



Reinsurance in Russia: HY2018

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Data Source and Report Purposes



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"We are pleased to present our regular overview of the reinsurance market, which was made by RNRC on the basis of the public statistics of the Central Bank.

Our aim is to provide the market and all interested parties with a fair view of the changes on the Russian reinsurance market.

The Report is based solely on the historical data provided by insurers in their quarterly reports to the Central Bank. Publication of more comprehensive data enabled to include more detailed reinsurance geography and outward reinsurance structure reviews in this report.

We are always ready to answer any questions concerning these reports which have become our regular practice."

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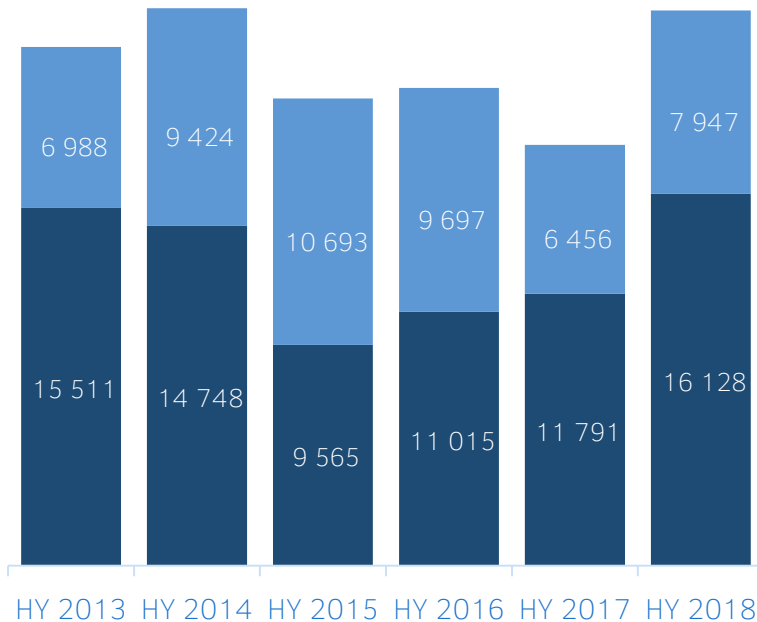
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Inward reinsurance market dynamics

Dynamics of the inward reinsurance market (million RUB)



■ premiums ceded by the international market

■ premiums ceded by Russian insurers

In Q2 2018, the inward reinsurance market featured the same upward trend as in Q1, thus the market grew by 32% in the first half of the year, while it declined by 12% compared to the previous year. With that the influence of RNRC has strengthened – without RNRC, it would have grown by 17% only (the difference between the growth rates was less based on the Q1 results).

The inward reinsurance market growth responded to a considerable increase in the outward reinsurance business as part of placements was retained on the Russian market.

The Russian inward reinsurance market has grown by 37%. Without RNRC, the market would have grown by 16%. The largest contributions (except for RNRC) have been made by VTB INSURANCE, SCOR, and VSK, while the market leaders, SOGAZ and INGOSSTRAKH, have rolled back.

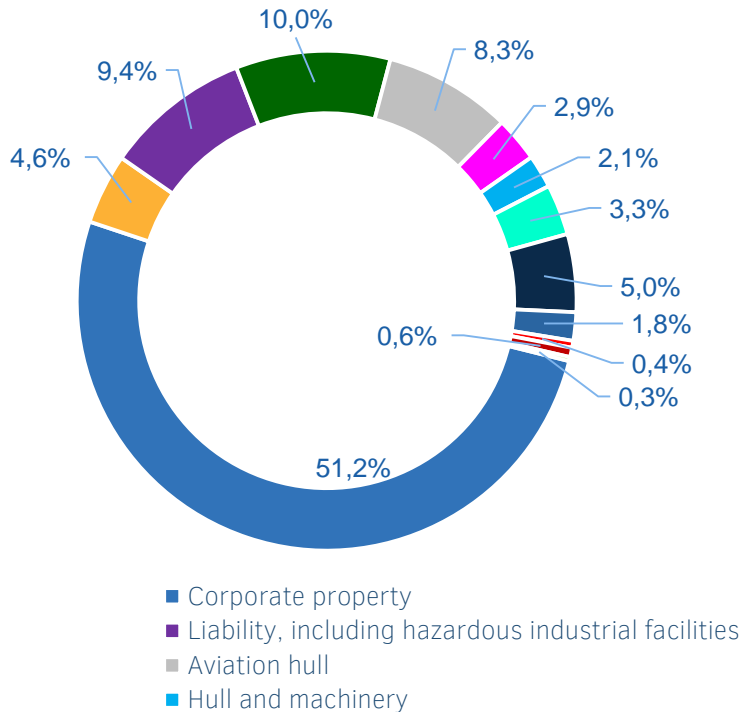
The downward trend in premiums ceded by the international market to Russian companies stopped – they grew by 23% compared to 2017. While the international business share has continued to decrease being 33% of the total premiums compared to 35% in the previous year.

The growth of the international business is mainly associated with an increase in the activity of CHUBB INSURANCE COMPANY, SOGAZ and RNRC. The foreign exchange rates featured instability in Q2, but the effect of exchange rate changes was minor. Such effect will be definitely considerable in Q3.

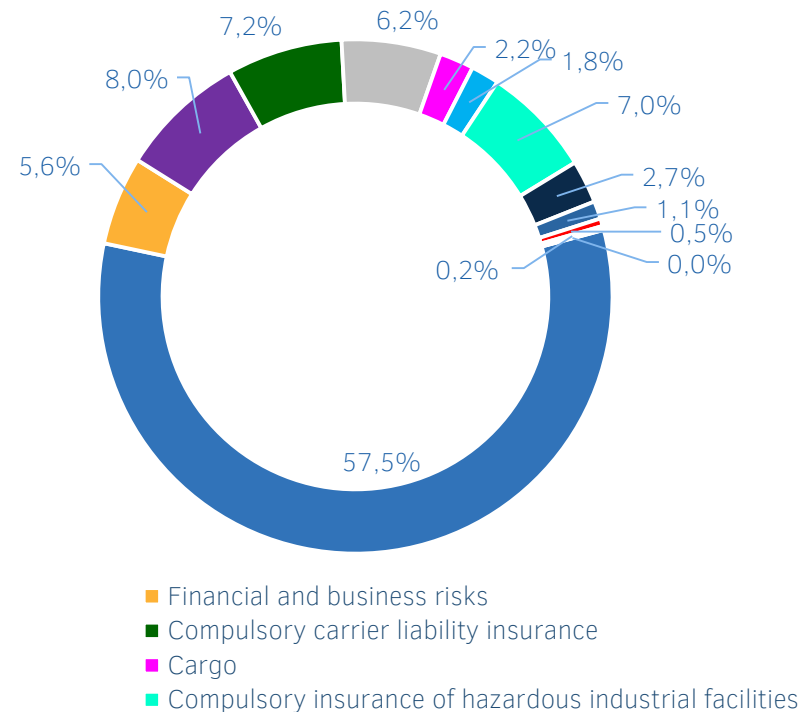
Such growth was mainly due to the corporate property business, which grew by almost 4.5 billion RUB. An unexpectedly high growth was registered in the compulsory insurance of hazardous production facilities, i.e. about 1 billion RUB.

Inward reinsurance market structure

Inward reinsurance market structure, HY 2017



Inward reinsurance market structure, HY 2018



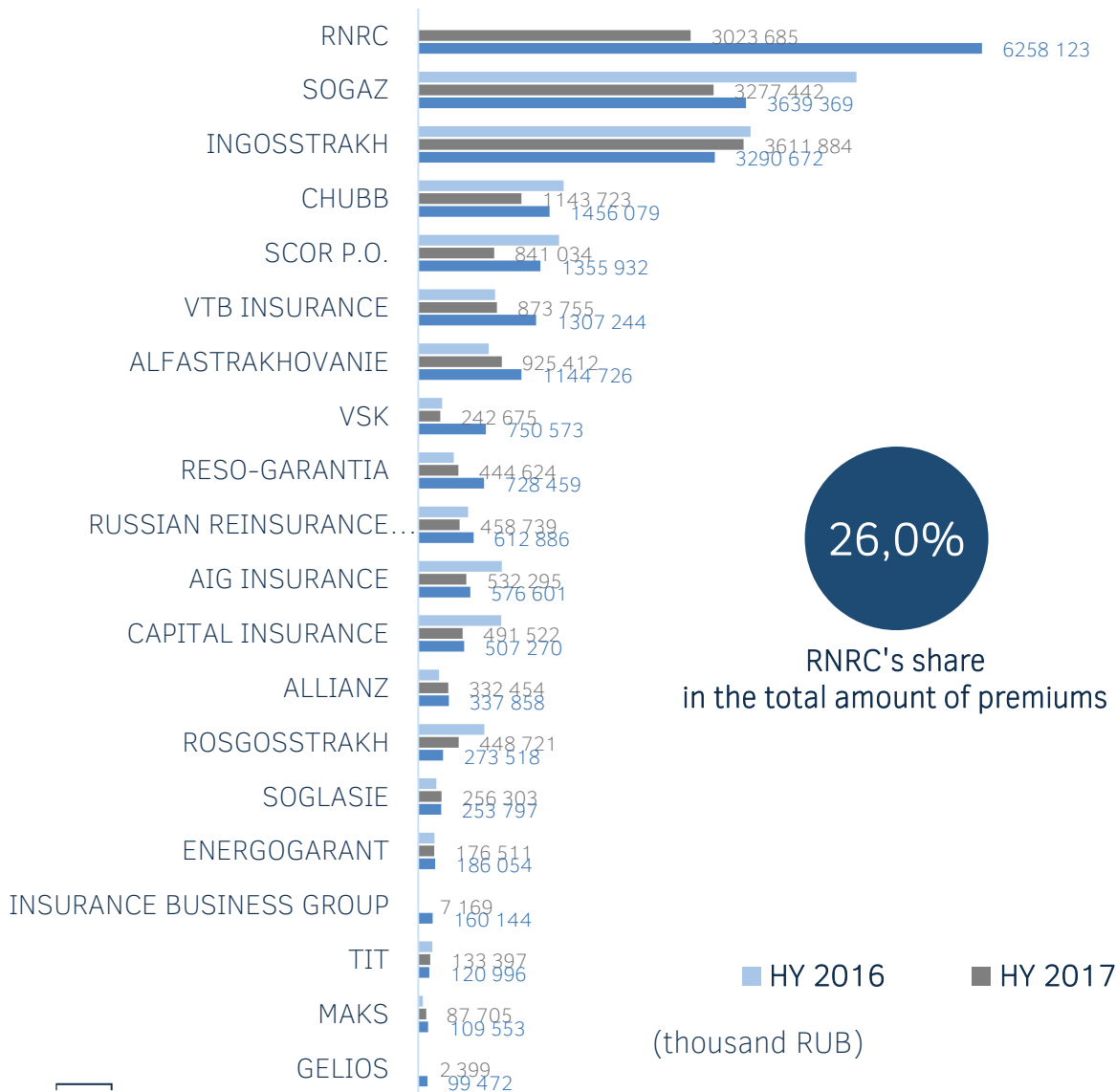
The volume of the corporate property business has grown considerably, which has further increased the share of this segment. The share of financial and business risks has also increased, most probably due to the growing volume of BI risks.

The share of premiums ceded under personal businesses has decreased significantly due to a drop (about 500 million RUB) in reinsurance of health risks under voluntary health programs by INGOSSTRAKH while the share of accident reinsurance has increased.

The unexpected growth of the compulsory carrier liability business in Q1 was followed by its decrease in Q2 compared to 2017, though being higher than in Q1. While the compulsory hazardous facility business share has increased considerably from 3.3% to 7% or almost by 1 billion RUB.

At the same time, similar to the compulsory third party liability business, there was no increase in the direct business. The reason behind such indicator inconsistency in 2017 and 2018 may be the ongoing changes in accounting, and the difference between written and ceded premiums in these businesses demonstrates that reinsurance transaction posting practices in accounting vary greatly.

Leaders of the inward reinsurance market



26,0%

RNRC's share
in the total amount of premiums

■ HY 2016 ■ HY 2017

(thousand RUB)

RNRC has strengthened its leadership; the Company's market share has exceeded that in 2017 (full year) (22%).

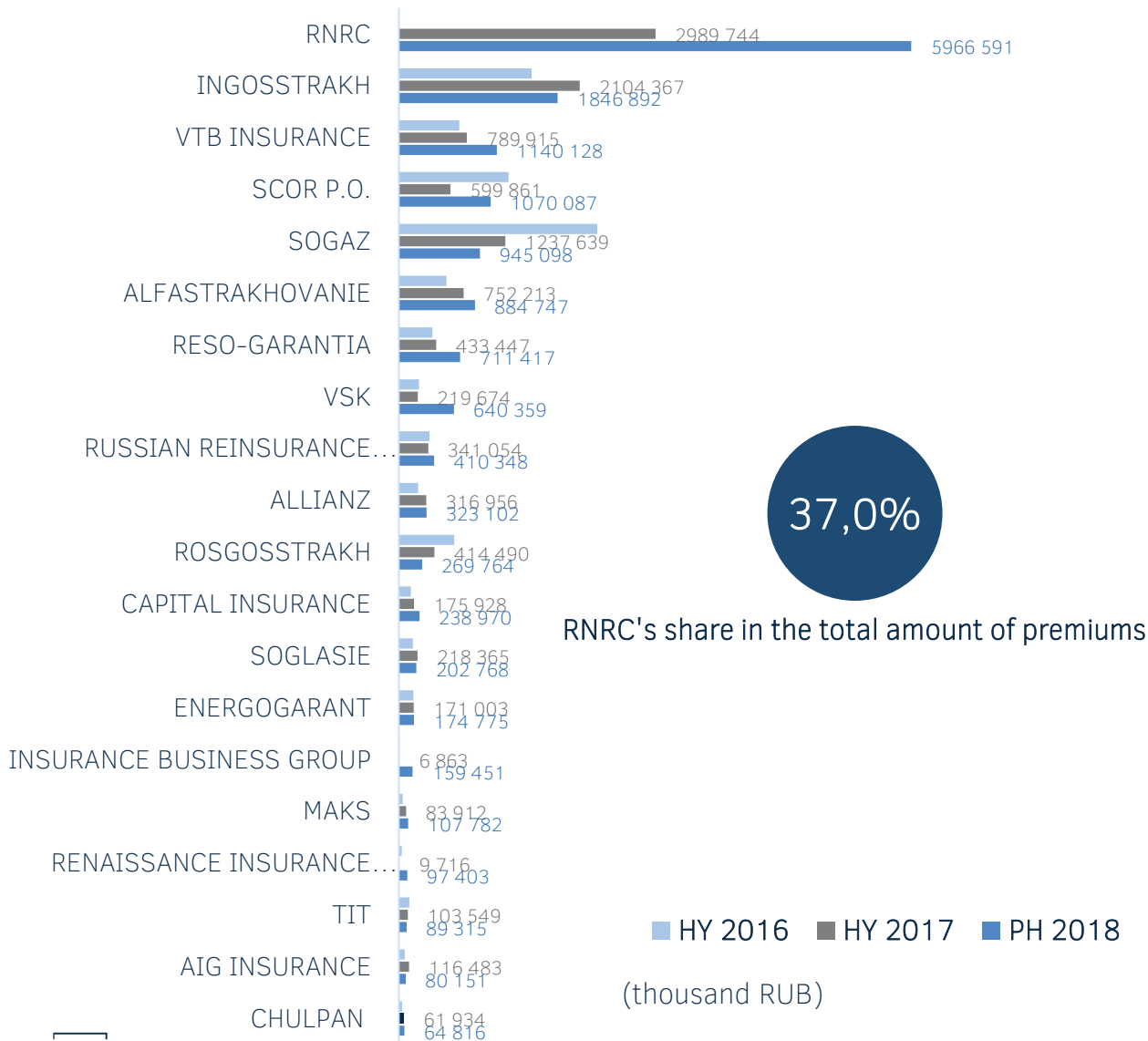
The previous market leaders, SOGAZ and INGOSSTRAKH, have demonstrated a variety of reinsurance volume trends.

At that INGOSSTRAKH has demonstrated stable performance, except for the voluntary health insurance segment.

The rest of the active market players have become more active: all Top 10 companies have considerably increased their volumes by 25% or more, and VSK premiums have tripled.

Only ROSGOSSTRAKH has decreased its volumes among the top players.

Leaders of the inward reinsurance market in the Russian Federation

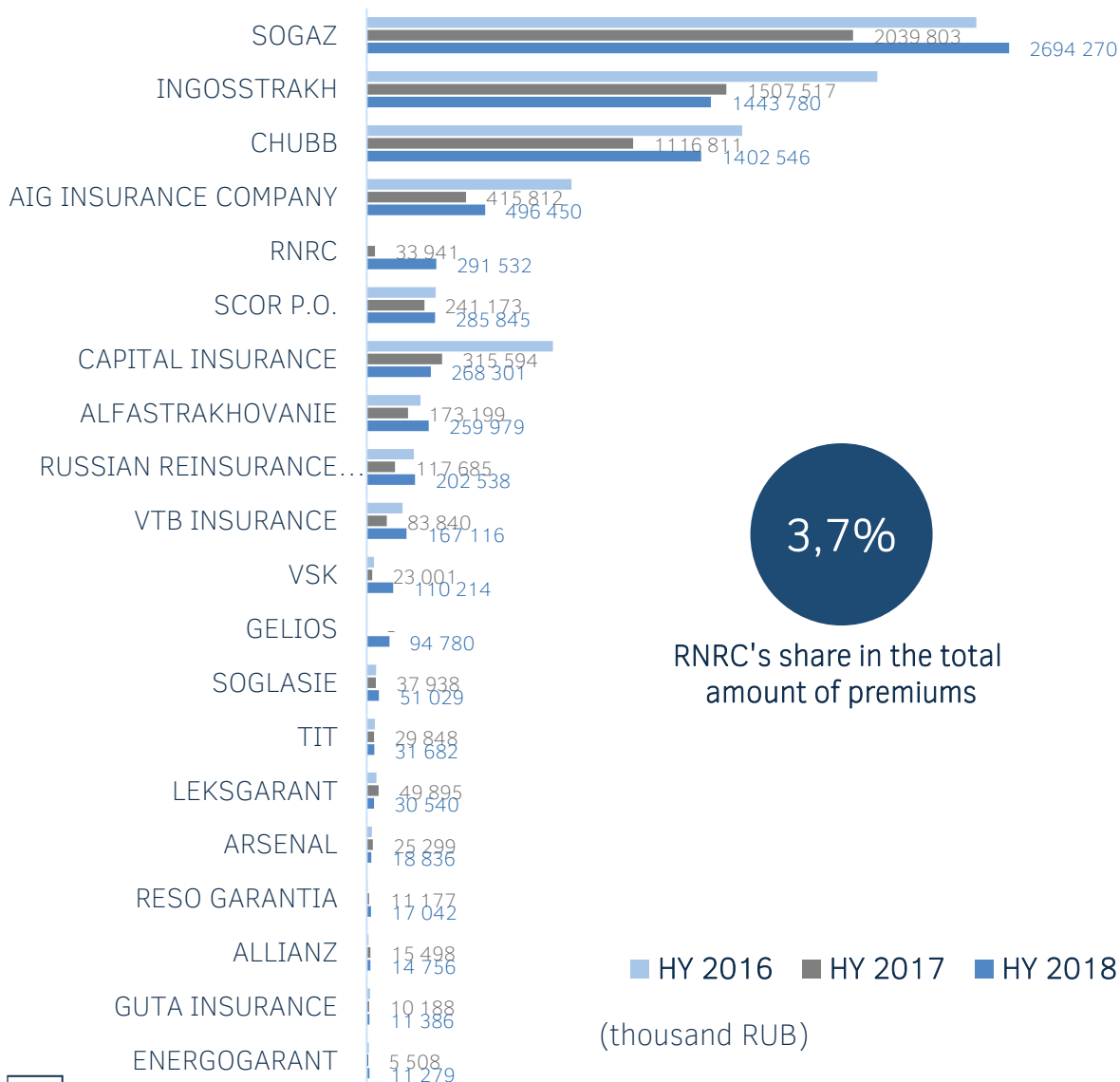


RNRC has established itself as the leader, and based on the data for the 1st half of the year its share on the internal reinsurance market has slightly increased compared to the full year of 2017 (34.6%).

The previous leaders, SOGAZ and INGOSSTRAKH, have showed reduced performance in their reinsurance business. SOGAZ has even shifted to the 4th position. INGOSSTRAKH would have demonstrated a slight growth if not for its voluntary health business.

Almost all major companies, except for ROSGOSSTRAKH, have increased their volumes. The events that are worth noting include the “return” of SCOR, triple growth of VSK and almost double growth of RESO-GARANTIA.

Leaders of the market of inward reinsurance from abroad



The market leaders, SOGAZ and INGOSSTRAKH, have demonstrated a variety of reinsurance volume trends. SOGAZ has demonstrated better performance compared to 2016, while INGOSSTRAKH is gradually decreasing its foreign portfolio.

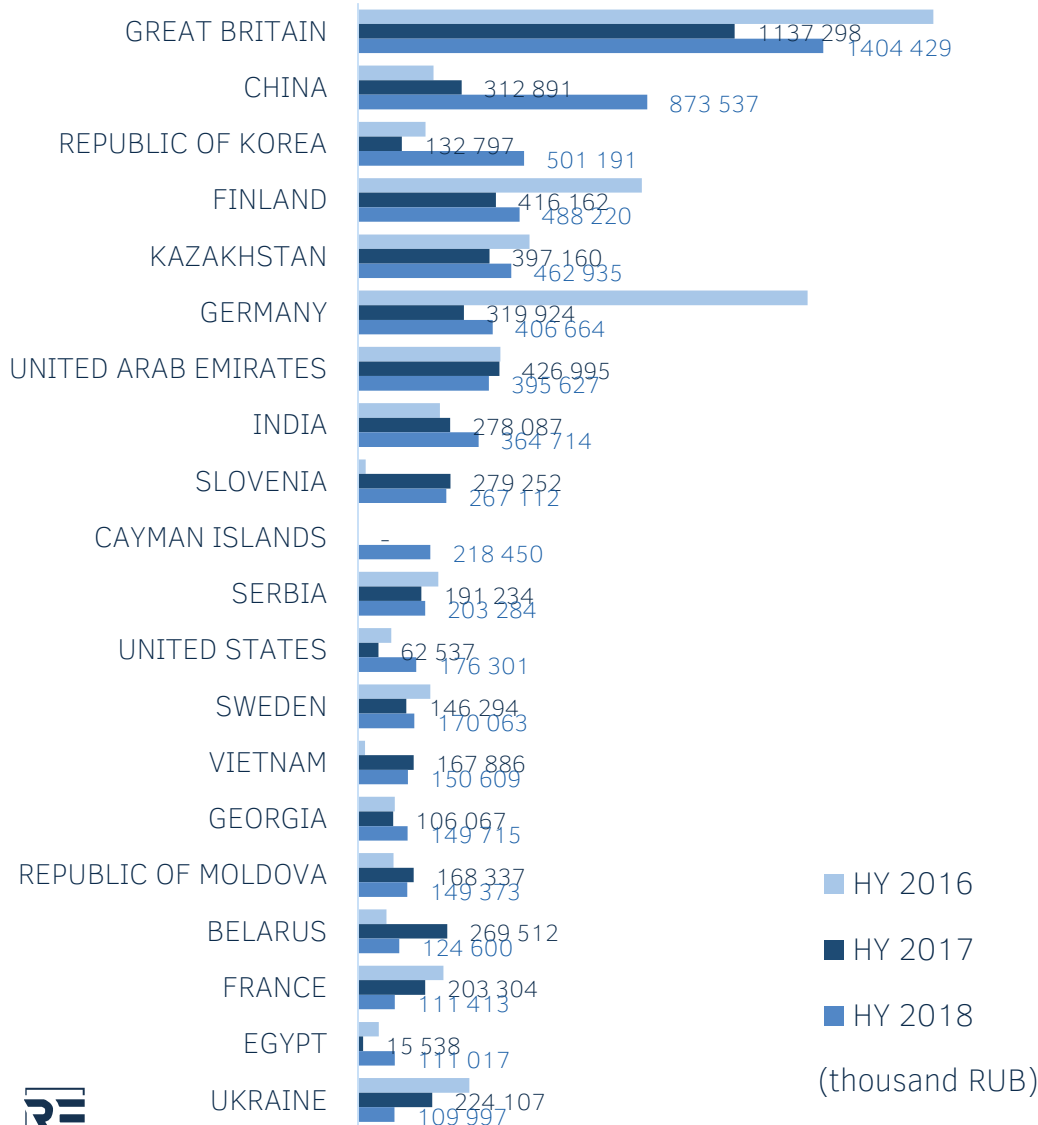
In addition to SOGAZ, growth leaders in absolute terms include CHUBB and RNRC.

However, most market players have also considerably increased their foreign portfolios in relative terms. Such major insurers as VSK and VTB INSURANCE have at least doubled their portfolios.

RNRC has notably increased its foreign market share from 1.5% in 2017 to 3.7%.

Countries ceding premiums to Russia

Top 20 leading countries in terms of the amount of premiums ceded to Russian insurers



After a very unsuccessful year of 2017, most currently leading countries have increased their premiums ceded to Russia.

The relative growth leaders include CHINA, KOREA, USA, and EGYPT. The first two are also leading in terms of absolute growth. While the growth of premiums from CHINA is due to SOGAZ and RNRC to a lesser degree, the premiums from KOREA were split fifty-fifty between SOGAZ and INGOSSTRAKH.

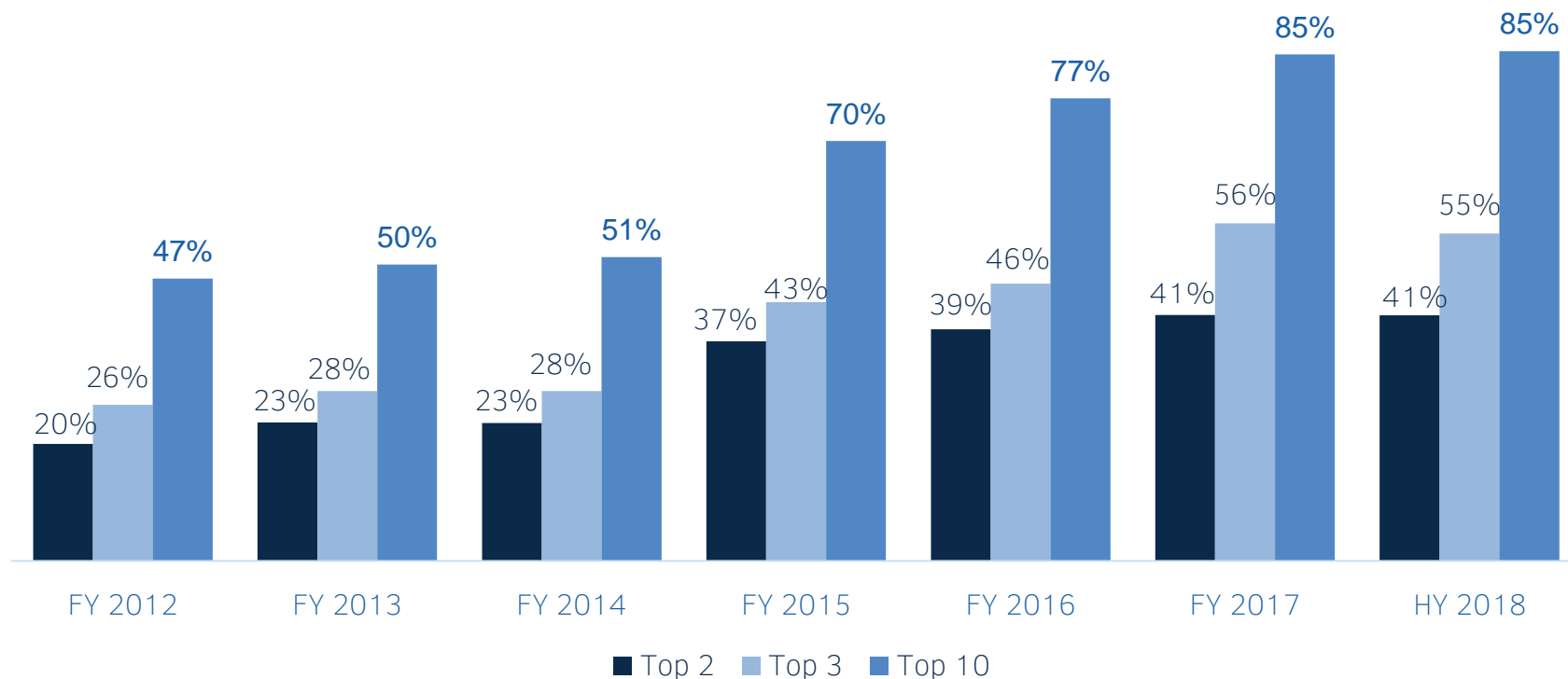
The sevenfold growth of premiums from EGYPT is due to the return of SOGAZ to this market.

The CAYMAN ISLANDS appeared in this list for the first time, but with rather serious premium amounts ceded to several major companies. Earlier, this country was listed among premiums ceded to RESPECT Company.

The largest decrease has been demonstrated by BELARUS (due to a drop in SOGAZ operations), FRANCE and UKRAINE (due to a decrease in INGOSSTRAKH operations).

Inward reinsurance market concentration

Market shares of Top 2, Top 3 and Top 10 leaders of the inward reinsurance market

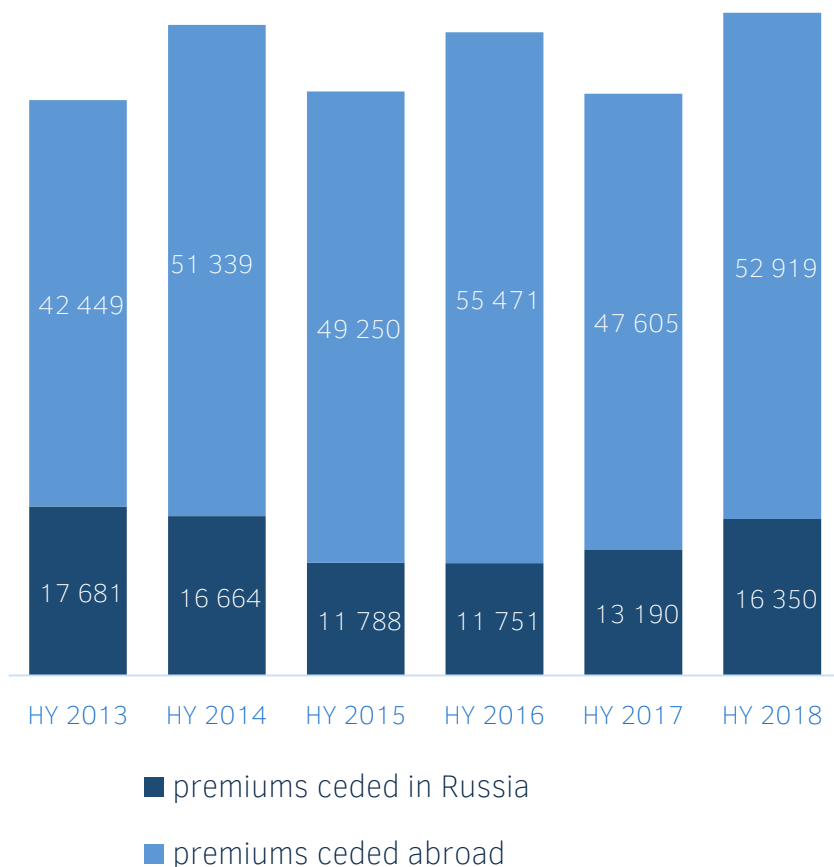


The leaders managed to win back a bit in Q2 after a significant drop in their share in Q1. Based on the results of the 1st half of 2018, the structure is very similar to that in 2017. The share of Top 3 companies has decreased slightly due to the performance of other Top 10 companies.

The share of Top 10 companies has also relapsed to the level of 2017 (being 81% in the 1st half of the year), which is probably indicative of market concentration coming to its saturation.

Outward reinsurance market dynamics

Dynamics of the outward reinsurance market (million RUB)



Q2 2018 was considerably worse than Q1 and even 13% worse than Q2 2017. However, ceded premiums have increased by 14% compared to the same period of the previous year.

This was partly due to the repeatedly referenced effect of the carryover of some placements, first of all, of Lukoil (from Q1 2017 to Q4 2016).

Growth rates in Q2 varied greatly both in the domestic and international segments that demonstrated a decrease by 20%. As a result, the share of Russian placements in the 1st half of the year increased from 22% to 24%.

RNRC accounts for a considerable share in the domestic market growth by 24%, the trend would be weak upward without RNRC's premiums – it would have grown by 2% (provided that the reported premiums ceded to RNRC are the same as premiums accepted by RNRC).

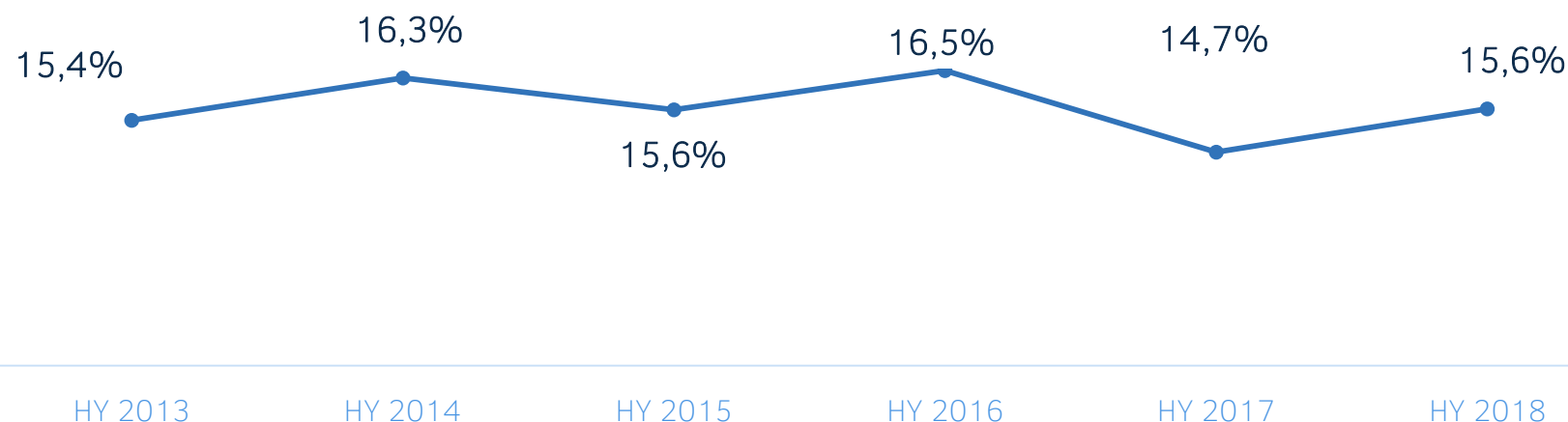
But the share of RNRC has restored after its drop in Q1 and even compared to its year end performance in 2017. This is partly due to increased premiums accepted for risks subject to sanctions after a new round of April sanctions against Russian companies. This mostly affected INGOSSTRAKH operations as a key insurer of RUSAL Group.

Most major insurers have increased their reinsurance volumes. In absolute terms, the key contribution was made by CAPITAL INSURANCE, PROMINSTRAXH, VTB INSURANCE and SOGAZ, each demonstrating growth by more than 1 billion RUB. The highest growth of PROMINSTRAXH was mainly registered in the builder's risk reinsurance segment.

Based on the data for the 1st half of the year, premiums ceded are more consistent with direct business amounts, which haven't experienced any considerable changes. Foreign exchange changes, through more active in Q2, still had no effect in the reporting period.

Dynamics of the outward reinsurance ratio

Ratio of ceded premiums to direct and assumed premiums, excluding life insurance and compulsory motor third party liability insurance

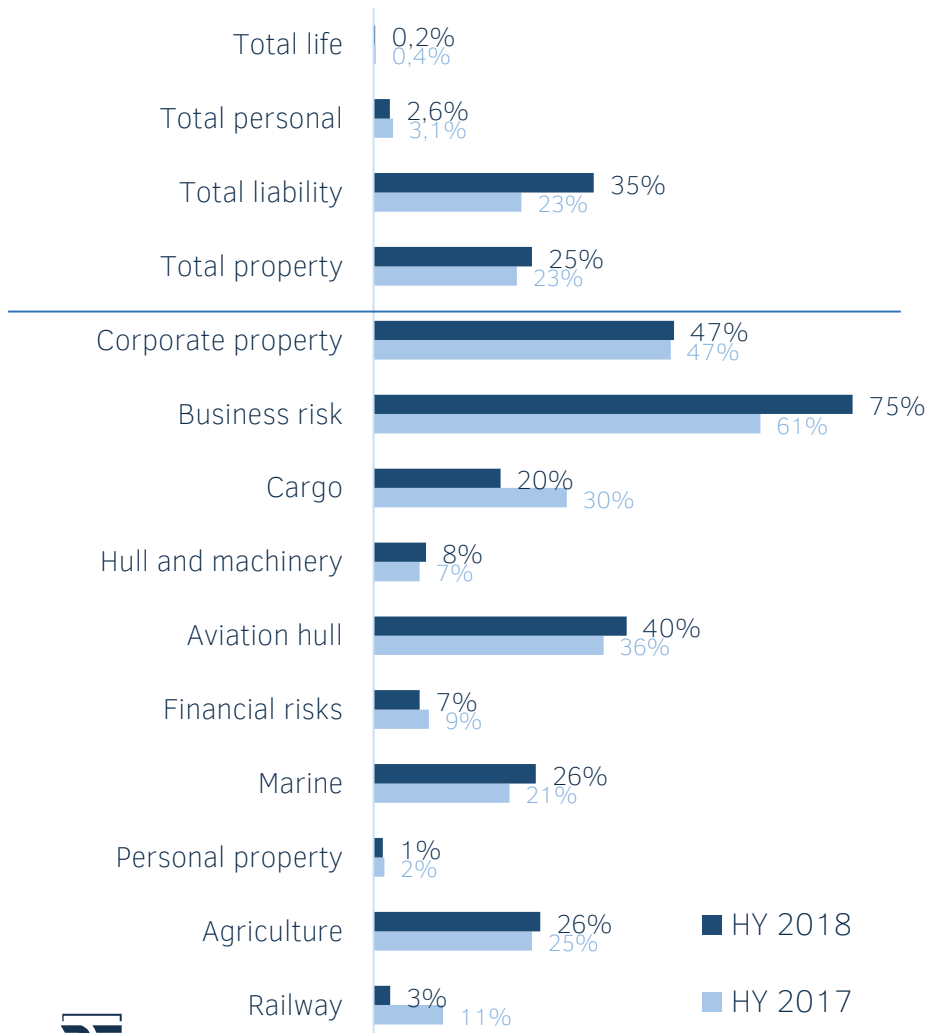


Based on the data for the 1st half of the year, the share of outward reinsurance has considerably decreased (about 1%) after its unexpected growth in Q1.

The ratio of outward reinsurance premiums to the total direct and assumed reinsurance premiums has considerably increased at the end of the 1st half of the year (excluding life insurance and compulsory motor TPL premiums), though it is notably higher than in the previous year, but notably lower than in Q1 2016 – a record-breaking year in terms of total ceded premiums.

Risks with smaller shares

Ratio of ceded premiums to direct and assumed premiums (voluntary business)



In the 1st half of 2018, the shares of ceded risks in certain segments changed significantly.

The business risk segment was strongly influenced by the behavior of the market leader. SOGAZ has notably increased its ceded premiums in this business. The level of premiums ceded in the corporate property business returned to a more normal level after its sudden growth in Q1.

In liability insurance, there was a significant increase both in the share of ceded premiums and in absolute premiums in default risk insurance, which is supposedly associated with increased builder's risk reinsurance volumes.

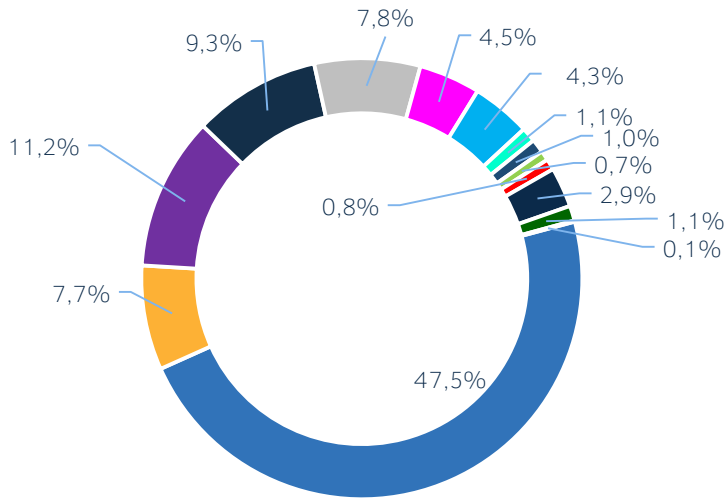
The share of reinsurance in the cargo segment continued to decrease, while its share in other complex risks, aviation and marine hull, is regaining its levels in earlier periods.

The share of hull and machinery premiums ceded is growing as it has been mentioned above due to this business relevance as a tool to improve regulatory performance – both in terms of the required capital and covered assets.

It is reasonable to expect that this trend will continue or even grow, if the ban on reinsurance in this segment is lifted, within the framework of TPL insurance.

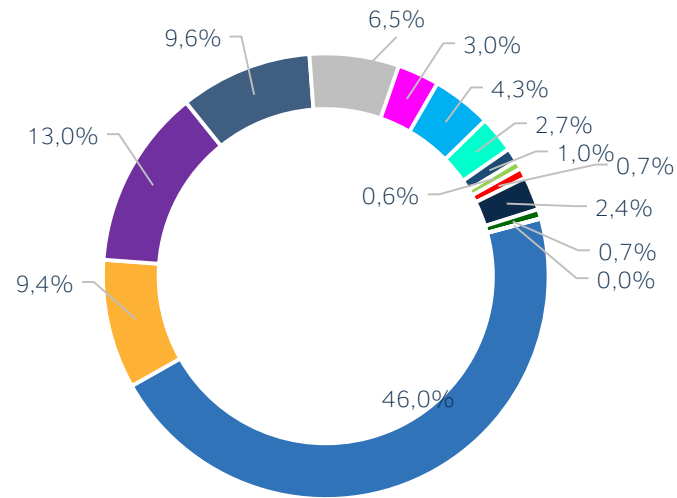
Outward reinsurance market structure

Outward reinsurance market structure, 1st half of 2017



- Corporate property
- Liability including hazardous industrial facilities
- Voluntary medical insurance and accident insurance
- Aviation hull
- Marine
- Life

Outward reinsurance market structure, 1st half of 2018



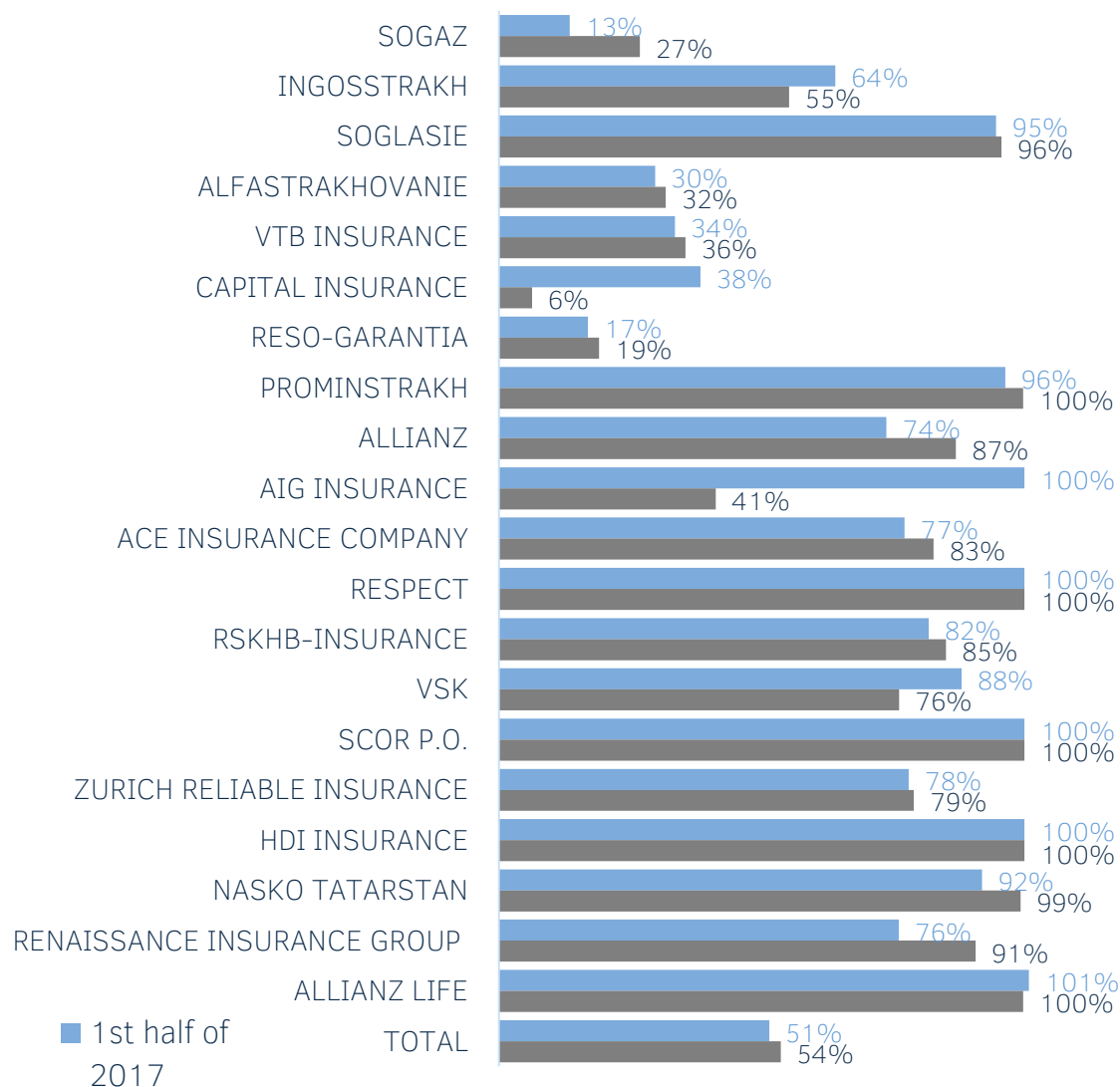
- Financial and business risks
- Hull and machinery
- Cargo
- Compulsory insurance of hazardous industrial facilities
- Personal property
- Compulsory carrier liability insurance

The 1st half of 2018, unlike Q1, is almost similar to the same period of the previous year. The share of business risks has increased due to SOGAZ.

The share of hull and machinery reinsurance has leveled off in the reviewed years, but at a higher level than before, mainly due to a sudden increase in demand for reinsurance of this business on behalf of insurers in order to lower regulatory capital requirements.

The share of compulsory hazardous facility reinsurance has increased considerably due to its twofold growth in absolute terms. As a result, the shares of other segments have decreased, as in liability insurance, which has increased in absolute terms but whose share has notably decreased in the total volume. Companies have become less active in the voluntary health reinsurance segment.

Share of treaty reinsurance

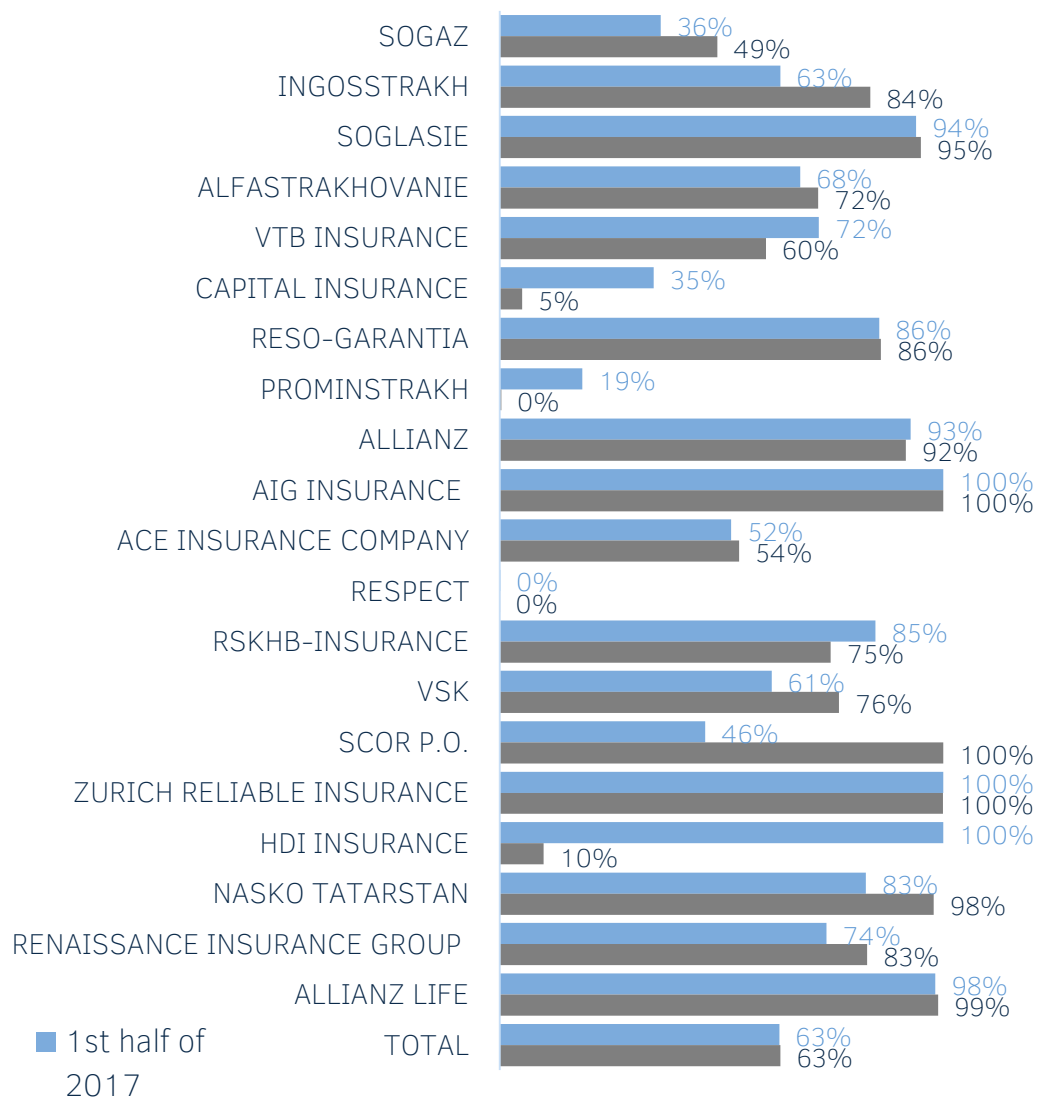


The structure of the market in terms of the prevailing form of reinsurance looks quite stable. In 2018, the share of treaty reinsurance has grown slightly, mainly due to an increased share of treaties in the portfolio of SOGAZ.

As it can be seen, the share of treaties of subsidiaries of foreign insurers (usually for the benefit of the parent) is, as a rule, equal to 100 percent.

It is also evident that the share of facultative reinsurance in the portfolios of major insurers is considerably larger due to the need for reinsurance of major risks.

Share of treaty reinsurance



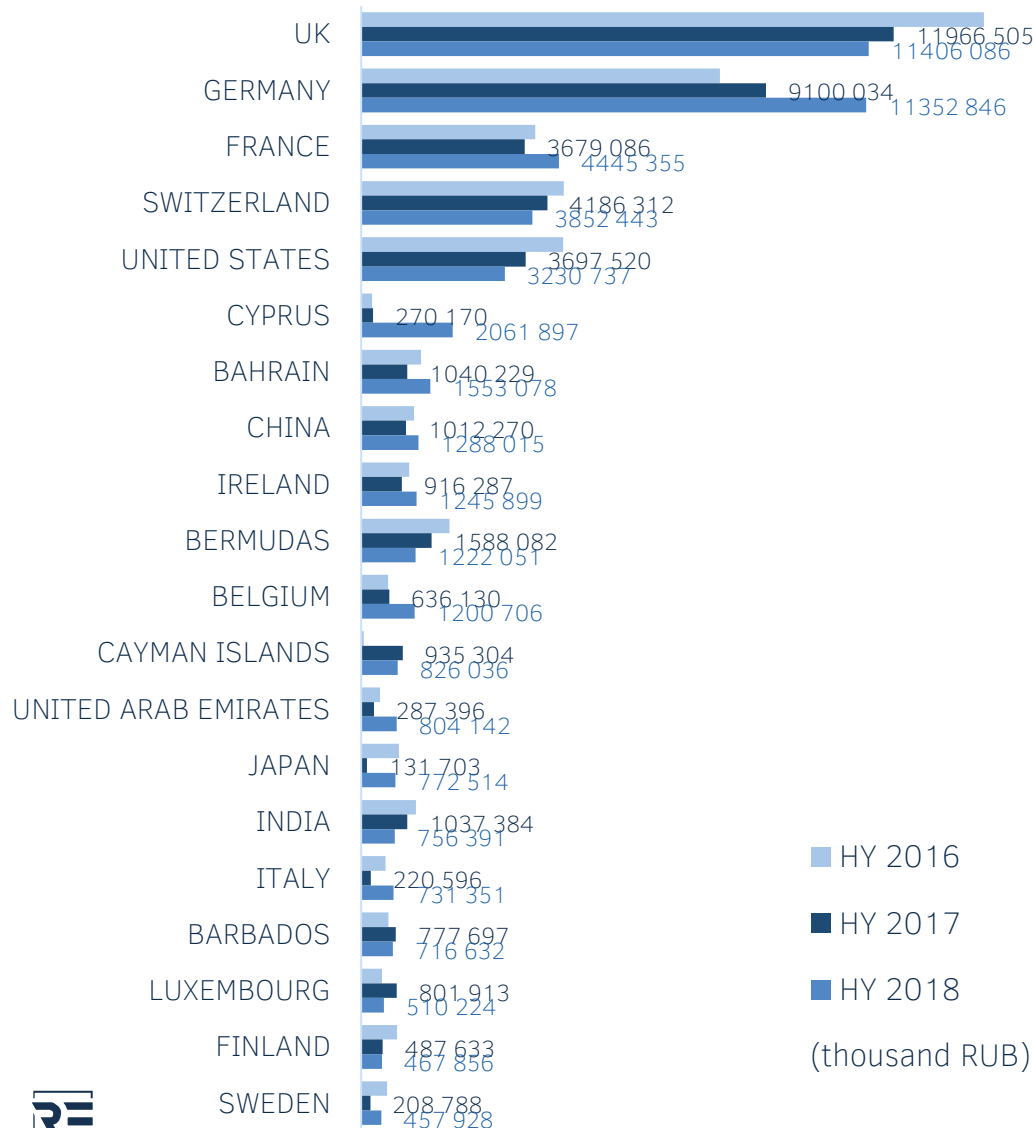
The structure of the market in terms of the prevailing form of reinsurance looks quite stable across the market in general and varies greatly at the level of individual insurers.

The share of proportional reinsurance of major companies is usually smaller. However, the choice of the reinsurance type depends on multiple factors, including those that are related to reinsurance type effects on regulatory insurance indicators.

It should be noted that the share of treaties of subsidiaries of foreign insurers (usually for the benefit of the parent) is, as a rule, equal to 100 percent. However, there was an exclusion from this rule in 2018, i.e. HDI INSURANCE.

Countries where premiums go to from Russia

Top 20 leading countries in terms of the amount of premiums ceded by Russian insurers



The country-level dynamics of premiums ceded is rather mixed as 11 of 20 countries have demonstrated growth while 9 countries have demonstrated decline. At that such decline is estimated as 35%, while premiums ceded to Cyprus increased by 7.5 times (mainly due to builder's liability risks ceded by PROMINSTRAXH).

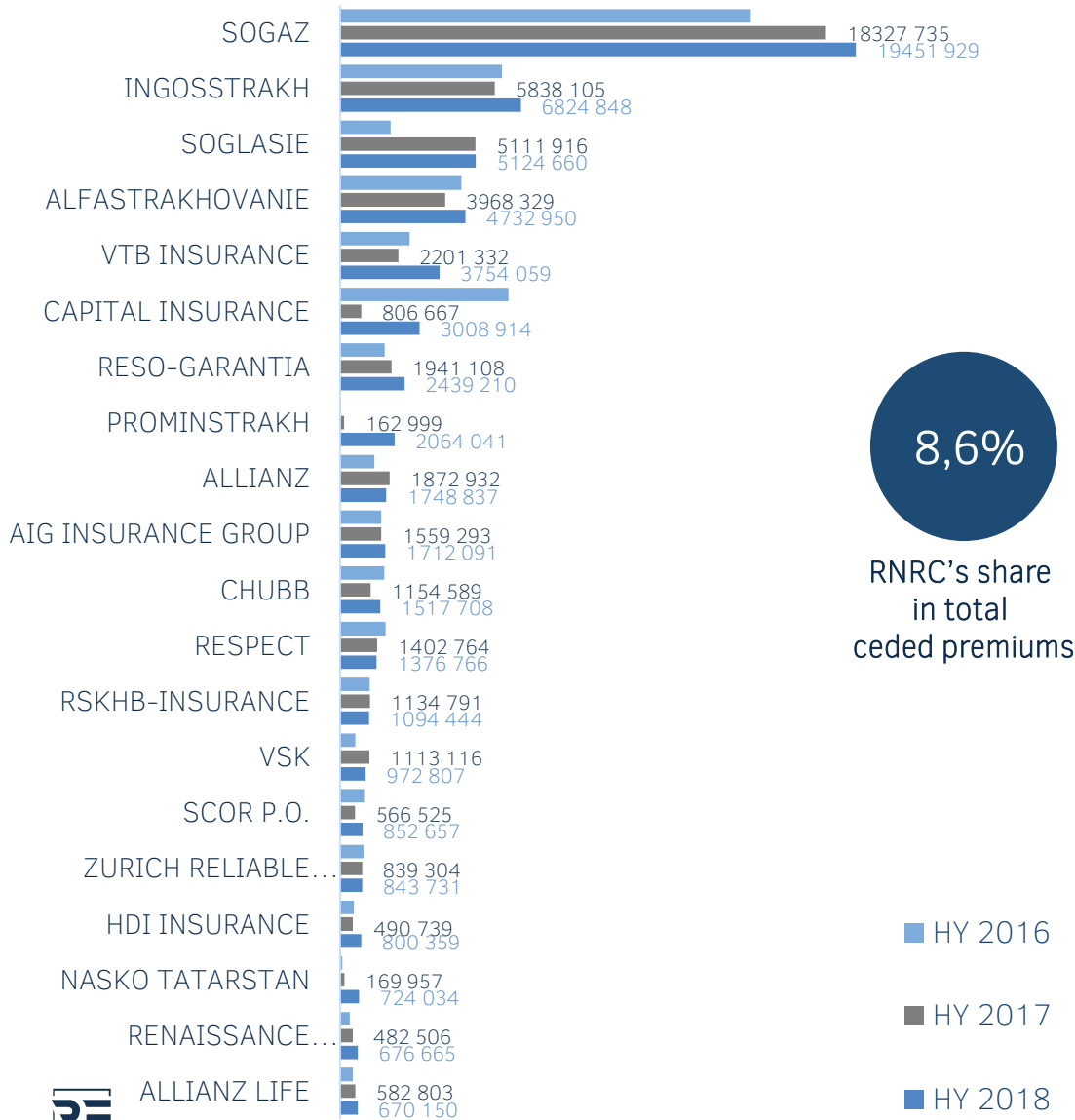
The highest growth in absolute terms has been demonstrated by premiums ceded to Germany as a result of growth of premiums of many companies at once.

France ranks the third in terms of absolute growth due to premiums ceded by SCOR and ALFASTRAKHOVANIE.

The threefold growth of premiums ceded to Italy is due to the "return" of INGOSSTRAXH that used to cede considerable amounts of premiums to Italy in 2016.

UK accounts for the largest share loss in premiums in absolute terms due to a decrease in premiums ceded by SOGAZ (by 1.6 billion RUB) that was not compensated by an increase in premiums ceded to UK by CAPITAL INSURANCE (about 1 billion RUB).

Leaders of the outward reinsurance market



The majority of companies increased the amounts of ceded premiums.

The most notable increase in the 1st half of the year was reported by CAPITAL INSURANCE; the amounts of premiums of PROMINSTRAKH also raced up (due to increased builder's liability premiums); VTB INSURANCE ranks third with the amount of premiums ceded under corporate property insurance of 1.4 billion RUB).

VSK demonstrated the sharpest downward trend in reinsurance in the 1st half of the year.

■ HY 2016

■ HY 2017

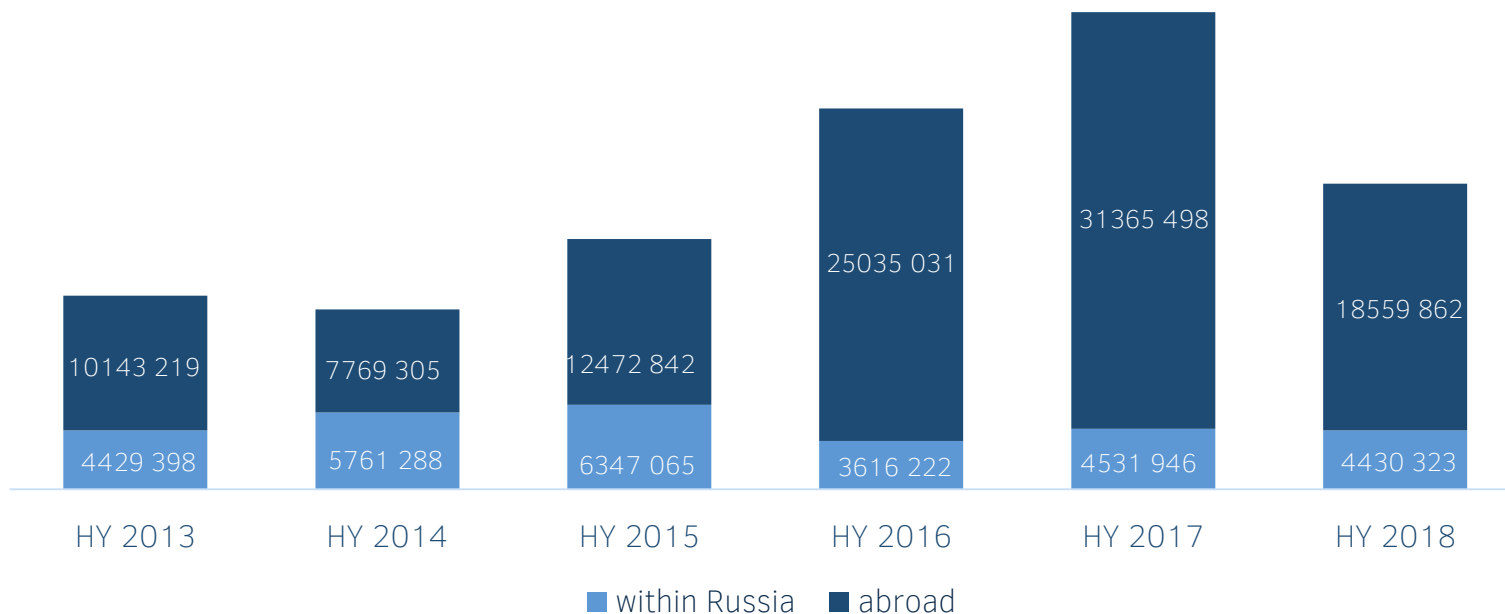
■ HY 2018

(thousand RUB)



Dynamics of claims paid by reinsurers

Dynamics of claims paid by reinsurers (million RUB)



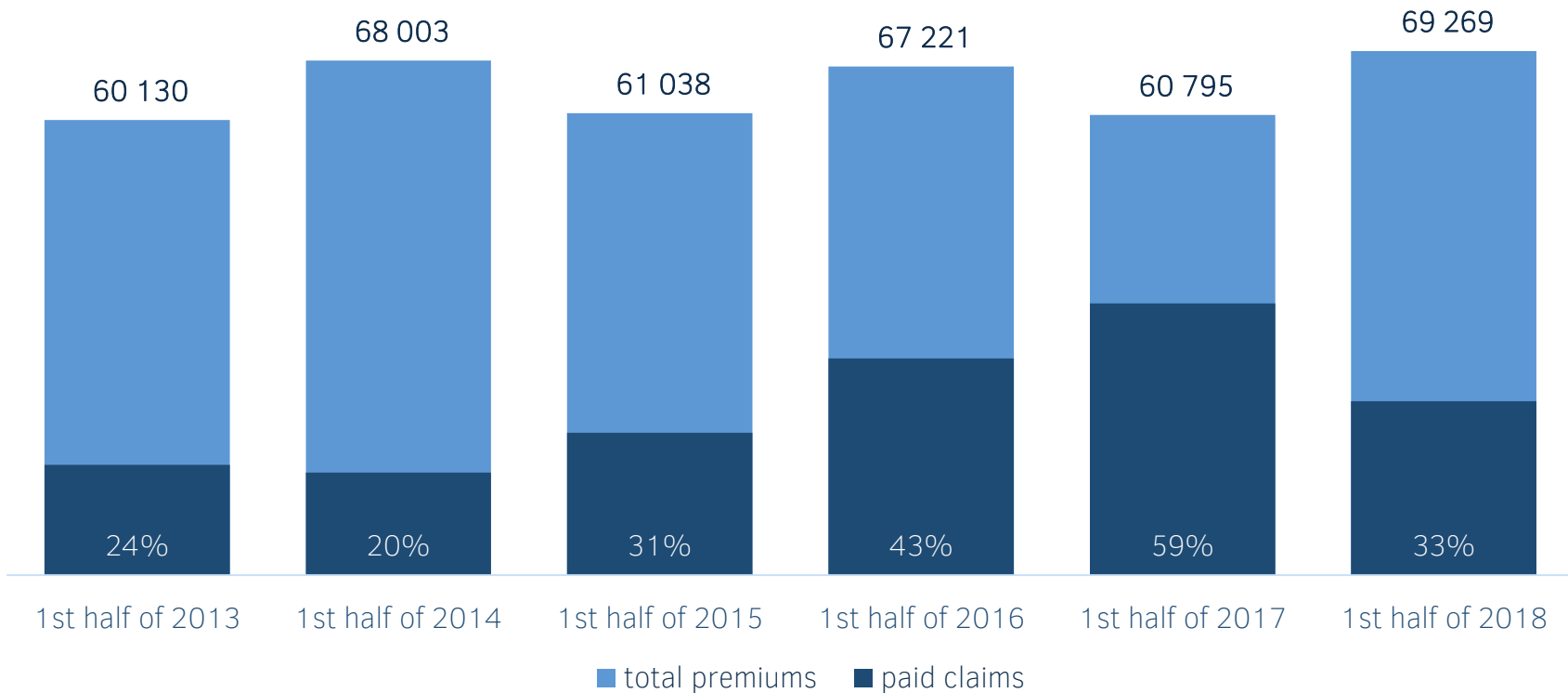
The last years were very unsuccessful for reinsurers. An unusually high value of the reinsurers' share in paid claims in the first half of 2016 was due to the loss claimed under Achinsk Refinery reinsurance (the loss of SOGAZ).

In the 1st half of 2017 a significant amount of paid claims was due to the final settlement of loss in respect of Berezovskaya GRES, which amounted to about RUB 26 billion, of which about RUB 20 billion were paid in 2017.

2018 has been successful for reinsurers up to this point.

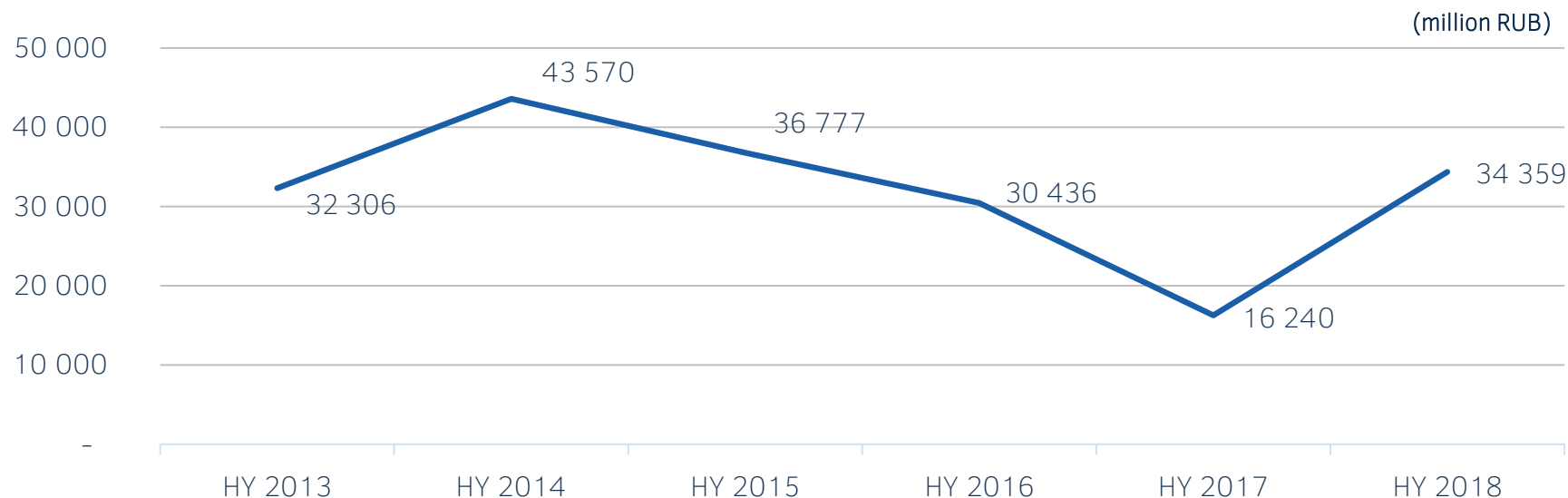
Loss ratio

Dynamics of premiums growth — outward reinsurance (million RUB)
Loss ratio (%)



Despite the fact that the last years were very unsuccessful for reinsurers due to a number of large paid claims, the reinsurance market remains generally attractive, as the amount of paid claims is generally low.

Dynamics of outflow of funds from Russia



A major portion of the positive balance between premiums and paid claims goes to the international market. A considerable decrease in the positive balance in the 1st half of 2016 was due to large paid claims, and in the 1st half of 2017 was due to both large paid claims and a decrease in ceded premiums, partly due to the transfer of some premiums from international markets to Russia in connection with the establishment of RNRC.

But the 1st half of 2018 has been more favorable for the Western reinsurers, though not so bright as Q1 2018. An increase in premiums ceded against relatively standard losses resulted in a normal “balance”.

Certainly, this simple figure should be viewed warily, as it does not take into account any reserved and outstanding claims or information on unpaid premiums. Nevertheless, it can be indicative and as such is quite useful.



THANK YOU FOR YOUR ATTENTION!

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