National Bank of Ukraine

Non-bank Financial Sector Review

March 2024

Developments in the non-bank financial sector were diverging in Q4 2023. Life insurers' assets and volumes of provided services, as well as lending by finance companies, increased significantly. Assets of other financial institutions and volumes of main financial services declined over the quarter. In particular, gross non-life insurance premiums decreased, while claims paid increased compared to Q3. The loss ratios and performance ratios of non-life insurers deteriorated. However, insurers were profitable thanks to investment income. The assets of credit unions remained almost unchanged, but the loan portfolio and operational efficiency declined. Credit unions managed to make a profit by reducing loan loss provisions. Despite lower volumes of all transactions except lending, finance companies remained mostly profitable. Pawnshops' business shrank markedly: assets, loans, and income decreased, and profitability ratios declined slightly.

Sector Structure and Penetration

Same as throughout the year, in Q4 the number of non-bank financial services providers continued to decrease. Institutions removed from the Register included 36 finance companies, 16 pawnshops, 10 credit unions, 10 insurers, and 7 lessors. Most of the financial institutions left the market following the regulator's decision, in particular due to non-compliance with license conditions. Four pawnshops, one finance company, and one lessor were registered during the quarter. Over the whole year 2023, more than 320 institutions exited the market. These were mostly finance companies and pawnshops. Meanwhile, nine new institutions were registered: four pawnshops, three finance companies, and two lessors.

In Q4, 14 financial companies voluntarily surrendered some of their licenses, and 2 insurers had their licenses renewed after they eliminated violations of the regulator's requirements.

Assets of non-bank financial services providers in Q4 decreased by 0.7% (+3.2% yoy). Pawnshops experienced the most significant decline in assets, while finance companies' assets decreased slightly less. Over the quarter, the share of non-bank financial institutions (NBFIs) in assets of the NBU-supervised financial sector declined by 1.1 pp, to 10.1%.

Insurers

Assets of non-life insurers remained unchanged in Q4, and increased by only 1% over the year as a whole. In 2023, 27 companies were excluded from the Register – all of them from the non-life insurance segment. Life insurers' assets grew by 4% qoq and 17% yoy.

In Q4, gross premiums on non-life insurance declined by 2% qoq but rose by 17% yoy. Claims paid increased by 15% qoq and 39% yoy. Accordingly, the annuitized claims-paid-to-premiums ratio in the non-life insurance segment rose slightly in Q4.

Life insurance premiums grew markedly in both quarterly and annual terms: by 22% and 19%, respectively. At the same time, claims paid increased notably: by 19% qoq and 41% yoy. The annualized claims paid ratio continued to rise: in Q4 2023, it was one third higher than at the end of 2022.

Car insurance (C&C, Compulsory Motor Third Party Liability Insurance, Green Card) continued to lead by volume of insurance premiums compared to other types of non-life insurance. Car insurance premiums increased by 15% yoy. However, in the last quarter of 2023, the volume of gross premiums on car insurance dropped slightly (by 3%), primarily due to lower premiums for the Green Card product. The peak of growth in the popularity of this product caused by the forced emigration of Ukrainians is likely to have already passed, while the volume of claims paid is growing: it has more than doubled over the past year, thus more than doubling the ratio of claims paid. Gross premiums on property and fire risk insurance increased by 40% yoy, and gross claims paid decreased by a quarter. Despite the rapid growth, this product has not yet recovered from the decline in 2022.

The retention ratio remained stable through 2023. Although the volume of insurance premiums ceded for reinsurance decreased in Q4, it was commensurate with the decline in gross insurance premiums.

Loss reserves for voluntary types of insurance decreased by 2% compared to Q3. The annualized ratio of premiums coverage with loss reserves declined for the third consecutive quarter, to 85% in Q4. In contrast, the same ratio for compulsory insurance slightly increased over the last six months as loss reserves grew faster compared to net premiums.

In Q4, the loss ratios for compulsory and voluntary insurance deteriorated to 51% and 38%, respectively. The reason for this was the faster growth in claims paid compared to earned premiums at the end of the year. For voluntary insurance, such deterioration occurred for the first time after the indicator declined for four quarters.

The combined ratio increased (deteriorated) by 3 pp in Q4, to 95%. In addition to higher loss ratios, this was significantly influenced by a sizeable increase in operating expenses.

In Q4, income from domestic government debt securities continued to grow, while income from deposits declined. With investment income almost unchanged, the insurers' cost-to-income ratio rose (deteriorated) by 2 pp, reflecting a deterioration in the combined ratio.

Non-life insurers were operationally profitable in 2023, posting UAH 1.9 billion in profits, which secured return on equity of 10%. This was almost 1.5 times lower than in 2022, but twice higher than in 2021. Life insurers finished the year recording a profit of UAH 0.5 billion despite operating losses. Their return on equity was 19%.

At the end of 2023, the number of insurers that violated at least one of the requirements (solvency, capital adequacy, asset quality, and risk requirements) declined to five. However, their share in assets increased slightly, to 8%.

Credit Unions

The volume of credit unions' assets grew slightly in Q4, whereas overall for the year it decreased by 2%. Ten institutions – predominantly non-deposit-taking ones – were removed from the register over the quarter (29 institutions over the year).

The volume of new loans decreased by 2% qoq due to a decline in all loans, except for those to businesses. As a result, the loan portfolio shrank by 3.5% qoq and 2% yoy. The reported average share of loans past due for more than 90 days decreased by 2 pp over the quarter, to 26%.

Operating income of credit unions decreased over the quarter, in particular net interest income fell by 11% qoq (-15% yoy). First of all, interest rates declined slightly across all types of loans. At the same time, administrative expenses increased by 23% (-6% yoy) and exceeded operating income. Despite the operational inefficiency, the institutions earned a moderate profit due to lower loan loss provisions.

The small profit increased the role of own funds in credit unions' funding. On the other hand, additional share contributions dropped by 12% as funds were repaid to depositors and some credit unions left the market. Deposits decreased by as little as 1%.

The number of violators of requirements halved over the year, to 21. As of the start of 2024, eight credit unions were in breach of the capital adequacy ratio, which was two institutions less than in the previous quarter. Credit unions mostly violated the limit on the share of unproductive assets.

Finance Companies and Pawnshops

In Q4, the exit of a number of finance companies somewhat affected the segment's asset volumes, which decreased by 1.0% qoq but grew by 2.7% yoy. The volume of all types of financial services, except for loans, declined.

Finance companies increased lending for the second quarter in a row. In Q4, the volume of loans increased by 10.7%, with new business loans growing by 10.5% and retail loans by 11.1%. Over the whole year 2023, 70% more loans were granted to households than in 2022, but this was still 40% less than in 2021. Leasing transactions decreased by 18% over the quarter, primarily at legal-entity lessors. As before, new leasing agreements were concluded for the purchase of cars, agricultural machinery, and trucks.

In 2023, finance companies earned UAH 8.5 billion in profit, of which more than half was earned by Ukrfinzhytlo, the state-owned operator of the eOselia program. Its main income comes from interest payments on domestic government debt securities in its capital. Three-quarters of finance companies were profitable.

Pawnshop business stagnated in Q4. Assets and new loans declined. Pawnshops' interest income fell, but the segment made a profit due to lower administrative expenses. Profitability ratios declined slightly at the end of 2023. Equity decreased over the year.

Prospects and Risks

Last November, a number of amendments were made to the legislation on microlending. In particular, the maximum interest rate on microloans was set at 1% per day and the regulator was mandated to set requirements for assessing borrower creditworthiness. In addition, the scope of participants in the Credit Register will widen starting from mid-2024: apart from the banks and the Deposit Guarantee Fund, the register will also include finance companies and credit unions. The exchange of information on the status of loan servicing at other financial institutions will facilitate more prudent lending.

Insurers started the year by conducting a pilot project of asset quality review. Based on the results of 2023, the traditional audit report will be supplemented with detailed information on the applied approaches and methods and on the results of the asset quality analysis by the auditor. The additional report is to be submitted by 30 June 2024.

The transition periods continue to apply for market participants to bring their activities in line with the requirements of the updated Ukrainian legislation. The NBU has already approved the relevant regulations. Compliance with these regulations is key to the sustainability and further development of the market.

Sector Structure and Penetration

Assets of non-bank financial services providers decreased in Q4, most notably at pawnshops. The number of institutions in the Register fell by 73 institutions, which were mainly finance companies. Newly registered institutions included four pawnshops, one finance company, and one lessor.

Figure 1. Financial sector asset structure*, UAH billions

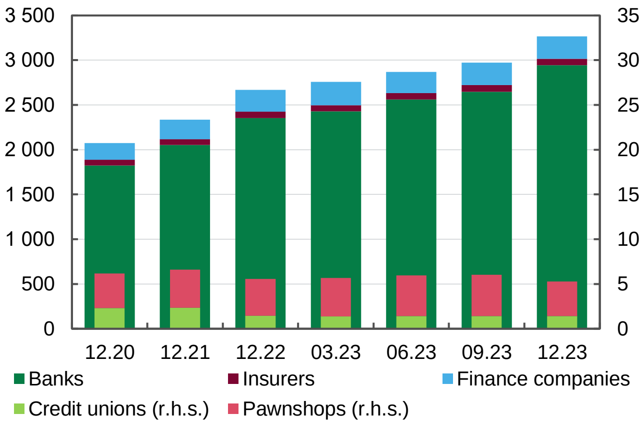
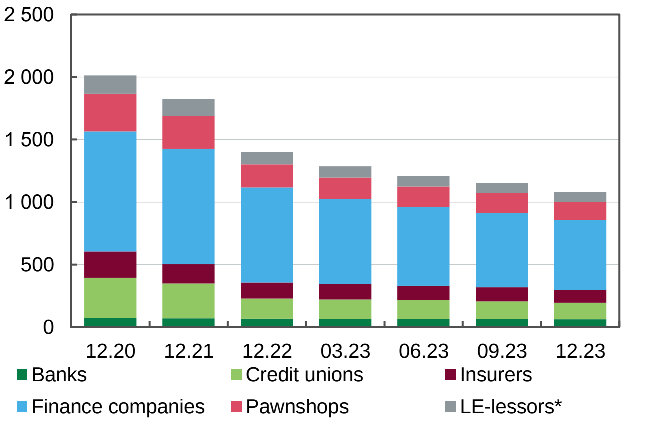


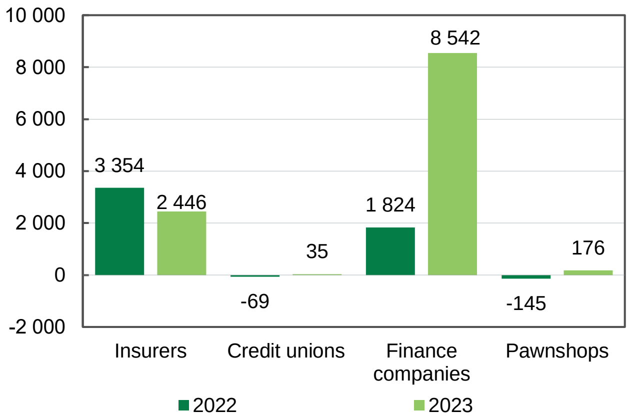
Figure 2. Number of financial services providers



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

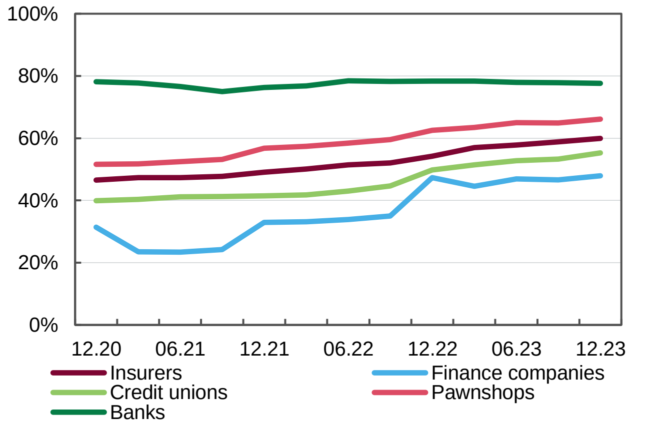
For 2023 in general, all categories of non-bank financial services providers generated profits.

Figure 3. Net profit/loss of providers of non-banking financial services, UAH millions



The concentration rate continued to rise across all segments of non-bank financial services providers.

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



In Q4, the banks' assets grew, whereas assets of non-bank financial services providers decreased somewhat. The total share of NBFIs in the financial sector's assets dropped by 1.1 pp, to 10.1% as of 31 December 2023.

Table. Financial institutions regulated and supervised by the NBU*

		2020	2021	2022	03.2023	06.2023	09.2023	12.2023	Change in Q4, qoq
Insurers	Assets, UAH millions	64,903	64,737	70,298	70,480	70,780	73,399	74,335	1.3%
	Numbers	210	155	128	122	115	111	101	-10
Credit unions	Assets, UAH millions	2,317	2,330	1,449	1,380	1,393	1,418	1,422	0.3%
	Numbers	322	278	162	157	151	143	133	-10
Finance companies	Assets, UAH millions	186,572	216,406	243,997	259,338	237,433	253,111	250,631	-1.0%
	Numbers	960	922	760	682	629	594	559	-35
Pawnshops	Assets, UAH millions	3,854	4,289	4,101	4,276	4,548	4,599	3,848	-16.3%
	Numbers	302	261	183	171	164	158	146	-12
Banks	Assets, UAH millions	1,822,841	2,053,232	2,353,939	2,427,204	2,562,123	2,647,624	2,942,806	11.1%
	Numbers	73	71	67	65	65	63	63	0

* Along with submitting Q4 2023 reports, the NBFIs could update their reporting data for Q3 2023. Retrospective adjustments were therefore made to certain indicators, in particular the size of assets.

Insurers

In Q4, the assets of life insurers grew, while those of non-life insurers remained unchanged, despite the withdrawal of ten companies from the market.

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

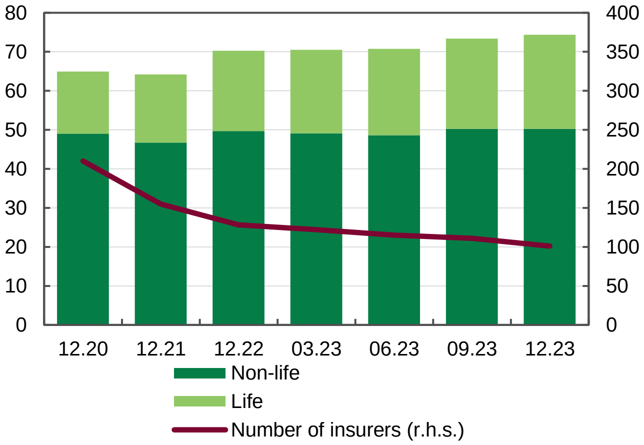
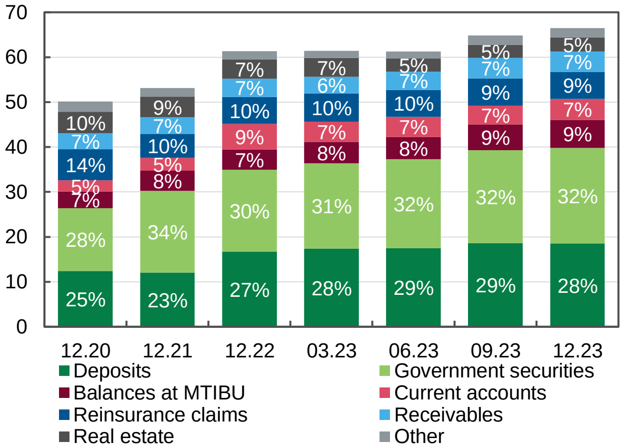


Figure 6. Structure of assets eligible to cover insurers' reserves, UAH billions



Life insurers reported a continued increase in the share of cash in assets. In the structure of non-life insurers' assets, there was a redistribution of 2 pp from current to long-term investments.

Figure 7. Asset structure of life insurers

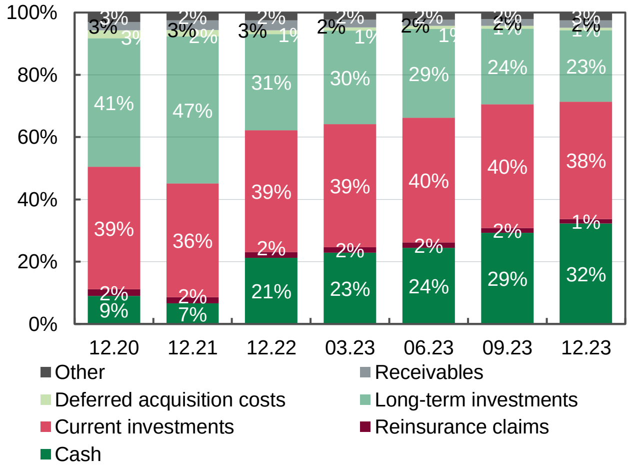
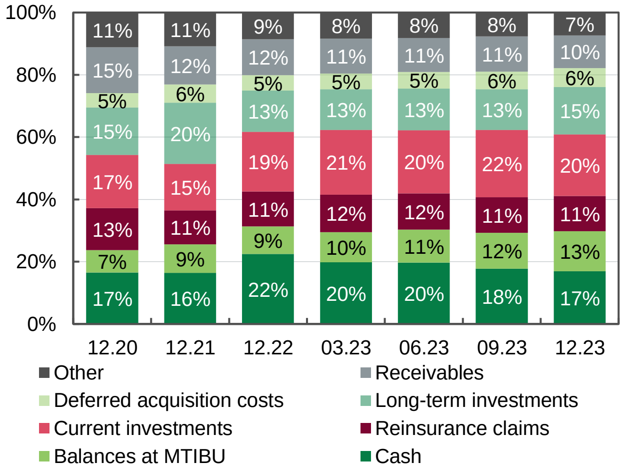
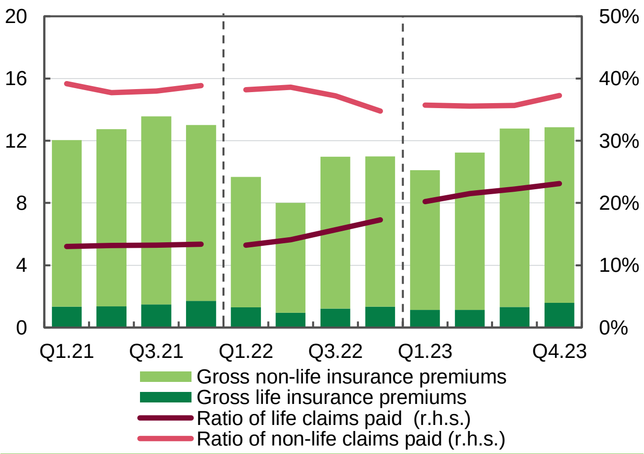


Figure 8. Asset structure of non-life insurers



In Q4, life insurance premiums increased sharply by 21%, while non-life premiums decreased by 2%. The indicators were higher than a year ago in both segments. The ratio of claims paid increased slightly.

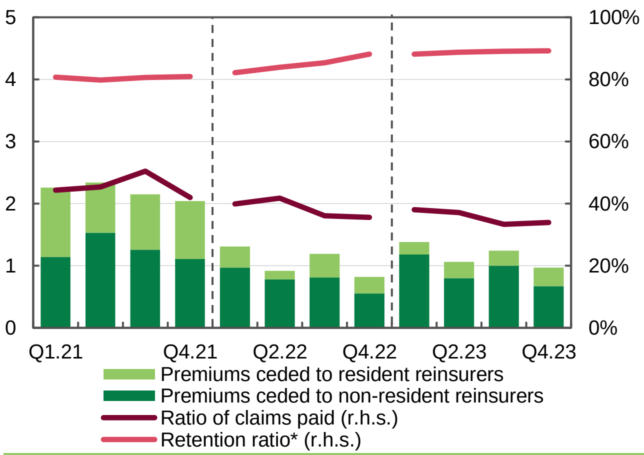
Figure 9. Premiums and ratios of claims paid, by type of insurance UAH billions



* Annualized ratios of claims paid.

In Q4, the volume of reinsurance premiums decreased, as in previous years.

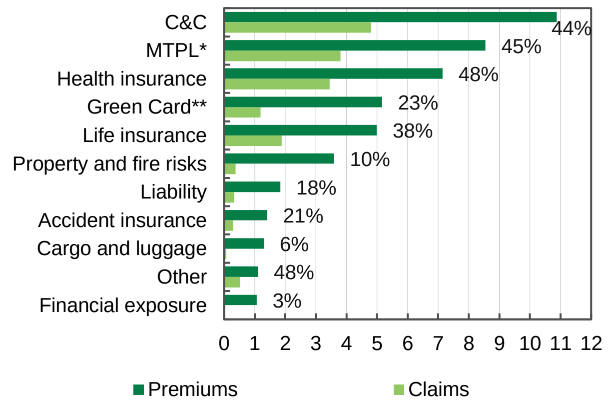
Figure 10. Premiums due to reinsurers and ratio of claims paid, UAH billions



* Updated. Calculated using the rolling window method for four quarters.
** The ratio of net premiums to gross premiums.

The claims paid ratio for the main types of insurance remained almost unchanged over the quarter, but health insurance became the leader in this indicator for the first time due to a sharp increase in claims paid.

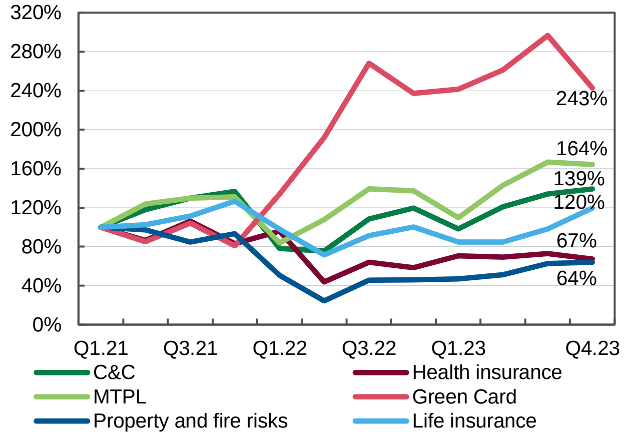
Figure 11. Breakdown of insurance premiums and claim payments by most popular types of insurance in 2023, UAH billions



The percentage indicates the claim payouts to premiums ratio of the respective type of insurance.

Among the main types of insurance, only life insurance premiums grew significantly in Q4.

Figure 12. Insurance premiums on dominant types of insurance, Q1 2021 = 100%



In Q4, premiums decreased in the retail segment and increased in the corporate segment.

Figure 13. Gross insurance premiums by type of insurance (excluding domestic reinsurance), Q1 2021 = 100%

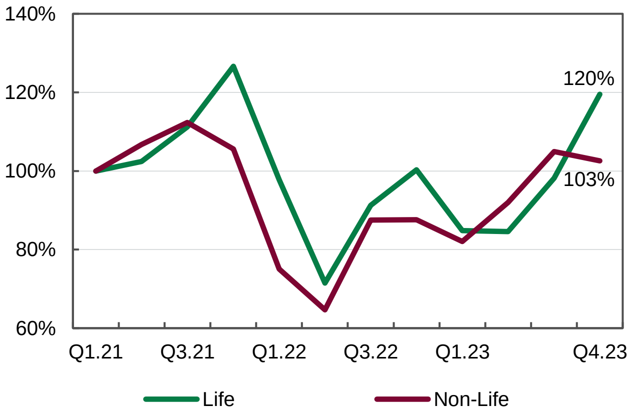
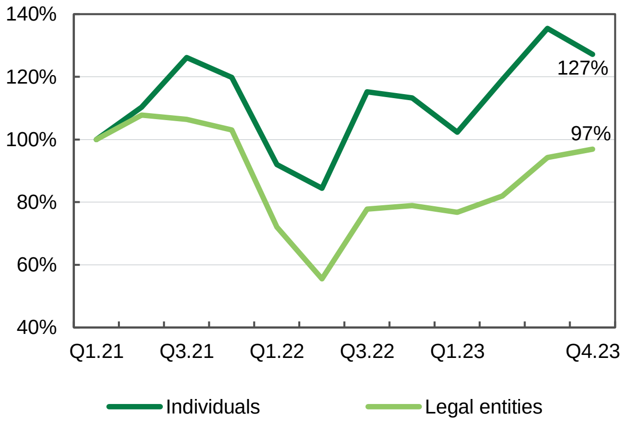
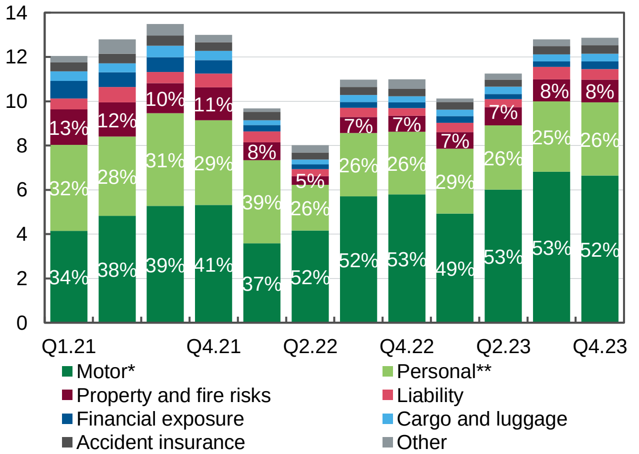


Figure 14. Gross non-life insurance premiums by type of policyholder, Q1 2021 = 100%



The share of main types of insurance in the structure of insurers' premiums has remained almost unchanged for three quarters in a row.

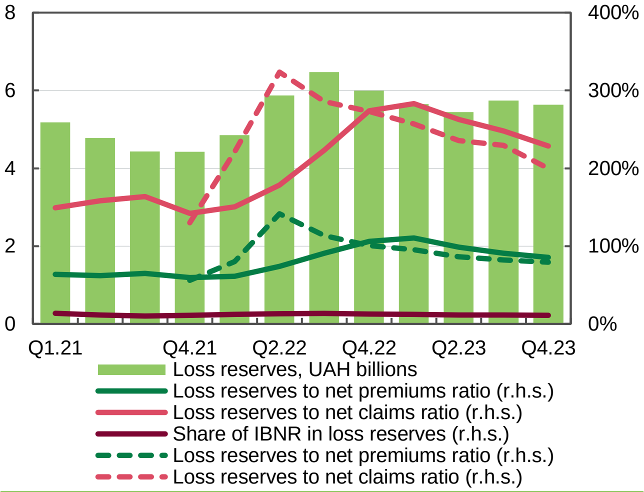
Figure 15. Structure of insurance premiums by major types of insurance, UAH billions



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

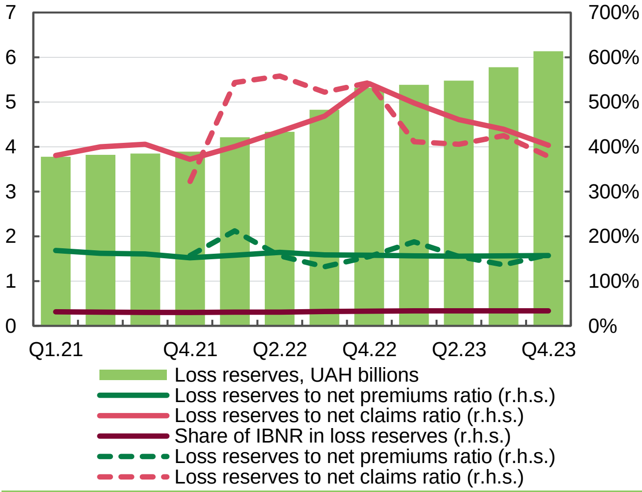
In Q4, loss reserves continued to grow in compulsory insurance and decreased slightly in voluntary insurance. Provisioning ratios continued to decline (improve) in both market segments, after hitting a record high (deteriorating) due to the full-scale war.

Figure 16. Loss reserve ratios* of voluntary insurance



* Annualized provisioning ratios.

Figure 17. Loss reserve ratios* of compulsory insurance



* Annualized provisioning ratios.

The loss ratios of main compulsory types of insurance (Compulsory Motor Third Party Liability Insurance and Green Card) rose in Q4. As a result, the overall loss ratio of compulsory types of insurance reached 51%. The loss ratio of voluntary insurance increased (deteriorated) by 2 pp, to 38%, after declining for four quarters. The reason for the increase in the loss ratio for both segments is a higher volume of claims paid.

Figure 18. Share of compulsory insurance premiums and loss ratio of non-life insurance

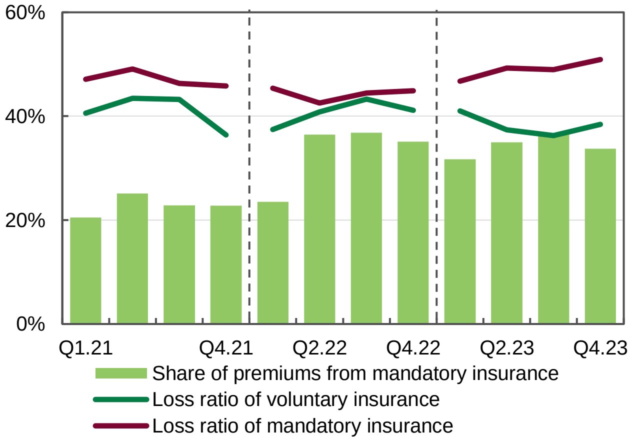
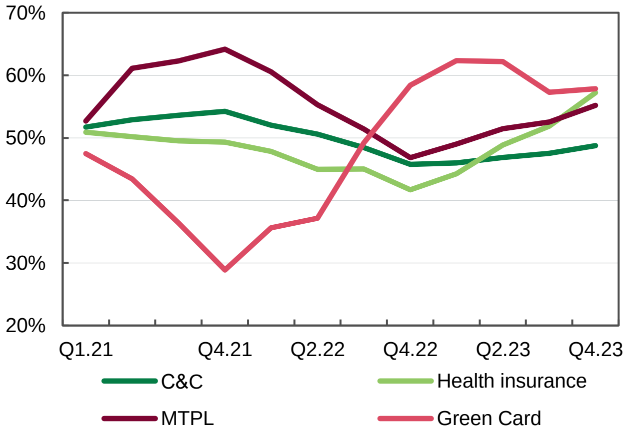


Figure 19. Loss ratio dynamics for key insurance types



Annualized ratios.

In Q4, the performance ratios of non-life insurers deteriorated (grew) in line with the dynamics of loss ratios. Return on equity and return on assets in 2023 amounted to 10% and 4%, respectively.

Figure 20. Cumulative profit or loss and operating performance indicators of non-life insurers, UAH billions

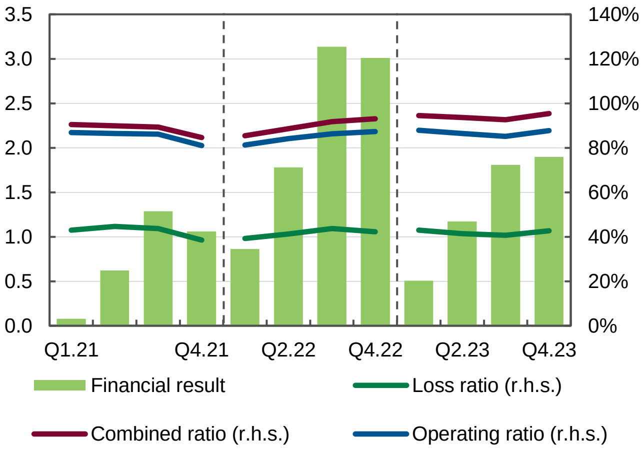
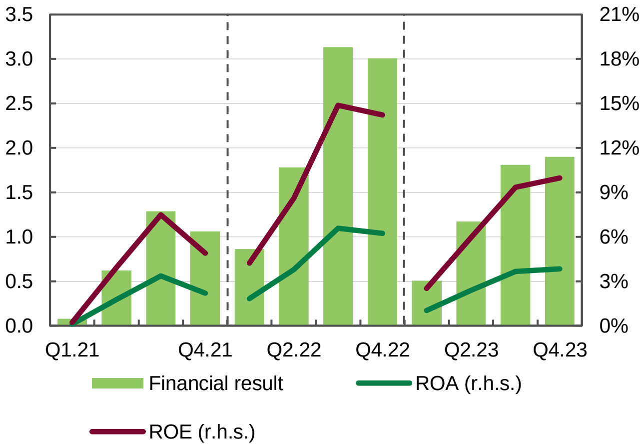


Figure 21. Cumulative profit or loss and profitability of non-life insurers, UAH billions



The increase in operating expenses in Q4 made the combined ratio rise in net terms by 3 pp.

Figure 22. Net and gross performance indicators of non-life insurers

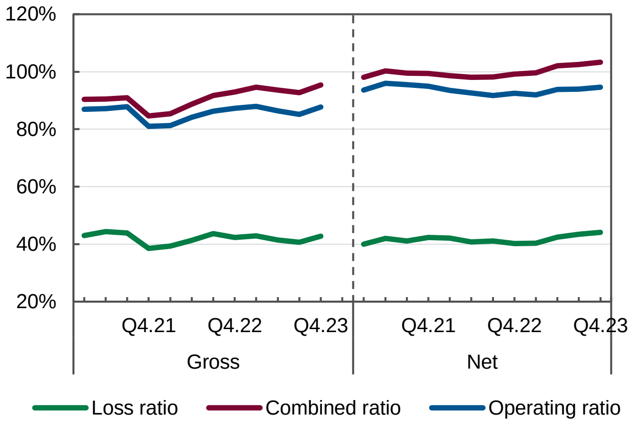
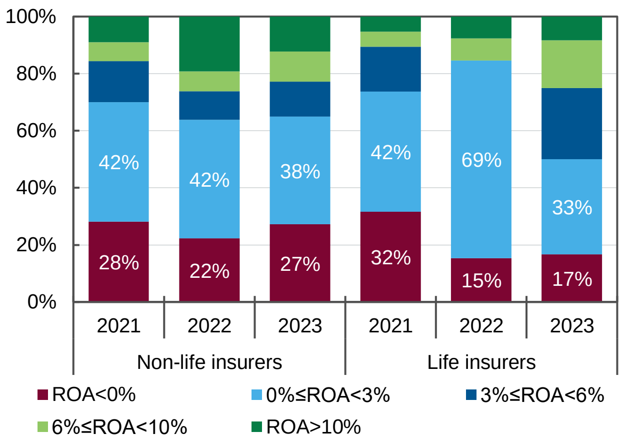
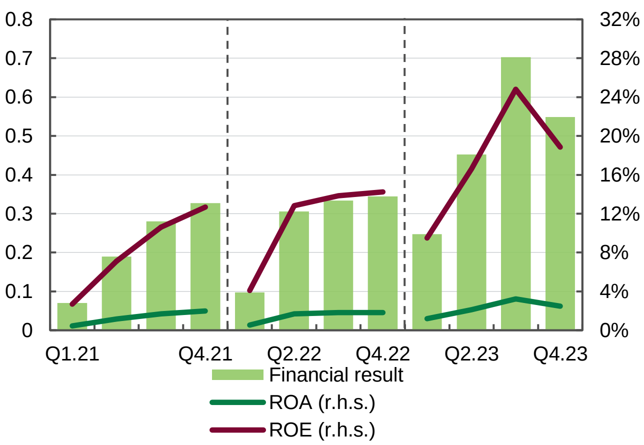


Figure 23. Distribution of insurers by return on assets



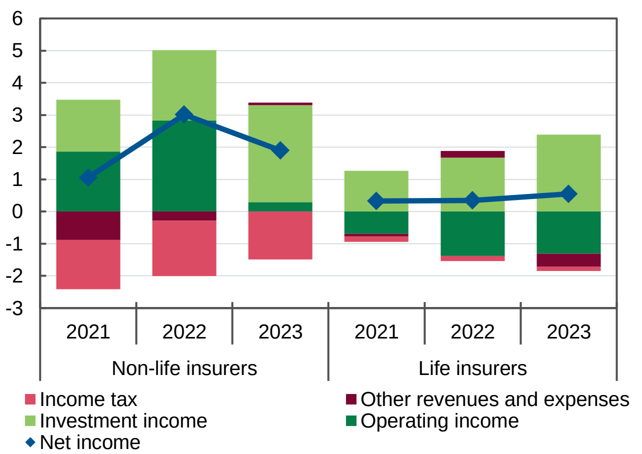
Despite posting a net loss in Q4, life insurers made a record profit of UAH 0.5 billion in 2023.

Figure 24. Cumulative profit or loss and profitability of life insurers, UAH billions



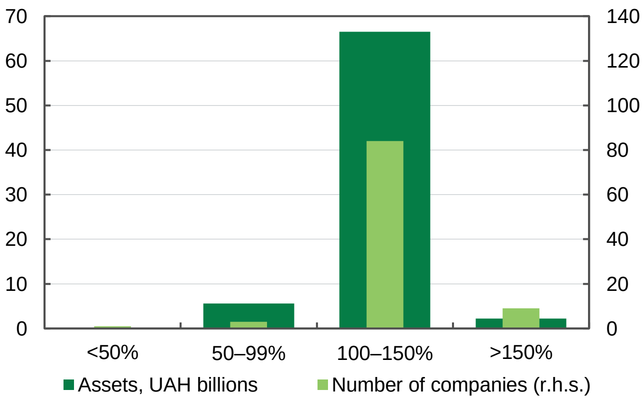
Investment activities resulted in profits for both non-life and life insurers.

Figure 25. Decomposition of insurers' net income, UAH billions



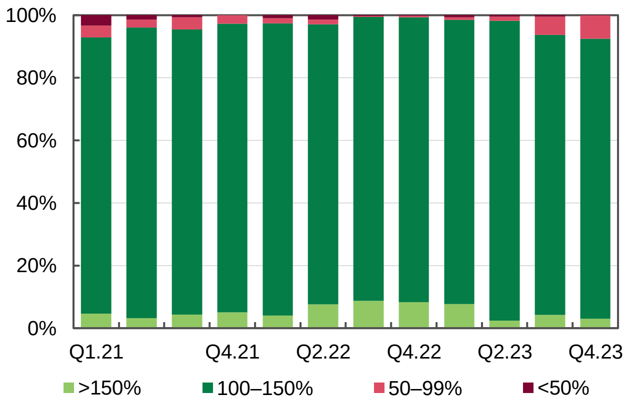
Four insurers, which accounted for 8% of the market's assets, violated solvency and capital adequacy ratios.

Figure 26. Distribution of number and assets of insurers by ratio of eligible assets to required solvency margin, as of 1 January 2024



* This figure draws on data from 97 companies.

Figure 27. Distribution of insurers' assets by ratio of eligible assets to required solvency margin

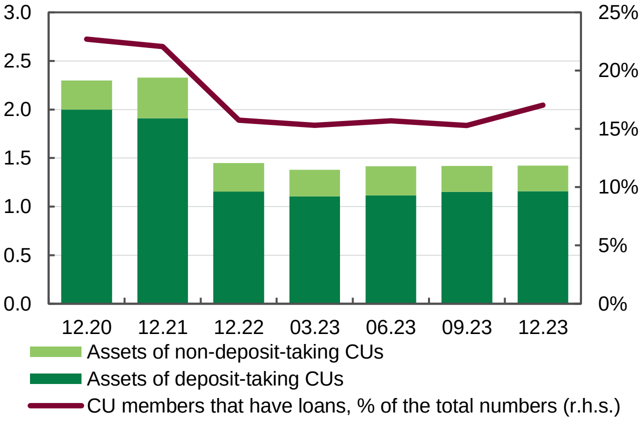


* This figure draws on data from 97 companies.

Credit Unions

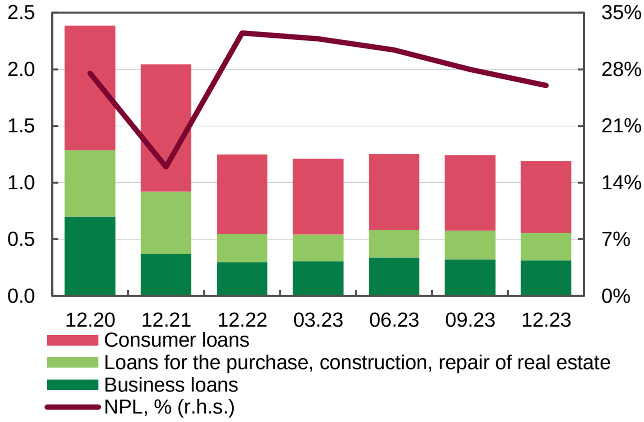
Assets of credit unions increased by only 0.3% in Q4. The share of credit union members who took out loans rose to 17%.

Figure 28. Total assets of credit unions and share of credit union members who took out loans, UAH billions



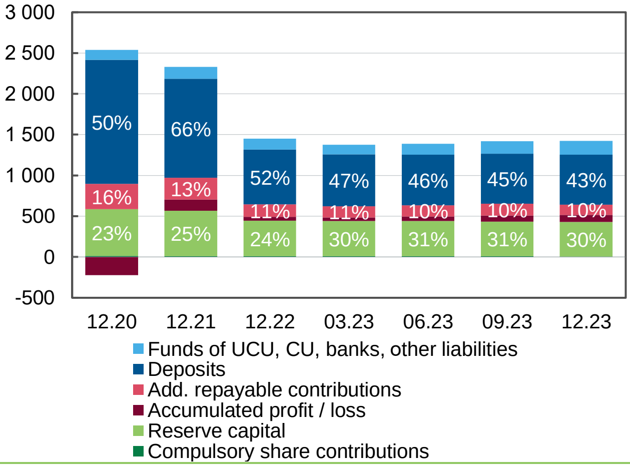
The loan portfolio shrank in Q4, mainly due to a decrease in consumer loans. The declared share of loans with principal payments past due by more than 90 days declined to 26%.

Figure 29. Breakdown of the principal amount of outstanding loans due from credit union members, UAH billions



Additional share contributions continued to decline, while deposit volumes remained almost unchanged. At the same time, the volume and share of accumulated profit increased.

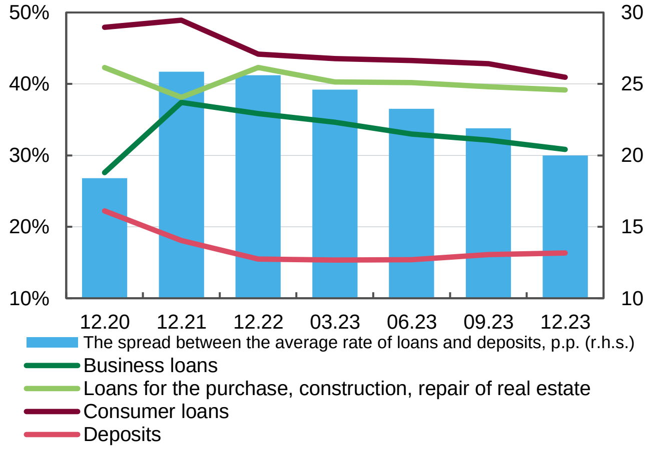
Figure 30. Equity and liabilities structure



Percentages show the share of components in the funding structure.

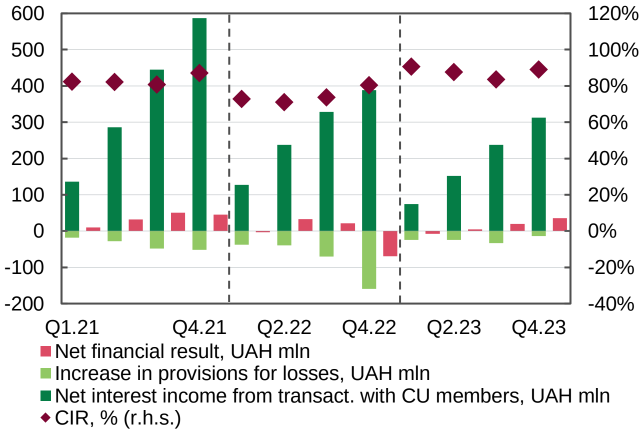
Due to lower loan yields, the spread over the average deposit rate continued to decline, by 5.6 pp in 2023.

Figure 31. Average interest rates on outstanding loans and deposits of credit union members



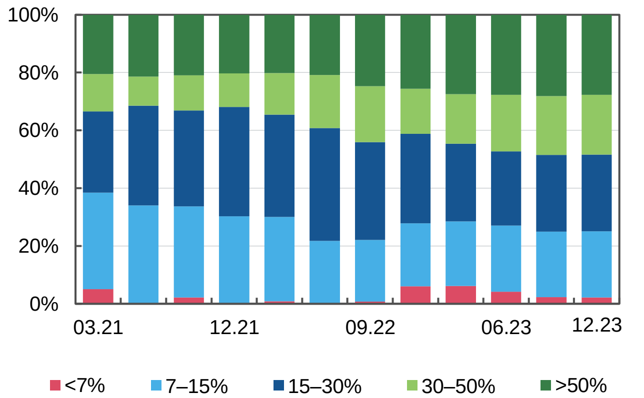
The operational efficiency of credit unions decreased markedly at the end of 2023. They generated profits thanks to releasing provisions.

Figure 32. Operational efficiency of credit unions (on a cumulative basis), UAH millions



The number of violators of the minimum solvency requirement somewhat declined as of 1 January 2024. These were loss-making institutions, primarily deposit-taking ones.

Figure 33. Distribution of capital adequacy ratios by share of credit unions' assets



Finance Companies

In Q4, volumes of finance companies' assets shrank by 1.0% (+2.7% yoy). During the quarter, a number of companies left the market, mostly pursuant to decision of the regulator. The assets and liabilities structure of finance companies remained almost unchanged.

Figure 34. Finance companies' asset structure, UAH billions

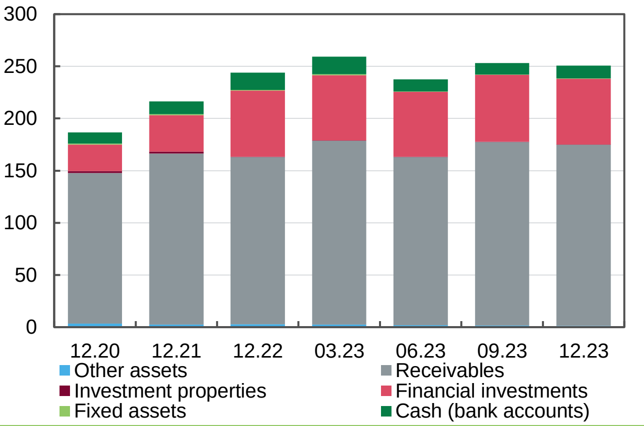
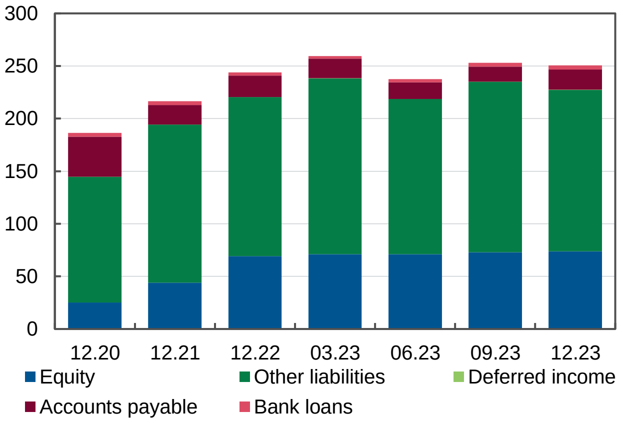
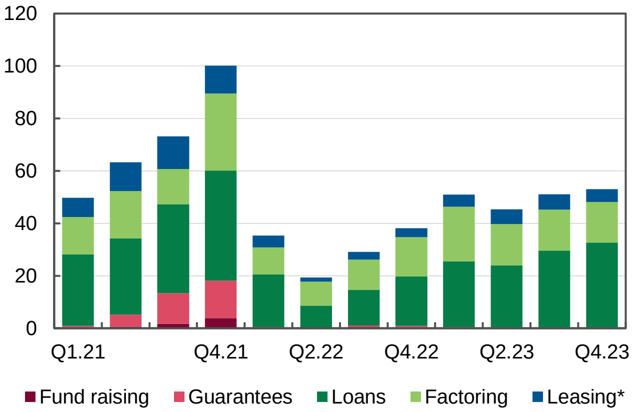


Figure 35. Breakdown of finance companies' equity and liabilities, UAH billions



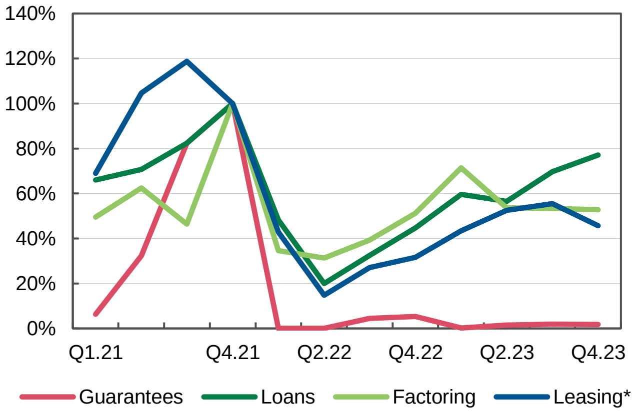
In Q4, volumes of main types of financial services, except for lending, decreased. Lending accounted for around 60% of the services provided by finance companies. Throughout the year, the volume of issued loans grew every quarter (except for a slight decline in Q2), and in October–December increased by 10.7% qoq.

Figure 36. Financial services provided by finance companies, by type of service (quarterly data), UAH billions



* Legal-entity lessors and finance companies.

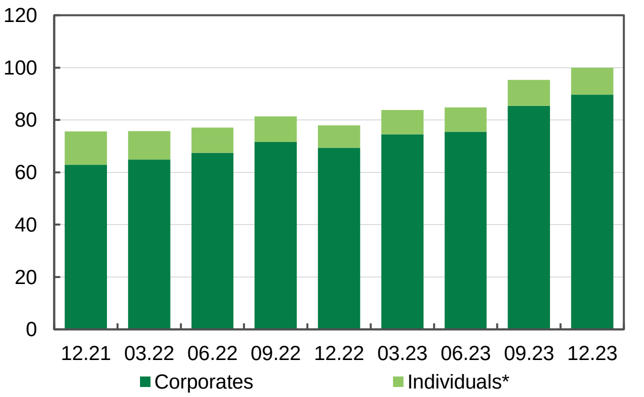
Figure 37. Financial services provided by finance companies, by type of service, Q4 2021 = 100%



* Legal-entity lessors and finance companies.

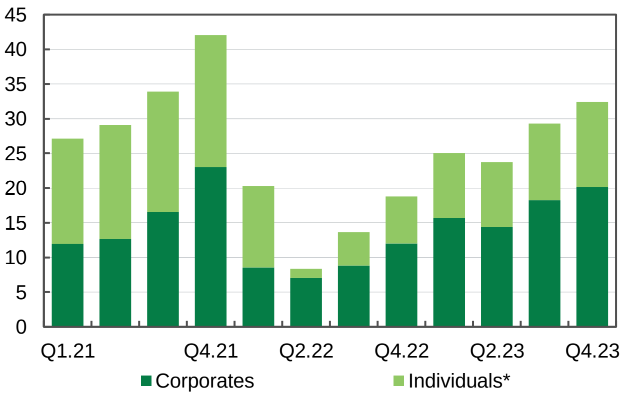
The gross loan portfolio of finance companies has been growing for four consecutive quarters. Outstanding retail loans rose by 3.8% (+20.2% yoy) and corporate loans by 5.0% (+29.2% yoy). The resumption of retail lending by finance companies is slow, with volumes still below pre-war levels. Since the onset of the full-scale invasion, businesses have been the main recipients of new loans. Over the quarter, corporate loans rose by 10.5% and retail loans by 11.1%.

Figure 38. Gross outstanding loans of finance companies, UAH billions



* Including sole proprietors.

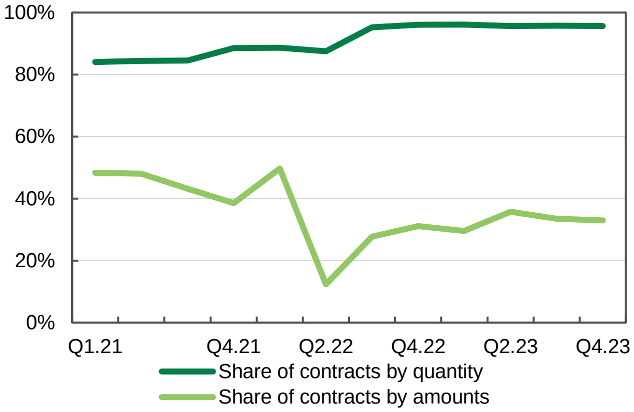
Figure 39. Loans issued during quarter by finance companies, by borrower category, UAH billions



* Including sole proprietors.

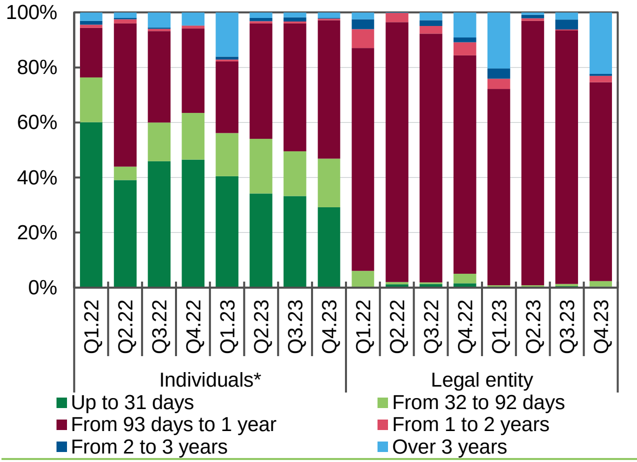
In Q4, the share of loan agreements concluded remotely remained unchanged (about 96% by quantity). At the same time, their share by volume was only a third.

Figure 40. Shares of credit agreements of financial companies concluded remotely during the quarter



In Q4, the maturity of new loans grew: the share of corporate loans with a term of more than three years increased. However, loans issued for 93 days to one year continued to dominate.

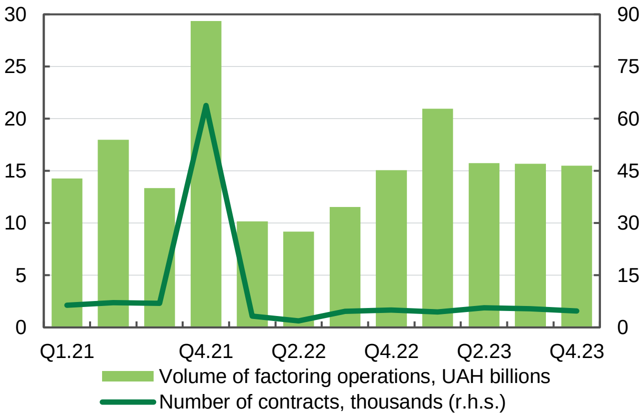
Figure 41. Breakdown of loans issued by finance companies during quarter, by maturity and type of client



* Including sole proprietors.

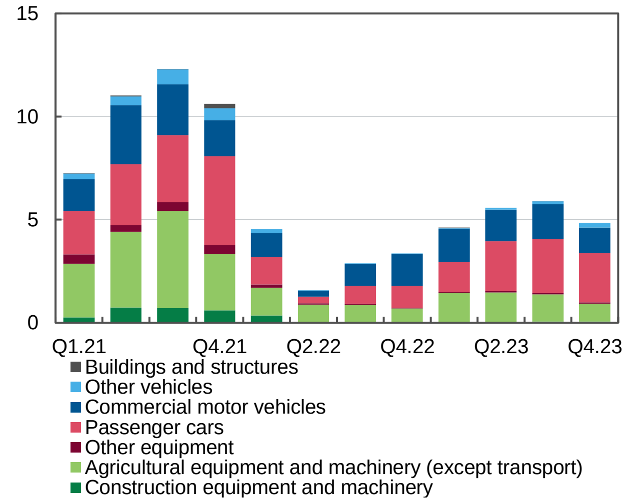
Volumes of factoring transactions decreased somewhat in Q4.

Figure 42. Volume and number of factoring agreements



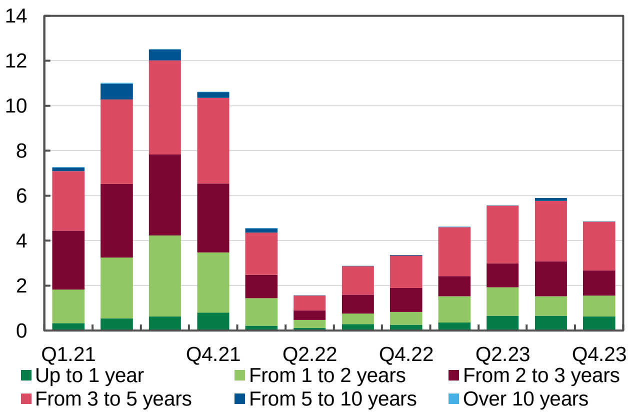
Financial leasing volumes fell by 18% in Q4 (+45% yoy). The structure of new leasing agreements remained unchanged: 93% of agreements were concluded to purchase cars, agricultural machinery, and trucks.

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



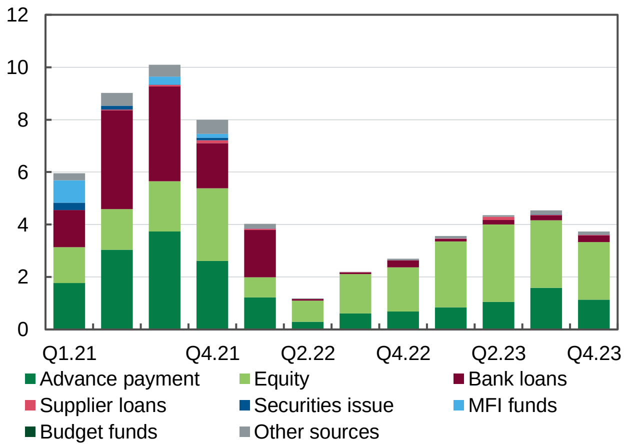
The maturity structure of leasing transactions did not change. Almost 90% of agreements were medium-term, made for one to five years.

Figure 44. Volumes of financial leasing agreements by maturity, UAH billions



In Q4, the sources of funding for financial leasing transactions remained almost unchanged: they were mostly financed from lessors' equity, and nearly one third of the funding came from advance payments.

Figure 45. Distribution of sources of financing of leasing operations for the reporting period*, UAH billions



* Finance companies and LE-lessors.

In Q4, some finance companies continued to generate record-high profits. Despite the overall profitability of the sector, profitability ratios declined compared to the start of the year.

Figure 46. Cumulative profit or loss of finance companies, UAH billions

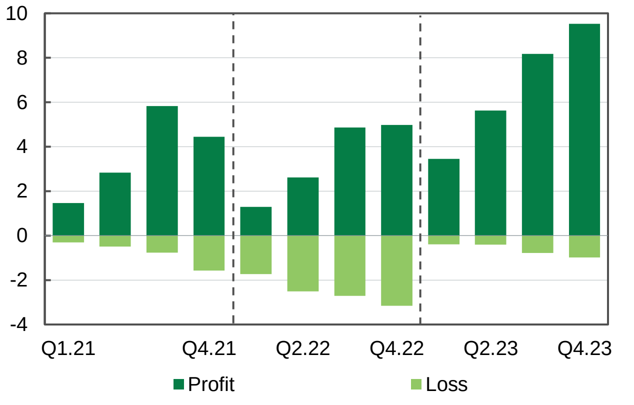
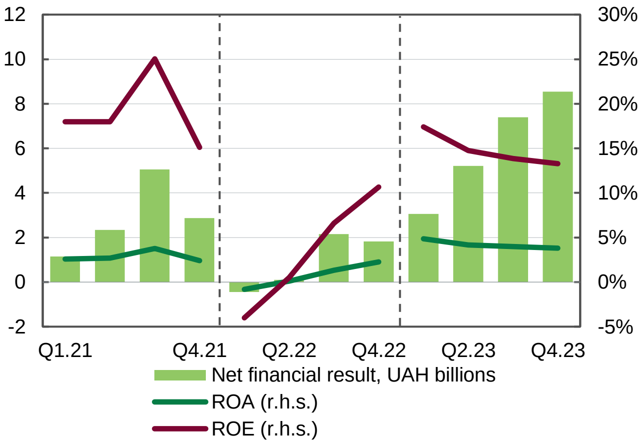


Figure 47. Cumulative profit or loss of finance companies and their return ratios



Pawnshops

The volume of pawnshop assets decreased significantly, mainly due to the exit of a number of companies from the market. Loan volumes fell by 20.6% qoq (-5.4% yoy), while fixed assets declined further, by 7.7% (-28.2 yoy). Pawnshops' equity decreased by 6.9% in 2023.

Figure 48. Assets of pawnshops, UAH billions

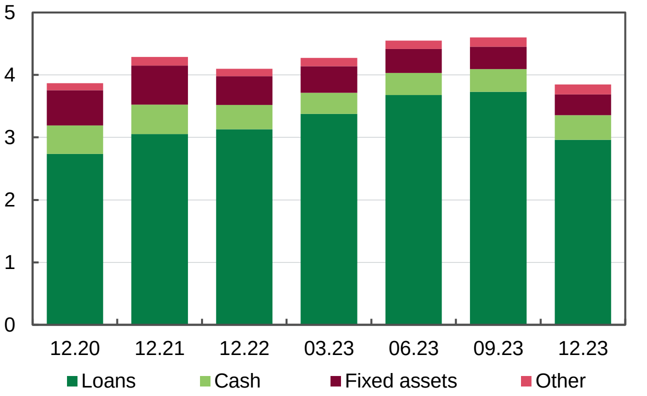
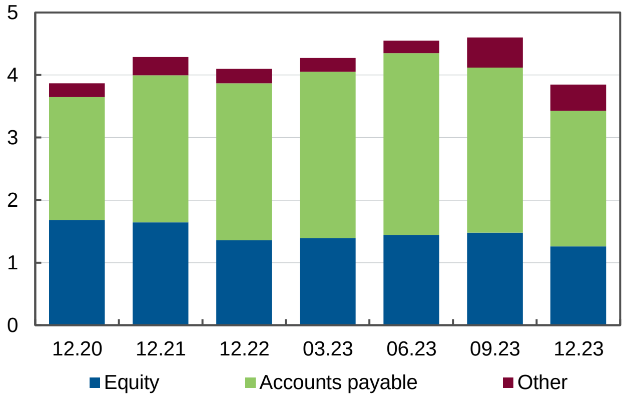


Figure 49. Pawnshop's liabilities and equity, UAH billions



Volumes of new loans halved in Q4. The collateral coverage ratio thus grew to 125%. The loan portfolio structure by type of collateral was unchanged, dominated by products made of precious metals and gems.

Figure 50. Loans issued by pawnshops over the quarter and collateral coverage ratio

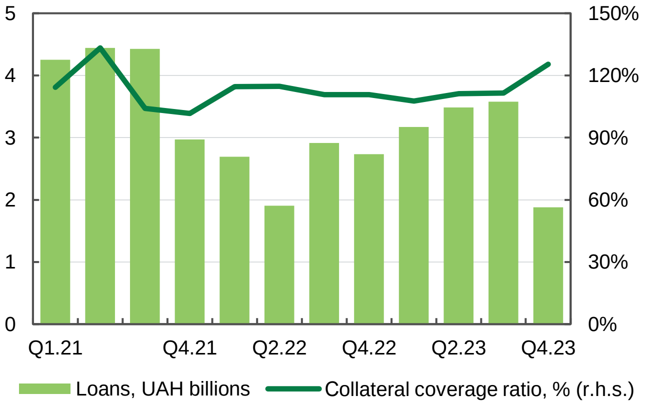
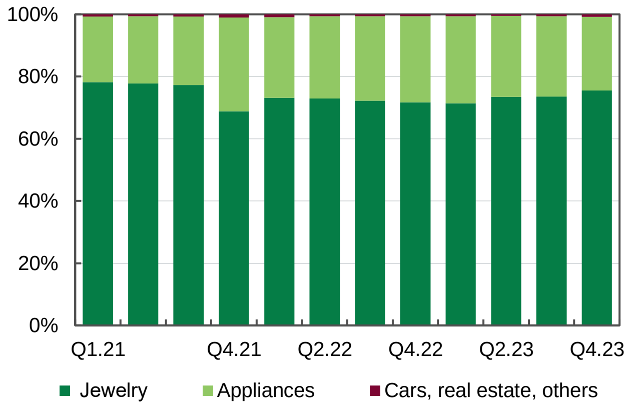


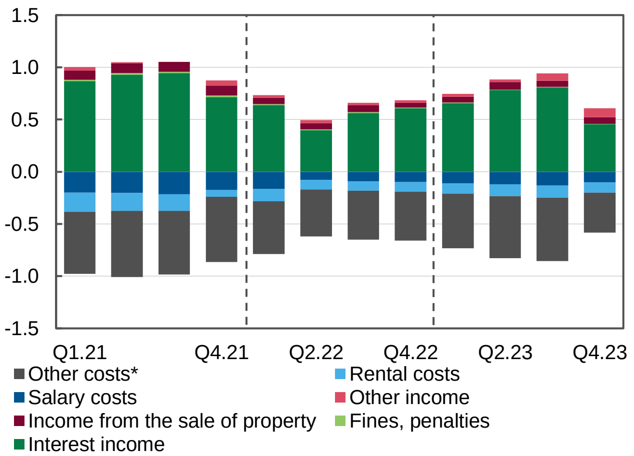
Figure 51. Loans issued by pawnshops by type of collateral



The share of loans secured with cars, real estate, and other assets was 0.83%.

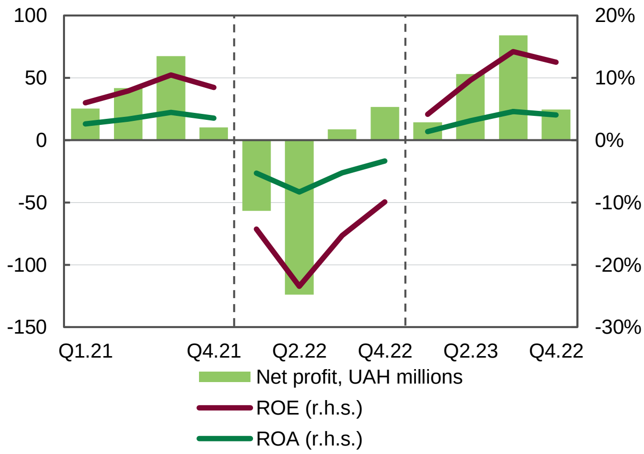
In Q4, interest income fell by almost 44%, but income from the sale of property and other income increased. Pawnshops' expenses decreased by almost a third, which allowed the institutions to generate a profit as of the end of the quarter. Return on assets and return on equity declined somewhat at the end of the year.

Figure 52. Structure of pawnshops' income and expenses, UAH billions



* Including expenses related to selling and maintaining pledged property.

Figure 53. 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. The review does not take into account the data of credit unions that submitted reports before being removed from the Register in Q4 2023, their share in assets accounting for 1%.

As they filed their earnings reports for Q4 2023, NBFIs, at the regulator's request, adjusted their reporting figures or submitted reports for previous periods (in particular, for Q3 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
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	United credit union
pp	Percentage point
UAH	Ukrainian hryvnia
Q	Quarter
mln	million
r.h.s.	Right-hand scale
yoy	Year-on-year
qoq	Quarter-on-quarter