

MINISTRY OF FINANCE OF THE RUSSIAN FEDERATION

Department of Insurance Supervision

(June, 2003)

Report on development, regulation and reforming of the  
Russian Federation insurance market

### **Presentation Outline**

- Overview of the Russian insurance market
- Dynamics of insurance operations development
- Directions of insurance market development
- Regulation and supervision
- Liberalization of the insurance market

## Overview of the Russian insurance market

1. 1408 insurance companies are registered in the Russian Federation as of 1 January 2003, including 48 companies with foreign participation. As of 1 April 2003, the aggregate charter capital of insurance companies, as a tentative estimation, has reached 55,8 billion rubles.

| <b><u>Overview of the Russian Insurance market</u></b>                      |   |                               |                  |
|---|---|-------------------------------|------------------|
| • Registered Insurers   |   |                               |                  |
|   | Total                                     | Insurers with foreign capital |                  |
| 01.01.2003  | 1408                                      | 48                            |                  |
| 01.01.2002  | 1350                                      | 54                            |                  |
| 01.01.2001  | 1272                                      | 55                            |                  |
| • Insurance Intermediaries  |   |                               |                  |
|   | Total                                     | Legal persons                 | Physical persons |
| Insurance Brokers   | 945                                       | 691                           | 254              |
| • Aggregate authorized capital, million rubles and share foreign capital, % |   |                               |                  |
|   | Aggregate charter capital, million rubles | Share foreign capital, %      |                  |
| 01.01.2002  | 27315                                     | 4,1                           |                  |
| 01.01.2001  | 14833                                     | 4,8                           |                  |
| 01.01.2000  | 9585                                      | 5,3                           |                  |

2. During 2002, 392 licenses were issued to companies for insurance activity, including 138 licenses to new insurance companies. 307 licenses were withdrawn or stopped for various violations of insurance activity.

3. Up until 1 January 2003, the number of registered insurance brokers exceeded 945 (of which 691 legal persons and 254 physical persons). In 2002 the number of registered brokers increased to 163. National legislation allows foreign brokers to provide services on the territory of the Russian Federation, restricting their intermediary activity by distributing insurance risks only with Russian insurers and reinsuring the risks with the foreign reinsurance companies.

4. As of 1 January 2003, 24 societies of mutual insurance were set up and registered in accordance with Russian legislation.

5. 48 insurance organizations with direct foreign participation are set up and registered on the Russian insurance market. Their share in an aggregate number of Russian insurers is 3,4 %. The foreign insurers are represented by such large international companies as AIG, Alliance, group of Zurich, Cologne and others. The aggregate share of insurers with direct foreign participation in the total volume of insurance premiums collected in 2002 hardly exceeds 8,8 % (26,5 billion rubles), and in total volume of payments - about 6,6 % (15,4 billion rubles).

6. During recent years, the number of professional reinsurance companies in Russia remained virtually constant and as of 1 January 2003, 34 companies are operating in the market. The largest international reinsurers are registered on the Russian market, such as Munich Re, Swiss Re, General and

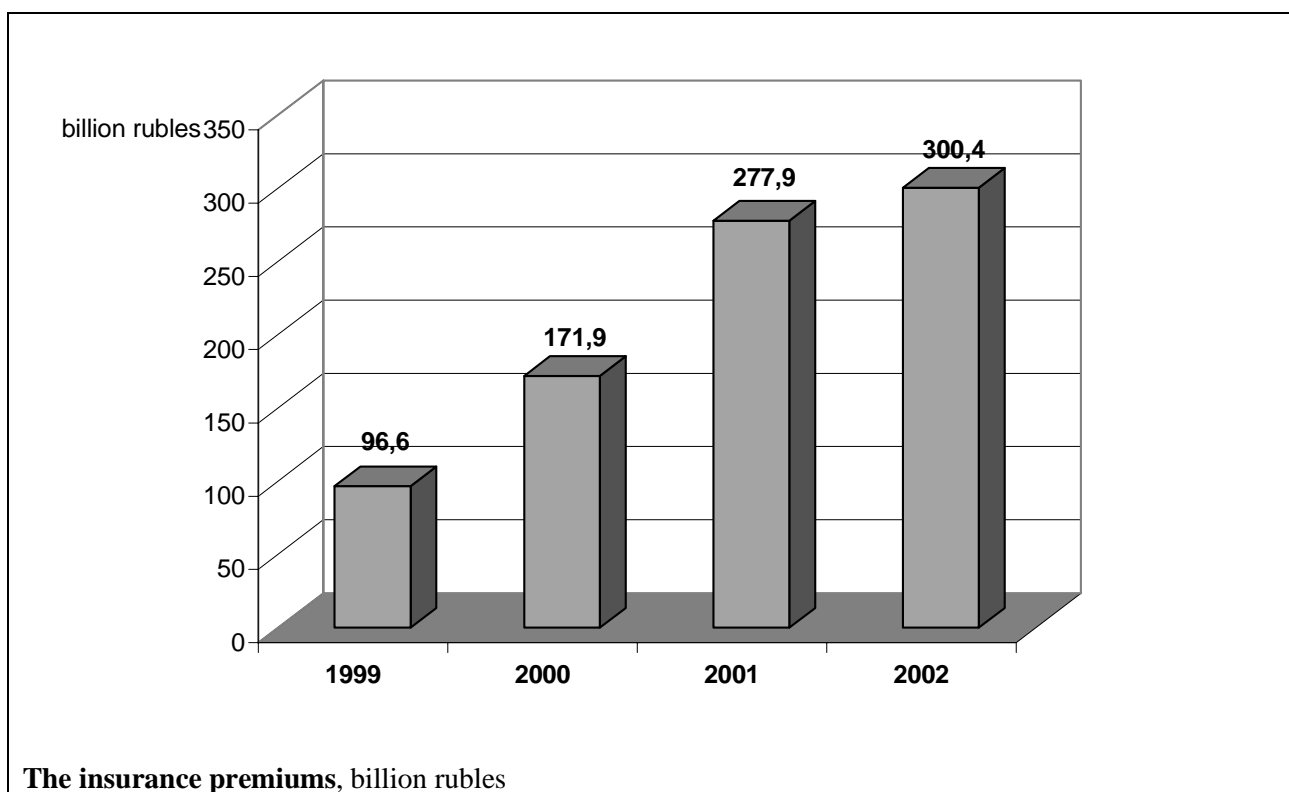
Cologne Re and SCOR, as well as international brokers such as Marsh and McLennan, AON Corp., Willis Faber and Dumas Ltd., etc.

7. A characteristic feature of the Russian market of insurance services is the high need for international reinsurance, due to the rather low capitalization of national insurance and reinsurance companies. At the same time, despite an objective necessity to reinsure the largest risks abroad, the order and scale of this process should be regulated economically (increase of a capacity of the Russian market), as well as legally (definition of conditions and limits of such reinsurance).

### Dynamics of development of insurance operations

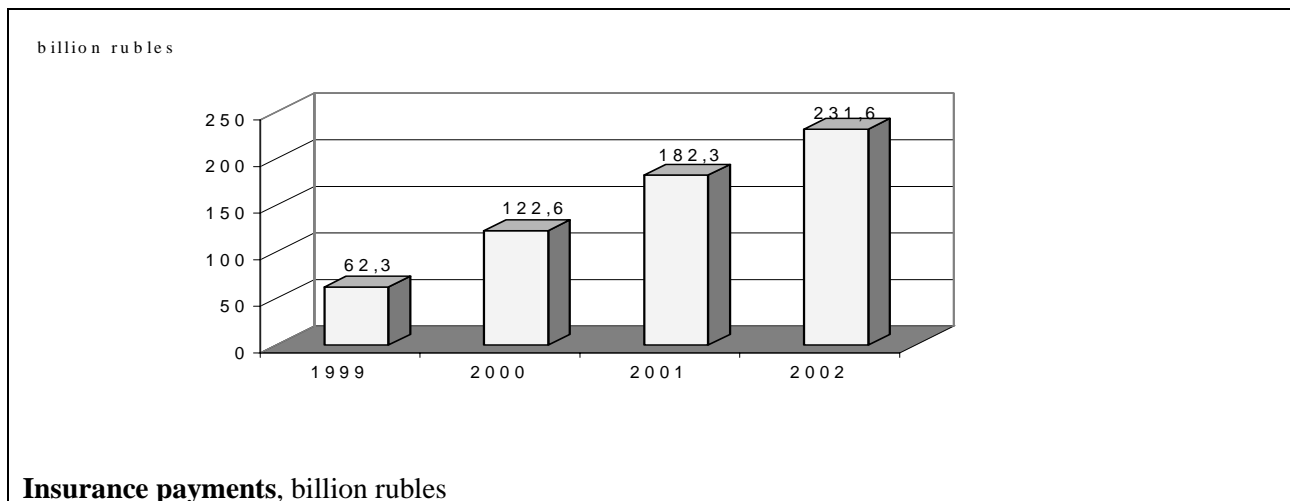
8. The aggregate volume of the insurance premiums collected by Russian insurance companies in 2002 has reached 300,4 billion rubles, exceeding by 8,1 % the results of 2001 and represents 2,8 % of GDP.

| <u>Statistics</u>                          |        |        |        |
|--|--------|--------|--------|
|  | 2000   | 2001   | 2002   |
| • Insurance penetration ratio (%)          | 2,8    | 2,5    | 3,1    |
| • Per capita insurance expenditure (ruble) | 1186,7 | 1931,0 | 2099,0 |
| of which:                                  |        |        |        |
| • Life insurance                           | 554,0  | 971,7  | 726,4  |
| • Non-life insurance                       | 421,3  | 672,6  | 939,5  |



9. The voluntary insurance has developed by increasing rates. In 2002, insurance premiums on voluntary insurance reached 79,4 % of the total volume of insurance premiums.

10. Rates and volumes of insurance premiums increased as a result of advanced growth rates of property insurance (growth rates reached 54,8 % in 2002 in comparison with 2001) and liability insurance (growth rates reached 32,1 %).



11. Despite a rapid drop in payments for life insurance (in 2002 this line brought insurers 25,7 % less payments than in 2001), it continues to remain the leader among insurance operations provided by the Russian insurers. Its share is more than 34 % of the total volume of insurance payments. The insurance payments on life insurance represent 58,8 % of the total sum of insurance payments.

### Directions of insurance market development

12. An analysis of the current state and major trends of the national insurance market testifies to a qualitative increase in the role of the insurance sector in the socio-economic system of the state, and also to an increase in the level of state regulation of the market.

13. The realization of measures for the development of the insurance sector and the improvement of regulation in this area will allow an increase in the volume of insurance premiums and payments. The share of the aggregate insurance premiums in GDP in the medium-term perspective may reach 5%.

14. The growth in volume of insurance premiums will allow insurers to accumulate additional financial assets, which will serve as a source of investment of financial assets in the national economy.

15. Long-term life insurance, including pension insurance and voluntary medical insurance as well as a number of other lines of insurance, which are becoming an important element of the social security system, will be further developed.

16. The mechanism of compulsory insurance is becoming the key element of the socio-economic system of Russia. Industrial insurance will also be developed further, particularly in the area of financial risks insurance and the insurance of dangerous objects.

17. In the current structure of risk distribution, the trend to limit the part which has not been previously covered by insurance policy is continuing. Consequently, this will entail a reduction in the budgetary load related to the necessity to liquidate the consequences of natural catastrophes and other

events which cause significant damage to the economy as well as to the necessary provision of social support to the population.

18. The successful development of the insurance market requires the improvement of the legislation base of the Russian Federation which defines its legal framework and shapes its development trends.

**Priority directions for the development of the insurance market:**

- Development of mandatory and voluntary lines of insurance;
- Increase of insurance market capitalization;
- Further improvement of tax legislation;
- Regulation of insurance and reinsurance operations with the purpose of blocking "income laundering" channels;
- Broadening of the range of investment instruments available for insurers;
- Antitrust regulation of insurance market;
- Reforming of book-keeping and reporting;
- Liberalization of conditions of participation of foreign capital in the Russian insurance market;
- Further improvement of state insurance supervision;
- Further improvement and development of the legislation framework for insurance market.

19. In the light of the implementation of the Concept of Development of the Insurance Sector in the Russian Federation, the full text of which was circulated at the December meeting of the Insurance Committee, the draft law " On modification and additions to the Law of the Russian Federation On organization of insurance business in the Russian Federation " was prepared. Work is being carried out on the elaboration of legal documents on the mandatory insurance of civil liability of the owners of means of transport. The vital problems of insurance will also be solved by the adoption of the following administrative bills:

- "On modification and additions to the second part of the Tax code of the Russian Federation ";
- "On modification and additions to the Federal law" About defense of competitiveness on the market of financial services";
- "On mutual insurance ";
- "On mandatory medical insurance in the Russian Federation";
- "On modification and additions to certain acts of the Russian Federation legislation related to the implementation of mandatory medical insurance of the citizens in the Russian Federation ";
- "On mandatory insurance of a civil liability for causing harm in operation of dangerous object ";
- "On mandatory insurance of a civil liability of carriers for causing harm to life, health and property of passengers ";
- "On investments for financing of the funded part of labor pensions in the Russian Federation ";
- "On modification of article 28 of the Federal law" On mandatory pension insurance in the Russian Federation " .

20. In the Russian Federation the reform of the process of book-keeping and accounting records is carried out with the purpose of bringing it into harmony with the **International Standards of Financial Reporting (IAS)**. The reform is focused on the harmonisation of national standards of book-keeping with IAS standards and also on the drawing up of a consolidated reporting in accordance with IAS requests.

21. The plan of administrative measures for 2003 regarding preparation of the economy for transition to the IAS standards, comprises a) the elaboration and approval of the normative documents on book-keeping in accordance with the requirements of market economy and world practice of book-keeping; and b) the development of methodical recommendations for transformation of the accounting reporting according to Russian law, into accounting reporting following IAS rules.

22. At present, following the recommendation of the Russian Federal Government, the concept of development of accountancy and reporting in the Russian Federation is being elaborated for the medium term perspective including the time schedule of transition of insurance companies to the international standards of the financial reporting of IAS. The time schedule for transition of insurance companies to reporting in accordance with the IAS standards is not planned to take place before 2009 - 2010.

23. The measures indicated above provide the differentiated approach to the order of setting and submission of the accounting reporting. From 2005 onwards, it will be necessary for open joint-stock companies, whose shares are quoted in the international market of the capital and Russian exchanges, to present the accounting reporting in accordance with the IAS standards. Concerning other companies, whose shares are not quoted, drawing up of the consolidated accounting reporting in accordance with the IAS standards is stipulated for 2007 - 2010.

24. With the purpose of harmonising reporting practices of insurance companies with international standards, the special form of the balance sheet and loss and gain accounts, reflecting the structure of assets and liabilities of insurers, as well as incomes and payments has been established. In addition, the supplementary requirements for disclosure of information are established with a view to providing additional explanation to accounting reporting. In particular, the special requirements for disclosure of information by insurance companies are established according to a) the volume of services provided in relation to lines of activity and b) the place of activity (lines and geographical elements of reporting).

### **Regulation and supervision**

25. The observance of insurance legislation by all players sets the basis of state regulation of insurance activity. Governmental agencies contribute to the emergence on the insurance market of financially stable insurers and take measures to cease the activity of dishonest insurance companies which could harm insurance business and endanger the interests of the insured. The state pays special attention to the creation of conditions for free competition on the insurance market, the effective development of service, the rising of insurance culture and its prestige and the creation of structure and investment instruments.

#### **Main directions for the regulation and supervision of the activity of insurance market participants:**

- Carrying out supervision of insurers and insurance brokers;
- Carrying out supervision of the financial health of insurers;
- Management of the uniform State registers of insurers, associations of insurers and insurance brokers;
- Licensing of insurance activity;
- Expert-methodological work on regulation of insurance tariff policy;
- Drafting of legislation;

- Departmental statistical work and summary - analytical work (operating statistical reporting, annual accounting reporting, annual departmental statistical reporting);
- Expert-methodological management of accounting and statistical reporting of insurers;
- Expert-methodological work on economic regulation of insurance companies.

### **Liberalization of the insurance market**

26. Further development of the Russian insurance market is closely linked to the transition of the economy on a free market basis and its integration into the world financial market. Therefore, the cooperation with international financial institutes is one of the core priorities in the development of the Russian economy and its insurance market.

27. The concept of development of the national insurance market includes the provisions for a progressive liberalization of foreign insurance companies' participation in the Russian insurance market.

#### **Conditions for maintenance of progressive liberalization of the Russian insurance market:**

- Shaping of normative legal basis adequate to international requests;
- Setting the provisions of book-keeping and reporting in accordance with international standards;
- Financial soundness of the companies working in the national market of insurance services;
- Improvement of insurance market infrastructures for the purposes of the insured and other interested persons, including defense of their rights;
- Creation of favorable macroeconomic conditions.

28. The general purpose of liberalization of the insurance market is the creation of a free trade zone, including insurance services.

29. Liberalization of this important sector will be put into effect by the establishment of equal conditions for the operation of Russian and foreign insurance companies, taking into account the present situation of the national insurance market and the strengthening of protectionism trends in the world.