

## **Impact of macroeconomic factors and regulations on insurance companies' operations and their financial stability**

Covid-19 as an example of unexpected event shattered the reality and caused substantial loss of lives and significantly affected the global economy. Action to prevent the spread of the disease has been taken internationally. As a result, the COVID-19 pandemic has led to global socio-economic disruption. The macroeconomic environment in Europe has been affected strongly by the global lockdown.

Additionally, Russia's invasion of Ukraine of 24th February 2022 likely will impact the global insurance industry substantially in the near to midterm. There are three risks to consider in the ongoing military conflict: political risk, transportation risk, and cyber risk. Currently it is observed that one of the greatest risks in terms of political and trade credit insurance refer to Ukraine. Financial losses resulting from the political risk insurance in Ukraine due to Russia's invasion will likely be significant. Moreover, insurers have raised the cost of providing cover for merchant ships through the Black Sea, adding to soaring rates to transport goods through the region for vessels still willing to sail after Russia's invasion of Ukraine. Furthermore, western intelligence agencies warned of chaos caused by a destructive "spillover" of any potential Russian cyberattacks on Ukraine's national infrastructure. Therefore, the current economic situation, caused by the Covid-19 and Russia's invasion of Ukraine, have significantly affected the functioning of insurance companies in Europe, as the insurance companies are in the delicate position of balancing a huge claims load with their own capital and solvency stability. This is very distressing information, because insurance companies are important for the stability of financial systems mainly because they are large investors in financial markets, and because insurers are safeguarding the financial stability of households and companies by insuring their risks.

During economic and financial prosperity, almost every new regulation appears to succeed. However, crises almost always test them. Thus, the analysis of regulation adoption challenges is highly relevant with respect to the current turbulent times caused by the COVID-19 and the Russian invasion of Ukraine. Therefore, given the current market situation, the research project goal is also to examine how insurance companies are affected by new regulations such as International Financial Reporting Standard (IFRS) 17 "Insurance Contracts". IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023. Consequently, we can expect significant changes in the financial statements and operations of European insurance companies in the coming years.

To this end, **general goal of this research is to investigate how the unexpected, macroeconomic factors and new regulations has affected insurance companies in Europe.** The research is going to examine two very important aspects. Firstly, how the COVID-19 and Russian invasion of Ukraine has affected the functioning of European insurance companies. Especially, how it has affected solvency, liquidity, profitability and stability of European insurance companies. Secondly, the purpose of this study is to provide a better understanding of the technical, operational, and business issues that can arise throughout the adoption of new regulations such as IFRS 17 in insurance undertakings.

This research project is an important contribution to the academic debate and may prove useful for policymakers. From the regulatory perspective, it shows the effectiveness of the solution proposed and implemented in the insurance sector. Additionally, in this research, we are going to test whether the new regulations, supposed to protect insurance companies from insolvency in case of a possible crisis, fulfilled its role.