The HOT SPOT

# U.S. Insurance Industry Exposure to Ukraine is Minimal, Mitigating Concern Over Prime Minister Departure and Continued Political Uncertainty (7/25/14)

The crisis in Ukraine continues, with the most recent news of Prime Minister Arseniy Yatsenyuk's resignation on July 24, triggered by dissolution of Ukraine's ruling coalition. Yatseynuk's resignation must be approved by parliament according to Ukraine's constitution. In the meantime, the existing cabinet remains in place until a new coalition is formed, likely after elections that are expected to occur in late October.

Yatsenyuk's administration commenced in Ukraine in February 2014 after street protests caused former President Viktor Yanukovych to flee. Since then, the eastern part of Ukraine has fought a pro-Russian rebellion that is believed to be supported by the government in Moscow. Remember that, in March, Crimea, the former Ukrainian peninsula, was annexed by Russia. Yatsenyuk is credited with leading Ukraine's economy during the crisis, implementing tough measures that resulted in the country receiving a $17 billion loan from the International Monetary Fund (IMF). To qualify for the next loan tranche from the IMF, Ukraine is expected to implement social spending cuts and army spending increases.

The yield on the 10-year Ukrainian U.S. dollar-denominated bond has been extremely volatile, ranging from 8.1% on July 23 to more than 11.0% in February 2014. After reaching a year-to-date low on July 23, the yield on the sovereign bond widened approximately 15 basis points to 8.2% on the news of the Ukrainian premier's resignation. These yields equate to prices ranging from $96 to $79, with the current price at $95.

According to Bloomberg data, the Ukrainian hryvnia has depreciated almost 30% against the U.S. dollar since the beginning of 2014 and remained relatively unchanged at 11.7 per dollar on the news.

As of year-end 2013, the U.S. insurance industry had a modest exposure of $85.2 million in Ukrainian bonds, $70.5 million of which was in sovereign debt. Ukrainian U.S. dollar-denominated long-term sovereign debt is rated CCC/Caa3/CCC by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. Other former USSR exposures include an aggregate of approximately $667 million with Georgia, Kazakhstan, Latvia, Lithuania and Slovenia as of year-end 2013. Despite the small exposure, the situation bears close monitoring until a resolution is reached, which is not expected to occur anytime soon. Further volatility is expected, as is economic and financial damage with the continued hostility between Ukraine and Russia.

The NAIC Capital Markets Bureau will continue to monitor events within this region and report as deemed appropriate regarding any potential impacts to the U.S. insurance industry's investments.