

Annual Report 2006

Russian Association of Motor Insurers





RUSSIAN ASSOCIATION OF MOTOR INSURERS

ANNUAL REPORT 2006

CONTENTS

1. Foreword by A. S. Kigim, President of the Russian Association of Motor Insurers (RAMI)	4
2. Greetings from:	5
A. P. Koval, President of the All-Russian Insurance Association.....	5
A. L. Savatyugin, Director of the Department of Financial Policy of the Ministry of Finance of the Russian Federation.....	6
I. V. Lomakin-Rumyantsev, Head of the Federal Service for Insurance Supervision	7
Y. S. Moskvichev, Deputy Minister of Transport of the Russian Federation.....	8
V. N. Kiryanov, Head of the Department of Road Safety at the Ministry of the Interior of the Russian Federation, Lieutenant General of the Militia	9
D. A. Milovantsev, Deputy Minister of Information Technology and Communications of the Russian Federation.....	10
3. The main principles of compulsory motor third party liability insurance (CMTPL)	11
4. The aims and objectives of RAMI	11
5. The structure of RAMI	12
5.1. The governing bodies of RAMI	12
5.2. Members of the Presidium of RAMI	13
6. CMTPL in 2006 — the main statistical indicators	14
7. The work of RAMI in 2006	16
7.1. Developing rules of professional conduct	16
7.1.1. Developing new rules of professional conduct and amending the current rules	16
7.1.2. Developing new recommended methods (explanations, agreements) and amending the current set	17
7.2. Looking after the interests of RAMI members at governmental level in connection with the operation of CMTPL	18
7.2.1. Developing proposals for amendments in the legal regulations governing CMTPL.....	18
7.2.2. Developing approaches to the calculation of compensation payments to victims of road accidents who have suffered bodily injury.....	20
7.2.3. Developing overall principles for the introduction in Russia of direct settlement of CMTPL claims and simplified registration of motor accidents.....	22
7.3. Paying compensation to road accident victims according to the requirements of Federal Law No. 40-FZ.....	23
7.3.1. The types and amounts of claim payments.....	23
7.3.2. Problems in paying compensation	24
7.3.3. Insurance companies whose obligations to pay compensation are being administered by RAMI.....	24
7.3.4. Problems connected with the recovery of compensation payments made on behalf of the insurance companies whose obligations are being administered by RAMI.....	24
7.4. The development and use of informational resources	25
7.4.1. The RAMI Automated Information System (AIS RAMI)	25
7.4.2. The CMTPL Automated Information System (AIS CMTPL).....	28
7.5. Co-ordination of members' activities in fighting insurance fraud in CMTPL and opposing unfair and illegal competition	30
7.5.1. Developing and completing the 'Spektr' database.....	30
7.5.2. Opposing unfair competition	30
7.5.3. Co-operation with the law enforcement agencies	31
7.5.4. Increasing the level of professional expertise within the security departments of insurance companies	31
7.6. Controlling the activities of RAMI members	31
7.6.1. The work of the department responsible for inspecting, assessing and controlling RAMI members..	31
7.6.2. The work of the RAMI Complaints Commission	33
7.6.3. The work of the RAMI Disciplinary Commission	35
7.6.4. Moving towards bilateral agreements in relation to representing insurance companies in the regions of Russia and the creation of a database of representative offices.....	36
7.7. Supporting Russia's application to join the international system of CMTPL insurance (the Green Card System)	37
7.7.1. The work of the group of EU experts	37
7.7.2. Preparing the groundwork for joining the international Green Card System	37
7.8. Taking action to improve road safety: reducing the number and severity of road accidents	38
7.8.1. Producing the RAMI report 'CMTPL and road safety'	38
7.8.2. The joint RAMI/Ministry of Transport project 'Multifunctional automatic system of controlling road traffic systems, based on experience gained on the M1 (Belarus) highway'	38
7.8.3. The joint RAMI/State Inspectorate for Road Safety project 'Automatic systems for controlling speed on the roads of the Moscow region'	39
7.8.4. The pilot project with GAZ to install in passenger and goods vehicles on-board recording devices to reduce accident frequency and to increase road safety	39
7.9. Developing professional qualification and accreditation for specialists in the CMTPL market	39
7.9.1. Professional qualification and accreditation of technical vehicle inspecting specialists	39
7.9.2. The register of unprofessional agents and brokers.....	41
7.9.3. Professional qualification and accreditation of other specialists	41
7.10. Other work performed by RAMI	41
7.10.1. The work of the RAMI regional representative offices	41
7.10.2. The RAMI programme of social involvement	42
7.10.3. Raising the level of qualifications (seminars, conferences)	43
8. RAMI 2006 Financial and budgetary report	45
9. Report of the auditors (extract)	45
10. Report of the Audit Commission (extract)	46
11. The development of CMTPL — priorities for 2007	47
11.1. Preparing for the introduction of the direct settlement of CMTPL claims and simplified reporting of road accidents	47
11.2. Joining the Green Card System.....	47
11.3. The development of AIS RAMI and the AIS CMTPL	47
11.4. Other developments	48
12. Glossary of abbreviations used in the report	49
13. Appendices	50

1.

FOREWORD BY A. S. KIGIM, PRESIDENT OF THE RUSSIAN ASSOCIATION OF MOTOR INSURERS (RAMI)



2006 has been a successful year for the Association. We are moving forward and continually undertaking new projects aimed at making the system of CMTPL insurance more convenient for all those involved.

In order to ensure that all financial obligations are met, it is essential to swiftly tighten up the rules governing the entry of new participants to the CMTPL market and in addition more rules are needed to ensure the financial stability of existing members of the market. Our unfortunate experience of what happens when companies are bankrupted cannot but underline the need for stronger financial control of companies.

There are proposals to introduce new methods of handling CMTPL using the **European Protocol**. This will require professional association of insurance companies to work out methods of mutual accounting, developing uniform standards of professional inspection of vehicles and the training of specialists in insurance companies.

The state has announced that an **improvement in road safety** is one of its key objectives. To achieve this, strong political will is needed together with co-ordinated efforts in a number of different areas such as developing and managing the road system, producing safer cars, improving medical services and widespread publicity. In September 2006, the Deputy Head of the Government of the Russian Federation, A. Zhukov, speaking at an extraordinary General Meeting of RAMI members, emphasised the importance of insurance companies participating in the process of improving road safety.

We have made the first steps in all these important directions and I hope that we will reach our goal.

I would like to express my gratitude to everyone who is actively participating in the development of CMTPL in Russia, to our Russian partners and foreign colleagues who are kindly sharing their experience with us. In particular I would like to thank my colleagues from the insurance companies and the RAMI team for their enthusiasm and hard work in continually improving such a socially important class of insurance as CMTPL insurance.

*Yours sincerely,
President of RAMI
A. S. Kigim*

2.

MESSAGES OF GREETING

A. P. Koval, President of the All-Russian Insurance Association (ARIA) and Member of the Russian State Duma



Dear Colleagues,

In front of you, you can see the RAMI Annual Report for 2006.

This report is not just an attractively produced brochure: it is a detailed account of the work that RAMI is undertaking in carrying out its duties under the federal law on CMTPL insurance. This law on the one hand came about as a result of a decision by the state to begin a civilised solution through insurance of one of the most acute problems — providing insurance protection for road accident victims. On the other hand, the law was an offer to those insurance companies carrying on this class of business to take on themselves the responsibility for the successful implementation of such a huge project, a project that involves almost every Russian citizen and which is being carried out for the first time in Russia.

I am sure that the Annual Report will become a catalyst for solving the difficult problems that remain and will help to define new benchmarks for RAMI.

In addition, this report will not only help insurance companies but also encourage government bodies to take a detailed and dispassionate view of this part of the market and to form their own opinions as to its worth.

*Yours sincerely,
President of ARIA
A. P. Koval*



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

For CMTPL insurance, last year was a year where changes were introduced to its legal and regulatory framework. In January 2006 a new version of Decree of the Government of the Russian Federation (No. 739) relating to insurance tariffs for CMTPL insurance came into force. In both August and December of that year, changes were made in another Government Decree (No. 263) which sets out the standard terms and conditions of the CMTPL policy and in November a law was passed modifying the operation of a bonus/malus system. In addition, during this period draft amendments to the federal law on CMTPL insurance were prepared and discussed. These amendments would have a considerable effect of the way the insurance is operated. The main proposed changes are direct compensation payments for accident victims, simplified reporting of accidents and new methods of determining the size of compensation payments to victims who have suffered bodily injury.

All these changes demonstrate that this type of insurance, with its strong social impact has not reduced in importance in the eyes of the state or of the general public. The objective of these changes is to improve the standard of insurance service provided by insurance companies and to provide a greater defence of the interests of road accident victims.

RAMI played an important role in bringing in these changes by preparing discussion papers based on international experience. The Association is also working to prepare Russia for joining the international CMTPL system (Green Card).

However, there is more work to be done to ensure that CMTPL insurance operates in a way that everyone involved is fully and adequately protected. Government bodies, RAMI and the insurance companies need to co-operate to improve the system and to bring it into conformity with European standards. For example, direct settlement compensation payments to victims and simplified reporting of road accidents (the European Protocol) will come into force in 2008 when the proposed amendments to the CMTPL insurance federal law are passed. The introduction of these changes will require major changes in the way insurers work and also changes in the basic infrastructure will be necessary and will require a higher level of service to clients. Preparatory work is essential and here RAMI will play a pivotal role.

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

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



Dear RAMI members,

2006 has been a testing year for the CMTPL market..

- Amendments were made to a number of regulations relating to this type of insurance and insurers had to quickly adapt themselves to them.
- Minimum capital requirements for insurance companies have increased and new regulations governing the placement of insurance reserves have come into force.
- The number of reported claims has grown and there has been a steady rise in the number of paid claims and a significant growth in loss ratios in some parts of Russia and in some segments of the CMTPL market.
- The number of companies whose license has been withdrawn and who have commenced bankruptcy proceedings has grown.

However, all these difficulties have not prevented the emergence of a number of positive signs: the number of concluded insurance contracts has grown as has the number of claims payments. Claims settlement has speeded up, drivers are better informed, and real improvements in the system have been introduced. The system of guaranteeing the insurance liabilities of insolvent companies by ensuring that compensation payments are made to victims of road accidents where the insurance company is no longer in business has proved its worth and in doing so has ensured that the overall objective of CMTPL insurance is achieved: there is guaranteed compensation for victims of road accidents.

The fact that there have been insolvencies proves the point that only financially strong companies should be permitted to carry on mass market insurance. RAMI is developing rules of professional activity, which contribute to the stability of the market by placing greater demands on its members than the law itself and also make insurers responsible for infractions of the rules. In addition, RAMI exercise a constant oversight over the compliance of its members to the law. Routine and extraordinary inspections of companies are carried out, there is a functioning complaints system, rules of professional conduct are backed up by sanctions.

On the whole it can be said that the experiment in delegating certain state functions to the professional organisation, RAMI, has been a success and this experiment can be repeated in other areas.

RAMI is continually developing and improving and its rules of professional conduct are approaching international standards. This has been made possible thanks to the professionalism and efficiency of the staff, a profound understanding of this segment of the market and the responsible way in which RAMI solves problems.

I would also like to congratulate all insurers who have successfully established the CMTPL insurance, despite the difficulties, and who comply scrupulously with the law.

May all participants continue to flourish, enjoy great success, make new professional achievements and introduce new ideas. I wish you success in all you do.

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





**Y. S. Moskvichev, Deputy Minister of Transport
of the Russian Federation**

Developing policies to reduce road traffic accidents is one of the most important areas of work for the Government. Insurance of road transport is one of the most important and effective means of reducing road traffic accidents and thereby providing greater protection to the lives and health of the general public.

The Russian Association of Motor Insurers is the first professional association of insurance organisations that has its functions set out in the federal law. RAMI plays a major role in creating the infrastructure of CMTPL in the Russian Federation.

The close co-operation between the Ministry of Transport and RAMI produces real results within the overall objective of reducing road accidents and improving the situation on the Russian roads. This is confirmed by our collaboration on the project entitled 'Multifunctional automatic system of controlling road traffic on the pilot segment of the M1 (Belarus) highway'.

RAMI plays an active role in the work of interdepartmental groups resolving transport issues and in particular in the group examining the issue of the role of independent technical experts in examining motor vehicles.

One vital issue is the safety of road passengers. Bearing this in mind, RAMI took part in a number of regional events, organised by the Russian Motor Transport Association.

The Ministry of Transport intends to develop further its practical co-operation with RAMI since the accumulated experience that has been gained provides practical solutions of high quality to many important questions.

We believe that the experience gained last year from the combined efforts of the Ministry of Transport and of RAMI can play a significant role in improving the effectiveness of the road transport sector of the Russian Federation.

***Deputy Minister of Transport of the
Russian Federation
Y. S. Moskvichev***

**V. N. Kiryanov, Head of the Department of Road Safety
of the Ministry of the Interior of the Russian Federation,
Lieutenant General of the Militia**



Dear Colleagues,

The Government takes the view that the improvement of road safety is a discrete area of governmental policy. Following the instructions given by the President of the Russian Federation, Vladimir Putin, a governmental commission was set up with the aim of improving road safety, chaired by Alexander Zhukov, Deputy Prime Minister, and on which Andrey Kigim, President of the Russian Association of Motor Insurers, also sits.

Today, the Government sees the Russian Association of Motor Insurers as an equal partner with government bodies. This is particularly true in respect of road safety. One of the most important protections of the rights of citizens is CMTPL insurance. CMTPL insurance provides an effective mechanism whereby compensation is paid to those who have suffered damage from road accidents.

We already see the first fruits of the co-operation between RAMI and the Road Traffic Police in the Automated Information System for CMTPL. This is a valuable step towards deepening our joint work.

Improving road safety requires technical co-operation between governmental bodies, commercial organisations and other interested non-governmental bodies. RAMI is the most active participant in this process. It is only through co-ordinated work to develop regulations and to create the basic organisational and methodological foundations of road safety that we will be able to make a concerted attack on the problems caused by road accidents.

These issues have been the subject matter of numerous conferences, round tables and other meetings at which representatives of RAMI have been present.

We can say, without fear of contradiction, that our co-ordinated efforts in the area of road safety will make a major contribution to achieving the overall goal: to protect the life and health of hundreds of thousands of Russians who travel every day on the roads.

***Head of the Department of Road Safety
of the Ministry of the Interior of the Russian Federation,
Lieutenant General of the Militia
V. N. Kiryanov***



D. A. Milovantsev, Deputy Minister of Information Technology and Communications of the Russian Federation

Today, there is a joint awareness both at governmental level and within the insurance community of the need to develop and introduce new information technology. This is particularly important in relation to CMTPL insurance, where an Automated Information System is vital (AIS CMTPL).

The experience gained in 2006 working on AIS CMTPL has shown that for it to work, co-operation was necessary between six federal ministries and departments who also worked with the Russian Association of Motor Insurers, with the task to decide the key issues relating to the centralised creation of national information resources to which citizens of Russia can have access.

Thanks to the co-operation between the Ministry of Information and the Russian Association of Motor Insurers, the basic documentation necessary for the initial development of AIS CMTPL was produced, and a number of practical issues were resolved on the basic structure of the system and what sort of information relating to CMTPL would be included.

I am sure that the fruitful co-operation between the state and the insurance community will promote the development of a modern IT industry in Russia.

*Deputy Minister
of Information Technology and Communications
of the Russian Federation
D. A. Milovantsev*

3. THE MAIN PRINCIPLES OF COMPULSORY MOTOR THIRD PARTY LIABILITY INSURANCE (CMTPL)

The main principles of CMTPL insurance are set out in section 3 of the Federal Law of 25 April 2002, No. 40-FZ, entitled 'On the insurance of the civil liabilities of users of road transport'. These principles are:

- guaranteed payment of compensation for bodily injury or property

damage up to limits set out in the Federal Law on CMTPL insurance No. 40-FZ;

- universal and compulsory MTPL insurance for all road users;
- prohibition of any citizen to operate a motor vehicle on the roads of the Russian Federation without having

insured his civil liability, other than those drivers excluded from the requirement by the Federal Law of CMTPL insurance No. 40-FZ;

- improving road safety thereby upholding the economic interest of users of road transport.

4. THE AIMS AND OBJECTIVES OF THE RUSSIAN ASSOCIATION OF MOTOR INSURERS

The Russian Association of Motor Insurers (RAMI) is a non-commercial organisation, which is the sole Russia-wide professional association of insurance companies that participate in the system of compulsory motor third party liability insurance (CMTPL). Membership of RAMI is compulsory for all companies that have a CMTPL license. RAMI has as its main objectives the co-ordination of its members' activities and the development and the implementation of rules of professional conduct in the operation of the system of CMTPL insurance.

RAMI was founded and operates in conformity with the Federal Law of CMTPL insurance (No. 40-FZ) and its legal status is defined by Russian legislation on associations, by its charter and by the requirements of the Federal Law No. 40-FZ, under which legal regulations of the Russian Federation define the special status of a professional association of insurance companies.

The overall objective of RAMI is to co-ordinate the activities of its member insurance companies and to develop rules of professional conduct in carrying on CMTPL insurance, to represent and defend members' interests in relation to CMTPL insurance and also to protect the rights to receive compensation of those suffering bodily injury or property damage as a re-

sult of a road accident caused by another.

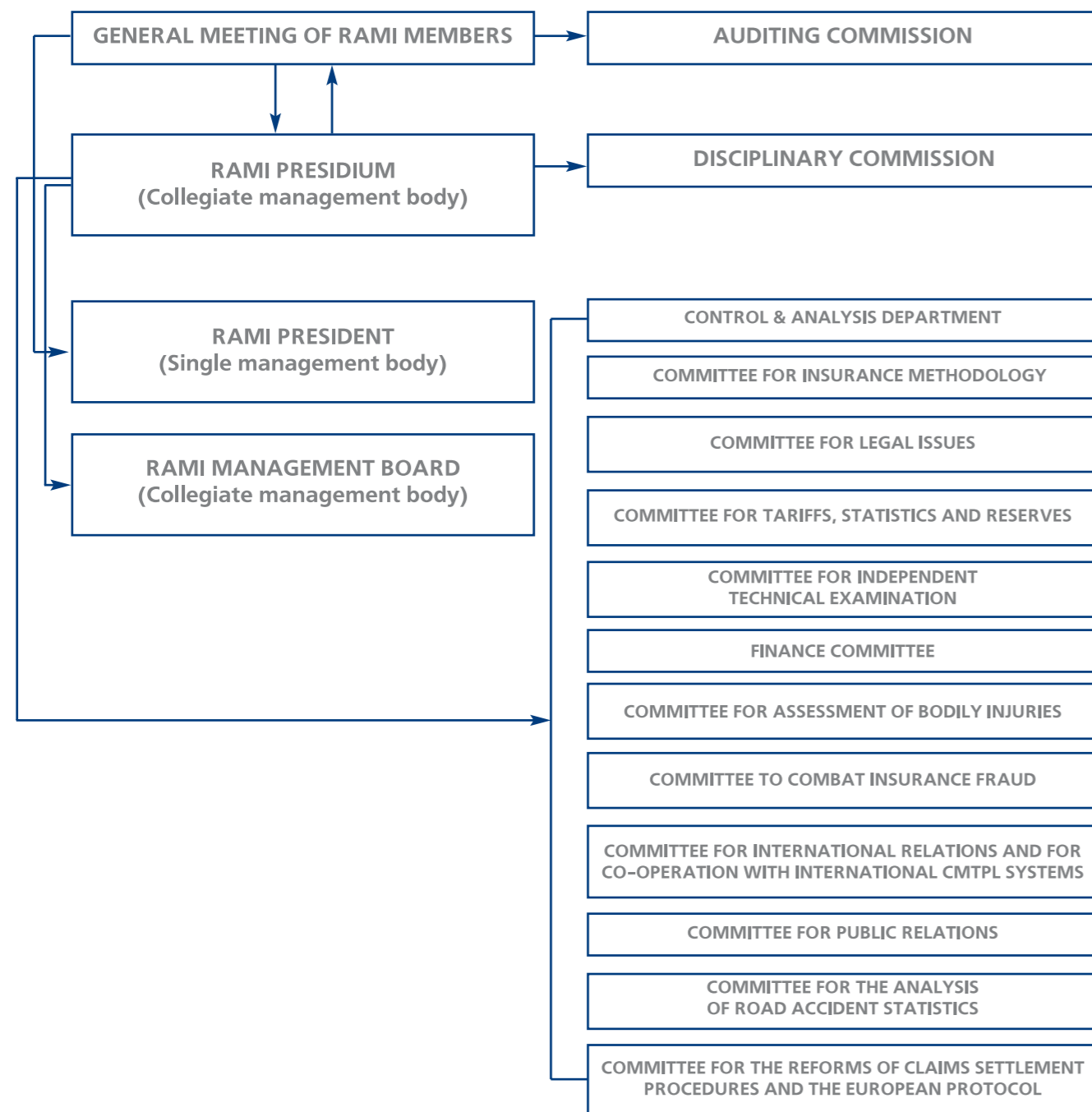
RAMI's main areas of operation are:

1. to co-ordinate the activities of its member insurance companies in carrying out CMTPL insurance and to develop and introduce rules of professional conduct for the Association and for its members and to ensure that these rules are followed properly;
2. to represent and protect the interests of the members carrying on CMTPL insurance in national and local government bodies and in other bodies and organisations;
3. to make compensation payments to accident victims in circumstances set out in the Federal Law on CMTPL insurance (No. 40-FZ) and also to exercise the rights given to the Association under section 20 of the said Federal Law No. 40-FZ;
4. to create and use informational resources, using data supplied by association members, relating to CMTPL insurance, including data relating to insurance companies, contracts of compulsory insurance and claims, personal data on insureds and accident victims, in conformity with the legislation of the Russian Federation concerning the protection of confidential information;

5. to defend the interest of the members in courts of law insofar as they relate to the carrying on of CMTPL insurance;
6. to provide public information about the operation of CMTPL insurance and to give technical and organisational support for the system both in the Russian Federation and in respect of the work of member insurance companies under the international system of CMTPL insurance;
7. to provide consulting, informational or other services for member insurance companies in relation to CMTPL insurance;
8. to co-ordinate the efforts of member companies in combating insurance fraud and other illegal activities relating to CMTPL insurance, and also opposing unfair competition;
9. to finance measures to improve road safety, to reduce the frequency of accidents and to lower the cost of accidents;
10. to develop and finance measures for developing professional qualifications and accrediting experts in areas linked to motor TPL insurance.

5. ORGANISATIONAL STRUCTURE OF RAMI

5.1. The management bodies



5.2. Members of the Presidium of RAMI

- 1 Andrey S. Kigim
President of RAMI
- 2 Gennady A. Galperin
Managing Director,
Rosgosstrakh Insurance Company
- 3 Sergei I. Efremov
Executive Vice-President,
NASTA Insurance Company
- 4 Igor N. Zhuk
General Director, Soglasie Insurance Company
- 5 Andrey A. Zernov
General Director,
Energogarant Insurance Company
- 6 Pavel V. Zubrilin
General Director,
Russkiy Mir Insurance Company
- 7 Alyametdin Z. Kamalov
General Director,
RGS-Tatarstan Insurance Company
- 8 Viktor N. Kiryanov
Head of the Department of Road Safety of the
Ministry of the Interior of the Russian Federation,
Lieutenant General of the Militia
- 9 Alexander P. Koval
President, All-Russian Insurance Association
- 10 Ilya V. Lomakin-Rumyantsev
Head, Federal Service for Insurance Supervision
- 11 Dmitri E. Markarov
First Deputy General Director,
Rosgosstrakh Insurance Company
- 12 Nadezhda V. Martianova
General Director, MAKS Insurance Company
- 13 Ilya N. Mikhailenko
Deputy General Director,
Rosgosstrakh Insurance Company
- 14 Yevgeny S. Moskvichev
Deputy Minister of Transport
of the Russian Federation
- 15 Georgi P. Papaskiri
General Director,
RGS-North-West Insurance Company
- 16 Dmitri V. Popov
First Deputy General Director,
ROSNO Insurance Company
- 17 Dmitri G. Rakovschik
General Director, RESO-Garantiya Insurance Company
- 18 Aleksey L. Savatyugin
Director, Financial Policy Department,
Ministry of Finance, Russian Federation
- 19 Sergei E. Sarkisov
Chairman of the Board of Directors,
RESO-Garantiya Insurance Company
- 20 Vladimir Yu. Skvortsov
General Director,
AlfaStrakhovanie Insurance Company
- 21 Yevgeny V. Ufimtsev
Deputy General Director,
VSK Insurance Company
- 22 Boris G. Khait
President, Spasskiye Vorota Insurance Group
- 23 Yuri Ya. Shpizel
General Director, RGS-Akkord Insurance Group
- 24 Vyacheslav I. Scherbakov
President, Ingosstrakh Insurance Group
- 25 Boris I. Pastukhov
Honorary Member of the Presidium

Members of the Management Board of RAMI

- 1 Andrey S. Kigim
President of RAMI,
Chairman of Management Board, RAMI
- 2 Dmitri E. Markarov
First Deputy General Director,
Rosgosstrakh Insurance Company
- 3 Sergei E. Sarkisov
Chairman of the Board of Directors,
RESO-Garantiya Insurance Company
- 4 Vyacheslav I. Scherbakov
President, Ingosstrakh Insurance Company
- 5 Dmitri V. Popov
First Deputy General Director,
ROSNO Insurance Company
- 6 Pavel V. Zubrilin
General Director, Russkiy Mir Insurance Company
- 7 Vladimir Yu. Skvortsov
General Director,
AlfaStrakhovanie Insurance Company
- 8 Igor N. Zhuk
General Director, Soglasie Insurance Company
- 9 Andrey N. Baturkin
Deputy Managing Director, RAMI

6. CMTPL IN 2006 — THE MAIN STATISTICAL INDICATORS

During the past years, road accident frequency in Russia continued to increase, more people were involved in accidents and as a result, the number of compensation claims under CMTPL insurance also increased.

The growth in numbers of road accidents that led to bodily injury between 2003–2006¹ can be seen in Table 1 and in Diagram 1.

Table 1

Indicator	2003	2004	2005	2006
No. of road accidents (000)	204.3	208.6	223.3	229.1
Growth in numbers (000)	19.9	4.3	14.7	5.8
Growth percentage (%)	10.8	2.1	7.0	2.4

Diagram 1

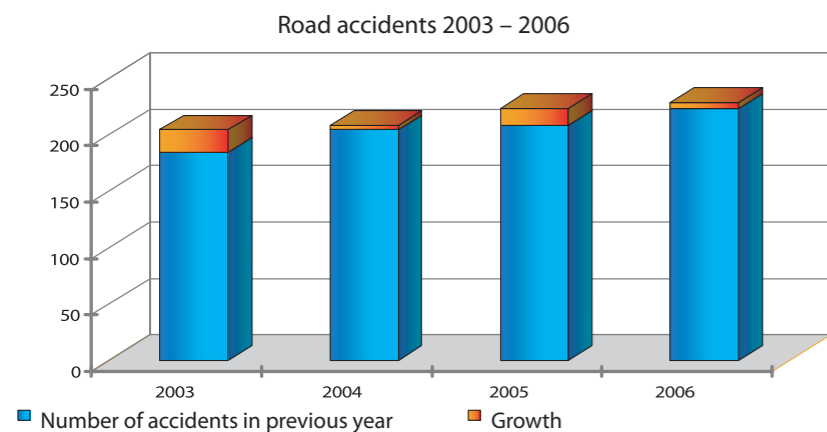
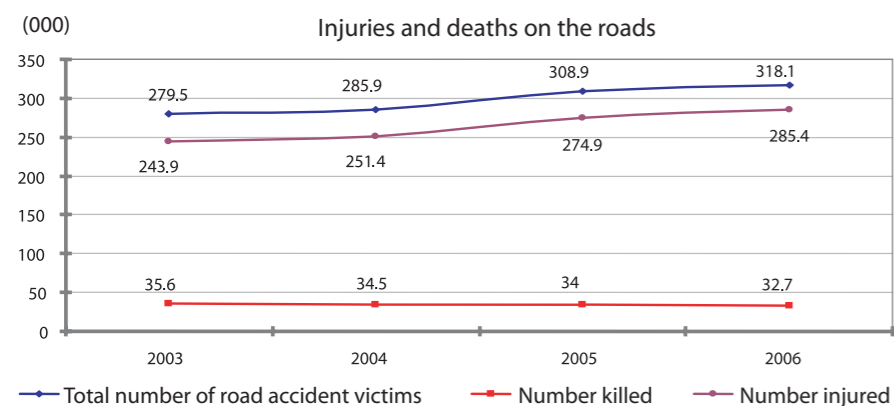


Diagram 2



The relationship between the number of bodily injuries and deaths in road accidents between 2003–2006² is shown in Diagram 2.

As the number of road accidents increased, so too did the number of those injured or killed. However, in terms of the overall effect of the accidents, there are differing trends: beginning in 2003, the number of those killed on the roads has reduced whilst the number of those suffering bodily

injury without dying has increased.

During the whole period during which CMTPL insurance has been in force up to 1 January 2007, more than 99 million contracts of compulsory insurance have been concluded, more than 3.5 million claims events have been recorded and total compensation payment has been more than 77.8 billion roubles.

Premium and claims statistics are shown in Diagram 3 below.

As is shown in Diagram 4, in the period during which CMTPL has been in force, there has been a small increase in average premiums from 1850 to 2050 roubles. If inflation is taken into account, then in reality, average premiums have fallen. It is important to note that since CMTPL was introduced in 2003, the basic premium tariff and the rating factors have not changed. According to official statistics, the consumer index inflation rate during the period was as follows: in 2003, 2004, 2005 and 2006 the inflation rate was respectively 12%, 11.7%, 10.9% and 9%. Examining, however, the rate of increase in the costs of services incurred by insurance companies in respect of CMTPL insurance (vehicle repair costs, medical services etc.), then it must be concluded that the annual increase in these costs was in the region of 15–20% per year. These figures underline the need for at least an annual examination of the adequacy of tariff rates.

Looking at average compensation payments (Diagram 5) a steady growth can be seen. In addition, if the figures for total claims events and total settled

¹ Official statistics of the Department of Road Safety, Ministry of the Interior of Russia.

² Official statistics of the Department of Road Safety, Ministry of the Interior of Russia.

Diagram 3

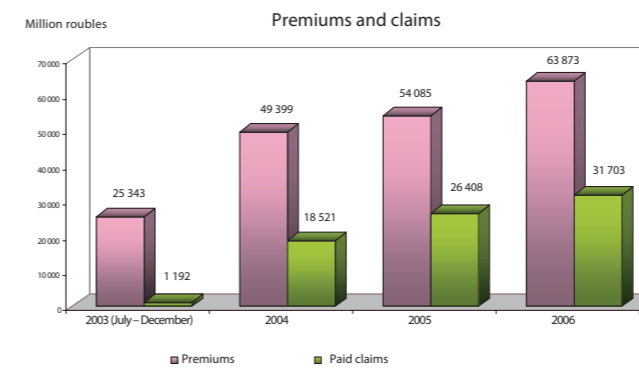


Diagram 5

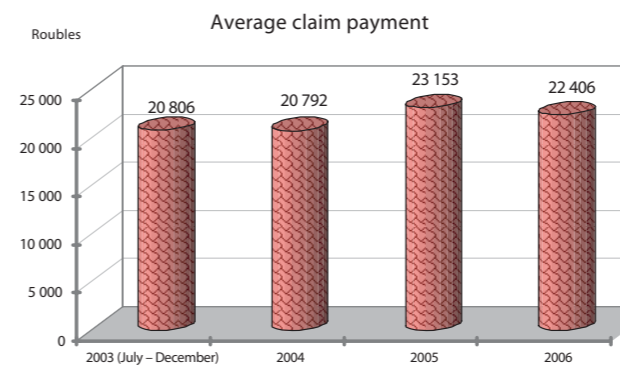


Table 2

Statistical indicator	2003 (July – December)	2004	2005	2006
Settled claims as a % of total incurred claims	60.1	86.9	94.7	95.4

claims for 2006 are examined (Diagram 5), it can be concluded that the increase in the number of people making relatively small claims for compensation for physical damage demonstrates a growing confidence in CMTPL insurance and a development

of an insurance culture in the population as a whole.

Every year, insurers are improving their claims settlement systems. This is clearly demonstrated in the relationship between incurred claims and settled claims (Table 2, Diagram 6).

Diagram 4

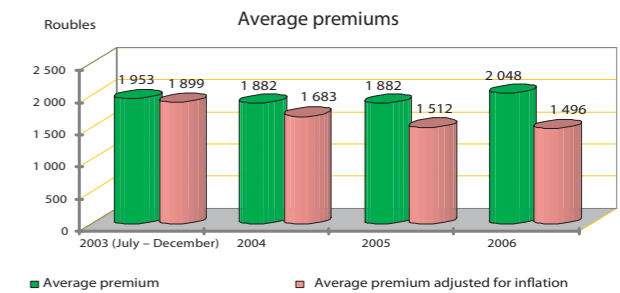
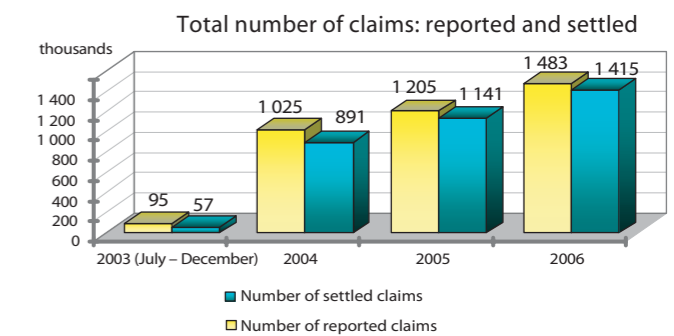


Diagram 6



7.1. Developing rules of professional conduct

7.1.1. Developing new rules of professional conduct and amending the current rules

The aim of this project was to secure the co-operation of the Association's members in establishing rules of professional conduct that would be binding on the members and then ensuring compliance with these rules.

In this context, new rules of professional conduct were drawn up and the existing rules were amended. These changes were necessary both because of issues thrown up by the day to day operation of the system by insurance companies and in order to ensure the co-operation member insurance companies in carrying out the law.

Under this heading, the following projects were undertaken:

Developing a set of rules of professional conduct entitled 'Procedures to be followed by RAMI and its members in the event that a member company has its insurance licence limited, suspended or withdrawn'

The basic objective of developing these rules was to set out what the members should do in the event that a licence to carry on CMTPL insurance of a member company was limited, suspended or withdrawn. The procedures that an insurance company must follow are aimed at ensuring that the following requirements are met:

- Complying with the Federal Law of 27.11.1992 No. 4015-1 (On the organisation of insurance business in the Russian Federation), in particular in respect of the requirements imposed on insurance companies in respect of their liabilities arising out of contracts of compulsory insurance.
- Ensuring that the necessary conditions are in place to permit RAMI to make compensation payments in the event that an insurance company becomes insolvent.

- Preventing the use of blank CMTPL policy forms by an insurance company in the event that the company has had its licence limited or withdrawn (delivering blank forms to safe custody).

As a result of this project the situation is now that if an insurance company has its licence withdrawn and follows the procedures in good faith, then RAMI will step in and ensure that compensation payments are made and all blank policy forms will either be taken into safe custody or will be distributed amongst member insurance companies. In this way the potential for conflicts between insurance companies and clients over CMTPL is reduced.

Developing rules of professional conduct 'Regulations concerning the procedure for introducing a register of insurance agents and insurance brokers, against whom complaints have been made by those involved in CMTPL insurance'

These regulations of professional conduct are one of the components of the general policy of countering unfair and unethical competition in the CMTPL market. Putting obstacles in the way of unethical participants in the market helps prevent fraud.

Members of RAMI are able to enter into this register details of insurance intermediaries (agents or brokers) who they have come across in their business and who have either broken the law or the rules of professional conduct, or have engaged in unethical or criminal activity. For example:

- Offering higher than permitted discounts on CMTPL policies.
- Stealing blank insurance or embezzling CMTPL insurance premiums received from clients.
- Providing false information about an insured when issuing a CMTPL insurance policy.

- Failing to account properly for insurance premiums in order to increase the amount of commission received.

This register of unethical insurance intermediaries permits insurance companies to avoid contact with brokers or agents who have previously been guilty of the sort of conduct noted above. It also allows insurers to collate evidence for the law enforcement agencies to use, thereby countering any negative impact on the public perception of CMTPL insurance caused by the unethical activities of some insurance intermediaries.

Developing rules of professional conduct entitled 'Improving the level of services in the CMTPL market'

These rules of professional conduct have already been included in one document, which is intended to set out a single, transparent set of standards for insurance companies when providing services in the CMTPL market. The main objective of these rules is to develop a number of measures that prevent a number of activities by insurance companies when concluding contracts of CMTPL insurance, such as:

- Providing clients with discounts (gifts), not permitted by legislation.
- Distributing or publishing false or misleading advertisements.
- Paying higher rates of commission to intermediaries than that permitted by the rules of professional conduct (10%).

As a result, there has been a decrease in breaches of the rules of ethical competition without harming the overall level of business.

The completed rules of professional conduct 'Procedures for controlling the delivery of blank CMTPL

policy forms to members of the Association'

The necessity to develop these rules came about as a result of a number of insurance companies having their CMTPL licence withdrawn and then abruptly leaving the insurance market and ceasing membership of RAMI, failing to carry out their obligations under the law and under RAMI's rules of professional conduct. Hundreds of thousands of blank policy forms were therefore not taken into safe keeping and some of these found their way into the black market.

These rules set out procedures for accounting for blank policy forms received by insurance companies issuing CMTPL policies. The number of blank policy forms received by insurance companies should coincide with the actual number of CMTPL policies currently issued with a number of extra policies permitted to take care of expected growth. This should reduce the number of surplus blank policy forms, which if they get into the hands of criminals will considerably increase the number of calls on the compensation fund.

In addition to the development of these rules of professional conduct, changes were made to another set of rules entitled '**Regulations concerning the procedures to be followed for the production, transporting, accounting for, safekeeping and destruction of blank policy forms and of the special CMTPL car stickers**'.

The amendments to these rules are intended to ensure objective accounting for blank policy forms distributed to member insurance companies (through form 4-PCA) and in addition preventing the distribution of blank forms to companies where information has been received of illegal activity or where it is highly probable that the license has will be suspended or withdrawn.

The development of a new version of the rules of professional conduct entitled 'Procedures and joint regulations for RAMI members and their executives covering the review of claims made by victims and the

payment of compensation

The amendments made to these rules of professional conduct were intended to bring them in line with the requirements of article 21 of the Federal Law No. 40-FZ in regard to ensuring that every insurance company has a representative in every local authority of the Russian Federation, authorised to review claim made by victims and to pay compensation. In addition, the following principles should be followed:

- Representatives may carry out other functions for members of RAMI other than the core function of reviewing claims and paying compensation.
- There must be a bilateral agreement between insurance organisations on the provision of services. The agreement should not have a time limit.
- Insurance organisations should inform RAMI on the conclusion, change or ending of an agreement concerning representation in a local authority of the Russian Federation.
- RAMI has created and maintains a register of all such agreements.
- Sanctions are applied in the event that a company fails to have representation, if there is no formal agreement or if RAMI is not informed of the conclusion, change or ending of a contract.

As a result of this project, all member companies of RAMI have now entered into bilateral agreements conforming to the new rules. RAMI has created the register of agreements and maintains it. The system of representatives in all local authorities of the Russian Federation is now fully operational.

In addition, the following documents, relating to the rules of professional conduct have been produced:

- 'Regulations governing the payment by RAMI of compensation to victims of road accidents, including

the priorities for payment when RAMI has insufficient funds and the procedures for allocating to the membership their financial obligations towards RAMI arising out of the Association's making compensation payments' — these are the rules and procedures that govern the payment of compensation if an insurance company that is responsible for making payments has its licence for carrying on insurance business withdrawn or goes into bankruptcy. The rules cover payments by RAMI to individuals who, being responsible for an accident, have themselves compensated the victim and also to insurance companies who are asserting their subrogation rights.

- 'Accounting rules for RAMI member insurance companies in respect of CMTPL insurance' — bringing in amendments to accounting form 1-PCA: including information on official CMTPL car stickers.
- 'Rules for the application of sanctions and other measures to members of RAMI, officers and employees' — introducing sanctions for breaches of rules of professional conduct covering the provision of services ('Rules for improving the level of services in the CMTPL market').
- 'Rules for carrying out inspections of the work of members of RAMI in CMTPL insurance and of their compliance with the rules of professional conduct' — these rules, supersede previous instructions on procedures for inspections carried out by RAMI, they define the procedures whereby the management of RAMI and member insurance companies work together during on site or documentary inspections and the basic rules governing the operation of these inspections.

7.1.2. Developing new recommended methods (explanations, agreements) and amending the current set

In addition, to the rules of profes-

sional conduct, which govern the activities of member insurance companies in terms of their membership of the Association and in their day to day work in CMTPL insurance, insurance companies also need practical recommendations and explanations to assist them both in their insurance activities and in their relations with other companies. In 2006, a number of specific projects in this area were in progress. One agreement was produced, amendments were made to a number of recommended methods of work and a new explanatory document was published.

Agreement concerning the co-operation of RAMI member insurance companies in making compensation payments when CMTPL and physical damage claims are involved

This agreement is aimed at simplifying and standardising procedures between insurance companies who pay physical damage (KASKO) motor accident claims and companies responsible for paying accident compensation claims under CMTPL policies, the agreement simplifies the system of vehicle inspection and claim settlement in relation to subrogation payments between companies and puts in place some of the foundations of direct settlement of motor liability claims which is planned to come into force in 2008–2009.

The agreement was approved by the Presidium of RAMI. Adherence to the agreement is voluntary. RAMI maintains a register of insurance companies which have accepted and signed the agreement. It is expected that the great majority of accidents involving KASKO insurance (where only two vehicles are involved and where there have been no injuries) will be covered by this agreement. As a result, the number of conflicts over inspecting vehicles for subrogation claims will reduce as a result of the existence, at the level of insurance companies of a procedure that reduces the need for multiple inspections

and which can also include CMTPL insurers.

RAMI approved methodologies

In December 2005, the Government of the Russian Federation issued Decree No. 739, entitled 'Approval of CMTPL tariff levels and structure and the procedures to be applied by insurance companies in determining insurance premiums'. As a result of this decree RAMI issued a number of recommended methods whose use would ensure compliance with the decree. In particular changes were made to recommended methodology No. 4, entitled 'Calculating CMTPL insurance premiums' and to recommended methodology No. 5 'Completing documentation and calculating premiums for CMTPL insurance for motor vehicles operating temporarily in the Russian Federation with foreign registration'. The changes related to basic procedure for calculation of premiums for difference categories of insured, for various types of vehicle and how the coefficients should be applied.

In addition to these recommended methodologies, a number of explanatory reports were produced on issues linked with aspects of CMTPL insurance business currently unregulated by law, in particular:

- On deducting the value of salvage when calculating the payment of compensation following a total loss to a motor vehicle.
- On coverage for loss of market value of a motor vehicle.
- Procedures for paying compensation to accident victims when the accident took place on private property.
- The illegal issuing of CMTPL policies and CMTPL stickers before the payment of premium both at the time of the first issue of the policy and at renewal.

7.2. Looking after the interests of RAMI members at governmental level in connection with the operation of CMTPL

7.2.1. Developing proposals for amendments in the legal regulations governing CMTPL

It should be noted that during the whole time that Federal Law No. 40-FZ has been in force, there have been put forward proposals for changing the system of CMTPL insurance. Last year was no exception. In 2006, the relevant RAMI committee and all RAMI members time and again prepared position papers on draft legislation and draft decrees of the Russian Federation, which were proposing to make changes in the legal framework. Some of these proposals made good sense and did not conflict with the general principles of CMTPL insurance and as a result they were supported by the insurance industry. It must be said, however, that other ideas that emerged, would have had a negative impact on the CMTPL system and would have threatened its very operation. The timely and coherent work of all the members of RAMI led to the development of convincing arguments which succeeded in defeating these measures.

The most important debates in which RAMI members took part were as follows:

Work on draft amendments to the Federal Law of 25 April 2002, No. 40-FZ (CMTPL insurance)

A number of RAMI committees assisted in the production of opinions on amendments:

- The Legislative Committee of the Vladimir region (curtailing the period of use of a motor vehicle).
- The Volgograd Duma (introducing fines for delaying the payment of CMTPL compensation claims).
- Duma Deputy V. V. Grebennikov (introducing amendments to CMTPL tariff and the procedure for confirming them, the procedure for insuring and for making payments etc.).
- Duma Deputy A. A. Sigutkin (changes in the bonus/malus system).

The result of this work was to put

forward the views of the members of RAMI on the practicability or desirability of making the proposed changes to the CMTPL system.

A similar process of developing comments and proposals for change was undertaken in relation to amendments to the Federal Law of 25 April 2002, No. 40-FZ 'On CMTPL insurance' prepared by the Ministry of Finance of the Russian Federation.

In addition, to the work on draft amendments to laws, considerable attention was also devoted to draft decrees from the Government of the Russian Federation.

- A draft decree of the Government of the Russian Federation, prepared by the Ministry of Finance, entitled 'Making amendments to the standard policy wording of CMTPL insurance, which were approved by the Decree of the Government of the Russian Federation on 07 May 2003, No. 263'. The aim of this draft decree was to implement a decision of the Constitutional Court an order to the Government of the Russian Federation to bring the standard policy wording into line with the Federal Law No. 40-FZ, and also to delete some inaccuracies or ambiguities that had emerged in the operation of CMTPL. It should be noted that a good proportion of the suggestions made by insurers were accepted by the Government and included in the decree.
- Draft decrees of the Government of the Russian Federation, entitled 'An Automated Information System for CMTPL insurance' and 'The exchange of information between departments-periodicity, time limits and format — and the procedure for providing data about CMTPL insurance to users'. RAMI and member insurance companies through the RAMI IT Committee and through other relevant committees took an active part in the drafting of these decrees. In addition to developing the principles of information exchange be-

tween the members of the AIS CMTPL, insurers also prepared proposals for a check list of indicators of the feasibility of the corporate IT system for joining the process of information exchange through AIS CMTPL and also developed proposals for a check list of indicators determining whether the various government databases could interact with RAMI's systems. These proposals were given to the Ministry of Finance, for them to consider whilst preparing the draft decree.

- In connection with the introduction of changes into the Federal Law No. 40-FZ, new procedures were introduced for changing the premium tariffs depending on the presence or absence of claims in the preceding period. The RAMI Committee on Methodology prepared proposals to amend the draft decree of the Government of the Russian Federation No. 739 'Approval of CMTPL tariff levels and structure and the procedures to be applied by insurance companies in determining insurance premiums' and Decree No. 263 'Standard policy wording for CMTPL insurance'. These proposals were given to the Ministry of Finance.

Unfortunately, as of now, not all of the insurance industry proposals for the improvement of CMTPL insurance have been accepted and introduced. There remain a number of outstanding issues in the development of CMTPL where additional legislation is needed or where ambiguities exist. These will be taken into account in RAMI's future work in this area.

Research into CMTPL tariffs and loss ratios for the three years of operation of the system following the introduction of the Law of 25 April 2002 No. 40-FZ (CMTPL insurance)

By 2006, member insurance companies had accumulated three years of statistics relating to CMTPL insurance

as a basis for calculating tariff rates for this type of insurance.

Research was undertaken on methods of calculating insurance tariffs for CMTPL insurance, by the RAMI Committee for Tariffs, Statistics and Reserves. With the approval of the RAMI Presidium, advice was received from such international organisations as PricewaterhouseCoopers and Watson Wyatt and with the involvement of independent experts from the autonomous non-commercial organisation, the 'Independent actuarial centre for information and analysis'.

As a result of the research, reports were produced which contained estimates of ultimate claims levels for CMTPL, details of the operation of insurance tariffs, conclusions on the possibility of using different types of data (aggregate, primary) for large scale research for analysing the tariff levels.

The work carried on in 2006 on assessing the adequacy of tariff rates, prepared the way for further research and for the development of proposals for correcting the current system of setting tariffs for CMTPL insurance.

In addition, the RAMI Committee for Tariffs, Statistics and Reserves, also commissioned four items of research into the CMTPL market from experienced independent. This research resulted in the following reports:

- An analytic report entitled 'Research into the structure and the major trends in the CMTPL market, 01.07.2003–30.09.2005' (produced by Expert RA rating agency).
- An analytic report entitled 'The results of the introduction of the Federal Law of 25 April 2002 No. 40-FZ 'CMTPL insurance' for the period 01.07.2003–31.12.2005 (produced by the Russkiy Polis Information Group).
- An analytic report entitled 'Research into the structure and main trends in the CMTPL market, 01.07.2003–31.12.2005' (produced by the 'Independent actuarial centre for information and analysis').

- An analytic report entitled 'Research into the structure and main trends in the CMTPL market, 01.07.2003–30.06.2006' (produced by Expert RA rating agency).

These reports were used as supporting information in joint work with state bodies, social organisations and for the mass media.

It should be taken into account that every year the volume of statistics available increases and so does the number of initiatives for improving the legislative framework for CMTPL. Examples of such initiatives include proposals to introduce direct settlement of liability claims, a simplified procedure for reporting motor accidents and increasing the limit of liability for bodily injury claims: all these initiatives underline the need for continuing research in order to calculate the adequacy of tariffs for CMTPL on an annual basis.

The Presidium of RAMI has approved such research for 2007 on the basis of the plan proposed by the Committee for Tariffs, Statistics and Reserves.

7.2.2. Developing methods for the calculation of compensation payments to victims of road accidents who have suffered bodily injury

In 2006, work continued on creating a system of medical assessment and evaluation of bodily injuries arising as a result of motor accidents.

Following a decision of RAMI Presidium, the Committee for Assessment and Evaluation of Bodily Injuries began a project entitled 'Developing methods of determining the size of insurance compensation payments for bodily injury claims'.

The main aim of the first stage of this research was to analyse current Russian legislation on paying compensation for causing bodily injury and identifying legal, regulatory or methodological factors that prevent the

smooth running of the system of paying insurance compensation to victims of road accidents. On the basis of this research, proposals for changes or clarification of these factors were drawn up. The research output for the first stage was:

- An analysis of the law relating to CMTPL insurance.
- An analysis of the law of the Russian Federation relating to the provision of state medical services.

The analysis of the law relating to CMTPL showed:

- That the mechanism for calculating the level of expenses incurred as a result of bodily injury (damages) under CMTPL is analogous to the mechanism used under civil law for calculating damages due to victims arising from non-contractual liability (tort).
- The mechanism used under civil law for calculating the level of damages for bodily injury makes the assumption that compensation should be paid for all expenses incurred by the victim.
- The mechanism under civil law for calculating the level of damages puts the onus on the victim to substantiate any claims made for expenses incurred.
- The mechanism under civil law for calculating the level of damages does not set out norms that permit the simple calculation of the level of damages that can be claimed by a victim nor is there any set scale of insurance payments.

The analysis of the law relating to the provision of state medical services in the Russian Federation showed that:

- Anyone injured in a road accident has the right to free basic medical care, including rehabilitation measures, any additional medication, treatment in a health resort and any technical rehabilitation measures.
- The law on the state provision of medical services envisages the possibility of receiving medical services

on a paid basis, including those services that can be provided free.

- The law on the state provision of medical services does not require a medical institution that provides free medical services to transfer a victim either to its own facility operating on a paid basis or to another medical institution where services are provided on a paid basis. The law simply gives an individual the right to choose to pay for medical services.

On the basis of this research, a list of legal regulations was drawn up and will be studied under the second stage of the research during 2007.

In addition to the above projects, the RAMI Committee for Assessment and Evaluation of Bodily Injuries in 2006 continued to work on the following:

1. Building a database of insurance compensation payments for bodily injury claims

The collection of statistics about bodily injury compensation claims payments is an important factor in the development of new regulations. Information about insurance payments in compensation for bodily injury following road accidents is very significant from a social point of view.

According to data supplied by RAMI members **for the year 2005:**

- **The total number** of compensation payments, made as a result of claims for compensation for bodily injury was **2.3 times higher** than the figure for 2004.
- **The total amount** of claims payments for bodily injury increased by **35.8%** over the figure for 2004.

2. The creation of a database on court decisions relating to cases involving the payment of damages to victims of road accidents who have suffered bodily injury

The Committee had begun to develop a database on court cases where bodily injury damages were assessed. The availability of such a database of

Table 3

Total insured accidents 2003–2005 and 6 months of 2006 (including bodily injury claims)

Year	Total number of insured accidents		
	Total	Individuals	Legal entities
2003	85 959	76 266	9693
2004	862 548	726 786	135 762
2005	1 080 252	908 714	171 538
2006 (6 months)	549 930	465 473	84 457
TOTAL	2 578 689	2 177 239	401 450

Table 4

Claims payments for bodily injury 2003–2005 and 6 months of 2006

Year	Claims payments as a result of the death of a victim		Claims payments as a result of injury not resulting in death		Total	
	number	amount, thousand roubles	number	amount, thousand roubles	number	amount, thousand roubles
2003	63	1634	304	3390	367	5024
2004	2492	42 337	3965	39 220	6457	81 557
2005	5129	95 709	9992	132 441	15 121	228 150
2006 (6 months)	3257	54 898	5895	79 256	9152	134 154
TOTAL	10941	194 578	20156	254 307	31097	448 885

Table 5

Number of victims as a result of accidents covered by CMTPL

Year	Number of victims who died	Number of people who suffered as a result of the death of the breadwinner	Number of victims who suffered injury
2003	216	11	252
2004	2376	1602	3516
2005	4763	3069	9264
2006 (6 months)	2420	2145	5500

legal decisions will assist insurance companies to make settlement offers for CMTPL claims for bodily injury in circumstances where there are no other simple guidelines.

7.2.3. Development of the general principles for the introduction in Russia of a system of direct settlement of CMTPL claims and of a simplified method of reporting road accidents

Following a decision of the General Meeting of RAMI members in March 2004, the transition to a system of direct settlement of CMTPL insurance claims (the European Protocol) has become one of the main areas of RAMI activity in the period 2005–2008. This decision was based on the fact that the Ministry of Finance of the Russian Federation was drafting amendments to the CMTPL law that would have the effect of introducing a system of direct settlement of CMTPL claims.

A decision of the RAMI Presidium on 15.09.2005 approved the plans for work drawn up by the Committee for Developing Claims Settlement Methods and the European Protocol.

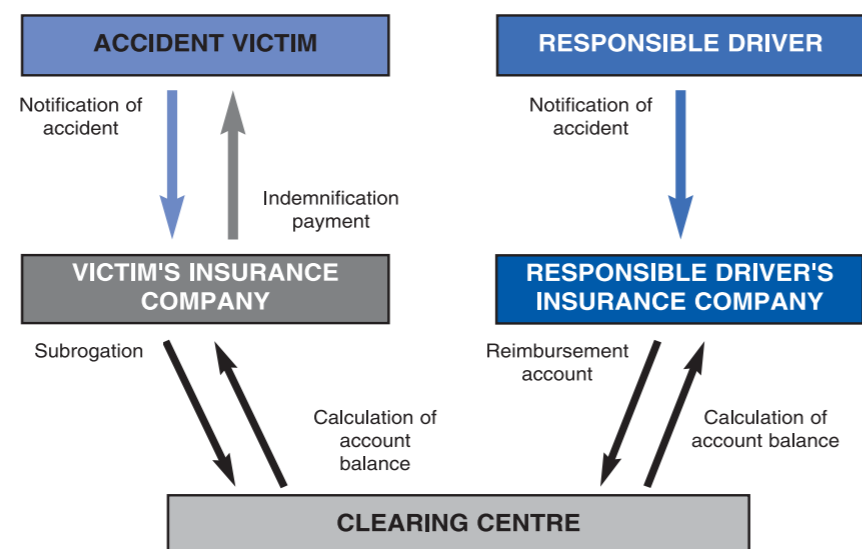
The Committee is currently working on the introduction of system of direct settlement of claims and on a simplified system of reporting road accidents (the European Protocol). After establishing the general principles, it is planned to draft the necessary amendments to the law or the regulations and to prepare the necessary infrastructure for the introduction of the system (for example a clearing house). In addition, attention will be paid to producing the relevant rules of professional conduct.

The overall aim is to put in place the necessary infrastructure for the introduction of direct settlement and the simplified reporting of road accidents.

This project will be accomplished in three stages:

- In the first stage, a description of international experience of direct

The system of direct settlement of CMTPL claims



settlement of CMTPL claims and of simplified reporting of road accidents will be produced containing details of the basic parameters foreign systems, their strengths and weaknesses, and the basis of their introduction and operation. This stage should be completed in 2006.

- In the second stage, a consultant will agree with RAMI the most effective model of direct settlement of CMTPL claims and simplified reporting of road accidents for application to Russia. This stage is planned to be completed by April 2007.
- The result of the third stage should be a detailed analysis setting out the mechanism of operation of a system of direct settlement of CMTPL claims and of simplified reporting of road accidents. Included in this analysis should be procedures governing the interaction of all parties involved in the system, a list of necessary changes to the legal framework, a work plan for the introduction of the system and a cost estimate for the introduction of the necessary infrastructure. This final stage should be completed by the end of 2007.

At the same time that the general principles are being developed, the

necessary changes to law and regulations, to the tax code and to accounting principles necessary for the introduction of direct settlement will be identified.

This will be a large and expensive project. A special committee (the Committee for Developing Claims Settlement Methods and the European Protocol) was formed to monitor the project. Because of the firm's international experience, PricewaterhouseCoopers, the international audit and consulting firm, was asked to complete the first two stages.

The substantial personnel and financial costs of this project can be understood in relation to the major change that is proposed in the CMTPL system in Russia. What is being proposed is a major change in the relationship between insurance companies and their clients and between insurance companies themselves. It will be noted that this settlement system has never before operated in any type of insurance in Russia. The effective operation of the system in the future is dependent on detailed study of key questions before it comes into force. Overall, the basic result of the system should be the simplification of the process of claims settlement leading to a higher level of satisfaction

amongst insurance company clients and a reduction of insurance company claims settlement costs.

The work carried out in 2006 should set out the basis for the introduction of this system.

7.3. Effecting the payment of compensation to road accident victims according to the requirements of Federal Law No. 40-FZ

7.3.1. The types and amounts of claim payment

One of the most important objectives of RAMI as set out in the Federal Law No. 40-FZ, is to effect claims payments to victims of road accidents.

Under Clause 18 of the Federal Law compensation payments to victims of road accidents who have suffered bodily injury should be effected in circumstances where it would not otherwise be made:

- where the driver who caused the injury is unknown;
- where the driver who caused the injury has no CMTPL insurance policy and therefore has not complied with the federal law on CMTPL insurance.

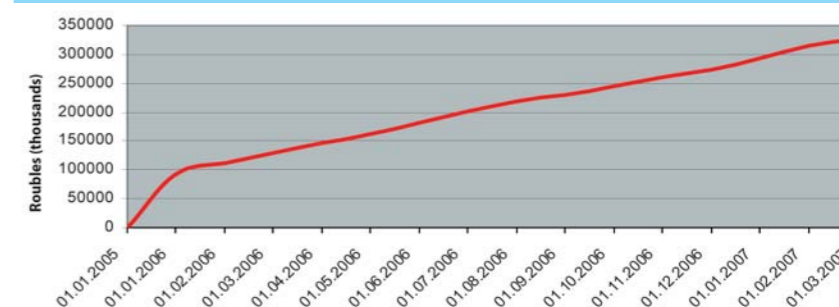
In statistical terms, up to 01.04.2007, 575 claims by victims for compensation were examined. Of these, 415 claims were agreed which resulted in total payments of 22.0 million roubles:

- 182 claims payments (totalling 10.5 million roubles) — where the driver causing the damage was uninsured;
- 233 claims payments (totalling 11.5 million roubles) — where the driver causing the damage was untraced.

In addition, if an insurance company either commences bankruptcy proceedings or has its licence to carry on insurance business withdrawn, RAMI make compensation payments to victims of road accidents both if they have suffered bodily injury or if they have a claim for physical damage to their property.

Diagram. 7

The growth in compensation payments



In this context, up to 01.04.2007, RAMI investigated 13,004 applications for compensation. Of these, 8882 were accepted and total payments of 325.2 million roubles were made.

All in all, RAMI accepted 9297 requests for compensation and payments of 347.2 million roubles were made.

Most compensation payments made by RAMI were as a result of insur-

ance companies having their license withdrawn.

It should be noted that such a high level of compensation payments was successfully achieved because RAMI exercised its right under the Federal Law No. 40-FZ, to involve approved insurance companies in the process of settling claims for compensation.

Information about the activities of these approved insurance companies is set out in Table 6.

Table 6

Compensation claims settled by approved insurance companies in 2006

Nº	Approved insurance company	Number of claims
1	Moscow Insurance Company	370
2	Rosgosstrakh Stolitsa	17
3	Rosgosstrakh Centre	156
4	Rosgosstrakh Tatarstan	6
5	Rosgosstrakh Siberia	24
6	Rosgosstrakh North West	38
7	Rosgosstrakh Akkord	75
8	Rosgosstrakh Far East	2
9	Rosgosstrakh Urals	150
10	Rosgosstrakh South	93
11	Rosgosstrakh Povolzhye	166
12	Russkiy Mir Insurance Company	711
13	RESO Garantiya	990
14	AlfaStrakhovanie	75
15	Progress Neva	6
16	Ingosstrakh	14
17	ROSNO	3
18	Military Insurance Company	178
	Total	3 074

7.3.2. Problems arising in the process of making claims payments

- When making compensation payments, RAMI comes across situations where an insurance company that has had its license withdrawn or which has commenced bankruptcy proceedings does not fully comply with the rules of professional conduct as set out in the two main documents relating to this issue. These are 'Procedures to be followed by RAMI and its members in the event that a member company has its insurance licence limited, suspended or withdrawn' and 'Rules for ensuring the safe keeping of documents relating to CMTPL insurance'. For instance:
 - it is not possible to find documents relating to CMTPL insurance contracts in the records of a problem company;
 - the computer records relating to CMTPL insurance contracts and claims are missing;
 - the company refuses to hand over to clients or to accident victims

documents that are necessary to settle compensation claims and refuses to pass them on to RAMI;

- there have been examples when a company has made a dishonest withdrawal from the market with the management vanishing with all the company records.

Such conduct obviously makes it very difficult for RAMI to make compensation payments. When a company is refusing to hand back documents or to pass them on to RAMI, how can those responsible for an accident prove they were insured with a company that has lost its license and how can victims hand over documentation previously given to the company about the accident? Nobody is working in the company any more, there is nobody to address questions about documentation. Such problems lead to an increase in dissatisfied clients who are having their claims dealt with by RAMI.

Solving these problems can only be achieved by directors of insurance companies that are leaving the market having a legal obligation to pass on to RAMI all documents that are needed

to settle compensation claims and also to strengthen the responsibilities of management to carry out these requirements.

7.3.3. Insurance companies whose obligations to pay compensation are being administered by RAMI

Since CMTPL insurance came into force, a total of 14 insurance companies have had their license withdrawn. 2006 was the year in which the greatest amount of compensation payments was handled by RAMI on behalf of these companies.

It should be noted that according to the Federal Law No. 40-FZ, insurance companies should allocate 1% of their CMTPL premiums to maintain a guarantee reserve fund to finance compensation payments. This fund is transferred to RAMI and from it compensation payments are made on behalf of companies that have lost their license or have become bankrupt. In fact, the total amount of compensation payments made on behalf of problem companies considerably ex-

ceeds the amount paid into the guarantee fund by these insurance companies. Payments made by the problem companies only cover on average 12% of the total compensation payments made on their behalf by RAMI.

In the opinion of experts, the reduction in the number of insurance companies (including those that are insolvent) carrying on CMTPL insurance is likely to be a continuing trend. If this is the case, then it is also likely that there will be a growing number of claims facing RAMI, an increased number of compensation payments and, as a result, an increase in the amount of work in this area for RAMI.

7.3.4. Problems connected with the recovery of compensation payments made on behalf of insurance companies whose obligations are being administered by RAMI

Article 20 of the Federal Law No. 40-FZ requires RAMI to collect from insurance companies whose obligations the Association is administering, financial resources which can replace those taken from the guarantee fund or from the fund for current payments.

As of 19.02.2007, decisions of the civil court have declared the following companies bankrupt and instituted bankruptcy proceedings: AVEST, Nasha Nadezhda, EASK and Doverie.

In the case of AVEST, on the 07.08.2006, the civil court agreed to include the amount of 30,014,000 roubles owed to RAMI in the list of creditors.

In the case of Nasha Nadezhda, the civil court agreed on 17.10.2006 to include the amount of 1,024,000 roubles owed to RAMI in the list of creditors.

In the case of EASK, the civil court agreed on 02.11.2006 to include the amount of 2,193,000 roubles owed to RAMI in the list of creditors and to include the amount of 7,520,000 roubles as current payments.

In the case of Doverie, the civil court agreed on 18.07.2006 to include the amount of 31,048,000 roubles owed to RAMI in the list of creditors and to include the amount of 10,448,000 roubles as current payments.

All in all, RAMI stands as a creditor in the amount of 82,247,000 roubles of insurance companies who have had their licenses withdrawn and on behalf of whom RAMI has made compensation payments.

Following the decisions of the civil court of 31.07.2006 of 17.01.2007 concerning Western Siberia Transport Insurance Company and Rosmedstrakh respectively, the procedure for assessing the amount owed to RAMI to be added to the list of creditors was commenced.

Finally, in the cases of Sodruzhestvo, Universalny Polis and Fidelity Reserve, the civil court is currently studying RAMI's application to bankrupt these companies.

During 2006, there was an increase in the number of court applications where victims of road accidents claimed compensation from RAMI. There were 124 court decisions as a result of which RAMI paid compensation amounting to 5.7 million roubles. More than 20 cases where RAMI have appealed are pending and are being studied by the courts.

The main reason for the growth in the number of court cases involving RAMI is the fact that victims, when faced with the problem of obtaining compensation from bankrupt insurance companies decide to protect their interests through the courts without seeking a practical out of court settlement by addressing the request for compensation direct to RAMI.

7.4. The development and use of informational resources

7.4.1. The RAMI Automated Information System (AIS RAMI)

Following a decision of the RAMI General Meeting in May 2004, the de-

velopment of the **RAMI Automated Information System (AIS RAMI)** has become one of the main areas of work of RAMI between 2005 and 2008. In order to achieve the planned objectives for 2006, the following activities were undertaken:

- Linking of member insurance companies into the subsystem of strict accounting for policy forms (BSO).
- Developing a subsystem for accounting for insurance claims payments as the basis for developing coefficients for a bonus/malus system (CBM AIS RAMI) and AIS RAMI insurance contracts.
- Addressing technological, organisational, legal and other methodological issues related to the overall development of AIS RAMI.

The subsystem for the strict accounting for blank policy forms within AIS RAMI

In 2006, the subsystem for the strict accounting for policy forms (BSO AIS RAMI) was launched for full exploitation. To assist member insurance companies in linking into the subsystem, a number of documents were produced which included 'Interim procedures for linking into the BSO AIS RAMI subsystem' and 'The rules governing information exchange between insurance companies and BSO AIS RAMI'.

In preparation for linking in insurance companies to the BSO subsystem, the identification numbers of more than 125 million policy forms were entered into the subsystem, being the total number of policy forms distributed to insurance companies between 2003 and 2006.

BSO has an interface which permits exchange of data with the Federal Road Traffic Police database (FIS GIBDD) using a subsystem that was designed to manage the interface.

Co-operation with the Road Traffic Police (GIBDD) was assisted by RAMI's proposal that the GIBDD should have

Table 7

Compensation payments made on behalf of companies whose licence has been withdrawn

	Company	Last year of operation	Number of compensation payments made	Total amount of compensation payments, million roubles	Amount contributed by the reserve guarantee fund, million roubles
1	AVEST	2005	1220	48.3	3.0
2	Western Siberia Transport Insurance Company	2005	509	16.5	1.5
3	Doverie	2005	1 355	47.7	2.8
4	EASK	2005	473	15.0	0.7
5	Sodruzhestvo	2005	1 101	34.3	1.5
6	Universalny Polis	2005	531	20.5	0.6
7	Fidelity Reserve	2005	146	6.2	0.4
8	Nasha Nadezhda	2005	189	6.2	0.3
9	Rosmedstrakh	2006	977	37.0	4.0
10	Stolichnoe Insurance Society	2005	5	0.3	0.1
11	Genstrakhovanie	2006	2 098	81.7	3.6
12	Priroda	2006	58	2.3	0.9
13	Piramida	2006	20	0.7	3.5
14	The General Insurance Company	2007	200	8.6	17.8
	TOTAL		8882	325.2	40.7

access to data held on BSO. The proposal was accepted and rules were developed that govern the way that the two systems exchange information on blank policy forms.

In addition, during 2006 there were two meetings of the joint GIBDD-RAMI working group which dealt with a number of technical and methodological issues relating to the exchange of information relating to CMTPL insurance.

The claims subsystem 'Coefficients bonus/malus AIS RAMI' (Diagram 8)

Twelve seminars were held to prepare IT specialists from insurance companies for the introduction of BSO. Representatives of 97 member insurance companies took part in these seminars which dealt with issues of training staff in the procedures for linking into and operating BSO.

In October 2006, the first insurance companies joined the subsystem. By the end of 2006 35 insurance companies had linked into the system and a further 40 companies are testing the system before full operation. The remaining companies are working on the initial assessment of the system requirements for linking in.

In the middle of 2006, work was completed on designing a subsystem for analysing insurance claims payments in order to introduce a system of bonus-malus for CMTPL premiums.

This subsystem is known as the 'Coefficients for bonus/malus' subsystem (CBM AIS RAMI). A working group from the RAMI Committee for Information Technologies tested the system involving, in particular, two insurance companies, ROSNO and Ingosstrakh.

Most insurance companies have databases of the insurance histories of their clients. However, up to now, companies have not had the technical capability to access the insurance histories of clients that is held on the databases of other insurance companies. The CBM subsystem is a distributed database system with a central core. It gives to insurance companies a single source of data on clients' insurance history, which can be accessed on the basis of queries from companies. The two companies that are currently testing the system are designing interfaces with their own database systems and making all other necessary technological preparations for the system to be introduced across the market.

The CBM subsystem, as it was being operated by the two testing companies, demonstrated how one company can access claims data in real time directly from the database system of another company. Testing was made on the basis of infrastructure that included claims payment database located at RAMI and corporate information systems Ingosstrakh and ROSNO insurance companies.

The insurance contracts subsystem of AIS RAMI (Diagram 9)

In the autumn of 2006, work was completed on the development of a subsystem that would hold data on insurance contracts within AIS RAMI. This subsystem is designed to hold primary data on CMTPL policies and it interfaces with the federal database of the Road Traffic Police (FIS GIBDD). Via the VIN number (the international vehicle identification number), allowing queries to be made as to the status of a vehicle — whether it is registered, stolen etc.

The information system for compensation payments (Diagram 10)

In 2006, the second version of the subsystem for compensation payments (SIO CP) came into operation. This subsystem allows the RAMI regional representative offices access AIS RAMI and administer compensation payments to victims of road accidents. The subsystem also is designed to hold data on contracts of insurance entered into by companies that have ceased operating in the CMTPL market.

The system for recording data about company representatives in the Russian regions

In order to ensure that insurance companies act in conformity with the rules of professional conduct, a system was developed in 2006 entitled 'The system for recording data about com-

Diagram 9

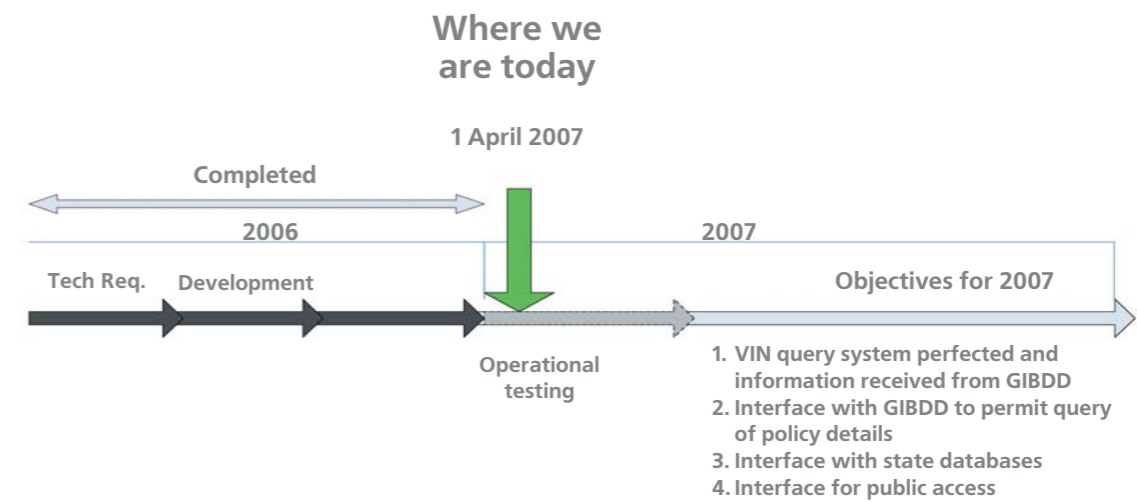


Diagram 10

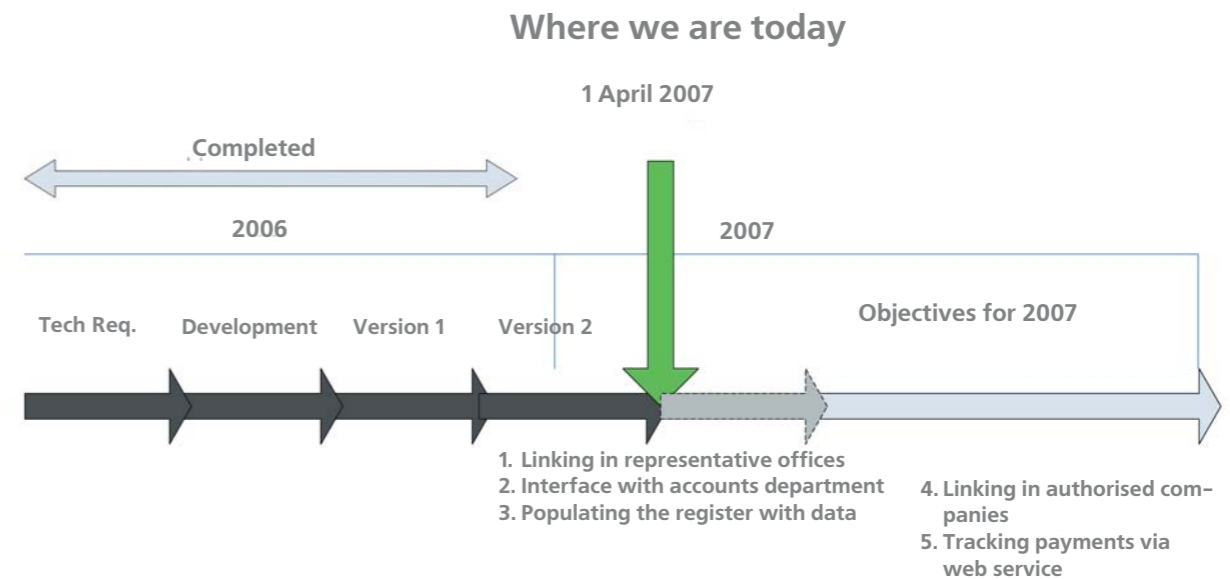
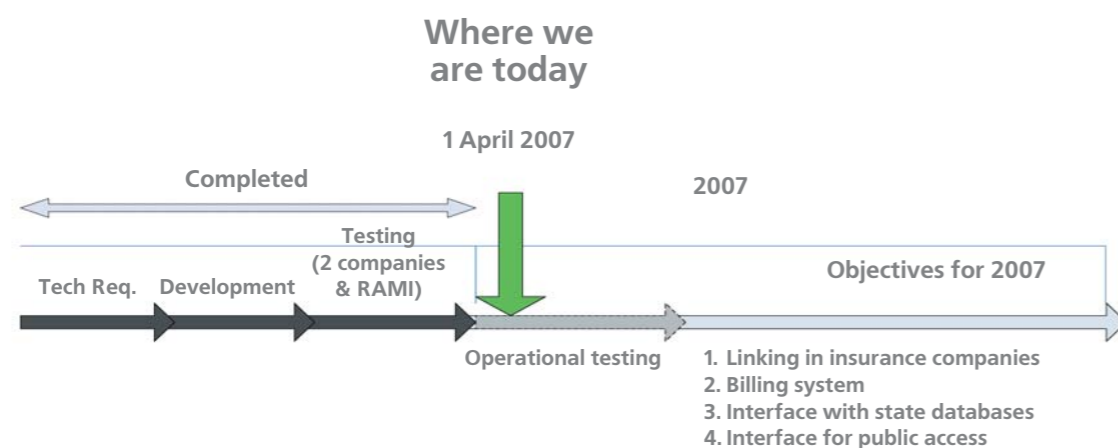


Diagram 8



pany representatives in the Russian regions'. This system collects information about insurance companies and their representatives in the regions that are authorised to settle and pay compensation claims on their behalf on the basis of bilateral representation agreements, as set out in the rules of professional conduct. In addition, the system is able to monitor the CMTPL market.

Auditing the insurance companies information systems (Diagram 11)

In order to minimise IT risks, in 2006 a questionnaire was sent out to insur-

ance companies to gather information about their information systems handling CMTPL data. Completed questionnaires were received from more than 150 member companies. As of 1 April 2007, corporate IT systems of 116 insurance companies were checked.

As a result of this survey, it was proposed to inspect audit the IT systems of member insurance companies.

In 2006 as part of RAMI's programme of co-operation with the Department of Road Safety at the Ministry of Internal Affairs, research was carried out together with the Institute of Systems Programming at the Russian Academy of Sci-

ences. The title of the research was 'An analysis of systems of CMTPL, their influence in reducing accident rates and the feasibility of adapting them to Russian conditions'. The CMTPL systems of 24 countries were compared (Europe, USA, Canada and a number of countries from Africa and Asia). Data were collected on how they are developing, what sanctions can be applied and the main features of their road safety programmes. Using data from open sources, a multi-dimensional OLAP model was developed, with which it is possible to analyse the various factors relating to road safety. The results of the research were given

Diagram 11

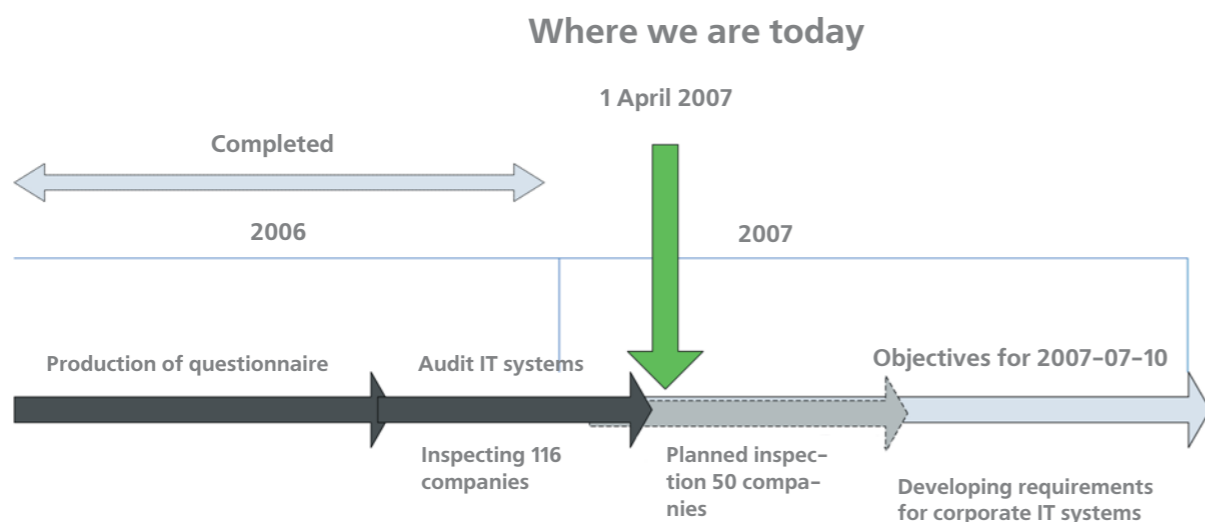
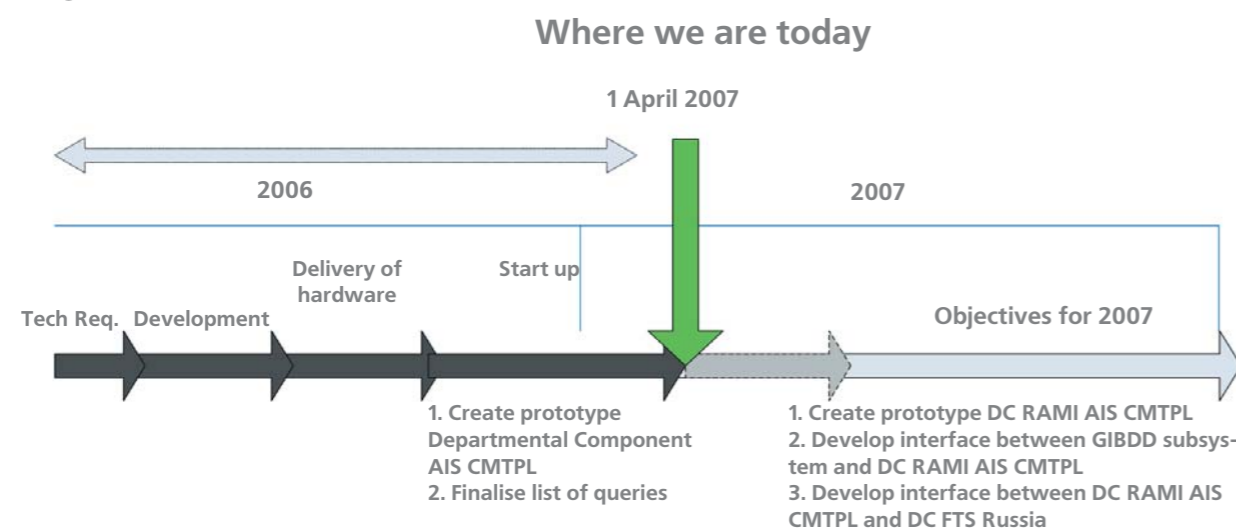


Diagram 12



to the Department of Road Safety to be used to develop proposals for the introduction of fines and other sanctions to be imposed on those who violate road traffic rules and regulations.

7.4.2. Development of the CMTPL Automated Information System (AIS CMTPL)

During 2006, work on the development of the **Automated Information System for CMTPL (AIS CMTPL)** was carried on in a number of areas.

- Production of a model of the various components of AIS CMTPL.
- Specification of the procedures for information exchange between

RAMI and insurance companies on one hand and state bodies on the other.

- Detailing the legal and regulatory issues arising from information exchange between parties involved in road accidents concerning CMTPL insurance.

The CMTPL Automated Information System (Diagram 12)

The decision of the General Meeting in May 2004 to develop AIS CMTPL has meant that this area has now become one of the main areas of work of the Association between 2005 and 2008. In 2006 work continued on the

development of the system.

AIS CMTPL provides for the automated exchange of information about CMTPL insurance between state bodies, insurance companies and RAMI in order to improve supervision and control of the system in the Russian Federation.

The work on this project is aimed at implementing:

- The Federal Law of 25 April 2002, No. 40-FZ, on CMTPL insurance.
- The Decree of the Government of the Russian Federation of 14 September 2005, No. 567 'Collecting

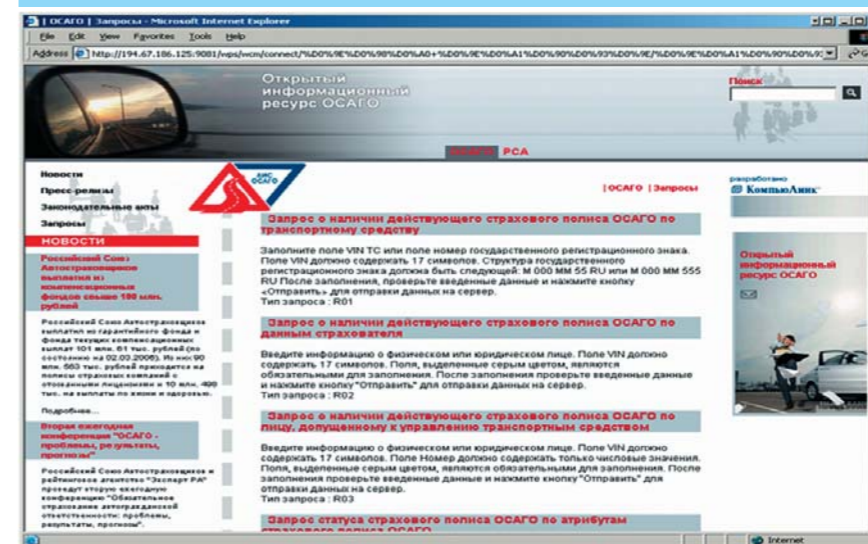
Chart 2.

The model of the DC RAMI and DC Dept. Road Safety MVD and the central component of AIS CMTPL



Diagram 13

Public Information System for CMTPL



data on the operation of CMTPL insurance'.

- The draft policy position paper entitled 'The development of AIS CMTPL' (agreed by all organisations taking part in the exchange of information in 2006).
- The decision of the Presidium of RAMI of 21 December 2006 to continue work on a prototype of the

RAMI departmental components (DC AIS CMTPL) of the overall system and to develop means of cooperation between DC AIS CMTPL and the operational system of the Department of Road Safety at the Ministry of Internal Affairs of the Russian Federation.

In 2006, work was completed on developing the technical model of

the departmental component of AIS CMTPL, including the purchase and installation of hardware, the development of the necessary software, preliminary work on the server to be installed at RAMI. In addition, a model for and the preparation prototype model for the realisation of the system was produced including the installation of the hardware, development of the software and the network links as shown in Chart 2 and Diagram 13.

The work on AIS CMTPL includes monitoring issues arising from the joint work of RAMI, insurance companies and state bodies in exchanging data on CMTPL and insofar as changes in various laws or regulations are needed to ensure control of this process, the necessary draft amendments have been produced.

A report has been produced, based on scientific research entitled 'Requirements of RAMI (insurance companies) for the preparation of data'. As a result of this research, proposals were framed for the types and structure of data that can be stored in the departmental database (which is part of AIS CMTPL) in conformity with the law. Also, proposals were made to broaden the types and structure of the data to be stored in the departmental database by users of AIS CMTPL in order to develop the system further. Further proposals were made as to the types and structure of data that should make up the databases of member companies to develop both AIS CMTPL and AIS RAMI.

The concrete results include a methodological basis for drafting the technical requirements for the RAMI departmental component of AIS CMTPL, for the database AIS RAMI and for the subsequent development of the rules governing the interdepartmental exchange of information between members of the AIS CMTPL system.

A further research report was produced entitled 'Harmonising systems of classification and manuals'. The result of this research was to develop

Diagram 14

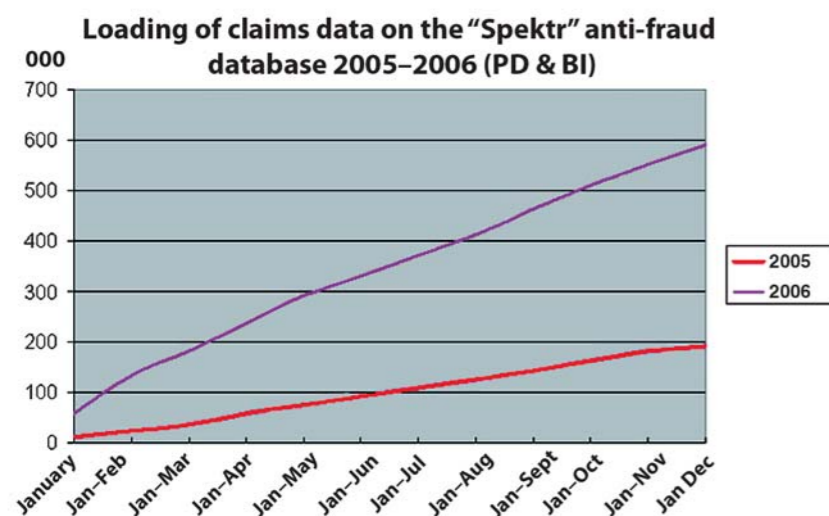


Diagram 15



proposals for classification and manuals for harmonising data to permit data exchange relating to CMTPL.

A co-operation agreement has been signed with the Ministry of Defence of the Russian Federation.

7.5. The co-ordination of members' activities in fighting insurance fraud in CMTPL and opposing unfair and dishonest competition

The main projects undertaken in 2006 aimed at developing systems of collective security in CMTPL were:

- Developing and completing the 'Spektr' database.

- Opposing unfair and dishonest competition.
- Liaising with the law enforcement agencies.
- Raising the level of professional expertise in the insurance company anti-fraud departments.

7.5.1. Developing and completing the 'Spektr' database

Last year, the number of users of the 'Spektr' database increased. This database was created in order to provide information and analysis to support anti fraud departments of insurance companies. More than 15 companies joined the data sharing system and now they constantly supply information on insurance claims to the

database. The new companies include RESO-Garantiya, VSK, Spasskiye Vorota, REKON, Sheksna, Sever-Koop-Polis, and Energogarant. Using only the analytic facility of the system brought to light in one year more than 100 cases where double insurance was involved.

7.5.2. Opposing unfair and dishonest competition

In August 2006, the Presidium approved rules for improving levels of service in the CMTPL market and for ensuring equal opportunities for all participants. In order to develop controls in the introduction of these rules, the following activities were undertaken:

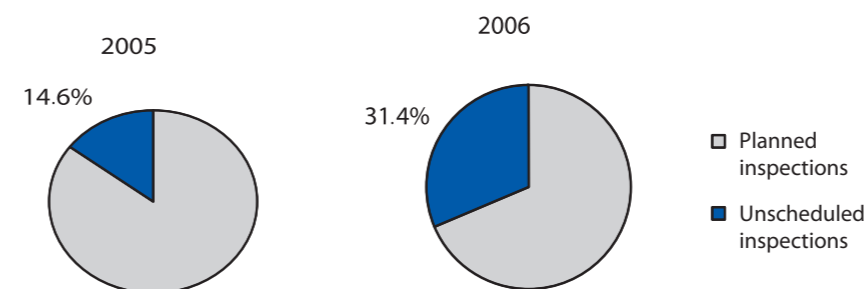
- An agreement was signed with private detectives, to expose and document the activities of insurance organisations and their directors who offer to enter into or renew CMTPL insurance contracts on the basis of terms or conditions contrary to those set out in the law of the Russian Federation or in the rules of professional conduct.

Amongst the measures which came in to operation in 2006, is, following a decision of the Presidium, the employment of private detectives to carry out some control functions. This is aimed at uncovering examples of higher discounts being offered than those permitted by law or in the regulations, and monitoring advertisements offering special conditions or privileged treatment when entering into a CMTPL contract. The use of private detectives makes it possible not only to uncover, investigate and stamp out violations of the law not only in Moscow and the Central Federal Region (where RAMI headquarters are situated), but also in other regions of the Russian Federation. The result of the introduction of these controls has been regular referral of cases to the Disciplinary Commission.

- On the basis of concrete examples of a number of insurance companies offering illegal discounts on CMTPL policies, the RAMI Disciplinary Commission took the decision to introduce financial sanctions.

Diagram 16

Planned and unscheduled inspections 2005–2006



As a result of this decision, there has been a reduction in the number of companies offering illegal discounts on CMTPL policies and a noticeable reduction in the size of the discounts.

7.5.3. Co-operation with the law enforcement agencies

In 2006, RAMI continued to improve its co-operation with the law enforcement agencies aimed at preventing illegal activities in the CMTPL market and at stopping criminality in the insurance sphere. Examples of co-operation include:

Exchanging information:

- on motor vehicles that have been illegally registered;
- on forged insurance policies;
- on insureds and their vehicles.

Information was given to the law enforcement agencies on:

- claims for compensation payment that showed signs of being fraudulent;
- facts uncovered about forged insurance policies;
- dishonest insurance organisations that have had their license withdrawn.

This year, joint work is planned together with the ministry of internal affairs to introduce a number of measures aimed at reducing the financial impact of companies that leave the insurance market where the Federal Service for Insurance Supervision has claims against them.

7.5.4. Raising the level of professional expertise in the insurance company anti-fraud departments

In 2006 work was completed on the publication of guidance notes on the prevention of insurance fraud and a manual for insurance company anti fraud departments. In these documents were set out the types of individuals and crimes linked with CMTPL insurance and what are the best methods whereby insurance companies can protect their interests. They also described organised large scale methods of insurance fraud and how these can be combated. In addition, a number of seminars and other meetings were held dealing with developing protection against insurance fraud which were attended by insurance company staff and by RAMI staff.

In 2007, a number of seminars and meetings are planned in the various federal regions which will be attended by members of the law enforcement agencies.

7.6. Controlling the activities of RAMI members

7.6.1. The work of the department responsible for inspecting, assessing and controlling RAMI members

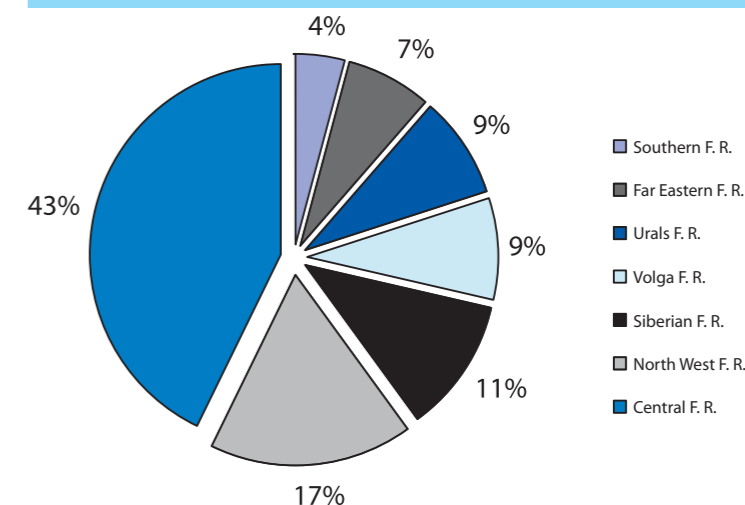
The process of inspecting member insurance companies took place in 2006 on the basis of a plan, agreed by the RAMI on 15 December 2005 (with subsequent alterations). In addition, unscheduled inspections were undertaken based on decisions of the Presidium, the Management Board, and the Disciplinary Commission and of the RAMI President. Inspections were also carried out at the request of a joint working group with the Federal Service for Insurance Supervision.

The plan called for 48 inspections. In fact, 70 inspections were carried out of which 48 were routine planned inspections and 22 were unscheduled inspections.

The number of unscheduled on-site inspections in 2006 was double the number in 2005: in 2005, there

Diagram 17

Regional distribution of inspections 2006



were 11 unscheduled inspections, 22 in 2006 of which 4 took place together with representatives of the insurance supervisor. Unscheduled inspections in 2006 grew in both absolute terms and relative to planned inspections primarily due to the necessity to act more promptly when faced with signs of potential illegal activity or breaches of the rules of professional conduct, since only prompt action makes it likely that documentary evidence will be found to confirm the breaches and then they can be stopped quickly, thereby reducing any negative impact they might have had.

Unscheduled inspections were carried out for the following main reasons:

- following a decision by the Federal Service for Insurance Supervision to suspend or limit the company's license to carry on insurance business;
- following complaints about the member company from a state body and from members of the general public;
- on the basis of decisions of the management board or Disciplinary Commission of RAMI.

When carrying out unscheduled inspections of insurance companies whose licenses to conduct insurance business had been suspended or withdrawn, in 2006, special attention was paid to the issue of the safekeeping of blank insurance policy forms and of other documents relating to CMTPL. The aim was to prevent illegal distribution of blank policy forms, to be in a position to estimate the companies' liabilities and to make compensation payments if the license were withdrawn.

When making unscheduled inspections for reasons other than suspension or limitation of the license, more attention was paid to the issues that provoked the inspection in the first place.

All inspections in 2006 were carried out at the offices of the insurance companies and their subsidiaries. Inspections were carried out the federal ad-

ministrative regions as follows: Central Region — 30; North-West — 12; Siberia — 8; Volga — 6; Urals — 6; Far East — 5; Southern — 3.

In 2006, inspections uncovered both breaches of the law of CMTPL and of the rules of professional conduct set out by RAMI.

Also discovered were instances of failure to make compensation payments within the time limits set out in the regulations and unreasonable refusal to pay claims. The most important breaches of law were:

- failure to have representatives in every local authority region of the Russian Federation;
- offering illegal discounts on premiums;
- advertising special privileges or better terms and conditions for CMTPL policies;
- selling CMTPL while the license to carry out insurance business has been suspended or limited.

The most important breaches of the rules of professional conduct were:

- failing to make proper reports to RAMI or making reports with insufficient data;
- failing to account properly for blank policy forms and breaking the rules governing their safekeeping;
- paying higher levels of commission to agents than is permitted;
- failing to pay RAMI in time and failing to pay the correct amount.

Using new inspection methods in 2006

When carrying out inspections in 2006, a number of new methods were used, aimed at making the inspection more effective and thereby improving control.

Thus, in 2006, specialists from RAMI took part in inspections made by the Federal Service for Insurance Supervision. This gave the specialists experience of how the insurance supervisor

carries out its inspections. It also made it possible to concentrate on the key issues relating to insurance companies work in CMTPL and reduced the duplication of efforts thereby reducing the demands on the staff of the Federal Service for Insurance Supervision.

A further new element in the inspection process of member companies was co-operation with the insurance supervisor in ensuring that the companies were following all the decrees issued by the supervisor or by the regional representatives.

In 2006, attention was paid to improving the procedures whereby member companies were advised about new decrees and proposals were made to set up an electronic database containing all the decrees affecting CMTPL with searching and reporting abilities. It is intended that RAMI will continue to co-operate with the insurance supervisor in the areas noted above.

The work of checking compliance with all decrees issued by the insurance supervisor nationally or by the regional representatives is part of the process of overall monitoring of RAMI members, the aim of which is to identify potential 'problem' companies that will be subject to further checks and inspections.

Another new control measure was the employment of private detectives whose function is to ensure compliance with decisions made by the Presidium of RAMI.

Measures to improve the rules governing inspections in 2006

A number of amendments to the rules of professional conduct were introduced in 2006 which made important improvements in the procedures and regulations governing inspections. The two main sets of regulations are set out in the following documents:

- the rules governing inspection of the work of members of RAMI relat-

ing to CMTPL and of their compliance with the rules of professional conduct;

- the procedures for carrying out unscheduled inspections and instructions for the procedures for carrying out off-site inspections.

These documents form the basis of the work of both the RAMI staff and staff from the member insurance companies during both on-site and off-site inspections by setting out the rules under which these inspections take place.

In contrast with the previous instructions governing inspections by the RAMI control service, the new set covering on-site inspections has introduced a number of new features, including the following:

- rules governing the work of the RAMI department preparing materials for on-site inspections;
- making the duration of the on-site inspection dependent on the number of CMTPL contracts concluded by the company in the year before the inspection;
- developing typical programmes of on-site inspection which indicate the questions to be considered, the documents to be checked, the amount of sample checks to be

made and how they should be analysed;

- the introduction of detailed documentary procedures to be followed by the on-site inspection team;
- making changes in the procedures for utilising the results of the on-site inspections.

Experience gained in the three years of carrying out inspections has shown that it is necessary to make wider use of accounts and of documents, which are provided to RAMI in connection with the rules of professional conduct. An immediate study of these documents as part of an off-site inspection carried out in RAMI offices permits a more effective reaction to suspected breaches of rules by insurance companies. It also assists the process of monitoring company operations, and makes it possible to introduce preventative measures against member companies who are not carrying out CMTPL properly. A completely new document was approved by the Presidium of RAMI that set out the rules and instructions governing off-site inspections.

Off-site inspections will be carried out in RAMI offices on the basis of accounts and of information and other

documents provided for RAMI in compliance with the rules of professional conduct with the result that employees of insurance companies are not distracted from their day-to-day work. The results of off-site inspection work are used to assist on-site planned inspections and if necessary, as part of an unscheduled inspection.

The introduction of these rules of professional conduct should lead to more effective inspections and to the improvement and strengthening of measures to prevent breaches of the rules.

7.6.2. The work of the RAMI Complaints Commission

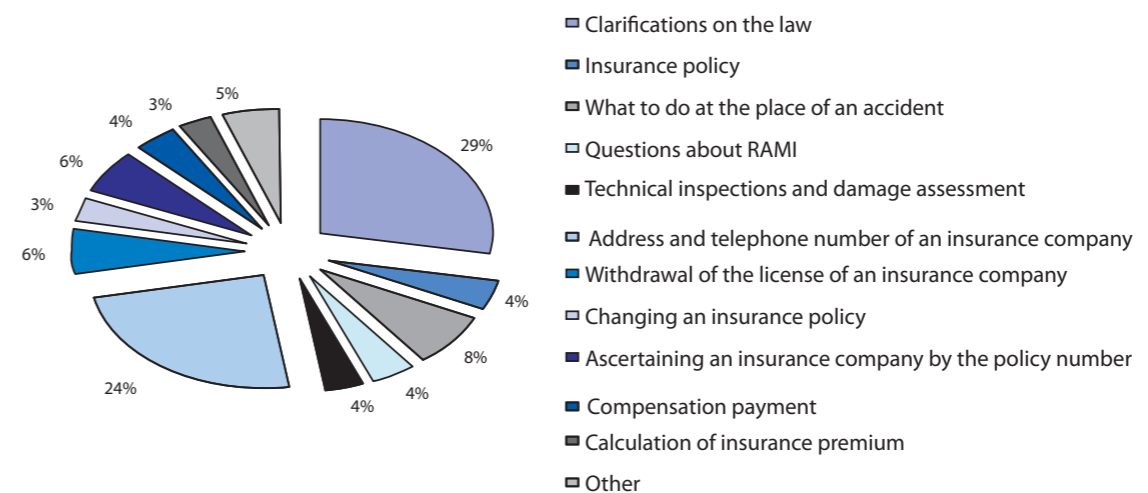
In 2006, RAMI based its work in dealing with complaints or appeals from the public on the requirements of the federal CMTPL law.

The procedures for dealing with appeals from the public are set out in the document '**Protecting the rights of insureds and accident victims in respect of CMTPL insurance and dealing with complaints made by insureds and by accident victims against members of RAMI**'. These rules give to the public the opportunity to:

- appeal personally to RAMI;

Diagram 18

Calls to the RAMI hotline January—December 2006



- send letters of appeal or complaint either by post or by fax;
- send a request by electronic mail;
- call the free federal telephone number — the RAMI hotline (800) 200-22-75

Last year RAMI and its regional representative offices received 3241 letters of appeal or complaint (Table 8).

As in the past, the most common cause of complaint remains delays in settling or paying claims. Complaints at delays in examining claims documentation or in making claims payments made up 53.4% of all cases handled in 2006. In 2005 the figure was 53.1% meaning that there was a change of less than 1% in the proportion of complaints about delays to the whole.

In 2006 the telephone hotline received **166,959** calls from the public (2005 — **111,846**).

RAMI has established a Commission to handle complaints which in 2006 sat 29 times and discussed more than 60 issues. Representatives of 23 member companies were in-

Table 8

Appeals and complaints

Type of complaint	Total complaints	%
Failure to comply with the time limits for settling or paying claims	1730	53.4
Disagreement with a refusal to pay a claim	762	23.5
Disagreement with the amount of a claim	472	14.6
Disagreement with the amount of premium returned on the cancellation of a policy	43	1.3
Reducing tariffs or coefficients	13	0.4
Other	220	6.8
Total	3240	100

vited to attend meetings of the Commission. These were companies against whom complaints had been made repeatedly.

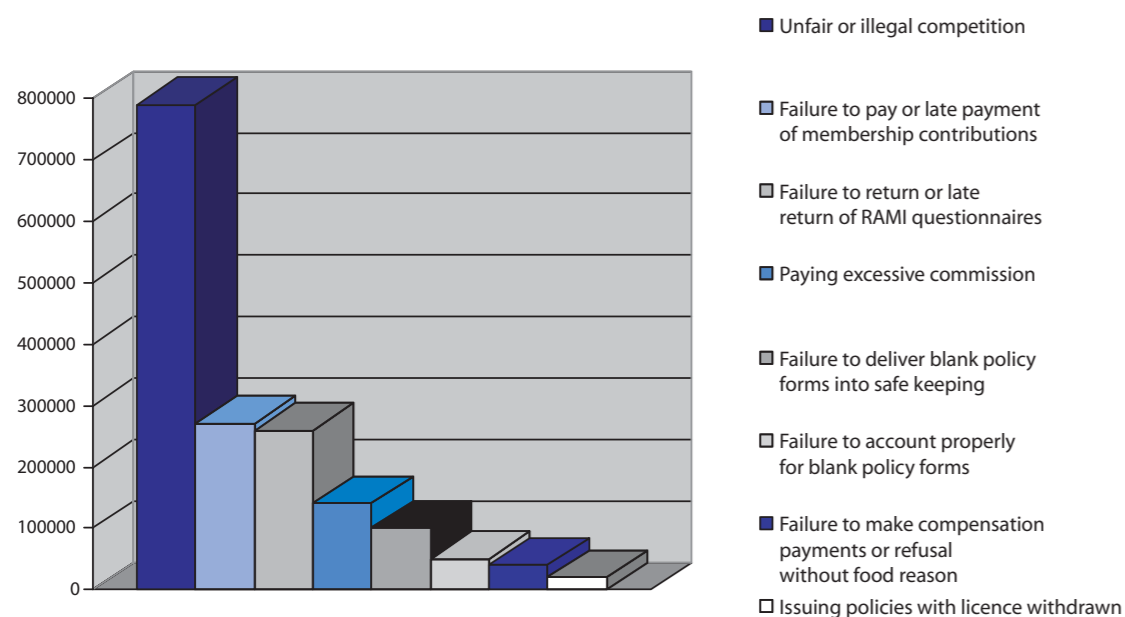
An analysis of the complaints and appeals from members of the public brings to light conduct that fails to comply with the law and 'sore points' in the work of insurance companies. At the same time, it also helps identify measures that can prevent typical conflicts.

Thus, there were 472 cases (14.6% of complaints) that arose from com-

plaints from victims or insured over the actual cost of the damage inflicted. Today, such questions can only be decided by a court. A fundamental solution to this problem could be achieved by developing an institute of independent experts, the foundation of which is envisaged in the federal law on CMTPL insurance and by creation of a single standard method of estimating the cost of damage caused by road accidents. This would include standard costs of repair work and services provided so that damage to vehicles and other property

Diagram 19

Main causes of the imposition of financial sanctions in 2006 (roubles)



can be assessed as well as the costs of bodily injury.

The analysis of the most common causes of complaints been laid before the respective committees of RAMI dealing with the issues. It has also led to proposals for amending current legislation to be drawn up and to the publication of a review of difficult issues relating to CMTPL.

7.6.3. The work of the RAMI Disciplinary Commission

In 2006, the RAMI Disciplinary Commission sat 7 times. There are 10 members of the Commission: seven are heads of member insurance companies, whilst the remaining three members are the President of RAMI and two other RAMI staff members.

The membership of the Disciplinary Commission 2006

Chairperson:

A. S. Kigim — President of the Russian Association of Motor Insurers

Deputy Chairpersons:

I. N. Zhuk — General Director, Soglasie Insurance Company

N. M. Tarasov — Director of Regional Development, RAMI

A. M. Chertkova — General Director, ENI Insurance Company

Secretary to the Commission:

O. V. Kurilin — Head of the RAMI Department of Control & Analysis

Members of the Commission:

I. V. Zagradka — General Director, Megarus-D Insurance Company

A. A. Zernov — General Director, Energo-garant Insurance Company

P. V. Zubrilin — General Director, Russkiy Mir Insurance Company

E. E. Sterzhanov — General Director, BASK Insurance Company

V. B. Yun — General Director, Standart-Reserv Insurance Company

Fifty five decisions were taken by the Commission to instruct insurance companies to cease the actions that were violating the rules. All these instructions were complied with. Seventy seven decisions were taken to impose financial sanctions. The total fines imposed amounted to 2,090,000 roubles of which by 1 February 2007, 1,460,000 roubles (or 70% of fines imposed in 2006). It has not proved possible to collect fines from companies whose license has been withdrawn.

Unfair or illegal competition led to the most fines (790,000 roubles). It should be noted that in 2004–2005 the Disciplinary Commission did not impose fines for this particular breach of the rules. Such a considerable expansion in the scope of work of the Disciplinary Commission was mainly due to a general agreement within the insurance industry that it was very important to enforce the rules controlling the behaviour of those companies which had license to carry on CMTPL insurance and to prevent unfair and illegal competition.

A considerable amount of fines were imposed in 2006 for breaches of the rules of professional conduct by failing to provide accounts to or respond to questions from RAMI or to pay amounts due to the Association within the time limit set. Fines were also imposed in 2006 for paying more than the permitted amount of commission, for breaking the rules governing accounting for and safekeeping of blank policy forms, for delaying claims payments or unreasonably refusing to pay a claim. A further cause of financial sanctions being imposed was for issuing CMTPL policies whilst a company's license was limited or suspended.

It should be noted that in 2006 there was a considerable increase in the number of member companies who faced financial sanctions. Thus, in 2005, fines were imposed on 20 companies, or on 12% of the total membership of 163 insurance companies as at 1 January 2006. In 2006, fines were imposed on 45 insurance companies,

or 27% of the membership that stood at 167 companies on 1 January 2007.

This growth is due to more effective control work by RAMI and to a higher number of violations being uncovered. In addition, member insurance companies have voluntarily accepted higher standards of conduct through the adoption of new rules of professional conduct and by improving the existing rules (for example, the rules governing the provision of services in the CMTPL market which were adopted by the Presidium of RAMI).

In 2006, controls were implemented to ensure that decisions of the Disciplinary Commission were promptly carried out by companies. Stricter controls in this area have ensured that decisions were being carried out and were successful in preventing repeated violations of the rules.

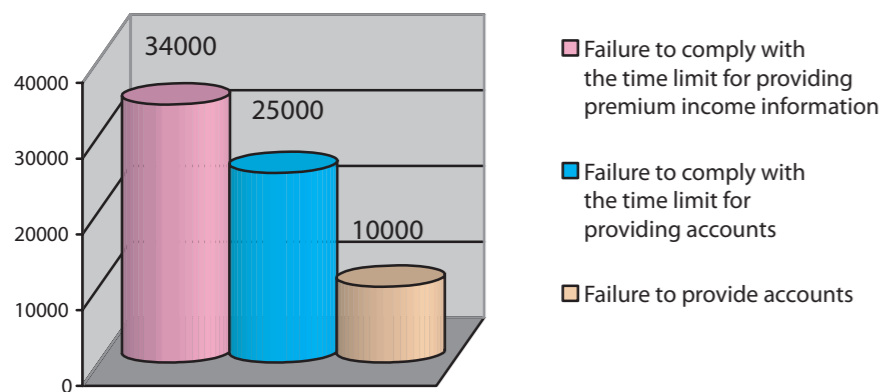
In addition to issuing instructions relating to rule violation and imposing financial sanctions, the Disciplinary Commission in 2006 adopted a new sanction: expulsion from the Association. On the 11 April 2006, the Disciplinary Commission took the decision to recommend to the Presidium of RAMI that Rosmedstrakh Insurance Company be expelled from RAMI. The recommendation was accepted by the General Meeting of members on 25 May 2006 and Rosmedstrakh was expelled.

Under the new regulations that permit the management body of RAMI to impose financial sanctions for breaches of the rules of professional conduct, in 2006, fines were levied on 19 organisations totalling 69 thousand roubles. In addition, 55 formal instructions were issued to cease violations of the rules. The main type of violation for which these sanctions were imposed by the management body of RAMI was failure to provide information about insurance premiums within the time limit set out in the rules.

The Presidium and the Management Board of RAMI receives regular

Diagram 20

Types of violations for which the management body of RAMI imposed sanctions in 2006 (roubles)



reports as to rule violations that have been discovered. For the first time in 2006, the decisions of the Disciplinary Commission relating to the imposition of financial sanctions could be viewed by members on the RAMI website in a section available only to members. The fact that members are able to view the decisions of the Disciplinary Commission in this way helps improve the quality of companies' work in CMTPL and prevents other companies from breaking the rules in a similar way.

7.6.4. Establishing bilateral agreements between companies to act as representatives in all local authority areas of the Russian Federation and the creation of a database of such agreements

In November 2005, the Management Board decided that bilateral agreements between companies to settle and pay claims in regions where a company has no branch or other legal presence, should replace the existing multilateral agreements. As a result, supervising the process of change became an important area of work for RAMI in 2006.

The object of the change is to ensure that victims of road accidents have a real opportunity to claim compensation from a representative of an insurance company in every local authority area of the Russian Federation. The federal CMTPL law requires that all member insurance companies must be

in a position to comply with this requirement: they must be able to settle and pay claims and maintain effective control at all times.

Work in this area involved the following:

- A workgroup of experts advisors from RAMI was set up to examine inter company relationships and the differences between bilateral and multilateral agreements. The group made proposals for overcoming the practical difficulties of creating agreements that were examined by the Presidium and by the Management Board. As a result, a set of rules of professional conduct were developed, entitled 'Procedures for RAMI member companies and their representatives to establish cooperation agreements to settle and pay compensation claims'. These rules were adopted by the RAMI Presidium in April 2006.
- The requirements to be met by subsidiaries or branches of insurance organisations being used as representatives in local authority areas of the Russian Federation have been defined. The criteria were adopted by the Presidium in June 2006. The Presidium also decided that all companies should ensure that their subsidiaries comply with the criteria and make the necessary changes in their legal status by 1 December 2006.
- In order to carry out decision of the

Management Board, RAMI staff organized two 'conference call' meetings with insurance company staff on the problems of moving towards bilateral representation agreements. In total, 149 insurance company specialists took part in these conferences. Sixteen letters with directives and information have been sent to insurance companies covering various aspects of this project.

- In order to establish operational control over the representatives of insurance companies in the various local authority areas and regions of Russia, in 2006 the technical requirements for establishing an automated system for maintaining records of representatives in the Russian Federation authorized to settle and pay compensation claims on behalf of other insurance companies were determined.

In September 2006, work began on a database intended to contain information on every bilateral representative agreement in force. This database was placed on RAMI's website, thereby making it possible for victims of road accidents to discover where the representative office of the relevant insurance company is located so that their claim can be settled and paid. In addition, this database makes it possible to ensure that the requirements of the federal CMTPL law are complied with in circumstances when an insurance company, acting as a representative in a local authority region, has its license withdrawn. It also helps to identify problem companies and help insurers avoid potentially difficult situations.

The project to introduce bilateral agreements between companies covering the settlement and paying of compensation claims was fully implemented by 31 December 2006: on 1 January 2007, all member insurance companies had representation in every local authority area of the Russian Federation based on a bilateral agree-

ment. One hundred nineteen insurance companies act as representatives of other insurance companies in various local authority areas, using their branches to settle and pay claims on behalf of the other insurance companies.

Twenty two companies have signed 20 or more bilateral agreements and 19 companies have signed more than 15 bilateral agreements.

A full report of work in moving towards cooperation between insurance companies in setting up bilateral agreements to cover settling and paying claims in the various local authority areas and regions of Russia was studied by the Presidium of RAMI on 15 February 2006 and formally approved.

7.7. Progress towards Russia's adherence to the international Green Card System for international CMTPL insurance

In May 2005, the General Meeting of the RAMI Members decided to prepare to adhere to the international Green Card System and since then this work has become one of the areas of focus in the period 2005–2007 as described in more detail below.

7.7.1. The working group of experts from the European Union

As part of the process of preparing for Russia to adhere to the Green Card System, a project with the European Commission ('assistance to Russia's adherence to the Green Card System') was carried out.

The objective of this project was to develop the legal framework for the development of the Russian Green Card Bureau and to set out its functions.

The project was able to use the services of a number of leading European experts including the former head of the Green Card Bureau, Ulf Lemor. The experts made recommendations as to the operation of the Rus-

sian Green Card Bureau, which included the following:

- the organizational structure;
- the financial procedures;
- procedures for settling claims;
- methods of issuing Green Card certificates and the protection and control of their use.

The project was completed in the beginning of 2007. The resulting report will become the basis of further work aimed at the setting up of the Russian Green Card Bureau.

7.7.2. Preparing the necessary measures to join the international Green Card System

In addition to the international project noted above, the RAMI committee for international relations and for co-operation with the international CMTPL system carried out a number of its own projects to use international experience, to assess the most practical and effective way of joining the system and to prepare the necessary infrastructure for the creation of the Russian Green Card Bureau. These projects included:

Developing the technical and financial basis for joining the Green Card System

During the year, the RAMI committee for international relations and for co-operation with the international

CMTPL system commissioned a feasibility study from the Independent Actuarial Information and Analysis Centre on the technical and financial basis for joining the Green Card System.

This study demonstrated the desirability of joining the system even if a number of conservative assumptions are made.

Establishing the principles behind proposed changes to legislation

RAMI commissioned a report from the Institute of Laws and Comparative Rights that established the basic principles that should govern amendments to the current law and new laws necessary to join the Green Card System.

The conclusions of this report are being used in discussion with various state bodies in order to assist the drafting of the necessary legislation.

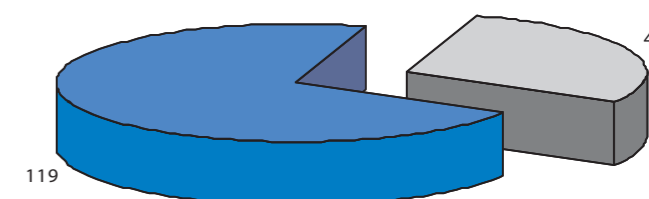
The rules governing the exchange of information

Rules governing the exchange of information within the Green Card System have been produced. The basic documentation has been identified and the basic rules and procedures of working within the international system have been identified and set out.

This material will form the basis for the creation of a special Green Card

Diagram 21

Representing the interests of insurance companies in the regions



- Member insurance companies that represent the interests of other insurance companies in the regions
- Member insurance companies that do not represent

subsystem within RAMI's Automated Information System (AIS RAMI).

Studying international experience

As part of the preparations for joining the Green Card systems, a number of seminars and meetings were held with representatives of the Green Card Bureau to study European practice on motor insurance, law and the basic statistics. A programme of training for specialists who are members of the relevant committee of RAMI member took place outside Russia.

This work has led to 23 member companies applying to join the Green Card System and confirming their intention to provide the financial guarantees required by the Council of Bureaux.

Fulfilling the conditions laid down by the Council of Bureaux for joining the Green Card System

In accordance with the requirements laid down by the Council of Bureaux for all new members of the system, the following documents have been produced:

- A report on the current Russian law and practice relating to CMTPL insurance and on the insurance market, law and regulation.
- A preliminary reinsurance programme for the Russian Green Card placed in the international reinsurance market.
- A letter from an authorised bank confirming that it prepared to issue a bank guarantee to RAMI, in respect of all its obligations, deriving from its position as the national Green Card Bureau, towards the Council of Bureaux.

The Governing Bodies of the international system have confirmed that Russia has the technical and organisational capability of joining the Green Card System.

Provisions necessary for RAMI to act as the Russian Green Card Bureau

Work has begun on preparing the necessary changes to RAMI's constitution.

The basic principles under which RAMI will act as the Green Card Bureau have been set out.

The Presidium has agreed 'The provisions necessary for RAMI to act as the Green Card Bureau'.

Under these provisions a permanent structure within the Association known as The Green Card Bureau will be created.

7.8. Taking part in the process of improving road safety and in minimizing the impact of road accidents

In 2006, RAMI carried out work aimed at reducing the frequency of road accidents and reducing their consequences. This work included:

- Research into the problems of road safety and studying international experience in reducing the frequency of road accidents and reducing their consequences.
- Carrying out a pilot project to introduce an automated speed control system on the roads of the Moscow region.
- Introducing measures to reduce accident frequency on public transport.

7.8.1. The RAMI publication 'Questions of CMTPL and road safety'

Following a decision of the General Meeting of Members on 27 May 2005 RAMI has produced an annual publication entitled 'Questions of CMTPL and road safety'.

This publication is intended to:

- Set out the main problems relating to the improvement of road safety in the Russian Federation and how they may be solved, in particular with the involvement of insurance companies.
- Analyse how foreign insurance companies are involved in improving road safety.
- Defining the methods whereby Russian insurance companies can be

involved in the process of improving road safety.

In 2006, the second annual publication was produced in which a detailed study was made of the main types of traffic violation that occur and their effect on accident frequency. In addition, the issue of road safety in commercial and passenger vehicles was discussed together with improved driver training, the reduction of injuries to children and improving the treatment of those suffering disability as a result of road accidents. In the publication, a key feature is research carried out on the ways in which outside Russia, insurance companies take part in the process of improving road safety.

Accumulated international experience demonstrated how insurance companies play an important role in improving road safety.

Research on international experience and how it can be adapted to Russian conditions was outlined in a brochure, published by RAMI and based on the examples of France, Finland and Austria.

Given the high accident frequency in Russia and its impact on CMTPL, an extraordinary meeting of RAMI members was held at which the issue of using legal and organisational factors of CMTPL to improve road safety was discussed. The aim of this discussion was to define the ways in which insurance companies could become involved in improving road safety.

7.8.2. The joint project with the Ministry of Transport of the Russian Federation entitled 'Multifunctional automated systems of controlling road traffic systems, based on experience gained on the M1 (Belarus) highway'

In 2006, RAMI completed a project with the Ministry of Transport of the Russian Federation to gain experience of automated systems of traffic control using the M1 Belarus highway as a pilot

study. In the course of this project, RAMI and the Ministry of Transport team carried out the following:

- developed the technical specifications for completing the project;
- developed software to control video cameras recording traffic;
- collected an initial set of data on traffic violations.

At the moment, analysis of the data collected is in progress and it is planned to complete the project in 2007.

7.8.3. The joint project with the State Inspectorate for Road Safety entitled 'Automated systems of speed control on the roads of the Moscow region'

On 25 April 2006, the RAMI Presidium agreed to carry out a pilot project on the introduction of automated systems of speed control in the Moscow region. The project is one of the most important initiatives aimed at reducing the frequency of road accidents on Russian roads and to implement it, RAMI signed a co-operation agreement with the department of road safety of the Moscow region. The project will start in 2007.

The aims of the pilot study are:

- To increase drivers' compliance with the law and to reduce the number of accidents, deaths and injuries on the roads. European experience shows that installing speed control devices has a psychological effect on drivers, leading to better enforcement of speed limits and other traffic regulations. This, in turn, leads to a reduction in the number of accidents with their resulting injuries and deaths.
- To create the statistical and analytical basis for:
 - Drafting proposed changes in federal laws relating to automated photographic or video systems for recording violations of the law and for imposing and collecting fines for breaches in road traffic regulations.
 - Justifying the introduction of a points system for violations of

road traffic rules based on administrative data, which can be used as an economic stimulus to make drivers obey the law by influencing their renewal premiums for CMTPL insurance.

7.8.4. The pilot project with GAZ motor manufacturer to install in passenger and goods vehicles on-board recording devices to reduce accident frequency and to increase road safety

Today, the safety of passenger vehicles is a particularly vital issue: for insurance companies they have the worst loss record. Public opinion also treats the issue of the safety of public transport as a serious issue since it affects a large number of people. The general public has to use public transport every day and face the risk of accidents. However, passengers are not in a position to influence the safety of the vehicles or whether the drivers comply with the law or even their level of professional competence. Research shows that the main cause of accidents is the human factor: lack of rest periods and the level of professional competence.

RAMI took part in four regional meetings in 2006, organised by the Russian Auto Transport Association, dealing with the question of safety in socially important transportation. In these meetings, a number of issues relating to road safety were discussed. One important conclusion that arose was that the use of automated recording devices to control the drivers and vehicles can have a beneficial effect on the safety of socially important transport and that therefore changes on the legal and regulatory framework to encourage their use would be of value.

International experience demonstrates that installing automated recording devices in motor vehicles reduces the number of accidents by 22%, and reduces the number of deaths by 54%.

As part of this project:

- A co-operation agreement was signed with GAZ, the motor manufacturer, under which it was proposed in 2007 to complete a pilot project to install further automated recording systems in motor vehicles to reduce accident frequency and to increase their safety when transporting passengers.
- A meeting was held with the producers of automated recording devices (the tachigraph or 'black box') with the participation of governmental representatives and of representatives of transport companies.

7.9. Developing a system of professional qualifications for those working in the area of CMTPL insurance

7.9.1. Developing a system of professional qualifications and accreditation for technical experts

On 25 April 2006, the Presidium agreed procedures for introducing a voluntary system under RAMI for accrediting technical experts.

On 31 December 2005, amendments were introduced to Clause 18 of the Federal Law 'On the licensing of businesses' which meant that from 1 June 2006, appraisers no longer needed to receive a license. As a result, following a proposal from the RAMI committee for independent technical inspection, the Presidium agreed to establish a system for the voluntary accreditation of technical experts with RAMI. The objectives of this system are:

- To increase the legitimacy of using the services of experts as a step towards establishing a system of independent technical examinations of motor vehicles.
- To expand the use of inspection services on the basis of greater competence and higher professionalism, thereby supporting an inspection process that will protect the

rights of road accident victims.

- To strengthen the trust of insurance companies and accident victims in inspection services.
- To develop a method of protecting the property interests of insurance companies and accident victims through independent technical inspections.
- To produce an effective way of overcoming disputes between insurance companies and accident victims, thereby reducing tensions in the operation of CMTPL insurance.

In order to carry out the tasks set for 2006, the following activities took place:

- The constitution of the RAMI Commission for Accreditation was approved.
- The procedure for the voluntary accreditation of technical experts was adopted.
- The RAMI Commission for Accreditation was formed, and a system of accreditation of technical experts was introduced based on a detailed and complete assessment of their practical experience and technical knowledge achieved through the correct technical education, continuing professional training and the achievement of higher qualifications.
- A register of technical experts who have joined the system of voluntary accreditation was set up, through which anyone who would like to use the services of an independent technical expert can find specialists.
- A document was produced entitled 'Procedures for the withdrawal of the license and identification document of a technical expert with voluntary accreditation' to form the basis of action when the technical expert has engaged in unprofessional conduct, leading to a complaint about the quality of the services provided.
- Developed procedures for determining the educational qualifications recommended for the raising

of the level of professional qualification of technical experts applying for voluntary accreditation.

- Developed rules for the insurance of the professional liabilities of technical experts.
- There were held 12 sessions of the Commission for Accreditation, during which applications for voluntary accreditation of technical experts with RAMI were examined.

The results of the work of the Commission for Accreditation were as follows:

- 530 applications for voluntary accreditation of technical experts were examined;
- 512 applications were accepted;
- 18 applications were rejected.

The basic statistics are set out in the two diagrams below:

In addition, to introducing the accreditation of technical experts, the Committee for Independent Technical Inspections supervised a project aimed at producing the necessary infrastructure to calculate vehicle repair costs following road accidents.

In the past, it has proved difficult to estimate the cost of repairing many vehicles due to the absence of reliable data on the cost of factory produced spare parts for Russian made vehicles and of norms setting out average labour repair time. As a result of this difficulty which faced both insurance company claims examiners and technical experts, the RAMI Presidium, on 14 October 2004 decided to commence

Diagram 22

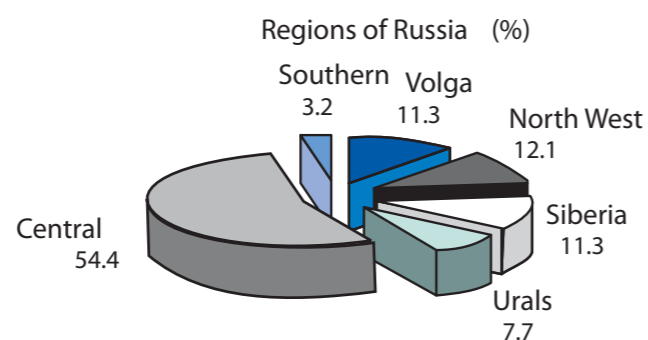


Diagram 23

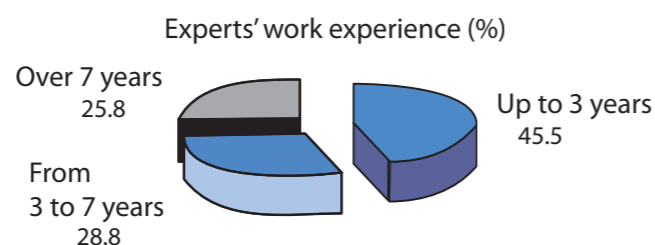
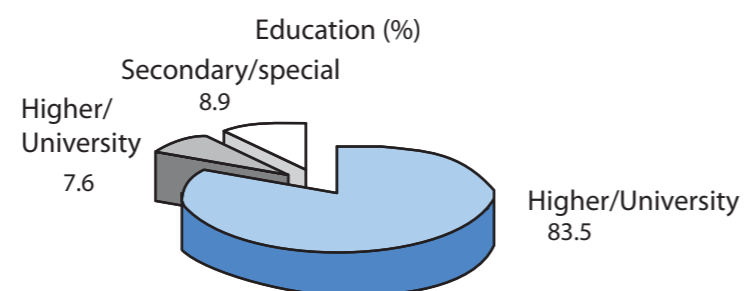


Diagram 24



a project to create a programme to estimate the cost of repairs of Russian produced vehicles, including estimates of standard labour requirements and technical operations needed to carry out the repairs.

In 2006, as part of this project, work continued to develop software, to estimate the costs of repairing Russian made motor vehicles. When it was completed, recommendations were made to use the following materials:

- a tri-monthly regional price list of spare parts for Russian made vehicles (in electronic format);
- a methodology for producing regional standard time scales for types of work (in paper format);
- a tri-monthly regional price-list for labour costs for different types of work (in electronic format);
- an illustrated table of the most commonly damaged parts for the use of experts when drawing up motor vehicle damage reports for the following vehicles: Gazel, Sobol and Barguzin (in paper format).

The objectives of the work to develop software to estimate the cost of repairs of Russian made vehicles are as follows:

- to reduce the amount of time and labour needed to estimate the costs of repairing Russian produced vehicles;
- to give to insurance company claims adjusters and to technical experts a useful tool for making an accurate cost estimate of a claim;
- to have a benchmark of expected costs against which actual vehicle repair costs incurred by a vehicle owner can be compared.

7.9.2. The register of dishonest agents and brokers

At the present time, the work of insurance intermediaries (agents and brokers) is largely unregulated in the insurance market. This legal vacuum not only causes losses to insurance companies, it also threatens to bring the CMTPL system into disrepute. In April 2006, the Presidium decided to

set up a register of agents and brokers against whom claims have been made by participants in the CMTPL market. This information resource is now available and data is being added. Members of the Association by using it can not only prevent financial losses, they can also counter negative publicity aimed at CMTPL insurance.

7.9.3. Developing professional qualifications and accreditation of members of the CMTPL market

In addition to developing the system of voluntary accreditation of technical experts by RAMI, consideration has been given to developing systems of professional qualification to other participants in the CMTPL insurance market who provide services either for insurance companies or for their clients: for insureds or for victims of road accidents.

Initial discussions have centred on motor repair garages. The following factors have drawn the attention of insurance companies to this sector:

- The lack of any legal responsibility of motor repair garages for poor work. While settling claims, insurance companies have seen that a common cause of accidents is defective vehicles and often the vehicles are defective because of poor work by repair garages. As a result, insurance companies suffer loss not only because it is difficult to prove but also because it is almost impossible to recover damages from repair garages. One method that could be used against unreliable repair garages is to develop a system of accreditation for them, organised by RAMI.
- The lack of a single standard for estimating the cost of accident repairs, of spare parts and of the time needed to carry out repairs; the fact that there is no software that can be used during repairs; the absence of criteria for checking the quality of repair work in order to establish the fitness of the vehicle to operate on the roads. All these problems do not help ensure the transparency of

these services, can lead to the problem of badly repaired vehicles on the roads and can even lead to suspicion that criminal elements are involved in this sector of the economy.

- The third reason arose during 2006 when there was a substantial increase in vehicle repair labour costs from some of the largest repair garages that are official partners of some of the most popular makes of vehicle. Thanks to a rapid response from members of RAMI, the issue was examined by the Federal Anti-Monopoly Service and as a result it was held that the repair garages had engaged in unfair competition. The result of this constructive work with repair garages should lead to the avoidance of similar events in the future and should make for more predictable repair costs, which in turn should have an effect on the loss ratios of CMTPL insurance and on the process of changing CMTPL insurance tariffs.

The relevant RAMI committee has examined the question as to how a practical system of voluntary accreditation of motor repair garages could be introduced on a similar basis to the system of voluntary accreditation by RAMI of technical experts.

7.10. Other activities of RAMI

7.10.1. The RAMI regional representative offices

RAMI has set up regional representative offices in every federal administrative region of the Russian Federation: St. Petersburg, Nizhny Novgorod, Rostov on Don, Yekaterinburg, Novosibirsk and Khabarovsk. The role of representative in the Central region is performed by the RAMI head office in Moscow.

The main tasks of the representative offices are:

- to represent RAMI and its members in every part of the Russian Federation;
- to carry out the controlling function;
- to set up the database of representatives of insurance companies in the

various local authority areas of the Russian Federation (carried out by RAMI management).

The work of RAMI in the federal administrative regions

In 2006, the management of RAMI continued work on developing its operations in the various federal administrative regions, by strengthening its co-operation with state and local government bodies in the regions, with insurance companies, insureds and with victims of road accidents.

The RAMI management board co-operated with state and local government bodies dealing with questions arising from the operation of CMTPL insurance in the regions, carrying out the overall policy of strengthening RAMI's presence throughout Russia. At the present time, the managers of the representative offices are working out joint approaches to dealing with insurance issues, by, for instance, setting up advisory bodies, commissions and working groups dealing with road safety and examining other problems related to CMTPL insurance.

In order to encourage co-operation at regional level between insurance companies dealing with CMTPL insurance, the RAMI representative offices regularly organise events which are attended by representatives of insurance companies and of state bodies, by the road traffic police, by the Federal Service for Insurance Supervision and by representatives of the main federal inspections services. Reports of these meetings are distributed to the mass media to ensure that the public is aware of the work of RAMI and of insurance companies in the various regions of Russia.

In a separate area of work, the regional representative offices of RAMI were involved in dealing with 'problem' insurance companies. There was a substantial increase in applications from victims of road accidents in circumstances where the responsible insurance company had lost its license. These applications to the courts had

to be dealt with by specialists from the regional representative offices.

To work effectively in the regions, the representative offices have to make themselves available to the general public. Every day, between 100 and 150 individuals or company representatives come for advice, to make complaints or suggestions. In 2006, a system was developed for dealing with the public. Commissions, that have proved their worth, have been set up, headed by the local heads of the representative offices to deal with complaints and other matters from the public or from companies.

Another area problem related to companies that have had their licenses withdrawn that has generated a considerable amount of work has been the need to account for and secure unused blank forms and also initial documents from insureds or victims of road accident victims that might be needed if compensation is to be paid.

The regional representative offices have also, together with specialists, carried out both planned and unscheduled inspections of member insurance companies and have also made checks through 'controlled buying' of CMTPL policies.

Work has also been carried out with insurance companies to confirm facts related to insurance fraud, to record the number of CMTPL policies issued by insurance companies and to check that insurance companies have representatives in place in every local authority area so that they are able to make compensation payments.

RAMI representative offices — assisting the control function

The RAMI representative offices in the regions took part in both on-site and off-site inspections of insurance companies in relation to their compliance with the rules of professional conduct. In accordance with the plans for the inspection of RAMI members, employees of the representative offices took part in more than 40 planned and unscheduled inspections.

In addition, specialists from the regional offices carried out audits of the corporate information systems of 21 insurance organisations.

The number of inspections carried out by the regional representative offices is growing every year.

7.10.2. Public relations

The public relations programme of RAMI was organised by the RAMI Committee for Public Relations, and it resulted in the work in the following main areas:

- working with the mass media;
- publishing informational material;
- carrying out social research;
- completing the official RAMI website.

Sharing information with federal and regional mass media:

- informational support for the main projects and in improving the operation of CMTPL together with Interfax. This work included placing interviews and comments from specialists on the Interfax site and organising press conferences;
- distributing information about RAMI's work and that of its members via the internet site of RBC and through the journal 'Atlas Insurance';
- organising a round table with the newspaper Trud and live broadcast with the radio stations Mayak, Ekho Moskvy, Avtoradio and City-FM;
- publishing interviews with and commentaries from leading RAMI staff and specialists, and also with the representatives of member insurance companies in the central, specialist and regional media, in publications such as Vedomosti, Kommersant, A&F, Rossiskaya Gazeta, Isvestiya, Komsomolskaya Pravda, Vremiya Novostei, Novye Isvestiya, MK, Za Rulem (At the Wheel), Autoreview, Avtomobile, Klakson, Stavropolskaya Pravda and The Kaluga Publication Vest. Information was also placed in the federal television channels, Today (NTV), Vesti-Moskva, Good Morning Russia

(Rossiya Channel), Vremiya and Special Investigation (Channel One);

- 25 representatives of the media from the regions of Russia took part in a RAMI organised PR campaign to discuss the three years experience of CMTPL insurance in Russia.

This resulted in articles in 37 leading regional publications in seven federal administrative regions of Russia.

The main outcome of this was that the participating journalists were able to disseminate information without mistakes: in the future, their work will no longer contain factual mistakes or uncorrected errors, which had often been a feature in the past. They have been able to provide other journalists in the regions with a good example of objective reporting of CMTPL issues.

- Seminars were organized for journalists from leading publications in every federal administrative region.

Competitions for the mass media

- In order to increase the interest of the media in CMTPL issues, a competition was organized by RAMI called 'Time to insure' for representatives of the media in the Moscow region. Features or articles about the problems of motor insurance appeared in 51 media elements including the press, the television and radio. The total number of features that appeared was 97.
- As part of the competition 'Financial Russia 2006' nominations were made for a high level of professionalism in covering insurance and CMTPL, and awards were made to journalists in the federal mass media, based on these nominations.

In 2006, RAMI published the following:

- The annual report for 2005 in Russian and English setting out information about the work of RAMI for Association members and for for-

eign partners, for the mass media and for the public.

- A number of bulletins and brochures to help members of RAMI in their work. These covered questions and answers about CMTPL, details of foreign experience, information bulletins about the rules of professional conduct etc.
- The first annual publication, 'CMTPL and road safety' was published and distributed to support measures for improving road safety.
- Four editions of RAMI news, providing information about RAMI's activities for the membership.

In 2006, RAMI carried out the following social research:

- A project jointly with VTsIOM, entitled 'The law on CMTPL and the perception of drivers' this research was carried out in relation a PR campaign reporting on the results of CMTPL in the three years of its operation.
- Together with Drivers' Movement of Russia, a project of social research was carried out entitled 'Road safety, key issues and types of solutions'.

The RAMI Internet site:

- a new version of the RAMI website was posted on the Internet with public access to non-confidential information;
- an area of the website, not open to the public, was designed and included in the site for the use of RAMI members.

7.10.3. Improving professional qualifications (seminars and conferences)

In 2006, the management continued to develop programmes of training to improve the level of qualification of member insurance company staff and of employees of RAMI.

Forty eight training sessions — forums, conferences and seminars — were planned and carried out. These sessions can be divided into the following blocks:

- there were 18 educational seminars: one in each of the federal administrative regions and 12 in Moscow. These seminars were financed by insurance companies who wished to take part in that form of education;
- twelve seminars were held for RAMI head office staff and for RAMI staff from the representative offices in the regions;
- eight seminars were organised and financed jointly with other organisations such as the All-Russia Insurance Association, the Russian Motor Transport Association etc. These seminars covered the general work of RAMI. Insurance company managers decided if they would like to attend these seminars;
- ten seminars took place, which were attended by specialists in information technology from member insurance companies. The high profile technology events dealt with issues relating to developing IT within member insurance companies, in particular with the introduction of the interface between the companies and the RAMI system (AIS RAMI) getting insurance companies used to taking part in tests of the system and giving them experience of implementing IT projects.

In addition, there were six conferences in 2006: four with international themes and two forums dealing with current problems of motor insurance.

In November 2006, the Third International Conference took place — 'CMTPL insurance in Russia: tariffs and regulations'.

This conference is designed to discuss practical issues that have arisen in CMTPL in Russia in the last three years, analysing current problems and discussing suggestions for improvements. More than 100 people attended the conference: representatives of Russian and international insurance and reinsurance organisations, representatives from

Russian federal state bodies such as the Presidential Administration, the Government, the Ministry of Finance, the Ministry of the Interior, the Ministry of Economic Development and Trade, the Ministry of Transport, the Federal Service for Insurance Supervision and the Federal Anti-Monopoly Service. Further attendees came from insurance associations and unions, consulting companies and from scientific and educational organisations. Ten countries were represented: Austria, Germany, Great Britain, France, Japan, Lithuania, Poland, Russia, Ukraine and USA.

An international conference was held on the theme of introducing a system of automatic speed control of the roads of the Russian Federation. In

addition to representatives from the Russian Ministry of the Interior and from the Ministry of Transport, leading specialists from France attended, together with deputies from the St. Petersburg Legislature, and representatives of insurance companies.

In May 2006, RAMI under the auspices of the Ministry of Information Technologies organised an international conference entitled 'Information technology and CMTPL: state and insurance company projects'. Taking part were specialists from the Government and other departments of the Russian Federation, representatives of member insurance companies and a wide range of IT hardware and software companies operating in the insurance sphere.

In September 2006, an international conference was held on the subject of 'International systems of direct settlement of CMTPL claims and simplified reporting of road accidents'. The conference drew on the experience of those countries where direct settlement has been in force for over ten years (France and Belgium) and also had input from experts from countries that had decided against introducing the system (Germany). This conference was very relevant to current circumstances and there was a level degree of interest not only from insurance companies but also from state bodies, who at the time were drafting legislation to bring into Russia the system of direct settlement of claims.

8. RAMI FINANCIAL REPORT 2006

The total income achieved by RAMI in 2006, amounted to 2,983,564,000 roubles.

Of this amount:

- 948,921,000 roubles — came from admission fees and membership dues to support the work of RAMI;
- 1,249,064,000 roubles — payments from the reserve for current compensation payments to fund compensation payments;
- 624,675,000 roubles — payments from the guarantee fund to fund compensation payments;
- 157,486,000 roubles — other income from interest on funds held including the reserve funds;
- 3,418,000 roubles — other income

including income from financial sanctions on members.

Total expenses of carrying on business in 2006 were 320,256,000 roubles.

Profits tax amounted to 38,610,000 roubles.

As at 1 January 2007, the RAMI balance sheet showed total assets of 101,041,000 roubles.

During 2006, RAMI made compensation payments from the reserve guarantee fund of 193,817,000 roubles.

During the same period, compensation payments from the reserve fund for current compensation payments amounted to 9,377,000 roubles.

As at 01.01.07, the balance of funds in the reserve funds held by RAMI was as follows:

- to finance compensation payments from the reserve for current compensation payments — 3,724,448,000 roubles;
- to finance compensation payments from the guarantee reserve — 1,618,876,000 roubles.

9. REPORT OF THE AUDITORS

EXTRACT FROM THE REPORT OF THE AUDITORS ON THE REPORT AND ACCOUNTS OF RAMI COVERING THE YEAR ENDED 31 DECEMBER 2006:

'In our opinion, the accounting records of RAMI accurately reflect in all substantive matters its financial position as at 31 December 2006 and the results of its financial activities in the period between 1 January to 31 December 2006'.

*Deputy General Director, ZAO BDO Unicon
Authorised signatory of an audit conclusion*

E. I. Kopaneva

Auditor, Head of Audit Review

L. V. Efremova

Ministry of Finance Licence for general audit number 042573, issued 28.02.2003 on the basis of a decision of the Central Commission for Attestation and Licensing of Auditors, Ministry of Finance of the Russian Federation with no limitation as to time (protocol 103, TsALAK Ministry of Finance).

10. EXTRACT FROM THE REPORT OF THE AUDIT COMMISSION

FROM THE INSPECTION REPORT ON THE FINANCES AND MANAGEMENT DATED THE 16 APRIL 2007, MOSCOW

Name: The Russian Association of Motor Insurers
Address: Lyusinovskaya Street, 27, building 3, Moscow, 115093
Registration number: 1027705018494

In the course of the inspection of finances and management of RAMI, the following was noted:

The accounts were drawn up in accordance with the laws of the Russian Federation. The financial accounts are reliable, in that they have been prepared in such a manner that they reflect in all substantive matters the assets and liabilities of RAMI as at 31 December 2006 and the financial results of the Association's activities in the year commencing 1 January 2006. The accounts are in conformity with the accounting rules set out in 'Accounts of organisations' (Decree of Ministry of Finance of 22.07.03 PBU 4/99, No. 43n, with the rules for completing accounts and accounting in the Russian Federation, Decree of the Ministry of Finance of No. 34n, and with the Decree of the Ministry of Finance of 22.07.03 No. 67n 'Format of accounts for organisations').

The annual report of the use of the 2006 budget is in conformity with the rules of RAMI.

The members of the Audit Commission carried out checks into the following RAMI subdivisions:

- The Department for Analysis and Control;
- The Department for Working with the General Public;
- The IT Department;
- The Department for Making Compensation Payments.

No breaches of law were identified in the work of these subdivisions of RAMI. The work of these subdivisions is carried on in conformity with the requirements of the federal law on CMTPL insurance.

<i>Chairman Audit Commission</i>	<i>Vitaly A. Poltavtsev</i>
<i>Member Audit Commission</i>	<i>Vasily V. Akulov</i>
<i>Member Audit Commission</i>	<i>Natalya N. Sonina</i>
<i>Member Audit Commission</i>	<i>Sergei V. Bakhtin</i>
<i>Member Audit Commission</i>	<i>Ruslan A. Naimanov</i>

11. RAMI'S PRIORITIES FOR 2007

In 2007, work will continue on a number of projects begun in previous years. These projects include:

- introducing direct settlement of CMTPL claims and simplified reporting of road accidents;
- adherence to the international Green Card System;
- the development of AIS RAMI and AIS CMTPL;
- effecting compensation payments;
- combating insurance fraud and unfair and illegal competition.

11.1. Preparing for the introduction of Direct Settlement of CMTPL claims and for a system of simplified reporting of road accidents

One of the main areas of work for 2007 will be preparing to introduce into Russia the system of direct settlement of CMTPL claims and the simplified reporting of road accidents (the European Protocol). The following are planned:

- completing the final stages in the development of the technical requirements for the introduction into Russia of a system of direct settlement of CMTPL claims and simplified reporting of road accidents;
- preparing proposed amendments to the federal law on CMTPL insurance, to the basic insurance law ('On insurance business in the Russian Federation'), and to other legal and regulatory rules: the Tax code of the Russian Federation, the code of the Russian Federation on administrative violations, decrees of the Government of the Russian Federation, orders of the Ministry of Finance, of an of the Ministry of Internal Affairs etc.;
- developing the technical requirements for the creation of a centre for CMTPL information and accounting which will handle relationships between insurance companies under a system of direct settlement;

- developing the infrastructure necessary for the functioning of the centre for information and accounting;
- organising seven educational seminars in the regions and at least two telephone conferences on the subject of the European Protocol.

11.2. Adhering to the international Green Card System

In December 2006, the Presidium agreed a programme for preparing to adhere to the international Green Card System in 2007. This programme involves continuing work on projects that were begun in 2006 and new projects, so that in 2007 the following work is planned:

● The preparation of draft amendments to the legal and regulatory framework

It is planned to bring in amendments to the federal CMTPL law and to the Rules of RAMI. In addition, it is also planned to bring in rules of professional conduct relating to the operation of the Green Card Bureau:

- rules covering the formation, financing, expensing and recovery of the Green Card Fund;
- on the joint work between insurance companies in settling claims in Russia and abroad;
- on procedures for issuing, producing and accounting for Green Card certificates;
- on procedures for entering into Green Card insurance contracts;
- rules governing the work of insurance companies issuing Green Cards and procedures for monitoring their work.

● Creation of a prototype information subsystem for the Green Card

It is planned to develop the overall principles and the technical requirements of an information system based on the needs of insurance companies

and to create a prototype subsystem.

● Calculating premium tariff rates

Next year it is planned to calculate the insurance tariffs for Green Card insurance business.

11.3. The development of AIS RAMI and AIS CMTPL

In 2007, it is planned to continue the development of AIS RAMI by carrying out the following projects:

- Improve the transparency of the market through the use of AIS RAMI.
- Reducing IT risks through:
 - auditing and certifying corporate IT systems;
 - developing and introducing operational standards for insurance companies.
- Continuing to develop the members' experience of operating the CBM AIS RAMI.
- In 2007, it is planned to move further towards to use by insurance companies of electronic forms of accounting through AIS BSO RAMI. This system allows officers from the Road Traffic Police in real time to check the status of a policy during the licensing process, at the time of the annual technical check of a vehicle and during road side checks.

In 2007, as part of the development of the AIS CMTPL project the following is planned:

- Develop a prototype DC RAMI within the AIS CMTPL system and begin to test it.
- Produce standards for the interaction of DC RAMI AIS CMTPL with the subsystem of the department of Road safety at the Ministry of Internal Affairs connected with registering information about road accidents and victims.
- Produce standards for interaction between DC RAMI AIS CMTPL and the departmental computers of FTC

Russia on issues relating to information about the customs status of transport vehicles and about vehicles coming on to the territory of the Russian Federation.

11.4. Other areas of work

Motor Physical damage insurance (KASKO) and CMTPL insurance

In 2007, it is planned to begin the practical development of a voluntary agreement covering the co-operation of member companies that have issued a CMTPL policy and those that have insured a victim in making CMTPL compensation payments. The objective of this agreement is to simplify the process whereby CMTPL insurers obtain subrogation payments from KASKO insurers. When this agreement is in place, it will be the first experience of financial co-operation between member insurance companies, an experience that can be utilised during the implementation of the system of direct settlement of claims.

Making compensation payment to victims in conformity with the requirements of the federal law on CMTPL insurance

Given the existing situation in which 14 companies have had their licences to carry on insurance business withdrawn and the potential level of claims for compensation is likely to arise and given also that the tendency of companies leaving the market because of loss of licence or solvency problems is likely to continue, it is probable that making compensation payments will be one of the most important activities of RAMI during 2007. This will inevitably require considerable financial resources to make the payments and will result in increased administrative costs: more staff will need to be employed in this area, the IT system will need to be further developed and substantial resources will need to be expended to rescue and conserve documentation from the bankrupt companies.

Another area of work in this area will be to prepare proposed amendments to current law in order to prevent companies leaving the CMTPL market in a dishonest manner, by increasing the opportunities of obtaining financial resources from the bankrupt company.

The 'Spektr' anti-fraud database

In 2007, RAMI intends to improve the functioning of the "Spektr" anti fraud database by optimising the question/answer information exchange between insurance companies using the internet resources of RAMI.

Accrediting technical experts

In 2007, the RAMI Commission for Accreditation will continue work on the introduction of voluntary accreditation of technical experts by RAMI. The first stage will be accrediting for one year and the second stage will be for a period of three years.

Work will also continue on the project to produce software to calculate the cost of repairs of Russian made vehicles and in 2007 it is planned to complete the project outlining the methodology of defining repair costs at the time of CMTPL claim settlement.

Increasing the level of professional qualifications (seminars and conferences)

More than 50 events are planned in 2007 aimed at increasing the level of professional qualifications within member insurance companies.

These events will include:

- Regional seminars for specialists from member insurance companies covering the most important issues relating to CMTPL, identifying problem areas and methods of solving these problems.
- The fourth international conference on 'CMTPL in the Russian Federation: tariffs and regulation' will be held in November 2007 in Moscow.
- A conference/seminar will be held in Rostov on Don entitled 'The de-

velopment of a system of voluntary accreditation of technical experts in RAMI'.

- A conference/seminar will be held in Germany on a unified approach, the methodology and IT for claims settlement.
- An international exhibition in Moscow of technical methods of traffic control (the Forum for Traffic Safety, Intersignaldortrans — 2007).
- A conference/seminar in Germany 'The German experience of settling claims directly to the repair garage'.
- A training seminar on the introduction of direct settlement of CMTPL claims and the European Protocol will be held in Moscow, Rostov on Don, St. Petersburg, Yekaterinburg, Kazan, Novosibirsk and Khabarovsk.
- A seminar and meeting will be held to discuss the reports and perspectives resulting from the pilot project on the M1 Belarus highway. Attending will be representatives from the Ministry of Transport and Rosavtdor.
- A joint conference with the Finnish Committee of Insurers for Road Safety (VALT) on the possibilities of adapting international experience in improving road safety to Russian conditions.
- A conference with the motor vehicle producers from the Volga Federal Region on the question of 'passive' safety for motor vehicles.
- A conference about the purpose, structure and functioning of the subsystem AIS RAMI (policies), ESKS and PIB the principles of the subsystems work and discussion of the first results of insurance companies operating the subsystem.
- A seminar and meeting dealing with the struggle against insurance fraud in six federal regions of the Russian Federation.

GLOSSARY:

ABBREVIATIONS USED IN THE TEXT

AIS MTPL — Automated Information System holding data on CMTPL insurance

AIS RAMI — Automated Information System holding data of RAMI.

BSO — Strict accounting for blank CMTPL insurance policy forms

BSO AIS RAMI — the subsystem of RAMI's system accounting for the production and distribution of blank CMTPL policy forms to member insurance companies

CBM — Coefficients for calculation of bonus/malus: formulae, based on previous claims experience of an individual whereby renewal MTPL insurance premium can be adjusted to reflect good or bad claims experience

CBM AIS RAMI — the subsystem of the RAMI system holding claims data to be used for the calculation of formulae to be used in a bonus/malus system of renewal premium calculation

CMTPL, compulsory insurance — compulsory third party liability insurance for users of motor vehicles

Council of Bureaux — the governing body of the international Green Card System

DC AIS CMTPL RAMI — The component of the overall AIS CMTPL system holding RAMI departmental data

DC RAMI — the departmental component of the RAMI system

DRS MVD RUSSIA — Department of Road Safety of the Ministry of the Interior of the Russian Federation

Green Card System — The international system of CMTPL insurance, ensuring that local policies of CMTPL insurance are valid in all countries adhering to the system

The federal CMTPL insurance law — The Federal Law of 25 April 2002 No. 40-FZ 'The compulsory third party liability insurance for owners of motor vehicles'

FIS GIBDD — The Federal Information System of the State Inspectorate for Road Safety (GIBDD)

RAMI, the Association — The Russian Association of Motor Insurers

SIO CP — subsystem dealing with compensation payments

Spektr — the 'Spektr' anti-fraud database

Appendix

THE MAIN CONFERENCES AND SEMINARS ORGANISED BY RAMI IN 2006

Meeting with experts from the European Union to discuss the results of a project aimed at assisting the entry of Russia into the Green Card System.

A group of European experts in motor insurance, led by Ulf Lemor, former President of the Council of Bureaux of the Green Card System gave a preliminary presentation of their work.

The results were discussed by the RAMI working group set up to oversee the project and also by representatives of the RAMI committee for international relations and for co-operation with the international system of CMTPL insurance. The experts presented a review of European experience in a number of key areas of organisation of the Green Card System, including the financing of Green Card Bureaux, publications and the protection and control of Green Card certificates. In addition, the experts gave a detailed description of the requirement of the Council of Bureaux in terms of the settlements of claims made within the Russian Federation where a Green Card certificate is involved.

Two further issues were discussed in detail by the experts during a video/telephone conference: the role and obligations of the state in the process of joining the Green

Card System and the requirements for the effective functioning of a national Green Card Bureau. Taking part in this conference were representatives of the Russian Ministry of Finance, Ministry of Transport, the Road Safety Inspectorate, the Ministry of Economic Development, the Federal Tax Service, the Central Bank and associations of international road transport companies. The experts also gave their preliminary conclusions as to the changes that would be needed in Russian federal legislation in order to comply with the requirements of the Green Card System.

The experts also visited some member companies of RAMI and held small seminars. The main interest expressed by insurance companies was in European experience in settling Green Card claims. Questions ranged from the procedure for completing the documents relating to the accident, the typical procedures for investigating the circumstances of an accident, models used by insurance companies to investigate accidents, to procedures for estimating the costs of physical damage and bodily injury claims.

As a result of this meeting, further steps in the work of the European Union experts were identified more clearly. The aim of the next stage is to set out, based on European experience, a detailed model for a Green Card Bureau in the Russian Federation.



International experts in the RAMI office during the telephone conference



The conference platform with RAMI executives and representatives of the international group DEKRA

A conference and educational seminar entitled 'German experience in organising independent technical experts as part of the process of settling Green Card claims'

This event was organised on the basis of an agreement between RAMI and the international group DEKRA with the intention of improving the level of qualifications and professionalism of technical experts using the experience of specialists from DEKRA and as a result improving the quality of services provided by independent technical experts.

The event brought together representatives from DEKRA, specialists from insurance company claims departments, technical experts accredited by RAMI and representatives of ministries and government departments with an interest in this issue. The DEKRA representatives set out the accumulated experience of insurance companies is the

development of independent experts and of their successful operation within the EU. The way in which independent experts interact with others involved in the market was examined especially their relationships with insurance companies and vehicle repair garages.

Considerable interest was shown in the information provided by the speakers on the legal basis of the expert services provided by DEKRA, in the education and training of insurance experts and in new products provided by experts.

In the context of Russia's forthcoming adherence to the international Green Card System, it is important to strengthen and develop international co-operation in the context of the settlement of claims as a whole and in particular in relationship to adapting international experience to the development of a system of independent technical experts together with a process of controlling the quality of their work.



Conference participants



Foreign experts — conference speakers



Conference participants: Andrey Yuriev (RAMI), Andrey Baturkin (RAMI), Vera Balakireva (Ministry of Finance), Alex Bertolotti (PWC)

An international conference on international systems of direct settlement of CMTPL claims and simplified reporting of road accidents

RAMI organised this event as part of a process of examining international experience in the direct settlement of CMTPL claims and in the development of simplified reporting of road accidents. The aim of this international conference was to draw on French, Belgian and German experience in the introduction of systems of direct settlement of CMTPL claims and of simplified reporting of road accidents.

More than 90 people took part in the event. Attendees included representatives from member insurance companies and from government bodies, such as the Ministry of Finance, the Ministry of Economic Development, the Ministry of Transport, the Russian Transport supervisory authority and Federal Anti-Monopoly Service. Also attending were experts from France, Belgium and Germany. Including the

Russian participants, therefore, four countries were represented at the conference.

The conference noted that developing a system of direct settlement of CMTPL claims and of simplified reporting of road accidents was not a simple process. Many key questions needed to be solved such as the legal basis of the system, uniform standards of estimating the level of road transport claims, and the development of a mutual settlement system between insurance companies. As a result, according to the views of the specialists from insurance companies, a failure to continue to examine international experience and to adapt it to Russian circumstances would be a major mistake.

'CMTPL insurance in the Russian Federation: tariffs and regulations'. An international conference, 1–2 November 2006

The aim of this conference was to draw on three years' experience of CMTPL in Russia to analyse current problems and to develop proposed solutions.

More than 100 people attended the conference including both Russian and foreign insurers and reinsurers. A number of government bodies were also represented: the





From left to right: Y. Miroshnichenko (Federal Insurance Supervision Service), V. Kozlov (RAMI), A. Slepnev (Presidential Administration), V. Balakireva (Ministry of Finance)

Presidential Administration, the Government, the Ministry of Finance, the Ministry of the Interior, the Ministry of Economic Development and Trade, the Ministry of Transport, the Federal Service for Insurance Supervision and the Federal Anti-Monopoly Service. In addition, there were representatives from insurance associations and unions, consulting companies and scientific and social organisations.

Ten countries were represented: Austria, France, Great Britain, Germany, Japan, Lithuania, Poland, Russia, Ukraine and USA.

The discussions ranged around issues such as the process of introducing CMTPL insurance in Russia; the adequacy of the level of compensation payments for death or bodily injury; setting up reserves to guarantee payments in the event of insolvency of insurance companies; modelling the growth of CMTPL in Russia; the particular problems relating to the establishing of loss reserves in motor insurance; methods of reducing accident frequency and improving road safety; the particular problems of motor reinsurance and the impact of legal changes on the operation of CMTPL insurance.

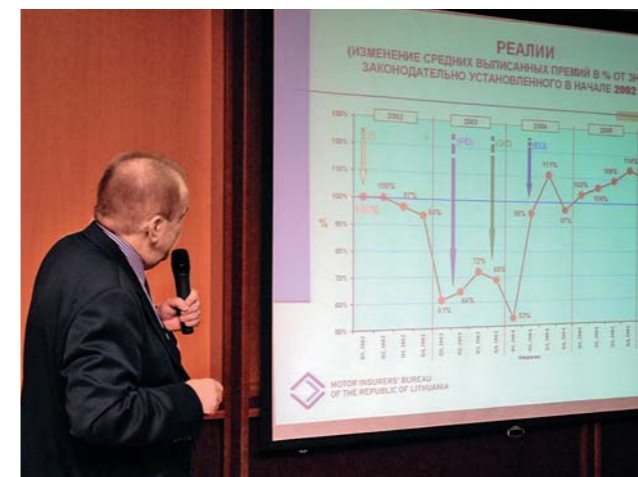
All these issues are of great importance not only for the Russian market, at an early stage of development, but also

for many other European countries. The positive results of the conference were realistic proposals for developing and improving the system of CMTPL, proposals relating to organisational, methodological and legal problems.

The conference led to a general appreciation of the fact that in the three years that the CMTPL law has been in effect in the Russian Federation, it has been possible to develop an effective mechanism for protecting the rights of road



Left to right: M. Theilmaier (Gen Re, Germany), V. Reinsinger (Wiener Staetlicher, Austria), P. Mueller (Munich Re Group, Germany)



A. Krizhinausas (Bureau of Motor Transport Insurance, Lithuania)

accident victims. From the first introduction of the law, more than three million victims have received compensation payments, the total of which was more than 60 billion roubles.

The issue of the adequacy of compensation awards for death or bodily injury was dealt with at the conference.

Expert opinion was that the most compensation payments were for physical damage to third party property. However, in Russia, every year more than thirty four thousand people are killed on the roads and more than 274,000 are injured; yet compensation payments are made to about 15,000 people. These statistics argue strongly for an improvement in the law relating to compensation for death or for bodily injury. Moreover, it is instructive that there is no time limit for claims for bodily injury and victims can apply to insurance companies at any time for compensation. This means that the question of setting adequate IBNR reserves for CMTPL bodily injury claims needs to be studied now by the insurance industry and by the relevant governmental bodies.

During 2006, RAMI also organised seminars on the theme of 'Implementing the Federal CMTPL insurance law' in the following regions of Russia.

- Kemerovo
- Khabarovsk
- Yekaterinburg
- Nizhni Novgorod

These seminars were designed to provide a basic report of the operation of CMTPL insurance in the three years of its operation, of new legislation and improving road safety.

It was also noted that CMTPL insurance plays an important social role, and as such, there should be reinsurance available. In this context, attention was drawn by speakers to the need to develop a standard reinsurance wording for CMTPL reinsurance to ensure that the interests of both the direct insurance companies and accident victims are protected.

Interest was also shown to other issues related to CMTPL insurance, such as insurance fraud, the development of an effective bonus/malus system, the analysis of road accident statistics as a means of improving road safety: in all these issues, it was seen to be important to develop IT resources, both at the level of individual insurance companies and at a national level, so that there is a single federal information resource.

There is a direct relationship between the level of compensation claims made by insurance companies and road accident frequency. Introducing measures to improve road safety, therefore, will not only reduce the number of people killed or injured on the roads, it will also make CMTPL insurance a more attractive proposition for insurance companies.

By the end of the conference, all realised that a number legislative initiatives relating to CMTPL insurance could contribute towards the development of other classes of insurance and to the improvement of the financial strength not only of insurance companies but also to the system of compulsory insurance as a whole.

In order to encourage the needed legal initiatives, open discussion took place between representatives of the insurance industry and representatives of government bodies.

RUSSIAN ASSOCIATION OF MOTOR INSURERS

27 BLD. 3, LUSINOVSKAYA STR., MOSCOW, RUSSIA, 115093

TEL: +7 (495) 771-69-44

FAX: +7 (495) 236-16-07

[HTTP:// WWW.AUTOINS.RU](http://www.autoins.ru)