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Russian insurance market growth will accelerate

Russian insurance market 2022 outlook

- **In 2018, the Russian insurance market will grow up by 10.5%.** In the medium term, we expect the annual growth rate to accelerate to 11–14%. In our opinion, the insurance market will continue to outstrip the GDP growth rate by 4–8% (in 2017: by 1.7%).
- **In the life insurance segment, insurance premium growth rate will go down to 29%.** After the boom of 2016–2017, when insurance premiums surged by more than 2.5 times, ACRA expects a significant correction in their growth rate. Our base scenario assumes that the interest to investment life insurance (ILI) will remain but, because the insurance premium is generally paid at the beginning of insurance period of 3–5 years, it will be impossible to maintain the growth rates.
- **On the backdrop of the expected recovery in demand for cars, the auto hull segment may resume its growth in 2018.** The segment's dynamics is dominated largely by the downward trend in the average insurance premium that emerged in 2015. In our view, the average insurance premium will cease to decline in 2018. The increasing number of insurance policies, in turn, will allow the auto insurance segment to show a significant growth (for the first time since 2014).
- **OMTPL and health insurance reforms can significantly affect premiums in those segments.** Since the reform framework is still unclear, our forecast is based on the current trends. In any case, no changes are expected before 2019.
- **Expected insurance market growth is positive for credit profiles of insurers,** although in certain segments, certain risks may undermine the positive trend.

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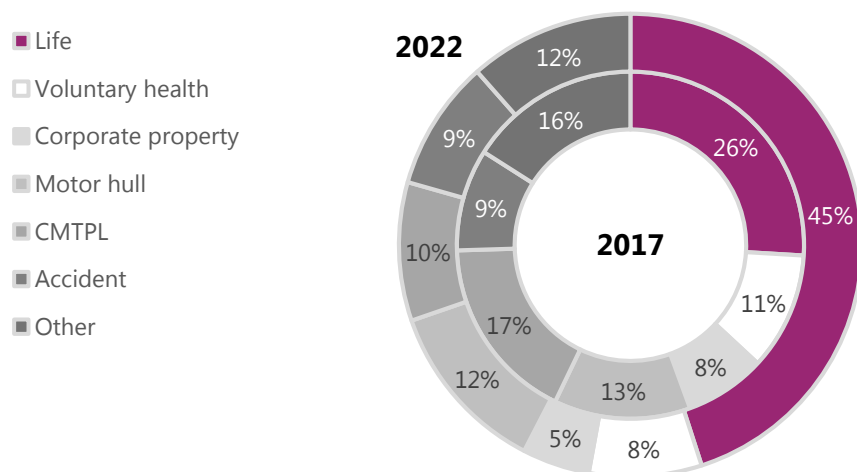
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Table 1. Insurance premiums forecast for 2018–2022

Indicator	UoM	Act.			Est.	Forecast			
		2015	2016	2017	2018	2019	2020	2021	2022
Life	RUB bln	130	216	332	426	548	642	822	1,030
Growth rate	%	19.5	66.3	53.7	28.6	28.6	17.0	28.1	25.3
Share in total	%	13	18	26	30	35	36	41	45
Voluntary health	RUB bln	129	138	140	148	155	163	171	180
Growth rate	%	3.9	6.9	1.6	5.6	4.9	5.1	5.2	5.0
Share in total	%	13	12	11	10	10	9	9	8
Motor hull	RUB bln	187	171	162	178	210	235	257	277
Growth rate	%	-14.3	-8.8	-4.8	9.3	18.0	12.4	9.1	8.0
Share in total	%	18	14	13	13	13	13	13	12
OMTPL	RUB bln	219	234	222	215	215	218	221	221
Growth rate	%	44.9	7.2	-5.2	-3.1	0.1	1.1	1.6	0.0
Share in total	%	21	20	17	15	14	12	11	10
Corporate property	RUB bln	100	107	96	101	99	100	102	108
Growth rate	%	-10.9	7.5	-10.7	4.7	-1.1	0.1	2.6	5.3
Share in total	%	10	9	8	7	6	6	5	5
Accident	RUB bln	81	108	121	136	152	169	189	208
Growth rate	%	-15.3	33.5	12.3	12.2	11.5	11.6	11.7	10.0
Share in total	%	8	9	9	10	10	10	9	9
Other	RUB bln	178	207	204	208	209	232	248	263
Growth rate	%	0.2	15.8	-1.1	1.9	0.5	10.9	6.8	6.3
Share in total	%	17	17	16	15	13	13	12	12
Total	RUB bln	1,024	1,181	1,278	1,412	1,589	1,759	2,010	2,288
Growth rate	%	3.6	15.3	8.2	10.5	12.5	10.7	14.3	13.8

Source: ACRA estimates, Bank of Russia reports¹

Figure 1. Comparative market structure in 2017 and 2022



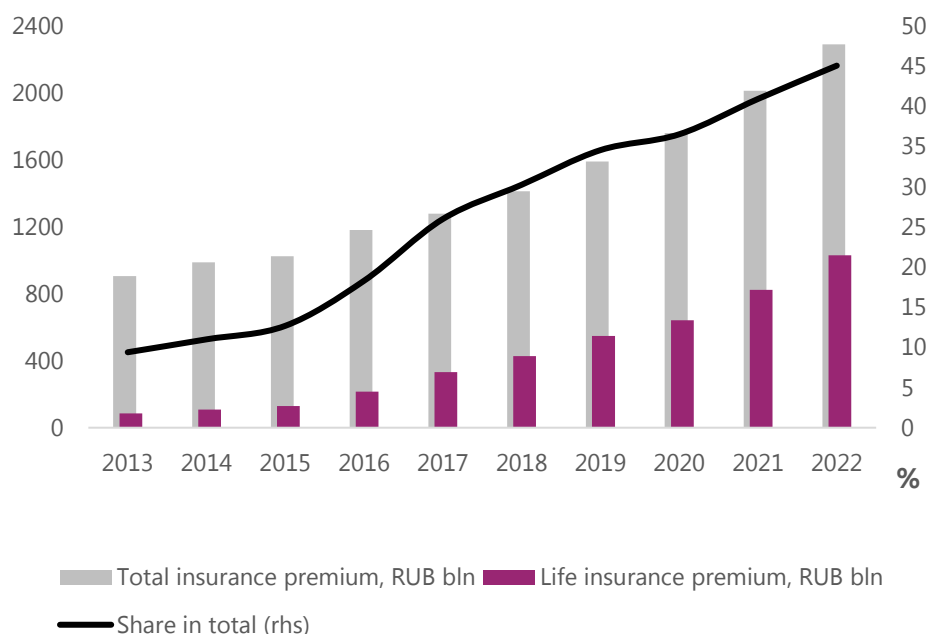
Source: ACRA estimates

¹ Growth rates and market shares in 2015–2017 were estimated on the basis of Bank of Russia statistics.

Widening investment horizon supports demand for life insurance

The life segment, which remained at the periphery of the insurance market, has made a qualitative leap in the last two years. Today, it is in the focus of attention of companies, the regulator and the media. Just a few years ago, it seemed incredible that the share of life insurance premiums could approach 50% of the Russian market in the foreseeable future. According to our baseline forecast, by 2022, the share of life insurance premiums will make up 45% of the total volume of insurance premiums.

Figure 2. Life insurance share in total premium will continue to grow steadily



Source: Bank of Russia, ACRA estimates

This has become possible due to a fast growing popularity of investment life insurance on the backdrop of declining interest rates and a low demand of banks for deposits. In our view, the obvious success of ILI indicate a gradual increase in the investment-planning horizon of population. The average investment life insurance contract term is three to five years. There are insurance programs designed for longer periods. Therefore, at least a part of the population's savings migrates from annual deposits towards more complex and long-term investment products.

In addition, insurers and banks who have managed to create the most accessible product sale and support infrastructure successfully compete with mutual funds and brokers.

Although we continue to note significant risks associated with the investment life insurance, nevertheless, in our baseline scenario we assume that the ILI segment will retain its popularity in the medium term. At the same time, insurance premium growth rates are expected to decrease: the effect of "low base" will be exhausted, and the period of exponential growth in the number of customers will end.

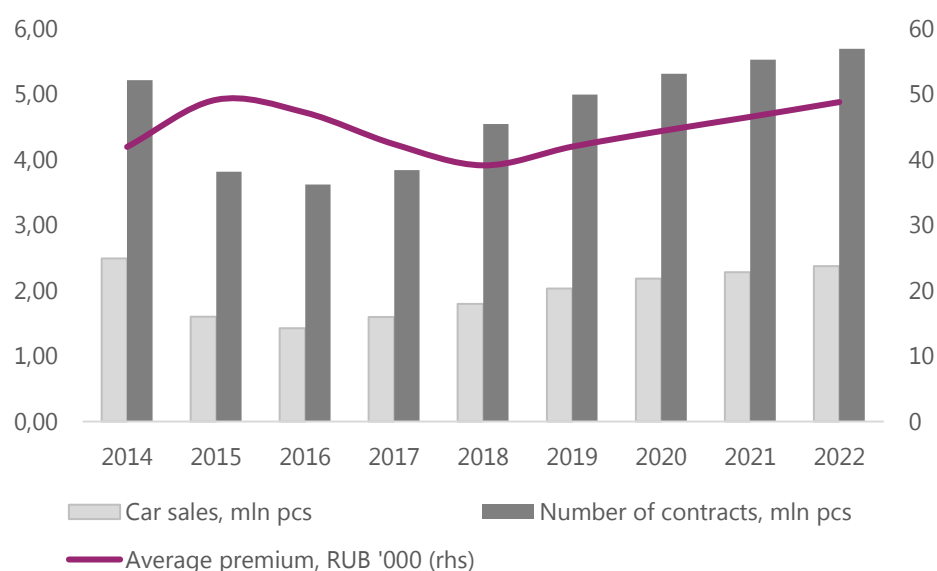
For investment life insurance risks, see ACRA research [OMTPL and investment insurance risks threaten growth stability](#) of March 30, 2017.

Along with the ILI segment, credit life insurance (CLI) and "classic" endowment life insurance (ELI) segments will also be on the rise. We believe that the ILI will have a positive impact on the ELI. We also of the opinion that some clients considering longer investment periods may prefer ELI policies as an alternative to the ILI. The increase in retail bank lending, which, according to our forecasts, will continue over the next five years, will become the main driver for the CLI segment.

Auto insurance segment will start to grow

The decline in the auto hull segment, which lasted from 2015 to 2017, could end in 2018. Such scenario is favored by the recovering car sales. At the same time, we believe that the shrink in the average premium, which hindered the segment growth in 2017, will slow down.

Figure 3. Key auto hull factors to start rising in 2018



Source: AEB, ACRA estimates

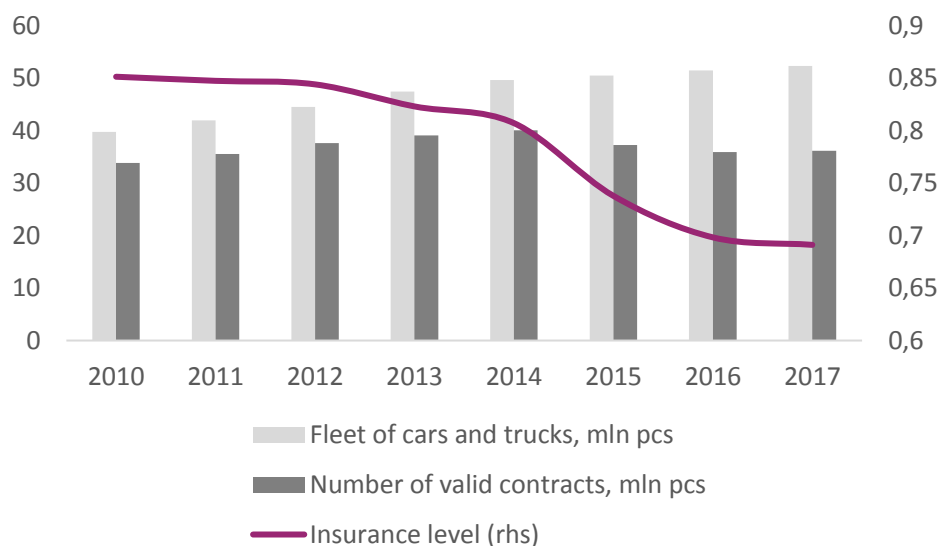
ACRA expects that car sales will increase by 13% in 2018 (11.9% in 2017). In the future, the upward trend will continue, although the growth rate will decline. This will lead to an increase in the number of contracts.

On the other hand, we believe that the trend for lower average insurance premium that has been observed since 2013 will begin to slow down. The trend is driven by the expanding insurance with deductible. The popularity of such product is associated with lower insurance costs. Moreover, insureds may prefer to cover minor damage with their own funds, outside procedures established by insurance companies. Taking into account that this product has long been on the market, we believe that insureds who prefer insurance with deductible have already switched to the product. In addition, on the back of stabilizing household incomes, drivers to cut insurance costs weaken. In view of the above, we believe that the average premium will slightly decrease in 2018 against 2017 but will resume growth in the future.

OMTPLI should be reformatted in the short term

OMTPLI segment is in crisis: losses suffered by insurers grow, and they strive to limit their share in the segment, while overall access to insurance becomes narrower.

Figure 4. Declining number of car insurance policies indicates OMTPLI crisis



Source: Federal Statistics Service, Bank of Russia, ACRA estimates

See ACRA research [OMTPLI: Higher Chances for Change](#) published June 7, 2016

In its 2016 research, ACRA pointed out the problems experienced by the segment and noted the need to take measures to stabilize the situation. At that time, certain hopes were placed on natural compensation of losses, the "Single Agent" system and the mandatory sale of electronic policies. Today, it is obvious that those measures have failed: natural compensation has failed to reduce losses, and the "Single Agent" system has caused a negative impact on small regional companies that were forced to cover losses in remote regions or create an expensive sales infrastructure there. If such companies abandon their OMTPLI licenses, the problems may aggravate in the regions of their presence.

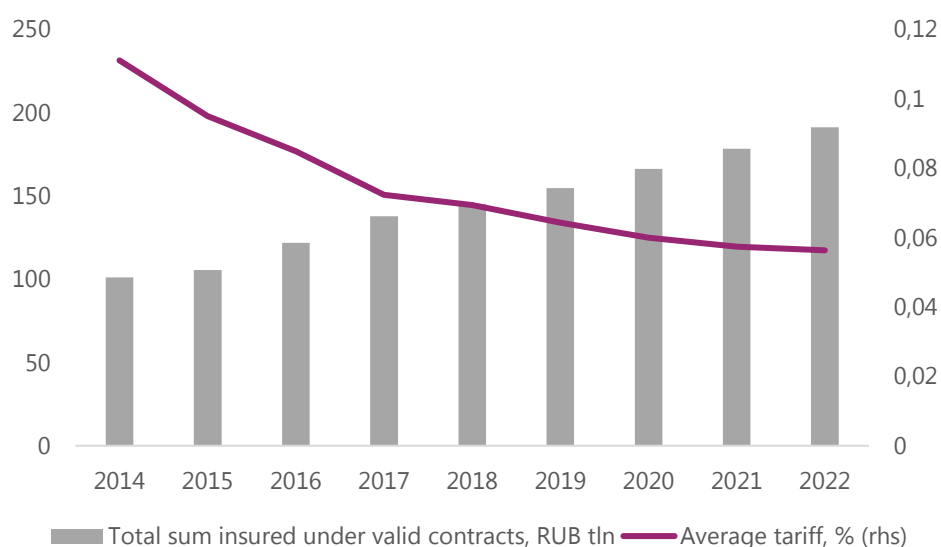
As the situation remains volatile, we expect more radical measures to be taken. Today, we there is no concept of the reform that would resolve the situation. Insurance companies are interested in liberalizing tariffs, but it is unclear how liberalization will help combatting fraud and abuse of rights—the phenomena underlying the growing losses. The alternative extreme measure is a complete centralization of OMTPLI operations under the control of a government- or Central Bank-owned company. Such centralization would significantly limit the freedom of the market and, most likely, will reduce the overall efficiency of the industry.

In the absence of clarity regarding the OMTPLI reform, we included the current configuration of the segment and the current trends into our forecast model.

Declining tariffs will cause stagnation in corporate property insurance segment

In the medium term, ACRA does not see any significant factors that can accelerate growth in the corporate property insurance segment. The segment has been lagging behind the market average in recent years. The reason for the lag is gradually decreasing tariffs. At the same time, total sum insured grows faster than the economy. We are of the opinion that the tariffs are declining due to the high profitability of this segment, as well as rather mild conditions in the international reinsurance market. In case the current growth of insurance amounts and the decline of tariffs persist, the segment's insurance premiums will stabilize at about RUB 100 billion per year.

Figure 5. Declining tariffs curb premiums in corporate property insurance segment



Source: Bank of Russia, ACRA estimates

In the case of the mandatory health insurance (MHI) system is reformed, the voluntary health insurance segment may receive an additional impetus for growth. However, due to the lack of information on the timing and structure of the MHI reform, it is currently impossible to predict its implications for the insurance market. In this regard, the base case forecast of ACRA assumes a slow growth of the segment under the current trends.

Accident insurance segment has continued to grow fast, driven by the growth in bank loans to individuals. We are of the opinion that the trend will continue and, by 2022, the aggregate insurance premium will exceed RUB 200 billion.

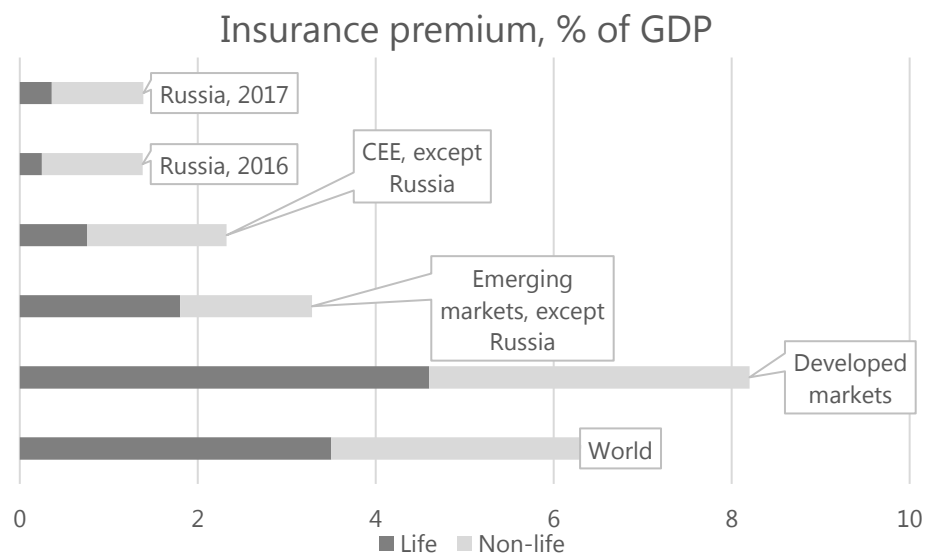
The household property insurance segment has also demonstrated high growth rates. An additional driver may be adoption of a home insurance law.

Market growth potential is still high

Insurance penetration ratio means a ratio of insurance premium to GDP for a period.

The Russian insurance market is far behind most foreign markets, in terms of both penetration ratio and insurance premium per capita.

Figure 6. Russia lags far behind foreign countries in terms of insurance penetration



Source: Swiss Re, ACRA estimates

This lag is especially high in the life insurance segment. In late 2017, the life insurance penetration ratio in Russia was 0.4%, while the average ratio was 1.8% for emerging markets (except Russia) and 3.5% for the world. Therefore, the outstripping growth of life insurance in our market looks possible.

The lag is less noticeable in the non-life segment, but it is still significant. The ratio of insurance premiums to GDP was about 1%. The same ratio for emerging markets (except Russia) was 1.5% and the world average – 2.8%.

In view of the above, the overall growth potential of the Russian insurance market is estimated at 100%–200% of the current level. In accordance with the Insurance Industry Development Strategy for the Russian Federation until 2020 approved in 2013, the insurance penetration ratio was expected at 2.6% in 2017 (the actual ratio is 1.4%) and at 3.5% in 2020. The baseline market forecast prepared by ACRA taking into account the current situation in the insurance industry shows that by 2020, the insurance penetration ratio may reach 1.6%–1.7%, which is much lower than the expectations in the Strategy. Obviously, to unleash the growth potential, it is necessary to change the conditions for the development of the industry.

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