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Insurance market to up 8% in 2016 with motor hull lagging

Insurance premiums 2020 outlook

- **The insurance market is to keep on growing at a moderate pace**, despite an economic stagnation expected in 2016. This growth will be fueled by a residual effect from the OMTPL tariff increase and a catch-up trend in unsaturated market segments.
- **Market trends will have an uneven effect on credit profiles in the sector.** Life insurance will likely be better off, while motor insurance should see some hard times in 2016, although better market conditions are expected afterwards. Corporate property and private health insurers are likely to operate in a stagnating environment.
- **Life insurance will be a locomotive for the market** thanks to retaining a steady growth and capturing a 16% market share in terms of insurance premium by 2020.
- **Motor insurance will grow unevenly.** In 2016, the segment will exhaust the effect of the OMTPL tariff increase and its further growth will be limited, while motor hull segment will be in the red for the second consecutive year, although with a prospect of fast recovery starting 2017.
- **Corporate property insurance is bound to stagnate**, as shrinking fixed investments and high interest rates will hold back premiums in the segment.
- **Voluntary medical insurance is expected to post a slow growth**, as lower income will be forcing companies to limit spending on private medical health insurance for employees, while individual demand will also be under pressure. We do not expect insurance premiums in the segment to grow ahead of inflation.
- **Certain positive trends will support market growth.** Private lending recovery should help revive accident insurance, while private property insurance is also expected to perform relatively well.

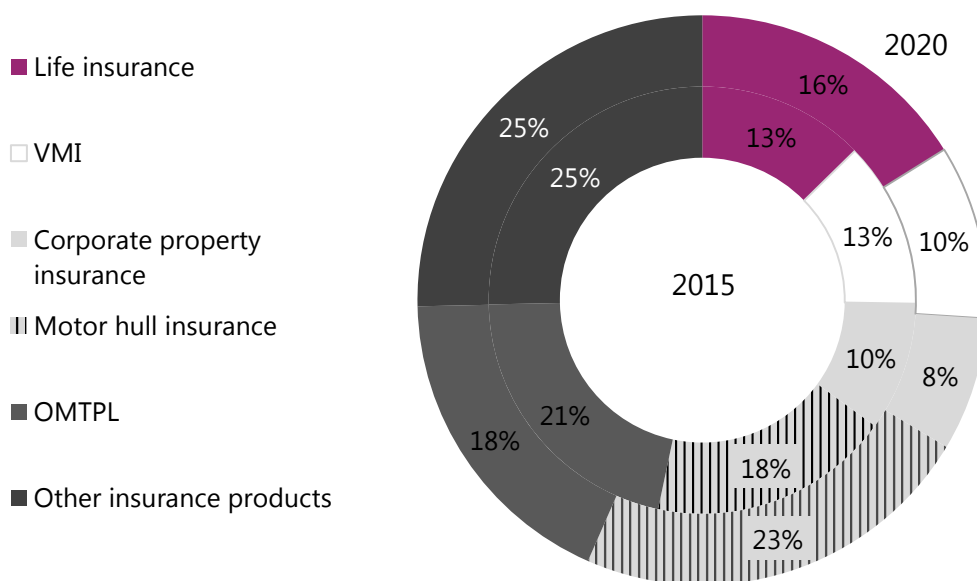
Table 1. Insurance premium outlook for 2016-2026

Indicators	Units	Actual numbers			Estimate	Forecast			
		2013	2014	2015	2016	2017	2018	2019	2020
Life insurance	RUB bn	85	109	130	155	179	202	229	256
Growth	%		27.8	19.5	19.7	15.4	12.8	13.2	12.2
Share	%	9	11	13	14	15	15	16	16
Voluntary medical insurance	RUB bn	115	124	129	131	136	142	149	157
Growth	%		7.9	3.9	1.6	3.5	4.8	4.9	5.6
Share	%	13	13	13	12	11	11	10	10
Motor hull insurance	RUB bn	212	219	187	186	225	270	320	365
Growth	%		2.9	-14.3	-0.6	21.0	19.8	18.5	14.1
Share	%	23	22	18	17	19	20	22	23
Corporate property insurance	RUB bn	104	112	100	104	105	110	115	121
Growth	%		7.6	-10.9	4.0	0.8	4.7	4.8	4.9
Share	%	12	11	10	9	9	8	8	8
Obligatory motor third-party liabilities insurance	RUB bn	134	151	219	240	249	260	273	287
Growth	%		12.4	44.9	9.7	3.8	4.4	5.0	5.3
Share	%	15	15	21	22	21	20	19	18
Other insurance products	RUB bn	254	274	259	290	319	343	373	403
Growth	%		7.6	-5.2	12.0	10.0	7.4	8.7	8.1
Share	%	28	28	25	26	26	26	26	25
Total	RUB bn	905	988	1,024	1,107	1,213	1,326	1,458	1,589
Growth	%		9.2	3.6	8.1	9.6	9.4	9.9	9.0

Source: ACRA estimates, CBR*

* Growth rates and market shares in 2013-2015 are based on CBR statistics.

Figure 1. Market structure in 2015 and 2020

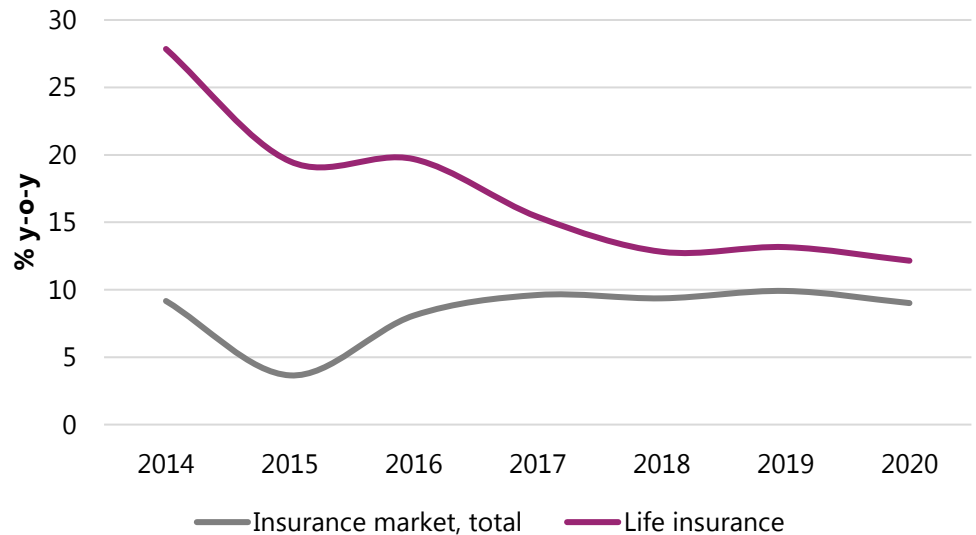


Source: ACRA estimates

Life insurance continues to grow rapidly

Life insurance continued to grow in 2015 outpacing other segments, which was mainly due to surging investment life insurance, a product combining insurance protection with ample investment opportunities, including those outside Russia. An additional stimulus to growth might have come from tax deductions on life insurance premiums.

Figure 2. Life insurance outperforms other insurance segments



Source: ACRA estimates

We expect the segment of life insurance to retain its outperforming pace in the medium term, supported by an anticipated stabilization of household income. However, as growth factors fade out and the segment wins a higher share on the market, this outperformance will gradually subside, unless supported by new tax benefits.

Motor hull to revive not before 2017

Motor insurance was the main outsider on the market in 2015, showing a drop in insurance premiums of over 14%. We relate this slump to the following reasons:

- declining new motor vehicle sales;
- shrinking insurance coverage as consumers tend to save money;
- stiffening underwriting standards.

These negatives are likely to persist in 2016 resulting in further decay of insurance premiums. In particular, we expect a further decline in motor vehicle sales, although the government has increased its support for the industry to RUB134 bn. However, economic recession and declining real household income will most likely minimize the effect of this support.

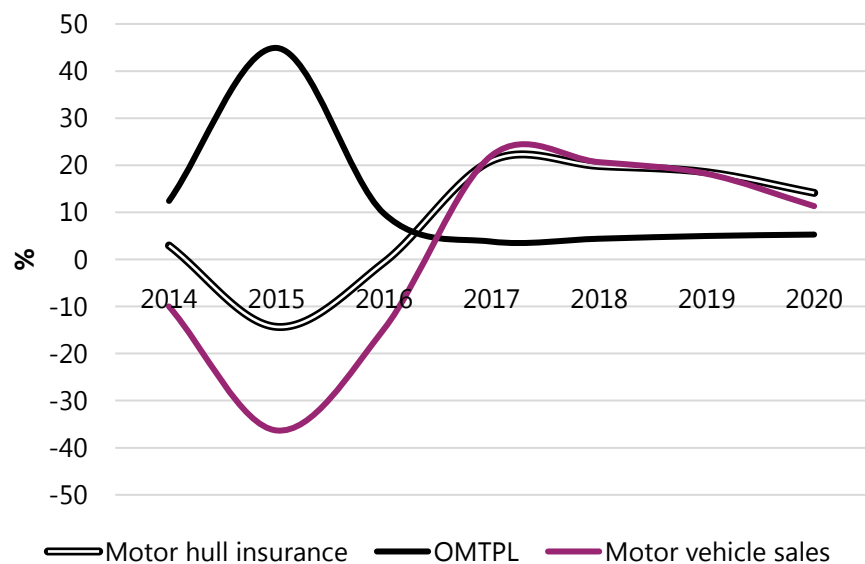
On the other hand, on the back of anticipated improvement in the economic environment starting 2017 new motor vehicle sales are strongly bound to increase driven by accumulated deferred demand and stabilized household income. This in turn should prompt recovery in the vehicle insurance segment, which should see insurance premiums surging by around 20% in 2017-2019 followed by a slowdown to 14% in 2020, while the market share of the segment is expected to increase from 17% in 2016 to 23% in 2020.

Effect of OMTPL tariff increase has played out

The effect of an increase in OMTPL (obligatory motor third-party liabilities) tariffs seen in 2Q15 will be phased out in 2016. Premiums are expected to climb 9.7%, which is ahead of the market average of 8.1%, but much lower than 45% recorded in 2015.

Growing motor vehicle sales expected in 2017-2020 should be a positive, but with high tariffs remaining in place premiums are likely to show a limited growth.

Figure 3. Motor insurance and motor vehicle sales growth rates, %



Source: ACRA estimates

Corporate property insurance stagnating

Following a dramatic 10.9% squeeze in 2015, corporate property insurance premiums are expected to post a modest recovery of 4%, fueled mainly by partial monetary stabilization, in particular by lowering interest rates and increasing availability of loans for the real sector. Premiums growth will likely be limited by low capital investments.

As economy moves from stagnation to growth in 2017-2020, we expect a gradual increase in investments, at least in nominal terms. This should provide for a slow uptick in corporate property insurance, although the medium term is likely to see the segment stagnating.

Voluntary medical insurance to come under pressure

We believe that weaker margins force companies to limit spending on voluntary medical insurance for their employees, as insurance premium growth rates were way behind inflation in 2014-2015. Individuals also moderated their demand for voluntary insurance relying on statutory health insurance system.

In view of relatively bleak macroeconomic prospects, we believe that voluntary medical insurance will show persistently weak growth rates until 2020, with a surge in real terms possible only on the back of economic revival and employee-friendly changes on the labor market.

Other segments to see little change to their share

We believe that other market segments will hardly see their market share change in the medium term, although some of them may well post a rather solid performance. The most pronounced recovery is expected in accident insurance, which is related to a projected increase in private lending.

Further growth is also expected in private property insurance. Apart from the low base effect, this segment may benefit from the government's efforts aimed at easing pressure on the budgetary system by supporting market mechanisms for protecting the population against natural disasters. Another impetus may come from insurance companies actively cross-selling this product to buyers of motor and voluntary medical insurance policies.

The remaining segments of the insurance market are expected to grow relatively in line with the economy.

New market trends to have uneven effect on insurers' credit profiles depending on segment

An outperforming market growth expected in the medium term may be generally positive for credit profiles of insurance companies, but will most likely be unevenly spread between segments in different years.

Life insurers are in a relatively better position as they operate in a consistently growing segment. Motor insurance should also see better market conditions after a hard year of 2016. On the other hand, corporate property and private health insurers are likely to operate in a stagnating environment.

The aforesaid concerns only one of creditability factors and does not take into account regional and segment-specific issues. Some companies may operate in a relatively benign environment compared to competitors thanks to their access to clients in certain economic segments or geographical areas.

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