

**INFORMATION ON THE CURRENT STATE  
OF ECONOMIC REFORMS  
IN THE RUSSIAN FEDERATION (INSURANCE SECTOR)**

**October 2002**

**By the Department of Insurance Supervision  
Ministry of Finance of the Russian Federation**

A number of positive trends have marked the recent development of the Russian insurance market. 1366 insurance companies are registered in the Russian Federation as of 1 April 2002, including 54 companies with foreign participation. The total insurance gross premiums reached 276 billion rubles on the 1st of February 2002, while the accumulated insurance reserves were 88,5 billion rubles, which is 174% higher than the same indicator of 2001. In the 1st quarter of 2002, the insurance premiums collected were 74 billion rubles and insurance premiums payments were 34 billion rubles, exceeding by 34 % the result of the 1st quarter of 2001.

The important indicator of insurance sector development is the ratio of the total gross insurance premiums to the gross domestic product (GDP). The continuous growth of this indicator in Russia during the last years is characterized by the following data (%): 1991 - 1,05; 1992 - 0,6; 1993 - 0,7; 1994 - 1,2; 1995 - 1,5; 1996 - 1,3; 1997 - 1,4; 1998 - 2,13; 1999 - 2,16; 2000 - 2,4; 2001 - 3,0.

Despite the positives shifts, the development of the insurance market faces numerous problems stemming from the:

- ◆ low purchasing power of the population;
- ◆ prevention by legal persons of the expansion of new lines of insurance;
- ◆ absence of reliable investment rules;
- ◆ deficiency of insurance legislation;
- ◆ imperfection of methods of carrying out the insurance supervision of all players in the insurance market;
- ◆ non-transparency of the insurance market and very low capitalization of the overwhelming majority of the insurers. In particular, only 5% of the total registered insurance companies have charter capital exceeding 100 million rubles.

In order to develop the insurance industry in Russia the following key measures should be taken:

1. The introduction and development of mandatory lines of insurance, in particular the following: motor third party insurance, insurance of failures and damage resulting from human error and relating to dangerous industrial objects, insurance of buildings and constructions against fire and natural disasters, insurance against serious injury during the displacement of dangerous cargoes.
2. The development of voluntary personal insurance. Priority should be given to conventional lines of life and pension insurance.

Life insurance is a traditional and regular source of significant investment resources fostering the successful growth of the economy.

The development of life insurance induces not only the specialization of insurers, but also the promotion of the actuarial profession, as well as the necessity to introduce a legal basis for actuarial activity related to the valuation of rates, reserves, analysis and the forecasting of investment programs.

In addition, more rigorous regulatory requirements related to the financial soundness of insurers and the specialization of insurance companies should be introduced by preventing insurers from simultaneously carrying out life and non-life insurance. To this end, adequate classification of the lines of insurance activity should be improved and the features and terms of organization and implementation of life insurance business and pensions should be determined.

The assessment of large risks and increased liabilities of insurance companies create the need to increase the size of the authorized chartered capital of insurance companies, formed in the monetary form, to 40 - 60 million rubles. It is expected that the minimum size of authorized chartered capital, formed in monetary form, will be legally defined depending on the organizational and legal form of the insurance companies and lines of business.

It is also necessary to set out measures encouraging the founders of insurance companies to capitalize the obtained profit in order to increase the size of authorized chartered capital, and also to set at 3 years the period for adjustment of a minimum size of authorized capital up to a size stipulated by the legislation of the Russian Federation.

Reserves accumulated by insurers should be directed to priority branches of the economy, in particular to financing of the target state programs. Therefore, some of the primary objectives are:

- ◆ the further improvement of investment policy,
- ◆ the development and implementation of measures for the establishment of a favorable investment climate in the country, and
- ◆ a broadening of the range of investment instruments available for insurers.

In order to allocate technical reserves effectively, appropriate mechanisms should be established to meet the requirements of safety, profitability and asset/liability matching in accordance with the terms and lines of insurance for which they are accumulated.

As regards the insurance market, the key objectives of the government consist in the development of the adequate legislative framework for the supervision of the insurance sector, the reduction of state stockholding in the authorized capitals of insurance companies and the suspension of any privileges for single insurers and their customers.

Regarding the liberalization of conditions of participation of foreign capital in the Russian insurance market, the policy would aim at a sequential modification of conditions of foreign presence and the removal of restrictions on participation of foreign capital in the Russian insurance market. Programs for attracting foreign capital to specific segments of the insurance market will be conducted, in the interest of developing the Russian economy.

Currently the share of insurance companies with foreign participation operating on the Russian insurance market represents 4,1% (aggregate foreign capital equals 1,132 billion rubles) and their share in the total insurance premiums collected has fluctuated with a ceiling of 10 % in recent years (the figure stood at 7% last year). At the same

time, the largest European insurance companies have been present in the Russian insurance market for the past decade and are its active players (Allianz, Zurich).

Significant measures should be taken in order to increase the confidence of the population in the insurance industry and to protect the insured against the insolvency of insurance companies. These measures should include the establishment of a federal reinsurance system, the creation of guarantee funds within mandatory lines and the establishment of insurance (reinsurance) pools for high risk lines of insurance.

It appears essential to continue the improvement of insurance legislation and the enforcement of practices which impede the use of insurance and reinsurance operations for doubtful transactions with currency or money laundering.

A major element for the successful development and functioning of the national insurance system and its compliance with international standards is the improvement of state supervision over the activities of insurance companies and other professional insurance entities. Additional measures should be undertaken in order to improve the operation of the state insurance supervisory authority.

At present, the top priority is the further improvement and development of insurance legislation regulating the following issues:

- ◆ the organization of insurance business in the Russian Federation;
- ◆ the creation of legal basis for the activities of mutual insurance companies;
- ◆ the improvement of tax legislation;
- ◆ the introduction of mandatory insurance and classification of priority lines of mandatory insurance;
- ◆ the defining of key supervisory functions and scope of operating procedures, structural reorganization of the state insurance supervision in the Russian Federation.