

Functional aspects of the National Bank of Ukraine's activities in the field of insurance market regulation

Illia Bulantsov*

Postgraduate Student
Kyiv National University of Technologies and Design
01011, 2 Mala Shyianovska Str., Kyiv, Ukraine
<https://orcid.org/0009-0006-7487-1601>

Abstract. The relevance of the study was due to the growing systemic role of the insurance market in the financial system of Ukraine and the need to increase the efficiency of financial supervision in the context of the concentration of regulatory powers in the National Bank of Ukraine. The purpose of the article was to substantiate the role of insurance market regulation as a component of a unified financial risk management system and to determine the management logic of the implementation of the regulatory, supervisory, control and protective functions of the central bank. The research methodology was based on a comprehensive analytical approach that combined systemic and structural-functional analysis with a comparative study of insurance regulation models in Ukraine, Poland, Germany, and Romania. As a result of the study, it was established that the insurance market of Ukraine performed a dual function of a financial shock absorber and an institutional investor, forming several channels of systemic risk through investment, group and behavioural connections with other segments of the financial sector. It was found that the objectives of state regulation of the insurance market – financial stability, solvency of insurers and consumer protection – formed a hierarchically interconnected risk management system, within which solvency acted as a functional condition of stability, and consumer protection – the basis of trust in the market. It was shown that the regulatory and supervisory instruments of the central bank were focused on preventive risk identification and differentiation of supervisory influence, but the practical effectiveness was limited by the heterogeneous financial capacity of insurers and the formalisation of risk management systems. The comparative analysis showed that in Poland and Germany, risk-oriented and proportional supervision was characterised by higher institutional maturity, while the experience of Romania demonstrated the risks of formal harmonisation of regulatory standards without proper institutional adaptation. The practical significance of the study was the possibility of using the obtained results to improve proportional and risk-based supervision, develop analytical tools of the regulator and increase the stability of the insurance market of Ukraine in the context of European integration

Keywords: financial supervision; risk-based approach; financial stability; risk management; behavioural supervision

● INTRODUCTION

The insurance market is an element of the state's financial system, as it ensures the redistribution of risks, promotes financial stability and performs a social function of protecting the property interests of the population. In Ukraine, its role is strengthened in conditions of economic instability, military risks and an increasing need for financial mechanisms for compensation for losses. Under such conditions, state regulation of insurance activities plays a key role in the functioning of the insurance market. The transfer of

powers to regulate the non-banking financial sector to the National Bank of Ukraine (NBU) in 2020 changed the institutional model of insurance supervision, which necessitates the scientific understanding of the functional aspects of the NBU's activities in the field of insurance market regulation (Law of Ukraine No. 1953-IX, 2021).

Researcher L.V. Fedoruk (2025) found that the dispersion of supervisory powers and insufficient coordination between regulators led to the accumulation of financial

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*Corresponding author



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risks in the activities of insurance companies. The author concluded that in the absence of a single regulatory centre, control over the solvency of insurers was inconsistent, and regulatory decisions were often formal in nature, which negatively affected the stability of the insurance market and the level of trust of insurance consumers in Ukraine. O. Polova (2022) established that the dominance of the formal regulatory approach did not ensure the timely detection of financial imbalances in the insurance sector. The author justified the feasibility of switching to risk-based regulation, which was intended to focus on assessing the real risks of insurers' activities. A. Prylutskiy (2020), analysing the development of the insurance market of Ukraine, concluded that the implementation of such an approach contributed to the gradual cleansing of the market from financially weak companies and stimulated an increase in the quality of insurance services. After the start of the financial supervision reform, the attention of scientists focused on the role of the central bank in ensuring the stability of the financial sector. V. Shkurko (2024) argued that the concentration of regulatory functions in the National Bank of Ukraine made it possible to form a more comprehensive system of financial risk assessment. The author noted that the integration of the insurance segment into the general system of financial supervision contributed to increased consistency of regulatory decisions.

In their work, O. Prokopchuk *et al.* (2022) analysed the trends in the functioning of the insurance market in Ukraine in the context of the transformation of the financial supervision system. The authors showed that the expansion of the regulatory and macroprudential powers of the National Bank of Ukraine affected the structure of the non-banking financial sector, while noting that the practical implementation of these approaches in insurance required further regulatory clarification and adaptation to the specifics of insurance business models. The adaptation of Ukrainian insurance legislation to international standards was the subject of analysis by O. Zharikova & K. Cherkesenko (2021), who studied the integration processes in the activities of banks and insurance companies in Ukraine. The authors concluded that the harmonisation of regulatory requirements with European Union norms was accompanied by increased requirements for capitalisation, corporate governance, and financial discipline of market participants. S. Yehorycheva *et al.* (2020) focused on the impact of innovations and international standards on the development of the Ukrainian insurance market. Researchers found that the implementation of international approaches to insurance supervision was associated with increased transparency in the activities of insurance companies, pointing out the dependence of the effectiveness of such changes on the practice of implementing regulatory functions at the national level. I. Allahverdiyeva (2022) studied the introduction of the insurance ombudsman institution as an element of the consumer protection system in the insurance market of Ukraine. The author found that the functioning of an independent complaint review mechanism contributes to increasing trust in insurance institutions and reducing conflicts between insurers and clients. At the same time, the effectiveness of such a tool depends on the institutional conditions for the functioning of financial supervision and the consistency

of interaction between the regulator and the mechanisms for out-of-court dispute resolution.

Thus, the analysis of scientific sources showed that the functional aspects of the activities of the National Bank of Ukraine in the field of insurance market regulation remained insufficiently comprehensively covered. Most studies have focused either on the general principles of insurance regulation or on the role of the NBU in the financial system as a whole, without an in-depth analysis of the relationship between its functions and the development of the insurance market. This study aimed to reveal the functional aspects of the activities of the National Bank of Ukraine in the field of insurance market regulation and assess the significance for ensuring the stability of the insurance sector. To achieve this goal, the following research tasks were defined: to analyse the regulatory framework for the regulation of the insurance market by the National Bank of Ukraine; to characterise the key functions and instruments of the NBU's regulatory influence on the activities of insurers; to determine problematic aspects and possible directions for improving the regulation of the insurance market of Ukraine.

● MATERIALS AND METHODS

The study was conducted as a theoretical and analytical one with elements of institutional and comparative analysis and was aimed at studying the regulation of the insurance market as a component of the financial supervision system. The chronological boundaries of the study covered the period 2020-2025, that is, the stage of the functioning of the National Bank of Ukraine as a mega-regulator after the transfer of powers to it in the field of supervision of non-bank financial institutions. Territorially, the study was focused on Ukraine using comparative material from individual countries of the European Union. An analysis of the objectives of insurance market regulation and the legal basis for the activities of the National Bank of Ukraine as a mega-regulator in the context of the financial supervision system of Ukraine was carried out. The materials used were regulatory and analytical sources that determine the management logic of insurance market regulation and the practice of financial supervision. These included the provisions of the current legislation of Ukraine, in particular Law of Ukraine No. 1953-IX (2021), which established the institutional model of financial supervision and the powers of the regulator, as well as analytical materials of the NBU (Sirenko, 2021; National Bank of Ukraine, 2024), which allowed assessing the development trends of the insurance sector and the risks associated with it. To analyse the objectives and principles of insurance supervision, international standards and recommendations in the field of insurance regulation prepared by the International Association of Insurance Supervisors (2023; 2024) and the European Insurance and Occupational Pensions Authority (n.d.) were additionally used.

The problems of the functioning of the insurance regulation system were also studied based on modern scientific publications devoted to the implementation of Solvency II requirements, distribution risk management in the context of digitalisation and validation of internal solvency assessment models (Marano, 2021; Borgonovo *et al.*, 2024; Bulantsov, 2025). In addition, a comparative analysis of

approaches to insurance regulation in Poland, Germany, and Romania was conducted based on official documents of national insurance supervisory authorities. For Poland, the report of the Polish Financial Supervision Authority (2023) on the activities of financial supervisory authorities in 2023 was used, for Germany, the annual report of the Federal Financial Supervisory Authority (2025), for Romania, the current Law of Romania No. 236/2018 (2018). As part of the comparison, Ukraine was also analysed based on the provisions of the Law of Ukraine No. 1953-IX (2021), relevant regulatory acts of the National Bank of Ukraine, and analytical reports of the regulator on the state of the insurance market (Sirenko, 2021; National Bank of Ukraine, 2024).

The study used qualitative content analysis and a comparative approach to assessing modern challenges in insurance regulation. The empirical basis was scientific publications and analytical materials (2020-2025) covering the implementation of Solvency II requirements and risk-based supervision, the development, and validation of internal models (in particular, the role of sensitivity analysis and stress testing), as well as regulatory gaps in the field of digital distribution and behavioural supervision. The comparative analysis of insurance regulation models in Poland, Germany, Romania, and Ukraine was carried out according to unified criteria: the model of insurance supervision organisation; application of prudential requirements within the framework of Solvency II; use of a risk-based approach; the presence and development of behavioural supervision elements. The identified criteria ensured methodological consistency of the study and the possibility of comparing national approaches to insurance regulation. According to the results of the analysis, the defined problems were systematised into the matrix “problem area – nature of manifestation – potential consequences – priority direction of improvement”, which was reflected in Table 6, and directions for overcoming these problems and recommendations for improving the regulatory model in Ukraine were also formulated.

● RESULTS

The role of insurance regulation in financial supervision

A detailed analysis has shown that the Ukrainian insurance market plays a dual role in the financial supervision system: (1) as a financial “shock absorber” mechanism for

households and businesses (compensation of losses, reduction of the need for budget expenditures), and (2) as an institutional investor that accumulates long-term resources and places these resources in financial instruments. It is this duality that makes the insurance sector not just a “services market”, but a channel for risk transmission between the real sector and the financial system. The integration of insurance regulation into the architecture of financial supervision means that the stability of insurers affects the stability of the broader financial environment. This is primarily manifested in the interdependence of assets and liabilities: insurers form reserves for future payments, and the quality of the assets in which these reserves are invested determines the ability to meet obligations (International Association of Insurance Supervisors, 2023). If the system contains instruments with increased risk (credit risk, interest rate risk, liquidity risk), then the insurance sector is able to amplify negative shocks (due to forced asset sales, payment delays, reputational losses and “chain” distrust of financial institutions) (International Association of Insurance Supervisors, 2024).

The relationship with the banking sector in the supervisory system is manifested through several channels: the investment channel: a significant part of insurers’ assets may be related to banking instruments (deposits, bank bonds, accounts, settlement infrastructure); the financial group channel: the presence of business relationships within groups, agency networks, financial intermediation; the trust channel: the insurer’s problems are quickly transmitted to expectations regarding other financial institutions, especially if products are sold through common channels (National Bank of Ukraine, 2024). The insurance market is connected to non-bank segments (financial companies, credit unions, pension institutions) due to common risk profiles, competition for resources and clients, and the fact that violations of transparency and corporate governance standards in one segment often signal similar problems in others. Therefore, supervision of insurers in Ukraine is logically considered as part of a single risk management of the financial sector, and not just “industry control” (International Association of Insurance Supervisors, 2023). To systematically explain why insurance regulation is an element of financial supervision, it is advisable to decompose the relationships into risk channels and corresponding management (supervisory) emphases (Table 1).

Table 1. The relationship between insurance regulation and elements of financial supervision through systemic risk channels

Interaction segment	Communication channel	Potential systemic risk	What should supervision consider?
Banking sector	Investing insurers’ assets in banking instruments; settlement infrastructure	Concentration of risk in individual instruments; liquidity risk under stress	Concentration limits; asset quality; liquidity/market risk stress testing
Real sector	Insurance payments and loss coverage; liability, property, agricultural risk insurance	“Failure” of insurance coverage → increasing business/population losses, budget pressure	Sufficiency of reserves; tariff adequacy; quality of loss settlement
Other non-bank financial institutions	Competition and customer flows; shared sales channels	Regulatory arbitrage; “spill-over” of problematic practices	Uniform transparency standards; compliance; control of business models
Financial groups	Intra-group transactions, related parties	Hidden risks, capital withdrawal	Related party control; transfer transactions; consolidated supervision
Financial services consumers	Trust and expectations; information asymmetry	Mass complaints, reputational crises, customer churn	Disclosure standards; protection of rights; oversight of conduct

Source: compiled by the author based on International Association of Insurance Supervisors (2023; 2024)

The insurance sector creates not one, but several channels of systemic risk (liquidity, concentration, trust, group risks). This confirms that insurance regulation is not a “narrowly sectoral” function, but a systemic component of financial supervision. The managerial logic of supervision consists in proactive control of risks and incentives (and not only checking formal norms).

The analysis has established that state regulation of the insurance market within the framework of financial supervision has three interrelated goals: (a) financial stability, (b) solvency of insurers, (c) protection of consumer rights. At the same time, these goals are interrelated: the solvency of insurers forms the prerequisites for financial stability, and the protection of consumer rights affects the level of trust and the sustainability of the functioning of the insurance market. Financial stability in the insurance sector means minimising the likelihood of insurers’ problems spilling over into the wider financial sector (through assets, liquidity, trust, related structures) (International Association of Insurance Supervisors, 2024). In the financial supervision system, this objective requires not only a response to violations, but also risk management policies: early indicators, asset quality requirements, concentration control, scenario analysis (stress scenarios), and coordination of approaches between financial market segments (European Insurance and Occupational

Pensions Authority, n.d.). The solvency of insurers as an objective is a practical “reality check”: whether companies are able to meet the obligations to policyholders under normal conditions and in stress scenarios. This is why regulatory tools tend to gravitate towards a prudential logic: capital, reserves, asset and liability management, corporate governance, and internal control. At the same time, the risk-based approach assumes that supervision differentiates the intensity of control depending on the risk profile of the company, and does not apply the same requirements “for everyone”. The protection of consumer rights in insurance is due to the presence of information asymmetry: the client often does not have the opportunity to fully assess the quality of the insurance product before the insured event occurs. Therefore, the regulatory logic includes not only financial regulations, but also behavioural supervision: transparency of contract terms, correctness of sales, handling of complaints, standards for settling losses, prevention of unfair practices. This is where the role of the mega-regulator manifests itself in coordinating consumer protection standards for the entire financial sector. To show how the goals of regulation are built into the system of financial supervision, it is advisable to compare “goal→risks→tools→performance indicators”, that is, the management chain of regulatory policy (Table 2).

Table 2. Regulatory objectives and management logic for the implementation

The purpose of regulation	What risks does it mitigate?	Management logic (what the regulator should do)	Examples of tools/mechanisms (functional)	Performance evaluation benchmarks (key performance indicators, KPIs)
Financial stability	Systemic risks, correlation of shocks, liquidity, concentrations	Defining risks early; prevent “knock-on” effects	Stress assessment, asset concentration control, risk management requirements	Reduction in the frequency of crises/market exits; stability of key sector indicators
Solvency of insurers	Insufficient reserves/capital, investment risk, ALM gaps	Ensuring that liabilities match assets and capital	Prudential requirements, asset quality assessment, reserve requirements, corporate governance oversight	Share of companies with sufficient capital/reserves; reduction in defaults
Consumer protection	Information asymmetry, unfair sales, payment delays	Minimising “unfair incentives” and ensuring fair practices	Transparency standards, behavioural oversight, complaint procedures, oversight of loss settlement	Reduction of complaints/violations; reduction of settlement times; increase of customer trust

Source: compiled by the author based on European Insurance and Occupational Pensions Authority (n.d.), International Association of Insurance Supervisors (2024)

The objectives of regulation form a hierarchy of risk management: from the systemic level (stability) to the micro level (solvency) and the level of customer interaction (protection). This demonstrates that the role of the NBU as a mega-regulator is one of policy-management coordination: aligning prudential and behavioural supervision, and not just “applying the rules”. It is the combination of these three goals that makes supervision effective: without consumer protection, trust falls, without solvency, fulfilment of obligations collapses, without stability, systemic risk increases. The conclusions obtained confirmed that the role of the National Bank of Ukraine as a mega-regulator is not only to exercise supervisory powers, but also to form a holistic regulatory policy and manage systemic risks in the insurance sector. It is this model that creates the prerequisites for increasing the stability of the insurance market and its contribution to the financial stability of Ukraine.

Functional aspects of the NBU’s activities as a mega-regulator

The functional aspects of the National Bank of Ukraine’s activities in the field of insurance market regulation are manifested through a complex of interrelated regulatory, supervisory, control and protective functions implemented within the framework of a unified system of financial supervision. The results obtained confirmed that the role of the National Bank of Ukraine as a mega-regulator goes beyond formal control over compliance with regulatory requirements and consists in forming a management logic for the development of the insurance market, taking into account systemic risks and financial stability goals. The regulatory function in the insurance sector is strategic in nature and is aimed at creating conditions for the financially sustainable functioning of insurance companies. Through the licensing mechanism, the National Bank of Ukraine carries out the initial selection of market

participants, assessing the business models, ownership structure, sources of capital and management capacity (Law of Ukraine No. 1953-IX, 2021). This approach allows minimising the risks of companies entering the market with opaque or excessively risky business models, which has preventive significance not only for the insurance sector, but also for the financial system as a whole.

Setting capital ratios, insurance reserves and asset structure requirements is a key tool for implementing prudential policy. The results of the analysis showed that these requirements are aimed at ensuring compliance between the risks taken by insurers and the financial capabilities. Thus, the regulatory activities of the NBU perform not only a restrictive but also a disciplinary

function, stimulating insurers to implement effective risk management systems, internal control and corporate governance. The supervisory function of the National Bank of Ukraine (2024) is implemented based on a combination of prudential and risk-oriented approaches. Risk-oriented supervision allows for differentiating the intensity of regulatory influence depending on the risk profile of a particular insurer. Companies with higher risk levels are subject to increased supervision, while financially sound market participants are subject to less regulatory pressure. This indicates a shift from universal control to risk management, which increases the efficiency of supervisory resources and contributes to the early detection of potential threats (Table 3).

Table 3. Regulatory and supervisory tools in the insurance sector

Tool	Management appointment	Main risks being minimised	Systemic effect
Licensing	Formation of a high-quality market composition	Entry of financially weak and untransparent companies	Increasing market confidence
Capital and reserve requirements	Ensuring solvency	Insurance and credit risks	Stability of fulfilment of obligations
Asset restrictions	Investment risk control	Concentration and market risks	Volatility reduction
Risk-based supervision	Focus on troubled insurers	Systemic and accumulated risks	Early response to threats
Corporate governance	Improving the quality of management	Agency and operational risks	Sustainability of business models

Source: compiled by the author based on Law of Ukraine No. 1953-IX (2021)

Regulatory and supervisory tools form a holistic risk management system, in which the emphasis is on preventing problems, rather than responding to already implemented violations. A risk-oriented approach allows for increased targeting of supervision and reducing the regulatory burden on financially stable insurance companies. The control function of the National Bank of Ukraine complements regulatory and supervisory activities, ensuring actual compliance with established requirements. The results of the study showed that the combination of remote monitoring with inspections allows the regulator to obtain comprehensive information about the financial condition of insurers and the quality of the operational activities. Control measures are mainly preventive in nature and are aimed at timely correction of the behaviour of market participants before violations become systemic. The application of enforcement measures is an element of

the control function and is implemented according to the principle of proportionality. The National Bank of Ukraine uses a phased scale of impact – from requirements to eliminate violations to restricting certain types of activities or revoking the licence. Such management logic allows minimising negative shocks to the insurance market and at the same time ensuring discipline of market participants. The protective function of insurance market regulation is aimed at protecting the rights of consumers of insurance services and overcoming information asymmetry between insurers and clients. The analysis showed that this function is implemented through requirements for the transparency of insurance products, information disclosure standards, control of sales practices and monitoring of insurance claims settlement. It is the protective function that builds trust in the insurance market and creates the prerequisites for its sustainable development (Table 4).

Table 4. Control and protective mechanisms for regulating the insurance market

Mechanism	Functional purpose	Object of influence	Expected result
Remote monitoring	Early detection of violations	Financial indicators of insurers	Crisis prevention
Inspection checks	Assessment of actual activity	Business processes	Improving discipline
Enforcement measures	Behaviour correction	Insurance companies	Reducing violations
Transparency standards	Eliminating information asymmetry	Insurance contracts	Informed customer choice
Complaints handling	Consumer protection	Insurer-client interaction	Growing trust

Source: compiled by the author based on I. Sirenko (2021), National Bank of Ukraine (2024)

Control and protective mechanisms complete the regulatory cycle, combining risk management with direct protection of consumer interests. The effectiveness depends on the balance between the rigidity of regulatory influence and the preventive, corrective logic of supervision, which is critically important for the stability of the insurance market in modern conditions. The results of the

study showed that the functional aspects of the National Bank of Ukraine's activities in the field of insurance market regulation form a holistic risk management system that combines regulatory, supervisory, control and protective functions. The regulatory and supervisory tools of the NBU are focused on ensuring the solvency of insurers and early detection of risks, while the control and protective

mechanisms are aimed at compliance with established requirements and protecting the rights of consumers of insurance services. Such a functional approach confirms the role of the NBU as a mega-regulator, which not only controls the activities of insurers, but also forms the management logic of the development of the insurance market and contributes to increasing its stability in the conditions of modern financial challenges.

Problems and directions of improvement of insurance regulation

The results of the study show that the insurance regulation system in Ukraine is in a phase of structural transformation, which is associated with the gradual harmonisation of legislation with the requirements of the European Union and the implementation of Solvency II standards. At the same time, the adaptation process remains incomplete, in particular due to the lack of full implementation of the Solvency Capital Requirement (SCR) and Own Risk and Solvency Assessment (ORSA), which limits the level of real integration of the national insurance market into the pan-European space (Bulantsov, 2025). The institutional incompleteness of the reforms is combined with the challenges of practical implementation of risk-based

supervision, especially in terms of the use of internal solvency assessment models. The increasing complexity of such models creates the risk of formal compliance with regulatory requirements without proper transparency, interpretability, and sensitivity testing of key assumptions. In the absence of a systematic approach to uncertainty analysis and standardised procedures for validating internal models, risk-based supervision may lose its preventive nature and turn into a formal compliance procedure (Borgonovo *et al.*, 2024). Thus, improving insurance regulation in Ukraine should combine institutional harmonisation with European standards and improving the quality of the methodological tools of prudential supervision (Bulantsov, 2025).

In this context, the issue of harmonising insurance regulation in Ukraine with European standards, which has a managerial and practical nature, becomes relevant. To assess the areas of improvement of supervisory tools, a comparative analysis of approaches to insurance regulation in Ukraine, Poland, Germany, and Romania was conducted according to the following criteria: the model of insurance supervision organisation, the application of prudential requirements within the framework of Solvency II, the use of a risk-based approach and elements of behavioural supervision (Table 5).

Table 5. Comparative characteristics of insurance supervision models

Criterion	Ukraine	Poland	Germany	Romania
Model for the organisation of insurance supervision	Mega-regulator (NBU)	The single financial regulator	BaFin's integrated supervision	The single regulator Romania's Financial Supervisory Authority (ASF)
Risk-oriented approach	Partially implemented	Basic principle of supervision	Complete and integrated	Formally implemented
Behavioural supervision	Being formed	Developed	Integrated into the prudential	Limited
The application of prudential requirements under Solvency II	Partial harmonisation	Full implementation	Full implementation	Formal implementation

Source: compiled by the author based on European Insurance and Occupational Pensions Authority (n.d.), Law of Romania No. 236/2018 (2018), Law of Ukraine No. 1953-IX (2021), Polish Financial Supervision Authority (2023), National Bank of Ukraine (2024), Federal Financial Supervisory Authority (2025)

The comparison shows that in Ukraine, risk-based supervision is in its infancy and largely relies on formal reporting, which limits its preventive nature. In Poland, a risk-based approach within the framework of the full implementation of Solvency II allows for differentiating requirements for insurers depending on the risk profile. In Germany, prudential and behavioural supervision are integrated into a single financial risk management system within Solvency II and are supplemented by stress testing. The experience of Romania demonstrates that the formal implementation of Solvency II requirements without proper institutional adaptation can cause crisis phenomena in the insurance market.

Based on the comparative analysis, it was established that increasing the effectiveness of the supervisory tools of the National Bank of Ukraine requires a comprehensive improvement of regulatory practice. Firstly, it is advisable to expand the application of the proportionality principle, under which the requirements for insurers are differentiated depending on the scale of activity and the

level of risk profile, which will avoid excessive regulatory burden on financially stable companies and at the same time strengthen control over risky market participants. A significant direction is the integration of behavioural and prudential supervision into a single system for assessing the activities of insurers, which will ensure simultaneous control of the financial stability and the quality of interaction with consumers of insurance services. In addition, it is advisable to introduce systemic stress testing to assess the impact of macroeconomic and financial shocks on the insurance sector and timely identification of potential threats to financial stability.

The presented analysis of prudential, behavioural and model aspects of insurance regulation has shown the presence of complex challenges that are formed at the intersection of European integration processes and the digital transformation of the insurance market. On the one hand, adapting Solvency II requirements requires not only regulatory harmonisation, but also the development of institutional capacity and the real implementation of

risk-based supervision. On the other hand, the digitalisation of distribution channels and the use of complex internal models create new regulatory risks related to the management of distribution risks and ensuring transparency

in the assessment of solvency. In view of this, it is advisable to systematise the identified problems by regulatory levels and determine priority areas for overcoming these challenges (Table 6).

Table 6. Systemic challenges of insurance regulation in the context of European integration and digital transformation

Regulatory level	Problem area	Nature of manifestation	Potentials and risks	Direction of improvement
Digital surveillance	Scaling of digital channels without enhanced control	Limited interpretability of risks in the digital environment	Regulatory gaps and accumulation of hidden risks	Integration of SupTech/RegTech and strengthening of analytical regulator functions
Institutional	Fragmented harmonisation of legislation	Lack of a systematic roadmap for adaptation	Regulatory gaps and asymmetry of standards	Strategic model of integration into the pan-European insurance space
Behavioural (IDD)	Limited regulation of online distribution	Application of the proportionality principle to ancillary intermediaries	Growth of mis-selling and violation of consumer protection	Review of the application of IDD to digital sales channels
Model (Internal models)	Increasing complexity of internal models	Black-box effect, use of artificial intelligence/machine learning	Opacity of solvency assessment and capital management	Introduction of sensitivity analysis and explainability approaches into the validation process
Solvency II	Incomplete implementation of SCR and ORSA	Formal implementation of risk-based supervision elements	Insufficient assessment of the real risk profile of insurers	Phased full integration of Solvency II requirements and development of institutional capacity

Source: compiled by the author based on P. Marano (2021), E. Borgonovo *et al.* (2024), I. Bulantsov (2025)

Systematisation of problems and directions for overcoming these challenges shows that modern challenges of insurance regulation in Ukraine are multi-level in nature and cover prudential, behavioural and model dimensions. The effectiveness of the regulatory system is determined not only by the formal implementation of Solvency II requirements, but also by the ability to ensure the real functioning of risk-oriented supervision, proper management of distribution risks in the conditions of digitalisation and transparency of internal models for assessing solvency. The combination of harmonisation with European standards, improvement of approaches to validation of internal models through the use of sensitivity analysis and explainability practices, as well as the development of digital supervision tools form the prerequisites for creating a sustainable, transparent and competitive model of insurance regulation in Ukraine.

It is advisable to consider the improvement of insurance regulation in Ukraine in the context of the transition from a reactive to a proactive risk management model. This approach involves not only responding to already implemented violations or crisis phenomena, but also systematic early detection of potential threats, forecasting the accumulation of systemic risks and preventing the transformation into financial instability. At the heart of this model is the regulator's ability to generate analytical signals based on complex data, assess the relationships between financial market segments, and timely adjust supervisory tools. The combination of risk-based and proportional approaches to supervision allows avoiding excessive regulatory pressure on financially stable companies and at the same time strengthening the requirements for participants with an increased risk profile. In this context, the experience of the European Union countries, in particular Romania, indicates the need to adapt European standards to national

institutional conditions, rather than mechanically copying these standards. Disproportionate implementation of Solvency II requirements without proper preparation of the regulatory infrastructure can lead to reduced competition and weakening trust in the insurance market.

Increasing the effectiveness of insurance regulation is associated with the development of the institutional capacity of the supervisory authority. This is not only about staffing, but also about investments in analytical tools, digital platforms for data collection and processing, as well as improving internal procedures for regulatory decision-making. Under such conditions, insurance regulation is transformed from a formal control of compliance with regulations into a tool for strategic provision of financial stability. Thus, the formation of an effective model of insurance regulation in Ukraine is based on a combination of adaptive harmonisation with European standards, the development of risk-oriented supervision and strengthening the institutional capabilities of the regulator. The implementation of these approaches creates the prerequisites for increasing the stability of the insurance sector, preserving the competitive environment and ensuring its ability to function in conditions of growing financial and regulatory complexity.

● DISCUSSION

The obtained research results allow for a comprehensive interpretation of the functional aspects of the National Bank of Ukraine's activities in the field of insurance market regulation and to assess the significance in the system of modern financial supervision. The analysis showed that the concentration of regulatory, supervisory, control and protective functions within one institutional centre creates the prerequisites for improving the manageability of the insurance sector. At the same time, the effectiveness of this

model depends on the level of development of risk-based supervision, the institutional capacity of the regulator and the ability of the regulatory environment to adapt to structural changes in the insurance market. In this context, the research results are important not only for assessing the current state of regulation, but also for understanding the managerial logic of state influence on the insurance sector.

The research results correlate with the approaches presented in scientific works devoted to the transformation of financial supervision after the introduction of the mega-regulator model. T. Basse (2020), applying time series analysis methods to 30-year government bond yields of Germany, France, Italy and Spain, showed that after the financial crisis, markets began to take into account a significant probability of sovereign default and redenomination risk when pricing government debt instruments. The author emphasised that long-term bonds are an important asset for European life insurers, while the Solvency II regulatory model does not fully take into account sovereign credit risk when calculating capital requirements. In this context, the study underlined the need to further improve the regulatory regime, taking into account the potential risks of sovereign debt for the financial stability of insurers. In the study, N. Ettlin *et al.* (2020) considered risk transfer in a network of insurance companies as a tool for managing capital and profitability. The authors showed that optimising the allocation of risks between insurers in a network environment reduces the total cost of capital and increases the efficiency of the system as a whole. At the same time, at the individual level there is no single optimal solution for risk transfer, while from the network perspective it is possible to determine a unique “fair” solution based on the principles of cooperative game theory. The results obtained point out the importance of the structure of relationships between insurers for ensuring systemic stability and reducing potential risks of interdependence. These studies underscored that the optimal distribution of risks between insurance companies within the network structure allows reducing the total cost of capital and increasing the stability of the system without the need for strict centralisation of management. The results obtained in this study are consistent with the above theoretical provisions, but show that institutional centralisation alone does not guarantee an increase in the effectiveness of insurance regulation without the development of analytical and risk-oriented supervision tools.

E. Siopi *et al.* (2023) found that strengthening capital requirements and insurance reserves has a positive effect on the solvency of insurance companies and is associated with increased consumer confidence in insurance services. A. Neill (2024), analysing macroprudential regulation in the financial sector as a whole, showed that stricter prudential standards contribute to the reduction of systemic risks, provided that the quality of supervisory control and transparency of reporting are adequate. The results obtained within the framework of this study are consistent with the above provisions and indicate that prudential requirements perform a stabilising function, but the effectiveness decreases in the case of formal implementation of risk management systems and insufficient integration of risk management into the corporate governance of insurance companies.

Researchers A. Garayeta *et al.* (2022) and G. Bonaccito *et al.* (2025), in the studies of risk-based supervision in insurance, show that focusing regulatory attention on the most vulnerable market segments increases the efficiency of the use of supervisory resources and allows for timely detection of risk accumulation. The authors also emphasised the importance of using quantitative risk assessment models in the activities of insurance companies. D.K. Nguyen & D.-T. Vo (2020) in the broader context of risk management of financial institutions, proved that the implementation of systemic risk management increases the ability to detect financial imbalances early, and the effectiveness of such an approach depends on the quality of available regulatory data. The results of this study were consistent with the above provisions and indicate that in Ukrainian conditions the potential of risk-based supervisory information and the uneven development of internal risk management systems in insurers.

In studies by European scholars, the principle of proportionality is considered as a tool for combining financial stability and market competitiveness. S.S. Labini *et al.* (2025) investigate the relationship between sustainable development-oriented management practices (ESG) and the financial performance of insurance companies in an international sample of 167 insurers for 2018-2022. The authors found that ESG-oriented strategies have a positive impact on the return on equity, with a statistically significant relationship confirmed for American insurance companies. The results also indicated the importance of high-quality corporate governance and the integration of environmental, social and governance factors into decision-making processes, which can contribute to increasing the financial sustainability of insurers. The results of this study were consistent with such provisions and indicate that the unified application of requirements to insurers with different levels of risk can contribute to the crowding out of small and medium-sized companies and increased market concentration.

F.-W. Huang *et al.* (2022), in the study, analyse the investment behaviour of insurers in the context of the decarbonisation of the economy and develop a model of two insurers, one of which makes carbon-linked investments, while the other adheres to a traditional investment strategy. The authors showed that in an environment with positive externalities from reducing emissions, a “free riding” effect arises, in which the benefits from improving environmental quality are partially distributed among market participants. The model establishes that policyholders act as “free consumers” of environmental benefits, while the costs of ensuring stability are borne by insurers through a decrease in the interest margin. The relationship between the volatility of carbon-linked investments, default barrier risks and insurance stability indicators are also demonstrated. M. van Bekkum *et al.* (2025) investigated the interaction of prudential and behavioural regulatory instruments and show that the combination helps to strengthen trust in financial institutions and increases the effectiveness of the protective function of the regulator. The results obtained within the framework of this study are consistent with such approaches and indicate that in Ukraine the protective function of the regulator is strengthening,

but is not yet fully integrated into the risk management system of the insurance market.

In studies of the harmonisation of financial regulation with European standards, significant attention is paid to risk-based assessment of solvency and development of supervisory tools. W. Ullah *et al.* (2024) pointed out the importance of comprehensive consideration of risks when assessing the stability of financial institutions, and C.P. Pedro *et al.* (2023) highlighted the need to develop national supervisory practices and analytical capacity of the regulator. The results of this study were consistent with such approaches and showed that the formal transfer of European requirements without the development of analytical and management tools limits the effectiveness of insurance supervision. Comparative studies of the implementation of Solvency II standards in the European Union countries also indicated the importance of gradual adaptation of regulatory changes. E. Borgonovo *et al.* (2024) noted that the phased implementation of regulatory requirements contributes to increasing the financial stability of insurers and reduces the risks of abrupt structural changes in the market. K. Puławska *et al.* (2026) investigated the sensitivity of insurance company quotes to extreme macro risks – climate, geopolitical and cyber risks – on a sample of insurers in the European Union, the United Kingdom, and the United States for 2015-2024. The authors found that climate risk causes the strongest reaction of stock prices and is systematically taken into account in risk premiums, while geopolitical and cyber risks have a weaker direct impact, but are also integrated into the risk premia formation mechanism. At the same time, markets quickly adjust prices after extreme events without long-term distortions, which indicates the adaptability of the insurance sector to systemic shocks. The results obtained confirm the relevance of these findings for Ukraine and justify the feasibility of an adaptive approach to the harmonisation of insurance regulation.

A.E. Camacho & R.L. Glicksman (2021) noted that the concentration of supervisory functions within a single regulatory centre contributes to greater consistency of regulatory policy, but at the same time increases the requirements for the regulator's institutional capacity, in particular regarding analytical expertise and managerial flexibility. H. Meral *et al.* (2026) prove that the integration of ESG factors into the activities of insurance companies is statistically associated with increased asset profitability, more effective cost management and increased investment returns. Taken together, these approaches indicated that both the institutional quality of the regulatory environment and the strategic orientation of insurers towards sustainability are important prerequisites for increasing the sustainability of the insurance sector. In summary, the discussion of the results showed that the study is consistent with the key provisions of the modern scientific discourse on insurance regulation and at the same time expands it, focusing on the managerial logic of implementing the functions of a mega-regulator. The revealed patterns confirmed the need to combine European regulatory standards taking into account the national characteristics of the development of the Ukrainian insurance market, which logically leads to the transition to the formulation of generalised conclusions of the study.

● CONCLUSIONS

The analysis outlined the systemic role of insurance regulation in the architecture of financial supervision in Ukraine and substantiated its importance as a mechanism for managing financial sector risks. It was shown that the insurance market performs a dual function: on the one hand, it acts as a financial shock absorber for households and businesses, on the other hand, as an institutional investor that accumulates long-term resources and transfers risks between the real and financial sectors. This gave grounds to argue that insurance regulation is not sectoral in nature, but is a component of a single financial supervision, within which the stability of insurers directly affects the liquidity, trust, and stability of the financial system as a whole.

The results of the analysis of the objectives of state regulation of the insurance market made it possible to clearly structure the managerial logic of regulatory policy. The analysis showed that financial stability, solvency of insurers and protection of consumer rights form an inter-related hierarchy of objectives, in which each element is a necessary condition for the effective functioning of the market. It is established that achieving financial stability requires early detection of systemic risks and coordination of supervisory approaches between segments of the financial market, while solvency is implemented through prudential requirements for capital, reserves, and asset management. Consumer protection, in turn, is considered a key factor in trust and sustainable development of the insurance sector in conditions of information asymmetry.

Within the framework of the analysis of the functional aspects of the National Bank of Ukraine, its role as a mega-regulator is justified, which forms not only the control environment, but also a holistic management model for the development of the insurance market. It is established that the regulatory and supervisory tools of the NBU are focused on preventive risk management through licensing, capital ratios, risk-based supervision and corporate governance requirements. Control and protective mechanisms complement this cycle, ensuring compliance with standards, correction of insurers' behaviour and increasing the level of consumer protection. Analytical generalisation shows that the effectiveness of this system does not depend on the rigidity of regulation, but on its proportionality and analytical capacity. At the same time, the generalisation of the analysis results allowed outlining a number of limitations and problems, in particular, the heterogeneity of the financial capacity of insurers, the formalisation of risk management systems, limited regulatory flexibility and institutional challenges in implementing risk-based supervision. A comparative analysis of the practices of the European Union countries shows that the key factor in effectiveness is not formal harmonisation of standards, but gradual adaptation taking into account national characteristics and the development of the regulator's analytical tools.

Based on the analysis, practical recommendations were formulated, which consist in the feasibility of further developing proportional and risk-based supervision, strengthening the regulator's analytical capabilities, as well as integrating behavioural supervision into the insurance market risk management system. The limitations

of the study are related to its analytical and theoretical nature and the lack of an expanded empirical dimension. Promising areas of further research include empirical assessment of the effectiveness of regulatory instruments, analysis of the impact of digitalisation and InsurTech solutions, and research into the long-term impact of regulatory changes on the financial stability of the insurance sector of Ukraine.

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Функціональні аспекти діяльності Національного банку України у сфері регулювання страхового ринку

Ілля Буланцов

Аспірант

Київський національний університет технологій та дизайну

01011, вул. Мала Шияновська, 2, м. Київ, Україна

<https://orcid.org/0009-0006-7487-1601>

Анотація. Актуальність дослідження була зумовлена зростанням системної ролі страхового ринку у фінансовій системі України та необхідністю підвищення ефективності фінансового нагляду в умовах концентрації регуляторних повноважень у Національному банку України. Метою статті було обґрунтування ролі регулювання страхового ринку як складової єдиної системи управління фінансовими ризиками та визначення управлінської логіки реалізації регуляторних, наглядових, контрольних і захисних функцій центрального банку. Методологія дослідження ґрунтувалася на комплексному аналітичному підході, що поєднував системний і структурно-функціональний аналіз із порівняльним вивченням моделей страхового регулювання України, Польщі, Німеччини та Румунії. У результаті дослідження було встановлено, що страховий ринок України виконував подвійну функцію фінансового амортизатора та інституційного інвестора, формуючи кілька каналів системного ризику через інвестиційні, групові та поведінкові зв'язки з іншими сегментами фінансового сектору. Було виявлено, що цілі державного регулювання страхового ринку – фінансова стабільність, платоспроможність страховиків і захист прав споживачів – утворювали ієрархічно взаємопов'язану систему управління ризиками, у межах якої платоспроможність виступала функціональною умовою стабільності, а захист споживачів – основою довіри до ринку. Показано, що регуляторні та наглядові інструменти центрального банку були орієнтовані на превентивне виявлення ризиків і диференціацію наглядового впливу, однак їх практична ефективність обмежувалася неоднорідною фінансовою спроможністю страховиків і формалізацією систем управління ризиками. Порівняльний аналіз засвідчив, що у Польщі та Німеччині ризик-орієнтований і пропорційний нагляд характеризувався вищою інституційною зрілістю, тоді як досвід Румунії продемонстрував ризики формальної гармонізації регуляторних стандартів без належної інституційної адаптації. Практичне значення дослідження полягало у можливості використання отриманих результатів для вдосконалення пропорційного та ризик-орієнтованого нагляду, розвитку аналітичних інструментів регулятора та підвищення стійкості страхового ринку України в умовах європейської інтеграції

Ключові слова: фінансовий нагляд; ризик-орієнтований підхід; фінансова стабільність; управління ризиками; поведінковий нагляд