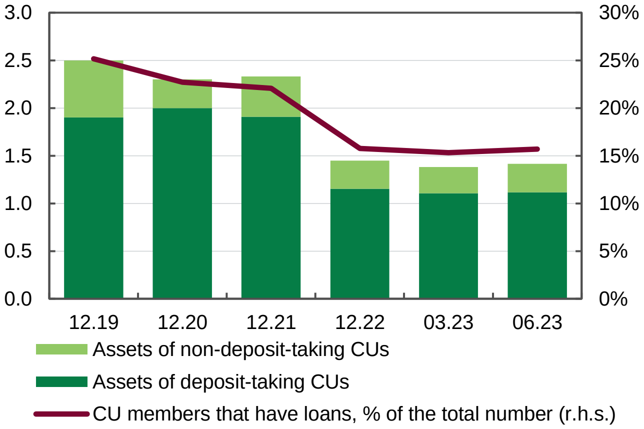


* This figure draws on data from 111 companies.

Credit Unions

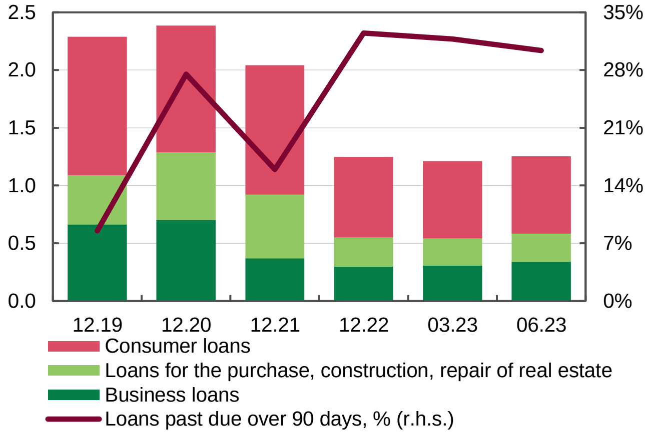
Assets of credit unions (CUs) increased by only 1% in Q2. The share of deposit-taking credit unions remained unchanged (80%). Only 16% of credit union members have outstanding loans.

Figure 27. Total assets of credit unions and share of credit union members who took out loans, UAH billions



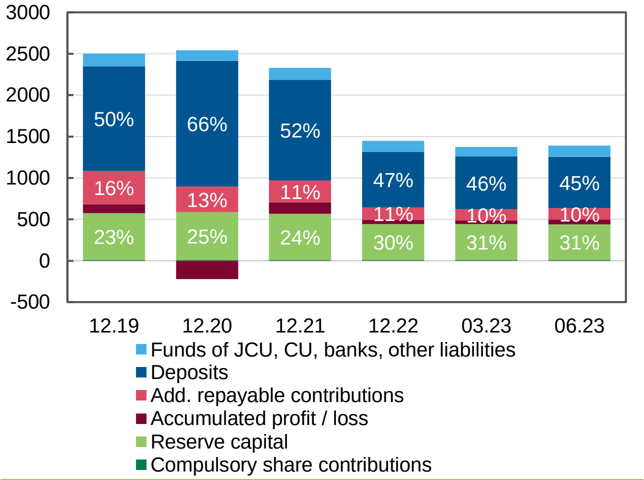
The loan portfolio grew by 5% qoq, mainly on account of loans to businesses. The reported share of loans with principal payments past due by more than 90 days remained high, at 30%.

Figure 28. Breakdown of the principal amount of outstanding loans due from credit union members, UAH billions



Volumes of deposits and additional share contributions declined somewhat over the quarter. At the same time, the volume and share of accumulated profit and loans from JCUs increased.

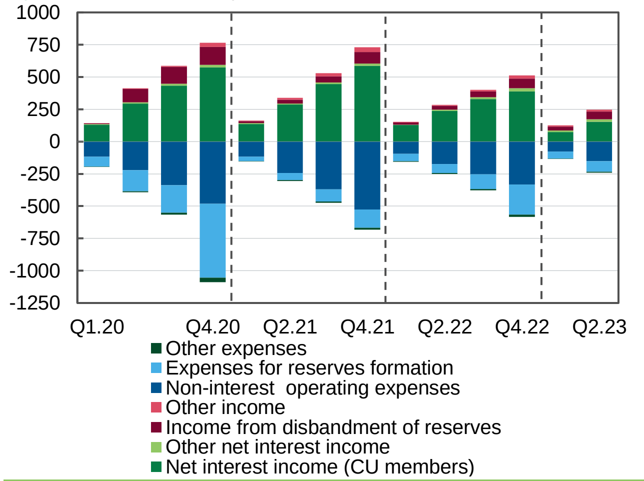
Figure 29. Equity and liabilities structure



Percentages show the share of components in the funding structure.

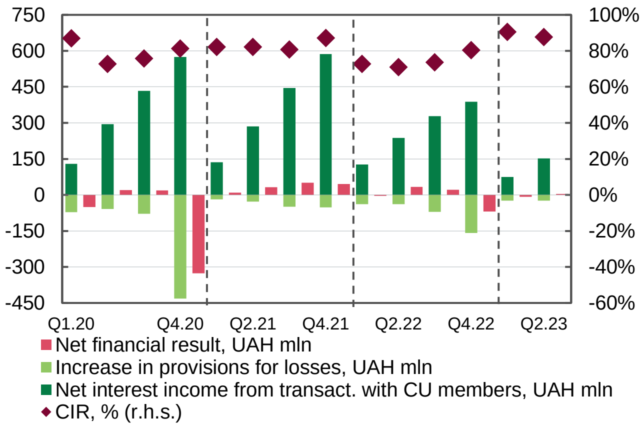
Net interest income from transactions with credit union members grew in Q2. In contrast, operating expenses declined. Provisioning continued to decrease.

Figure 30. Income and expenses of credit unions*, UAH millions



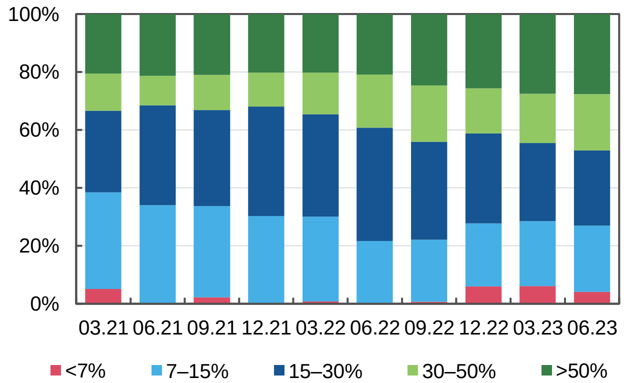
In Q2, the operational efficiency of credit unions remained low. At the same time, their financial performance improved as provisioning costs decreased over the quarter.

Figure 31. Operational efficiency of credit unions (on a cumulative basis), UAH millions



As of 1 July 2023, the number of violators of minimum solvency requirements declined quarter-on-quarter. They account for the majority of loss-making deposit-taking institutions.

Figure 32. Distribution of capital adequacy ratios by share of credit unions' assets



Finance Companies

In Q2, volumes of finance companies' assets shrank by 8.7% (+10.4% yoy) as a large number of institutions left the market. Some of them became payment institutions and were added to the Payment Infrastructure Register. The assets and liabilities structure was little changed, while the share of capital even grew.

Figure 33. Finance companies' asset structure, UAH billions

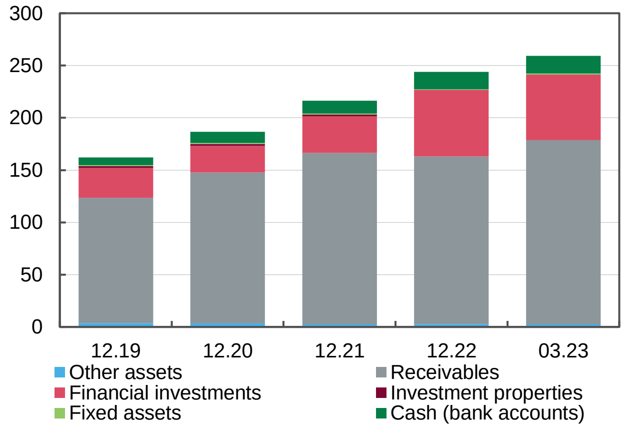
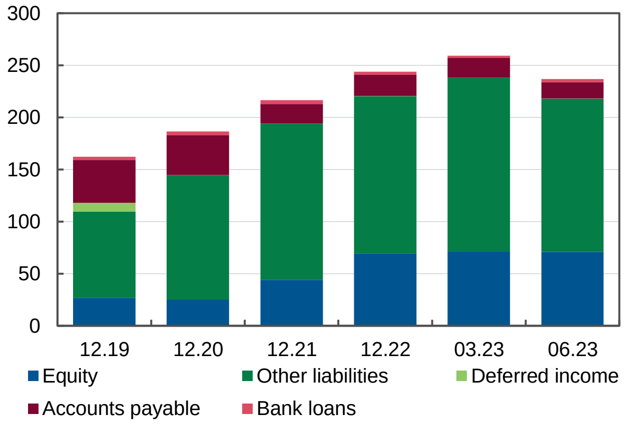
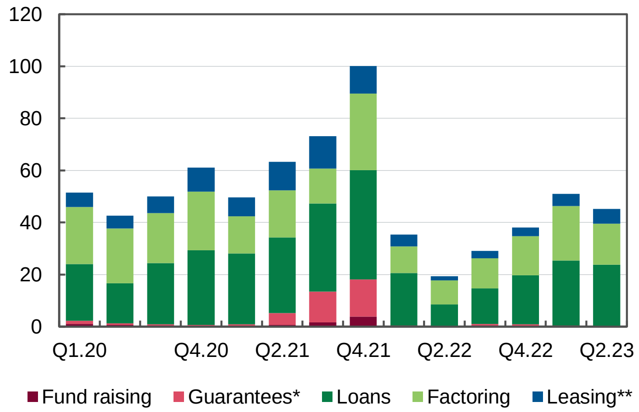


Figure 34. Breakdown of finance companies' equity and liabilities, UAH billions



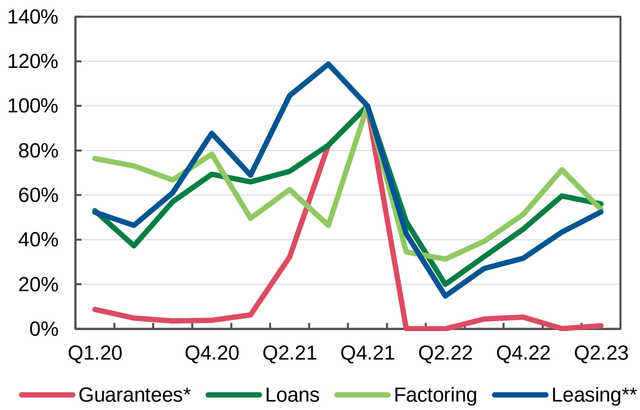
In Q2, volumes of all types of financial services decreased, except for financial leasing. Lending continued to account for a half of the services provided by finance companies. At the same time, volumes of loans declined somewhat, interrupting the steady upward trend seen in the previous three quarters. Factoring transactions decreased the most, while volumes of financial leasing services, which are provided mostly by legal-entity lessors, continued to increase.

Figure 35. 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.

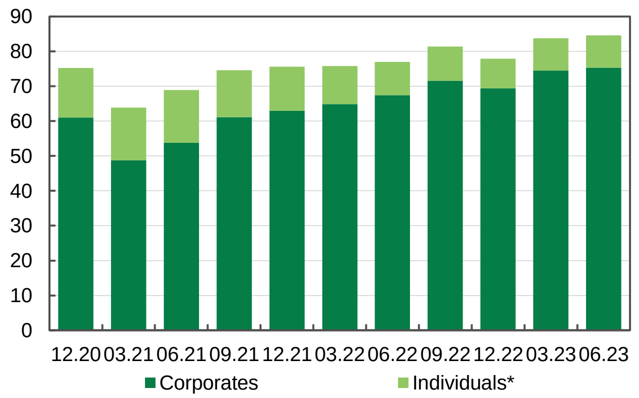
Figure 36. Financial services provided by finance companies, by type of service, Q4 2021 = 100%



* 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.

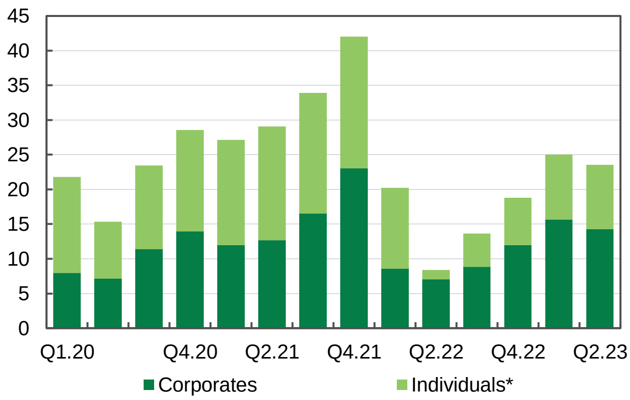
The gross loan portfolio of finance companies remained almost unchanged in Q2. Outstanding retail loans rose by 0.7% (-3.2% yoy) and corporate loans by 1.1% (+11.7% yoy). The portfolio structure remained unchanged, with corporate loans accounting for almost 90%. In Q2, most new loans were issued to businesses. Corporate lending decreased by 8.9% qoq and retail lending by 0.9% qoq.

Figure 37. Gross outstanding loans of finance companies, UAH billions



* Including sole proprietors.

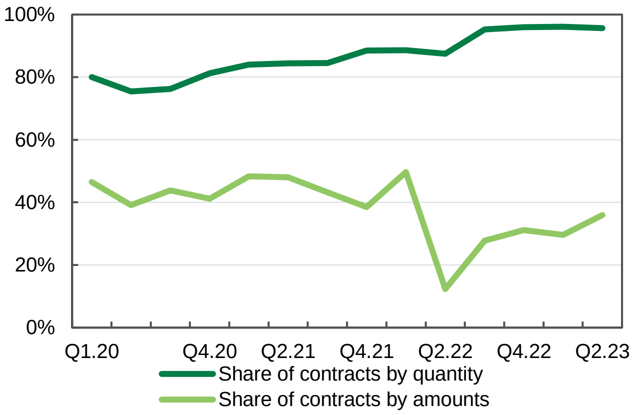
Figure 38. Loans issued during quarter by finance companies, by borrower category, UAH billions



* Including sole proprietors.

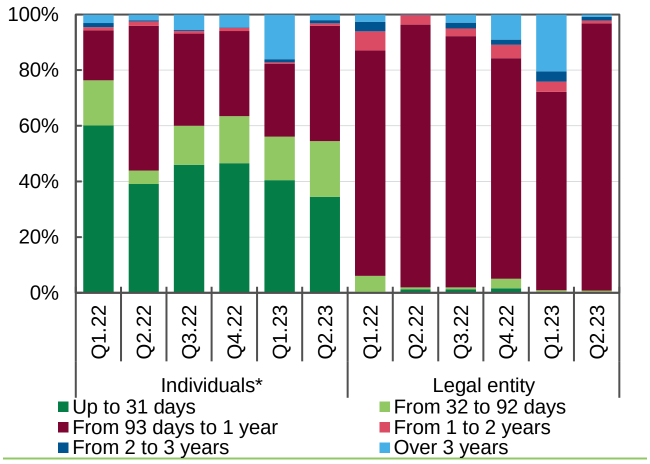
The majority of credit agreements were concluded remotely (around 96% by quantity). The largest ones, however, were signed in person. By amount, only a third of agreements were concluded remotely – the share of such agreements fell after the full-scale invasion and is now gradually rising.

Figure 39. Shares of credit agreements of financial companies concluded remotely during the quarter



In Q2, the maturity of new loans decreased: loans issued for 93 days to one year were dominating. However, the term of most loans issued to households was up to three months.

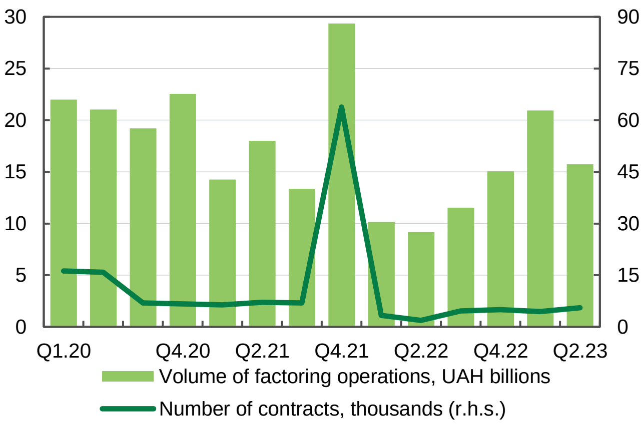
Figure 40. Breakdown of loans issued by finance companies during quarter, by maturity and type of client



* Including sole proprietors.

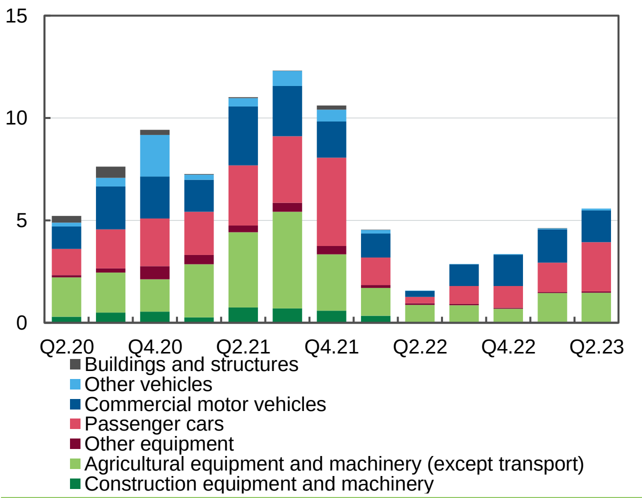
In Q2, volumes of factoring transactions decreased by a quarter, but was comparable to some periods of previous years.

Figure 41. Volume and number of factoring agreements



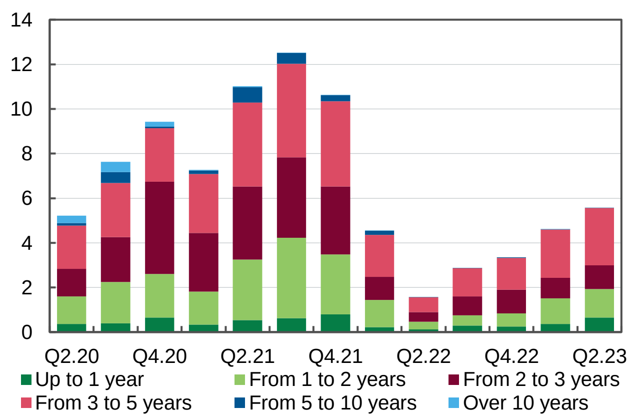
Financial leasing volumes grew by 21% in Q2. The structure of new leasing agreements has not changed for the last four quarters: 97% were concluded to purchase cars, trucks, and agricultural machinery.

Figure 42. Volumes of financial leasing agreements by type of equipment, UAH billions



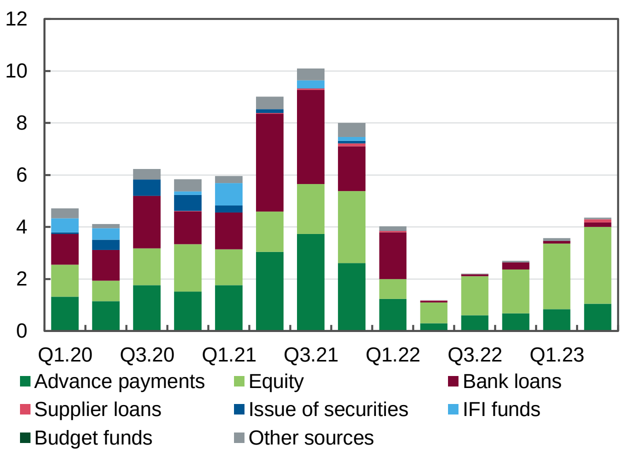
The structure of leasing transactions has not changed for the last two quarters. Around 88% of transactions were medium-term, made for one to five years.

Figure 43. Volumes of financial leasing agreements by maturity, UAH billions



From the start of the full-scale invasion, financial leasing transactions have been financed mainly by lessors' equity.

Figure 44. Distribution of sources of financing of leasing operations for the reporting period, UAH billions



* Finance companies and LE-lessors.

In Q2, some finance companies continued to generate record-high profits compared to the same periods of previous years. Despite the overall profitability of the market, profitability ratios declined compared to Q1.

Figure 45. Cumulative profit or loss of finance companies, UAH billions

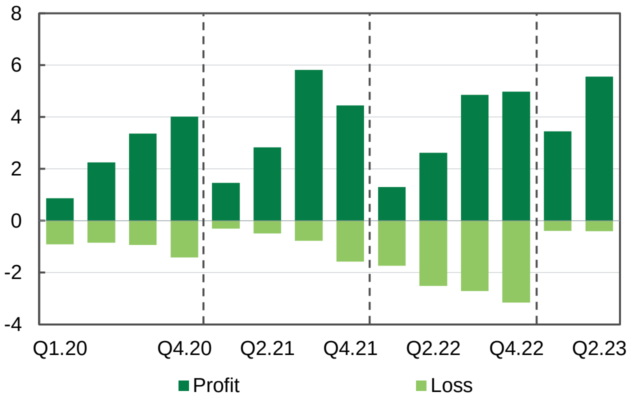
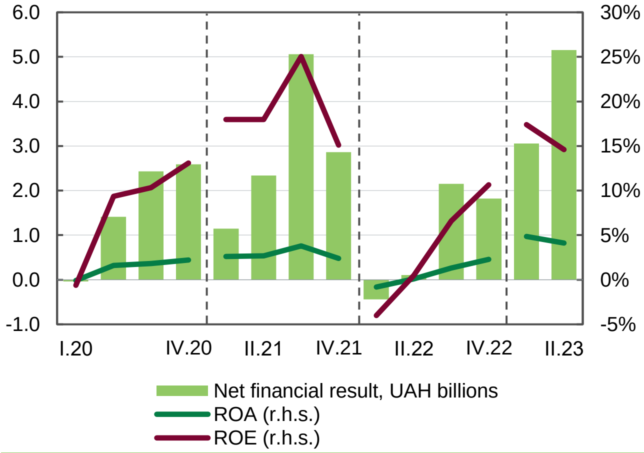


Figure 46. Cumulative profit or loss of finance companies and their return ratios



Pawnshops

Pawnshops' assets have been on the rise for the second straight quarter. Loan volumes rose by 9%, while fixed assets declined by almost 11%. Pawnshops' equity continued to grow from the start of the year.

Figure 47. Assets of pawnshops, UAH billions

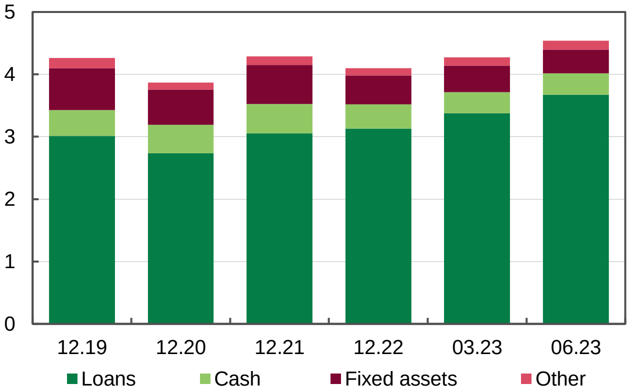
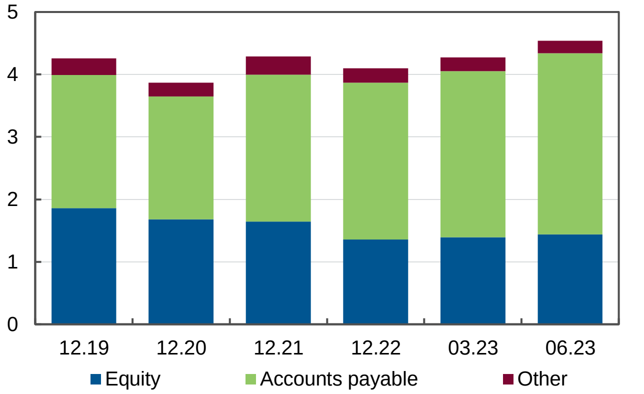


Figure 48. Pawnshop's liabilities and equity, UAH billions



In Q2, volumes of new loans increased by 10% qoq but was still lower than before the war. The collateral coverage ratio also held steady at 111%. The loan portfolio structure by type of collateral was almost unchanged, with precious jewelry dominating among collateral types.

Figure 49. Loans issued by pawnshops over the quarter and collateral coverage ratio

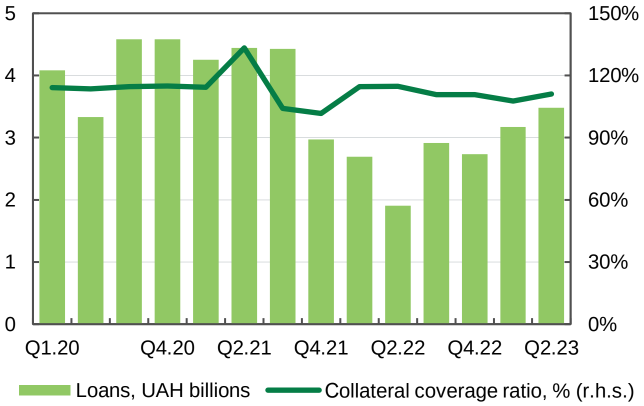
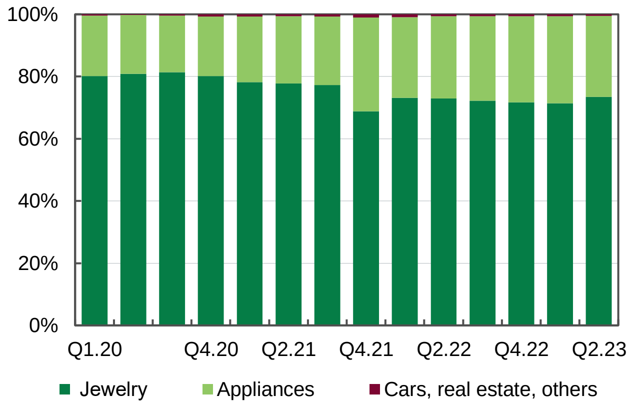


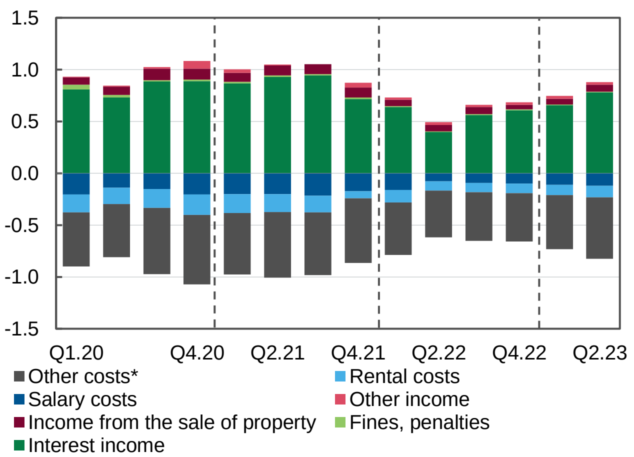
Figure 50. Loans issued by pawnshops by type of collateral



The share of loans secured with cars, real estate, and other assets was 0.54%.

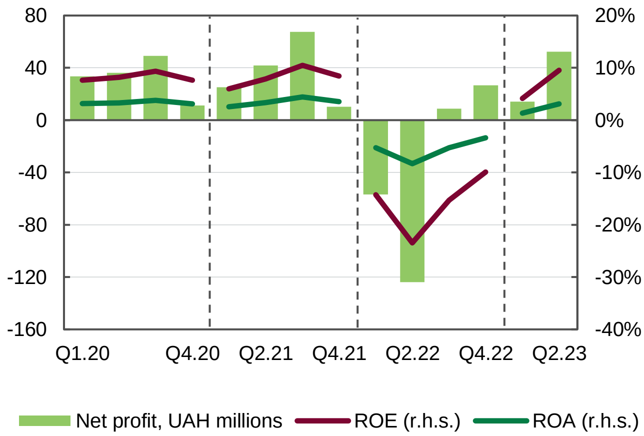
In Q2, interest income grew by 19%, and income from selling property rose by more than a quarter. Despite a slight increase in expenses, pawnshops still generated a profit as of the end of the quarter. Return on assets and return on equity continued to grow from the start of the year.

Figure 51. Structure of pawnshops' income and expenses, UAH billions



* Including expenses related to selling and maintaining pledged property.

Figure 52. 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 Q2 2023, NBFIs, at the regulator's request, adjusted their reporting figures or submitted reports for previous periods (in particular, for Q1 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:

Gross-based	Excluding the impact of reinsurance
Net-based	Including the impact of reinsurance
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
JCU	Joint credit union
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