



Reinsurance in Russia: 2017

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 on quarterly statistics published by the Bank of Russia. As the Bank of Russia prepares its statistics using reports that are subject to adjustment, some indicators for some of the companies have been adjusted. In particular, the Report contains RNRC's final data from financial statements.

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

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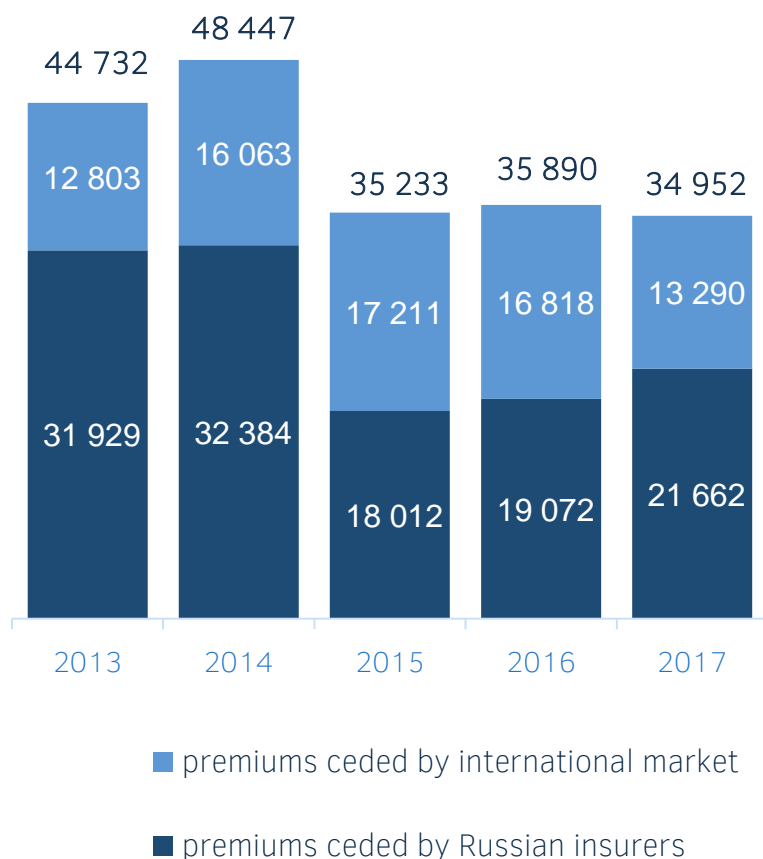
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Paid claims

Inward reinsurance market dynamics

Dynamics of the inward reinsurance market (million RUB)



In 2017, the downward trend of the inward reinsurance market continued. The market declined by 2.6% only. If not for RNRC, the decrease would have reached 24%.

The Russian inward reinsurance market has grown by 13.6%. If not for RNRC, the market would have seen a 26% drop in premiums. What is worth noting is an unexpected reduction of inward business placed from Russia with SOGAZ and ROSGOSSTRAKH. SCOR has become considerably less active on the Russian market.

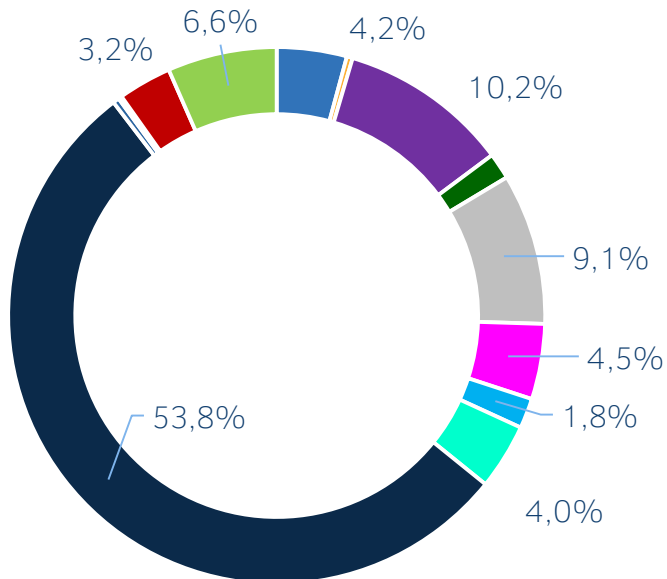
The decrease in international risk premiums of Russian companies continued and made 21% of that recorded in 2016. In 2017, the share of international business was notably less than in 2016: 38% vs. 47%.

The decrease in premiums was partly due to the strengthening of the Russian ruble being 12% on an annual average basis. A notable impact was made by the reduction of international business by INGOSSTRAKH, CAPITAL INSURANCE, AIG, SCOR, and SELEKTA. The latter has had its license suspended and eventually withdrawn.

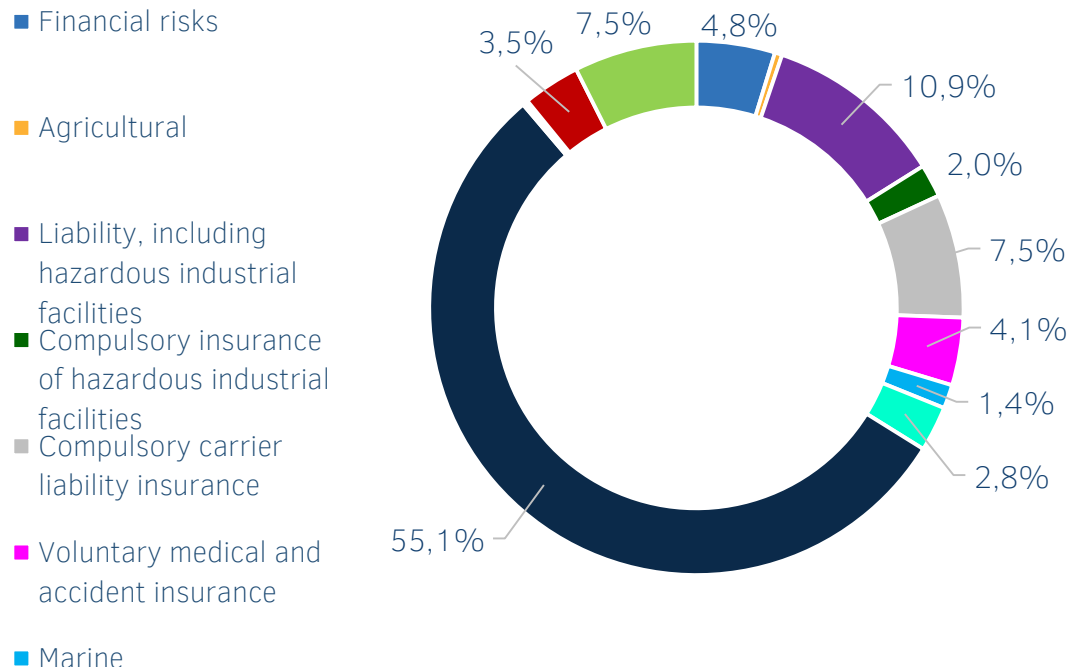
Such reduced performance in both segments was significantly due to winding-up of UNITY RE.

Inward reinsurance market structure

Inward reinsurance market structure 2016



Inward reinsurance market structure 2017

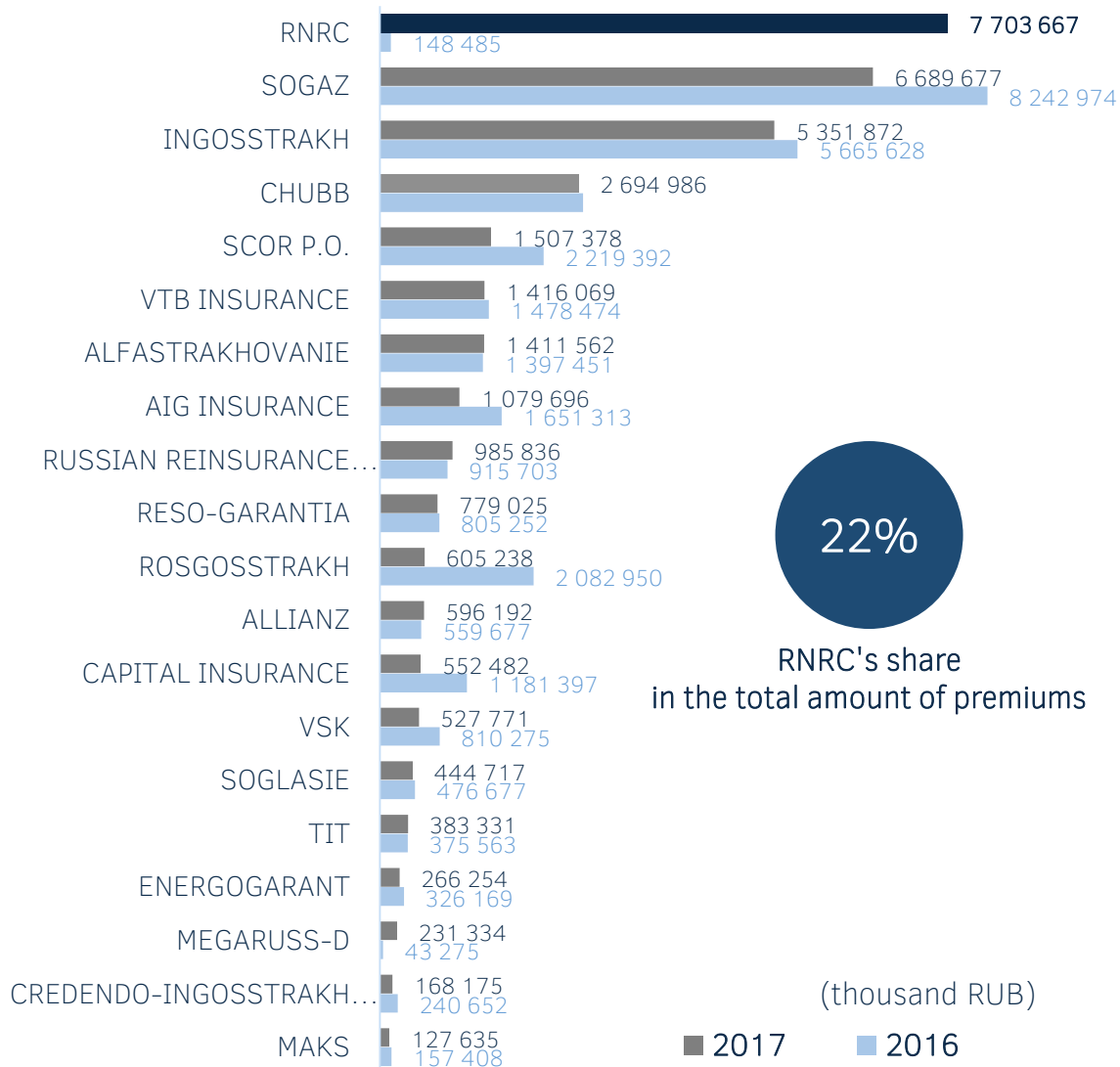


Despite significant changes in individual companies, the overall structure of the market remained stable.

What is special about 2017 is that the shares of certain types of business changed in opposite directions in the 1st and 2nd half of the year: growth of the share of compulsory liability insurance (hazardous industrial facilities and carriers liability) and decline of the share of corporate property business in the 1st half of the year were followed by respective opposite trends in the 2nd half. Changes in compulsory business are technical and are due to changes in the accounting regulations.

The less significant among these changes in absolute terms is a drop in the share of land transport hull business (mainly due to a decrease in premiums of SCOR from the Russian market). A considerable growth of the share of personal property business due to SOGAZ gave way to negative premiums under this type of contracts for the year as a whole.

Leaders of the inward reinsurance market

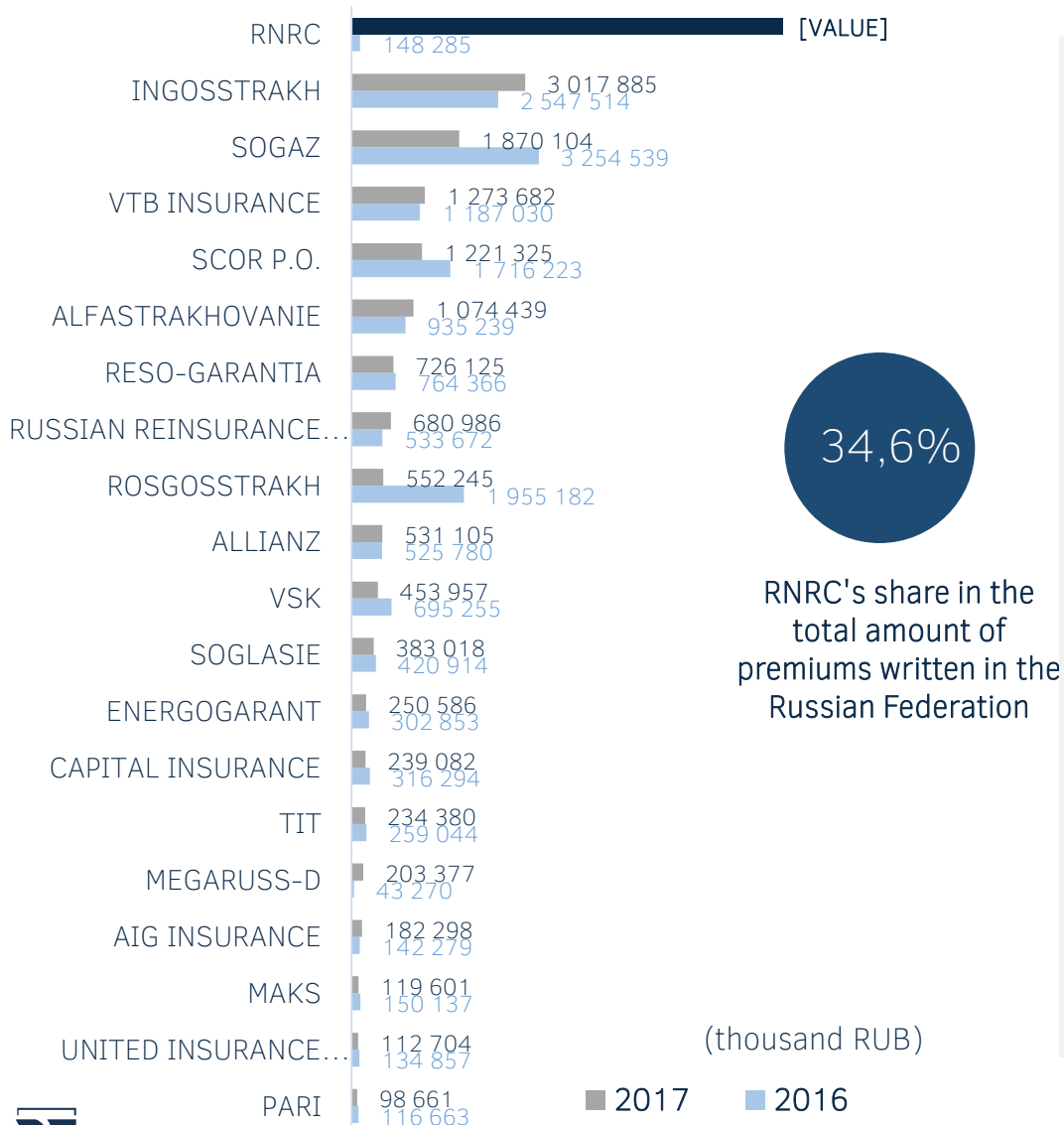


RNRC has increased its market share and for the first time ranked first among the leaders.

The previous leaders, SOGAZ and INGOSSTRAKH, showed a reduced performance in their reinsurance business. For SOGAZ, the fall was mainly due to a decline on the domestic market, while INGOSSTRAKH lost its ground on international markets.

UNITY RE and SELEKTA have fallen out of the top list.

Leaders of the inward reinsurance market in the Russian Federation



RNRC accounts for about 35% of the Russian inward reinsurance market.

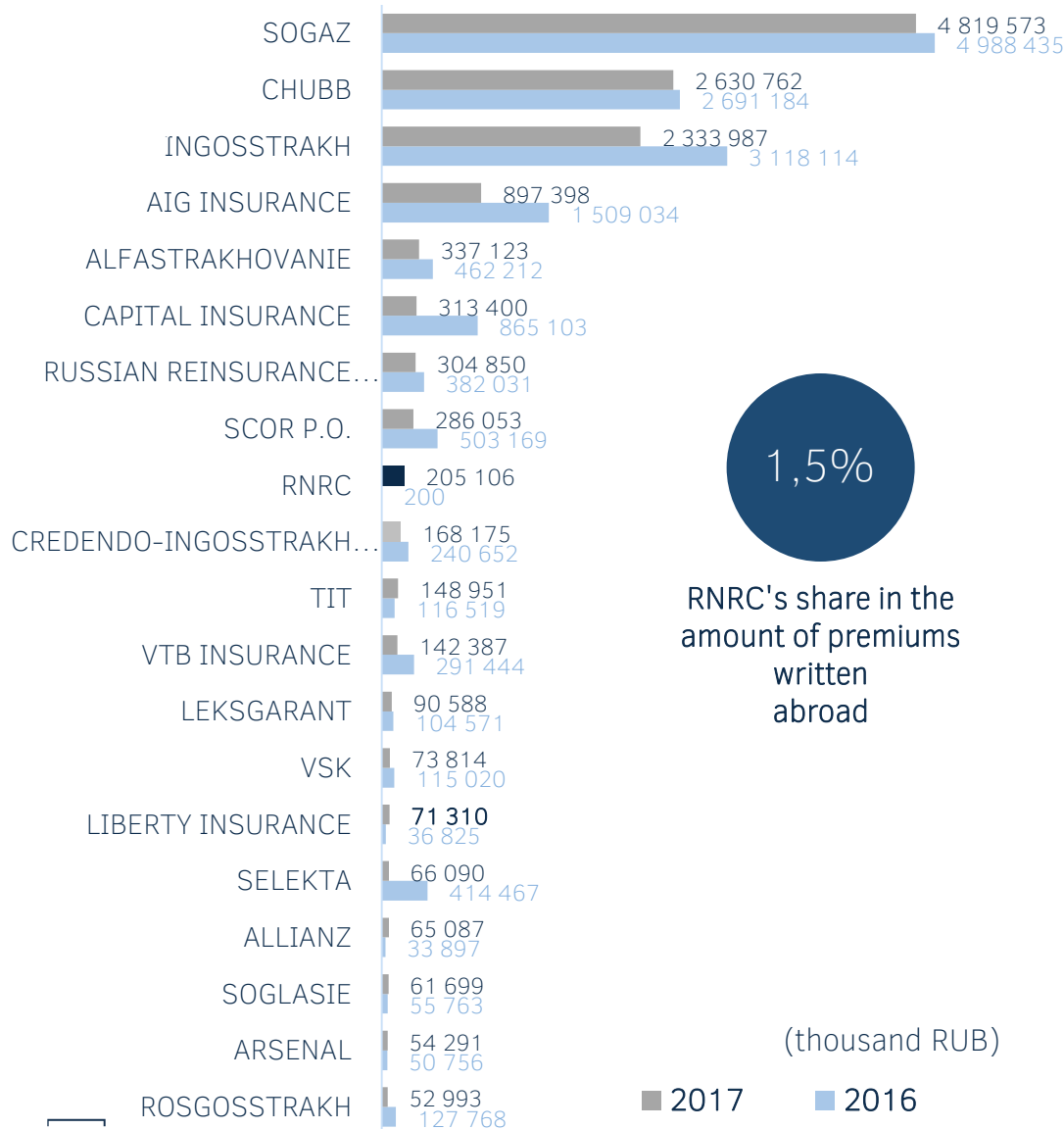
If not for written premiums of RNRC, the inward reinsurance market would have seen a 26% drop instead of growing by 13.6%.

INGOSSTRAKH posted a 18% increase and SOGAZ saw a 43% decrease in inward reinsurance premiums. The latter was due to almost a twofold decrease in premiums under corporate property insurance contracts.

A significant drop in premiums of ROSGOSSTRAKH was caused by a decrease in premiums in the corporate property business, probably due to no intra-group operations with CAPITAL INSURANCE to place insurance of Lukoil.

SCOR saw a drop in premiums due to decreased premiums under hull and machinery and accident insurance contracts.

Leaders of the market of inward reinsurance from abroad



All notable players of the market of inward reinsurance placed by foreign insurers experienced a decrease in their business. One of the reasons was the strengthening of the ruble, leading to a decrease in the Ruble equivalent amount of premiums.

The largest “loss” was suffered by INGOSSTRAKH. Its premiums decreased notably in all types of business, with the largest drops observed in corporate property and aviation hull sectors.

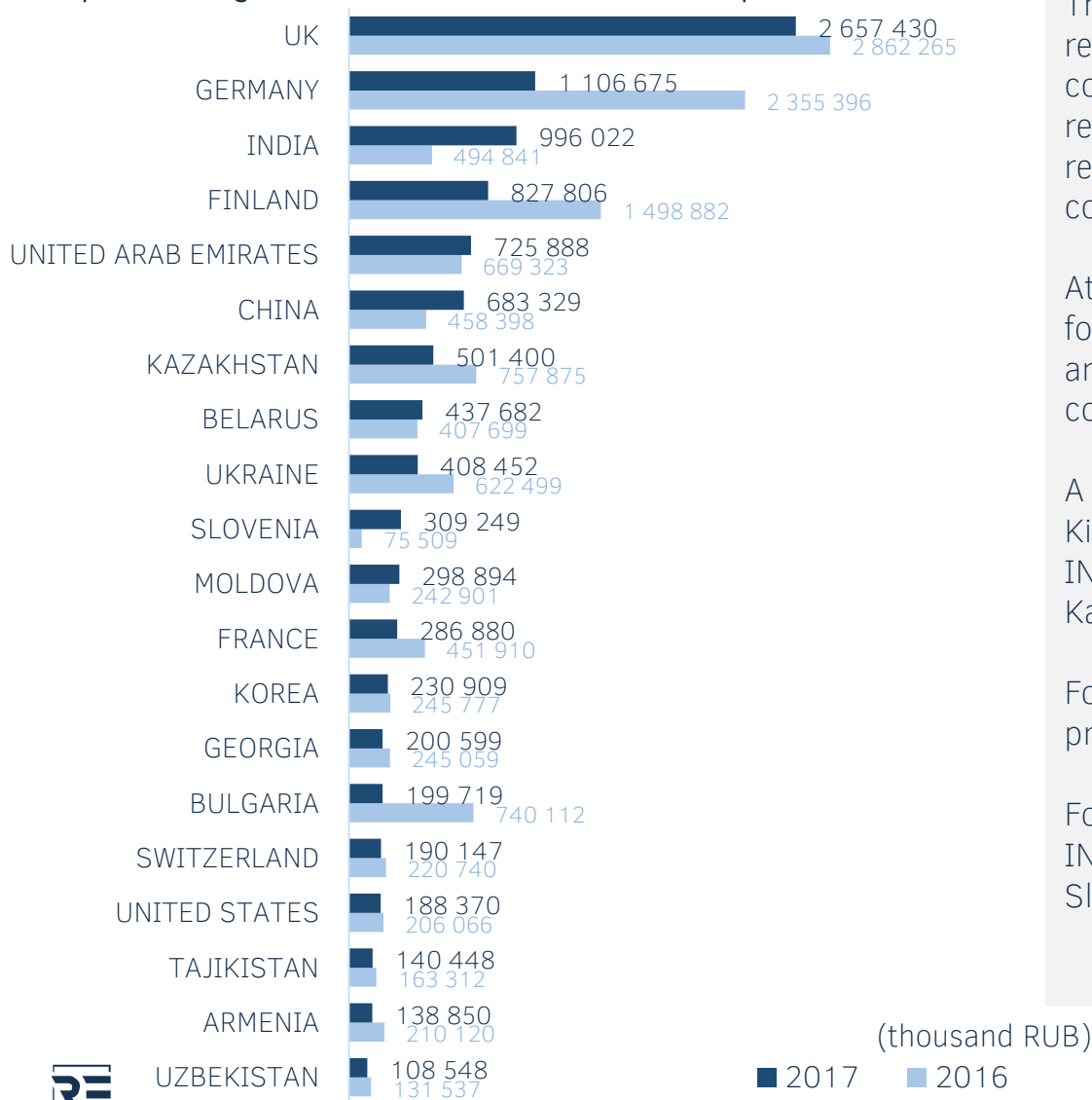
CAPITAL INSURANCE has lost a significant amount of inward reinsurance business from Bulgaria.

SELEKTA essentially left the market in 2017.

The international business of RNRC has not reached any significant volume yet, as its operations on international markets started in Q2 2017 after international rating assignment by Fitch (BBB-).

Countries ceding premiums to Russia

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



The amount of premiums ceded to Russian reinsurers has decreased for the majority of countries. The most notable decrease is recorded for Germany. This is due to a dramatic reduction of inward business placed from this country with SOGAZ.

At the same time, SOGAZ was able to make up for the lost business on account of India, China and the UAE, resulting in growth for these countries.

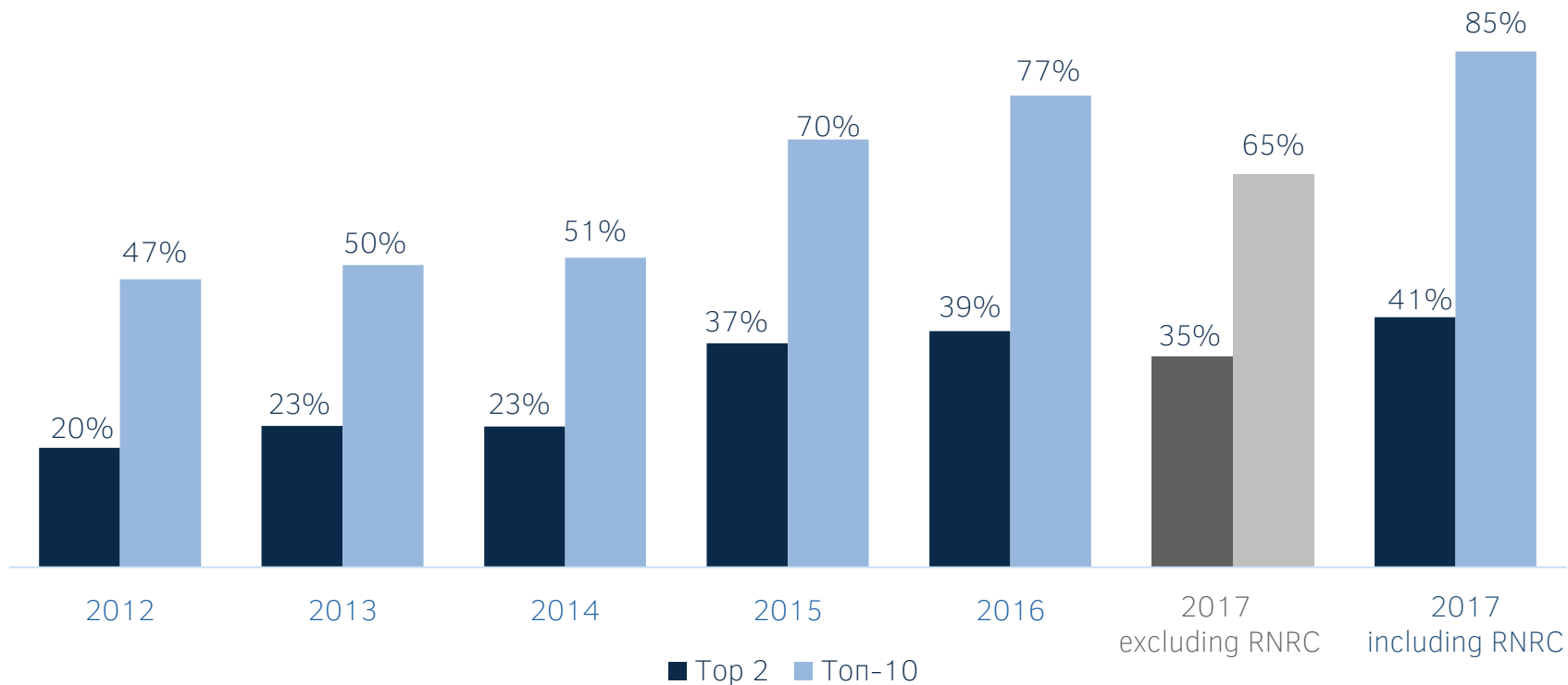
A small drop in premiums from the United Kingdom was due to a decrease in premiums of INGOSSTRAKH, as well as a decline in Kazakhstan.

For Finland, almost a twofold decrease in premiums was due to AIG.

For Bulgaria, the decline was due to CAPITAL INSURANCE. The growth of premiums from Slovenia is also associated with this company.

Inward reinsurance market concentration

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



The trend towards the concentration of the inward reinsurance market continues. Following a decrease in premiums from international markets, the share of Russian companies among the top 10 players is growing. In 2017, the Top 3 companies accounted for more than half of the market.

Outward reinsurance market dynamics

Dynamics of the outward reinsurance market (million RUB)



In Q4 2017, the decline of the outward reinsurance market became somewhat faster. While at the end of the 1st half of 2017, the market decreased by 10% and at the end of 9 months by 13%, the aggregate drop for the year was 17%.

This was partly due to the effect of the transfer of some placements, first of all, of Lukoil.

The assessment of 2017 performance should take into account changes in the accounting policies. The effect of this factor cannot be assessed without obtaining detailed information from each company; however, it could be assessed as several billion rubles.

Premiums ceded to international markets have continued to go down and by the end of the year, decreased by 22% (9 months: 21%; half year: 14%).

On the contrary, the Russian market grew by 12%, but only due to RNRC which transferred some premiums from the international market.

If not for RNRC, premiums ceded in Russia would have dropped by 27%.

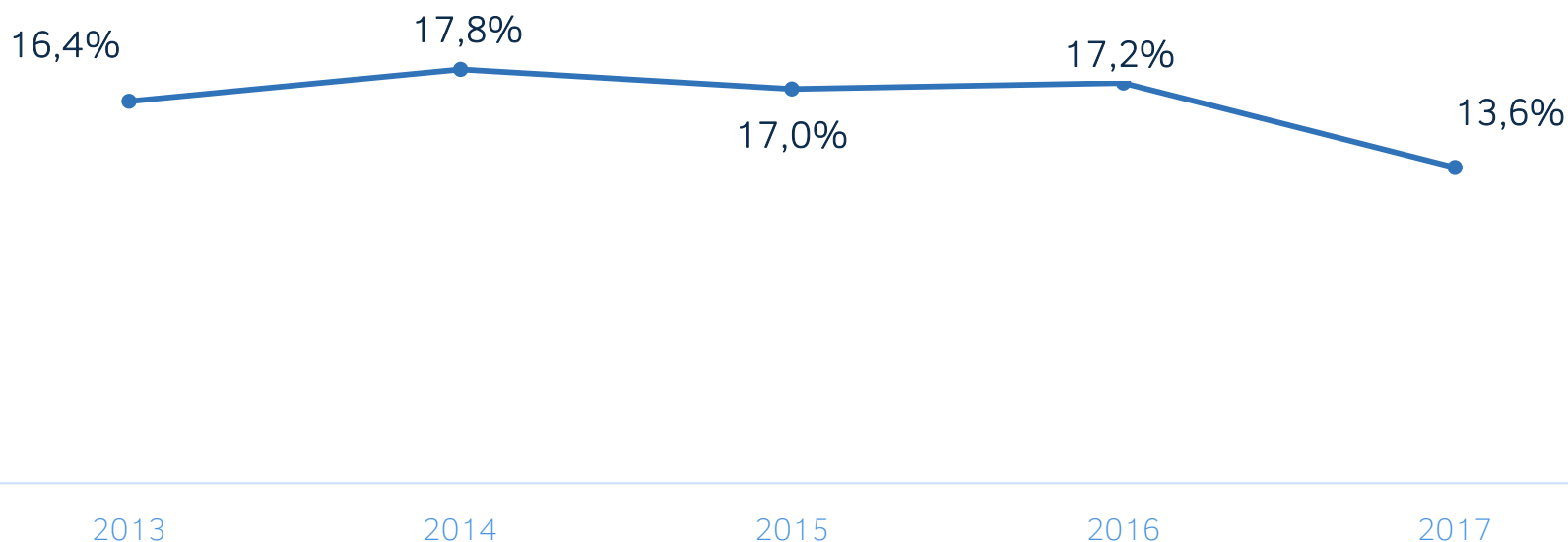
Consequently, the share of international business in the total ceded premiums decreased from 85% in 2016 to 80% in 2017.

Ceded premiums totaled RUB 110 billion.

No significant growth of premiums is expected in 2018. The dynamics will largely depend on the ruble exchange rate. In addition, premiums under property developers liability reinsurances are expected to decrease, and the general trend towards market consolidation and increase in retentions will continue, also resulting in negative effects on the amount of outward reinsurance.

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

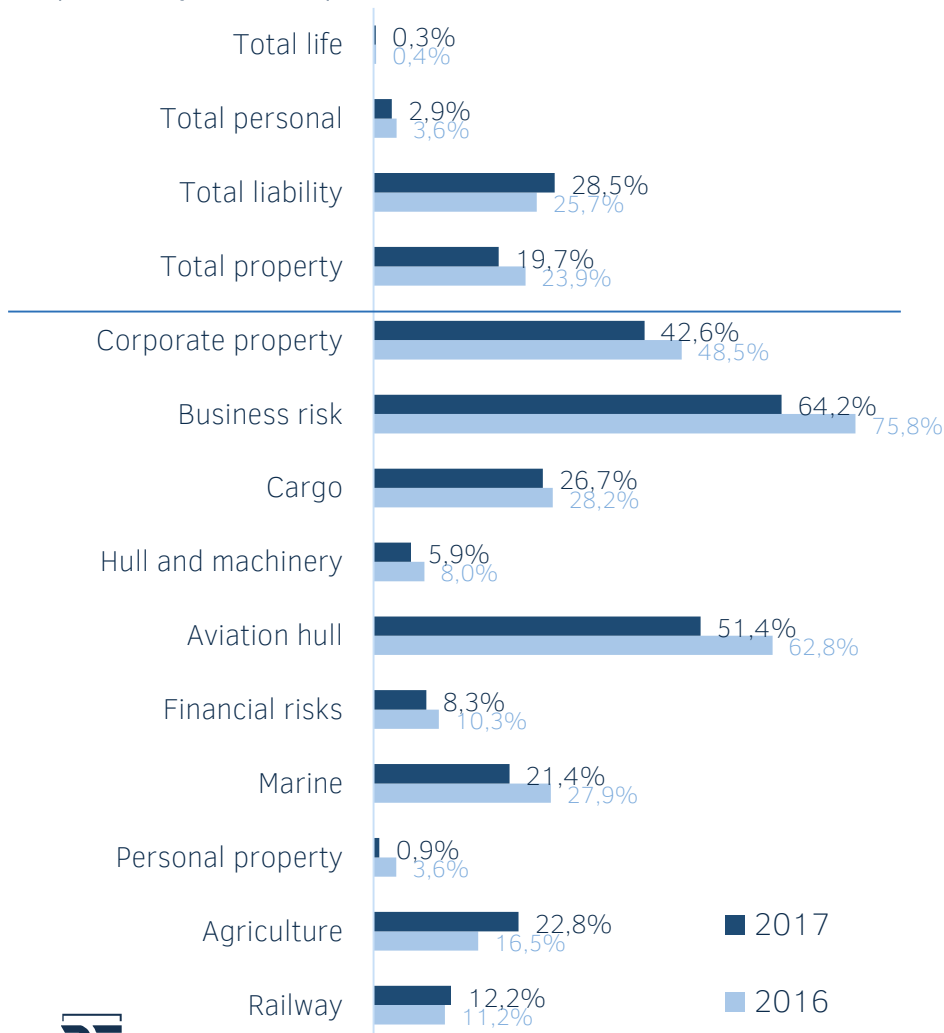


In 2017, ceded premiums not only showed a decline in absolute terms, but also substantial structural changes. The ratio of ceded premiums to total direct and assumed reinsurance premiums dropped notably (excluding life and compulsory motor third party liability business, as such risks either may not be ceded or are insignificant).

As premiums are carried forward between the years, this indicator will be adjusted to some extent, approximately up to 14.3%, which is, however, much below the rather stable figures posted in previous years.

Risks with smaller shares

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



In 2017, the shares of ceded risks in certain segments changed significantly.

Corporate property business was strongly impacted by the transfer of premiums of CAPITAL INSURANCE and a notable decrease in the share of ceded premiums of ALFASTRAKHOVANIE and INGOSSTRAKH. On the other hand, the market leader, SOGAZ, notably increased the amount of premiums ceded in this business.

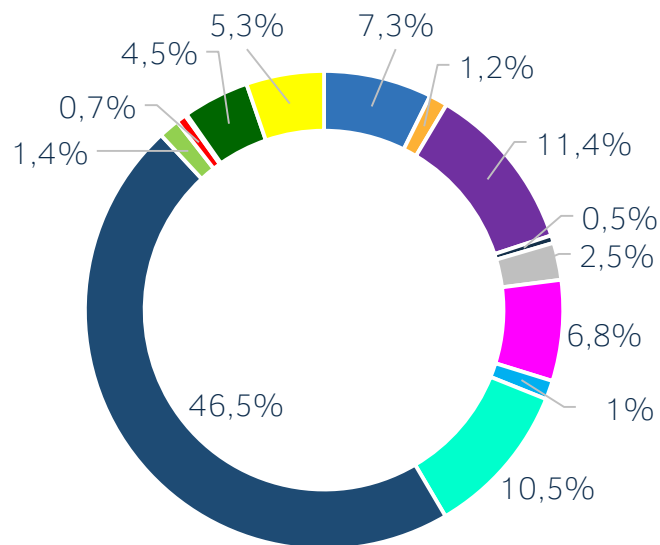
In liability insurance, there was a significant increase in the share of ceded premiums in aviation liability business. Both the share and absolute amount of ceded premiums in contractor default business also grew, presumably due to growth of written premiums in property developers liability reinsurance.

A decrease in the share of ceded business risks was almost totally due to the leader of the segment, SOGAZ, which was able to increase its direct premiums while keeping the reinsurance premium unchanged.

The share of business risk reinsurance is notably higher than that of corporate property business, mainly on account of business interruption insurance.

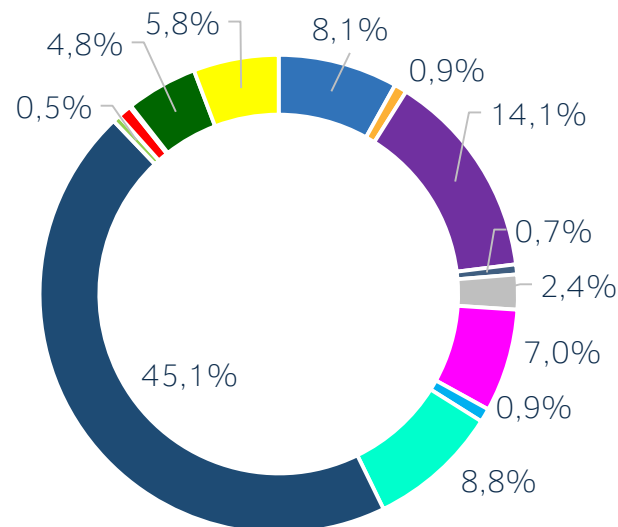
Outward reinsurance market structure

Outward reinsurance market structure 2016



- Financial and business risks
- Liability including hazardous industrial facilities
- Compulsory carrier liability insurance
- Marine
- Corporate property
- Life

Outward reinsurance market structure 2017

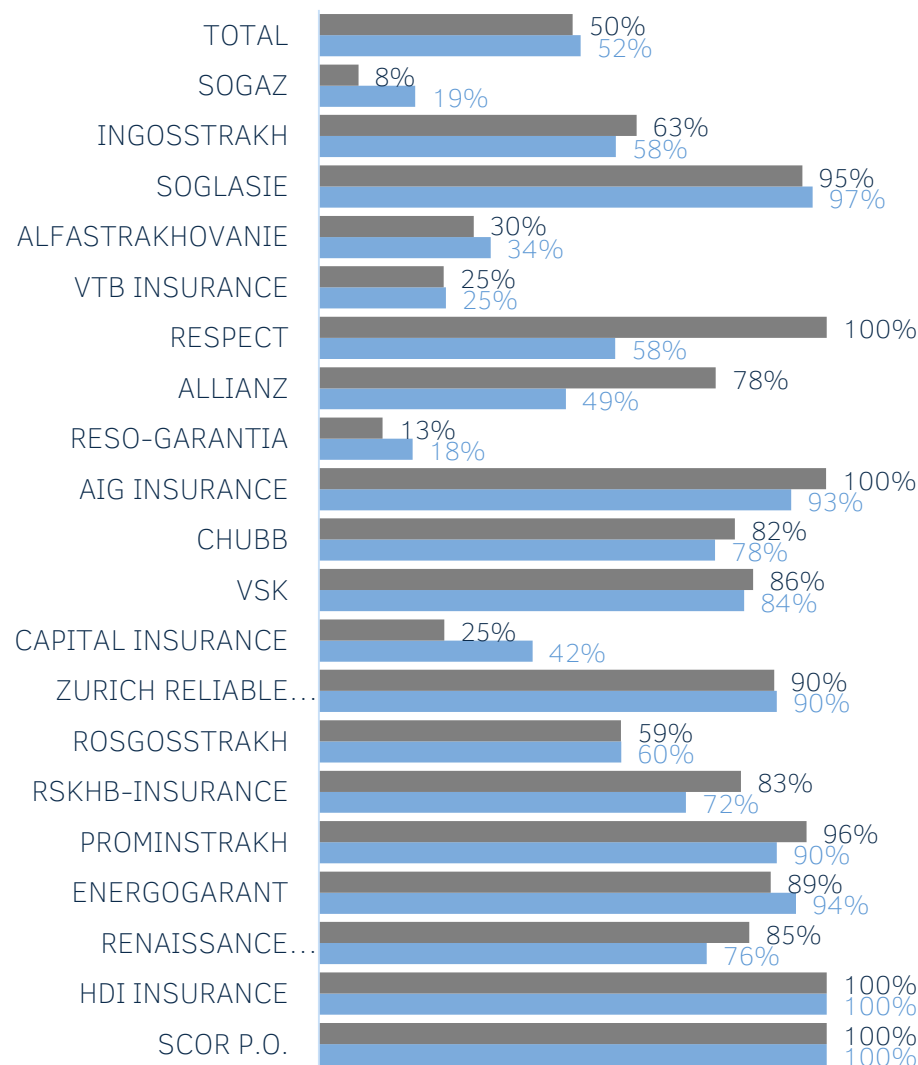


- Agriculture
- Compulsory insurance of hazardous industrial facilities
- Voluntary medical insurance and accident insurance
- Hull and machinery
- Personal property
- Railway

2017 saw a notable decrease in the share of hull and machinery insurance, although we expected a larger fall in this segment. The share of liability insurance has somewhat increased due to growth of aviation liability and property developers liability businesses. The share of corporate property insurance decreased to some extent, largely due to the transfer of reinsurance of Lukoil, as was mentioned above.

The share of personal reinsurance has dropped dramatically — by more than RUB 1 billion in absolute terms — mainly due to ROSGOSSTRAKH.

Share of treaty reinsurance



The structure of the market in terms of the prevailing form of reinsurance looks quite stable, although the share of premiums under treaties went down below 50 percent in 2017.

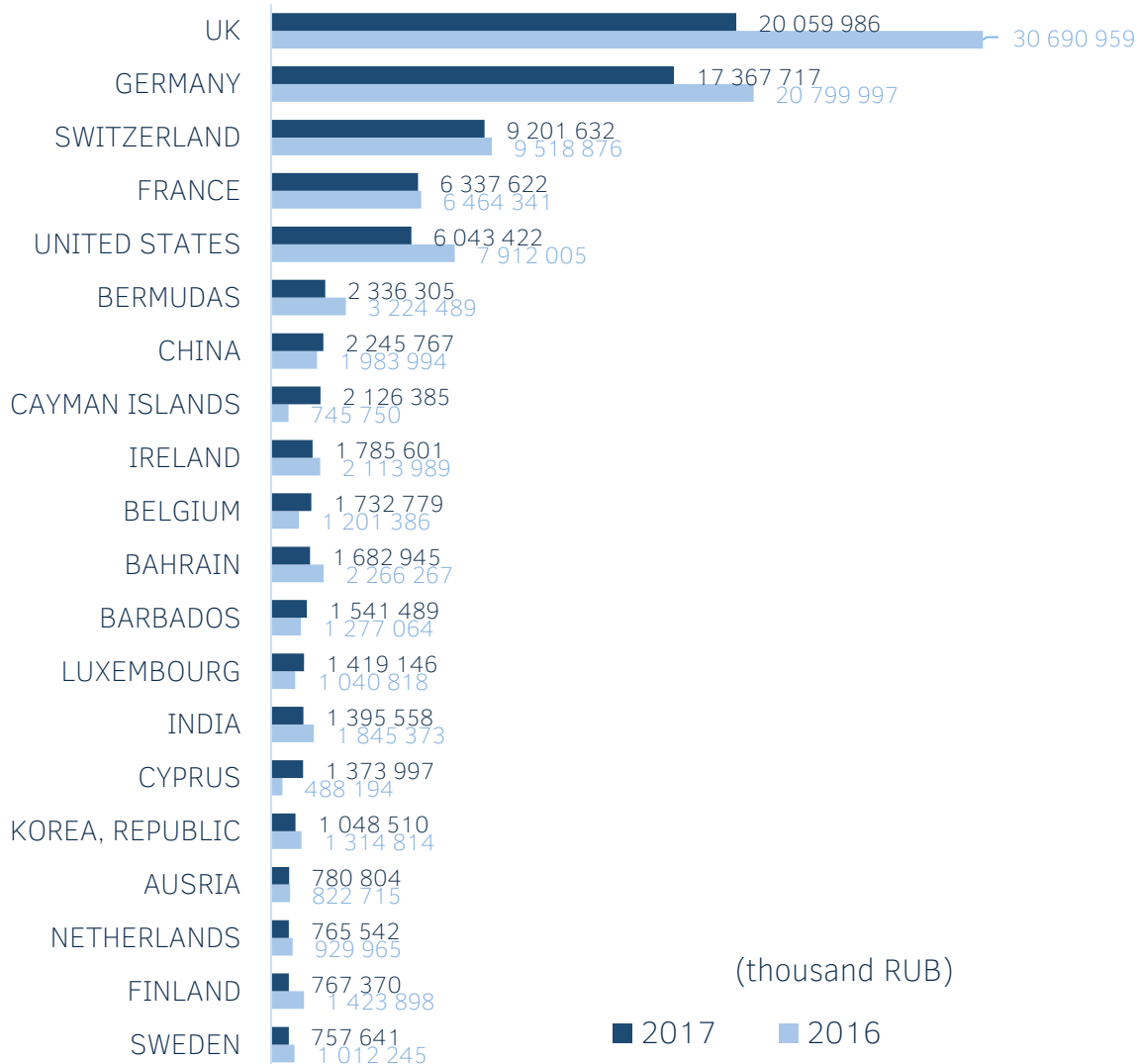
This was mainly due to a decrease in the respective share of the market leader, SOGAZ, and a decline in the total weight of subsidiaries of international insurers and reinsurers.

The share of treaties of subsidiaries of foreign insurers (usually for the benefit of the parent) is, as a rule, equal to 100 percent.

■ 2017 ■ 2016

Countries where premiums go to from Russia

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



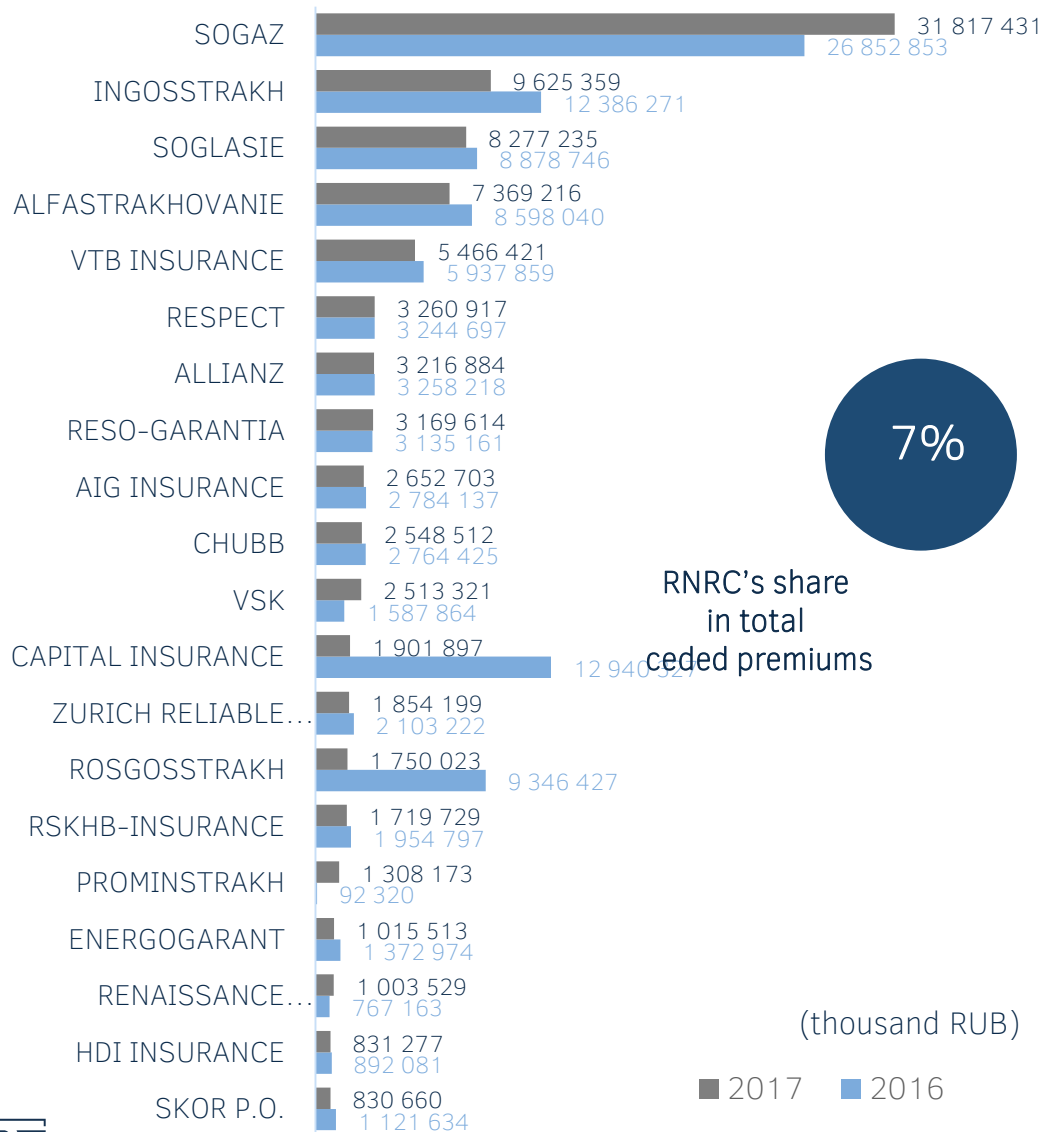
A wide-scale decrease in ceded premiums was due to changes in exchange rates.

The transfer of premiums of CAPITAL INSURANCE has most strongly hit the UK (about RUB 2 billion) and Kuwait (about RUB 880 million). As a result, Kuwait dropped out of the Top 20.

Premiums going to Germany decreased compared to the previous year, due to a drop in ceded premiums in hull and machinery business of SOGLASIE and a decrease in premiums of ROSGOSSTRAKH and INGOSSTRAKH. Among larger companies, premiums ceded to Germany were increased by SOGAZ.

The Cayman Islands appeared in the Top 20 list due to RESPECT's decision to have its risks reinsured in this country.

Leaders of the outward reinsurance market



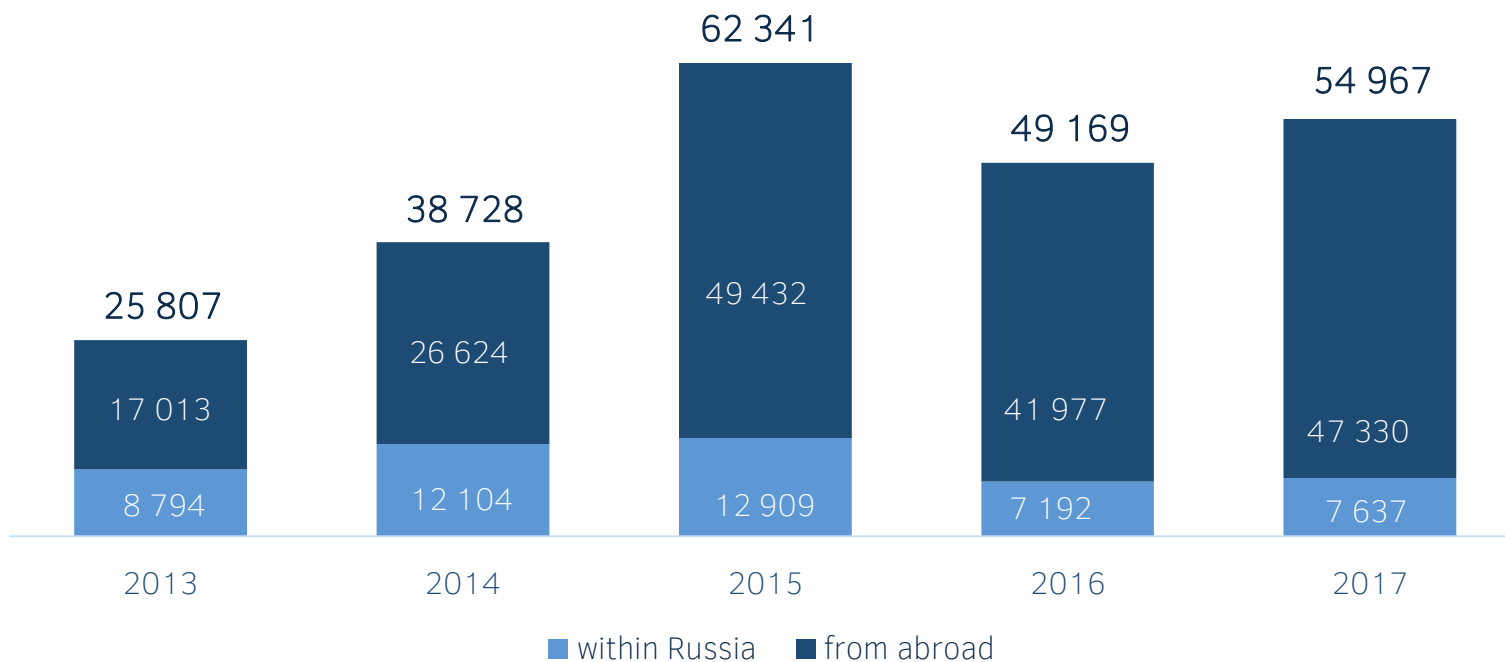
The majority of companies reduced the amounts of ceded premiums. The most notable decrease was reported by CAPITAL INSURANCE (Lukoil's property) and ROSGOSSTRAKH (hull and machinery, corporate and personal property businesses).

The companies with a notable increase in the amount of ceded premiums in 2017 include SOGAZ and VSK.

Also worth mentioning is a significant amount of reinsurance premiums written by PROMINSTRAKH, nearly all of which were written under contractor default liability contracts or, as a matter of fact, in property developers liability business.

Dynamics of claims paid by reinsurers

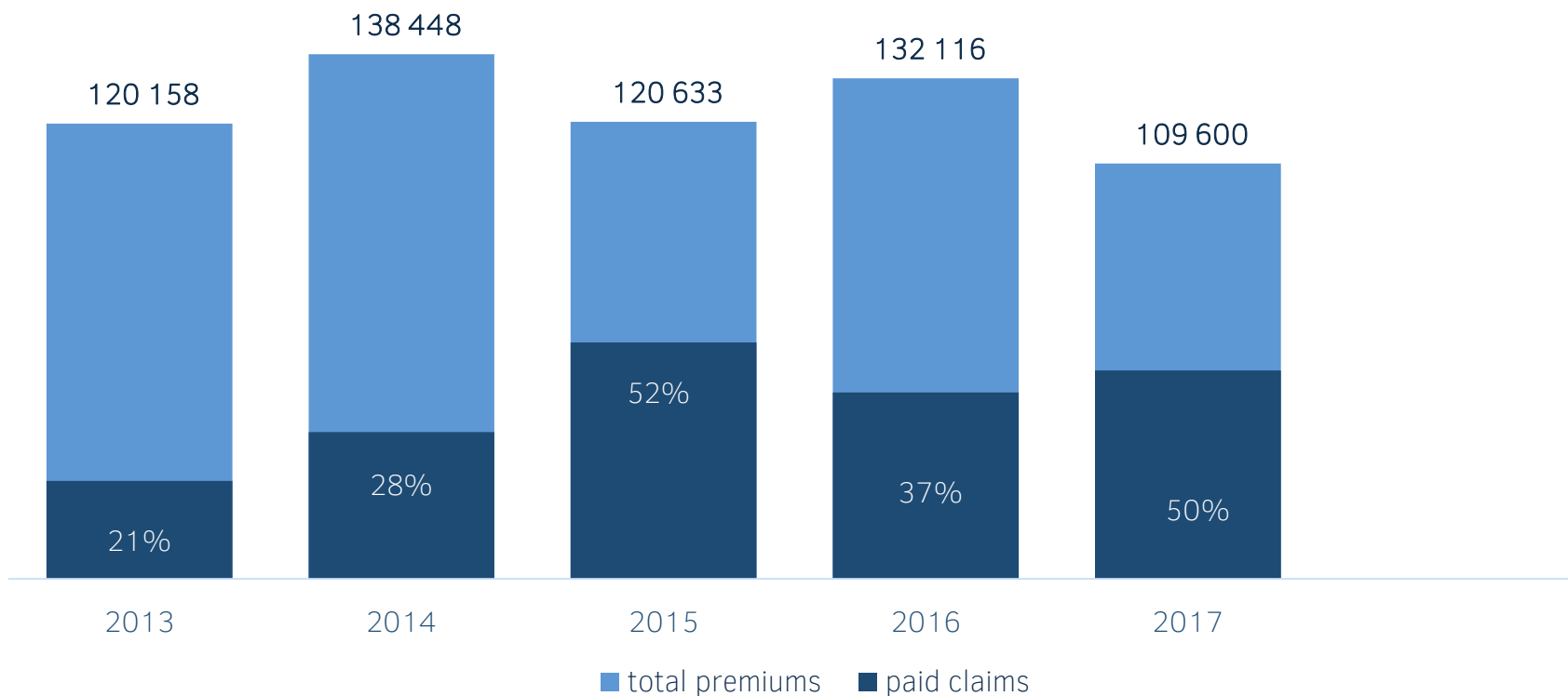
Dynamics of claims paid by reinsurers (million RUB)



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). However, this figure was exceeded in 2017 after the final settlement of loss in respect of Berezovskaya GRES (the loss of CHUBB), which amounted to about RUB 26 billion, of which about RUB 20 billion were paid in 2017.

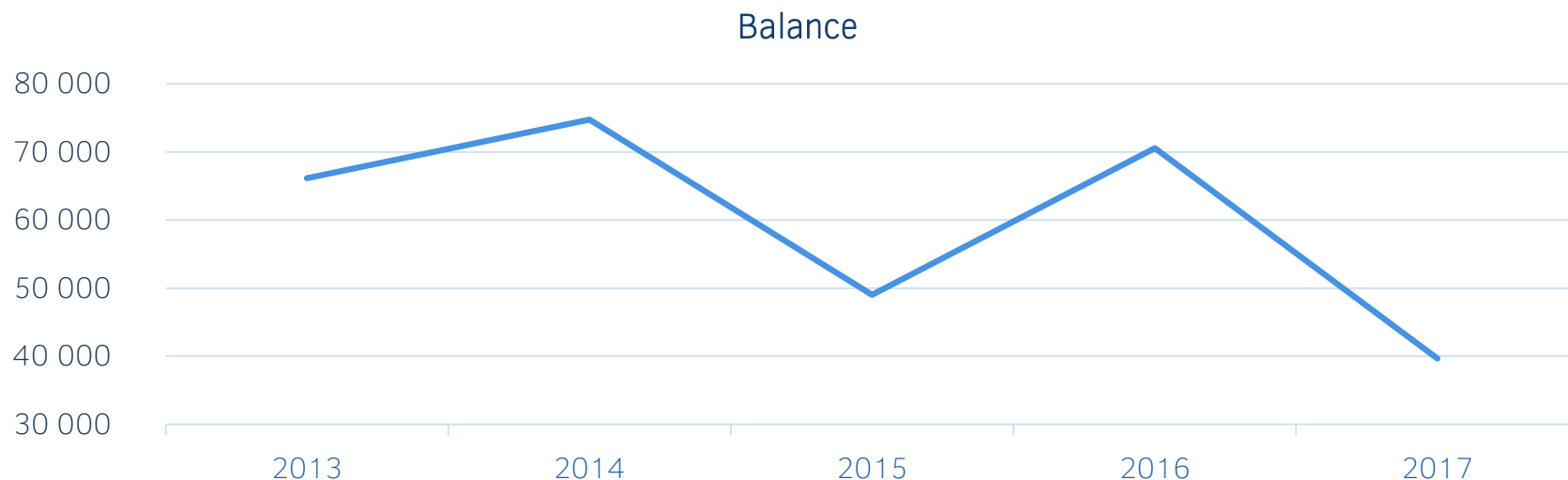
Loss ratio

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 according to a significant positive balance between premiums and paid claims.

Dynamics of outflow of funds outside 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 2017 was due both to large paid claims and a decrease in ceded premiums, partly due to transfer of some premiums from international markets to Russia in connection with the establishment of RNRC.

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



THANK YOU FOR YOUR ATTENTION!

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