Levkovets Nataliia Petrivna, Candidate of Economic Sciences, Associate Professor, Associate Professor of the Department of Finance and Accounting and Analytical Activities, National Transport University, Kyiv, https://orcid.org/ 0000-0001-5382-5418

FINANCIAL STABILITY OF INSURANCE COMPANIES IN UKRAINE: CURRENT CHALLENGES AND PROSPECTS FOR SUSTAINABLE DEVELOPMENT

Abstract

The insurance sector is one of the key components of the financial system, ensuring the protection of individuals and businesses against financial risks while promoting macroeconomic stability and sustainable economic development. Under current conditions, Ukrainian insurance companies operate in an environment characterized by heightened uncertainty resulting from military aggression, macroeconomic instability, inflationary processes, structural transformation of the financial services market, and the implementation of new regulatory requirements. These factors significantly affect insurers' financial resilience, making the assessment of their financial stability particularly relevant.

The study demonstrates that the financial stability of insurance companies is determined by a combination of internal and external factors. Internal determinants include the effectiveness of financial management, the adequacy of insurance reserves, underwriting quality, investment and reinsurance policies, portfolio diversification, and corporate governance. External influences are associated with military risks, macroeconomic instability, inflation, regulatory changes, fluctuations in financial markets, and declining consumer purchasing power. Particular attention is devoted to analyzing the impact of wartime conditions on the functioning of insurance companies, including changes in regulatory requirements, the

emergence of insurance products covering war-related risks, and the adaptation of insurers to new operational conditions.

The results indicate that, despite a substantial reduction in the number of insurance companies operating in Ukraine, the insurance market has become more transparent and financially resilient due to strengthened prudential supervision and the gradual implementation of European regulatory standards. At the same time, insurers continue to face significant challenges related to capitalization, solvency, liquidity, risk management, and maintaining consumer confidence.

The scientific value of the study lies in the comprehensive assessment of contemporary factors influencing the financial stability of Ukrainian insurance companies under wartime and economic transformation. The practical significance of the research consists in the proposed recommendations that may be used by insurance companies, regulatory authorities, and other market participants to strengthen financial resilience, improve the competitiveness of the insurance sector, and support its sustainable long-term development.

Keywords: financial stability, insurance company, insurance market, financial security, solvency, insurance services, risk management, sustainable development, wartime economy.

Introduction. The insurance sector is an integral component of the financial system, playing a crucial role in ensuring economic resilience, mitigating financial risks, and supporting sustainable economic development. Stable insurance companies not only provide reliable protection for individuals and businesses against unforeseen events but also contribute to investment activity, capital accumulation, and the overall stability of the financial market. Consequently, maintaining the financial stability of insurance companies has become one of the key priorities of financial sector development in both developed and emerging economies.

In Ukraine, the importance of insurers' financial stability has significantly increased under the influence of large-scale economic, political, and social transformations. The full-scale military aggression against Ukraine has intensified existing systemic problems within the insurance market while simultaneously creating new challenges associated with declining economic activity, growing uncertainty, inflationary pressures, destruction of insured assets, increased insurance claims, and changes in consumer demand for insurance services. These factors have substantially affected insurers' solvency, liquidity, profitability, and long-term financial sustainability.

Problem statement. Financial stability represents one of the fundamental characteristics determining the long-term viability of an insurance company. It reflects an insurer's capacity to maintain solvency, fulfill insurance obligations, withstand adverse internal and external influences, and preserve its competitive position within the insurance market. Consequently, effective financial stability management has become an essential component of strategic decision-making aimed at ensuring sustainable development under conditions of economic uncertainty.

Theoretical and methodological issues related to the financial stability of insurance institutions have been extensively examined by both Ukrainian and international scholars. Significant contributions to this field have been made by K. Horiacheva, M. Yermoshenko, and R. Ferguson. Various aspects of financial stability in insurance markets and insurance organizations have also been explored by R. Pikus, N. Vnukova, P. Nikiforov, Yu. Pankov, O. Hamankova, and numerous other researchers. Their studies have established an important theoretical foundation for assessing insurers' financial resilience and developing mechanisms to enhance their stability under changing market conditions.

The purpose of this study is to assess the current state of the financial stability of insurance companies in Ukraine, identify the principal internal and external

challenges affecting their sustainable operation, and determine the priority directions for strengthening their financial resilience under contemporary economic conditions. The research is based on the application of logical generalization, comparative analysis, financial and economic analysis, synthesis, systematization, and deductive methods, which made it possible to comprehensively evaluate the current trends in the development of Ukraine's insurance market.

Research problem. The Ukrainian insurance industry currently operates in an environment characterized by significant uncertainty and heightened exposure to both external shocks and internal vulnerabilities. The ongoing military conflict, prolonged socio-economic and political instability, inflationary pressures, declining household incomes, contraction of business activity, and uncertain macroeconomic prospects have substantially complicated insurers' operating conditions. These challenges have affected virtually all sectors of the national economy, including the insurance market.

Given their economic and social role, insurance companies are expected to provide financial protection against a broad spectrum of risks faced by households and businesses while mitigating the economic consequences of unforeseen events. However, the effectiveness with which insurers perform these functions largely depends on their own financial resilience. The financial security of policyholders is closely linked to the financial stability of insurance companies, as only solvent, sustainable, and financially reliable insurers are capable of meeting their contractual commitments and ensuring continuous insurance protection.

Result. Maintaining financial stability within the insurance sector is a prerequisite for establishing an effective system of financial protection for economic agents at both the macroeconomic and microeconomic levels, including households, businesses, and the state. Moreover, the achievement of social equity and the prevention of excessive economic disparities largely depend on the

efficient operation of the insurance market, whose institutions perform an essential risk-sharing and financial protection function.

The financial stability of the insurance sector is influenced by a wide range of objective and subjective factors originating from both the internal and external business environment. Internal risks primarily arise from ineffective financial and managerial decisions adopted by insurance companies. Weak financial governance, inefficient allocation of resources, and deficiencies in strategic planning reduce insurers' financial resilience, weaken their solvency, and ultimately undermine the reliability and security of insurance operations.

Financial stability of an insurance company may therefore be defined as its ability to sustain stable financial and economic development, maintain uninterrupted payment and settlement operations, withstand the adverse effects of external economic disturbances, and prevent conflicts among stakeholders regarding the allocation and utilization of corporate financial resources. [1]

According to the sources of their origin, threats to the financial stability of the insurance market can generally be classified into internal and external categories. External threats stem from interactions with business partners, competitors, criminal activities, foreign market participants, mass media, governmental institutions, and international economic developments. Internal threats, by contrast, are predominantly associated with weaknesses in insurers' financial management systems. These include inappropriate pricing strategies, poorly balanced insurance portfolios, and ineffective management of insurance reserves with respect to their composition and maturity structure. Errors in actuarial calculations or tariff setting may lead either to excessive insurance premiums, reducing market competitiveness, or to underpricing, which threatens insurers' solvency and long-term financial sustainability. [2]

An essential prerequisite for ensuring financial stability is the formation of a well-diversified and balanced insurance portfolio capable of absorbing substantial

insurance losses without jeopardizing the insurer's financial position. A persistent challenge within the Ukrainian insurance market is that many insurers continue to finance claim payments primarily through newly collected premiums rather than through adequately accumulated insurance reserves. Such practices weaken their financial resilience and increase vulnerability to unexpected loss events.

Strengthening the financial stability of insurance companies requires the implementation of several interrelated strategic measures, including:

- developing a comprehensive long-term strategy for insurance company development;
- continuously identifying, forecasting, and assessing potential financial and operational risks;
- maintaining an appropriate balance between underwriting, pricing, investment, and reinsurance policies;
- introducing effective organizational mechanisms, management methods, and financial instruments aimed at improving the financial stability framework;
- ensuring continuous monitoring and management of financial security indicators;
- maintaining a high level of professional competence among employees and ensuring compliance with internal policies and regulatory requirements designed to preserve financial stability. [4]

Numerous factors contribute to the emergence of threats affecting insurers' financial stability. Among the most significant are:

- the rapid expansion of globalization and internationalization of financial and insurance markets;
- increasing concentration of financial resources within international insurance and reinsurance markets;
- growing interdependence and mobility of insurance capital facilitated by advanced information technologies;

- stronger interaction between domestic and international economic policies, resulting in greater dependence on global financial developments;
- excessive reliance of national insurance markets, particularly the reinsurance sector, on foreign capital, which increases financial vulnerability;
- the accumulation of systemic instability within the global financial system and the inability of existing international financial institutions to effectively prevent emerging crises;
- an insufficient regulatory framework and limited international experience regarding financial stability management in insurance;
- inadequate practical experience in customer relationship management;
- relatively low standards of management and marketing across the domestic insurance market. [3; 5]

Addressing these challenges would substantially strengthen the resilience of Ukraine's insurance market by creating balanced conditions for all market participants and enhancing the overall financial stability of the insurance sector.

Since February 2022, the Ukrainian insurance market has been operating under unprecedented conditions caused by the full-scale military invasion. Existing financial risks have been significantly intensified, while entirely new threats have emerged, posing serious challenges to the stability of insurance companies and the insurance market as a whole (fig. 1). [2; 4; 6]

The full-scale war has fundamentally transformed the operating environment of Ukraine's insurance sector. The most significant challenges that have emerged include the following:

1. Restoration of regulatory requirements.

Following the outbreak of the full-scale invasion, the National Bank of Ukraine (NBU) temporarily relaxed several regulatory requirements to enable insurers to continue operating under extraordinary wartime conditions. As market conditions stabilized, however, supervisory authorities identified violations of key

prudential standards by certain insurers engaged in excessively risky business practices. Consequently, the NBU reinstated a number of regulatory requirements aimed at strengthening market discipline. These measures included the restoration of mandatory timely submission of reliable financial statements, allowing regulators to monitor insurers' financial condition and respond promptly to emerging risks. In addition, on-site inspections resumed, and supervisory sanctions for breaches of solvency and risk management requirements were reintroduced.

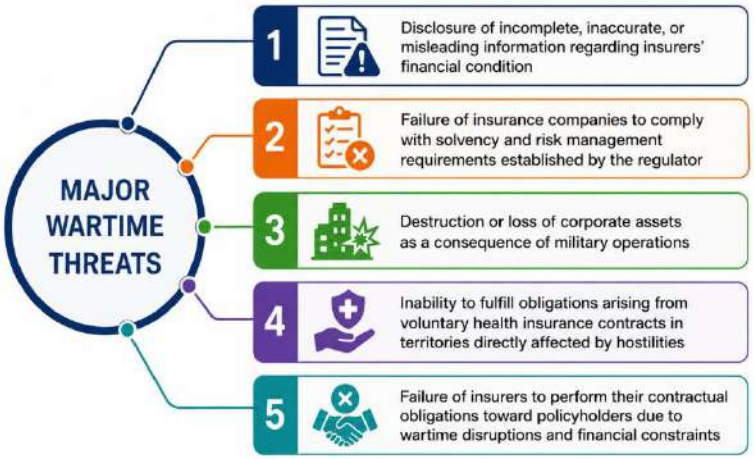


Figure 1. Major wartime threats to the financial stability of insurance companies in Ukraine

2. Insurance coverage against war-related risks.

Before 2022, insurance products covering military risks were virtually absent from the Ukrainian insurance market. The outbreak of the war created an urgent need for such coverage, leading insurers to introduce new insurance products beginning in late 2022. Property insurance policies now provide protection against losses resulting from explosions, shelling, landmines, fires, and destruction caused by military operations. Furthermore, insurers have expanded their portfolios by offering personal accident insurance related to wartime events. The leading providers of war-risk insurance products include INGO, TAS Insurance Group,

ARX, Arsenal Insurance, VUSO, MetLife, Universalna, and Kniazha Vienna Insurance Group.

3. Fulfilment of voluntary health insurance obligations.

Another significant challenge has been the provision of voluntary health insurance services in territories affected by active hostilities. Insurance companies have adapted by implementing remote service models, including online medical consultations for policyholders residing in areas with limited access to healthcare facilities. At the initial stage of the war, the National Bank of Ukraine recommended simplifying claims settlement procedures through the use of electronic documentation and remote claims processing. In regions unaffected by active military operations, insurers have largely maintained their standard operating procedures. [1; 2; 4]

Future research should primarily focus on two strategic directions. First, there is a need to develop a unified methodological framework for assessing and maintaining insurers' financial stability that adequately reflects current trends in the development of Ukraine's insurance market. Second, it is advisable to introduce a mandatory state-supported rating system that evaluates the financial strength of insurance companies according to the level of risks they assume through underwriting activities.

Accordingly, public policy in the insurance sector should prioritize the following objectives:

- ensuring an adequate level of consumer protection in the insurance market;
- strengthening insurers' solvency and long-term financial resilience;
- conducting continuous monitoring and analytical assessment of insurance market developments to preserve financial stability;
- establishing an integrated system for identifying and assessing insurance-related risks;

• increasing transparency and accountability among insurance companies as well as the governmental authorities responsible for their supervision and regulation. [1]

Reducing the risks associated with insufficient stability, transparency, and competitiveness of the insurance sector also requires strengthening the institutional and financial capacity of public authorities responsible for regulating financial services markets. In this regard, state insurance policy should be implemented in accordance with the principles of Ukraine's Concept of National Financial Security.

Priority measures include developing an effective risk identification system, continuously monitoring insurance market conditions to facilitate timely preventive actions, improving transparency of both insurers and supervisory institutions, enhancing insurers' solvency and financial sustainability, strengthening consumer protection mechanisms, and preventing insurance companies from being used as channels for unproductive capital outflows abroad.

Conclusions

The findings of this study indicate that the financial stability of insurance companies is a fundamental prerequisite for the sustainable development of Ukraine's insurance market and an essential component of the country's financial system. Under current conditions, insurers operate in an environment characterized by heightened uncertainty caused by military aggression, macroeconomic instability, inflationary pressures, regulatory transformation, and structural changes within the financial services market. These factors significantly influence insurers' solvency, liquidity, profitability, and overall financial resilience.

The analysis demonstrated that the financial stability of insurance companies depends on the combined influence of internal and external factors. Internal determinants include the quality of financial management, the adequacy of insurance reserves, the effectiveness of underwriting, investment and reinsurance policies,

portfolio diversification, and corporate governance. External factors are associated with changes in the macroeconomic environment, military risks, regulatory policy, fluctuations in financial markets, and the overall level of public confidence in insurance institutions.

Despite the reduction in the number of insurance companies operating in Ukraine in recent years, the insurance market has become more transparent and financially resilient due to strengthened prudential supervision, higher solvency requirements, and ongoing regulatory reforms implemented by the National Bank of Ukraine. Nevertheless, significant challenges remain, including insufficient capitalization of certain insurers, limited demand for insurance services, growing exposure to military risks, and the need to further align the Ukrainian insurance market with European regulatory standards.

Strengthening the financial stability of insurance companies requires the implementation of comprehensive measures aimed at improving risk management systems, increasing capitalization, maintaining adequate insurance reserves, diversifying insurance portfolios, expanding reinsurance protection, introducing modern digital technologies, and enhancing transparency in financial reporting and corporate governance. Equally important are the continued development of effective state regulation, improvement of consumer protection mechanisms, and the creation of conditions that promote sustainable competition within the insurance market.

Overall, ensuring the financial stability of insurance companies should be regarded as a strategic priority for the development of Ukraine's financial sector. The implementation of coordinated actions by regulators, insurers, and other market participants will contribute to strengthening public confidence in insurance institutions, increasing the resilience and competitiveness of the insurance market, and supporting the country's long-term sustainable economic development.

References:

1. Bondarenko, Ye. K., & Oliinyk, V. M. Financial Management of Insurance Companies. *Economy and Region*. 2022. № 3(86). P. 112–118. DOI: 10.26906/EiR.2022.3(86).2853.

2. Kneisler, O. V., Korol, S. Ya., & Spasiv, N. Ya. Pragmatism of Financial Stability Management of Insurance Companies in Ukraine. *The World of Finance*. 2022. № 3. P. 99–113. DOI: 10.35774/sf2022.03.099.

3. Kondratska, N., Kotyk, O., & Zayachkivska, O. Financial Security of the Insurance Market in Ukraine. *Economy and Society*. 2025. № 76. DOI: 10.32782/2524-0072/2025-76-18.

4. Pakhomov, M. S., & Yershova, N. Yu. Solvency II and Risk Management: A Path toward the Financial Stability of Insurance Companies. *Economic Bulletin of Donbas*. 2025. № 1(79). DOI: 10.12958/1817-3772-2025-1(79).

5. Smyrnov, I. Analysis of Theoretical Approaches to the Concept of Financial Stability of Insurance Companies. *Agrarian Perspectives and Economics*. 2026. № 2. P. 152–157. DOI: 10.36887/2524-0455-2026-2-32.

6. Filiuta, D., Bilera, A., & Pakhnenko, O. Financial Management of Insurance Companies: Modern Approaches to Ensuring Financial Stability. *Economy and Region*. 2022. № 3(86). P. 112–118. DOI: 10.26906/EiR.2022.3(86).2853.