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State Regulation of Reinsurance Activities in Ukraine during the War

Abstract

This paper examines the evolution of state regulation of reinsurance activities in Ukraine in the period 2022-2024, with a particular focus on the impact of the ongoing conflict with Russia. This paper examines the manner in which the regulatory framework has been adapted to the distinctive challenges posed by the war in order to stabilise the insurance market and ensure effective risk management. The objective of this study is to analyse the regulatory measures and their implications for the insurance and reinsurance sectors, with a particular focus on the changes implemented, their practical results and the broader implications for market stability. The *primary objective* of this paper is to undertake a comprehensive analysis and evaluation of the alterations in state-level regulation of reinsurance in Ukraine between the years 2022 and 2024. The objective is to identify the regulatory changes implemented to address the distinctive challenges posed by wartime conditions, evaluate their impact on the reinsurance industry, and discuss the broader economic implications. The study aims to provide a comprehensive understanding of the manner in which the regulatory framework has been adjusted in order to maintain industry stability and ensure effective risk management in an unstable environment. *Methodology.* This study employs a qualitative research methodology, utilising a combination of document analysis and expert interviews. The data was gathered from regulatory reports, policy documents, and statements issued by the National Bank of Ukraine and other pertinent authorities. The analysis is centred on a detailed examination of the key regulatory adjustments, the market responses to these changes, and the practical implications of these modifications. *Results.* The analysis revealed several significant changes in the reinsurance regulation in Ukraine during the reporting period: 1) strengthening of regulatory supervision; 2) revision of coverage requirements; 3) state and international financial support measures and co-operation with international reinsurers to stabilise the market and manage increased risks. The regulatory changes have had several *practical implications* for the reinsurance sector: increased financial stability through stronger solvency and capital requirements has improved the financial strength of insurers and reinsurers, helping them to manage the increased risks associated with the conflict. *Value / Originality.* This paper presents a comprehensive analysis of the regulatory adaptations in Ukraine's reinsurance sector during a period of significant political and economic upheaval. The paper offers valuable insights into the effective adjustment of state regulation in response to extraordinary circumstances, thereby contributing to the broader understanding of risk management in conflict-affected regions. The study is of particular relevance in the context of the prevailing geopolitical circumstances and the necessity to comprehend the manner in which extreme circumstances affect financial regulations. The study addresses a gap in the existing literature on crisis management in the financial sector, with a particular focus on the context of war. The originality of this study lies in its focus on the intersection of war and regulatory adaptation, a topic that has been largely overlooked in the existing literature. By analysing the regulatory responses and their outcomes, the paper makes a contribution to the development of strategies for effective crisis management in the financial and insurance sectors.

Keywords

state regulation of reinsurance, insurance, reinsurance, wartime, risk, NBU, reinsurance sector

JEL: G22, H11

DOI: https://doi.org/10.30525/2500-946X/2024-3-5

1 Introduction

The reinsurance sector in Ukraine has undergone a significant transformation in response to the distinctive challenges posed by the ongoing conflict that began in 2020. This paper examines the regulatory adaptations within Ukraine's reinsurance industry during this period, emphasising the novelty of this topic, outlining the research tasks, and discussing the relevance of scientific solutions to these emerging issues. The objective is to present a systematic examination of the present regulatory adjustments and to establish a foundation for future developments within the sector.

The novelty of this topic lies in the unprecedented intersection of war and financial regulation. While conflict has historically affected various economic sectors, the specific focus on how war affects reinsurance regulation is relatively unexplored. This study provides a unique perspective on how regulators adapt to maintain market stability under extreme conditions, making it a pioneering examination of financial stability mechanisms in a conflict zone. The research examines innovative regulatory approaches that have been developed to address the unique risks associated with ongoing hostilities and their impact on the reinsurance market.

The main research objective of this paper is to analyse the regulatory measures taken in the reinsurance sector of Ukraine during the war and to assess their effectiveness. This includes the following:

– Assessment of regulatory changes;
– assessment of compliance with international standards;
– analysis of adjustments in the processing of insurance claims;
– study of future directions.

The necessity for robust regulatory frameworks that can withstand the pressures of wartime conditions is highlighted by the relevance of scientific solutions. Scientific analysis of solvency requirements, international regulatory alignment, and claims processing adjustments provides valuable insights into how theoretical and empirical approaches can be integrated into practical regulatory measures. By presenting scientifically grounded solutions, the paper contributes to the development of effective regulatory strategies in conflict-affected regions, offering lessons that could be applicable in other similar contexts.

The material is presented in a logical sequence, which allows for a comprehensive understanding of regulatory adaptations in the reinsurance sector of Ukraine:

– Introduction. Defines the context and significance of the topic.
– The Current State of the Reinsurance Market. Provides an overview of the current state of the market to lay the groundwork for understanding regulatory developments.
– Regulatory Responses. The report details changes in supervision and their impact, examines efforts to harmonise with global practices, analyses changes in data processing to manage increased risks, and discusses potential future challenges and policy recommendations.
– Findings. Summarises the key results of the analysis.
– Conclusions. Provides a brief presentation of the research findings and outlines the implications for the future of the sector.

2 The Current State of the Reinsurance Market

The ongoing conflict in Ukraine has exerted considerable pressure on a range of economic sectors, including the financial and insurance industries. In the period between 2022 and 2024, the Ukrainian state introduced substantial changes to the regulatory framework governing reinsurance in the context of the ongoing conflict with Russia. The war had a profound impact on the insurance and reinsurance sectors, necessitating a series of regulatory adaptations to effectively manage heightened risks and stabilise the market. Reinsurance, a vital element of the insurance market that facilitates risk management and sector stability, encounters distinctive challenges during periods of armed conflict.

The war has significantly disrupted the economic landscape of Ukraine. The ongoing conflict has created significant risks and uncertainty for the insurance and reinsurance industries. Reinsurance, which involves insurers ceding parts of their risk portfolios to other insurers to reduce risk, is facing unprecedented challenges:

1. Increased risk exposure. War increases the risks associated with property damage, business interruption and insurance claims. Reinsurers must adapt their models to these increased risks.
2. Operational disruptions. Infrastructure damage and logistical problems, as well as prolonged power outages, affect the operations of insurance and reinsurance companies, making it difficult to maintain normal operations and communications.
3. Uncertainty in risk assessment. The dynamic and unpredictable nature of war makes it difficult to assess and price risks, leading to potential inaccuracies in reinsurance contracts.
4. Due to the increased risk, reinsurance premiums have generally increased. Insurers pass these higher costs on to their customers, which can make insurance coverage more expensive and less affordable.
5. Capacity and availability. Due to changes in legislation, some reinsurers may be cautious about providing coverage in high-risk areas, which may limit the availability of reinsurance. This could lead to a reduction in capacity and increased competition between insurers for affordable coverage.
6. Processing and settling claims in a time of war can be particularly challenging. Due to the ongoing conflict, there may be delays in processing claims, difficulties in assessing damages and difficulties in verifying losses.

During the period under examination, two-thirds of the total number of insurers withdrew from the domestic insurance market (see Figure 1). However, despite the reduction in the number of insurance companies, the gross volume of insurance premiums demonstrated a favourable trend of growth, as illustrated in the subsequent graph (see Figure 2).

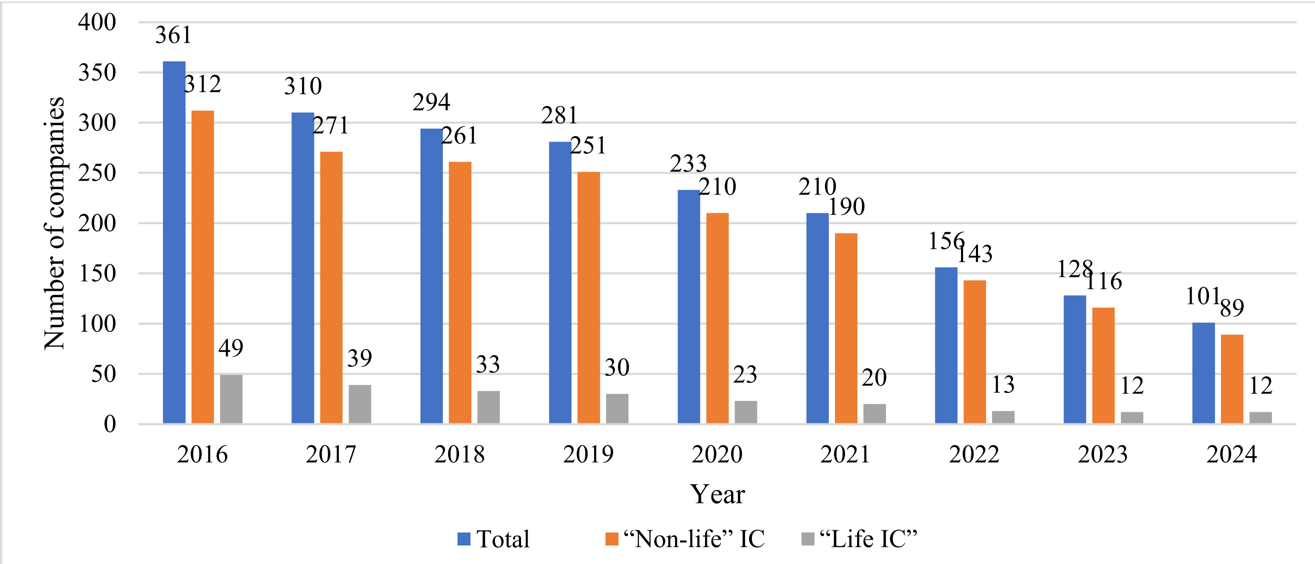

FIGURE 1 Dynamics of changes in the number of insurance companies in the insurance market of Ukraine from 2016 to 2024, as of January 1

Source: compiled by the author based on data from (NBU, 2016-2024)

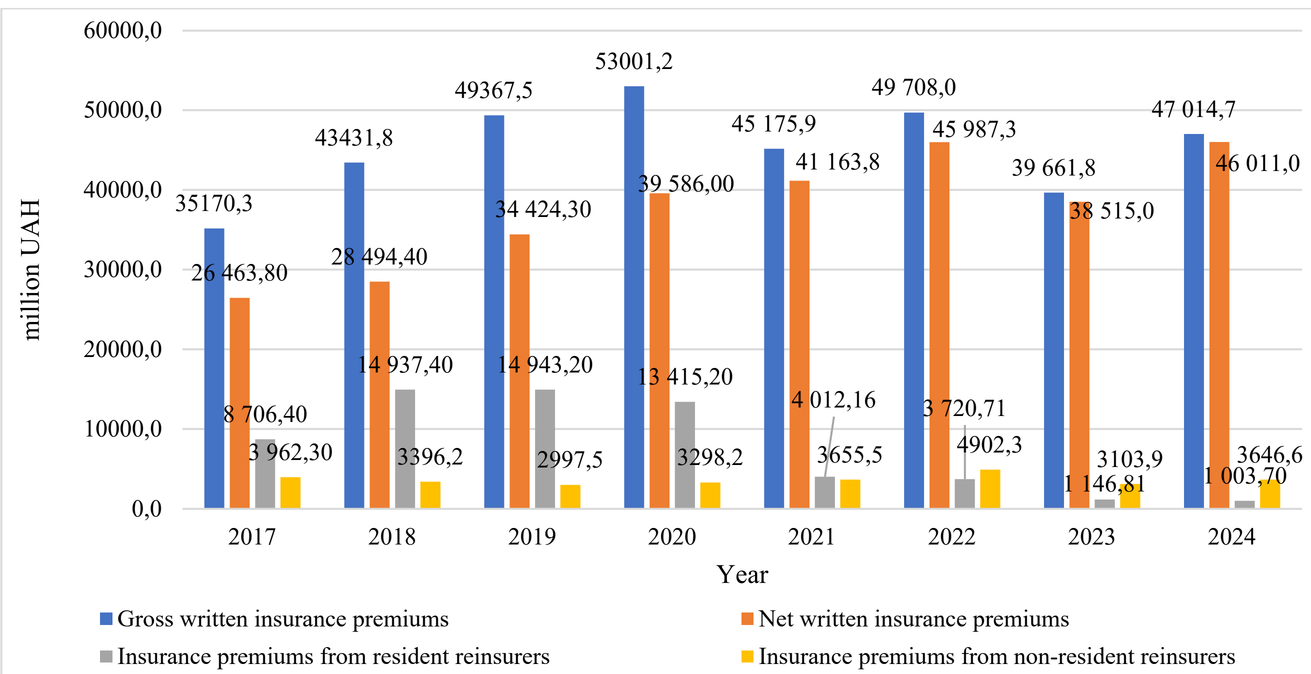

FIGURE 2 Dynamics of gross, net and written premiums from resident reinsurers in Ukraine, 2016-2024, million UAH

Source: calculated by the author according to the source (NBU, 2016-2024)

In general, the reinsurance market in Ukraine during the war is operating in a highly volatile and uncertain environment, which requires careful management of risks and resources.

3 Regulatory Responses

In response to these challenges, the Ukrainian government and regulatory bodies have implemented a series of measures with the objective of stabilising and supporting the reinsurance market. Subsequent to the transfer of regulatory authority from the National Financial Services Commission to the National Bank of Ukraine (NBU) (The Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine Concerning Improvement of Functions on State Regulation of Financial Services Markets", 2019), there was a focus on enhancing the supervisory framework. The NBU adopted a more rigorous approach to the monitoring of the financial health of insurers and reinsurers, thereby ensuring that they would be able to withstand the economic pressures of the war.

3.1 Changes in Regulatory Mechanisms

After the start of the large-scale invasion, the NBU restricted foreign currency payments and cross-border transfers, including transfers to non-resident reinsurers (The Resolution of the Board of the NBU " On the Operation of the Banking System during the Period of Martial Law", 2022). In consequence, domestic insurers were unable to effect reinsurance payments abroad, while foreign reinsurers evinced little enthusiasm for the Ukrainian market. This had an inevitable impact on the relationships with international reinsurers. They significantly reduced the scope of coverage, introduced numerous restrictions, and increased their rates. Consequently, the reinsurance sector in Ukraine is facing significant challenges. In the absence of this instrument, local insurance companies are unable to underwrite substantial risks posed by major enterprises.

In February 2023, the NBU revised the mechanism and conditions for making payments abroad under reinsurance contracts (The National Bank eases restrictions for insurers on making payments under reinsurance contracts abroad, 2023). The right to pay reinsurance premiums was granted to a select group of insurers listed in a special register maintained by the NBU. This list includes reliable insurance companies with a high reputation and financial strength.

The regulator also assessed reinsurers that were to receive reinsurance premiums. The financial strength rating of such reinsurers must meet or exceed: "A3" (Moody's Investors Service), "A-" (Standard & Poor's), "A-" (Fitch Ratings), "A-" (A.M. Best) (The National Bank eases restrictions for insurers on making payments under reinsurance contracts abroad, 2023). Furthermore, insurance companies were permitted to collaborate with reinsurance firms that had received lower ratings but were registered in countries with state supervision of insurance and reinsurance operations and had been engaged in such activities for a minimum of three years. Consequently, the NBU introduced a new mechanism for cross-border transfers to foreign reinsurers, which serves to monitor and encourage compliance with updated insurance market regulations. Furthermore, it enables the NBU to take measures against financial service providers in cases of non-compliance.

3.2 Alignment with International Standards

The regulator is engaged in efforts to align with the Law of Ukraine "On Insurance," with due consideration of the principles set forth in Directive 2009/138/EC of the European Parliament and Council. Additionally, the incorporation of best European practices, as exemplified by Solvency II, is underway. In order to address the liquidity and capital challenges faced by reinsurers, regulatory bodies have implemented adjustments to capital adequacy requirements. These adjustments include the relaxation of solvency margins through the temporary reduction of solvency margin requirements, with the aim of alleviating immediate financial pressures (Yashchenko, 2023). In addition, the NBU has required insurers and reinsurers to submit more frequent and detailed reports to monitor their financial position and the risks to which they are exposed. The reporting for insurers and reinsurers is now developed in accordance with international Solvency I reporting standards and takes into account recommendations of the World Bank based on its assessment of the solvency and reserve adequacy of Ukrainian insurers (New indicators of regulatory reporting insurers Draft Amendments to the Rules of Compilation and Submission reporting by non-bank market participants of financial services to the National Bank of Ukraine, 2022).

3.3 Adjustments to Claims Processing

The regulator has also introduced temporary adjustments to the claims process. Due to the challenges of assessing and processing claims in a war zone, regulators may have introduced temporary measures to speed up the claims process. This could include streamlined procedures or special provisions specifically for handling claims related to war damage.

Given the exceptional circumstances, regulators will allow some flexibility in meeting certain regulatory requirements. This includes extending reporting deadlines and partially modifying the regulatory framework to address operational challenges faced by insurers.

The regulatory changes were expected to have several practical implications for the reinsurance sector:

1) Stricter solvency and capital requirements have increased the financial stability of insurers and reinsurers, helping them to manage the increased risks associated with the conflict.

2) Compulsory war risk insurance and state reinsurance mechanisms have provided greater protection for insured persons, mitigating the impact of the conflict on business and the population.

4 Future Directions and Considerations

As the conflict progresses, it will become in creasingly evident that long-term adaptations in the state regulation of reinsurance will be necessary.

In light of the ongoing state of war, it is imperative to prioritise the development of robust regulatory frameworks that align with leading European practices. Additionally, it is crucial to enhance the solvency of domestic insurers and reinsurers. This entails the creation of resilient regulatory frameworks that can withstand future shocks and adapt to ongoing changes in the risk environment. Furthermore, it necessitates the enhancement of the capacity of domestic reinsurers to manage large-scale risks and reduce dependency on international markets.

The next step will be to rebuild infrastructure by supporting the reconstruction of damaged infrastructure and ensuring that reinsurance coverage is aligned with reconstruction efforts. And finally, rebuilding market confidence by implementing measures to restore trust in the reinsurance market and attract investment for future growth.

The NBU should focus on transparency and communication. In order to maintain confidence in the insurance and reinsurance sectors, regulators can emphasise transparency and clear communication. This includes providing stakeholders with regular updates on regulatory changes, market conditions and support measures.

It would be prudent for the regulator to undertake a review of the coverage requirements with a view to adapting the existing regulations and mandating coverage for war-related risks. This would ensure that insurers include this in their policies. The creation of government reinsurance pools to support insurers in high-risk areas could also prove beneficial.

It is recommended that the regulator implement additional measures to provide financial support and collaborate with international reinsurers with the objective of stabilising the market and effectively managing the heightened risk.

5 Findings

1. Regulatory changes. The study identifies several key regulatory changes introduced during the war. These include the following:

- Adjustment of capital adequacy requirements. In response to the increased risks associated with the conflict, regulators have adjusted capital adequacy requirements. These changes are designed to ensure that insurers and reinsurers maintain sufficient capital to cover potential losses and continue operations despite increased market volatility.
- Changes in reporting obligations. The legal framework introduced more detailed and frequent reporting obligations. Insurers and reinsurers are now required to provide comprehensive information on their financial position, risks and claims related to the conflict. These changes are aimed at increasing transparency and ensuring more effective monitoring of the sector's stability.

These regulatory changes are intended to increase the resilience of reinsurance companies by enabling them to manage increased levels of risk and navigate the uncertainty caused by the ongoing conflict.

2. Impact on the reinsurance sector. The analysis shows that the reinsurance sector has faced a number of challenges due to the new regulatory requirements:

- Adaptation to new requirements. Companies have had to adapt quickly to the updated regulatory landscape. This rapid adaptation has impacted their financial performance as they have had to allocate additional resources to meet new compliance standards, adjust their risk management strategies and revise their reporting processes.
- Adjustment of strategic planning. The introduction of new regulatory requirements has necessitated significant changes in the strategic planning of reinsurance companies. Firms have had to reassess their risks, review their business models and possibly change their reinsurance strategies to align with the updated regulatory requirements. This has impacted long-term planning and operational strategies as companies try to balance regulatory compliance with financial stability.
- Impact on financial performance. The increased regulatory burden combined with increased conflict risks has affected the financial performance of many reinsurance companies. Higher capital requirements and increased risk management costs have resulted in a shortage of financial resources, which has led to changes in profitability and investment strategies.

In general, regulatory modifications have been pivotal in ensuring the stability and resilience of the reinsurance sector throughout the period of armed conflict. However, the aforementioned regulatory changes have also presented companies with significant operational and financial challenges, necessitating the swift and strategic adaptation to the evolving regulatory landscape.

6 Conclusions

This paper presents a comprehensive analysis of the regulatory adaptations in Ukraine's reinsurance sector during a period of significant political and economic upheaval. The state regulation of reinsurance activities in Ukraine during the war period has necessitated substantial adaptations to address the distinctive challenges posed by the conflict. By implementing flexible regulatory measures, enhancing transparency, and adjusting risk management practices, Ukrainian regulators have sought to stabilise the reinsurance market and reinforce its resilience.

As the situation continues to evolve, ongoing adaptation and strategic planning will be essential to ensure the continued stability and efficiency of the reinsurance sector in Ukraine. The analysis has identified several significant changes in the reinsurance regulation in Ukraine during the period under review:

1. The National Bank of Ukraine (NBU) assumed regulatory responsibilities previously held by the National Financial Services Commission. This transition signified a shift towards a more rigorous supervisory and oversight framework. In order to enhance the financial stability of insurers and reinsurers amidst the ongoing conflict, the NBU implemented updated solvency requirements. The objective of this transition was to guarantee that the insurance sector would be capable of withstanding the heightened economic pressures and volatility introduced by the war.

2. Adapted solvency requirements. To address the increased risks posed by the conflict, regulatory changes were made to solvency requirements. These changes included both temporary relaxations and more stringent measures to support the financial health of insurers and reinsurers. In revising the solvency and capital adequacy ratios, regulators sought to provide flexibility while ensuring that insurance companies remain sufficiently resilient to manage increased risks and potential claims.

3. The analysis highlights the need for further regulatory measures to support the stability of the reinsurance market. Key recommendations include the following:

3.1. Providing targeted financial support to insurers and reinsurers can help mitigate the impact of the conflict on their operations. Such support could take the form of liquidity assistance, subsidised reinsurance or other financial interventions aimed at strengthening the resilience of the sector.

3.2. Co-operation with international reinsurers can help to stabilise the market and manage increased risks. Such co-operation may include negotiating favourable reinsurance terms, sharing risk assessment expertise, or establishing joint risk management initiatives to enhance overall market stability.

These regulatory changes and recommendations reflect a concerted effort to adapt to the unprecedented challenges posed by the war, ensuring that the reinsurance sector remains able to support the insurance needs of businesses and individuals in Ukraine during this turbulent period.

In summary, the period between 2020 and 2024 witnessed considerable regulatory shifts in Ukraine's reinsurance sector. These developments reflect the necessity to adapt to the prevailing circumstances, align with global standards, and guarantee the stability and resilience of the insurance market. These changes have been pivotal in guaranteeing the accessibility of coverage and the administration of augmented risk exposure, thereby establishing the foundation for a more robust and resilient reinsurance sector in the future.

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Received on: 17th of August, 2024
Accepted on: 26th of September, 2024
Published on: 31th of October, 2024