

# СК

ОКТАБРЬ 2015

УКРАИНСКИЙ  
СТРАХОВОЙ  
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Market Overview**

UKRAINIAN INSURANCE CLUB

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According to the experts only about 6-8% of risks are insured in Ukraine.

Alex Shkvarun  
Project lead  
Ukrainian insurance club Magazine

Журнал  
«Український страховий клуб» Октябрь  
2015 Мини выпуск  
Ukrainian insurance club Magazine  
October 2015 Mini edition  
www.insclub.info  
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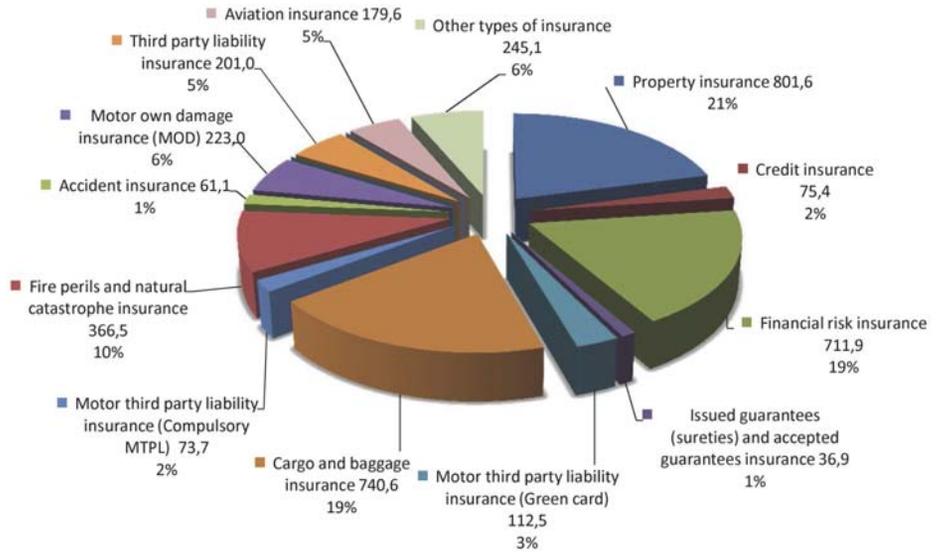
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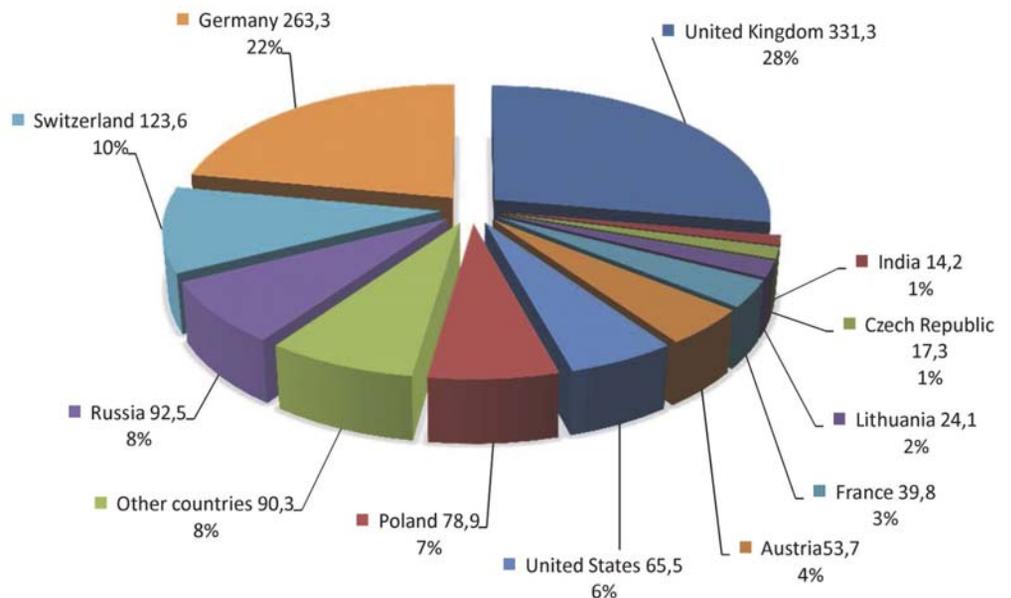
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# Reinsurance market overview

The structure of outward reinsurance under insurance types as of 30.06.2015 (M UAH)



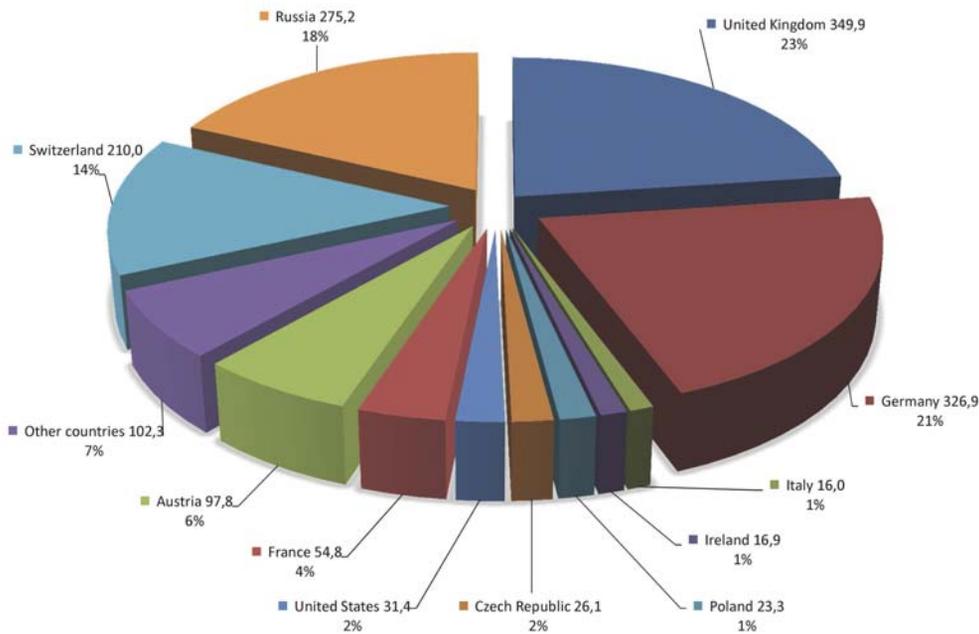
The structure of risks reinsurance with non-residents as of 30.06.2015 (M UAH)



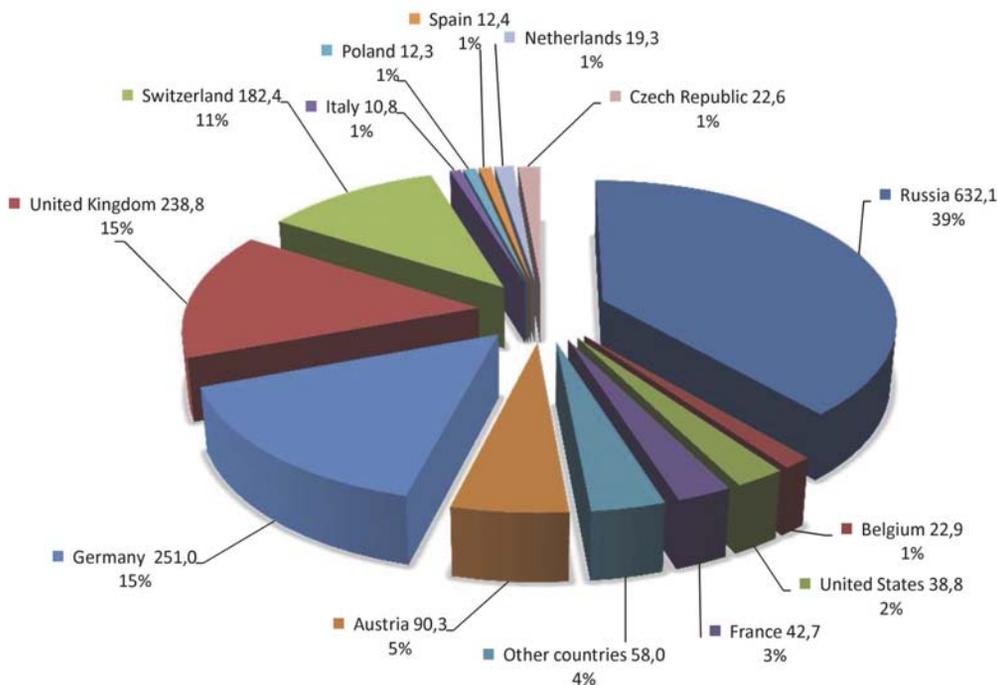


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The structure of risks reinsurance with non-residents 2014 (M UAH)



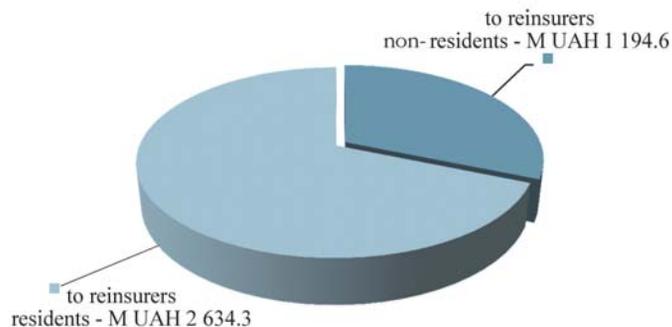
The structure of risks reinsurance with non-residents 2013 (M UAH)



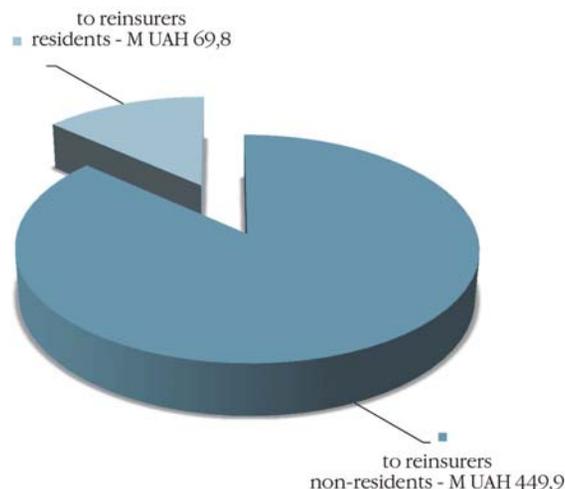
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**Under the reinsurance contracts Ukrainian insurers (cedents, reinsureds) paid M UAH 3 828,9 premium shares as of 30.06.2015**



**The total amount of insurance claims, compensated by reinsurers amounted to M UAH 519,7 as of 30.06.2015**



# Insurance market overview

## Dynamics of net claims paid under the major insurance types

Insurance type	1st half 2014 M UAH	1st half 2015 M UAH	Growth rate 1st half 2015 / 1st half 2014	
			M UAH	%
Motor insurance (MOD, Compulsory MTPL, Green card)	1 329,6	1 491,3	161,7	12,2
Health insurance (permanent health insurance)	559,5	591,8	32,3	5,8
Life insurance	89,7	282,4	192,7	214,8
Financial risk insurance	5,9	186,0	180,1	3 052,5
Property insurance	64,2	145,0	80,8	125,9
Medical costs insurance	52,3	74,6	22,3	42,6
Credit insurance	48,0	45,1	-2,9	-6,0
Fire perils and natural catastrophe insurance	60,8	30,7	-30,1	-49,5
Other types of insurance	146,9	138,5	-8,4	-5,7
<b>Total</b>	<b>2 356,9</b>	<b>2 985,4</b>	<b>628,5</b>	<b>26,7</b>

### Number of insurance companies

	As of 31.12.2011	As of 31.12.2012	As of 31.12.2013	As of 31.12.2014	As of 30.06.2014	As of 30.06.2015
Non-life insurers	378	352	345	325	342	322
Life insurers	64	62	62	57	58	52
Total number	442	414	407	382	400	374

### Net insurance premium structure

Insurance type	1st half 2014 M UAH	1st half 2015 M UAH	Growth rate 1st half 2015 / 1st half 2014	
			M UAH	%
Motor insurance (MOD, Compulsory MTPL, Green card)	2 772,2	3 459,3	687,1	24,8
Property insurance	951,3	1 141,2	189,9	20,0
Financial risk insurance	544,6	975,2	430,6	79,1
Health insurance (permanent health insurance)	817,1	962,0	144,9	17,7
Life insurance	977,2	939,9	-37,3	-3,8
Cargo and baggage insurance	355,7	801,3	445,6	125,3
Fire perils and natural catastrophe insurance	676,9	679,6	2,7	0,4
Third party liability insurance	330,1	420,0	89,9	27,2
Aviation insurance	125,4	274,9	149,5	119,2
Medical costs insurance	145,7	200,4	54,7	37,5
Accident insurance	370,6	190,0	-180,6	-48,7
Credit insurance	212,3	154,5	-57,8	-27,2
Motor accident insurance	59,1	33,2	-25,9	-43,8
Other types of insurance	381,2	599,7	218,5	57,3
Total	8 719,4	10 831,2	2 111,8	24,2

Source: The National Commission for State Regulation of Financial Services Markets

## INTERNATIONAL FINANCE FORUM Odessa, Ukraine



# Compulsory Motor Third Party Liability Insurance (MTPL) market in Ukraine. Approaches to determining insurers' financial stability.

TO OVERCOME THE CRISIS, ONE SHOULD CORRECTLY BALANCE ITS REVENUES AND EXPENSES, I.E. ONE SHOULD CONDUCT A FAIR AND PROFITABLE BUSINESS.



**Yuriy Grishan**  
Director of the group of insurance companies  
«Illichivska» and President of MTIBU

At the current stage the Compulsory MTPL market in Ukraine is on the threshold of major changes. In recent years the market participants have done a great job in terms of drafting amendments to the Law of Ukraine on Compulsory MTPL. The draft contains all the necessary regulatory support for implementation of the major innovations needed for the normal, transparent market operation, in particular, the introduction of e-policy and direct claim settlement.

In addition, the importance of client services quality under Compulsory MTPL insurance contracts has increased in the overall assessment of insurers' operations. This fact was reflected in the new procedure for monitoring insurers - members of the Motor (Transport) Insurance Bureau of Ukraine (MTIBU). The proportion of claims settlement quality indicators (which characterizes the efficiency of insurance claims settlement), and the relative number of complaints from victims and insureds on the operations of an insurance company, has increased significantly within the framework of the above procedure.

In order to determine how effectively

the monitoring displays the accumulation of problems in an insurance company, the method of research of the market leaders in Compulsory MTPL was used in this article. The method is based on benchmarking and analysis of financial performance of low profitable and, at the same time, mass products of the Ukrainian market. Namely, such products as Voluntary Medical Insurance (VMI), Motor Own Damage Insurance (MOD) and Compulsory MTPL Insurance.

Besides the boundary indicators of claims paid level under these major insurance products, which indicate the profitability or unprofitability of the insurer's operations, the real market average commission fees were taken into account. Thus, the total profitability index under the above three insurance products, and combined ratio for the company, reflect its strategy and philosophy of doing business.

Comparing Q1 2015 and the entire 2014 (Table 1 and Table 2), we see a trend of increase in the unprofitable sector under the three key products (Compulsory MTPL + VMI + MOD) from 5 to 8. At the same time, the number of companies that have

chosen to conduct profitable sales of Compulsory MTPL as their strategy does not change significantly in Q1 2015.

In order to comprehensively evaluate the strategy and philosophy of doing business by the market leaders in Compulsory MTPL, combined ratio, calculated on the basis of net premiums (Figure 1), shall be added to the analysis of other indicators, such as the volume of insurance premium written, claims paid level, profitability of Compulsory MTPL and other three key insurance products.

We present the results of this review in the diagram (Diagram 1). At the same time, the picture is less comforting because, as seen by the results of 2014, in a group of companies with unprofitable sales of Compulsory MTPL, over 50% of Insurance companies have a high CR. And in the group of companies with profitable sales of Compulsory MTPL, only 30% of companies have a high CR, respectively.

The results of Q1 (Diagram 2) in terms of the basic indicators and CR rate of half year allow us to accurately predict that these negative trends will, unfortunately, remain in 2015.

Indicators of Top 20 in VMI, MOD and Compulsory MTPL market for 12 months 2014. Table 1.

Insurance company	Portfolio share VMI+MOD+Compulsory MTPL	Figures under Compulsory MTPL		Figures under Compulsory MTPL		Figures under MOD	
		Portfolio share	Claims paid level, %	Portfolio share	Claims paid level, %	Portfolio share	Claims paid level, %
<b>companies with a negative margin of Compulsory MTPL sales</b>							
IC1	47,34	13,78	157,78	4,17	69,95	29,39	34,88
IC2	82,43	12,11	57,36	7,57	53,06	62,75	55,37
IC3	46,46	12,00	52,17	5,89	87,88	28,57	49,24
IC4	84,98	35,83	48,53	8,24	115,56	40,91	54,3
IC5	71,56	15,14	47,45	15,27	85,47	41,15	48,62
IC6	62,46	35,64	46,81	1,97	48,43	24,85	64,15
IC7	57,68	32,87	45,39	8,71	75,23	16,1	61,41
<b>companies with a positive margin of Compulsory MTPL sales</b>							
IC8	82,05	36,49	42,79	29,98	82,84	15,58	77,31
IC9	35,1	7,72	42,54	3,22	73,38	24,16	52,96
IC10	66,02	59,87	35,02	0,91	98,13	5,24	71,41
IC11	-	-	34,80	-	-	-	-
IC12	65,14	36,59	34,04	12,70	32,16	15,85	35,5
IC13	63,09	26,98	30,64	24,47	61,1	11,64	56,89
IC14	67,96	63,25	28,42	1,56	78,65	3,15	36,34
IC15	53,60	53,00	26,67	0,6	20,83	-	-
IC16	48,30	48,30	25,20	-	-	-	-
IC17	68,04	59,44	24,74	-	-	8,6	28,83
IC18	-	-	23,34	-	-	-	-
IC19	82,45	68,84	19,29	1,96	73,57	11,65	52,38
IC20	42,84	42,37	13,78	0,47	3,75	-	-

Indicators of Top 20 in VMI, MOD and Compulsory MTPL market for Q1 2015. Table 2.

Insurance company	Portfolio share VMI+MOD+Compulsory MTPL	Figures under Compulsory MTPL		Figures under Compulsory MTPL		Figures under MOD	
		Portfolio share	Claims paid level, %	Portfolio share	Claims paid level, %	Portfolio share	Claims paid level, %
<b>companies with a negative margin of Compulsory MTPL sales</b>							
IC1	87,73	29,28	69,23	20,03	22,68	38,42	68,18
IC2	87,16	9,33	63,04	16,27	32,73	61,56	59,46
IC3	59,12	10,39	55,75	18,86	53,34	29,87	57,48
IC4	84,86	33,15	50,25	26,58	58,55	25,13	45,35
IC5	37,62	7,07	47,85	9,87	36,58	20,68	67,44
IC6	46,26	10,35	47,35	12,37	48,33	23,54	49,1
<b>companies with a positive margin of Compulsory MTPL sales</b>							
IC7	57,45	33,83	43,49	2,91	38,01	20,71	66,06
IC8	50,62	25,01	43,06	13,39	40,7	12,22	78,82
IC9	48,96	12,38	42,31	7,39	33,87	29,19	58,46
IC10	77,29	26,28	36,68	39,34	43,85	11,67	58,21
IC11	69,78	27,64	36,22	32,03	67,12	10,11	55,54
IC12	65,99	40,53	34,16	12,35	38,29	13,11	42,79
IC13	70,63	68,71	33,45	0,23	20,83	1,69	70,14
IC14	77,75	64,43	32,26	6,94	0,46	6,38	72,67
IC15	85,85	72,68	32,2	2,66	77,42	10,51	61,98
IC16	-	-	30,19	-	-	-	-
IC17	65,85	60,5	25,34	1,59	26,79	3,76	47,95
IC18	32,9	31,86	20,89	-	-	1,04	10,66
IC19	-	-	18,69	-	-	-	-
IC20	86,28	84,26	10	-	-	2,02	35,01

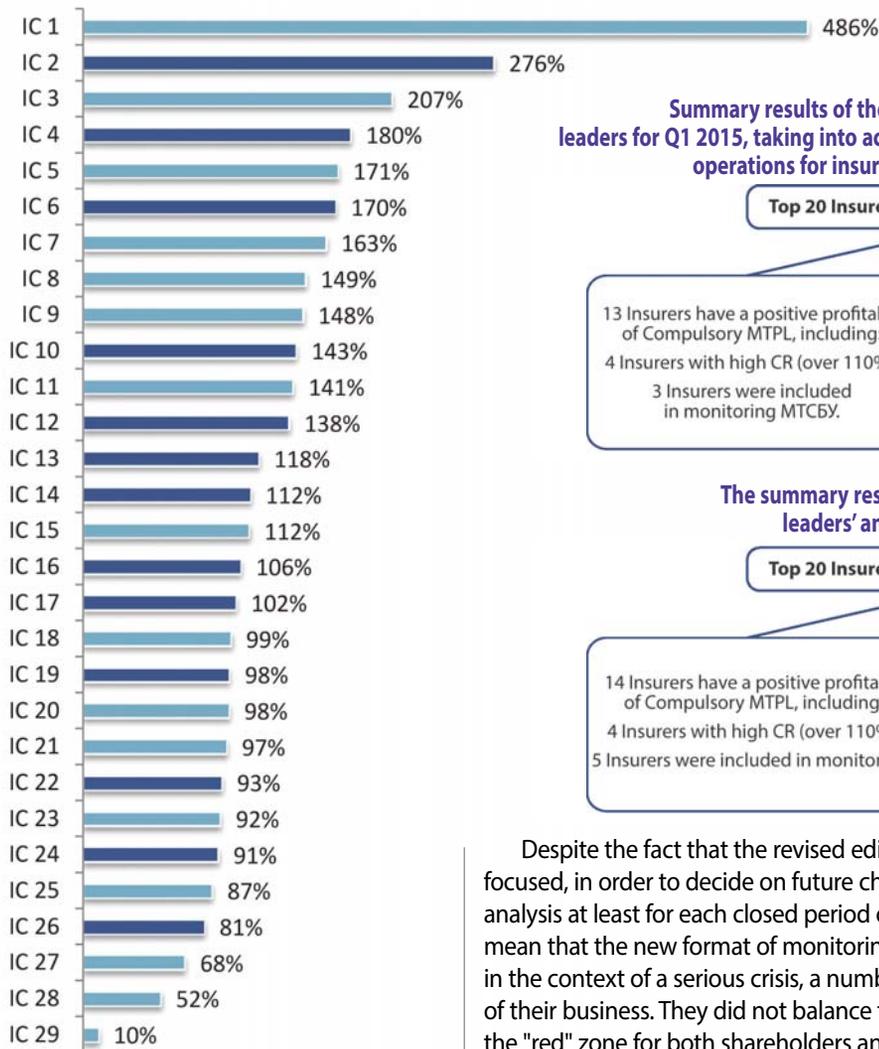
*The author considers the sales of Compulsory MTPL profitable if claims paid level do not exceed 44%. Depending on the size of commission fees and the cost of doing business, this figure may vary from 34% to 49%. This range will not cause a serious error within the analysis.*

As well as my previous analyses, made for VMI leaders, and the analysis of the companies' position and adequacy of the strategy, the crisis period shows the root causes of crisis in a number of companies. The main reason is related to the inability or unwillingness of some managers to deal with the most important phenomenon of the crisis: constant rising costs of doing business. This figure is, of course, primarily associated with the increase in prices of spare parts and medicines, which grew by 2.4 times and 1.5 times, respectively, since the beginning of 2014. As can be seen from this study, over 40% of leading companies in Compulsory MTPL do not have the time to deal with these serious challenges of the Ukrainian crisis. We started the development of measures to reduce operating costs and introduced a number of special events to withhold claims payments under motor insurance and voluntary medical insurance before the start of this crisis. And this gives tangible results today, as CR of our Company is 93% based on the results of the 1st half of 2015.

Unfortunately, some insurance companies did not understand that in times of crisis it is important to correctly balance their revenues and expenses, that is to conduct honest and profitable business.

As we can see, according to the monitoring procedure which was valid in the past year, and its new edition, on the basis of which MTIBU calculated the indicators of insurance companies in Q1 of 2015, the number of companies that are in the unprofitable segment of Compulsory MTPL sales is practically equal to the number of companies that have costly business, i.e. overvalued CR indicator in the 1st half of 2015. But at the same time, monitoring can not promptly reflect the negative trends in the unprofitable segment of Compulsory MTPL business. For example, the number of companies from the profitable insurance sector of Compulsory MTPL in 2014-2015, which are at risk based on the results of monitoring, increased from 3 to 5.

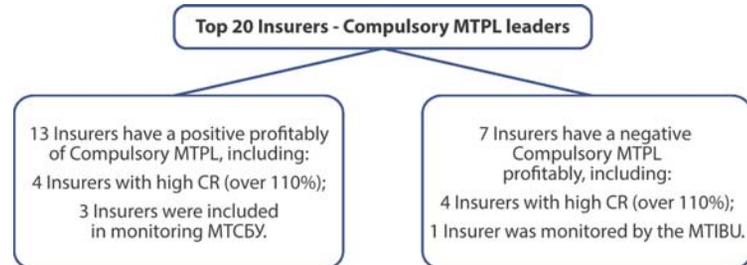
**The combined cost ratio (CR) of Top 30 Insurers in terms of insurance premium in the 1st half 2015. Figure 1**



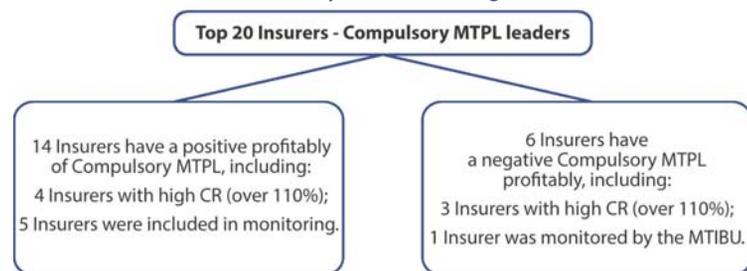
Meanwhile, only one company from the unprofitable segment of Compulsory MTPL is reflected in the monitoring.

As already indicated above, 30% of the companies in a cost-effective segment in 2014 had a high coefficient of business expenses. Thus, from a logical point of view, these companies will be risky for the MTIBU in the near future, although they did not appear in the old version of the monitoring as the risky ones. At the same time, the results of Q1 were processed by the MTIBU according to the new edition of monitoring.

**Summary results of the analysis of Compulsory MTPL market leaders for Q1 2015, taking into account the new edition of monitoring procedure of operations for insurers - members of MTIBU. Diagram 2.**



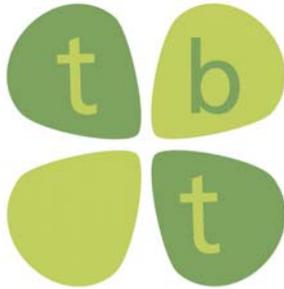
**The summary results of Compulsory MTPL market leaders' analysis for 2014. Diagram 1**



Despite the fact that the revised edition of insurer's monitoring is more customer-focused, in order to decide on future challenges, it is necessary to have the results of such an analysis at least for each closed period of six months and a year. In my view, this does not mean that the new format of monitoring should be immediately revised. This suggests that in the context of a serious crisis, a number of companies have not changed the philosophy of their business. They did not balance their revenues and expenses, and thus remained in the "red" zone for both shareholders and clients, and the MTIBU in general. We need to take into account this factor in subsequent analytical considerations. However, it should be noted that the facts presented in this analysis are the elements of prudential supervision.

Unfortunately, despite the increased supervision by MTIBU regarding the claims payments by insurers, and the rate policy, in our practice, we constantly need to deal with systemic violations of Compulsory MTPL legislation and dumping.

This analysis shows the fact that a number of Compulsory MTPL leaders (40%), regardless of whether their sales are profitable or unprofitable, unfortunately, follow the philosophy of business with the high cost of operation. These companies are a quite risky segment of domestic insurance business for MTIBU, which is built on the principles of joint liability, and for the shareholders of the companies themselves and their clients. It is difficult to assume that all of the owners of these companies have agreed to suffer the high costs of doing business during the crisis, and accepted the need for constant replenishment of reserves. Thus, the tendency of further reduction in the number of players in this market is inevitable, as happened in 2014, when 20 companies left the MTIBU, despite the fact that in 2013 only 6 companies left the MTIBU.



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# With confidence about the future!



ALLIANCE INSURANCE COMPANY IS THE LEADER OF DNEPROPETROVSK REGION AND THE INSURANCE MARKET OF UKRAINE. THE COMPANY WAS FOUNDED IN JULY 2003 AND IS A STRUCTURAL PART OF A LARGE CONGLOMERATE. WE DECIDED TO VISIT THE COMPANY AND TALK WITH THE CHAIRMAN OF THE BOARD ALEXANDER SHRAIBMAN.

## Alexander, what are the goals of the Company that you head?

Today, the Company is at the next stage of development. We plan to become a leader, not only in the corporate insurance segment, but also to achieve the status of a competitive market (retail) insurance company. Our priority lines of business are property and cargo insurance, health insurance, credit and financial risks insurance, aviation and marine insurance. In the coming years we plan to open new branches and representative offices. Due to new sales channels we aim to significantly increase the volume of insurance products offered, while enhancing the range of offered insurance types and additional services.

## Are you satisfied with the Company's growth? How do you assess the results of the work?

In general, I am satisfied with how the Company has worked over the years. During the last few years Alliance Insurance Company was among the top 20 under almost all indicators. And in terms of cargo and baggage insurance we took the first place in 2014. 16 licenses for voluntary insurance and 9 licenses for compulsory insurance allow us to offer our clients the whole range of insurance products. Our clients vary from airports, aircraft and ships, to employees of companies and organizations.

First of all, of course, our major lines of business are property insurance, compulsory civil aviation insurance and liability insurance. We are also expanding such types of personal insurance as voluntary medical expenses insurance, voluntary health insurance and voluntary accident insurance.

Our team is proud of the fact that we are trusted by the large enterprises and organizations, including: Dnepropetrovsk Metallurgical Plant, Dnepropetrovsk Locomotive-Repair Factory, Nikopol Stainless Tube Mill, Dnepropetrovsk Metallurgical Academy, Dnepropetrovsk State Medical Academy, Dnepropetrovsk Metro, Ilyichevsk Ship Repair Yard, large shopping malls and other major companies. We insure the entire cycle of construction and erection works during hydropower plant construction, ranging from design to delivery of the turbines in operation.

In 2013-2014, the 4 largest airports in Ukraine were insured with Alliance Insurance Company. They are Boryspil Airport, Odessa Airport, Simferopol Airport and Lviv Airport.

The reinsurance program covering the primary insurance portfolio of our Company is a combination of obligatory and facultative reinsurance with reinsurers of Ukraine and rated companies in Europe.

## Being a leader is good, but how do you explain that in terms of premiums for the 1st half of 2015 the Company took the 14th place, and in terms of claims paid — the 50th?

We know that the high loss ratio is associated with motor types of insurance. Therefore, a strategy was developed that monitors the motor insurance in the general insurance portfolio structure, not allowing it to exceed 5-7%. Since we do not have a license, and are not engaged in Compulsory MTPL, our claims paid are significantly lower than those of the companies who have this type of insurance in their portfolio. The Company's portfolio is well balanced.

Our experts carefully approach risk assessment. The stable financial position of the Company allows us to give up high risk propositions. According to the indicators such as assets, equity and guarantee fund, we are among the leaders of the insurance market of Ukraine.

I would like to note that Alliance Insurance Company is a reliable and transparent company. We have a stable team and many of our colleagues have been working in the insurance industry for over 20 years. Personally, I have been the head of the Company since 2004.

We are committed to every client, and are able to provide, not only insurance, but advisory services as well. We welcome everyone who needs a reliable insurance coverage.

***We look confidently into the future.***



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