

The main challenges for the Russian re/insurance market

The main challenges for the market's player have been the same for many years, according to Igor SHEKHOVTSOV, Deputy CEO, UNITY Re: *ratings, rates, regulation. The more "A" rated markets join this race for completely new regions and lines of business the more rapid conditions' softening we experience, the more rating sensitive clients become and the stricter regulations are introduced.*



Igor SHEKHOVTSOV,
Deputy CEO,
UNITY Re

At the same time, in 2015, one of the main tendencies of the Russian insurance market was the reduction in the number of Russian re/insurance companies, which led to an increase in the concentration of the re/insurance business among the rest of the companies, the restructuring of insurance portfolio and, in some cases the decrease in the portfolio's diversification ceded/accepted abroad/in the country. Thus, besides the traditional insurance companies, the Russian insurance market left the specialized reinsurers, which do domestic and international business.

When the number of insurance companies on the market is decreasing brokers are more than ever motivated to look out for new growth opportunities, confirmed Maria HORALIKOVA, Director, Aon Benfield-Aon Russia.

In this context, local brokers and CIS partners for example, which have business relations with such companies, are forced to look for new opportunities: *Among the companies which left the*

market were partners of BELARUS Re, whose reinsurance capacity has been involved with the placement of some BELARUS Re projects, stated Andrey T. UNTON, General Director, BELARUS Re.

Has reinsurance become more "expensive"?

Since 2013 the RUB has more than halved in value against all major currencies and while this effectively reduces exposure it also reduces the potential premium cash flow to reinsurers as insurers look to reduce their outward reinsurance costs. This creates uncertainty and diminishes returns for reinsurers, said Mark ROBINSON, Director - Marine International, RFIB Group Limited.

The currency's devaluation substantially has been reflected in the Russian reinsurance operations in case of risks placed on the international reinsurance market.



Andrey T. UNTON
General Director
BELARUS Re

Moreover, Russian companies faced with situation, when the re/insured object was undervalued, especially due to the fact that it was insured in RUB, and reinsurance contract was concluded in foreign currency. Thus, in case of damage the volume of paid claims recalculated in RUB may not totally cover the necessary compensation. The second issue associated with the devaluation is that due to the fact that all calculations under

contracts are made in foreign currency, thereby the re/insurance portfolio becomes more "expensive" in case of risks insured in RUB.

It should be noted that for a number of large-scale renewable Russian reinsurance contracts, namely the depreciation (RUB) had a much greater impact on the financial results of BELARUS Re under the contract, rather than the decrease in the rate. In addition, through a slight decrease in the demand for insurance within the Russian Federation, the struggle for the client has led to greater competition on the market and to decrease in tariffs, added Andrey T. UNTON.

International reinsurance operations under sanctions conditions

Another important challenge for the Russian and international re/insurance markets was the decision to prolong the sanctions regime, which have had an impact on the overall re/insurance business. On the list of sanctions risks was included the capital-intensive line of business, which is attractive for foreign companies. Moreover, due to economical considerations a lot of engineering-oil projects were suspended, which had been previously reinsured abroad due to their high value.

Sanctions have clearly impacted on the international reinsurance business from the Russian market, confirmed Mark ROBINSON. According to him: *The limitation in certain sectors such as the sales, the supply and the movement of arms and other goods and asset freezes and sanctions on specific entities and individuals have had an immediate effect and led to a far more cautious approach to all Russian business from most reinsurers and brokers.*

Actually, Russian re/insurance companies were forced to look for alternative markets for new growth opportunities, and needed to cede sanctions risks. But in most cases these risks remain in the country, in net retention, within the limits of their own portfolio, which led to a situation of "underinsurance" of possible losses.



Mark ROBINSON,
Director
- Marine
International,
RFIB Group
Limited

The majority of RFIB's clients are the longer-term players in the business and we will continue to offer our full support to these clients, mentioned Mark ROBINSON.

Traditionally, the main foreign partners for Russian business have come from Western and American markets, which offered a significant reinsurance capacity for capital-intensive risks such as: the space insurance line, engineering insurance, power generation, metallurgy and other strategically large-scale property projects.

Traditionally the main part of the Russian treaties and big optional accounts such as marine, aviation, oil&gas are placed in Europe and at Lloyd's. This is suitable for both sides. We tried to approach USA and the Far East market for placing our business, but there without good results. The reason can be the lack of confidence of the rest of the world in our country. As to the new reinsurance markets we see support from India, but these are still very tiny efforts, said Svetlana KOMISSAROVA, Deputy CEO, Skala Reinsurance Brokers Ltd.

A possibility to attract foreign risks in Russia

In the reporting period, the volume of risks accepted in reinsurance by Russian re/insurance companies decreased to RUB 35 billion or 27.30%. At the same time, the risks accepted in reinsurance by Russian companies increased to RUB 17.2 billion compared with 2014 (RUB 16.06 billion), despite fact that it is more difficult



RUB 361 bln

risks were ceded broad in 4 years.



to attract business in the country in the context of the reduced sovereign rating and the lack of confidence due to an "unclear situation".

At the same time, according to Igor SHEKHOVTSOV, one of the core trends affecting our portfolio – a record low demand for alternative capacity was being dictated by the realities of the current economic environment with more and more highly rated markets having an appetite for risk set at the maximum level never seen before. As more capital flows into the industry, the fight for business continues resulting in less and less attractive business being available to BB/BBB markets, making it economically unsound to seek any development overseas.



Svetlana
KOMISSAROVA
Deputy CEO
Skala
Reinsurance
Brokers Ltd

Svetlana KOMISSAROVA explained that: *In general we always place risks from far abroad in Europe and other foreign markets, except business from CIS. The problem is that Russian reinsurers have an indirect section in their treaties only for the CIS business, and they can write business from countries abroad only on their net retention.*

Taking into consideration the situation on the Russian re/insurance market and the relation with the international market, the devaluation of RUB and the reduction in the international reinsurance capacity available to Russian companies, the most respondents in this article confirmed they have not experienced any notable changes in the reinsurance rates and in 2015 the market was softening. This trend also continued in the January 2016

renewals. But, *in many cases there are very limited differences in the reinsurance rates for Russian business compared to the broader CIS/CEE region although the perceived lack of catastrophe exposure is of benefit to Russian buyers in terms of the overall pricing level as reinsurers seek to diversify their portfolios,* added Mark ROBINSON.

On the other hand, despite the close historical and economical relations between Russia and CIS, in previous years the situation regarding some CIS partners deteriorated due to the domestic economies' trend. One of the main explanations is the strengthening of the reinsurance regulations imposed by using rating limitations (Kazakhstan, Uzbekistan).



Shakir IMINOV,
Executive
Director,
EURASIA,
Kazakhstan

One of the most controversial issues in the relations between the Kazakh and Russian insurance markets remains, according to Russian companies, a problem of setting too high the minimum rating for the reinsurers of Kazakh risks, threatening to leave Russian companies "offside". Another important factor is the fact that the Kazakh market generates a powerful flow of outgoing reinsurance toward the Russian Federation, at the same time the inward reinsurance in Kazakhstan being practically inexistent. And we believe that the solution to this problem could play a positive role in maintaining the current level of access of Kazakhstan risks in Russia. However, the attitude should be more relaxed when the local companies seek insurance protection on other markets. Because Western reinsurers are less exposed to delaying the insurance payments or refusing them. Speaking of the reinsurance portfolio, the share of Russian risks is very, very small, Shakir IMINOV, Executive Director, EURASIA, KAZAKHSTAN.

At the same time, Igor SHEKHOVTSOV noted that: *Our Russian/CIS operations seem to be doing well on the Kazakhstan market, being the key driver and domestic*

market behaving as expected. The rough split is 70%/22%/8% being Russian/CIS/ Overseas volumes respectively.



RUB 71 bln

represents about one third of the total capitalization of the Russian insurance market.



Moreover, on the other CIS insurance markets (Moldova, Kyrgyzstan, Turkmenistan, Armenia) there are no reinsurance companies engaged only in reinsurance activities; at the same time, the main focus of the reinsurance activity of insurance companies is the outgoing reinsurance assumed by placing risks in direct insurance contracts.

In 2015 we started to work with Arab countries and with the Central Africa. In percentage the CIS market is still the leader of bringing business to our portfolio, - at about 70%. Approximately 15% of our business comes from Arab countries, 12% from Russia, 3% from other countries including Europe and Africa, stated Svetlana KOMISSAROVA.



Alla MIGASHKO,
Aon Benfield,
Czech Republic

From the reinsurance broker's perspective, Alla MIGASHKO, Aon Benfield, Czech Republic, evaluated the main tendencies on the CIS insurance market (except Russia) as: *Insurance rates are continuing to go down so the reinsurance premium volumes are decreasing. Because of the strong competition the insurers are forced to propose a wider coverage for their clients and they more frequently need special acceptance from reinsurers for unusual risks, increased requests for terrorism, CRCC, and war risks coverage. CIS countries have*

a stable list of the reinsurance markets that historically have been participating in treaties. These are mainly continental markets from Germany, France, Poland, and Russia. This state of affairs remains unchanged. New markets are making attempts to close deals but the rates are still very competitive.

Are national reinsurers a solution for sanctioned risks?

In Russia there are about 1.4 thousand objects with an insurance value of RUB 1.35 trillion, which cannot be reinsured on foreign market due to the sanctions regime. The volume of reinsurance premiums on them is RUB 7.96 billion.

Igor SHEKHOVTSOV mentioned that *markets capable of providing at least some support are India, several Middle East countries, and China but the capacity available is still like a small drop of water incapable of rendering any thirst relief.*

At the time being, for all sanctions the clients receive insurance coverage under the limited capacity of Russian insurers, and in case of a major loss, the object would be partly uninsured. In this context, the Central Bank plans to establish the National Reinsurance Company. The main proposed activity for the National Reinsurance Company is to offer reinsurance protection for risks that needed financial guarantees, which are impossible to reinsure on the international markets.

It is expected that the state reinsurance company's share capital will amount to RUB 71 billion, gathered on the Central Bank's expense. The Central Bank of Russia (note: in ongoing talks with the market) intends to impose a mandatory requirement for 10% obligatory cessions to the National Reinsurance Company, which makes at least RUB 15 billion of annual premiums in absolute terms (note: approximate calculations).

Re/insurance broker's perspective

Overall in 2015 the insurance brokers have been through some changes, the number of brokers was reduced from 150 to 134. Also, there is a concentration on the brokerage market, similarly to the

insurers' situation. At the same time, the best players are showing better results, namely, ten largest brokers make 80% of the market. The top five brokers holding the first places on the market are: MARSH, WILLIS, ICM, AON, and MALAKUT, followed by SBERBANK broker.



Maria HORALIKOVA,
Director
Aon Benfield-
Aon Russia

Currently in Russia about 3-6% of GWP is intermediated by brokers compared to 50% in Europe. *International reinsurance brokers are strongly positioned on the Russian treaty market. Weaknesses can only appear if the broker's team is not well prepared to deliver the service expected by the insurance companies, and if the language barrier remains in place between the cedent and the broker. The treaty team of Aon Benfield is very well equipped to face all the market challenges and to deliver top quality global market expertise to its clients in Russia, said Maria HORALIKOVA.*

Regarding the types of insurance intermediated through a broker, these are property insurance, transport and construction equipment, as well as corporate life insurance and health of employees.

In 2015, the cooperation with the Russian brokerage companies intensified, added Andrey T. UNTON: *The volume of incoming premiums from brokers in 2015 increased by almost twice compared to the year 2014.*

The reduction of the number of re/ insurance brokers in Russia is due to the tightening requirements of the Central Bank of Russia, especially in the area of reporting and accounting. The official bank representatives mentioned that *in 2016 the share of premiums, transferred through brokers in Russia, will grow. Brokers for the insurance business have the same power business as banks. The crisis - it is a time when it is especially important to be close to the client and the broker might just contribute to this.*