

# THE PROSPECTS FOR MOTOR INSURANCE IN RUSSIA

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## Introduction

Motor Insurance is one of the most developed sectors of the insurance market in Russia. The volume of written premium has increased by 5 times from 2002 to 2004: from \$0.59 bln to \$2.9 bln. The key role in this process was the adoption in Russia of the Law of Compulsory Motor Third Party Liability (CMTPL) Insurance in 2002, which became effective in the middle of 2003 and achieved \$1.6 bln written premium in 2004. Last years CMPTL Insurance determined the rate of development and prospects of Russia Insurance as a whole.

### The Common Characteristics of the Russian Insurance Market

After several years of rapid growth the rate of increase of the Russian Insurance Market saw a sharp drop in 2002, recovered in 2003 but again showed a low rate in 2004 and 2005.

**Table 1: The Main Characteristics of the Russian Insurance Market**

Characteristics\ Years	2001	2002	2003	2004	2005
Insurance premium (bln RUR)	277,8	300,3	432,4	471,6	490,6
The rate of growth (%)	61 %	8 %	44 %	9 %	4 %
Population (mln)	144,8	144,0	145,2	143,6	142,8
Premium per capita (RUR)	1918,5	2085,4	2980,0	3288,7	3435,2
Claims (bln RUR)	171,8	231,6	284,4	291,7	274,5
Loss ratio (%)	62,11	77,10	65,78	61,86	55,95

The main reason for this decline in growth rates was the activities of the Insurance Supervision Body against the so-called 'grey schemes', which use insurance for optimization of taxes, mainly in life insurance and in reinsurance.

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Life insurance declined by 75% in 2005 compared with 2004, but at the same time classical insurance (property, liability) maintained significant rates of growth. The rate of growth in 2005 in property insurance was 27.8% and in liability insurance 32%.

**Table 2: Characteristics of Insurance lines**

Characteristics\ Years	2001	2002	2003	2004	2005
<b>Premium (bln RUR)*</b>					
Life insurance	139,7	104	149,4	102,2	25,3
Non-life insurance	96,6	134,4	180,1	218,1	265,8
Compulsory insurance	40,3	62	102,9	151,1	199,5
<b>Claims (bln RUR)</b>					
Life insurance	111,7	136,2	157,3	108,2	25,0
Non-life insurance	22,9	36,3	50,7	66,9	85,3
Compulsory insurance	37,2	59,1	76,3	116,5	164,2
<b>Loss ratio (%)</b>					
Life insurance	79,96	130,96	105,29	105,85	98,8
Non-life insurance	23,71	27,01	28,19	30,69	32,09
Compulsory insurance	92,31	95,32	74,19	77,11	82,3

\* \$1 = 27 RUR

The share of life insurance fell in 2005 to 51.5% of total premium (50% in 2001). The share of compulsory insurance grew from 14.8% in 2001 to 40.6% in 2005. Compulsory insurance includes: compulsory medical insurance (with a 70.5% share), compulsory MTPL insurance (with a 26% share or 53,7 bln RUR) and some other types of insurance.

In 2004 the Russian insurance market took 23<sup>rd</sup> place in the World with \$16,352 bln insurance premium and with 0.5 % share of the World insurance Market. The insurance density per capita was \$114.4 (52<sup>nd</sup> place in the world) and insurance penetration was 2.83% (51<sup>st</sup> place in the World)<sup>1</sup>.

At 1 January 2006, 1075 insurance companies were registered with total charter capital of 143.1 bln RUR (approximately \$5 bln). The top 100 companies account for just under 80% of total premiums. Of the Top 10, only 50 companies had charter capital more than \$50 mln, and 15 had more than \$ 200 mln.

The quota of foreign capital allowed in the Russian insurance market was raised from 15% to 25% in 2004. Now, those companies with European capital have no restrictions according to

<sup>1</sup> Swiss Re, Sigma, # 2/2005.

the Agreement about Partnership and Cooperation between Russia and the European Community. The market has shown openness to international companies both in market entry and in reinsurance. The Russian insurance industry must be seen as one of the emerging insurance markets with great long-term potential. But the current percentage of foreign capital in total charter capital now is less than 5%.

At 1 January 2006, there was foreign capital participation in 69 companies (31 with European Community companies, 5 with USA companies). The biggest are: AIG-Russia and ROSNO (with 45% participation by Allianz). The distribution of insurance premium is not equal between the regions.

**Table 3: The distribution of insurance premium in regions of Russia (2005)**

Federal District	The share of premium (%)
Central (include Moscow)	63.32
Volga	10.51
North-West	8.24
Ural	6.68
Siberia	5.81
South	3.51
Far Eastern	1.91

### The Significance of CMTPL Insurance

Compulsory motor third party liability (CMTPL) insurance has had a huge impact in development of the Russian insurance market because the Law of CMTPL insurance brought about 20 mln families with cars into the insurance market. The Federal Law of CMTPL insurance was passed in 2002 and implemented from 1 July 2003. The Law fixed the liability limits at 400,000 RUR (\$14,800) per accident, which includes 240,000 RUR compensation for bodily injury or death and 160,000 RUR for damage to property. The number of motor vehicle accidents in Russia reached 200,000 per year with 34,000 deaths per year. In accordance with the Law, the Russian Union of Motor Insurance (RUMI) was established and 170 insurance companies received their licenses for CMTPL insurance. These companies must have claims representative offices in all 89 federal regions of Russia.

At the beginning of 2003 approximately 5% of drivers had bought the voluntary MTPL insurance (35% in Moscow, 18% in St-Peterburg). The implementation of CMTPL in July 2003 gave a great impulse to the growth of insurance business in Russia.

In accordance with the Law, appointments were made to a body to set tariffs, for the approval of government. Poor statistical data did not allow for a complex multifactor analysis of tariffs. The alternative approach was to find a reasonable balance between the actuarial and underwriting approaches. Several groups of experts were involved in the process of investigation of the tariffs (including Moscow State University). Calculation methods were submitted to experts. After discussions the Ministry of Finance established the base price for CMPTL insurance at 1980 RUR (\$ 70) for private drivers, 2375 RUR (\$87) for corporate drivers and 2965 RUR (\$109) for taxis.

To calculate the premium, the base price must be multiplied by a coefficient of rating factors:

1. driving experience,
2. the age of persons permitted to drive the vehicle,
3. engine capacity,
4. use and location of vehicle,
5. seasonal use of vehicle,
6. period of insurance,
7. occurrence or absence of previous periods of claims reimbursements (bonus-malus system).

In accordance with Government instructions, the tariff structure is:

net-premium:	77 %
appropriation to reserve:	3 %*
expenses:	20 %

\* this comprises: guarantee reserve: 1 %; current compensatory payment reserve: 2%

In 2005 the share of CMPTL insurance premium of total premiums was 11% (5.8% in 2003). The share of claims was 9.6% (0.5% in 2003). Loss ratio have tended to increase: 37.5% in 2004, 48.8% in 2005, and 53.2% in the first quarter of 2006. Now CMPTL accounts for about 80% of retail sales of personal lines.

**Table 4: Average Prices and Claims in CMPL Insurance**

	2004	2005	1 quarter 2006
Average price (RUR)	1870,8	1881	2039
Average claim (RUR)	20517	23014	23920

There is a great concentration in CMTPL insurance among a few companies. The share of the top 5 companies in total CMTPL premium is 53%, the share of the top 10 is 64,8%. The main companies are: Rosgosstrakh (which has over 25% State participation) with a 30% share of the CMTPL insurance market; RESO-Garantia with a 10.35% share; and Ingosstrakh with a

5.8% share. The distribution of the market between the regions is below.

**Table 5: Distribution of Premiums in CMTPL insurance in 2005**

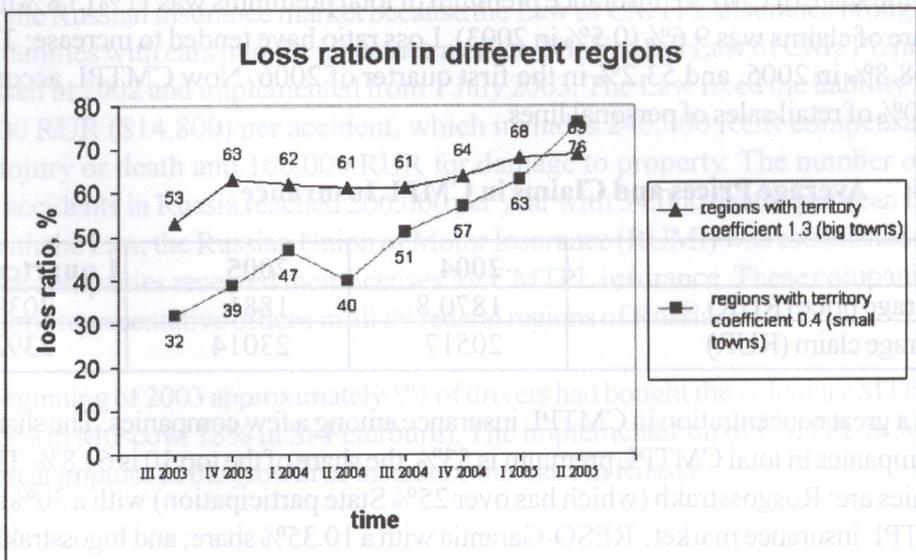
Federal District	Share (%)	Number of companies operated
Central	34.8	117
Volga	18.1	106
North-West	11	98
Siberia	11	81
South	10.2	91
Ural	10.2	87
Far Eastern	4.7	60

### Analysis of current situation with CMTPL insurance

The analysis of data shows how to correct the rate factors which in the beginning, in 2003, were inevitably a priori. We possessed the data which allows an investigation of the influence of territory and type of vehicle.

The loss ratio in Moscow and St-Peterburg stabilized at 56-57%. In the big towns (up to 1 mln population) the loss ratio was more stable compared with small towns. The loss ratio for personal cars grew in 2005 to 62% from 55% in 2004.

**Table 6: Loss Ratio in Different Regions**



The loss ratio for public transport (taxi, buses, trolley buses) grows very fast. For example, the loss ratio for buses in 2004 was 77%, and grew to 99% in 2005.

The results of these investigations and analysis were delivered to RUMI and were used for correction of some of the coefficient rate factors.

Another investigation was connected with a comparative analysis of the conditions and characteristics of MTPL in Russia's neighbouring countries: Ukraine, Byelorussia, and Kazakhstan. It is important for citizens who travel across these borders. The investigation shows asymmetrical conditions for MTPL. Russian citizens who cross the borders of the country pay more than citizens of other countries who come to Russia. The limits of liability in Ukraine, Kazakhstan (for some types of vehicles) and Byelorussia for CMTPL are less than in Russia. The biggest coefficient of asymmetry is with Byelorussia: for cars 3, for trucks 5, for buses 5-9. The coefficient of asymmetry with Kazakhstan is 1.2 and Ukraine 1.3-1.4 depending upon the type of vehicle.

### **The Dynamics and Prospects of Motor Insurance in Russia**

The Motor insurance market is one of the most developed, with average growth rates for the last 5 years at 123%; (from \$0.6 bln in 2002 to \$2.9 bln in 2004).

The CMTPL insurance challenged cross sales of another insurance products: CASCO, additional voluntary MTPL with higher limits of insurance, property, etc.. We know that the market of CMTPL insurance has now reached saturation (more than 90% of cars are insured and 100% of cars with a price more than \$10,000). So the question is, what is the market potential for future growth?

The factors affecting future growth are:

- \* Growth in the number of cars from 156 per 1000 citizens in 2005, to a projected 240 per 1000 citizens in 2010. Now the average annual growth of the number of cars is 5-7%;
- \* Increase in the hierarchy of cars: the share of expensive cars up to \$10,000 will grow from 7% in 2005 to 9-10% in 2010. The average price for CASCO insurance will grow from \$700 in 2005 to \$810-830 in 2010. Now the main car producers (Ford, GM, BMW, Renault, KIA, Hyundai, Toyota) have car plants in Russia or have declared their intention to construct car plants in the near future;
- \* Growth of credit sales of cars with compulsory casco insurance (annually 25% growth). Now 30% of new cars are bought on credit. The average price for insurance is \$800-850.

Experts estimate the premiums in motor insurance in Russia in 2010 to be \$7.6-8 bln<sup>2</sup>.

### Conclusions

1. Motor insurance is one of the most developed sectors in the Russian insurance market.
2. A huge impact followed the adoption of the Federal Law of Compulsory MTPL in 2002. About 20 mln families were brought into the insurance market. The cross sales of insurance products has increased.
3. Motor insurance has potential for future growth from \$2.9 bln in 2004 to \$7.6-8 bln in 2010.
4. The analysis of collected data of CMTPL insurance allowed correction of the coefficients rate factors which had been designed a priori, and for recommendations for the Government to increase the tariffs in CMTPL insurance.
5. Investigation of the conditions of MTPL in neighbouring countries shows the asymmetry in tariffication: the Russian drivers pay more than drivers from neighboring countries.
6. RUMI plan to enter to the 'Green Card' System, with its requirement to increase the limits of liability and the tariffs for CMTPL insurance.

### REFERENCES

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<sup>2</sup> Russian Insurance Market: tendency and prospects. Prinston Partners Group. October 2005.