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MILLIMAN

MARKET MONITOR

CENTRAL & EASTERN EUROPE LIFE & PENSIONS

WELCOME

Welcome to Milliman's CEE market monitor, which provides information and analysis on the latest developments in the developing life insurance markets in Central & Eastern Europe. Focusing on Poland, Romania, Russia and Ukraine we aim to provide market-level information, drawing from local sources and our experience in these markets.

We hope you enjoy reading the monitor and look forward to receiving your feedback.

CONTENTS

01 POLAND

MARKET

The Financial Supervisory Office (KNF) and main statistical office (GUS) have reported on the financial results of the insurance market for the first half of 2009. In the life insurance sector premiums written decreased by 25.5% to PLN 13.9 bn. The fall is due to the sharp reduction in single premiums which decreased by PLN 4.9 bn to PLN 6.9 bn. Regular premiums were virtually unchanged at PLN 7 bn compared to PLN 6.9 bn in the first half 2008.

Poland - Leading Life Companies H1 2009

	Company	Gross Written Premium (PLN '000)	H1 09 / H1 08 (%)
1	PZU Life	3,918,585	-46.67
2	ING	1,551,717	70.62
3	Warta	1,304,587	46.45
4	Allianz Life	990,936	135.19
5	Europa	987,952	-3.74
6	Amplico Life	853,548	4.78
7	Aviva	818,744	-65.86
8	Nordea	638,970	-23.41
9	Uniqa Life	499,261	-4.85
10	Generali Life	451,513	12.77
	Total Top 10	12,015,814	-
	Total Market	**13,938,960**	**-25.46**

Source: KNF, 1 EUR = 4.27 PLN

Single premium sales also have an important impact on the ranking of leading life insurers. Most of the growth for companies in the top ten is due to single premium sales which accounted for 80% of premiums for Allianz and Generali and over 90% for Warta, Europa and Nordea.

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The issue of the underlying credit risk exposure on **index-linked** products has drawn the attention of the Financial Supervisory Office KNF. KNF claims that the basis for intervention is the Act on Insurance Undertakings in Poland, and specifically the paragraph on diversifying and spreading the assets covering the mathematical reserves.

In 2008 **PZU Life** sold 70% of its index-linked products through **Millenium Bank**. During the second quarter this year, the insurer has decreased sales of index-linked products and PZU Life's premiums from products sold via banks decreased by 90% during the first half of the year. **Aviva** has withdrawn from selling index-linked products while **Europa** has announced the introduction of limits on index-linked sales. Other insurers say they do not plan to change their sales strategy for index-linked products. **Allianz** has announced that it will continue to sell index-linked products and it has not received any warning from KNF.

COMPANIES

According to financial journal "Parkiet", the **KBC Group** has calculated an appraisal value for its Polish insurer **Warta** of "several billion Zloty". It would expect to receive this amount if it decided to sell Warta. However KBC has announced that the company plans to continue to grow and strengthen its position in the CEE region and that only selected non-core assets would be sold in Romania and Bulgaria. KBC submitted a strategic plan to the European Commission in October which includes proposals for the repayment of the emergency funding it received from the Belgian government.

The newspaper Rzeczpospolita has produced a ranking of the 500 largest companies in the CEE region. In the list of largest insurers **PZU** is ranked in first place. The list of the largest 15 insurers includes the following Polish companies: **Warta** (3rd), **Aviva** (5th), **ING** (6th), **Allianz** (7th), **Uniqa** (11th), **Ergo Hestia** (12th) and **Amplico Life** (15th). The largest competitors for PZU in the CEE region are considered to be **Allianz**, **Generali** and **Wiener Staedtische**. These companies are present in several countries while PZU only has subsidiaries in Lithuania and Ukraine. Rzeczpospolita points out that in 2008, the revenues from the insurance market in Poland boosted the overall results in the CEE region. Insurers in Poland recorded a 52% increase in premiums written, with the biggest revenues collected by life insurance companies offering index-linked products.

During the first half of 2009, **Pramerica** reported PLN 77.9 m of premium written, 30% higher than the same period in 2008. At the end of June this year, the company reported a negative technical result of PLN 1.7 m compared to PLN 0.9 m a year ago. The net financial loss has also increased, from PLN 0.4 m to PLN 2.6 m in the first half of this year. Pramerica attributes the negative financial result to the significant investment into a new line of business (group life insurance), as well as the development of new offices in Gdynia and Poznan.

During the first half of 2009, **ING Life** collected PLN 1.6 bn in premiums, 70% more than in the same period last year. The largest proportion comes from insurance sold via ING Bank Slaski, especially from two index-linked products "Polisa Lokacyjna" and "Inwestycyjny Plan Ubezpieczeniowy". According to vice president Tomasz Blawat, the insurer is planning to start cooperation with other banks. ING is also working with **Signal Iduna** on the distribution of health insurance products.

During the first half of the year the company paid out PLN 1.9 bn in claims and benefits (compared to PLN 230 m a year ago). The growth was due to the expiry of short term index-linked products. The net profit for ING was estimated at PLN 101.2 m while the technical result increased from PLN 111 m to PLN 132 m.

AXA Group collected PLN 243 m in gross premiums during the first half of 2009, nearly 70% lower than during the first half of 2008. AXA Life collected PLN 223 m in premiums (-72%). The result is due to the drop in sales volumes of unit-linked products, which account for 67% of the company's portfolio. The company is still reporting a negative financial result but this was lower at -PLN 16.73 m compared to -PLN 34.5 m last year.

PRODUCTS

Raiffeisen Bank has launched a new index-linked insurance product "Bezpieczna Droga" (Safe Way) in cooperation with **PZU Life**. The product is a three year endowment insurance. The investment return depends on the performance of BNP Paribas Emerging Infrastructure Excess Return Index, which consists of equities in some 40 companies from the infrastructure industry. The subscription period lasts a month and closes on 26 October. "Bezpieczna Droga" guarantees a capital return of 95% of the sum insured at the end of the policy term. The rate of profit participation will be set at between 64% and 90%.

Bancassurer **BZ WBK-Aviva Life** has launched a new unit-linked investment product "In Plus". This offers an opportunity to invest in 21 investment funds managed by five fund management companies (TFI) including Aviva Investors. The investment funds can be divided based on their risk profiles into the following categories: equity, balanced, stable growth, deposits, cash and capital protection. The minimum premium is PLN 5,000 and there is no allocation fee. Fund switches are permitted at no additional cost. Additional premiums can be paid. There are no surrender charges after three years.

Open Finance has extended its product offer with two new index-linked products developed by Noble Bank in cooperation with **Europa Life**. 100% of the capital is guaranteed after a period of three to four years. The products are based on the Commodity "Twister" strategy based on the moving average used for the assessment of index trends and their strength. The strategy aims to generate returns on the increase or fall of the commodity index RICI Enhanced Excess Return Index, which invests in metals, energy commodities and agricultural products. The application of the above strategy has yielded excellent results: in the past ten years, the index produced a 200% investment rate of return.

Rzeczpospolita has reported the past performance results of unit-linked funds. Over a three year period, the best performing fund managers were:

i) bank deposit based funds - **Allianz Life**,
ii) monetary US dollar funds - **Benefia**, and
iii) guaranteed funds - **Nordea Life**.

Over five or seven years, the leading funds were equity and mixed funds. The best fund managers (**Aviva**, **Compensa Life** and **Nordea Life**) achieved an investment return of over 100%. Based on a comparison of unit-linked funds across all periods of time, the best fund was judged to be provided by **Nordea Life**. **Allianz** and **Compensa** were awarded second and third place respectively.

FEATURE: SOLVENCY II - THE STANDARD IS NOT ENOUGH

" Not everything that can be counted counts - and not everything that counts can be counted "

This famous quote by Albert Einstein succinctly indicates the complexity of the changes that are to be introduced by Solvency II.

The set of rules known as Solvency II are complex and difficult (the first draft Framework Directive was introduced in July 2007 but was not approved until April 2009) so we have divided the implementation process into the following phases:

PHASE I
Definition of the 'Framework Directive'
(i.e. the foundation of the Solvency II project)

PHASE II
Operational guidelines resulting from consultation papers

PHASE III
Implementation measures in cooperation with local supervisors

PHASE IV
Monitoring of the application of the standards

Having terminated Phase 1 last April, CEIOPS (the 'Committee of European Insurance and Occupational Pensions Supervisors') produced a series of documents (so-called 'consultation papers') relating to Phase II with the intent to finalise the first three phases by October 2011 so as to permit implementation of the new rules in October 2012.

From a preliminary analysis of the 'consultation papers' it is clear that the focus of CEIOPS, as well as the industry, has mainly been on the quantitative aspects of Solvency II. In reality the changes introduced by Solvency II can be divided into three main categories (commonly referred to as 'pillars') of equal importance from a regulatory point of view.

Pillar I - Quantitative indicators

- calculation of the 'best estimate' reserve (i.e. the projection of contractual cashflows and the assessment of their present values under defined conditions which take into account the specifics of the risks under consideration)
- determination of the 'Minimum Capital Requirement' (MCR) and the 'Solvency Capital Requirement' (SCR) using either the 'standard formula' or an 'internal model'.

Pillar II - Qualitative indicators

- implementation of ongoing Internal Audit and Risk Management activity
- identification of the risk profile of each company (ie the so-called ORSA 'Own Risk and Solvency Assessment') through stress tests
- evidence that risk management processes are actually used in the management of the company rather than for the sole purpose of satisfying the requirements of Solvency II
- the ability to demonstrate that the management of the company meet the requirements of good repute and competence in relation to the core insurance business

Pillar III - Reporting guidelines

- requirements for public and supervisory reporting
- harmonisation and relationships between IFRS reporting and Solvency II reporting

From a preliminary analysis of the brief description above it is clear that simply focusing on pillar I, i.e. the quantitative aspects, is an extremely narrow approach. As the famous phrase at the start of this article notes, not only what can be quantified counts. Solvency II wants to introduce a new 'culture' of management in insurers which enables the identification and continuous active monitoring of the risks associated with the business.

The new 'culture' will obviously be interpreted by each company in accordance with their specific characteristics. The legislation itself provides guidance relating to the possibility under Pillar I for companies to carry out their own assessment of their capital requirements using either an internal model or a standard formula.

The flexibility accorded by the legislation could possibly induce some companies (i.e. those who have decided to move towards the adoption of the standard formula) to underestimate the impact that Solvency II will have on their business and thus to postpone implementation activity.

The efforts of many stakeholders, and particularly those of CEIOPS, have focused until now mainly on quantitative aspects related to the establishment of an internal model for determining the MCR and the SCR. These reviews are of great value but are of no assistance to the many companies that have decided to adopt the standard formula. These companies will be required in any case, as a minimum, to make 'best estimate' valuations of their mathematical reserves, to implement proactive risk management activity, to carry out the 'ORSA' assessment and to produce reports for supervisors and the general public. Aspects related to data quality and project management should also not be forgotten.

We consider these requirements in more detail below:

1) **'Best Estimate' Reserves:** Reserves will be valued using tools for projecting the assets and liabilities associated with insurance contracts. Existing legislation does not explicitly specify the degree of simplification that can be used in these projections (for example: it is not clear what level of approximation can be applied to the interactions between assets and liabilities). Whatever the degree of simplification, it is clear that companies that do not have cash flow projection tools will need to develop them at least in order to calculate 'best estimates';

2) **Risk Management:** Risk management activity is already well-embedded in most EU insurance companies. Nevertheless, given the focus of Solvency II on the detailed knowledge and management control of the main risks, it is important for companies to constantly update themselves on developments in the law or the 'consultation papers' in order to identify any shortcomings their business may have;

3) **ORSA:** The existing regulations have not clarified the procedures for the assessment, nor explicitly guaranteed that it would be possible for companies who choose to adopt the standard formula to carry out the assessment without the adoption of an internal model. The law merely states that the method of assessment must be related to the nature, size and complexity of the business of each company. It is also important to highlight that the ORSA will become a key element for the company, particularly for those who decide to adopt the standard formula;

4) **Reporting:** The reporting that the companies will have to produce will quantitatively and qualitatively demanding. Constant monitoring of the new regulations will allow companies to avoid being caught unprepared;

5) **Data Quality:** The innovations introduced by Solvency II have important implications for the identification, management and use of the data needed for valuations. The experience of Basel II shows that this can have significant economic and operational impacts for companies;

6) **Project Management:** Due to the complexity of the changes introduced, implementation of Solvency II requires large-scale project management and this is often underestimated in business planning.

In conclusion, although not all quantitative and qualitative aspects of Solvency II have been finalised, it is clear that Solvency II will impact much more than just the areas in companies currently focused on evaluating the Solvency I Minimum Solvency Margin (typically the actuarial department) and that even in case of adoption of the standard formula, all companies need to begin now to assess their own situation. Companies need to implement action plans that will enable them to satisfy the regulatory requirements as well as benefit from the tools available in the market to optimize management costs and internal resources. Companies that take a holistic approach will be able to focus on the things that count and ensure that Solvency II becomes an opportunity rather than a threat.

PENSIONS

A new law effective as of August 2009 prescribes lower maximum charges for OFEs. All pension fund companies (PTE) need to file an application to KNF for a change of statute confirming the new charges. The changes aim to benefit OFE members and reduce the maximum level of acquisition charges from premiums paid from 7% to 3.5%. The maximum management charges paid by open funds to fund managers are also reduced. The proposed table of maximum management charges is shown below:

NAV (PLN million)		Maximum monthly management charge
from	to	
0	8,000	0.045% of NAV
8,000	20,000	3.6m PLN + 0.040% of NAV exceeding 8,000m PLN
20,000	35,000	8.4m PLN + 0.032% of NAV exceeding 20,000m PLN
35,000	45,000	13.2m PLN + 0.023% of NAV exceeding 35,000m PLN
45,000		15.5m PLN

02 ROMANIA

MARKET

Unofficial figures provided by the XPRIMM media organisation show first-half 2009 life insurance gross written premium of €187 m, down from €228 m in 2008, a decline of over 18%. While partly explained by a 12% decline in the exchange rate, life insurance premium income has also been hit hard by redemptions of unit-linked business and a reduction in credit volumes being issued by banks.

For comparison, other financial services industries have fared somewhat better through the downturn. Non-life premiums and compulsory pension contributions actually increased in local currency terms and are down less than 8% and 5% in Euros respectively. Non-life business has been underpinned by a still-rising number of vehicles on Romanian roads, while pensions business benefited from contributions brought into the system by new entrants to the workforce.

Changes in rankings for the first half 2009 (source: XPRIMM) versus the full year 2008 (source: CSA) reflect both industry-wide and company-specific factors.

Romania - Leading Life Companies H1 2009

	Company	Gross Written Premium (EUR m)	Market Share (%)
1	ING Life	61.4	32.8
2	AIG Life	24.8	13.3
3	BCR Life	20.1	10.7
4	Asirom	11.7	6.3
5	Allianz-Tiriac	11.2	6.0
6	Aviva	11.0	5.9
7	Generali	10.5	5.6
8	Grawe	10.0	5.3
9	Asiban	8.1	4.3
10	Eureko	4.3	2.3
	Total Top 10	173.2	92.6
	Total Market	187.1	

Source: XPRIMM

ING retains its dominant position with a 32.8% market share, although this is well down on 2008's 35.8% share, due primarily to the wave of redemptions experienced on its unit-linked portfolio. **AIG Life**, whilst sound and profitable at a local level, appears to have suffered from the problems of its international parent. Its market share has fallen two percentage points, to 13.3%, although it retains its second ranking in the Romanian market.

BCR Life, subsidiary of the **Vienna Insurance Group** and affiliate of Romania's BCR bank, has improved its share from 8.6% in 2008 to 10.7% for the first half of 2009. This growth was driven in large part by the sale of unit-linked policies through BCR's branch network. Former state-owned insurer **Asirom** (Vienna Insurance Group) reversed many years of decline to secure fourth place, lifting its market share from 5.0% to 6.3%.

With the exception of **Grawe**, all other companies in the top ten managed to increase their market share by holding their premium income at around 2008 levels. As a result, the market has become somewhat less concentrated.

LEGISLATION

Insurance Supervisory Commission (ISC) Order no. 6 / 2009 enacts the EU's gender directive in the insurance sector in Romania. It has elected to use the 'opt-out' provision allowing local life insurers to continue using sex as a rating factor provided that such use is based on accurate and up-to-date statistics, and that these statistics are made available to clients.

In the last few months, the ISC has also issued updated norms relating to risk management, authorization of insurers and the soon-to-be-established catastrophe insurance pool.

COMPANIES

According to the newspaper 'Adevarul' **ING's** life insurance division is to establish a common back office for its operations in Poland, Czech Republic, Slovakia, Greece, Romania, Hungary and Spain. The office will handle operations and finance, and will employ 500 staff once fully operational. The centre will be located in Cluj-Napoca, Romania, which was chosen due to its multilingualism and low labour costs.

According to XPRIMM, the Austrian group **Uniqa** has decided to enter the life insurance market using a company already existing within the group, **Agras**. Agras currently holds a non-life licence, although plans to change its profile and begin life insurance business before the middle of 2010.

Hungary's **Pannonia Insurance** has established a branch in Romania, to be known as CIG Life and operating under the EU's 'freedom of services' principle. The branch commenced operations on 1 October and intends to launch its first product, a unit-linked insurance, by the end of 2009.

PRODUCTS

Aegon Life commenced sales of a unit-linked life insurance product through the branch network of Banca Transylvania, augmenting its existing broker distribution channel.

BCR Life has been strongly promoting a series of structured single premium products. The products, known as BCR Garant, are sold through BCR bank branches and offer guaranteed returns as well as a small layer of life insurance. The series currently on offer provide guaranteed returns of 45% in Euros and 84% in lei over a seven year period. The minimum premium is RON 9,000 or EUR 2,250. The return is linked to a basket of Dow Jones, EURO STOXX 50, Nikkei 225 and Eurozone HICP ex Tobacco indices and subject to a minimum of 45% (euro) and 84% (lei), and maximums of 80% (euro) and 153% (lei). The death benefit is the greater of the sum insured and the market value of the account plus 10% of the sum insured.

Aviva has reported significant

increases in the sales of protection products versus 2008. For the first half of 2009, the term life insurance "Complet" registered a 100% increase while the "Esential" personal accident product saw sales increase by 130%.

PENSIONS

The Private Pensions Supervision Commission has extended for a further year its decision to allow pillar II (mandatory) fund administrators to deviate from the investment limits specified in their prospectuses. The derogation allows administrators to hold a higher proportion of government securities than would otherwise be possible, thus reducing the amount held in risky assets.

The mandatory pension market looks set to reduce to ten funds following the Commission's preliminary approval of **BCR's** request to absorb into its fund the membership of two smaller funds belonging to **OTP** of Hungary and **Prva Pensii** of Slovenia. Following absorption of the two funds as well as the earlier absorption of the "Omniforte fund", BCR will administer the accounts of around 250,000 participants and hold a 5.7% market share.

During the first transfer window following the Commission's decision to prohibit the involvement of agents and brokers, only 84 scheme participants (out of approximately 4.4 million) elected to change fund. This compares with 4,136 during the previous transfer window.

To reduce concentration in the market, the Commission has proposed allocating equal numbers of new entrants from the "lottery" to each fund. Eligible participants who fail to join a fund within four months of entering the workforce are currently allocated to funds according to their existing market share.

BRD has launched an additional facultative pension fund called "Primo". The fund is "low-risk", focusing on investment in securities which are either government-issued or government-guaranteed. BRD will charge fund members 2.95% of contributions received and 0.1375% of assets under management monthly (c.f. legal limits of 5% and 0.2% respectively).

FEATURE: PRIVATE PENSIONS RESEARCH REPORT

Milliman is about to publish a research report on the private pension systems in Central and Eastern Europe.

In 1998 Poland became the first country in the region to implement a three pillar pension system based on the World Bank model, however it has subsequently been followed by a number of others.

Private pensions have grown strongly in most countries in Central and Eastern Europe in recent years. Although the pension systems in the region face substantial challenges from the current economic downturn, they continue to represent a significant growth opportunity for financial services providers.

The purpose of the report is to help Milliman's clients and partners gain a better understanding of the variety and current state of funded pension systems in the region, a decade on from the Polish launch, and the opportunities and challenges facing pension providers in these countries. Five countries are analysed, namely Poland, Romania, Hungary, Slovakia and Russia, which have been chosen to represent the diversity in the region.

To receive a copy of the report or for further information, please contact your usual Milliman contact or Paul Ernest at: paul.ernest@milliman.com

FEATURE: RECESSION-PROOF PRODUCT STRATEGIES FOR LIFE INSURERS

The financial crisis has had a severe impact on life insurance business in Eastern Europe.

Companies have seen sales volumes fall away dramatically. As credit has grown more expensive and difficult to find, life insurances linked to loans have become less popular. Banks are also putting pressure on premium rates and in some cases removing insurance from their loan packages in an attempt to reduce costs to clients. Unit-linked product sales have also fallen, as consumers have lost confidence in equity markets, following the dramatic index collapses during the last year.

Some life insurers are also struggling to retain business; policies are being terminated as customers find they can no longer afford the premiums, or as they need to access the surrender value.

The most resilient class of life business appears to be the traditional endowment, which, due to its opacity and conservatism, provides savers with some perceived protection from investment volatility. The question is, what can life companies do to protect their existing revenue streams and build new ones in such an adverse environment?

Adapt to Reduced Spending Power

The first answer is obvious; recognise that clients and potential clients have reduced spending power. Customers who in the past would have purchased single premium investment policies may now only be able to afford a regular premium savings plan. Cheaper risk insurances may find a more ready market than more demanding policies which accumulate capital.

It could be a good time therefore for life insurers to review their term insurance and personal accident offerings, as well as investigating ways to make savings plans more affordable.

Target Perceived Needs

The recession has moved certain worries to the top of consumers' minds. The threat of redundancy is uppermost but this presents an opportunity since unemployment is a risk which, under certain conditions, can be insured against. As a minimum, life insurers can build in 'waiver of premium' features to their products to help keep them on the books in the event that customers lose their jobs.

Another perceived need is for 'lower risk' savings vehicles. Companies offering unit- linked products can address this by reviewing their portfolio of investment programmes or funds, and ensuring that their offer matches the needs and desires of their clients. Various approaches are possible but will usually involve the life insurer providing either directly or indirectly some form of investment guarantee.

Another way to cater to risk aversion is by addressing the design of the savings vehicle itself. For example, by using a 'buffer fund' to soak up investment volatility, life insurers could offer their clients smoother returns while still investing relatively aggressively on their behalf.

Manage Existing Portfolios

In-force portfolios of unit-linked savings business need to be afforded a degree of lapse protection. Customers who can no longer afford premiums should be encouraged to take a premium holiday or to make their policies paid up depending whether the personal income loss is likely to be temporary or permanent. In some situations it may be a better option for insurers to incentivise these options by modifying policy features, rather than see policies discontinue and the long term business value decrease.

Partial surrenders and repayable policy loans could be offered to clients who are in urgent need of the funds locked up in their policies. In many cases, this is likely to produce a better outcome for insurers than outright termination.

Finally, life insurers need to cater for customers who are tempted to cancel their policies due to poor past investment experience, or who are worried about future investment risk. One way of doing this would be to offer switching to lower risk investment funds. Another would be to develop investment guarantee 'riders' that could be sold as additions on to existing products, providing various forms of protection against asset value declines, while generating additional income to the insurer at the same time.

The Medium Term Outlook

While the first signs of recovery are beginning to appear, many economists believe that this recovery may be longer and more 'jobless' than those we have seen in the recent past. That is because the financial imbalances which caused the 2008 crisis will take many years to work themselves out.

The upshot for life insurers is that the current market conditions are unlikely to ease rapidly. Recession-proof product strategies may be a medium term necessity rather than a short term expediency.

For further information or to discuss any of these ideas, please contact your usual Milliman contact or Adrian Allott in Bucharest at: adrian.allott@milliman.com

CONFERENCES

Milliman consultants will be speaking at a number of forthcoming events covering CEE markets. It may be possible to obtain a discount when attending these events by mentioning that you are a Milliman client.

DATE	ORGANISER	LOCATION	EVENT
17-18 November	Russian Polis	Moscow	5th International Conference "World Views for LIFE INSURANCE in Eastern Europe, CIS and Asia
21-22 January	Jacob Fleming	Vienna	3rd Annual Bancassurance Forum

03 RUSSIA

MARKET

Figures for the second quarter have confirmed the downturn in life business with premium income down by 19% compared to the first half of 2008 although there were quite mixed results for individual companies.

Russia - Leading Life Companies H1 2009

	Company	Gross Written Premium (RUR '000)	H1 09 / H1 08 (%)
1	AIG Life	1,342,318	-22.8
2	Rosgosstrach Life	748,512	37.4
3	Geopolis	380,000	N/A
4	Generali PPF Life Insurance	369,369	N/A
5	Alfainsurance Life	351,910	56.0
6	Chulpan Life	349,501	16.6
7	Russian Standard Insurance	316,986	-77.2
8	Allianz Rosno Life	280,372	41.1
9	Sogas - Life	271,642	-68.5
10	CIV Life	244,388	412.6
	Total Top 10	4,654,998	-
	Total Market	**7,098,190**	**-19**

Source: FSIS, 1 EUR = 43.13 RUR

LEGISLATION

The Federal Service for Insurance Supervision (FSIS) is planning to perform regular inspections of all life insurers in the market. The most important aspect of inspection will be the quality of assets. The regulator views life insurance as one of the highly socially sensitive market segments (along with compulsory MTPL). For this purpose the FSIS is considering the creation of a centralized guarantee system for policyholders. However, the idea of a central policyholder protection fund is not supported by insurers and the particular model for this system is therefore not yet determined.

COMPANIES

Leading Austrian insurance group **Uniqa** has received a licence for its new life company - "Raiffeisen Life". Uniqa is the sole shareholder in the newly formed company which plans to sell its life insurance products through the nationwide branch network of Raiffeisenbank. According to General Director, Maxim Chumachenko "the short term target is to gain 5-10% of the Russian life insurance market". Raiffeisen Life has started its operations by offering credit life insurance for borrowers and credit card holders. In addition it offers savings products in the form of traditional endowment assurances with typical market riders, such as accidental death and total and permanent disability. Products are offered in three major currencies ruble, euro and US dollar.

ING has decided to close its Russian subsidiary **ING Life Insurance**. ING Life Insurance Russia stopped selling life insurance policies through its sales network from 17 September 2009. The company will continue to fulfill its obligations to existing clients. ING had opened nine sales offices in the last two years, six of which opened in 2009. All sales offices have now been closed.

"Building a strong distribution channel using our own agency network in Russia turned out to be a more difficult task than initially expected" explained Jetse de Vries, Managing Director. It has been agreed with minority stakeholders (EBRD and IFC) that existing policies will be transferred to **Allianz ROSNO Life**. Allianz ROSNO Life is assuming all the liabilities under exiting contracts.

The formal transfer will commence according to procedures prescribed by appropriate legislation with notification and approval of policyholders being the main steps.

Russian life insurer **AIG Life** is changing its name to **Alico** following the recent financial problems of its US parent. The rebranding is part of a global campaign to separate American Life Insurance Company from troubled insurer AIG. This, however, is already the fourth name for the Russian insurer after RUS AIG, AIG Russia and AIG Life.

PRODUCTS

Russian life insurer **Ingosstrach Life** has launched two new risk products. Both are three year single premium products. The first provides accidental death and invalidity cover with an annually increasing sum assured. The second provides a wide range of accidental and sickness related covers. Three levels of sum insured are offered with a maximum sum assured of RUR 1.5 m. The products are therefore fairly standardized and relatively inexpensive, aimed at a broad target market. Both products offer a higher sum insured in case of specific events - car accident and burglary.

Generali PPF Russia has launched a product which is a combination of long term life insurance savings and non-state pension fund provision in the form of the accumulation part of the mandatory second pillar pension system. Clients will be able to enjoy the state matching of their contribution under the pension fund contract. The current rules provide for state matching for compulsory or voluntary contributions of up to RUR 12,000 pa for a maximum of ten years.

Allianz ROSNO has launched a new product which is a combination of a bank deposit, mutual fund investment and risk cover provided by the insurer. The latter consists of term assurance with waiver of premium in case of invalidity and a maximum sum assured up to RUR 2 m. On death the sum assured will be paid to the beneficiaries while the bank deposit and mutual fund will remain in force until the end of the contract term which is a minimum of five years. Bank deposits and mutual fund investments are provided by partner banks and asset management companies respectively. Additional funds can be invested in the bank deposit at interest rates established by the bank partners.

04 UKRAINE

MARKET

Figures for the second quarter have confirmed the downturn in life business with premium income down by nearly 16% compared to the first half of 2008.

Ukraine - Leading Life Companies H1 2009

	Company	Gross Written Premium (UAH '000)	H1 09 / H1 08 (%)
1	Alico AIG Life	80,790	-36.5
2	Grawe Ukraine	78,580	N/A
3	TAS	68,799	56.0
4	Renaissance Life	23,889	-51.7
5	KD Life	16,895	N/A
6	Blakitniy Polis	14,551	-5.3
7	Generali Garant Life	13,917	N/A
8	PZU Ukraine Life Insurance	11,632	30.0
9	UNIQA Life	11,273	N/A
10	Fortis Life Insurance	9,904	-40.3
	Total Top 10	330,229	
	Total Market	404,300	-15.9

Source: League of Insurance Companies of Ukraine, 1 EUR = 12.08 UAH

COMPANIES

PZU Life and financial broker **EU Life Group** have signed a cooperation agreement. EU Life will sell full range of life insurance products (mainly endowment products) through its nationwide sales network. This is expected to significantly boost sales of PZU's individual life insurance products. EU Life was created after a split of largest multi-level marketing agency **Eurolife** which previously sold products of Alico AIG Life Ukraine, Grawe Ukraine and KD Life.

Delta Life has appointed Pavol Norulak as its new CEO replacing Leonid Pavlenko. Pavol Norulak previously worked in **Alico AIG Life** in 2003 - 2007 and more recently in the Ukrainian subsidiary of Slovenian KD Group - **KD Life**. Delta Life has specialized in bancassurance in recent years through Delta Bank, which is also controlled by leading shareholder and local entrepreneur Nikolay Lagun. However, after the economic slowdown and the almost complete stop in the issue of new loans, sales volumes have dramatically decreased (by over 80% in the first half 2009). The appointment of Mr Norulak is aimed at the development of Delta Life's own retail sales network.

Fortis Life Insurance announced it has signed a reinsurance agreement with **SCOR Global Life**. This agreement covers risks under new life products launched by Fortis with an option to extend cover to other insurance products. Fortis continues to use **Munich Re** as its reinsurer for other products and its existing portfolio.

PRODUCTS

Fortis Life Insurance Ukraine is offering its clients a new regular premium whole life assurance. This traditional product uses the standard profit sharing approach according to Ukrainian legislation. Optional covers can be added, such as critical illness and accidental death. The entry age limits are 18- 70 with annual, quarterly and monthly premium payments allowed.

After limiting new contracts to local currency only from February 2009, **Generali Garant** has decided to resume issuing policies denominated in US dollars and Euros. This decision was made because of high volatility of exchange rates at the time, which could have caused reserving problems for the insurer.

Oranta Life has started offering its existing clients the option to purchase additional cover which was not previously taken-up. This additional cover includes accidental death, permanent and temporary disability, invalidity according to social security groups I and II (accident or sickness), accidental dismemberment, hospitalization and critical illness. The term and sum assured for these additional riders cannot exceed those under the original policy. An additional premium is charged for the riders and does not alter the conditions of the main cover.

About Milliman

Milliman is a leading international firm of consultants and actuaries, providing services to the Life, Health, General Insurance and Employee Benefits Sectors. Founded in 1947 in the United States, the firm has 51 offices worldwide including in Amsterdam, Bermuda, Bucharest, Hong Kong, London, Madrid, México City, Milan, Munich, Paris, São Paulo, Seoul, Tokyo, Warsaw and Zurich.

Our offices in Europe specialise in insurance and provide actuarial and strategic support in a range of areas including strategy and business planning, mergers & acquisitions, product and distribution development, financial management and reporting, risk management and solvency.

Our Experience

Milliman's experienced consulting team has extensive experience of the insurance markets in Central & Eastern Europe. Examples of projects we have worked on include:

- Merger & Acquisition transactions involving life, non-life, pension fund and bancassurance companies in Poland, Hungary, Czech Republic, Romania, Slovenia, Ukraine and Russia
- Strategy and business planning for a start-up life insurers in Ukraine and Romania including licence application support
- Product development and pricing support for life and pensions business in Poland, Romania, Russia and Ukraine
- Health insurance product development in Poland
- Actuarial reserve reviews for non-life insurers in Russia and Slovenia
- Feasibility studies in various markets for life and non-life insurers considering entry on an establishment and cross-border basis
- Statutory reporting and appointed actuary work in Poland and Romania
- Distribution strategy and life sales force modeling in various markets

Contact Details

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