



The Russian insurance market

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The Russian market is an emerging market in the initial phases of its development as part of the world insurance market.

Premium income at present is well below the European average: 1.3% of GDP in 1998.

Russia is a country with a population of 148 million, GDP (nominal) USD 77 billion and per capita GDP of USD 519, a rate of unemployment of 6% and inflation running at 31% (statistical data provided by Goskomstat for January-September 1999). It has a per capita premium rate of less than USD 40.

This situation is a legacy of the incomplete transition from a centralised economy to a market economy. It is the opinion of many Russian experts that the Russian economy is still basically “an administrative economy with elements of a market economy” (E. Riabinin, Chairman of the Executive Committee of Russian Re, *In Re* magazine, issue 7, 1998).

Russian insurance legislation is in the process of development. The law regulating insurance was enacted in 1992 and modified in 1996. The second part of the Russian civil code which established the basic guidelines for insurance law came into force in 1995. In 1998 the Duma (Parliament) passed the new “Act regulating the organisation of insurance in the Russian Federation”, defining the subjects and objectives of insurance, the market infrastructure and setting minimum capital requirements for insurance companies. There is still however a lack of laws and regulations concerning insurance policies, rates, policyholder protection measures, etc. The trend of the Russian state towards moving closer to the European Union legal framework in terms of insurance legislation contrasts with the pressure exerted by Russian insurers in favour of the introduction of protection measures

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The Federal Registry has on its lists 1,700 insurance companies which in the main were set up between 1992 and 1994 in the privatisation process of the old Gosstrakh monopoly of the USSR, and also, during the later period of 1995-1997, created by the new Russian financial and private industrial capital. The ownership of these companies is divided into: private (36%), state (10%), mixed (49%), municipal and social bodies (5%). They are centred around the main industrial areas: Moscow, St. Petersburg, Ekaterinburg, Tiumen, Novosibirsk, etc. where there is a concentration of finance and trade.

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There are only 50 insurance products currently marketed, but even in conditions of low demand the market is only 10% covered. Strangely, Russia still does not require compulsory motor insurance.

Income was USD 4.4 billion in 1998 as against USD 5.9 billion in 1997 as a consequence of the financial crisis of August 1998.



Compulsory insurance accounts for 40% of the market and more than 1/3 of premiums. As this is carried out with state funds, in reality it has little relationship with insurance. It continues to be an attractive business for certain companies with connections with the powers that be.

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Of the income for 1997, 60.2% corresponded to elective insurance (life insurance -22.9%, cover for company assets -12.3%, liability -2.8%) and 39.8% to compulsory insurance (B. Hadley **Insurance in Russia and the CIS**, FT London, 1998, p. 36).

The 30 largest companies account for 66% of premiums for elective insurance.

The domestic ratings which are based on income and compensation figures are not objective given the fact that the data are not totally reliable (many experts state that in the case of some companies up to 60% of income may not arise from insurance as such).

The ranking of the hundred biggest companies in Russia as at January 1, 1999, ranked by net assets and equity (**Financial Week Issue** 20 -11/07/99, Moscow) places the company Ingosstrakh in first position (assets USD 266 million, capital USD 43 million).

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Domestic reinsurance is weak, according to official figures income in 1997 was USD 250 million. Foreign reinsurers underwrite close to 75% of the Russian market's reinsurance (to a large extent reinsurance of the assets of large companies, avia-

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tion, hull, fire, liability). Russia accounts for 1.5% of the international reinsurance market.

Foreign capital has been present in the Russian market since 1992. There are 74 companies in which there is a foreign shareholding (formally, in accordance with the law the foreign investor may not exceed 49% of shareholders' equity, although in fact this limit is easily circumvented). These companies include AIG, Allianz, Munich Re, Cologne Re, Swiss Re, Elvia, Alte Leipziger, Wintertour, AXA, etc. with an equity stake of USD 73 million (4% of the market). In 1997 foreign companies took 3% of total income (USD 177 million).

MAPFRE Asistencia S.A. is the first MAPFRE group company to begin trading in Russia, and around the middle of 1998 opened a representative office in Moscow. Its activity consists in offering services on personal lines for Russian policyholders

travelling outside Russia around the world, and also provides assistance services to the clients of Russian insurance companies such as companies, banks, professional bodies and tour operators.

The prospects for the Russian insurance market are influenced by a number of factors:

1. The law requires that before the end of this year insurance companies must increase company capital to a minimum threshold of USD 120-150,000. As many have not been able to do so it is expected that 1,000 companies will disappear.

2. The domestic insurance community is lobbying the government to take urgent measures able to promote the development of the market and to attract private investment, through insurance, to the economy (economists reckon that Russian citizens are hoarding between USD 20-30 billion in their homes in the form of cash). It is proposed that these measures should include a tax write-off for insurance premiums for private individuals, increasing from 1% to 3% the insurance expenses which companies may assign to new business expenses, allowing insurers to constitute reserves in strong currencies.

3. Preparations are being made for the imminent opening up of the market to foreign insurers (in accordance with the agreement of May 1994 between Russia and the European Union, Russia pledged to open up its market to foreign investors after a period of five years, in other words in 1999. The 49% shareholder's equity limit in stock corporations for non-residents would be lifted). ■