

Policy Issues in Insurance



**Reforming the
Insurance Market
in Russia**



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No. 10



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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Foreword

A well developed insurance industry is of prime concern to the Russian Government given its pivotal role in economic and social development and financial stability. Although Russia's insurance sector is still at an early stage of development, it has great potential provided the authorities take the necessary steps. As part of financial market reforms and market opening to the international system, the Russian government has recently taken a number of legislative initiatives to improve the insurance business environment. In 2004, the Federal Law on the organisation of insurance business was amended to bring Russian legislation in line with international standards and to provide foreign investors with greater access to the Russian insurance market. Nevertheless, further improvements of the legal framework and regulations are needed to ensure the growth of a sound and competitive industry.

This report offers a critical review of insurance market developments in Russia and reform initiatives undertaken by the Russian government, makes an assessment of regulatory and supervisory framework and puts forward recommendations to Russian policymakers and market players. It provides an in-depth analyses of market structure and identifies growth perspectives for the years to come. Recent legislative and regulatory trends, including market opening measures, are given special attention. The report concludes with a series of recommendations aimed at further improving the regulatory and supervisory framework, strengthening governance of the insurance industry, ensuring financial soundness of insurance undertakings and enhancing policyholder protection.

This report was prepared in the context of the OECD's ongoing co-operation with Russia in the insurance field. It has benefited from contributions and comments from senior government officials and industry experts in the Russian Federation as well as from Delegations to the OECD Insurance and Private Pensions Committee which supports, through an extensive programme of co-operation with non-member economies, the development of sound, efficient and open insurance markets.

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Reforming the Insurance Market in Russia

by

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Executive Summary

Market overview

The Russian insurance state monopoly was abolished in 1988. Since that time, a competitive market orientated insurance industry has been slowly developing. Today, the market is characterised by low insurance penetration. We calculate that the insurance industry generates about USD 21 per person, life and non-life insurance combined, a figure that is substantially below most other central and eastern European countries.

An accurate assessment of market size is very difficult because a high proportion of “premiums” generated by the Russian market are derived from non-risk financial schemes, the purpose of which is to allow companies to reduce tax. It is probable that two thirds of the premium shown in official figures are derived from such schemes.

A further problem facing the market is the generally low capitalisation of insurance companies. There are concerns that some insurance companies may face financial difficulties because of lack of capital.

Nevertheless, the insurance market is now growing fast, insurance companies have greatly improved their technical expertise and the legislative framework has benefited from new legislation passed in 2004. The market has huge potential and there are clear signs that the potential is about to be realised. The Russian Federation is poised to achieve substantial expansion in its insurance sector which will be of ever-increasing benefit to its population and its growing industrial and mercantile base.

An explanation of the relatively slow growth facing the insurance market can be found in legacy of the Soviet insurance industry and in the financial instability experienced by Russia in the 1990s. In addition, the shortage of capital encouraged the development of captive companies, and the growth of financial schemes meant that many insurance companies, especially the larger companies obtain a very high proportion of their business from these non-insurance activities.

The result is that in 2003, the non-life market probably generated a premium volume of USD 3.5 billion. Motor was the largest class, growing very rapidly as a result of the introduction of compulsory motor third party liability insurance (motor TPL). More than 25 million policies of motor TPL were sold in the first year of the programme. Commercial property insurance is also growing fast

and Marine Aviation and Transport are an important segment of the non-life market. All classes of liability insurance, other than motor TPL are underdeveloped.

Motor is expected to continue to dominate the non-life market in the future, but other classes are also expected to contribute towards a continuing rapid growth. It is likely that the non-life market will grow at between 20% and 30% per year for the next five years with the implication that it will triple in size during this period.

Long-term life insurance is a very small part of the market. It is estimated that total long-term life premium is USD 120 million. The cause of the failure of the long-term insurance market to develop can be seen in the experience of financial instability of the 1990s and the general mistrust that the Russian population has in all Russian financial institutions.

There are some signs of growth in the long-term life and pensions sector, but it is difficult to make firm predictions as to what rate of growth will occur. Nevertheless, there is a huge potential and there are some signs that many of the socio-economic barriers facing the market have reduced substantially.

There are over 1 000 insurance companies in Russia, the majority of which are very small. A number of the larger companies are developing branch networks throughout Russia. These companies are some of the best known brand names. There are also a number of successful regional companies which are able to compete with the larger companies. International penetration of the market is limited. A number of major international insurance companies have entered the Russian market, but their share of total premium is small.

The legal and regulatory framework for insurance

The legal framework for insurance is set out first in the Civil Code, in which most of the basic legal concepts are defined. In general, this basic legal framework is based on similar legal concepts to those established in the West. Likewise, the Civil Code establishes a civil liability (tort) regime that follows established Western concepts.

The main specific legislation for insurance is the law “On the organisation of insurance business in the Russian Federation”. This law sets out the rules under which foreign investors can take control of Russian insurance companies. It also sets out the functions of the Insurance Supervisor and establishes the solvency rules.

After 1993, the law prohibited foreign investors from owning more than 49% of the shares of an insurance company. This prohibition was easily circumvented and a number of international insurance companies began operating in

Russia. In 1994, however, the Russian Government made an agreement with the European Union to allow free access to European insurance companies by 1999. As a result, the law was amended to allow foreign investors to control insurance companies, although a number of significant restrictions remained, the most important of which was the prohibition of foreign controlled insurance companies from transacting life insurance.

In 2004, further amendments to the law were passed. Investors from the European Union had most restrictions removed. Since it is possible for any insurance company to invest into Russia through a European subsidiary, this has led to a situation where the Russian insurance market is now more open despite the fact that a number of restrictions still apply to non European insurance companies.

Other major changes to the law were introduced in 2004 including the separation of life and non-life business, increasing minimum, capital requirements for all insurance companies, requiring senior insurance staff to be qualified and improving the system of insurance regulation and supervision.

In 2004, the Ministry of Finance of the Russian Federation became responsible for implementing state policy towards insurance. The insurance supervisor became a “Federal Service” in 2004, increasing its status as a supervisory authority. Licensing procedures were defined more precisely as was the supervisor’s intervention powers. In general, the amendments to the law passed in 2004 are a substantial improvement to the legal framework of the insurance industry.

Recommendations for further improvement in the insurance industry

The Russian government and the insurance industry have many accomplishments to their credit. The legal framework is greatly improved, technical expertise is higher and a system of insurance education is in place. Compulsory motor TPL insurance was introduced and the market is now growing strongly.

In the future, we expect the growth to continue and the reliance on financial schemes to reduce. We expect the legal framework to continue to improve as the insurance regulator brings in a substantial body of enabling legislation following the amendments to the law in 2004. We believe that the market is moving in the right direction and our recommendations are intended to assist a process that is already occurring.

Our two main recommendations are first that the Government close the tax loopholes that permit excessive provision of financial schemes subscribed by corporations through insurance companies. We believe that heavy reliance on

these schemes is detrimental to the insurance industry itself and insurance companies should themselves see the necessity for closing these loopholes.

Our second main recommendation is that there should be an increased emphasis on financial stability of insurance companies. Insurance company failure will set back the developing confidence that the Russian public has in the insurance industry. More and better quality capital is needed and specific measures need to be taken to ensure that the insurance consumer is protected against loss. Companies need to provide more and better information and should use international accounting standards.

Other recommendations include the continuing development of insurance education, especially continuing professional education for staff and agents; the development of a wider range of life insurance products and the introduction of a monitoring system to prevent insurance fraud.

Chapter 1

The Russian Insurance Market in 2004

1.1. Introduction: Key characteristics of the market

1.1.1. Low insurance penetration

The Russian insurance market in 2004 remains at an early stage in its transition from a state monopoly into a fully developed competitive industry. For a number of reasons, outlined in this report, it is difficult to gain a totally accurate picture of the size of the market in 2004, but most professionals who follow the market¹ concur in calculating that the premium volume of standard non-life business is about USD 3 to USD 4 billion. Similar calculations have been made for the long-term life insurance market. Here observers agree that long-term life insurance and voluntary pension business hardly exists at all. A premium volume of USD 100-USD 120 million is the contemporary estimate for the standard long-term life market.

Using these estimated figures it is possible to calculate insurance penetration. Based on a population figure for the Russian Federation of 143 million (which is, itself, a statistic open to question) the Russian non-life market generates just over USD 20 insurance premium per person per year. As for the long-term life market, the Russian population on average pays about 80 cents per year to protect their assets and their families through life insurance.

Using the Swiss Re Sigma figures² as a comparison, it can be seen that the Russian insurance market is small compared with most countries with a similar level of urbanisation and industrialisation – with the significant exception of other countries in the former Soviet Union such as the Ukraine and some of the less developed former socialist countries of Eastern Europe such as Romania and Bulgaria. In 2003, the Czech Republic insurance industry generated USD 139.40 in life premium per person and USD 224 in non-life premiums. The equivalent figures for Poland were USD 59.90 life and USD 102.20 non-life.

Two implications flow from this situation. First, it is clear that some explanation for the slow development of insurance in Russia is required. In this report we shall refer to the various barriers that have prevented both life and non-life business growing as would be expected. It is our view that some of these barriers are beginning to fall. Furthermore, during the period in which growth was slow, the insurance market has made excellent strides in

improving its expertise and the Government has significantly improved the legal and regulatory environment within which the market operates.

From these conclusions follow the second implication: there is substantial potential in the Russian insurance market once it begins to grow. It is our view that the process of real and sustained growth is now beginning. The mere size of the Russian population means that simply to develop to the Polish level of penetration leads to a life market of nearly USD 9 billion and a non-life market of just over USD 15 billion. Few doubt that in time the Russian market can reach these levels. One of the objectives of this report is to attempt to answer the question as to when it will do so.

1.1.2. Standard insurance and financial schemes

There is one unusual feature of the Russian insurance market. As we have said, it is impossible to estimate the total premium for standard classes of insurance. One of the main reasons for this is that a high percentage of the “premiums” shown in the official statistics are derived from financial transactions which are not insurance. In this report we will use the word “standard” to refer to classical types of insurance which are generally underwritten in Western insurance companies, including long-term life insurance policies which have a savings element. We will use the word “financial schemes” to refer to pseudo-insurance transactions carried out by insurance companies the sole purpose of which is to allow the purchaser of the “insurance” policy to reduce a personal or corporate tax burden. These schemes neither transfer risk nor do they provide long-term life protection with a savings element.

It is important to understand that these schemes are not illegal. They simply exploit quite legal, in most cases, loopholes in Russian tax legislation.

The total volume of such business is significant. We will estimate that “financial schemes” linked to life insurance generated in 2003 just over USD 5 billion in “premiums” and schemes linked to the non-life sector probably generated a further USD 3 to 4 billion. It should be stressed that since the whole purpose of these schemes is to mask insurance transactions where no risk element exists, it is impossible accurately to estimate the full extent of the schemes. Nevertheless, few would doubt that the figures included above are a reasonable estimate and few would doubt that fully two thirds of the “official” premium income of the Russian market is derived from financial schemes or from other non insurance operations.

A number of our recommendations refer to these schemes and to methods by which the industry can reduce its unhelpful reliance upon them.³

1.1.3. Low capitalisation

A third feature of the Russian insurance market that will be addressed in this report is the structure of the market. Premium income is small, yet there are a large number of insurance companies operating in one form or another. While the number is declining at the present time, there are some 1 000 licensed insurance companies in Russia today, many with very small business portfolios and most with inadequate capital.

The situation is made worse by the fact that many insurance companies have overvalued assets that compose their capital. The transition to a well capitalised secure insurance industry is vital to the Russian economy and its growing consumer population. A number of our recommendations relate to improvements in this area.

1.1.4. Improved technical and legislative framework

We began this report by stressing the underdeveloped nature of the Russian insurance market and pointing to the major challenges that exist. It is, however, also important to stress the many positive sides of the Russian market. The competitive market has grown slowly in terms of premium volume. However it has also greatly improved its technical ability and resources. Many insurance companies have been operating for over ten years and during this time they have developed expertise and experience in standard classes of insurance. There has been a strong growth in insurance education and most companies have invested significant sums in training.

No one would deny that more needs to be accomplished, but at the same time credit must be given to the insurance industry for the way in which companies have developed their professional skills whilst having to operate in an environment which in many ways has been hostile to the development of standard insurance.

The amendments to the law “On the organisation of insurance business in the Russian Federation” passed in 2004 (the Law of 2004) have made substantial improvements to the legislative framework within which insurance operates in Russia. Further improvements are expected as enabling regulations are issued by the Ministry of Finance. This law demonstrates that much has been learnt since the original law came into force in 1993. The legal and regulatory framework is now more advanced, and whilst we make recommendations for improvements, these must be seen as suggestions for travelling further on a road along which the journey has begun.

It is our view that the insurance market is now much better prepared to sustain the prolonged growth that we expect over the next decade.

1.2. Market history

1.2.1. The legacy of the Soviet system

The first set of explanations for the slower development of the Russian insurance industry relate to the legacy of the Soviet system, both in its overall social and economic management methods and in the specific way in which insurance was then organised. Time and again, when something appearing odd to a Western observer is encountered, the explanation is found in history. One example, of relevance to this report is the peculiar system of classification of insurance that was used until 2004: this system made it impossible to assess the development of many different classes of insurance. The explanation is simply that this system of classification related to the functions of insurance under the Soviet system and had not been changed to reflect the new basis for insurance.

There are a number of legacies of the Soviet system that acted as barriers to the development of a market based system. These barriers can be summarised to include:

1. No industrial or commercial enterprise was insured. There remains great unfamiliarity as to the purpose of insurance.
2. The government used the state insurance company (Gosstrakh) to administer the distribution of subsidies, particularly in agriculture. These payments were described as “insurance” and as a result, legislators and government officials had a misleading orientation about the nature of insurance.
3. Life insurance was used to provide a short term savings system. No long-term business was developed.
4. Where real insurance policies were sold (motor insurance or the insurance of dachas) the state insurance company had a reputation for slow payment of claims.
5. The non-life standard insurance sold by Gosstrakh used simple tariff systems calculated centrally. Reserving likewise was arranged centrally. There were few requirements for technically qualified staff.
6. Few insurance staff had any experience of operations in a competitive market.

These barriers in themselves are not sufficient explanations for the slow development of insurance in Russia, but combined with other barriers, they had a braking effect on the growth of insurance. The ignorance of enterprises as to the real purpose of insurance has contributed to the development of tax reduction schemes.

The Soviet Union had two monopoly insurance companies. The larger of the two, Gosstrakh, insured domestic risks. Its largest area of business was the agricultural sector but it also insured private property of citizens (dachas, motor vehicles and the contents of apartments). It employed over 100 000 people in Russia alone and had a similar number of agents.

Ingosstrakh was the company that insured the Soviet Union's international risks. The company had long been active in the international reinsurance market and owned insurance companies in the United Kingdom, Germany and Austria. It had, by far, the largest pool of qualified and experienced staff. Significantly for the future, the company began insuring the property of embassy staff and international joint ventures inside Russia in the 1980s. Ingosstrakh was able to build on this experience and establish the largest portfolio of property business after the end of the state insurance monopoly.

1.2.2. Transition to a market economy – socio-economic factors

The history of the modern Russian insurance market began in 1988 when the state monopoly over insurance was abolished throughout the Soviet Union. The new market had to establish itself during a period of almost unprecedented financial chaos as the planned economy was abandoned and a market based system began its slow development. It is clear that during this period, a number of socio-economic factors acted as barriers to the development of the insurance industry.

Perhaps the main barrier was the uncertainty that faced all Russians as the planned economy disappeared. Many Russians were uncertain about whether they would receive their salary for months at a time. This hardly created good conditions for taking a long-term perspective on saving and family protection. Similarly, enterprise managers faced vast cash flow problems, often having to resort to barter. Faced in addition with a larger tax burden, these managers had no time or inclination to consider insurance. They did, however, have a huge incentive to reduce their tax burden. Financial schemes developed from the uncertainty and the tax burden faced by enterprises.

A further factor that has acted as a barrier was the inflation of the 1990s.⁴ As will be discussed in more detail, inflation reduced or eliminated the value of millions of life insurance policies and generated a mistrust in life insurance that remains evident today. The financial crisis of 1998, whilst having little direct effect on the insurance industry reinforced an existing mistrust in all Russian financial institutions. Problems in the banking sector in 2004 demonstrated how fragile the trust is that has been built up since 1998.

Stability and a degree of prosperity has now returned to Russia. It is our view that many of the socio-economic factors that acted as barriers to the development of the insurance industry mitigated. Many more enterprises, especially small and medium sized companies, now are acting as commercial organisations. There is a growing middle class with increasing disposable income and this alone provides promise for the accelerating development of insurance. Mistrust of financial institutions remains and we will discuss this issue further along with measures to increase the financial strength of the insurance industry which form a major theme in our recommendations.

1.2.3. The development of the market in the 1990s

As we outlined the Market Overview, the development of the insurance market in the first ten years of the Russian market economy was slower than would have been expected. The life insurance market collapsed in the inflation of the 1990s and has yet to fully recover. Non-life business was transacted, and despite the fact that volumes were not significant, invaluable experience was gained in many areas of insurance. There is no question that the insurance industry is today is much more experienced and has a more professional cadre than ten years ago. This is an achievement for which the industry can be proud, since this experience was gained in the turmoil of socio-economic change.

Initially, the standard insurance business areas were those areas in which Russian enterprises required insurance to transact cross-border business and where Russian insurance companies needed to purchase reinsurance in the international reinsurance market. Marine, Aviation and Transport insurance was important early on to Russian companies. On the one hand they had clients that needed insurance and on the other hand they had the support of the major reinsurers and international brokers who provided training and other technical support. Oil and natural gas exploration and development was also important to a number of companies and increasingly other major enterprises began to insure parts of their physical plants. Since at the time the real capacity of the Russian market was little more than USD 20 million, the need for international reinsurance was compelling.

Motor insurance (primarily physical damage) was early an important component of many company portfolios. Whilst it was calculated that under 5% of cars were insured in 2000, this still indicated that about 1.5 million cars were insured with a total annual premium (in our estimate) of over USD 400 million. Companies gained experience in underwriting, pricing and claims management, and this experience has proved vital when the compulsory motor third party liability insurance (TPL) was introduced in 2003.

Liability insurance (other than motor since 2003) was and is underdeveloped. Few enterprises think about facing court cases, and they are probably correct to do so in the short and medium term.

In general, until the development of compulsory motor TPL insurance (“compulsory motor TPL insurance”), there was no mass market personal lines business in Russia. Sales and marketing programmes were rudimentary and many companies were effectively outside the market, acting as captive insurers.

1.2.4. The development of market structure

During the development of the insurance market in the 1990s, the characteristic Russian market structure began to develop. Most insurance companies were founded by industrial or financial groups and they derived most of their business from the companies their owners controlled. Over time a number of these companies began to develop free market business with varying degrees of success.

During the same period, other insurance companies were founded which had political connections with local or regional government. Most of these companies expected to obtain their business through these connections. A number of companies were founded by sectors of the government, such as the Russian military and the internal police.

A third group of companies were created when the law was modified to require that companies administering the state medical programme (known as “compulsory medical insurance”) to be separate from insurance companies that transacted other business. Some of these specialised companies remain quite large and appear in lists of the largest insurance companies.

Insurance companies with an independent capital base and concentrating predominantly on standard types of insurance were not predominant.

A further aspect of market structure began to develop. Many of the larger companies, usually based in Moscow, set up branches throughout the Russian Federation. Outside Moscow, they began to compete with companies whose business was derived from a local area. These companies are known as “regional” companies, many of which have survived the competition and are flourishing today.

1.2.5. International insurance companies in the Russian market

Despite the slow growth in the market, legislation that made it hard for foreign companies to operate (described later in the report in section 4.3) a number of international insurance companies have entered the Russian market. Amongst companies with operations in Russia by the end of the 1990s were the Allianz Group, AIG, Alte Leipziger (now Ergo) which bought a

shareholding in the “Rus” insurance company and Zurich Financial Services. Other companies purchased small shares in insurance companies such as Groupe Axa (the Rossiya Insurance Company) and Lloyd’s syndicate group Amlin (in the Transsiberian Reinsurance Corporation). As might be expected, most of these companies specialised in non-life business, although AIG has expended considerable effort in developing AIG Life, and we estimate the company has about 50% of the current standard life insurance market.

A number of investors including the European Bank for Reconstruction and Development set up a life insurance company, the Principal Insurance Company, in the mid 1990s. For reasons outlined in this report, the venture failed and the company has now ceased trading and surrendered its license.

1.3. The market today

1.3.1. The problem of statistics

It has already been concluded that it is impossible to obtain an accurate assessment of the size of the insurance market in standard classes of insurance from the official statistics. The main cause of this difficulty is that such a high proportion of “insurance” business is derived from financial schemes.

A second difficulty is easier to solve. A significant amount of “premium”, making up the total market premium, is derived from what is called “compulsory medical insurance”. In 2003, premium for compulsory medical insurance totalled nearly USD 2.5 billion. The compulsory medical insurance programme is not insurance: it is the method whereby the state administers its medical budget through special insurance companies. These companies perform a valuable function, but for the purposes of the statistics below, this premium is excluded from the total. Other “compulsory” classes are included in the non-life totals since most of these schemes do have an element of risk insurance.

A further difficulty arises from the classification used by Russian statistical services. This classification was based, as already noted, on a Soviet methodology and made it difficult for any Western observer to analyse the market using “normal” classification of insurance types. One example should suffice: “property” insurance in Russia includes premium derived from all property, whether it is marine (hull and cargo), aviation, motor physical damage or “non-marine property”. Breaking these statistics down to what in the West would be different classes is impossible. Having said that, in recent years there have been improvements and the Law of 2004 introduced a new methodology largely based on the European classification.

1.3.2. Methods of estimation

Faced with the difficulty of calculating the size of the market and analysis by class, a number of observers have developed methodologies for reaching a “reasoned guess”.⁵ No expert would claim that his or her estimate is more than an experienced guess, yet, most reach results that are remarkably similar given the difficulties.

In our view, the best estimate is provided by the United Financial Group (UFG) in Moscow.⁶ Whilst we have minor disagreements with some of the methodology, overall, we believe that the analysis most accurately reflect the market for standard classes of insurance.

We do not think that it is essential to set out in this report the methodology used by UFG in estimating the size of the real insurance market. Full details of the methodology can be found in the report. We accept that the figures that we use are estimates and those using different methodologies will produce different results. Nevertheless, we stand by our position that although we cannot provide definitive figures as to the “real” size of the Russian insurance market, our main conclusions remain valid. These conclusions are:

- Almost all the premium shown in the official statistics as “life insurance” is derived from financial schemes.
- Property insurance (and other types of insurance) are also being used as a vehicle for financial schemes.
- The amount of premium derived from types of insurance that is recognised outside Russia as being insurance is significantly less than the figures shown in the official statistics.

Once again, therefore, we stress that the following analysis should be seen as a best estimate and no more.

1.3.3. Market size and breakdown by class

Our first table sets out an estimate of the total market size, based on 2003 figures as supplied by the Ministry of Finance Department of insurance supervision (as it then was). This table will set out clearly our view as to the extent of financial schemes.

Table 1.1 shows very clearly the heavy reliance the Russian market has on financial schemes.⁷ It is our estimate that 72% of total insurance premiums (excluding compulsory medical) are derived from various types of scheme that are not standard insurance.

**Table 1.1. The Russian insurance market:
official statistics and standard insurance**

2003

	Standard					
	Official figures		Estimate "schemes"		Market estimate	
	Rubles 000	USD 000	Rubles 000	USD 000	Rubles 000	USD 000
Life	187 506 471	6 356 152	184 113 971	6 241 152	3 392 500	115 000
Non-life	192 937 075	6 540 240	91 722 575	3 109 240	101 214 500	3 431 000
Total	380 443 546	12 896 391	275 836 546	9 350 391	104 607 000	3 546 000

Note: the information for life and non-life market premium are derived from the UFG report.

The breakdown of premium income by class for 2003 based on UFG estimates for all classes is as follows:

Table 1.2.

	USD m
Life, accident and health	
Life	115
Medical	351
Accident and illness	170
Non-marine property	
Fire and allied perils	717
Financial risks	12
Other	171
Motor	
Private motor PD	547
Voluntary liability	84
Compulsory TPL	845
Commercial motor	237
Marine Aviation and Transport	
Property	110
Cargo	47
Liability	
Liability excl. motor	139
TOTAL	3 545

It will be seen that the Russian market is similar to other developing markets in that motor (physical damage and liability combined) dominates the non-life sector. Almost exactly 50% of premium is derived from motor and it is expected that this figure will rise, since the 2003 results included only half a year of premium from compulsory motor TPL insurance.

Non-marine property (fire and allied perils etc.) is also important, making up just over 20% of the total. Other classes are small, particularly liability. The various classes will be discussed in more detail as this report continues.

1.3.4. Compulsory insurance and compulsory state insurance

The word “compulsory” when applied to insurance in Russia causes confusion because it refers to two separate types of insurance. The first type is where the premium is paid out of the state budget and this premium is then distributed by insurance companies to the recipients. This type of insurance is known as “compulsory state insurance” in the Civil Code, but in the insurance statistics it is classified as “compulsory” insurance.

The largest programme of compulsory state insurance is the state medical programme. In 2003 this scheme distributed rubles 72 billion (USD 2.5 billion) to medical facilities using specialist insurance companies as administrators. There are other smaller compulsory state insurance schemes one of which provides personal accident insurance for various groups of state employees and the other insures railway passengers against accidents.

The second type of compulsory insurance is where the law imposes an obligation on citizens or legal entities to insure. In Russia, compulsory motor TPL insurance produces the greatest amount of premium. This class is considered in the statistics to be “compulsory” in the same way as compulsory medical insurance.

To add to the confusion, there are other insurance programmes that are “compulsory” in the sense that they have to be purchased, but these do not seem to appear in the statistics as compulsory or if they do, they generate very small amounts of premium for the total amount of “other compulsory liability premium shown in the official statistics is less than USD 500 000.

These programmes include a scheme for the compulsory insurance of dangerous enterprises and the compulsory insurance of professional liability for some professions, usually connected with customs. The insurance is required to ensure that these professions are in a position to pay the customs dues.

There have been, for a number of years, proposals submitted to the State Duma to make other classes compulsory. In our view, there is little likelihood of these proposals succeeding since Duma deputies are under pressure from voters to reduce premiums for compulsory motor TPL insurance. It is unlikely that they will add additional cost burdens to voters.

1.4. Growth trends

1.4.1. Life insurance

The amount of premium from long-term life insurance is very small, and whilst most observers consider that it is growing it is difficult to predict that it is at a stage where it will “take off” and develop into a major market. Life insurance is the most uncertain component of any growth prediction. A number of attempts have been made to estimate the potential of the life insurance market using comparisons with the insurance history of other emerging markets. It is most common to use Central and Eastern Europe as the industries with which Russia is destined to “catch up” in the future. This is a reasonable approach, since the insurance industries in these countries under the socialist system shared many of the main features of the Russian insurance industry and likewise the countries faced many similar socio-economic problems during the transition from a centrally planned economy to a market economy.

One “catch up” model is based on the relation between life insurance premiums and GDP. Table 1.3 compares Russia with other central and eastern European countries in 2003.⁸

Table 1.3.

	Life premiums as % of GDP
Czech Republic	1.72
Hungary	1.20
Poland	1.12
Russia	0.03

Using forecasts of GDP growth it is possible to make an estimate of the total premium for long-term life once Russia has “caught up” with the chosen model. One such estimate using this approach by UFG estimates that the Russian life insurance market will generate over USD 37 billion by 2016. At that time they estimate further that life insurance premiums will be 2.54% of GDP.

Such “catch up” models have one major flaw. Few would argue against the proposition that it is inconceivable for a developed market economy not to have a long-term life insurance market. Few would question that the most likely development model of the Russian insurance market will be the former socialist countries of Central and Eastern Europe. The difficulty is that it is impossible to say when the “catch up” will take place. The Russian long-term market hardly exists today and it is not certain that real and substantial growth has yet begun. Nevertheless, despite the uncertainty about the timing of the growth, the “catch up” models do underline the vast potential of the Russian long-term life and pensions market.

1.4.2. Non-life insurance

Most analysis of the Russian market has had to concentrate on non-life in that the life sector is under-developed. All analyses, whether they agree on total numbers or not, accept that the Russian non-life market has been growing strongly, at least since 2000. It is not possible to use UFG to determine long term growth as these data only contain figures from 2002 and 2003. Using an estimate from Droege and Comp. GmbH (using a different methodology than UFG and with different market totals)⁹ it is possible to see a longer term growth pattern:

Table 1.4. **Droege & Comp. estimates of market growth**

Class	2000		2001		2002		2003	
	Rubles (bn)	USD (mn)	Rubles (bn)	USD (mn)	Rubles (bn)	USD (mn)	Rubles (bn)	USD (mn)
Long term life	1.20	40	1.50	50	1.86	60	2.33	80
Voluntary medical	8.61	287	13.50	450	18.14	585	22.68	782
Personal excluding life	1.05	35	1.20	40	1.40	45	1.75	60
Marine, aviation, transport	8.40	280	9.00	300	10.79	348	13.49	465
Motor Kasko and liability	16.56	552	22.20	740	31.99	1 032	57.58	1 986
Fire	8.64	288	12.30	410	15.50	500	19.38	668
Liability	6.60	220	8.91	297	12.21	394	15.26	526
Total	51.06	1 702	68.61	2 287	91.88	2 964	132.46	4 567

This model demonstrates the market growing at a rate of 34% between 2000 and 2001, 30% the next year and in the final year, after the introduction of compulsory motor TPL insurance, it grew at over 50%. UFG, whilst having an overall total lower than the above model, has the market growing at no less than 92% between 2002 and 2003.

Despite all the uncertainties, it is clear that fast growth, albeit from a low base, is now taking place. Whether this growth can be sustained over a long period is not entirely clear. It is probable that the very fast growth following the introduction of compulsory motor TPL insurance will continue into 2004, since this will be the first full year. In subsequent years it is likely that the rate of growth will be less, but it is entirely possible to continue at an annual rate of between 25% and 30% over the next five to seven years if not longer.

Most observers believe that the non-life insurance market continued to grow strongly in 2004, although final figures are not yet available.

1.4.3. The future prospects of the Russian insurance market

All estimates of the future size of the Russian market begin with the assumption that at some time in the future, the level of insurance penetration

of the Russian market will reach that of more developed central and eastern European countries in both life and non-life. Using the levels of penetration achieved in Poland, for instance would result in a Russian insurance market generating USD 8.7 billion annually in life premiums and USD 14.8 billion annually in non-life premiums.

In our view, there is no purpose in this report in an attempt to forecast how large the market will be in five to ten years. We are, however, convinced that the non-life market is growing rapidly today, and we are strongly of the opinion that it will continue to do so, though the rate of growth will reduce from the very high levels today to a level that nevertheless is high by Western European standards.

We are somewhat less certain about the long-term life insurance market. It is our view that the market needs to reconsider the types of policies that it sells and the methods it uses to distribute them. A number of our recommendations relate to these issues.¹⁰

Whilst we see no purpose here in trying to make a concrete forecast, we are prepared to state our view that the Russian insurance market faces exciting growth prospects. Even the most pessimistic forecasts see the non-life market doubling or even tripling in size within just a few years. As for the life insurance and private pension market, we believe that it is inconceivable that a developed industrial society such as Russia is becoming, will not support a substantial life insurance industry. Those insurance companies that overcome the barriers facing them will reap a huge reward given the size and growing prosperity of the country.

1.5. Market structure

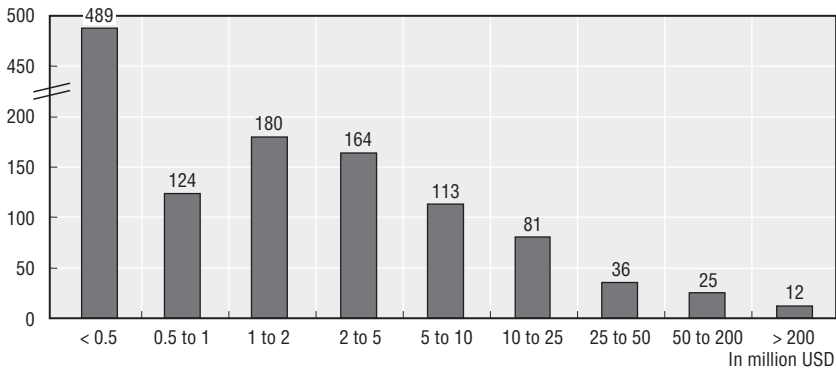
1.5.1. Distribution of companies by size

There are about a thousand insurance companies in Russia: the majority of these companies are small even by Russian standards: there were 489 companies with a premium income of less than USD 500 000. At the same time there are a number of large companies. In 2003, the largest company in Russia had premium income of over USD 1 billion (see Figure 1.1).

At first sight, it appears that the largest companies dominate the market. In 2003, the top thirty companies had a combined premium income of USD 8.27 billion, over 55% of total market premium income. The top hundred companies take 77% share of total market premiums.

However, when the actual business written by the larger companies is analysed, it is discovered that many of the very large companies gain their premium income mainly from scheme business. Thus the largest company in Russia, with a premium income of over USD 1 billion, gained 96.3% of this

Figure 1.1. **Breakdown of the insurance market by company size**
2003



income from “life” insurance. The second largest company, with a premium income of just over USD 800 million gained just under 80% of its business from life insurance and the third largest earned 98.7% from life insurance. All of these companies must be seen as predominantly operating financial schemes.

Of the top seven companies, four derived more than 90% of their premium from financial schemes and two derived between 55% and 80% from schemes. Only one company in the top seven can be seen as predominantly reliant on standard classes of insurance. To reinforce the point, of the top thirty companies, nine derived more than 90% of their business from scheme business, and if it can be said that a company is dominated by scheme business if more than 66% of its business is derived from them, then 13 of the top thirty companies are “dominated by scheme business”.

Another factor mitigates the dominance of the larger companies since many of the larger companies are captive companies. Whilst a number of captives do attempt to obtain business in the market, most of their income is derived from their owners and in this sense most are not major competitors to the market companies. Of the top thirty companies, five might be described as actual or former captives.

Finally, a number of the largest companies derive most if not all of their income from “compulsory” insurance other than compulsory motor TPL. There are two compulsory medical insurance companies in the top thirty.

1.5.2. Company types

It can be seen that it is possible to make a classification of insurance companies based on the type of business that they undertake. Such a classification is bound to contain inaccuracies, but nevertheless it is a useful

tool for understanding the structure of the Russian insurance market. The classifications we have developed are as follows:

1. Companies that are predominantly dependent on financial schemes. These are companies where we estimate that over 66% of their business is derived from schemes.
2. Companies heavily dependent on schemes. These are companies where between 40% and 65% of their business is derived from schemes.
3. Captive insurance companies.
4. Compulsory medical insurance companies.
5. Companies mainly dependent on standard classes of insurance.

It is difficult to classify all insurance companies merely by looking at their business profile. It is easy to see financial scheme business when it is classified as “life insurance” but it is much more difficult to identify financial schemes using non-life classes. In addition it is not possible always to identify captive insurance companies. Therefore Table 1.5 must be seen as very much as a general estimate of market structure.

Table 1.5. Classification of the top 100 insurance companies in 2003

Type of company	
Predominantly scheme business	16
Heavily dependent on scheme business	7
Captive	25
Compulsory medical insurer	22
Mainly dependent on standard classes	30
	100

It will be noted that the companies that are most dependent on financial scheme business tend to be the largest companies. They dominate the “life insurance” business. Captives are spread fairly evenly throughout the top 100 as are the medical insurance companies.

We estimate that there are about thirty insurance companies in the top 100 primarily dependent on standard classes of insurance. In 2002 we estimated far fewer companies to fall into this category. It is noticeable that many of the Rosgosstrakh affiliated companies have risen in the list. This is a reflection of the fact that Rosgosstrakh is by far the leading insurance company in the compulsory motor TPL insurance field.

1.5.3. National and regional companies

All the companies that are predominantly dependent on standard insurance in the top thirty operate throughout Russia. They all have branches

in many parts of the country. However there are a number of regional companies in the top 100 and more in the top 200. Of course some regional companies are captives, there are many regional medical insurance companies and some regional companies are dependent on schemes. However, it is our view that in general, regional companies tend to rely more on standard business and in addition have better balanced portfolios of business. The insurance of the larger enterprises is usually handled by the in-house captive and reinsured in the first instance by the larger companies. Regional companies tend to concentrate on motor and smaller commercial risks. The fact that they are locally owned means that they often have good relationships with other local entrepreneurs and with the regional government. Regional governments will often encourage their local insurance companies, since these companies pay taxes locally. The larger companies pay tax where they are registered, which is usually Moscow.

Many of the larger companies believe that regional companies have marginal future prospects. The Moscow companies are clearly wealthier and have access to capital. They are gaining brand recognition throughout the country and they have the resources to market themselves.

The regional companies disagree. They are well aware that a number of the larger companies will become powerful insurance companies with a portfolio of business from all regions of the country. However, they see that many of these companies have difficulties in controlling their branches: in one region, there is only one branch of a larger company where the branch manager has been in place for more than two years. In addition, the regional companies can exploit local feeling and can build on this local loyalty by building up a reputation of being closer to the customer.

It is our view that a number of regional companies will continue to operate successfully for the foreseeable future. We see the Russian market as being a mixture of large companies and smaller regional insurance companies.

1.5.4. International companies

There will be a third component to the market: it is clear that a number of international companies will continue to operate in Russia and it is likely that, in time, more will enter.

Fear of international competition was a major factor driving Russian insurers to oppose the opening of the market to foreign competition.¹¹ However, when all restrictions were removed for European companies in early 2004, there was not an immediate queue of foreign insurers applying for a license. Those Russians who expected an avalanche have been proved wrong. Only two major international investors have entered the Russian

market in the 16 months since the law was changed. In April 2005, Ace set up a wholly owned company, and TBIH, a Dutch based investment fund bought Standard Reserve, a medium sized Moscow based company.

However, those international companies that are already in Russia are beginning to grow. At the present time, however, it cannot be said that international companies have a major presence in the market. Allianz has a minority stake in the ROSNO Insurance Group, which is twelfth in size by total premium volume but is probably the third largest company mainly dependent on standard insurance. AIG Russia is 47th by premium volume, but, of course, will be higher in the list of companies mostly dependent on standard insurance. The total market share of majority-controlled foreign companies is therefore likely to be very small: we estimate it to be under 5% of the market in standard insurance. The market share of all companies with some foreign shareholding is larger, but is still likely to be under 20%.

The main fear of the Russians has always been that foreign companies will dominate the life insurance market as they suffer less from the mistrust Russians have of financial institutions. At the present time, AIG has the largest market share in the tiny life insurance market and ROSNO is aiming to develop a share in this market as well.

It is difficult to predict how international competition will develop over time in both the life and the non-life sectors. The Russian market is undercapitalised and in the past, major international companies have been able to provide capital; but it is uncertain whether large amounts of capital will be available from international companies in the near future. The very size of Russia and the rapid growth that is expected means that substantial injections of capital will be required. We estimate that at least USD 2-3 billion in capital will be needed over the next few years for the non-life market alone. It is not certain where it will come from, but we believe that the potential of the market will attract expansion capital.

If Russian companies are able to attract capital from sources other than insurance companies, then it seems likely that they will be able to develop over the short term without major competition from many international companies and thus establish themselves as major insurance companies. Nothing can be said, however, of the long term.

Notes

1. Details of our sources of information are to be found in Appendix 1, "Sources and bibliography".
2. Sigma 3/2004 "World insurance in 2003", published Spring 2004.
3. See 7.3.2 and 7.4.1.

4. Inflation peaked in 1992 at over 2300%. It reduced to 840% in 1993, 215% in 1994 and 131% in 1995 (Author's figures).
5. See Appendix 1, "Sources and bibliography".
6. "Russian Insurance in 2003", published August 2004.
7. There are two official sources of insurance statistics in Russia. The Insurance Supervisor issues quarterly premium and claims figures. The Russian state statistical service (Rosstat) also receives annual returns from insurance companies but these figures are not published although they are available on subscription. The All-Russian Insurance Association also collects statistics from its members. Whilst not all insurance companies are members of ARIA, most standard insurance is carried out by its members.
8. Sigma 3/2004 "World insurance in 2003", published Spring 2004.
9. This estimate was published in Droege and Comp's first "Insurance newsletter" using data up to 2002. The estimate was updated, using 2003 figures in March 2004.
10. The recommendation that the market widens the range of life insurance products is in Section 7.4.5. In 7.4.7 we recommend greater training for agents. In the long term we would expect life insurance to be sold through dedicated agent sales channels, but we do not recommend that this takes place immediately as it is impractical in most cases.
11. See section 4.3 for a discussion on developments in the law restricting the access of foreign controlled insurance companies to the Russian insurance market.

Chapter 2

Life Insurance

2.1. Introduction

It has already been noted that long-term life insurance hardly exists in the Russian Federation today. Most observers¹ put total annual premiums for all long-term life insurance (individual and group) in 2003 as being about USD 100 million, meaning that per head of population, Russians spend less than USD 1 per year to protect their families. It is unusual to see an urbanised and industrialised country without a life insurance industry.

In the first section we outlined some of the barriers to the development of life insurance in Russia. We put forward our view that as the economy stabilises and as the population becomes more prosperous, some of the socio-economic barriers to the development of long-term life insurance are reducing in their significance. We also suggested that the population still mistrusts financial institutions and is reluctant to lodge savings in these institutions. This barrier, therefore, remains.

In this section we look in more detail at the other barriers that we believe face the life insurance industry. We begin with history, since current views as to what constitutes life insurance are heavily influenced by what happened under the Soviet system. Most “life insurance” premium is derived from financial schemes and it is our view that dependence on this type of business has had a largely negative impact on the growth of traditional life insurance.

We then look at the current long-term life market and at the companies that are actively trying to promote and sell policies. As in many countries, the pension system is being reformed in Russia and we will examine how this reform could impact the long-term insurance market. We will conclude with a brief look into the future to see where and how we expect the market to develop.

2.1.1. Life insurance under the Soviet system: the impact of history

Life insurance has failed to develop strongly in every part of the former Soviet Union other than in the Baltic States where special conditions and a mercantile tradition apply. Clearly one possible cause of this failure can be seen in the system of life insurance that existed under the Soviet system. The state monopoly, Gosstrakh, was a large organisation, with over 100 000 employees and a similar number of agents in Russia alone. Under the central planning system, the function of the Gosstrakh life insurance operation was to attract

personal savings. In general, the savings of the population of the main urban areas went to Sberbank, the state savings bank, while Gosstrakh made most of its sales in the small towns and among the rural population.

The insurance policies that Gosstrakh sold were almost all short term savings policies. The premiums were collected on a regular basis by agents. One common product was a policy purchased by parents or Grandparents for children. These policies tended to mature at some specified date or a specified event, such as a school graduation or a wedding. The maturity values were not large, but were thought to be worthwhile in a society with few other savings opportunities.

This type of policy (or savings instrument) is what Russians today still consider as “life insurance” and indeed, people talk of “insuring their children” when they mean setting up a savings policy for them. One of the main factors hindering the development of life insurance is a lack of financial understanding and education, a lack shared by legislators, many insurance companies and by the general public. It is significant that the contemporary Russian word used to describe life insurance policies is best translated as “accumulative” policies. There is little knowledge or understanding of the original purpose of life insurance which was to pay a capital sum in the event of death.

However, it should be said that there is an increasing understanding of what is called “risk” life policies, largely because banks insist on this cover when they grant mortgages.

Gosstrakh sold life policies (and other classes as well) through agents. In general, these agents receive little if any training and did not specialise in any class of insurance. Such a system has been accepted by many insurance companies today. In general, these agents concentrate on the classes of insurance that are relatively easy to sell. Life insurance is difficult to sell for reasons discussed below and therefore agents tend to avoid this class of business.

2.1.2. The impact of inflation and financial crisis

As has already been discussed, if any event can be said to be the single greatest cause of the absence of life insurance in Russia today, it must be the inflation of the 1990s which effectively minimised the value of millions of life insurance policies. None of the policies had any form of protection against inflation, such as indexation and as a result, many Russians found that the proceeds of their insurance policy were hardly enough to purchase one ticket on the metro. Not surprisingly, the impact of this loss on the credibility of life insurance was massive and still exists today.

Russian insurance companies are well aware of the fact that the population is wary of or uninformed about life insurance. However, it must be

said that the response to this barrier has been to try to sell policies very similar to those which lost their value in the recent past. Many companies are becoming aware that they need to develop modern policies that are more sophisticated than short-term savings policies that compete with bank deposits. Many companies, for instance, would like to develop indexed policies, but have failed to do so, largely because the investment instruments that would support these policies are not available in the Russian investment market. However they are also aware that their potential clients and their agents perceive “life insurance” to be a mechanism for short term saving and they realise that it will be difficult and relatively expensive to overcome this perception. A number of our recommendations point to possible ways in which the market might co-operate to reduce the cost of changing the public’s perception of life insurance.

2.1.3. The impact of financial schemes

It was noted above that over two thirds of the income of the insurance industry in Russia is derived from financial schemes which exploit the tax deductibility of insurance premiums to allow their clients to reduce their overall tax burden without the insurance company bearing any insurance risk. These schemes are usually legal, in the sense that they exploit loopholes in tax legislation.

The heavy reliance on non-risk financial schemes by the insurance industry has, in our view, had a major and unfortunate impact on the development of the long-term life insurance market. On the one hand, it is argued by many in the industry that this business has allowed insurance companies to survive and develop their technical expertise in standard insurance during a period when other business was not available because of the social and economic situation in the country. Without this business, it has been said, insurance companies would not have been able to operate effectively. There is some truth in this argument, in that some of the companies that transact scheme business have also invested some of the profits of this business in developing their technical expertise.

A further argument is that insurance company clients insist they provide the tax minimisation service if they want to also provide other standard insurance services. It is not clear how widespread this demand from clients has been but certainly many in the industry suggest that providing financial schemes is simply a response to client demand.

On the other hand there is also no doubt that by allowing insurance to be used as simply a vehicle for tax reduction, without any risk transfer, the insurance industry has reinforced in many a negative view of the industry. It has not overcome the ignorance of the real purpose of insurance held, in

particular, by senior managers in commercial enterprises – the main consumers of scheme business.

In addition, by assisting enterprises to reduce tax, the insurance industry had created the danger of antagonising the government at a time when constructive support is vital to support further development. Western experience shows that when a government closes tax loopholes exploited by insurance company, the resulting legislation is often detrimental to all insurance companies, not just to those companies that provided the mechanism to exploit the loopholes.

This issue will be addressed further when we outline our recommendations.²

2.1.4. *Illegal companies and pyramid schemes*

At the same time that insurance companies were developing scheme business, others were targeting the savings of the Russian population, the majority of which was kept in dollar notes and hidden in family apartments. A number of fraudulent schemes gathered significant amounts of money, the most notorious of which was Sergei Mavrody's "MMM" pyramid which defaulted in a spectacular fashion in 1994. At the same time a number of foreign insurance companies and agencies sold illegal currency policies, the value of which were usually minimal even when they were not downright fraudulent.

Many of these policies were sold through a sales system referred to as "multi level marketing" which involved sales agents being paid for recruiting further sales agents. As is usual, the majority of premiums disappeared as commission and there was a very high lapse rate. However, the Russian market learnt that the general public appeared to trust any foreign insurance company, however obscure, more than Russian companies. Many Russians today believe that only foreign insurance companies will be able to develop long term life insurance and voluntary pension business.

2.1.5. *The environment in 2004*

In 2004, the economy is continuing to grow strongly and there is substantial evidence that the sector of the population with disposable income is increasing. Property purchase using mortgages is increasing especially in Moscow and many of the other large cities. There is no doubt, therefore, that now exists a potential pool of clients for insurance policies that both protect family income and provide long-term savings. The socio-economic barriers which have fallen were not within the control of the insurance industry. The barriers that remain, however, are barriers that the insurance industry can and should overcome themselves.

We have identified two main barriers: the first is the general distrust of financial institutions. It is our view that this mistrust can only be overcome slowly and that any evidence of financial weakness in the insurance industry will immediately set back the process of regaining trust. The insurance industry therefore has a huge interest in preventing insurance company failure. Many of our recommendations relate to measures to increase the financial stability of the insurance industry, without which it is difficult to see long-term life insurance developing.³

The second barrier is the narrow portfolio of policies sold. To broaden the range will require capital and significant commitment to agent training. It could also require the development of alternative sales channels in addition to the traditional agent system.

2.2. The current market in life insurance

2.2.1. Market size companies and products

UFG has estimated that the current annual premium income of the Russian life insurance market is USD 115 million. This estimate is, of necessity, derived from discussions with companies, because there are no reliable statistics. Nevertheless it is broadly in line with most other estimates.

Whilst a number of companies advertise life insurance products, only two appear to have had any success at all in selling policies to individuals. These companies are Rosgosstrakh, which in 2003 had a premium income of USD 32 million and AIG Life which had income of USD 23 million.

It is certain that Rosgosstrakh is continuing to sell the policies for which it has long been known. These short term small value policies clearly still have an attractiveness but the client base is likely to be in small towns or rural areas and the policies will be an alternative to a bank deposit.

AIG has been developing its life company for over six years and it may be thought that to achieve a premium volume of USD 23 million in this time is hardly a noteworthy success. However, in the context of a market where no one else has had much success at all, it is an achievement and most look to see the company being in a leading position in the future.

Ingosstrakh has developed a portfolio of corporate term life business and is the clear market leader in this sector, but premium income is below USD 10 million and most clients are foreign companies operating in Russia.

2.2.2. Sales and distribution methods

Both AIG and Rosgosstrakh sell through agents. The Rosgosstrakh agents are probably similar to those of former times, more used to collecting small premiums on a regular basis. AIG has over time spent considerable time

recruiting and training agents. Even so, most observers feel that it has proved difficult to train agents and many leave for other companies who prefer to recruit trained agents.

In general, the agent system in Russia today is an area of marked weakness. Companies report that agents “represent” many different companies at the same time and therefore the companies are unable to control them. Agents will concentrate on those policies that are easiest to sell and this has militated against the development of dedicated life insurance agents.

We make a number of recommendations aimed at improving the agent system and developing new sales channels.

2.2.3. Pension reform and the insurance market

Russia is in the process of reforming its pension scheme. Given the large population, this reform is often described as the most massive pension reform ever and many in the insurance industry believed that their companies would benefit from the growth of the privatised sectors of the three tier pension scheme.

Most attention has been paid to the “second tier”, the occupational based schemes, where the employer collects pension contribution for all employees. Employees will have the option to select a private pension fund manager (or by default remain in the state pension fund). Insurance companies tried to be authorised to act as pension managers but were not approved. As a result at the present time, they are not major players in the occupational pension schemes set up under the pension reform.

Insurance companies are permitted to offer “third tier” voluntary personal or group pensions. Essentially, these products are similar to other long-term life insurance products. ING has entered this market and is selling pension plans mainly to foreign companies. After a slow start, the company is seeing increased interest in voluntary pension schemes. There is as yet little sign of Russian enterprises showing any interest in such voluntary “third tier” pensions.

2.3. The future of life insurance: falling of the barriers?

2.3.1. Growth potential: domestic companies

It is our view that the socio-economic environment, within which the life insurance industry operates, is greatly improved. The barriers that remain can be overcome by actions that are, to a great extent, under the control of the insurance industry itself.

If the market can ensure that the industry is seen to be financially secure, and if it can develop and sell new products, then the potential is vast. Most

observers believe that 10% of the population of Russia (and probably 20% in Moscow) has sufficient disposable income to purchase life insurance and maintain an improving lifestyle. If these “middle class” individuals spent USD 500 per year on life insurance and other long-term products, then an annual premium of over USD 7 billion would be generated. This is a target that is clearly achievable and the companies that first successfully enter this market can expect to grow rapidly and achieve a dominating market share.

Experience in Eastern Europe has shown that as the market grows rapidly, substantial expansion capital injections are required. Russia will be no exception, especially since the industry is undercapitalised. If domestic companies are to be able to gain and maintain market share they will need to attract long-term capital. Some of our recommendations relate to this issue.⁴

2.3.2. The impact of foreign companies

Before 2004, foreign-controlled insurance companies were technically not permitted to underwrite life insurance in Russia. As we will suggest below, this prohibition had little effect. On the one hand, some foreign controlled companies were permitted to operate under a “grandfather” clause in the legislation. On the other hand, the legislation was relatively easy to circumvent. It is our view that every company that wished to enter the Russian market did so in one form or another.

Therefore when European insurance companies were allowed to enter the life insurance market without any restriction, there was no immediate application for licenses from foreign controlled companies. However in spring 2005 two companies entered the Russian market. Both expressed an interest in life insurance but of necessity their business is likely to be dominated by non-life in the near future.

As noted already, most Russians believe that foreign insurance companies have a major advantage over domestic companies in the field of long term life insurance and the failure of new companies to enter the market has caused considerable surprise. Many Russian insurance companies are seeking foreign partners for their life insurance operations. They believe that only if the Russian public believes that the company is foreign will they be prepared to trust it with their long term savings.

There are, therefore, significant opportunities for foreign companies in the Russian life insurance market today. If it is correct that foreign life insurance companies have an advantage over domestic companies, then some companies will undoubtedly exploit this advantage. In addition there will be no shortage of potential partners if a foreign insurance company wishes to enter the market through a joint venture rather than through a “green field”. However it should be understood that since the market is small by

international standards, even entering the market with a partner will be very similar to a “green field” start up.

2.3.3. New products and sales methods

It is essential that the market changes the perception of its potential clients as to what life insurance is and what is its purpose. The industry cannot compete in the long term with banks for short and medium term deposits. It is essential to develop products that differentiate life insurance from products that are better provided by banks. It is also essential to find effective methods of marketing and selling these products. If the industry as a whole realises the need to change public perceptions, it could begin the process of change at less cost to any individual insurance company.

Nevertheless, there is no doubt that all companies that seriously want to develop their life insurance business will have to invest funds to develop their products and distribution. The return on this investment will be substantial, but only in the longer term. Again the question of investment comes to the fore: companies need to find long-term sources of capital. It is not certain that there are many investors in Russia who take this long-term perspective even today.

It is axiomatic that as an economy develops, as disposable income increases and as consumption power is experienced, both life insurance programs and services and retirement planning will become important elements in society. Life insurance can and should be an important element of the insurance market and we should expect this to occur in the Russian Federation. It is uncertain whether this phenomenon will be insurer-led or consumer-driven, although it will most likely be a combination of both. While it may be problematic, those insurance organisations that decide to focus on life insurance and pension supplements should achieve both a competitive advantage and significant financial success.

Notes

1. See Appendix 1 “Sources and bibliography”.
2. We recommend both that the Government introduces legislation to close the tax loopholes (7.3.2) and companies seek to reduce their reliance on these financial schemes (7.4.1).
3. See sections 7.3.3.- 7.3.6 and sections 7.4.5 and 7.4.6.
4. We recommend that insurance companies provide more information about themselves (7.3.4) and encourage external rating (7.3.5) and international accounting standards (7.3.6). Companies will find it difficult to attract investors until they are more transparent. Furthermore, we feel that reliance on financial schemes makes companies less attractive to investors (7.4.1).

Chapter 3

Non-life Insurance

3.1. Introduction

The Russian insurance market has been essentially a non-life market. The best estimate of its size and structure has been made by UFG, which believes that if financial scheme and non market captive insurance are excluded from the results, the total annual premium income is USD 3.4 billion or about USD 20 per capita.¹ This is small by most international standards, however, the non-life market is growing rapidly, with the motor insurance sector in particular experiencing a substantial increase in premiums.

However, financial schemes remain a lingering component of the non-life market. In addition, the domination of certain sectors by captive insurance companies, which provide various non-insurance financial services for their shareholders, also distorts market performance and results.

Just as in the life insurance sector, the history of the market is continuing to affect the present. In this section we will therefore review briefly recent history before assessing the current situation. We will then look into the future to evaluate how the undoubted potential of the market is likely to be realised.

3.1.1. Non-life insurance under the Soviet system

The Soviet insurance system under the state monopoly company, Gosstrakh, provided a narrow range of non-life insurance products. No industrial or commercial property was insured either for physical damage or liability – these risks were self-insured by the state. Urban housing was not insured although it was possible to insure the contents of apartments. Private motor insurance was available, but few Russians had cars and even fewer insured them.

The main classes of insurance were the “compulsory” schemes. The first group of these as insurance were programmes where the state paid the premiums. The largest such programme was the “insurance” of agriculture, which was in reality a mechanism for distributing farm subsidies using the state insurance organisation as the administrator. It is not surprising that when the state wanted to distribute its funds to support health services, they used a similar “insurance” scheme with insurance companies acting as administrators.

The other compulsory insurance scheme was the insurance of country houses and dachas. In this case the Russian consumer paid the premiums. It ceased to be compulsory to insure country homes in the early 1990s.

3.1.2. The importance of international contacts

Once the state insurance monopoly was eliminated in 1988, the new insurance companies began to develop. Not surprisingly, the first areas where they looked for business was in the areas where Gosstrakh had provided insurance cover: personal lines and motor insurance. However, they initially experienced little meaningful success.

More important for the development of the market was the fact that enterprises and transport companies that wanted to engage in international business often were compelled to buy insurance. Moreover, such business was easily reinsured in the international marketplace. As a result, Marine, Aviation and Transport insurance (MAT) had a great significance in helping the nascent market develop technical skills as a result of international co-operation. Reinsurance companies and international brokers provided training and experience to many companies. This early training was often the first exposure to Western insurance practices that many of today's senior insurance executives received. In recent years more formal training and technical support was provided by various funding bodies, the most notable of which were the three European Union TACIS projects, helping to develop insurance education and providing wider professional support.

3.1.3. The impact of tax reduction schemes and captive companies

It has already been noted that industrial enterprises did not insure under the Soviet system. Commercial property insurance has been slow to develop and it is an area where various financial schemes are prominent. Often these financial schemes are developed through captive insurance companies. Historically, the captive form of insurance company organisation is one of the main features of the Russian insurance market.

3.1.4. Market changes in the 1990s

Throughout the 1990s companies slowly grew their portfolio of non-life business. Various levels of experience were gained in most functional areas of insurance. Considering the large number of insurance companies and their low capitalisation, there were few bankruptcies, though it was notable that the few companies that did fail often had a large motor account. Kontinent Polis, which failed in 1999 was owned by a number of car manufacturers and had the largest motor portfolio at the time.

Non-marine property business slowly developed. Often the impetus to buy insurance was the requirement to obtain investment. The oil and gas industry led the way and its captives have been amongst the largest companies for some time and today many are attempting to move away from being purely captive companies into fully integrated and market orientated insurance companies.

During this period, the market leader in standard business was Ingosstrakh, which managed to develop a strong domestic portfolio alongside its international business. Rosgosstrakh, however, failed to maintain its strong position. It was re-structured into a large number of semi-independent regional companies. Even today it is not clear how these companies are related under a single owner which purchased the company when it was privatised. However, the various regional Rosgosstrakh companies have captured a large market share of the motor TPL business, since Rosgosstrakh has the most extensive branch network of all insurance companies.

A number of regional insurance companies began to develop portfolios of business amongst their local small and medium sized businesses. Regional companies also were able to develop personal lines business by emphasising their regional identities.

International companies played a minor role in the market. Most concentrated on servicing international clients operating in Russia and no international company has sought a license to underwrite motor TPL business.

3.1.5. The environment in 2004

The non-life market has not faced the huge barriers faced by the long-term life market. Nevertheless, there were substantial barriers to development, the largest of which was the general ignorance of insurance amongst industrial managers and the general public.

The introduction of compulsory motor TPL insurance has added millions of new clients to the insurance industry. This is expected to have a major impact on the market. Already substantial amounts of new premium have been received by those insurance companies writing the class and companies are gaining much-needed experience in handling this mass-market business.

However, it is not clear what the ultimate loss ratio for motor TPL business will be. There are concerns that some companies will face financial difficulties if their portfolio of business has an excessively high loss ratio. Some of these fears were realised in 2005 when a number of insurance companies had their licenses suspended or withdrawn because of financial difficulties.

3.2. The current market in non-life insurance

A breakdown of structure the non-life market was set out in section 1 of this report. In this section we will discuss the current situation for the main classes of non-life business.

3.2.1. Motor insurance – voluntary physical damage and liability insurance

The Russian market has underwritten motor physical damage insurance for many years and has gained helpful experience in risk assessment and claims handling. Estimates of the percentage of cars that were insured against physical damage usually put the figure at under 5%, but this still generated over USD 800 million in premium in 2003.² Very few car owners bought motor TPL liability insurance before it became compulsory. Only international companies tended to buy this insurance cover and today they are the main purchasers of liability limits higher than those required by law which are very low.

Many companies expected to lose voluntary motor insurance when motor TPL was made compulsory but this has not happened to a great degree. Voluntary motor insurance is, in our view, still growing and will continue to do so, driven by higher car ownership, higher vehicle values and if purchased on credit, a requirement for coverage. Motor is expected to make up over 50% of the non-life market for the next few years at least.

Loss ratios for voluntary motor insurance are generally low by Western standards, but expenses can be higher.

The leading companies in voluntary motor insurance are Ingosstrakh, which has a long-standing portfolio of motor fleets belonging to international companies and Reso-Garantiya which has the largest private car portfolio. Rossgosstrakh, given its small town and rural roots does not dominate this market which is largely based on the larger urban areas. Many other companies (including some regional companies) have developed a reasonably sized voluntary motor account and this is not surprising since it forms such a high proportion of the non-life market.

3.2.2. Compulsory motor third party liability insurance (TPL)

Motor third party liability insurance became fully compulsory on the first of January 2004, although policy sales began on 1st July 2003. The amount of liability cover that is required by law is very low. There was considerable political opposition to compulsory motor insurance, and most criticism concentrated on the cost of the insurance to low income drivers such as pensioners. As a result, limits were kept low in order to keep premiums low as well.

The maximum level of liability is ruble 400 000 (USD 13 600), with inner limits for bodily injury claims of rubles 240 000 (USD 8 100) in the aggregate and rubles 160 000 (USD 5 400) any one person. The inner limits for property damage claims are rubles 160 000 (USD 5 400) in the aggregate, rubles 120 000 (USD 4 050) any one claim.

There is a compulsory tariff (set by the Government) with the level of premium depending on such rating factors as the type of car and the region within which it is used. Calculations of average premiums vary but most believe the level to be between USD 60 and USD 80. There is provision for a bonus/malus system to be introduced. Companies are technically not permitted to refuse any risk that is offered to them. However, companies merely do not set up sales channels in areas where they are reluctant to take on business.

RAMI manages two funds to compensate claimants in the event that payment is not forthcoming from an insurance company. Both of these funds are funded out of a levy on premiums. These funds are:

- The Current compensation fund (2% of premium). This fund compensates victims of uninsured or untraced drivers.
- The Guarantee fund (1% of premiums). This fund compensates victims in the event that the company that issued the relevant policy is insolvent or otherwise unable to pay.

The Russian Association of Motor Insurers (RAMI) has issued market figures for the first year of compulsory motor TPL insurance. The primary statistics were as follows:

- 25.2 million policies sold.
- Premiums collected: rubles 48.2 billion.
- 535 000 insurance events notified to companies.
- 434 000 insurance events settled.
- Total claims paid at 30 June 2004, rubles 8.2 billion.
- Average size of claim settlement: rubles 18 900.

There are no accurate figures for the total number of cars and other motor vehicles on the Russian roads since there is no system for recording that a car is no longer being used. However, it is likely that the number of motor TPL policies sold means that well over 80% of those who should have bought these policies have done so a figure that is higher than most expected.

At the same time as providing the raw figures, RAMI attempted to estimate the ultimate loss ratio of motor TPL insurance. The main problem is that the information supplied to the association by the companies is often incomplete or late. Very often companies do not supply basic information on

outstanding claims. Many companies do not even collect these data. A further complication is that companies have, as yet, very little experience about bodily injury claims development. International experience teaches that bodily injury claims take longer to settle and have a tendency to grow. If companies are failing to estimate these “long tail” claims, then there could be both qualitative and quantitative problems in the future.

As a result, most motor TPL statistics simply measure the actual amount of cash received against the total of claims paid. Such a procedure in a rapidly growing market is likely to lead to substantial underestimation of the actual underlying loss ratios and could lead companies into a false sense of security. This would not be helpful for the industry or for the consumer.

The method used by RAMI to estimate outstanding claims has been to take the total number of insurance events reported to companies and subtract the settled claims. This resulted in a figure of 101 000 outstanding claims at the end of June 2004. This figure was multiplied by the average claim figure. RAMI also attempted to calculate a figure for insurance events that have occurred but where the insurance companies have yet to be notified, claims that are incurred but not reported (IBNR). To do this, they review the total number of accidents notified to the traffic police and made an optimistic and pessimistic assessment of the proportion of these accidents that would lead to a claim. Their conclusion was that the ultimate loss ratio of motor TPL insurance in the first year was between 70% and 84%. This figure is much higher than the figures based on collected premium and paid claims that have received publicity in the Russian press.

The market for compulsory motor TPL insurance is dominated by Rosgosstrakh which has over 50% market share (by policies sold). Its share in many regional areas is even higher, reflecting the fact that it is relatively weak in the major cities for historical reasons. One surprise is the market share gained by the “Insurance Company of the Law Enforcement Agencies”. This company, which is part of the Ural-Sib group, was little known before motor TPL insurance became compulsory. Clearly, the general public believes that an insurance company controlled by amongst others, the police, will be able to provide a respectable claims service. The company quickly has gained a good market share. Reso-Garantiya and Ingosstrakh have both gained market share as has many of the major Federal companies. Not many regional companies obtained a license to underwrite the class of business since evidence is needed that claims can be settled in every part of the Russian Federation. Some have joined forces with other regional companies to form a claims handling network. Where regional companies are operating they tend to be amongst the market leaders, though well behind Rosgosstrakh.

Russia has yet to join the system for settling international motor liability claims, known as the “Green card system”. It is involved in discussions with the Green Card Bureau and the first steps to joining the system should take place in 2005.

3.2.3. Commercial property insurance

UFG reported commercial property insurance growing at a rate of 27.5% between 2002 and 2003 and most other observers hold similar views. However, it is very difficult indeed to estimate the real size of this class as it is used extensively to create financial schemes. The UFG figure for the total size of this market is USD 717 million which differs little from our own estimate of USD 668 million.

It is still rare for enterprises to purchase standard fire insurance. Many of the larger enterprises insure the most modern part of their plant and equipment but also will use their captive insurance company to provide some non-insurance financial services. It is noticeable that many captives have very low loss ratios – under 10%. This suggests that part of the premiums, at least, are being used for non-insurance purposes.

The standard method of insuring the larger property risks is for the enterprise’s captive insurance company to take a large share often together with another Russian company. The captive will then first use as much local reinsurance capacity as is available and then reinsure the remainder of the risk internationally, usually on an excess of loss basis.

Regional companies report that there is a growing market for standard non-marine property insurance amongst small and medium sized enterprises. This business is generally not reinsured internationally.

The standard policy in use is a “named perils” policy, largely based on a German policy example covering fire, lightning, explosion, etc. “All risks” policies are largely unknown except where a foreign insurance buyer is concerned.

Loss ratios are generally low, probably because Russian enterprises only tend to insure their better risks. Overall fire statistics in Russia are not good.

3.2.4. Liability insurance (excluding transport)

Very few enterprises have any form of general liability insurance. This is despite the fact that Russian law defines many types of industrial and transport operation as “dangerous”. Strict liability applies to these operations: the burden of proof is on the enterprise and the only defence available if an accident occurs is that the victim deliberately caused the injury.

Employers' liability insurance likewise hardly exists, again despite the fact that the law clearly states that the employer is responsible for accidents at work.

Although the law establishes the principles whereby enterprises can be held liable for accidents, in practice few understand these principles and fewer use the courts if they suffer injury. It is this circumstance that causes few enterprises even to consider voluntary liability insurance.

There are a number of professions or trades where professional liability insurance is compulsory. Usually these involve the professionals taking on liabilities to the state and the state insists on the insurance to protect its interests. Customs agents are such a group.

Overall, therefore, liability insurance is highly underdeveloped in Russia and this is reflected in the UFG estimated 2003 premium level of USD 139 million.

3.2.5. Medical, accident and health insurance

In addition to the "compulsory" medical insurance, which is, in fact, insurance companies administering part of the social security budget, there also exists "voluntary" medical insurance. This is an important segment of the insurance market.

Most of the business that is classified as "voluntary medical insurance" is not insurance at all, since insurance companies assume no risk. Instead, insurance companies act as agents for companies to purchase access to health care for employees. Insurance companies then define this service as insurance and the premiums become tax deductible. There is some risk based medical insurance, however. Ingosstrakh is the market leader and most clients are international companies.

The other source of real medical insurance is travel insurance. Many countries require visitors to have insurance before issuing a visa and a number of companies have joined with international medical assistance companies to provide insurance cover that satisfies each countries requirement.

The market is growing for voluntary medical insurance as it becomes more common for employers to provide it as an employee benefit. UFG estimates premium volume for all forms of voluntary medical insurance as being USD 351 million in 2003.

Accident and health insurance has traditionally been another area where much of the "premium" is derived from financial schemes. However certain groups of state employees are covered by accident insurance (some of this insurance is classified as compulsory) and the railways captive insurance company (ZHASO) sells voluntary accident insurance. Most income probably

comes from corporate insurance programmes, Ingosstrakh again is the market leader and again most clients are international companies. UFG estimates the total size of this segment as being USD 170 million.

3.2.6. Personal lines other than motor

In general the Russian population buys little insurance other than motor insurance. When the insurance of country houses and dachas ceased to be compulsory, the market collapsed. Companies are reporting some growth in this area, especially around Moscow where the “dachas”, rudimentary summer homes, are becoming “cottages” or houses which provide comfortable accommodation all year (in addition to appreciating values). Rosgosstrakh subsidiary “Podmoskovie” is a leader of this business with Reso-Garantiya.

Contents insurance for apartments is available but it is expensive to cover the main risk which is water damage from neighbouring apartments.

The UFG estimate of 2003 market size is USD 171 million.

3.2.7. Marine, Aviation and Transport (MAT)

Marine, Aviation and Transport insurance in Russia has an importance to the market beyond its actual premium volume. This segment has long been one of the main points of contact between the Russian insurance market and the international reinsurance market. It was one of the earliest sources of technical training for the Russian market.

Much of this business is transacted through captives or through insurance companies connected with the industry, although Ingosstrakh has is probably the market leader in marine business and has a good sized aviation risk portfolio.

Cargo business has always been important, given the amount of natural resources and armaments that are exported. Much of this business is kept by captive insurance companies, though again Ingosstrakh has a major market presence. UFG estimate a total MAT premium income for 2003 of USD 157 million.

3.2.8. Other classes

Other classes exist in the Russian insurance market, but have little prominence. Construction All Risks (CAR) and Erection All Risks (EAR) are available and Ingosstrakh is the market leader. Premium volumes are not large since few Russian contractors are insured. Directors and Officers (D&O) is available through AIG but relatively few policies have been sold. Machinery breakdown insurance is very rare.

3.2.9. Insurance pools

The insurance Law of 2004 for the first time specifically permitted insurance companies to share risks through the creation of “pools”. However, there have been for some time three pools which have operated without any specific legislative framework.

The earliest pool was set up in the mid 1990s to underwrite Marine liabilities (P&I) risks. It has operated successfully since then with a membership of 5-6 companies. A Russian Nuclear Pool has also been created. Membership of the pool is restricted primarily to the larger companies. Its capacity is rubles 500 million (USD 16.9 million).

A Russian terrorism pool was set up following the events of September 11, 2001. It has 25 members and a capacity of USD 30 million per risk. It paid a claim of USD 200 000 following a bomb outside the National Hotel in early 2004 for damage to the hotel. Terrorism is excluded from most standard fire policies (often on the demand of reinsurers) but can sometimes be included for extra premium. It is not common to purchase a separate terrorism policy.

3.2.10. Non-life reinsurance

Non-life business in Russia is reinsured both domestically and in the international reinsurance market. The domestic reinsurance market consists of a number of Russian reinsurance companies and many insurance companies who offer facultative reinsurance.

The main Russian reinsurance companies are Transsiberian Reinsurance Corporation, Russian Re, Moscow Re, Nakhodka Re, Asia Trans Re and Capital Re. Ingosstrakh is probably the largest writer of facultative business with a reinsurance income of approximately USD 100 million. Most of the large companies that are not totally dependent on financial scheme business also accept facultative business.

Since reinsurance is used as another vehicle for financial schemes it is impossible to obtain accurate figures as to the size of the “real” domestic and international reinsurance market. In 2001, the total reinsurance premium was estimated as about USD 1 billion, but little reliance can be placed on this figure.

Marine, Aviation and Transport insurance has long been an important component of the reinsurance market. Oil, Gas and Energy insurance also is important. Recently however increasing amounts of commercial property has been written in the Russian market and reinsured. Many of the major energy risks are insured initially by the owner’s captive insurance company and then reinsured both in Russia and abroad.

Most placements today are on an excess of loss basis. The Russian reinsurance market usually takes the lowest layers of coverage and the higher layers tend to be reinsured internationally.

Most of the Russian reinsurance companies and many of the larger insurance companies now have obtained treaty reinsurance from the international markets. Ingosstrakh has had a treaty for some time and its capacity is substantial (USD 150 million any one risk). Other companies have obtained lower levels of capacity but as they gain experience, reinsurers are prepared to increase capacity. The main international companies active in the market are General Re, SCOR, Munich Re and Swiss Re. Most of the larger international brokers have an office in Moscow and through them, risks are also placed in London and in other reinsurance markets.

In general, the clients of the Russian reinsurance companies are the smaller local companies. Most of the reinsurance companies have their clients as shareholders, thereby cementing the business relationship. The long term business relationship is cemented further by the substantial technical assistance the reinsurance companies give to their cedants. Whilst it might appear that there could be conflicts of interest in these circumstances, most observers feel that these potential problems are outweighed by the stability and technical improvements that these relationships provide to the market.

There is little treaty reinsurance offered to these smaller companies, most business is facultative. However, in 2005 there was a trend to offer some of the larger regional companies some treaty reinsurance protection.

3.2.11. Sales channels for non-life business

Most non-life business is sold through agents although many companies have begun to set up fully controlled sales points particularly to sell motor TPL policies. Indeed, one major impact of the development of the mass market in insurance following the introduction of compulsory motor TPL insurance has been that most of the companies that have been involved with this insurance have been forced to look at most aspects of their administration including sales methods. Many companies have doubled the number of employees in less than a year and naturally, questions of using effective methods have come to the fore.

In this context, companies are beginning to explore using direct sales methods through call centres and some have even looked at using e commerce. At present, whilst many companies use call centres, they are usually for claims. We are not aware of any company that is selling motor insurance (or any other type of insurance) through a call centre although a number of companies announced plans to do so in 2005.

Most of the larger companies have web-sites, but we are not aware of any contracts of insurance being concluded through the internet.

Insurance brokers exist, but they suffer from a major handicap in that value added tax applies to policies sold by them, but not to policies sold through agents (who are seen as working for insurance companies who are exempt from value added tax).³

3.3. The future of non-life insurance

3.3.1. Growth and profit potential

It is our view that the socio-economic environment within which the non-life insurance industry operates is greatly improved and is expected to grow further. The introduction of compulsory motor TPL insurance will have a major impact on the market. On the one hand it is introducing a large group of new clients to the insurance industry: companies are gaining the experience of mass market insurance and at the same time are receiving substantial amounts of premium income. There is no doubt that the non-life market will grow rapidly in the next few years.

Most observers see the non-life market (standard insurance business only) as continuing to grow at 25-30% for at least the next five years. Such a growth rate will have the market tripling in size during this period. It is quite possible, therefore, that by 2010, the Russian non-life insurance market could have an annual premium volume of over USD 10 billion.

On the other hand, it is much too soon to say whether the motor TPL insurance underwritten by Russian insurance companies is profitable. Experience in Central and Eastern Europe shows that certain segments of the market will be unprofitable, that claims take longer to settle and that some companies will experience financial strain. In an undercapitalised market, such financial strain could pose problems for some insurance companies and erode consumer confidence.

Here we identify two key factors. First, it is vital that better statistical techniques are used by all companies to assess the overall profitability of their business. Many companies do not collect outstanding claims statistics and use simple cash based techniques of assessing their financial position. This could well be dangerous as the "tail" of the liability business lengthens. An additional problem is that without good statistics, it will be impossible to adjust the fixed tariffs for this business in a timely manner. Indeed there is a danger that if the business is erroneously seen to be profitable, there will be political pressure to reduce tariff rates. This happened in a number of Central and Eastern European countries.

A second factor of great importance is that the market must improve its capital base rapidly. The market is undercapitalised under present premium levels and already this is resulting in a number of insolvencies. If it grows as fast as most observers expect, it will need a substantial infusion of expansion capital. We estimate that to maintain prudent capital levels, the non-life market will need about USD 2 billion new capital and, quite possibly, more. A number of our recommendations relate to the improvement of statistics and to the strengthening of the financial base of the market.

3.3.2. Future market structure

We see the non-life market being dominated by motor insurance in the near future. At present, we estimate that this class makes up 50% of the non-life market and in the future the proportion could be higher. Commercial property insurance is expected to grow rapidly and we also see medical insurance growing at a rate exceeding the rate of inflation.

Liability insurance (other than motor) is not expected to form a major part of the market in the short term, but there are already signs that courts are more ready to make awards against enterprises and as this tendency continues there will be more pressure to insure.

3.3.3. International and domestic companies in non-life insurance

Most non-life business has been open to foreign controlled insurance companies since 1999. Since then, there had not been a single major international insurance company that has entered the Russian non-life market until 2005 when two international companies entered the market. Despite these new entrants, however, it seems that in the near future there will not be a major increase in the number of international insurance companies in the market.

International companies have, at present, a small share in the market. Until 2005, none had shown any interest in underwriting compulsory motor TPL insurance, although some are developing a small motor portfolio. It is expected that most international companies will continue to concentrate of their core business which is generally the larger property and other risks usually of international companies.

One exception to this could arise from ROSNO, a Russian controlled company, but where the Allianz Insurance Group has a 45% shareholding. Allianz had an option to take full control of ROSNO in 2003, but did not exercise this option and chose to remain a minority shareholder. Rosno is a large company by Russian standards and has a good portfolio of standard insurance business and a moderate reliance on financial schemes.

A further exception is the recent purchase of Standard Reserve insurance company by TBIH, a Dutch based investment company that specialises in insurance in the emerging markets of Central and Eastern Europe. TBIH bought Standard Reserve, a medium sized company with a large motor portfolio, in partnership with a Russian investment fund.

Notes

1. UFG report details.
2. Author's estimate.
3. See 4.5.5.

Chapter 4

Legal and Regulatory Framework

4.1. Introduction

Under the Soviet system, there was little legislation regulating insurance. Insurance was a state monopoly which was exercised through Gosstrakh. This organisation's legal structure was unclear: as late as 1995 it was uncertain whether it was a state-owned enterprise (with shares held by the Ministry of State Property). Certainly, the Ministry of Finance had ultimate control, as a leftover characteristic of the Soviet Union it was not considered important to determine the legal basis of Gosstrakh ownership.

There appears to have been almost no legislation that covered the operation of Gosstrakh and as a result, when the monopoly was removed by decree in 1988, newly founded private insurance companies operated without any substantial framework of law. At the time, there was no law that governed the operation of foreign companies and no authority whatsoever with the power either to enforce capital requirements or to supervise the activities of the nascent Russian insurance companies.

The period between 1988 and 1993, therefore, was one where insurance companies were founded and grew like mushrooms. They operated in many ways that were inexplicable to Western observers. At the same time a few international companies set up companies in Russia, primarily to establish a foothold and to insure the risks of international organisations. The Allianz Group, the most prominent, set up its company, Ost-West Allianz in 1991 in Moscow.

4.2. The legal framework

Between 1993 and 1996 the two main legal acts that regulate insurance business came into force. These are:

1. The Civil Code.
2. The law "On the organisation of insurance business".

4.2.1. The Civil Code: insurance

The Civil Code of the Russian Federation was adopted mostly in 1995 and 1996. It ranks in law above all other specific legislation and therefore its Chapter 48 on insurance must be seen as the basic law governing insurance in Russia. Chapter 48 deals with insurance and defines the basic types of insurance; establishes the principles of the insurance contract; permits compulsory insurance through legislation; defines subrogation, reinsurance, compulsory

state insurance (budget funded insurance) and other specific aspects of insurance. Chapter 48 is attached as Appendix 2.

From the point of view of an international observer, it is worth noting that Chapter 48 incorporates many fundamental legal concepts of insurance as they have developed internationally. Examples of these concepts include:

- Insurable interest (Article 930).
- Average (Article 949).
- Indemnity (Article 951).
- Obligation to minimise loss (Article 962).
- Subrogation (965).
- No contract between original insured and reinsurance company (Article 967).

Certain points are worth noting for consideration however:

- Kidnap insurance is specifically prohibited (Article 928)
- An insurance contract must be written. It comes into force only when the premium is paid unless the contract states otherwise. (Article 957).
- Standard forms of insurance contracts, developed by associations of insurance companies are permitted.
- Amendments to standard forms of contract are permitted through separate “rules” attached to the policy form.
- Insurers may have a policy deemed to be invalid if the insured knowingly gave false information. It appears, however, that the responsibility may be more on the company to ask for information which is then deemed to be material (Article 944).
- Insureds have an obligation to advise increases in risk during the term of a policy and insurers have the right to change terms and conditions in these circumstances (Article 959).
- Law cases may be initiated within two years (presumably of an insured event (Article 966).

4.2.2. The civil code: the liability (tort) regime

Insurers are also interested in Chapter 59 which sets out the principles under which responsibility for harm is determined and the resulting damages calculated. This chapter is therefore the basis under which all liability insurance operates within Russia. Whilst the liability regime is largely consistent with other code based regimes, there are two main items of interest that should be noted:

1. Article 1079 states that certain activities are defined as being “dangerous to surrounding persons” and if these activities cause harm, then liability

automatically falls on the persons undertaking the dangerous activity unless they can prove that the damage was as a result of “force majeure” or of the deliberate intent of the victim. Dangerous activities that result in this “strict liability” include transport operations, meaning that motor insurance in Russia operates within this framework.

2. Article 1083 sets out how the amount of compensation is calculated. The amount is reduced if the victim demonstrated gross negligence (and gross negligence may even result in no payment). However, the court may also take into account the property status of the person or entity liable for damage and may reduce the amount presumably if the perpetrator cannot afford to pay. If insurance is available, this will alter the property status and it must be expected that this could act as an inflationary pressure on the level of awards.

4.2.3. The law “On the organisation of insurance business”

This law came into force in 1993 (named at the time “On Insurance”) and was the first law that regulated insurance business in Russia. It was amended (and renamed) in 1997, mainly to take the Civil Code into account. In 1999 it was amended again largely because of the “Partnership and Co-operation Agreement” (PCA) with the European Union. The 1999 amendment changed the rules governing the access of foreign controlled insurance companies to the Russian insurance market.

Further amendments came into force in 2004. Most international attention has been focused on the changes to the rules governing access of foreign insurance companies to the Russian Federation: but it should be noted that the 2004 amendments have almost entirely rewritten the law on the organisation of insurance business and added significant sections governing the responsibilities of the former Department of Insurance Supervision and made other important and far-reaching changes to the legal framework within which insurance companies operate.

Moreover, such are the changes to the law that a substantial amount of subsidiary regulations have to be drafted by the Ministry of Finance in order to implement many of the articles of the law. No less than 39 issues have to be covered by new regulations and some of these regulations will have a major impact on the way in which insurance companies and other “providers of insurance services” covered by the law carry on their business. As noted below, in May 2004 the responsibility for drafting these regulations was given to the Ministry of Finance of the Russian Federation.

In this section we will first look at the important issue of the access of foreign controlled insurance companies to the Russian insurance market and then outline the other important aspects of what we will call “the Law of 2004”.

4.3. International access to the Russian insurance market

4.3.1. *The background to the law of 2004*

It has already been noted that until 1993, there was no law that governed the operation of foreign insurance companies in Russia. The basic law, then called simply “On Insurance” was signed by the President in 1992 and came into force in 1993. There was nothing in the main body of this law that regulated the operation of foreign owned insurance companies. However, in the separate decree bringing the law into force a stipulation was introduced that forbade any insurance company having more than 49% of its shares owned by a non Russian company.

There were, however, simple mechanisms that could be used to get around the 49% rule. A non-Russian company could set up a wholly owned subsidiary under Russian law as a holding company, which itself would not act as an insurance company. This company could hold shares in an insurance company leading to a situation where the foreign company had effective control of the Russian insurance company. At the same time, the insurance company could enter in to a management agreement with the foreign company giving the foreign company day-to-day control over the operation of the company.

After 1993, therefore, there were ways in which companies with non-Russian capital operated quite legally within the Russian Federation. A number of companies were established with effective foreign control. Perhaps, the most notable (in terms of size) was a company that originally was called RUS-AIG and which became AIG Russia. This company was founded in 1994 with a Russian partner and has operated since that time.

Other companies were founded with similar structures, such as Zurich Rus and Principal (a joint venture with the participation of a Scottish life company, a major reinsurance company and other investors). By 1999, there were over 50 insurance and reinsurance companies with some foreign capital. Some of these had capital from insurance organisations such as insurance companies (AGF and AXA had minority stakes in local companies for instance). A Lloyd’s broker and a Lloyd’s underwriting agency had small shareholdings. Other companies had simple investor support and some even had shareholdings from foreign industrial and trading groups, but there was no consistent trend or surge of foreign activity.

Few experienced observers believe that the 49% rule drove away large numbers of potential investors who wanted to enter the Russian insurance market. It is generally believed that all who wanted to enter the Russian market, at that time, did so despite the restrictions.

Much more important than the legal restrictions was the fact that the Russian insurance market remained quite small and was not showing substantial signs of development. As a result, few investors were looking to substantial returns on their investments and the major investors, those who had taken majority control, could well have realised that substantial further investment could only be justified when there were clear signs of market discipline and growth.

During this period, a belief grew up amongst Russian policy makers and amongst insurance companies that foreign insurance companies would use their position to export their funds. This belief in a direct link between foreign control of insurance companies and capital flight was demonstrated in the Russian Government's position paper on insurance, issued in September 2002. In this document it was stated:

"The key objective of the liberalisation of the insurance market should be the best balance between the integration of the Russian insurance system into the world insurance system and regulations preventing the outflow of national capital".¹

In other words, national capital is at risk from the opening of the market. Therefore as the date agreed with the European Union for opening the market approached, there was significant apprehension amongst policy makers. This apprehension was shared by Russian insurance companies who were well aware of their weakness and who therefore were terrified of the impact of major foreign insurance companies on their business.

4.3.2. The Partnership and Co-operation Agreement (PCA) of 1994

Whilst the 49% rule was not an effective barrier to foreign insurance companies entering the Russian market, it certainly had the appearance of being a restraint on the opening of the financial services market. As such it was introduced into the negotiations between the European Union and Russia that culminated in the PCA signed in June 1994. Under the PCA, Russia undertook to remove the 49% rule for European insurance companies within five years of the signing of the agreement – that is in June 1999.

It is widely believed that the Russian negotiators were not very familiar with the business of insurance and were not very aware of the implications of this agreement. Such lack of knowledge is not surprising given the history of insurance under the Soviet system and the smaller size of the market in 1994. At the time, moreover, there was no unified organisation to represent the insurance companies. Instead, there were a number of competing organisations with little power and influence.

Within the insurance industry, however, the growing realisation that protection would have to be removed if the Russian Government was to

comply with the strict terms of the PCA was one of the factors that led to the creation of the All-Russian Insurance Association in 1995. The organisation was from its foundation strongly in favour of maintaining protection for Russian insurance companies for at least a transition period.

As the fifth anniversary of the signing of the PCA came closer, it was realised that the Government could not simply ignore a key part of the agreement. Legislation began to be drafted to amend the 1993 law in such a way that could be seen as implementing the PCA. The amendments to the law in 1999, therefore, have to be seen in this context as must the further amendments in 2004. The timing of the 1999 amending act and even one of its clauses are directly related to the date of the signing of the PCA (24 June 1994) and from the Russian point of view the amendments were a step towards implementing an agreement to removing barriers to the opening of the market.

4.3.3. *The international debate over the 1999 law*

In very simple terms, the 1999 law permitted legal foreign control of Russian insurance companies for the first time since the law in 1993. At the same time it limited the total amount of foreign capital in the market through a quota and placed a number of important restrictions on foreign controlled insurance companies.

To most Russians the removal of the 49% rule for most classes of non-life business was an important concession. Few insiders accepted (or accept today) the argument that it carried out the obligations under the PCA, but most Russians saw it as a modest first step in opening a small and fragile insurance market to competition from huge international insurance companies.

The modest nature of this new law can hardly explain the torrent of adverse and inaccurate criticism that ensued. Most international coverage of the law gave the strong impression that the law, far from being a small step towards opening the market was actually designed to expel foreign companies and close the market. Few outside observers took the time to read the draft law or its predecessor and to compare the two. As a result that the tone of the coverage began to be taken for fact and considerable international hostility towards the Russian insurance industry was generated.

It can be understood how such inaccurate reporting appeared to the Russian to be biased and how it resulted in poisoned relations that continue to exist today in some quarters and to some extent.

The law of 1999 was initially vetoed by President Yeltsin and when it was re-introduced there was a “grandfather” clause included, providing foreign owned companies, which already had licences, to continue to operate in

prohibited classes. This was most important in that the new law prohibited foreign insurance companies from transacting life insurance. It is believed that the AIG Russia and Ost-West Allianz benefited from the “grandfather” clause.

The amendments of 2004 left most of the amendments of 1999 unchanged with one major exception. The restrictions on foreign controlled companies remain, although one group (European companies) have had most of these restrictions removed. This analysis therefore will first describe the restrictions on foreign owned companies that remain in 2004 and will then examine the implications on the preferential treatment given to European companies.

4.3.4. The restrictions on non-European foreign owned companies

One of the most important changes in the law introduced in 1999 and maintained in 2004 was the definition of what constituted a foreign controlled insurance company. The change in this definition has not been widely noticed, and has not yet had a major impact, but the potential problems that could arise are substantial.

It will be remembered that the law of 1993 merely stated that “the share of foreign investors” in a Russian insurance company could not exceed 49%. This formula was easily bypassed. The new law of 1999 (and maintained in 2004) was more precise. It defines foreign controlled companies more precisely as:

“Insurance organisations which are subsidiaries of foreign investors (the main organisation) or where the shareholding of the foreign investors in their charter capital exceeds 49%.”

In other words, a company is considered to be foreign controlled **either** if the foreign shareholding is above 49% **or** if under Russian law it is considered to be a subsidiary (or in Russian terms “daughter” organisation) of the foreign investor company. The Russian Civil Code, article 105 defines “daughter” organisations as follows (our translation):

“A commercial organisation will be deemed to be a daughter if another (main) commercial organisation or partnership is able to control the decisions made by that organisation either through holding a majority participation in its charter capital, or through the terms of a contract agreed between them, or otherwise.”

Every time a foreign company is mentioned in the law, the formula of “daughter” company/“main company” is used, making it clear that effective control by a foreign company is the determinant of the definition of foreign control and not a simple majority of shares. When this was introduced in 1999, at a stroke, most of the methods used by foreign companies to set up

Russian insurance companies were no longer effective in circumventing the law.

We are not aware of any attempts to apply this concept to any of the companies where it might be alleged that “effective control” by a foreign company is exercised. However the existence of this definition certainly has put in some doubt any simple assertion that the law can now easily be circumvented. Any circumvention carries a risk (however small) that at some time in the future, it might become expedient for the government or others to use this definition to attack one or more companies with foreign shareholding.

4.3.5. The quota

The law of 1999 attempts to restrict foreign penetration of the insurance market by setting a market quota. The size of the market is measured in terms of total charter capital of all insurance companies. The law states that if the share of “foreign capital” in the total charter capital of all Russian insurance organisations exceeds 15% the Insurance Supervisor will then cease to issue licenses for “insurance activity” to foreign controlled insurance companies. In 2004, this quota was increased to 25%.

It therefore appears that all foreign capital, whether the foreign company controls the local company or not, goes to make up the quota. It is not simply the charter capital of foreign controlled companies that form the “foreign capital” for the quota.

In practice, charter capital is important to insurance companies because the law on minimum capital requirements refers to charter capital. However if a company satisfies the minimum legal capital requirements, it has no need to build up the charter capital to meet solvency requirements. There are other forms of capital that can do this just as well and many companies, both Russian and foreign, do this.

So, on the one hand, the quota does not measure the real penetration of the market by foreign controlled companies because it includes foreign minority capital. On the other hand foreign controlled companies can maintain their charter capital to the minimum required by law yet have substantial other capital with which to support underwriting. In this way they could theoretically take a much higher proportion of the market, measured in premium income terms.

The law states that a “preliminary” permit has to be obtained before **any** foreign capital is injected into the charter capital of an insurance company or if the foreign capital is increased. This permit can only be refused if the capital injection results in the quota restriction being exceeded.

This refusal clearly is not the same as a refusal to licence insurance activities. Since a company cannot increase its capital to breach the quota (because it cannot obtain a permit to do so in advance), the law must conceive of a situation arising where the quota is breached without any single company increasing its charter capital. Such a situation could be easily imagined if there were widespread bankruptcies following (perhaps) a financial crisis similar to that of 1998. In these circumstances, the withdrawal of capital by Russian controlled companies could easily push foreign controlled companies over the quota. Then, the Insurance Supervisor would have to cease issuing new licences. Does that mean that only new licences are refused or might it be necessary to withdraw licences? This is yet another source of uncertainty for those wishing to enter, or continue operations in the Russian market.

The Insurance Supervisor is in the process of drawing up regulations to calculate and control the share of foreign investors in charter capital of insurance companies.

4.3.6. The forbidden classes

The law forbids foreign controlled insurance companies to transact business in a number of classes of insurance. These are:

- Life insurance.
- Compulsory insurance.
- Compulsory state insurance.
- Property insurance connected with governmental procurement or the implementation of governmental contracts.
- Property insurance of state or municipal organisations.

Life insurance was not defined in any legislation at the time of the 1999 amendments. This led to a curious position, where foreign companies were prohibited from carrying on a business that was not defined in law. The amendments of 2004 did define life insurance for the first time and this anomaly has been removed.

“Compulsory insurance” as defined in the Civil Code is very much as it is understood in the West. Individuals or entities may have the obligation to insure imposed on them by the law. The Civil Code specifically mentions life, health, property and civil liability as risks that can be made compulsory by law. It is therefore clear that the ban on compulsory insurance applies to compulsory motor TPL insurance.

“Compulsory state insurance” is what the Soviet classification simply called “compulsory” insurance – that is insurance programmes where the state budget pays the premiums. Few foreign controlled insurance companies would have any difficulty with the prohibition of “compulsory state” insurance,

but the prohibition of “compulsory” insurance could well be troubling in the future, even if no foreign controlled insurance company is at present showing any interest in compulsory motor TPL insurance.

The prohibition of insurance of interests covered by state contracts and state and municipal property is clear.

4.3.7. Other restrictions: the General Director and Chief Accountant

One restriction that was clearly aimed at foreign controlled companies, but which refers to all insurance companies with any foreign capital (but not to European investors) was the requirement that the General Director and the Chief Accountant must be Russian citizens. Both positions have certain legal obligations under Russian company law and presumably the fear was that non Russian citizens will evade these obligations. However in March 2005 this requirement was changed. The law now states that the two senior officials must be permanent residents of the Russian Federation. It still is the case that this stipulation does not apply to European investors.

A similar set of potential discriminations were contained in two small clauses of the 1999 law which gave the authorities the right in the future to introduce regulations affecting the activity of foreign controlled companies in two areas:

- The solvency ratio
- The creation and placement of insurance reserves.

Both these were deleted in 2004.

4.3.8. Definition of investor and requirement to be an insurance company

In 2004 for the first time the Law defines a “foreign investor”. Until now this definition has been suggested by subordinate legislation, issued by the Ministry of Finance (Decree No. 50 , 16 May 2000 “On giving permissions to companies with foreign investments”). Now a foreign investor is defined as follows:

“For the purposes of this law, a foreign investor is defined as a foreign organisation with the right under Russian law to invest on the territory of the Russian Federation in the charter capital of existing or new insurance companies operating in the Russian Federation.”

This definition looks forward to the next point (formerly point 4 renumbered as point 5) which sets out the qualifications required to be a (non European) controlling foreign investor namely, the foreign investor is:

1. An insurance company.
2. Has been in operation in its home country for more than 15 years.

3. Has “participated” for not less than two years in the activity of an insurance organisation established on the territory of the Russian Federation.

There appears to be no restriction for investors which are not insurance companies taking a minority stake in insurance companies.

4.3.9. The application to insurance companies controlled by European Union companies: deleted clauses

Many of the above restrictions do not apply to companies from the European Union.

The definition of a European company is as follows:

The following clauses “do not apply to insurance organisations, which are subsidiaries (daughter companies) of foreign investors (main organisation) or where the foreign investor has more than 49% of the charter capital where the investor is from one of the countries which are members of the European Communities, and which are parties to the Partnership and Co-operation Agreement of 24 June 1994 which established a partnership between on the one hand the Russian Federation and on the other hand the European Communities and their member states”.

The first question that arises is whether this wording means that only those countries that signed the PCA in 1994 are covered by this definition. The wording uses the present tense as to parties to the PCA: it clearly applies to all EU member states which originally were parties to the agreement.

As for the new member states, will they automatically become a party to the PCA and therefore benefit from it? The PCA itself is silent on the question of enlargement. Outside of the Agreement, an exchange of letters recognises that “if any amendment to the PCA might become necessary as a result of the enlargement of the Community, this would become the subject of consultation between the parties... and in this context account would be taken, to the extent possible, of the character of bilateral trade and economic relations between Russia and an acceding state”.²

A joint memorandum and protocol was signed in June 2004 concerning the new member states but at the time of writing, it does not appear to have been ratified by the State Duma.

To repeat the point mentioned above, it seems clear that any company, based in the European Union where the member state is currently a party to the PCA may invest in a Russian insurance company, so long as there is no legal restriction for this company to invest. The company does not have to be an insurance company and there is no need for it to have operated for 15 years or to have a current operation in Russia.

There also appears to be nothing that prevents a “European” company from being a subsidiary of a non European parent. It appears to be very simple for any insurance company, anywhere in the world, to organise a European based subsidiary and use this subsidiary to effect majority control of a Russian insurance company without any serious limitations on its activities. This is the basis of our view that the Russian insurance market today has no substantial barriers to any insurance company that wants to enter both the life and the non-life markets.

Article 6, point 5 lists the clauses in the law that do not apply to European Union companies. These are:

1. Article 6 Point 3 Paragraph 1: the prohibited classes

The removal of this clause permits European Union companies to carry on all classes of insurance without any restriction. This includes compulsory state insurance and the insurance of state and municipal property.

However, it should be noted that some compulsory classes of insurance (mainly the insurance of military personnel and other state officials) can only be undertaken by Russian companies as a result of clauses in the specific legislation that defines the insurance.

2. Article 6 Point 3 Paragraph 6: payment for shares

The deletion of the requirement that shares in Russian insurance companies must be made in monetary form in the currency of the Russian Federation would imply that payment could be in euros. The objective of this clause was never clear and the implication of its deletion is obscure.

3. Article 6 Point 3 Paragraph 7: senior staff must be Russian citizens.

This clause is deleted, possibly because of Article 32 of the PCA and will be welcomed by many. However, it should be noted that the section on qualifications applies to all companies. This will be discussed below.

4. Article 6 Point 4: requirement to be an insurance company and the quota.

This clause is the one noted above: the only piece of legislation which ensures that controlling shareholders are insurance companies. Its removal for European companies appears to permit any European company, insurance or otherwise, to control a Russian insurance company. When European companies are defined (see below), there is no reference to insurance companies and as a result, we have to review the new definition of a foreign investor, which simply says that the investor must be permitted by Russian law to buy shares in an insurance company.

As far as we are aware, there are no controls other than this law over the purchase of insurance company shares by foreign entities and this means that the law applies to European companies as it does to Russian companies

– there is no legal restriction as to who can buy shares in insurance companies.

If a foreign controlled insurance company wishes to obtain a licence, it has to supply evidence in written form from the Insurance Supervisor of the home state of the foreign investor that it has the appropriate legal permission to invest in an insurance company in Russia or it must advise the Russian Insurance Supervisor that such permission is not required. This requirement (Article 32, point 7) applies equally to European and non European investors.

As noted above, it appears that European foreign investors do not have to be insurance companies. How there could be a legal requirement for such an investor to seek permission from the Insurance Supervisor of its home state is difficult to understand, even if there were such a requirement for insurance companies.

Within point 4, there are also the rules that set out how the regulator must cease to give permission for branches or subsidiaries to be opened if this does not breach the quota. Since this is deleted for European companies, it would be implied that European companies are unaffected by the quota once they have received their licence. They are able to increase their shareholding in subsidiaries or branches, regardless of its impact on the quota.

However, the section that states that new licences cannot be issued once the quota has been reached has not been deleted, so this could imply that European companies wishing to enter the Russian market might be denied licences if the quota has been breached. It seems that the first entrants could crowd out followers although for reasons noted above, this is unlikely in the near future.

5. Article 32 Point 5: senior staff must be Russian citizens.

This point again mentions the requirement that senior staff must be Russian citizens and does not apply to European companies.

4.3.10. Regulations that still apply to European companies

Qualifications

Whilst the requirement for General Directors and Chief Accountant to be Russian Citizens has been deleted for European controlled insurance companies, the new requirements that Directors and other senior staff are qualified could effectively bring this requirements in “by the back door”. Senior staff needs “higher economic or financial education recognised in the Russian Federation”. This issue will be discussed in more detail below as it has implications for Russian insurance companies as well.

It is not clear whether a system is in existence for recognising foreign qualifications, especially in the field of insurance. In the West, professional qualifications are often considered to not be “higher” education.

Table 4.1 summarises the situation concerning restrictions on the operation of foreign controlled insurance companies in Russia.

Table 4.1.

Restrictions that apply to a foreign controlled insurance company	1999	2004 Investors from outside the EU	2004 Investors from the EU
Limit of international capital in total market capital (Quota)	15%	25%	Applies to European investors
Prohibition of life insurance	Applies	Applies	Does not apply
Prohibition of compulsory insurance	Applies	Applies	Does not apply
Prohibition of insurance of state property	Applies	Applies	Does not apply
Investor must be an insurance company established 15 years	Applies	Applies	Does not apply
Investor must have been operating in the Russian market for 2 years	Applies	Applies	Does not apply
Payment for shares must be in rubles	Applies	Applies	Does not apply
Senior staff must be Russian citizens	Applies	Applies	Does not apply
Special rules may be applied concerning solvency	Applies	Does not apply	Does not apply
Special rules may be applied concerning the creation and investment of insurance reserves	Applies	Does not apply	Does not apply
Restriction on setting up branches	Applies	Applies	Applies

4.3.11. Conclusion

The amendments to the law leave the system of restrictions on foreign ownership of insurance companies largely untouched for non European investors. However, the relaxation of these restrictions for European companies results in a situation where the Russian insurance market may be perceived as more open for participation of foreign capital in individual Russian insurance companies.

Even the quota, raised to 25%, is not so onerous, in that companies, once established in Russia under Russian legislation by European investors, can establish branches and subsidiaries without specific controls. The quota could, however, still cause problems for new entrants at some time in the future. However, since companies merely have to maintain minimum levels of charter capital and can support growth through other forms of capital it is likely that few problems with the quota will arise for some time, if ever.

4.4. Amendments to the law affecting all insurance companies

As noted above, the amendments to the law introduced in 2004 have created what is to all intents and purposes a completely new insurance law in

Russia. The changes reflect the substantial experience the insurance market has obtained since 1993 and most introduce improvements, or potential improvements, in the way companies carry on their business and are supervised. Whilst not all the changes will be reviewed, the aim here is to point out those that are most important.

It should be mentioned that a substantial body of new regulation has to be drafted to bring much of the law into force. The new law says much about what must happen – the Insurance Supervisor has to craft this into procedures and regulations which implement these proposals.³

4.4.1. The separation of life and non-life insurance companies

We have noted in the context of the international dimension that the Law of 2004 defines life insurance for the first time in Russian legislation. (Article 4). This definition is used as the basis for the prohibition of “composite” life and non-life companies. The prohibition comes into force on 1 July 2007 and by that time, life business must be carried on in separately capitalised companies.

Both life insurance companies and non-life companies are permitted to underwrite personal accident, illness and voluntary medical insurance. The Government medical insurance scheme (known as “compulsory medical insurance”) is administered through insurance companies which have to be separate from other companies. Thus there will be three types of companies: Life companies, non-life companies and “Compulsory” medical companies.

One aspect of this process of separation has caused substantial problems in the industry. Article 13, point 3 states that insurance companies with a life insurance license may not reinsure property risks. This clause would have caused no problem had it come into force on the same date as the separation of life and life business. However, it did not and since at the current time most insurance companies have life insurance licences and since most also have substantial facultative reinsurance portfolios, the immediate prohibition of mixing the two led to a large degree of uncertainty. This article was quickly amended to bring it into force at the same time as the split between life and non-life comes into force.

4.4.2. Bringing brokers, mutual societies and actuaries within the legal and regulatory framework

The new article 4.1 lists all those covered by the law. It defines the “providers of insurance services” (Literally “subjects of insurance business”) as being insurance organisations, mutual insurance societies, insurance brokers and insurance actuaries. All have to be licensed (or attested in the case of

actuaries) and all have to be entered into the register of insurance service providers maintained by the Insurance Supervisor.

There is nothing in Russian law to prevent insurance brokers being foreign owned or controlled.

Regulations have to be drafted by the Insurance Supervisor governing the licensing procedure for all providers of insurance services.

Mutual insurance societies are included, and have to be licensed. This is an improvement on the previous situation which appeared to be that they needed no license to transact insurance business of their members. However the law still refers to specific legislation on Mutual insurance companies which does not yet exist.

Insurance brokers now will have to be licensed, although how this procedure will work in detail is another area where regulations are awaited. One aspect that is new is that brokers are not permitted to assist the conclusion of insurance contracts with foreign (i.e. unlicensed) insurance companies on the territory of the Russian Federation. Arranging reinsurance contracts is permitted.

Actuaries are now covered by law and are given responsibility for carrying out an annual actuarial valuation of insurance reserves. This part of the law comes into force in July 2007. All other aspects relating to qualifying and attesting come into force one year earlier. Once again the Ministry of Finance and the Insurance Supervisor have to bring in regulations.

4.4.3. Clarification of the law on life insurance policies

Two changes have been made that relate to the types of policies that life insurance companies can sell. Article 4 point 4 now makes it clear that different types of insurance may be combined in a single policy. This applies equally to non-life as to life, but in life insurance it permits insurance companies to issue policies that combine risk elements and savings elements. Beforehand, the situation was not clear.

A further clarification is contained in Article 10 point 6. Insurers are now specifically permitted to add to a sum insured "part of the investment income". In the past, it was not clear whether insurers were permitted to pay anything other than a guaranteed sum insured and now they can issue a "with profits" policy which will make the need to have a high guaranteed rate of return less important.

4.4.4. Premiums and claims payments

The law now makes it clear that all payments (both premiums and claims) have to be in the currency of the Russian Federation, except when the

insurer chooses to exercise the option to replace an item. Dollar denominated policies are thus prohibited.

4.4.5. Capital requirements

The Law of 2004 brings in substantial increases in the capital requirements of insurance and reinsurance companies. The basic level of capital is rubles 30 million (approximately USD 1 million). This requirement applies to those companies that carry on direct non-life business (including personal accident and medical if this is not combined with life insurance). Life insurance companies have to have doubled this requirement and companies that underwrite any reinsurance must have capital at least four times the basic level.

These increases will be brought in on a staged basis. On 1 July 2004, companies were required to have capital of at least one third of the required level. The full requirement comes into force on 1 July 2007. Failure to achieve this level results in automatic loss of license.

An important area where the Ministry of Finance is bringing in regulations is the area of the type of assets that may constitute charter capital. Many insurance companies (and banks) in Russia have capital whose value is not consistent with Western traditions or expectations. The extent to which the Ministry of Finance will address the issue of substandard capital is unknown at this time.

4.4.6. Qualifications of senior insurance staff

Until these amendments were introduced there were no controls over who could become a director of an insurance company. There still appears to be no powers given to the Insurance Supervisor to apply “fit and proper” checks. However, now senior insurance staff must now demonstrate some qualification and experience in insurance.

As already noted, actuaries have to have specific training. Details as to how this will work are yet to be drafted by the Ministry of Finance. Now both senior management and chief accountants have to be qualified.

Article 32.1 states that “Senior management (including a General Director)” of a provider of insurance services should have a higher education diploma (university level) in either economics or finance. They have also to have insurance or financial experience of more than two years. This means that the requirement applies to all providers of insurance services as defined in Article 4.1 and therefore includes brokers and actuaries. Clearly, the Insurance Supervisor must clarify the situation insofar as actuaries are concerned as they have to have different qualifications. Actuaries have to have higher level qualification in either mathematics or economics.

The chief accountant of an insurance company should also have a higher education diploma in economics or finance and should have worked as a bookkeeper for more than two years in an insurance, reinsurance or broking organisation licensed to operate in Russia. A chief accountant of a broking company does not appear to need higher education, merely two years experience in accounting.

The first question is to whom the requirements apply. The clause uses the word “rukovaditili” in the plural. This is generally translated as “heads” or “leaders” or “managers”. As far as we are aware there is no legal definition of these people. However, Article 103 of the Civil Code defines the management structure of a joint-stock society. It states that the “executive organ” may either be collegial and/or one-person through a General Director. The single executive organ is by far the commonest system in Russia, so the assumption must be that unless the company has chosen a collegiate system, only the General Director is covered by this clause.

The requirement that senior management staff have to be qualified in economics or finance is likely to cause problems for many insurance companies in Russia, unless the regulations brought in by the Ministry of Finance amend them. The fact is that under the Soviet system, when most current insurance executives gained their education, few studied economics or finance. Most senior management of insurance companies are highly educated. Indeed, many have Doctorates (Candidates of Science). However, these qualifications are usually in science or in other disciplines. How these current directors will be treated is of some importance and will only be decided over time.

A wider problem faces senior staff who has not been educated in Russia. The higher education qualifications have to be “recognised in the Russian Federation” and for many insurance professionals, this could be difficult, since insurance qualifications, gained through professional institutes, are not usually considered to be university level. Thus many highly qualified foreign insurance experts might not be qualified to be senior managers of an insurance company, in the same way that many of their highly educated and experienced Russian colleagues.

4.5. Taxation and insurance in Russia

4.5.1. Introduction

The financial schemes that are such a distinct feature of the Russian insurance market are the result of tax loopholes. Commercial companies can exploit these loopholes to reduce their tax burden. Insurance companies themselves face the need to pay tax and this has an effect on the way in which

they carry on their business. In other words, the tax regime in Russia has an important impact on the development of insurance.

4.5.2. The taxation treatment of non-life insurance premiums

In the early period of the development of a market economy in Russia, commercial enterprises were faced with a tax regime largely based on the Soviet system and not supportive of the development of business. Tax rates were very high, almost confiscatory, and few expenses were allowable against tax obligations. In particular, the United Social Tax (UST) was seen as a severe burden on companies since it was payable on turnover results and few expenses were allowable against it. Insurance was not then an allowable expense and this was a major barrier to its development in the early period.

In 1995, some insurance premium payments were allowed against enterprise taxes and the position was extended in 2001. At the present time, most insurance premiums are allowable against tax including transport, cargo, contractors all risk, agricultural crops and livestock and property used for business purposes.

Liability insurance, however, is only tax deductible if its purchase is a condition of an international agreement or if it is a generally accepted international requirement. General third party liability insurance, employers' liability insurance and all other forms of liability insurance are, therefore, not tax deductible. This is a further explanation for the slow growth of this class of business.

A substantial proportion of the premiums that are received in the tax-deductible classes are in respect of financial schemes. Often the insurance is expressed in a way in which there are unlikely to be claims. The premiums are then returned to the company as insurance claims in other areas. This would explain why so many captive insurance companies report substantial income from property insurance but almost no claims.

Health insurance for employees is also tax deductible, but the total premium allowable is limited to 3% of aggregate wage fund.

4.5.3. The taxation treatment of premiums for life and pension business

Most premium income for life insurance in Russia is derived from financial schemes that have developed after premiums for this class of business were made tax deductible; but the total amount of premium payable for long term life and pension business is limited to 12% of the total wage fund. Claims payment is not subject to tax.

A number of attempts have been made to prevent life insurance from being used in this manner. The most recent has been to remove tax deductible

status for policies with a policy life of less than five years. Companies now issue five year policies but “loan” back the premiums.

On 1 January 2005 the rate of UST will be reduced to 23% from 35.6%. It is expected that this reduction will make financial schemes less attractive.

Individuals do not receive tax relief on personal income tax, but many observers believe that since the personal income tax rate is 13% offering tax relief on long-term life insurance and personal pensions would not be a major incentive. However, the introduction of relief on these premiums would demonstrate government support for the development of this business.

The insurance association (ARIA) and the Association of European Businesses in the Russian Federation (AEB) have working groups discussing methods for improving the tax treatment of insurance. However it is difficult to argue for improved taxation methods, when the current tax treatment is used, to such a great extent, to operate financial schemes to avoid tax. We make recommendations on this issue.

4.5.4. The taxation of insurance companies

Insurance companies are subject to standard profits tax of 24% and of course they pay UST. The tax authorities tend to accept their insurance technical reserves so long as they conform to the Ministry of Finance guidelines for reserving. These guidelines set reserve levels as a percentage of premium income.

4.5.5. Insurance brokers and Value Added Tax

One anomaly that is causing a problem in the market is that a policy brought through a broker is subject to Value Added Tax, whilst policies purchased direct are not since insurance is exempt from the tax. The issue has been raised by brokers with the authorities and it is possible that legislation will be altered to make policies arranged through brokers exempt of Value Added Tax.

Notes

1. Author's translation.
2. The authors are grateful to Leonid Zubarov of CMS Cameron McKenna for pointing out this important issue.
3. A list of areas where enabling regulations are to be produced by the Insurance Supervisor is contained in Appendix 4.

Chapter 5

Regulation and Supervision

5.1. State policy in the insurance sector

5.1.1. Background

When the insurance law of 2004 came into effect in January 2004, all functions of insurance regulation and supervision were performed by the Ministry of Finance, usually through the ministry's department of insurance supervision. However, in March 2004 the President of the Russian Federation issued a decree ("On the system and structure of federal bodies with executive power") which separated the responsibility for drafting regulations and other legislation from the actual process of supervision. Supervision became the responsibility of the newly formed Federal Insurance Supervision Authority whilst the Ministry of Finance retained the responsibility for regulation and legislation.

The Ministry of Finance created a new department of financial policy with a division responsible for insurance regulation. Mr. Alex Savatuygin was appointed head of the department and the insurance regulation division consists of 10 specialists responsible for different areas of regulation of the insurance industry.

5.1.2. The functions and duties of the Ministry of Finance of the Russian Federation in the insurance sector

The Ministry of Finance is specifically concerned to support the development of a competitive insurance market with increasing levels of service to consumers. In addition it also supports the development of an insurance culture where insurance has a higher status. Finally it sees as important the creation of investment instruments for insurance companies and encourages the increasing investment of insurance companies in the Russian economy.

In performing its overall function of regulation and legislation, the Ministry of Finance operates in the following areas:

- drafting legislation and regulations on all areas set out by the law including legislation to liberalise the insurance market;
- developing technical expertise to regulate insurance rating (tariff policy), accounting and statistical reporting by insurance companies and the overall regulation of insurance companies;

- improving the legal framework within which insurance companies, insurance intermediaries and actuaries operate;
- consumer protection and other analytic work.

In order to encourage the development of the insurance market in Russia, the Ministry believes that it is important to develop and implement improvements in the legal and regulatory framework for insurance. These improvements can most effectively be introduced following a process of codification of all current legislation and regulation affecting the insurance industry and a detailed analysis of how legislation and regulation works in practice. In addition, the ministry intends to study international practice in regulating and controlling the insurance industry.

One major objective of the legislation is seen as achieving financial stability in the insurance market and thereby protecting the interests of citizens, enterprises and the state.

The Ministry of Finance consults a number of organisations whilst drafting new laws or regulations. However, there is no formal requirement to do so.

5.2. The Federal Service for Insurance Supervision

5.2.1. Background

Between 1996 and 2004, the Insurance Supervisor headed a department of the Ministry of Finance. The Supervisor was therefore a departmental chief, who reported ultimately to the Finance Minister. In 2004, a decision was made to reorganise the system of government and to remove supervisory functions from government ministries. As a result, the Ministry of Finance Department of Insurance Supervision became the Federal Insurance Supervision Service. The Ministry of Finance still has the responsibility to control and co-ordinate the activities of the service.

Simultaneously with this change Ilya Lomakin-Rumantsyev was appointed to head the newly-designated Insurance Service.

The Insurance Supervisor has to license, monitor the activities of over 1 000 insurance companies. In addition, it has to receive and interpret financial and other information from all these companies and ensure that solvency regulations are complied with.

There is no doubt that the resources for this substantial body of work have not been available in the past and time will show whether more resources will become available now that the Insurance Supervisor has Federal status. In this report we recommend that the financial stability of insurance companies

should become a priority of the Insurance Supervisor:* lack of resources is the main reason why in the past, the process of licensing has been stressed at the expense of monitoring solvency.

It should be noted that the Insurance Supervisory function has been performed in Russia for less than thirteen years. As in many other areas of the insurance industry much experience has been gained and technical expertise has been rising continuously. The growth in technical expertise, coupled with the increase in status gives grounds for the belief that insurance supervision will continue to improve in Russia.

There has been some discussion of the possibility of combining the insurance supervision with other supervisory authorities in the financial sector. Given the relative inexperience of all supervision in Russia, it has been concluded that it makes more sense to keep these functions separate at this time.

5.2.2. Regional structure

The main office of the Insurance Supervisor is in Moscow. The Moscow office has overall responsibility for the issuing of licenses and the supervision of the market.

There are seven regional offices, one for each of the federal regions of the Russian Federation (excluding the central region which is covered from Moscow). These offices are in:

- North West Region St. Petersburg
- Southern Region Rostov on Don
- Volga Region Samara
- Urals Region Ekaterinburg
- Siberian Region Novosibirsk
- Far East Region Khabarovsk

The regional offices, with their local companies and with the branches of the national companies, are collecting statistics, helping with the licensing process and collecting information about the companies for the Moscow office.

5.3. Insurance regulation and supervision

5.3.1. Objectives and activities of the insurance supervisor

The division of responsibilities between the Insurance Supervisor and the Ministry of Finance took place after the enactment of the law of 2004 and as a

* In section 7.3.3.

result a number of amendments are in preparation so that the law reflects the new situation.

The supervisory functions of the Insurance Supervisor are set out in the insurance law. The Law of 2004 added significantly to the legislation by adding nine completely new clauses, mostly relating to licensing procedures. The concentration on licensing and the comparative absence on powers to intervene to ensure financial stability reflects, as will be noted below, the fact that in recent times the supervisor has considered that the main control over the market is through licensing rather than through monitoring financial stability.

The objectives of insurance supervision are:

- to ensure correct observance of insurance legislation;
- to prevent participants in the relationships covered by this law from committing offences and if these offences are committed, to halt them;
- to enforce insurance legislation;
- to ensure the protection of the rights and lawful interests of insurers, of other relevant persons and of the state;
- to help in the successful development of insurance business.

It is, therefore, clear that the Insurance Supervisor's primary duty is to enforce the law. It is not to uphold the interests of insurance consumers. This is an important distinction. It means that if the law is silent, the Insurance Supervisor cannot act outside his specific scope of responsibilities, even if it is clear that it would be in the interests of the insurance consumers to do so. The responsibility to implement the solvency rules and other regulations designed to ensure that insurance companies are financially strong is among the major functions of supervisors. However, the protection of the interests of the consumer of insurance services is not specifically mentioned in the legislation.

As will be noted in more detail below, although the new Law of 2004 is an improvement, there are still few powers to intervene early when an insurance company is showing indications of future financial problems, to protect the interests of policyholders. As in banking, one must expect that the consumer will be last in the queue when bankruptcies occur unless further action is taken.

The activities of the Insurance Supervisor are set out as follows:

1. Issuing licenses, attesting actuaries, maintaining the register of providers of insurance services;
2. monitoring the observance of the law, including on-site inspections and the monitoring of solvency;
3. supervising the quota of international insurance capital and issuing permission to bring in international capital;

4. producing regulations in accordance with the law; and
5. ensuring the implementation of a consistent state policy on insurance.

5.3.2. Licensing procedures: insurance companies

Insurance companies are required to apply to receive licences for every class for which they wish to carry on business. However, the most challenging process is the first application a company applies for a licence. At this stage, a large number of documents must be submitted covering:

- The company itself;
- its capital;
- its management and actuary; and
- its shareholders.

The exact format in which much of the required information should be supplied will be set out in regulations to be drawn up by the Ministry of Finance.

In addition specific class based information must be supplied concerning the classes of insurance for which a licence is required. This information covers:

- Policy forms and wordings to be used by the company.
- Insurance premium rates (tariffs) to be used and the data and methodology used to calculate them.
- Reserving methodology.
- A feasibility study, demonstrating the financial viability of the class.

Once the information has been supplied in the correct form an acknowledgement must be sent. A decision should be reached by the Supervisor within 60 days.

5.3.3. Licensing insurance brokers

Brokers have a simpler licensing procedure. They merely have to submit the documents that are the basis of their legal structure and provide the required proof of qualification of those staff who has to be qualified.

5.3.4. Mutual insurance societies

The Law of 2004 states that Mutual Insurance Societies have to be licensed. This closes a gaping hole in the legislation: under the Civil Code it appears that mutual insurance societies which only insure the interests of their members do not need a license and are not supervised by the Insurance Supervisor. This opened the possibility of unlicensed and unregulated mutual societies selling life insurance on the basis that all policy holders became “members” of the society.

Now it is quite clear that as a provider of insurance services, a mutual insurance society is covered by many aspects of the law including licensing and qualifications.

It is not clear, however, whether reserving and other aspects of the law applies to mutual insurance societies, since by and large, these financial requirements (including capital requirements) refer to “insurers” and this word is (it is believed) nowhere defined in the law. However, both the Law of 2004 and the Civil Code refer to a law on Mutual Insurance companies. This law does not exist and it must be assumed that when this law is drafted and approved, it will clarify the issues.

5.3.5. “Fit and proper qualifications”

It has been noted above that for the first time, the Insurance Supervisor has the power to supervise some of the individual executives of insurance companies. This power is, however limited to ensuring that executives have the required qualifications.

In addition, there are powers to refuse a license to a company under article 32.3 if the General Director or other “head” (see above) has had a legal conviction which is still current or if there has been deliberate bankruptcy involving the shareholders of the applicant company.

5.4. Solvency and financial supervision

The Law of 2004 covers the aspects relating to the financial stability of insurance companies. Intervention by the Insurance Supervisor can only take place when the Insurance Supervisor believes the company is in breach of the law or of the regulations and the purpose of the intervention is to stop the breach.

5.4.1. Capital

The increases in minimum capital requirements as set out in the Law of 2004 have already been noted. In addition to these higher requirements, regulations will be introduced with regard to how capital and shareholders’ funds can be invested. These regulations are potentially very important since they can address one of the largest problems facing the insurance industry – capital consisting of assets that are overvalued or even non-existent.

It is commonly estimated that the total capital of the Russian insurance industry is on paper about USD 2 billion. It is, of course, impossible to estimate how much of this capital could be described as fictitious but few observers believe that the proportion of fictitious capital to real capital is small. As a result, if regulations are approved that successfully identify the main methods used to provide undervalued assets and if, in addition, they bring in a

requirement that this capital has to be available at all times (and not at just the balance sheet reporting dates) then many insurance companies will be required to replace their existing reported capital assets with assets of provable value. Many companies will be unable to do this and will be forced to discontinue operations.

The increases in capital requirement has already had some effect, but strong and well drafted regulations will have a much more dramatic and beneficial impact on the industry.

5.4.2. Investment of reserves

The law requires the Ministry of Finance to introduce rules governing the investment of insurance reserves. The current rules and procedures do not differ greatly from regulations imposed by many regulators in Western insurance industries. Companies have to maintain a balance of assets with maximum amounts specified for various types of investment.

Reinsurance is covered as well in these regulations. They control the proportion of reinsurance assets that can be included in the balance sheet. Credit for outstanding losses due from reinsurers is excluded from this calculation.

5.4.3. Solvency calculation

The Law of 2004 requires the Ministry of Finance to draft and publish regulations regarding the relationship between free capital and insurance liabilities – the solvency calculation. At present the system is based on European norms as follows.

The figures for the calculation of insurance company solvency are derived from information submitted by insurance companies to the Insurance Supervisor on standard forms. For the purpose of calculating solvency, the three main forms are:

1. Form 1: The balance sheet.
2. Form 2: Profit and loss account.
3. Form 6: Solvency.

These forms are based on and closely follow the standard European insurance company reporting forms. There are differences, however, based on the need to incorporate some Russian accounting concepts and a number of “funds” that Russian companies set up, and which are shown on the balance sheet.

The basic solvency calculation again largely follows European tradition. It is to compare the “free assets” of the company with the sum of two figures (one for life insurance and the other for non-life insurance) designed to

provide an indication of the adequacy of the free reserves based on the insurance risks carried by the company. The life insurance figure is a percentage of the life insurance reserves held by the company. The non-life figure is derived from premium income figures.

I. The free assets

In simple terms, free assets are the basic capital of the company (charter capital, undistributed profits and other types of capital) adjusted to exclude intangible assets. In the balance sheet, intangible assets include set up costs and the cost of licences. For the purpose of the solvency calculation these assets are deducted from free assets.

These free assets have to be greater than the sum of the following two figures

II. Life solvency figure

The life insurance solvency figure is simply 5% of the life insurance reserves held by the company. The reserve for life insurance is self-explanatory and is included in the balance sheet. Since there is almost not long-term life business underwritten by Russian insurers, it is clear that the chance of large-scale under reserving is not great. In practice most “life” policies are very short term indeed.

III. Non-life solvency figure

The calculation of the non-life solvency figure takes 16 % of a premium income figure adjusted and amended to take account of reinsurance as follows:

1. Gross premium income for non-life business LESS.
2. Amounts placed in the fund for preventative measures for compulsory insurances.

This figure is the adjusted gross premium figure. This figure is then amended to take account of reinsurance paid claims. The adjustment figure is calculated on the basis of the ratio between gross paid claims and net paid claims. However if the figure as calculated is less than 0.5, then 0.5 is used.

5.5. Intervention powers

5.5.1. The “formal order”

The first stage in the intervention process after the discovery of a breach of insurance legislation is the issuance of an order to cease the breach of the law, known as a “formal order”.

The law sets out the types of breach where a formal order shall be issued. They include failure to observe the regulations concerning the investment of

insurance reserves; failure to maintain the correct solvency ratio, failure to provide documents or providing false documentation and breaches of licensing conditions.

The order will give the company a time limit within which it must provide proof that the breach has ceased in the form of documentary evidence which will be considered by the Supervisor. If the Supervisor is satisfied that the breach has ceased, then the order will be withdrawn. If not, then the next stage is the suspension or restriction of the license.

Restricting a license may be used to require the company to cease certain classes of business. Suspension means that the company must cease all classes. Both restriction and suspension come into force when the Supervisor's decision is published.

5.5.2. Terminating the activity of an insurance company

Licenses can be revoked on the application of the company, following a court order or after a decision of the Insurance Supervisor.

There are a number of grounds for the termination of a license. The simplest occurs when a company fails to commence business within 12 months of receiving a license or has ceased business. Otherwise the revocation follows continual breach of regulations.

Once the license has been revoked, the company may either cease its activity or liquidate. In either case, the company has to provide documentary evidence that all creditors' claims have been satisfied. A legal entity that liquidated an insurance company may not have a licence granted for two years after it has liquidated an insurance company.

If a company fails to carry out the order, the Insurance Supervisor may apply for a court order to liquidate the company.

5.6. Other issues

5.6.1. Portfolio transfers

The law of 2004 introduces a procedure for voluntary transferring of portfolios of insurance business. This procedure does appear to foresee a transfer of a portfolio following the bankruptcy of an insurer, but it does not appear to allow the Ministry of Finance to make a compulsory transfer to protect insureds. Moreover, since all insureds and insured persons have to give written consent to the transfer, it seems unlikely to provide a rapid and simple method of intervention by the Supervisor.

However, as is the case with so many aspects of the law, regulations are awaited which will set out the exact procedures to be followed.

5.6.2. Classification

One of the major complaints of insurance companies has related to the substantial number of class licenses that they had to obtain. Before the introduction of the 2004 law, there were over 80 different classes of insurance, all of which had to be separately licensed. Moreover, every time a minor amendment to a policy wording was introduced, this had to be agreed in advance by the Supervisor. It is not surprising that the sheer volume of work involved resulted in delays.

The new classification introduced reduces that number of classes where separate licenses to 23 and moreover companies merely have to inform the Insurance Supervisor of changes to their wordings to add “more specific terms and conditions”. In the past, all changes, however minor had to be agreed by the supervisor and this was a major disincentive towards developing new insurance products.

A further benefit arising from this new classification is that companies are likely to keep more appropriate statistics on this basis and this will in the long term provide a better information base about what is happening in the market.

5.6.3. Disclosure and reporting

The law of 2004 requires insurance companies to publish their reports and accounts in publications with wide circulation. The nature of the accounts is to be determined by the Ministry of Finance. In the past, the public accounts of an insurance company consisted of forms 1 and 2 required to be submitted to the supervisor, namely the balance sheet and the profit and loss account. The insurance company has to advise the Ministry of Finance as to how this information has been published. We are not aware of any company failing to publish these documents.

These forms are not sufficient, in our view, to give an overall view of the activity of an insurance company and we recommend that more information is provided (7.3.5).

Chapter 6

Insurance and Business Associations

6.1. All-Russian Insurance Association (ARIA)

ARIA was founded in 1996: it was the first organisation which aimed to further the interests of all insurance companies, state and non-state. As of 1st January 2004, ARIA had 224 insurance company members and 18 associations of insurance companies operated within its framework. These associations are largely regional in character.

ARIA welcomes as members any insurance or reinsurance company licensed to operate in Russia. Foreign ownership or control is no barrier to membership. In addition, ARIA has set up a category of non voting membership for companies supporting the insurance industry, such as reinsurance companies or other professional organisations.

The President of ARIA is Mr. Alexander Koval. He was initially elected in 2002 and re-elected in 2004. He has been a member of the state Duma since 1999.

ARIA sets out its objectives as follows:

- To develop the insurance companies and the insurance industry in Russia.
- To establish and insurance infrastructure.
- To create the conditions for the development of insurance products to satisfy insurance consumer needs.
- To develop insurance entrepreneurship.
- To improve the relationship between the insurance industry and the wider business community.

The overall governing body of the association is a biennial conference. The last conference was held in 2004. In between conferences, the Presidium meets quarterly to discuss major issues. The Presidium has over 40 members, including the heads of most of the major Moscow and regional insurance companies.

Beneath the Presidium there are 17 committees, whose activities reflect the wide range of activities undertaken by the association to achieve its overall objectives. These committees include a legislation committee, class committees (medical, social insurance, property insurance, reinsurance, life and pensions), and general committees (marketing, taxation, fraud prevention).

The association considers that its role in assisting the development of insurance law and regulation to be one of its priorities. This is reflected by the fact that Alexander Koval, a member of the Duma was elected as President in 2002. International contacts are also important and strong relationships have been developed with European and other international insurance associations. As befits a market with both National and Regional insurance companies, there is a strong emphasis on developing regional insurance infrastructures. Finally, importance is given to improving the public awareness and appreciation of insurance within the Russian Federation through public relations and publicity.

Financing ARIA has always been a problem as many insurance companies are reluctant to part with the association's dues. Dues are calculated on a basis which mixes a flat fee and fees based on premium income.

Web site: www.ins-union.ru.

6.2. The Russian Association of Motor Insurers (RAMI)

The law on compulsory motor third party insurance came into force in July 2003. The legislation bringing it into force included the provision for the creation of an association of motor insurers to perform certain functions set out in the law. All insurance companies with a licence to operate within the compulsory scheme have to be members of the association and the associations costs are covered by a compulsory levy based on a percentage of premiums gathered by each company. This means that the association has a guaranteed source of income and makes it financially more secure than the overall insurance association.

The main responsibilities of RMA relate to the collection of statistics to permit regular reviews of the fixed tariff that is used. Companies are obliged to provide their figures. In the early stages of the introduction of the compulsory motor scheme, there were not surprisingly a number of problems and the association is working to improve this aspect of its work.

Another important area for RIMA is the development of international links in motor insurance, especially in the area of the "green card". Russia is not at present a member of the green card bureau, but is actively negotiating with the bureau and expects to take the first steps in joining in 2005 or 2006. Russia has a huge geographical area, but relatively few of its cars and other vehicles are likely to cross its borders into other green card areas. This makes it difficult to determine the exact amounts the insurance industry should guarantee in order to join the green card system.

Perhaps the most important area of operation of the association is the development of a system for guaranteeing insurance payments to victims of

motor accidents where the driver was either untraced or uninsured. The Motor bureau is being financed by a further levy on premiums and it is expected that a substantial fund will be set up to protect the population.

The president of RIMA is Andrei Kigim who was appointed in 2004. Part of his overall objective is to work closely with ARIA on issues of common interest.

Web site: *www.autoins.ru*.

Chapter 7

Recommendations

7.1. Review of accomplishments

7.1.1. Introduction

The overall theme of our report is that the Russian insurance industry, when only standard classes of insurance are considered, has grown slowly since the ending of the Soviet system and although today it is showing signs of faster growth, especially in the non-life insurance area, it is still underdeveloped by most world standards.

The record of slow growth, however, should be viewed in the context within which the industry has struggled to develop. There have been profound socio-economic barriers to the development of the industry and if these are taken into account, it can be observed that the insurance industry, legislators and regulators have achieved much and indeed, it can be said that they have created a secure foundation on which we can expect to see even more rapid development.

While more needs to be done, our recommendations should be seen as suggestions for the Russian Federation to advance further along a route where much distance has already been travelled and where the end result can be of great benefit to the Russian economy and its people.

7.1.2. *The insurance market now has much better legal framework*

The market-based insurance industry began to operate in circumstances where there was no recognisable framework of law or regulation. Today, a relatively sophisticated overall framework of law and regulation is in place based largely on European practices. The Law of 2004 was a substantial improvement, and while many of the detailed regulations (normative acts) are still awaited, it can already be said that particularly in the area of supervision, the market is much stronger than it was. Life insurance will be separated from non-life. Capital requirements have been increased substantially and will continue to increase. All these are positive signs and should lead to a more orderly marketplace.

7.1.3. *Companies have gained experience*

The state monopoly on insurance was removed in 1988. Before that time all insurance expertise was found either in Ingosstrakh or in Gosstrakh. Ingosstrakh had gained experience of most classes of insurance and there was

therefore a pool of experienced professionals, but not nearly enough for the needs of all the new companies that began to emerge. Gosstrakh has a large number of employees and many agents, but because of its limited portfolio of business the range of skilled employees was limited. As a result, many of the companies that were founded in the early 1990s had very few experienced staff.

Many of these companies have survived to the present day – the insurance market was hardly touched by the financial crisis of 1998, ironically because of the slow development of standard classes of insurance – and have celebrated ten years of continuous operation. By world standards, ten years is not much for an insurance company, but in the Russian Federation, even this limited level of experience is important. Most of the major companies that specialise in standard classes of insurance, both national and regional, now are companies with a track record and have gained both experience and some measure of market recognition. For many, this has been important in that the retail insurance market has grown following the introduction of compulsory motor TPL insurance.

7.1.4. Insurance executives are now much more experienced

Whilst technical insurance expertise was in short supply, overall strategic management skills were insufficient. Very few insurance executives possessed any experience of managing a business under free market conditions. Knowledge of how to overcome the particular challenges of managing an insurance company in a competitive environment was almost non-existent. In part, this explains why so much insurance business development was obtained through such non-market orientated channels as captive insurance companies.

Most companies realised their shortcomings in sales and marketing experience. Many saw the need to develop senior management skills in all functional areas, including underwriting, claims management and customer service. However, the best educator has been experience. Many of the senior executives in insurance companies have now been in place for some time. Many companies show remarkable stability in their senior staff.

However, it has to be said that the rapid growth in the retail insurance market is a recent phenomenon and therefore there is as yet little experience in managing these types of mass-market accounts. This will be reflected in our recommendations.*

* Our main recommendation is that companies improve their technical methods of underwriting control (7.4.2).

7.1.5. Insurance education and training has become a priority

Whilst experience was the main teacher in the early stages of development, it is to the credit of the insurance industry that it has encouraged an emphasis on insurance education. Most insurance education takes place at university level (higher education). Many of the main Universities and other institutions of higher education have specific insurance courses which are usually a part of a business or economics degree programme. In Moscow, for instance, Moscow State University (MGU), MGIMU (International affairs), The Russian Economic Academy (formerly the Plekhanov Institute) and the Finance Academy – all high prestige institutions – have insurance courses as part of the curriculum. There are many other courses, both in Moscow and throughout the country. It is not known how many students are graduating each year with a basic knowledge of insurance, but it must be in the thousands. These graduates are the foundation for the long term success of the insurance industry in Russia.

There is an association of academics in insurance, led by Professor Yevgenny Kolomin from the Ministry of Finance Research Institute. This association meets annually and has made it a policy not to meet in Moscow in order to encourage insurance education and research throughout the regions of Russia.

Professional training for staff is undertaken on a continuing basis by many companies. In addition, many of the institutions that organise insurance education also run courses open to those at work. However, a co-ordinated system of continuing education for insurance professionals has not yet been established and this lack will be reflected in our recommendations.

7.1.6. International support for the development of insurance

There has been significant international support for the development of technical skills in insurance. Much of this support has been provided by the international insurance industry itself. Major international reinsurance companies have been prominent in providing education and training in areas where they expect to do business with Russian companies. International brokers have likewise trained staff through schemes such as the Chancellor's scheme in London, UK, under which Russians worked for a period of time in the London insurance market.

Wider training and technical support has also been provided by a number of donor agencies. Most prominent has been the European Union TACIS programmes, and thus far, there have been three projects relating to insurance. These projects have covered, amongst others, the following areas:

- Education.
- Support for the development of insurance legislation given to the Ministry of Finance.

- Technical support for the Insurance Supervisor.
- Development support for the insurance association (ARIA).
- Direct technical support and training for insurance companies.

Other international institutions and insurance associations have contributed to the TACIS programme and have also given direct assistance to their Russian colleagues.

7.1.7. Compulsory motor TPL insurance introduced with few major problems

Russia was one of the last countries of Europe to introduce a compulsory motor liability insurance requirement. The first attempt to introduce such a scheme took place under the Soviet system. Its failure then and later after the introduction of the market economy reflected the strong political opposition that was mobilised by its opponents. Nevertheless, the required legislation was passed in 2002 and the scheme came into force in 2003 and was made fully compulsory on 1st January 2004.

To an extent, the Russian market benefited from the delay as it was able to review the experience gained in Central and Eastern Europe. As a result, there have been few major operational problems in the first year. It is notable that over 25 million policies were sold. It is not certain exactly how many eligible vehicles there are in Russia, but it is certain that the acceptance rate is higher than many expected and could be as high as 85%. Many pessimists expected an acceptance rate of less than 50%.

Most of the 25 million policyholders are new customers for the insurance industry. The successful launch of the compulsory motor TPL scheme is likely to allow companies to develop a wider range of personal lines products and will certainly serve to increase the knowledge and understanding of insurance of a wider section of Russian society.

7.1.8. The insurance market is now more open to international competition

It is important that the Russian Government remains committed to continue progressive liberalisation of the insurance market to international competition. Most EU-based international insurance companies can now enter the Russian market without difficulty. It is an achievement for the insurance industry that it has now largely accepted the situation, and is beginning to gain a degree of confidence that the local Russian-owned insurance industry is not likely to be overcome by powerful international competition.

Currently, the international presence in the Russian market is small. It will almost certainly grow, but most observers expect Russian-owned insurance companies to survive at both national and regional levels.

7.1.9. International links are strong and getting stronger

Part of the explanation for the acceptance of an international presence in the Russian market is that Russian insurers have for many years had a strong relationship with the international reinsurance market. Under the Soviet system, all international relationships (outside the COMECON countries) were managed by Ingosstrakh. These relationships have proved to be remarkably strong and enduring, reflecting the fact that Russian reinsurance business is perceived, in general, to be professional.

Many of the new companies have themselves established strong links with the international reinsurance marketplace, and it is an achievement that a favourable impression of the Russian market has been maintained. The value of these relationships are difficult to measure, but it is certain that they have contributed to a situation where the industry, despite its apprehension, has been able to maintain an international perspective which has counterbalanced the various protectionist forces that argued against the opening of the market.

7.1.10. The All-Russian Insurance Association (ARIA)

It is another achievement that the Russian insurance market has been able to build and support an association that has been able to reflect the industry's views to legislators. In 1995, there were no less than three organisations that claimed to represent the views of the insurance industry. Since then, there have often been calls for the creation of further organisations to reflect the interests of various elements within the market. Yet despite this, ARIA has managed to grow from small base to a situation today where it clearly is the major voice of the insurance industry.

The underdeveloped nature of the market has meant that ARIA has never had large financial resources, but what it has been able to do with its meagre resources (by Western standards) is remarkable. Russian insurance now has strong international links at association level and these links are providing much technical support.

7.2. General expectations for the future of the Russian insurance market

The growth in standard classes of insurance has been slow, but at the same time beneath the surface much has been achieved. Today, the market is growing very fast and most observers expect this growth to continue, led by

non-life business. The optimistic growth forecasts are usually accompanied by more cautious predictions about the financial stability of the market, which remains undercapitalised by world standards.

7.2.1. Growth led by motor and property insurance

Motor insurance tends to dominate the non-life sector in developing insurance markets. In many central and eastern European countries, the class makes up between 50% and 60% of non-life premiums, whilst the percentage in more developed markets such as the United Kingdom and Germany is usually between 20% and 25%. Russia is expected to approximate Eastern Europe in this respect – the USD 1.8 billion of additional premium generated by compulsory motor TPL insurance, when added to existing motor business probably makes up at least 50% of premiums gathered from standard classes of insurance (non financial scheme business), although it is impossible to be sure because of the weakness of the statistics as noted above.

At the moment, not much commercial property is insured. However, most insurance companies are reporting that commercial property insurance is growing, though not, of course, at the same rate as motor. Smaller and medium sized enterprises are increasingly realising the benefits of insurance. Many of the huge enterprises still appear, however, to be either wanting to use insurance for various financial schemes, often through captives, or only insure part of their operations. We can expect this to further change as Russian enterprises began to raise finance and as loss awareness grows.

7.2.2. Marine, Aviation and Transport (MAT)

In the early days in the development of market based insurance companies, MAT was often the most important area of standard insurance, since many of the clients needed insurance coverage in order to operate outside Russia. Significant international technical assistance was provided in these areas and there has developed a number of well qualified professionals who gained their experience in MAT lines.

MAT is expected to continue to grow, especially as more Russian air and marine fleets modernise. It will however remain important for international contacts, but is unlikely to grow as fast as other areas of business.

7.2.3. Personal lines

Motor, as noted above, is giving companies the experience that might be used to develop other personal lines of insurance. At present, few Russians insure the contents of their apartments and whilst there are schemes to insure the buildings of apartment blocks, these do not in general, affect the individual owners of apartments.

There has long been a tradition of insuring rural living accommodation and dachas – it was compulsory under the Soviet system. Some companies are seeing a growth in this area. This is often in conjunction with the insurance of agricultural buildings.

7.2.4. Agricultural insurance

Under the Soviet system, agricultural insurance was probably the largest class of non-life business. There are signs of increasing interest in this class of business, and some companies are expecting substantial growth. At present premium income is low, but as agricultural reforms continue, conditions could well be created for the growth that is expected.

7.2.5. Liability insurance

There is very little experience of liability insurance in Russia. Few accidents appear to generate claims and legal cases, though there are indications that as people gain experience of court awards related to motor accidents, they will understand that in other areas, awards can be made and insurance can be purchased to provide protection. Nevertheless, it is expected that liability insurance will remain underdeveloped in Russia in the short to medium term.

7.2.6. Accident and health insurance

Accident insurance is not expected to grow substantially unless legislation is introduced which makes it compulsory for employers to provide accident insurance for their employees. Health insurance (voluntary medical insurance) will continue to grow as it has become an important benefit given to employees. As noted before, most of this class is not risk based. A number of companies are looking at offering risk based health insurance, but rapid growth is not expected.

7.2.7. Long term life insurance – the great potential

It has been noted above that long term life insurance hardly exists in Russia today. Many observers feel that many of the socio-economic factors that have acted as barriers to the development of any long term savings in Russia are reducing in importance. However, the fact remains that Russians still view life insurance as a means of short to medium term savings and as a result insurance companies have to compete with bank deposits for this business in a situation where not many Russians trust most financial institutions with their savings.

As the Russian economy continues to grow, and as the middle class increases in size, it is quite possible that the same requirements for life, as

experienced elsewhere, will generate significant growth in life insurance. Family protection and wealth transfer should become important to the Russian population and the insurance industry needs to develop the appropriate products and services.

However, in the short term, it is difficult to project a rapid growth of life insurance or any other form of long term saving linked to insurance, such as voluntary pensions. Term life insurance could become a popular alternative, but for this to happen the industry would have had to change the popular perception of life insurance as a form of short term savings. This point is covered in our recommendations.

In the medium term, it seems that “second pillar” pensions (employer based pension schemes) will be dominated by the state pension fund and voluntary “top up” pensions (the third pillar) are unlikely to grow fast for the reasons noted above. This point is covered in our recommendations.

7.2.8. Growth is likely to outstrip overall economic growth

Clearly some areas of the insurance market are likely to grow faster than others. However, most observers are confident that insurance premiums will grow faster than the overall growth in the economy for the next five to ten years. There have been a number of predictions made as to the growth rate over the next few years, mostly based on an assumption that Russian insurance will have a similar level of penetration to Eastern Europe at some stage in the future.

All predictions see the market doubling or tripling its volume of real insurance business within five to seven years. Many observers see even faster growth.

7.2.9. Financial schemes are likely to reduce

It has been noted above that a high proportion of reported insurance (and some reinsurance) “premiums” are in fact generated by various schemes, the object of which is not to transfer risk but to reduce tax or to provide some other form of non-risk financial service. Most of these schemes legally exploit loopholes in Russian laws. However there are signs that the Government is evaluating legislation and mechanisms for closing these loopholes. It is significant that in 2005, the Insurance Supervisor suspended the license of Stolichnaya Insurance Company, a company widely believed to be largely reliant on financial schemes. Likewise there is also evidence that leaders in the insurance industry see the political risk in being so heavily dependent of tax reduction schemes. There are increasing calls for the market to take an initiative in reducing this business and make the transition to risk-related products.

However, while there are loopholes, there will always be those that exploit them. It is expected that schemes will continue, but will reduce in significance. This issue is covered in our recommendations.

7.2.10. Steadily improving regulation

We have noted above that the Law of 2004 is a substantial improvement to the legal and regulatory framework for insurance. Numerous enabling regulations (normative acts) will be implemented over time by the Ministry of Finance and it is expected that these will broaden the framework and add to further industry improvements.

The new Ministry of Finance should have the authority to continue to improve regulation. The question of resources is not so certain however, and this issue is covered in our recommendations.

7.2.11. Investment of insurance funds

A characteristic of the Russian insurance market prior to the introduction of compulsory motor TPL insurance was the extremely “short tail” nature of most of the business. This meant that there were few funds available for investment and most liquid assets were kept in cash (another reason why insurance companies were comparatively unaffected by the financial crisis of 1998.)

Today, those companies that underwrite the compulsory motor TPL insurance are cash rich and the longer “tail” of the liability business means that this cash rich position is likely to remain, unless losses catch up. For the first time, insurance companies can contemplate developing an investment programme. It is expected that insurance companies will increasingly participate in the Russian investment markets and will perform the important social role of recycling premiums as investment capital into the real economy. However, the longer term investments will only be possible when the long term life market develops, and this may take some time.

7.2.12. Market consolidation

As we have noted, the Russian insurance market is characterised by a large number of insurance companies, most of whom have inadequate capital. A number of our recommendations relate to this issue since it is one of the most important issues facing the market today and in the medium term.

The increase in minimum capital requirements is already leading to a number of the smaller companies retiring from the business or having their licenses revoked. We expect the process of consolidation to continue, especially if the Insurance Supervisor strengthens solvency controls and verifies that assets in the balance sheets of companies actually exist.

It is possible that as the market grows, a number of companies will face financial shortcomings. This will also hasten consolidation. It will also increase the pressure on the Insurance Supervisor to increase the solvency monitoring of all insurance companies.

7.3. Recommendations for the legal and regulatory framework

7.3.1. Introduction

The recommendations made in this report arise out of the analysis of the insurance market in 2004 as well as a historical review of the modern Russian insurance market. We also draw on international experience. Much has been achieved, and these recommendations should be seen not as criticism, but as an opportunity to continue the process of improvement and to build on success.

Our recommendations are developed in two sections. This first section consists of recommendations to the Government and/or the insurance supervision for further improvements in the legal or regulatory framework. The second section consists of recommendations to insurance companies (or to the insurance association as appropriate).

The recommendations for improvements in the legal and regulatory framework may require legislation or regulatory action from the Government. Some, however, may fall within the powers that the insurance regulator has to bring forward enabling regulations (normative acts).

7.3.2. Develop legislation to avoid abuses related to the provision of financial and other non risk schemes

We believe that excessive reliance by insurers on the provision of corporate financial schemes is not in the long term interests of insurance companies or of the Russian consumer. It is also not in the interests of the federal government that companies are able to reduce their tax burden through financial schemes which only appear to be insurance.

Some Russians believe that their market is unique in that insurance schemes are used to reduce tax. This belief is not true, of course, and many tax regimes have faced the difficulties of ensuring that only genuine insurance is tax deductible. The techniques used outside Russia would be available to the Russian government were it to begin the process of drafting enabling legislation to reduce, if not eliminate, this artifice.

We recommend that the Government sets itself the task of reforming the tax treatment of insurance to prevent abuses related to the provision of non-risk financial and other schemes whilst at the same time ensuring that

genuine insurance is deductible against both personal and corporate tax as soon as practicable.

7.3.3. Increase emphasis on enforcing financial stability

It has been noted above that the Russian insurance industry is characterised by a large number of small companies, many with inadequate capital. It has also been noted that much of the capital that insurance companies show in their balance sheet is of questionable value. The market is growing rapidly and the main engine of growth is motor TPL insurance. In such circumstances, most observers would see the clear potential for some insurance companies to experience severe, if not fatal, financial difficulties. Indeed, in 2005 a number of insurance companies have failed.

It is for this reason that our recommendation is that the Government and the Insurance Supervisor should consider how best to increase the level of financial stability in the insurance industry. While we make a number of specific suggestions as to steps that might be of value, our main intent is that there should be a recognition now of the potential dangers not only to insurance consumers but also ultimately to the financial system if undercapitalised insurance companies take on substantial amounts of insurance business which they do not have the financial strength to support.

One way to begin this change of emphasis is to recognise in the law that both the Ministry of Finance and the Insurance Supervisor has a duty to protect the interests of insurance consumers. Many countries also require regulators and supervisors to have as one of their main objectives the protection of the interests of insurance consumers. This would raise the issue of solvency and stability higher in the agenda. We believe that these issues are going to become more important as the market develops.

7.3.4. Clear capital guidelines

The Ministry of Finance is in the process of bringing forward regulations that will govern what sort of assets can be used in the capital base of an insurance company. In the banking industry, the process of ensuring that only assets of real value constitute the capital of a bank began some time ago, and it became apparent that if certain types of asset were disallowed overnight, many banks would face immediate problems of capital adequacy which could destabilise the system. It is possible that a similar situation could arise in the insurance industry and it is therefore recommended that any regulations should be introduced gradually to give insurance companies time to replace disallowed assets with genuine assets.

Whatever the time period, the overall objective must be that there should be clear and easily understandable guidelines that require insurance

companies to support their business with real assets that can ultimately be used to pay claims in the event that underwriting results turn negative or if overall operating results are substandard.

7.3.5. Development of greater transparency and encouragement of published “ratings”

At the present time, the amount of financial information that insurance companies are required to publish is limited to their balance sheet and profit and loss account. Few would consider that this information is enough to give insurance consumers (and their advisors) the data necessary to assess the actual financial strength of an insurance company.

Consideration should therefore be given to a gradual process of encouraging insurance companies to disclose an ever greater amount of financial information. This process could also be encouraged if some form of “rating” designation from a reputable rating agency was introduced and made compulsory over time.

At the present time, there is no real possibility that international rating agencies will be able to rate all Russian insurance companies. A number of companies have a rating from a Russian rating agency, but the number is a small percentage of the total insurance companies. It is therefore not practicable in the short term to make a rating compulsory, but this may be a long-term objective which could make a valuable contribution to public awareness of the financial security of the industry.

7.3.6. Introduce international accounting standards

The insurance market needs capital, some of which will need to come from international investors. If it is to attract inwards investment, it is essential that the market uses accounting standards that are internationally accepted. We therefore recommend that a requirement is introduced to make Russian insurance companies use international accounting standards within a period of time required by the law.

It is clear that such a requirement could cause difficulties for the many small companies that are operating in the market. However, the regulations could take account of the difficulties faced by these companies by making some aspects of the timescale for implementation dependent on the size of the company. In any case, the need for improved accounting systems will become a force assisting the consolidation of the market.

7.3.7. Creation of a policy protection “insurance” fund by 2010

Many countries have set up a procedure whereby insurance consumers are protected against loss in the event that an insurance company fails

financially and is unable to pay claims. Usually, the insurance industry as a whole is required to support the system by providing the funding to pay insurance consumers who have claims against the failed company.

Such a system already applies to compulsory motor TPL insurance and is also being developed in the Russian banking industry, and we believe that it would be worth establishing such a system in the insurance industry as a whole. There are two important considerations:

1. It would be vital that only companies that were relatively financially strong are permitted to enter the system, otherwise the financially strong companies would be continually supporting weak, undercapitalised companies. The need to prove financial strength would encourage the development of a “rating” system.
2. The stronger companies would enter the system leaving, most likely, a large number of small companies outside. These are the companies most likely to face financial problems. If these smaller companies began to fail, there would be political pressure to ensure that consumers are protected. If as a result, a political decision is made to create a system to protect consumers from the failure of insurance companies that are unable to join the main industry supported scheme, the funds for this scheme should not be raised from a levy on the industry as a whole.

7.3.8. Clearer reinsurance and investment guidelines

The Ministry of Finance is bringing forward regulations concerning permissible reinsurance and investments. The previous reinsurance regulations limited the amount of reinsurance assets that could be carried on the balance sheet for reinsurance from abroad and from one company. These regulations were not widely understood and it is recommended that the new regulations will perform the same function of ensuring that companies are prudent in their use of reinsurance and also such use is easy to understand.

The question of permissible investments is one where the changing nature of the Russian investment market is likely to require changes in the regulations. As the investment market develops more sophisticated investments and as possible investment terms lengthen, more comprehensive rules can be developed. It is recommended that the new regulations will reflect the changed investment climate since 1998.

7.3.9. Further progressive liberalisation of the Russian insurance market

The Russian insurance market is now more open to foreign insurance companies. Nevertheless, there would be substantial benefits in recognising the situation whereby obstacles in the sphere of activities of non-EU foreign

insurers still persist and formally lift the restrictions applying to non-EU based foreign investors.

7.3.10. Regulator and Supervisor should have wider powers to ensure that senior staff at insurance companies is “fit and proper”

The first steps have been made in the Law of 2004 to ensure that senior insurance staff is qualified. Our recommendation is that this process be widened to ensure that a wider group of senior staff have either specific qualifications or experience in the business. It is our view that the Ministry of Finance and the Insurance Supervisor should be able to assess the overall qualifications and experience of an insurance company management team as a whole to ensure that the necessary experience is available to supervise all aspects of an insurance company’s operations.

7.3.11. Insurance qualifications developed – applied to all providers of insurance services including agents

Further to the previous recommendation, it is recommended that some form of specific insurance qualifications be created and co-ordinated with a system of Russia-wide training so that insurance staff will continue to participate in professional education whilst they are working.

The Law of 2004 provided for a system for the attestation of actuaries to be established. It is possible that such a system could be developed for other insurance professionals.

It is preferable that the insurance industry itself, either through ARIA or through some other organisation, such as the Association of Insurance Scientists, takes the initiative to develop such a system. A number of OECD institutions could be approached for assistance.

At present there is no form of training for insurance agents other than that training provided by insurance companies. It is recommended that some form of minimum qualification be required before insurance agents are permitted to sell insurance products.

7.4. Recommendations for insurance market participants

7.4.1. Reduce dependence on financial schemes

Our first recommendation is based on our view that the high level of dependence on financial schemes is holding back the development of the market. We see the following important results:

1. The insurance industry risks damaging its relationship with the federal government if it is seen as a major vehicle for exploiting tax loopholes.

2. Insurance companies gain “risk free” income and thereby fail to appreciate the key management task of “risk management” which is crucial to future growth.
3. Companies heavily dependent on such schemes could face financial problems if the federal government enacts and enforces an effective means of preventing them.
4. Insurance consumers, particularly legal entities, gain a false impression of the purpose of insurance (They require tax saving rather than the transfer of their risks).
5. Insurance companies find it difficult to raise capital from investors since it is particularly difficult to value companies with a substantial proportion of business being derived from such schemes that are likely to be curtailed at some time in the future.

We therefore believe that it is in the interest of the market as a whole to support any tax reforms aimed at ensuring that only genuine insurance products receive favourable tax treatment and we recommend that the market does so.

7.4.2. Continue technical development

Insurance companies have made substantial progress developing their technical expertise. However, more work is needed, especially as their business expands. Companies themselves are seeing that managing the large numbers of clients brought in by the compulsory motor TPL scheme requires more refined skills and operating systems. Some companies, however, have not realised that new management information systems, based on actuarial methods, are essential if this business is to be properly controlled.

One aspect has caused some surprise. It seems that a number of companies have no systems for recording and reporting outstanding claims. Without such a system, it will be difficult to assess the true position of the company in terms of loss ratios, let alone loss projections. It will become more important as more bodily injury claims from motor accidents begin to arise. We recommend that the Russian Association of Motor Insurers (RAMI) encourage its members to develop systems to estimate outstanding claims and report their loss experience (separating physical damage and bodily injury claims) on a regular basis.

7.4.3. Increase capital

A major theme in this report is that the Russian insurance market is undercapitalised. It is therefore important that insurance companies come to realise the importance of capital and raise extra capital. Many companies believe that the solvency margin as applied by the Insurance Supervisor (16%

for non-life business) is an adequate level of capital. In fact, a prudent level would be double the minimum for most classes of insurance.

7.4.4. Support “consumer protection” as an object of supervision

We have recommended above that the Law of 2004 should be amended to give additional duties to the Ministry of Finance and to the Insurance Supervisor to protect insurance consumers. We believe that insurance companies should support such a change since it should contribute towards improving the public’s trust in the insurance industry as well as developing customer loyalty and business retention.

If there happen to be high profile failures of insurance companies, this will damage the image of the industry as a whole. Any measures that might reduce the likelihood of failures or mitigate any failures that occur can only benefit all insurance companies as well as insurance consumers.

7.4.5. Develop a wider range of life products

It has been noted above that the range of life insurance products that Russian companies are aiming to sell is very narrow and these products tend to compete poorly with bank sponsored deposits.

We recommend that both individual companies and perhaps the market as a whole begin the process of changing public perception as to the purpose of life insurance and the products that can be of value to individuals and families.

7.4.6. Develop and support further public education programmes through ARIA

ARIA and RAMI are both already developing public education programmes. It is recommended that companies both continue to support these programmes and provide funding for expansion. ARIA is able to draw on considerable experience in this field from other insurance associations throughout the world.

7.4.7. Fraud monitoring and data sharing

Both ARIA and RAMI have committees whose aim is to reduce insurance fraud. There have been many attempts to set up a central database of insurance losses through which multiple claimants can be identified. Many countries in the West have successfully operated such a database. For a number of reasons, a database has not yet been set up in Russia. It is recommended that companies continue in their discussions with the aim of setting up and utilising a database as soon as possible.

7.4.8. Continue support for education and develop a system of professional training

It has already been noted that insurance education at university level is widely available throughout Russia. In addition, many companies have their own educational facilities for their staff and distribution system. However, there is currently no system of professional qualifications in insurance that can be achieved by insurance company employees and by other insurance professionals.

It is recommended that companies continue to support the educational programmes in universities and other institutions of higher education. It is also recommended that insurance company education and training continues and is increased to the extent that is necessary to support growth and professional development.

In addition, it is recommended that a number of professional qualifications are developed centrally, possibly using the system that is to be developed for actuaries. The full range and level of qualifications needs to be decided through industry discussions, but we recommend the following:

1. A basic qualification for agents.
2. A simple qualification for junior staff entering the insurance industry.
3. Qualifications for those engaged in certain specialised insurance functions, including underwriting, accounting and claims management.
4. Qualifications in various areas of insurance which can be used as a requirement for a senior position within an insurance company.
5. A qualification for insurance brokers which can be used as a requirement for a senior position in an insurance broking company.

7.5. Conclusions

Our overall aim in writing this report and in stating our recommendations is to contribute towards the development of a strong and effective insurance sector in Russia. We know that our colleagues in the Russian insurance industry share our view that insurance is an essential part of a market economy and are working hard to ensure that their industry performs its social and economic roles. Much progress has already been made, but more needs to be done, especially in the key area of gaining and maintaining public trust in insurance companies.

We have made a number of recommendations based on our understanding of the current position of the Russian insurance industry and on our experience of insurance in other countries. We hope that the insurance industry itself, through its associations, will examine these recommendations and adopt those that coincide with the expressed needs of the members of the

association. We also hope that the industry will continue to support the development of a strong legal and regulatory framework for the industry and all measures necessary to increase professionalism within the insurance sector.

APPENDIX 1

Sources and Bibliography

Sources

It is a major theme of this report that it is difficult to obtain an accurate picture of the Russian insurance market from the published statistics; however, there are a number of people who know the market well. The authors of this report have, in the many years that they have been involved in the Russian insurance market, had the great fortune to be able to discuss most, if not all, Russian insurance issues with these learned experts. Whilst all do not agree about every point of view, there is a broad consensus about such issues as the overall size of the market and its general breakdown by class of business.

It is impossible to note here everyone who may have contributed to this report by offering their opinions. However, we would like to acknowledge some of those whose assistance has been substantial. We would stress that they bear no responsibility for the contents of the report or for any mistakes that may have been included.

Overall market analysis

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Bibliography

There is little written in English about the Russian Insurance market. The most comprehensive reports are produced by Axco a London company that provides information about insurance markets throughout the world. Axco produces two reports, life insurance and non-life insurance. They are updated regularly and are available by subscription.

The most detailed analysis of the breakdown of the market by class is produced by Ilan Rubin of the United Financial Group. His report, "Russian Insurance in 2003 and beyond: the praxis of my system" was published in August 2004 and is available from the author (IRubin@ufg.com).

Ilan Rubin also produces other shorter research notes, such as "Fighting the Good Fight – MinFin's Insurance Policy" February 2003.

Ilan Rubin and Mark D. Mariska have also written an article in Contingencies Magazine, of the American Academy of Actuaries (July/August 2003). "Six degrees of separation". Mr. Mariska actively monitors market developments in the Russian Federation (mdmariska@aol.com).

Andrei Ivanov of Troika Dialog Research has also produced a report on the Russian insurance market. "Insurance Sector – all set for a bumper crop" November 2003 (Andrei_L_Ivanov@troika.ru).

Thomas B. Manson has written a number of reports on the market. Most of the contents of these reports have been incorporated into this report. However, he is very willing to provide these reports and other research to those interested in the Russian insurance market (tom_manson@droege.ru).

Swiss Re has published a number of reports which include data from the Russian market. The most recent was Sigma 5/2004 "Exploiting the growth potential of emerging insurance markets". Whilst the report highlights India and China, there is valuable information on the Eastern European emerging insurance market.

Sigma 1/2001 is the most recent report dedicated to Eastern Europe.

The comparative data on insurance penetration in this report was taken from Sigma 3/2004, "World insurance in 2003: insurance industry on the road to recovery".

There are a number of sources of insurance market information in Russian. Interfax collects data from most of the major Russian insurance companies and produces an annual report on the industry.

Expert magazine also collects information and publishes reports. Other specialist insurance periodicals often provide valuable information, such as "Strakhovoye dela" (Insurance Business), "Strakhovoye Revu" (Insurance Review), Ruskiy Polis (Russian Policy).

In addition, the Commercial Office of the US Embassy in Moscow monitors the Russian insurance market and issues periodic reports.

APPENDIX 2

*Extract from the Civil Code of the Russian Federation**Chapter 48. Insurance***Article 927. Voluntary and obligatory insurance**

1. Insurance shall be effectuated on the basis of contracts of property or personal insurance, concluded by an individual or by a legal entity (insured) with an insurance company (insurer).

A contract of personal insurance is a public contract (Article 426).

2. In cases where the law entrusts to specific persons the obligation to arrange insurance, at their own expense or at the expense of other interested persons, covering the lives, health or property of other persons or of their civil liability towards other persons (compulsory insurance), then insurance shall be effected on the basis of contracts in accordance with the rules in this Chapter. The conclusion of contracts of insurance shall not be compulsory for the insurers on the terms offered by the insured.

3. The law may provide for cases of compulsory insurance of the lives, health and property of individuals at the expense of resources allocated from the appropriate state funds (compulsory state insurance).

Article 928. Interests, the insurance of which is not allowed

1. No insurance of interests contrary to law shall be permitted.

2. No insurance of losses from the participation in games, lotteries and betting shall be permitted.

3. No insurance of expenditure to which a person may be forced in order to free hostages shall be permitted.

4. The terms and conditions of the contracts of insurance which contradict Items 1-3 of this Article shall be null and void.

Article 929. The contract of property insurance

1. Under a contract of property insurance, one part (the insurer) shall, in consideration of the payment stipulated by the contract (insurance premium) and upon the onset of an event (insured event), be obliged, as stipulated in the contract, to pay to the other party (the insured) or to another person in favour of whom the contract has been concluded (the beneficiary) the losses incurred as a result of the event to the insured property or the losses sustained in connection with other property interests of the insured (to pay insurance compensation) up to the limit of the amount specified by the contract (insured sum).
2. The following property interests may be insured under a contract of property insurance:
 1. the risk of loss (destruction), shortage of, or damage to, property (Article 930);
 2. the risk of liability arising out of obligations due to causing damage to the lives, health or property of other persons, and in addition the risk of civil liability established by law (Articles 931 and 932), or liability arising under contract ;
 3. the risk to a businessman of losses from business activity arising from of the violation of their obligations by contracting parties or the change in the conditions of this activity due to the circumstances beyond the businessman's control, including the risk of non-receipt of expected revenue- Entrepreneurial risk (Article 933).

Article 930. Insurance of property

1. Property may be insured under a contract of insurance in favour of a person (the insured or beneficiary) who has an interest in the preservation of the property, based on the law, on another legal act or by contract.
2. A contract of property insurance, concluded in the absence of the insured's or the beneficiary's interest in the preservation of insured property, shall be void.
3. A contract of property insurance in favour of a beneficiary may be concluded without specifying the name of the beneficiary (insurance at the expense of the payer).

Upon the conclusion of such contract the insured shall be given a bearer insurance policy. When the insured or the beneficiary exercises his rights under such contract this policy shall be given to the insurer.

Article 931. Insurance of liability for the infliction of damage

1. Under a contract of liability insurance covering obligations arising from the infliction of damage to the lives, health or property of other persons, the liability risk of the insured himself or any other person who bears such liability may be insured.
2. A person whose risk of liability for the infliction of damage has been insured shall be named in the insurance contract. If this person is not named in the contract, the liability risk of the insured himself shall be deemed to be the insured.
3. A contract of liability insurance of harm shall be deemed to be concluded in favour of the persons who have suffered the harm (the beneficiary), even if the contract has been concluded in favour of the insured or any other person liable for the infliction of damage or if the contract fails to state in whose favour it has been concluded.
4. In cases where it is compulsory to insure the liability for the infliction of damage, and in other cases, stipulated by the law or in the contract of insurance, the person in favour of whom the insurance contract is deemed to be concluded shall have the right to present a claim directly to the insurer for damages up to the limit of the sum insured of the policy.

Article 932. Insurance of liability under contract

1. Insurance of the risk of liability arising out of the violation of a contract shall be allowed when permitted by the law.
2. Under a contract of insurance of the risk of liability arising out of the violation of a contract, only the liability risk of the insured himself may be insured. A contract of insurance that does not comply with this requirement shall be void.
3. This risk of liability for the violation of a contract shall be deemed to be insured in favour of the party to whom the insured is liable under the terms and conditions of the contract, *i.e.* the beneficiary, even if the insurance contract has been concluded in favour of another person or if the contract does not say in whose favour it is concluded.

Article 933. Insurance of entrepreneurial risk

Under the contract of insurance of entrepreneurial risk, only the entrepreneurial risk of the insured himself may be insured and only in his favour.

The contract of insurance of the entrepreneurial risk of a person who is not an insured shall be void.

The contract of insurance of entrepreneurial risk is favour of a person who is not an insured shall be deemed to be concluded in favour of the insured.

Article 934. Contract of personal insurance

1. Under a contract of personal insurance, one party (insurer) in consideration of the payment stipulated in the contract (insurance premium) and paid by the other party (insured), either as a lump sum or periodically, shall be obliged to pay the sum of money, specified by the contract (insured amount) if the insured himself or any other individual named in the contract (insured person) incurs damage to his life or health; attains a certain age or on the onset of another event, as set out in the contract (insured event).

The right to receive the insured amount shall belong to the person in favour of whom the contract has been concluded.

2. A contract of personal insurance shall be deemed to have been concluded in favour of the insured person, if the contract fails to name another person as a beneficiary. In the event of the death of the person insured under the contract, in which a different beneficiary is not named, the heirs of the insured person shall be recognised as the beneficiaries.

A contract of personal insurance in favour of a person who is not the insured person, or in favour of an insured, who is not the insured person, may be concluded only with the written consent of the insured person. In the absence of such consent a contract may be recognised as invalid following an application to the court by the insured person or after the death of this person, following an application to the court by his heirs.

Article 935. Compulsory insurance

1. The law may place on persons specified by the law a duty to insure:
 - the life, health or property of other persons, specified in the law, against the risks of damage to their life, health or property;
 - their risk of civil liability arising from the fact of their causing damage to the life, health or property of other persons or from the violation of contracts made with other persons.

2. The obligation to insure his own life or health may not be placed on an individual under the law.
3. In cases stipulated by the law or established in a statutory procedure, legal entities which manage either financially or operationally state or municipal property may be obliged to insure that property.
4. When the duty to insure does not arise from the law but is derived from a contract which includes a duty to insure property, or from a contract with the owner of the property or from the articles of association documents of the legal entity which owns the property, such insurance shall not be deemed to be compulsory in terms of this Article and shall not result in the consequences, provided for any Article 937 of this Code.

Article 936. The conduct of compulsory insurance

1. Compulsory insurance shall be effectuated through the conclusion of a contract of insurance between the person charged with the duty of arranging such insurance (the insured) and the insurer.
2. Compulsory insurance shall be effectuated at the expense of the insured, with the exception of the compulsory insurance of passengers, which may be effectuated at the expense of the passengers insofar as it is permitted by the law.
3. Objects subject to compulsory insurance, the risks against which they must be insured and the minimum amounts of insured sums shall be determined by the law and in the case, specified by Item 3 of Article 935 of this Code, by the law or in the procedure established by it.

Article 937. The consequences of the violation of the rules for compulsory insurance

1. The person in favour of whom compulsory insurance should be effected shall have the right, if he becomes aware that insurance has not been effected, to apply to a court to ensure its implementation by the person charged with the duty to insure.
2. If the person who is entrusted with the duty to insure has not carried out this duty or has concluded an insurance contract on terms and conditions less favourable to the beneficiary than the terms and conditions set out in the law, he shall, on the occurrence of the insured event, become liable to the beneficiary on the same terms and conditions on which the insured compensation would have been paid had the correct insurance been in place.
3. Any money saved by the person charged with the duty to insure and who has not carried out the duty or has fulfilled it improperly, shall be recovered

following an application to a court by the agencies of state insurance supervision in favour of the Russian Federation. Interest on this money shall be calculated in accordance with Article 395 of this Code.

Article 938. Insurers

Legal entities having authorisation (licenses) to carry on insurance business for a specific class of insurance may conclude contracts of insurance as insurers.

The various requirements that insurance companies must meet, the procedure licensing their activity and state supervision over this activity shall be determined by laws on insurance.

Article 939. Fulfilment of duties under the insurance contract by the insured and by the beneficiary

1. The conclusion of a contract of insurance in favour of the beneficiary, including when the insured person is the beneficiary, shall not relieve the insured from any obligations under this contract, unless provided otherwise or if the insured's obligations have been fulfilled by the person, in favour of whom the contract was concluded.

2. On receiving from the beneficiary a claim for the payment of insurance compensation under a contract of property insurance or of the insured sum under a contract of personal insurance, the insurer shall have the right to demand from the beneficiary, including when the beneficiary is represented by the insured person, the fulfilment of the obligations under the insurance contract (including the obligations entrusted to the insured but not fulfilled by him). The risk of the consequences the failure to fulfil the duties or the tardy fulfilment of the duties, shall be borne by the beneficiary.

Article 940. The form of the insurance contract

1. An insurance contract must be concluded in writing. The failure to conclude the contract in writing shall invalidate an insurance contract, except for a contract of compulsory state insurance (Article 969).

2. An insurance contract may be concluded by means of drawing up a single document (Item 2 of Article 434) or by the insurer handing to an insured, who has made a written or oral application, an insurance policy (certificate or receipt) signed by the insurer.

In the latter case the insured's consent to conclude a contract on the terms proposed by the insurer shall be confirmed by the insured's acceptance

from the insurer of the documents, referred to in the first paragraph of this point.

3. At the time of concluding an insurance contract the insurer shall have the right to apply its own standard forms of insurance contract (insurance policy), or standard wordings agreed by an association of insurers covering the specific class of insurance.

Article 941. Insurance under a general policy

1. Systematic insurance of different lots of similar property (goods, cargoes, etc.) on similar terms during a determined period of time may be effectuated by an agreement between the insured and the insurer on the basis of one insurance contract, i.e. a general policy.

2. The insured shall be obliged to provide the insurer with information specified by such a policy in respect of each lot of property subject to the operation of the general policy within the time limit set out in the policy, and if this time limit is not set out in the policy, immediately he receives this information.

The insured shall not be released from this duty, even if at the time of the receipt of such information, the possibility of losses covered by the policy no longer exists.

3. On the demand of the insured the insurer shall be obliged to issue individual insurance policies for particular lots of property covered by the general policy.

In the event of inconsistency between the individual insurance policy and the general policy, preference shall be given to the individual insurance policy.

Article 942. The material terms and conditions of an insurance contract

1. Whilst concluding a contract of property insurance the insured and the insurer shall reach agreement on:

1. The property or other property interest that are to be the object of insurance.
2. The nature of the event following which the insurer has an obligation to respond (insurance event).
3. The amount of the sum insured.
4. The period of validity of the contract.

2. Whilst concluding a contract of personal insurance the insured and the insurer shall reach agreement on:

1. The insured person.

2. The nature of the event, following which the insurer has an obligation to respond (insured event).
3. The amount of the sum insured.
4. the period of the validity of the contract .

Article 943. The definition of the terms and conditions of the insurance contract within insurance rules

1. The terms and conditions under which an insurance contract is concluded may be defined in standard insurance rules, adopted, approved or endorsed by the insurer or by an association of insurers (the Insurance Rules).
2. The conditions contained in the Insurance Rules and not included within the text of the insurance contract (insurance policy) shall apply to the insured (beneficiary), if the contract (insurance policy) expressly indicates the application of such rules and the rules are set forth in the same document as the contract (insurance policy) or on its reverse side or are appended to it. In the latter case the delivery of the insurance rules to the insured during the conclusion of a contract shall be certified by an entry in the contract.
3. During the conclusion of an insurance contract the insured and the insurer may agree to the modification or exclusion of some provisions in the insurance rules or on adding to the rules.
4. The insured (beneficiary) shall have the right to defend his interests by referring to the insurance rules to which there is a reference in the insurance contract (insurance policy), even if these rules do not apply to it by virtue of this Article.

Article 944. Information given by the insured while concluding an insurance contract

1. During the conclusion of an insurance contract the insured shall be obliged to communicate to the insurer all circumstances known to him which are of material relevance for calculating the probability of the occurrence of an insured event and of the likely amount of losses from its occurrence (the insurance risk), if these circumstances are not known and should not be known to the insurer.

In any event circumstances specifically stipulated by the insurer in the standard form of the insurance contract (insurance policy) or in its written proposal form shall be deemed to be material.

2. If an insurance contract has been concluded in the absence of the insured's replies to any questions put by the insurer, the latter may not demand afterwards the dissolution of the contract or its recognition as invalid

on the ground that the relevant circumstances had not been disclosed by the insured.

3. If it is ascertained after the conclusion of an insurance contract that the insured has knowingly given to the insurer false information about the circumstances, referred to in Point 1 of this Article, the insurer has the right to demand that the contract should be deemed to be invalid and that the consequences, stipulated by Item 2 of Article 179 of this Code should be applied.

The insurer may not demand the recognition that the insurance contract is invalid, if the circumstances, which the insured concealed, have already disappeared.

Article 945. The insurer's right to the appraisal of insurance risk

1. Whilst concluding a contract of property insurance, the insurer shall have the right to inspect the property to be insured and if necessary, to appoint an expert to appraise its actual value.

2. Whilst concluding a contract of personal insurance, the insurer shall have the right to examine the person to be insured to appraise the actual state of his health.

3. The appraisal of insurance risk by the insurer shall not be compulsory for the insured, on the strength of this Article. The insured has the right to prove otherwise.

Article 946. Secrecy of insurance

The insurer shall not have the right to disclose any information about the insured, the insured person or the beneficiary, the state of their health or about the nature of their property, obtained as a result of the insurer's professional activity.

If the insurer does violate the secrecy of insurance, the insurer will be liable to the sanctions in accordance with the rules, envisaged by Article 139 or Article 150 of this Code, depending on the nature of the rights infringed and the nature of the divulgence.

Article 947. The sum insured

1. The sum of money, up to the limit of which the insurer undertakes to compensate the insured under a property insurance contract or which he undertakes to pay under a personal insurance contract (sum insured) shall be determined by agreement between the insured and the insurer in accordance with the rules, provided for by this Article.

2. In case of insurance of property or entrepreneurial risk, unless the insurance contract stipulates otherwise, the sum insured shall not exceed the actual value of the property (insured value). Such value will be defined as follows:

- for property: its actual value in its place of location on the day the insurance contract is concluded;
- for entrepreneurial risk: the losses from business activity, which the insured could expect to have earned had not the insured event taken place.

3. In contracts of personal insurance and civil liability insurance, the insurance sum shall be determined by the parties at their discretion.

Article 948. The contesting the insured value of assets

The insured value of assets, referred to in the insurance contract, may not be contested afterwards, except when an insurer, who before the conclusion of the contract did not avail himself of his right to appraise the insurance risk (Item 1 of Article 945) was deliberately misled with regard to this value.

Article 949. Incomplete property insurance

If a contract of property insurance or entrepreneurial risk has fixed the sum insured below the insured value, the insurer shall be obliged on the occurrence of an insurance event to compensate for that part of the losses sustained by the insured (beneficiary) in proportion to the ratio between the insurance sum and the insured value.

The contract may provide for a higher amount of insurance compensation but not higher than the insured value.

Article 950. Additional property insurance

1. If property or entrepreneurial risks are partially insured, the insured (beneficiary) shall have the right to effect additional insurance, including with another insurer, with the proviso that total insurance sum should not exceed the insured value in all insurance contracts.

2. The non-observance of the provisions of Item 1 of this Article shall entail the consequences, envisaged by Item 4 of Article 951 of this Code.

Article 951. The consequences of insurance in excess of the insured value

1. If the sum insured, defined in a contract of property insurance or entrepreneurial risk, exceeds the insured value, the contract shall be void in that part of the sum, which exceeds the insured value.

In the event of over insurance, the part of the insurance premium relating to the excess value shall not be subject to return.

2. If in accordance with the insurance contract, the insurance premium is paid in instalments and at the time of discovering the circumstances, referred to in Item 1 of this Article, the premium has not been contributed in full, the remaining insurance contributions shall be paid in an amount reduced in proportion to the decrease in the sum insured.

3. If the overestimation of the insurance sum in an insurance contract was the consequence of fraud by the insured, the insurer shall have the right to demand that the contract be deemed to be invalid and any losses paid by him over and above the amount of insurance premium received from the insured should be returned.

4. The rules, envisaged in Items 1-3 of this Article, shall also be applied when the sum insured exceeds the insured value as a result of insurance of the same risk by two or more insurers (double insurance).

The amount of insurance compensation payable in the event of double insurance by each insurer shall be reduced in proportion to the decrease in the original insurance sum under the relevant insurance contract.

Article 952. Property insurance against different insurance risks

1. Property and entrepreneurial risks may be insured against different insurance risks both under one and under several insurance contracts, including contracts with different insurers.

In these circumstances the amount of the total sum insured over all these contracts may exceed the insured value.

2. If the obligation of insurers to pay insurance compensation for the same consequences of the onset of one and the same insured event follows from two or several contracts, concluded in keeping with Item 1 of this Article, the rules, stipulated by Item 4 of Article 951 of this Code, shall be applied to these contracts insofar as they apply.

Article 953. Coinsurance

An insurance object may be jointly insured under one insurance contract by several insurers (coinsurance). If such contract does not define the rights

and obligations of each insurer, they shall be liable jointly and severally to the insured (beneficiary) for the payment of insurance compensation under a property insurance contract or of the sum insured under a personal insurance contract.

Article 954. Insurance premium and insurance instalments

1. Insurance premium shall be understood to mean the payment for insurance that the insured (beneficiary) shall be obliged to make to the insurer following the procedure and within the time-limits set out in the insurance contract.
2. In estimating the amount of the insurance premium payable under an insurance contract the insurer shall have the right to apply the insurance rates elaborated by him which determine the premium per unit of the sum insured taking account of the nature of the object of insurance and the character of insurance risk.

In cases provided for by the law the amount of the insurance premium shall be determined following insurance tariff rates, established or regulated by state insurance supervision bodies.

3. If the insurance contract provides for the payment of the insurance premium by instalments, the contract may determine the consequences of the non-payment of regular insurance instalments within the established time limits.
4. If an insured event took place before the payment of a regular insurance instalment, which is overdue, the insurer shall have the right to offset the amount of the overdue insurance premium instalment against the amount of insurance compensation payable under a property insurance contract or against the sum insured under a personal insurance contract.

Article 955. Replacement of the insured person

1. Where a contract of insurance of the risk of liability for the infliction of damage (Article 931) has insured the liability of a person other than the insured, the latter shall have the right, unless otherwise stipulated in the contract, to replace this person by another one at any time before the occurrence of an insurance event by notifying the insurer accordingly in writing.
2. The insured person, named in a personal insurance contract, may be replaced by another person at the request of the insured and with the consent of the insured person and of the insurer.

Article 956. The replacement of the beneficiary

The insured shall have the right to replace the beneficiary named in an insurance contract by another person by notifying the insurer accordingly in writing. A beneficiary, appointed with the consent of the insured person (Item 2 of Article 934), may be replaced under a personal insurance contract only with the consent of this person.

The beneficiary may not be replaced by another person after he has fulfilled any obligation under the insurance contract or has presented to the insurer a claim for the payment of insurance compensation or the insurance sum.

Article 957. The commencement of the insurance contract

1. An insurance contract, unless provided for otherwise therein, shall come into force at the time of the payment of the insurance premium or its first instalment.
2. Insurance, stipulated by the insurance contract, shall cover insured events which occur after the entry of the insurance contract into force, unless the contract provides for a different period of validity of the insurance contract.

Article 958. The early termination of an insurance contract

1. An insurance contract shall be terminated before coming into force, if after its entry into force the possibility of the occurrence an insured event has disappeared or the insurance risk ceased to exist due to circumstances other than an insurance event.

Such circumstances may include in particular:

- the destruction of insured property for reasons other than the occurrence of an insurance event;
- the legal termination of the business activity by the person who has insured the entrepreneurial risk or civil liability risk, associated with this activity.

2. The insured (beneficiary) shall have the right to waive the insurance contract at any time, if by the time of his refusal the possibility of the occurrence of an insurance event has not disappeared in the circumstances, referred to in Item 1 of this Article.
3. If the insurance contract ceases to be valid short of the term due to the circumstances referred to in Item 1 of this Article, the insurer shall have the right to that part of the insurance premium which relates to the time during which insurance was in force.

If the insured (beneficiary) waives the insurance contract before expiry, the insurance premium paid to the insurer shall not be subject to return, unless otherwise stipulated by the contract.

Article 959. The consequences of increased insurance risk whilst the insurance contract is in force

1. Whilst a property insurance contract is in force, the insured (beneficiary) shall be obliged to inform the insurer of any significant changes to the circumstances that were communicated to the insurer during the conclusion of the contract that have become known to him, if these changes can substantially increase the insurance risk.

Changes will be deemed to be significant in any event, if they are stipulated in the insurance contract (insurance policy) or in the insurance rules given to the insured.

2. An insurer who receives notification of circumstances resulting in increased risk shall have the right to demand the introduction of changes in the insurance contract or the payment of an additional insurance premium in proportion to the increase in risk.

If the insured (beneficiary) objects to changes in the terms and conditions of the insurance contract or to the additional charge to the insurance premium, the insurer shall have the right to demand the cancellation of the contract in keeping with the rules, provided for by Chapter 29 of this Code.

3. In the event that the insured or beneficiary fails to carry out the obligation laid down in Item 1 of this Article, the insurer shall have the right to demand the termination of the insurance contract and compensation for the losses caused by the cancellation of the contract (Item 5 of Article 453).

4. The insurer shall not have the right to demand the cancellation of an insurance contract, if the circumstances that resulted in an increase in insurance risk have already disappeared.

5. In case of personal insurance the consequences of changes in insurance risk during the validity term of the insurance contract, referred to in Items 2 and 3 of this Article, may take place, only if they are expressly set out in the contract.

Article 960. The assignment of rights to insured property to another person

If the rights to insured property have been assigned by the person in whose interest the insurance contract was concluded to another person, the rights and obligations under this contract shall be transferred to the person to

whom the rights to property have passed, except if the property has been subject to compulsory seizure on the grounds, referred to in Item 2 of Article 235 of this Code, or if right of ownership has been renounced. (Article 236).

The person to whom the rights to insured property has been transferred shall at once notify the insurer of this fact.

Article 961. The notification of the insurer about the onset of an insured accident

1. Under a property insurance contract the insured, who has been informed about the occurrence of an insurance event, shall be obliged to notify without delay the insurer or its representative of the occurrence. If the contract provides for a definite date and/or method of notification, the latter shall be done in the stipulated period and following the method, indicated in the contract.

The same duty lies on a beneficiary who is aware of the fact that a contract has been entered into in his favour, if he intends to take advantage of the right to insurance compensation.

2. Failure to carry out the obligation set out in Item 1 of this Article shall give the insurer the right to refuse payment of insurance compensation, unless it is proved that the insurer had learnt about the onset of the insurance event in due time or if an insurer's lack of information could not influence his obligation to pay insurance compensation.

3. The rules, envisaged by Items 1 and 2 of this Article, shall be applied in a similar manner to a personal insurance contract, if the death of the insured person or the infliction of injury on his health is an insurance event. In this case the notice period to the insurer, specified by the contract may not be less than 30 days.

Article 962. The reduction of losses from an insurance event

1. Upon the occurrence of an insurance event, provided for by a property insurance contract, the insured shall be obliged to take reasonable measures available under current circumstances to reduce possible losses.

In taking such measures the insured must follow the instructions of the insurer, if they have been brought to the notice of the insured.

2. Expenses incurred in the reduction of losses that are subject to compensation by the insurer shall be reimbursed by the insurer, if such expenses were necessary or made in order to fulfil the insurer's instructions even if the measures had proved to be unsuccessful.

Such expenses shall be reimbursed in proportion to the ratio between the sum insured and the insured value, even if the sum of these payments and compensation for other losses exceed the sum insured.

3. The insurer shall be released from the obligation to pay compensation for losses if the insured failed to take reasonable measures available to him to reduce possible losses.

Article 963. The consequences of the onset of an insurance event through the fault of the insured, beneficiary or insured person

1. The insurer shall be released from the payment of insurance compensation or of the insurance sum, if the insurance event occurred following the deliberate action of the insured, beneficiary or insured person, except for the cases, stipulated by Items 2 and 3 of this Article.

The law may provide for cases of the release of the insurer from the payment of insurance compensation under property insurance contracts if the occurrence of the insurance event was as a result of gross negligence on the part of the insured or beneficiary.

2. The insurer shall not be released from the payment of insurance compensation under a contract of insurance of civil liability for the infliction of damage to human life or health, if the damage was done through the fault of the person responsible for it.

3. The insurer shall not be released from the payment of a sum insured which is payable under a personal insurance contract in the event of the death of the insured person, if his death took place because of suicide and at the time the insurance contract had been in force for more than two years.

Article 964. The grounds for the release of the insurer from the payment of insurance compensation and the insurance sum

1. Unless the law or the insurance contract provides otherwise, the insurer shall be released from the payment of insurance compensation and the sum insured, when the insurance event occurred as a result of:

- the impact of a nuclear blast, radiation or radioactive contamination;
- war, hostilities, and exercises and other military undertakings;
- civil war, popular unrest of any kind or strikes.

2. Unless a property insurance contract provides otherwise, the insurer shall be released from the payment of insurance compensation for losses sustained owing to the seizure, confiscation, requisition, attachment or destruction of insured property according to the orders of state bodies.

Article 965. The assignment of the insured's rights to compensation for damage to the insurer (subrogation)

1. Unless a property insurance contract provides otherwise, the right of claim, which the insured (beneficiary) has against the person responsible for the losses reimbursed through the insurance policy, shall pass to the insurer who has paid insurance compensation up to the limit of the claims payments. However, a contract clause that excludes the assignment of the right of claim against a person who deliberately caused damage shall be void.
2. The right of claim that has been transferred to the insurer shall be implemented by him complying with the rules regulating the relations between the insured (beneficiary) and the person responsible for losses.
3. The insured (beneficiary) shall be obliged to give all documents and evidence to the insurer and to provide him with all information necessary for the implementation by the insurer of the right of claim that has passed to him.
4. If the insured (beneficiary) has abandoned his right of claim to the person responsible for the losses compensated by the insurer, or if the exercise of this right has become impossible through the fault of the insured (beneficiary), the insurer shall be released from the payment of insurance compensation in full or in part and shall have the right to demand the return of the compensation paid in excess.

Article 966. Limitation period for claims related to property Insurance

An action for claims arising out of property insurance contract may be presented within two years.

Article 967. Reinsurance

1. The risk of payment of insurance compensation or the sum insured, assumed by an insurer under an insurance contract may be insured by him in full or in part with another insurer (insurers) under a contract of reinsurance concluded with the latter.
2. The rules set out in this Chapter, which are applicable to the insurance of entrepreneurial risks, shall be applied to a contract of reinsurance, unless the contract of reinsurance provides otherwise. Under the contract of insurance (principal contract) the insurer who has concluded the contract of reinsurance shall be deemed to be the insured in the latter contract.

3. In case of reinsurance the insurer shall remain liable to the insured under the principal insurance contract for the payment of insurance compensation or the insurance sum.
4. It shall be permissible to conclude two or more contracts of reinsurance.

Article 968. Mutual insurance

1. Individuals and legal entities may insure their property and other property interests, referred to in Item 2 of Article 929 of this Code, on a mutual basis by means of pooling the necessary resources in mutual insurance societies.
2. Mutual insurance societies shall undertake the insurance of the property and other property interests of their members and shall be non-profit making organisations.

A law on mutual insurance in conformity with this Code shall determine the specific aspects of the legal status of the mutual insurance societies and the conditions of their activity.

3. Mutual insurance societies shall insure the property and property interests of their members directly on the basis of their membership, unless the societies' founding documents provide for the conclusion of insurance contracts in these cases.

The rules envisaged by this Chapter shall be applied to the insurance relations between a mutual insurance society and its members, unless otherwise stipulated by the law on mutual insurance, the constituent documents of the relevant society or by the insurance rules, adopted by it.

4. Obligatory insurance through mutual insurance shall be allowed in cases, provided for by the law on mutual insurance.
5. As an insurer the mutual insurance society may undertake the insurance of persons who are not society members, if such insurance operations are provided for by its constituent documents, if the society has been set up in the form of a profit-making organisation, has a permit (license) for appropriate insurance and meets other requirements, established by the law on the organisation of insurance business.

The insurance of the interests of the persons who are not members of the mutual insurance society shall be undertaken by the society under insurance contracts in keeping with the rules, provided for by this Chapter.

Article 969. Compulsory state insurance

1. Legislation may be enacted to establish compulsory state insurance of the lives, health and property of various categories of state employees and for

the purpose of protecting the social interests of citizens and of the interests of the State.

Obligatory state insurance shall be carried on using financial resources, appropriated for this purpose from the respective budgets and given to ministries and other federal executive bodies (insureds).

2. Obligatory state insurance shall be effected on the basis of the laws and other legal acts relating to such insurance by state insurance companies and other state organisations (insurers), indicated in these acts or on the basis of insurance contracts, concluded by insurers and insureds in accordance with these acts.

3. Obligatory state insurance premiums shall be paid to the insurers in the amount, defined by laws and other legal acts on such insurance.

4. The rules, envisaged by this Chapter, shall be applicable to obligatory state insurance, unless otherwise stipulated by the laws and other legal acts on such insurance and unless the contrary follows from the substance of relevant insurance relations.

Article 970. The application of general rules for insurance to special types of insurance

The rules, in this Chapter, shall apply to the conduct of insurance relations with regard to the insurance of foreign investments against non-commercial risks, marine insurance, medical insurance, insurance of bank deposits and pensions, unless the laws on these types of insurance stipulate otherwise.

Note: the above is an unofficial translation. If any action is to be taken that is dependent on the above law, the appropriate legal advice should be taken.

APPENDIX 3

*Law of the Russian Federation,
27 November 1992, No. 4015-1*

**“On the organisation of insurance business
in the Russian Federation”
(as amended 31 December 1997,
20 November 1999, 17 January 2004)**

CHAPTER I. GENERAL CONDITIONS

[2004. Articles 1, 2, 3, 4 new]

Article 1. Relationships defined in this law

1. This law regulates the relationship between entities that are actively engaged in the sphere of insurance business or participating therein; those involved in state supervision and the consumers of insurance products and other relationships connected with the organisation of insurance business.
2. The relationships set out in point 1 of this article are also regulated in other federal laws and in decrees of the President of the Russian Federation insofar as they do not contradict this law. In certain circumstances, set out in this law, federal organs having legal competence to do so, may introduce legal regulations (normative acts).
3. For the purposes of this law, the federal laws and other legal regulations noted in points 1 and 2 of this Article will be known as “insurance legislation”
4. The operation of this law extends to cover the legal relations of those involved in compulsory insurance.

Article 2. Insurance and insurance activity (insurance business)

1. “Insurance” is defined as a relationship established to protect the interests of individuals and legal entities, of the Russian Federation, of subjects of the Russian Federation and of municipalities whereby monetary funds which have been generated by insurers out of insurance premiums paid to them (insurance income), or from other financial resource of insurers, are paid out on the occurrence of defined insurance events
2. “Insurance activity” (insurance business) includes the insurance activity of insurers and reinsurers, mutual insurance and in addition the activity of insurance brokers, insurance actuaries providing services to insurers and reinsurers.

Article 3. Aims and objectives of the organisation of insurance business. Forms of insurance

1. The objective of insurance business is to protect the property interests of individuals and legal entities, of the Russian Federation, of subjects of the Russian Federation, of municipalities on the occurrence of insurance events.
2. The objective of the organisation of insurance business is: to introduce a consistent government policy in the insurance sphere; to introduce principles of insurance and its method of operation so that it can provide for the economic security of citizens and those economically active within the territory of the Russian Federation.
3. There are two types of insurance: voluntary and compulsory.
4. Voluntary insurance operates through a basic insurance contract [dogovor] and through insurance rules [pravila] which set out the general terms and conditions and define how they come into force. The rules governing voluntary insurance are adopted and introduced by insurance companies themselves in conformity with the Civil Code and this law. They contain details of the insured (the subject of insurance), the object of insurance, the insured events, the insured risks, the method for calculating the sum insured, the tariff, premiums (insurance income), the method for concluding, implementing and ending the insurance contract, the rights and obligations of the parties, definition of the size of claims or damage, the method of making claims payments, the circumstances in which claims will be denied and other details.
5. The rules and method of coming into force of compulsory insurance are defined in the Federal laws relating to each type of compulsory insurance. The Federal law relating to each type of compulsory insurance must contain details setting out:
 1. the insured (the subject of insurance);
 2. the objects covered by the insurance;

3. a list of insurance events;
4. a minimum size for the sum insured or the method for its calculation;
5. the size, structure or the method of calculating the insurance tariffs;
6. the time and method of payment for the premium (insurance income);
7. the time within which the insurance contract should be produced;
8. the method of calculating claims payments;
9. the control of the process of insurance
10. the consequences of failure to take out compulsory insurance or of the improper use of an object of compulsory insurance;
11. any other details.

Article 4. The objects of insurance

[2004. Definition of Life Insurance for first time. Point 1, sub point 1]

1. The objects of personal insurance may be property interests relating to:
 1. a citizen reaching a certain age or living for a certain period, death, certain events affecting the life of a citizen (life insurance);
 2. the occurrence of harm to the life and/or health of a citizen resulting in medical treatment (personal accident and illness insurance or medical insurance).
2. The objects of property insurance may be property interests in particular relating to:
 1. the ownership, use or disposal of property (property insurance);
 2. the obligation to compensate another person for damage done (liability insurance);
 3. the fulfilment of the work of a commercial enterprise (the insurance of commercial risks).
3. It is not permitted to insure illegal interests or interests, though not illegal, that are contrary to a law.
4. Combined insurance of different types of property and/or personal insurance is permitted where such insurance is not forbidden by Federal law. (combined insurance).
5. Only insurers (or reinsurers) in possession of a licence are permitted to insure the interests, located on the territory of the Russian Federation, of legal entities or persons resident in the Russian Federation.

Article 4.1. Participants whose relationships are regulated by this law

[2004. New article 4.1]

1. The participants whose relationships are regulated by this law are:
 1. the insured, insured persons, beneficiaries;
 2. insurance organisations;
 3. mutual insurance societies;
 4. insurance agents;
 5. insurance brokers;
 6. insurance actuaries.
7. The Federal authority with the legal authority to supervise the activity of the providers of insurance services (henceforth – the insurance supervisory authority.)
2. Insurance organisations, mutual insurance societies, insurance brokers and insurance actuaries are defined as being providers of insurance services. [Literally “Subjects of insurance business”]. The activities of all providers of insurance services should be licensed other than actuaries, who are required to be attested. Providers of insurance services are required to be entered on a combined single register of providers of insurance services maintained by the insurance supervisory authority.
3. The name or business name of a provider of insurance services where it is a legal entity, must contain a description of the type of business it undertakes (“insurance”, “reinsurance”, “mutual insurance”“insurance broker”) or some similar word or form of words. A provider of insurance services, where it is a legal entity, does not have the right to use a full or short name (business name) which repeats either in part or in full the name (business name) of another provider of insurance services. This prohibition does not apply to subsidiary or affiliated organisations of the provider of insurance services.

Article 5. Policyholders

1. Policyholders may be legal entities or competent individuals who have concluded an insurance contract with an insurer or who appear to be policyholders by force of law.

Article 6. Insurers

[2004 Article 6 Points 1 and 2 New]

1. Insurers are defined as legal entities, that are set up, in conformity with the legislation of the Russian Federation, in order to carry on insurance, reinsurance, mutual insurance and which have a licence as set out in this law.
2. Insurers calculate the insurance risk, receive insurance premiums (insurance income), form insurance reserves, invest assets, estimate the size of a claims payment or damage, makes claim payments, carries out other activities involved with the fulfilment of obligations under the insurance contract.

[2004. Separates Life and Non-Life business into separate companies]

Insurers have the right to carry on either only the insurance of objects of personal insurance as defined in point 1 Article 4 of this law or only the insurance of objects of property and personal insurance as defined in point 2 and sub-point 2 of point 1 of Article 4 of this law.

[2004. Definition of Life insurance included in point 3]

3. Insurance organisations which are subsidiaries of foreign investors (where the foreign investor is a controlling organisation) or where the shareholding of foreign investors in their statutory capital exceeds 49%, may not undertake in Russia personal insurance as defined in point 1 paragraph 1 of Article 4 of this law; compulsory insurance; compulsory state insurance; property insurance connected with governmental procurements or implementation of governmental contracts, and in addition may not undertake property insurance of state and municipal organisations.

[2004. New paragraph]

For the purposes of this law, a foreign investor is defined as a foreign organisation with the right under Russian law to invest in the territory of the Russian Federation in the charter capital of existing or new insurance companies operating in the Russian Federation.

[2004. Quota increased from 15% to 25%]

In the event that the size (quota) of foreign capital in the aggregate statutory capital of insurance organisations exceeds 25%, the insurance supervisory authority will cease to issue licenses for insurance activities to insurance organisations, which are subsidiaries of foreign investors (where the foreign investor is a controlling organisation), or where the shareholding of foreign investors in their statutory capital exceeds 49%.

The above cited size (above cited quota) is calculated as the proportion of the aggregate capital owned by foreign investors and their subsidiaries in the

statutory capital of insurance organisations, to the total statutory capital of all insurance organisations.

An Insurance organisation is obliged to obtain a preliminary permit from the insurance supervisory authority if it intends to increase its statutory capital by means of a financial contribution from foreign investors and/or from their subsidiaries, or for the selling of its shares to a foreign investor (including the sale of shares of or stakes in the statutory capital to foreign investors); likewise Russian shareholders (participants) must obtain a preliminary permit to sell shares (stakes in the statutory capital) to foreign investors and/or their subsidiaries. The issue of this preliminary permission shall not be refused to insurance organisations which are subsidiaries of foreign investors (controlling organisation) or which have a foreign investors' stake of over 49 per cent in their charter capitals or where this figure is exceeded as a result of this transaction, unless the amount (quota) established in this point is exceeded by the transaction.

The payment by foreign investors for shares (stakes in statutory capitals) owned by them in the insurance organisations must be carried out exclusively in a monetary form in the currency of Russian Federation.

All persons performing the functions of sole chief executive and chief accountant of insurance organisations with foreign investments, must be Russian citizens.

4. An Insurance organisation, which is a subsidiary of foreign investor (where the foreign investor is a controlling organisation) has the right to conduct insurance activity in Russian Federation if the foreign investor (controlling organisation) has been acting as an insurance organisation for not less than 15 years, in accordance with the legislation of its home state, and has participated for not less than two years in the activity of insurance organisations established on the territory of Russian Federation.

Insurance organisations that are subsidiaries of foreign investors (where the foreign investor is a controlling organisation), or where the shareholding of foreign investors in their statutory capital exceeds 49%, may open branches on the territory of Russian Federation, participate in affiliated insurance organisations (subsidiaries) after obtaining a preliminary permit from the federal executive body for the supervision of insurance activity. Such a permit may be refused if the size (quota) of participation of foreign capital in insurance organisations, cited in the point 3 of the present article, is exceeded.

[2004. New paragraph which opens the market to EU companies]

5. The rules set out in paragraphs one, six and seven of point 3 and in point 4 of this article and also in point 4 of article 32 of this law, do not apply to insurance organisations which are subsidiaries of foreign investors (main organisation) or where the foreign investor's share in the statutory capital

exceeds 49%, that are from states that are members of the European Union, being parties to the Partnership and Co-operation Agreement between the Russian Federation on the one hand and the European Union and its member states on 24 June 1994.

[2004 Articles 7 and 8 new]

Article 7. Mutual insurance societies

Legal entities and individuals may form mutual insurance societies for the protection of their own property interests in the manner and under the conditions set out in the law on mutual insurance.

Article 8. Insurance agents and insurance brokers

1. Insurance agents are citizens of the Russian Federation, that carry on their business on the basis of a civil law contract, or are a Russian legal entity (a commercial organisation), and who represent insurers in their relations with the insureds according to their power of attorney and the authority they have been given.

2. Insurance brokers are either individual entrepreneurs and citizens of the Russian Federation or Russian legal entities (commercial organisation) registered under the established legislation of the Russian Federation, who represent the insured in their relationship with insurers under the instructions of the insured or acting in their name as an insurance intermediary providing required services connected with the concluding of a contract of insurance (reinsurance). Insurance brokers have the right (when not contrary to the law) to carry on other forms of business connected with insurance, including activity as insurance agents of insurers (reinsurers). Insurance brokers do not have the right to carry out business not connected with insurance.

3. The activity of insurance agents and insurance brokers related to providing services to conclude contracts of insurance (other than contracts of reinsurance) with foreign insurance companies on the territory of the Russian Federation is forbidden.

[2004. Article 8.1 new]

Article 8.1. Insurance actuaries

1. Insurance actuaries are citizens of the Russian Federation, possessing attested qualifications and who operate either under a basic work agreement (contract) or under a civil law contract carrying on insurance business to

calculate insurance tariffs, the insurance reserves of insurers, the value of investments using actuarial methods of calculation.

2. Insurers are obliged within the results of each financial year to carry out an actuarial valuation of their insurance obligations (insurance reserves). The results of the actuarial valuation must be contained in a report, to be submitted to the insurance supervisory authority, according to established regulations.

3. The insurance supervisory authority is responsible for bringing in regulations concerning the introduction of qualifying examinations for insurance actuaries, for establishing and checking their qualifications.

Article 9. Insurance risk, the insurance event

1. An insured risk is an anticipated event, the occurrence of which will give rise to Insurance. To be considered an insured risk, an event must have the qualities of probability and accident.

2. An insured event is an event which has occurred and which was foreseen, either by law or in an insurance contract, the occurrence of which gives rise to the payment of an insurance payment by an insurer to a policyholder, insured person, beneficiary or other third party.

[2004. Articles 10 – 14 New]

Article 10. The sum insured and claims payments

1. The sum insured is either established by Federal law and/or determined in the insurance contract and is a sum of money, from which is calculated the insurance premium (insurance income) and the amount to be paid in the event of the occurrence of an insured event.

2. For property insurance, the sum insured may not be in excess of the actual value (insured value) of the property at the moment of concluding the contract. The parties may not dispute the insured value of property, set out in an insurance contract, except when the insurer can prove that the insured deliberately acted to mislead the insurer.

For personal insurance, the sum insured is agreed between the insurer and the insured.

3. Insurance payments are sums of money either as set out in Federal law and/or determined in the insurance contract which the insurer pays to the insured or to an insured person or to a beneficiary on the occurrence of an insured event.

Insurance payments according to a contract of insurance must be made in the currency of the Russian Federation other than in circumstances set out

in point 4 of this article, according to the legislation of the Russian Federation concerning currency and the control of currency.

4. A contract of property insurance and/or liability insurance is permitted to contain clauses concerning insurance payments (insurance compensation) which permit the replacement of damaged property with similar property.

5. In the event of loss or damage to property an insured or a beneficiary, have the right to pass on their legal rights over the property to the insurer in order to obtain from the insurer payments (insurance compensation) in the full amount of the sum insured.

6. With regard to personal insurance, insurance payments (sum insured) made to the insured or to any other person with the right to receive such payments (sum insureds) according to the insurance contract shall not be affected by amounts due under any other contract of insurance and also with regard to compulsory social insurance, social procurement and payments made to compensate damage.

With regard to life insurance, a life insurer may pay in addition to a sum insured income arising out of investments.

7. In the event of the termination of a contract of life insurance which is based on the insured living to a certain age or for a specified period or some other event, the insured will receive a sum calculated according to the basic rules of the formation of insurance reserves as at the day of the termination of the contract (redemption value).

8. Organisations and individual entrepreneurs are required to provide documents and conclusions relating to the occurrence of an insurance event and needed to decide on insurance payments in accordance to the legislation of the Russian Federation.

Article 11. Insurance premiums (insurance income) and insurance tariffs

1. Insurance premium (insurance income) shall be paid by the insured in the currency of the Russian Federation except in cases set out in the legislation of the Russian Federation concerning the control of currency.

2. The insurance tariff is the cost of insurance premium based on the combined sum insured taking into consideration the nature of the insured object and the nature of the risk.

The insurance tariffs for the classes of compulsory insurance are set out in the laws of the Russian Federation that define the concrete classes of this type of insurance.

Article 12. Co-insurance

Coinsurance is the insurance of one or more objects of insurance by a number of insurers under the same contract.

Article 13. Reinsurance

1. Reinsurance is business where one insurer (reinsurer) protects the interests of another insurer (reinsurer) by taking on the payment obligations of an insurance contract (the original contract).

2. The risk of insurance payment under a life insurance contract based on the insured living to a certain age or for a certain term or any other event may not be reinsured.

3. Insurers with licences to carry on life insurance may not reinsure property risks accepted by other insurers. *[Amendment June 2004. Comes into effect 2007]*

4. Reinsurance is concluded under a contract of reinsurance made between an insurer and a reinsurer in accordance with civil law.

5. In addition to the contract of reinsurance, agreement between reinsured and reinsurer may be made in other documents according to normal business practice.

Article 14. Unions of providers of insurance services

1. In order to coordinate their activities, represent and protect the interests of their members, providers of insurance services may form unions, associations or other types of union.

2. Information about unions of providers of insurance services will be entered into the register of unions of providers of insurance services following the presentation to the insurance supervisory authority of copies of the certificate of state registration and the basic founding documents.

Article 14. (1) Insurance pools

On the basis of a contract of simple partnership (a contract of joint business), insurers may work together without forming a legal entity in order to ensure financial stability in insurance activity in separate types of insurance (insurance and reinsurance pools).

[1997. Chapter II (articles 15 –24) were deleted since the Citizen’s Code covers these issues]

CHAPTER III. GUARANTEE OF FINANCIAL STABILITY OF INSURANCE ORGANISATIONS

[2004. Articles 25 and 26 new]

Article 25. Conditions to ensure the financial stability of insurers

1. The guarantees that ensure the financial stability of insurers are insurance tariffs based on economic calculation; insurance reserves, set up to cover obligations arising out of contracts of insurance, co-insurance, reinsurance and mutual insurance; shareholders funds and reinsurance.

Insurance reserves and shareholders' funds must be secure assets, held on the basis of diversification, liquidity, age and cost.

2. Shareholders funds of insurers (excluding mutual insurance companies that solely insure their members) are made up of charter capital, reserve capital, voluntary capital and undistributed profits.

3. Insurers should possess paid up charter capital, the amount of which should not be lower than the minimum level of charter capital as set out in this law.

The minimum level of charter capital for insurers is calculated using the base level of charter capital which is rubles 30 million multiplied by the following coefficients:

- X1- for carrying on insurance of objects defined in sub-point 2, point 1, Article 4 of this law [*Personal accident and medical*].
- X1 – for carrying on insurance of objects defined in sub-point 2, point 1 and/or point 2 of Article 4 of this law [*Property and Casualty*].
- X2 – for carrying on insurance of objects defined in sub-point 1, point 1, Article 4 of this law [*Life insurance*].
- X2 - for carrying on insurance of objects defined in sub-points 1 and 2, point 1, Article 4 of this law [*Life and PA and medical*].
- X4 – for carrying on reinsurance and also insurance combined with reinsurance.

Changes in the minimum level of charter capital for insurers can be made by Federal law no more than once every two years with the establishment of a period during which the changeover must be made.

Borrowed assets and mortgaged property may not be included in charter capital.

4. Insurers must fulfil the requirements of this law and the legal regulations required by the insurance supervisory authority for financial security in respect of the formation of their insurance reserves, the formation and

structure of their assets out of which insurance reserves are created, quotas for reinsurance, the required relationship between shareholders funds and accepted obligations the formation and structure of assets constituting the shareholders funds and types of bank guarantees.

5. Insurers may transfer accepted obligations through a insurance agreement (insurance portfolio) to another insurer or to a number of insurers (substitute insurers) which have licences to carry on the classes of insurance included in the transferred portfolio, and which have sufficient free assets to comply with the solvency requirements following the acceptance of the transferred obligations. The transfer of an insurance portfolio is to be carried out using the procedure established by legislation of the Russian Federation.

An insurance portfolio shall not be transferred in the event that:

- the insurance contracts to be transferred have been entered into contrary to the legislation of the Russian Federation;
- the insurer which is accepting the insurance portfolio does not satisfy the provisions for financial stability established by Items 1 - 5 of this article;
- all insureds or insured persons have not given written consent to the replacement of the insurer;
- the licence of the insurer accepting the insurance portfolio does not cover the type of insurance for which the contracts of insurance have been concluded;
- the insurer ceding the insurance portfolio has insufficient funds to provide proper insurance reserves except when it is insolvent (bankrupt).

At the same time that an insurance portfolio is transferred, sufficient assets shall also be transferred as insurance reserves to cover the insurance obligations being transferred.

If there is a discrepancy between the insurance contract wording of the insurer which is accepting an insurance portfolio and the insurance contract wording of the insurer which is transferring the insurance portfolio, alterations in the terms of the contracts of insurance shall be agreed with the insured.

Article 26. Insurance reserves

1. Insurers shall maintain insurance reserves to provide security for the performance of insurance or reinsurance obligations using methods established in legal regulations issued by the insurance supervision authority.

2. Insurance reserve funds shall be used exclusively for making insurance payments.

3. Insurance reserves may not be removed to be included into the Federal budget or into other budgets within the Russian Federation.

4. Insurers shall have the right to invest or place in some other way insurance reserves using the procedure established by in regulations issued by the insurance supervision authority.

Insurance reserves shall be placed following the principles of diversification, security, profitability and liquidity.

5. When insurance concerns the objects of personal insurance objects set out in point 1 of para. 1 of Article 4 of this law, and where the insured is a physical person, the insurer shall be permitted provide a loan to the insured so long as the loan is within the limits of the insurance reserve set up to cover the insurance contract and the policy has a term of at least five years.

6. An insurance organisation is permitted to maintain a fund for preventive measures fund to finance measures for the prevention of insured events.

[2004 Article 27 Deleted]

[2004. Articles 28 and 29 New]

Article 28. Accounting and accountability

1. Insurers shall do their bookkeeping, draw up accounting and statistical reports in conformity with their chart of accounts, bookkeeping regulations, and using the bookkeeping and accounting forms authorised by the insurance supervision authority according to legislation.

2. Accounts of insurance transactions covering objects of personal insurance defined in paragraph 1, point 1 of Article 4 of this law shall be kept separately from the accounts of all other types of insurance.

3. Insurers shall file accounting and statistical reports and other information with the insurance supervision authority using the forms and methods established by the insurance supervision authority.

Insurance brokers shall provide the insurance supervision body with information on their activity as insurance brokers using the methods authorised by the insurance supervisory authority.

Article 29. Publication of annual financial accounts by insurers

1. Once they have received confirmation from their auditors that the information contained within them is reliable, Insurers shall publish annual

financial report and accounts using the procedure and within the timescale established by legal regulations of the Russian Federation.

2. The annual report and accounts shall be published in publications with a wide circulation, including publications circulating in the regions where the insurer is carrying on business. The insurer shall provide details to the insurance supervisory authority on the publication of the annual report and accounts.

CHAPTER IV. STATE SUPERVISION OF PROVIDERS OF INSURANCE SERVICES:

[2004. Article 30 New.]

Article 30. State insurance supervision in the Russian Federation

1. State supervision over the activities of providers of insurance services (hereinafter “insurance supervision”) shall have as its objectives: to ensure correct observance of insurance legislation; to prevent participants in the relationships covered by this law from committing offences and if these offences are committed, to halt them; to enforce insurance legislation; to ensure the protection of the rights and lawful interests of insurers, of other relevant persons and of the state; to help in the successful development of insurance business.

2. Insurance supervision shall be based on the principles of legality, transparency and consistency.

3. Insurance supervision shall be carried on by the insurance supervisory authority and its regional offices.

The insurance supervisory authority shall publish in authorised form the legal regulations adopted by the insurance supervision body; official commentaries and explanations of insurance legislation, the combined state register of the subjects of insurance activity; the register of insurance associations; information on the suspension or restriction of licences; on the revocation of licences (on deleting entries from the combined state register of the subject of insurance activity) and any other information relating to insurance supervision matters.

4. Insurance supervision shall consist of the following:

[Issuing qualification certificates for the attestation of actuaries (Paragraph 8, point 12 of Article 1 of this federal law) comes into force on 1 July 2006]

1. the licensing of the activities of providers of insurance services, the attestation of insurance actuaries and the maintenance of the

- combined state register of the providers of insurance services and the register of insurance associations;
2. the monitoring of the observance of insurance legislation, including on site inspection of the activities of subjects of insurance activity and the verification of the accounts submitted by them, and the monitoring of insurers' compliance with the rules ensuring their financial stability and solvency;
 3. issuing within 30 days in cases stipulated in this law the following permissions: for insurance organisations to increase their charter capital at the expense of foreign investors or to dispose of shares in their charter capital to of foreign investors; for foreign insurance and reinsurance brokers and other organisations involved in insurance business to open representative offices; for insurers with foreign investment to open branches;
 4. the production of regulatory and procedural documents on questions relating to the activities of providers of insurance services and bringing them into force according to this law;
 5. carrying out its duties as noted herein in such a way as to produce a consistent state policy in the sphere of insurance.
5. Providers of insurance services must:
- submit the required accounts, provide information on their financial state;
 - observe the provisions of insurance legislation and comply with any orders made by the insurance supervisory authority aimed at eliminating breaches of the insurance legislation;
 - at the request of the insurance supervision body, provide information required for the purposes of insurance supervision (other than secret banking information).

Article 31. Suppression of monopolistic activity and unfair competition

The prevention, limitation and suppression of monopolistic activity and unfair competition within the insurance market will be effected by the Federal anti-monopoly authority in accordance with the anti-monopoly legislation of the Russian Federation.

[2004. Article 32 New]

Article 32. Licensing of providers of insurance services

1. The licensing of activities of providers of insurance services shall be effected on the basis of their applications and documents filed in keeping with the present Law.

An insurance, re-insurance, mutual insurance, insurance brokerage licence (hereinafter also referred to as “licence”) shall be issued to providers of insurance services.

The right to pursue activity in the area of insurance is granted only to a provider of insurance services that has obtained a licence.

2. To obtain a licence to carry on voluntary and/or compulsory insurance, mutual insurance or insurance broking (hereinafter a licence) the applicant for the licence shall file the following documents with the insurance supervisory authority:

1. a licence application form;
2. the applicant's legal article of association;
3. a document confirming that the contender for the licence been officially registered as a legal entity;
4. the minutes of a meeting of the founding shareholders where the legal foundation articles of the applicant were approved and where also was approved the appointment of its single executive authority (General Director) and its head (heads) of the joint executive body;
5. a list of shareholders (stakeholders);
6. documents confirming that the charter capital has been paid up in full;
7. documents confirming the state registration of the legal entities that are the founding shareholders of the provider of insurance services and an auditor's confirmation on the reliability of their financial accounts for the last accounting period, if such an audit is required;
8. details of the applicant's sole executive body of the head (heads) of the collective executive body, of the chief accountant and of the head of the internal audit commission (internal auditor);
9. details of the insurance actuary;
10. insurance policy wordings the types of insurance covered by this law, with copies of the documents being used;
11. insurance tariff rates and the actuarial methods used, an description of the source of the original data and the structure of tariff rates;
12. a statement on the methods used to create insurance reserves;
13. a feasibility study establishing the financial viability of undertaking the proposed types of insurance.

3. To obtain a licence to carry on further types of voluntary and/or compulsory insurance or mutual insurance as set out in the classification, the applicant for the licence shall submit the documents specified in Sub items 1, 10-13 of Item 2 of the present article with the insurance supervisory authority.

4. Applicants for a license to carry on re-insurance licences shall not be subject to Sub items 9, 10 (so far as it concerns the presentation of insurance rules for types of insurance), Sub item 11 of Item 2 of the present article (except for specimens of the documents used in re-insurance).

5. To obtain a licence for insurance broking, the applicant for the licence shall submit the following with the insurance supervisory authority:

1. a licence application;
2. a document confirming that the applicant for the licence has undergone state registration as a legal entity or as an individual entrepreneur;
3. the constitutive documents of the applicant for the licence if it is a legal entity;
4. specimens of the contracts required for pursuing insurance brokerage activity;
5. documents confirming the qualifications of the insurance broker's employees and the qualification of the insurance broker being an individual entrepreneur.

6. The documents specified in Subitems 2, 3, 6 and 7 (so far as it concerns state registration documents) of Item 2, Subitems 2 and 3 of Item 5 of the present article shall be filed as copies attested to by a notary.

The application and the documents specified in Subitems 5, 8, 9 and 13 of Item 2, Subitem 4 of Item 5 of the present article shall be filed in the procedure established by the insurance supervision body.

7. Applicants for a license who are subsidiaries of international investors (main organisation) or where international investors have a share of more than 49% in the charter capital, in addition to the documents set out in point 2 of this article, should either present the requisite permission in written form to participate in the charter capital of insurance organisations located on the territory of the Russian Federation from the organisation authorised to supervise insurance business, in conformity with the legislation of the country in which they are located, or they should inform the [Russian] insurance supervisory authority that there is no requirement for them to receive such permission.

8. The lists of the documents set out in this article that are to be submitted by applicants for licences to obtain a licence are complete. In order to confirm information received, the insurance supervisory authority may send written

requests for information about the documents filed by an applicant for a licence from organisations (within the scope of their competence) subject to the legislation of the Russian Federation.

9. If the documents specified in the present article have been submitted in the appropriate form the insurance supervision body shall issue a written notice to the applicant for the licence, acknowledging the receipt of the documents.

10. Insurers must provide, within 30 days of the date of the changes, written notification to the insurance supervisory authority of any changes to the documents on which the issuing of a licence have been based under Points 2, 3, 5, 6, 7 (in respect of state registration documents), 8-13 of Para. 2, Points 3, 4 and 5 of Para. 5 of this article and they must at the same time submit documents confirming such amendments.

11. The decision to issue or refuse a licence shall be taken by the insurance supervision within 60 days of the day on which the insurance supervisory authority received all the documents required to be submitted by applicant for a licence under this article in order to obtain a licence. Notice of the decision shall be given by the insurance supervisory authority to the applicant for a licence within five working days of the date of the decision.

12. The documents submitted by providers of insurance services to the insurance supervisory authority body shall be in the Russian language.

[2004 Articles 32.1 – 32.9 New]

Article 32.1. Qualifications and other requirements

1. The directors (including a single executive authority) of a provider of insurance services that is a legal entity or an insurance business that is an individual entrepreneur must have received an education in economics or finance at the level of higher education (university) as confirmed by a document recognised in the Russian Federation that certifies the successful completion of a course of higher education in economics or finance. In addition at least two years experience working in the field of insurance and/or finance is required.

2. The chief accountant of an insurer must have received an education in economics or finance at the level of higher education (university) as confirmed by a document recognised in the Russian Federation that certifies the successful completion of a course of higher education in economics or finance. In addition at least a two years experience working his or her speciality in an insurance or re-insurance organisation and/or a insurance broker registered in the territory of the Russian Federation.

3. The chief accountant of an insurance broker shall have at least a two years experience working in his or her speciality.

[Insofar as the attestation of insurance actuaries is concerned, the issuing of certificates confirming qualifications (Paragraph 6 of Item 15 of Article 1 of this Federal Law) comes into force on 1 July 2006.]

4. An insurance actuary shall have received an education at higher education level (university) in mathematics (technology) or economics as confirmed by a document recognised in the Russian Federation certifying the successful completion of a higher education course in mathematics (technology) or economics and in addition he or she shall have obtained a qualification certificate confirming his or her knowledge of actuarial calculations.

5. The directors (including a single executive authority) and the chief accountant of a provider of insurance services that is a legal entity shall be citizens of the Russian Federation.

Article 32.2. Payment for the issuance of a licence

1. A licence fee of four thousand roubles shall be charged for the issuing of a licence.
2. A fee of one thousand roubles shall be charged for the issue of a duplicate copy of a licence or the replacement of a licence.
3. The amounts charged as indicated in the present article shall be paid into in the federal budget.

Article 32.3. Grounds for the refusal of a license to an applicant for a licence

1. The grounds for refusal of a licence to an applicant for a licence are as follows:
 1. if the applicant for the licence is a legal entity and is using a full or short name (company name) which completely or partially repeats the name of an provider of insurance services which has been entered into the combined state register of the providers of insurance services. This provision shall not apply to legal entities that are subsidiaries or affiliates of providers of insurance services;
 2. if the applicant for the licence has is in breach of insurance legislation at the time when submitting an application to carry on additional kinds of voluntary and/or compulsory insurance, and mutual insurance;

3. if the applicant for the licence has failed to comply with the documentary requirements as set out in this law and in the legal regulations issued by the insurance supervisory authority;
4. if the company registration documents are not in compliance with the those set out in the legislation of the Russian Federation;
5. if the applicant for the license submits documents containing false information;
6. if a Director (including the sole executive authority or the chief accountant of the applicant for a license has a legal conviction that has not been removed or deleted;
7. the insurers' failure to maintain financial stability and solvency as required by legal regulations issued by of the insurance supervisory authority;
8. if the insurance supervisory authority has issued an order and it has not been carried out;
9. the insolvency (bankruptcy) (including deliberate or fictitious bankruptcy) of the provider of insurance services, being a legal entity, through the fault of the founding shareholders of the applicant for the licence.

2. The decision of the insurance supervisory authority refusing the issuing of a licence shall be sent in writing to the contender for the licence within five working days of the decision, together with the reasons for the refusal.

The written decision refusing the issuing of a licence shall be given within the time period set out in this law and must contain an explanation of the refusal and must set out the rules that were broken and it shall be made within the term set by this law

The decision refusing to issue a licence shall be sent to the applicant for the licence by registered delivery.

Article 32.4. Annuling a licence

A licence shall be annulled or the decision to issue a licence shall be revoked if:

- the applicant for the licence has failed to take up the licence within two months of being notified that the licence has been issued;
- it is established before the licence is issued that the applicant for the licence has provided false information.

Article 32.5. The length of validity of a licence

1. A licence shall be issued without any time limitation, other than in circumstances set out in this law.
2. A temporary licence may be issued for a period that is:
 - specified in an application form submitted by an applicant for a licence, but such a period shall not exceed three years;
 - from one to three years in circumstances where sufficient information is not available to assess clearly the nature of the proposed insurance risks whose policy wordings were submitted as part of the licensing procedure or in other circumstances covered by insurance legislation.
3. The period of validity of a licence may be extended following an application by the applicant unless otherwise set out in insurance legislation.

An extension of the period of validity of a temporary licence may not be granted if it is established that the applicant for the licence violated insurance legislation within the period of validity and these violations are still in force at the conclusion of the period of validity of the temporary licence.

Article 32.6. Restrictions on or suspension of a licence

1. On discovery of a breach of insurance legislation an order to cease (hereinafter referred to as a “formal order”) shall be issued by the insurance supervision body to the provider of insurance services.
2. A formal order shall be issued if:
 1. a provider of insurance services is operating contrary to the law or if it is operating outside the terms of its licence;
 2. an insurer is not observing the insurance legislation covering the establishment and placement of insurance reserves, and other funds guaranteeing the payment of insurance claims;
 3. an insurer is not observing the requirement to maintain the correct ratio between assets and liabilities or other requirements connected with the maintenance of financial stability and solvency;
 4. a provider of insurance services is failing to carry out requirements to submit reports to the insurance supervisory authority and/or its local office;
 5. a provider of insurance services has failed to submit, within the required time limit, documents demanded by the insurance supervisory authority within its legal powers for the purpose of insurance supervisory authority;

6. it has been discovered that a provider of insurance services provided incomplete and/or untrue information to the insurance supervisory authority and/or its local office;
7. a provider of insurance services did not provide information, within the legal time limit, concerning amendments in the documents specified in Item 10 of Article 32 of the present Law (together with the documents confirming such amendments).

3. A formal order shall be forwarded to the provider of insurance services, and if necessary a copy of the formal order shall be forwarded to appropriate executive governmental bodies.

Within the time limit set by the formal order, the provider of insurance services shall file documents with the insurance supervision body to confirm that the irregularities discovered have ceased.

The above documents shall be considered within 30 days after the receipt of all the documents confirming the formal order has been carried out in full.

The submission of documents confirming that the provider of insurance services has ceased its illegal activities within the time limit set, shall be grounds for considering that the formal order has been complied with. The provider of insurance services shall be informed of the withdrawal of the formal order within five working days of the decision.

If subsequently it is discovered that the provider of insurance services has submitted documents containing untrue information, this discovery shall be grounds for considering that the formal order has not been complied with.

4. If a formal order is not properly carried out or is not carried out within the time specified or if a provider of insurance services refuses to accept a formal order, the licence will be restricted or suspended in the manner set out by the insurance supervisory authority.

5. A restriction on a licence comprises a prohibition of carrying on certain classes of insurance, mutual insurance and re-insurance.

6. The suspension of a licence comprises:

- in respect of insurers: a prohibition of carrying on all classes of insurance, mutual insurance and re-insurance;
- in respect of insurance brokers: suspension of the activity for which the licence has been issued.

7. Licence restriction or suspension commences on the day when the decision to impose restrictions or to suspend the licence is published by the insurance supervisory authority.

8. If necessary, a copy of the decision to impose restrictions on to suspend a licence shall be sent to the appropriate government authority.

Article 32.7. The reinstatement of a licence

1. The reinstatement of a licence after it has been subject to restrictions or suspension comprises the restoration in full of the right of the provider of insurance services to pursue the activity for which the licence was issued.
2. The grounds for lifting the sanctions set out in Items 5 and 6 of Article 32.6 of this law shall be the provider of insurance services complete cessation of the illegal activities within the required time limit.
3. The decision to reinstate a licence shall come into force on the day when the decision is made and the provider of insurance services and other concerned persons shall be informed within 15 days of the decision. The decision to reinstate a licence shall be published by the insurance supervisory authority.

Article 32.8. Terminating the activity of or liquidating a provider of insurance services

1. The grounds for termination of the activity of provider of insurance services shall be based on its own application; on a decision of a court or on a decision of the insurance supervisory authority to revoke its licence.
2. A licence shall be revoked if the provider of insurance services has failed to cease within the required time limit breaking that part of the insurance legislation which was the reason for the imposition of restrictions on or suspension of the licence, or where the provider of insurance services has either failed to commence business within 12 months of the receipt of the licence or is no longer carrying it out.

The decision on revocation of the licence shall be sent to the provider of insurance services. If necessary, copies of such a decision shall be sent to the appropriate government authority.

The licence shall be terminated from the day that the decision to revoke the licence is published by the insurance supervisory authority.

3. The provider of insurance services whose licence has been revoked shall decide either to cease its activity or to liquidate itself in accordance with the legislation of the Russian Federation. Following the procedure defined by the insurance supervisory authority, it shall submit the following documents:

1. documents confirming the cessation of its activity;
2. financial reports and accounts stamped by a tax authority;
3. documents confirming settlement of creditors' claims, including the claims of insureds, insured persons and beneficiaries;
4. the original licence.

4. The right of an provider of insurance services to carry on business shall be cease from the day in which the decision to revoke the licence is published in the mass media.

5. A licence application by a legal entity whose founders, directors or shareholders have been declared responsible for the liquidation of a provider of insurance services on the grounds set out in this article may only be considered by the insurance supervisory authority at least two years after the date of liquidation of the provider of insurance services.

6. If a provider of insurance services fails to comply with the provisions of Item 3 of this article, the insurance supervisory authority shall be entitled to apply to a court for the liquidation of the provider of insurance services if it is a legal entity or to wind up its business if the provider of insurance services is an individual.

[Replaces Soviet classification.]

Article 32.9. The classification of insurance

1. The following classification of insurance business shall be used in licences issued to insurers:

1. life insurance against the risk of death, of survival until a specified age or date or of the occurrence of another event;
2. pension insurance;
3. life insurance resulting in regular insurance payments (endowment or annuity) and/or the participation of the insured in the insurer's investment income;
4. accident and illness insurance;
5. medical insurance;
6. surface transport insurance (excluding rail transport);
7. rail transport insurance;
8. air transport insurance;
9. water transport insurance;
10. cargo insurance;
11. agricultural insurance (insurance of yield, growing crops, standing crops, livestock);
12. insurance of the property of legal entities other than vehicles and agricultural insurance;
13. insurance of the property of citizens, other than vehicles;
14. insurance of the legal liability of owners of motor vehicles;

15. insurance of the legal liability of owners of aircraft;
 16. insurance of the legal liability of owners of marine transport;
 17. insurance of the legal liability of owners of rail transport;
 18. insurance of the legal liability of organisations operating dangerous facilities;
 19. insurance of legal liability for causing damage as a result of defects in goods, works, or services;
 20. insurance of legal liability for causing damage to third parties;
 21. insurance of legal liability following default or the failure to perform obligations under a contract;
 22. insurance of entrepreneurial risks;
 23. insurance of financial risks;
2. For the purpose of obtaining licences insurers shall submit to the insurance supervisory authority the insurance policy wordings under which the classes of insurance set out in Item 1 of this article will be carried on.
3. Insurers shall be entitled to develop additional policy wordings to introduce more specific terms and conditions. These additional policy wording shall be sent to the insurance supervisory authority for informational purposes.

Article 33. The obligation of officials of the insurance supervisory authority to maintain commercial and other legally protected secrets

Officials of the insurance supervisory authority shall not be entitled to disclose in any form whatsoever, information from a provider of insurance services that is considered to be a commercial or another legally protected secret, except for the cases set out in the legislation of the Russian Federation.

CHAPTER V. CONCLUDING CONDITIONS

Article 34. Insurance of foreign citizens, stateless persons and foreign legal entities on the territory of the Russian Federation

Foreign citizens, stateless persons and foreign legal entities on the territory of the Russian Federation have the same right to insurance protection as citizens and legal entities of the Russian Federation.

Article 35. Consideration of disputes

Disputes relating to insurance and arising out of the activity actions of the insurance supervisory authority and its officials shall be settled by the relevant court, civil court or arbitration court, depending on its jurisdiction.

Article 36. International agreements

If conditions other than those set out in this law are set out in international agreements of the Russian Federation, then the conditions of the international agreement shall apply.

PROVISIONS FOR THE COMING INTO FORCE OF THE AMENDMENTS TO THE LAW

“On the organisation of insurance business” of January 2004 (Articles 2-4 of the amending act).

Article 2.

1. Insurance organisations which were established before this Federal Law comes into force shall bring their charter capital into line with the requirements set out in by Article 25 of Law of the Russian Federation No. 4015-I of 27 November 1992 (On the Organisation of Insurance Business in the Russian Federation) and its subsequent amendments as follows:

- by 1 July 2004: to one third of the required amount of charter capital;
- by 1 July 2006: to two thirds of the required amount of charter capital;
- by 1 July 2007: the full required amount of charter capital.

Insurance organisations which fail to comply with the regulations specified in this article shall have their licences revoked by the insurance supervisory authority from 1 July of the year concerned without the need to issue a formal order.

2. Insurance organisations established before this Federal Law comes into force terms must comply with the requirements of Article 6 of Law of the Russian Federation No. 4015-I of 27 November 1992 on the Organisation of Insurance Business in the Russian Federation (as amended by this Federal Law) in respect of keeping separate accounts for specialist insurance business at the latest by 1 July 2007 [*Separation of Life and Non-Life business*].

Insurance organisations that fail to comply with the this requirement shall have their licences revoked by the insurance supervisory authority without the need to issue a formal order.

3. Mutual insurance societies and insurance brokers shall obtain licences before 1 July 2005.

4. Amendments to constitutive documents relating to a change in the name (company name) of an provider of insurance services for the purpose of preventing duplication, shall be made within 18 months after the entry into force of the present Federal Law.

5. Until the Russian Federation's accession to the international system of compulsory insurance of civil liability of owners of motor vehicles insurance agents and insurance brokers are permitted to pursue in the territory of the Russian Federation activities relating to the provision of the service of concluding contracts of insurance of civil liability of owners of the motor vehicles leaving the Russian Federation with foreign insurance organisations.

6. The insurers pursuing their activities on the basis of insurance rules classified as the kinds of insurance envisaged by Item 1 of Article 32.9 of Law of the Russian Federation No. 4015-I of 27 November 1992 on the Organisation of Insurance Business in the Russian Federation as amended by the present Federal Law shall file licence form replacement applications with the insurance supervision body within 18 months after the entry into force of the present Federal Law.

Article 3.

The following shall be repealed:

Points 2 and 3 of Article 5, Point 3 of Article 9, Article 27 of Law of the Russian Federation No. 4015-I of 27 November 1992 on the Organisation of Insurance Business in the Russian Federation (Vedomosti Syezda narodnikh deputatov Rossiskoy Federatsii i Verkhovnoy Soveta Rossiskoy Federatsii, point 56, No. 2, 1993; Sobranie zakonodatelstva Rossiyskoy Federatsii, item 4, No. 1, 1998).

Points 4 and 5 of the Decision of the Supreme Soviet of the Russian Federation No. 4016-I of 27 November 1992 on Bringing into force the Law of the Russian Federation on Insurance (Vedomosti Syezda narodnikh deputatov Rossiskoy Federatsii i Verkhovnogo Soveta Rossiskoy Federatsii, point 57, No. 2, 1993).

Article 4.

1. The present Federal Law shall come into force 30 days after its official publication, except for the following provisions:

- Paragraph 4 of Point 5 of Article 1 of the present Federal Law, in respect of the filing of a statement by an insurance actuary with the insurance supervisory authority, shall come into force on 1 July 2007.
- Paragraph 12 of Point 2, Paragraphs 3 and 5 of Point 5, Paragraph 8 of Point 12, Paragraph 6 of Item 15 of Article 1 of the present Federal Law, in respect of the attestation of insurance actuaries, the issue of qualification certificates, shall come into force on 1 July 2006.

2. Legal regulations shall be brought in line with the present Federal Law within three months of its coming into force.

Note: the above is an unofficial translation. If any action is to be taken that is dependent on the above law, the appropriate legal advice should be taken.

APPENDIX 4

*Enabling Regulations for the Law of 2004***New regulations and requirements resulting from amendments to the Law “On the organisation of insurance business”.**

All new regulations and requirements should be brought in correspondence with the Federal Law three months after its coming into effect on January 17th 2004.

1. Placement of founding capital and other company owned funds.
2. Requirements to the documents in support of increasing founding capital on fixed date.
3. Procedure of licence recall without sending notification.
4. Formation of life reserves.
5. Formation of non-life reserves.
6. Placement of life reserves.
7. Placement of non-life reserves.
8. Procedure of keeping list of insurance business subjects.
9. Interpretation of procedure for using regulation for re-registration connected with conflicting company names.
10. Explanation of the procedure for the replacement of licenses (connected with new classification of insurance business).
11. Directions for using new classification.
12. Procedure for submitting license application (for insurance company).
13. Procedure for submitting licence application (for mutual company).
14. Procedure for submitting licence application (for broker).
15. Procedure of notification in case of amendments to documents which were submitted with license application.
16. Requirements for qualification exams for insurance actuary.
17. Requirements for the issue of qualification certificate and its annulment.
18. Procedure for restriction and suspension of licence (p. 4 Article 32-6).

19. Procedure for replacement of licence forms according to new classification.
20. Procedure for submitting actuarial report.
21. Formation of insurance reserve for redemption capital payment.
22. Procedure for insurance portfolio transfer.
23. Instructions for business accounting and drawing up statistical report.
24. List of insurance companies accounts.
25. Rules of business accounting and returns.
26. Procedure and book-keeping and statistic returns and other information.
27. Procedure and returns for broker report.
28. Procedure for submitting information about publishing business accounts.
29. Procedure for submitting information on p. 2 (sp 5, 8, 9, 13) and p. 5 (sp 4) Article 32.
30. Procedure for submitting notification in case of additional Rules for Insurance (p. 3 Article 32-9).
31. Requirements of financial stability in respect of setting up insurance reserves.
32. Requirements to the structure and types of assets which can be included in insurance reserves.
33. Shares for reinsurance.
34. Requirements for normative relationship between owned capital and liability.
35. Requirements to the structure and types of assets which can be included in owned capital.
36. Requirements for issuing bank guarantees.
37. Rules and conditions of preliminary permission for:
 - charter capital injection by a foreign investor;
 - alienation of shares in favour of a foreign investor;
 - setting up representative office of foreign insurer, reinsurer, broker and any other organisation connected with insurance business;
 - setting up subsidiary of insurer with foreign investments.
38. Calculation and control of foreign investor share in overall market charter capital.
39. Procedure for submitting documents about business cessation or about liquidation.
40. (p. 3 Article 32-8).

APPENDIX 5

Top 100 Insurance Companies by Premium Volume 2003

Name	Premium Rbls 000	USD 000	% crease	% life	% non-life	% compulsory
STOLICHNOE INSURANCE SOCIETY	33 733 521	1 163 225	+436.4	96.3	3.7	–
URALSIB	23 574 243	812 905	–8.1	79.7	17.7	2.6
KLASSKO	18 664 509	643 604	+45 772.1	98.7	1.3	–
RESO-GARANTIYA	13 429 206	463 076	+110.2	6.0	77.7	16.4
YAKOR	11 810 619	407 263	+3.5	96.5	3.5	0.1
NATIONAL INS GRP	11 200 306	386 217	+4.2	57.1	41.7	1.2
DOVERIE	10 450 925	360 377	+110 675.0	99.9	0.1	–
INGOSSTRAKH	10 001 066	344 864	+39.3	–	89.1	10.9
MAKS-M	8 121 280	280 044	+63.6	–	0.4	99.6
RUSO-GARANT	7 725 805	266 407	+356.9	82.3	17.7	–
ROSNO	7 614 862	262 581	–28.9	21.6	73.4	5.1
CAPITAL INSURANCE	6 781 834	233 856	+16.4	13.3	85.1	1.6
SOGAZ	6 595 261	227 423	+37.2	4.8	92.2	3.1
STANDARD-RESERV	6 279 238	216 525	+24.7	86.7	11.2	2.1
SOGLASIE	6 039 118	208 245	–3.4	0.0	93.6	6.4
MILITARY INS CO	5 593 264	192 871	+62.1	0.9	57.9	41.2
NADEZHDA BALTICI	5 587 567	192 675	+86 887.3	99.9	0.1	–
ROSNO-MS	5 437 467	187 499	+25.2	–	1.0	99.0
COMESTRA - CENTRE	5 079 663	175 161	+35 378.1	100.0	0.0	–
MAKS	4 328 268	149 251	+103.9	2.3	87.8	10.0
PRIRODA	3 667 734	126 474	+76.0	0.0	99.8	0.2
AKUSTIKA	3 604 294	124 286	+713.7	87.2	12.8	–
TRANSENERGOPOLIS	3 402 821	117 339	+9 771.0	91.3	8.7	–
EDINSTVO	3 311 812	114 200	+213.9	93.9	6.1	–
ALFASTRAHOVANIE	3 200 407	110 359	–63.0	19.3	63.7	16.9
GAZPROMSTRAKH	3 017 130	104 039	+25.8	–	83.6	16.4

Name	Premium Rbls 000	USD 000	% crease	% life	% non-life	% compulsory
ROSGOSSTRAKH	3 004 345	103 598	+159.7	2.4	97.5	0.1
LAW ENFORCEMENT AGENCIES	2 951 922	101 790	+98.8	0.1	11.5	88.4
GORODSKAYA INS CO	2 899 362	99 978	+11.2	94.0	3.6	2.4
LIDER	2 619 023	90 311	+7.2	–	98.8	1.2
NASTA-CENTER	2 616 554	90 226	+100.5	1.4	75.7	22.9
ROSGOSSTRAKHG	2 574 197	88 765	+910.7	2.9	40.8	56.3
REKON	2 371 104	81 762	+9.7	31.5	63.3	5.2
RK-GARANT	2 144 501	73 948	+99.1	–	99.5	0.5
GUTA-STRAKHOVANIE	2 104 765	72 578	+117.6	0.0	86.3	13.6
SURGUTNEFTEGAZ	2 072 835	71 477	+13.5	5.9	89.2	4.9
SKPO MED	2 065 936	71 239	+40.6	–	3.6	96.4
ZHASO	2 056 660	70 919	+42.8	0.0	77.5	22.4
RENESSAINCE	2 047 497	70 603	+17.9	0.1	96.3	3.5
SPASSKIE VOROTA	2 039 473	70 327	+135.6	1.5	51.6	47.0
ROSGOSSTRAKH	2 038 771	70 302	+1 214.5	4.7	29.7	65.5
ROSGOSSTRAKH-STOLITSA	1 997 975	68 896	+184.1	0.5	50.9	48.6
SPASSKIE VOROTA-M	1 992 107	68 693	–2.3	–	1.3	98.7
SOLIDARNOST DLYA ZHISN	1 974 387	68 082	+34.8	–	1.7	98.3
ROSGOSSTRAKH-YUG	1 973 958	68 068	+1 665.0	2.0	28.1	69.9
AIG RUSSIA	1 909 976	65 861	+21.0	36.7	63.1	0.2
ENERGOGARANT	1 835 713	63 300	+4.9	2.9	85.6	11.4
NEFTEPOLIS	1 828 712	63 059	–23.8	18.7	76.5	4.8
ROSGOSSTRAKH NORTH WEST	1 779 783	61 372	+498.8	0.9	45.5	53.7
PROGRESS GARANT	1 621 355	55 909	–52.8	–	98.6	1.4
ROSSIYA	1 619 618	55 849	+47.8	2.0	87.9	10.1
RUSSKIY MIR	1 589 195	54 800	+142.7	–	77.4	22.6
KUZBAS	1 586 672	54 713	+6.6	–	1.0	99.0
GORODSKAYA MED	1 552 450	53 533	+ 23.0	–	0.2	99.8
MEDSTRAKH	1 533 847	52 891	+25.0	–	–	100.0
ROSGOSSTRAKH URAL	1 520 432	52 429	+390.8	3.7	33.6	62.7
ALPHA INSURANCE	1 460 985	50 379	–27.5	–	100.0	–
ORANTA	1 361 216	46 938	+96.2	46.6	47.3	6.1
NADEZHDA	1 356 967	46 792	+35.0	–	–	100.0
YUGORIA	1 334 485	46 017	+83.0	1.8	83.9	14.3
ASKOMED	1 313 987	45 310	+7.4	–	1.1	98.9
INTERA_GARANT	1 310 001	45 172	+24.9	–	100.0	–
USOLYE_ASKO	1 289 494	44 465	+72 220.9	5.5	94.5	–
POMOSH	1 284 939	44 308	+104.0	70.2	29.8	–
AVEST-CLASSIC	1 274 784	43 958	+84.4	–	100.0	–
ALMEDA	1 236 968	42 654	+24.8	–	0.2	99.8
ROSGOSSTRAKH SIBERIA	1 225 021	42 242	+2 703.1	1.4	17.2	81.5
NESO	1 198 580	41 330	–16.2	–	100.0	–
SHEKSNA	1 190 832	41 063	+69.6	0.0	96.3	3.7
TRANSGAZ	1 163 782	40 130	+122.1	10.3	89.7	–
SAKHAMEDSTRAKH	1 157 154	39 902	+33.6	–	1.1	98.9

Name	Premium Rbls 000	USD 000	% crease	% life	% non-life	% compulsory
RESO_MED	1 140 834	39 339	+106.5	–	–	100.0
EMESK	1 132 214	39 042	+48.0	–	–	100.0
ARGISMEDSTRAKH	1 114 004	38 414	+30.8	–	–	100.0
KORP MEDSTRAKH	1 067 923	36 825	+21.7	–	0.6	99.4
CHULPAN	1 026 150	35 384	–17.9	30.9	65.7	3.5
DALMEDSTRAKH	985 343	33 977	+23.8	–	–	100.0
ITIL	964 878	33 272	+30.0	1.6	93.7	4.7
ROSGOSSTRAKH AKKORD	922 995	31 827	+415.4	25.2	31.2	43.6
ASKO VAS	916 133	31 591	+14.9	–	9.5	90.5
RUSINVEST	901 722	31 094	i. ä.	–	100.0	–
SAMARA ROSNO MED	881 642	30 401	+8.4	–	2.6	97.4
OSNOVA	861 397	29 703	+114.9	–	100.0	–
RUSSIAN INSURANCE CENTRE	860 080	29 658	+69.7	0.0	100.0	–
TRANSNEFT	852 783	29 406	+70.5	–	96.6	3.4
IMPERIO	851 729	29 370	+119.3	96.8	3.2	–
SHEKSNA M	832 275	28 699	+33.7	–	40.0	60.0
METROPOLIS	823 670	28 402	+37.2	–	97.9	2.1
IKAR	815 368	28 116	+30.6	–	0.3	99.7
ROSGOSSTRAKH TATARSTAN	809 502	27 914	+81.2	7.3	57.3	35.4
MEGARUS M	807 207	27 835	+34.2	–	84.5	15.5
İİÑĖĂĂ	785 292	27 079	+0.8	–	99.6	0.4
ENERGETICHKAYA	784 937	27 067	+72.5	2.5	95.9	1.5
PODDERZHKA	774 664	26 713	+103.1	–	100.0	–
ROSGOSSTRAKH FAR EAST	752 889	25 962	+303.9	4.3	26.5	69.1
SKM	746 130	25 729	–8.9	0.0	92.3	7.7
INTERPOLIS	737 967	25 447	+23.9	–	–	100.0
RUSMED	732 674	25 265	+12.7	–	6.6	93.4
MAKS	730 129	25 177	+57.8	–	–	100.0

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