

AEAI/RIMS Risk Management Forum October 10/13
Monday, October 11th

N.43138

R.41761

No. 4 Eastern Europe: An Outlook into the Future!
Identifies hurdles to economic and social reform in Eastern Europe with an emphasis on what investors can expect when dealing with former Eastern bloc countries.

Ladies and gentlemen,

Russia - an outlook into the future! What are the lessons and questions after the events happened in Moscow last week?

- (1) It is not easy to convert a whole society to a totally different system;
- (2) why are people still afraid of broad economic and social reforms?
- (3) can we suggest that the end of the Soviet parliament, the Supreme Soviet, also implies the end of all major problems on the way to a market economy or is it only a step towards the future?

The Duma, i.e. the new Russian parliament, will have to show that it will not only support the reforms in the country but will promote social and economic changes. Of course this will be a process of learning by doing.

The best way for the West is probably to provide support in key areas in the Russian society. This should however not be limited to financial aid, obviously money only will not change the situation. Having large natural resources and a population of more than 170 million people this market will play a certain role in the future.

Still, if there will be chaos and anarchy in Russia all Europe and may be not only Europe will feel the impact. And if you prefer to say it in the positive way: the world will benefit from a new Russia with an open economy eager to participate in international trade and exchange.

To make the situation of foreign companies in Russia more secure President Jelzin signed an Ukas on September 27th, quoting that foreign companies already doing business in Russia will not be effected within three years by new Russian laws, but can continue to act within this time in accordance with the former laws.

effected within three years by new Russian laws, but can continue to act within this time in accordance with the former laws.

In January 1993 the Russian Law on Insurance came into forces. Under this law an insurer applying for a licence must have 2 million. SUR (appr. 2 000 USD) authorized capital stock and a reinsurer 15 million. SUR. (appr. 15 000 USD). The Insurance Supervisory Board is preparing a new regulation demanding a minimum capital of 200 000 USD.

Foreign legal entities may set up insurance organizations with a maximum share of 49 percent.

Brokerage on behalfs of foreign insurance companies is not permitted in Russia.

There are now appr. 1800 licensed insurance companies, the estimated premium income for 1993 is 1.000 Billion SUR (1 b USD), claims paid amount to 370 Billion SUR or 370 Million USD. Private lines of business represent 24 %, property 42%, credit insurance 30% of overall premium income.

The biggest Russian companies by premium income are:

Ingosstrach (is still effected by the freezing of accounts with Vnesheconombank introduced by Russian government in early 1992)

ASKO-Moscow

Gosstrach

The Russian insurance supervisory board, the Rosstrachnadsor, started to operate in 1992. The board had to begin to act in this industry, former unknown in Russia. Nevertheless the first steps like requirements for insurers to be licensed, rules for setting up insurance reserve funds, rules for assets of insurance companies will contribute to a more efficient and transparent market.

Some of the insurance related problems in Russia:

- absence of a financial infrastructure,
- insurance premiums can not be included into the tax deductible costs, but have to be paid out of the profit,
- wages for the employees of an insurer can not be included into the tax deductible costs, but have to be paid as well out of the profit,
- in general both the people and the enterprises are not insurance-minded, after a period of 70 years it is very hard to find a local manager who is able to handle insurance issues on a professional level,
- more than 90 % of the enterprises do not have any property

insurance, some months ago there was a great fire at the truck manufacturer KAMAS, damage = 300 Million DEM, of course Kamas was not insured,

- in the past there was no need for insurance since all property was owned by the state, but in a market economy the state or the ministries will no longer compensate losses of the private enterprises,
- Risk Management in the Western sense is not developed, though Russian regulations on fire precautions and security are tough,
- insurers are not yet divided in life- and non-life insurers,
- there is no reliable statistic basis for insurance
- the legal practice especially on insurance and Third Party Liability is not extensive,
- the Code Civil of Russia has concerning liability almost the same stipulations as the corresponding acts of continental Europe, but there is no certainty concerning the real application and possibility of execution of the law.

There is a saying in Russia: Heaven is high and the Tsar, i.e. the Emperor, is far away.

Our company, the Ost-West Allianz, was established as a Joint Venture in 1990. In 1991 the company received the licence for writing insurance in the Russian Federation both in local and foreign exchange. With the permission of the Central Bank of Russia we opened an account in Western Europe, what enables us to speed up international settlement of claims, i.e. the insured can choose between claims transfer both inside and outside Russia.

In summer 1992 after a long period of preparation we started issuing our own policies. We are licensed for commercial/industrial classes like property, engineering, transport and travellers medical insurance for stays abroad.

As a rule all risks are inspected before acceptance, our visits to the enterprises serve two aims: to support the idea of loss prevention in general and to prepare the quotation for insurance cover.

The activities are in general concentrated on places in Russia within a day's reach from Moscow, like St. Petersburg or the region west of the Ural mountains.

We are happy, that in the meantime various clients of the Allianz group worldwide have become our customers. But also other companies

commencing activities in Russia have insured their enterprises with Ost-West Allianz. Our main clients are so far foreign entities and joint ventures with a Western partner, but just recently also Russian companies have applied for insurance cover, what is a positive sign.

Terms and conditions were elaborated on the basis of the Allianz-wording and were adopted to the Russian market. Adopting does not simply mean translation into the Russian language, but also consideration of Russian laws and tradition. Even more, we made the experience that the same expressions do not necessarily mean the same thing in different cultures.

Our contacts with international brokers are increasing, some of the brokers have also opened an office in Moscow to be able to provide local services to their clients.

The economic situation especially the inflation constitutes a serious problem for everybody. In 1992 the inflation ratio was 2.600 %, for this year it will be appr. 600 - 800 %. Under this circumstances most of our clients are not interested in a Rouble policy, but want to get a hard currency cover. However even our special clause on compensation of inflation did not change the situation. Until the rouble will not stabilize the majority of foreign entities and also some Russian enterprises will continue to prefer hard currency policies.

Despite all problems an increasing number of foreign companies is coming to Moscow, the foreign community has now more than 150.000 members. Many of these people say: you simply have to believe in Russia...

Ost-West Allianz
3rd Samotechny Pereulek.3
103 473 Moscow
Tel. (+7 502) 221 34 28 int'l
(095) 974 10 15 local
(095) 974 10 16 local
Fax (+7 503) 956 31 74 int'l
(095) 956 31 74 local
Telex (+64) 612 154 smail SU