

Russia – The Opportunities Of Emerging Reinsurance Market

The history of modern Russian reinsurance industry started in 1990. We can consider Russian reinsurance market to become relatively independent since 1992 when first national reinsurance companies appeared.

Currently, the Russian reinsurance market is represented by three groups of operators providing incoming reinsurance services. The first group is composed of the Russian composite insurance companies, also involved in reinsurance. The second group consists of Russian specialized reinsurance companies (licensed exclusively for reinsurance). And finally, foreign insurance and reinsurance companies can be referred to the third group.

Division of market sectors between these groups and their specialization can be described in general as follows:

Foreign reinsurers are involved in reinsurance of corporate property, construction and marine risks. Russian specialized reinsurers operate in reinsurance of motor, credit risks, cargo, etc. And composite insurance companies do not occupy any particular market niche and do not have any specialization. On the one hand, their source of reinsurance operations development has been continuously based on the reciprocity of risk exchange with other insurers; on the other hand, some of composite players have built up sufficient capacities to reinsure significant lines of business.

It's fair to say that Russia has developed a sound reinsurance market, where one can find companies of different value and specialization. This is confirmed by the percentage for premiums transferred from Russia to foreign reinsurers: the results of the first half of 2011 show 57% of reinsurance premiums have been transferred abroad, and 43% have been left to the domestic reinsurers. At the moment there are over 200 insurance companies operating in Russia, and over 50 of them accept risks from abroad.

Now, I would like to come to the main factors promoting the further development of the Russian reinsurance market and its integration into the global market.

1. On the 1st of January 2012 the minimum requirement for the share capital for the companies licensed to operate in reinsurance was increased from USD 4.07 Mio to USD 16.3 Mio. It will lead to increase of reinsurance capacities, improve reliability of the reinsurance market and force occasional (weak) players out of the market.
2. Western reinsurance companies reconsider the terms of obligatory reinsurance treaties concluded with Russian insurers. Top international reinsurers have turned to pay more attention to terms and limits of indirect sections. As a result, some specific risks previously reinsured abroad within extensive obligatory treaties, can go back to the Russian reinsurance market.
3. The introduction of new compulsory types of insurance. Prompt development of the Russian insurance market.

The introduction of compulsory liability insurance for hazardous industrial facilities (HIV) can greatly contribute to the Russian reinsurance market growth, as under this law the relative national reinsurance pool will be formed. Since the law on compulsory HIV liability insurance was introduced at the 1st of January, 2012, over 138,000 of compulsory insurance contracts have been already signed with the overall written premium exceeding RUB 5.6 billion (USD 200 Mio).

The Russian reinsurance market directly depends on the general stability and growth rate of the domestic insurance market. The reinsurance industry was surprisingly easy to overcome difficulties of the recent years. Many companies have come out of the financial crisis with relatively high figures. Russian insurance market has been recently showing clear positive trend. It is steadily growing at some 15-17% per year and gradually approaches to the international operational standards.

The Russian market has successfully overcome the test for large losses. For example, Russian reinsurance market has covered more than half of USD 31 Mio loss due to 2006 accident at Azovstal Metallurgical Works in Ukraine. A substantial part of USD 75 Mio loss caused by fire at the warehouse of Protek Company - the largest drug distributor in the country, was also paid up by Russian reinsurers.

Concordia Industrial Complex in Kaliningrad region suffered a huge fire on June 11, 2010. Total sum insured under the policy of VSK Insurance exceeded USD 100 Mio.

The main part of the risk was placed under obligatory treaties with the leaders of Russian and international markets. As a result Concordia received from the insurer reimbursement in the amount of USD 70 Mio. That's why we can say that Russian companies are able to provide reliable reinsurance cover for larger risks.

Rating of financial stability is an important indicator of the company's financial standing. With the assistance of the international rating agencies such as Standard & Poor's, Fitch Ratings, A.M.Best and Moody's Russian reinsurance market has made a good step forward in this direction.

Today nearly two dozen insurance and reinsurance companies in Russia including almost all national market leaders are rated by international agencies. Let me remind you that Russia's sovereign rating is BBB by S&P scale. Besides, there are a number of reinsurance operators in Russia who being one of the industry leaders, have no international ratings.

Those companies, e.g. Rosgosstrakh, VSK Insurance and some others are in no doubt strong players in the reinsurance market. However, thanks to their specialization in servicing domestic clientele they have never applied for the international rating. Nevertheless this in no way prevents them from actively accepting risks in reinsurance from abroad.

Today Russian reinsurance market does not claim to be a worldwide leader. However, along with the leading markets we always need the markets supporting. And as a supporting capacity, we are working quite successfully.

Comparing Western reinsurance markets to the Russian one we can identify a number of differences. Generally speaking it is possible to place a major risk in the Russian market at lower cost and deductibles. According to Western reinsurers, the difference between Russian facultative reinsurance and Western one lies mainly in the cost of reinsurance protection for certain risks. Due to some internal and external factors Russian reinsurance industry enjoys lower production costs leading to rather attractive pricing for reinsurance products. This does not mean that our reinsurance is cheap, but if compared to the international market, does not seem that expensive.

Russian reinsurers have learned to operate in accordance with Western standards, have made transparent their financial performance. At the same time the cost of reinsurance in the Russian market is lower (And this cost is

inevitably included into the basic rate for the original insured). With this in view, it appears rather dubious whether to consider the risk reinsured in the international market (at higher price and with no guaranteed reliability) to be really advantageous for the client.

Another important advantage of our market is our highly educated and professional staff grown up in Russian reinsurance companies. In addition to the traditionally good basic education many Russian underwriters, lawyers, financial officers have passed training abroad, have got academic degrees. To operate in the international market it is vitally important to speak foreign languages fluently. The majority of Russian underwriters engaged in foreign reinsurance speak English or other international languages. In any case brokers are ready to assist in this issue.

Today foreign business is an important trend supporting positive development of the national reinsurance market. Foreign risks share has been steadily growing for the last six years and reached almost one third of the overall reinsurance premiums written by Russian operators in 2011 - 29%.

In view of the growing demand for alternative capacities in the world market the share of risks coming to Russian reinsurers from abroad (mostly from the Middle East and South-East Asia) is getting larger and larger.

In conclusion I would like to mention the unique feature of the Russian reinsurance market. From the very beginning of the 90s of the last century our reinsurance market has been completely open to the foreign players, and all the time Russian companies have been directly competing with the leaders of the international reinsurance industry. And not they only did survive, but just in 20 years have covered the way that Western reinsurers have passed for centuries. And now Russian reinsurers are catching up the leaders.

“GLINSO - Insurance brokers” LLC., Moscow, Russia, 2012

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