

The insurance market in Russia

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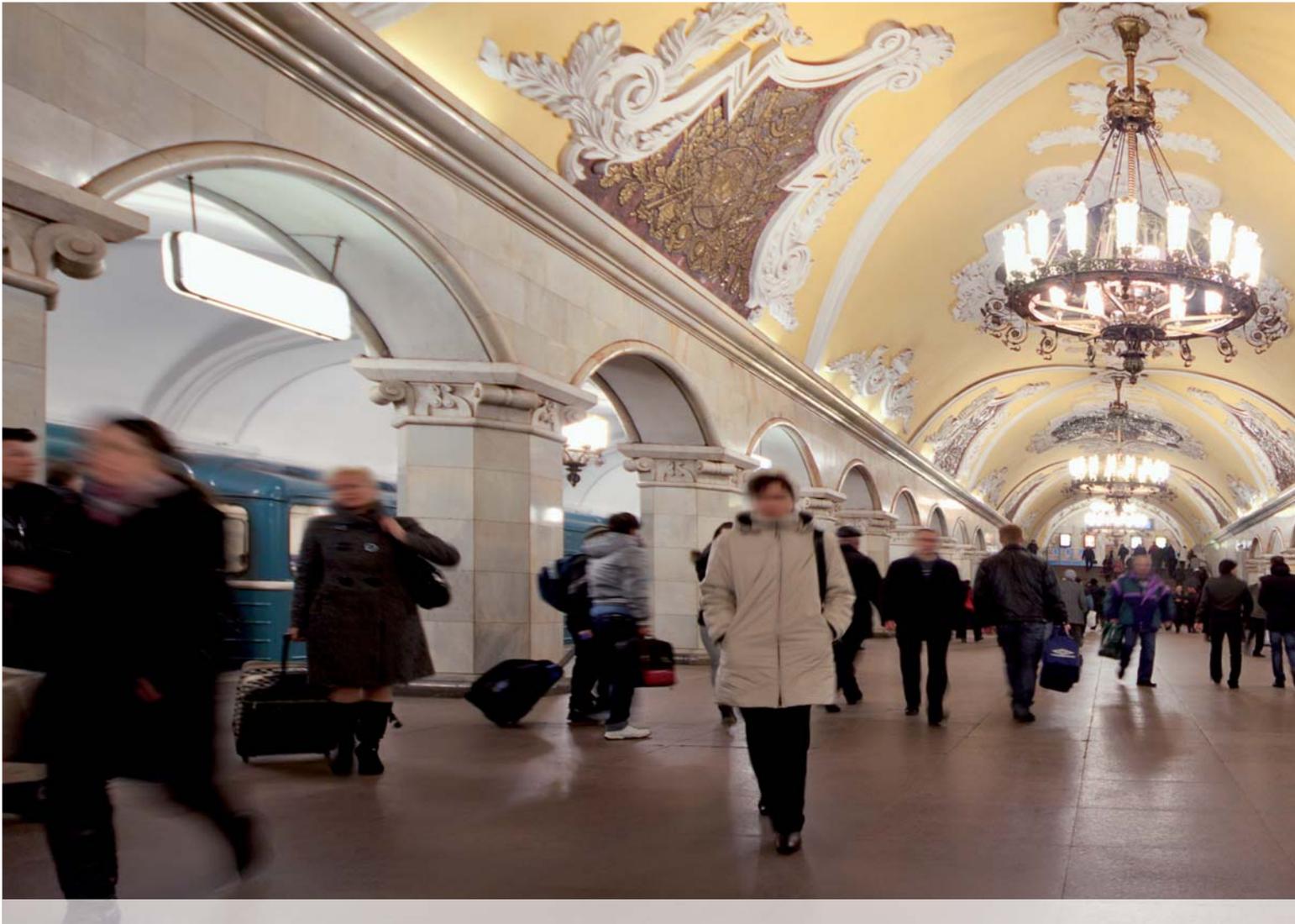
General view on the Moscow financial city

Among the markets of the emerging countries, the Russian Federation's insurance market is turning out to be the most important and to have the greatest potential in Central and Eastern Europe. In 2010, Russia, with a population of some 140 million and abundant natural resources, ranked ninth in the world in terms of gross domestic product (GDP), with USD 1,803 billion, placing it between Italy and Canada. ^[1]

Russian insurance in the world market¹

- ▶ Russia's share of the world insurance market is 0.96% of total premiums, put at USD 4.3 billion in 2010.
- ▶ In 2010, Russia ranked 19th in the world in terms of total premium income (USD 41,644 million), behind Ireland and ahead of Belgium.
- ▶ As regards Non-Life premium income, Russia ranks 12th in the world (USD 40,742 million), after Spain and ahead of Australia and Brazil. Its share of the world market is 2.24%.
- ▶ On the other hand, with per capita premium of USD 296.8, Russia comes behind Brazil, occupying 48th place in the world ranking.
- ▶ As regards insurance penetration, Russia drops to 55th place, with an insurance market accounting for 2.3% of its GDP in 2010.
- ▶ In 2010, total Russian premium accounted for 47.4% of the total premium in Central and Eastern Europe (USD 87,806 million),

¹ Data from Swiss Re, Sigma No. 2/2011. "World Insurance in 2010".



having overtaken the figures for Poland (USD 17,763 million) and the Czech Republic (USD 7,914 million).

Background

After the demise of the USSR in 1992, Russia abandoned the state-controlled obligatory insurance system in favour of a voluntary insurance market based on private property

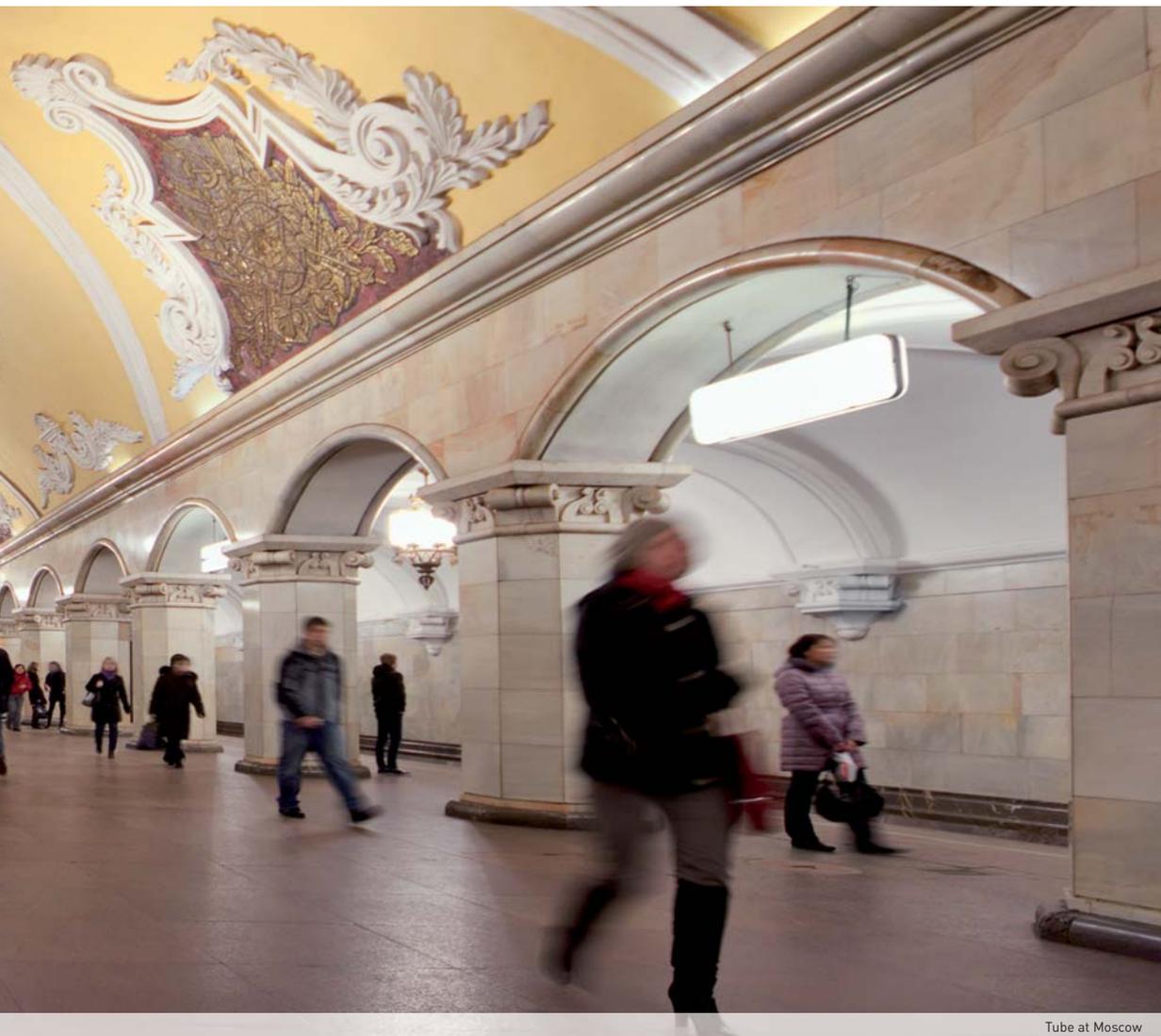
After the demise of the USSR in 1992, Russia abandoned the state-controlled obligatory insurance system in favour of a voluntary insurance market based on private property, although some types of compulsory social insurance were maintained to cover the needs of the State.

The old state monopoly for domestic insurance, *Gosstrakh*, became the privatised *Rosgosstrakh*, Russia's current market leader. The same thing happened with the old state monopoly for

"external insurance" (international), *Ingosstrakh*, which was also privatised and, with Western investors now also having a stake in it, remains one of the most important Russian insurers.

During the transitional phase up to 2006, the main features of the Russian insurance market were:

- ▶ Strong presence of captive insurance companies created by influential private economic and financial groups (Alfa, Interros, Lukoil).
- ▶ Use of schemes to optimise tax payments to the State, these being channelled through insurance (chiefly Life and reinsurance).
- ▶ High number of not very viable insurers created to implement the schemes in ques-



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tion. In 1995, there were 2,217 insurance companies in the Russian State Register.

- ▶ Non-Life insurance predominates over Life insurance for various reasons, including the situation of the Russian economy during the political transition, the low level of insurance culture among the population and the lack of confidence in private insurance.
- ▶ Compulsory social insurance accounts for a large part of the market's total portfolio (around 50%).

The decisive return to the real, classic insurance market, geared to Western insurance legislation, occurred in Russia from 2006 under pressure from State regulatory bodies. The market was then restructured, with processes of concentration among insurance

companies being triggered at the same time. The presence of international capital in the Russian insurance market also increased. As a result, a substantial number of insurers lost their licences.

Insurance in the Russian economy

Russia currently has 604 registered insurance undertakings, comprising 597 insurance companies and 7 mutuals [2]. Under recent amendments to the "Federal Law on the Organisation of Insurance Activity in the Russian Federation" which came into force on 1 January 2012, Non-Life insurers will have to have equity capital of at least EUR 3 million in order to be able to operate in the market. For Life insurers, the figure will be a minimum of EUR 6 million.

As for reinsurers or insurance undertakings licensed to transact reinsurance, the equity capital has to be at least EUR 12 million.

According to official estimates, more than 100 insurance undertakings were expected to lose their licences with effect from January 2012 through being unable to meet these requirements.

According to the Russian Federal Service for Insurance Supervision (FSIS), in 2010 the aggregate equity capital of all Russian insurance companies was equivalent to USD 6,008 million. Their combined assets came to USD 38,380 million and their combined technical reserves totalled USD 21,040 million [3].

Table 1: Development of premium and losses in Russia 2004-2010.

Source: FSIS – Russian Federal Service for Insurance Supervision. Reports 2005-2011.

Year	Total premium in USD million	Losses in USD million	% loss ratio
2004	16,368	10,123	61.8%
2005	17,521	9,921	56.6%
2006	22,337	12,905	57.7%
2007	29,845	18,197	60.9%
2008	39,015	25,676	65.8%
2009	39,591	29,742	75.12%
2010	41,766	30,846	73.85%



Table 2 : Distribution of premium/losses by class of business in 2010.

Source: FSIS (data at 17.03.2011) [2].

	Premium USD million	% of premium	Losses USD million	% loss ratio
Total 2010	41,766	100%	30,846	73.85%
1. Total voluntary insurance:	18,379	44%	9,312	50.7%
Life insurance	906.4	2.2%	319.6	35.3%
Personal lines (excluding Life)	4,901.2	11.7%	2,870	58.6%
Property/casualty insurance (excl. liability)	11,182.4	26.8%	5,911	52.9%
Third party liability insurance	1,070	2.6%	116	10.8%
Corporate and financial risks insurance	319	0.7%	96.4	30%
2. Total compulsory insurance:	23,387	56%	21,533	92%
Motor third party liability insurance ("OSAGO")	3,666	8.8%	2,221	61%
Compulsory health insurance ("OMC")	19,445	46.5%	19,050	98%
Compulsory insurance (excl. OSAGO and OMC)	276	0.7%	262	95%

USD = RUB 25

Table 3 : Top 20 Russian insurance undertakings by premium income in 2010.

Source: FSIS 23.04.2011 [2].

No.	Insurance undertaking	Total premium USD million	Losses USD million	% loss ratio
1	Rosgosstrakh	2,972	1,528	51,4%
2	Sogaz	1,877	889	47,3%
3	Ingosstrakh	1,647	1,137	69%
4	Reso-Garantia	1,433	775	54%
5	VSK "Strakhovoy Dom"	1,006	518	51.4%
6	Rosno (Allianz)	823	695	84%
7	Alfa-Strakhovanie	818	415	50.7%
8	Soglasie	632	280	44.3%
9	Renaissance Strakhovanie	480	261	54.4%
10	Uralsib	416	355	85%
11	MSK (Moscow Insurance Company)	401	293	73%
12	Zhaso	394	284	72%
13	Makc	378	227	60%
14	Kapital Strakhovanie	347	138	39.7%
15	Spasskie Vorota	344	263	76.4%
16	Yougoria	301	181	60%
17	Zurich	262	225	85.8%
18	Generali PPF Life	252	9.96	3.95%
19	Rostra	235	91	38.7%
20	BTB Strakhovanie	222	43	19.4%

(excl. OMC)

USD = RUB 25

Table 4 : Distribution of premium/losses in property/casualty insurance in 2010.

Source: FSIS (data at 17.03.2011) [2].

Voluntary property / casual insurance (excl. liability)	Premium USD million	% of premium	Losses USD million	% loss ratio
Total 2010	11.182	100%	5,911	52.9%
Land transit insurance excluding rail transport	5,568	49.8%	4,228	75.9%
Rail transit insurance	37	0.3%	5	13.5%
Air transport insurance	202	1.8%	63	31%
Marine transit insurance	156	1.4%	110	70.5%
Cargo insurance	738	2.6%	90	12%
Agricultural insurance	391	3.5%	309	79%
Legal entities' and natural persons' property insurance	4,090	36.6%	1.106	27%

USD = RUB 25

Moscow Panoramic view



On 1 January 2012 the first Federal Law on the State Support of Agricultural Insurance in Russia, based on the principles of a public and private partnership model, entered into force

The dominant role of property/casualty insurance (around 30% of the premium for voluntary insurance) is due to industrial growth, the housing construction sector and the motor industry in the period preceding the crisis.

The low volume of Life insurance in Russia stands out, in contrast to the structure of the insurance market in the countries of Western Europe.

As for the regional structure of the Russian market, the area of concentration is the Central Federal District, which is the European part of the country, as it accounted for 56% of premium in 2010 (excluding OMC compulsory health insurance), amounting to USD 12,497 million.

Property/casualty insurance

After the negative dynamic of 2008-2009, the voluntary property/casualty insurance market in Russia grew again, reaching total premium

of USD 11,182 million in 2010, compared with USD 10,788 in 2009.

Of the premium for natural persons' property insurance, 71% corresponds to motor physical damage insurance and 11% to home insurance. The concentration is strong in this class of business, as the 20 biggest insurance companies account for around 70% of the premium.

Agricultural insurance

Russia possesses considerable potential in agriculture, having 8.9% of the world's arable land, 2.6% of its pasture, 20% of its freshwater reserves and 8.3% of its fertiliser production.

Agriculture and the food industry form a priority activity sector of the Russian economy. In 2010 they accounted for around 8.5% of GDP (agriculture: 4.5% of GDP) and employed 7.1 million people (10.6% of the total workforce).



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The Russian government has set itself the strategic target of increasing Russia's contribution to world agricultural and food production – it currently accounts for around 5% of world milk production, 3% of world cereal and grain production and 2% of world meat production. In this way it intends to guarantee the country's food supply while at the same time supporting export growth.

Today, agricultural insurance has a modest place in the Russian insurance market (3.5% of property/casualty insurance premium in 2010), but its importance and weight will grow in the future. In 2010, premium from Russian agricultural insurance stood at USD 391 million and losses amounted to USD 308 million, giving a loss ratio of 79%. In 2010, Russia insured only 13% of its cultivated land (8 million hectares out of a total of 63 million). The Russian government is currently proposing to increase this figure to 40% in 2012 [4].

The severe drought that hit various parts of Russia in 2010 prompted the government to take strong measures to speed up reforms

in agricultural insurance. On 1 January 2012 the first Federal Law on the State Support of Agricultural Insurance in Russia, based on the principles of a public and private partnership model, entered into force. The amount of state subsidy announced for 2012 will be USD 200 million.

It is interesting to note that the first law on agricultural insurance in Russia is the outcome of Hispano-Russian cooperation which has been developing through the Agricultural Insurance Cooperation Agreement signed in 2007 between the Russian and Spanish Ministries of Agriculture jointly with ENESA (State Agricultural Insurance Institute), *Agroseguro* and other Spanish private and public undertakings for the fruitful exchange of

Table 5 : Development of total reinsurance premium and losses from 2007-2010, in USD million.

Source: FSIS 2008-2011.

	2007	2008	2009	2010
Total reinsurance premium	2,479	2,213	1,740	1,472
Total reinsurance losses	625	697	607	432

experiences between Spain and Russia in the area of agricultural insurance.

Experts say that, as the reform in agricultural insurance prospers, the capacity of the Russian agricultural insurance market may reach between USD 1.6 billion and USD 1.9 billion in the medium term. Hence the interest that it is arousing among traditional international reinsurers of this class of business.

Foreign capital in the Russian insurance market

In 2011, the share of foreign capital in the aggregate equity capital of Russian insurers exceeded the maximum limit of 25% set by law (USD 1.5 billion for 2010). For example, German capital (from Allianz and Ergo) is represented in Rosno, the Dutch Fortis group has invested in Oranta, the British capital represented comes from Ace and Aviva and the Swiss capital from the Zurich Group, while France's Axa has invested in Reso-Garantía, the Czechs and Italians have put money into Generali PDF and United States capital is represented in Chartis.

With the foreign shareholding limit exhausted, the regulator has currently stopped new shareholdings and acquisitions from outside Russia.

Nevertheless, pending Russia's accession to the World Trade Organization (WTO) in the course of 2012, the Russian government is showing its willingness to increase the aforementioned limit to 50% in 2012, thus seeking the possibility of increasing the capitalisation of the domestic insurance market.

According to data from the FSIS, in 2008 there were 82 insurance companies in Russia with foreign shareholdings, the total insurance premium of which amounted to USD 7,869 million and the reinsurance premium to USD 512 million.

It is striking how much interest foreign investors are showing in Life insurance, a segment which is considered to have good prospects in the medium term as the Russian middle class acquire economic importance as modernisation progresses.

The global financial crisis did not have any radical effect on the Russian insurance market, as it had not received any economic support from the State



Reinsurance in Russia

According to official data (FSIS), in 2010 the Russian reinsurance market's capacity was put at USD 1.5 billion [5]. Total estimated reinsurance premium income in the markets of the republics of the former USSR is calculated at USD 2-3 billion, of which Russia accounts for around 80%, Ukraine about 12% and Kazakhstan about 4.6%.

In 2010 there were some 156 companies in Russia transacting reinsurance, 22 of them being professional reinsurers. Russian



Oil well. Siberia

The first law on agricultural insurance in Russia is the fruit of Hispano-Russian cooperation through an Agricultural Insurance Cooperation Agreement signed in 2007 between the Russian and Spanish Ministries of Agriculture

reinsurers generally offer the service for the Russian insurance market and those of the CIS countries. Various segments of this regional market generate profits and are attractive to insurers. The segments in question are: property/casualty insurance, agricultural insurance, industrial and construction risks insurance, marine insurance and motor insurance.

On average, Russian companies cede between 9% and 13% of their premium from direct insurance abroad, the figures being higher in the case of property/casualty and liability

reinsurance, which stand at 16% and 21%, respectively. The tendency in recent years has been to obtain increased support from international reinsurers.

Fortypesofreinsuranceinvolvinglarge numbers of contracts, over 50% of contracts arranged by Russian companies are proportional and the rest are non-proportional. The main classes of business are CAR and EAR, property/casualty risks and cargo.

Russian insurers place their motor business (motor own damage, compulsory third party) in



the domestic market, with relatively low limits of cover. Property/casualty, marine, aviation and other more complicated risks tend to be reinsured abroad.

As to the channels for placing risks, the majority of Russian cedants prefer to contact the head offices of reinsurance companies direct or cede risks through a broker. More than 70% of cedants choose continental Europe as their preferred market [6].

The reduction in total reinsurance premium in recent years reflects the consequences of the measures imposed by the regulator to eliminate unacceptable practices from the market. For example, companies with reinsurance premium income of USD 656 million in 2008 -or 30% of the market- had their licences withdrawn in 2009.

Outlook for the Russian insurance market

The global financial crisis that began in 2008 did not have any radical effect on the Russian insurance market. The voluntary classes of insurance like the corporate property/casualty insurance sector and the motor insurance sector were the ones that really suffered from the recession. The fact that, even in a crisis situation, the Russian insurance industry did not receive any economic support from the State is significant.

Experts at Standard and Poor's consider the Russian direct insurance market to have considerable growth potential, to be well diversified geographically and not to have much exposure to catastrophe risks.



Zhivopisny bridge. Moscow

According to AXCO analysts, the potential volume of a developed insurance market in Russia has generated great interest in the international insurance industry and has increased investment in recent years. Pre-crisis estimates suggested annual growth percentages of 30%, with premium income in excess of USD 60 billion from 2012 [7].

Other Western experts like Ernst & Young also continue to rate positively the possibilities for growth and the investment potential of the Russian insurance market [8].

Russia's imminent accession to the WTO is expected to have the following effects on its insurance market:

- Recovery of strategic value as the main market of Central and Eastern Europe;

- Attainment of a greater degree of liberalisation with the establishment on Russian territory of branches of international insurers, supported by the expected increase to 50% in the limit of foreign investment in the total equity capital;
- Spread in the use of new technologies and products through the arrival of Western insurance culture, giving rise to a portfolio of clients with purchasing power around the emerging Russian middle class.

The damage caused to the Russian economy during the summer of 2010 by the wave of forest and house fires, as well as by the severe drought, obliged the Russian authorities to urgently devise and implement measures aimed at encouraging the population and the Russian business community to use insurance as the most appropriate risk management tool in a modern, developed economy.

The result of this strategy will have to be the adaptation of current insurance legislation, techniques and practice in Russia to international regulations and standards.

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