



Crisis management Impacts and consequences of the war in Ukraine

Banking and insurance

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Context

The war in Ukraine, as well as the unprecedented sanctions imposed by the European Union (EU), the United States (US) and their partners against Russia have had major consequences for financial services institutions.

For foreign companies operating in Russia or Ukraine, the first concern was the safety of their staff. They had to make difficult choices to keep employees on site or to suspend business relations with Russia.

This conflict has also generated a major refugee crisis with millions of people fleeing the war in Ukraine. In this context, the Council of the European Union has activated the exceptional temporary protection arrangements provided for in the Directive of July 20, 2001. In France, the conditions of implementation of this measure were specified in an instruction of March 10, 2022. In addition, the EU and the US, together with other countries, have imposed unprecedented sanctions on Russia in both their nature and their impact. They cover several key areas of the global economy:

- Comprehensive economic sanctions on territories
- Sanctions against individuals, officials and entities
- Sanctions against Russian financial institutions
- Sanctions on certain Russian banks from utilising the specialised payment message services (SWIFT) system
- Sanctions on capital markets and credit rating services

- Sanctions on sovereign debt
- Sanctions for foreign currency transactions
- Penalties for cash deposits
- Sanctions against certain sectors of the economy
- Other measures taken

These international tensions are also accompanied by effects in cyberspace. In order to prevent impacts, ANSSI recommends the implementation of priority preventive measures.

The impact of the shock on the European economy is unevenly distributed. Indeed, the rise in energy prices has a direct and global impact on all households and businesses, but some sectors depend more heavily on Russia. For example, the stock of French Direct Investment (FDI) in Russia stood at €19 billion in 2020, or 1.5% of the stock of French FDI abroad, including €3 billion in financial and insurance services¹.

We propose to identify the major impacts of this crisis for the actors of the banking and insurance sector.

1. Source : Economic and Social Resilience Plan of March 22, 2022





Multiple challenges

Mazars' financial services experts present the impacts that actors in the banking and insurance sector must face.

Activities

- Decide whether or not to maintain activity in Russia, Ukraine and neighbouring countries.
- Manage the risk of expropriation.
- Consider the implementation of a “de-risking” policy.
- Review the macroeconomic scenarios and their importance, in particular by taking into account changes in inflation and economic growth forecasts.
- Identify the impacted insurance activities linked to Russia or Ukraine and/or financed by a Russian actor and/or co-insured with a Russian actor: credit/surety insurance related to commercial activities with Russia or Ukraine, construction insurance (construction site stopped or construction site financing stopped), marine insurance (costs, operating losses).
- Take into account the impacts for assistance activities (repatriation, aid).

Crisis management

- Set up a crisis unit to closely monitor the evolution of the situation (team safety, sanctions and impacts, internal and external communication, etc.).
- Simulate the impacts of a possible extreme scenario, identify and anticipate the consequences of such a scenario.

Employee management

- Protect employees while maintaining the continuity of certain activities.
- Manage relations with employees in case of ownership of a subsidiary or branch in Russia.

Sanctions and embargo

- Effectively interpret and implement sanctions.
- Monitor sanctions
- Deal with peaks of activity in processing alerts related to the new sanctions.
- Map and identify the risk flows.
- Pay specific attention to highly exposed activities such as trade finance.

Multiple challenges

Financial risks

- Prepare for supervisory reviews to ensure the adequacy of risk management processes.
- Identify direct and indirect exposures (subsidiaries and holdings, counterparties, sanctions, risk of loss, etc.) to the Russia-Ukraine conflict.
- Implement a risk analysis based on a sectorial approach to credit risk in connection with the rise in energy and commodity prices.
- Identify, estimate and account for additional credit losses directly or indirectly related to the crisis (Ukrainian and Russian exposures, sectorial approach, etc.)
- Monitor potentially impacted sectors (agribusiness, agriculture, sectors exposed to energy and fuel prices, project financing, etc.).
- Monitor the valuation issues of financial assets for which market liquidity has suddenly disappeared.
- Analyse Russia's potential risk of default
- Draw the consequences of expected flow revisions on documented hedging relationships.

Operational risk

- Conduct an assessment of subcontractors to verify the continuity of their activity, the impact of the crisis on their activity, and their position with regard to sanctions.
- Redefine and revalue the risks and scenarios considered within the insurance and/or reinsurance captives.

Cyber risk

- Isolate the systems of the Russian and Ukrainian entities from the group to reduce the risk of attack.
- Ensure the resilience of the systems by properly anticipating the risk in case of physical presence in Russia and Ukraine.
- Increase cyber surveillance.
- Train your staff to ensure their increased vigilance.

Consolidation

- Identify the boundaries of the loss of accounting control concept
- (as opposed to, for example, a situation where control is retained but exercised under strong constraints).
- Examine whether certain entities have lost their significant influence.
- Determine whether the IFRS 5 standard is applicable.
- Ensure the continuity of operations of local entities.

Financial communication

- Carefully follow the borderline applicable to post-closing events.
- Disclose in the appendix the uncertainties and judgments made by the management.



Multiple challenges

Prudential/regulatory risks

- Consider a provision for increased inflation, especially when no other financial mechanism is available to absorb it and ensure that it is tax-deductible.
- Examine the short- and long-term impact of sanctions and economic uncertainty on risks (credit, market, etc.) and prudential ratios, as well as the sustainability of the business model.
- Verify the impact of inflation on technical issues for indexed liabilities.
- Anticipate equity trajectories and consider prudent distribution plans.
- Launch, for insurers and depending on exposure, a specific Own Risk and Solvency Assessment (ORSA) to take into account the evolution of the risk profile
- Assess the adequacy and effectiveness of internal controls and governance.

HR/global mobility

- Ensure that the operational terms and conditions of companies redeployed outside of conflict zones, and abroad, result in taxation in the host countries. Analyse the scope of application of the tax regime of the inpatriate tax regime in this specific context.

Contract/force majeure

- Examine the content of the various contracts and more particularly the force majeure clause to assess whether they provide for a specific definition or even a limitation or total exclusion of it.
- Determine whether the European entities are actually unable to perform the contracts they have entered into because of sanctions imposed at the national or European Union level.
- Consider, if necessary, the formal requirements for invoking force majeure and the consequences of its implementation (contract suspension or termination)

Contract/unforeseeability

- Review contracts to determine whether or not they contain a specific contingency clause for unforeseeable changes in circumstances.
- Consider the implementation of the theory of unforeseeability to force the renegotiation of the contract.
- Consider, depending on the circumstances, the renegotiation or termination of the contract.



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