

National Report 2018

RUSSIA

Overview

The Russian economy returned to growth and now it is in the beginning of a new cycle. Economic growth, easing monetary policy by The Bank of Russia, and higher investment income are among the positive factors that led to an increase in net profit of insurance companies by 50% compared with previous year.

In 2018, the premiums of Russian insurers totaled RUB 1 479,50 billion, increased by 15,7%, while claims (paid) is RUB 522 billion, according to the figures released by The Bank of Russia.

The volume of premiums for incoming reinsurance in 2018 amounted to 43.4 billion rubles, an increase of 24% compared with last year.

Total premiums and claims of Russian insurance market in 2018

Line of insurance	Premiums, RUR bl.			Claims, RUR bl.		
	2018	2017	+/-, %	2018	2017	+/-, %
Life insurance	450.8	331.5	36,0%	67.07	36.49	83,8%
Personal lines (excl. Life)	321.36	261.26	23,0%	128.34	120.18	6,8%
Property Insurance, including	361.48	353.1	2,4%	154.41	138.6	11,4%
<i>Motor Own Damage Insurance</i>	168,69	162.49	3,8%	83.25	83.34	-0,1%
<i>Fire Insurance</i>	153.3	153.4	-0,01%	58.29	44.83	30,0%
Liability Insurance (voluntary)	48.63	49.94	-2,6%	10.21	7.4	36,3%
Compulsory Motor TPL Insurance	225.97	222.08	1,8%	137,90	175.5	-21,4%
Total, without CHI*	1479.5	1279	15,7%	522.47	509.72	2,5%

* *Compulsory Health Insurance*

The number of companies operating on the market continued to reduce: in the unified state register of insurance entities as of December 31, 2018, 190 insurance companies were registered, while 12 months ago this number was 226.

The concentration of insurance business in top 20 is increased. Top 10 companies in 2018 charged 65% premiums in total (without CHI), the same as in 2017. However top 20 companies in 2018 charged 86,8% premiums in total (without CHI), it was 79,8% in 2017.

(A) Premium Development

In 2018 Engineering insurance premium is decreased by 37.7%, and totaled premium in this line of business is RUB 17.96 billion. The main factors of substantial drop down of totaled premium were an absence of new large oil and gas pipeline and other infrastructure construction projects and decline in the construction cycle.

Nearly 90% of all engineering premiums are comprised by CAR/EAR. Other engineering covers such as Machinery Breakdown insurance or Electronic Equipment insurance are rarely provided on a stand-alone basis but normally are included in Property All Risks policies. ALOP/DSU covers are not widely spread and their contribution in total CAR/EAR premiums is less than 1%.

Type of insurance	Gross written premiums*					
	2016		2017		2018	
	RUR Mio	+/-	RUR Mio	+/-	RUR Mio	+/-
Machinery Breakdown, Boiler Explosion and other technical insurances	1 405	+9,5%	1 677	+19,3%	1 541	-8,11%
C A R, E A R, Guarantee	23 535	+21,1%	27 136	+15,3%	16 416	-39,5%
T O T A L	24 940	+20,4%	28 813	+15,5%	17 957	-37,7%

Note: Figures for CAR/EAR represent about 90% of the market for 2016-2017, the rest is our estimation based on available information from various sources.

(B) Claims Development

Engineering claims paid in 2018 increased by 0.52% to 10,061 million rubles.

Over 85% of total losses are events with damage ranging from 1 to 70 million rubles.

Claims from CAR, EAR, Guarantee make up about 70% of the total number of losses. The lack of increased losses is due to the increasing quality of the insurance portfolio and the level of the underwriting process.

Type of insurance	Claims *					
	2016		2017		2018	
	RUR Mio	+/-	RUR Mio	+/-	RUR Mio	+/-
Machinery Breakdown, Boiler Explosion and other technical insurances	2 660	-12,0%	3 014	+13,3%	2 998	-0,53%
C A R, E A R, Guarantee	5 883	-18,7%	6 995	+18,9%	7 062	+0.97%
T O T A L	8 543	-16,7%	10 009	+17,1%	10 061	+0.52%

Note: Paid claims only, reserved claims are not reported. Figures for 2017 were corrected upon obtaining official records.

(C) Underwriting Profitability

Formally the loss ratio in Engineering insurance in 2018 was increase as a consequence of dropping down of insurance market, however it does not take into account claims reserves, nor acquisition and administrative costs.

In 2018 there were several large losses, which could influence to the loss ratio however claim statistic remains satisfactory over the past few years.

Acquisition costs data are not available across the whole market but these costs can be rather high especially in CAR/EAR insurance, sometimes reaching 50% of gross premium.

The engineering insurance market continue remained soft, with strong competition and continuous trend towards reduction of premium rates and widening a scope of cover.

Despite the significant downfall of the market premium volume in 2018 we do not expect to keep this negative trend in the nearest future. The engineering insurance market have also available capacity. Market penetration is about 55-60%. Due to this, the growing construction cycle and the growth of incoming reinsurance, we expect rather development then stagnation but a moderate growth of the market as a whole in 2019.

(D) Business Outlook

The total volume of insurance premiums in 2018 has increased by 15.7%. The volume of insurance payments has not changed. This positive dynamics of the volume of premiums in 2018 is secured by life insurance and increased level of mortgage lending.

In General, the growth rate of premiums in the market exceeds the growth rate of payments, but most non-life companies show the opposite trend.

The profitability of the capital of insurance organizations reached a maximum over the past 2.5 years – 31,2% (an increase of 9,3 percentage points for the year).

At the same time, the market began to grow without life insurance. This was facilitated by the high demand of the population for loans, which affected to the dynamics of insurance PA (All personal lines, excl. Life).

The insurance penetration is less than 2 %, the average for the market of developed countries - 6%. This is because rising per-capita income have a major impact to increased insurance penetration. This is currently still low in Russian market; however, Russian market offers tremendous catch-up potential in long-term cycle.

Premiums on property insurance of legal entities compared to 2016 year, increased (+2,4). In addition, qualitative changes in the segments of Motor TPL and motor hull lead to premium growth in these segments (that also changed a negative trend).

The segment of voluntary non-life insurance after the fall of last year showed a positive trend: the volume of premiums for the year increased by 75 billion rubles. The growth driver was accident insurance (+48.3 billion rubles) and voluntary medical insurance (+11.8 billion rubles), as well as financial risk insurance (+6.6 billion rubles).

The level of digital startups in insurance is growing but still not significant. Most InsurTechs currently operate as digital brokers or in partnerships with traditional insurance and reinsurance companies. Increasing majority of Russian insurance companies try to use digital technologies in their daily work. InsurTech startups can provide an additional boost to premium growth.

In General, the property insurance segment is one of the most profitable in the market, and competition leads not only to the gradual displacement of small players, but also to a serious redistribution of premiums among market leaders.