

Manson McCall International Ltd

**Поддержка российского и украинского
страхования с 1993 года**

London – Moscow - Kiev

Capital raising for insurance companies

Russia and Ukraine

Key issues facing two major developing insurance markets

2006 Annual International Conference

Yalta September 2006

Programme

- 1. Investors view of the Russian and Ukrainian insurance markets**
- 2. Investors view of insurance companies and shareholders**
- 3. What information will investors need from companies?**
- 4. Who will be the investors and how will they invest?**

OECD report on Russian Insurance market 2005

Negative aspects of the market

- Scheme business
- Captive business
- Large number of companies and low capitalisation

Positive aspects of the market

- Rapid growth in classical insurance
- Greater professional expertise
- Significant improvement in regulation and supervision

The Ukrainian market has the same characteristics,
but is at an earlier stage of development

Supervision is now attacking the negative aspects of the market

The Russian supervisor has publicly announced his policy towards developing the market

- Insurance companies will carry on real insurance business
- The financial strength of insurance companies is vital
- Insurance company clients will be protected if insurance companies become bankrupt

The Ukrainian supervisor has announced an intention to develop towards European standards of insurance supervision

Expected shape of the markets

Breakdown of non-life market in selected Eastern European Countries.

	Czech Republic	Hungary	Estonia	Poland	Lithuania	Bulgaria
Class						
Motor Casco	19.20%	24.42%	36.00%	29.70%	24.00%	35.20%
Motor TPL	33.74%	29.68%	31.00%	33.70%	33.00%	26.60%
Total motor	52.95%	54.10%	67.00%	63.40%	57.00%	61.80%
Property	25.93%	32.95%	22.00%	18.80%	17.00%	19.80%
Health, accident and medical	4.31%	3.11%	5.00%	5.70%	7.00%	3.30%
Liability	12.27%	6.02%	3.00%	3.80%	4.00%	2.70%
MAT	1.02%	1.04%	2.00%	1.90%		5.20%
Other	3.52%	2.78%	1.00%	6.40%	15.00%	7.20%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Growth forecast of Russian insurance market to 2012

Growth forecast for Russian insurance industry and motor insurance 2004-2012

	2004E	2005F	2006F	2007F	2008F	2009F	2010F	2011F	2012F
GDP \$bn	582	737	897	1064	1213	1373	1576	1671	1771
Penetration %	0.93%	1.02%	1.13%	1.24%	1.36%	1.50%	1.65%	1.81%	2.00%
Premium income (\$bn)	5.41	7.54	10.09	13.17	16.52	20.56	25.97	30.28	35.42
Motor income %	56.00%	55.00%	55.00%	55.00%	55.00%	55.00%	55.00%	55.00%	55.00%
Motor income	3.03	4.15	5.55	7.24	9.08	11.31	14.28	16.66	19.48
CASKO %	44.00%	46.20%	48.51%	50.94%	53.48%	56.16%	58.96%	61.91%	65.01%
CASKO income (\$bn)	1.33	1.92	2.69	3.69	4.86	6.35	8.42	10.31	12.66
TPL income (\$bn)	1.7	2.23	2.86	3.55	4.23	4.96	5.86	6.34	6.82

GDP figures UFG projections

Annual growth in penetration

10.00%

Annual growth in CASKO percentage

5.00%

Market consolidation: the forces at work in both markets

- ▶ **National companies benefit from economies of scale**
 - ▶ Access to national clients
 - ▶ Access to capital
- ▶ **However regional companies have their own advantages**
 - ▶ Strong local identity
 - ▶ Focussed management
 - ▶ Political loyalty

Real capital is the key to the survival of the both insurance markets

Investors see a future capital shortage - in Russia soon and later in Ukraine - led by growth and by supervisory action

- Minimum levels of capital to satisfy supervisor's solvency margin is not enough: 25% - 30% absolute minimum for prudence and international rating.
- Quality of capital will be important: international accounting standards will be applied.
- The company's own reinsurance protection will be examined and low quality reinsurance will be discounted.

The negative image of the region remains a real problem in both Ukraine and Russia

How do investors view insurance companies in Russia and Ukraine?

Many (if not most) Russian and Ukrainian insurance companies are not attractive to investors at the present time

- Scheme business
- Poor accounting records
- Lack of clarity on capital
- Captive business
- Lack of transparency with shareholders

Most Russian insurance companies have an exaggerated belief of their value.

Raising real capital internationally: both insurance and reinsurance

INVESTORS WILL WANT LARGE AMOUNTS OF INFORMATION

- Transparency of shareholding
- Good management accounting including allocation of expenses
- Clear presentation of real assets
- Reserving
- Understanding the needs of investors

**It will not be easy for many companies to provide all the information in a way acceptable to investors
– they will need help**

Growth or profitability?

INVESTORS WILL NOT INVEST ONLY FOR GROWTH

- Companies will need to show that they are profitable
- A clear underwriting strategy is necessary – especially in motor
- Investing for market share is dangerous

Investors who are experienced in insurance will be concerned at the overall market loss ratios in motor business

Where will real capital come from?

The capital will need to be real money

- Real assets: loans not possible
- Long term investment
- Investment in shares of the company essential

Therefore investor must understand insurance and the type of investor returns that insurance generates.

Who will invest?

The real possibilities at this time are limited.

Local investors

- Do they understand the need for real capital in an insurance company?
- Are they ready to take a long term view?
- Some may follow an international investor.

International insurance or reinsurance companies

- Are they ready now to enter the markets with a partner?
- Is now the time to sell to such investors and lose independence?

Portfolio investors

- Some are now interested in Russia.
- Need to follow investor with insurance expertise.

The good news: there is capital there

- Professional investors experienced in insurance and reinsurance
- Mainly based in London
- Credible to portfolio investors

But the investor will have requirements

- Will want influence not control
- Will expect good investment returns
- Will want to exit from the investment in a number of years.

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