MTPL – lessons learned from Russia

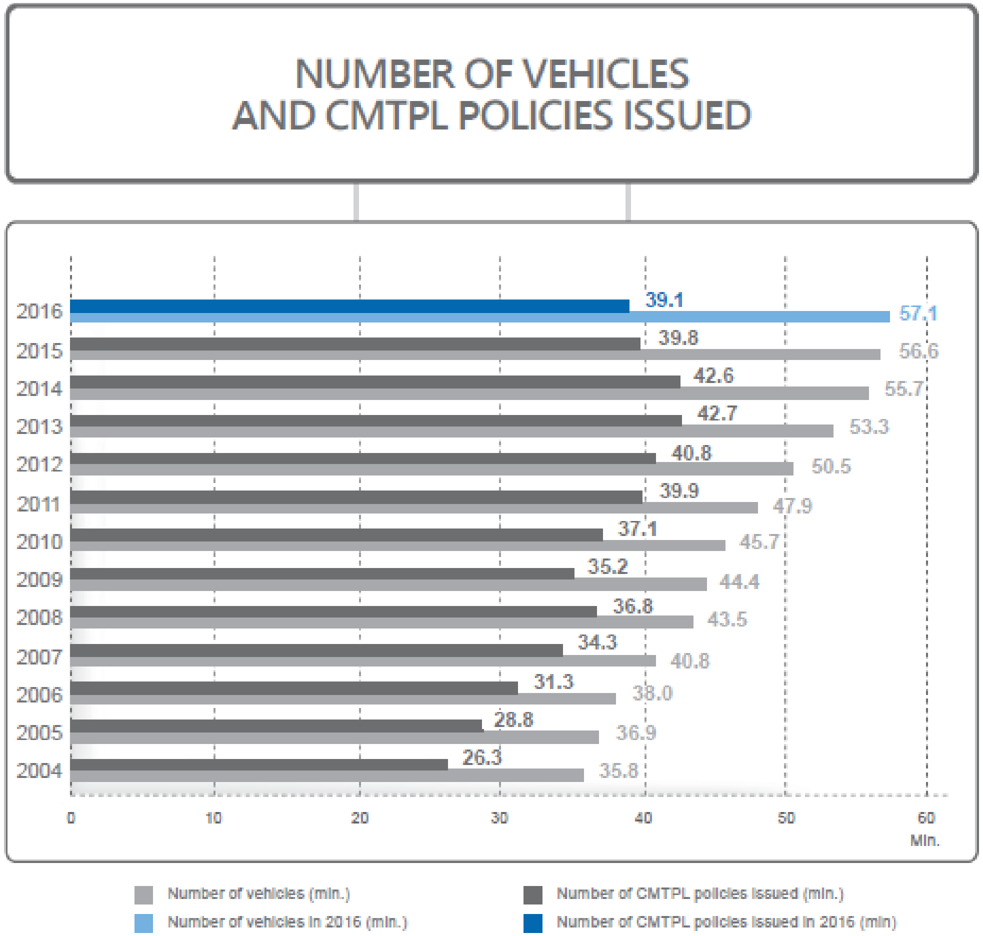
Vladimir Novikov
Chairman of Eurasia and Middle East Subcommittee
Advice and Assistance Committee
International Actuarial Association
Chairman of the Russian Guild of actuaries
Deputy CEO Sberbank Insurance LLC
Associate professor High School of Economics

IAA regional Conference
Istanbul
9 November 2017

MTPL in Russia – key facts

- Obligatory motor insurance in Russia was established by law in 2002 with commencing date 1st of July 2003
- Uniform coverage, terms and conditions of the policy, standard form of the policy
- Special procedure for companies – obligatory membership in Russian Association of Motor Insurers (RAMI) as condition to apply for license
- RAMI holds two guarantee funds
  - To compensate benefits in case of bankruptcy of the member companies
  - To pay benefits in case of damage from uninsured/unrecognized vehicle
- Rates are strictly regulated and established by Government

MTPL created mass insurance market



- MTPL remains the top 1 LOB in terms of number of policies
- MTPL market share is about 20% in monetary term (2016)
- Rapid growth of motor vehicle fleet even after 2014 shock (devaluation of local currency)
- Economical shocks 2008 influenced number of issued policies
- Decreasing insured/total ratio after 2012
- Decreasing number of issued policies after 2014

Rates – initial stage

- **Basic tariff depends on vehicle type and way of using (car/truck/bus/bike/taxi/ …)**

Multiply on adjustment coefficients:

- **Territory (КТ)**
- **Bonus-Malus (КБМ)**
- **Age of Driver and license duration (КВС)**
- **Eligible drivers (КО)**
- **Engine Power (КМ)**
- **Period of using/Term of the policy (КС/КП)**
- **History of serious penalties (КН)***

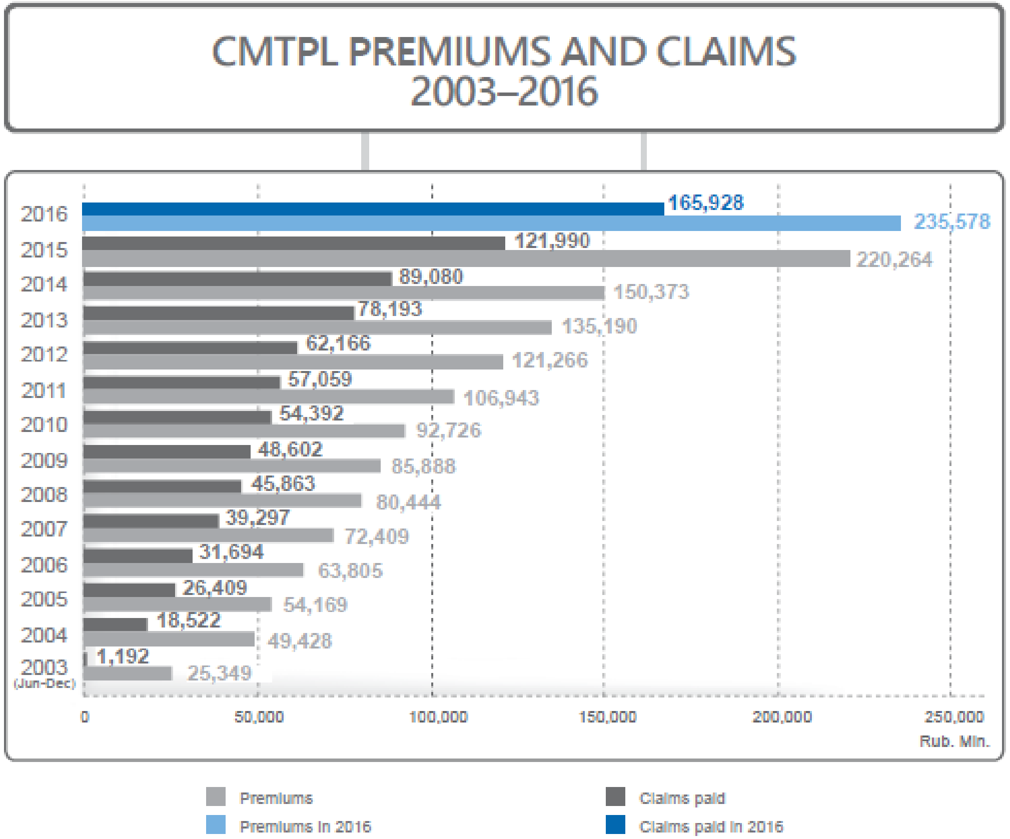
- **First edition in 2002: working group of 15 actuaries, basis for calculation is < 250thd. vehicle-years of property damages**

Assumptions + conservative approach

- **Expected bodily injury claims as from state statistics**
- **КТ is proportional to population density**
- **КБМ is similar to Germany pre-1994 table**
- **КМ is proportional to engine power****
- **Other coefficients**

*) – implemented in 2014
**) – implemented by regulator in contrary to actuarial opinion

Financial results



- Premium income versus claims paid looks good
- But ultimate losses has been increased faster than premium earned
- There are three periods of profitability profile
- Till 2010 almost all companies were profitable with few signals of misbalances between territories
- 2011-2014 – many companies had faced with losses
- 2015+ - rapid tendency to losses for all players
- 2016 policies generate expected ultimate loss for the whole market – 64 bln RUR

Claims/frequency dynamics

AVERAGE CMTPL CLAIM PAYMENT

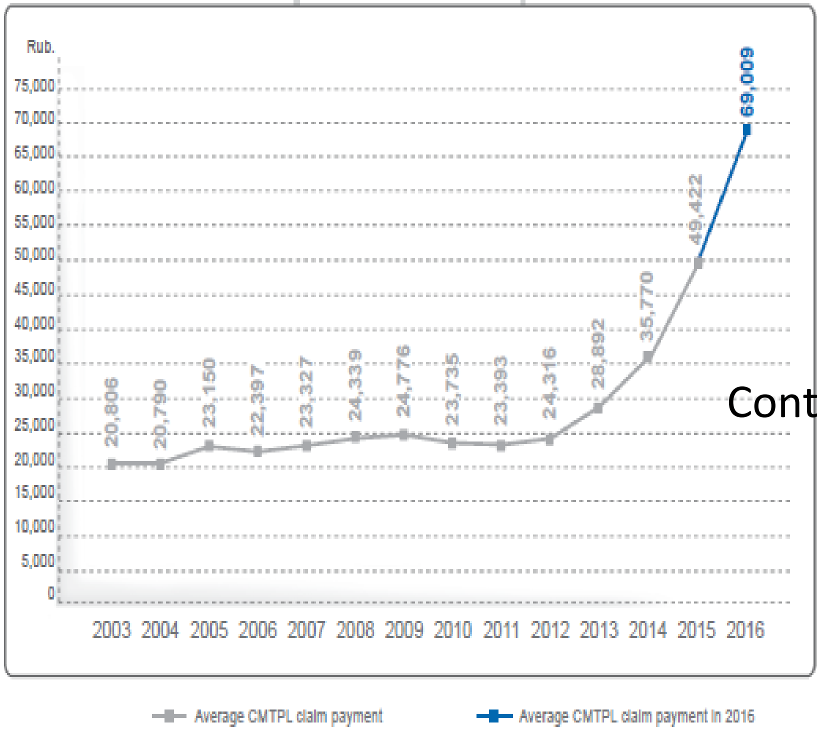
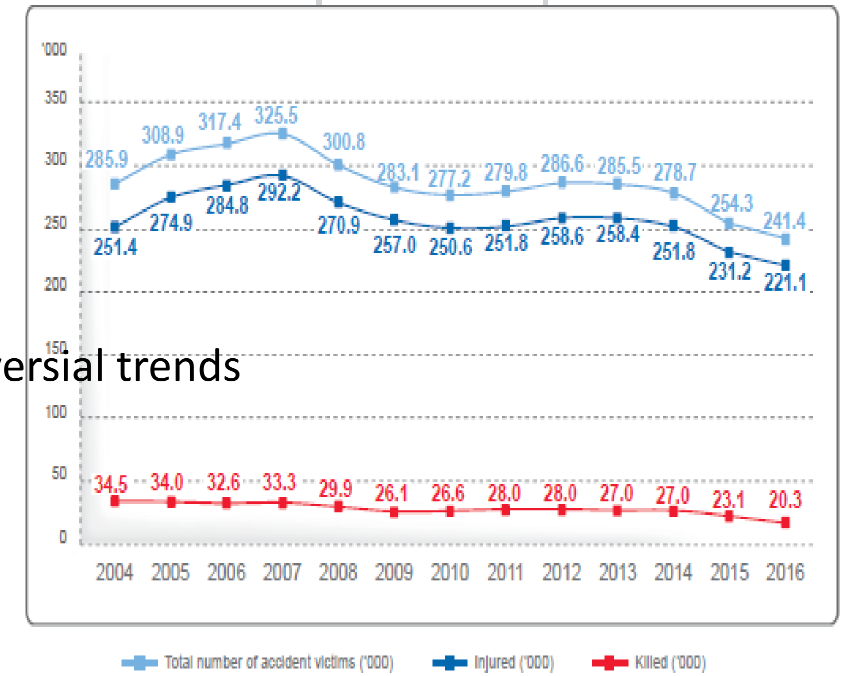


Figure 10

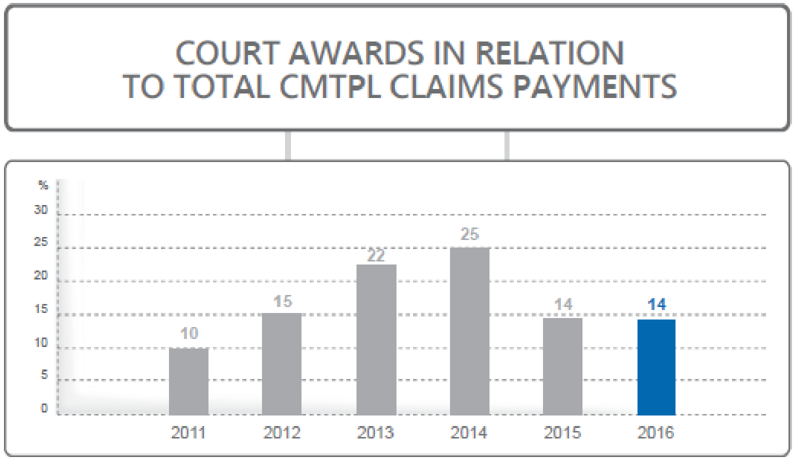
ROAD ACCIDENT VICTIMS, KILLED OR INJURED (2004–2016)

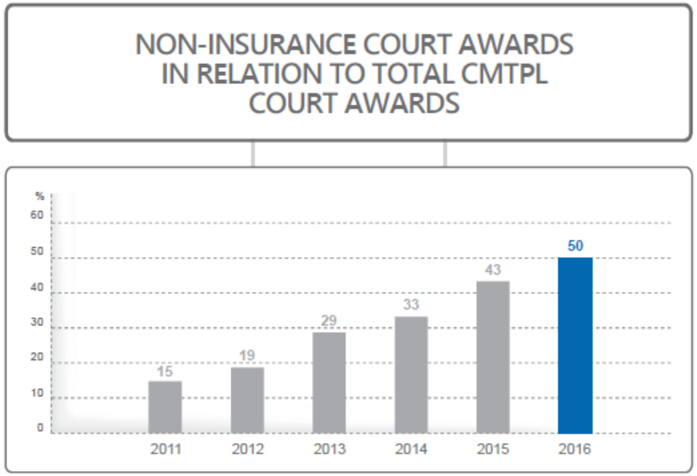


Controversial trends

Influence of legal framework

- 2011: Legislation on customer protection in Russia was extended on insurance products
- “Auto-Laywer” business was born – claims handling through the court. Unsatisfied clients were happy to assign claims and get money immediately. But for insurance company such claims became more expensive. In some regions “Auto-Laywers” almost totally substitute claims handling process
- 2015 – Central Bank of Russia tried to react and stopped “bubble” but not fully eliminated impact





Actuarial involvement

- 2002: initial working group developed rates and with some amendments it was adopted by the Government
- 2003-2010: regular monitoring on rates adequacy by Committee of rates, statistics and reserves of RAMI. Detected misbalances and developed methodology of ratemaking on basis of GLM did not lead to re-pricing
  - Market leaders were nor keen to share information
  - Regulator was satisfied with financial results on industry level

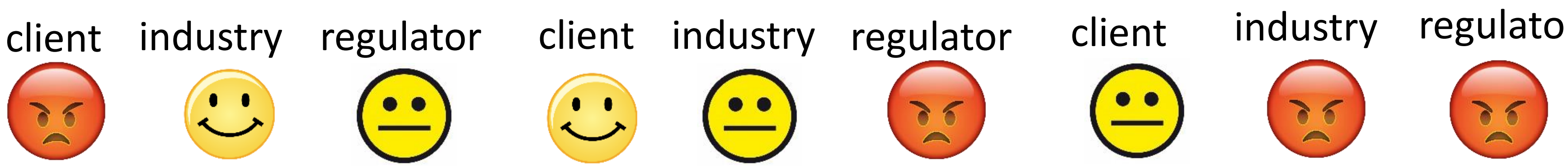
  Result: Minor modification of rates coefficients and allocation of regions between rating groups
- 2012 -2013 – industry expressed demand for re-pricing but regulator was under pressure of huge stream of complaints from customers
- 2013 – Law on actuarial practice was adopted, the Government is obliged to attract actuarial expertise for issue new rates on any obligatory insurance, regulatory functions were concentrated in Central Bank of Russia
- 2013 – 2014: Preparation of new era rates and implementation. Advanced actuarial models applied to array of 140 mln of policy records. After serious discussion new rates was adopted with innovative permission of “20% tariff corridor”
- 2014 – Guild of actuaries published position paper on new rates estimations
- 2016 – start real discussion of negotiation on liberalization of rates during Russian Actuarial Forum and other events
- 2017 – Central Bank of Russia announced plan of pricing liberalization in OSAGO

2017 is not a good year

- Average claim growth continues
- Market leader announced about 150% excess over market average claim
- Market leader faced catastrophic financial losses and was merged by commercial bank which later was recognized insolvent and moved to salvation process by Central Bank
- Financial hole is estimated in 60 – 100 bln RUR
- Implemented priority in “natural indemnity” over cash benefits
- RAMI and Central bank reached consensus that the only way to return financial stability to the MTPL is liberalization of rates

Three eras of MTPL – no balance

2003-2010	2011-2014	2015+
• Profit generation for insurance industry • Distribution is key factor in competition • Market leaders tends to conserve situation • Spreading malpractice in client relations • Compliant storm to regulator	• Increasing number of non-profit regions • Auto-Lawyers + clients get money back • Insurers escaped from “toxic regions” • Central bank push on accessibility of policies for all to avoid any social tensions	• Rapid drop into losses of the whole market • Voluntary cancellation of licenses by significant players • Collapse and salvation of the market leader by Central Bank • Improvement in customer service (e-policy, repairing instead of cash benefit, etc)



Resume

- Fair play is preferable than cheating
  - with customers
  - with other market players
  - regulator
- Financial stability depends on all elements of the system, many of them are out of control of the company or industry
- Actuarially proven regulated rates cannot guarantee results for any company: One size cannot fit all
- Transformation from regular to free rated is big challenge
- Strong and intelligent regulator is important for survival of the market