

Annual Report
2004

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Dear colleagues,

The publication of the Russian Association of Motor Insurers' annual report for 2004 is an important event in the life of our professional community because our report sets out all aspects of RAMI's work so that our members, the state authorities and the general public can be fully informed about our activities over the last year.

As the Russian Association of Motor Insurers, our overall objective is to create the necessary conditions – legal, administrative, structural and financial – to assist our Association members in carrying out the functions and obligations that are set out in the Federal Law entitled "On compulsory motor Third Party Liability insurance" (No. 40-FZ of 25.04.2002). It is no exaggeration to say that success in achieving our overall objective is of enormous social significance because even now our work affects the interests of more than 20 million car owners and their number is growing considerably every year.

In order to achieve our overall objective, we need to constantly work closely with the Russian Federal authorities and with regional authorities, and over time we aim to make this co-operation between ourselves and the various authorities increasingly effective.

We also need to develop effective means of coordinating the efforts of our member insurance companies in protecting their common professional interests as well as helping them improve the way in which compulsory motor TPL insurance is implemented.

Finally, it is a very important part of our overall objective that we explain to the Russian public why compulsory motor TPL insurance is necessary, what it is and how it works. We also need to project a positive image of the Russian Association of Motor Insurers and of our members who provide compulsory motor TPL insurance.

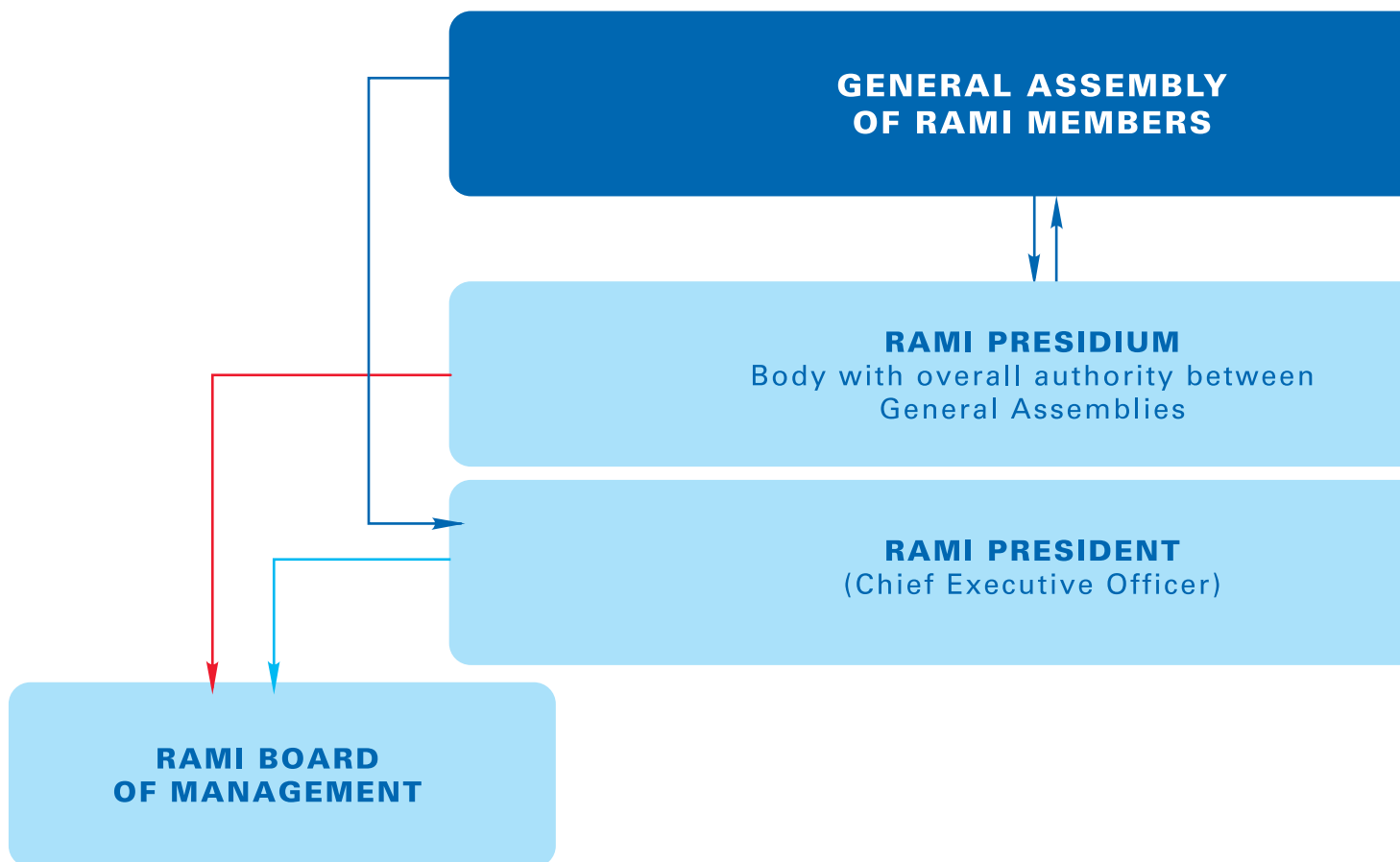
Our annual report shows what the Russian Association of Motor Insurers did in 2004 to achieve our goals. We have tried to make this report as informative as possible in order to give our readers an idea of what we have managed to achieve in all areas of our work and what we have left to do. At the same time, we have tried to minimize technical details.

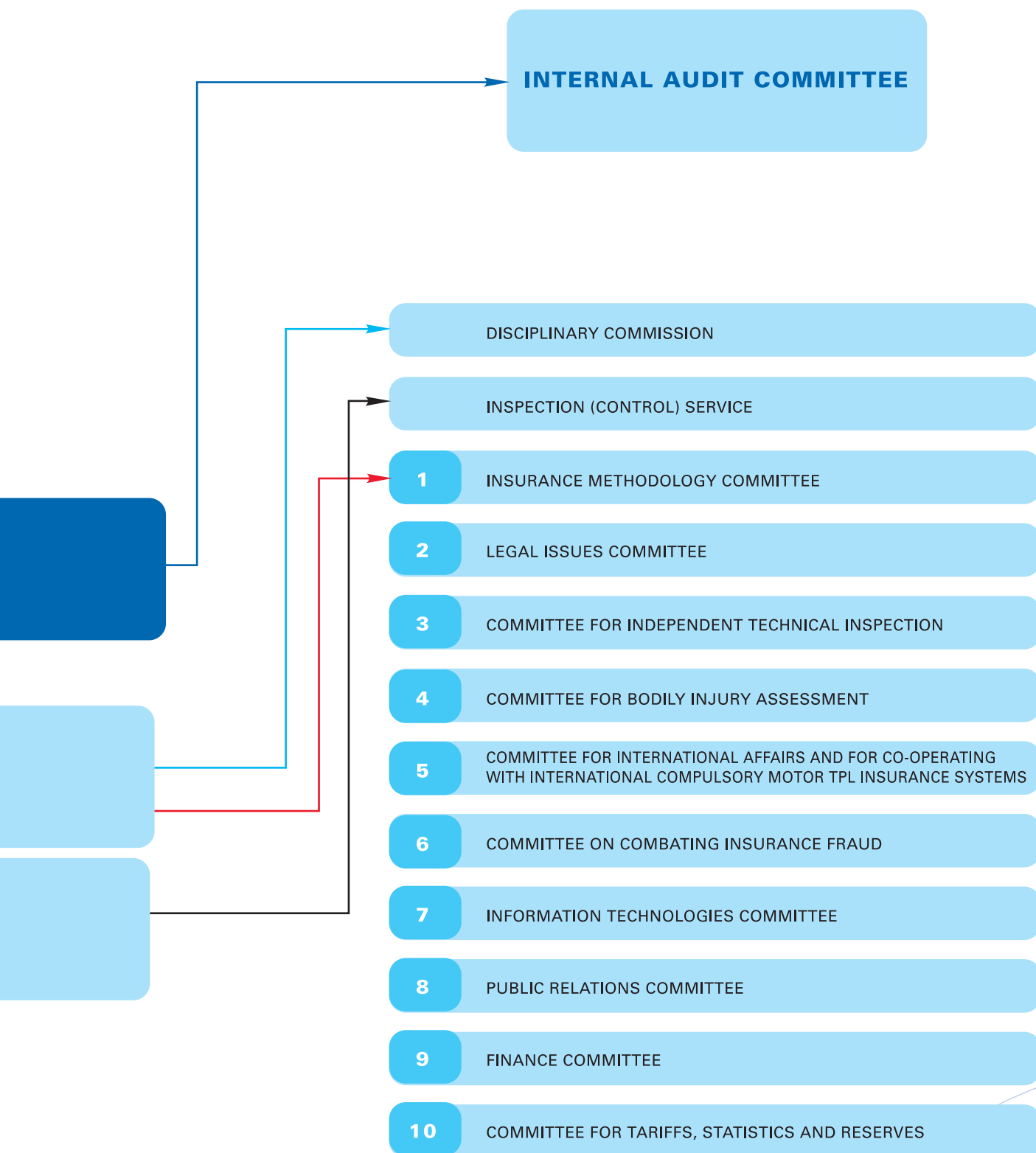
Our results are undoubtedly different in different areas of our work: we have been more successful in some areas than in others. Nevertheless, I believe that in general there are reasons to consider 2004 as a productive and successful year for compulsory motor TPL insurance, for our Association and for our members. I hope that after reading this annual report you will share our view of the success of our work during 2004.

President of the Russian Association of Motor Insurers

Andrey S.Kigim

RAMI organisational structure





Members of the RAMI Presidium

1. Andrey S. Kigim, President, RAMI.
2. Igor N. Zhuk, Soglasie Insurance Company.
3. Andrey A. Zernov, Energogarant Insurance Company.
4. Alexander N. Kamenetsky, Military Insurance Company.
5. Viktor N. Kiryanov, Road Traffic Police Department, Ministry of Interior, Russian Federation.
6. Valery N. Klyuikov, AINI International Insurance Company.
7. Alexander P. Koval, President, All-Russian Insurance Association.
8. Arkady M. Lyubavin, Yuzh-Ural ASKO Insurance Company.
9. Nadezhda V. Martianova, MAKS Insurance Company.
10. Leonid A. Melamed, ROSNO Insurance Company.
11. Yevgeny S. Moskvichev, Ministry of Transport, Russian Federation.
12. Nikolai P. Nikolenko, UralSib Insurance Group.
13. Yuri N. Reshetnyak, National Insurance Group.
14. Aleksey L. Savatugin, Ministry of Finance, Russian Federation.
15. Sergey E. Sarkisov, RESO-Garantiya Insurance Company.
16. Vladimir Yu. Skvortsov, AlfaStrakhovanie Insurance Company.
17. Yevgeny Ye. Sterzhanov, BASK Insurance Company.
18. Boris G. Khait, Spasskye Vorota Insurance Company.
19. Valery L. Khaikin, ZHIVA Insurance Company.
20. Danil E. Khachaturov, Rosgosstrakh Insurance Company.
21. Yuri V. Tskhovrebov, Capital Strakhovanie Insurance Company.
22. Anna M. Chertkova, ENI Insurance Company.
23. Natalia Yu. Shumilova, Medexpress Insurance Company.
24. Vyatcheslav V. Shcherbakov, Ingosstrakh Insurance Company.
25. Viktor B. Yun, Standart-Reserv Insurance Company.

RAMI Board of Management

Head of the Board of Management

Andrey S. Kigim

Members of the Board

1. Danil E. Khachaturov, Rosgosstrakh Insurance Company.
2. Sergey E. Sarkisov, RESO-Garantiya Insurance Company.
3. Vyatcheslav V. Shcherbakov, Ingosstrakh Insurance Company.
4. Leonid A. Melamed, ROSNO Insurance Company.
5. Vladimir Yu. Skvortsov, AlfaStrakhovanie Insurance Company.
6. Igor N. Zhuk, Soglasie Insurance Company.
7. Semyon G. Akerman, Inter-Regional Insurance Alliance

RAMI Internal Audit Commission

- 1.Vitaly A. Poltavtsev, LK-City Insurance Society.
- 2.Natalia N. Sonina, Ariadna Insurance Company.
- 3.Nikolai P. Ustimenko, Avikos Insurance Company.
- 4.Vasily V. Akulov, Metroton Insurance Company.
- 5.Nikolai F. Galaguza, Inter-Regional Insurance Centre.

RAMI Executive Team

Andrey N. Baturkin
Deputy Managing Director.

Andrey N. Koshkin
Deputy Managing Director

Boris Ye. Tsiklis,
Deputy Managing Director

Pavel B. Bunin,
Chief Finance Officer.

Oleg O. Pilipets,
Chief Legal Officer

Irina Ye. Osokina,
Director for International and State Programmes of Development
and Technical Support.

Nikolai M. Tarasov,
Director for Regional Development.



First steps in the implementation of the law on compulsory motor TPL insurance in Russia

When the law on compulsory motor TPL insurance came into force, Russia was one of the few countries in the world where drivers did not have to purchase third party liability insurance. Public discussion of the necessity of such a law had taken place for some considerable time because the situation with cars was changing quickly and dramatically. It became essential to introduce the law for the following reasons:

- ▶ the number of cars on the roads of this country had considerably increased;
- ▶ the number of the drivers with little driving experience had increased and as a result the number of the road accidents had also risen;
- ▶ the value of vehicles owned by the population had increased;
- ▶ a greater disparity between motorists' income levels had developed;
- ▶ the criminal situation in Russia in general and on its roads in particular continued to be difficult;
- ▶ post-accident "settlements" on the roads had become a profitable income source for criminals.

All the above factors had aggravated the problems facing the Russian motorist and made it necessary to solve them urgently.

Difficulties in introducing and implementing compulsory motor TPL insurance

- ▶ The introduction of compulsory motor TPL insurance in Russia has affected a very wide segment of the population with different social and psychological backgrounds and different levels of income and standards of life. For many people on lower incomes the introduction of the law caused financial difficulties.
- ▶ When compulsory motor TPL insurance came into force, car owners had to change some well-established and familiar patterns of behaviour in standard situations: this has inevitably caused irritation with the law.
- ▶ The introduction of compulsory motor TPL insurance has affected the work of many state institutions dealing directly with implementing the law. These include organisations that provide services and bodies settling conflicts arising through implementation of the law.
- ▶ Compromises made during the passing of the law and less than perfect drafting of regulations have led to a considerable number of contradictory or unclear articles and provisions which considerably complicated the process of implementing the law. In addition, the mechanism of observance of the law has not been completely worked through.

The accident rate in Russia and its ramifications for the implementation of the law on compulsory motor TPL insurance

Road transport in Russia is already a major sector of the economy which uses substantial resources and it is growing rapidly. The present social and economic situation in Russia is accompanied by an increasing demand for motor-vehicle services. Every day more than 17 million tons of cargo is transported by motor vehicles. The volume of cargo carried by motor transport is almost 6 times greater than the amount carried by long-distance railways. The number of privately owned vehicles is growing rapidly and makes up a considerable proportion of the entire transport fleet.

The substantial quantity of transport vehicles owned by the population is a strong argument in favour of setting up a system protecting the property rights of road accident victims, because car owners often do not have sufficient financial resources to cover claims made against them by the victims of road accidents.

Russia stands out considerably among economically developed countries for its road accident rate. If we examine the rate of road accidents per vehicle on the road, Russia's accident rate is 3 to 6 times higher than that of most other European countries. In addition, Russian accidents tend to have worse traffic fatalities: these are almost 15 times as high as the average European level. There are more than 20 people killed on the road per 100,000 inhabitants, a figure that is much higher than those found in most economically advanced countries. These figures can be attributed to the underdeveloped infrastructure of road safety:

- ▶ The average Russian car has a low level of technical safety devices for driver and passengers;
- ▶ There is poor traffic control;
- ▶ There is an underdeveloped system of emergency aid for victims of road accidents;
- ▶ The fact that Third Party liability insurance has not been in place in the past has meant that there has been no incentive for drivers to obey traffic laws;
- ▶ The rapid growth in the number of vehicles on the road and the high average age of vehicles;
- ▶ Poor road discipline, demonstrated by deliberate flouting of traffic laws by drivers and pedestrians.

If there is no change in the attitude to road safety in Russia, the total number of accidents is likely to continue to grow by 8–10% over the next 1–2 years.

Experts have estimated that the number of vehicles on the road in Russia will continue to grow and, by 2010, it is likely that there will be 200–300 vehicles per 1000 inhabitants. It is not expected, however that the growth in numbers will be accompanied by a growth in the quality of the vehicles. It is expected that the average car will grow older and more dilapidated. The appearance on the road of cars that have much more advanced features will make the pattern of traffic more uneven and may even cause more road accidents through overtaking, abrupt braking, unexpected manoeuvring and even through pure speed.

In addition, the number of inexperienced drivers is likely to grow: the lack of effective driver training and skill improvement will become more evident. As most cars are driven within the major cities, more accidents involving pedestrians are expected. The number of injuries to drivers and car passengers is also expected to increase.

The role of compulsory motor TPL insurance in improving road safety was not initially seen as one of its main features: the law was seen as setting up a civilized system for compensating the victims of road accidents. Nevertheless, the law did establish a bonus-malus system which indirectly encourages drivers to obey traffic laws and regulations.

RAMI and the Russian Ministry of the Interior have taken an important initiative in this area by setting up a fund to improve road safety. This fund, called 'People – Car – Road – Environment' is supported by industry contributions based on the total number of policies sold. The branches of this organisation can be found in every region of the Russian Federation.

The initial impact of the law introducing compulsory motor TPL insurance

The main initial impact of the law is that a civilized procedure has been established for settling claims arising out of motor accidents. Car owners are protected against the need to dispute responsibility for an accident by the road side, whether the accident was a fake or a real one causing real damage to vehicles.

In addition, the introduction of the law has provided a huge boost to the development of insurance in Russia. It has provided a major incentive to insurance companies to improve their systems for serving their clientele. The large number of new clients generated by compulsory motor TPL insurance has encouraged companies to invest in improved customer support systems and these investments show the commitment of insurance companies to the future development of the insurance market as a whole. Foreign experience shows that an efficient insurance market, as a key component of overall financial markets, channels substantial investment funds into the national economy.

As the effective role of insurance becomes better understood, other classes of insurance will develop. Examples include property insurance and various types of liability insurance such as tenants and home owners liability insurance and the insurance of the public liability of organisers of public events. The wider development of private insurance will reduce the need for the state budget to pay compensation in the event of damage having been caused.

The introduction of compulsory motor TPL insurance has improved the standing of insurance companies in the eyes of the population: an insurance policy is now seen as an important financial document. Research in 2004 showed that 47% of car owners are satisfied with the level of service provided by insurance companies in the sphere of compulsory motor TPL insurance. This level of satisfaction is encouraging, given the fact that the introduction of the law was highly controversial, and that there are clearly imperfections in the law and, additionally, the public has little experience of insurance. The level of satisfaction shows that insurance companies have had remarkable initial success, have developed a client service that had never before existed in Russia and have introduced a claims settlement system. Most of this infrastructure was in place before the law came into force and before any policies had been sold. This demonstrated that insurance companies were ready to invest their own funds rather than wait for the premium cash flow to do so.

Experts have calculated that about sixty thousand jobs have been created, mostly in regions where there is high unemployment. Substantial investment has been made in staff training and in the introduction of improved IT systems. According to the available data, insurance companies have invested over three hundred million US dollars over the last two years.

On 1 July 2004 RAMI began to pay damages from the compensation fund to those who were injured in road accidents. Where the driver that caused these injuries is either uninsured or untraced or when the insurance company that issued the policy is bankrupt, these payments come from the RAMI compensation fund. For the first time in Russia, these road accident victims are gaining insurance protection.



The work of RAMI in 2004

RAMI set as its main objective in 2004 the creation of a suitable legal, administrative and organisational environment for the operation of the Federal Law entitled "On compulsory motor TPL insurance" (Law No. 40-FZ). In addition, the Association had as an objective the protection of the interests of the citizens by ensuring they were able to exercise their rights to recover legal compensation for damage to their lives, health or property caused by owners of motor vehicles. In order to achieve these objectives the main work of RAMI was as follows:

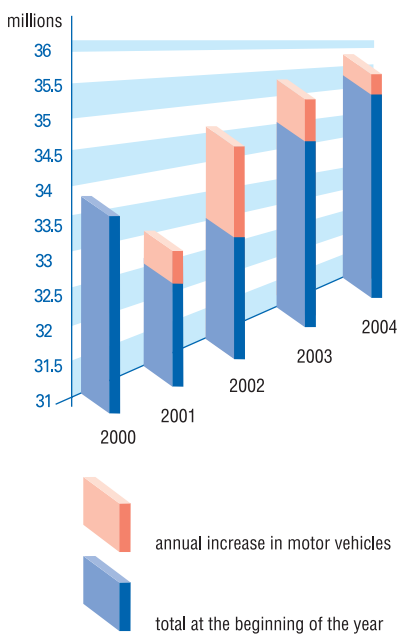
- ▶ Co-operating, in an effective manner, with Federal, Regional and Local authorities in order to represent and protect the interests of RAMI members;
- ▶ Co-ordinating the activities of insurance companies in implementing the Federal law on compulsory motor TPL insurance. (No. 40-FZ);
- ▶ Providing information about compulsory motor insurance in the Russian Federation and giving technical support to members;
- ▶ Co-ordinating the campaign against fraud connected with compulsory motor TPL insurance and with other classes of insurance;
- ▶ Combating unfair or dishonest competition;
- ▶ Setting up partnerships with international organisations involved in compulsory insurance and preparing for the affiliation of Russia with the 'Green Card' system.
- ▶ Activities aimed at improving the public image of compulsory motor TPL insurance.

There have been a number of beneficial results from the work of RAMI and its insurance company members with Federal, Regional and Local authorities and with various public institutions, during the past year:

- 1.** The initial negative public image of compulsory motor TPL insurance has been improved. The debate has moved on, from issues concerning whether compulsory motor TPL insurance should be introduced to issues relating to improving the system of implementation of the law.
- 2.** There is now a developed system for implementing the law with a well functioning infrastructure that operates all over Russia, with offices and branches in every region and city. More than 90% of transport vehicles are covered by compulsory motor TPL insurance.
- 3.** RAMI has developed into a professional association of insurance companies that is able to implement the law on compulsory motor TPL insurance and represent the common interests of the association members who are ready to co-operate in order to achieve their common interests. In 2002, RAMI was set up with a membership of 48 insurance companies. Today, there are 180 insurance companies that are association members, 170 of which deal with compulsory motor TPL insurance.
- 4.** The overall organisational structure and constitution of RAMI has been established: its governing bodies and the various committees are now working effectively and producing good results for the Association and for its members.
- 5.** Co-operation between RAMI and federal and regional bodies has become closer. Agreements have been signed with the Ministry of Finance of the Russian Federation and with the Federal Service for Insurance Supervision. Good contact on a regular basis with various state authorities is invaluable and helps solve current and potential problems concerning all aspects of the compulsory motor TPL insurance.

Compulsory motor TPL insurance: the main statistical indicators

Growth in numbers of motor vehicles in the Russian Federation, 2000-2004

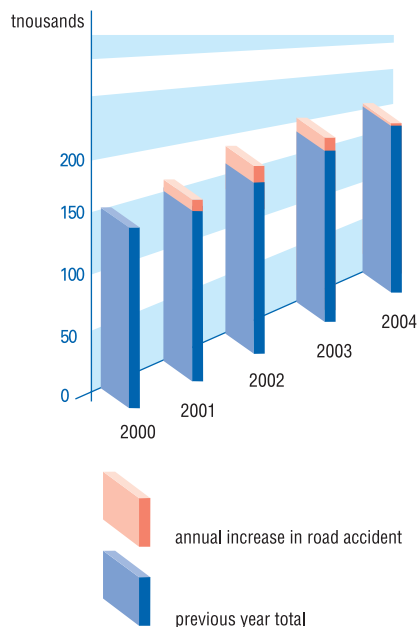


Growth in the number of motor vehicles in the Russian Federation, 2002-2004

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|-----------------------------------|------|------|------|------|------|
| Vehicle numbers (millions) | 32.6 | 33.1 | 34.7 | 35.3 | 35.8 |
| Increase (millions) | | 0.5 | 1.6 | 0.6 | 0.5 |
| Growth % | | 1.5% | 4.8% | 1.7% | 1.4% |

The available data show that there has been a steady growth in the number of motor vehicles in Russia. However, the rate of growth has declined considerably in recent years and it is therefore unlikely that there will be continued substantial growth in the near future. An annual growth rate of 1% to 1.5% is forecast, meaning that annually the number of vehicles on the roads will increase by 350,000 to 500,000 each year.

Road accidents 2000-2004



Number of road accidents, 2000-2004

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|--|-------|-------|-------|-------|-------|
| Number of road accidents (thousand) | 157.6 | 164.4 | 184.4 | 204.3 | 208.6 |
| Growth (thousand) | | 6.8 | 20 | 19.9 | 4.3 |
| Growth (%) | | 4.3% | 12.2% | 10.8% | 2.1% |

The total number of road accidents has grown steadily during the period 2000–2004. As can be seen from the previous table, there is a direct relationship between the number of vehicles on the road and the number of accidents. However the growth rate of accidents greatly outstrips the growth rate of vehicles on the road. Nevertheless, the growth in accidents in 2004 (2.1%) was considerably lower than the corresponding figure for 2003 (10.8%). It is difficult to draw conclusions after only one year, but it is possible that the introduction of compulsory motor TPL insurance had some influence on the number of accidents. A more accurate assessment of the influence of compulsory motor TPL insurance on road accidents will have to wait for a few years when more statistics are available.

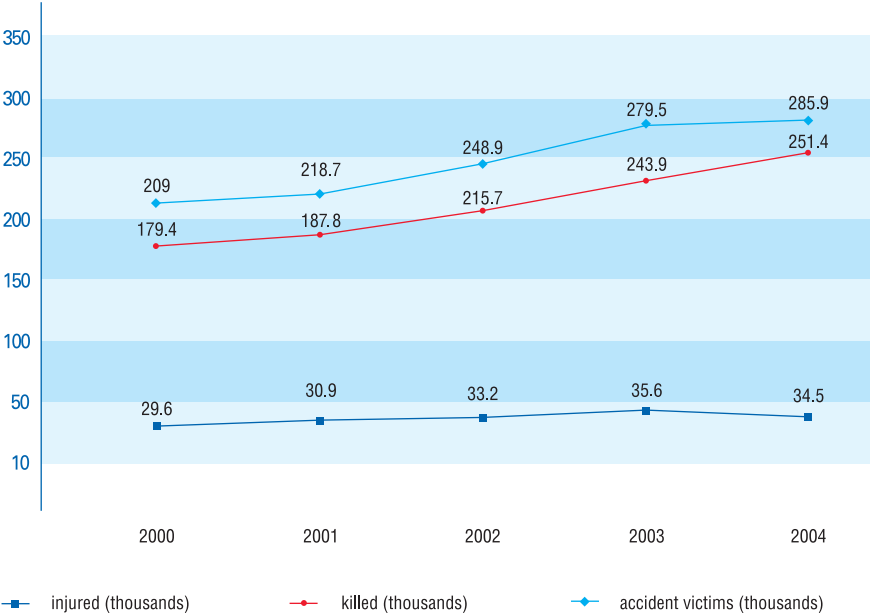
Road accidents, injuries and deaths, 2000-2004

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|--|-------|-------|-------|-------|-------|
| Number of road accidents (thousand) | 157.6 | 164.4 | 184.4 | 204.3 | 208.6 |
| Growth (thousand) | | 6.8 | 20 | 19.9 | 4.3 |
| Growth (%) | | 4.3% | 12.2% | 10.8% | 2.1% |
| Number of victims (thousand) | 209 | 218.7 | 248.9 | 279.5 | 285.9 |
| Growth (thousand) | | 9.7 | 30.2 | 30.6 | 6.4 |
| Growth (%) | | 4.6% | 13.8% | 12.3% | 2.3% |
| Number of people killed (thousand) | 29.6 | 30.9 | 33.2 | 35.6 | 34.5 |
| Growth (thousand) | | 1.3 | 2.3 | 2.4 | -1.1 |
| Growth (%) | | 4.4% | 7.4% | 7.2% | -3.1% |
| Number of people injured (thousand) | 179.4 | 187.8 | 215.7 | 243.9 | 251.4 |
| Growth (thousand) | | 8.4 | 27.9 | 28.2 | 7.5 |
| Growth (%) | | 4.7% | 14.9% | 13.1% | 3.1% |

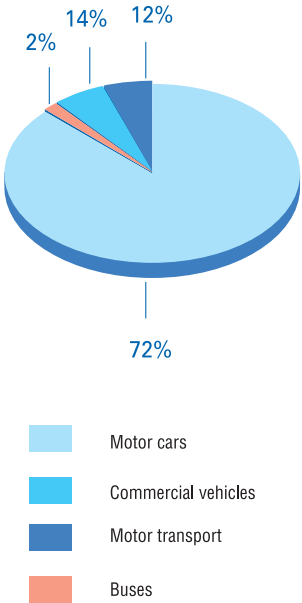
Unfortunately, the number of people killed or injured in road accidents has been increasing. Whilst the rate of growth is not great, it is higher than the increase in the total number of road accidents, which suggests that the severity of road accidents is increasing. To put it bluntly, each year, more and more people are being killed or injured on the roads. Whilst there has recently been a decrease in the actual number of people killed, it cannot be assumed that this trend will

continue, as there has been a long term tendency for the number of people killed to increase.

Number of people involved in road accidents, killed and injured



Breakdown of total number of motor vehicles in Russia by type of vehicle



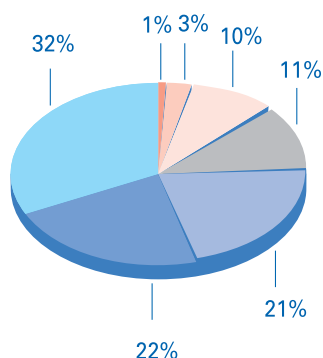
Motor cars are the single largest segment of the Russian vehicle fleet and the proportion of cars is continuing to grow as the disposable income of the population increases. This growth implies that every year a higher proportion of the general public in Russia will be affected by compulsory motor TPL insurance as car owners and more people will be buying compulsory motor TPL insurance.

**Compulsory motor TPL insurance:
the statistics**

According to the figures provided by the Federal Service for Insurance Supervision, on 1 January 2005 there were 1,280 insurance companies listed on the state register as licensed insurance companies. Of these, 170 companies are licensed to provide compulsory motor TPL insurance, i.e. 13% of insurance companies have a compulsory motor TPL license. In 2004, the total volume of insurance and co-insurance premiums from all classes of insurance equalled 471.6 billion roubles: this figure included 49 billion roubles of compulsory motor TPL insurance premiums. Claims paid in 2004 totalled 307.6 billion roubles, of which 19 billion roubles were paid on compulsory motor TPL insurance policies.

Insurance premium from all classes of business grew by 9% between 2003 and 2004. In terms of the various classes of business, personal insurances (other than life insurance) grew by 27% and property insurance by 22%. Premium income from life insurance however fell by 32% over this period, whilst liability insurance showed a decrease in premium income of 5%.

Breakdown of insurance premiums by class of business



- Compulsory medical insurance (21%)
- Property insurance (32%)
- Life insurance (22%)
- Personal insurance (ex life) (11%)
- Compulsory motor TPL insurance (10%)
- Liability insurance (3%)
- Other compulsory insurance (1%)

In 2004, the breakdown of premium income by class was as follows: life insurance made up 22% of the total. In contrast, in 2003, life insurance was 43% of total premium income in the first half of 2003 and for the full year its share was 35% of the total. Personal insurance (other than life) had a market share of 11%, a similar figure to the first half of 2003, whilst its share for the full year 2003 was 9%. Property insurance had a 32% share in 2004. The corresponding figures for 2003 were 25% in the first half and 29% for the full year. Liability insurance made up 3% of the market in 2004 – a similar figure to the full year 2003, but in the first half of this year it made up 4% of the total. Compulsory insurances other than motor TPL and medical made up 1% of the market, a similar figure to 2003 for the full year, but the half year 2003 figure was 2%. Compulsory medical insurance had a 21% market share in 2004. Its share was 15% in the first half of 2003 and 17% for the full year.

The share of compulsory motor TPL premiums in the total premium income of the market was 10.4% in 2004, double the figure for the second half of 2003. Total premium income from compulsory motor TPL insurance equalled that from all personal insurances other than life insurance.

In the first 18 months after motor TPL insurance was made compulsory, 39,158,000 policies were issued with total premiums of 74,637 million roubles. In the same period, 960,000 claims were settled with a total claims volume of 19,703 million roubles.

*Compulsory motor TPL insurance.
2003-2004 in figures*

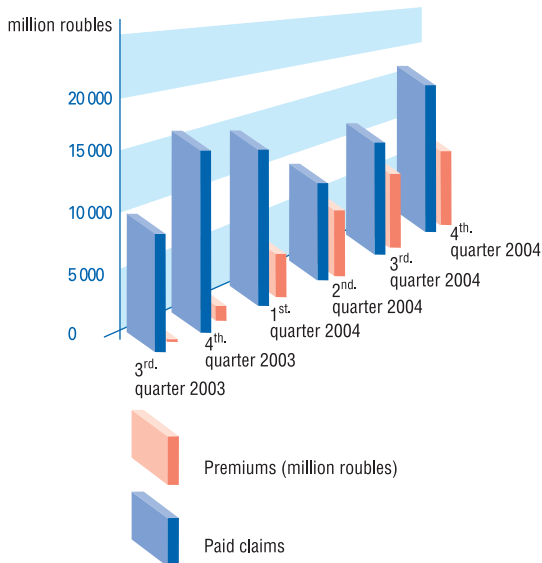
| Reporting period | Insurance policies issued. thousand pcs. | Premiums generated. million roubles | Number of claims settled, thousand pcs. | Total claims payments. million roubles | Average premium, thousand roubles | Average claim size., thousand roubles |
|------------------|--|-------------------------------------|---|--|-----------------------------------|---------------------------------------|
| 2003 | 12,943 | 25,311 | 58 | 1,190 | 1.956 | 20.517 |
| 2004 | 26,215 | 49,326 | 902 | 18,513 | 1.882 | 20.524 |

The figures show the following picture of growth between 2003 and 2004:

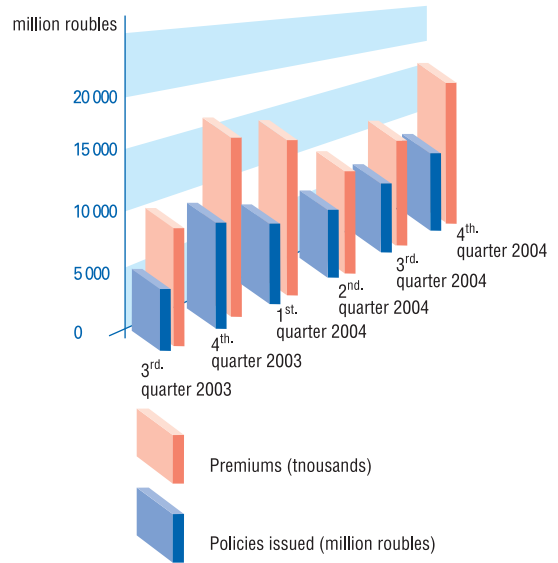
- ▶ Number of insurance policies issued: +103%
- ▶ Total premium income: +95%
- ▶ Number of settled claims: +1466%
- ▶ Total claims payments: +1456%

Comparing the second half of 2004 with the second half of 2003, the number of policies issued increased by 7%, premium increased by 4%, the number of claims settled increased by 813% and total claims payments increased by 866%.

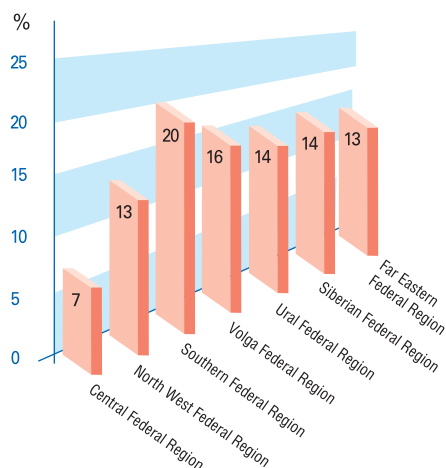
Premiums and claims for compulsory motor TPL insurance by quarter



Premiums and numbers of policies issued by quarter



Breakdown of compulsory motor TPL insurance premiums by Federal administrative regions of Russia



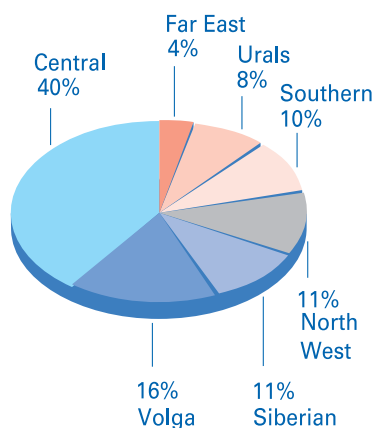
As of 1 January 2005, 170 insurance companies had licenses to provide compulsory motor TPL insurance. These companies were registered geographically as follows amongst the seven Federal administrative regions:

- ▶ Central Region (including Moscow) – 93
- ▶ North West (including St Petersburg) – 20
- ▶ Southern Region – 5
- ▶ Volga Region – 20
- ▶ Urals Region – 19
- ▶ Siberian Region – 9
- ▶ Far East Region – 4

In terms of the proportion of compulsory motor TPL premiums of total insurance premium, the Federal regions of Russia with the highest proportion were the Southern Region (20%), the Volga Region (16%), the Urals (14%) and Siberia (14%).

Premium volumes were highest in the Central Federal district (including Moscow), which generated 40% of total premiums. Other Federal regions with high volumes of premium include the Volga region with 16% of total premiums, the North West with 11% and Siberia.

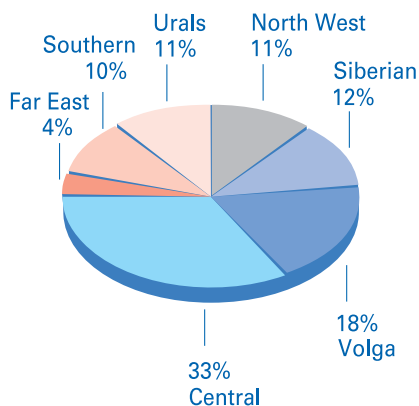
Breakdown of compulsory motor TPL insurance premiums by district within Federal regions



Within each of the Federal administrative regions there may be districts that generate high proportions of premium income from the Federal region. For example:

- ▶ Central Region – 54.1% of total premium from Moscow;
- ▶ North West Region – 53.5% of total premium from St Petersburg;
- ▶ Southern Region – 31.4% of total premium from Krasnodar district;
- ▶ Volga Region – 15.8% of total premium from Samara district;
- ▶ Ural region – 35.1% of total premium from Tyumen district;
- ▶ Siberia – 18% of total premium from Novosibirsk district;
- ▶ Far East – 37.4% of total premium from Primoriye district.

Breakdown of compulsory motor TPL insurance claims payments by Federal administrative region



The regions with the highest levels of claims payment are the Central region with 33%, the Volga region with 18% and the Siberian region with 12%.

Within the Federal regions, the districts with the highest levels of claims payments are as follows:

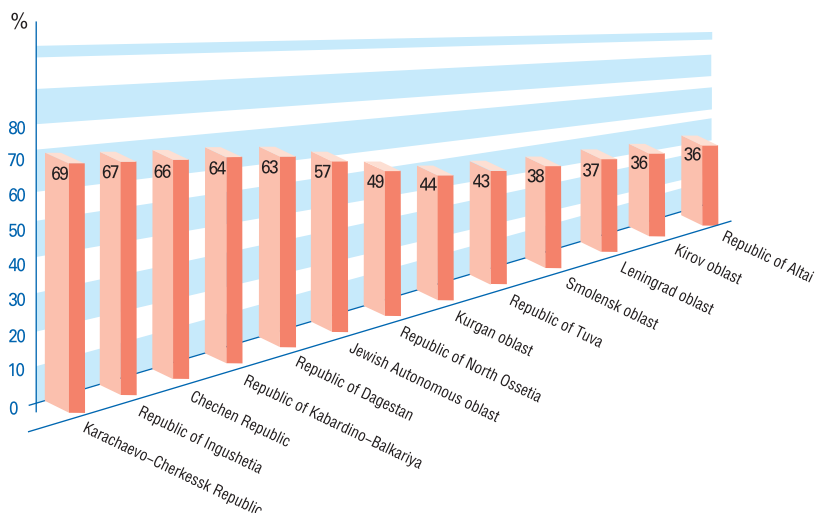
- ▶ Central Region – 51% of total claims payments from Moscow;
- ▶ North West Region – 49% of total claims payments from St Petersburg;
- ▶ Southern Region – 41% of total claims payments from Krasnodar district;
- ▶ Volga Region – 16% of total claims payments from Samara district;
- ▶ Ural region – 39% of total claims payments from Tyumen district;
- ▶ Siberia – 19% of total claims payments from Krasnoyarsk district;
- ▶ Far East – 30% of total claims payments from Primoriye district.


In 2004, there were 13 administrative areas of the Russian Federation where premiums from compulsory motor TPL insurance made up more than 35% of total insurance premium and three where the proportion was greater than 60%. These are:

- ▶ Karachaevo-Cherkessk Republic – 69%
- ▶ Republic of Ingushetia – 67%
- ▶ Chechen Republic – 66%.

It is clear from these figures that in these areas, other classes of insurance are underdeveloped.

Administrative areas of the Russian Federation where compulsory motor TPL insurance premiums make up more than 35% of total insurance premiums





Working together with Russian state authorities

In accordance with decisions made by the General Assembly of RAMI members last year, the Association's main priorities for 2004 were (1) the further development of the infrastructure supporting the operation of compulsory motor TPL insurance; (2) the improvement of the legal and regulatory environment and (3) the creation and introduction of regulations and techniques to improve the level of professional expertise.

Practical experience has shown that there are a number of difficult issues specific to a system of compulsory motor TPL insurance that were not taken into account when the Federal law and other regulations were adopted. RAMI has received, throughout the period covered by this report, many enquiries from insurance companies, from the general public and from state authorities. These enquiries were analysed and discussed at a special General Assembly of RAMI on 29 October 2004. Following this meeting, a draft parliamentary bill with amendments to the Federal Law on compulsory motor TPL insurance was sent to the Russian State Duma on 30 November 2004.

This draft bill would clarify a number of provisions of the law and make a number of amendments. In particular, the draft bill aims to solve the following practical problems: specifying the definition of the area where a vehicle is mainly used; setting out the methods whereby the actual value of a vehicle is determined; prolonging periods of insurance for foreign drivers, and other issues.

In addition, the bill aims to expand the legal rights of the insured and the victims of road accidents, and to increase the limit of liability for each victim in a given

accident. Special additional provisions are proposed for war veterans, disabled persons and for old age pensioners. Finally, provisions will be made for the use of independent technical inspection, to be further approved by the Russian Government.

The proposed amendments included in the draft bill will improve the way in which the Law No. 40-FZ is applied in practice as well as produce an optimal balance between the interests of the insurers, the clients and the state.

RAMI has submitted position papers to the Ministry of Finance and the Federal Service for Insurance Supervision that set out the Association's position with regards to a number of problems connected with compulsory motor TPL insurance. On most issues, RAMI's position has been supported by these bodies in their official comments on these issues, including:

- ▶ The methodology to be applied to calculate the amount of premium to be returned in the event of early cancellation of a policy;
- ▶ Compulsory motor TPL insurance for commercial vehicles registered in foreign states;
- ▶ Defining the area in which a vehicle is predominantly used;
- ▶ The procedure for implementing compulsory motor TPL insurance in the town of Baikonour (Republic of Kazakhstan).

RAMI has assisted in preparing amendments to Clause 25 of the Russian Tax Code. This Clause concerns the specifics of taxing operations in compulsory insurance. A number of expenses are deductible against profit tax: they include payments made by insurance companies to the Guarantee Fund and to the fund to compensate victims of uninsured and untraced drivers. In addition, payments made to funds established according to the requirements of the international system of compulsory motor TPL insurance (of which Russia is a member) are addressed in the clause. These also include payments received by RAMI to finance compensation payments, as well as payments received to finance the creation of funds in accordance with the requirements of the international system for compulsory motor TPL insurance of which Russia is a member.

These amendments came into force on 29 December 2004 as part of the Federal law no 204-FZ entitled "On the introduction of amendments to Part II of the Tax Code of the Russian Federation". The amendments apply retrospectively to legal relationships as of 1 July 2003.

Following an initiative by RAMI, on 11 October 2004 the Russian Government issued a decree (No. 534) to approve, for 2004, the Rules of compulsory motor TPL insurance claims payments to disabled persons with motor vehicles provided by the State. Work in this area is continuing. RAMI sent proposals to the Ministry of Health Care and Social Development in order to further improve the way in which claims payments are made to disabled persons: we suggested that a similar Decree would be appropriate for 2005.

We have signed a co-operation agreement with the Federal Service for Insurance Supervision under which both parties will share information. A special segment of RAMI computer networks will provide the technical means for solving a number of problems, such as:

- ▶ Speeding up the settling of claims;
- ▶ Developing an electronic library of documents relating to compulsory motor TPL insurance;
- ▶ Developing a joint Register of RAMI members;
- ▶ Automating statistical reports.

Last year, the Association further improved its co-operation with state authorities in charge of the road safety. Today, the situation on the roads is critical: 314,000 Russians died on the roads in the last decade. Road accidents cause substantial damage to the national economy. It is estimated that they reduce the GDP by 2%. In addition, of course, a high level of road accidents has a negative effect on the financial results of those insurers that underwrite compulsory motor TPL insurance.

The President of RAMI is a member of a Working Group of the Presidium of the State Council for Road Safety. This Working Group is preparing a detailed report, to be presented to the State Committee, on the current state of road safety and the proposed measures to improve road traffic safety. RAMI has developed its own proposals to improve road safety. These proposals highlight the need to improve road construction, lighting and road marking; to install more warning signs and to improve the system of reporting road accidents.

Throughout last year, the Association was involved as an expert witness in cases arising from claims on insurance companies. RAMI was also involved, at the request of the authorities, in a case in which the constitutionality of the law on compulsory motor TPL insurance was examined by the Constitution Court. The Association prepared a detailed legal case, which argued that the law was not unconstitutional. Our evidence was included in the papers taken up by the Constitutional Court.

In 2005, we propose to continue working together with state authorities. We are planning a number of initiatives:

- ▶ Continuing to engage in discussions on improving the law and regulation of compulsory motor TPL insurance;
- ▶ Surveying judicial decisions on controversial issues relating to compulsory motor TPL insurance;
- ▶ Preparing technical analysis of the current problems of compulsory motor TPL insurance and developing a policy for improvement;
- ▶ Developing international links, such as those required to join the 'Green Card' international system.



Co-ordinating the work of RAMI members in implementing compulsory motor TPL insurance

Our main work in this area was solving various legal, administrative and organisational problems facing insurance companies in implementing the law on compulsory motor TPL insurance.

Settling claims and arranging payment

Clause 3 of the Law on compulsory motor TPL insurance came into effect on 1 July 2003. This Clause sets out the legal framework under which claims payments for those injured or killed in road accidents should be made. This clause specifies one of RAMI's most important tasks; much preparatory work was undertaken before it came into force. Article 26 of the Law requires detailed regulations to govern claims payments to victims of road accidents to be introduced, and we have worked together with the Ministry of Finance to develop rules that have been agreed upon by the Ministry and formally approved by the Presidium of RAMI.

These regulations govern how payments should be made and define the rights and duties of RAMI, insurance companies, and victims in relation to these payments. Additionally the law requires that every member of RAMI adhere to a formal agreement with RAMI to cooperate with the Association in the process of making claims payments; such agreements were made with each RAMI member.

Regional representatives of RAMI also have a legally defined role. Special regulations define their work in ensuring claims payments are made.

As a further initiative, a 24 hour hotline has been set up for those who need help in settling claims.

RAMI has also published guidelines for those affected by road accidents that set out how people can go about receiving compensation. This memorandum has been distributed widely among the traffic police, the accident and emergency centres and other medical institutions.

A system of IT support has been designed and established to help the process of settling compensation claims that are referred to RAMI. This system automatically registers all claims for compensation as they are received and provides information support for those who are involved in the investigation and settlement of the claims. It monitors payments at every stage, from initial advice, through investigation to settlement. All regional representatives, hotline and staff members of RAMI have on-line access to this system.

As of 1 April 2005, 89 claims for compensation were referred to RAMI. 52 of these referrals resulted in compensation being made, 14 were declined and 23 remain pending.

Using the experience gained, proposals to amend the Law have been prepared which relate to articles 19, 20 and 28 of the Law. In addition, amendments to the instructions given to traffic police have been prepared to ensure that ample information is provided at the site of road accidents where compulsory motor TPL insurance is involved.

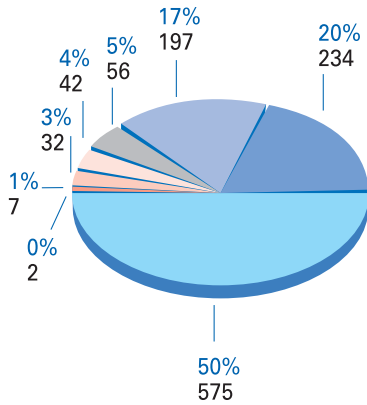
Since the number of compensation cases referred to RAMI is rather low, one of the Association's objectives for 2005 is to better inform the public about the system of paying compensation to victims of road accidents.

Dealing with complaints from the public

In 2004 we dealt with complaints from the public in the following ways:

- ▶ Ensuring that people obtained their legally determined compensation for damage caused by a road accident either to their property or to their health;
- ▶ Preventing further problems by ensuring that the causes of the complaints were remedied;
- ▶ Assessing the pattern of complaints and working out the most important areas where improvements were needed in the regulations.

Complaints made by members of the public



There were 1,145 complaints made to RAMI in 2004. 575 of them (50%) arose out of insurance companies exceeding time restrictions relating to compensation, 234 (20%) were related to insurance companies declining to pay compensation; 197 (17%) were complaints about the level of compensation; 42 complaints (4%) related to the tariff and rates that determine premium levels paid to insurance companies and 32% arose out of complaints at the level of premium returned following early cancellation of a policy. 56 complaints (5%) related to other issues.

After consideration of the complaints, the following actions were taken:

1. 485 complaints were upheld and either compensation payment was made, return premium was agreed upon or the necessary legal documents were supplied.
2. 660 complaints were declined on the grounds that they did not fall within the terms of the law.

Our analysis of the complaints and our work with insurance companies show that peoples' complaints are often not considered properly. As a result, people have to turn to RAMI, to the Insurance Supervisor or to the courts.

In order to prevent disputes, the following measures were taken:

- ▶ Recommendations were sent out to insurance companies based on our analysis of the causes of complaints made by clients and by victims of road accidents;
- ▶ Based on our analysis of complaints, our Control Service included additional checks on insurance companies' operational methods into the overall schedule of monitoring.
- ▶ Representatives of several insurance companies were required to attend the Disciplinary Commission and report on specific complaints;
- ▶ Disciplinary measures, including fines and formal notices, were applied to insurance companies that failed to properly deal with complaints from the public.

Improvements in methodology support to RAMI members

A major area of RAMI's activity has been the preparation of a large number of policy papers that set out professional standards covering the main areas of work. These papers have been approved by the Presidium and are now in force.

Among these papers are:

- ▶ The procedure for maintaining the Register of RAMI members;
- ▶ The procedure for maintaining the List of Representatives of RAMI members;

- ▶ Professional qualifications required for those working in the area of compulsory insurance;
- ▶ The regulations covering the payment of compensation;
- ▶ The underwriting factors that have to be recorded by insurance companies when issuing policies of compulsory motor TPL insurance and how they should be supplied to RAMI to develop the bonus-malus system.

The following recommendations have also been approved by the Presidium of RAMI:

- ▶ On the bonus-malus system: applying specific tariff rates based on the claims experience of the applicant for compulsory motor TPL insurance. This involves recording substantial amounts of data about compulsory motor TPL contracts;
- ▶ On renewing policies of compulsory motor TPL insurance;
- ▶ On insurance portfolio transfers;
- ▶ On the procedure under which insurance companies that issued policies should compensate the victims of road accidents where their policyholder was responsible;
- ▶ On changing the recommendations about how premiums should be calculated for compulsory motor TPL insurance contracts.

Proposals covering the following issues have been developed:

- ▶ Changing the accounting and recording systems for insurance companies in the area of compulsory motor TPL insurance;
- ▶ Developing a standard method of reporting information on compulsory motor TPL statistics based on a unified automated system;
- ▶ Developing techniques for calculating tariffs;
- ▶ The procedure for offsetting overpayments of membership fees, for accounting of membership fees and for offsetting quarterly payments (this proposal has already been approved by the Presidium);

In 2004, based on a suggestion by 'Ruski Polis' Magazine and by the Guild of Actuaries, RAMI carried out a detailed examination on the compulsory motor TPL insurance market from 1 July 2003 to 1 July 2004. The resulting reports were sent to the State Duma, the Ministry of Finance, the Ministry of Economic Development and Trade and the Insurance Supervisor as professional analyses of the current state of the market and of its potential future development.

The Association also carries out regular reviews of the market based on information provided by its members, and other consolidated reports, financial accounts and assessments of the insurance market. Information on the operation of compulsory motor TPL insurance is sent out to our members, to state authorities and to the press.

The main areas where technical support will be provided to members who are involved in issuing and accounting for insurance policies, carrying out the requirements of the law and preventing problems arising are the following:

- ▶ Preparing new methodology recommendations as to best practice and improving existing recommendations of best practice;
- ▶ Developing the regulations governing the compulsory transfer of insurance portfolios;
- ▶ Developing the regulations governing the establishment of insurance reserves for compulsory motor TPL insurance;
- ▶ Improving the regulations governing reporting and accounting in general and the regulations governing reporting and accounting to RAMI and to the insurance supervisor on compulsory motor TPL insurance. The objective is to provide a unified system of reporting and accounting;
- ▶ Collecting, processing and analysing statistical data on compulsory motor TPL insurance;
- ▶ Participating in the process of developing amendments to the framework of regulations for compulsory motor TPL insurance.

Developing information support for compulsory motor TPL insurance

During the last year, a programme of developing IT support to improve the efficiency of RAMI's activities has been carried out. There were three aspects to this work:

1. A programme of setting up a "Federal Information Resource (FIR)". This programme sets out current and future steps for setting up a consolidated RAMI-FIR database combining information on compulsory motor TPL insurance.
2. A programme to computerise RAMI's compulsory motor TPL insurance data and to create a RAMI Automated Information System (AIS). This computerised database will be the core element in the combined FIR database.
3. Establishing a system that will allow the Road Transport Police and RAMI to share data within the FIR database.

1) **The Federal Information Resource (FIR) for compulsory motor TPL insurance** (Fig 1)

When the Federal Information Resource is established, RAMI and its members will be able to conform to the latest technological standards in achieving the following:

- ▶ Collecting, storing and processing operational and financial data so that accurate statistics can be provided showing the real state of development of the market in compulsory motor TPL insurance;
- ▶ Providing accurate reporting and analysis to state authorities;
- ▶ Giving insurance companies involved in compulsory insurance and RAMI access to data held by the state.

2) **RAMI's Automated Information System (AIS)** (Fig 2)

AIS will establish:

- ▶ a service to members that will allow them to efficiently access RAMI's computerised database and other databases (including state databases) to carry out tasks related to compulsory motor TPL insurance;
- ▶ support for RAMI structures, including its regional representatives, by providing information services and the technological infrastructure.

In October-November 2004, RAMI carried out a thorough examination of its computerised data system, concentrating on its effectiveness in satisfying the requirements of the various Association departments. Following this examination, it was decided to develop AIS further and a programme was set out and approved by the Presidium.

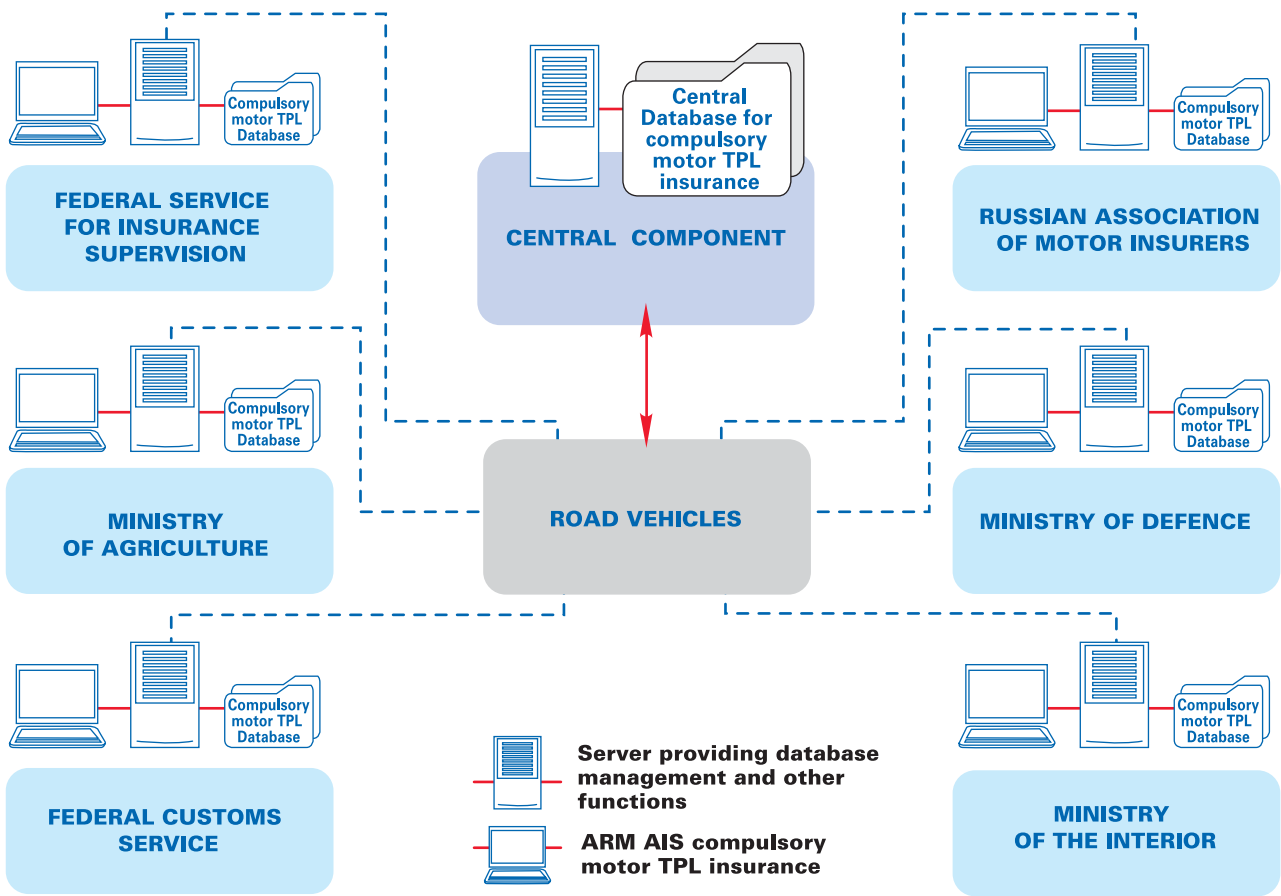
Technical specifications have now been approved and a list of the priority projects has been prepared. These are:

- ▶ To develop accounting and reporting on policy forms;
- ▶ A unified system of database classifiers;
- ▶ The collection of underwriting data and claims data to develop a system of bonus-malus.

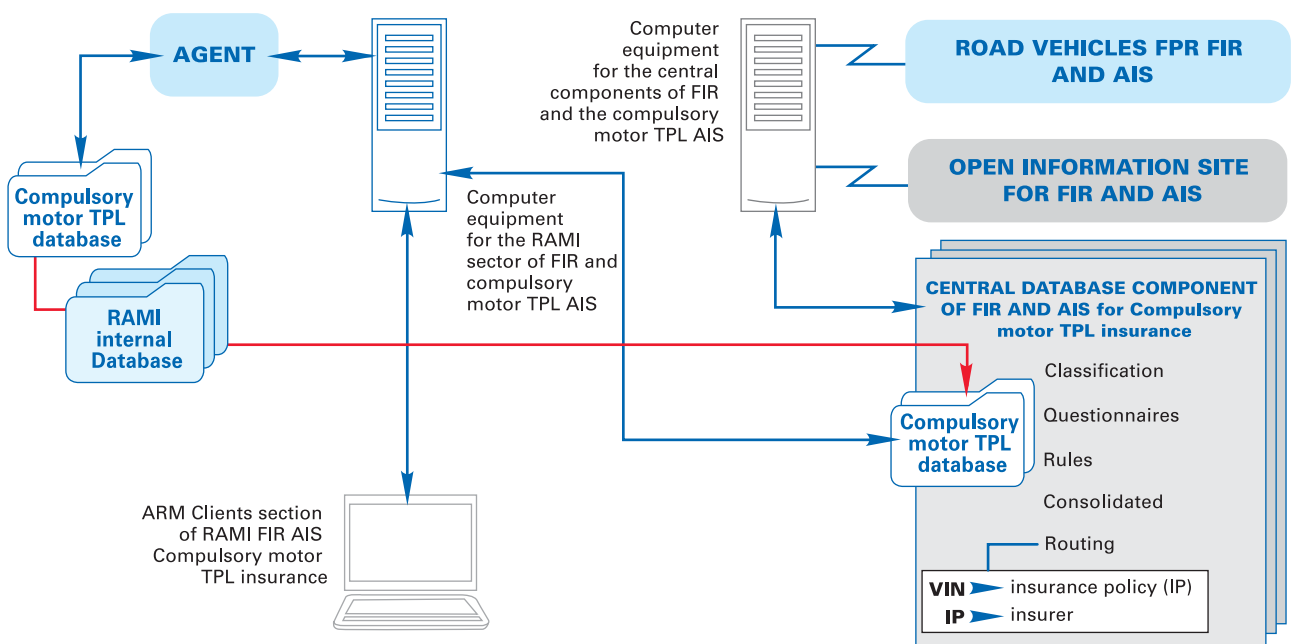
3) **Developing a system of data sharing between RAMI and the Road traffic police** (Fig 3)

Sharing data between RAMI and the Road Traffic Police is envisaged in the programme of development of the Federal Information Resource of data on compulsory motor TPL insurance, and its achievement would be a major first step.

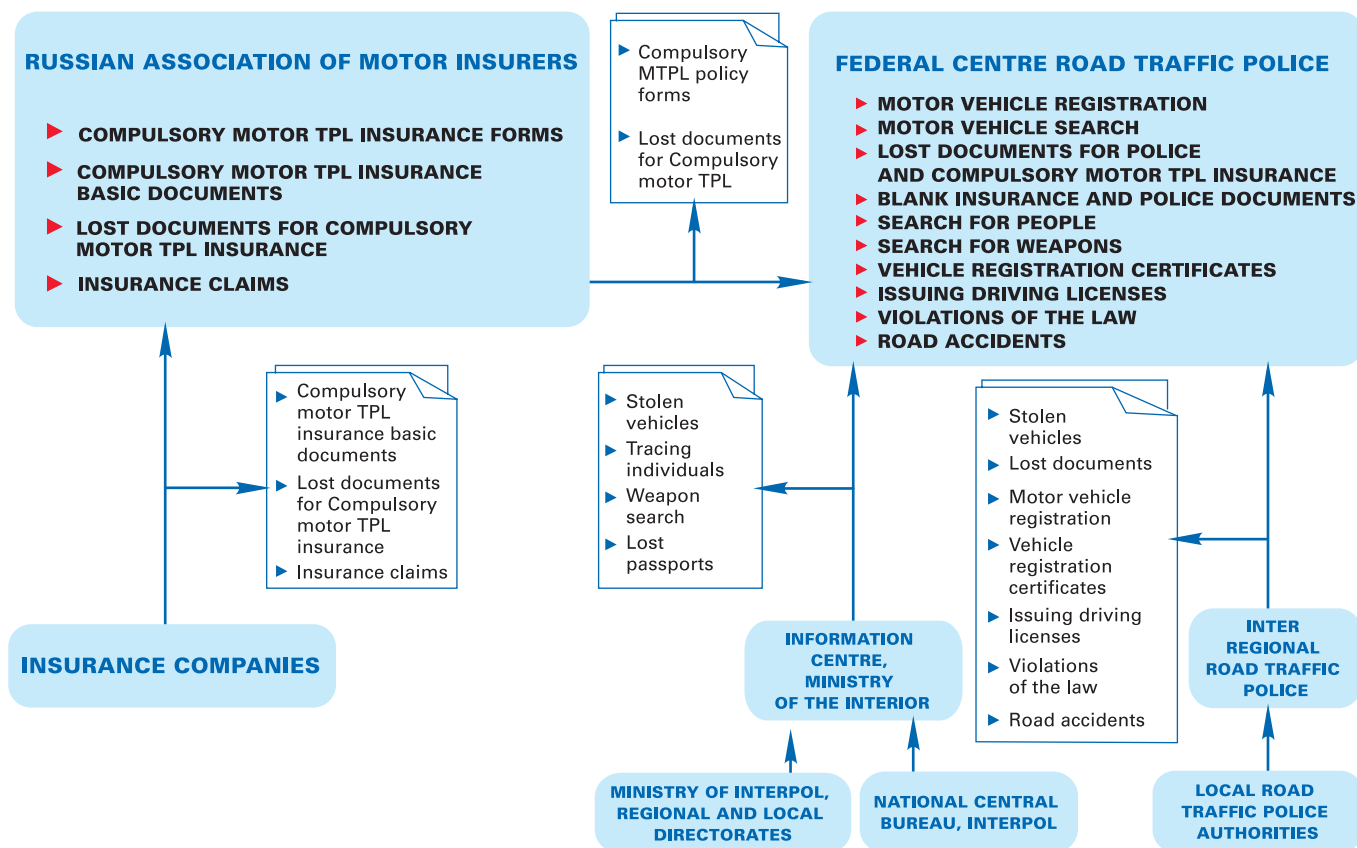
THE FEDERAL INFORMATION RESOURCE (FIR)
FOR COMPULSORY MOTOR TPL INSURANCE (Fig. 1)



RAMI'S AUTOMATED INFORMATION SYSTEM (AIS) (Fig. 2)



DEVELOPING A SYSTEM OF DATA SHARING BETWEEN RAMI AND THE ROAD TRAFFIC POLICE (Fig. 3)



The decision to implement the first steps in developing this information exchange was made by the Presidium on 14 October 2004.

Work is now taking place to establish how co-operation between RAMI, insurance companies and the Road Traffic Police can best be carried out. Decisions are being made about data formats, rules governing access to data and other technical issues.

The establishment of a system of data exchange will provide the Road Traffic Police, insurance companies and RAMI with data that will be of great practical use. It will allow:

- ▶ Effective monitoring and control of compulsory motor TPL insurance policies issued to drivers;
- ▶ Monitoring of insurance records of vehicles, owners and drivers;
- ▶ Maintaining a database containing information about insurance policies, insurance events, stolen motor vehicles, road accidents and individuals affected by them;
- ▶ Providing quick access to data after an accident to speed up the payment of compensation etc.

This work is expected to be completed in the third quarter of 2005.

The project is being developed in a number of regions of the Russian Federation through pilot studies and will take into account local development programmes of the Federal Road Traffic police service at various local authority levels. The Federal Road Traffic police information system is complex, combining a number of different local sub-systems, each of which perform different functions in terms of collecting and distributing data about road vehicles, their owners and drivers.

The project includes:

- ▶ Providing the Road Traffic Police with fixed and mobile methods of monitoring traffic;
- ▶ Setting up automatic work places and databases;
- ▶ Exchanging data between the Road Traffic police and RAMI and working out the requirements for exchanging information with insurance companies.
- ▶ Developing the necessary hardware and software to control the information exchange.

Improving the quality and provision of medical inspection services

Recognising the great social importance of providing compensation to victims of road accidents for injuries received, the Presidium decided in 2004 to set up an Expert Committee on road traffic injuries.

A draft agreement between the Ministry of Health Care and Social Development and RAMI was prepared and approved in December 2004. The Association set up a working group consisting of representatives of interested ministries, medical institutions and representatives of insurance companies. The aim of this working group is to deal with the application of medical expertise to road accident injuries and to organise medical services in a way that helps insurance companies and is clear to the insured.

The Presidium approved a system of collecting injury statistics and compensation payments for injuries. A review of the overall experience in the area of bodily injury following road traffic accidents is being prepared – a vital component of any process of development of the regulatory framework.

A database of decisions made in the courts is also being prepared, including information about the size of compensation awards. In 2004, a summary of judicial practice in cases arising from injuries following road accidents was also prepared.

This work should result in due course in proposals being made to introduce amendments to the Law on compulsory motor TPL insurance. These amendments

will affect the general regulations as well as those regulations that set out the maximum levels of indemnity payments for bodily injury.

Independent technical inspection

A decree requiring the independent technical inspection of motor vehicles was issued by the Government on 24 April 2003. To implement this decree, a joint order has been issued by the Ministries of Transport, Interior and Justice which sets out the basic organisational arrangements and provides for concrete steps to be taken to develop a system of independent technical inspection. In addition, it defines those responsible for the implementation of the programme and sets out their duties. RAMI aims to support this initiative in the following ways:

- ▶ Ensuring that the independent technical experts are seen as having the professional expertise to carry out their tasks from the outset of the programme;
- ▶ Developing computer software that can accurately forecast the cost of repair of vehicles of Russian origin after an accident;
- ▶ Helping to produce the professional and scientific qualifications that inspectors must have to carry out their task;
- ▶ Designing standard methodologies of carrying out inspections;
- ▶ Assisting in the process of developing an informational database that can support the work of technical institutions and of other technically trained individuals in the area of motor vehicles;
- ▶ Supporting the improvement of technical and professional training for vehicle inspectors so that the level of qualification can be raised;
- ▶ Studying foreign experience in the use of independent technical experts for inspecting motor vehicles after road accidents.

The Law on compulsory motor TPL insurance sets out the requirement that a system of government regulation of technical vehicle inspectors should be introduced. RAMI has proposed that regulation should consist of voluntary accreditation through the Association. The proposal is that once the inspectors are accredited through RAMI, they will then be entered into the state register of experts at the Ministry of Justice. Such a system will encourage the development of a more effective system of monitoring the professionalism and independence of the experts.

RAMI has signed a number of co-operation agreements with leading research institutions and universities. In addition, agreements have been signed with state institutions such as the Federal Centre of Legal Expertise (in the Ministry of Justice) and the Criminology Centre in the Ministry of the Interior. All these agreements are aimed at providing the legal, regulatory and IT support for

the system of independent vehicle inspections. In particular, stress will be placed on quality control, the elimination of illegal or dishonest methods and preventing fraud.

RAMI has ordered development of the software necessary to estimate the cost of repairs of vehicles of Russian origin following a road accident, including data on labour costs and the cost of the parts. Some insurance companies are already testing parts of this package. Development should be complete in 2006, allowing companies to systematically estimate repair costs following accidents.

There are yet many tasks to be completed in order to develop a system of independent inspection of motor vehicles after an accident. RAMI intends to continue to co-operate with state institutions and with scientific bodies to create a professional organisation of qualified vehicle inspectors.

Ensuring compliance with the law on compulsory motor TPL and developing professional standards of work

RAMI has a role in ensuring that its members act professionally within the law and maintain high standards of work. In 2004, the basic documents that set out the association's powers and the procedures it must follow to implement its supervisory role were produced.

These documents include regulations setting out the nature of RAMI's supervisory powers, instructions that govern how the RAMI supervisory service can carry out inspections, a schedule of inspections for 2004 and the rules that govern the imposition of sanctions (or other measures) on RAMI members, on their officials or employees.

Following the schedule of inspections, RAMI looked into the work of 12 member companies and 4 branches of member companies. These inspections highlighted a number of problem areas. The major areas where the law was being breached in the area of issuing policies were:

- ▶ Completing the proposal form fully;
- ▶ Defining the amount of use of the vehicle and the terms of insurance;
- ▶ Calculating insurance premiums based on the compulsory tariff;
- ▶ Issuing amendments to policies etc.

An audit of a number of companies showed that they had exceeded the permitted level of commission paid to intermediaries. Other companies demonstrated insufficient control over the issuing of insurance policies and other formal documents: this loss of control led to substantial financial loss.

Almost all the companies that were inspected failed to provide all the required reports to RAMI. In addition, many companies failed to transfer the correct level of payments to RAMI as required by the law, whilst other companies delayed these payments.

In summary, during 2004, 4,857,200 roubles in back payments were claimed and late payment penalties of 298,400 roubles were imposed on companies. All this money was paid into the accounts of RAMI.

All decisions to impose sanctions on members were taken by the RAMI Disciplinary Commission, in strict accordance with the procedure set out in the regulations.

As a result of the number of rules violations discovered during the inspections in 2004, it has been decided to intensify activity in this area in 2005. There are 70 inspections of RAMI member insurance companies scheduled in 2005.

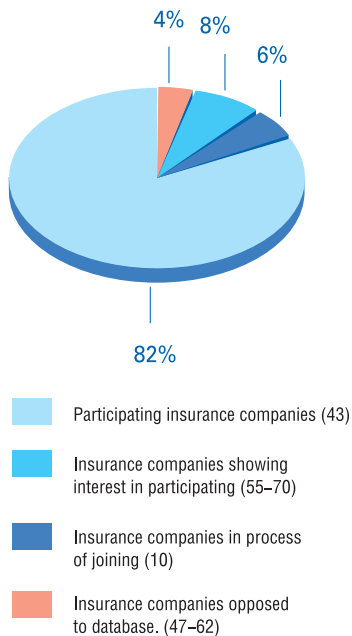
Combating insurance fraud

Combating insurance fraud is a major task of the Association and during 2004 much work was done in co-operation with the security departments of our member companies.

Combating insurance fraud

| Most common type of fraud | Main measures to combat fraud |
|---|--|
| <ul style="list-style-type: none"> ▶ Agents understating total premium due to insurance company ▶ Issuing a policy after an accident ▶ Theft of policy forms ▶ Issuing policies 'for hire' ▶ Falsification of road accident circumstances ▶ Falsification of report of accident damage or injury. | <ul style="list-style-type: none"> ▶ Information exchange between insurance companies and law enforcement agencies ▶ Recommendations from RAMI as to how to detect and prevent infringement of the law ▶ Strict control of the issuing of forms and recording their use ▶ Creation of a centralised database within RAMI |

Proportion of total insured accidents incurred by members of IDB



RAMI issued a policy statement on developing co-operation between insurance companies and with other law enforcement agencies in preventing insurance fraud in motor insurance. 53 members of RAMI have formally agreed to co-operate with the Association in preventing insurance fraud. A further 45 companies are in the process of signing the Agreement. An integrated database, IDB, containing cases of insurance fraud – IDB Spectrum – has been created and is now working. Its purpose is to help insurance company security departments analyse the data. Based on its experience, the IDB will provide advice to companies as to how fraud can be prevented.

There were more than two thousand reference queries to the database during the first quarter of 2005 and more than 600 responses gave a positive indication of fraud. Thus 'IDB Spectrum' is already demonstrating that it is providing a basis for a combined system of anti-fraud measures for insurance companies.

Following investigation by insurance company security departments and by law enforcement agencies, 143 cases of insurance fraud have been detected. More than 1,600 cases were reported by car owners where accidents occurred and the other driver refused to give the name of their insurance company. There appears to be a growth in this practice. The Association is giving practical assistance to the security departments of insurance companies. We are providing information, organising training seminars on the issue of fraud in compulsory motor insurance – how to detect and combat it.

A central register of policy forms has been established so that all policies issued can be recorded, including forms that are spoilt or lost. The number of policies given to each company is now recorded together with the registration numbers of the policies. Using this information, collected in a database, a person affected by a road accident can find out which insurance company is responsible for paying compensation even if only the policy number or the special identifying number of the windshield sticker is known. During 2004, 3,312 enquiries where only the policy number was known were processed and 96 were processed where only the special identifying number was known.

'Spectrum' has helped insurance companies detect 1,709 individuals and 1,183 vehicles where there was evidence of multiple claiming. As a result 34 million roubles in false claims were saved.

The Association has prepared recommendations as to the measures that should be taken to prevent fraud when policies are issued and these recommendations are having an effect. Investigation into forged insurance policies is carried out in conjunction with the Criminology Centre of the Ministry of the Interior.

The second stage of the development of 'IBD Spectrum' at federal and regional levels is under way. It is intended to gradually link all RAMI members, thereby forming a database covering all of Russia.

Another important task is to improve the level of professional anti-fraud skills of insurance company security department personnel. As part of this process, RAMI is preparing a manual containing instructions as to how fraud can be prevented in compulsory motor TPL insurance.



International co-operation

The two main lines of RAMI's international activity of in 2004 were studying the ways in which other countries introduced and ran the system of compulsory motor TPL insurance, applying the lessons learnt to the Russian context and working towards the affiliation of the Russian Federation with the international 'Green Card' system.

Developing a partnership with national and international professional associations

The Estonian Road Transport Insurance Fund (LKF)

Discussions with the Fund were held in Moscow in July 2004. A seminar on the use of IT was organised with the participation of the executives of the Fund and of Estonian insurance companies that underwrite compulsory motor TPL insurance.

In October 2004, RAMI organised a trip to Estonia for journalists specialising in insurance.

The German Insurance Association (GDV)

In September-October 2004, representatives of RAMI were invited to Germany by the GDV to study how the payment of compensation to victims of road accidents is organised in Germany with the support of IT. In addition, methods of combating insurance fraud were discussed.

From 28 February to 4 March 2005, members of the RAMI committee dealing with the independent technical inspection of vehicles were given an opportunity by the GDV to see how the system works in Germany by spending time with two insurance companies: Victoria Karlsruher Versicherung and the International Group DEKRA.

In February 2005 discussions between the leadership of RAMI and the leaders of the GDV were held in Berlin. Based on these discussions, a Protocol of Intent on co-operation was signed in April 2005.

The Belgian Insurance Association (ASSURALIA)

In November 2004, members of the RAMI Committee on insurance fraud visited Belgium to study the experience of two Belgian insurance companies (Ethias and Fortis) in this area. They also held discussions with ASSURALIA, with the Belgian Motor Bureau and with DATASSUR, a service company. Further discussions were held with ASSURALIA and DATASSUR in January 2005, on holding a seminar in Moscow for RAMI members on the direct claims settlement, the so-called 'European Protocol'.

Continuing discussions are being held on possible co-operation in the area of combating insurance fraud.

Comité européen des assurances (CEA)

In January 2005, discussions were held in Brussels between the leading officials of the CEA and the Presidents of RAMI and the All-Russian Insurance Association (ARIA). Agreement was reached on a number of subjects including support for a new Tacis project and help for Russia to join the 'Green Card' system for compulsory motor TPL insurance. In addition, RAMI and its member companies were invited to follow a number of relevant working groups covering issues to do with motor insurance.

In 2004, CEA, together with a number of national insurance associations, provided expert consulting services to RAMI covering issues related to the introduction of compulsory motor TPL insurance. Issues covered include portfolio transfers, legal matters and methods of setting tariff rates.

Various events organised by RAMI during the year were attended by representatives of foreign partner professional associations.

RAMI maintained professional contacts with a number of other insurance associations during the year, including those from Belarus, Poland and Ukraine.

RAMI was represented at a number of important insurance events during 2004. These included:

▶ The Fourth International Forum of Insurance Market participants. (Yalta, 20–24 September 2004)

▶ The Fourteenth International Congress of AVUS Group (Salzburg, 23–25 September 2004)

RAMI works closely with the All-Russian Insurance Association (ARIA) in developing international links and is formally represented on ARIA's international committee. The two associations have agreed upon a satisfactory division of activity within the framework of CEA.

An example of this co-operation is that RAMI was an official partner of ARIA during the International Insurance Conference, the Russian Insurance Summit, that took place in St Petersburg in May 2005. RAMI chaired a session on the impact of compulsory motor TPL insurance on the Russian insurance market. More co-operation between the two associations is planned in the future: the European Union is developing a programme entitled 'developing financial markets in Russia'. Both associations plan to work together on the next Tacis insurance project (INAS III).

Last year RAMI was invited to join the International Association of Insurance Supervisors, IAIS, as an observer member. This association has as its observer members many of the largest insurance associations in the world. Observer status gives RAMI the right to:

- ▶ Take part in consultations at the international level on draft standards and recommendations and to have a say in the final drafting of the reports arising from these consultations;
- ▶ Join working groups and participate in IAIS conferences, annual meetings etc.
- ▶ Receive official publications of IAIS, including recommendations and analytical publications.

Preparations to join the 'Green Card' system

In October 2004, a delegation from RAMI met members of the Managing Committee and the Scope Committee of the Council of Bureaux (CoB). Russia's application to join the system is widely supported in the managing bodies of the system. In addition, the CoB has expressed willingness to support an initiative to obtain EU funding for a project, managed by RAMI, to create the necessary infrastructure in Russia for implementing the 'Green Card' system.

In the second half of 2004, practical issues related to affiliating with the 'Green Card' system were discussed in a number of interdepartmental meetings. An interdepartmental working group, on legal regulation of insurance has been set up at the Ministry of Finance. This body will continue to co-ordinate the process of affiliation.

The main issues that are yet to be resolved include the following:

- ▶ The amendments in the legislative and regulatory framework for insurance that are necessary to permit affiliation with the 'Green Card' system.

- ▶ Changes in RAMI's Charter and its legal status that will permit it to take delegated powers to supervise the administration of the 'Green Card' activities;
- ▶ The provision of the financial guarantees that are a required feature of the international 'Green Card' system;
- ▶ The tariff rates that will govern the insurance premiums charged to drivers when they take their cars across international borders. In addition, other requirements ensuring the financial strength of insurance companies issuing 'Green Cards' will have to be made, since Russian insurance companies will become responsible for damage caused by Russian drivers in foreign countries and compensation for this damage will be governed by European law, where levels of coverage are much higher than they are in Russia today;
- ▶ How to bring Russia's national infrastructure dealing with Green Card issues into line with European standards.

These issues will take time to resolve and therefore a transition period of three years for joining the system would appear to be reasonable. This period would permit the accumulation of sufficient financial resources so that the legal and organisational infrastructure could be in place and activation in the system could take place on 1 January 2008.



Public relations and support for socially beneficial projects

RAMI has provided substantial public relations support to its members. A number of examples include:

- ▶ A campaign giving information to the general public about why compulsory motor TPL insurance provides an important social function;
- ▶ Supplying information to support RAMI's work in paying compensation to victims of road accidents;
- ▶ Organising conferences, 'round tables', seminars and other events where issues related to compulsory motor TPL insurance can be discussed;
- ▶ Co-operating with the information services of the Ministry of the Interior, the Road Traffic Police and the Fund for Road Safety;
- ▶ Information exchange with executive and legislative authorities;
- ▶ Undertaking sociological research on the impact of the Law on compulsory motor TPL insurance;
- ▶ Working with journalists.

A number of press conferences were held, where the factors that had to be considered when calculating the overall profitability of compulsory motor TPL insurance were explained, and demonstrations were given to show how these factors were applied in Russia. Journalists were given press packages containing

the calculations using the factors that had been outlined. This important subject is kept at the forefront of public discussion by representatives of RAMI and by member insurance companies. As a result of this work, monitoring of the mass media shows that there are now fewer articles published in the press that claim that insurance companies are making excessive profits from compulsory motor TPL insurance.

RAMI has also decided to provide information to the public about citizens' rights to compensation, and in October 2004 a special PR campaign was held on this issue. In addition to emphasising the social importance of the Law on compulsory motor TPL insurance, the campaign gave concrete examples of compensation being paid to victims of road accidents as a result of applying the provisions of the Law. This information appeared in the national press. To accompany the campaign, a booklet entitled 'Compensation payments to road accident victims' was published.

RAMI also took part in a number of events organised by the Road Traffic Police devoted to the issue of road safety. It also gave PR support to the safe driving campaign, jointly organised by RAMI and the Road Traffic Police. Another joint campaign called 'Watch out for children!' was organised during which Road Traffic Police also checked to see whether drivers had insurance policies. The campaign also involved visiting schools in Moscow and the Moscow region and teaching children about road safety. There was extensive coverage of the campaign on national television, on the radio and in the press.

Other informational conferences have been held. These include:

- ▶ A conference 'Compulsory motor TPL insurance – results and future perspectives' organised jointly with the magazine 'Expert RA';
- ▶ A seminar 'Order on the roads – Order in the country' organised jointly with the Society for the Protection of Drivers' Rights;
- ▶ A round table discussion on the key issues involved in implementing the Law.
- ▶ Other meetings and seminars in the regions of Russia involving the local press. These were held in Yekaterinburg, Novosibirsk, Khabarovsk, Nizhny Novgorod, Rostov-on-Don, St Petersburg and Moscow.

Sociological research is being undertaken to find out the social and economic effectiveness of the Law on compulsory motor TPL insurance and how the public feel about how the Law is working.

Finally, RAMI supported the Russian team that took part in the 12th Para Olympic Games in Athens in 2004. This support received a lot of media attention.



RAMI representative offices in the Regions of Russia

Following a decision of the Presidium, regional representative offices were opened in each of the Federal regions of Russia. These offices, which today employ a total of 34 staff, are located in the North-West, Southern, Volga, Urals, Siberia and Far-East regions.

The regional staff held meetings with executives from insurance companies, local government officials, local Road Traffic Police representatives and with the local offices of the Federal Service for Insurance Supervision. These meetings were covered by the local press and thereby information was given to the general public and to the local business community about the objectives of compulsory motor TPL insurance, how local insurance companies and RAMI are working both nationally and at the local level.

As a result of these meetings, 23 joint co-operative bodies have been established throughout Russia, where insurance companies, state bodies and other interested parties work together. Today, the representative offices are setting up co-ordinating committees for compulsory motor TPL insurance in each of the Federal administrative regions. These bodies are expected to include, as members, insurance companies, representatives of the President of the Russian Federation, local authorities, the regional inspection bodies for insurance supervision, local representatives of the Ministry of the Interior and the Road Traffic Police.

During 2004, the representative offices dealt with a total of 3,600 enquiries about compulsory motor TPL insurance. In the same period, as part of a programme of maintaining contact with clients and the general public, the offices were visited by 285 people.

Effective 1 July 2004, the regional offices are responsible for receiving the general public for compensation payments.

RAMI's regional staff represented the interests of the Association on local legal bodies, carried out the control function over insurance companies and handled complaints from the public and from public institutions.

Much effort is put into organising seminars for local insurance companies to improve the level of professional knowledge. 15 seminars, attended by more than 1,000 people, provided training at the local level.



Professional training for specialists in compulsory motor TPL insurance

In 2004, RAMI organised 6 educational and practical seminars and 8 regional conferences together with the 'Insurance Training Centre'. These events discussed how the law was being introduced and examined ways in which improvements could be introduced to make it more effective. Much attention was paid to compensation payments and what problems might arise. In addition, improving co-operation with the Road Traffic Police and with the mass media were important themes.

The total number of insurance companies that sent representatives to these events was as follows:

| | |
|------------------|----|
| ▶ Central Region | 85 |
| ▶ North West | 57 |
| ▶ Volga | 65 |
| ▶ Southern | 44 |
| ▶ Urals | 77 |
| ▶ Siberian | 79 |
| ▶ Far East | 54 |

We pay close attention to all education services in the area of insurance, both in Russia and abroad.

The association is continuing to develop its educational programme. A list of key subjects has been drawn up and an overall syllabus has been produced for insurance companies to use in their staff training on compulsory motor TPL insurance for 2005. There are three modules in the syllabus, which can be in any order, depending on the requirements of the organisations.



RAMI Finances

RAMI's total income in 2004 was 2,462,911,000 roubles. This income was made up as follows:

- ▶ 818,751,000 roubles consisted of membership subscriptions to support the overall activity of RAMI;
- ▶ 1,597,348,000 roubles consisted of payments for compensation purposes from guarantees and compensation reserves;
- ▶ 44,627,000 roubles were earned from investment income on free funds;
- ▶ 2,185,000 roubles were received from financial sanctions imposed on RAMI members.

The Association paid 11,411,000 roubles tax on its profits.

As at 1 January 2005, RAMI showed fixed assets on its balance sheet valued at 26,444,000 roubles.

Total expenses in 2004 were 242,440,000 roubles.

On 1 January 2005, the accumulated balance of the Fund for payment of compensation to victims of uninsured or untraced drivers was 1,238,449,000 roubles. The accumulated balance of the fund to pay compensation to victims of road accidents where the responsible insurance company is insolvent stood at 619,608,000 roubles.

RAMI's plans for 2005-2008

Project to create the Federal Information Resource for compulsory motor TPL insurance

DEVELOPMENT OF THE SYSTEM OF DATA EXCHANGE FOR COMPULSORY MOTOR TPL INSURANCE

2005

- ▶ Drafting the legal and regulatory framework setting out data standards and protocols to be exchanged. Drafting internal regulations with all parties involved in the scheme

CREATION OF DATABASES OF ALL PARTIES TO COMPULSORY MOTOR TPL INSURANCE

Pilot testing of data exchange between RAMI and other parties involved in the scheme.

2006

- ▶ Introducing Governmental regulations necessary to provide the framework for the data exchange. Approval of the internal regulations of all parties involved in the scheme
- ▶ Pilot testing of the system of data exchange between RAMI and other parties to the AIS at the national level

2005**2006****2007****2008**

DEVELOPING MEANS OF INTEGRATING THE COMPULSORY MOTOR TPL DATA SYSTEM WITH OTHER NATIONAL DATABASES AND WITH FOREIGN DATABASES RELATING TO COMPULSORY MOTOR TPL INSURANCE

2007

- ▶ Developing means of exchanging data between the RAMI and Traffic Police Information Systems and other national databases
- ▶ Pilot testing of the methods of data exchange between RAMI and other parties at regional levels
- ▶ Pilot testing of information services for the clients and the general public
- ▶ Pilot testing of nationwide access infrastructure for MTPL purposes

2008

- ▶ Developing the means whereby nationwide access, extended to the general public, is provided for data relevant to compulsory motor TPL insurance. Developing a system of joint private and public access to the database

RAMI's plans for 2005-2008

Project to create a system of information exchange between RAMI and the Road Traffic Police

TESTING OF INFORMATION EXCHANGE BETWEEN RAMI AND THE ROAD TRAFFIC POLICE IN 11 PILOT REGIONS OF RUSSIA

2005

MEETING 30% OF THE IT INFRASTRUCTURE REQUIREMENTS OF THE ROAD TRAFFIC POLICE IN 11 PILOT REGIONS

- ▶ Developing the means of data exchange between the IT systems of the Road Traffic Police and RAMI
- ▶ Drafting and adopting the necessary internal regulations to permit the data exchange
- ▶ Drafting proposals jointly with the Road Traffic Police to enhance their IT system in order to take the needs of compulsory motor TPL insurance into account

CONTINUING PILOT STUDIES OF INFORMATION EXCHANGE BETWEEN RAMI AND ROAD TRAFFIC POLICE IN 11 REGIONS OF RUSSIA

2006

SUBJECT TO CONFIRMATION BY RAMI OF CO-FINANCING OF THE PROJECT, MEETING 50% OF THE IT REQUIREMENTS OF THE ROAD TRAFFIC POLICE FOR DEALING WITH COMPULSORY MOTOR TPL INSURANCE IN 11 PILOT REGIONS

- ▶ Developing jointly a programme of IT infrastructure development for the Road Traffic Police.
- ▶ Drafting Governmental regulations to control information exchange between IT systems

2005**2006****2007****2008**

COMMENCING SERVICE FOR
INSURANCE COMPANIES
IN THE PILOT REGIONS

INTRODUCTION OF FULL
SERVICE

2007

**SUBJECT TO CONFIRMATION BY RAMI
OF CO-FINANCING OF THE PROJECT,**
MEETING 70% OF THE IT REQUIREMENTS
OF THE ROAD TRAFFIC POLICE FOR DEAL-
ING WITH COMPULSORY TPL INSURANCE
IN 11 PILOT REGIONS

- ▶ Developing information exchange between the IT systems of RAMI, Traffic Police and other national databases
- ▶ Adopting regulations controlling information exchange between IT systems

2008

**SUBJECT TO CONFIRMATION
BY RAMI OF CO-FINANCING
OF THE PROJECT,** MEETING 100%
OF THE IT REQUIREMENTS OF THE ROAD
TRAFFIC POLICE FOR DEALING
WITH COMPULSORY TPL INSURANCE
IN 11 PILOT REGIONS

Additional aspects of the project (Possible scenario)

2005. Discussions with international financial institutions (World Bank, EBRD, etc.) are planned concerning financing a report on road safety based on joint research with state institutions, with input from international seminars (conferences) on road safety. It is possible that a comprehensive report will be prepared for the Russian Government. The conditions may be prepared for the development of a departmental programme for the Road Traffic Police.

2006. Subject to the approval of co-financing by RAMI, and provided the departmental programme is approved in 2006, 100% of the IT requirements for the Traffic Police in all the pilot regions will be met by the end of 2008.

RAMI's plans for 2005-2008

Project to create Automated Information System (AIS) for RAMI

PILOT TESTING OF THE **RAMI AIS** SUBSYSTEMS

DEVELOPING INFORMATION SERVICES OF THE **RAMI AIS** TOGETHER WITH INSURANCE COMPANIES. WIDENING THE FUNCTIONALITY OF **RAMI AIS**: STARTING TESTS OF THE BONUS-MALUS SYSTEM

2005

- ▶ Control of policy forms workflow
- ▶ Consolidated data standards
- ▶ Compensation payments system
- ▶ Statistical reporting system

SPECIAL FEATURES

- ▶ Control of policy forms workflow, Consolidated data standards and compensation payments system will be tested in 2-5 insurance companies
- ▶ Developing methods of data exchange between RAMI's information system and that of the Road Traffic Police
- ▶ Drafting internal regulations for the audit of insurance companies
- ▶ Developing the information system of RAMI and FSIS

2006

SPECIAL FEATURES

- ▶ Developing methods of data exchange between RAMI AIS and the Federal Information Resource
- ▶ Auditing corporate information systems of insurance companies



2005

2006

2007

2008

COMMENCING **RAMI**
SERVICES IN ALL INSURANCE
COMPANIES

PUBLIC INFORMATION SERVICES
FOR INSURED DRIVERS

2007

2008

RAMI's plans for 2005-2008

Green Card Project

2005

- ▶ Drafting proposals for amendments to legislation, including the provision of clauses specifying the functions of the Association so that it may take part in the international system
- ▶ Preparing the technical and financial analysis
- ▶ Preparing requirements for insurance companies to participate

2006

- ▶ Adopting the Governmental decree
- ▶ Introducing of amendments to the legislation
- ▶ Developing internal regulations within RAMI
- ▶ Sending an official application to join the Green Card System
- ▶ Commencing the creation of financial, organisational and technical infrastructure according to European standards

2005

2006

2007

2008

1 JANUARY 2008: OPERATION WITHIN THE GREEN CARD SYSTEM COMMENCES

2007

- ▶ Approval of Russia's membership, from 1 January 2008, by the General Assembly of the Council of Bureaux
- ▶ Introduction of amendments to internal regulations by various ministries as a result of membership in the Green Card system
- ▶ Completion of the financial, organisational and technical infrastructure

2008

RAMI's plans for 2005-2008

Project to introduce a system for direct settlement of insurance claims following minor accidents (The European Protocol)

COLLECTION AND ANALYSIS OF INFORMATION CONCERNING EUROPEAN EXPERIENCE IN ADMINISTERING THE EUROPEAN PROTOCOL

2005

- ▶ Collecting, translating and classifying documents from European countries on the introduction and practical application of the European Protocol
- ▶ Organising a conference on problems involved in the introduction of the European Protocol in Russia

CREATING THE CONCEPT: THE EUROPEAN PROTOCOL IN RUSSIA

- ▶ Developing a programme for the introduction of the European Protocol in Russia based on European experience, taking into account the specifics of compulsory motor TPL insurance in Russia

DEVELOPMENT OF THE NECESSARY LEGAL FRAMEWORK FOR THE INTRODUCTION OF THE EUROPEAN PROTOCOL IN RUSSIA

2006

AMENDING RUSSIAN LAW TO MAKE THE INTRODUCTION OF THE EUROPEAN PROTOCOL POSSIBLE

CREATING THE NECESSARY INFRASTRUCTURE FOR THE IMPLEMENTATION OF THE EUROPEAN PROTOCOL IN RUSSIA

- ▶ Drafting the rules for insurance companies to permit the direct settlement of claims
- ▶ Setting up a central accounting system to allow insurance companies to settle claims directly, under the Russian Association of Motor Insurers

2005

2006

2007

2008

PILOT PROJECT TO INTRODUCE A SYSTEM FOR DIRECT SETTLEMENT OF INSURANCE CLAIMS FOLLOWING MINOR ACCIDENTS IN A NUMBER OF PILOT REGIONS OF RUSSIA

2007

BASED ON THE RESULTS OF THE PILOT PROJECT IN A NUMBER OF REGIONS OF RUSSIA, DETAILING THE CONCEPT **THE EUROPEAN PROTOCOL IN RUSSIA** AND INTRODUCING AMENDMENTS TO THE LEGAL FRAMEWORK

INTRODUCTION OF **THE EUROPEAN PROTOCOL** SYSTEM IN THE RUSSIAN FEDERATION

2008

Russian Association of Motor Insurers

27 bld., 3, Lusinovskaya str., Moscow, Russia, 115093

Tel: +7 (095) 771-6444

Fax: +7 (095) 236-1607

[http:// www.autoins.ru](http://www.autoins.ru)