

# Annual Report 2005

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## From the President of RAMI



Dear Colleagues,

During 2005, compulsory motor Third Party Liability insurance came under close scrutiny from all three branches of government – the Executive, the Legislature and the Judiciary.

In July 2005, the Russian Government discussed the implementation of the law on compulsory motor TPL insurance and came to the conclusion that the law is working well and the overall objectives are being met.

The Constitutional Court of the Russian Federation has also confirmed that the fundamental objective of the law is being met. The Court confirmed that a system has been successfully introduced that provides financial compensation for victims of road accidents: both those who suffer injury and those who suffer financial loss are being covered by the insurance scheme.

Our Association, RAMI, has worked closely with many official bodies in order to develop solutions to problems in a number of crucial areas. During 2005, these bodies included the Federal Service for Insurance Supervision (FSIS), the Ministry of Finance, the Ministry of Economic Development, the Ministry of the Interior, the Ministry of Justice, the Ministry of Transport and the Communications Ministry.

The issues we have discussed include simplifying the documentation and procedures that have to be followed after a road accident (the European Protocol), developing a system of independent vehicle inspections, and refunding to the state the costs of medical treatment and rehabilitation of road accident victims.

One of the most difficult questions that faced the insurance industry in 2005 was to do with the 'health' of insurance companies themselves: how to transfer the business of those insurance companies that have had their licenses withdrawn. Substantial bad publicity was generated because it was felt that the compulsory motor TPL system was not stringent enough. We worked with the FSIS and with a number of Duma deputies to produce amendments to the law countering the criticisms that had been raised.

We have paid special attention to ensuring that insurance companies improve the way in which they carry out their obligations to victims of road accidents and to other members of our organisation. RAMI constantly proposes changes in the rules of professional conduct and has even made the association's rules of professional conduct stricter. This clearly shows that insurance companies acknowledge the importance of the compulsory motor TPL insurance market and value the trust of the state, which has delegated the task of operating the compulsory motor TPL insurance system to them.

Another important area of our work is the development of a system that collects information about compulsory motor TPL insurance. One of the first stages involves co-operation between RAMI and the transport police. Pilot projects should be concluded in 2006 from 14 regions and we hope that the results of these will demonstrate the relevance of this co-operation.

In 2005, the President of the Russian Federation raised the issue of road safety in an address to the Federal Assembly. This issue was also discussed at a meeting of the State Council of Russia. Improving road safety is now an important long term issue, proven by the fact that the Ministry of the Interior's Road Safety Department has produced a federal programme to improve road safety.

All in all, it can be said that everything we have done has been aimed at achieving the overall objective of the law on compulsory motor TPL – providing social protection for the people.

Yours sincerely,

President of the Russian Association of Motor Insurers

A. S. Kigim

## From A. P. Koval, President of ARIA and Deputy of the Russian State Duma



Dear Colleagues,

In a civilised world, everybody has the right to protect his/her interests. Compulsory motor TPL insurance is one of the ways in which citizens' rights are protected. The practical experience that has been gained since the law on compulsory motor TPL insurance came into force has been invaluable in demonstrating that the system of compulsory insurance is the most effective way in which victims of road accidents can be compensated for the damage they have suffered. This annual report, published by RAMI and covering 2005, provides much evidence of success: the report shows that the system for providing insurance protection for users of motor vehicles is fully functioning and that, as a whole, the law is working well.

RAMI is the first association of insurance companies whose powers and duties are set out in a Federal law. The association is, undoubtedly, called upon to work closely with various state bodies to ensure that the rights of both insureds and road accident victims are protected.

Today, RAMI is seen by state authorities as an equal partner: as such it is an excellent example of co-operation between the state and private bodies.

I hope that at the same time as insurance companies become increasingly financially secure, all the objectives set out in the report for 2006 will become the main developmental trends in the compulsory motor TPL insurance market for the next few years.

I believe that the report will give to both insurers and insureds a full and, hopefully, objective view of this segment of the insurance market and will allow them to develop their own perspective.

Yours sincerely,

A. P. Koval

**From A. L. Savatyugin,  
Director of the Department  
of Financial Policy at the Ministry  
of Finance of the Russian Federation**



During 2006 there were a number of events that were significant for the whole insurance market and for the system of compulsory motor TPL insurance in particular. By providing a public record of these important events, the RAMI annual report will be of great value in putting them into the context of the development of the market as a whole.

Today, there are a number of insurance related problems facing a wide range of government bodies. The most important problems require changes in legislation. To take one example, there will clearly be amendments to the law on compulsory motor TPL insurance. The Ministry of Finance is working with RAMI to develop a legal framework for the introduction of the "European Protocol".

The main focus of government policy toward insurance today is ensuring the financial strength of insurance companies. The overall objective is to make sure that insurance companies are able to play a real role in the investment market by reducing their reliance on dubious financial schemes.

The most important measure aimed at increasing the financial strength and solvency of insurance companies is likely to be the regulations issued by the Ministry of Finance covering the placement of insurance reserves and the types of assets that are permissible as part of shareholder funds. A further important area is developing regulations on the qualification of actuaries.

It is widely accepted that many issues including systems of professional qualifications in insurance, should be organised by non state self regulating organisations. In practice, however, it must be accepted that there is only one self regulating organisation capable of such work – RAMI. Last year RAMI was able to gain influence at the highest levels when it began to develop its policy of the protection of consumers. The Association has, on its own initiative, made the membership requirements stricter and in doing so, the Association demonstrated a high degree of social responsibility and is therefore showing that it is able to act as a reliable self-governing body that can be trusted to develop a suitable system of market regulation.

Director of the Department of Financial Policy  
at the Ministry of Finance of the Russian Federation

A. L. Savatyugin



**From I. V. Lomakin-Rumyantsev,  
Head of the Federal Service  
for Insurance Supervision**



2005 was a crucial year for the development of the insurance market and particularly for the development of compulsory motor TPL insurance. When the law on compulsory motor TPL insurance was introduced, many insurance companies of different sizes and with differing levels of real insurance liability entered the market for a type of insurance which puts strong social obligations on insurance companies. However, some companies ignored this aspect. In general, in the early days of compulsory motor TPL insurance, the loss ratios are, as a rule, not high. However, the business is technically complex, requiring qualified staff, and last year it was clearly shown that some companies do not meet the standards required to effectively administer this business.

Faced with this difficult situation, the insurance community as a whole, and RAMI as its representative, showed a high degree of social responsibility. At the beginning of last year, on RAMI's initiative, changes were made in the law which set out RAMI's duties in respect of insolvent companies. The result is that vehicle owners are protected against improper activities of insurance companies, and in this respect the situation has improved. However, in respect of the activities of insurance companies, the changes have not gone far enough. In my view, RAMI needs additional powers to deal with insurance companies whose licenses have been recalled and with the individuals who have caused insurance company bankruptcies.

I consider that there are two main tasks faced by Russian insurers in the near future. The first task is to ensure that all insurance companies operating in the market are reliable. It is important not only to ensure that companies can withdraw from the market without major consequences, but also to ensure that there are effective monitoring and control measures in place to prevent problems in the first place.

The second important task is to further consolidate their position on the law and self-regulation of the insurance within the overall framework of the general law on motor insurance.

In all these areas, RAMI can and must play a meaningful role, and during the last year it has been clearly proven that RAMI does have the ability to play this role.

Head of the Federal Service for Insurance Supervision

I. V. Lomakin-Rumyantsev



## From S. A. Aristov, Deputy Minister of Transport of the Russian Federation

Insuring motor transport is one of the main ways in which the social and property interests of the general population and of organisations are protected. At the same time it contributes to the financial and social stability of the state – both in the sphere of transportation and indeed in every part of the economy.

The role of RAMI as the professional association of motor insurers has been of vital importance in the development of the system of compulsory motor TPL insurance.

The Ministry of Transport of the Russian Federation has been able to work closely with RAMI and this demonstrates that there is a common understanding of the issues involved in developing the transport system, issues that have to be implemented both by state organisations and by non-state organisations.

The Ministry of Transport takes the view that further co-operation with RAMI will be of great value in the area of the development of motor insurance regulation, in designing measures to prevent road accidents and to improve road safety. We will also work with RAMI on interdepartmental committees looking at the problems of transport. Finally, we feel that we can co-operate in developing methods of alerting the general public to the problems of road safety.

I am certain that the combined efforts of the Ministry of Transport and RAMI will have a beneficial effect on the development of Russia's road transport system and will help its integration into the world system.

Deputy Minister of Transport of the Russian Federation

S. A. Aristov

**From V. N. Kiryanov,  
Chief State Inspector for Road Safety  
of the Russian Federation**



Dear Colleagues,

Road safety is increasingly in the forefront of public attention today.

Improving road safety is one of the main tasks facing our country today. "The Federal Programme for Improving Road Safety 2006–2012" has as its twin objectives the reduction in the number of road accidents and lessening their severity in terms of the consequences for the victims. In these circumstances, it becomes more necessary than ever for government agencies to work closely with insurance companies to achieve the twin objectives of the Federal Programme.

RAMI has worked hard to develop ways in which such a state/private partnership aimed at improving road safety can be achieved.

A programme to develop methods of sharing data between the road traffic police and RAMI has been initiated and concrete results have already been seen.

With the support of RAMI and following our Department's initiative, a conference (Ensuring Road Safety in the Russian Federation) was held in Moscow in August 2005. This conference attracted more than 400 participants from all regions of Russia

During the year, a number of working consultations were held with specialists from France on introduction of automated systems of speed control on the roads of Russia

A co-ordinated programme of work on developing measures to improve road safety is essential if the legal rights and interests of our citizens are to be protected.

Chief State Inspector for Road Safety  
of the Russian Federation

V. N. Kiryanov

**From D. A. Milovantsev,  
Deputy Minister of Information  
Technologies and Communications  
of the Russian Federation**



During 2005, the first steps were taken to develop a modern informational and technological environment for the insurance market, which should lead to a higher level of service for all our citizens.

The first stage is the creation of an automated information system (AIS) for compulsory motor TPL insurance. The aim of this system is to share data between a number of different departments and this requires the creation of a common central state data resource that will be accessible by the agencies and departments. Other individuals and organisations will also have access to this data resource, in line with requirements as regulated by the law.

The success of this co-operation between the Ministry of Information Technologies and Communications, other Governmental bodies and RAMI demonstrates the value of state/private co-operation in an area of high social importance.

We are certain that mutually profitable co-operation between the state and the insurance community will continue and will result in more successful outcomes.

Deputy Minister of Information Technologies  
and Communications of the Russian Federation

D. A. Milovantsev

**From Daniel Schanté,  
Director General,  
Comité européen des assurances**



I would like to congratulate the Association of Motor Insurers for the rapid and successful implementation of advanced insurance technologies and standards in MTPL practices in the Russian Federation.

From the experience of its members, CEA knows that the introduction of MTPL has never – and nowhere – been easy for insurers, and we are particularly impressed by the significant results of RAMI and its members.

CEA is as always ready to assist and coordinate efforts by our members in providing RAMI with the extensive experience that we have acquired during the years.

Let me take this opportunity to wish you a lot of success in your further objectives devoted to the development of the insurance market in Russia

Yours sincerely,

Daniel Schanté

**From Dr. Bernhard Schareck,  
President of the German  
Insurance Association**



It is a pleasure to me to be represented in the Annual Report of the Russian Association of Motor Insurers (RAMI) as President of the German Insurance Association with a message of greeting. We have registered with attention and, above all, with respect the great and rapid progress achieved in the implementation of motor TPL insurance in the Russian Federation under the leadership of RAMI and its member companies.

Motor TPL insurance is a key line of any insurance market and, moreover, it has an important function in terms of social policy. Precisely in a country with as dynamic an economic and social development as the Russian Federation, the provision of cover for participation in motor traffic is a question of vital significance, for both commercial and private purposes. The reliability of compensation in the case of road accidents must be fulfilled to ensure that individual mobility, which is so important for national economy, may develop without ruinous risks for victims, but also perpetrators of accidents.

Motor insurance, with its millions of customers and its manifold interlinking with large sections of public life, is an extremely complex service, which makes great demands both on companies and on the coordinating association.

We are very pleased that GDV and its member companies engaged in the Central and Eastern European Committee have been able to bring their experience in implementing motor TPL insurance and developing association work. We will be very happy to continue this friendly cooperation with RAMI, which is extremely valuable for us as well, at a time when Europe is growing together, with an enormous increase in traffic, precisely between the East and the West.

We wish Russian motor insurers and their association, RAMI, much success for their future work – for the benefit of customers and of the economy and society in Russia as a whole. We are looking forward to further cooperation.

Yours sincerely,

Dr. Bernhard Schareck

**From Tadashi Kodama,  
Chairman of the General  
Insurance Association of Japan**



It is my great honour to be able to send a message of courtesy and friendship to the Russian Association of Motor Insurers (RAMI) on this occasion.

It was our great pleasure to welcome the delegation of RAMI lead by President Kigim to our association during the week of 17 April, 2006. I believe the visit was made at a relevant time when the ties between both countries, including economic relations, have been strengthening. The fact that four of our member companies have opened representative offices in Russia in the last year demonstrates the emerging relations between both industries.

As we welcomed RAMI to our association for the first time and held fruitful meetings, we were very impressed with RAMI's strong determination to develop Motor TPL insurance in Russia, which was initiated three years ago, and to establish a stable and efficient system for compensating the victims of motor accidents.

We, the GIAJ, experienced a difficult situation in the 1960's and 1970's, when rapid motorization brought about a significant rise in the number of traffic accidents and victims. We have been striving ever since to improve our Compulsory Automobile Liability Insurance system and to increase the number of drivers who hold voluntary automobile insurance in Japan.

Building a Motor TPL insurance system that best serves the victims of traffic accidents and the public requires ongoing efforts and updates by the government as well as the insurance industry. We have been making our best efforts in this field so that policyholders as well as victims can enjoy the best service, and also that the whole system can be managed in a stable and sustainable manner.

It is true that Motor TPL insurance in each country is different, reflecting the respective country's history and culture. However, the insurance association's role and its social mission in the system are common in all nations. Therefore, we look forward to the mutual benefit a continued exchange of views and experience with RAMI will bring.

Yours sincerely,  
Chairman

Tadashi Kodama



From Rémy Heitz,  
Délégué interministériel  
à la sécurité routière



Road accidents present a substantial problem and are a major cause of premature deaths throughout the world. Every year about 1.2 million people die in road accidents, millions of people are injured and many of these remain invalids for the rest of their lives.

However, this dramatic situation on the roads is not inevitable and the main causes of road accidents and their growth – speeding, driving under the influence of alcohol or drugs, failure to use seat belts or childrens' safety seats – are the same in all developed countries. This is why it is important that these countries share their experiences.

Success in the fight for greater road safety depends on state bodies acting decisively. President of the French Republic Jacques Chirac expressed his support for this fight on 14 July 2002 and this helped to develop a consistent policy in this area with the result that road deaths reduced from 8,000 in 2002 to 5,000 in 2005.

This success was achieved first of all by improved behaviour of drivers, especially by a reduction in speeding. The introduction of an automated radar based system of control and penalties on the roads has achieved a reduction in overall speed and has reduced the number of road accident deaths.

For this reason, we are very interested in sharing our experience with the Russian Federation, where similar systems of control are under consideration, and we are keen to work with RAMI, which is an organisation that is energetically supporting improvements in road safety.

I welcome this co-operation and wish success to RAMI in its overall objective to reduce the number of people killed and injured on the roads.

Délégué interministériel à la sécurité routière

Rémy Heitz



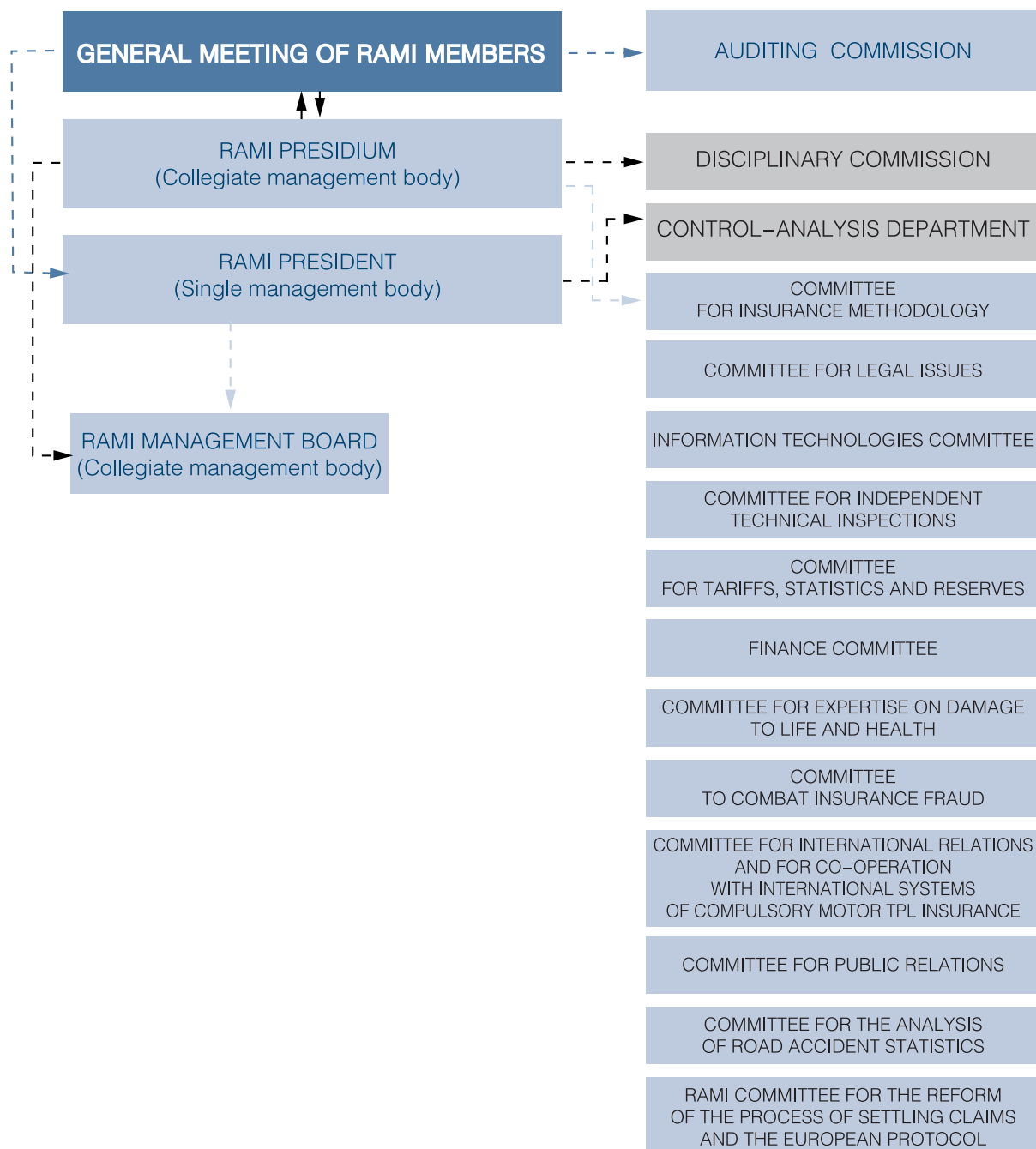
## From the Russian Paralympic Team

Partnership between RAMI and the Paralympic Committee of Russia has become a good tradition. As athletes, we welcome all support whilst we are training for the Paralympic Games, and this support is especially welcome during the games themselves, an important international event for all disabled people. It will help us to improve our results and we are pleased to share our happiness at winning events or even the pleasure of taking part with our supporters and partners – and RAMI is counted as an important partner.

During the last Paralympic Games in Turin last year, our team was most successful in the number of medals won. This result is the best possible response to those who supported us during our training.

# organisational structures

## Organisational Structure



### *RAMI Presidium*

1. Andrei S. Kigim – President, RAMI
2. Semyon G. Akerman – General Director, MRSS
3. Gennady A. Galperin – Managing Director, Rosgosstrakh Insurance Company
4. Igor N. Zhuk, General Director, Soglasie Insurance Company
5. Pavel V. Zubrilin – General Director, Russkiy Mir Insurance Company
6. Alyametdin Z. Kamalov – General Director, RGS-Tatarstan
7. Viktor N. Kiryanov – Head, Department for Road Safety, Ministry of the Interior, Russian Federation
8. Alexander P. Koval – President, All-Russian Insurance Association
9. Ilya V. Lomakin-Rumyantsev, Head, Federal Service for Insurance Supervision
10. Dmitri E. Markarov – First Deputy General Director, Rosgosstrakh Insurance Company
11. Nadezhda V. Martianova – General Director, MAKS Insurance Company
12. Ilya N. Mikhailenko – Deputy General Director, Rosgosstrakh Insurance Company
13. Yevgeny S. Moskvichev – Director, Department of State Policy on Road Management, Car and Urban Passenger Transport, Ministry of Transport, Russian Federation
14. Georgi P. Papaskiri – General Director, RGS-North-West Insurance Company
15. Dmitri V. Popov – Deputy General Director, ROSNO Insurance Company
16. Dmitri G. Rakovschik – General Director, RESO-Garantiya Insurance Company
17. Aleksei L. Savatyugin – Director, Financial Policy Department, Ministry of Finance, Russian Federation
18. Sergei E. Sarkisov – President, Board of Directors, RESO-Garantiya Insurance Company
19. Yuri V. Sidorov – General Director, Pervaya Insurance Company
20. Vladimir Yu. Skvortsov – General Director, AlfaStrakhovanie Insurance Company

21. Yevgeny V. Ufimtsev – Deputy General Director, Military Insurance Company
22. Boris G. Khait – President, Spasskiye Vorota Insurance Group
23. Natalya N. Shaprova – General Director, UralSib Insurance Group
24. Yuri Ya. Shpizel – General Director, RGS-Akkord Insurance Company
25. Vyacheslav I. Scherbakov – President, Ingosstrakh Insurance Company.

### *RAMI Management Board*

#### **Chairman of the Management Board, RAMI**

Andrei S. Kigim – President, RAMI

#### **Members of the Management Board:**

1. Dmitri E. Markarov – First Deputy General Director, Rosgosstrakh Insurance Company
2. Sergei E. Sarkisov – President, Board of Directors, RESO-Garantiya Insurance Company
3. Vyacheslav I. Scherbakov – President, Ingosstrakh Insurance Company
4. Dmitri V. Popov – Deputy General Director, ROSNO Insurance Company
5. Vladimir Yu. Skvortsov – General Director, AlfaStrakhovanie Insurance Company
6. Igor N. Zhuk – General Director, Soglasie Insurance Company
7. Andrei N. Baturkin – Deputy Managing Director, RAMI.

### *RAMI Auditing Commission*

1. Vasily V. Akulov, General Director, Metroton Insurance Company
2. Sergei V. Bakhtin, Deputy General Director, AVIKOS Insurance Company
3. Nikolai F. Galaguza, President, Board of Directors, Mezhotraslevoi Insurance Centre
4. Marina L. Krivenko, Senior auditor, Rosgosstrakh-Stolitsa Insurance Company
5. Yuri A. Kolesnikov, General Director, Admiral Insurance Company
6. Ruslan A. Naimanov, Finance Director, NASTA Insurance Company

7. Natalia N. Sonina, General Director, Ariadna Insurance Company

8. Vitaly A. Poltavtsev, General Director, LK City Insurance Company

9. Margarita V. Filippova, General Director, Nadezhda Insurance Company

### *RAMI Management Team*

Andrei N. Baturkin  
Deputy Managing Director, RAMI

Pavel B. Bunin  
Finance Director, RAMI

Oleg O. Pilipets  
Director for Legal Affairs, RAMI

Irina E. Osokina  
Director for International and State Development and Technical Assistance  
Programmes, RAMI

Nikolai M. Tarasov  
Director for Regional Development, RAMI

Olga M. Ivannikova  
Director for Relations with State and Municipal Bodies, RAMI

# strategic objectives

## The main events in the compulsory motor TPL insurance market during 2005

### The importance of compulsory motor TPL insurance today

Road accidents are one of the most pressing problems in the world today, causing both economic and social harm. Every year 1.2 million people die on the world's roads as a result of accidents, and about 50 million are injured.

In Russia, the socio-economic costs of road accidents amount to 2.5% of GDP, a figure that is comparable to the amount contributed to the economy by a major economic sector. Increasing the level of road safety has now become a policy objective of the federal government of Russia

The President of Russia made this clear in a speech to the Presidium of the State Council on 16 November 2005 that dealt with the overall state of road safety and the measures to improve state intervention aimed at reducing the number of road accidents. He identified as one of the most important tasks the development of co-operation between all those involved in road safety and the overall improvement of systems of management.

In these circumstances, the active co-operation of insurance companies with state organisations aimed at increasing measures to improve road safety and to reduce the impact of road accidents has become very important. The insurance community can have a strong influence since it interacts with all participants in road transport.

The involvement of insurance companies in improving road safety injects an economic dimension: if the number of road accidents leading to insurance claims is reduced, then the level of payments can be increased without having to increase premium tariffs.

### The constitutionality of compulsory motor TPL insurance

Compulsory motor TPL insurance has resulted in a number of different reactions from the public. For a number of reasons, many people saw it not so much as a means of compensating victims of road accidents, but more as an additional burden on users of motor vehicles.

For this reason, many people and organisations that look after their interests began to direct complaints, applications and enquiries to a number of state bodies.

On 31 May 2005, the constitutional court deliberated on the constitutionality of the federal law on compulsory motor TPL insurance. The court's decision was that all aspects of the law were constitutional.

As a result, most of the arguments of those who oppose the basic principles of the law and especially are against its compulsory nature can no longer be sustained. Now attention can be paid to improving the system.

## The introduction of compulsory motor TPL insurance — a summary of the first steps

On 7 July 2005, the Government discussed the results of the implementation of the law of the Russian Federation on compulsory motor TPL insurance. The discussion had a number of outcomes:

- A report from the Ministry of Finance was accepted. By accepting this report, the government indicated clearly that the overall policy on compulsory motor TPL insurance has been endorsed;
- It was agreed that in order to improve the system, amendments to the law of compulsory motor TPL insurance should be drafted.

The Government agreed on the measures that should be taken to improve the system of compulsory TPL insurance and identified the main areas of difficulty, including:

- a) Improving the legal framework;
- b) Simplifying the necessary documentation and developing the 'European Protocol';
- c) Determining tariff levels – the various coefficients and the base rate;
- d) Increasing the indemnity levels;
- e) Setting up procedures when companies withdraw from compulsory motor TPL insurance;
- f) Developing a system of independent vehicle inspection by professionally trained specialists, and a number of other areas.

This year the Government of the Russian Federation will once again discuss how the system of compulsory motor TPL insurance is working and will look at the issue of tariffs again.



## Compulsory motor TPL insurance as a part of the insurance market

2005 was an important year for the development of the system of compulsory motor TPL insurance. Both the state authorities (taking into account the experience gained by insurers) and the insurance community acting as a self-regulating organisation made influential decisions with widespread effects.

### Tariff policy

The Government of the Russian Federation set the various regional tariffs. Experience has shown that in most regions the local tariffs accurately reflected the risks. However, in a number of regions (Siberia, the Urals, the Moscow region) and in a number of cities (Khanti-Mansiysk, Kogalim, Nizhni Novgorod and others), the local tariffs turned out not to reflect the local conditions, with the result that a number of local insurance companies suffered losses.

In the second half of 2005, local tariffs began to be updated on the basis of actual statistics with the result that a number of local tariffs were altered to reflect experience.

### Insurance companies leaving the market

Last year the market faced for the first time the problem of companies being unable to fully meet their obligations as a result both of inadequate local tariffs and their own failure to manage their insurance portfolios. This problem was envisaged by the drafters of the law, but in practice it has become clear that this issue needs some rethinking. The procedures set out in the existing law do not protect policy holders either from financial loss or from some problems that they may face from the road traffic police. Tens of thousands of road users were affected by companies leaving the market; in the future this could become a major problem with a possible explosive impact. Nine companies have left the market and this affected about 300,000 policies. All the policy holders had complied with the law, but nevertheless they found that they could lose their money and moreover could face problems from the law.

The situation demanded immediate action. RAMI put forward a suggested method of solving this problem to the government, after they had ensured that the legal obligations of the companies that had left the market would be met by RAMI.

## Companies that have left the market – ensuring their claims obligations are met

Ensuring that the obligations of companies that have had their licenses withdrawn were met was one of the main problems during 2005. The clear objective has been to make sure that the position of road accident victims has not been made worse.

In order to achieve this, the participants in the market have drawn up amendments to the law that has been adopted by the State Duma. These amendments have resulted in changes both to the law on compulsory motor TPL insurance and to the rules governing the way in which RAMI guarantees compensation payments.

This has led to a system that is unprecedented throughout the world. The guarantee fund for compulsory motor TPL insurance has been divided into two parts. The first part guarantees payment to road traffic accident victims in accidents caused by uninsured or untraced drivers. The second part guarantees payment to victims of accidents where the responsible insurance company is unable to meet its obligations.

This new system has ensured that all those who comply with the law and buy insurance policies are protected, regardless of the financial position of the companies that issued the policies.

However, this means that honest insurance companies have to suffer the consequences of dishonest insurance companies by meeting the obligations that they fail to meet. As this has become clear, there has arisen pressure to introduce stricter regulations aimed at controlling the activities of dishonest insurance companies. Both RAMI and the Federal Service for Insurance Supervision are moving in this direction. A working group has been set up to examine the problem of doubtful companies consisting of representatives of both organisations.

# market development trends

## The main statistical indicators of the compulsory motor TPL insurance market

The basic insurance statistical indicators are:

- The number of insured vehicles;
- The number of insurance events;
- The size of damage;
- The number of settled claims.

For compulsory motor TPL insurance, there was a substantial growth in all the main indicators, but some grew faster than others:

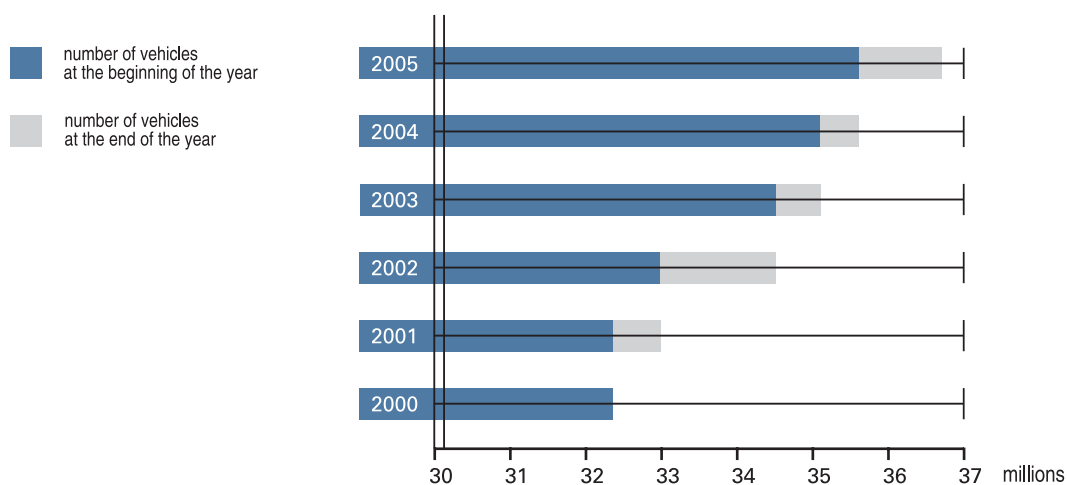
- Growth in total number of motor vehicles – 3.1%,
- Growth in number of road accidents – 7%,
- Growth in claims payments – 43%.

It is clear that the loss ratio for this type of insurance is increasing, which is normal for the early stages in the introduction of a system of compulsory motor TPL insurance..

### *Growth in numbers of motor vehicles in Russia, 2000–2005*

	2000	2001	2002	2003	2004	2005
Total number of motor vehicles (millions)	32.6	33.1	34.7	35.3	35.8	36.9
Growth (millions)		0.5	1.6	0.6	0.5	1.1
Growth (%)		1.5%	4.8%	1.7%	1.4%	3.1%

### Growth in numbers of motor vehicles in Russia 2000 – 2005

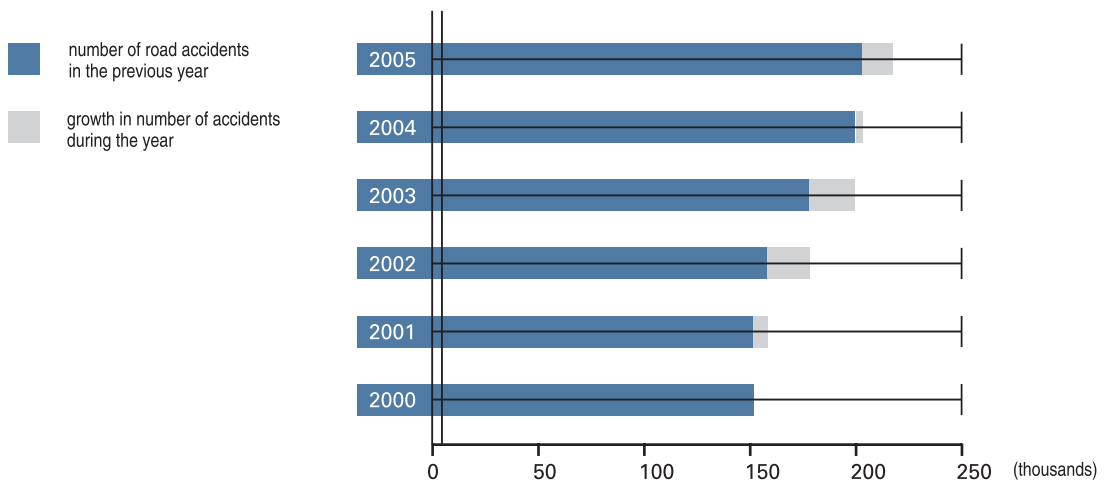


In the last few years there has been a substantial growth in the number of vehicles on the roads of the Russian Federation. The growth rate in 2005 was 3.1% – more than double the rate experienced in 2004.

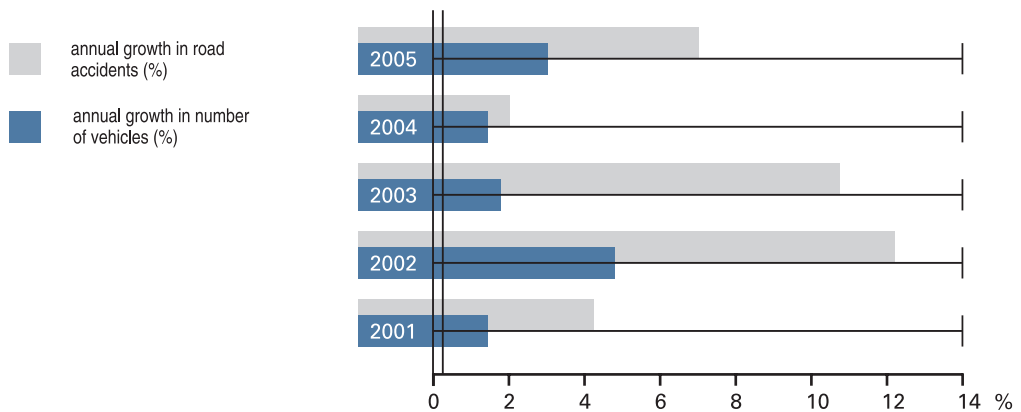
### Number of road accidents resulting in bodily injury, 2000–2005

	2000	2001	2002	2003	2004	2005
Number of road accidents (thousands)	157.6	164.4	184.4	204.3	208.6	223.3
Growth (thousands)		6.8	20	19.9	4.3	14.7
Growth (%)		4.3%	12.2%	10.8%	2.1%	7.0%

### Number of road accidents 2000 – 2005

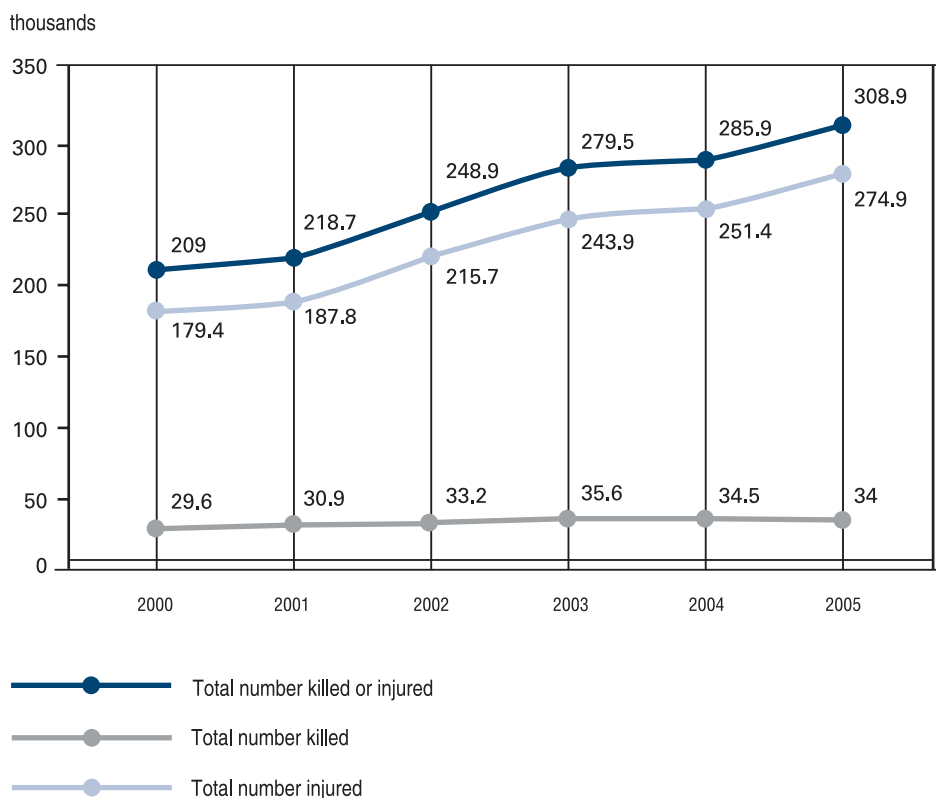


### Comparison of growth rates of road accidents and motor vehicles 2000 – 2005



These data prove that the number of road accidents in Russia is increasing every year and the number of road accidents is increasing at a rate faster than the rate of growth in the number of motor vehicles. As a result, it is probable that the number of people receiving compensation as a result of road accidents will increase.

## Number of people killed and injured in road accidents



The growth in the number of road accidents is accompanied by a growth in the number of people killed or injured on the road. Since 2003, however, whilst the number of those killed has reduced, the numbers injured have increased substantially.

## The market for compulsory motor TPL insurance and the insurance market as a whole

According to data supplied by the Federal Service for Insurance Supervision for 1 January 2006, there were 1,076 licensed insurance companies. Of these, 163 or 15% have a license to carry out compulsory motor TPL insurance.

In 2005, there was a reduction in the overall number of insurance companies, which decreased by 205 companies or 16%. The number of companies with a compulsory motor TPL insurance license has also decreased. Nine companies had their licenses withdrawn for a number of reasons (a 5% reduction).

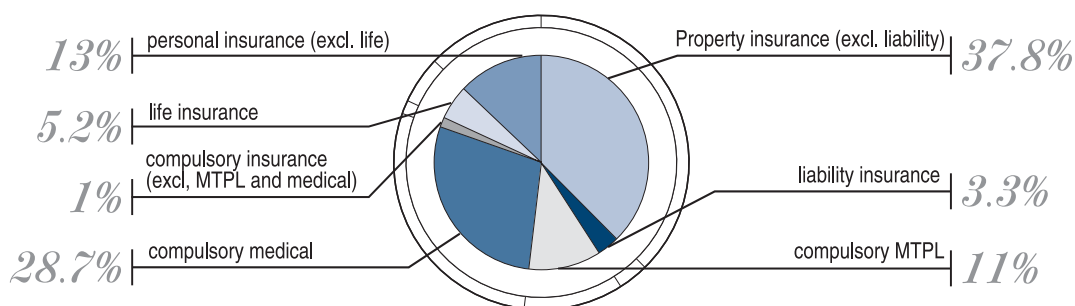
It should be noted that the percentage of companies that had their licenses withdrawn for compulsory motor TPL insurance was substantially lower than the percentage of companies that had their licences withdrawn for general insurance. This proves that motor TPL insurers are financially more reliable than other insurance companies.

*Insurance premiums and claims, compulsory motor TPL insurance and general insurance*

	2005	2004	Growth %
Total insurance premiums (billion RUR)	490.6	471.6	4.0
Motor TPL insurance (billion RUR)	54.1	49.3	9.7
TPL as a % of total premiums	11	10.5	4.8
Motor TPL insurance (billion RUR)	274.5	307.7	- 10.8
Including compulsory MTPL (billion RUR)	26.4	18.5	42.7
TPL as % of total claims	9.6	6.0	60.0

In 2005 the market in compulsory motor TPL grew considerably and its rate of growth was considerably faster than the growth in the overall market.

**Class breakdown of insurance premiums**

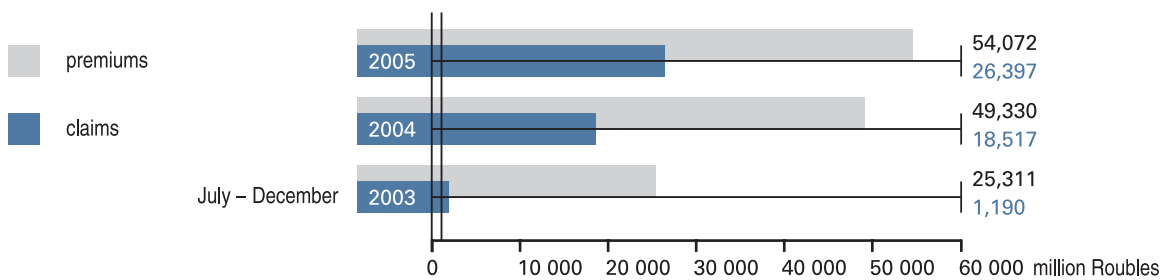


The share of compulsory motor TPL insurance in the total premium is growing. In 2005 it was 11%, whereas in 2004 it was 10.5%. This growth is caused by the growth of the market and also by the fact that the overall share of life insurance in the total has been reducing from 22% in 2004 to 5.2% in 2005.

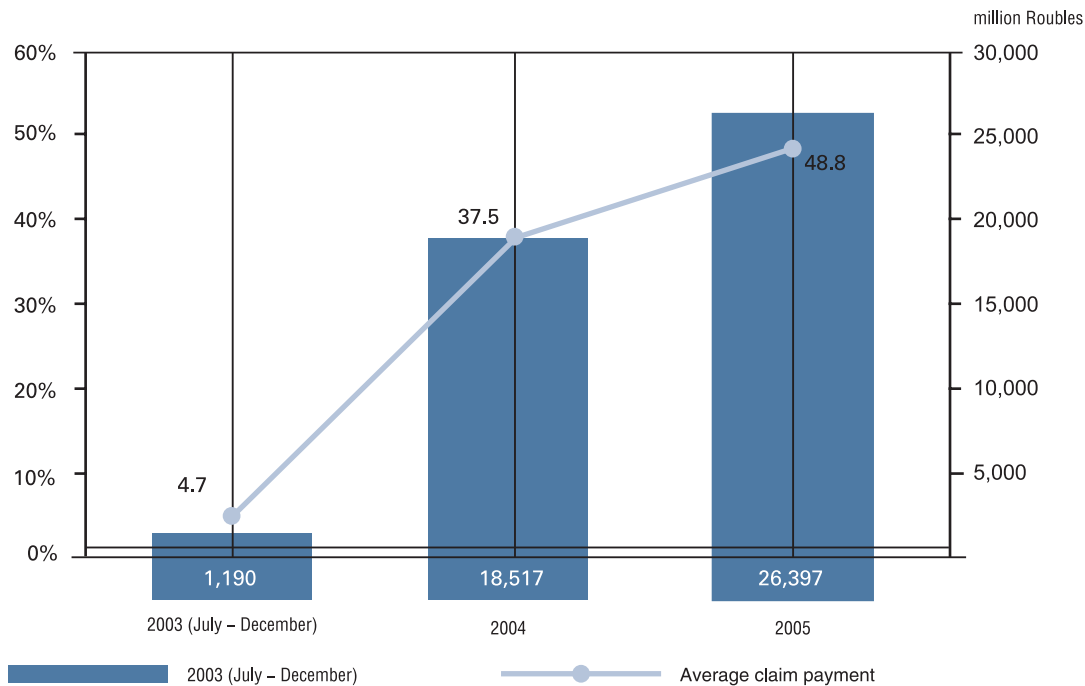
**Main statistical indicators for the compulsory motor TPL insurance market from 2003–2005**

Since the law on compulsory motor TPL insurance came into force, more than 68 million policies have been issued and more than 2 million claims have been settled, resulting in claims payments of more than 46 billion roubles. These figures demonstrate that the insurance community has not only been able to set up a widespread distribution system but also has been able to implement an efficient system of loss settlement.

**Insurance premiums and claims**



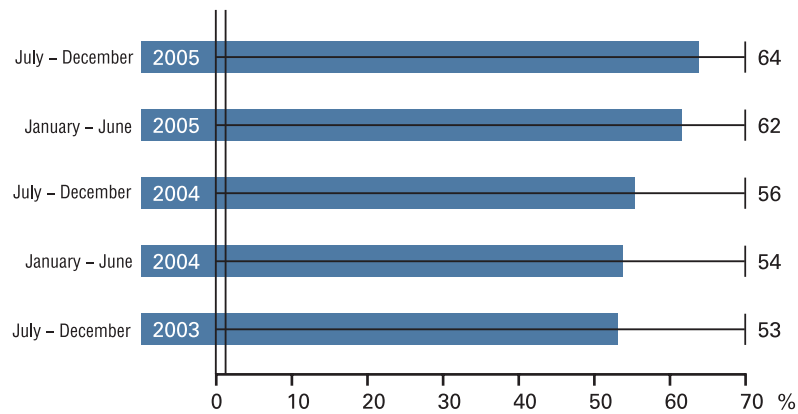
**Claims payments**





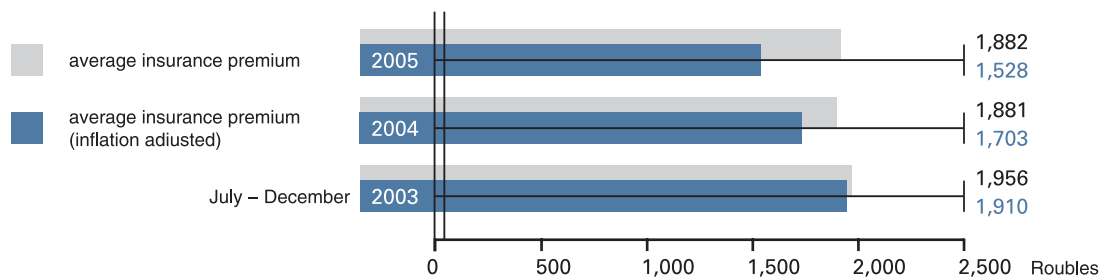
These tables show claims payments growing faster than premiums. In 2005, the level of claims payments increased by more than 10% and as a result, the loss ratio for compulsory motor TPL insurance is beginning to reach a critical level as shown by the diagram below.

### Loss ratio for compulsory motor TPL insurance

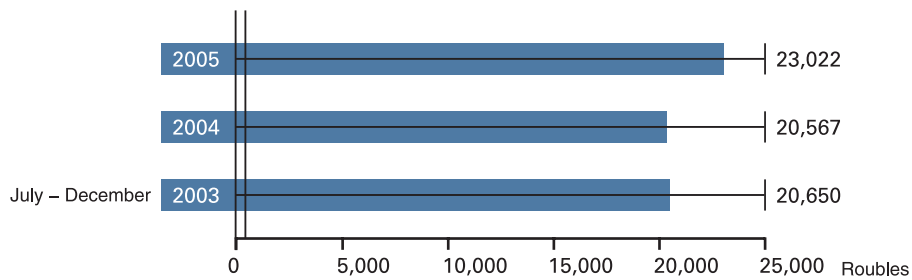


At the same time as the loss ratio is increasing, the average premium is reducing and the average claim size is increasing. These figures demonstrate the need to adjust tariffs for compulsory motor TPL insurance in the next couple of years.

### Average insurance premium

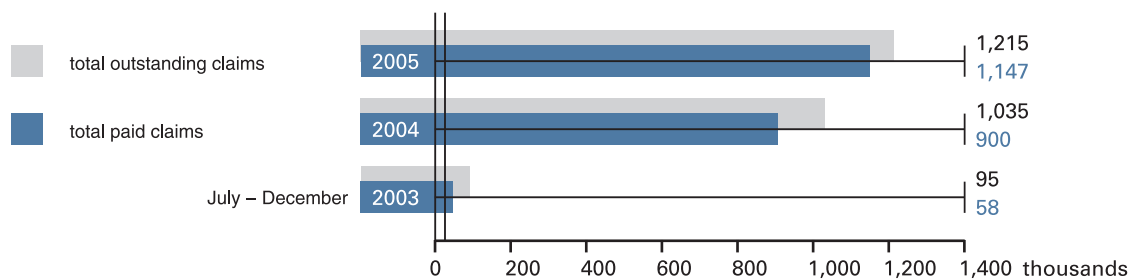


### Average claim payment



Even considering the growth in the average claim size and the decrease in the average insurance premium, insurance companies are improving their claims settlement systems which is shown in the way in which the percentage of outstanding claims is reducing.

### Number of outstanding and paid claims



	2003 (July – December)	2004	2005
Paid claims as a % of outstanding claims	60.6%	87%	94.4%

# techniques

## Implementing the system of compulsory motor TPL insurance

### Improving the legal and regulatory framework, the rules of professional conduct and the overall administrative system of compulsory motor TPL insurance

#### *Improving the legal and regulatory framework*

As has already been noted, during 2005, much work was done on the legal framework for compulsory motor TPL insurance. The highlights were the decision of the Constitutional Court and the order issued by the government of the Russian Federation to improve the documentation that regulates this type of insurance.

As part of its programme to implement this order, RAMI has worked closely with various government departments to draft amendments to the law and other decrees for the government of the Russian Federation. This work resulted in:

#### *Federal Law of July 2005 (No. 103-FZ) entitled "Introducing Amendments to the Federal Law "Compulsory Motor TPL Insurance for Transport Users"*

In 2005, the Federal Service for Insurance Supervision withdrew the insurance licenses of nine companies that were members of RAMI. As a result, it was necessary to develop a system to ensure that the financial obligations of these companies were carried out.

Amendments covering this issue were also included in Federal Law No. 103-FZ, passed on 21 July 2005. These amendments gave RAMI the power to make compensation payments to those who, as a result of a company having its license withdrawn, would not otherwise receive compensation following an insurance event. The introduction of this system has resulted in a higher level of protection for those affected by road accidents.

*Further draft amendments to the law on compulsory motor TPL insurance for road users (No. 40-FZ).*

A special committee of RAMI has studied draft amendments to Federal Law No. 40-FZ submitted by the Ministry of Finance. These amendments were designed to introduce, within the Russian Federation, a system of simplified documentation following road accidents and methods of making direct payments to road accident victims. The committee sent a detailed analysis of this draft to the Ministry of Finance, identifying both positive and negative aspects of the proposed changes to the Law. In addition, further amendments to the Law were proposed.

In total, RAMI considered seven proposals to make amendments to the federal law on compulsory motor TPL insurance. Comments on all these proposals were produced and were sent to the appropriate governmental department.

*Decree of the Government of the Russian Federation of 8 December 2005 (No. 739), entitled "the Introduction of Insurance Tariffs in Compulsory Motor TPL Insurance, their Structure and their Application by Insurance Companies when Calculating Premiums."*

Following detailed work, in December 2005, amended tariff rates were introduced in the Decree of the Government of the Russian Federation No. 739. The most difficult problems that were dealt with by this decree were:

- Clarifying the system of classifying motor vehicles;
- A number of issues had arisen concerning how the area of use of the vehicle should be defined where it depended on total population: the decree set out how premium rates should be calculated in these circumstances;
- The formulae for calculating insurance premiums were made more exact.

*The Decree of the Government of the Russian Federation, of 14 September 2005 (No. 567), entitled "Information Exchange within the System of Compulsory Motor TPL Insurance".*

RAMI directly participated in the formulation of a decree that was adopted by the government of the Russian Federation which set out the information concerning compulsory motor TPL insurance, held in databases, that insurance companies and state bodies were obligated to maintain. This decree set out the main principles governing the creation of an automated information system for compulsory motor TPL insurance.

*Draft Decree of the Government of the Russian Federation introducing amendments into the regulations covering compulsory motor TPL insurance which came into force by the Decree of the Government of the Russian Federation on 7 May 2003 (No. 263).*

The main amendments to the rules included in the above draft, which were proposed by RAMI, were:

- Bringing all the definitions within the regulations into line with the law on compulsory motor TPL insurance;
- Ensuring that the definition of the expenses that insurance companies are obliged to settle is totally clear. Particular issues covered included the valuation of damaged property, depreciation and damage to the property of the person responsible for the accident;
- Updating the rules covering the renewal of policies to clarify the situation if an accident happens after the renewal of a policy but before the renewal premium has been paid;
- Changing the section covering cancellation of policies to set out permitted reasons for cancelling the policies, the moment of cancellation of the policy and the calculation of return premiums;
- Setting out the format of documents that must be provided by the road traffic police (examples included as an appendix to the rules);
- Developing a system that obtains the insured's permission automatically to change the insurance company (if necessary) at the time of signing the original contract.

## Improving the rules of professional conduct

During the year, work was carried out to develop new rules of professional conduct and to improve the current rules. Most of the work was concerned either with developing regulations to be included in the law on compulsory motor TPL insurance or with protecting the interests of insureds when insurance companies leave the market.

The results of this work were as follows:

- Rules were drawn up concerning the transfer of an insurance portfolio in circumstances when the insured voluntarily transfers his policy;
- Rules were drawn up covering the documentation to be produced by companies that leave RAMI voluntarily, in circumstances when their licenses are curtailed, suspended or withdrawn;
- Draft rules were produced governing what documentation concerning compulsory motor TPL insurance should be kept and how it should be kept safely.

Changes have been made to:

- The rules governing the payment of compensation by RAMI to victims of road accidents, the procedure to be followed if funds available to RAMI are not sufficient and how members of RAMI should make up any shortfall;
- The rules setting out the respective rights of insureds and victims and the procedure for handling complaints against RAMI members;
- The rules governing sanctions that can be imposed on RAMI members, their directors and officers.

## Improving the overall administrative system

Our work in improving the overall administrative system was closely linked with our work on improving the legal and regulatory framework and on improving rules of professional conduct. One aspect of this work involves our obtaining decisions from various state bodies on issues that are not covered in the legal and regulatory framework.

In 2005, recommendations were issued (Methodological Recommendation No. 9) which set out what steps insurance companies should take to ensure proper claims payments when one car (not responsible for the accident) is insured against physical damage and the responsible vehicle has third party liability insurance.

During 2005, changes were made to:

- Methodological Recommendations No. 4 concerning the calculation of premiums;
- Methodological Recommendations No. 5 concerning the completion of documentation and the calculation of insurance premiums for cars that are registered in foreign states and are temporarily in the Russian Federation;
- Methodological Recommendations No. 7 about how the claims record of the insured can be used as a rating factor for a policy of compulsory insurance and how the information should be produced.

A number of specialized reports were produced, arising from research carried out by RAMI. These included:

- “An analysis of the current structure and the main tendencies of the market for compulsory motor TPL insurance after one and a half years and two years”;
- “A statistical report on compulsory motor TPL insurance after one and a half years and two years”;
- “Problems of compulsory motor TPL insurance and road safety”.

## Looking forward to 2006

In the last two and a half years, a number of methodological, technological and organisational problems emerged. Solving these problems will be crucial to the continuing improvement of the system of compulsory motor TPL insurance. In 2006, the main effort in developing new regulations will be directed at improving the overall regulatory framework for compulsory motor TPL insurance. In particular, long standing issues that were identified at the outset of the system of compulsory motor TPL insurance will be dealt with, such as the introduction of independent professional experts to inspect vehicles, developing an automated information system and portfolio transfers.

Another important set of issues which require regulatory intervention are related to the payment of compensation to individuals following the withdrawal of a license and the role of RAMI in this process. Another important issue where regulations are required relates to the control of dishonest brokers and agents.

A further area where work is likely is the introduction of European standards in compulsory motor TPL insurance (a system of simplified paperwork following road accidents – the European Protocol – and direct payments to victims of road accidents). Yet another area will be the accession of Russia to the Green Card System – the international system of compulsory liability insurance – and introducing modern methods of improving road safety.

## Making compensation payments

According to Federal Law No. 40-FZ, RAMI, as in previous years, has been responsible for making compensation payments to injured victims of road accidents in the following circumstances:

- Where an insurance company has commenced bankruptcy proceedings;
- If the driver responsible for the accident is untraced;
- If the driver responsible for the accident has no valid policy of compulsory insurance.

Up to 12 April 2006, 255 decisions were made to make payments totaling 10.7 million Roubles as follows:

- 96 payments were made (4.3 million Roubles) where there was no valid policy of compulsory motor TPL insurance in force;
- 159 payments were made (6.4 million Roubles) where the driver causing the accident was untraced.

### *Payments for companies that have had their licenses withdrawn*

One of the most difficult problems encountered as the law on compulsory motor TPL insurance came into force was how to settle and pay compensation payments in circumstances where an insurance company has had its license to carry on insurance business withdrawn.

The State Duma addressed this issue in order to increase the level of social protection for victims of road accidents and in particular the clients of these insurance companies.

An amended version of the law of compulsory motor TPL insurance came into force on 8 August 2005 (No. 103-FZ).

The new law makes sure that compensation payments will be made to injured victims of road accidents in the event that the responsible company has had its license to carry on insurance business withdrawn.

In addition, the law covers the situation when the victim of a road accident has suffered damage to property. Compensation will be made for property damage in the following circumstances:

- The insurance company has commenced bankruptcy proceedings
- The insurance company has had its license to carry on insurance business withdrawn.

In conformity with these changes to the law, new rules were also drawn up covering the Russian Association of Motor Insurer's role in making these compensation payments.

In order to arrange compensation payments arising out of compulsory insurance in circumstances where the company has had its license withdrawn, RAMI has set up an institute whose membership is made up by specially authorised insurance companies.

Each of the authorised insurance companies has signed a contract with RAMI which sets out the procedure for co-operation between the company and RAMI in making compensation payments. According to the contract, the authorised companies receive applications from victims of road accidents, set up claims files and send these documents to RAMI for the Association to settle the claims and make the compensation payments.

RAMI has produced and circulated a formal procedure which insurance companies must follow when dealing with these claims.

Regional offices of RAMI are also involved in the procedure for settling these claims. By April 12 2006, 3,140 claims for compensation payments (111.4 million Roubles) were settled.

Since the number of claims for compensation continues to increase, a major task for 2006 will be to continue to implement the system for making payments when an insurance company has had its license withdrawn.

### *Looking forward to 2006*

1. Developing proposals for amendments in the current law covering compensation payments to victims of road accidents in circumstances where the insurance company has had its license withdrawn;
2. Drawing up rules of professional conduct for insurance companies in conformity with the above amendments covering organisation and methods of operation;
3. Arranging input from medical and technical experts into the claims settlement procedure to estimate the size of the claims;
4. Improving the system of information support for the settlement of claims and ensuring that it is in conformity with the law as amended.



## Organising and introducing a system of medical expertise

Paying compensation to those injured or killed in road accidents is of great social importance. As a result, it is important that there is a system that can make professional judgements on the level of injury of the victims. To solve this problem, there is a need for a legal framework that governs relationships between medical organisations and the victims and which is accepted by the courts.

In order to ensure that the solution of this complicated problem is both objective and is applied in a similar manner throughout the country, it is necessary to develop regulations, administrative systems and basic criteria as well as the legal framework.

In 2005, much was achieved in this area:

1. Proposed rules were developed that defined the degree to which a victim had suffered an inability to work. Criteria for defining the degree of disability were developed as were the proofs necessary to confirm this disability.
2. Proposed changes were prepared in the overall regulations covering compulsory motor TPL insurance, bringing them into conformity with the Civil Code (compensation for injury and funeral expenses).

All the above work, including draft rule changes, administrative system development and proposed concepts, was carried out on the basis of the collection and analysis of statistical data. During 2005, work continued on implementing the long term plans to produce a database in the following areas:

- Data on payments following insurance events which result in bodily injury
- Legal judgements made in connection with payments for bodily injury.

A summary of the relevant legal precedents has been produced for insurance companies.

The RAMI Web site has a special section dealing with the main problems arising out of quantifying the cost of injuries following road accidents. In addition, the site sets out the main legal rights of the victims of road accidents and what they should do.

### *Looking forward to 2006*

Our main efforts will be directed towards developing rules covering the payment of additional expenses for medical treatment, such as the cost of medicines, additional nutrition, prosthetic appliances, nursing care, convalescent treatment, special transport vehicles and professional retraining.

This task will be sub-contracted and the decision on the subcontractor will be decided jointly by RAMI and the Ministry of Health Care and Social Development. There will be two main areas of work:

1. Developing standards or requirements for paying compensation to victims to cover the costs of additional medical treatment and medicine which are not covered by the free state system of medical care.

Drawing up the regulations that govern the payment of additional medical expenses will:

- Set up a procedure for providing medical aid for those injured in road accidents;
- Define the way in which payment is made for prescribed treatment and medicines;
- Separate those treatments which are made without charge through the state system of free medical insurance on the one hand, from those additional medical services where payment is necessary on the other hand.

2. Compensation for additional expenses.

This activity includes the development of:

- Requirements that must be met in relation to the prescription of additional nutrition, prosthetic appliances, nursing care, convalescent treatment, special transport vehicles and professional retraining;
- Setting out how payments must be made for additional nutrition, prosthetic appliances, nursing care, convalescent treatment, special transport vehicles and professional retraining.

In 2006, work will continue in the following areas:

- Creating a database of insurance events that result in bodily injury;
- Collecting and summarising data on accidents resulting in bodily injury is a vital component of the process of developing regulations in this area;
- Developing a database of legal precedents in the area of compensation for bodily injury.

## Organising and introducing a system of professional technical inspection

Organising a system of professional technical inspection is a difficult, multifaceted task. It not only requires input from RAMI; it also needs a wide degree of co-operation from different departments and organisations and the co-ordination of all this work. To do this, the following is involved:

1. To decide on policy objectives such as:

- Making the use of professional technical inspectors more legitimate;
- Ensuring that professional technical inspectors provide a reliable service for both the insureds and for those who have suffered damage;
- Developing effective mechanisms that will lead to agreements between insured insurance companies and those who have suffered damage, so that there will be a reduction in the level of social dissatisfaction with compulsory motor TPL insurance;
- Setting up a system for the professional accreditation of technical inspectors under the auspices of RAMI with the overall objective of including them in the state register of technical inspectors maintained by the ministry of justice of the Russian Federation.

2. In order to develop procedures for the organisation of a system of professional technical inspection of vehicles as part of compulsory motor TPL insurance, agreements have been made with the following organisations:

- Audateks (A Russian business that uses the leading world wide information services to calculate the cost of repair work and to set out the services for settling damage to motor vehicles) – to develop and introduce specialised software and to optimise the process of claims settlement for damage to motor vehicles.
- RAS (The Russian Motor Transport Union) – to unite the organisational, intellectual and financial possibilities of developing and introducing joint projects to improve quality in the following areas:

a) technical servicing and repair of motor vehicles;

b) valuation and professional technical inspection;

c) measures to combat the high accident rate in passenger (public) vehicles and additional measures for joint action in providing regulatory and legal support for the system of professional technical inspection.

- NAPTO (The National Association of Motor Servicing and Repairing Organisations) – to coordinate work during the transition period set out in the federal law on technical regulation. In addition, as part of the process of implementing the law on compulsory motor TPL insurance for transport owners, to use their organisational, intellectual and financial services to draw up and introduce agreements in the following areas:

a) providing safe maintenance of vehicles, protecting the legal rights of insureds, insurers, victims and others when implementing compulsory motor TPL insurance;

b) developing an agreement between the two organisations to combat fraud, to support the development of legal regulation and the introduction of a system of professional technical inspection;

c) drawing up the main criteria that professional motor servicing and repair organisations will need to satisfy in order to give them permission to test and repair car parts directly linked with the safe operation of the vehicle. These are the standards of professional activity developed by the professional organisation representing these enterprises.

3. Under the terms of an agreement between RAMI and The Auto – Engineering IT Centre, the first steps have been taken to develop a project of software support for calculating the cost of repair of vehicles produced locally, taking into account standard labour costs and other technical costs. The following work has been carried out:

- Updating the old standard labour cost indicators;
- Developing regional price manuals.

4. Agreements have been signed with the German group DEKRA to update the current methods of making vehicle inspections and to adapt the most modern methods of vehicle inspections to the conditions of the Russian market.

## The work of RAMI in supervising the activities of its members in meeting the requirements of the law and in their professional conduct

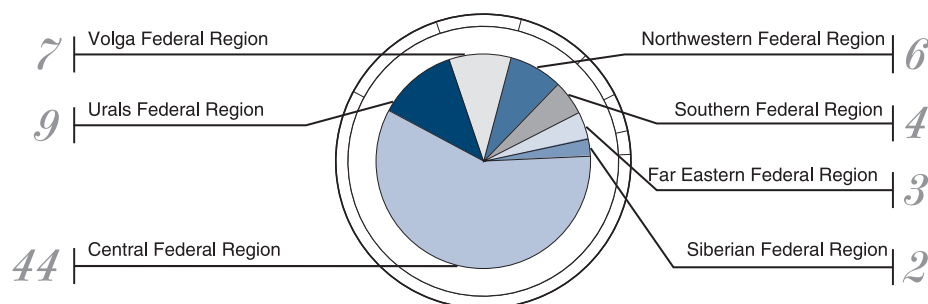
1 Ensuring that RAMI members meet the requirements of the law and the rules of professional conduct is a function of the supervision service which carries out inspections as follows:

- An overall programme of inspections has been introduced by the Presidium of RAMI;
- Other extraordinary inspections may be carried out outside the programme following decisions by the Presidium, the President and the Disciplinary Commission.

During 2005, 75 inspections were carried out, 64 of which were part of the programme and 11 of which were extraordinary inspections.

These included:

- 44 inspections in the Central Federal Region
- 9 inspections in the Urals Federal Region
- 7 inspections in the Volga Federal Region
- 6 inspections in the Northwestern Federal Region
- 4 inspections in the Southern Federal Region
- 3 inspections in the Far Eastern Federal Region
- 2 inspections in the Siberian Federal Region



Extraordinary inspections of RAMI members are undertaken in the following circumstances:

- When the Federal Service for Insurance Supervision withdraws the license of an insurance company to carry on insurance business;
- Improper accounting for blank insurance policies, leading to loss or large scale theft;
- The absence of a representative of an insurance company in one or more administrative regions (subjects) of the Russian Federation or the failure to provide accurate information to RAMI about the existence of representatives in administrative regions in due time.

The inspections uncovered the following violations:

- Breaches of the law of compulsory motor TPL insurance:

a) violations of the law relating to the contract of compulsory motor TPL insurance and changes in the terms and conditions of the policy;

b) failure to comply with the time limit to consider an application for compensation from a victim of a road accident or to make the compensation payment;

c) unjustified rejection of applications for compensation;

d) failure to appoint a representative of the insurance company in one or more administrative region of the Russian Federation;

e) advertising preferential terms or lower tariffs for contracts of compulsory motor TPL insurance than those set out in the law or in the regulations.

- Breaches of the rules of professional conduct or of other local rules established by RAMI:

a) paying agents higher levels of commission than those set out by the RAMI Presidium;

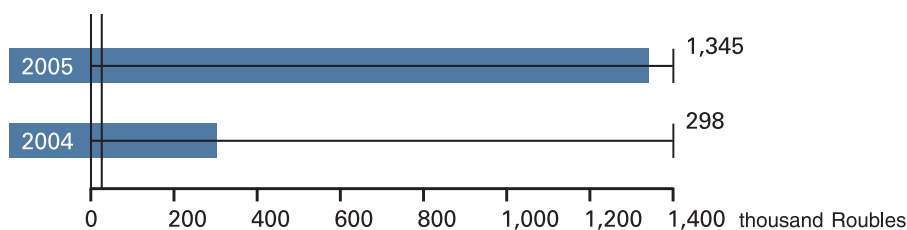
b) failure to make the compulsory payments to RAMI on time or in full;

c) failure to provide proper accounts, late filing of accounts or failure to provide a list of representatives in each of the administrative regions of the Russian Federation;

d) failure to account for, maintain or return blank policies.

Random checks were made on companies that had had their licenses to carry on insurance business limited or withdrawn. These showed that a number of these companies continued to sell policies of compulsory motor TPL insurance after their license to carry on insurance business had been limited or withdrawn.

2. The total cost of the inspection service in 2005 amounted to 1,233.8 thousand Roubles, the majority of which was paid to RAMI. Total fines imposed by the inspection service during 2005 amounted to 1,345 thousand Roubles, an increase of 4.5 times over the level of fines imposed in 2004.



3. The results of the inspections were placed before the President and the Presidium of RAMI and were also discussed at meetings of the disciplinary commission in the presence of representatives of the insurance company that was the subject of the inspection. (In 2005, there were 7 sessions of the disciplinary commission.) The decisions of the disciplinary commission included both formal instructions to insurance companies to cease the breach of regulations (55 decisions) and the imposition of fines (30 decisions). Six members of RAMI failed to pay fines imposed on them after they had had their licenses to carry on insurance business withdrawn.

4. As a result of the experience gained, at the end of 2005, improvements to RAMI's system of inspection were introduced:

- The foundation of a department of analysis and inspection with delegated powers to carry out inspections;
- The approval of a new set of rules relating to sanctions and other measures that can be applied to members of RAMI, to responsible persons and to employees. A key feature of these new rules is an increase in the powers of RAMI's managing bodies to impose fines on insurance companies for breaches of the law or of the rules of professional conduct.

Together, these improvements increase the effectiveness of the managing bodies of RAMI to both uncover and stop breaches of the law on compulsory motor TPL insurance and of the rules of professional conduct.

### *Looking forward to 2006*

In 2006, the programme of inspections of RAMI members will take place in accordance with the planned programme of inspections agreed by RAMI members at the meeting of the Presidium on 15 December 2005. (Protocol No. 6) There are 49 inspections planned during 2006. As of 10 April 2006, the inspections planned for the first quarter of the year had taken place. In addition to these planned inspections, in only the first quarter of 2006, 7 extraordinary inspections took place (in comparison, during the whole of 2005 there were only 11 extraordinary inspections).

An increasingly important strategic objective is to develop and introduce new rules governing inspections of RAMI members, their work in the area of compulsory motor TPL insurance and their conformity with the rules of professional conduct.

These new rules should set out more clearly the types of inspections that will be carried out, how they will be carried out and what issues will be dealt with. In particular, the duties of the inspectors should be defined more concretely and other aspects of improving inspections and making them more effective should be included.

The combination of these new rules and the existing rules on imposing sanctions will make the uncovering of violations of the law more efficient and will encourage more responsible behaviour amongst RAMI members when they carry on compulsory motor TPL insurance.

## Dealing with complaints and appeals from the general public

There are two basic objectives in dealing with complaints and appeals from the general public:

1. Sorting out situations and providing help in every circumstance;
2. Bringing to light typical conflicts, which arise out of imperfections in legislation or regulations, and making proposals for clarification or improvement of the legal framework.

On the basis of these two basic objectives, dealing with complaints and appeals from the general public has consisted of the following main areas:

- Protecting the rights of victims of road accidents;
- Analysis and classification of the most urgent questions arising out of complaints and appeals from the general public;
- Bringing to light and stopping the causes of the breaches of the legal rights and interests of the general public;
- Making proposals to improve the legal framework through changes and corrections to current legislation.

Bearing in mind the importance and topical relevance of these objectives led to the creation of a commission in 2005 whose task was to deal with complaints fully and in a speedy manner. 277 of these complaints and appeals were made against companies that had withdrawn licenses.

During the past year, the managing bodies of RAMI examined 1,403 complaints or appeals from members of the general public.

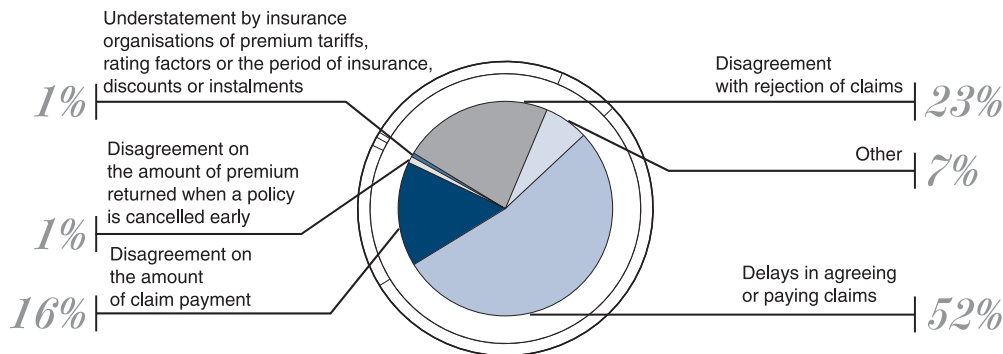
The main cause of complaints facing insurance companies remains delays in agreeing or paying claims. 52.2% of all claims had this cause as opposed to 50% in the previous year. Failure to agree with an insurance company's rejection of a claim made up 22.8% of complaints (20% in 2004).

The growth in the above figures was caused by a change in the structure of appeals or complaints from the general public. Most importantly, there was a significant reduction in complaints about the level of premium tariffs or the rating factors that were applied. Complaints in this area reduced from 4% in 2004 to 0.6% in 2005.

Other than this change, there have been no significant changes in the proportion of the various types of complaint.

As a summary of complaints examined:

1. 553 complaints (39.4%) resulted in claims payments by insurance companies;
2. 850 complaints (59.6%) resulted in the company giving reasons why a claim had been declined.



An analysis of complaints and appeals by the general public identified as burning issues both the improvement of insurance companies' work with clients and the development of methods of ironing out typical conflicts.

Thus, 179 cases (12.8% of complaints) resulted in a member of the public approaching RAMI in circumstances where the victim of a road accident and the insurance company calculated the value of a loss differently. Today such issues have to be dealt with by the courts. In principle, such issues can be settled when a system of professional inspections is in place.

## Fighting insurance fraud

During 2005, the main objective in this area was to intensify the work aimed at developing a system of collective financial security during the implementation of compulsory motor TPL insurance. In this context the following main areas were addressed:

- Co-operation with law enforcement agencies;
- Increasing the level of professionalism of insurance company security staff;
- Developing a database.

The development of the national market of compulsory motor TPL insurance and its entering a new stage have added another aspect to the struggle against insurance fraud:

- Working with insurance organisations whose licences have been limited, suspended or withdrawn.

Co-operation between RAMI and law enforcement agencies has taken place simultaneously in a number of different areas:

- Developing the exchange of information about motor vehicles:



- a) under international investigation;
- b) imported into the territory of the Russian Federation without the correct legal documentation;
- c) registered improperly.
  - Developing co-operation with the customs authorities and internal authorities to obtain information on insured persons and their vehicles.

Research was carried out together with experts from the Centre for Criminal Intelligence of the Ministry of the Interior and with the Ministry of Justice's Centre for Legal Affairs with the aim of preventing the circulation of forged insurance policies.

In addition, joint work was carried out with law enforcement agencies and with the procurator's office in connection with collecting material on the reckless activities of insurance companies whose licenses to carry on insurance business had been withdrawn.

A number of measures were taken to prevent the illegal circulation of blank insurance policies from organisations whose licences had been limited, suspended or withdrawn. From the strategic point of view, the most important fact is that amended rules were drawn up and introduced into the rules of professional conduct setting out the actions that should be taken in the event that an insurance company loses its license and sanctions that can be imposed should the rules be broken.

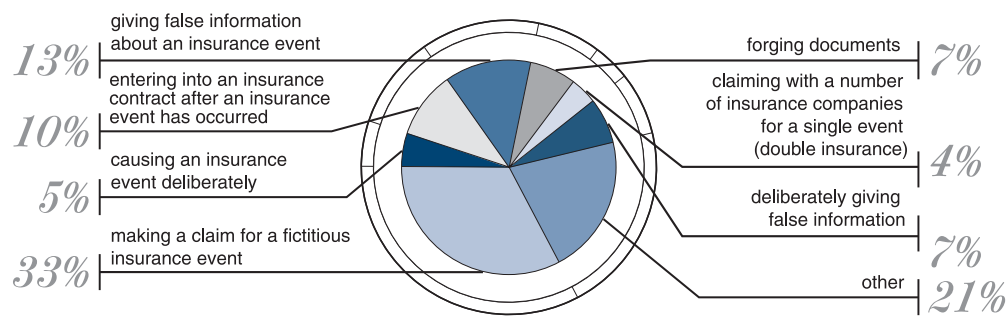
In 2005, work continued in improving the level of professionalism of insurance company security departments. A management team dealing with the methodological issues of fighting insurance fraud is in the process of being appointed. A seminar dealing with this issue was held and employees of RAMI and of insurance companies took part in regional and international meetings dealing with the improvement of the security of insurance business.

An integrated database (SPEKTR) has been set up and is being developed to assist company security departments. In 2005, this system was improved and new faculties were introduced. For example, a separate database of insured objects has been developed which allows the comparison of different insurance events and their participants to be analysed. The system is now fully functional. SPEKTR is now generating, every week, a list of 10 – 15 insurance events that appear suspicious and which are sent to insurance companies for checking.

At present, SPEKTR contains information about more than one million insured objects. Users may access and search this database directly.

This year it is planned to develop SPEKTR regionally and to increase the level of involvement of insurance companies in the struggle against insurance fraud.

**Types of insurance fraud**  
(as a % of the total number of frauds indicated by SPEKTR)



# International international co-operation

## Developing co-operation between RAMI and foreign partner organisations

The main objective of the development of international relationships is to use foreign experience in the implementation of systems of compulsory motor TPL insurance to help achieve RAMI's current and future plans.

### *RAMI and foreign partners – bilateral ties*

#### Germany

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In Berlin, at a meeting between the leaders of the German Insurance Association and a delegation from RAMI on 28 February 2005, the main objectives in further co-operation were discussed.

As a further development of this agreement, a protocol covering mutual co-operation between the two organisations was signed in Moscow on 26 April 2005. The parties agreed that co-operation would take the form of information exchange and the exchange of experts in the following areas:

- Developing the legal and regulatory framework for the implementation of compulsory motor TPL insurance;
- Developing the methodology of technical and medical assessment of damage following road accidents;
- Increasing the role of compulsory motor TPL insurance in improving road safety;
- The application of modern IT methods to compulsory motor TPL insurance;
- The prevention of insurance fraud and methods to combat it, including the tracing and return of stolen vehicles;
- The role of state organisations and organisations of insurance companies in the development of state regulation of compulsory motor TPL insurance.

In February/March 2005, following an invitation by the German Insurance Association, members of the RAMI committee on professional inspection of motor vehicles visited insurance companies (Victoria and Karlsruhe Versicherung) and the DEKRA International Group to share experiences of working in this area.

The German Insurance Association continues to provide valuable expertise and consultancy in areas important to RAMI such as:

- The development of RAMI's Automated Informational Service (AIS);
- Problems arising out of the bankruptcy of insurance companies;
- The calculation of premium tariffs;
- The preparations for the accession to the Green Card system.

## Greece

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On 16 and 17 March 2005, the Greek Insurance Association organised an international seminar in Athens entitled "Financial Stability and the Transfer of Insurance Portfolios". The seminar was attended by representatives of RAMI members and by executives from RAMI. The participants in the seminar were also able to gain from representatives of Greek insurance companies practical information about the operation of the Green Card system. During the year, Greek colleagues provided RAMI with consulting support on practical issues relating to the implementation of the system of compulsory motor TPL insurance.

## France

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Assistance was given in 2005 by the French Insurance Federation, the French Central (Motor) Bureau, and by a number of French insurance and reinsurance companies. This help was based on foreign experience in implementing compulsory motor TPL insurance: the key issue discussed was the development of a system of recording and settling small claims (The European Protocol).

Consultancy support on this issue was provided and this led to a visit to Paris, on 27 and 28 September, by a delegation consisting of representatives of the Federal Service for Insurance Supervision, the Russian Ministry of Transport, the Road Transport Police Department of the Ministry of the Interior, and RAMI. This delegation held a number of meetings with experts from the French Insurance Federation.

The delegation also met representatives of the French Transport Ministry, where discussions took place which included both senior representatives of the Ministry of Transport and of the Interdepartmental Group for Road Safety. The discussions dealt with the question of how modern technology can be used to provide a more effective use of financial and administrative measures applied to vehicle owners to improve road safety.

As a further development of the agreements between the two organisations, RAMI proposed that the agenda of the Working Group on transport and road management includes discussion of the French experience of the European Protocol and measures to improve road safety. This group is working under the auspices of the Russian/French Council for Economic, Financial and Commercial Trade Issues (CEFIC).

This working group met from 17 to 19 October, co-chaired by E. S. Moskvichev, a member of the Presidium of RAMI, head of the Department for State Policy for Road Management, Car and Passenger Transport from the Ministry of Transport of the Russian Federation, and attended by I. Lomakin-Rumyantsev, the Head of the Federal Service for Insurance Supervision. Also

participating were chairpersons of a number of RAMI committees, and representatives of the Ministry of Finance of the Russian Federation and of the Department of Road Safety. At this meeting, a decision was taken to appoint RAMI as the co-ordinator for developing policy on automated speed control and on the direct settlement of claims following road accidents where minimal damage is caused.

In February and March 2006 working consultations were held in Moscow and St Petersburg on the implementation of pilot projects on systems of automated speed control. From the French side, taking part were representatives of their Ministries of Transport and Justice, of the Interdepartmental Group for Road Safety and independent experts who had worked on similar projects in France.

### *RAMI and international organisations*

#### Comité européen des assurances

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On 17 and 18 January 2005, the President of the All-Russian Insurance Association (ARIA) and the President of RAMI held joint talks with the heads of the CEA in Brussels. An agreement was reached under which experts from the CEA would, on the request of ARIA and RAMI, provide support in the area of international co-operation, and on the co-ordination of the work of RAMI and ARIA within the CEA.

During 2005, the CEA and a number of national associations that are members of the CEA Committee on Motor Insurance (the French Insurance Federation, FFSA, the Spanish Union of Insurance and Reinsurance Companies, UNESPA, the German Insurance Association and the Greek Association of Insurance Companies) gave technical support to RAMI on the question of implementation of compulsory motor TPL insurance. Issues covered included the transfer of insurance portfolio, legal aspects of compulsory motor TPL insurance and methods of calculating premium tariffs.

#### The International Association of Insurance Supervisors

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In 2005, following a decision by the Presidium, RAMI joined the International Association of Insurance Supervisors (IAIS) as an observing member.

Membership of IAIS gives to RAMI the following rights:

- To take part in official consultations on draft standards, recommendations and methodological guidance documents issued by IAIS. RAMI is permitted to make formal comments on drafts of papers that are being prepared;
- To take part in working meetings of the Association (committees, working groups etc.);
- To receive the official publications of the IAIS, including schedules and recommendations, analytical papers and other issues;
- To have online access to the information services provided on the IAIS web site. This includes a database on the insurance laws of the member countries of IAIS.

Membership in IAIS also allows RAMI to make further contacts with foreign-based organisations in order to gain expert help and implementation of joint projects aimed at more effective

implementation of compulsory motor TPL insurance in Russia. During the year, RAMI representatives took part in a number of IAIS working meetings and in the International Conference held in Vienna in October 2005. RAMI also took part in the Annual General Meeting of the Association and also met with other associations represented at the conference.

The Federal Service for Insurance Supervision is the official Russian representative in IAIS and RAMI works closely with the Federal Service in this area

### *International events organised/attended by RAMI*

Kaliningrad, (24 – 25 February 2005) – An international seminar entitled “Russia and the EU: information exchange and compulsory motor TPL insurance, using as an example the pilot project between RAMI and the road traffic police.” This seminar examined the questions of information and IT co-operation between member companies of RAMI, governmental bodies, foreign insurance organisations and companies in implementing compulsory motor TPL insurance. Particular attention was directed at the Kaliningrad region as a transport transit corridor. Also discussed was the integration of the Russian Federation into the international (European) system of compulsory motor TPL insurance (the Green Card System). Participants included representatives of the Council of Bureaux (Green Card), the French Motor Bureau, the German Insurance Association and the Estonian Traffic Insurance Fund.

Athens (16 – 17 March) — A seminar covering the issues of the transfer of insurance portfolios with the participation of the Greek Association of Insurance Companies.

Sochi (17 – 18 May) — A seminar held as part of the project of information exchange between RAMI and the Road Traffic Police Department. Participants included representatives of the Estonian Traffic Insurance Fund and the French Ministry of Transport.

Warsaw (2 – 3 September) — An international conference entitled “Insurance compensation funds in Central and Eastern Europe”.

Moscow (21 – 22 November) — The second international conference on tariffs for compulsory motor TPL insurance. Participants included representatives from insurance associations and motor bureaux from Belarus, Germany, Latvia, Lithuania, Ukraine and Estonia. In all, 11 countries were represented.

RAMI also made a presentation as an official partner of the All-Russian Insurance Association at an international insurance conference – the Russian Insurance Summit – in St Petersburg, which took place on 28 and 29 May 2005. A wide range of international representatives attended the session on compulsory motor TPL insurance.

## RAMI and Society: implementing social projects

2005 was a year in which there was a change of emphasis away from PR designed to provide technical support towards the management of PR as part of a PR programme of elicited support for and promotion of the system of compulsory motor TPL insurance.

The basic PR programme concentrated on the following strategic points:

- To emphasise the responsibility of every user of motor transport to have compulsory motor TPL insurance and the responsibility of state organisations to enforce the law without conditions;
- To develop information exchange and joint work with state executive and legislative bodies, with departments and non-state structures;
- Reducing opportunities to use compulsory motor TPL as a weapon in a political debate;
- Positioning RAMI as an organisation of professionals, intent not only on supporting the interests of insurance companies, but also in supporting the interests of the general public in their capacity as drivers or pedestrians.

### *The main events of 2005*

- Commissioning nationwide sociological research on compulsory motor TPL insurance and users of road transport. The results of this survey received wide coverage in the media and were routinely used by insurance companies that are members of RAMI.
- Carrying out a nationwide campaign to ensure that compensation payments to the victims of road accidents were made on behalf of 'problem' insurance companies.
- Organising conferences and seminars: these included an international conference entitled "Compulsory motor TPL insurance in Russia: tariffs and regulation"; a conference entitled "Compulsory motor TPL insurance: problems, results and the future" (organised jointly with the rating agency Expert RA); a seminar entitled "Solvency and financial stability of insurance organisations involved in compulsory motor TPL insurance" (organised jointly with Interfax, Kommersant, Vedomosti and ASN); a conference entitled "Current situation in the compulsory motor TPL market: what should the users of motor vehicles expect in the near future?" (Organised jointly with the newspaper Ivestiya: a seminar for regional journalists (organised jointly with the Union of Journalists of the Moscow region) and a conference presenting an account of the work of RAMI in 2005 (organised jointly with Interfax)).
- Organising events on road safety entitled "A safe crossing" (together with Komsomolskaya Pravda and the management of the Road Traffic Police of Moscow). A month-long programme of road safety events organised jointly with the Road Traffic Police of Moscow.

- Placing information about RAMI and its members' activities on the web site "autonews.ru", an internet resource of RosBusiness Consulting, and in the popular magazine "Atlas Strakhovania".
- Participating in the 9th International Exhibition of the technical methods of improving road safety, the road safety forum. (Intersignaldortrans 2005)

It has become a tradition of RAMI to help the Russian team at the Paralympics. The 9th Paralympic Games held in 2006 in Turin led to a wonderful victory by Russian athletes.

In June 2005, a competition was held to select a web designer to produce a new web site for RAMI. The new site contains the following new features:

- A new overall design;
- An updating of the structure of the site;
- Implementation of a system where enquiries can be answered on line;
- A content managing system.

By the end of 2005, work on the site was completed and in February 2006, the RAMI site (www.autoins.ru) was placed on the internet and opened to public access.

### *Co-operation with the media – new steps*

During 2005, major changes took place in our work with the media.

- The Executive Committee of RAMI took a much more active role in its relationship with the mass media. This new working method is being actively promoted. Examples include distributing market statistics relating to compulsory motor TPL insurance, providing information on actions taken against dishonest insurers, regular meetings about the most important questions on compulsory motor TPL insurance, briefing journalists on the results of meetings of the Presidium of RAMI, etc.;
- Strategic information partners have been chosen;
- Individual briefing of journalists from national media who deal with compulsory motor TPL insurance is regularly provided;
- Systematic work with regional media is carried out with the aim of encouraging publication of information about compulsory motor TPL insurance in the regions;
- Press conferences are held to ensure that the viewpoint of insurance companies is widely understood. During 2005, 14 such press conferences were held;
- Question and answer session on 'Direct lines' in Komsomolskaya Pravda and live broadcasts on Radio Mayak and Ekho Moskvyy were held.

As a result of this purposeful work, interviews with leading executives of RAMI and with representatives of companies that are members of RAMI and who are heading specialised committees of the association have appeared on all federal television channels, on all the most popular radio stations, in all the national press, in the most respected information agencies and in the specialist and regional press.



# professional community

## The regional representation of RAMI

During the last year, the representation of RAMI in the federal administrative regions gained measurably in strength and as a result of practical work, gained authority both with the local authorities in the regions and with the local membership of RAMI – with the local insurance companies and their clients.

At the beginning of the year, a new version of the standard conditions applying to RAMI representations in the regions was promulgated. The collective representations were given the following additional duties:

- To represent the interests of RAMI in the local courts;
- To assist the RAMI Department of Analysis and Control in its inspections of the operations of insurance organisations;
- To develop and introduce a procedure for the Control Commission so that complaints and applications from the general public and from organisations can be dealt with promptly and well.

During the year, the representations organised meetings as part of the overall objective of helping insurance companies develop good relations with organisations in the region, so that the system of compulsory motor TPL insurance can be fully implemented. These meetings were an opportunity for executives of insurance companies to meet representatives of the local authorities, of the traffic police, of the Federal Service for Insurance Supervision and of the main Federal Inspectorate. In the context of these meetings, discussions were held with representatives of the mass media in order to ensure that information reaches the general public about the work of RAMI and about the regional insurance companies.

At the present time, RAMI representations are a fundamental element in the creation in the regions of a relationship between the victims of road accidents on the one hand, and RAMI, an organisation that is protecting their interests, on the other. One objective of RAMI is to uncover and prevent breaches by RAMI members of the law when dealing with victims of road accidents. To achieve this objective, the representation of RAMI in every regional administration set up a commission to ensure that complaints and applications from the general public and for organisations are dealt with in promptly and well.

There was one basic principle behind the organisation of these commissions. It is the task of these commissions to make sure that the authorised representatives of the insurance companies that are members of RAMI perform their duty of solving the problems of victims of accidents and to correct any shortcomings in the way that their insurance companies deal with their clients.

A further area that concerns RAMI representations is solving problems that arise from 'problem' insurance companies. Other areas of work include inspecting the local branches of insurance companies, helping the general public to use independent professional experts to inspect vehicles and investigating possible insurance fraud. The withdrawal of licences from a number of insurance companies has led to an increase in the amount of work: it is necessary to ensure that blank insurance policies are taken away from these companies and fully accounted for. It is also necessary to ensure that all basic policy documentation, claims, files and court documents are collected and kept. Most of these problems took place in the three federal districts of Volga, Northwestern and Urals.

Specialists from the representations carried out all the planned inspections of insurance companies. In addition, random checks were made on the activities of insurance companies through the purchase of insurance policies. During the year, inspections were carried out on one in five local insurance companies or branches.

# professional development

## Co-operation within the professional community, professional training of experts in compulsory motor TPL insurance

The main forms of co-operation within the professional community were seminars, meetings, conferences and practical workshops. The overall aim of this co-operation is to derive a shared position on the most important issues facing the market in relation to the implementation of compulsory motor TPL insurance, and through the exchange of experience to decide on the best ways to solve typical problems. At the same time, the process of co-operation is aimed at raising the level of professional competence of personnel.

Last year, as usual, co-operation took place at a number of different levels:

- International
- National
- Regional

In early 2005, the question of the financial stability of insurance companies underwriting compulsory motor insurance became one of growing importance. As a result, in April of that year, the Russian Association of Motor Insurers organised an international seminar entitled “The solvency and financial stability of insurance companies underwriting compulsory motor TPL insurance”. Taking part in the seminar were representatives from the Ministry of Finance of the Russian Federation, from the Federal Service for Insurance Supervision, from the Insurance Institute of the State University of St. Petersburg and from leading Russian insurance companies. In addition, the international insurance sector was represented by Watson Wyatt LLP and PriceWaterhouseCoopers. During the seminar, the question of the financial stability of insurance companies was discussed together with international experience in developing approaches to the calculation of solvency. Other problems that companies dealing with compulsory motor insurance currently face were also discussed at the seminar.

Organising an international conference entitled “Compulsory motor TPL insurance in Russia – developing tariffs and regulations” has now become a tradition. The conference in 2005 was the second such conference, and a third is planned for 2006.

At this conference in 2005, representatives of the Russian government took part (from the Presidential Administration, the Ministry of Finance, the Federal Service for Insurance Supervision, the Ministry of Economic Development and Trade, the Ministry of Transport and the Federal Anti-Monopoly Service.) Additional attendees included representatives of both Russian and foreign insurance companies, scientific organisations, insurance associations and unions and consulting firms.

Countries represented at the conference included Russia, Great Britain, Hungary, Germany, Greece, Kazakhstan, Latvia, Lithuania, Belarus, Ukraine and Estonia

At the conference, a wide range of issues were raised, including:

- The process of implementing compulsory motor TPL insurance in Russia;
- Developing tariffs – the experience of Eastern and Western Europe and of North America;
- Key issues in the development of insurance reserves for motor insurance;
- The reinsurance of motor business;
- The prospects of using in Russia specialist software for calculating insurance tariffs and reserves;
- The working of the international Green Card System.

In May, another international seminar was organised in Sochi entitled “The exchange of information about compulsory motor TPL insurance – the pilot project between RAMI and the Road Traffic Police in the Southern Federal Administrative Region as an example”.

RAMI also organised a number of national conferences, seminars and practical workshops. Many key issues were addressed such as:

- IT and compulsory motor TPL insurance: co-operation between the state and insurance companies;
- Fraud and motor insurance;
- Portfolio transfers as a means of establishing the insurance market and of protecting the rights of insureds and victims of road accidents;
- Practical aspects relating to the transfer of a portfolio of compulsory motor insurance business;
- Financial and management accounting for insurance companies, especially in relation to compulsory motor TPL insurance;
- Settling bodily injury claims arising out of motor accidents as part of the system of compulsory motor TPL insurance.

Seminars were also organised in the regions of Russia. In addition to the Central Federal Region (which includes Moscow), seminars took place in the other six Federal Administrative Regions: Far East, Northwestern, Southern, Urals and Volga.

During the year, much attention was paid by the regional representations of RAMI to organising and implementing seminars with the aim of increasing the level of professional competence of staff of RAMI member companies. More than 700 people attended these regional seminars.

## RAMI Financial statement

The total income of RAMI in 2005 was 2,577,013,000 Roubles. This income included:

- 834,755,000 Roubles in membership fees and admission fees to cover the overall running costs of the association
- 1,102,290,000 Roubles as payments into the fund for current compensation payments
- 551,305,000 Roubles as payments into the guarantee fund
- 79,035,000 Roubles from unrealised gains from the investment of free assets including reserve funds
- 9,628,000 Roubles from other unrealised income including income from fines imposed on RAMI members
- The association paid 20,935,000 Roubles tax on profits
- As of 1 January 2006, the balance sheet showed total assets as being 91,802,000 Roubles.
- Total expenses of RAMI in 2005 were 345,154,000 Roubles.

As of 1 January 2006, the total amount of funds held in the fund for current compensation payments was 2,376,331 Roubles and in the Guarantee Fund, the figure was 1,255,841,000 Roubles.

RAMI accounts were audited by BDO Unicon. The audit confirmed the accuracy of the accounts and their compliance with the laws of the Russian Federation:

Excerpt from the auditor's opinion on the 2005 accounts of RAMI

«In our opinion, the accounts of RAMI truly reflect all aspects of the company's financial position as of 31 December 2005 and of its financial activity between 1 January 2005 and 31 December 2005.».

Deputy Director with authority to sign  
audit statements

E. I. Kopaneva

Senior Auditor,

L. V. Efremova

General permanent audit qualification certificate No. 042573  
issued by the Ministry of Finance of the Russian Federation  
granted on the basis of a decision of the  
Central Audit Certification & Licensing Committee  
of the Ministry of Finance on 28.02.2002.  
(Protocol No. 103 of CACCL of Ministry of Finance of the RF)

The Auditing Commission carried out a planned inspection of all activities of RAMI. No significant legal violations were discovered:

Excerpt from the Audit Report covering financial activity dated 24 April 2006, Moscow.

Name: Russian Association of Motor Insurers  
Address: 115093, Lusinovskaya Str 27, bld 3, Moscow  
Registration number: 1027705018494

In the course of the audit, the following facts have been established:

Records are kept in accordance with the laws of the Russian Federation. The financial records are accurate in that they reflect the true position of the assets and liabilities of RAMI as of 31 December 2005 and of the results of the organisation's activities between 1 January 2005 and 31 December 2005. The accounts are in accordance with accounting regulations (Regulations on Company Accounts No. 43, approved and issued by the Ministry of Finance of the Russian Federation, 6 July 1999; Accounting Regulations for the Russian Federation No. 34, approved by the Ministry of Finance on 29 July 1998; Regulations on the Forms of Company Accounts, No. 67, issued by the Ministry of Finance on 22 July 2003.

Management accounts covering the organisation's budget and expenditures are accurate and are in accordance with the rules of RAMI.

Signed:

Chairman of the Auditing Commission  
Members of the Auditing Commission  
Members of the Auditing Commission  
Members of the Auditing Commission  
Members of the Auditing Commission  
Members of the Auditing Commission

V. A. Poltavtsev  
V. V. Akulov  
N. F. Galaguza  
N. N. Sonina  
S. V. Bakhtin  
R. A. Naymanov

# Looking forward

## RAMI'S plans for 2006

During 2006, RAMI has three major areas where work is expected:

1. Developing a simplified system of settling losses from minor road accidents.

On 7 July 2005, the Russian Government examined the current situation concerning the law on compulsory motor TPL insurance and identified the needs to make improvements in the system so that the documentation following minor road accidents where no injuries had been caused should be simplified and also that drivers who were not responsible for accidents could apply to their own insurers for compensation. These changes involve the introduction of the 'European Protocol' and the direct settlement of insurance losses.

2. Joining the Green Card System.

Russia's accession to the international Green Card System requires changes to the federal law and regulatory development. RAMI will take on the responsibility of the Green Card Bureau within Russia.

3. Development and introduction of information systems for compulsory motor TPL insurance.

What needs to be developed in this area is not only systems that meet the needs of RAMI, but also systems that can meet the needs of all the departments involved.

### **A system of direct compensation payments and a simplified system of documentation following road accidents**

One of the most extensive areas where the legislation on compulsory motor TPL insurance needs to be improved was set out in an order of the government of the Russian Federation on 7 July 2005:

1. To give to the victim of a road accident, in certain circumstances, the right to apply for compensation for physical damage caused by the accident directly to the insurance company with which he has a contract of insurance (direct settlement of damage).

2. Permit the settlement of some accident claims without the need to provide an accident report from the Road Traffic Police (a simplified reporting system for road accidents).

Earlier, on 27 May 2005, the Russian Association of Motor Insurers took an initiative to make the introduction of the so called "European Protocol" one of its highest priorities.

In June of the same year, a committee was formed to develop a procedure for settling claims following the 'European Protocol'.

The work to introduce a system for the direct settlement of damage and for a simplified reporting system for road accidents is expected to be carried out in three stages:

1. Carrying out research on how the claims settlement systems for compulsory motor insurance work in Germany, France, Italy, Greece, Spain and the Czech Republic.
2. Developing a comparative analysis of the foreign systems and testing their viability under Russian circumstances (using econometric and mathematical methods).

Following the second stage, RAMI is planning to select the optimum parameters for the introduction of the "European Protocol". Agreement to these measures is intended to be reached by involving three sides: state bodies (Ministry of Finance and the Road Traffic Police), insurance companies and vehicle users.

3. Once the optimum system has been selected, detailed plans for the implementation of the project will be drawn up, identifying the resources required and the parties involved.

The end result will be a concept paper setting out the principles for the introduction of systems in Russia for direct settlement of damage claims following road accidents and for simplified reporting of road accidents ('The concept paper').

Major consulting companies will be involved as partners in this three stage project, such as Grant Thornton, KPMG, McKinsey & Company, PriceWaterhouseCoopers, Watson Wyatt, ROSEPERTA, FBK, and BDO Unicon.

Analytic work, begun in 2005, is being carried on to identify the major problems that will be faced when introducing systems of direct settlement of claims following road accidents and for simplified reporting of road accidents. These include:

- Identifying the means necessary to combat fraud – for example, identifying the types of information that insurance companies need to share on claims;
- Identifying methods of assessing fault in road accidents without the need to involve the Road Traffic Police;
- Identifying the best standards that should apply to independent professional technical inspections of vehicles;
- The risks that direct settlement of claims will lead to financial instability in insurance companies underwriting compulsory motor TPL insurance and as a result some claims will not be paid;



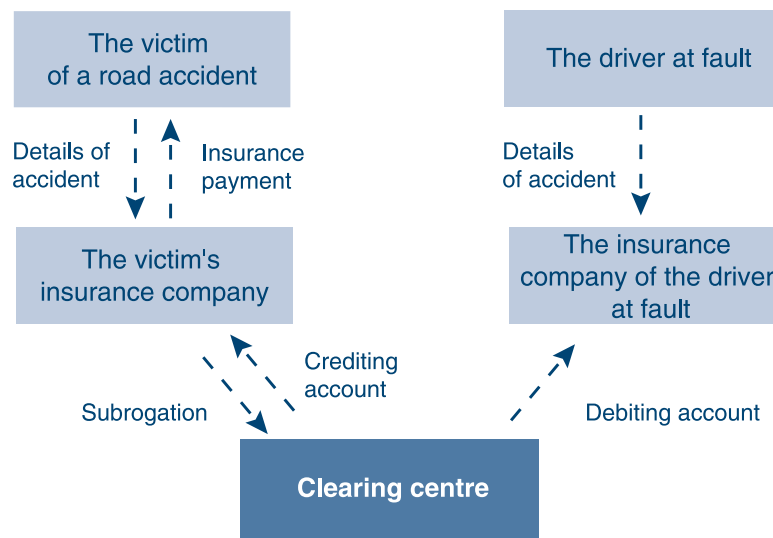
- The need to develop a clearing system between insurance companies for payments with an electronic IT platform;
- The fact that insurance companies use different methods for identifying and recording insurance events.

It is also necessary to take into account the internal systems of PDD, Administrative Code, internal documentation of the Road Traffic Police, of the tax authorities (insofar as direct settlement of claims affects tax liabilities), and orders issued by the ministry of finance (on reserving methods and on accounting methods for the direct settlement of claims).

If changes are made to the law to introduce direct settlement and simplified reporting of claims without taking into account these matters, then there is the risk that the whole system of compulsory motor TPL insurance could face serious problems.

In 2006 it is planned to carry out work both on the concept paper and on implementation plans and the necessary changes in the law of the Russian Federation.

### *The principles of direct settlement of claims*



## Preparing for accession to the international Green Card System

In 2005, a detailed plan of preparatory work for accession to the international Green Card System was finished and its implementation was begun:

1. After studying a number of options, a financial business plan covering RAMI's operations under the Green Card System was selected.

2. An inter-departmental working group was set up with the power to prepare the necessary changes to the law and regulations.

3. A set of regulations was prepared on information exchange and co-operation in relation to Green Card certificates.

4. International seminars and bilateral meetings were organised with representatives of national Green Card Bureaux.

The Committee of Inland Transport of the UN European Economic Commission, at its 68th Session examined the Green Card System and welcomed Russia's preparatory work, which was noted in the official documents of the committee.

In the coming years, it is intended to continue the preparatory work for accession to the Green Card System, to make the corresponding changes to the RAMI charter and to draw up the necessary regulations that will permit RAMI to act as the national Green Card Bureau.

This work will be accomplished with the co-operation of European experts from a special project of the European Commission aimed at assisting the accession of Russia to international systems.

## Systems of information support for compulsory motor TPL insurance

During 2005, much planned work was carried out to develop IT support for RAMI's activities.

During the year, the IT department worked in the following areas:

1. Preparing RAMI's proposals for improving the legal framework for IT;
2. Developing the RAMI Automated Information System (AIS);
3. Operating on behalf of RAMI in the development of the AIS for compulsory motor TPL insurance:
  - a) The RAMI component of the AIS for compulsory motor TPL insurance;
  - b) Creating the system of information exchange between RAMI and the Road Traffic Police under AIS for compulsory motor TPL insurance.

### *1. RAMI's proposals for improvements to the legal framework for IT*

The Russian Association of Motor Insurers has analysed the current legal framework for compulsory motor TPL insurance and the regulatory framework for RAMI itself and, following this analysis, has

produced recommendations for changes in the legal and regulatory framework that will facilitate the exchange of information between departments under AIS for compulsory motor TPL insurance.

Decree No. 567 of the Government of the Russian Federation (Exchanging information in order to fully implement compulsory motor TPL insurance) requires the creation of resources at the federal level and the development of information exchange for compulsory motor insurance. In order to carry out this order, RAMI has drafted and sent to the ministry of finance proposals that set out the type of information that should be exchanged by departments, the amount of information and how often the exchange should take place. Additional proposals cover the order in which the exchanges take place and the amount of information.

As part of the process of implementing the law on compulsory motor TPL insurance and in connection with Decree No. 567 of the Russian Government (Exchanging information in order to fully implement compulsory motor TPL insurance), two federal laws are being prepared to deal with the problem of IT exchange. The first is entitled "Personal Data" and the second is entitled "IT and Data Protection". RAMI has prepared a number of draft amendments to these proposed laws.

## *2. Work in setting up the Automated Information System (AIS) for RAMI*

In June 2005, the Technical Specification of the Development of the RAMI AIS was completed and a tender was carried out to choose the contractor.

### *A sub-system to control the issue of blank policy forms (BSO)*

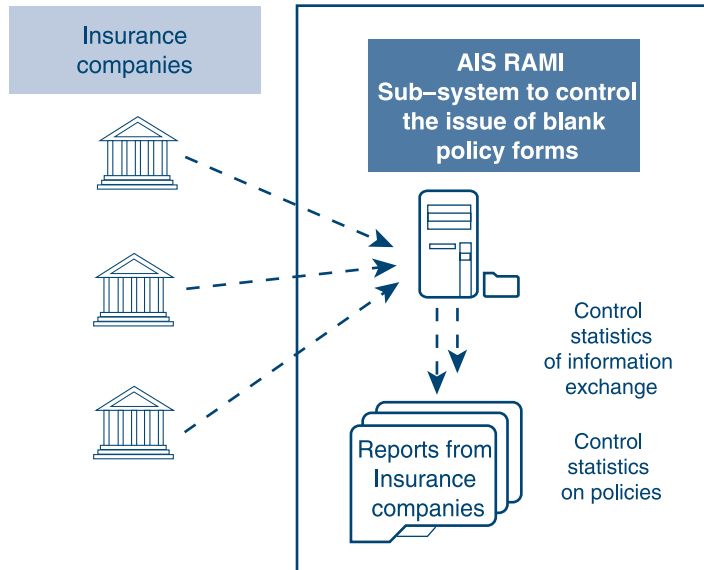
By October 2005, the software for an IT sub-system to track all blank policy forms was complete, initial testing was finished and a pilot study of the module in operation had been successfully carried out. Three insurance companies took part in the pilot study. The system is designed to collect data from insurance companies on the numbers of the policies and follows each blank policy through every stage of its 'life'. The first stage is when the form is released by the printer. The second stage is when the blank forms are located at the insurance company. The third stage is when the policy is sold – when it comes into the hands of the insured. Other stages include "expired", "lost" etc.

As the AIS is expanded to cover all insurance companies, this sub-system will obviate the need to account manually for the blank policy forms, i.e. to create Excel files to account for these forms.

Full scale operation of BSO was planned for the beginning of 2006, and to achieve this a list has been drawn up which shows the order in which companies will join the sub-system

The technological components of the BSO sub system use the XML format to manage the exchange of documents between the various insurance company systems and the host system. It is proposed that BSO will operate around the clock, 24 / 7 / 365, with planned maintenance breaks.

Before insurance companies are able to join the system, they will be required to have an operating data management system in XML format which is able to integrate with BSO.



The three companies that took part in the pilot study successfully introduced all the technical requirements and installed all the necessary software.

At the end of March 2006, information concerning the distribution of 2,125,000 blank policy forms was held on the sub system and was given to the Ministry of the Interior.

### *The Sub-system for “tariffs based on bonus-malus” (KBM)*

In March 2006, work on the KBM subsystem was completed. KBM is a system to record premiums and claims histories of insureds, on the basis of which tariffs based on “Bonus – Malus” can be calculated. The functional requirements and system needs were completed in December. Then preparation and pilot studies began. The work on developing the rules of information exchange within the sub system is continuing.

### *The policy accounting sub-system*

At present, a sub system to control the issue of insurance policies is being developed. The functional requirements and system needs were completed in December 2005 and trial operation is planned for the first half of 2006.

### *The information security sub-system (PIB)*

Close attention is being paid to ensuring that data on compulsory motor TPL insurance is secure. At the present time, the overall concept of the system of PIB is being developed. Trial operation of the sub system is planned for the second half of 2006.

### *The compensation payments support system (SIO KV)*

It has become apparent that there is a need to introduce changes in the compensation payments support system within the AIM. This is a result of the amendments to the law on compulsory motor TPL insurance (No. 103-FZ) which were passed in July 2005, parts of which made changes in the payment of compensation to victims of road accidents who have suffered property damage.

Software was purchased which has enabled data on policy holders of companies that have ceased to carry on business of compulsory motor TPL insurance to be held and maintained.

Because the number of compensation payments has increased and because it is necessary to cater to a growing number of people who are applying for compensation for damage, plans have been made to integrate the SIO KV system with the accounting system I-C.

### *A common system of classification and reference manuals (ESKS)*

ESKS is a vital component of a system that will allow insurance companies to exchange information using a similar data format.

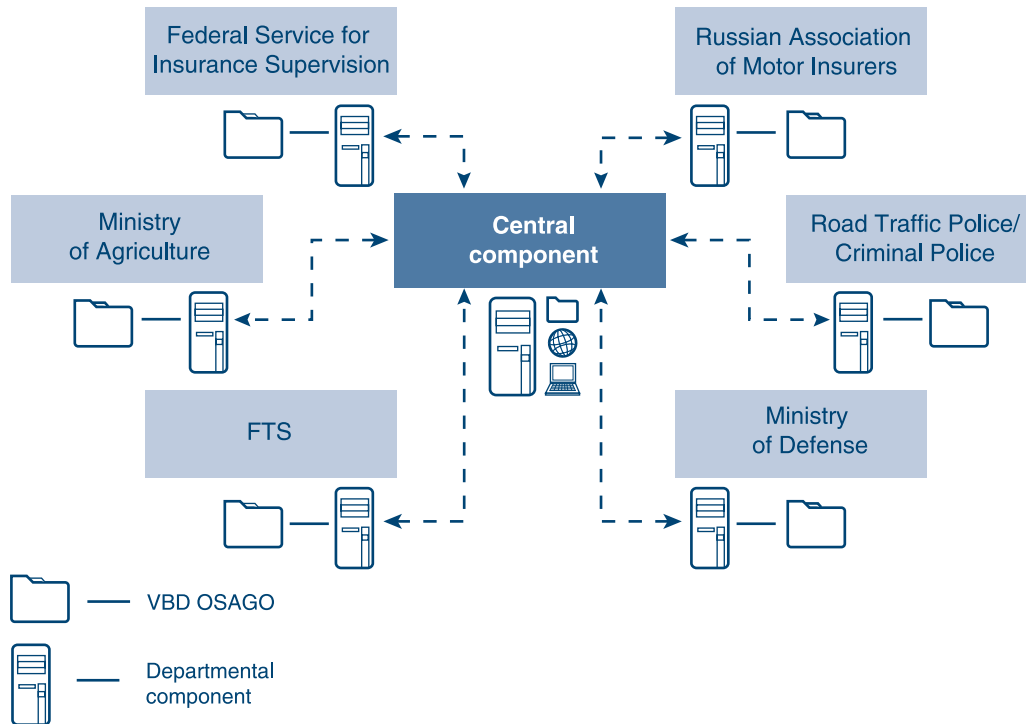
3. Work on behalf of RAMI in developing the AIS for compulsory motor TPL insurance (AIS OSAGO).

During 2005, whilst preparing the basic conception of the AIS, an analysis of the current law on compulsory motor TPL insurance and of the regulations under which RAMI operates was carried out. As a result of this analysis, a proposed list of new regulations that would permit exchange of information between departments was drafted. In addition, a model was built that showed how the Automated Information System (AIS) for compulsory motor TPL insurance (AIS OSAGO) would exchange information between participants.

The AIM for compulsory motor TPL insurance is being created as a locally based information system operating federally. The system is based on the principle (centralised/distributed) which consists of a number of combined local databases holding data with a centralised distribution system. The system combines a central component, components at departmental level and departmental databases and is known as the Departmental Databases for Compulsory Motor TPL Insurance (VBD OSAGO).

The departmental component includes procedures for dealing with enquiries that are made of departmental databases and responds to the central component, keeping records of the enquiries and the responses.

*AIS OSAGO and the departmental component*



*Development of the system of information exchange between RAMI and the Road Traffic Police as part of AIS OSAGO*



The RAMI-Road Traffic Police project is part of AIS OSAGO, developed as part of the law on compulsory motor TPL insurance.

In 2005, computer equipment was purchased, delivered and installed in the Road Traffic Police Federal Centre which led to the commissioning of a hardware and software complex which also covered the Northwestern regional centre (St. Petersburg), and the Caucasus regional centre (Rostov on Don) – these are two of the centres of the Federal Information System of the Road Traffic Police which cover a number of administrative regions. The complex was also installed in RAMI's information centre.



In all, the project now covers 14 administrative regions of the Russian Federation.

In the future, it is envisaged that the RAMI – Road Traffic Police system will permit information to be exchanged on a “question and answer” basis.

One of the aims of the project is to make it possible for Road Traffic Police officers to check the validity of insurance policies and for the insured drivers – not only when the car seeking to be insured is stolen, but also for checking the claims history and other important information.

In November 2005, the programme modules BSO AIS RAMI and the Federal Information System of the Road Traffic Police (FIS GBDD) was able to access information for the first time about invalid policies of compulsory motor TPL insurance.

The information about invalid policies includes data on policies that have, for example, been cancelled and replaced by new policies as a result of changes in underwriting information, policies that have been stolen or altered by insureds or by the insurance company, and policies that have been destroyed as part of standard procedures set out in the rules of professional conduct. Policy data was entered into the system voluntarily by two insurance companies.

During the course of 2006, it is planned to add to the system companies from the system of compulsory motor TPL insurance and to regularly input information about policies distributed via the blank policy distribution system (BDO) and about invalid policies into the Federal Information Service of the Road Traffic Police.



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