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Winter 2012



## Russia's Insurance and Pensions Market

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Facts and Trends of the Russian Insurance and Pensions Market  
HR Issues and Trends in the Insurance Industry • AEB Networking... and more

Saint Petersburg, April 4th, 2013

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## Dear Readers,



I would like to welcome you to the Winter 2012–2013 edition of the AEB Business Quarterly, which is devoted to the Insurance and Pensions industry.

The Russian insurance market is one of the fastest growing in the world. It has expanded rapidly over the past few years on the back of regulatory developments, government support, economic growth and rising income levels. According to industry researchers, it will maintain its rate of growth for the foreseeable future.

Although there might be a limited demand for insurance products in the short term because of the continuing global economic crisis, the market has strong growth potential in the medium term as real incomes recover.

The Top 10 players in the Russian market are expected to concentrate market share even further, continuing a trend which started to gain momentum some time ago. Executives attribute headline growth mainly to general economic expansion, which may not be too strong in the near future as Russia's GDP is forecast to increase by less than 4%.

As of 31 May, 546 organizations were registered in the Uniform State Register of Insurance Entities. But as there were 607 companies on the register last year, this represents a reduction of almost 10%.

The top 10 insurance companies earned 64% of the market's premiums in Q1 2012. The gross volume of insurance benefits in Q1 2012 came to £1.5 bn.

Despite economic uncertainty, the insurance and pensions industry in Russia has growth potential and we are looking enthusiastically to the future.

This edition of AEB Business Quarterly will describe the Insurance and Pensions industries in Russia in more detail. Discussion of topics like reinsurance, pensions, voluntary medical insurance, D&O and motor insurance will provide you with a clear insight into these aspects of Russia's insurance sector.

*I wish you all the best ahead!*

Dr. Frank Schauff  
Chief Executive Officer  
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## AEB BUSINESS QUARTERLY, Winter 2012

### CEO Letter

Introductory words from Dr. Frank Schauff, Chief Executive Officer of the Association of European Businesses

1

## The Russian Insurance and Pensions Market Introduction and General Overview

### The Russian Insurance and Pensions Market: an introduction

Alexander Lorenz, Chairman of the Council, Raiffeisen Pension Fund, Chairman of the AEB Insurance and Pensions Committee

4

### Insurance in Russia 2012: legal insight into facts and trends

Leonid Zubarev, Partner; Eugenia Bantikova, Associate, CMS

6

### Russian and foreign models of direct insurance: similarities and differences

Maria Malkovskaya, General Director, Intouch Insurance

9

### Reinsurance as a part of the Russian insurance market today

Dr. Capitolina Tourbina, Director of Russia Representative office, General Reinsurance AG, a Berkshire Hathaway company

11



HR issues and trends in the insurance industry, p. 25



Changes in the vehicle insurance market, pg. 16



Russia's Pensions Industry, p. 13



Partnership for Modernisation Conference, pg. 27

### Russia's Pensions Industry: quo vadis?

Alexander Lorenz, Chairman of the Council, Raiffeisen Pension Fund, Chairman of the AEB Insurance and Pensions Committee

13

### The VMI market in Russia: trends, problems and prospects

Hakan Danielsson, CEO of OJSC IC Allianz

15

### Changes in the vehicle insurance market

Malyarenko Daria, Senior Specialist, Corporate Motor Insurance Department, Rosgosstrakh Ltd

16

### D&O evolution: lessons to learn

Andrey Panov, Vice-president, CJSC Chartis

18

### Life: ready, steady... go!

Mikhail Sosnin, First Vice President, MetLife Alico Russia

20

### The middle market segment in Russia: an insurance broker's perspective

Alexander Protoklitov, Country Manager, MAI Insurance Brokers

22

### HR issues and trends in the insurance industry

Elena Novoselova, Director, Coleman Services St. Petersburg

25



IV International Conference "Customs and business: international and regional aspects of cooperation – 2012", pg. 29

## AEB Updates

### Networking

27

### Committee Updates

29

### Member News

32

### Appointments

35

### New Members

37



Briefing by Michel Barnier, European Commissioner for Internal Market and Services, pg. 28

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Publication name/Наименование издания: AEB Business Quarterly magazine/ Ежеквартальное деловое издание АССОЦИАЦИИ ЕВРОПЕЙСКОГО БИЗНЕСА

Published by/Учредитель: Non-profit making partnership "Association of European Businesses"/Некоммерческое партнерство "АССОЦИАЦИЯ ЕВРОПЕЙСКОГО БИЗНЕСА"

Chief Editor/Главный редактор: J. Bendel/Бендель Ю. Э.

Publication volume and number/Номер выпуска: 4 (27), 2012

Released date/Дата выхода в свет: December 17, 2012/17 декабря 2012 г.

Circulation/Тираж: 16,000 copies /16 000 экз.

Cost/Цена: Distributed free of charge/Бесплатно

Publisher's address/Адрес издателя, редакции:

16, bld. 3, Krasnoproletarskaya str., 127473, Moscow, Russia/Россия, 127473, г. Москва, ул. Краснопрудная, д. 16, стр. 3

Printed by/Типография: MEDIACOM, Stolovy per. 6, 121069, Moscow, Russia/«МЕДИКОМ», Россия, 121069, Москва, Столовый пер., д. 6

The AEB Business Quarterly is registered with Rosohrncultura, Certificate registration ПИ № ФС77-24457/СМИ "Ежеквартальное издание АЕБ" Зарегистрировано в Роскомкультуре, свидетельство о регистрации ПИ № ФС77-24457

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# THE RUSSIAN INSURANCE AND PENSIONS MARKET: AN INTRODUCTION



Dear readers,

As there is not much English language content on the Russian insurance and pension sectors, we hope that you will find this issue of the AEB quarterly a useful guide to the current status of these important industries.

The last quarterly on insurance and pensions was published only two years ago, in the summer of 2010, a period marked by heightened uncertainty, especially in financial services. Since then, many new developments have taken place in the Russian insurance and pension sectors. As in the last issue, we have again tried to give you a good overview of the current insurance, reinsurance, insurance brokerage and pension industries in Russia, with articles by respected industry experts. I would also

**Alexander Lorenz**, Chairman of the Council, Raiffeisen Pension Fund, Chairman of the AEB Insurance and Pensions Committee

like to take this opportunity to thank everyone who has contributed to this magazine: the authors, the AEB publishing team and also the advertisers.

## The insurance market

First, let's have a look at the overall market statistics. According to the Russian insurance regulatory authority, the market trends are as follows for the past 2 years:

Both the life and non-life insurance sectors showed strong growth rates from 2010 to 2012 on the back of a still-expanding Russian economy and increasing penetration/use of insurance. As such, penetration of insurance in the economy, as a proportion of GDP, is continuously increasing, although it will still take years before this indicator will be comparable to western markets. Currently the penetration rate for Russia stands at 1.2%, compared to an EU average of 8.2%.

In what follows I would like to highlight the main trends for the market going forward.

## New legislation

The Russian government is currently introducing a number of initiatives to

reform the operating and regulatory environment for the Russian insurance sector. These initiatives range from a streamlining of the process of online insurance (driven by the Russian Ministry of Finance) to a review of the law on insurance, and making insurance fraud a criminal offence. Over time these initiatives should have a positive effect on the market. In what follows, we look at these matters in more detail (please see the CMS article on page 6).

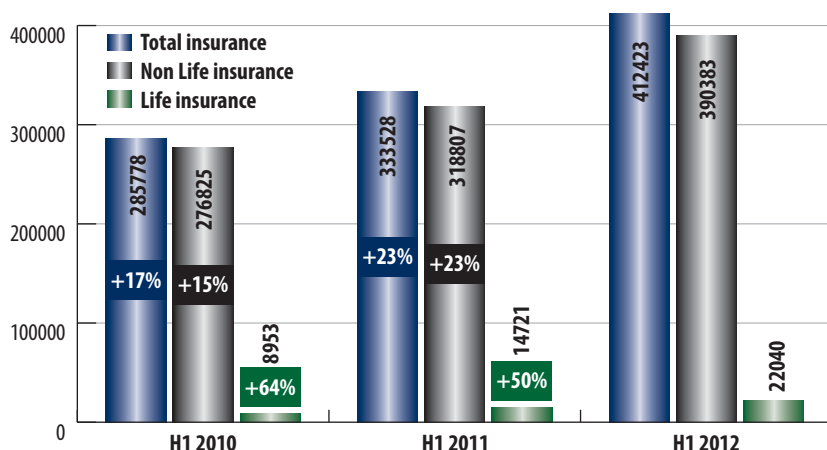
## New distribution channels

The distribution landscape for insurance products remains highly geared towards third-party distribution partners such as banks, car-dealers and travel agents. Under these arrangements, insurance companies are often in a weak position, which allows the distribution partner to charge excessive commissions. This will in future lead to insurers trying to develop distribution models that incur lower commissions so as to break the dependence on car dealers, etc. A key role here could be played by the internet. With internet penetration in Russia growing strongly (Russia now has more users than any European nation) the internet is becoming much more important in terms of service functions and distribution.

## Consolidation and possible state dominance

A major market consolidation is taking place in insurance, driven by new capital requirements, depleted balance sheets and intense competition. This is leading to an exit of weaker and technologically less efficient players, and a fall in the number of insurers from the current total of 480. The main beneficiaries of this trend are the top 30 players, who continue to build market share. Also, in the future we expect state-owned entities to play a much greater role. Russian state-related

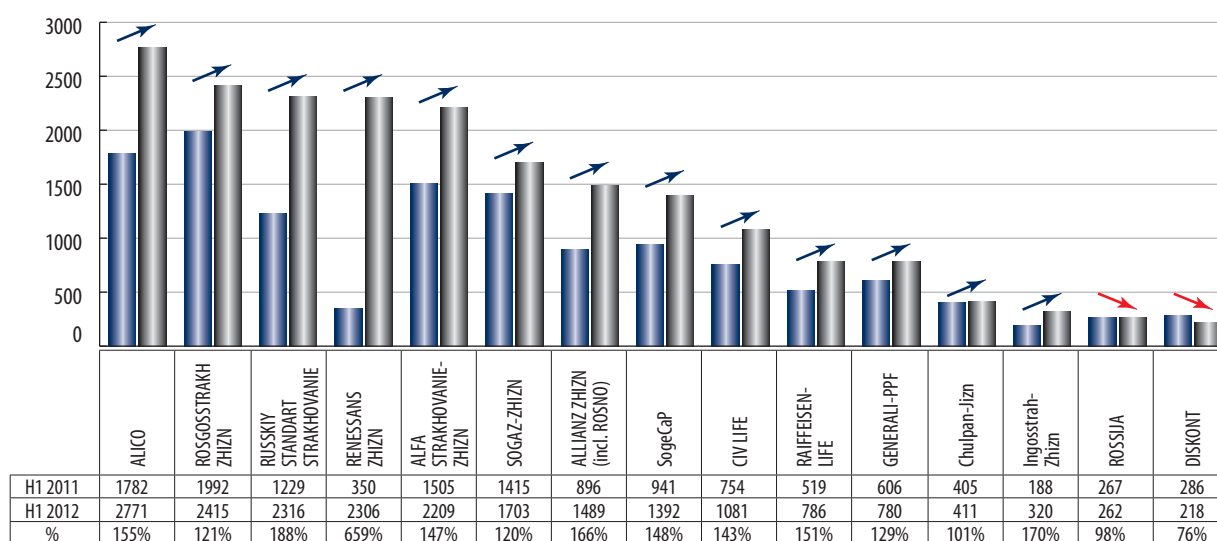
**Insurance premium (H1 2010 – H1 2012, mln RUB)**



Sources: FCSM, research of Raiffeisen Life



Life Insurance top player premium dynamics GWP, H1 2012, H1 2011, mln RUB



Source: Russian insurance regulator FSFR, Raiffeisen Life

insurers such as SOGAZ and Transneft Insurance, and also State-owned banks such as Sberbank and VTB, are already visibly increasing their presence in the insurance market by utilising their relationship with government, their strong balance sheets and also their commercial banking infrastructure to sell and cross-sell insurance products.

### Foreign investment

Foreign investment in the Russian insurance sector remains subdued. The lack of interest from abroad is partly due to the current global uncertainty, which has reduced risk appetite amongst global insurance operators. The “head-over-heels” exit of several

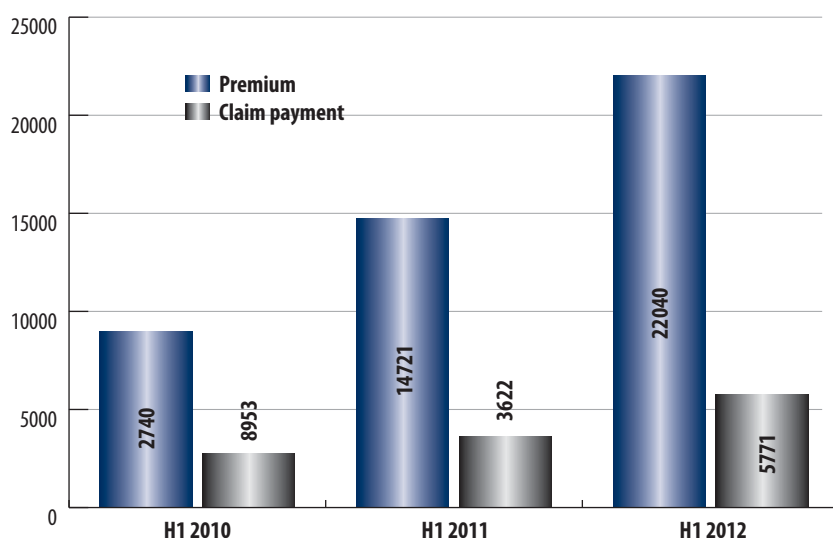
prominent western players, such as ING Life and FORTIS, after 2008 has been a stark reminder that Russia is a difficult market to conquer, and that poorly designed entry strategies can lead to costly write-offs in times of global flight from risk. Another reason is the valuation expectations of Russian owners of insurance companies, often combined with a highly non-transparent business set-up and corporate ownership structure. While Russia was formally accepted into the WTO this August, which will have some major legal consequences for the local insurance market (e.g. lifting the 49% restriction), there is little to be expected in terms of immediate FDI.

### Life insurance

The Russian life insurance market has been developing dynamically over the last two years – albeit from very low levels. One of the main drivers in life insurance continues to be “bancassurance”, which is the sale of insurance products via banks. This segment has, however, had some serious legal challenges recently, especially from regional anti-monopoly authorities. Many insurers and banks, both local and foreign, have had high penalties imposed for various forms of alleged mis-selling. These issues have largely been resolved, and have now lead to many insurers and banks improving their sales procedures so as not to run any further risk in this area.

The table above shows the top 20 life insurance players, of which the top 18 all recorded significant growth rates. The strongest performers were Renaissance Life, Russian Standard Insurance and Allianz Life. In future it can be expected that life insurance players affiliated with large state banks will enter the top 10, and later take leading positions by using their parent company’s distribution channels (e.g. Sberbank insurance).

Life Insurance market (H1 2010 – H1 2012, mln RUB)



Sources: FCSM, research of Raiffeisen Life

### Pensions

The Russian pensions industry continues to demonstrate very strong growth rates in terms of assets under management, but there are some potential legal changes that might significantly affect that market in the mandatory second pillar sector. Please see our pension article on page 13. **BQ**

# INSURANCE IN RUSSIA 2012: LEGAL INSIGHT INTO FACTS AND TRENDS



Leonid Zubarev, Partner; Eugenia Bantikova, Associate, CMS

## FACTS

2012 is coming to an end and now it's time for us to take a look at what happened in the Russian insurance market during the year, and what is still in store for market participants.

Every season of this expiring year was marked by a significant event (or sometimes, events) for the insurance market. The year began with significantly increased minimal capital requirements for insurers and the introduction of a new line of compulsory insurance business: owners' liability for hazardous industrial facilities.<sup>1</sup>

These two events were followed by the spring shower of unprecedented fines which were imposed by the Federal Service for Financial Supervision (FSFM) on insurance companies, and the long-lasting negotiations between the market and the regulators (both FSFM and the Ministry of Finance) regarding the new system of penalties that has to be applied to insurers.

Later, in the summer the consumers of insurance services were granted a higher level of rights protection, as the Supreme Court ruled that the provisions of the law on Consumer Protection Rights should be applied to property insurance relationships.<sup>2</sup>

<sup>1</sup> The Law On Compulsory Insurance of Liability of an Owner of a Hazardous Facility for Harm Caused by an Accident at a Hazardous Facility No. 225-FZ as of 27 July 2010 came into force on 1 January 2012.

<sup>2</sup> Decree No.17 of the Plenum of the Supreme Court of the Russian Federation "On Court Review of Civil Cases Involving Disputes on

commitments to the state. It also revealed how low the penetration of voluntary insurance in this country is.

Then, in August, Russia was finally finished with the WTO accession process.<sup>3</sup> This event may well come to be seen as a turning point for the insurance sector in Russia, after a 9-year transition period, although today the consequences of Russia's commitments under the Accession protocol cannot be foreseen.

While the streets were being covered with autumn leaves, the coverage of an insurer's own funds and the placement of insurance reserves became subject to new regulatory requirements.<sup>4</sup> Although the new capital management regulations introduced by the Ministry of Finance did not come as a surprise—unlike the consumer protection issue—the timing of the introduction of the regulations (during the third quarter of the financial year) was not typical.

In mid-September another law on the introduction of additional compulsory insurance was enacted. The Law

the Protection of Consumer Rights" as of 28 June 2012.

<sup>3</sup> The Law On Ratification of the Protocol on Accession of the Russian Federation to the Marrakesh Agreement Establishing World Trade Organisation No.126-FZ as of 21 July 2012.

<sup>4</sup> Orders of the Ministry of Finance of the Russian Federation No. 100n On Adopting the Procedure for Insurers to Invest Insurance Reserves as of 02 July 2012 and No.101n On Approving the Requirements for the Composition and Structure of Assets Accepted to Cover Insurers' Own Capital as of 02 July 2012

The summer flood in the south of Russia, at Krymsk, showed how prompt and effective the industry's response could be to socially resonant events, and that it has the capacity to back up its

On Compulsory Insurance of Carriers' Liability for Damage to Life, Health and Property of Passengers will come into force on 1 January 2013<sup>5</sup>.

And finally, by the end of the year, the strategy for the insurance market, which was adopted in 2008, will have expired. The two versions of new strategy up to 2020 were developed by the insurance market (approved by the All-Russian Insurers Union)<sup>6</sup> and by the government.

The story of the year would not be complete without mentioning numerous legislative initiatives and drafts submitted to, and heard by, the State Duma before and during 2012.

Amending of the core law of the industry, the Law On the Organisation of Insurance Business in the Russian Federation, is still the most burning issue on the agenda. The first package of amendments (2010)<sup>7</sup> to this law was aimed at improving the financial stability and transparency of insurance market participants.

The second package (2011)<sup>8</sup> advocated the necessity to update insurance legislation in accordance with international standards and suggested quite a number of controversial provisions: from classification of the insurance lines of business (insurance classes) to restrictive reinsurance regulations. The two drafts were supposed to be merged in 2012, but this has not happened so far.

Meanwhile some additional draft amendments to the law were suggest-

<sup>5</sup> The Law on Compulsory Insurance of Carriers Liability for Damage Caused to Life, Health and Property of Passengers and On the Procedure of Compensation of Such Damages Caused During the Carriage of Passengers by the Underground Railway No.67-FZ as of 14 September 2012

<sup>6</sup> The Strategy approved by All-Insurers Union is available on the association's web-site: <http://www.ins-union.ru/rus/news/bcc/2020>

<sup>7</sup> The Draft Law No.391338-5 is available on the web-site of the State Duma

<sup>8</sup> Details of the draft 2



ed: on the improvement of licensing and monitoring of insurance companies and brokers (Ministry of Finance) and on the increase in the permitted quota on foreign capital (FSFM) up to 50%. It is most likely that these drafts won't be the last ones this year, as the regulators' and insurers' ambition is now not only to improve the current legislation, but also to adjust it to the current demand for innovative technologies in insurance, i.e. sales of insurance policies via the internet.

There are also draft laws on the agenda introducing the insurance rates corridor for compulsory motor third-party liability insurance (CMTPL), mutual insurance of civil liability of real estate developers<sup>9</sup>, projects for agriculture insurance, and amendments to the Criminal Code of Russian Federation that define insurance fraud as a special type of fraud.<sup>10</sup>

<sup>9</sup> The Draft law No.63332-6 is available of the web-site of the State Duma

<sup>10</sup> The Draft law No.53700-6 is available of the web-site of the State Duma

## TRENDS

The changes in the insurance industry that have taken place during the year, and the draft legislation which is proposed, illustrate some important trends in the market's development.

First of all, it has to be admitted that compared with the other BRIC nations – Brazil, India and China – Russia has much the smallest insurance market.<sup>11</sup> At the same time, the number of insurers remains excessive, although the increased minimal capital requirements have stimulated consolidation of the market.

Insurance penetration is still very low, and the recent example of Krymsk, discussed above, is a sad confirmation of this fact. Insurers reported that the disaster didn't result in numerous insurance claims, because the share of property covered was very low, yet the losses suffered by the local population and businesses were significant.

<sup>11</sup> A.M. Best Special Report: Russia's Insurance Revolution Begins to Gain Pace: <http://www3.ambest.com>

Introduction of new compulsory lines of insurance is regarded as one of main ways of increasing the demand for insurance. And we may expect the introduction of new compulsory lines in the future, although the Ministry of Finance, in its draft strategy for insurance market development 2020, states that any compulsory insurance is a limitation of rights of business and population to freely dispose of their property, and therefore the concept of mandatory coverage should not be abused.

The regulators promote other long-term drivers for the improvement of insurance penetration, such as the credibility of insurance business, which can be enhanced by improvement of its financial stability and transparency. The increase of minimal capital requirements, and the introduction of new regulations on the placement of insurance reserves and insurer's own funds, seem to have been the first action points of the plan. Now better standards of financial reporting and greater scrutiny of the insurance sector are expected, once

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the transition to IFRS is completed<sup>12</sup> and reform of the insurance regulator has been carried out.

Financial stability and transparency seem also to be, and actually should be, the main targets of the new system of liability for insurance businesses. Penalties for non-compliance with the requirements of insurance legislation are being developed currently.

The need for further reformation of the insurance regulator seems also to be understood. In October 2012 the government announced plans to continue reforming the system of regulation of the financial markets. It was suggested that FSFM, which absorbed the Federal Service for Insurance supervision in 2011, should now itself become a part of the financial mega-regulator overseen by the Central Bank of Russia. No final decision has been taken about the future of the regulator and, fortunately, it has been admitted by the govern-

**IT has to be admitted that compared with the other BRIC nations – Brazil, India and China – Russia has by far the smallest insurance market.**

ment that before the reform is finalised, all the pros and cons will be considered.

Another key point for the development of the market is comprehensive disclosure of information by the insurers, and adequate consumer protection.

These concepts are supported by the draft legislation, as well as by recent court practice (i.e. the ruling of the Supreme Court mentioned above). We should note that while in theory the concept of protection of consumers of insurance services in Russia is sound, in practice a balance of interests between the insurance business and its consumers is currently hard to achieve, not least because of the apparently irreconcilable claims philosophies of the parties. There is still a lot to be done in this sphere.

While many of the issues concerning the development of the insurance market put the market participants and the regulators on “opposite sides of the barricades” in the negotiation process, there seems to be at least one point which unites them: online insurance sales. A series of discussions on this topic is being held within the professional insurance community, as well as within the Ministry of Finance. And there is hope that the struggle for innovations will become a long-term trend, and the relations connected with online insurance will soon cease to be a legislative *terra incognita*.

The changes and trends discussed above show that the insurance market is developing gradually. Further active development is essential for this country, which is aiming to become an international financial hub, and a better place to live and do business in. We believe that the insurance industry, the government and its agencies should work more closely together in order to create a stable, competitive and transparent insurance market. **BQ**

<sup>12</sup> According to Article 8 (2) of the Law On Consolidated Financial Statements No.208-FZ as of 27 July 2010 transition should be completed by year 2015.



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# RUSSIAN AND FOREIGN MODELS OF DIRECT INSURANCE: SIMILARITIES AND DIFFERENCES



Maria Malkovskaya, General Director, Intouch Insurance

It is now over 25 years since the advent of direct insurance in the UK, which is widely recognized as the birthplace of a concept that has revolutionized the way in which insurance products are marketed and purchased. “Revolutionized” is not an overstatement. The expansion of the direct model in Western Europe, and globally, has been phenomenal over the last two decades, and it continues to go from strength to strength, not only through the appearance of newly-formed direct businesses but with most major, traditionally-intermediated insurers also joining the fray and creating in-house, often distinctly branded, direct operations.

The RSA Insurance Group, based in the UK and one of the leading global insurers, is a case in point. A company with a 300-year tradition of transacting intermediated business launched its award-winning direct brand, MORE TH>N in 2001, which has been recognized by *The Insurance Times*, a leading UK insurance journal, as providing the “best quote and buy process in the motor insurance industry.” Intouch Insurance, whose parent company is RSA Insurance Group, is dedicated to bringing this wealth of expertise, and the benefits that the direct model can offer, to the Russian consumer.

Why has the direct model proved to be so successful in Europe? Yes, the

middleman is cut out, together with all the associated additional costs, spiralling commission payments and the bureaucracy of having to deal with a third party rather than directly with the insurer (who naturally is best placed to provide advice and guidance on the most appropriate product and service they are able to offer).

That is not to say that the initial journey was trouble-free. There was great resistance from the intermediated community who naturally had their traditional client-base to protect. This often manifested itself in some dubious and unfounded allegations. There was also a cultural hurdle to overcome with prospective clients. The high street broker was where families had traditionally purchased insurance, often with door-to-door representatives. Why should this change? The answer is simple: the essence of direct insurance has been, from its very earliest days, that of speed, simplicity, convenience and value for money. This is the driving principle by which the public were engaged 25 years ago, and it continues to be so to this day.

---

**The essence of direct insurance has been, from its very earliest days, that of speed, simplicity, convenience and value for money.**

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Initially, direct insurance in Europe was sold through dedicated call centres, with internet capability only gradually becoming an active force. Confident, powerful advertising, emphasizing the principles I have mentioned, flooded the consumer market, while press interest and public debates added to the general curiosity about this totally unknown concept. Insurance was suddenly becoming exciting and, more importantly, understood. A true real-

ization was descending on the public of what insurance was actually all about, why they should purchase it, the benefits and security/peace of mind it can bring and, again most importantly, how easy it all could be to organize. Insurance started to emerge from the reputation of being something shrouded in incomprehensible jargon, inaccessibility and apathy, to being something fresh and new—a rebirth if you like.

Much has naturally developed since then, and the somewhat raw approach of a quarter of a century ago is now more sophisticated. Dedicated call centres naturally remain at the core of the operational concept. They are generally available 24 hours a day, 365 days a year for the client. A single call (to a free-phone number) is all that is required to arrange policy cover. Whilst in the early days, product offerings were largely limited to such personal insurances as motor, household and travel, now a whole wealth of alternative products is available, including personal accident, health, credit card, pet and, in recent times, business insurance (including shop, office, mini fleet, contractor etc) and much more. The concept has not only attracted the individual private client but is proving of great interest to the business community as well.

I mentioned that simplicity is one of the key attributes that we, in the direct world, can offer. The internet, working in tandem with the telephone, has brought that simplicity to new, higher levels. Clients who prefer direct human interaction naturally can, and always will, have that opportunity through call centre operations. However European experience has shown how the internet has initiated the second wave of the revolution within the insurance industry, and with direct insurance in particular. Prospective clients can review the whole range



of products and services on-line and purchase them with no more than clicks or touches on the device of their choice (PC, Android, iPhone etc). On-line chat is available throughout to provide all necessary guidance. In a world where the pace of technological advance is breathtaking, those who wish to be serious players in the insurance market must anticipate the future because the customer expects nothing less.

The European experience has made one thing clear: the customer is and rightly should be at the centre of a direct insurer's strategy. That strategy should be focused on not only gaining the confidence of the client to purchase the policy initially, but also on retaining that client, renewal after renewal. Direct insurance is not purely a sales mechanism; it provides the full package to satisfy the client's needs through the whole duration of the contract. On-line servicing of policies (amendments, additions, etc) is the norm, with automated renewal procedures based on the concept of utmost good faith in terms of material disclosures and

claims notification and settlement, which is the most testing and stressful time for a client.

I mentioned simplicity and ease. At no other time does a client need or expect this more than in the event of a claim. The direct model is uniquely placed to provide a superlative service, allowing on-line registration and the ability to track a claim all the way through to settlement with automated updates, through email and SMS. This is where the client sees and understands the real value of their insurer. In their moment of need, their insurer is there for them and has provided the necessary capability and tools the client requires for the experience to be as painless as possible. For that you will earn the loyalty and trust of your client, something no advertising campaign can deliver so effectively.

In Russia, the advent of the direct model has naturally come somewhat later than in Europe, but we are, however, treading the same path. The unique benefits and attractiveness of the direct model is as relevant in Russia as it is in any other

market. Yes, there are differences in Russia in terms of legislative and regulatory demands which shape how the direct model can develop and prosper. Generally there is less awareness, and cultural acceptance, of insurance and indeed of internet shopping. However the concept remains sound and the ultimate ideal and benefits are there to be had for those prepared to break the mould.

We, in the direct insurance business must be determined to break that mould, and deliver the European level of service and benefit that the direct model has proven it can bring. The customer must remain at the centre of our focus. Our guiding principles remain clear: speed, simplicity, convenience and value for money. We must continue to adopt our unique, innovative approach and introduce to Russia market-leading technological solutions.

Though Russia currently lags behind, the creativity and innovative capability of our market puts us in an excellent position to achieve that which our European neighbours have witnessed, and perhaps much more. **BQ**



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# REINSURANCE AS A PART OF THE RUSSIAN INSURANCE MARKET TODAY



**Dr. Capitolina Tourbina**, Director of Russia Representative office, General Reinsurance AG, a Berkshire Hathaway company

**R**einsurance became a professional business in the middle of 19th century, when in Cologne in 1846 the first professional reinsurance company was established (known today as General Reinsurance AG). In the subsequent 150 years, reinsurance developed as an important market for the risk taking, offering a wide range of services in different forms.

The special character of reinsurance—an independent legal basis, different market players and significant cross-border operations—distinguished “reinsurance” as a special type of insurance service, regulated by multi-country integration agreements (such as EC or NAFTA) or, in a different way, by the WTO. As Russia became a WTO member this year, it will positively influence reinsurance market development for foreign insurers, and at the same time will help to abolish unnecessary discriminatory limitations in market access for foreign reinsurers.

Economically, reinsurance means a transaction in which the reinsurer agrees to pay its share of the loss occurred under a direct insurance contract between an insurance company and a policyholder. That is why reinsurance is an independent entrepreneurial activity within the wider insurance field, and uses different rules for contracts between insurance companies and reinsurers, in particular if they are registered in the different states.

A reinsurance contract is independent of the original insurance policy, but at the same time one can hardly imagine a reinsurance contract working except in relation to the insurance business covered by the direct insurer.

Reinsurance as a kind of financial service has its own price, which is based on the capital available in the reinsurance market and on supply and demand there. By its nature, reinsurance is a cross-border business which involves risk transfer from one country to another. It can be considered as indirect capitalization of the domestic insurance market. In all cases, except so-called quasi-reinsurance (which is, in effect, a form of money laundering), reinsurance payments should be viewed as financial service payments abroad, but never as capital movement.

This form of indirect market capitalization allows direct insurers to grow further and to maintain reliable solvency, while at the same time providing sound guarantees in the event of losses under direct insurance policies. This guarantee under Russian regulation has a much higher credit rating than any other asset available to the Russian insurance company, including its own share capital.

Since the insurance market started to evolve in Russia in the early 1990s, it has kept in close touch with foreign reinsurers. All the major market players have treaties covering property, construction, marine and aviation risks, with high limits, signed with foreign players. This automatic reinsurance capacity can reach 40-150 million USD (or Euros), and it allows Russian companies to sign direct insurance contracts for large industrial and commercial risks, knowing they are backed up by the strong financial standing of a foreign partner. Usually the credit rating of these partners is higher than A level from Standard and Poor's), and

helps indirectly to improve the balance sheet of the Russian insurer. Among the major players in the Russian reinsurance market are some well-known names in the international reinsurance world, such as Lloyds (UK), SCOR (France), Hanover Re (Germany), Munich Re (Germany), Swiss Re (Switzerland), Berkshire Hathaway (USA).

The importance of foreign reinsurance for the development of the life insurance sector in Russia, including mortgage insurance, should be obvious. In addition to vital capital, Russian companies can get technical and underwriting support and know-how, giving them the ability to develop new lines of business (like critical illness insurance), and actuarial back-up.

Cross-border reinsurance contracts have been allowed by Russian insurance legislation since the new insurance law was adopted in 1992, but depending on the financial stability of the foreign reinsurer. Recent changes to the rules on the permitted asset placement to cover technical provisions mandated equal individual shares for foreign and Russian reinsurers (for both the maximum is 25% of the unearned premium reserve). The difference is still in force for the total share of the foreign reinsurers vs Russians' (30% against 50%) in the non-life insurance. The same discrimination is in force in the life operations (10% against 20%).

These types of discriminatory limitation can frustrate Russian insurers who wish to buy reinsurance cover in foreign markets directly, and lead to unnecessary increases in the transaction costs or reinsurance placements with companies having much lower credit ratings.

At the same time, such limitations are not applicable to the foreign reinsurer's share in loss reserves. It is well known that foreign reinsurers cover all major losses in the Russian insur-

ance market, for example more than 200 million USD for the damages at Sayano-Shushenskaya hydro-electric power station.

According to recent statistics, Russian insurers pay for foreign reinsurance approximately 15.6% of total premiums (taken without compulsory health insurance). This is a little lower than the figure for more developed markets. Of this amount, reinsurance payments to foreign reinsurers represent over 61%. For marine, aviation and large industrial risk insurance, the share of foreign reinsurance is much higher. Competition among foreign players is fierce, so Russian insurers get good prices and terms for most direct insurance business.

Developing foreign commercial connections, the Russian reinsurance companies are trying to increase their attractiveness to developing markets such as the CIS, Middle East, Africa or Asia. In most countries, following the recommendations of the International Association of Insurance Commissioners, national regulations require foreign reinsurers to have a credit rating

higher than BBB (Standard and Poor's), or equal from the other international rating agencies. This is why Russian companies face serious difficulties in doing business abroad.

Russian companies are limited in their capacity and capital, and this increases the difficulties. As a result, most of the risks they accept are extremely difficult and quite often have been refused in other markets by other reinsurers. Nevertheless, since Russia became a full member of the WTO it can help Russian players get easier access to foreign markets and compete for business. Also, special privileges could be granted to Russian companies in the new Eurasian economic zone if the steps to build up harmonized insurance legislation bear fruit.

Lack of clarity in the tax regime applied to payments to foreign partners under reinsurance contracts can be a serious obstacle in offering reinsurance by Russian companies. Russian tax regulation considers reinsurance (or insurance) claims payments to foreign receivers as taxable income. The courts,

however, support the other view, that payments to foreign claimants should not be subject to the additional profit tax on the transaction. This contradiction leads to uncertainty in the expectations of foreign partners in insurance and reinsurance agreements, and creates a risk of potential tax exposure to the extent of 20% of the payment. In foreign insurance tax practice this contradiction is solved by the clarification of the tax implication of foreign insurance claim payments.

Reinsurance depends on available capital and the underwriting of risks under reinsurance and direct insurance contracts. As the Russian insurance business faces more complicated and less easily quantifiable risks, the regulator will be forced to develop more straight-forward risk management processes for insurance companies.

And as policyholders are keen to obtain reliable insurance cover, the role of professional reinsurance is increasing, and foreign reinsurers have proved their knowledge, experience and soundness. BQ








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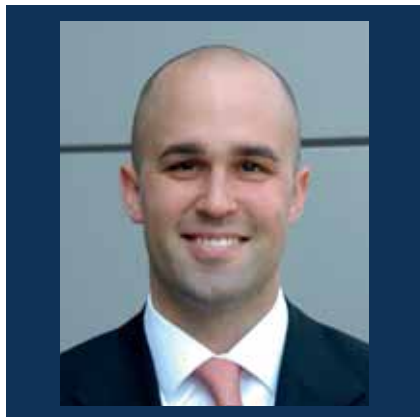
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# RUSSIA'S PENSIONS INDUSTRY: QUO VADIS?



**Pensions**

Dark clouds are hanging over the Russian pensions industry as planned government reforms put in jeopardy the entire pensions industry, as well as Russia's ambitions to become an international financial centre.

At the time of writing, a heated debate is taking place amongst Russian government agencies on how to reform the current pension system. It seems that the government could in the near future dramatically change the operating platform of the local second pillar market.

By way of background: in 2002 the Russian government introduced a three-pillar pension system as follows:

**Alexander Lorenz**, Chairman of the Council, Raiffeisen Pension Fund, Chairman of the AEB Insurance and Pensions Committee

- A fully-funded first pillar where social security payments by employers fund pensions paid out to pensioners, a so-called Pay-As-You-Go (PAYG) system.
- A second, also fully-funded, pillar where a smaller part of social security taxes (currently 6%) are paid into individual accounts at the state pension fund. Employees born during or after 1967 are entitled to such individual accounts. These accounts can then be contracted out of the state pension fund to private operators (non-state pension funds and asset management companies).
- A third, voluntary pillar which involves companies and individuals signing pension savings contracts with non-state pension funds, and making voluntary contributions. Most of the assets accumulated under the third pillar have been within so-called "captive" funds established by large Russian industrial conglomerates (GazProm, etc.).

While there have been some structural issues with this three-pillar set-up,

the market has grown significantly in recent years. As we can see from the graph below, the pensions industry has experienced very strong growth rates, especially since 2009, which is largely based on growth in the second pillar.

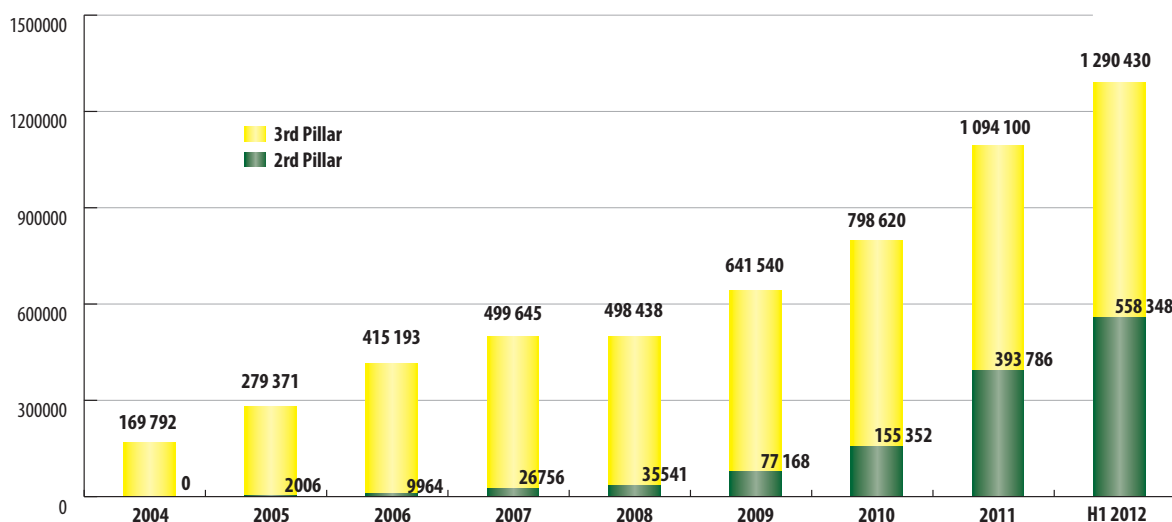
The table on the next page shows the main players in the pension market. So far, few foreign players have been present, leaving the market to be dominated by larger Russian industrial or banking groups.

## The planned reforms

The government's main problem is that the state pension fund of Russia is running an ever-increasing deficit, which has now reached a staggering RUB 875 bn or 1.7% of Russia's annual GDP. This deficit has largely been caused by the fact that many employers were paying cash salaries ("in an envelope") throughout the 1990s, thereby avoiding having to pay social security contributions.

Official salaries and corresponding social security payments were much lower than required to finance ade-

**Changes of 2<sup>nd</sup> Pillar Assets & 3<sup>rd</sup> Pillar Assets, mln RUB**



Sources: FCSM, research of Raiffeisen Pension Fund

quate pensions. With Vladimir Putin's continued focus on increasing pensions above inflation, this has led to a very precarious situation at the state pension fund.

One way to alleviate the problem would be to increase the pensionable age, but for political reasons this is considered an option of last resort. Several government agencies have therefore tabled a number of proposals which, to various degrees, reduce the current second pillar. They range from scrapping the fully-funded part altogether to reducing the contributions to the second pillar from 6% to 2% of payroll, to only including higher earners into the fully-funded part. Probably the most painful suggested change is to make the second pillar entirely voluntary, i.e. the state matches voluntary contributions by employees who decide to make contributions out of their net salary.

All these proposals are highly controversial and have been criticised by many Russian analysts and politicians. It is suggested that these measures will only temporarily alleviate the problem of an under-funded state pension system, and that they will destroy the low level of trust that is left in the general public as far as the state's attitude towards retirement savings is concerned.

Pundits expect the following scenario as the most likely outcome: no changes will be made during 2013 and

possibly 2014, but then contributions will be brought down to 2%, most likely on a matching basis with the 2% state contribution only being applicable to employees who make voluntary contributions.

These new developments are very unfortunate. As mentioned above, over the last 2-3 years we have been witnessing a major surge in the sale of second pillar pension products. In 2011/2012 we have seen the very successful entry of new distribution channels into the 2nd Pillar market such as mobile phone retailers (Svyaznoy) and large Russian insurers (Rossgostrakh). This has increased competition in the market and is helping with the overall promotion of pension products amongst the general public.

But what is happening now seems to be an open attack on a business model that many operators have invested a lot of money and human capital in since 2002. To back-track now and water down the reforms just a few years after introduction appears half-hearted. Moreover, it strongly undermines the little trust that has been built up between government, the relevant operators and the general public. It seems especially misplaced in terms of longer-term government policy, given that the relief to the state pension fund will only be temporary.

We project that the expected changed will have the following effect:

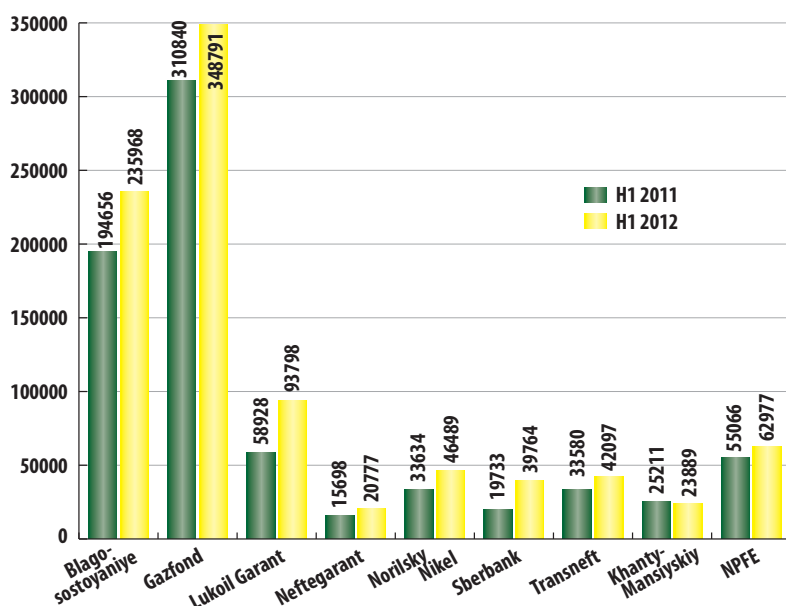
- First, it is unlikely that employees will opt to make voluntary contributions, not least because the government will have lost any remaining credibility on pension policy should it implement the planned changes. Future pensions would once again be more dependent on the state ensuring an adequate pension level. As such, the main effect of the 2002 pension reform, namely to create a system that allows employees to create their own savings related to their salary (called "defined contributions"), would be lost.
- Operators will make large investments in the distribution of OPS assets as long as the system is still based on 6%, which will drive up commissions paid to distribution partners. Once the system moves to 2% or less, operators will stop investing. They will "freeze" their business and focus on managing the assets they have already accumulated.
- A more fundamental effect will be to reduce the amount of long-term capital available for the local capital markets. This will be important as it is sorely needed for new financial instruments such as infrastructure bonds. Recent reports have indicated that over a 15-year time horizon, second pillar assets could be 50% lower if the government introduces the planned changes.

We are hopeful that the government will not back-track on its pension reforms and kill off what has now become a viable business for many operators. This would do tremendous harm for Russia's efforts to foster much needed long-term savings, and inflict irreparable damage on Russia's ambitions to make Moscow an international financial centre. For that, foreign investment is badly needed.

We would recommend that the Russian government stays committed to its second pillar reforms as introduced in 2002 and tackles the deficit in the state pension fund by other means, including an increase of the pensionable age. This seems feasible, especially with female employees for whom a retirement age of 55 seems outdated, especially when considering demographic realities (e.g. life expectancy for women is much higher than for men in Russia).

BQ

Industry leaders by AuM, H1 2012 vs H1 2011, RUB k



Sources: FCSM, research of Raiffeisen Pension Fund

# THE VMI MARKET IN RUSSIA: TRENDS, PROBLEMS AND PROSPECTS



Hakan Danielsson, CEO of OJSC IC Allianz

**T**he medical insurance system in Russia, which comprises obligatory and voluntary insurance, forms a really good base for the successful interaction of the state and private insurance companies. Many other more developed countries struggle to find a comparable solution and still have problems with private financing of healthcare, which seems not to be a big issue here.

But whichever country you sell medical insurance in, it is always a real challenge to make it profitable. According to experts, the average loss ratio in the Russian voluntary medical insurance (VMI) market for the first half of 2012 was about 88%. If we also take into consideration acquisition and business expenses, we will see that as a whole, VMI is a loss-making segment of the market here, even though it brings in a lot of premium income.

In my opinion, in Russia it loses a little more here than in other countries simply because there are no deductibles. So there is no real mechanism for keeping medical costs down. This will come sooner or later. But currently no one wants to introduce them because the market is not used to the idea, and you risk losing your customers. There are also some technical challenges with co-payment, and possibly also some legislative hindrances. But it will be good when it comes, as it will improve the system.

The growth of the VMI market is closely connected to the growth of the

economy. The more people that are employed, the healthier the economy is, and the more companies buy VMI for their employees. The other strong driver of VMI market growth is medical cost inflation. But this factor is not only a key driver of market development but also a significant problem because the cost of medical services is already very high. If it increases further, VMI products will become so expensive that customers will not buy them.

How to deal with this problem? First of all, insurers together with clinics should try to deliver services more efficiently. Some companies build their own clinics; others prefer to be professional purchasers of medical services. I personally think that it is better not to have your own clinics. There is an argument for having some so you can benchmark, and deliver some extra services to special customers, and also so that you can understand the cost structure. But I think that insurance companies do better when they do not own clinics or auto-repair workshops because they are such different businesses and need a different style of management. I would probably not be a very successful manager of a clinic because I do not have medical training. To run a garage you must understand motor engineering. These are not perfect analogies, but in principle the problems are comparable.

Another issue is that an insurance company which has its own clinic faces the problem of insufficient workload when clients have been used to the clinics they visited previously and are not so eager to change.

Corporate VMI still has a much bigger market share than individual VMI. Why do employers buy medical insurance for their employees? There are two reasons. One is to be competitive as an employer. Often you can attract staff only if you offer VMI, otherwise they will choose a company

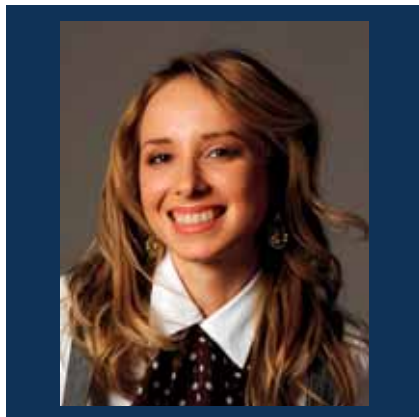
which does. The second reason is that employers want their people to come back to work as soon as possible if they are sick. In most markets this trend is marked. Employers are becoming more and more interested in not only treating their employees when they are ill but in preventing them falling ill in the first place. There is a mutual interest: the employer doesn't want you to be off work and you don't want to be sick. Insurers try to satisfy this demand by organizing vaccination, precautionary medical examinations and other preventive services. To date, this has not been very common in Russia, but it will surely come soon.

But how can we tempt people to buy medical insurance policies individually? In my view this can best be done by cooperation between the state, the employer and the insurance company. Corporate insurance is a very efficient method. Of course you have unemployed people or people working on a part-time basis, like freelancers, and there is a need for an efficient solution for them. Still I see few prospects for a broad usage of VMI paid for by individuals. But I don't see that as a problem, so long as people are mostly covered by corporate insurance.

Overall, I would say that since I have a very positive view on economic growth in Russia, I believe that the VMI business will grow here too. That could be helped by changes in legislation. Every step forward in voluntary insurance means less stress on the state budget, so there is a mutual interest in expanding voluntary, privately financed insurance. Consequently, there should be room for tax relief, so that you could fully or partly deduct the premium you pay either for health or for pension insurance. The state could do more in its own interest. Nonetheless, the foundation of the VMI system in Russia is solid, and the future is bright. **BQ**



# CHANGES IN THE VEHICLE INSURANCE MARKET



**Malyarenko Daria**, Senior Specialist, Corporate Motor Insurance Department, Rosgosstrakh Ltd

market average. Below the market average is the second dozen companies: those involved in premium collection, regional insurers and companies that collect premiums through legal entities – non-insurance intermediaries.

From the viewpoint of both vehicle insurance and other insurance development trends, the main sales channel is insurance intermediaries, namely brokers and agents. Insurance intermediaries as the main selling channel have found a secure place in the world market, and are now becoming increasingly popular in Russia. According to data from the Federal Agency for Financial Markets, published on the FAFM website, as of 30 September 2012 the list of licensed insurance brokers in Russia includes 180 intermediaries.

Vehicle insurance is one of the most developed and popular types of insurance on the world market. Companies offer a wide range of services, create new insurance products and put a lot of effort into market development. In the opinion of informed experts, the best companies to buy a CASCO policy from are the major companies having a significant authorized stock. These insurance companies offer a variety of CASCO policies, have extensive branch networks, and well-tested loss-settlement and reimbursement procedures.

Vehicle insurance is an important component of the social system in Russia, partly because state policy obliges all car owners to buy CTPI policies. The payout levels have long remained fixed. That often covered the damage, but not always with the result that many insurance companies bore significant losses resulting from CTPI policy payouts. Many insurers are convinced the law will soon be amended again. The Ministry of Finance has drafted amendments to the law on CTPI and included the concept of compensating the real cost of a car repair (exclud-

ing component wear) and design procedures for life and health damage. This is all aimed at a more realistic level of compensation. These changes to the law will most likely lead to an increase in CTPI rates (the first and last CTPI rate increasing was made as of 13.07.2011 according to Governmental Decree No. 574, effective 28.07.2011).

Experts believe it is necessary to increase the life and health liability from 160,000 roubles to 500,000 roubles, and property liability from 120,000 roubles to 200,000 roubles. The above-mentioned law amendments should decrease the number of cases that do not come within the coverage from 3.5% to 0.4%. This measure is also necessary to cover the cost of a car repair to the innocent party without recourse to court proceedings.

Yet another current key aspect of vehicle insurance is the issue of changing to a new procedure for technical inspections, and for writing CTPI policies. On 1 January 2012 amendments to the Federal Law as of 1 July 2011 No. 170-FZ On Technical Inspection of Vehicles and On Making Revisions to Certain Legislative Acts of the Russian Federation (further, No. 170-FZ) came into force.

Under the new Technical Inspection rules the client must submit an effective TI card within six months of the date of signing a CTPI policy. 30 July 2012 was the date of enactment of new revisions, which imply that the obligatory technical inspection document, containing a warranty of fitness of a vehicle, shall be the diagnostic chart rather than the technical inspection card. A TI card should be effective at the time of signing a CTPI policy and must be issued earlier than July 30, 2012., or a chart issued no later than that date.

Further amendments to the law on CTPI have also been drafted. They will tie CTPI to technical inspection

**T**he article will describe the current changes in the vehicle insurance market, issues of compulsory third-party insurance for owners of vehicles (CTPI), further changes in technical inspection procedures, changes in CTPI and CASCO rates, sales channels, profitability changes, as well as those to bank insurance and the government scrapping program.

Currently, the Russian insurance market is in flux. Globalisation is making a dramatic impact, resulting in the emergence of a large number of foreign insurers and the setting-up of joint insurance companies. Moreover, mergers and take-overs are continuing even among Russian insurers. Presently, over 600 companies are operating in this sector. The biggest market share belongs to the reputable, well-known companies. The rating agency, Expert RA, says that according to the data of the first half year 2012, the top five positions are still held by such companies as IC ROSGOSSTRAKH, IG SOGAZ, Ingosstrakh Group of Companies, OSAO RESO-Garantiya, and Insurance Group Alfastrakhovanie.

According to Expert RA estimates, the leading companies are highly profitable. Their earnings are about twice the market average, viz. 4.6 against 2.5% for the 1st half year of 2012. Companies specialising in direct sales are also quite profitable (3.4 %). In spite of extremely high commissions, the profitability of companies that collect premiums using physical agents (2.9 %) also exceeds the

and require that, starting on 1 January 2013, the insurer should check against the UAIS TO database that the car owner has a TI card and immediately enter data on the policy sold to the AIS CTPI database. This implies that, to sell a CTPI policy, the insurer should use the internet twice. This can complicate the process of concluding CTPI policies. The Ministry of Finance intends to resolve this issue by giving insurers 15 days for these operations.

The introduction of the TI system to the CTPI insurance procedure is still in progress, although with a high priority. The impression is that this system was composed for creating another field for competition among insurers rather than for setting up a convenient mechanism for car owners. Certainly, there is no doubt that a vehicle should be technically serviceable and that citizens should insure their property and potential liabilities. This situation should be regularised soon, though no-one knows yet how this will be achieved. Will it be in the same way as it was done worldwide by decoupling technical inspection from CTPI, or otherwise?

Returning to the matter of voluntary insurance, it is noteworthy that CASCO policies, which are not obligatory, are quite popular among customers. At the present times there are two inter-related initiatives that are being discussed in the context of regulating voluntary vehicle insurance: creating guarantee funds, and standardizing the CASCO insurance service.

In the opinion of the Insurers, there should be a single development model: either competition and liability

of competitive market players should be decisive, or a certain general system of guarantee funds should be set up. However, if an insurance company is doing the voluntary CASCO insurance business responsibly, then it should incur liabilities independently. Setting up third structures, which will collect money from all insurers to incur common liabilities, is logical only if compulsory insurance is introduced by the state. Setting up collective guarantee funds contradicts the market business model.

The issue of CASCO cost is currently a pressing one, with the insurance premium depending on many factors. The voluntary vehicle insurance policy rate is based on an insurance risk appraisal. Of course in general the client is focused on the cost of the service. However, recently the quality of services offered has begun to attract more and more of the clients' attention: the service component that Insurers offer, and satisfaction with the quality of reimbursement. That is the reason why Insurers prefer an individual approach to each client, especially if the matter concerns the voluntary vehicle insurance on machines owned by corporate entities.

Bank insurance is an interesting part of the vehicle insurance market. In spite of the vague economic situation and restrictions imposed by legislation, the bank insurance market is growing. Soon it will embrace new niches and will introduce new ways of cooperation between banks and insurers. When new cars are bought on credit, taking out a CASCO policy for such clients

becomes mandatory. In the conditions of the predicted growth of consumers' welfare and automotive industry development, that offers a greater number of affordable and attractive models, the annual vehicle insurance market is predicted to grow by roughly 40 %.

The well-known program of state subsidy for vehicle scrapping has been completed. The Ministry of Industry and Trade discontinued distribution of certificates under this program and published an official press release on this occasion. It stated that during the last 16 months the program gave out 600,000 certificates, and the government spent 30 billion roubles.

This program had been launched to assist the domestic car industry. And, one must say, it was a success. It boosted the sales of AvtoVAZ automobiles, Russia's major domestic vehicle-producer. In the opinion of experts, completion of the scrapping program should not affect sales in the Russian market because in 2011 there was no excitement about the scrapping program, and growth of demand was the result of commercial sales. Hence, termination of the program should have no adverse impact on vehicle insurance.

To summarise the above-mentioned: one should emphasise that a distinctive feature of the vehicle insurance in 2012 was withdrawal of several small companies from the market, which failed to compete with major corporations. Expert opinion suggests that the entire Russian vehicle insurance market will soon be divided among several major market players who will impose their terms and conditions.

During the next year or two the vehicle insurance market will be supposed to develop and improve the services. Dumping will continue, but in the opinion of players in the vehicle insurance market price-cutting itself will not abate though its methods might change.

Customers are becoming more aware of the quality of service that the insurance companies offer. The major trends also include adjustment of the CTPI law and improving the interaction between such systems as technical inspection and CTPI.

BQ



# D&O EVOLUTION: LESSONS TO LEARN



Andrey Panov, Vice-president, CJSC Chartis

**M**ore and more Russian companies are taking interest in directors' and officers' liability insurance (D&O). To give readers an idea of the current status of D&O insurance in Russia today, and identify potential areas of its development, it might be helpful to look at the history of D&O and the events that have had a significant impact on how it has evolved.

During the Great Depression of the 1930s, the U.S. Congress passed two important laws: the Securities Act of 1933 and the Investment Act of 1934. These laws established personal liability of directors for missteps, and forbade companies to reimburse directors for losses. In response to the emergence of a new risk group, Lloyds of London began to offer an insurance product called Personal Finance Protection. However, contrary to expectations, it did not catch on. It sank into obscurity in the subsequent decade.

In the 1940s and '50s, the U.S. Congress passed a series of laws that allowed corporations to sign indemnification agreements with their directors. Such agreements began to be recorded in financial statements as additional commitments, and companies began looking for all manner of ways to eliminate this risk. Insurers remembered the almost-forgotten Lloyds of London Personal Finance Protection product, updated it somewhat and launched it on the market as D&O insurance.

The number of D&O insurance policies purchased in the United States began to rise in the mid-1950s. In 1965,

10% of large corporations had them, and this figure rose to 70-80% in the 1970s. A similar trend occurred in Europe. But insurers discovered that the more policies they sold, the more money they lost. At the peak, there were ten insurers offering D&O, but by 1985 this number had dwindled to three: Lloyds, Chubb and AIG. The departure of key players from the market caused a chain reaction. When the time came to renew policies, the premiums had increased by as much as 200%. Franchise deductibles increased significantly; coverage was limited; and the average limit of liability was cut in half.

By the 1990s, prices for D&O had increased so much that this type of insurance had become worth offering again, and many companies that had left the market in the 1980s came back. New players like ACE and XL entered the market.

Two unrelated events occurred during that period had a significant impact on the evolution of D&O insurance. The first one was Nordstrom's lawsuit against its insurer Chubb. This was the first time in the history of D&O that a court ruled that a director was fully liable, and ordered the insurer to reimburse 100% of the loss. Prior to that, nearly every claim was

considered only partially the responsibility of the director, while part of the liability always fell on the company and did not necessitate a payout. After that case, insurers realized that they had been insuring a greater risk than they had thought, and that premiums were therefore too low.

The second major event was the adoption in the U.S. of the Private Securities Litigation Reform Act in 1995. This act was intended to limit the number of questionable claims filed against corporations so as to encourage parties to settle out of court those claims in which the cost of legal defense would be significantly higher than the size of the claim. These claims were essentially a form of blackmail.

The *Wall Street Journal* once ran an entertaining story about a certain Mr. Hutchens who had filed more than 30 securities claims against various companies. Many agreed to settle out of court. The amounts he obtained were nett income, since he had never owned shares in any of the companies. Additionally, his overhead was minimal. His rent was covered by the government since he was serving time in federal prison for tax fraud.

The adoption of this law led to a reduction in the number of filed secu-





rities claims from 220 in 1994 to 122 in 1996. D&O insurers welcomed this new trend. Insurers' appetite for D&O increased significantly, and premiums began to fall as competition increased. Prices fell 50% in a space of five years.

It was against this background that the first D&O policy was issued in Russia in 1996. An insurance contract was concluded between VimpelCom and the Russian subsidiary of AIG.

Today, the standard D&O policy consists of three sections: Coverage 'A' reimburses directors directly when the company cannot make such a payout (for example, when it cannot do so by law, or due to bankruptcy). Coverage 'B' provides for reimbursement of the company after it indemnifies its directors, and Coverage 'C' only applies to securities claims against the company.

The main function of a D&O insurance policy is to protect the company's balance sheet. Having one allows a company to hire top-notch directors and resolve disputes and conflicts between shareholders in a civilized manner.

**Sooner or later, Russian companies will begin to see D&O insurance as a reliable way to protect their balance sheets and directors.**

Most Russian companies purchase D&O insurance for their directors when they do an IPO on a foreign stock exchanges. However, more and more companies that don't want to face the risks associated with foreign jurisdictions have begun to think about getting it. What motivates them is the passage of stricter laws on directors' liability. Suffice it to mention several recent legislative acts: the amendments to the RF Federal Law "On Insolvency and Bankruptcy" of 28 April 2009, the second anti-monopoly package of laws adopted in October 2009, the draft law "On Amendments to Certain Legislative Acts of the Russian Federation Regarding the Prosecution of Company Management Board Members," adopted on the first reading, and finally, the UK Bribery Act, which came into force on 1 July 2010.

A number of lessons can be learned from this short historical overview. First of all, the fact that D&O insurance went through various cycles in its development clearly shows that buyers should not choose an insurer based on price alone. History is littered with mediocre companies that offer D&O insurance for a time and then leave the business. In Russia, prices for D&O have hit bottom. The accumulated premiums are estimated at \$40-50 million, which on average is the limit of liability on two policies. In other words, just two major insurance claims would be enough to put all the players out of business. This is a very alarming situation.

Another lesson is that, sooner or later, Russian companies will begin to see D&O insurance as a reliable way to protect their balance sheets and directors. D&O should be purchased prior to a company's IPO. Russian directors are already personally liable, and bear the associated risks. Judicial practice with such claims exists in Russia. In just the last two years, Russian directors have been forced to pay more than RUR 5 bn. **BQ**



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# LIFE: READY, STEADY... GO!



Mikhail Sosnin, First Vice President, MetLife Alico Russia

It's hard to sell life insurance in Russia. Few people put long term financial planning at the top of their range of priorities. Most people prefer to spend what they have here and now – new cars, travelling, consumption. Yes, it takes effort to think in terms of a 20-30 year time horizon, and to avoid usual train of thought that “inflation is going to kill any savings,” or “Russia is not a country where you can plan anything”.

In fact, only a few hundred thousand people in Russia have life insurance policies with some saving component. This equates to around 0.1%-0.2% of the population. In money terms, the whole life insurance industry in Russia is microscopic, accounting for 0.06% of GDP, which is one twentieth of the proportion in Eastern Europe, and one sixtieth of that in the other G20 countries.

At this scale, life insurance doesn't play the role it should as a component of the country's wider financial system. It should be creating a long-term, non-speculative source of internal investment capital.

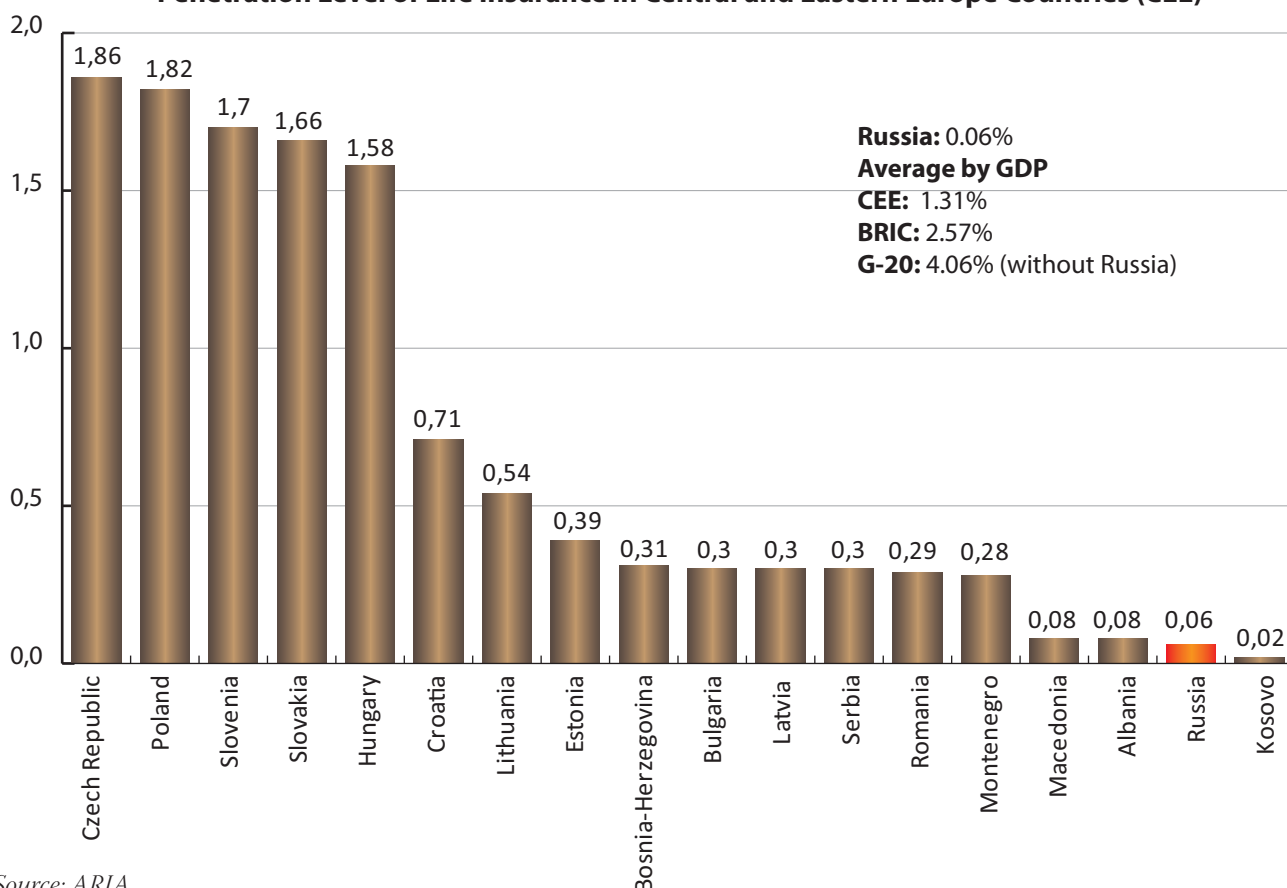
By contrast, in Europe, the total life insurance investment portfolio is about 6 trillion Euros, which exceeds investments by either pension funds or investment companies. Life insurance should also play its part in attracting private investors to economy, stabilizing

the social situation and creating jobs. Of course, it does very little of any of these.

Still, though tiny, the market has been growing quite rapidly since the crisis: by 43% in 2010, and 54% in 2011. The growth in the first half of 2012 is estimated at over 50%, too. So, is it on the right track finally? If the sector continued to grow at this rate for the next 10 years, it would become 50-60 times larger than today, and reach the “right” level.

But this is not so simple. Though growth today is rapid, it is mainly driven by banks which sell life insurance to protect consumer loans (so called “credit life insurance”). This is just a by-product of the rebound in credit volumes after the crisis, and is not sustainable (loans have grown by more than 40% during last 12 months but this trend is unlikely to continue indefinitely). Actually, banks are the only driver of

Penetration Level of Life Insurance in Central and Eastern Europe Countries (CEE)



Source: ARIA

the life insurance market now. Growth of this channel in the first half of 2012 was +113% compared with the previous year (more than double), while agent and broker business was flat, and corporate sales actually fell, by about 17%.

So what can be done to sustain this pace and encourage life insurance to become one of the key components of the economy, as it should be?

In 2012, this question has been addressed by many people. Three strategies for market development have been produced: the first by the Life Insurers Association (LIA); the second by All-Russia Insurers Association (ARIA); and the third by the Ministry of Finance (for the whole insurance market, including life insurance). Interestingly, there is no great difference in the assessments of the problem and the suggested remedies. That consensus should make decisions easy. There are differences in scale, though. The most ambitious goals are in the ARIA strategy: to reach a life insurance market size of 2.7 trillion roubles by 2020 (77 times more than 2011).

How do these bodies propose to achieve this result? The measures are clear. First, a tax incentive. For individuals: no personal tax should be withheld from premiums invested in life insurance (and this should be made easy: the employer should not deduct the tax for you). For corporates: no social tax should be withheld from money spent purchasing life insurance for employees. For distributors of life insurance: no VAT should be levied on commissions.

The second measure is to include life insurers in the country's pensions system. Lifetime pension payments (to retired persons) is a function that should be handed over to life insurers who will bear the so-called longevity risk. This works as follows: a pension fund accumulates money during the accumulation period, and then (when a person retires) purchases a life annuity from a life insurance company that becomes responsible for providing the benefits to the pensioner over the remainder of his or her lifetime. Alternatively, life insurers could participate in obligatory pension insurance in Russia, meaning that they would be equally eligible to administer obligatory saving contributions.

Third: change the regulations to allow unit-linked insurance. In many countries unit-linked insurance became a driver of market growth when they were introduced. This type of insurance allows clients to decide individually about the level of risk they are ready to accept, and then to link their insurance policy with the assets they prefer. With such products, the policy terms should be so clear that a policyholder can readily tell what part of his investment bears the investment risk, and what part is guaranteed in any eventuality. Recently the market has started to offer a limited range of such products (with full capital protection as required by regulation), and there has been a healthy demand from clients. In fact, the sales level is already higher than that of other types of saving insurance, and they continue growing rapidly.

Fourth: introduce new investment tools for life insurers linked to long-term national infrastructure projects (such as transport infrastructure, public utilities sector etc)

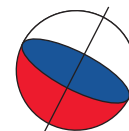
Fifth: promote life insurance as part of the state's program to improve the financial literacy of the population.

And finally: all strategies propose a set of extra controls over the life insurance business. This is very important if the market is to remain healthy. But any additional controls should be in harmony with the stimulation measures described above, and should be introduced gradually as the market develops. Such control measures might include mandatory certification of insurance agents, the creation of compensation funds and the obligatory usage of custodian services to control insurers' asset allocation.

So the strategy is there, and it ought to allow the market to start the engine. The minimum goal is to reach \$200-300 of life insurance premium per capita per annum by 2020, representing 1.5-2% of GDP. So ready, steady... The next step now is to have a road-map, and then to start executing the strategy step by step. If all this is done, life insurance should become a major driver for the whole insurance market in the near future. Go! BQ

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# THE MIDDLE MARKET SEGMENT IN RUSSIA: AN INSURANCE BROKER'S PERSPECTIVE



**Alexander Protoklitov**, Country Manager, MAI Insurance Brokers

It is not a secret that the so-called middle market segment in modern economies is treated by the service industry as a mostly stable category of clients. No doubt the same applies to the corporate clients of the insurance sector where such customers are considered the most attractive ones for insurance companies and brokers. The reasons are obvious: in theory such clients should form the basis of their portfolios, making them more balanced (unlike large corporate clients where the risk of loss is crucial). In practice such companies prefer to build their relations with financial services providers on a long-terms basis. This applies not only to insurance but to other sectors as well, such as banks, leasing companies, logistics providers etc.

And what are the key differentiators of the middle market? There is no unique approach, and key parameters can vary. It could be company's annual turnover or sales (usually not more than EUR 250 mln), its headcount (usually 500 – 1000 employees) or even size of its capitalization. Generally, assignment of a particular company to this segment is rather subjective. But it is clear that Fortune 500-list companies are not included. In the case of Russia, this issue is as vague as the definition of the "Russian middle class".

In principle, middle market business in most countries forms the basis of the economy, and every state should be interested in promoting and sup-

porting it. The Russian economic situation is more complicated. Even though the basic economic reforms were launched here more than 20 years ago, our middle market business remains in the "grey" zone, being not fully transparent and clear, especially for foreign investors. This concerns various sectors but mainly the retail and wholesale trades (in most branches), pharma, logistics, the services industry, etc. I am not going to touch upon the reasons for this situation, but undoubtedly this drawn-out process affects a company's approach to risk management and insurance. The middle market situation differs dramatically from large domestic corporations, which have become quite powerful and experienced buyers of insurance services within recent years in Russia, implementing more and more often Western approaches, including the use of professional insurance brokers and consultants, risk-mapping, etc.

In general we can say that most Russian companies from the middle market segment are not active buyers of insurance for the following reasons:

- limited budgets;
- being privately owned, Russian shareholders treat insurance with a certain caution. This generally coincides with a negative approach to, and perception of, insurance (as well as other financial services);
- most insurance-related costs are not tax-deductible in Russia, unlike Western countries (exceptions concern only compulsory classes of insurance and property damage insurance covers) and are paid for out of company profits.

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**The problem is that in Russia most corporate clients are not accustomed to using broker services.**

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In reality, the basic insurance which is purchased by middle market businesses applies to pledged property owned by this type of client. In this case, banks dictate to their borrowers what cover has to be purchased, and very often name the providers. The client applying to borrow money is obliged to secure such cover, often



not delving into contract details, but accepting terms and conditions which may not fully protect their interests from potential risks.

At the same time, insuring property in Russia recently became one of the key drivers of the commercial insurance market and is treated by insurance providers as the most attractive and important line of business (due to relatively low loss ratios). For this reason, they try to expand and strengthen their relations with various banking institutions by paying large and sometimes excessive commissions. In its turn, this type of insurance contract is mostly arranged directly, without an insurance broker's involvement. Usually after signing such policies, the clients' shareholders and management forget about other risks and the assets which they could potentially protect. They just see no need for it.

We face very similar approach with 3rd party liability insurance. It is well known that in the Western markets, liability insurance and its various types (general, employer's, product, professional, etc.) are well developed. In Russia, despite the fact that the liability insurance market has shown solid growth recently, not many domestic companies are aware of its availability, or even existence. At best they may buy the general liability cover which is required by their landlord in the case of rented premises.

Of course, we cannot avoid here mentioning compulsory classes of insurance, especially in recent legislation on dangerous industrial objects. With all its positive consequences and its social role, we should clearly understand that the adoption of mandatory classes (which became key drivers of insurance market growth, in particular MTPL/OSAGO) does not contribute to the popularization of insurance in the minds of either domestic business or private individuals. Unfortunately, the vast majority of consumers treat such insurance as an additional tax, and do not fully understand its benefits.

The same approach generally applies to the various employee benefit insurance programs, which are widely purchased by Western companies in Russia but rarely requested by most Russian clients in the middle market

segment. This is treated as an additional expense, with unclear benefits for employers. Their policy on social benefits packages still seriously differs from the approach of international companies operating in Russia.

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**There were 175 registered insurance brokers in Russia as of June 2012 – which is not a small number.**

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It is also important to mention one key feature of the Russian client's perception of insurance. A substantial proportion supposes that each ruble/dollar/euro they spend on insurance should be returned to them in claims payments. This is due to the fact they do not consider insurance as a long-term risk transfer instrument, by which they could have a clean loss history for, let's say, nine years, with a major loss occurring in the tenth year. Investing in protection of their assets is not a priority for them.

And how does the situation differ for Western companies working in

Russia? Most companies use a centralized approach where all risk management and insurances are negotiated at head office level, and local subsidiaries for most of insurance lines just follow corporate policy and guidelines. Such companies are active insurance buyers in Russia, and in some sense can even be treated as pioneers in this area. Usually there is no need for insurance providers or brokers to explain them the necessity of each type of cover as these clients prefer to have financial guarantees in force covering their principal risks. We can even say that to some extent the local corporate insurance market (at least its leaders) has developed under the influence of such clients and their requests. This particularly concerns the various employee benefits programs which have become popular in Russia in recent years, like Voluntary Medical insurance or Accident and Life.

Does all the above mean that the situation with domestic middle market business is negative and has no possibilities for improvement? That it is not the case in all.

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Undoubtedly, in this rather specific situation, the role of the professional insurance broker/consultant becomes crucial. The problem is that in Russia most corporate clients are not accustomed to using broker services. Mainly, their general approach is rather conservative and skeptical, and varies only when they are offered some sort of financial advisor or intermediary. (I would say that this is the general Russian approach to financial sector intermediaries.) The situation becomes more complicated when we talk about imputed insurance, such as the insurance of pledged property in favour of a lender or bank.

At the same time, there were 175 registered insurance brokers in Russia as of June 2012 – which is not a small number. However, the number of licensed insurance companies is significantly higher, being 556 (in June 2012). In Western countries this proportional relationship is the opposite.

The uncertain legal status of the insurance broker/intermediary in Russia also brings a certain complexity to the way business is conducted. Current legislation does not clearly differentiate

**A bank client applying to borrow money is obliged to secure such cover, often not delving into contract details, but accepting terms and conditions which may not fully protect their interests from potential risks.**

the broker from the insurance agent (a part-time representative of an insurance company whose main task is to sell only insurance products to the client). The forthcoming amendments to the Federal Law “On organization of insurance sector in the Russian Federation” does not leave much space for the broker should the so-called “Scandinavian model” be adopted here (meaning that insurance brokers can generate income only through fees paid by their clients). Obviously if such a concept is introduced, it will not contribute to broker development in Russia, where most corporate clients skimp on insurance and are not willing to pay extra fees to the broker, even when they clearly understand what added value their services bring.

Certainly, the development of insurance broking in Russia has been a long

and complicated process with its own specific features. Nevertheless it has shown signs of growth in recent years, and become more popular with corporate clients (including the middle market segment). It is specifically required in the case of complicated insurance products (construction, marine cargo, trade credits, business interruption and others) and for products where benchmarking for consumers is important. In the latter case, corporate clients increasingly seem to see more benefits of utilizing professional brokers acting as wholesale buyers on the insurance market. In turn, this enables corporate clients to get more attractive offers than they might get when acting on their own, as well as professional advice on sophisticated insurance issues.

At the same time, we cannot deny that the current situation in Russia has changed from the period when most clients could not differentiate between brokers and insurers. Overall, we can look with a certain optimism at the medium term, and regard brokers in Russia as active participants in insurance operations and an integral part of the financial services industry. **BQ**





# HR ISSUES AND TRENDS IN THE INSURANCE INDUSTRY



Elena Novoselova, Director, Coleman Services St. Petersburg

Insurance is one of the most dynamic sectors in a modern economy. There are two main factors to consider when selecting an insurance company. While individual clients cite the company's reputation as the primary one, for corporate clients the most important considerations are the company's reliability and stability. The competence of the staff is considered secondary by both categories.

As with any business, people are the biggest asset of an insurance company. The nature of the insurance business necessitates specific personnel qualifications. Those are, first of all, professional skills and knowledge in the specific areas of insurance. For example, many experts in voluntary health insurance have two degrees, in economics and medicine; experts in the insurance of industrial property have both an economic and a technical educational background. The appearance of new insurance products calls for a broader range of knowledge.

Insurance company employees are grouped into functional departments according to their job descriptions. They are divided into two groups: front office and back office.

Front office staff are involved in the process of insurance. Some of them are responsible for sales of policies. Though the majority of such employees may not have previous work experience in insurance, they are often successful in sales.

The front office also includes departments that develop insurance

policies, assess risks, and settle claims. Those tasks are performed by staff with a background in insurance. In important cases, the front office employees have an area of specialization, such as car insurance, voluntary health insurance, property or cargo insurance.

The key players in the front office section are agents and sale managers. Non-experts see little difference between these two roles. However, there is one. An insurance agent's primary job is to generate business for the company on a commission basis. An agent manages his/her own time and prioritizes his/her workload. He or she is often employed by several insurance companies. An agent does not have fixed working hours or a salary. As a rule, such people are not full-time employees of a single company.

A sales person is a full-time member of staff who adheres to corporate rules and standards and is committed to the team. Such employees are directly interested in the success of their department and the company as a whole. Typically, the compensation package of a sales person includes a fixed salary and a commission calculated as a percentage of premium receipts, or a bonus based upon the achievement of sales targets. The market is now shifting its focus from agents to sales managers. Successful candidates for a position as sales manager should have a proven track record in sales, higher education and, the most important thing, excellent interpersonal skills.

The back office consists of several departments that are not directly involved in the process of insurance. Back office personnel generally handle the administrative aspects of the business. These include the finance, accounting, administration, marketing, advertising and PR departments. For the majority of back office staff, previous work experience in insurance is preferred rather than essential. Experience is particularly important for the financial and organi-

zational departments, as well as for some positions in marketing and advertising.

The main job of the HR department is to facilitate communications between all structural elements of an insurance company and its employees. As with the HR market in general, the insurance sector is facing a shortage of skilled manpower. The shortage is brought about by a lack of specialists in certain areas of insurance; this group constitutes 36% of the personnel in demand.

Despite the boom in the insurance market in the past 10-15 years, there is still a high demand for qualified personnel with the relevant educational background and expertise.

As the industry continues to expand, and insurance companies continue to grow, the problem becomes even more acute. Under conditions of a booming market, the companies that are able to offer not just the best prices but, what is more important, the best level of customer service, will win customers' loyalty. That is why, apart from other factors such as the introduction of new insurance products and services through their partners (such as banks and clinics), the highest importance is attached to the professional level of the staff. This is a key factor that clients consider when taking a decision to sign a contract with a company, and to renew it when the initial insurance period is over.

Car insurance specialists are in the highest demand. Hopes that were pinned on the introduction of motor third party liability insurance ("OSAGO") have been justified: the car insurance market is growing steadily, and the relevant qualified specialists are highly sought after.

Also, the industry is facing a shortage of experienced underwriters – officers whose job is to evaluate the risks. Because the system of insurance risk evaluation is underdeveloped in Russia, and educational establishments do not provide training for such specialists, finding suitable candidates is a real challenge for an

insurance company. The process might take quite some time.

How is the industry addressing this problem? Today the employer's focus has shifted towards candidates – professionals in their field. This shift brought about changes in the HR policies of the leading insurance companies. As they continue to suffer from a personnel shortage, employers seem to understand the need to invest time and effort in staff training. They believe that this kind of investment will pay for itself.

Nowadays, companies regularly organize sector-specific industrial training for their qualified personnel, and business and managerial skills training programs for senior and middle managers. The human resources deficit has forced HR managers to think about their personnel reserve. Even two or three years ago, just a few entry-level managers were eligible for external training programs, whereas nowadays companies attach a greater significance to identifying and developing the potential of their employees. This concerns both training and retention of personnel. In the past, HR managers were more focused on providing training and development opportunities for senior and middle-level managers.

But recently the situation has changed. Nowadays, insurance companies pay more attention to qualified personnel and insurance agents, a tendency which is most clearly revealed in the policy of motivating employees.

Personnel enjoy a comprehensive compensation package which matches that of senior managers. In general, one can say that companies' policies towards employee motivation are well balanced, with the focus on employees' remuneration and training. Within the industry, salary levels are high and competitive.

Competition for customers forces insurance companies to approach the recruitment of employees at all levels, from top-level to entry-level managers, with great caution. To fill senior management positions, companies usually commission recruitment agencies that specialize in the insurance and financial sectors.

The agency is given a profile of an ideal candidate, which is then used for initial screening of applicants. As qualified candidates are extremely valuable, the consultant needs to use all available tools, e.g. direct search, database and job engines search, etc., to find the right candidate. Recruiters carry out

job interviews to identify and assess the candidates' professional and personal skills. The process results in the selection of two or three finalists, whose profiles are submitted to the client.

The situation is somewhat different with entry-level recruitment. For such personnel, insurance companies prefer to do their own recruitment. However, in the event of mass recruitment projects (e.g. due to expansion plans or the opening of a new regional office), companies may resort to the services of recruitment agencies. In such cases, the most suitable candidates are selected as a result of team-work or group tests (working environment simulations).

Experience has shown that the main requirements for candidates in the insurance sector are a sound knowledge of the market as well as analytical and forecasting skills. Knowledge of the English language is a major advantage (and sometimes a must), as there are now quite a few foreign companies present in the market.

Experts predict that due to the growing business of foreign and Russian operators, the expansion of agent networks, and a diversification of services offered, the industry's personnel shortage will continue to increase. **BQ**

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# NETWORKING



Participants at the Partnership for Modernisation Conference

## Partnership for Modernisation Conference

On October 12<sup>th</sup>, 2012 AEB experts participated as speakers and moderated a session at the Partnership for Modernisation Conference, organized by the Delegation of the European Union to Russia and the Ministry of Economic Development. Participants of the conference discussed investments into modernization, trade and investment, regulatory environment, approximation of standardization systems and technical regulations of Russia and the EU, cooperation in the areas of the rule of law, small and medium business support, education and training.



L-R: Dirk Vantighem, Director of International Affairs, Eurochambres; Fernando M. Valenzuela, Ambassador, Head of the Delegation of the EU to Russia; Gunnar Wiegand, Director of Russia, Eastern Neighbourhood, Central Asia & OSCE, European External Action Service



L-R: Joerg Bongartz, Deutsche Bank, AEB Banking Committee Chairman; Sergey Sinkevich, Moscow Exchange Group; Stuart Lawson, Ernst & Young, Russia & CIS, AEB Finance & Investments Committee Chairman

## Briefing by Sergey Sinkevich

On October 24<sup>th</sup>, 2012 a briefing by Sergey Sinkevich, Managing Director, Primary Market and Globalization, Moscow Exchange Group, was held at the AEB Conference Center. The briefing was named "Russian Capital Market: Press the Reset Button" and was dedicated to the new opportunities Russian Capital Market provides to the companies in various business industries. The event was chaired by Joerg Bongartz, Chairman of the Board, Deutsche Bank, AEB Banking Committee Chairman and Stuart Lawson, Executive Director, Senior Advisor, Ernst & Young, Russia & CIS, AEB Finance & Investments Committee Chairman.



Sergey Sinkevich, Managing Director, Primary Market and Globalization, Moscow Exchange Group



Event's participants

## Meeting with the Delegation of the European Parliament Committee on International Trade, headed by the Committee

On October 29<sup>th</sup>, 2012 the AEB Board and Chairmen of the AEB Banking, Customs and Transport, Energy Efficiency, Machine Building & Engineering, Retail Trade committees had a Lunch Meeting with the Delegation of the European Parliament Committee on International Trade, headed by the Committee Chairman Mr. Vital Moreira. The participants discussed Russian investment



L-R: Ruslan Kokarev, AEB COO; Jeroen Ketting, Lighthouse Russia BV, Chairman of the AEB Energy Efficiency Committee, Member of the AEB Board; Joerg Bongartz, Deutsche Bank, Chairman of the AEB Banking Committee; Dmitry Cheltsov, TNT Express Worldwide (CIS), Chairman of the AEB Customs and Transport Committee; Guillaume Durand, Trade Affairs Manager, Delegation of the European Union to the Russian Federation





L-R: Erwin Trinkl, Metro Group, Chairman of the AEB Retail Trade Committee; Jon Hellevig, Awara Group, Member of the AEB Board; Philippe Pegorier, Alstom, Chairman of the AEB Machine Building & Engineering Committee, Member of the AEB Board

climate, business environment and EU-Russia relations. The AEB members gave their views on development of the automotive, banking, machine building and retail industries, challenges for small and medium-sized enterprises, discussed customs issues,



L-R: Bernd Lange, Member of the European Parliament Committee on International Trade; Inese Valdere, European Parliament Committee on International Trade; Vital Moreira, Chair of the European Parliament Committee on International Trade

the situation with intellectual property rights and public procurement. The AEB Board once again raised concerns about the EU-Russia visa dialogue and highlighted the importance of a visa-free regime between Russia and the EU for business.

### International Forum "Building Automation and Energy Efficiency"

On November 7<sup>th</sup>, 2012 the International Forum "Building Automation and Energy Efficiency" took place in the framework of Interlight Moscow 2012 powered by light + building. The forum was co-organised by the Association of European Businesses and Messe Frankfurt and provided an overview of the building automation industry in connection with energy efficiency, its development prospects, problems and possible solutions. Presentations were delivered by acknowledged speakers from Lindab S.A, KNX Russia, Gira,



Participants of the forum

Siemens, Drees & Sommer, Bayer, Legrand Group Russia, Schneider Electric, Somfy and AECOM. The Forum was moderated by Jeroen Ketting, Managing Director, Lighthouse Russia BV, AEB Board member and Christophe Vicic, COO, Jones Lang LaSalle, Chairman of the AEB Real Estate Committee.

### Briefing with Michel Barnier, European Commissioner for Internal Market and Services



Michel Barnier, European Commissioner for Internal Market and Services



L-R: H. E. Fernando M. Valenzuela, Ambassador, Head of the EU Delegation to Russia; Frank Schauff, AEB CEO; Philippe Pegorier, Alstom, Member of the AEB Board; Olga Bantsekina, Coleman, Deputy Chairman of the AEB Board; Michel Barnier, European Commissioner for Internal Market and Services; Gerald Sakuler, BENE RUS, Deputy Chairman of the AEB Board

On 15<sup>th</sup> November, 2012, the members of the Association of European Businesses met with Michel Barnier, European Commissioner for Internal Market and Services, during his visit to Moscow. The briefing was dedicated to the Banking Union, economic and budgetary integration: a stronger Europe for a solid strategic partnership with Russia.

The event was co-chaired by H. E. Fernando M. Valenzuela, Ambassador, Head of the EU Delegation to Russia, Olga Bantsekina, Deputy Chairman of the AEB Board, Gerald Sakuler, Deputy Chairman of the AEB Board, Philippe Pegorier, Member of the AEB Board and Frank Schauff, AEB Chief Executive Officer.

# AEB COMMITTEE UPDATES

## CROP PROTECTION COMMITTEE (CPC)

### Container Management Scheme Project

One of the priority orientations of the AEB CPC is establishing Container Management Scheme (CMS) in Russia. CPC is working on implementation of the pilot project dedicated to set up CMS in Russia, supported by the European Crop Protection Association (ECPA) and the Government of the Voronezh Region.

On the 25<sup>th</sup> of October, 2012 the Memorandum of Cooperation to Implement the Container Management Scheme (CMS) Pilot Project in the Voronezh Region was signed by A.Spivakov, Deputy Chairman of the Administration of the Voronezh Region, Head of the Department for Agribusiness of the Voronezh Region. The Memorandum was preliminary signed by F. Schauff, the AEB CEO, and A.Uskov, President of



Frank Schauff, AEB CEO, and Alexey Gordeyev, Governor of the Voronezh Region Voronezh

the Russian Union of Crop Protection Products (CPP) Manufacturers. Initiative of the CMS Pilot Project belongs to the international and Russian CPP manufacturers and is aimed to set up CMS in the Voronezh Region with country-wide expansion later as appropriate.

### AEB Participation in the Annual Events of the European Crop Protection Association

13–16 November GR Manager of the Crop Protection Committee (CPC), Tatiana Belousovich, participated in an event on Malta organized by the European Crop Protection Association (ECPA): the final meeting of the European associations networking and the Annual Conference "Meeting legislative and stewardship challenges". Since November 2009 the AEB has been an ECPA associate member.

The AEB was mentioned as a positive example in connection with the CPC initiative on the Pilot Project for the collecting and recycling of waste CPP containers in Voronezh region that will start in 2013. The CPC anti-counterfeiting activities were also supported and appreciated during the European associations' networking meeting.

## CUSTOMS AND TRANSPORT COMMITTEE

### IV International Conference "Customs and business: international and regional aspects of cooperation – 2012"

On October 23, 2012 Reiner Hartmann, Chairman of AEB Board, gave a speech at the IV International Conference "Customs and business: international and regional aspects of cooperation – 2012", which is organized on an annual basis by the Federal Customs Service of Russia on the eve of Customs Officer Day. The Conference was opened Mr. Medvedev, Head of the Russian Government, and by Mr. Beli-

aninov, Head of the Federal Customs Service.

Mr. Hartmann emphasized certain most significant positive examples of cooperation, which confirm efficient collaboration of the AEB and Federal Customs Services, and other public authorities of the Russian Federation.

He underlined that recently the Russian customs law and practices have been subject to visible changes.

These mainly relate to such significant events as the entry of the Russian Federation into the World Trade Organization. Another equally important event was the establishment of the Customs Union (CU) and deeper integration of the Eurasian Economic Community countries within the Customs Union.

Mr. Cheltsov, Chairman of the AEB Customs and Transport Committee spoke at the round table "Customs and



Reiner Hartmann, Chairman of the AEB Board



The RF Prime Minister Dmitry Medvedev addressed Conference participants



Administration: Foreign Investments in the Russian Economy”, which was organized by the Federal Customs Service within the Customs Conference and Customs Exposition.

Dmitry Cheltsov raised the important subject of customs regulation, implementation of which will facilitate the flow of the foreign investments into

the Russian economy.

Dmitry talked about the implementation of the Road Map “On Customs Administration improvement,” and amendments to the Russian Code of Administration offences, inclusion/exclusion of the customs brokers in the customs registry, customs declaration correction after goods release.

## HR COMMITTEE

### Seventh Annual Meeting with the Labour Inspection



L-R: Julia Borozdina, Deputy Chairwoman, HR's Labour Law Sub-Committee; Evgeny Reyzman, Chairman, HR's Labour Law Sub-Committee

On October 26<sup>th</sup> Head of Moscow Labour Inspection, Mikhail Malyuga, spoke to AEB members during an Open Event on major issues of labour law and its application. The meeting was a regular meeting that HR Committee organized for AEB members. Mikhail, together with Salan's Partner Maria Ryzhkova, delivered presentations followed by a question and answer session. The meeting was attended by over 80 members of AEB.



L-R: Marina Ryzhkova, Salan's; Mikhail Malyuga, Head of Moscow Labour Inspection; Olga Bantsekinina, Chairwoman, Human Resources Committee

## IP COMMITTEE

### Working Group on Parallel Import formed

A working group on parallel imports was set up within the AEB IP Committee in October 2012.

Denis Khabarov, Chairman of the AEB working group on parallel import, took part in the Anti-Counterfeit Conference, which was held on October 22, 2012. Mr. Khabarov clearly presented the business position against the legalisation of parallel imports, introducing international practice in evidence.

## LEGAL COMMITTEE

### Public-private partnership working group formed

The AEB Legal committee has set up a working group on development of Russian legislation on Public-Private Partnerships (PPPs). The experts on the working group prepared a table of amendments to the Draft Law on PPP, which has been sent to the Ministry of Economic Development. The consultations are scheduled for November 2012.

The experts of the AEB LC Working group on development of the Federal Law # 57 on Strategic Investments is preparing the AEB amendments to the Federal Law 57.

## MIGRATION COMMITTEE

### Meeting With Moscow Government

On October 5<sup>th</sup>, 2012 Mr. Alexander Kirillin, Head of the Labour and Employment Department, Moscow Government, was a guest speaker at the AEB Migration committee meeting. The main issue discussed was a full or partial annulment of the required 2013 quota of AEB companies.

In the end, the AEB Migration Committee agreed with the Moscow Government on a positive resolution with regards to the existing problems related to 2013 quota. At the request of the Moscow Government, the AEB sent a list of companies which have received a notification regarding quota rejection for 2013 from the Intergovernmental Commission on foreign employees' recruitment. The application letters on quotas for 2013 of the AEB members will be reconsidered in January 2013.

## SMALL AND MEDIUM-SIZED ENTERPRISES COMMITTEE

### Open event “Sharing SMEs experience with outsourcing: challenges and opportunities”



Alex Medlock, Deputy Chairman of the SME Committee, Regional Director, TMF-Group, Russia office

On October 26<sup>th</sup>, 2012 the AEB Small and Medium-sized Enterprises Committee held an open event “Sharing SMEs experience with outsourcing: challenges and opportunities.” This brought together outsourcing providers and companies using their services.



Speaker—Yury Serzhantov, Managing Director, ALBIS PLASTIC, OOO;  
L-R: Alexey Prisyazhnyuk, General Director, Prisyazhnyuk Investment Group; Orlin Efremov, CEO, Manutan, Chairman of the AEB SME Committee



The key topics were: choice of a provider; outstaffing, HR and payroll administration, outsourcing of IT, and legal and logistics services. The speakers talked about positive aspects of outsourcing as well as its weaknesses and the peculiarities specific to Russian business environment. The audience and speakers agreed that there is great potential for outsourcing development and growth within the SME sector in general. The event was sponsored by TMF-Group.



L-R: Ekaterina Borushkova, Head of Payroll Services, TMF Russia; Yuri Serzhantov, Managing Director, ALBIS PLASTIC, OOO; Olga Balandinskaya, Deputy General Director, Coleman Services; Alexey Prisyazhnyuk, General Director, Prisyazhnyuk Investment Group

## SOUTH REGIONAL COMMITTEE

### Workshop "Utilities connections, permitting and industrial construction in Krasnodar region"

On 6<sup>th</sup> November 2012 South Regional Committee together with the Association of Industrial Parks held a meeting titled "Utilities connections, permitting and industrial construction in Krasnodar region." The event gathered representatives of industrial companies successfully operating in Krasnodar for almost 20 years and investors who are going to locate their production facilities in that region. Representatives of Cargill, Seimens, Nestle Kuban, Philip Morris Kuban, Claas and other AEB South regional committee members participated in this event at the Rimar Hotel,

Krasnodar.

The participants discussed procedures involved in connecting to the main utility networks: gas, electricity, water and wastewater disposal. Speakers shared their views and experiences of doing business in Kuban and other Russian regions. They also provided analyses of key challenges and success factors of the Krasnodar regional economic and business environment. The audience received a lot of practical advice and the most up-to-date information on the issues.

### Career Days in Krasnodar

The AEB South regional committee together with the noncommercial partnership "Center for strategical analysis and regional development" held Career Days at the leading Kuban higher educational institutions. On 15<sup>th</sup> November 2012 Career Days took place at the Kuban State University and Kuban State University of Technology.

During the event, representatives of international companies operating in the Krasnodar region met students and explained to them how to build a career in an international company. Experts from Ancor and Adecco analyzed current trends at the labor market and gave practical advice. Spea-

kers from companies such as Cargill, Claas, Siemens, Philip Morris Kuban presented their investment projects, told about their training courses and post-graduate programs. Specialists from Ernst and Young, PwC, OTP-Bank, Advocates Bureau-Yug and KrasnodarEXPO described career opportunities for present-day students inside and outside Krasnodar region.

The event was highly appreciated by all participants. Students and administrators from the universities had a chance to learn about the requirements of business of applicants. Business representatives saw a significant interest in working at international companies.

## TAXATION COMMITTEE

### Business breakfast dedicated to practical aspects of Transfer Pricing

On October 30<sup>th</sup>, 2012 the AEB Taxation Committee organized a business breakfast dedicated to practical aspects of Transfer Pricing. Transfer pricing has become a hot topic in Russia in view of the new Transfer Pricing Law which came into force on 1 January 2012. The meeting was chaired by Dr. Alina Lavrentieva, AEB Taxation Committee Chairwoman.

Experts from PwC, Baker & McKenzie, Ernst & Young, Peugeot Citroen (Russia), Pepeliaev Group, together with representatives of the RF Ministry of Finance and Federal Tax Service discussed issues related to the preparation of controlled transaction notifications and transfer pricing documentation.

Over 80 representatives of AEB member companies attended this event.



L-R: Svetlana Stroykova, PwC; Dr. Alina Lavrentieva, PwC, AEB Taxation Committee Chairwoman; Vladimir Golishevsky, Federal Tax Service



L-R: Nadezhda Kuzmina, RF Ministry of Finance; Maxim Maximov, Ernst & Young; Ksenia Litvinova, Pepeliaev Group; Maria Kostenko, Baker & McKenzie; Vladimir Golishevsky, Federal Tax Service; Svetlana Stroykova, PwC; Dr. Alina Lavrentieva, PwC, AEB Taxation Committee Chairwoman

# MEMBER NEWS

## Alinga Consulting

Alinga Consulting organized a seminar on November 8<sup>th</sup> to discuss major changes in Russian legislation which will affect all spheres of business in 2012 and 2013. Alinga also addressed issues relevant to companies with foreign capital.

Visitors learned about VAT procedures for transactions within the Customs Union which came into effect October 1, 2012, and what changes would be implemented by the new accounting law, starting in 2013. Alinga also informed the participants about the most problematic issues related to income tax for highly qualified foreign specialists and gave important information on hiring foreign employees.



## BDO Russia

### BDO Russia acted as a general partner of the 20<sup>th</sup> anniversary of SAP in Russia

BDO Russia acted as a general partner of the 20<sup>th</sup> anniversary of SAP in Russia, which was held on 18 October 2012 in Federation Tower, Moscow City.

In his speech to the participants, Bogdan Kotsovsky, head of the System Integration and Business Advisory department of BDO Russia, stressed that during twenty years of work in the Russian market, SAP's progress has been marked by achievements that cannot be overstated.

"I am extremely happy about the choice of the partner our company made 20 years ago, allowing SAP, then just a newcomer to the Russian market, a huge potential that later turned into a common future for our companies. At that time, a new Russian economy was in its infancy, and now we can say that SAP was closely involved in its birth, putting in a strong immune system of the best management technologies," Mr. Kotsovsky said.

As part of the ceremony, BDO Russia as a partner of SAP in Russia congratulated a number of companies for which the most ambitious and important projects have been implemented – TNK-BP, FC TVEL and NLMK.

### "Leasing safely" – BDO Russia's market research

BDO Russia has published a recent survey dedicated to Russia's leasing market. Senior managers and experts from 38 leasing companies, including major market players, participated in the research. We studied terms and conditions based on which the leasing companies do their busi-

ness with the real sector; as well as the current state of, and forecast changes to, lease portfolios, the financing of leasing operations, threats to the development of companies, etc.

The main sources of financing leasing operations are commercial bank loans, with asset shares usually less than 5%. In the next two years 60% of respondents would like to attract foreign funding. The most attractive industries for leasing companies are the least risky ones: oil and gas, energy, rail and road transport. Good financial conditions and transparency of operations are the most important requirements for lessees. Representatives of leasing companies that own about 56% of the total lease portfolio among survey participants are optimistic about the future and expect 39–50% portfolio growth by the end of 2012.

### Managers of BDO Russia in Top-1000 Russian Managers list

Several top-managers of BDO Russia were named in the "Top-100 Russian Managers" – annual ranking of the newspaper "Kommersant". Each of them was named among the top ten:

- Andrey Dubinsky, the most professional top managers;
- Svetlana Karpukhina, the most professional HR director;
- Irina Bazileva, the most professional marketing director;
- Michael Feldman, the most professional director for public and corporate relations.

"Top 1000 Russian Managers" is a joint project of the newspaper "Kommersant" and the Association of Russian Managers (AMR) that aims to identify the most professional managers and leaders in their respective industries and functional areas over the year.

## EGO Translating Company

### Think global, act local

The EGO Translating Company has launched industry-oriented foreign language training and intercultural communication programmes to assist international companies working in Russia.

Inna Savelieva, PhD, Head of EGO Translating University, introduces the new project: "These programs are designed to accommodate any specific needs of our customers like German for engineers in oil and gas industry or KPI design for HR specialists. All course materials include professional glossaries and specialised texts for reading comprehension tasks. Intercultural communication programmes are also offered to facilitate expatriates with their integration to Russian culture and society or help HR specialists with managing multi-national staff. Our company provides a full range of linguistic services including cross-cultural management. The latter not only promotes effective communication with your current and prospective partners, but also improves internal communication at any level within your company."

## Jones Lang LaSalle

### Jones Lang LaSalle sets up a new business line

Jones Lang LaSalle sets up a new business line within the company's retail department – the launch of the Retail Tenant Representation function aims to maximize the efficiency of the company's retail services and to complete the Retail Department's overall structure.

The new team is to represent the interests of national and international retailers in Russia and the CIS, driving and supporting the clients regional expansion and helping those who are not present in the Russian market to enter it successfully. The Tenant Representation team provides a full range of space planning and leasing services, tailor-made for each concrete retailer. The service scope includes expansion strategy development, new markets entry strategy development, search for sites and locations, competitive analysis, retail marketing research and lease and sale transactional support.

The Retail Tenant Representation team is led by Vladimir Aleksandrovskiy.

### Goltsblat BLP

#### **Goltsblat BLP advised the Eurasian Development Bank**

Goltsblat BLP, the Russian Practice of Berwin Leighton Paisner (BLP), has successfully completed a project providing legal support for a transaction involving acquisition by the Eurasian Development Bank of 9.10% of the shares in the authorised capital of ZAO Verkhnekamskaya Kaliynaya Kompaniya, a subsidiary of the Akron Group, which is implementing a project to develop the Talitskiy sector of the Verkhnekamsk deposit of potassium and magnesium salts in the Perm Territory. The transaction was worth about USD 100 m.

The other investors, apart from the Eurasian Development Bank, are GK Vnesheconombank and ZAO Raiffeisenbank. The total aggregate investment by the Eurasian Development Bank, GK Vnesheconombank and ZAO Raiffeisenbank in the authorised capital of ZAO Verkhnekamskaya Kaliynaya Kompaniya amounted to approximately USD 405 m. In addition, GK Vnesheconombank is to provide financing in the form of a USD 1.1 bn credit facility.

The investments raised will be used to finance construction of Talitskiy GOK.

Within the scope of the project, Goltsblat BLP advised the Eurasian Development Bank on matters of Russian and English law associated with the structuring of, and preparation for, the binding documents on the deal.

### MARRIOTT

#### **Marriott to grow Russia and CIS portfolio by over 50 percent to more than 30 hotels by 2015**

Leading global hotel operator, Marriott International Inc. (NYSE: MAR), is on track to double its portfolio in Europe from 40,000 rooms to 80,000 by 2015. Marriott is fueling much of its growth in Europe with a strong focus on new development in Russia & the CIS, and today announced it will grow its existing portfolio in the region by more than 50 percent to more than 30 hotels open by 2015.

Marriott International currently operates 19 hotels in Russia & the CIS across six lodging brands and has committed itself to opening an additional 11 hotels over the next three years including:

- The Ritz-Carlton Almaty, Kazakhstan
- Krasnodar Marriott Hotel, Russia
- Tsaghkadzor Marriott Hotel, Armenia
- Baku Marriott Amburan Beach Resort, Azerbaijan
- Renaissance Kiev Hotel, Ukraine
- Marriott Krasnaya Polyana Hotel, Russia

- JW Marriott Sochi Golf Resort, Russia
- Courtyard by Marriott Sochi Plaza Hotel, Russia
- Krasnoyarsk Marriott Hotel, Russia
- Voronezh Marriott Hotel, Russia
- Moscow Marriott Novy Arbat Hotel, Russia

Marriott International operates six brands across Russia and the CIS: the Ritz-Carlton, JW Marriott, Marriott Hotels & Resorts, Renaissance Hotels, Courtyard by Marriott and Marriott Executive Apartments.



### MetLife Alico

#### **MetLife Alico was assigned A++ by "Expert RA"**

MetLife Alico (ZAO "ALICO Insurance Company") was assigned with A++ rating by "Expert RA" rating agency. The rating implies "Extremely High Level of Reliability" with a rating prognosis described as "stable," which indicates a high probability of the rating retention in the medium-term.

MetLife Alico is the leader of the Russian life insurance market providing life, accident and health insurance products and services to more than 1 million individual clients and 900 international and Russian corporates.

Among the positive factors which influenced such a high rating assignment is a good solvency margin index, a high return on equity, high investment liquidity, diversification and reliability indices, as well as high insurance portfolio diversification.

The assignment of the rating to MetLife Alico is very important for business development with the existing and potential corporate and individual client base of the company, as well as with its partners. It proves once again the company's financial stability and capability to fulfill its commitments to clients, partners and shareholders.

#### **MetLife with an honorable status of an official sponsor of the Bolshoi for the next 3 years**

Just before the opening of a new 237<sup>th</sup> theater season, MetLife Inc. and the State Academic Bolshoi Theater of Russia signed a new partnership contract, which endows MetLife with the honorable status of an official sponsor of the Bolshoi for the next 3 years.

In Russia, MetLife Inc. is represented by MetLife Alico (ZAO "ALICO Insurance Company"), a leader of the Russian life insurance market providing life, accident and health insurance products and serviced to more than 1 million individual clients and 900 international and Russian corporates.

The MetLife-Bolshoi partnership began in 2011 uniting a giant of the American insurance business and one from



the Russian art world. “United by common values” is the slogan of the partnership, which emphasizes the magnitude of both enterprises, their long history, solid traditions and aspiration for perfection.

### Pepeliaev Group

#### **The Lawyer ranks Pepeliaev Group as 2012 Best Law Firm in Russia and CIS**

*The Lawyer*, the authoritative international legal publication, has ranked Pepeliaev Group as 2012 Best Law Firm: Russia and the CIS.

Every year *The Lawyer*, as one of the world's most respected legal publications, selects the best law firms that have earned recognition in the international community and whose professional skills and competence have been noted by their clients and colleagues. The independent jury choosing the winners in each category includes the heads of legal departments in household name companies, as well as heads of law firms. Apart from feedback of the market players, the experts take account of firms' successful projects, their quality of services and customer care standards.

*The Lawyer's* experts have noted the excellent performance of Pepeliaev Group's lawyers in such important projects as the FIFA project, which involved drafting the laws and subordinate legislation for hosting and staging the 2018 football World Cup, and the Shtokman project, which involved providing legal support for development of oil deposits. The lawyers were also commended for their involvement in expert committees improving Russian legislation and a number of advisory projects where advice was provided to international pharmaceutical and logistic companies on M&A matters.

“We are proud that *The Lawyer's* experts and jury recognised the expertise, professional skills and competence of our lawyers who have been involved in international projects,” said Sergey Pepeliaev, Pepeliaev Group's Managing Partner.

### RH PARTNERS

#### **RH PARTNERS expands activity to Ukraine**

RH PARTNERS is proud to announce that Ukraine has expanded the geography of the clients of RH PARTNERS' Executive Search Department. The successful completion of the project for the company “Richel” and our current cooperation with “Immochan Ukraine” make a good starting point in this rapidly growing and promising market. We intend to develop long-term and fruitful partnership with Ukrainian companies in the future.

### Roca

#### **The first exclusive Armani/Roca showroom in Saint-Petersburg**

Roca in Russia, in collaboration with DOM-Laverna store chain, for the first time in Saint-Petersburg conducted a presentation of an Armani/Roca collection for designers and architects, and also familiarized visitors with the history of both brands and demonstrated special features in functionality and design. The event was held in the gallery of bathrooms in the River House trade center.

The opening of the second showroom of this exclusive conception (the first exhibition island had started to work



in the Konzept Moscow salon in March) caused a successful start to sales in this country.

The collection is presented in the gallery as a detached island, an area in the house that allows privacy and relaxation. The space includes several functional areas: beauty, wellness and basic needs. Each area provides cozy detachment and at the same time preserves a feeling of openness. The series is distinguished by its state-of-the-art technology solutions: the functional division of a bathroom, exclusive decoration of floors and walls, exquisite lighting and luxurious materials with the unsurpassed style of Giorgio Armani. External minimalism of the conception is combined with maximum convenience, because the island is supposed to be designed by into account the smallest peculiarities.

The opening presentation was arranged in the solemn and austere style of Armani: the program opened with the number “Walking-sticks” by “Style” ballet-show in the corporate black-and-white palette. Following welcome speeches delivered by leaders of Roca and DOM-Laverna, the presentation of the spring-summer clothes collection was conducted in the special lounge area to familiarize architects and designers with the Armani/Roca artistic philosophy.

#### **Roca presented solutions for public places at the exhibition “Hotel. Equipment and Technologies (PIR 2012)”**

Roca demonstrated solutions for bathrooms in public places at the exhibition for hotel business professionals: “Hotel. Equipment and Technologies 2012”.

The exhibition annually brings together the owners of hotel and travel business, developers, architects, designers, representatives of public authorities, mass-media, specialists in the HoReCa industry. “Hotel” offers a comprehensive program of events for exhibitors and visitors.







The project department of Roca in Russia actively carries on business both in Russian and in the international market. The Roca and Laufen brand products equip important public places in the country, such as cultural and historical ones (Bolshoi Theatre in Moscow), sports facilities, including the Students Games in Kazan, large hotels, airports, including Sheremetyevo, business centers, trade centers, restaurants, residences and other public areas.

The exhibition space of Roca showed recessed and countertop wash-basins of different models, including Urban, known by pictures of the world famous cities, and Urbi, designed by Carlo Urbinati. Solutions for hotel bathrooms were included in the Meridian collection.

Laufen, a premium Swiss brand, also presented wash-basins of different types; and in addition to it, the Palace series with recognizable cut washbasin which can be adapted to the required size right at the plant. A part of the exhibition space exposed Laufen Pro collection with solutions for space-saving bathrooms.

Both trademarks presented the models of urinals and partitions for public places of convenience. Specialists also paid attention to the solid surface washbasin, Richmond, as part of the Aquaton brand.

At the exhibition Roca Group showed the collections that embody comprehensive ideas for the interior decoration of bathrooms in the public areas, such as hotels and residences.

### Russia Consulting

#### 10 Years: Simple Structures – Simply Success

We are delighted to be celebrating 10 years of assisting Western investors enter and operate on the markets in Russia and its neighboring countries.

We start with the registration of your company, then take over the accounting, financial reporting and tax compliance, implement IT solutions and ERP structures, provide fully equipped office space and recruit experts in accounting for our clients. Our slogan SIMPLE STRUCTURES – SIMPLY SUCCESS has helped our clients and ourselves to successfully grow and maintain an overview of their investment.

We are now working for clients not only in Russia, but also in Belarus, Ukraine, Poland and Kazakhstan.

We are proud that we are now serving over 500 Western companies and we would like to express a very sincere THANK YOU to our clients as well as to our more than 300 employees for their contribution to this success.

# APPOINTMENTS

### Baltschug Kempinski Moscow

#### Alessandro Redaelli appointed General Manager of the Hotel Nikol'skaya Kempinski Moscow



Alessandro Redaelli has been appointed General Manager of the Hotel Nikol'skaya Kempinski Moscow, the new 5-star property in the centre of the Russian capital, being reconstructed at this moment for Kempinski Hotels, the oldest European luxury hotel operator. Located in a prime historical location, the opening of the hotel is planned for the end of 2012, and Alessandro will be in charge of 211 rooms and suites, as well as 5 gourmet restaurants and bars, an exclusive rejuvenating spa, and multiple state-of-the-art conference facilities.

In July 2011 Alessandro Redaelli headed the significant opening of the first Kempinski resort in Russia and the third hotel in the country operated by Kempinski – Kempinski Grand Hotel Gelendzhik on the Black Sea coast. Alessandro came to Russia from Switzerland where he was leading for two years the Hotel de la Paix in Geneva, for Concorde Hotels & Resorts. Before coming to Switzerland, Alessandro held the position of Group General Manager for Boscolo Luxury Hotels at the same time maintaining his post of General Manager for the flagship Boscolo Hotel Exedra Rome.

### CMS

#### The Moscow office of CMS international law firm announced the appointment of Anton Bankovskiy as counsel.



"Anton Bankovsky joined our firm, bringing his strong background in advising clients on intellectual property matters, and was therefore appointed as the head of our intellectual property practice," Jean-François Marquaire, Managing Partner of CMS, Russia, commented on the appointment. "In

addition to his work as counsel, Anton is an attorney-at-law and a patent attorney of the Russian Federation. The decisive factors for this appointment were Anton's qualifications coupled with his education and long-term professional experience".

Anton has been advising clients on all IP matters, including representation of clients before courts in IP related disputes and in campaigns against counterfeit goods.

Before joining CMS, Russia, Anton Bankovskiy was a counsel to the intellectual property and TMT practice of another well-known international law firm. Some of his most noteworthy projects include representation of major multinational companies operating in food, consumer, hi tech and pharmaceutical industry sectors.

Anton Bankovskiy obtained a degree in international law from the Moscow State Institute for International Relations (MGIMO), and holds a PhD degree in law. He is fluent in English, French and German.

## Jones Lang LaSalle

### Jones Lang LaSalle has announced a new Russian Retail department structure



Jones Lang LaSalle has announced a new Russian Retail department structure which will further strengthen one of the company's key business lines. 25 retail experts have joined Jones Lang LaSalle in Moscow from Colliers International, under the leadership of Tatyana Kluchinskaya.

As well as Shopping Centers Leasing Agency and High Street Retail Unit, the reinforced retail department will include two new business lines: Retail Tenant Representation and Concept Development.

Tatyana Kluchinskaya has worked in the retail business for 13 years. From 1999 to 2006 she worked for the Daev Plaza Group as Head of the Project Development and Implementation Department, where she led the Europark Mall and Moscow Hotel multifunctional complex project. In 2006 Tatyana joined Colliers International, first as Deputy Head, Retail Department, and then since April, 2008 as Head of Retail Department and Regional Director.

Tatyana's portfolio, of over 1 mln. sq. m., consists of the biggest retail projects in Russia, including Golden Babylon Rostokino, Centralnyi Detskiy Mir (iconic kids store in centre of Moscow), River Mall, M5 Mall, etc. Tatyana's client list includes Hals Development, Patero Development, PPF and other development companies.

### Jones Lang LaSalle to Expand its Shopping Centres Leasing Agency



Jones Lang LaSalle announces a new appointment in the Retail Department. Tatyana Malyanova joins the company as Head of Shopping Centres Leasing Agency.

Tatyana's experience in commercial real estate is more than nine years. In 2003–2009 she worked for Colliers International, rising from the position of Consultant, Retail Department to Associate Director.

In 2010–2011, holding the position of Retail Director in Hals-Development, Tatyana was responsible for the marketing and leasing of SEC Leto in St Petersburg and Centralnyi Detskiy Mir in the centre of Moscow.

Prior to joining Jones Lang LaSalle she worked in Colliers International as Director of Retail Agency. Her portfolio includes SEC RIO Sevastopolskiy in Moscow, SEC Krasnyi Kit (Moscow Region, Mytishchi), SC Kolco (Kazan) and SEC Greenwich (Ekaterinburg).

## Hilton Moscow Leningradskaya

### Konstantin Goriainov Named General Manager of Hilton Moscow Leningradskaya



Hilton Moscow Leningradskaya announced the appointment of Konstantin Goriainov as the general manager of the hotel. In his new role, Konstantin will oversee all areas of the distinguished 273-room hotel, which is the first Hilton property in Russia.

Most recently, Konstantin Goriainov held the position of general manager at two Moscow Holiday Inn hotels, totaling more than 600 guest rooms. Due to his strong leadership qualities, coupled with a notable background, Konstantin helped both properties to achieve the highest possible occupancy and revenue. With over 19 years of hospitality experience Konstantin has held several key positions with many internationally recognized hotel companies, including Marriott International and Lotte Hotels & Resorts, Korean luxury chain of hotels.

Commenting on his new appointment Konstantin said: "Hilton Moscow Leningradskaya has held a leading positions for several years in the Moscow hospitality market. Our aim now is to keep up the famous international image of Hilton Hotels & Resorts; develop its corporate and tour and travel databases; and provide our guests with more variety of high class services."

## MetLife Alico

### First vice president of MetLife Alico



Mikhail Sosnin is appointed the First vice president of MetLife Alico (ZAO "ALICO Insurance Company").

In his new role Mikhail will focus on the development of strategy & planning, marketing, R&D, product marketing & development, PR & communications, business quality & customer centricity.

Mikhail has been with MetLife Alico since 2005 joining the company as COO. On December, 1, 2010 he was appointed a Vice-President while preserving his COO business responsibilities.

Before joining MetLife Alico Mikhail worked with Accenture Consulting Company, Russia. Mikhail holds MBA from American Institute of Economy and Business.

## Pepeliaev Group

### Pepeliaev Group Bolsters its Banking and Finance Practice



Igor Marmalidi has joined Pepeliaev Group as partner and head of Banking and Finance Practice. Prior to joining Pepeliaev Group, Igor has served for 14 years as Head of the Legal Department of Citibank providing legal support for Citibank's businesses in Russia, Ukraine and Kazakhstan.

He graduated from the International Law Faculty of the Moscow State Institute for International Relations and received a Master of Laws Degree (LLM) at Case Western Reserve University (USA). Before joining Citibank, Igor spent several years working as a lawyer at Russian and international law firms in Moscow and New York City. He is licensed to practice law in the State of New York, USA.

Igor has twenty years of experience of advising clients on a wide range of legal matters in relation to major projects in the banking sector; banking and securities markets regulations; commercial, corporate and finance law; structuring of international financial and investment transactions; securities issuance and trading. He has extensive experience in currency control issues and dispute resolution involving financial institutions.

# NEW MEMBERS



## Association of Regional Telecom Operators

The Association of Regional Telecom Operators was founded in 1995 and

has extensive experience in assisting its members to build relationships with the government. The Association also has notable achievements in cooperation with the regulator, promoting legislation in the interest of market players. The majority of Association members are daughter companies of Western holdings.

## Bellerage

Outsourcing, Consulting, Audit.

Being a member of International Accounting and Audit Network (I2AN) Bellerage can provide its clients with a wide range of outsourcing, consulting and auditing solutions in Europe, US and Asia markets. Our world-wide team of more than 50 partners and 500 employees is fully dedicated to rendering professional services of the highest quality standards.

Bellerage started its operations in CIS in 1999 and acquired its local expertise through hundreds of successfully delivered projects in various industries.

Bellerage provides Complex Business-Support Solutions:

- Financial Outsourcing and Consulting
- Payroll & HR Administration, Outstaffing
- Tax & Legal Advisory and Litigation
- Immigration & Registration
- IT Support
- Audit, Transformation & Consolidation
- Accounting Recovery and Restatement



## Business Trend

Business Trend is a multi-profile inspection and expert organization, which provides project technical and inspection support, quality control and acceptance of equipment for oil and gas industry since 1991.

Business Trend specializes mainly in performing quality control and acceptance procedures for pipes, pipeline fittings and metallic structures at manufacturing plants.

Business Trend performs quality control and acceptance procedures on orders of leading oil and gas companies – consumers and manufacturers of tubular goods. Gazprom has been one of the largest customer of Business Trend since 2003.

Business Trend performs its activities on the territory of the Russian Federation and the European Union.



## Cesar Satellite

The Cesar Satellite Group is the

leader in Russia's market for telematics services and a major nationwide operator of an integrated security network based on the PERSON-CAR-HOME concept. The Cesar Satellite nationwide chain consists of five monitoring cen-

ters and also includes representative offices in 36 cities around Russia and Ukraine. Since 2011, Cesar Satellite has been a partner of Securitas, a large international security holding company. Cesar Satellite has a wide customer base exceeding 95,000 people.

One of the company's priority lines of business is participation in implementing the ERA GLONASS project in Russia.

## ERA-POWER



## Era-Power

Era-Power is a Russian-Danish company that introduces Danish technology to the energy efficiency market in Russia, Ukraine, Belarus and Kazakhstan. The company is dedicated to the manufacturing and sale of a soot removing system for solid and liquid fuel boilers. The product is called Aerovit.

Aerovit is based on a high-pressure and short-pulse pneumatic impulse system. With the use of compressed air, removal of all deposits and build-up inside boilers and heat exchangers is achieved effectively. This ensures lifelong unaffected efficiency in the convective section of the boiler and/or economizer, maintaining their purity and eliminating maintenance downtime. The technology and materials used to manufacture Aerovit's valve components protect the installation from overheating. This allows it to operate at high temperatures and in harsh environments with minimum maintenance.

Cost savings from the addition of Aerovit to any boiler can be forecasted at 10% for fuel and near 100% for cleaning. Complete investment capital recovery can be expected in as short as one heating season. The system's operating life can extend to as much as 20 years.



## Freight Village Kaluga JSC

[www.freightvillage.ru](http://www.freightvillage.ru)

## Freight Village Kaluga

Freight Village Kaluga

JSC (FVK) is an integral

part of the "Industrial park of Vorsino" located alongside the M3 Moscow-Kiev, 67 km from the MKAD and 20km from the new Moscow administrative border. With its 500ha, FVK offers multimodal transport infrastructure covering road, rail and air cargo. The concept and equipment of the rail terminal allows for a trans-shipment handling volume equal to 1.300 TEU/day. It features a B+ class office building with a Customs center capable of effectuating over 400 declarations/shift, a container yard, a truck stop, A class warehouses complex and a B+ class business park with 3\* hotel and related services. FVK is aimed at logistics intensive industries, trans-shipment intensive trade and distribution and related logistics service providers.



## FutureToday

FutureToday is the leading Russian employers branding and graduate recruitment agency. All thanks to our wonderful clients. So we just want to use this opportunity to thank them again. A very warm thank you goes to... Bacardi, Bain & Company, Beeline, British American Tobacco, Castrol, Coca-Cola, Credit Suisse, Deloitte, Ernst&Young, Ferrero, IKEA, InBev, John Deere, Johnson & Johnson, JTI, KPMG, L'Oreal,



LVMH, Microsoft, Nestle, Nielsen, Pernod Ricard, Philip Morris International, PricewaterhouseCoopers, Promsvyazbank, Rosatom, Rushydro, Sberbank, Severstal, Sibur, Tele2, The Boston Consulting Group, Unilever, Uniqlo, Volvo, Yandex, Yota and many others! Thank you!

#### **Holdsway**

The legal consulting company LLC "Holdsway" was founded in 2006. Its prime activity focuses on investment advice and support, covering direct and portfolio investments, providing financial institutions with a variety of legal services on corporate and tax consulting, and protecting intellectual property rights. The sphere of professional interest of the company also includes monitoring and analysis of legislation in different branches of law.

Currently the company employs 30 well-educated and experienced lawyers possessing competitive professional skills.

Our clients are credit and financial institutions, industrial, energy and construction enterprises, medical and commerce companies, innovation research and consulting firms and organizations. In particular large Russian and foreign companies and banks, operating within and outside Russia, have profited from our services. Europeans are among them.

LLC "Holdsway" is expanding the range of its activities through strengthening of the specialised servicing of small and medium-sized legal entities and individuals, as well as providing complex legal assistance to large clients.



#### **Lidings**

Since 2006, Lidings Law Firm has been the leading legal advisor in the Russian market providing unparalleled legal advice to over 200 interna-

**Leading the Way in Russian Law** tional companies operating in Russia and the CIS on a wide range of business and legal matters.

Over 90% of the firm's clients are multinational companies and corporations. We advise market leaders, international investors, representatives of medium and large global businesses interested in entering the Russian and CIS markets and in actively implementing a variety of business and commercial projects in Russia.



#### **M.Video**

M.Video is one of the largest European consumer electronics retail chains with the revenue up to €2,7 billion and an annual sales growth of over 23% a year (9 months 2012 results). Total number of stores amounted to 281 in more than 120 Russian cities. Headcount equals to approx. 17,000. Corporate sales per 1 sq meter amounted to €7300, that is one of the highest results in Europe.

Since 2007 M.Video has been the one and only public non-food retailer in Russia. Corporate shares are traded on the RTS and MICEX stock exchanges (Ticker MVID). The main stakeholders are the founders of M.Video, Alexander Tynkovan, Mikhail Tynkovan, Pavel Breev.

Since 2011, the company has been widely implementing the Omni-Channel strategy that includes integration of different sales channels and creation of the unique shop experience for its customers with the combination of the

main business operations from the key solutions in both offline and online retail.

#### **Parallels**

Parallels is a global leader in hosting and Cloud services enablement, and desktop virtualization software.

Parallels enables service providers of all sizes to quickly launch and profitably deliver the widest range of hosting and Cloud services for small and medium businesses (SMBs). More than 5,000 service providers rely on Parallels to deliver Cloud services to more than 10 million SMBs in 125 countries.

The second business unit, Desktop Virtualization, makes it easy for businesses of all sizes, and for consumers, to run any technology they need on a variety of platforms without compromise. More than three million people worldwide rely on Parallels Desktop for Mac to run Windows and Mac applications side-by-side on a Mac without rebooting.



#### **THOMSON REUTERS**

#### **Thomson Reuters**

Thomson Reuters is the world's leading source of intelligent information for businesses and professionals. We combine industry expertise with innovative technology to deliver critical information to leading decision makers in the financial, legal, tax and accounting, scientific, healthcare and media markets, powered by the world's most trusted news organization. The headquarters is in New-York. We employ approximately 60,000 people and operate in over 100 countries.

Thomson Reuters shares are listed on the Toronto Stock Exchange (TSX: TRI) and the New York Stock Exchange (NYSE: TRI).



#### **Unilever**

#### **Unilever**

In 2012 Unilever is celebrating its 20th anniversary in the Russian market.

The Unilever portfolio in Russia includes such popular brands as Calve mayonnaise, sauces and ketchups, Hellmann's mayonnaise, Baltimor mayonnaise, ketchups and vinegar, Vostochniy gurman ketchup and dressings, Knorr savory products, Rama spreads, Crème Bonjour dairy cream alternatives, Pyshka baking margarine, ice cream brands Magnat, San Cremo, Torzhestvo, Ekzo, Cornetto and others, Beseda, Brooke Bond and Lipton teas, as well as shampoos Sunsilk, Clear vita ABE and TIGI, shampoos and cosmetics Timotei, Dove, Black Purl, Pure Line etc., Rexona and Axe deo products, home cleaning products Domestos, Glorix, Cif and Sun.

Currently, Unilever has 8 manufacturing centers in Russia, including a margarine plant in Moscow, a tea factory in St. Petersburg, perfumes and cosmetics factories in St. Petersburg and Yekaterinburg, a food savory plant in Tula and ice cream plants in Tula and Omsk. The company has been constantly expanding its manufacturing facilities in order to meet growing demand for its products from Russian consumers. The company's investment in the Russian economy has exceeded 2 billion euro. It currently employs approximately 8000 people.

**ASSOCIATION  
OF EUROPEAN BUSINESSES**

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info@aebrus.ru. http://www.aebrus.ru



**АССОЦИАЦИЯ  
ЕВРОПЕЙСКОГО БИЗНЕСА**

Российская Федерация, 127473, Москва,  
ул. Краснопольская, 16, строение 3  
Тел.: +7 (495) 234 27 64. Факс: +7 (495) 234 28 07  
info@aebrus.ru. http://www.aebrus.ru

**AEB MEMBERSHIP APPLICATION FORM / ЗАЯВЛЕНИЕ НА ЧЛЕНСТВО АЕБ**

Please fill out the Application Form in CAPITAL letters, sign it and fax it: 234 28 07/

Заполните заявление печатными буквами и пришлите по факсу 234 28 07

Calendar year / Календарный год: 2013 ☐ (Please check the appropriate box/boxes / Укажите соответствующий год/года)

Name of your AEB Contact / Ваше контактное лицо в АЕБ: \_\_\_\_\_

**1. COMPANY / СВЕДЕНИЯ О КОМПАНИИ**

Company Name in full, according to company charter. (Individual applicants: please indicate the company for which you work /  
Название компании в соответствии с уставом. (Для индивидуальных членов – название компании, в которой работает заявитель):

Legal Address (and Postal Address,  
if different from Legal Address) /  
Юридический и фактический адрес,  
если он отличается от юридического:

INN / KPP / ИНН/КПП:

Phone Number / Номер телефона:

Fax Number / Номер факса:

Website Address / Страница в интернете:

**2. CATEGORY / КАТЕГОРИЯ:**

THE CATEGORY IS DETERMINED ACCORDING TO THE COMPANY'S WORLD TURNOVER

Please indicate your AEB Category / Отметьте категорию	Company's world-wide turnover (euro per annum) / Мировой оборот компании (евро в год)	AEB Membership Fee / Членский взнос в АЕБ
<input type="checkbox"/> SPONSORSHIP / Спонсорство	–	10,000 euro/евро
<input type="checkbox"/> CATEGORY A / Категория А	>500 million/миллионов	6,300 euro/евро
<input type="checkbox"/> CATEGORY B / Категория Б	50–499 million/миллионов	3,800 euro/евро
<input type="checkbox"/> CATEGORY C / Категория С	1–49 million/миллионов	2,200 euro/евро
<input type="checkbox"/> CATEGORY D / Категория Д	<1 million/миллионов	800 euro/евро
<input type="checkbox"/> INDIVIDUAL (EU/EFTA citizens only) / Индивидуальное (только для граждан Евросоюза/ЕАСТ)	–	800 euro/евро

Any non-EU / non-EFTA Legal Entities applying to become Associate Members must be endorsed by two Ordinary Members  
(AEB members that are Legal Entities registered in an EU / EFTA member state or Individual Members –  
EU/EFTA citizens) in writing/

Заявление любого юридического лица из страны, не входящей в Евросоюз/ЕАСТ, и желающего стать членом АЕБ,  
должно быть письменно подтверждено двумя членами АЕБ (юридическими лицами, зарегистрированными  
в Евросоюзе/ЕАСТ, или индивидуальными членами – гражданами Евросоюза/ЕАСТ)

Individual AEB Membership is restricted to EU / EFTA member state citizens, who are not employed  
by a company registered in an EU / EFTA member state /

К рассмотрению принимаются заявления на индивидуальное членство от граждан Евросоюза/ЕАСТ,  
работающих в компаниях, страна происхождения которых не входит в Евросоюз/ЕАСТ

Please bear in mind that all applications are subject to the AEB Executive Board approval /  
Все заявления утверждаются Правлением АЕБ

**3. CONTACT PERSON / INDIVIDUAL MEMBER / КОНТАКТНОЕ ЛИЦО / ИНДИВИДУАЛЬНЫЙ ЧЛЕН**

Title, First Name, Surname / Ф.И.О:	
Position in Company / Должность:	
E-mail Address / Адрес эл. почты:	

<b>4. COUNTRY OF ORIGIN / СТРАНА ПРОИСХОЖДЕНИЯ</b>	
<b>A. For a company / Компаниям:</b> <b>Please specify COMPANY'S country of origin /</b> Указать страну происхождения компании <sup>1</sup>	
<b>or B. For an individual applicant /</b> <b>Индивидуальным заявителям:</b> <b>Please specify the country, of which you hold CITIZENSHIP /</b> Указать гражданство	
<p><b>Please note that only EU / EFTA members can serve on the Executive Board and the Council of National Representatives/</b>          Внимание! В Совет национальных представителей и Правление могут быть избраны члены, представляющие страны Евросоюза или ЕАСТ.</p> <p><b>Please fill in either A or B below/ Заполните только графу А или В</b></p>	

<b>5. COMPANY DETAILS / ИНФОРМАЦИЯ О КОМПАНИИ</b>			
<b>Company present in Russia since: _____ / Компания присутствует на российском рынке с: _____ г.</b>			
<b>Company activities/</b> Деятельность компании	<b>Primary /</b> Основная:		<b>Secondary /</b> Второстепенная:
<b>Company turnover (euro)/</b> Оборот компании (в Евро)	<b>In Russia /</b> в России:	<b>Worldwide /</b> в мире:	<input type="checkbox"/> Please do not include this in the AEB Member Database/ Не включайте это в справочник АЕБ
<b>Number of employees/</b> Количество сотрудников	<b>In Russia /</b> в России:	<b>Worldwide /</b> в мире:	<input type="checkbox"/> Please do not include this in the AEB Member Database/ Не включайте это в справочник АЕБ
<p><b>Please briefly describe your company's activities (for inclusion in the AEB Database and in the AEB Newsletter) /</b>          Краткое описание деятельности Вашей компании (для включения в базу данных АЕБ и публикаций АЕБ)</p>			

<b>6. HOW DID YOU LEARN ABOUT THE AEB / КАК ВЫ УЗНАЛИ ОБ АЕБ?</b>	
<input type="checkbox"/> <b>Personal Contact /</b> Личный контакт	<input type="checkbox"/> <b>Internet /</b> Интернет
<input type="checkbox"/> <b>Media /</b> СМИ	<input type="checkbox"/> <b>Event /</b> Мероприятие
<input type="checkbox"/> <b>Advertising Source /</b> Реклама: _____	<input type="checkbox"/> <b>Other /</b> Другой: _____

**Signature of Authorised Representative of Applicant**  
**Company /** Подпись уполномоченного лица заявителя:

\_\_\_\_\_

\_\_\_\_\_

Date/Дата:

**Signature of Authorised Representative of the AEB /**  
 Подпись Руководителя АЕБ:

\_\_\_\_\_

\_\_\_\_\_

Date/Дата:

<sup>1</sup> Location of a parent company or of the main shareholder / Местонахождение головной конторы или основного учредителя.



## EVENTS CALENDAR

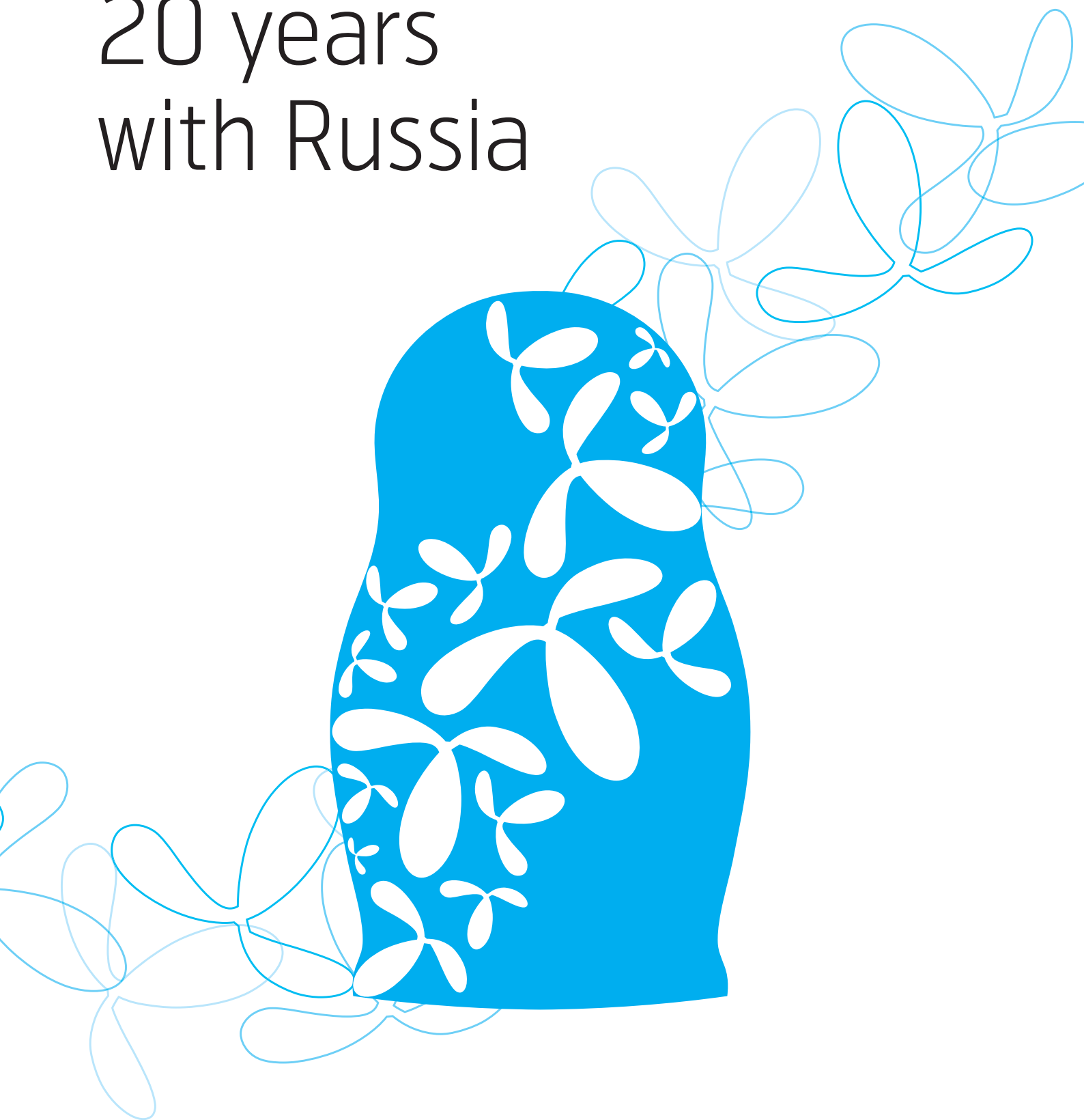
Moscow		
Date	Event	Location
14 December 2012	Training "KPI of professional development for managers and employees"	AEB Conference Centre
19 December 2012	AEB End of the Year Tax Forum	Ararat Park Hyatt
14-15 January 2013	Training "B2B Marketing"	AEB Conference Centre
15 January 2013	AEB AMC Annual Press Conference	tbc
22 January 2013	AEB Polish Euroreception (for top management of AEB member companies only)	Residence of the Polish Embassy
25 January 2013	Training "Payroll budget – from simple to complex"	AEB Conference Centre
January/February 2013, tbc	AEB Annual Pensions Conference	AEB Conference Centre
January/February 2013, tbc	AEB Sponsor Event organised with Ruukki Construction	AEB Conference Centre
January/February 2013, tbc	AEB Sponsor Event organised with "Strana Detey"	Premises of "Strana Detey"
4-5 February 2013	Training "Finance for Non-Financial Managers: Financial Picture of Business for top-managers"	AEB Conference Centre
14 February 2013	Presentation of the Northern Caucasus Federal District	tbc
28 February 2013	AEB Annual Customs Conference	tbc
4 March 2013	Training "Effective Business Reporting Techniques"	AEB Conference Centre
27-29 March 2013	Training "Development Technologies: Coaching for Beginners"	AEB Conference Centre
18 April 2013	AEB Annual General Meeting	Swissôtel Conference Centre

Saint Petersburg		
Date	Event	Location
4 April 2013	The Fourth Northern Dimension Forum	Sokos Hotel Olympia Garden

*Please note that dates of events as well as venues can be changed! For updated information please visit the AEB website:  
[www.aeb.ru](http://www.aeb.ru) and [www.aeb-training.ru](http://www.aeb-training.ru)*

*Contact: Ekaterina Ostrikova, AEB Events Coordinator, Tel: + 7 495 234 27 64 (ext. 127)*

# 20 years with Russia



In 2012, Telenor celebrates its 20th anniversary of working in Russia. In 1992, we were among the first companies to believe in the Russian telecommunications. We also were one of the first international investors into the Russian economy. Looking back, we are glad to see the remarkable change that happened to Russia and its telecommunications market. And we are proud that our core strategic asset, Russian company VimpelCom, has grown to a global giant operating in 18 markets worldwide.



telenor  
group

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