We are pleased to present you with our eighth annual survey of the Russian insurance market. The survey sets out the opinions of insurance companies leaders on expected development trends in the Russian insurance market.

After the Russian insurance market experienced a two-year decline, during which the volume of premiums fell in real terms, it rebounded in 2016 – a stabilising economic situation allowed market leaders to generate insurance market growth. The main segment driving this growth was life insurance, which saw a 150% increase in the volume of collected premiums. According to insurance companies leaders, 2017 will also see a significant boost from life insurance, which will establish this segment as the largest line of business. Respondents expect motor insurance to grow at the level of inflation, and thus relinquish its leading position in the main lines of business ratings.

According to the survey results, events such as the introduction of a «Unified agent», electronic policies, and in-kind compensation will continue to have a negative impact on the CMTPL loss ratio. At the same time, we believe the record-low Casco loss ratio (66%) expected by respondents has already been reached by market leaders. Both of these factors are forcing insurers to seek out ways to preserve the profitability of the motor insurance segment.

We invite you to explore the findings of our survey, and we hope that the information it contains will shed light on a number of industry facets. We would also like to take this opportunity to thank our colleagues and partners who contributed, and we also extend our gratitude to all the respondents – without their participation, this survey would not have been possible.

Best regards,

Julia Temkina
CIS Head of Insurance Services
Contents

04 Main findings

06 Insurance market development

16 Loss ratios and expenses

24 Motor insurance

28 Life insurance
Main findings

Real growth resumed in the insurance market in 2016. The main driver behind this was improved performance in the life insurance segment.

In 2016 insurance market growth (which exceeded the level of inflation) was due to the efforts of the Top-10 players, and led to a further consolidation of the insurance sector in Russia. The main ways to boost insurers’ portfolio volumes in 2016 were through increased client retention levels, new product development, and creating new sales channels. In 2016 this generated growth across all segments, with the exception of Casco. The most significant growth (66%), seen in life insurance, came through the active distribution of unit-linked life insurance products.

The Casco market continued to decline. However, insurance leaders achieved a record reduction in the loss ratio of this segment, and this meant that it kept a healthy profitable level.

According to respondents, life insurance will be the largest line of business in 2017.

The survey participants expect that the life insurance market (growth rates are at around 30%) will continue to develop actively for two-to-three years. This sector is set to become the market leader this year. Expectations vis-à-vis motor insurance growth are modest in the near term. According to the surveyed insurance company leaders, growth of Casco and CMTPL will be 3.5% in 2017, which roughly corresponds to the predicted rate of inflation.

In the medium and long term, growth in the motor insurance and other insurance market segments can be facilitated through the implementation of new technologies, which have already proved successful in foreign markets.

Measures adopted in previous years to reduce administrative and acquisition costs proved effective, and led to cost levels that in the current situation could be deemed optimal.

Against a backdrop of challenging economic conditions in previous periods, insurance companies leaders successfully applied a number of measures to reduce the burden of administrative and acquisition costs. These measures proved to be quite effective, and helped stabilise business management costs.

Insurers expect a surge in the level of acquisition costs in 2017. The majority of survey participants do not plan to apply measures to reduce acquisition costs for the life insurance portfolio, which would suggest that their current level is optimal.
A complicating situation in the CMTPL market is forcing insurers to monitor motor insurance profitability more carefully.

The CMTPL loss ratio reached a peak level in the past five years, and further forecasts regarding its dynamics are pessimistic. According to the survey participants, «Unified agent», electronic policies, and claim payouts will negatively impact the loss ratio of compulsory motor insurance.

Insurance company leaders have striven to increase Casco profitability in recent years, and their efforts have yielded a record-low level of the expected Casco loss ratio. We believe that the Casco loss ratio has reached the lowest level, and insurers will have to continue to work hard to maintain this.

Respondents expect some insurance companies to reduce sales of unit-linked life insurance products in 2017.

The improved performance in life insurance has ranged across all its segments, however there has been a particularly active distribution of unit-linked life insurance products in recent years. According to respondents, the current high growth rates in this segment will remain unchanged for several years. Some respondents will begin to review the priority zones for development as early as 2017.
Insurance market development

In 2016 record growth in life insurance gross written premiums (66%) was witnessed, which led to an increase in the entire insurance market by 15% – significantly higher than the forecast made by respondents last year (4%).

The most positive dynamics in collected premiums in 2016 was characteristically demonstrated by the Top-10 players, whose share reached 74%.
Growth in the premiums of the Top-5 insurance companies was lower than the market level, which led to an unusual situation on the Russian market: the share of the first five companies fell compared to 2016. This was due to two factors:

- Rosgosstrakh, the largest Russian insurer, reduced CMTPL policy sales by 28%
- The share of life insurance (the main growth driver) in the portfolios of the Top-5 insurers was less than the average market level

Respondents forecast **7% market growth** for 2017, with the main driver remaining life insurance.
According to market players’ expectations, the consolidation will continue both in the Top-10 segment and for the Top-5 players, and will be facilitated by a further reduction in the number of insurance companies: 75 players vacated the market in 2016 and, according to respondents, another 25 are expected to leave in 2017.

80% of respondents believe one or more companies from the Top-10 will participate in M&A activity in 2017.

A market redistribution of leaders is possible, as a result of M&A activities. In addition, according to most insurers no transactions with foreign investors are expected in the near future. Only 10% of respondents expect interest from foreign investors from Southeast Asia.
According to respondents' estimates, Russian insurance market players are quite attractively priced. Based on the survey results, the pricing multiplies\(^1\) for companies from the Top-10 is 0.7 on average, and is twice as low for smaller participants. For comparison, according to the survey results for 2014\(^2\) the pricing multiplies for the Top-10 companies was 1.3 on average, and 0.6 to 0.9 for smaller players.

---

\(^1\)The pricing multiplies are equal to the ratio of the market value of the company to the volume of collected gross written premiums.

Life insurance

This segment saw 66% growth in 2016, which was quite at odds with the expectations of last year’s survey participants, who forecast growth of 10%.

The main driver behind the life insurance market is unit-linked insurance, which is actively sold by insurers’ partner banks as an alternative to deposits. Respondents’ expectations vis-à-vis the collection of premiums in 2017 are positive: the life insurance market will grow by 28% and by the end of this year will occupy first place in the gross written premium rating. In addition, according to half of respondents high growth rates (around 30%) will continue for the next two-to-three years.

Casco

The reduction in the Casco market observed in recent years continued in 2016: there was a 9% decline in gross written premiums. The increase in tariffs and the optimisation of insurance programmes (deductibles) in previous years enabled insurers to achieve the most profitable Casco level in the past five years. In 2017 respondents forecast an increase in premiums by 3.5%, most likely due to an expected rise in the Casco penetration level, following a planned liberalisation of tariffs.

CMTPL

In 2016 the CMTPL market demonstrated an increase of 7%, which was fully in line with insurers’ expectations a year earlier. The increase in premiums was due to the residual effect of tariff increases in 2015, as well as a possible reduction in the number of counterfeit policies and uninsured motor vehicles. Insurers expect that proceeds from compulsory third-party motor liability insurance will increase by 3.5% this year, which may be due to a likely recovery of the auto sales market. In addition, this expected growth may reflect changes in the «age» and «driving experience» coefficients, which are used by the CBR when calculating CMTPL tariffs.

Property insurance

The amount of collected property insurance premiums rose by 9% in 2016, in contrast to respondents’ expectations last year (no significant growth was predicted in this segment). Positive trends were demonstrated by both the retail (17% increase) and corporate (6% increase) segments. The reason for continued growth in retail most likely remained the active distribution by insurers of packaged products, including property insurance. The survey participants forecast a 5% increase in property insurance in 2017.

3 https://www.kommersant.ru/doc/3305413
Factors affecting the non-life insurance market in 2017

- **Bank lending**: 80%
- **Purchasing power**: 70%
- **RUB exchange-rate volatility**: 60%
- **Economic sanctions**: 10%
- **Legislative reforms**: 10%

Source: KPMG analysis.

Factors affecting the life insurance market in 2017

- **Main player activity**: 80%
- **Investment attractiveness of insurance products**: 60%
- **Bank lending**: 50%
- **Purchasing power**: 30%
- **Legislative reforms**: 10%

Source: KPMG analysis.

Respondents believe **lending volumes** and **purchasing power** will have the biggest impact on the non-life insurance market this year, while on the life insurance market it will be **main player activity**.
In addition to the traditional factors that affect the non-life insurance market, some respondents noted the impact of judicial practice and growth in the share of personalised tariff proposals.

The life insurance market, which has historically depended on purchasing power and lending volumes, will depend more on main players’ activity in 2017.

**Measures taken to expand insurance portfolios in 2016 and their efficiency**

- **New product development**: 90% effective
- **Creating new sales channels**: 90% effective
- **Increasing client retention**: 90% effective
- **Tariff optimisation**: 80% effective
- **Optimising cross-sell programmes**: 70% effective
- **Increasing product penetration levels per client (upsell)**: 70% effective
- **Optimising the terms of deductibles**: 70% effective
- **Participation in M&A**: 40% effective

The figures indicate the percentage of respondents who took measures in 2016. 

*Source: KPMG analysis.*
### Preferred measures to expand insurance portfolios in the near term

<table>
<thead>
<tr>
<th>Measure</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>New product development</td>
<td>80%</td>
<td>79%</td>
</tr>
<tr>
<td>Increasing client retention</td>
<td>70%</td>
<td>93%</td>
</tr>
<tr>
<td>Increasing product penetration levels per client (upsell)</td>
<td>70%</td>
<td>79%</td>
</tr>
<tr>
<td>Tariff optimisation</td>
<td>70%</td>
<td>64%</td>
</tr>
<tr>
<td>Optimising cross-sell programmes</td>
<td>70%</td>
<td>43%</td>
</tr>
<tr>
<td>Creating new sales channels</td>
<td>60%</td>
<td>64%</td>
</tr>
<tr>
<td>Optimising the terms of deductibles</td>
<td>40%</td>
<td>29%</td>
</tr>
<tr>
<td>Participation in M&amp;A*</td>
<td>0%</td>
<td>7%</td>
</tr>
</tbody>
</table>

*Traditionally, respondents’ answers to this point do not reflect the actual situation regarding the shares of insurers participating in such transactions.

Source: KPMG analysis.

Despite the challenging market conditions, **none of the insurers surveyed tended to portfolio reduction.** This indicates that there is **potential** for cost-effective market development.

Increasing client retention levels has overtaken new product development in the rating of priority measures to increase portfolio volumes. From the measures adopted in 2016, these two were the most effective. Increasing product penetration levels per client did not tally with respondents’ expectations and proved to be one of the least effective measures from the past year. This led to a decrease in interest from players in this initiative. Optimising cross-sell programmes was among the five high-priority measures in 2017, despite all respondents citing this measure as being insufficiently effective in 2016.
Market regulation

From the legislative initiatives indicated, insurance company leaders viewed most favourably switching to a new industry standard. Despite apprehensions expressed last year by insurers about the complexity of its implementation, half of respondents already see it as being a positive influence. At the same time, survey participants in general feel neutral about creating a state reinsurance company and switching to a new chart of accounts.

Expected effects of insurance market legislative reforms

Switching to a new Financial Reporting for Insurers industry standard
- Negative influence: 10%
- Positive influence: 30%
- Particularly positive influence: 10%
- Uncertain: 50%

The creation of a state reinsurance company
- Negative influence: 10%
- Positive influence: 30%
- Particularly positive influence: 10%
- Uncertain: 50%

Switching to a new chart of accounts
- Negative influence: 10%
- Positive influence: 40%
- Particularly positive influence: 20%
- Uncertain: 30%

Source: KPMG analysis.
New technologies

90% of respondents are confident that such non-price factors as new technologies will contribute to profitable growth.

Processes where the application of new technologies can be effective

- **Sales of policies**: 90%
- **Underwriting**: 80%
- **Settlement of losses**: 80%
- **Telematics**: 60%

Russian insurance market participants are placing high hopes on new technologies in almost all industry spheres. According to respondents, the most effective application of new technologies will be in such processes as sales of policies, settlement of losses, and underwriting.

Nevertheless, insurers should take into account the special features of the Russian insurance market when bringing in new technologies. For example, the experience of implementing telematics has not demonstrated the expected efficiency in recent years, but more than half of respondents still view this as being a promising technology.

Source: KPMG analysis.
Loss ratio and costs

The insurance companies executives interviewed expect Casco’s loss ratio to be at the level of 66%. We believe that the extremely low loss ratio of voluntary motor insurance was achieved following measures taken by some firms in recent years, such as improved underwriting and the implementation of deductibles.
According to the Russian insurance company executives surveyed, the current situation on the compulsory motor insurance market will remain the same in 2017. CMTPL's loss ratio will stay at the maximum level for the past five years and will stimulate growth in the combined loss ratio to a level higher than 100%.
Dynamics of average expected level of administration and acquisition costs, 2014-2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Administration Costs Portion</th>
<th>Acquisition Costs Portion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>18.5%</td>
<td>14.8%</td>
</tr>
<tr>
<td>2015</td>
<td>16.1%</td>
<td>17.6%</td>
</tr>
<tr>
<td>2016</td>
<td>13.4%</td>
<td>15.1%</td>
</tr>
<tr>
<td>2017</td>
<td>15.3%</td>
<td>16.8%</td>
</tr>
</tbody>
</table>

The measures taken by insurers in 2016 to reduce administration expenses proved effective, which likely caused the decline in the actual level of these expenses.

The expected rise in the level of acquisition costs in 2017 can be attributed to two factors:

- the reduction of the Casco loss ratio leads to growth in agent commissions, as they sell profitable policies
- the increase in the life insurance market share, which is characterised by a high level of acquisition costs for growing portfolios

The actual share of acquisitions and administrative expenses in gross written premiums is calculated based on information published in the IFRS statements of the Top-10 insurers.

Source: KPMG analysis.
Measures taken by insurers to reduce non-life insurance administration costs in 2016 and their effectiveness

The most popular way to decrease administration costs in 2016 in non-life insurance was business process automation: 90% of respondents applied this method, however, two thirds evaluated it as being insufficiently effective.

Although shared services appeared the most effective way to reduce administrative costs in 2016, only slightly over half of insurers used this tool. Around half of insurance company executives are planning to apply it in 2017.

Companies will proceed with business process automation in 2017, while process and function standardisation is ranked number two in the administration expenses reduction process.

All respondents unanimously rejected such measures as headcount reduction and wage reductions/abolition of indexing, since insurers likely performed staff optimisation measures in the crisis years and now prefer to retain existing specialists.

© 2017 KPMG. All rights reserved.
Priority ways to reduce administration costs

- Business processes automation: 100% (2017), 77% (2016)
- Processes and functions standardisation: 86% (2017), 77% (2016)
- Reduction of overheads: 57% (2017), 85% (2016)
- Shared services: 57% (2017), 54% (2016)
- Decreased rent expenses: 14% (2017), 48% (2016)
- Wages reduction or indexing abolition: 0% (2017), 31% (2016)
- Headcount reduction: 0% (2017), 15% (2016)
Measures taken by insurers to reduce non-life insurance acquisition costs in 2016 and their effectiveness:

- Developing online/mobile sales: 78%
- Increasing the share of renewed contracts: 78%
- Optimising relations with intermediaries/partners: 67%
- Extending cross sales: 56%
- Developing a direct sales channel: 44%
- Optimising the regional portfolio structure: 33%

These measures, such as increasing the share of renewed contracts and extending cross sales, did not receive any negative feedback after being applied in 2016. This led to a strengthening of their positions in the ranking of priority measures for 2017.

Source: KPMG analysis.
Priority measures for reducing non-life insurance acquisition costs

<table>
<thead>
<tr>
<th>Measure</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing the share of renewed contracts</td>
<td>78%</td>
<td>69%</td>
</tr>
<tr>
<td>Cross sales extending</td>
<td>78%</td>
<td>46%</td>
</tr>
<tr>
<td>Optimizing relations with intermediaries and partners</td>
<td>67%</td>
<td>85%</td>
</tr>
<tr>
<td>Developing online/mobile sales</td>
<td>56%</td>
<td>54%</td>
</tr>
<tr>
<td>Optimising regional portfolio structure</td>
<td>22%</td>
<td>15%</td>
</tr>
<tr>
<td>Developing direct sales channel</td>
<td>11%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: KPMG analysis.

Measures taken by insurers in 2016 to reduce life insurance portfolio acquisition costs and their effectiveness

- Optimising relations with intermediaries and partners: 43%
- Developing a direct sales channel: 43%
- Developing online/mobile sales: 29%
- Increasing the share of renewed contracts: 29%
- Extending cross sales: 29%
- Changing the network structure of agents: 14%

Shares of respondents who took the referred measure in 2016 are shown in numbers. Source: KPMG analysis.

The measures applied to reduce acquisition costs in life insurance were mostly insufficiently effective. The majority of life insurance firm leaders do not plan to cut acquisition costs in the short term, in contrast to the heads of non-life insurance companies.
Comparison of priority methods for reducing acquisition costs in relation to the life insurance portfolio

2016

- 60% Developing online/mobile sales
- 40% Increasing the share of renewed contracts
- Changing the network structure of agents
- Optimising relations with intermediaries and partners
- Extending cross sales
- Optimising the regional portfolio structure

2017

- 83% Developing online/mobile sales
- 17% Increasing the share of renewed contracts
- Optimising relations with intermediaries and partners
- Optimising the regional portfolio structure

Companies that are not planning to significantly reduce acquisition costs

Companies that are planning to reduce acquisition costs and their methods of reducing

Source: KPMG analysis.
Motor insurance

Expected changes to Casco market indicators, 2017 – market volumes and profitability

Volume

-10% to -5% 17%
5% to 10% 17%
0% to 5% 67%

Profitability

-15% to -10% 33%
5% to 10% 17%
-10% to -5% 17%
-5% to 0% 33%

Source: KPMG analysis.
Casco’s profitability is expected to decrease by 5% on average, while the market volume will grow by 3.5%, most likely due to a decrease in tariffs as well as worsening expectations regarding the level of acquisition costs.

Priority measures for increasing the volume of the Casco portfolio, 2017:

- Increasing retention level (80%)
- Developing new products (60%)
- Creating new sales channels (60%)
- Improving deductible terms (60%)
- Optimising contract terms with partners (agents, car dealers) (60%)
- Tariff decreases (60%)
- Developing a mobile application to increase sales (20%)

When it comes to increasing the volume of Casco’s portfolio, developing a mobile application is the least priority measure, despite insurers generally seeing a positive impact on market volumes from the introduction of new technologies. It appears likely that insurers will develop this innovation in the medium to long term.

Motor insurance companies will focus on traditional ways of boosting their portfolios in 2017: increasing the share of renewed contracts, optimising contract terms with partners (agents, car dealers), optimising tariffs and deductibles, developing new products, and creating new sales channels.
Priority measures for reducing the Casco loss ratio

- Optimising the terms of contracts with partners: 100% (2017) vs. 47% (2016)
- Decreasing fraud levels: 83% (2017) vs. 53% (2016)
- Expansion of underwriting analysis and respective optimisation of the terms of insurance products: 67% (2017) vs. 53% (2016)
- Increasing subrogation collections: 67% (2017) vs. 27% (2016)
- Exchanging claims data with other insurers: 67% (2017) vs. 13% (2016)
- Improving the procedure for settling insurance claims in the court: 50% (2017) vs. 47% (2016)
- Expansion of deductibles: 50% (2017) vs. 40% (2016)
- Developing new products: 50% (2017) vs. 0% (2016)
- Optimising the regional portfolio structure: 17% (2017) vs. 18% (2016)
- Telematics implementation*: 13% (2017) vs. 0% (2016)
- Increasing tariffs: 0% (2017) vs. 0% (2016)

* This did not feature in the 2017 survey

Compared to 2016, a greater proportion of respondents will make efforts to reduce the Casco loss ratio in 2017. In addition, the priorities of insurance company executives on how to reduce the Casco loss ratio have become more focused: optimising contract terms with partners and reducing fraud will be the priority goals in 2017.

Improved underwriting (100%) and deductibles (83%)** head the rating of the most effective measures to reduce the Casco loss ratio in 2016

**Share of respondents claiming that the measure was effective in 2016
According to the survey, almost half of Casco’s policies that will be signed in 2017 will provide a deductible. Although growth in the share of these policies is slowing, insurers still plan to distribute deductibles, both to attract customers and to reduce the frequency of claims.

The situation on the CMTPL insurance market is already challenging and will be complicated by the introduction of electronic policies and «Unified agent». The survey participants believe that the most negative effect will come from the introduction of in-kind compensation. In our view, there are many uncertainties surrounding issues related to the effects of in-kind compensation. Hence the actual impact that this change will have on the CMTPL loss ratio depends on how it will be perceived by courts and fraudsters.

According to respondents’ expectations, in-kind compensation will add 7.5% to the CMTPL loss ratio.

Growth in the CMTPL loss ratio is forcing insurers to obtain licenses for this type of activity. According to the insurance company executives surveyed, perhaps two more large insurers will vacate the CMTPL market in 2017.
The insurance company leaders surveyed have changed their preferences regarding the development of the life insurance market. In 2016 players planned to reduce credit insurance and to develop all other segments.
Respondents’ intentions related to the development of life insurance

| Life insurance against critical diseases* | 2017 | 100% |
| Credit life insurance | 2017 | 83% |
| | 2016 | 33% |
| Unit-linked insurance | 2017 | 67% |
| | 2016 | 75% |
| Endowment insurance | 2017 | 60% |
| | 2016 | 33% |
| Life insurance against a specific risk – for example, term life insurance | 2017 | 60% |
| | 2016 | 33% |

*This was first introduced in the 2017 survey

Source: KPMG analysis.

In contrast to 2016, in 2017 most respondents plan to develop credit insurance, which may be connected with the recovery of the consumer lending market. At the same time, some respondents are planning to reduce endowment and unit-linked life insurance.
Gross written premiums for life insurance per sales channels

Source: KPMG analysis.

**Forecast**

<table>
<thead>
<tr>
<th>Year</th>
<th>Banks</th>
<th>Agents</th>
<th>Insurance organisations and others</th>
<th>Direct sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>15%</td>
<td>18%</td>
<td>56%</td>
<td>11%</td>
</tr>
<tr>
<td>2013</td>
<td>9%</td>
<td>9%</td>
<td>13%</td>
<td>69%</td>
</tr>
<tr>
<td>2014</td>
<td>6%</td>
<td>9%</td>
<td>11%</td>
<td>73%</td>
</tr>
<tr>
<td>2015</td>
<td>9%</td>
<td>9%</td>
<td>4%</td>
<td>84%</td>
</tr>
<tr>
<td>2016</td>
<td>6%</td>
<td>7%</td>
<td>3%</td>
<td>89%</td>
</tr>
<tr>
<td>2017</td>
<td>11%</td>
<td>11%</td>
<td>8%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Source: KPMG analysis.
Based on respondents’ expectations, the share of gross written premiums collected through banks will rise by 5%, which points to the increasingly dominant position of this sales channel.

According to the survey results, respondents expect a further regional centralisation of the market: the share of Moscow and St. Petersburg in the total volume of the Russian life insurance market will increase by 5%.
The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2017 KPMG. KPMG refers JSC “KPMG”, “KPMG Tax and Advisory” LLC, companies incorporated under the Laws of the Russian Federation, and KPMG Limited, a company incorporated under The Companies (Guernsey) Law, as amended in 2008. The KPMG name and logo are registered trademarks or trademarks of KPMG International.