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THE ROLE OF THE INSURANCE SECTOR IN PROVISIONING THE FINANCIAL STABILITY OF THE STATE

Insurance plays an important role in supporting financial stability by minimizing risks, promoting economic resilience, and fostering trust among citizens and businesses. Insurance mechanisms allow economic agents to adopt choices that support economic growth while not incurring the entire burden of prospective losses. This risk-sharing function protects individual policyholders while also fortifying the financial system as a whole against systemic shocks.

Insurance firms are among the world's largest institutional investors, with substantial equity and debt portfolios. Their investment operations add liquidity to financial markets and aid in capital accumulation. Insurers assist to economic diversity and stability by transferring cash to various industries. For example, insurance companies' solid investing practices help reduce market volatility during economic downturns, contributing to overall financial balance.

The war in Ukraine has had a huge influence on the insurance business, resulting in a notable decrease in insurance coverage. This decline raises questions about insurers' solvency and ability to sustain financial stability in the face of rising warfare risks.To address these concerns, Ukrainian regulators have been attempting to improve insurers' financial stability by implementing stringent supervision and promoting best practices. These safeguards are intended to protect policyholders and maintain trust in the financial system, which is especially vital during times of economic volatility.

In addition, the European Bank for Reconstruction and Development (EBRD) has introduced a €110 million guarantee to revive reinsurance of war risks in domestic transport in Ukraine. The initiative aims to insure more than €1 billion worth of goods and vehicles in transit annually, thus supporting the insurance sector's ability to manage wartime risks and contribute to financial stability [1].

Despite these efforts, the insurance market continues to face significant challenges. The seven largest insurance companies now account for almost 37% of the market and 41.5% of total sector assets, indicating a concentration that could pose risks to financial stability if not properly managed. Thus, while Ukraine's insurance sector is under considerable pressure due to the ongoing conflicts, improved regulation and international support are crucial to strengthening its role in ensuring financial stability [2; 3].

Around the world, the insurance industry plays an important role in responding to natural disasters, thereby strengthening financial stability. In California, for example, the increasing frequency and intensity of wildfires has forced insurers such as State Farm to raise premiums significantly to cover the growing risks. The company's request for a 22% premium increase underscores the need for insurers to maintain adequate reserves to ensure their solvency and loss absorption capacity, which is vital to the stability of the financial system [4].

Insurance also contributes to financial stability by strengthening consumer and investor confidence. When individuals and businesses are confident that potential losses are covered, they are more likely to engage in economic activity, invest in new businesses, and consume goods and services. This confidence stimulates economic growth and strengthens the stability of financial markets. In Ukraine, despite the war, the availability of insurance products has provided a safety net that encourages further participation in the economy [5].

In addition, the role of the insurance sector is long-term. In the face of systemic risks, such as term investor supports the development of pandemics or global financial crises, the infrastructure and innovation, which are important insurance industry, act as a buffer to absorb components of a stable and growing economy. By shocks and preventing them from spreading investing in public projects, technology, and the economy. For example, during the environmental initiatives, insurers contributed to the COVID-19 pandemic, insurers played a crucial economic resilience and ability to withstand a role in covering healthcare and business financial shocks.

This investment activity not only generates profits for economic impact and maintaining financial insurers but also strengthens the financial system as stability. The regulatory framework is important to ensure that insurance companies operate in a manner that promotes financial stability. In Ukraine, regulators are working to enhance the financial soundness of insurers through rigorous supervision and the promotion of best practices. These measures are aimed at protecting policyholders and maintaining confidence in the financial system, which is particularly important in times of economic uncertainty.

Thus, the insurance industry plays a multifaceted role in ensuring financial stability. By mitigating risks, investing heavily, building trust, and complying with regulations, insurers are a pillar of economic resilience. The experience of Ukraine and other countries shows that a strong insurance sector is crucial for overcoming economic challenges and maintaining financial stability.

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