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FINANCIAL SECTOR ASSESSMENT PROGRAM  
**RUSSIAN FEDERATION**

INSURANCE CORE PRINCIPLES ASSESSMENT  
**DETAILED ASSESSMENT OF  
OBSERVANCE**

**July, 2016**

This Detailed Assessment Report was prepared in the context of a joint World Bank-IMF Financial Sector Assessment Program mission in the Russian Federation during February, 2016, led by Aurora Ferrari, World Bank and Karl Habermeier, IMF, and overseen by Finance & Markets Global Practice, World Bank and the Monetary and Capital Markets Department, IMF. Further information on the FSAP program can be found at [www.worldbank.org/fsap](http://www.worldbank.org/fsap).



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## CONTENTS

<b>I.</b>	<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>II.</b>	<b>ASSESSMENT OF INSURANCE CORE PRINCIPLES.....</b>	<b>3</b>
	A. Introduction and Scope.....	3
	B. Information And Methodology Used For Assessment.....	3
	C. Institutional, Regulatory and Market Structure Overview.....	4
	D. Preconditions for Effective Insurance Supervision.....	17
	E. Summary of Observance of the Insurance Core Principles—ROSCs .....	19
	F. Recommendations.....	32
	G. CBR’s responses to the assessment.....	36
<b>III.</b>	<b>DETAILED ASSESSMENT OF THE ICPs.....</b>	<b>40</b>

## TABLES

Table 1: Insurance penetration and density.....	14
Table 2: Insurance market size and structure .....	15
Table 3: Insurance sector concentration.....	16
Table 4: Number of insurance companies.....	17
Table 5: Summary of compliance with ICPs .....	19
Table 6: Overall comments on compliance with ICPs .....	20
Table 7: Summary of Observance Level.....	32
Table 8: Recommendations to Improve Observance of the ICPs .....	32

## GLOSSARY

ALM	Asset liability matching
AML	Anti-money laundering
ARIA	All Russian Insurance Association
BF	Bornhuetter-Ferguson
CBL	Law N 86-FZ "On the Central Bank of the Russian Federation "
CBR	Central Bank of Russia
CFT	Combating the financing of terrorism
CIS	Commonwealth of Independent States
CMTPL	Compulsory motor third party liability
ERM	Enterprise risk management
EU	European Union
EU S1	EU Solvency 1
EWS	Early warning system
FFMSR	Federal Financial Markets Service of the Russian Federation
FSAP	Financial Sector Assessment Program
GDP	Gross domestic product
GWP	Gross written premiums
IAIS	Insurance Association of Insurance Supervisors
IBNR	Incurred but not reported
IBNR	Incurred but not reported
ICP	Insurance core principle
IFRS	International financial reporting standards
IFRS	International financial reporting standards
IMD	Insurance Market Department
Insurance Law	Law N 4015-1 "On the organization of insurance business in the Russian Federation"
MIS	Management Information System
MMoU	Multilateral memorandum of understanding
MoCE	Margin over the current estimate
MoU	Memorandum of understanding
NFB	National Financial Board
NRC	National Reinsurance Company
NWP	Net written premiums
OECD	Organisation for Economic Cooperation and Development
ORSA	Own risk and solvency assessment
PCR	Prescribed capital requirement
RBNS	Reported but not settled
RUB	Russian Rouble
S&P	Standard & Poor's

SRO	Self-regulated organization
USD	American dollar
VAT	Value added tax

## I. EXECUTIVE SUMMARY<sup>1</sup>

1. **With about RUB 988bn (USD 26bn) in gross premium written, in 2014, the Russian insurance industry ranked 27th in the world.<sup>2</sup> Non-life insurance premium accounted for 89 percent of GPW while life insurance for only 11 percent.** The ratio of insurance assets to GDP amounted to 2 percent which is far below the EU average of more than 50 percent. The insurance sector has shrunk in the past two years on account of several factors. In 2013-14, gross written premium in the non-life sector grew by only one percent in real terms, but declined by 12 percent in 2015 due to declining demand for voluntary insurance products in the context of deteriorating macroeconomic environment. The downgrade of Russia's sovereign rating from BBB- to BB+ with a negative outlook (S&P, 2015) reduced the ability of large Russian insurers to write inward foreign reinsurance business. With combined ratios close to 100 percent over the last five years, the non-life insurance sector realized only marginal profits which were mainly due to the investment income. The current macroeconomic conditions significantly reduce consumers' saving capacity and have an adverse impact on the development of life endowment products and credit life insurance which closely follows the downward trend in new loan originations in the banking sector at large due to the increasing inflation and bank interest rates.

2. **In 2015, the industry also faced with the consequences of the Western economic sanctions which effectively closed access to the high quality Western reinsurance capacity for the Russian insurers that provide coverage for 1500 large Russian companies which were put on the sanctions list. In the past, the Western reinsurers provided over 80 percent of reinsurance capacity for such risks.** To address the problem, the government intends to establish a national reinsurance company (NRC) to be capitalized by the CBR, which will provide reinsurance capacity for large industrial and commercial risks emanating from these companies and will assume other difficult risks that are difficult to place in the commercial reinsurance markets (e.g. developers' third party liability). While understandable, this approach may not be the most effective solution to the problems created by the sanctions regime for the Russian insurance market. International experience with national reinsurance companies has been by and large negative, as most of them have been eventually privatized at a considerable cost to the state. In addition, the creation of the NRC will also have adverse effects on the market competition and the long-term stability of the Russian insurance market as the company is likely to emerge as the largest reinsurance player in the Russian Federation not constrained by market competition or even regulatory requirements.

3. **The further consolidation of the sector will lead to a better performing insurance market.** Since 2013, when the CBR took over supervision of the sector, the industry has been under increasing pressure to increase its solvency capital and liquidity of

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<sup>1</sup> This Detailed Assessment Report has been prepared by Eugene N. Gurenko and Alma Qamo, WB.

<sup>2</sup>[http://www.swissre.com/media/news\\_releases/Stronger\\_advanced\\_markets\\_performance\\_boosts\\_insurance\\_industry\\_growth\\_in\\_2014.html](http://www.swissre.com/media/news_releases/Stronger_advanced_markets_performance_boosts_insurance_industry_growth_in_2014.html)

assets, improve the quality of regulatory compliance, internal controls and financial management. These tightened regulatory requirements have led to a major industry consolidation. In 2015 alone, 70 insurers lost their licenses. The introduction of planned new regulatory requirements in 2017 – such as the IFRS-like accounting rules, including the system of IFRS internal financial accounts, and actuarial valuation of insurers' liabilities – is likely to reduce the number of companies even further. With the first 20 largest insurers already accounting for 77.5 percent of the gross written insurance premium in 2015, further consolidation will have no negative effect on market competition.

4. **In the case of Russia, the main objective of insurance supervision is to ensure that insurers fully comply with core regulatory norms** fixed by the law in the following four areas of insurance operations: (a) solvency (capital adequacy); (b) insurance reserves; (c) assets covering own funds; and (d) assets covering reserves. The objective of off-site and onsite supervision is restricted to ensuring compliance of insurers with these four regulatory norms. In this context, the resources of the insurance supervisor are by and large dedicated towards meeting this objective.

5. **The most profound implications of the current rule-based insurance supervision is a likely underestimation of the sector's solvency.** Even though the CBR requires insurers to submit actuarial assessments of reserves as part of their regular reporting, such estimates play no role in determining companies' legal compliance with the insurance solvency requirement, which instead relies on a normative formula-driven assessment universally applied to all lines of insurance business regardless of insurers' size and claims performance record. Such an approach may materially underestimate the real solvency of the sector. As of 2017, with the introduction of IFRS reporting standards companies will be required to present actuarial assessments of their reserves in their solvency reporting forms. However, it is still unclear whether these risk-based assessments of insurance liabilities will be fully reflected in the calculation of insurers' solvency ratio due to the lack of appropriate legislation.

6. **While the dispersion of insurance supervisory functions among numerous CBR departments with various reporting lines carries certain advantages (such as a reduced potential for the conflict of interest), it also has a potential for major drawbacks.** These include the potential for (a) insufficient coordination among different departments, (b) shortage of necessary insurance expertise within departments universally dealing with a wide range of financial services, and (c) impaired ability of the regulator as a whole to systematically detect problems with compliance in such a technically complex industry as insurance at an early stage. The rule-based supervisory framework and the current infrastructure do not fully support the implementation of the early warnings system which is designed to (a) detect and prevent negative solvency trends, (b) require insurers to take measures at an early stage of such negative trends and (c) report more frequently until the warning has been addressed.

7. **Despite the negative macroeconomic outlook for 2016, due to the still very low personal insurance consumption (\$179/per capita in 2014) and insurance premiums amounting only 1.4 percent of GDP, the Russian insurance industry is poised for further growth which can be encouraged by selected legislative and regulatory reforms.** The most pressing issues to be addressed include but are not limited to: (a) introduction of actuarially set reserves for solvency assessment purposes and enhancing the role of supervision actuaries; (b) setting up an effective insurance supervision approach with automated data storing and processing capabilities that would ensure the optimization of contributions from all involved CBR departments; (c) development of an effective Early Warning System (EWS), with clearly set benchmarks to determine the topics and companies which require close attention; (d) introducing sound requirements on corporate governance and risk management; (e) developing sound CMTPL claims reserving standards as a prerequisite for the tariff liberalization; (f) introducing minimum requirements regarding the insurers' net retentions on per risk and aggregate level; (g) introducing agricultural insurance requirements for farmers receiving agricultural subsidies from the state; and (h) considering an alternative market-based approach to secure additional reinsurance capacity instead of creating a national reinsurer.

## II. ASSESSMENT OF INSURANCE CORE PRINCIPLES

### A. INTRODUCTION AND SCOPE

8. **This Detailed Assessment Report has been prepared by Eugene N. Gurenko and Alma Qamo of the World Bank.** The report assesses the regulatory regime and supervisory practices in the Russian Federation against the international standards established by the International Association of Insurance Supervisors (IAIS), as part of the 2016 Financial Sector Assessment Program (FSAP) of the Russian Federation.

9. **The assessment is benchmarked against the IAIS Insurance Core Principles (ICPs) initially adopted on 1 October 2011 with further revisions made to the following ICPs: ICP 9 in 2012, ICP 22 in 2013 and ICPs 4, 5, 7, 8, 23 and 25 in November 2015.** The scope of the assessment covers the insurance regulatory framework and the insurance supervision exercised by the CBR. The institutional arrangements for financial sector regulation and supervision are outlined in Section C.

### B. INFORMATION AND METHODOLOGY USED FOR ASSESSMENT

10. **The level of observance for each ICP reflects the assessments of its standards. Each ICP is rated in terms of the level of observance as follows:**

- a) **Observed:** where all the standards are observed except for those that are considered not applicable. For a standard to be considered observed, the supervisor must have the legal authority to perform its tasks and exercises this authority to a satisfactory level.
- b) **Largely observed:** where only minor shortcomings exist, which do not raise

any concerns about the authorities' ability to achieve full observance.

- c) **Partly observed:** where, despite progress, the shortcomings are sufficient to raise doubts about the authorities' ability to achieve observance.
- d) **Not observed:** where no substantive progress toward observance has been achieved.

11. **The assessment is based solely on the laws, regulations and other supervisory requirements and practices that are in place at the time of the assessment in March 2015.** Ongoing legal and regulatory initiatives are noted by way of additional comments. The CBR provided its self-assessment, and filled out questionnaires which were followed up by technical discussions and briefings by the CBR representatives and meetings with the insurance market participants.

12. **The assessors are grateful to the authorities for the full cooperation and logistical arrangements, particularly the co-ordination of various meetings with industry participants.** The assessors benefitted from the valuable inputs and insights by the CBR staff and private insurers that participated in the assessment.

### C. INSTITUTIONAL, REGULATORY AND MARKET STRUCTURE OVERVIEW

#### Organization of insurance supervision

13. **The CBR as a mega regulator.** In accordance with the Federal Law No 251-FZ of July 23, 2013 "On Amendments to Certain Legislative Acts of the Russian Federation in connection with the transfer to the Central Bank of the Russian Federation (CBR) the authority to regulate, control and supervise the financial markets" (herein after – the Federal Law No 251-FZ) that was put in force on September 1st, 2013, the Bank of Russia has become the single mega regulator for both credit and non-credit financial institutions. The specified law stipulated the amendments to the Russian legislation that enable the CBR to exercise regulatory, monitoring and oversight authority in the field of financial markets. In the case of insurance supervision, the CBR has fully assumed the functions of the national insurance supervisor from the now abolished Federal Financial Markets Service of Russia (FFMSR). With the transfer of insurance market oversight to the CBR the quality of insurance supervision has markedly improved. In only two years, the CBR has greatly contributed to the development of professional insurance market, strengthened its capital base, brought about noticeable improvements in the market conduct and facilitated the much needed consolidation of the industry by withdrawing licenses of almost 200 companies. The CBR insurance supervision practices receive strong support from the insurers which are highly appreciative of the CBR efforts to build a well-capitalized and professional insurance market in the Russian Federation.

14. **Several departments of CBR are responsible for insurance supervision.** Departments involved in supervision include: (i) Financial Market Access Department (in charge of licensing and conducting the public register), (ii) Department of Non-bank Financial Institutions' Statements Collection and Processing (in charge of data collection);



(iii) Financial Market Development (iv) Chief Inspection (in charge of onsite inspections for all financial institutions, including banks), (v) Department for Protection of Financial Services Consumers and Minority Shareholders (in charge of consumer protection), (vi) Financial Monitoring and Foreign Exchange Control (in charge of anti-money laundering), and (vii) Insurance Market Department (IMD) in charge of off-site monitoring of insurance market. The latter acts as the core insurance supervision department which performs the overall market monitoring and coordinating role on all insurance supervision matters in cooperation with other CBR departments.

15. **The IMD currently employs 90 staff including 47 insurance experts and 32 curators responsible with professional background in insurance acquired through either several years of work in insurance regulatory bodies, the insurance industry or insurance service companies (e.g. rating agencies or auditors).** The IMD conducts its operations through its Headquarters in Moscow and three regional branches. The IMD staff displays a high level of technical competence. However, the current organizational setup of insurance supervision does not fully provide for the efficient use of this expertise. Although the CBR has developed an electronic system for insurance supervisory filing, there are no sufficient IT capabilities to process the submitted information for supervisory monitoring and review purposes. The current manual approach to data processing may lead to significant delays and errors, adversely affecting the overall quality of supervision. To this effect, the off-site monitoring capabilities are yet to be fully developed to provide for (a) transparent, quick and reliable data processing; (b) automated calculation of insurers' key ratios; (c) insurers' risk monitoring based on clearly defined and transparent thresholds for the key risk indicators; and (d) the overall risk scoring that properly accounts for the core risk factors.

16. **While the dispersion of insurance supervisory functions among numerous departments with various reporting lines carries certain advantages (such as a reduced potential for the conflict of interest), it also has major drawbacks.** These include the (a) potential for insufficient coordination among different departments, (b) shortage of necessary insurance expertise within departments universally dealing with a wide range of financial services, and (c) impaired ability of the regulator as a whole to systematically detect problems with compliance in such a technically complex industry as insurance at an early stage.

17. **The on-site supervision operates as a separate function under the Chief Inspection Department (CID) which supervises the overall financial sector.** The onsite inspections are initiated upon request from the IMD and mainly involve checking insurers' compliance with the supervisory (and legal) norms, which at the moment does not require specific insurance qualifications from the onsite inspection team. However, the CID employs quite a few financial inspectors with professional background in insurance.

18. **Similarly, the Licensing Department, which currently issues licenses to all financial sector entities,** does not have the requisite professional expertise to assess the

technical credibility of applications for insurance licenses, basing licensing decisions instead on the applicant's ability to meet minimum capital requirements and educational qualifications for senior management as required by the Insurance Law.

19. **In the past two years, the CBR has been effective in ridding the market of numerous unprofessional players.** However, the ongoing consolidation of the industry accompanied by the growing professionalization of insurance companies, along with a strategic course taken by CBR toward risk-based supervision, dictate a new operational approach to the insurance supervision, which would require strengthening technical capabilities and insurance qualifications of the non-core insurance supervision departments.

#### **Rule-based approach to insurance supervision**

20. **In the case of Russia, the current approach to insurance supervision requires that insurers fully comply with core regulatory norms** fixed by the law in the following four areas of insurance operations: (a) solvency (capital adequacy); (b) insurance reserves; (c) assets covering own funds; and (d) assets covering reserves. Such an approach to the off-site and onsite supervision is restricted to ensuring compliance of insurers with these four regulatory norms. In the case of risk-based supervision the insurers are should be broadly in line with the IAIS standards and have adequate management information and risk administration systems in place to demonstrate the compliance. In this context, the resources of the insurance supervisor are by and large dedicated to meeting the standards of the approach to insurance supervision. As a result, the CBR's compliance with several ICPs is impaired by the fundamental difference that exists between these two distinctly different models of insurance supervision.

21. **One of the most profound implications of the rule-based insurance supervision is a likely underestimation of the sector's solvency.** Even though the CBR requires insurers to submit actuarial assessments of reserves as part of their regular reporting, such estimates play no role in determining companies' legal compliance with the insurance solvency requirement, which instead relies on a normative formula-driven assessment universally applied to all lines of insurance business regardless of insurers' size and claims performance record. Such an approach may materially underestimate the real solvency of the sector. As of 2017, with the introduction of IFRS reporting standards companies will be required to present actuarial assessments of their reserves on their solvency reporting forms. However, it is still unclear whether these risk-based assessments of insurance liabilities will be fully reflected in the calculation of insurers' solvency ratio due to the lack of appropriate legislation.

#### **Corporate governance and risk management**

22. **One of the most notable gaps in the CBR's compliance with the IAIS ICPs is the lack of sufficient requirements on corporate governance.** The current legislation has only very general provisions on insurers' corporate governance which reduce insurers' compliance in this area to the suitability criteria for shareholders and Board members. But

these suitability criteria are silent on such essential requirements as reputation, competence and capability of Board members and senior management.

23. **There are no specific legal requirements on (a) responsibilities of the supervisory board for company's risk management, (b) level of knowledge, skills and expertise at the Board level,** which should be commensurate with the governance structure and the nature, scale and complexity of the insurer's business and (c) remuneration policies and practices covering senior staff positions whose actions may have a material impact on the risk exposure of the insurer.

24. **Due to the lack of legal requirements on corporate governance, the CBR does not have sufficient powers to require the insurer to demonstrate the adequacy and effectiveness of its corporate governance framework.** As a result, currently insurers are not required to:

- (a) establish risk management requirements for product development, pricing, underwriting, reserving, claim handling, and reinsurance management; and internal control systems.
- (b) define:
  - the role of Board in the oversight of risk management policies and their implementation; including its responsibility for the appointment, performance assessment, and dismissal of the insurer's senior management, and heads of each control function; and for ensuring that there are adequate resources, expertise, support and authority in place for sound insurance operations;
  - the role of senior management in ensuring that sound risk management policies and procedures are in place; including that it has a) a requisite authority, b) sufficient resources and c) ability to carry out the risk management function and raise issues directly to the Board;
  - operating procedures that ensure appropriate risk measurement, monitoring and reporting; and
  - professional qualifications of personnel involved in risk management, control and audit functions.

25. **In the case of the compliance function,** although the regulation on the subject partially addresses the issue through specific provisions defining the role of internal and external audits, it does not require insurance operations to be carried out in line with a strategic plan and risk management policies approved by the Board.

26. **As for the actuarial function, based on the current regulations (Law 293-FZ and relevant bylaws), actuaries are responsible for validating insurers' technical and mathematical reserves and assets covering such reserves.** The regulations also define the role of responsible actuary and self-regulated actuarial organizations. However, actuaries play only a limited role in risk management which should be extended to:

- (a) preparation of stress test reports at least on an annual basis;

- (b) assistance in formulation of suitable policies relating to investment of technical reserves;
- (c) compliance of specific insurance product tariffs with the company's pricing policy.

27. **Due to the current rule-based supervisory regime, the requirements of enterprise risk management are also not met.** The legislation does not define ERM requirements for quantification of risk under a sufficiently wide range of risk scenarios that require the use of complex simulation and modeling techniques to reflect the nature, scale and complexity of the risks that the insurer bears.

28. **However, the Insurance Law requires identification of risks through internal audit and actuarial reports** which should provide details on (i) the company's performance, (ii) compliance with regulations and internal guidelines, (iii) adequacy of technical reserves and (iii) irregularities. Based on legal requirements, audit reports have to present irregularities and violations and their estimated impact on the solvency margin, liquidity and other business performance.

29. **The regulations also spell out clear and strict requirements for the investment of insurers' assets,** which effectively absolve them from the need to have an explicit investment policy. In contrast to the ICP's requirements on risk management, the current regulatory framework does not require insurers to measure their risks or explain their internal risk measurement approaches to the regulator. To be fully in compliance with this ICP, the CBR should require companies to have their risk management policies:

- (a) outline how all relevant and material categories of risk are managed, both in the insurer's business strategy and its day-to-day operations;
- (b) describe the relationship between the insurer's tolerance limits, regulatory capital requirements, economic capital and the processes and methods for monitoring risk;
- (c) include an explicit asset-liability management (ALM) policy which clearly specifies the nature, role and extent of ALM activities and their relationship with product development, pricing functions and investment management;
- (d) establish and observe the risk tolerance level.

30. The current rule-based regulation also does not provide for the use of (ORSA) own risk and solvency assessment to assess the adequacy of insurers' risk management, and current and likely future of their solvency position.

### **Supervisory monitoring and review**

31. **The CBR applies a rule-based supervisory approach** which enables it to assess whether insurers comply with the relevant legislation and rule-based regulatory requirements. However such a rule-based framework (a) does not adequately account for the proper identification and assessment of insurance risks and (b) does not allow to determine supervisory plans and priorities which take into account the nature, scale and complexity of insurers. The current rule-based regulatory framework does not support the

adoption of an effective monitoring system that would help the CBR to timely detect, prevent and correct problems with the minimal impact on policyholders and shareholders.

**32. To carry out market monitoring and review, the CBR has established extensive and frequent (monthly, quarterly and annual) reporting requirements for all insurers.** In accordance with the Insurance Law (Article 30, paragraph 5.1) and the Law on Bankruptcy, insurers should submit information on their financial and solvency position (capital, insurance reserves, insurance tariffs, reinsurance, and quality assets). In addition, the CBR requires insurers to submit information on corporate governance (including the organization of the internal control), ownership structure and other positions (CBR Instruction No. 3860A dated 30.11.2015 "On the forms, timing and way of reporting of insurance organizations in the Russian Federation").

**33. Insurers are subject to quarterly and annual reporting of financial statements** comprising: a balance sheet, a profit and loss statement, a cash-flow statement, structure of assets statement, assessment of insurance reserves, a solvency report, as well as information on premiums and claims by lines of business and regions. In addition, the insurers are required to submit external audit reports and technical reserves certified by responsible actuaries on an annual basis. The reporting of financial statements is currently done based on the national accounting standards but as of January 2017 it is expected to be fully compliant with the IFRS. Despite extensive amount of reported data from the market, the CBR often requests additional information from insurers in the form of individual company specific inquiries.

**34. The off-site monitoring is carried out by the Insurance Market Department** and consists of checking compliance of insurers' financial parameters with the rules set by the Insurance Law and regulations on a) calculation of technical reserves, b) structure and quality of assets, and c) surplus capital as well as d) the required solvency margin and the solvency ratio. The CBR has recently required insurers to carry out alternative actuarial calculations of their technical reserves. However, those are not taken into account in the calculation of insurers' solvency margin. A system of financial ratios was introduced in January 2016 but due to the absence of acceptable performance thresholds, it is not clear how it can be used for monitoring, early warnings and internal risk rating purposes.

**35. Off-site and on-site inspections are separated into two different departments** with different reporting lines and the power to make important supervisory decisions tends to concentrate in the hands of IMD. Relying mainly on its "expert judgement" the later decides on which companies should be subject to (i) complex or thematic onsite inspections organized on planned or unplanned basis, (ii) supervisory measures taken based on its monitoring and on-site inspection reports; as well as (iii) submissions to the Open Financial Market Committee that decides on temporary company administration or revocation of insurance licenses. As the CBR currently does not have the IT capabilities to automatically process the submitted information, the IMD staff must process it manually which is fraught

with errors and significant delays and makes it difficult to validate insurers' assessments made by the supervisor.

36. **The on-site supervision operates as a separate function under the Chief Inspection Department which supervises the overall financial sector.** The onsite inspection can be full-scale or thematic and be initiated upon request from the IMD based on the semi-annual supervision plan or unplanned investigation of areas of specific concern. Due to the rule-based approach to supervision and specific market conditions, the onsite inspections have been mainly focused to conducting targeted audits of insurance companies suspected in gross violations of insurance legislation and market conduct rules. To carry out these audits which were by and large focused on asset compliance, the onsite inspection teams did not necessarily have to possess insurance-specific expertise which is a pre-requisite for the risk-based inspection of the core areas of insurers' operations such as underwriting, claims, technical reserves and reinsurance contracts. However, with the growing professionalization of the insurance market, the insurance specialization of onsite inspection team will become increasingly important.

37. **While the dispersion of insurance supervisory functions among numerous departments with various reporting lines carries certain advantages (such as a reduced potential for the conflict of interest), the CBR is yet to integrate its core supervision functions into a well-structured supervision process supported by a modern management information system.** To ensure the necessary level of supervision for systemically important insurers, the CBR has implemented a system of individual curators for the top 100 companies. The largest 22 companies, which have designated as systemically important, have been assigned individual curators, while those within the 21-100 group have one curator per two or three companies.

#### **Prevention and enforcement**

38. **The current rule-based supervisory framework does not fully support the implementation of the early warnings system** designed to a) detect and prevent negative solvency trends, b) require insurers to take measures at an early stage of such negative trends and c) report more frequently until the warning has been addressed.

39. **Due to the absence of a risk-based early warning system, the CBR does not have adequate capabilities to timely detect and prevent insurers' failures** with the view to minimizing the impact on policyholders, creditors and shareholders.

40. **The existing regulations on enforcement are incompatible with the ICP requirements for supervisory transparency and proportionality of supervisor's actions** due to the lack of minimum statutory periods within which insurers should (a) restore their solvency; (b) comply with data requests from the supervision (that fall beyond the scope of regulatory reporting). To ensure an equitable and fair treatment of insurers, the CBR should consider defining the minimum reasonable time allowed for insurers to implement corrective measures prescribed by the supervisor.

41. **The CBR should set minimum standards by also providing for exceptional cases when the data should be provided immediately (in the cases when there are reasonable doubts about potential fraud).** Professional insurers however should be inspected with a due notice as a matter of principle.

42. **The supervisor has the power to enforce corrective action in a timely manner where problems have been identified.** The supervisor issues formal notices to insurers prescribing them to take certain actions by a certain deadline or desist from taking particular actions.

43. **In the course of exercising its insurance supervision mandate, the CBR has been effectively using its enforcement powers** to revoke insurance licenses from a considerable number of under-capitalized insurers (about 70 in 2015). The market consolidation is expected to positively contribute to the overall financial performance of the sector.

44. **The procedures for the winding-up and exit are clearly set out in the current legislation. Priority is given to the protection of policyholders rights.** The regulatory procedures aim at minimizing the disruption of benefits to policyholders.

### **Reinsurance**

45. **The current regulation does not require insurers to have a reinsurance policy** that would define the objectives of reinsurance arrangements in line with the company's risk appetite, risk concentrations and its net capacity for risk retention. There are no regulatory requirements with regard to insurers' per-risk or aggregate net risk retentions relative to their net capacity. Although major losses arising from catastrophic events may lead to numerous simultaneous insolvencies, there are no regulatory requirements to limit the insurers' own risk exposure to such catastrophic scenarios through a catastrophe reinsurance arrangement. The regulation on the investment of assets covering technical reserves sets indirect restrictions on the credit quality of reinsurance counterparties. However, these are well below those required by best international supervision practices.

### **Reserving**

46. **Insurers calculate the IBNR for all insurance lines based on the Bornhuetter-Ferguson method** prescribed by MoF Directive 51N, which is universally applied to all lines of insurance business and which may materially underestimate insurers' real solvency. However, the CBR is currently in the process of preparing a major change in its supervision practices which would soon require companies to present actuarial assessments of their reserves based on the IFRS approach. The proposed changes in the current regulatory framework envisage introducing:

- a) requirements to actuarially assess the IBNR reserves based on claims patterns and trends;
- b) guidance on the use of specific actuarial methods;

- c) requirements on the roles and responsibilities of responsible actuaries and the CBR's actuaries in the process of supervisory monitoring of insurance reserves.

47. **As of 2017, risk-based actuarial assessments of insurance liabilities are likely to be considered in the calculation of insurers' solvency.** This new approach to the supervision of reserving will require a major strengthening and consolidation of the actuarial function within the CBR. The valuation of technical reserves currently exceeds the current estimate by a margin (Margin over the Current Estimate or MOCE) equal to the stabilization reserve. However, due to its relatively small size the stabilization reserve does not properly account for the inherent uncertainty related to all relevant future cash flows that arise in fulfilling insurance obligations over the full time horizon.

48. **Life insurance reserves should be calculated separately for each insurance line and comprise the following components:**

- a) Mathematical reserve
- b) RBNS
- c) Reserve for servicing insurance liabilities
- d) IBNR
- e) Provision for insurance bonuses
- f) Equalization reserve

49. **The mathematical reserve is calculated for each individual contract based on actuarial methods.** Life insurance reserving regulation requires life insurers to use a maximum technical interest of 5 percent for the purpose of calculating their mathematical reserve, and makes allowance for guarantees offered through rather short-term life insurance contracts (mostly up to five years). The regulation does not contain specific reserving requirements for life insurance with regard to the time value of money to reflect the expected present value of all relevant future cash flows that may be used to fulfill insurance obligations.

### **Capital adequacy**

50. **Capital adequacy requirements are by and large in line with the EU Solvency I framework** and hence are not risk sensitive. The Insurance Law (Article 25) requires insurers to meet at all times the solvency requirements which are monitored by the CBR on a quarterly basis. Insurers are required to calculate the normative solvency ratio as a ratio of available capital to the required solvency margin (EU S1 – like approach) and ensure that it does not fall below 1. Non-compliance with solvency and capital adequacy triggers a supervisory request for the plan of measures to restore own capital. Failure to comply with an order to increase capital gives grounds for the CBR to suspend and in some cases even revoke the insurer's license.

51. **The CBR further requires insurers to report their a) capital, b) statutory solvency margin, c) technical reserves and d) assets covering technical provisions.**



However, due to the rule-based solvency regime, insurers are not required to maintain an adequate margin of assets over liabilities.

52. **Available capital is calculated based on the balance sheet approach which takes into account the valuation of all assets and liabilities.** The Insurance Law clearly and in line with best international practices specifies the types of assets which can be taken into account for the calculation of available capital. However, the capital adequacy of insurers may be materially underestimated due to current rule-based regulatory requirements on the calculation of technical reserves.

53. **The estimate of statutory reserves used to calculate available capital may be totally different from the estimate obtained by actuarial methods** which take into account (a) the nature and scale of risks and (b) involve realistic assumptions reflecting developments and trends at both insurer and market level. Reserve valuation is yet to be brought in line with the IFRS and actuarially accepted standards, which are expected to be fully implemented by January 2018. The CBR has recently required insurers to carry out alternative actuarial calculations of their technical reserves. However, as of now the actuarial estimates of reserves are not taken into account in assessing insurers' capital adequacy.

### **Intermediaries**

54. **Licensing of insurance intermediaries is predicated on their ability to meet certain financial and integrity criteria stipulated by the Insurance Law.** There are insufficient criteria to intermediaries' professional qualifications, minimum professional training and competence and lack of requirements to their minimum third party liability insurance. As of today these licensing requirements apply only to insurance brokers. Insurance agents, who account for most of intermediaries operating in the insurance market, are not subject to the licensing requirements. Their suitability, professional training and market conduct are the responsibility of insurers. The Law also spells out public disclosure requirements to intermediaries which include a review with the client of insurance policy terms and conditions, contract time periods, limitations or exclusions, insurance premium, and the disclosure of the intermediary's relationship with the insurer. In addition, the CBR requires an insurance intermediary which handles client money to have sufficient safeguards in place to protect these funds. Inter alia, this includes a minimum guarantee deposit of RUR 3 million.

55. **Although insurance premium in Russia is not subject to either a VAT or sales tax, insurance brokerage commission is.** The 18 percent VAT on the brokerage commission translates into the additional 1.5-2 percent markup on insurance premium, which seems to be inconsistent with the general spirit of the current insurance tax regime.

## The general state of the insurance market

56. With insurance penetration of 1.4 percent of GDP and about USD 179 insurance consumption per capita, the Russian Federation lags far behind the OECD countries (Table 1).

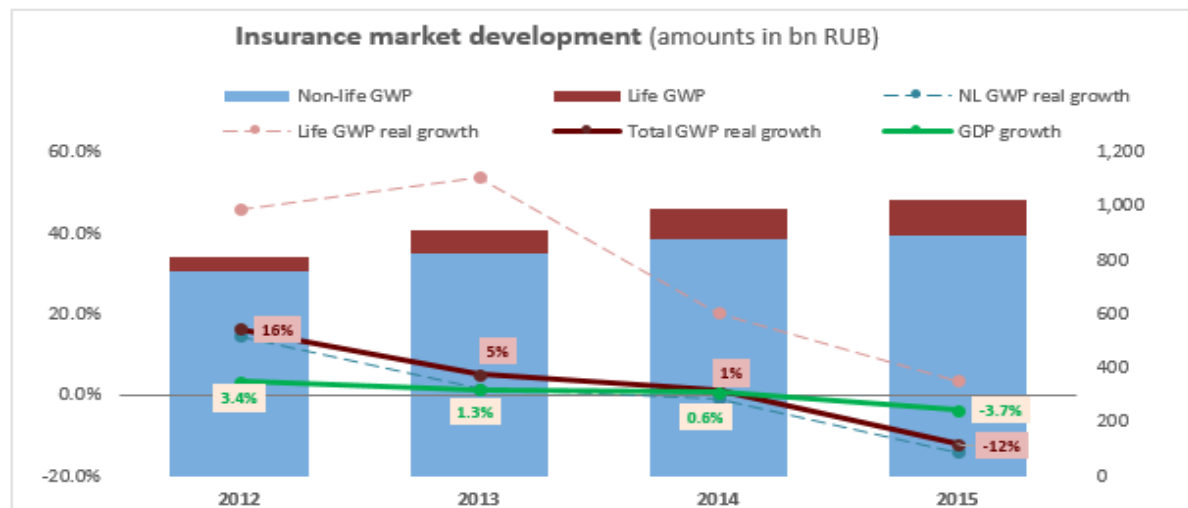
**Table 1: Insurance penetration and density**

YEAR	Insurance penetration (GWP as % of GDP)		Insurance density (GWP per capita in USD)	
	Russian Federation	OECD	Russian Federation	OECD
2011	1.2	8.7	159.2	3,294
2012	1.3	8.4	183.8	3,204
2013	1.4	8.3	198.7	3,148
2014	1.4	8.7	179.0	3,329

Source: CBR and OECD publications (<https://stats.oecd.org>)

57. The development and growth prospects of the insurance sector have been adversely affected by the macroeconomic environment, which has been steadily deteriorating. As a result, in 2014, the the gross written premium measured in local currency contracted by 1 percent in real terms compared to 2013 and further declined by 12 percent in 2015 (Figure 1). The insurance market is suffering from the adverse economic conditions and has contracted due to the reduced purchasing power of the population, falling demand for voluntary insurance products, the increasing price competition across all business lines, and the downgrade of Russia's sovereign rating from BBB- to BB+ with negative outlook (S&P, 2015) which reduced the ability of large Russian insurers to write inward foreign reinsurance business.

**Figure 1: Macroeconomic impact on insurance development**



Source: CBR, World Bank (<http://data.worldbank.org/>)

58. **With about RUB 988bn (USD 26bn) in 2014, the Russian insurance industry ranked 27th in the world in terms of gross premiums written,<sup>3</sup> of which 89 percent came from non-life and 11 percent from life insurance.** The ratio of insurance assets to GDP amounted to 2 percent which is far below the 8.7 percent average ratio for the OECD countries or countries similar to Russia in terms of GDP per capita such as Poland (10 percent) and Estonia (10.6 percent).

**Table 2: Insurance market size and structure**

	RUB, bn			
	2011	2012	2013	2014
Gross written premium				
Non-life	634	759	823	879
Life	35	53	85	109
Total	669	812	908	988
<i>GWP to GDP</i>	<i>1.2%</i>	<i>1.3%</i>	<i>1.4%</i>	<i>1.4%</i>
Insurance assets				
Non-life	883	962	1,078	1,240
Life	83	109	143	200
Total	965	1,070	1,221	1,440
<i>Insurance assets to GDP</i>	<i>1.7%</i>	<i>1.7%</i>	<i>1.8%</i>	<i>2.0%</i>

Source: CBR, (\*) Data referred to 2015 are provisional

59. **Life sector is under-developed and offers traditional insurance comprising mainly credit life insurance and, as of recently, individual endowment products (including with-profit participation contracts) which are rather short-term (from three to seven years).** Life insurers rely mainly on bank-assurance models (mostly within the same financial groups), which help them with making use of branch networks, expertise and client bases developed by commercial banks. The recent macroeconomic conditions are reducing consumers' saving capacity which has an adverse impact on life insurance growth (Table 7). Credit life insurance is directly affected by the declining trend in loan originations countrywide due to the increase in inflation and interest rates.

### **Industry concentration**

60. **The market concentration is ongoing with top insurers continuing to increase their market shares.** In 2014, about 48 percent of the non-life insurance premiums were underwritten by five companies and 65 percent by ten companies out of 299 non-life insurers. About 57 percent of life insurance assets were owned by the top five companies out of 35 life insurers which operated in 2014. The concentration at the group level cannot be measured due to the lack of consolidated accounts, which will start to be reported in 2017 with the introduction of the IFRS accounting system.

<sup>3</sup>[http://www.swissre.com/media/news\\_releases/Stronger\\_advanced\\_markets\\_performance\\_boosts\\_insurance\\_industry\\_growth\\_in\\_2014.html](http://www.swissre.com/media/news_releases/Stronger_advanced_markets_performance_boosts_insurance_industry_growth_in_2014.html)

In percent

**Table 3: Insurance sector concentration**

	2011	2012	2013	2014
Non-Life GWP				
Top five (aggregate)	42	43	43	47
Top Ten (aggregate)	59	61	62	65
Life insurance assets				
Top five (aggregate)	52	44	49	57

Source: CBR

### Role of associations

61. **The All Russian Insurance Association (ARIA) is the biggest insurance association representing 160 out of the current 315 life and non-life insurers.** The ARIA played an instrumental role in addressing the issues relating to the increase in insurance fraud in the CMTPL during 2012-2014. By 2017, ARIA aims to bring together all other professional unions (including Motor Insurance Association and Agricultural Union) into a single organization with a view to effectively a) representing and protecting the industry's interests; b) actively contributing to sound market development; and c) introducing and safeguarding sound industry standards. Going forward the ARIA intends to act as a self-regulating organization that would provide numerous essential services for its members, including conducting professional education, setting and policing industry standards and market conduct of its members.

62. **Insurance Fraud.** Another factor that contributed to claims inflation was the decision of the Supreme Court to extend consumer protection law to insurance claims which enabled consumers to file insurance claims directly with the courts bypassing the insurance companies. In the absence of claims settlement guidelines for lower courts, this led to millions of arbitrarily high court awards to consumers. As a result, 2013-14, witnessed a major increase in MTPL claims although the situation considerably improved in 2015 due to some changes in the Insurance Law and the proactive stance taken by the All Russian Insurance Association on that issue.

63. **National Reinsurance Company.** A new draft law has been recently prepared to establish a national reinsurance company (NRC) to be capitalized by the CBR. The proposed national reinsurer intends to address the current difficulties faced by the Russian insurers with reinsuring risks of Russian companies on the Western sanctions list (over 1500 in total) with well rated US and EU reinsurers which in the past assumed about 80 percent of such risks. Based on the draft law, the national reinsurer will reinsure the risks of sanctioned companies, the Russian military and the state. To improve the overall risk profile of the NCR, the Russian insurers will be required to mandatorily place 10 percent of all reinsurance programs with the NRC. In addition, the NRC intends to provide reinsurance capacity to those insurers who provide third party liability coverage to residential developers that finance construction projects with advanced deposits from future buyers of apartments. In this context, we must point out that the creation of the NCR

may not be the most effective solution to the problems created by the sanctions regime for the insurance industry due to the rather negative international experience with national reinsurance companies, most of which have been eventually privatized at a considerable cost to the state. Creation of NCR will also have adverse effects on the market competition and the long-term stability of the insurance market as the company is likely to emerge as the largest and best capitalized reinsurance player in the Russian Federation not constrained by the market competition.

64. **Industry consolidation.** The expected further consolidation of the sector will lead to a better performing insurance market. Since 2013, when the CBR took over supervision of the sector, the industry has been under increasing pressure to increase its solvency capital and liquidity of assets, improve the quality of regulatory compliance, internal controls and financial management. These tightened regulatory requirements have led to a major industry consolidation. In 2015 alone 70 insurers lost their licenses. The introduction of planned new regulatory requirements in 2017 – such as the IFRS-like accounting rules, including the system of IFRS internal financial accounts, and actuarial valuation of insurers’ liabilities – is likely to reduce the number of companies even further. With the first 20 largest insurers already accounting for about 77 percent of the written gross insurance premium, further consolidation will have no negative effect on market competition.

**Table 4: Number of insurance companies**

	2010	2011	2012	2013	2014
<b>Non-life</b>					
<i>Domestic capital</i>	482	416	313	290	278
<i>Foreign capital</i>	29	25	21	21	21
<b>Total non-life</b>	<b>511</b>	<b>441</b>	<b>334</b>	<b>311</b>	<b>299</b>
<b>Life</b>					
<i>Domestic capital</i>	41	35	28	28	29
<i>Foreign capital</i>	7	8	8	7	6
<b>Total life</b>	<b>48</b>	<b>43</b>	<b>36</b>	<b>35</b>	<b>35</b>
<b>Pure reinsurers</b>	<b>23</b>	<b>18</b>	<b>15</b>	<b>13</b>	<b>13</b>
<b>Mutuals</b>	<b>7</b>	<b>7</b>	<b>11</b>	<b>12</b>	<b>12</b>
<b>Total</b>	<b>589</b>	<b>509</b>	<b>396</b>	<b>371</b>	<b>359</b>

Source: CBR

#### D. PRECONDITIONS FOR EFFECTIVE INSURANCE SUPERVISION

##### Approach to supervision

65. **Insurance supervision in the Russian Federation is rule-based.** While the rule-based approach may be effective for emerging insurance markets, the IAIS ICPs have been designed with a view to evaluating country insurance supervisory regimes against sound risk-based principles, standards and practices adopted in most advanced market economies. Such standards invariably put a major emphasis on effective corporate governance and risk

management capabilities of the insurance market, which is required to understand, identify, measure and manage its core risks in line with the IAIS ICPs. The role of insurance supervisor in this case is to ensure that insurers are broadly in line with the IAIS standards and have adequate management information and risk administration systems in place to demonstrate the compliance.

#### **Accounting and actuarial standards**

**66. The insurance accounting is based on the national accounting standards. However such accounts are not used for the calculation of insurer's solvency.** By 2017, the CBR plans to enact an accounting standard which is close to the IFRS (with slight deviations in the asset valuation approach). However, it is not clear whether the IFRS accounts (including the actuarially set reserves) will be taken into account for the calculation of insurers' solvency.

**67. A new set of regulations have been recently adopted with a view to introducing actuarial standards in insurance industry as well as the role of actuaries and self-regulated actuarial bodies.** However, the number of certified actuaries is still low (about 300) relative to the industry's demand their roles are rather restricted within company's risk management.

#### **Mechanisms for consumer protection**

**68. The current regulation has established sound business conduct requirements which are largely monitored by the CBR. A separate service is established in the CBR to protect consumers and minority shareholders in financial institutions.** The objectives of the service are to: (a) assess the current financial regulation on consumer and investor protection and prepare proposals for legal changes; and (b) review and address consumer complaints. Consumers can address their complaints directly to the CBR through a consumer portal on the CBR's official website.

**E. SUMMARY OF OBSERVANCE OF THE INSURANCE CORE PRINCIPLES—  
ROSCs**

**Table 5: Summary of compliance with ICPs**

<b>Insurance Core Principle (ICP)</b>	<b>Level</b>
ICP1 - Objectives, Powers and Responsibilities of the Supervisor	<b>O</b>
ICP2 - Supervisor	<b>PO</b>
ICP3 - Information Exchange and Confidentiality Requirements	<b>O</b>
ICP4 - Licensing	<b>PO</b>
ICP5 - Suitability of Persons	<b>PO</b>
ICP6 - Changes in Control and Portfolio Transfers	<b>PO</b>
ICP7 - Corporate Governance	<b>PO</b>
ICP8 - Risk Management and Internal Controls	<b>PO</b>
ICP9 - Supervisory Review and Reporting	<b>PO</b>
ICP10 - Preventive and Corrective Measures	<b>LO</b>
ICP11 - Enforcement	<b>LO</b>
ICP12 - Winding-up and Exit from the Market	<b>O</b>
ICP13 - Reinsurance and Other Forms of Risk Transfer	<b>NO</b>
ICP14 - Valuation	<b>PO</b>
ICP15 - Investment	<b>LO</b>
ICP16 - Enterprise Risk Management for Solvency Purposes	<b>NO</b>
ICP17 - Capital Adequacy	<b>PO</b>
ICP18 - Intermediaries	<b>LO</b>
ICP19 - Conduct of Business	<b>LO</b>
ICP20 - Public Disclosure	<b>LO</b>
ICP21 - Countering Fraud in Insurance	<b>PO</b>
ICP22 - Anti-Money Laundering and Combating the Financing of Terrorism	<b>O</b>
ICP23 - Group-wide Supervisor	<b>PO</b>
ICP24 - Macro-prudential Surveillance and Insurance Supervision	<b>LO</b>
ICP25 - Supervisory Cooperation and Coordination	<b>O</b>
ICP26 - Cross-border Cooperation and Coordination on Crisis Management	<b>LO</b>
<i>Aggregate Level: Observed (O), largely observed (LO), partly observed (PO), not observed (NO), not applicable (N/A).</i>	

Table 6: Overall comments on compliance with ICPs

Insurance Core Principle	Level	Overall Comments
<b>1 – Objectives, Powers and Responsibilities of the Supervisor</b>	O	<p>The main legislation defines CBR as the sole insurance supervisor and clearly specifies its insurance supervisory objectives. The CBR responsibilities and powers to discharge insurance regulatory and supervisory functions are supported by its (a) right to initiate proposals for changes in insurance legislation; (b) a clear legal mandate to draft and issue secondary insurance regulation; and (c) institutional independence and financial capacity required to effectively conduct the regulation of insurance market.</p> <p>The CBR has the right to initiate proposals for changes in insurance legislation or amendments to the current laws in cooperation with the MoF. Its legislative proposals should be endorsed and submitted to the Parliament by either the Government or members of Parliament, with the CBR remaining actively involved throughout the entire cycle of the legislative process.</p>
<b>2 – Supervisor</b>	PO	<p>The governance structure of the CBR as a mega supervisor is clearly defined in the law, including the internal audit arrangements. However, the current rule - based regulatory requirements are not sufficiently appropriate for the objectives they are intended to meet. Given the specifics and complexity of insurance supervision, the effective communication and prompt escalation of significant issues requires <i>adequate level of expertise and effective management systems</i>.</p> <ul style="list-style-type: none"> <li>- The current approach of dispersing the core supervisory functions among several CBR departments with limited insurance expertise and various reporting lines has major drawbacks including (a) the potential for insufficient coordination among different departments, and (b) impaired ability of the regulator as a whole to systematically get early warnings and detect problems with compliance in such a technically complex industry as insurance.</li> <li>- Although the CBR has developed an electronic system for insurance supervisory filing, there are no sufficient IT capabilities to process the submitted information for supervisory monitoring and review purposes. The current manual approach to data processing may lead to significant delays and errors, adversely affecting the overall quality of supervision. To this effect, the off-site monitoring capabilities are yet to be fully developed to provide for (a) transparent, quick and reliable data processing; (b) automated calculation of insurers' key ratios; (c) insurers' risk monitoring based on</li> </ul>



		<p>clearly defined and transparent thresholds for the key risk indicators; and (d) the overall risk scoring that properly accounts for the core risk factors.</p> <p>There are clear procedures regarding the appointment and dismissal of the CBR governing bodies.</p> <p>To address the current limitations, CBR should move toward a professional insurance specific onsite supervision that employs staff with professional insurance qualifications, and has adequate decision-making powers to supervise the market.</p>
<p><b>3 – Information Exchange and Confidentiality Requirements</b></p>	<p>O</p>	<p>The current legal and regulatory framework allows the CBR to obtain and share information with other financial supervisors of other jurisdictions based on mutual or multilateral agreements and subject to confidentiality, purpose of use and data protection requirements, which are in line with this ICP requirements.</p> <p>Based on the legislation, the CBR should assess each request for information from another supervisor on a timely and comprehensive manner. There are no strict reciprocity requirements in terms of the level, format and detailed characteristics of the information that can be exchanged.</p> <p>Where the CBR is legally compelled to disclose confidential information it has received from another supervisor, it shall promptly notify the originating supervisor and seek consent for its release before complying with the court’s request.</p> <p>Adequate information sharing arrangements are also in place with all relevant domestic authorities.</p> <p>In practice, the group-wide supervision has been limited to one participation in a supervisory college of an international group.</p>
<p><b>4 – Licensing</b></p>	<p>PO</p>	<p>Legal entities which intend to engage in insurance activities in the Russian Federation must be licensed by the CBR before they can start their insurance operations. The legislation sets out requirements and procedures with regards to the licensing of insurance activities, including criteria for (a) participation of foreign shareholders in the statutory capital of local insurance companies and (b) opening branch offices of foreign insurers in the Russian Federation.</p> <p>The licensing decisions are based on the applicant’s ability to meet minimum capital requirements as well as limited fit and proper criteria for the supervisory boards and professional criteria for senior management including executive management, accounting, internal audit and actuarial functions.</p>

		<p>The applicant is not required to provide information on its governance and risk control systems including reinsurance, underwriting, claims, investments, management information, outsourcing arrangements and other functions as may apply. There are no regulatory requirements for the applicant to submit a business plan describing products, distribution channels, projected business volumes and financial projections that reflect the projected risk profile of the business. The legislation requires the CBR to assess applications, make decisions and inform applicants based on clearly set legal requirements. The consent of home supervisor is sought as a pre-requisite for licensing of the branches of foreign insurers.</p> <p>Although the current function of licensing department does not require insurance specific expertise, with the planned introduction of new licensing requirements involving business plans and financial projections, the IMD should assume the responsibility for clearing the license applications.</p>
<p><b>5 – Suitability of Persons</b></p>	<p>PO</p>	<p>The legislation sets minimum suitability criteria for insurer’s significant shareholders and supervisory boards, which are not sufficient to meet the requirements related to reputation, competence and capability. There are fit and proper requirements on some core functions comprising (a) executive management, (b) accounting, (c) internal audit, and (d) actuaries. However, the regulation is yet to cover suitability criteria for key persons exercising core risk management and technical functions including (a) underwriting, (b) claims, and (c) reinsurance.</p> <p>The CBR is notified by insurers of any changes in board members, executive management, internal audit and significant owners. However, the CBR does not have the authority to dismiss senior management in case of misconduct or failure to comply with regulatory requirements.</p> <p>The CBR exchanges information with other authorities where necessary to check the suitability of board members, senior management, key persons in control functions and significant owners in line with legal requirements.</p>
<p><b>6 – Changes in Control and Portfolio Transfers</b></p>	<p>PO</p>	<p>The CBR has the right to request information on significant ownership. However changes in control of the insurer do not require prior regulatory approval. To this effect, those seeking control do not meet the same criteria as they would be required to meet if they sought a new licence and their ownership may be unduly prejudicial to policyholders. In order for the CBR to decide on the portfolio transfer, it should assess the financial position of the transferee and the transferor, including the adequacy of reserves and assets that accompany the insurance portfolio to be transferred. The legislation does not specifically require a favourable opinion on the transaction from a qualified actuary, which would lead to an informed decision</p>

		<p>on the financial position of the transferee and the transferor as required by this ICP.</p> <p>The CBR approves increases in authorized capital from foreign investors and (or) their subsidiaries and share transfers from foreign to local investors. In such cases, the CBR has the right to coordinate and exchange information with other supervisors. The change of a mutual company to a stock company, or vice versa, is subject to the CBR's approval.</p>
<b>7 – Corporate Governance</b>	PO	<p>The current legislation has generic provisions on corporate governance, which apply only at the individual insurer level. However the CBR is yet to introduce legal requirements on (a) responsibilities of the supervisory board for company's risk management, (b) level of knowledge, skills and expertise at the Board level, which should be commensurate with the governance structure and the nature, scale and complexity of the insurer's business and (c) remuneration policies and practices covering senior staff positions whose actions may have a material impact on the risk exposure at the insurer and group level.</p>
<b>8 – Risk Management and Internal Controls</b>	PO	<p>There is no adequate regulatory framework in place for insurers to: (a) establish risk management requirements for product development, pricing, underwriting, reserving, claim handling, and reinsurance management; and (b) define effective systems with clear roles of Supervisory Board, Senior Management as well as procedures and expertise required to carry out risk management functions.</p> <p>The regulation sets requirements with regards to control, internal audit and actuarial functions. However, to comply with the risk management requirements, the CBR should strengthen and expand the role of actuaries in insurance companies.</p> <p>Although the legislation specifies the roles of internal and external audits, the compliance function is yet to ensure that the operations are carried out in line with a strategic plan and risk management policies at the insurer and group level, which is not the case as of today.</p> <p>There are no oversight and accountability requirements for outsourced material activities.</p>
<b>9 – Supervisory Review and Reporting</b>	PO	<p>The Insurance Law empowers the CBR to conduct insurance supervision through extensive and frequent (monthly, quarterly and annual) reporting, on-site examinations and other relevant information.</p>

		<p>The CBR applies a rule-based supervisory approach which enables it to assess whether insurers comply with the relevant legislation and rule-based regulatory requirements. However such a rule-based framework (a) does not adequately account for the proper identification and assessment of insurance risks by insurers and (b) does not allow determining supervisory plans and priorities which take into account the nature, scale and complexity of insurers.</p> <p>While the dispersion of insurance supervisory functions among numerous departments with various reporting lines carries certain advantages (such as a reduced potential for the conflict of interest), the CBR is yet to establish a framework, which would effectively harmonize all the supervision processes including the core off-site and onsite functions.</p> <p>Although the CBR has developed an electronic system for insurance supervisory filing, it is yet to develop a comprehensive management information system, which would ensure (a) automated processing of the submitted information for the purpose of further supervisory monitoring and review and (b) swift access of relevant information by CBR departments or multi-disciplinary teams. Due to the still evolving internal information management system, the CBR does not have sufficient technical capabilities to process the information contained in regular insurers' reports and often requires additional data submissions outside the normal reporting cycle.</p> <p>While onsite inspections are currently limited to insurers' compliance with the legal norms, a broader scope onsite supervision would require the CBR to raise the level of insurance expertise among the onsite teams, which should be capable to inspect such technical areas as insurance underwriting, liabilities and reinsurance.</p>
<p><b>10 – Preventive and Corrective Measures</b></p>	<p>LO</p>	<p>The main legislation describes preventive and corrective measures, which are in line with the CBR insurance supervision objectives and by and large cover the scope of insurers' operations. The CBR has the authority and ability to take measures if the insurer fails to operate in a manner that is consistent with regulatory requirements. The measures may progressively escalate from limitation of insurance activities to suspension of insurance license, temporary business administration and revocation of the license if insurer does not comply with the corrective action plan. However, the CBR has no right to dismiss or replace insurer's key personnel which was deemed unfit to discharge their duties.</p> <p>However, there is a level of subjectivity left with the CBR in taking certain measures for as long as the regulations do not specify minimum statutory periods within which insurers should (a) restore their solvency; (b) comply with data requests (that fall beyond the scope of regular reporting) from the supervision.</p>

		<p>To stabilize its financial position, the insurer should submit a financial recovery plan to the CBR. Once agreed with or imposed by the CBR, it starts close monitoring of insurer with a view to verifying compliance and take further action noncompliance to address the non-compliance that could put policyholders at risk. Based on legal requirements and as a matter of practice, the CBR holds regular meetings with senior management of insurers to discuss key areas of concern and formulate corrective plans.</p> <p>Due to the absence of a risk-based early warning system, the CBR does not have adequate capabilities to timely detect and prevent insurers' failures with the view to minimizing the impact on policyholders, creditors and shareholders.</p>
<p><b>11 – Enforcement</b></p>	<p>LO</p>	<p>The CBR has the power to enforce corrective action in a timely manner where problems with compliance have been identified. The supervisor issues formal directions to insurers to take particular actions or desist from taking particular actions. The CBR has the power to take control of the insurer by appointing a temporary administration over the company for the benefit of the policyholders.</p> <p>The legislation also allows the CBR to impose administrative monetary penalties if the insurer fails to comply with regulatory reporting requirements, or does not timely provide information and produce documents required by onsite inspectors. However, such penalties may need to be set based on the severity of insurers' infringements.</p> <p>The process of applying sanctions does not delay necessary preventive and corrective measures and enforcement.</p> <p>The Insurance Law requires the CBR to closely monitor the insurers with a view to ensuring that the measures are complied with.</p> <p>The supervisor has the power to enforce corrective action in a timely manner when problems have been identified. The supervisor issues formal directions to insurers to take particular actions or desist from taking particular actions.</p> <p>In the course of exercising its insurance supervision mandate, the CBR has been effectively using its enforcement powers to revoke licenses for a considerable number of under-capitalized insurers (about 70 only in 2015).</p>
<p><b>12 – Winding-up and Exit from the Market</b></p>	<p>O</p>	<p>The procedures for the winding-up and exit are clearly set out in the current legislation. Priority is given to the protection of policyholders rights. The regulatory procedures aim at minimising the disruption of benefits to policyholders.</p>

<p><b>13 – Reinsurance and Other Forms of Risk Transfer</b></p>	<p>NO</p>	<p>The current regulation does not require insurers to have a reinsurance policy that would define the objectives of reinsurance arrangements in line with the company’s risk appetite, risk concentrations and its net capacity for risk retention.</p> <p>There are no regulatory requirements with regard to insurers’ per-risk or aggregate net risk retentions relative to their net capacity. While major losses arising from catastrophic events may lead to numerous simultaneous insolvencies, there are no regulatory requirements to limit the insurers’ own risk exposure to such catastrophic scenarios through a catastrophe reinsurance arrangement.</p> <p>The regulation on the investment of assets covering technical reserves sets indirect restrictions on the credit quality of reinsurance counterparties. However, in practice these fall well beyond the minimum credit quality standards set by advanced regulatory regimes.</p> <p>There are no requirements which take into account the nature of supervision of reinsurers and other counterparties, including any supervisory recognition arrangements in place.</p> <p>There are no requirements or control over the cedants’ liquidity position relative to the structure of risk transfer contracts and likely payment patterns arising from these.</p> <p>The supervision of reinsurance operations requires relevant expertise among the CBR experts.</p> <p>Creation of NCR will also have adverse effects on the market competition and long-term stability of the insurance market as the company is likely to emerge as the largest and best capitalized reinsurance player in the Russian insurance/reinsurance market without being bound by market competition or effective regulation.</p>
<p><b>14 – Valuation</b></p>	<p>PO</p>	<p>The insurance accounting is done on the basis of national accounting standards. In addition, insurers are now required to also compile alternative IFRS- like accounts. However, such accounts are not used for the calculation of insurer’s solvency. As of January 2017, the CBR plans to (a) enact an accounting standard which is close to the IFRS (with slight deviations in the asset valuation approaches). To this effect, the current valuation approach to liabilities is not undertaken on consistent bases and there is no economic valuation of assets and liabilities, which reflects the risk-adjusted present values of their cash flows.</p> <p>The valuation of non-life technical provisions is done based on a rule-based approach and does not account for the best estimate and the margin (margin over the current estimate or MOCE).</p>

		<p>While there are regulatory criteria for the determination of appropriate rates to be used in the discounting of mathematical provisions, there are no requirements to make appropriate allowance for embedded options and guarantees.</p> <p>There are currently no investments in non-fixed interest assets, where insurers may have greater discretion on assumptions on reinvestment rates of returns.</p> <p>The CBR is currently in the process of preparing a major change in its supervision practices which would require companies to present actuarial assessments of their reserves based on the IFRS approach. To this effect, the system intends to gradually move away from the currently static supervisory approach to the assessment of IBNR to a risk-based model which accounts for actuarial calculations of liabilities.</p>
<b>15 – Investment</b>	LO	<p>The CBR has enacted prudent investment regulations which address (i) investment of (i) own funds and (ii) assets covering technical reserves. The regulation clearly (i) defines investment categories for assets covering technical and mathematical provisions and (ii) sets limitations for specific types of investments, by addressing the issues of security, liquidity, diversification and nature of liabilities (for non-life).</p> <p>In 2015, the Insurance Law was amended to introduce the depositary function for investments of life, annuities, pensions and CMTPL related assets. However, a separate investment regulation may need to be developed for life insurance (assets covering mathematical provisions). The CBR should also introduce ALM principles for interest, currency and duration matching for the long-term life insurance contracts.</p> <p>The current regulations do not permit investments in highly risky types of assets. Given the growing complexity of capital markets, the CBR is working to develop a more comprehensive investment regulatory framework which will set specific requirements and limitations on derivatives relative to the credit quality of issuers.</p>
<b>16 – Enterprise Risk Management for Solvency Purposes</b>	NO	<p>Due to the current rules-based supervisory regime, the requirements of enterprise risk management are not met. The legislation does not define ERM requirements to quantification of risk under a sufficiently wide range of risk scenarios that involve the use of complex risk simulation techniques at the insurer or group level.</p>

<p><b>17 – Capital Adequacy</b></p>	<p>PO</p>	<p>Capital adequacy in the context of a total balance sheet approach is not met, while capital adequacy requirements are by and large in line with EU Solvency I requirements and hence are not risk sensitive. The Insurance Law (Article 25) requires insurers to meet at all times the solvency requirements which are monitored by the CBR on a quarterly basis. Insurers are required to calculate the normative solvency ratio as a ratio of available capital to the required solvency margin (EU S1 – like approach) and guarantee that it does not fall below 1.</p> <p>The approach to capital resources eligible to meet regulatory capital requirements and their value is defined by the law by reference to the quality and suitability of capital elements. However, the capital adequacy of insurers can be materially underestimated due to the current regulatory requirements on the calculation of technical reserves.</p> <p>The current rule-based regulation does not observe the concept of 'Prescribed Capital Requirement (PCR),' which requires a specified level of safety over a defined time horizon and clear thresholds to trigger a supervisory intervention.</p> <p>The concern expressed by the CBR that insurance company shareholders may potentially withdraw money from the company on a short notice is a major problem in its own right, which should be regulated by law and relevant insurance regulations.</p>
<p><b>18 – Intermediaries</b></p>	<p>LO</p>	<p>Licensing of insurance brokers is predicated on their ability to meet certain financial and integrity criteria stipulated by the Insurance Law.</p> <p>Although there are no specific licensing requirements for insurance agents, the Insurance Law requires insurers to (a) maintain up to date registries of intermediaries (insurance brokers and agents) with which they have concluded insurance intermediation contracts and (b) publish the registries of intermediaries in their web-sites.</p> <p>The CBR supervises the insurance intermediaries and has the right to take appropriate supervisory action as necessary. While insurance brokers are required to meet certain financial and integrity criteria, there are insufficient criteria on their appropriate levels of professional knowledge and experience.</p> <p>The Law sets out the consumer protection requirements for intermediaries which include (a) a review with the client of insurance policy terms and conditions, (b) and the disclosure of the intermediary's relationship with the insurer.</p> <p>In addition, the CBR requires an insurance intermediary, which handles client money, to have sufficient safeguards in place to</p>



		<p>protect these funds through separate bank accounts to deposit insurance premiums received by the policyholders and swift transfer of insurance premiums to insurers.</p> <p>Although insurance premium in Russia is not subject to either a VAT or sales tax, insurance brokerage commission is subject to 18 percent VAT.</p>
<b>19 – Conduct of Business</b>	LO	<p>The current regulation has established sound business conduct requirements which are largely monitored by the CBR. The Insurance Law explicitly requires insurers to act with due skill, care and diligence when dealing with customers. Insurers must properly inform consumers on the products and services, which should also be promoted in a manner that is clear, fair and not misleading.</p> <p>The CBR requires that insurers have policies and processes in place to handle claims in a timely and fair manner and address the consumers' complaints. The protection of consumer data is mandatory for insurers and insurance intermediaries.</p> <p>A separate service is established in the CBR to protect consumers and minority shareholders in financial institutions. The objectives of the service are to: (a) assess the current financial regulation on consumer and investor protection and prepare proposals for legal changes; and (b) review and address consumer complaints. Consumers can address their complaints directly to the CBR through a consumer portal on the CBR's official website.</p>
<b>20 – Public Disclosure</b>	LO	<p>Annual financial statements and respective audit opinion are made available to the public directly by insurance companies. In addition, insurers are required to disclose relevant information regarding the profile, corporate governance, key products and services in their websites.</p> <p>However, there are no requirements to disclose more detailed financial information with regard to the segmentation of technical provisions, future cash flow assumptions, the method used to determine technical provisions, asset – liability matching, as well as quantitative source of earnings analysis, claims development, pricing adequacy, risk concentrations, reinsurance (as required in the ICP).</p> <p>There are no specific disclosure requirements relating to insurance groups.</p>
<b>21 – Countering Fraud in Insurance</b>	PO	<p>Fraud in insurance is a criminal offence and is addressed by the Criminal Code. Upon identifying signs of illegal activities the CBR should inform relevant federal bodies.</p>

		<p>Although there are no insurance-specific regulations, or regulatory manuals on countering insurance fraud, CBR holds meetings and workshops with financial institutions to review the measures taken and suggest improvements on the subject matter.</p> <p>The Russian Motor Insurance Association has recently developed a common claims and policy database for the motor insurances which helps to detect and combat insurance fraud.</p>
<p><b>22 – Anti-Money Laundering and Combating the Financing of Terrorism</b></p>	<p>O</p>	<p>The CBR has an effective supervisory framework to monitor and enforce compliance by insurers and intermediaries with AML/CFT requirements and take necessary action.</p> <p>The CBR cooperates actively with other domestic and foreign relevant authorities and is part of the permanent Expert Group comprising representatives of the Bank of Russia, public authorities as well as scientific and professional communities.</p> <p>The Russian Federation is a member of the FATF, MONEYVAL and one of the founding members of the Eurasian Group (EAG), which is a FATF-style regional body uniting Belarus, India, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan.</p>
<p><b>23 – Group-wide Supervision</b></p>	<p>PO</p>	<p>At present, the CBR supervises insurers at the level of individual legal entity. With the introduction of the IFRS in 2017, the CBR will start requiring the consolidated accounts of all companies consolidated at the group level.</p> <p>With its establishment as a mega-regulator of the overall financial sector, the CBR has adopted a good practice of coordinated inspections over individual companies of the same financial groups (conglomerates), including insurers and banks.</p> <p>However, the CBR is yet to establish a structured approach to group supervision, to ensure the coverage of all relevant entities by taking into account their participation, influence and/or other contractual obligations, interconnectedness, risk exposure, risk concentration, risk transfer, and/or intra-group transactions and exposures.</p>
<p><b>24 – Macro-prudential Surveillance and Insurance Supervision</b></p>	<p>LO</p>	<p>The CBR identifies underlying trends by collecting data on, but not limited to, profitability, capital position, liabilities, assets and underwriting, to the extent that it has information available at the level of legal entities, though not yet at a group level.</p> <p>The CBR has started to carry out analysis of the potential impact of macroeconomic shocks to insurance sector and systemically important insurers due to unfavorable dynamics of GDP, exchange rates, inflation, personal income, and capital investment considered</p>

		<p>in the light of relevant regulatory requirements (e.g. allowed types of investments and restrictions).</p> <p>The CBR has established the process for identifying the systemically important insurers and allocation of curators based on business volumes and social significance of certain types of insurance. However, the CBR has not been able to develop yet appropriate analytical and supervision tools which take into account the nature, scale and complexity of insurers and have been specifically designed to limit the impact of macro-economic risks on the development of the insurance sector.</p>
<p><b>25 – Supervisory Cooperation and Coordination</b></p>	<p>O</p>	<p>The current legal and regulatory framework (allows the CBR to obtain and share information with other financial supervisors and authorities based on bilateral mutual or multilateral agreements subject to confidentiality, purpose and use requirements. To this effect, CBR has established effective cooperation with insurance supervisors from various jurisdictions and is in the process of joining the IAIS MMoU.</p> <p>The CBR is a full IAIS member and contributes actively to its activities. The agreements enable establishing effective procedures for information flows between involved supervisors; convening periodic meetings of involved supervisors; and conducting comprehensive assessment of the involved entities. The agreements are flexible to support the group supervision and participation in supervision colleges, as well as to tailor particular roles and functions of involved parties.</p>
<p><b>26 – Cross-border Cooperation and Coordination on Crisis Management</b></p>	<p>LO</p>	<p>The agreements with other supervisors allow sharing information, on (as the group structure (including legal, financial and operational intra-group dependencies) and inter-linkages between the insurer and the financial system in each jurisdiction where it operates.</p> <p>The CBR requires insurers to collect and report relevant information, which would need to be supplied also for the purpose of assessing and managing a financial crisis. While insurers are required to comply with regulatory norms on capital adequacy and other financial indicators, the CBR is yet to require them develop contingency plans and procedures based on their specific risk for use in a going-and gone-concern situation as required by the ICP.</p> <p>The CBR is also prepared to (a) share information (subject to data protection and confidentiality agreements) and (b) cooperate to find internationally coordinated, timely and effective solutions, or otherwise discuss other jurisdictional measures with relevant supervisors. However, the current rule-based supervisory approach impairs the CBR’s ability to (a) carry out proper and timely assessment of insurers, (b) timely detect the risks and look into contingency plans and operational risk management of insurers and</p>

		<p>(c) timely initiate the necessary cross-border communication in time in the case of an emergency.</p> <p>The CBR is yet to establish a structured approach to the group supervision in general and particularly its public communication roles in the function of group-wide supervisor.</p>
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**Table 7: Summary of Observance Level**

Level of observance	# ICPs
Observed	5
Largely observed	8
Partly observed	11
Not observed	2

## F. RECOMMENDATIONS

**Table 8: Recommendations to Improve Observance of the ICPs**

Insurance Core Principle	Overall Comments
<b>2 – Supervisor</b>	<p>(a) Build adequate insurance supervision expertise in auxiliary CBR units (other than IMD) involved in licensing and onsite insurance supervision functions;</p> <p>(b) Increase the effectiveness, transparency and coordination of insurance processes carried by different CBR units through a proper management information system in place backed by IT functionalities with a view to ensuring timely action;</p> <p>(c) Introduce legal provisions regarding protection of the CBR and its staff against lawsuits for actions taken and/or omissions made while discharging their duties in good faith.</p>
<b>4 – Licensing</b>	<p>(a) Introduce requirements for information on governance and risk control systems a business plan and financial projections as a pre-requisite for licensing and empower the IMD to carry out their clearance;</p> <p>(b) Introduce suitability criteria as per recommendations of ICP 5 as a pre-requisite for the licensing of the insurance company.</p>

<b>5 – Suitability of Persons</b>	<ul style="list-style-type: none"> <li>(a) Introduce criteria for significant shareholders which require information on their ownership’s structure, financial position and business reputation;</li> <li>(b) Introduce integrity, reputation and professional criteria for Board members;</li> <li>(c) Introduce professional criteria for core technical and risk management functions including underwriting, claims and reinsurance;</li> <li>(d) Introduce legal requirements which would allow the CBR to dismiss senior managers in case of misconduct.</li> </ul>
<b>6 – Changes in Control and Portfolio Transfers</b>	<ul style="list-style-type: none"> <li>(a) Require the CBR’s prior approval over changes in insurer’s control;</li> <li>(b) Apply requirements to new controlling shareholders that are equal to those applied to initial shareholders;</li> <li>(c) Require a qualified actuary’s opinion prior the approval of portfolio transfer.</li> </ul>
<b>7 – Corporate Governance</b>	<ul style="list-style-type: none"> <li>(a) Introduce clear requirements on the Boards’ responsibilities for the risk management at individual insurer and group level;</li> <li>(b) Introduce requirements on the level of knowledge, skills and expertise required at the Board level commensurate with the governance structure and the nature, scale and complexity of the business at the insurer and group level;</li> <li>(c) Require insurers to establish remuneration policies covering senior positions;</li> <li>(d) Introduce criteria minimum criteria on the qualifications of external auditors which can audit insurers’ accounts (including the involvement of audit actuaries).</li> </ul>
<b>8 – Risk Management and Internal Controls</b>	<ul style="list-style-type: none"> <li>(a) Set requirements on core risk management functions including underwriting, claims and reinsurance;</li> <li>(b) Set requirements which require insurers to establish effective risk management systems with clear policies, roles, responsibilities and procedures of control and compliance functions at the individual insurer and group level;</li> <li>(c) Expand requirements with regard to the role of actuaries in risk management;</li> <li>(d) Require at least systemically important insurers to establish explicit risk management structures;</li> <li>(e) Introduce regulatory requirements on outsourced activities.</li> </ul>
<b>9 – Supervisory Review and Reporting</b>	<ul style="list-style-type: none"> <li>(a) Develop a modern MIS IT system that supports transparent, accountable, fully integrated, multi-disciplinary insurance supervision;</li> <li>(b) To effectively use the available expertise, form multi-disciplinary teams for the purposes of integrated insurance supervision, with each team member providing its professional inputs to the company’s supervision file;</li> </ul>

	<p>(c) Create a cadre of professional onsite insurance inspectors with proper expertise necessary for making independent informed judgments;;</p> <p>(d) Give insurers the right to review the inspection findings prior to finalizing the final onsite supervision report.</p>
<b>10 – Preventive and Corrective Measures</b>	<p>(a) Introduce minimum statutory periods within which insurers must (i) restore their solvency and (ii) comply with data requests from the supervision, by specifying the cases when the data should be provided immediately;</p> <p>(b) Introduce requirements which allow the CBR to dismiss or replace insurer’s key personnel deemed unfit to discharge their duties.</p>
<b>11 – Enforcement</b>	<p>(a) Introduce a clear and transparent system of penalties which is commensurate with the severity of insurers’ infringements.</p>
<b>13 – Reinsurance and Other Forms of Risk Transfer</b>	<p>(a) Require insurers to develop annual reinsurance programs that would spell out details of reinsurances they plan to arrange for main lines of business, with specific emphasis placed on net retentions, limits and criteria for selecting reinsurers;</p> <p>(b) Introduce regulatory requirements regarding per-risk and aggregate net risk retentions relative to their net capacity with a special focus on the risk of natural disasters;</p> <p>(c) Develop supervisory expertise in the area of reinsurance and involve actuaries in supervision of reinsurance.</p> <p>(d) Instead of creating the NRC the CBR should consider an alternative market-based approach to securing additional reinsurance capacity, which may comprise a national special risks reinsurance pool (owned and managed by the industry)<sup>4</sup>.</p>
<b>14 – Valuation</b>	<p>(a) Introduce requirements on the risk-based actuarial assessments of insurance liabilities and ascertain their use in the calculation of insurers’ available solvency:</p> <ol style="list-style-type: none"> <li>i. requirements to actuarially assess IBNR reserves based on claims patterns and trends;</li> <li>ii. guidance on the use of specific actuarial methods;</li> <li>iii. requirements on the roles and responsibilities of responsible actuaries and the CBR’s actuaries in the process of supervisory monitoring of insurance reserves.</li> </ol> <p>(b) Require the use of actuarially set reserves for the purpose of solvency calculations;</p> <p>(c) Strengthen and consolidate the actuarial function in insurers and the CBR.</p>

<sup>4</sup> This recommendation on the NCR is beyond the ICP requirement and for that matter the scope of the ICP assessment and is provided on an exceptional basis only because of the systemic concern for the market.

<b>15 – Investment</b>	<ul style="list-style-type: none"> <li>(a) Develop a separate investment regulation for assets covering mathematical provisions (life insurance);</li> <li>(b) Develop regulatory requirements for the asset-liability matching to ascertain the ALM in long-term life insurance contracts.</li> </ul>
<b>16 – Enterprise Risk Management for Solvency Purposes</b>	<ul style="list-style-type: none"> <li>(a) Switch gradually to the risk- based supervisory approach (see recommendations in ICP2, ICP7, ICP9, ICP13, and ICP 17).</li> </ul>
<b>17 – Capital Adequacy</b>	<ul style="list-style-type: none"> <li>(a) Introduce requirements for risk-based actuarial assessments of insurance liabilities and ascertain their use in the calculation of insurers’ available solvency (see details in ICP 14).</li> <li>(b) Introduce a buffer on solvency ratio, which shall be used as a threshold to trigger early interventions.</li> <li>(c) The regulations should envisage serious sanctions (including criminal) against those shareholders who withdraw funds from an insurance entity w/o an explicit approval from the CBR or unless the funds are paid out in the form of an approved dividend (the maximum default amount of a dividend not requiring the CBR approval must be also defined by law/regulations).</li> </ul>
<b>18 – Intermediaries</b>	<ul style="list-style-type: none"> <li>(a) Ensure the registration of insurance agents in a central registry of intermediaries, subject to their professional certification (by insurers or SROs), which should be subject to a minimum qualification exam;</li> <li>(b) Introduce licensing requirement on brokers’ professional experience;</li> <li>(c) Consider introducing a requirement for brokers’ liability insurance;</li> <li>(d) Consider reducing or waiving the current VAT tax on brokerage commissions.</li> </ul>
<b>21 – Countering Fraud in Insurance</b>	<ul style="list-style-type: none"> <li>(a) Develop insurance-specific regulatory manuals for countering insurance fraud.</li> </ul>
<b>23 – Group-wide Supervision</b>	<ul style="list-style-type: none"> <li>(a) Establish a structured approach to group supervision in cooperation with other involved supervisors.</li> </ul>
<b>26 – Cross-border Cooperation and Coordination on Crisis Management</b>	<ul style="list-style-type: none"> <li>a) Develop a risk based approach to crisis management, which ensures early identification and cooperation;</li> <li>b) Establish public communication roles in the function of group-wide supervisor.</li> </ul>

## G. CBR'S RESPONSES TO THE ASSESSMENT

69. **The Bank of Russia wishes to express its appreciation to the IMF/WB assessment team for the dedication, time and resources committed to this assessment and for the constructive exchange of views for which the assessment has provided the opportunity.**

70. **The Bank of Russia broadly agrees with the findings of the report.** Regarding certain deficiencies in the area of risk-based approach to supervision, preventive and corrective measures, early warning system and corporate governance as well as valuation, investment and capital adequacy issues we would like to highlight – as it is also stated in the report – that there are ongoing legislative and regulatory projects that were initiated prior to the FSAP review which aim at reshaping the regulatory and supervisory architecture to be in line with the IAIS Insurance Core Principles and the best international practices in these areas.

71. **At the same time the Bank of Russia does not share the views expressed in the report on some of the points and strongly believes that the following warrant further clarification to reflect the supervision of the Russian insurance market appropriately.**

72. **Concerning the Mission comment on the CBR departments' little insurance expertise it should be noted that each on-site inspector during the inspection is in status of an authorized representative of the CBR, which determines his autonomy and independence (in its own estimates, judgments, conclusions).** Each member of onsite inspection team signs the final act. In case of attempt of any external influence inspectors have a wide range of instruments for counteraction to it (including forming the dissenting opinion, notification of corruption pressure, conflict of interest notification and so on). In 2014-2016 there were no cases of “external influence” on the content of final inspection reports/ inspectors' conclusions. Holding videoconferences is the only one of the types of training activities for onsite inspectors on the topic of insurance companies' inspecting, which allows sharing of best practices for a large amount of onsite inspectors spread geographically all over the country. In addition onsite inspectors participate in various training events organized by the CBR HR and Personnel Management Department on the basis of the country's leading universities.

73. **Regarding the Bank of Russia IT capabilities to automatically process the submitted information (Principle 9).** Whereas it is stated in the Mission Report that the CBR currently does not have one and the IMD staff must process it manually which is fraught with errors and delays, the CBR's IT system which conducts automatic analysis of the submitted information for supervisory needs, including calculation of early-warning indicators, has been recently implemented, the testing of this system is completed. Moreover it's already being used by curators of insurance companies. The system with all necessary calculations based on annual financial reporting which has been submitted by



the end of March, 2016 and opportunities of its demonstration were reported to the FSAP assessment team<sup>5</sup>

**Regarding Executive Summary points.**

74. **Regarding finalizing the content of inspection reports by the IMD team (point 35 of the Executive Summary).** Any “external influence” on the conclusions of onsite inspection team (by IMD or any other party) is not possible by the CBR regulations and is totally excepted in practice. Each on-site inspector during the inspection is in status of an authorized representative of the CBR, which determines his autonomy and independence (in its own estimates, judgments, conclusions). Each member of onsite inspection team signs the final act. In case of attempt of any external influence inspectors have a wide range of instruments for counteraction to it (including forming the dissenting opinion, notification of corruption pressure, conflict of interest notification and so on). In 2014-2016 there were no cases of “external influence” on the content of final inspection reports/ inspectors’ conclusions<sup>6</sup>.

75. **Regarding professionalism of onsite inspectors (point 36 of the Executive Summary).** It is necessary to mention that expertise of inspectors will continue to increase concurrently with growing professionalism in the insurance market by acquiring knowledge, best practices of inspections and their active dissemination by means of centralized training. This is proved by growing rates of competences of the Chief Inspection employers in the sphere of insurance market from the moment the mega-regulator was formed<sup>7</sup>.

76. **Regarding onsite supervision data requests (point 40 of the Executive Summary).** Inspectors set the deadline for request execution based on the volume of data requested and based on the principle of reasonable care. Unfair and nonprofessional players of the financial market may forge documents during the execution of data request with long execution time. In similar situations inspectors try to set the minimum execution time. Thus establishment of minimum statutory periods within which insurers should comply with data requests from onsite supervision is premature<sup>8</sup>.

**Regarding the Mission team recommendations to improve observance of the ICPs.**

77. **(c) to (d) points of the Principle 9 recommendations.**

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<sup>5</sup> The report mentions the development of the early warning indicators and the current limitations of the EWS.

<sup>6</sup> The interview with the on-site inspectors does not confirm this.

<sup>7</sup> The inspection of insurance companies requires specific insurance expertise relating to the technical aspects of insurance (mainly linked with insurance liabilities). The onsite supervision is focused on asset compliance (similar to bank supervision approach) – this was confirmed from the meetings and specific interviews with on-site inspectors.

<sup>8</sup> The CBR should set minimum standards by also providing for exceptional cases when the data should be provided immediately (in the cases when there are reasonable doubts about potential fraud). Professional insurers however should be inspected with a due notice as a matter of principle.

78. **On a notice of onsite inspection to insurers. In development of provisions of paragraphs 4.2 and 4.3 of the CBR Instruction № 151-I the Chief Inspection issued the Order of November 10th, 2014 № RU-25/167 which determines the mechanism of notification.** Notices of planned inspections (except inspections concerning only AML compliance) are sent to supervised entities not later than 10 working days prior to the beginning of inspection (except extraordinary cases when the Chief Inspection executives make motivated decision about inappropriateness of notification or changing of the mentioned period for notification)<sup>9</sup>.

79. **On providing insurers with a right to review the inspection findings.** During many onsite inspections the facts of possible unfair actions of financial market participants were discovered. In this case, discussion of inspection's findings during the final stage of inspection may lead to intended aggravation of insurer's financial statement and withdrawal of assets by their owners. Thus implementation of procedure of reviewing the inspection findings prior to finalizing the final onsite supervision report on a full-scale basis is premature. At the same time, according to the CBR Instruction № 151-I results of inspection may be discussed with the inspected entity at any time during the inspection. The Chief Inspection will implement this practice when risks and violations identified by inspection would not carry a fatal character and discussion of inspection findings would be constructive for perfection of internal control and risk management systems of supervised companies<sup>10</sup>.

#### **Points (a) of the Principle 10 recommendations.**

80. **On introduction of minimum statutory periods within which insurers must comply with onsite supervision data requests.** Inspectors set the deadline for request execution based on the volume of data requested and based on the principle of reasonable care. Unfair and nonprofessional players of the financial market may forge documents during the execution of data request with long execution time. In similar situations inspectors try to set the minimum execution time. Thus establishment of minimum statutory periods within which insurers should comply with data requests from onsite supervision is premature<sup>11</sup>.

81. **The Bank of Russia has already launched a process to systematically evaluate all IMF/WB recommendations with regard to insurance sector regulation and**

<sup>9</sup> The exceptional cases may need to be defined in the regulation with a view to avoiding a non-transparent approach to on-site inspection at large.

<sup>10</sup> The fact that insurance company shareholders are allowed to withdraw money from the company on a short notice is a major problem in its own right, which should be regulated by law and relevant insurance regulations. Such regulations should envisage serious sanctions (including criminal) against those shareholders who withdraw funds from an insurance entity w/o an explicit approval from the CBR or unless the funds are paid out in the form of an approved dividend (the maximum default amount of a dividend not requiring the CBR approval must be also defined by law/regulations). This however cannot be used as a justification for not providing insurers with a due notice with regard to onsite inspections.

<sup>11</sup> Setting the minimum period does not mean setting 'a long execution time'. We are asking about a minimum time, when talking about voluminous information. The CBR may determine cases when the information (not voluminous) should be provided.

**supervision in order to assess in detail how, within which timeframe and to what extent the recommendations can and should be implemented.**

### III. DETAILED ASSESSMENT OF THE ICPs

ICP/Std.	Description
<b>ICP 1</b>	<b>Objectives, Powers and Responsibilities of the Supervisor</b>
1	The authority (or authorities) responsible for insurance supervision and the objectives of insurance supervision are clearly defined.
Description	<p>In accordance with the Federal Law No 251-FZ of July 23, 2013 “On Amendments to Certain Legislative Acts of the Russian Federation in connection with the transfer to the Central Bank of the Russian Federation (CBR) the authority to regulate, control and supervise the financial markets” (herein after – CBL) that was put in force on September 1st, 2013, the Bank of Russia has become the single mega regulator for both credit and non-credit financial institutions. The specified law stipulated the amendments to the Russian legislation that enable the CBR to exercise regulatory, monitoring and oversight authority in the field of financial markets. In the case of insurance supervision, the CBR has fully assumed the functions of the national insurance supervisor from the now abolished Federal Financial Markets Service of Russia (FFMSR). With the transfer of insurance market oversight to the CBR the quality of insurance supervision has markedly improved. In only two years, the CBR has greatly contributed to the development of professional insurance market, strengthened its capital base, brought about noticeable improvements in the market conduct and facilitated the much needed consolidation of the industry by withdrawing licenses of almost 200 companies. The CBR insurance supervision practices receive strong support from the insurers which are highly appreciative of the CBR efforts to build a well-capitalized and professional insurance market in the Russian Federation.</p> <p>The primary legislation empowers the CBR to conduct the supervision of insurance activities in the Russian Federation. Specifically, Article 76.1 of the CBL and Paragraph 3 of Article 30 of the Insurance Law, define the CBR as the sole authority responsible for conducting insurance supervision in the Russian Federation.</p> <p>Main objectives of insurance supervision in the Russian Federation comprise: (a) promoting the stability, transparency and credibility of the insurance sector; (b) safeguarding consumers’ legitimate rights and investors’ interests; and (c) developing and strengthening insurance sector through (c) proper enforcement of laws and regulations. Such objectives are clearly stipulated in Article 30 of the Insurance Law and Paragraph 18.4 of Article 4 of CBL.</p> <p>To further support consumers and protect the interests of minority investors, the CBR has established a separate Department on Consumer</p>

<b>ICP/Std.</b>	<b>Description</b>
	<p>and Minority Shareholders' Protection based on the CBR Board of Directors' Decision No. 59-2014.</p> <p>The legislation defines the CBR's mandate with regard to insurance and further details its tasks and responsibilities comprising: (a) licensing of insurance organizations, (b) issuing insurance regulations, (c) conducting off-site and on-site supervision; (d) enforcing laws and regulation through corrective or punitive measures (see Paragraph 18.4, subparagraphs 7.1, 7.2, 7.3, 7.3.1 of Article 4 of the CBL).</p> <p>The CBR has the right to initiate proposals for changes in insurance legislation or amendments to the current laws in cooperation with the MoF. Its legislative proposals should be endorsed and submitted to the Parliament by either the Government or members of Parliament, with the CBR remaining actively involved throughout the entire cycle of the legislative process.</p> <p>Major reforms have been introduced that increase CBR duties and powers in many respects. The "mega-regulator" reform is seen as a major step forward, allowing the Bank of Russia to issue prudential and accounting standards for all entities and as a result to set a unified supervisory regime. It also provides the supervisor with a broader perspective on risks across the entire financial industry.</p> <p>However the CBR is yet to establish a fully consolidated insurance supervision framework, which would effectively integrate all core insurance supervision functions dispersed around various CBR departments (see ICP 2).</p>
Assessment	OBSERVED
Comment	<p>The main legislation defines CBR as the sole insurance supervisor and clearly specifies its insurance supervisory objectives. The CBR responsibilities and powers to discharge insurance regulatory and supervisory functions are supported by its (a) right to initiate proposals for changes in insurance legislation; (b) a clear legal mandate to draft and issue secondary insurance regulation; and (c) institutional independence and financial capacity required to effectively conduct the regulation of insurance market.</p> <p>With the transfer of insurance market oversight to the CBR the quality of insurance supervision has markedly improved. In only two years, the CBR has greatly contributed to the development of professional insurance market, strengthened its capital base, brought about noticeable improvements in the market conduct and facilitated the much needed consolidation of the industry by withdrawing licenses of almost 200 companies. The CBR insurance supervision practices receive strong</p>

ICP/Std.	Description
	support from the insurers which are highly appreciative of the CBR efforts to build a well-capitalized and professional insurance market.
<b>ICP 2</b>	<b>Supervisor</b>
2	<p>The supervisor, in the exercise of its functions and powers:</p> <ul style="list-style-type: none"> <li>• is operationally independent, accountable and transparent;</li> <li>• protects confidential information;</li> <li>• has appropriate legal protection;</li> <li>• has adequate resources;</li> <li>• meets high professional standards.</li> </ul>
Description	<p>- <i>Operational independence, accountability, transparency</i></p> <p>The CBR independence is formally stipulated under the CBL (Article 1), which states that the “the status, purposes, functions and powers” of the Central Bank of the Russian Federation (CBR) are as set out in the Constitution of the Russian Federation. More particularly, the CBR is to fulfill its functions and exercise its powers “independently from other federal bodies of state power, the bodies of state power of the constituent entities of the Russian Federation and bodies of local government.”</p> <p>The CBR’s accountability is to the State Duma of the Federal Council of the Russian Federation (Article 5, CBL). Moreover, the State Duma has the power to appoint and dismiss the CBR Chairman, on the proposal of the President of the Russian Federation as well as to appoint and dismiss the members of the Board of Directors – at the proposal of the CBR Chairman. (Articles 5 and 15 CBL). The State Duma can also take decisions on audit inspections of the CBR, by the Audit Chamber of the Russian Federation, and can conduct parliamentary hearings on the CBR’s activities. The CBR must supply information to the State Duma and President of the Russian Federation according to the procedures established in the federal law.</p> <p>The CBR has two governing bodies established by the CBL (Chapter III): the Board of Directors of the CBR (executive members) and the National Financial Board (NFB) of the CBR (non-executive members). The NFB was formerly titled the “National Bank Council” until the legislative amendments of 2013. The CBL (Chapter III) sets out the composition and powers of the governing bodies of the CBR.</p> <p>As an overarching point, the CBR is required (CBL, Article 41) to articulate and enact policies to avoid conflicts of interest when performing its legal functions.</p> <p>The process for the appointment and dismissal of the Chairman of the CBR, members of the Board of Directors and the NFB is reflected in Articles 14, 15 and 12 respectively of the CBL.</p>

ICP/Std.	Description
	<p>The Chairman of the CBR is appointed by the State Duma for a 5 year term, with a maximum of 3 consecutive terms, and may be dismissed only for reasons laid out in the law (CBL, Article 15), including expiry of term, resignation, medical condition preventing exercise of duty, violation of the law, including failures in relation to managing conflicts of interest appropriately. The dismissal may only be carried out by the State Duma on the proposal of the President of the Russian Federation. The law does not state that the reasons for the dismissal must be made public. (Article 14, CBL) The decision of the Duma is public, but the published decision will not necessarily be detailed. There are no obligations to disclose the reason for removal.</p> <p>The Board of Directors of the CBR is composed of the CBR Chairman and 14 executive members whose term of appointment is 5 years. Appointments are made to the Board of Directors by the State Duma at the proposal of the chairman and with the agreement of the President of the Russian Federation. Dismissal of a member of the Board, other than for expiry of term, is by the State Duma at the proposal of the Chairman of the CBR. The reasons for which a proposal for dismissal may be made are not specified with the exception of a failure in relation to managing conflicts of interest. (Article 15, CBL).</p> <p>The NFB is composed of 12 members. One is the CBR Chairman, two are delegated by the Federal Council of the Federal Assembly of the Russian Federation, three are delegated by the State Duma, three by the Russian Federation President and three by the Russian Federation Government. The members of the NFB may only be dismissed or recalled by the body responsible for appointing them. Reasons for a recall are not specified in the law. The Chairman of the NFB is elected by the members of the NFB on a majority vote. The decisions of the NFB are made on the basis of a simple majority, with a quorum of seven members. Only the Chairman of the CBR may work for the CBR on a full-time basis and is the only member to be remunerated. (Article 12, CBL).</p> <p>The CBL (Article 5) sets out the manner in which the CBR is accountable to the State Duma. This includes appointment of the Chairman, Board of Directors, delegates to the NFB, consideration of the CBR's annual reports (and decisions made on the basis of such reports). The Duma can hold hearings and hear reports by the CBR Chairman on the CBR's activities.</p> <p>The CBR safeguards the transparency and accountability of its operations through the implementation of control systems comprising both internal and external audit functions which are defined through the</p>

ICP/Std.	Description
	<p>main legislation (Articles 25, 95 of the CBL), and additional CBR Order No. 02-140 dated 31 March 1997.</p> <p>The legislation defines the CBR as an independent authority specialized in financial supervision, implying that the Board and its administrative staff must be free from interference in the performance of supervisory responsibilities (see Article 4.1, 19, 20). To this effect, the CBL specifically requires the CBR to implement policies leading to prevention, detection and effective management of conflict of interest in accordance with legal provisions of the CBL.</p> <p>The CBR has issued an Ordinance (3414-U) which contains rules on how to avoid conflicts of interests and sanctions for their violation. Supervisors participating in on-site reviews must disclose relevant personal information to avoid conflicts of interest, or be disbarred from the review (see Instruction 149-I).</p> <p>There are numerous internal regulations on proper usage of information obtained through work, such as the Regulation 235-P that, among other issues, sets a list of employees who after resignation are prohibited to disclose and use the information they received while servicing in the Bank of Russia. Furthermore, employees are prohibited from disclosure of information obtained through work without approval of the Bank of Russia Board of Directors (CBL Article 92). In practical terms the CBR has not had experience of breaches of confidentiality.</p> <p>The CBR funds its expenses from its own revenues, as prescribed by law, but the law does not prescribe how budgeting and resource allocation should be decided within this parameter (CBL, Art 2). The CBR and the state are, on a reciprocal basis, not responsible for the liabilities of the other unless a specific agreement and obligation has been entered into. The purpose of the CBR is not to generate profit (Art 3). The CBR must submit its budget to the Board and to the NFB. The CBR does not, therefore have a direct control over the allocation of its funds to its departments. The CBR has control over the disposition of its net revenues. Additionally, the compensation of the Governor and Deputy Governors must be disclosed.</p> <p>The CBR introduces new secondary regulations or amendments to the existing ones on a regular basis. While the drafts prepared by the CBR are shared with the industry and further posted on the website for public comments prior to their approval, the minimum time allocated for comments from the insurance industry and consumers in general is not defined in the CBR's regulations or guidelines.</p> <p>Based on the legislation, the CBR must respond in writing to any request made by financial organizations with regard to activities falling under its supervision within one month from receiving such a request.</p>



ICP/Std.	Description
	<p>The CBR publishes useful information on its official website comprising legal and regulatory information, statistical and financial data with regard to the insurance market and supervised entities, informative letters and messages addressed to the public and press releases on the CBR activities. In addition, the CBR publishes relevant information relating to measures and sanctions imposed on supervised entities, including those related to the appointment of the transitional administration and suspension or limitation of insurance licenses. Relevant analytical information and background materials are also made available to insurance consumers and minority shareholders.</p> <p>While the recruitment and treatment of the CBR management and staff should follow the provisions of the Labor Code, the CBL (Chapter XIV Article 88) further empowers the Board of Directors with the right to determine additional criteria on the employment, dismissal, remuneration of the CBR staff as well as official rights and obligations, ethical rules and penalties arising from the employment contracts with the CBR. The CBR's capacity to independently determine a wide range of employment criteria, enables the institution to hire, train and maintain qualified insurance supervision experts.</p> <p>There are no special provisions in Russian law regarding protection of the CBR and its staff against lawsuits for actions taken and/or omissions made while discharging their duties in good faith. It is less likely that a suit would be brought against a specific individual. In principle, however, an aggrieved party is able bring a lawsuit for gross negligence against an individual employee of the CBR. The CBR explained that in such circumstances it would enter the legal proceedings on the side of the employee and ask the court to exclude the employee from the defendants. The legal fees can be borne by the CBR based on approval by the Board. No case of such a suit has ever arisen.</p> <p>In the case of criminal proceedings, an aggrieved party can bring a criminal lawsuit against an employee of the CBR in respect of a criminal act perpetrated against the bank (e.g. bribery, corruption, theft). The order and basis for filing such a claim are stated in the Criminal Procedure Code of the Russian Federation (Articles 140 and 141). There is neither obligation nor prohibition on the CBR to cover the legal fees of its employee in such circumstances and it would be a Board decision to bear the legal costs (if, for example, the CBR believed the case to be frivolous or an attempt to intimidate the CBR or a staff member).</p> <p>The Insurance Law, Article 30.4 specifies the following key insurance supervisory functions:</p> <ul style="list-style-type: none"> <li>(a) licensing insurance organizations and maintaining the state registry of licensed entities and relevant associations;</li> <li>(b) monitoring the compliance of insurance organizations with the regulatory framework by the means of: off-site monitoring of</li> </ul>

ICP/Std.	Description
	<p>solvency, financial stability and other key performance indicators an on-site inspections of insurance operations;</p> <p>(c) enforcing laws and regulations through corrective or punitive measures, including the appointment of provisional administration, limitation suspension or withdrawal of insurance licenses.</p> <p>While the rule-based approach may be effective for emerging insurance markets, the IAIS ICPs have been designed with a view to evaluating country insurance supervisory regimes against sound risk-based principles, standards and practices adopted in most advanced market economies.</p> <p>Such standards invariably put a major emphasis on effective corporate governance and risk management capabilities of the insurance market, which is required to understand, identify, measure and manage its core risks in line with the IAIS ICPs. The role of insurance supervisor in this case is to ensure that insurers are broadly in line with the IAIS standards and have adequate management information and risk administration systems in place to demonstrate the compliance.</p> <p>In the case of Russia, insurance supervision is norm-based. Its primary concern is to ensure that insurers fully comply with core regulatory norms fixed by the law in the following four areas of insurance operations: (a) solvency (capital adequacy); (b) insurance reserves; (c) assets covering own funds; and (d) assets covering reserves. The objective of off-site and onsite supervision is restricted to ensuring compliance of insurers with these four regulatory norms. In this context, the resources of the insurance supervisor are by and large dedicated towards meeting this objective. As a result, the CBR's compliance with the ICPs is impaired by the fundamental difference that exists between these two distinctly different models of insurance supervision.</p> <p>One of the most profound implications of the rules-based insurance supervision is a likely underestimation of the sector's solvency. Even though, the CBR requires insurers to submit actuarial assessments of reserves as part of their regular reporting, such estimates play no role in determining companies' legal compliance with the insurance solvency requirement, which instead relies on a normative formula-driven assessment universally applied to all lines of insurance business regardless of insurers' size and claims performance record. Such an approach may materially underestimate the real solvency of the sector. As of 2017, with the introduction of IFRS reporting standards companies will be required to present actuarial assessments of their reserves on their solvency reporting forms. However, it is still unclear whether these risk-based assessments of insurance liabilities will be fully reflected in the calculation of insurers' solvency ratio due to the lack of appropriate legislation.</p>

ICP/Std.	Description
	<p>Several departments of CBR are responsible for insurance supervision. Departments involved in supervision include: (i) Financial Market Access Department (in charge of licensing), (ii) Chief Inspection (in charge of onsite inspections for all financial institutions, including banks), (iii) Department for Protection of Financial Services Consumers (in charge of consumer protection), (iv) Department of Non-bank Financial Institutions' Statements Collection and Processing Department (in charge of data collection), (v) Financial Monitoring and Foreign Exchange Control (in charge of anti-money laundering), (vi) Department for Countering Malpractice in the Open Market (dealing with securities fraud), (vii) Department of Collective Investment and Trust Management (in charge of supervising operations of non-state pension funds and specialized depositories), and (viii) Insurance Market Department (IMD) in charge of off-site monitoring of insurance market. The later acts as the core insurance supervision department which performs the overall market monitoring and coordinating role on all insurance supervision matters in cooperation with other CBR departments.</p> <p>The IMD currently employs 90 staff including 47 insurance experts and 32 curators responsible for the off-site monitoring of insurance companies. The IMD staff demonstrates professional background in insurance acquired through either several years of work in insurance regulatory bodies, the insurance industry or insurance service companies (e.g. rating agencies or auditors). The IMD conducts its operations through its Headquarters in Moscow and three regional branches. The staff of the IMD displays a high level of technical competence. However, the current organizational setup of insurance supervision does not fully provide for the efficient use of this expertise. Although the CBR has developed an electronic system for insurance supervisory filing, there are no sufficient IT capabilities to process the submitted information for supervisory monitoring and review purposes. The current manual approach to data processing may lead to significant delays and errors, adversely affecting the overall quality of supervision. To this effect, the off-site monitoring capabilities are yet to be fully developed to provide for (a) transparent, quick and reliable data processing; (b) automated calculation of insurers' key ratios; (c) insurers' risk monitoring based on clearly defined and transparent thresholds for the key risk indicators; and (d) the overall risk scoring that properly accounts for the core risk factors.</p> <p>The level of insurance-specific expertise is yet to be achieved in other units carrying out core insurance supervision functions as a part of their broader terms of reference covering also other segments of the financial sector. While the dispersion of insurance supervisory functions among numerous departments with various reporting lines carries certain advantages (such as a reduced potential for the conflict of interest), it also has major drawbacks. These include the (a) potential for insufficient coordination among different departments, (b) shortage of necessary insurance expertise within departments universally dealing with a wide range of financial services, and (c) impaired ability of the regulator as a</p>

ICP/Std.	Description
	<p>whole to systematically detect problems with compliance in such a technically complex industry as insurance at an early stage.</p> <p>Due to the rule-based approach to supervision and specific market conditions, the onsite inspections have been mainly focused on conducting targeted audits of insurance companies suspected in gross violations of insurance legislation and market conduct rules. To carry out these audits, the onsite inspection teams did not necessarily have to possess insurance-specific expertise which is a pre-requisite for the risk-based inspection of the core areas of insurers' operations such as underwriting, claims, technical reserves and reinsurance contracts. However, in the future the limited insurance expertise, for conducting highly specialized insurance onsite inspections may restrict the CBR's ability to carry out risk-based supervision and form a holistic opinion of the state of the insurance market. Although the CBR organizes web-seminars, such trainings are not sufficient to provide the inspectors with relevant professional education required for the onsite supervision of core areas of insurers' operations. In the past two years, such an approach has been effective in ridding the market of numerous unprofessional players. However, the ongoing consolidation of the industry accompanied by the growing professionalization of insurance companies, along with a strategic course taken by CBR toward risk-based supervision, dictate a new operational approach to the onsite supervision, which would require strengthening technical capabilities and insurance qualifications of the inspection's staff, as well as a closer coordination with the off-site monitoring.</p> <p>Similarly, the Licensing Department, which currently issues licenses to all financial sector entities, does not have the requisite professional expertise to assess the technical credibility of applications for insurance licenses, basing licensing decisions instead on the applicant's ability to meet minimum capital requirements and educational qualifications for senior management required by the Insurance Law. With the planned introduction of business strategies and financial projections as a part of licensing requirements, the Insurance Market Department should assume the responsibility for their clearance.</p> <p>The actuarial supervisory function has already been established within the CBR. However the actuarial roles and responsibilities are yet to be expanded and integrated within the core off-site and onsite supervisory functions. To increase the effectiveness of the actuarial function, the CBR should explore the possibility of making actuaries part of the IMD.</p>
Assessment	PARTLY OBSERVED
Comment	The governance structure of the CBR as a mega supervisor is clearly defined in the law, including the internal audit arrangements. However,

ICP/Std.	Description
	<p>the current rule - based regulatory requirements are not sufficiently appropriate for the objectives they are intended to meet. Given the specifics and complexity of insurance supervision, the effective communication and prompt escalation of significant issues requires adequate level of expertise and effective management systems.</p> <ul style="list-style-type: none"> <li>- The current approach of dispersing the core supervisory functions among several CBR departments with limited insurance expertise and various reporting lines has major drawbacks including (a) the potential for insufficient coordination among different departments, and (b) impaired ability of the regulator as a whole to systematically get early warnings and detect problems with compliance in such a technically complex industry as insurance.</li> <li>- Although the CBR has developed an electronic system for insurance supervisory filing, there are no sufficient IT capabilities to process the submitted information for supervisory monitoring and review purposes. The current manual approach to data processing may lead to significant delays and errors, adversely affecting the overall quality of supervision. To this effect, the off-site monitoring capabilities are yet to be fully developed to provide for (a) transparent, quick and reliable data processing; (b) automated calculation of insurers' key ratios; (c) insurers' risk monitoring based on clearly defined and transparent thresholds for the key risk indicators; and (d) the overall risk scoring that properly accounts for the core risk factors.</li> </ul> <p>There are no special provisions regarding protection of the CBR and its staff against lawsuits for actions taken and/or omissions made while discharging their duties in good faith. While it is less likely that a suit would be brought against a specific individual, in principle, an aggrieved party is able to bring a lawsuit for gross negligence against an individual employee of the CBR.</p> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>(a) Build adequate insurance supervision expertise in auxiliary CBR units (other than IMD) involved in licensing and onsite insurance supervision functions;</li> <li>(b) Increase the effectiveness, transparency and coordination of insurance processes carried by different CBR units through a proper management information system in place backed by IT functionalities with a view to ensuring timely action;</li> <li>(c) Introduce legal provisions regarding protection of the CBR and its staff against lawsuits for actions taken and/or omissions made while discharging their duties in good faith.</li> </ul>

ICP/Std.	Description
<b>ICP 3</b>	<b>Information Exchange and Confidentiality Requirements</b>
3	The supervisor exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose and use requirements.
Description	<p>The current legal and regulatory framework (Article 51.1 of the CBL) allows the CBR to obtain and share information with other financial supervisors and authorities based on mutual or multilateral agreements and subject to confidentiality, purpose and use requirements. The CBR is entitled to request information and (or) documents, which may be confidential and comprise data which constitute bank secrecy.</p> <p>The CBR shall provide confidential information to a foreign financial supervisor subject to ascertaining that such information (a) is handled confidentially by the requesting party at least at the same level of confidentiality as required by the legislation in the Russian Federation, and (b) is not disclosed to any third parties, including law-enforcement agencies, without prior written consent from the CBR, except for cases when such a confidential information is legally requested based on court judgments related to criminal proceedings.</p> <p>The request should be in writing and describe in details the information sought by also indicating the urgency of the request and the expected timelines for the response. The CBR shall, by all reasonable means provide the information within the deadline specified in the request subject to provisions of the CBL which stipulates that the CBR Board convenes at least once a month.</p> <p>Confidential information received from a foreign financial regulator may be provided to third parties only upon the foreign regulator's consent, except for cases when there is a request grounded in a specific court judgment related to criminal proceedings. Where the CBR is legally compelled to disclose confidential information it has received from another supervisor, it shall promptly notify the originating supervisor and seek consent for its release before complying with the court's request. The confidential information cannot be passed by the court to any third parties. The CBR is not obliged to provide confidential information received from a foreign financial regulator to the administrative courts, arbitration courts, the Prosecutor's Office or the Ministry of Interiors, as was the case with the former Federal Financial Markets Service.</p> <p>The CBR has signed MoUs with insurance regulators from various jurisdictions (see ICP 25). Most close cooperation links are established with supervisory authorities of the CIS countries and especially the Eurasian Economic Union – Belarus, Kazakhstan and Kyrgyzstan. There have been no CBR inspections abroad so far. The cooperation relating to the group supervision has been limited to a single participation in the supervisory college of an international group.</p>

<b>ICP/Std.</b>	<b>Description</b>
Assessment	OBSERVED
Comment	<p>The current legal and regulatory framework allows the CBR to obtain and share information with other financial supervisors of other jurisdictions based on mutual or multilateral agreements and subject to confidentiality, purpose of use and data protection requirements, which are in line with this ICP requirements.</p> <p>Based on the legislation, the CBR should assess each request for information from another supervisor on a timely and comprehensive manner. There are no strict reciprocity requirements in terms of the level, format and detailed characteristics of the information that can be exchanged.</p> <p>Where the CBR is legally compelled to disclose confidential information it has received from another supervisor, it shall promptly notify the originating supervisor and seek consent for its release before complying with the court's request. Adequate information sharing arrangements are also in place with all relevant domestic authorities.</p> <p>In practice, the group-wide supervision has been limited to one participation in a supervisory college of an international group.</p>
<b>ICP 4</b>	<b>Licensing</b>
4	A legal entity which intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective and public, and be consistently applied.
Description	<p><i>Licensing authorization</i></p> <p>Legal entities which intend to engage in insurance activities in the Russian Federation must be licensed by the CBR before they can start their insurance operations. Non-admitted insurance is not permitted as the law states that insurance must be purchased from locally authorized insurers. An insurer can be established in the form of a joint stock, limited liability or mutual company.</p> <p>The legislation sets out requirements and procedures with regards to licensing of insurance activities (Articles 25 &amp; 32 of the Insurance Law) which provide an equal footing for every applicant with no exceptions. To protect interests of policyholders, the Insurance Law specifies the following:</p> <ul style="list-style-type: none"> <li>(a) Defines regulated insurance activities which are subject to licensing;</li> <li>(b) Prohibits unauthorised insurance activities;</li> </ul>

ICP/Std.	Description
	<p>(c) Sets out the procedure and form of establishment by which foreign insurers are allowed to conduct insurance activities in the Russian Federation.</p> <p>Insurance companies carry out insurance activities only for the types of insurance that are specified in the license. The insurance license shall be unlimited in time and not transferable. The Law defines separate licenses and licensing requirements for (a) insurance, (b) reinsurance, (c) mutual insurance and (d) insurance brokerage activities.</p> <p>Insurance Law sets requirements for (a) participation of foreign shareholders in the statutory capital of local insurance companies (b) opening of representative offices of foreign insurance, reinsurance, brokerage and other types of insurance organizations as well as (c) opening branch offices of foreign insurers in the Russian Federation subject to maximum shareholding restrictions. The consent of home supervisor is sought as a pre-requisite for licensing the branches of foreign insurers which are also required to have at least five years of operational experience in their home country.</p> <p>Based on the Insurance Law (paragraph 12 of Article Art. 32) the CBR takes the decision to grant the license or reject the license application within thirty working days from receiving of the application and duly informs the applicant within five working days from the decision date. Refusal of the license should be communicated to the company in writing and the decision must be grounded based on Articles 32.1 and 32.3 of the Insurance Law.</p> <p><i>Financial requirements</i></p> <p>Insurance Law provides that the CBR shall not license any applicant unless it satisfies the paid up minimum capital requirements (Article 25, paragraph 3) which depend on the scope of the license as follows:</p> <ul style="list-style-type: none"> <li>(a) Health insurance: RUB 60 mm;</li> <li>(b) Non-life insurance: RUB 120 mm;</li> <li>(c) Life insurance: RUB 240 mm;</li> <li>(d) Accident and health insurance: RUB 240 mm;</li> <li>(e) Reinsurance: RUB 480 mm.</li> </ul> <p><i>Fit and proper and other criteria</i></p> <p>Additional licensing requirements consist of criteria applying to the shareholders, supervisory board, executive management, accounting, internal audit and actuarial functions.</p>



<b>ICP/Std.</b>	<b>Description</b>
	<p>(a) The applicant should provide information on shareholders holding 10 percent or more of the shares of the prospective insurer together with relevant information on the source of funds.</p> <p>(b) The suitability criteria for the Board of Directors, executive management and some control functions are explained in ICP 5.</p> <p>(c) The applicant is not required to provide information on the risk control systems including reinsurance, underwriting, claims, investments, management information, outsourcing arrangements and other functions as may apply. There are no regulatory requirements for the applicant to submit a business plan that would detail out products, their distribution channels, projected business volumes and financial projections that reflect the expected risk profile of the business. However, once insurer receives the license, it should submit relevant information on insurance products, including terms and conditions and tariffs for all classes of business specified by the license. The draft legal amendments requiring applicants to submit a business plan as a part of their insurance licensing application, have already been prepared and are in the process of approval.</p> <p>The insurance licensing process is administered by the Financial Market Access Department, which does not have the requisite professional expertise to assess the technical credibility of applications for insurance licenses. The licensing decisions are based on the applicant's ability to meet minimum capital requirements and educational qualifications for senior management as required by the Insurance Law. With the planned introduction of business plans and financial projections as part of licensing requirements, the IMD should assume the responsibility for their clearance.</p>
Assessment	PARTLY OBSERVED
Comment	<p>Legal entities which intend to engage in insurance activities in the Russian Federation must be licensed by the CBR before they can start their insurance operations. The legislation sets out requirements and procedures with regards to the licensing of insurance activities, including criteria for (a) participation of foreign shareholders in the statutory capital of local insurance companies and (b) opening branch offices of foreign insurers in the Russian Federation.</p> <p>The licensing decisions are based on the applicant's ability to meet minimum capital requirements as well as limited fit and proper criteria for the supervisory boards and professional criteria for senior</p>

ICP/Std.	Description
	<p>management including executive management, accounting, internal audit and actuarial functions.</p> <p>The applicant is not required to provide information on its governance and risk control systems including reinsurance, underwriting, claims, investments, management information, outsourcing arrangements and other functions as may apply. There are no regulatory requirements for the applicant to submit a business plan describing products, distribution channels, projected business volumes and financial projections that reflect the projected risk profile of the business. The legislation requires the CBR to assess applications, make decisions and inform applicants based on clearly set legal requirements. The consent of home supervisor is sought as a pre-requisite for licensing of the branches of foreign insurers.</p> <p>Although the current function of licensing department does not require insurance specific expertise, with the planned introduction of new licensing requirements involving business plans and financial projections, the IMD should assume the responsibility for clearing the license applications.</p> <p><b>Recommendations:</b></p> <p>(a) Introduce requirements for information on governance and risk control systems a business plan and financial projections as a pre-requisite for licensing and empower the IMD to carry out their clearance;</p> <p>(b) Introduce suitability criteria as per recommendations of ICP 5 as pre-requisite for the licensing of the insurance company.</p>
<b>ICP 5</b>	<b>Suitability of Persons</b>
5	The supervisor requires Board Members, Senior Management, and Key Persons in Control Functions and Significant Owners of an insurer to be and remain suitable to fulfil their respective roles.
Description	<p>The Insurance Law defines requirements for significant shareholders, board members, senior management and key persons in control functions as follows:</p> <p>(a) Shareholders with direct or indirect significant participation (10% or more shares) are only required to prove that their capital was obtained by legal means. The current legislation does not require the CBR's prior approval in cases of transfers of a significant block of shares to other parties.</p>

ICP/Std.	Description
	<p>(b) The Board of Directors (Supervisory Board) should comply only with minimum suitability criteria which do not require expertise or experience relating to the Board functions.</p> <p>(c) Executive directors and heads of the executive management boards should meet minimum criteria on integrity, education and two-year managerial experience in insurance or financial sector.</p> <p>(d) Chief accountants of insurance, reinsurance, mutual and insurance brokerage organizations should comply with integrity, education and professional criteria which include a two-year experience (Law No. 402-FZ "On financial accounting").</p> <p>Internal audit personnel and actuaries should also comply with additional integrity and conflict of interest requirements.</p> <p>(e) Internal audit function should comply with education criteria, and at least two years of experience in insurance, reinsurance, financial or auditing organization, including bodies of the state financial control of the Russian Federation.</p> <p>(f) Federal Law No. 293-FZ "On Actuarial Activity" requires actuaries to have (a) higher mathematical (technical) or economic education valid in the Russian Federation; (b) clean criminal record; and (c) membership in a professional organization. More stringent professional criteria apply to responsible actuaries who must be certified by an actuarial association, have at least three years of actuarial experience over the last five years; and comply with additional professional qualification requirements established by authorized bodies.</p> <p>Based on the Insurance Law, the CBR should be notified by insurers of any changes in board members, executive management, internal audit and significant owners within ten working days from the date when such changes are made (Insurance Law, Article 32.1, paragraph 12).</p> <p>The CBR has no right to dismiss or replace the senior management of insurance companies in case of legal violations.</p> <p>The CBR has the mandate to exchange information with the home supervisors of foreign insurers operating in the Russian Federation (through local subsidiaries) to confirm the suitability of Board members, senior management, key persons in control functions and significant owners of an insurer (Article 32.6 of the Insurance Law).</p>
Assessment	PARTLY OBSERVED
Comment	The legislation sets minimum suitability criteria for insurer's significant shareholders and supervisory boards, which are not sufficient to meet the

<b>ICP/Std.</b>	<b>Description</b>
	<p>requirements related to reputation, competence and capability. There are fit and proper requirements on some core functions comprising (a) executive management, (b) accounting, (c) internal audit, and (d) actuaries. However, the regulation is yet to cover suitability criteria for key persons exercising core risk management and technical functions including (a) underwriting, (b) claims, and (c) reinsurance.</p> <p>The CBR is notified by insurers of any changes in board members, executive management, internal audit and significant owners. However, the CBR does not have the authority to dismiss senior management in case of misconduct or failure to comply with regulatory requirements.</p> <p>The CBR exchanges information with other authorities where necessary to check the suitability of board members, senior management, key persons in control functions and significant owners in line with legal requirements.</p> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>(a) Introduce criteria for significant shareholders which require information on their ownership's structure, financial position and business reputation;</li> <li>(b) Introduce integrity, reputation and professional criteria for Board members;</li> <li>(c) Introduce professional criteria for core technical and risk management functions including underwriting, claims and reinsurance;</li> <li>(d) Introduce legal requirements which would allow the CBR to dismiss senior managers in case of misconduct.</li> </ul>
<b>ICP 6</b>	<b>Changes in Control and Portfolio Transfers</b>
6	Supervisory approval is required for proposals to acquire significant ownership or an interest in an insurer that results in that person (legal or natural), directly or indirectly, alone or with an associate, exercising control over the insurer. The same applies to portfolio transfers or mergers of insurers.
Description	The CBR has the right to request information on significant ownership in an insurance company (10 percent or more), or (ii) an interest that results directly or indirectly in controlling powers over the insurer. However, the acquisitions or changes in control of the insurer do not require prior regulatory approval. To this effect, those seeking control in insurance companies do not meet the same criteria as they would be

ICP/Std.	Description
	<p>required to meet had they sought a new licence. As the result, their ownership may be unduly prejudicial to policyholders.</p> <p>The CBR approves increases in authorized capital from foreign investors and (or) their subsidiaries in line with legal provisions, as well share transfers from foreign to local investors. In such cases, the CBR has the right to exchange information with home supervisors of foreign entities (see ICP 3).</p> <p>The CBR plans to introduce legal amendments which require prior regulatory approval on changes in ownership's structure based on the financial position and business reputation of potential buyers.</p> <p>The re-organization of an insurance company (e.g. the change of a mutual company to a stock company, or vice versa), is subject to regulatory approval of the respective licensing application upon compliance with the licensing requirements pertaining to the respective organization type. Based on the Insurance Law (Article 32), the CBR should decide on the replacement of the license within 10 days from receiving the application.</p> <p>Portfolio transfers are done either on a mandatory or voluntary basis and the legislation requires the CBR to approve each portfolio transfer in line with the interest of insured persons and creditors. To this effect, a transfer of an insurance portfolio is subject to the CBR prior approval (Article 26.1 of Insurance Law) and Article 184.9 of the Federal Act No. 127-FZ "On Insolvency (bankruptcy)" which applies to cases of insurance portfolio transfers.</p> <p>In order for the CBR to decide on the portfolio transfer, it should assess the financial position of the transferee and the transferor, including the adequacy of reserves and assets that accompany the insurance portfolio to be transferred. However, the legislation does not specifically require the opinion on the transaction from a qualified actuary, who should identify the effects and opine on the fairness of the transaction to the policyholders. The regulation needs to specify the scope and content of the actuarial opinion by particularly addressing the overall assessment of the effect of the transaction on policyholders and whether the transaction can be deemed equitable.</p> <p>There are clear legal criteria on the public disclosure of portfolio transfers by the transferor and transferee (See ICP 20)</p>
Assessment	PARTLY OBSERVED
Comment	The CBR has the right to receive information on significant ownership. However changes in control of the insurer do not require prior regulatory approval. To this effect, those seeking control do not meet the same

ICP/Std.	Description
	<p>criteria that they would be required to meet if they sought a new licence and their ownership may be unduly prejudicial to policyholders.</p> <p>In order for the CBR to decide on the portfolio transfer, it should assess the financial position of the transferee and the transferor, including the adequacy of reserves and assets that accompany the insurance portfolio to be transferred. The legislation does not specifically require a favourable opinion on the transaction from a qualified actuary, which would lead to an informed decision on the financial position of the transferee and the transferor as required by this ICP.</p> <p>The CBR approves increases in authorized capital from foreign investors and (or) their subsidiaries and share transfers from foreign to local investors. In such cases, the CBR has the right to coordinate and exchange information with other supervisors.</p> <p>The change of a mutual company to a stock company, or vice versa, is subject to the CBR's approval.</p> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>(a) Require the CBR's prior approval over changes in insurer's control;</li> <li>(b) Apply requirements to new controlling shareholders that are equal to those applied to initial shareholders;</li> <li>(c) Require a qualified actuary's opinion prior the approval of portfolio transfer.</li> </ul>
<b>ICP 7</b>	<b>Corporate Governance</b>
7	<p>The supervisor requires insurers to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer's business and adequately recognises and protects the interests of policyholders.</p>
Description	<p><i>Status of the requirements</i></p> <p>The current legislation has generic provisions corporate governance, which apply only at the individual insurer level. Insurance Law (article 28.1) requires insurers to establish internal control systems that ensure effectiveness and efficiency of insurance operations through:</p> <ul style="list-style-type: none"> <li>(a) asset management policies relating to investment of own funds and assets covering technical provisions and other liabilities;</li> <li>(b) risk management systems ensuring levels of risk commensurate with company's capacity;</li> <li>(c) fair and objective accounting and financial reporting;</li> </ul>

ICP/Std.	Description
	<p>(d) compliance with ethical and professional norms and principles ; and  (e) systems for detecting criminal activities including anti-money laundering and counter-terrorism financing.</p> <p><i>Remuneration</i></p> <p>There are no specific requirements for remuneration policies and practices covering Board members, Senior Management, Key Persons in Control Functions and other employees whose actions may have a material impact on the risk exposure at the insurer and group level.</p> <p><i>Reliable financial reporting</i></p> <p>Legislation sets financial reporting criteria and defines the role of responsible actuaries in validating technical reserves and asset-liability matching as integral part of insurer’s financial reporting. However, financial reporting and calculation of technical reserves are yet to be brought in line with the IFRS rules and actuarial standards. Although Article 29 of the Insurance Law requires insurers to have financial accounts audited and made available to public, no specific selection criteria or prior regulatory approval requirements apply to external auditors.</p> <p><i>Key positions</i></p> <p>Based on Article 28.2 of Insurance Law, persons in charge of the internal audit function are accountable to the Board of Directors and cannot exercise other functions or tasks in the company.</p> <p>Legislation on commercial companies defines general roles and responsibilities of the Board of Directors and Executive Management. However, there are no legal requirements with regards to adequate level of knowledge, skills and expertise at the Board level to ensure it is commensurate with the governance structure and the nature, scale and complexity of the insurer’s business. The current Insurance Law requires that Board members (a) did not have senior positions in financial organizations with licenses revoked over the last three years, (b) are not subject to administrative conviction and (c) have no criminal record relating to the state or economic activities.</p> <p>To address the lack of legal provisions, the CBR has developed a Corporate Governance Code (CBR letter of 10.04.2014 No. 06-52/2,463) for financial institutions listed on the Stock Exchange and further recommends insurers to follow its principles and recommendations. The same document requires the Boards to set and oversee the implementation of business objectives and strategies for achieving those objectives, including setting the risk strategy and risk appetite in line with the company’s interests and viability. The Board is required to</p>

ICP/Std.	Description
	<p>analyze performance of risk management and internal control functions at least once a year based on the information provided by the executive management, internal and external auditors and experts.</p> <p><i>Supervision</i></p> <p>There are no requirements for insurers to submit business or risk management plans or other documents that can be used to evaluate the competence, commitment and expertise of Board members. There is no established practice of meetings with the management and Board of insurers annually to (a) discuss their business plans and (b) advise the Board about the supervisor's assessment of the company. To promote appropriate, timely and effective communications, the CBR has recently introduced the role of insurance curators (supervision experts allocated to individual insurers) based on the banking supervision practice.</p> <p>Insurance Law (Article 28.1, paragraph 2) also requires insurers to employ inspectors, without specifying requirements on their professional qualifications.</p> <p>There are no requirements to ensure that the corporate governance framework is appropriate to the structure, business and risks of the insurance group and its legal entities. The insurance groups are not required to address specific challenges and ensure transparency and adequacy relating to the (a) the division of authorities and responsibilities between the key players at the insurance group and legal entity level; (b) effective group-wide direction and coordination; (c) proper consideration of the legal obligations, governance responsibilities and risks both at the insurance group and legal entity level; and (d) effective communication within the group and adequate information at all levels.</p> <p>The CBR is currently developing an insurance related corporate governance and risk management framework consisting of methodological recommendations which will require insurers to have adequate structures and standards in place for the purpose of evaluating the soundness of operations and effectiveness of internal systems. The recommendations will build upon the COSO<sup>12</sup> ERM framework which defines internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance of the achievement of objectives in the a) effectiveness and efficiency of operations; b) reliability of financial</p>

<sup>12</sup> Committee of Sponsoring Organizations of the Treadway Commission is a joint initiative of five private sector organizations, including the (i) Institute of Management Accountants (IMA), (ii) the American Accounting Association (AAA), (iii) the American Institute of Certified Public Accountants (AICPA), (iv) the Institute of Internal Auditors (IIA), and (v) Financial Executives International (FEI). COSO is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.



ICP/Std.	Description
	reporting and c) compliance with applicable laws and regulations. The methodological recommendations will describe the minimum integrity and professional criteria to be met by the insurer's key personnel in charge of risk management and control functions, The framework is planned to be adopted by the CBR in the form of a normative act in 2016.
Assessment	PARTLY OBSERVED
Comment	<p>The current legislation has generic provisions for corporate governance, which apply only at the individual insurer level. However the CBR is yet to introduce specific legal requirements on (a) responsibilities of the supervisory board for company's risk management, (b) level of knowledge, skills and expertise at the Board level, which should be commensurate with the governance structure and the nature, scale and complexity of the insurer's business and (c) remuneration policies and practices covering senior staff positions whose actions may have a material impact on the risk exposure at the insurer and group level.</p> <p>Financial reporting and reserve valuation are yet to be brought in line with IFRS standards and actuarially accepted standards, which are expected to be fully implemented in 2017.</p> <p>Insurers are required to submit external audits of their financial accounts and make them publicly available. Regulation defines the accountability and independence of internal audit.</p> <p>Due to the lack of legal requirements to corporate governance, the CBR does not have sufficient powers to require the insurer to demonstrate the adequacy and effectiveness of its corporate governance framework.</p> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>(a) Introduce clear requirements on the Boards' responsibilities for the company's risk management;</li> <li>(b) Introduce requirements on the level of knowledge, skills and expertise required at the Board level commensurate with the governance structure and the nature, scale and complexity of the insurer's business;</li> <li>(c) Require insurers to establish remuneration policies covering senior positions;</li> <li>(d) Introduce criteria minimum criteria on the qualifications of external auditors which can audit insurers' accounts (including the involvement of audit actuaries).</li> </ul>

ICP/Std.	Description
<b>ICP 8</b>	<b>Risk Management and Internal Controls</b>
8	<p>The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters, and internal audit.</p>
Description	<p>There is no adequate regulatory framework in place for insurers to</p> <p>(a) establish risk management requirements to product development, pricing, underwriting, reserving, claim handling, and reinsurance management; and internal control systems.</p> <p>(b) define:</p> <ul style="list-style-type: none"> <li>- the role of Board in the oversight of risk management policies and their implementation; including its responsibility for the appointment, performance assessment, and dismissal of the insurer's senior management, and heads of each control function; and for ensuring that there are adequate resources, expertise, support and authority in place for sound insurance operations;.</li> <li>- the role of senior management in ensuring that sound risk management policies and procedures are in place; including that it has a) requisite authority, b) sufficient resources and c) ability to carry out the risk management function and raise issues directly to the Board.</li> <li>- operating procedures that ensure appropriate risk measurement, monitoring and reporting, and</li> <li>- professional qualifications of personnel involved in risk management, control and audit functions.</li> </ul> <p>There are no requirements to establish strong risk management and compliance culture across group level to take into account the obligations of its individual members. The lack of requirements at the group level with regards to appropriate controls for all key business processes and policies (including level of access to the IT systems), for major business decisions and transactions (including intra-group transactions), does not support an overall view of the group-wide risks and how they should be managed.</p> <p>In the case of the compliance function at the individual insurer and group level, although the regulation on the subject partially addresses the issue through specific provisions defining the role of internal and external audit for individual insurers, it does not require insurance operations to be carried out and monitored in line with a strategic plan and risk management policies approved by the Board. Based on the Insurance</p>

ICP/Std.	Description
	<p>Law (Article 28.2), the <i>internal audit</i> function is independent of the activities that it audits and has the following key responsibilities:</p> <ul style="list-style-type: none"> <li>(a) evaluate the reliability, adequacy and effectiveness of operations including reporting, internal controls and risk management processes of the insurer;</li> <li>(b) review of the internal controls of the insurer to ensure prompt and accurate recording of transactions and proper safeguard of assets;</li> <li>(c) review whether the insurer complies with laws and regulations and adheres to established policies, and whether management has taken appropriate steps and measures to address control deficiencies.</li> <li>(d) ensure compliance with the legislation relating to anti-money laundering and counter terrorism financing.</li> </ul> <p>The internal audit reports to the Board of Directors (supervisory board) of the insurance organization or the general meeting of its shareholders. The regulations define numerous tasks of the internal audit and define the professional qualification requirements. However, there are no requirements with regards to the monitoring and evaluating the adequacy and effectiveness of the insurer's policies and processes and the documentation and controls at a group group-wide basis with regards to intra-group transactions, including intra-group risk transfer and internal pricing</p> <p>As for the <i>actuarial function</i>, based on the current regulations (Law 293-FZ and relevant by-laws), actuaries are responsible for validating insurers' technical and mathematical reserves and assets covering such reserves. The regulations also define the role of responsible actuary and self-regulated actuarial organizations. However, actuaries play only a limited role in risk management which should be extended to:</p> <ul style="list-style-type: none"> <li>(a) preparation of stress test reports at least on an annual basis;</li> <li>(b) assistance in formulation of suitable policies relating to investment of technical reserves;</li> <li>(c) compliance of insurance tariffs with the company's pricing policy.</li> </ul> <p>Due to the current rules-based supervisory regime, the requirements of enterprise risk management are not met. The legislation does not define ERM requirements to quantification of risk under a sufficiently wide range of risk scenarios that require the use of complex modeling techniques to reflect the nature, scale and complexity of the risks that the insurer bears.</p> <p>However, the Insurance Law requires identification of risks through internal audit and actuarial reports which should provide details on (i)</p>

ICP/Std.	Description
	<p>the company's performance, (ii) compliance with regulations and internal guidelines, (iii) adequacy of technical reserves and (iii) irregularities. Based on legal requirements, audit reports have to present irregularities and violations and their estimated impact on the solvency margin, liquidity and other business performance.</p> <p>In contrast to the ICPs requirements on risk management, the current regulatory framework does not require insurers to measure their risks or explain their internal risk measurement approaches to the regulator. To be fully in compliance with this ICP, the CBR should require companies to have their risk management policies:</p> <ul style="list-style-type: none"> <li>(a) outline how all relevant and material categories of risk are managed, both in the insurer's business plan and its day-to-day operations;</li> <li>(b) describe the relationship between the insurer's tolerance limits, regulatory capital requirements, economic capital and the processes and methods for monitoring risk;</li> <li>(c) include an explicit asset-liability management (ALM) policy which should clearly specify the nature, role and extent of ALM activities and their relationship with product development, pricing functions and investment management;</li> <li>(d) establish and observe the risk tolerance level.</li> </ul> <p>There are no oversight and accountability requirements for outsourced material activities. The regulation does not require insurers to notify the CBR of any material outsourcing. However, currently there are no insurers which outsource all or substantially all risk management and internal control functions.</p>
Assessment	PARTLY OBSERVED
Comment	<p>There is no adequate regulatory framework in place for insurers to:</p> <ul style="list-style-type: none"> <li>(a) establish risk management requirements for product development, pricing, underwriting, reserving, claim handling, and reinsurance management; and</li> <li>(b) define effective systems with clear roles of Supervisory Board, Senior Management as well as procedures and expertise required to carry out risk management functions.</li> </ul> <p>The regulation sets requirements with regards to control, internal audit and actuarial functions. However, to comply with the risk management requirements, the CBR should strengthen and expand the role of actuaries in insurance companies. Although the legislation specifies the roles of internal and external audits, the compliance function is yet to</p>

ICP/Std.	Description
	<p>ensure that the operations are carried out in line with a strategic plan and risk management policies at the insurer and group level, which is not the case as of today.</p> <p>There are no oversight and accountability requirements for outsourced material activities.</p> <p><b>Recommendations:</b></p> <p>(a) Set requirements on core risk management functions including underwriting, claims and reinsurance;</p> <p>(b) Set requirements which require insurers to establish effective risk management systems with clear policies, roles, responsibilities and procedures of control and compliance functions at the individual insurer and group level;</p> <p>(c) Expand requirements with regard to the role of actuaries in risk management;</p> <p>(d) Require at least systemically important insurers to establish explicit risk management structures;</p> <p>(e) Introduce regulatory requirements on outsourced activities.</p>
<b>ICP 9</b>	<b>Supervisory Review and Reporting<sup>13</sup></b>
9	<p>The supervisor takes a risk-based approach to supervision that uses both off-site monitoring and on-site inspections to examine the business of each insurer, evaluate its condition, risk profile and conduct, the quality and effectiveness of its corporate governance and its compliance with relevant legislation and supervisory requirements. The supervisor obtains the necessary information to conduct effective supervision of insurers and evaluate the insurance market.</p>
Description	<p>The Insurance Law empowers the CBR to conduct insurance supervision through information requirements, regulatory reporting, on-site examinations and inquiries. (Insurance Law, Article 30). Based on the current legislation the CBR applies a rule-based supervisory approach which enables it to assess whether insurers' compliance with rule-based regulatory requirements. However such a rule-based framework (a) does not adequately account for the proper identification and assessment of insurance risks and (b) does not allow to set supervisory plans and priorities which take into account the nature, scale and complexity of insurers.</p>

<sup>13</sup> The ICP 9 Supervisory Review and Reporting was revised in 2011-2012 and adopted at the IAIS Annual General Meeting on 12 October 2012.

ICP/Std.	Description
	<p>To carry out market monitoring and review, the CBR has established extensive and frequent (monthly, quarterly and annual) reporting requirements for all insurers. In accordance with the Insurance Law (Article 30, paragraph 5.1) and the Law on Bankruptcy, insurers should submit information on their financial and solvency position (capital, insurance reserves, insurance tariffs, reinsurance, and quality assets). In addition, the CBR requires insurers to submit information on corporate governance (including the organization of the internal control), ownership structure and other important business parameters (CBR Instruction No. 3860A dated 30.11.2015 "On the forms, timing and way of reporting of insurance organizations in the Russian Federation").</p> <p>Insurers are subject to quarterly and annual reporting requirements. These comprise a balance sheet, a profit and loss statement, a cash-flow statement, structure of assets statement, assessment of insurance reserves, a solvency report, as well as information on premiums and claims by lines of business and regions. In addition, the insurers are required to submit external audit reports and actuarial reports on technical reserves on an annual basis. The financial reporting of financial statements is currently based on the national accounting standards. However, as of January 2017 the reporting is expected to be fully compliant with the IFRS. Off-site and on-site inspections are separated into two different departments with different reporting lines and the power to make important supervisory decisions tends to concentrate in the hands of IMD. Relying mainly on its "expert judgement," the later decides on which companies should be subject to (i) full-scale or thematic onsite inspections, (ii) supervisory measures taken based on its monitoring and on-site inspection reports, as well as (iii) and submissions to the Open Finance Committee that deals with temporary company administration or revocation of insurance licenses.</p> <p>As the CBR currently does not have sufficient IT capabilities to automatically process the submitted information, the IMD staff must process it manually which is fraught with errors and delays and makes it difficult to validate insurers' assessments made by the supervisor.</p> <p>The on-site supervision operates as a separate function under the Chief Inspection Department which supervises the overall financial sector. The onsite inspection can be full-scale or thematic and initiated upon request from the IMD on a planned or unplanned basis. The onsite inspections mainly involve checking insurers' compliance with the supervisory (and legal) norms, which does not require specific insurance qualifications from the onsite inspection team. All the inspection findings should be evidenced (recorded) in the insurer's file. As a matter of fact, the final report may incorporate and correct (when inaccurate or non-material) the</p>

ICP/Std.	Description
	<p>inspectors' findings. However, each correction should be evidenced by saving the original on-site supervision report drafted by the inspectors.</p> <p>To build a constructive and transparent process of insurance supervision, the CBR should give insurers the right to review the inspection findings, discuss them with the onsite inspection team and have them reflected in the final version of inspection act, as opposed to the current approach of having insurers express their views after the inspection findings have been finalized by the CID and transferred to the IMD for further action.</p> <p>While the dispersion of insurance supervisory functions among numerous departments with various reporting lines carries certain advantages (such as a reduced potential for the conflict of interest), the CBR is yet to integrate its core insurance supervision functions into a well-structured supervision process supported by an efficient management information system.</p> <p>Such a system will enable the CBR to automatically process the submitted information, calculate key ratios and establish well defined relative risk bands for all market players. The ratios should be easy to verify by tracing them to the data provided by insurers through online reports and during the on-site inspections. The ratios can be then aggregated into one internal risk index that can be used (in conjunction with individual ratios) to rate companies for the purposes of allocating supervisory resources. Key risk indicators should be made available to the companies to enable them take timely preventive actions and avoid CBR interventions.</p> <p>A switch to the risk-based supervision should be supported by the internal insurance reorganization aiming at the professionalization of all core supervisory functions (from off-site to onsite and licensing), and achieving more transparency and accountability of every member of supervisory staff involved in the supervision process.</p> <p>To this effect, the CBR may consider forming multi-disciplinary teams for the purposes of integrated insurance supervision, with each team member providing its professional inputs to the company's supervision file (e.g. an actuary - providing validation of insurer's reserve report, an onsite inspector – making comments on the quality of data used by the company for statutory and financial reporting purposes; a reinsurance expert – reporting on the adequacy of the insurer's reinsurance program; a finance expert – reporting on the adequacy of insurer's assets (jointly with onsite inspector); a curator – on the adequacy of management, business plan, and risk management, etc.). The company's annual file should be annotated by the IMD senior manager, who would add his comments on the course of supervisory action to be taken based on professional inputs provided by the members of the supervision team).</p>

<b>ICP/Std.</b>	<b>Description</b>
	<p>The ongoing CBR project on creating automated “dossiers” of insurers could serve as a good platform in this regard.</p> <p>The risk-based supervision framework should be introduced gradually and preceded by the piloting of risk-based onsite and offsite monitoring systems and rely on extensive feedback from the market. The Insurance Law should be then modified to provide for risk-based supervision by the CBR once the pilot risk-based monitoring systems have proven to be effective.</p> <p>To ensure the necessary level of supervision for systemically important insurers, the CBR has implemented a system of individual curators for the top 100 companies. The largest 22 companies which have designated as systemically important have been assigned individual curators, while those within the 21-100 group have one curator per two or three companies.</p>
Assessment	PARTLY OBSERVED
Comment	<p>The Insurance Law empowers the CBR to conduct insurance supervision through extensive and frequent (monthly, quarterly and annual) reporting, on-site examinations and other relevant information.</p> <p>The CBR applies a rule-based supervisory approach which enables it to assess whether insurers comply with the relevant legislation and rule-based regulatory requirements. However such a rule-based framework (a) does not adequately account for the proper identification and assessment of insurance risks by insurers and (b) does not allow determining supervisory plans and priorities which take into account the nature, scale and complexity of insurers.</p> <p>While the dispersion of insurance supervisory functions among numerous departments with various reporting lines carries certain advantages (such as a reduced potential for the conflict of interest), the CBR is yet to establish a framework, which would effectively harmonize all the supervision processes including the core off-site and onsite functions.</p> <p>Although the CBR has developed an electronic system for insurance supervisory filing, it is yet to develop a comprehensive management information system, which would ensure (a) automated processing of the submitted information for the purpose of further supervisory monitoring and review and (b) swift access to relevant information by CBR departments or multi-disciplinary teams. Due to the still evolving internal information management system, the CBR does not have sufficient technical capabilities to process the information contained in</p>



ICP/Std.	Description
	<p>regular insurers' reports and often requires additional data submissions outside the normal reporting cycle.</p> <p>While onsite inspections are currently limited to insurers' compliance with the legal norms, a broader scope onsite supervision would require the CBR to raise the level of insurance expertise among the onsite teams, which should be capable to inspect items including insurance underwriting, liabilities and reinsurance.</p> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>(a) Develop a modern MIS IT system that supports transparent, accountable, fully integrated, multi-disciplinary insurance supervision;</li> <li>(b) To effectively use the available expertise, form multi-disciplinary teams for the purposes of integrated insurance supervision, with each team member providing its professional inputs to the company's supervision file;</li> <li>(c) Create a cadre of professional onsite insurance inspectors with proper expertise necessary for making independent informed judgments;;</li> <li>(d) Give insurers the right to review the inspection findings prior to finalizing the final onsite supervision report.</li> </ul>
<b>ICP 10</b>	<b>Preventive and Corrective Measures</b>
10	The supervisor takes preventive and corrective measures that are timely, suitable and necessary to achieve the objectives of insurance supervision.
Description	<p>Insurance Law prohibits a company from carrying out insurance business without a valid insurance license (ICP4). Conduct of insurance activities without the necessary license constitutes a criminal offense and falls beyond the scope of the CBR preventive and corrective measures (Article 14.1 of the Code of Administrative Offense – carrying out business activities without registration or license).</p> <p>The CBR has a range of corrective and preventive measures, which may be administrative in nature or supported by statutory powers (Insurance Law, Article 32.6, Law No. 127-FZ Chapter IX, MoF Order no. 8).</p> <p>The CBR monitors insurers and has powers to take supervisory measures. The CBR also sends instructions to insurers for non-compliance with</p> <ul style="list-style-type: none"> <li>(a) types of activities required by the license;</li> </ul>

ICP/Std.	Description
	<p>(b) establishment of technical reserves and assets covering them;</p> <p>(c) capital adequacy and solvency regulation;</p> <p>(d) reporting requirements; and</p> <p>(e) availability and accuracy of information required by the CBR in the course of supervision.</p> <p>The CBR holds regular meetings organized with senior management of insurers to discuss key areas of concern and formulate corrective plans.</p> <p>To implement its preventative and/or corrective measures, the CBR issues a) cease and desist orders, b) compliance orders for unfair or deceptive acts or practices and c) requests for plans to restore solvency position. Continued failure to address the CBR concerns may result in enforcement actions which comprise: restriction of activities, prohibition to write or renew business, as well as measures on the run-off operations, taking over the control and winding up.</p> <p>The main legislation defines corrective measures to be applied to an insurer which does not comply with the statutory capital adequacy and solvency requirements.</p> <p>To stabilize its financial position, the insurer should submit a financial recovery plan to the CBR. Once the plan has been agreed with or imposed by the CBR, it starts close monitoring of insurer with a view to verifying compliance.</p> <p>The CBR may progressively escalate its actions which may comprise limitation of insurance activities, suspension of insurance license, temporary business administration and revocation of the license if a) there is evidence that the situation has worsened from the time when the first regulatory action had been taken or b) insurer does not comply with the corrective action plan.</p> <p>The CBR has the power to investigate and inspect insurers by means of special reporting requests or onsite inspections. If the CBR believes that an insurer is not operating in a manner consistent with sound practices or regulatory requirements, it can conduct an unplanned onsite inspection.</p> <p>The current rules-based supervisory framework does not fully support the implementation of the early warnings mechanism designed to a) detect and prevent negative solvency trends, b) require insurers to take measures at an early stage of such negative trends and c) report more frequently until the warning has been addressed.</p> <p>Due to the absence of a risk-based early warning system with clearly defined thresholds, the CBR does not have adequate capabilities to</p>

ICP/Std.	Description
	<p>timely detect and prevent insurers' failures with the view to minimizing the impact on policyholders, creditors and shareholders.</p> <p>The existing regulations on enforcement are incompatible with the ICP requirements for supervisory transparency and proportionality of supervisor's actions due to the lack of minimum statutory periods within which insurers should (a) restore their solvency; (b) comply with data requests (that fall beyond the scope of regular reporting) from the supervision. To ensure an equitable and fair treatment of insurers, the CBR should consider defining the minimum reasonable time allowed for insurers to implement corrective measures prescribed by the supervisor.</p> <p>The CBR has no right to dismiss or replace insurer's key personnel which was deemed unfit to discharge their duties.</p>
Assessment	LARGELY OBSERVED
Comment	<p>The main legislation describes preventive and corrective measures, which are in line with the CBR insurance supervision objectives and by and large cover the scope of insurers' operations. The CBR has the authority and ability to take measures if the insurer fails to operate in a manner that is consistent with regulatory requirements.</p> <p>The measures may progressively escalate from limitation of insurance activities to suspension of insurance license, temporary business administration and revocation of the license if insurer does not comply with the corrective action plan. However, the CBR has no right to dismiss or replace insurer's key personnel which was deemed unfit to discharge their duties. There is also a level of subjectivity left with the CBR in taking certain measures for as long as the regulations do not specify minimum statutory periods within which insurers should (a) restore their solvency; (b) comply with data requests (that fall beyond the scope of regular reporting) from the supervision.</p> <p>To stabilize its financial position, the insurer should submit a financial recovery plan to the CBR. Once agreed with or imposed by the CBR, it starts close monitoring of insurer with a view to verifying compliance and take further action non-compliance to address the non-compliance that could put policyholders at risk.</p> <p>Based on legal requirements and as a matter of practice, the CBR holds regular meetings with senior management of insurers to discuss key areas of concern and formulate corrective plans.</p> <p>Due to the absence of a risk-based early warning system, the CBR does not have adequate capabilities to timely detect and prevent insurers'</p>

ICP/Std.	Description
	<p>failures with the view to minimizing the impact on policyholders, creditors and shareholders.</p> <p><b>Recommendations:</b></p> <p>(a) Introduce minimum statutory periods within which insurers must (i) restore their solvency and (ii) comply with data requests from the supervision, by specifying the cases when the data should be provided immediately;</p> <p>(b) Introduce requirements which allow the CBR to dismiss or replace insurer's key personnel deemed unfit to discharge their duties.</p>
<b>ICP 11</b>	<b>Enforcement</b>
11	The supervisor enforces corrective action and, where needed, imposes sanctions based on clear and objective criteria that are publicly disclosed.
Description	<p>Should an insurer fail to timely and adequately implement corrective measures, the CBR has the right to enforce a supervisory set of sanctions comprising: restriction of activities, suspension, temporary administration and revocation of the license (Insurance Law, Article 32.6). The phased process ranging from corrective measures to sanctions, is used as a tool to ensure that the insurer makes meaningful progress over the timeline set by the supervisor. The types of measures (described in ICP 10), comprise the restriction of insurance activities and measures to restore the financial capacity of the company. The regulation (paragraph 4 of Law No. 127-FZ and MoF Order 8N) empowers the CBR with the right to restrict the powers of insurers' managing bodies and involve external control of the company (temporary administration).</p> <p>The Insurance Law requires the CBR to closely monitor the insurers with a view to ensuring that the measures are complied with.</p> <p>The Insurance Law (a) describes how sanctions can be imposed and (b) requires the CBR to notify the insurer within five working days from the date when such a decision was taken. The notification should specify the reasons for restriction, suspension or revocation of the license. The CBR is required to publish such decisions within ten working days from the date of their entering in force. Insurers have the right to appeal such sanctions in court. However enforcement cannot be delayed over the course of appeal. The process of applying sanctions does not delay the necessary preventive and corrective measures and enforcement. The legislation also allows the CBR to impose administrative monetary penalties if the insurer fails to comply with regulatory reporting requirements, or does not timely provide information and produce</p>

ICP/Std.	Description
	<p>documents required by onsite inspectors. The CBR checks the compliance through frequent reporting and/or onsite reviews.</p> <p>In the course of exercising its insurance supervision mandate, the CBR has been using its enforcement powers to revoke licenses from a large number of insurers (70 in 2015 alone), which failed to meet statutory financial requirements.</p>
Assessment	OBSERVED
Comment	<p>The CBR has the power to enforce corrective action in a timely manner where problems with compliance have been identified. The supervisor issues formal directions to insurers to take particular actions or desist from taking particular actions. The CBR has the power to take control of the insurer by appointing a temporary administration over the company for the benefit of the policyholders.</p> <p>The legislation also allows the CBR to impose administrative monetary penalties if the insurer fails to comply with regulatory reporting requirements, or does not timely provide information and produce documents required by onsite inspectors. However, such penalties may need to be set based on the severity of insurers' infringements.</p> <p>The process of applying sanctions does not delay necessary preventive and corrective measures and enforcement.</p> <p>The Insurance Law requires the CBR to closely monitor the insurers with a view to ensuring that the measures are complied with.</p> <p>In the course of exercising its insurance supervision mandate, the CBR has been effectively using its enforcement powers to revoke licenses from a considerable number of under-capitalized insurers.</p> <p><b>Recommendations:</b></p> <p>(a) Introduce a clear and transparent system of penalties which is commensurate with the severity of insurers' infringements.</p>
<b>ICP 12</b>	<b>Winding-up and Exit from the Market</b>
12	<p>The legislation defines a range of options for the exit of insurance legal entities from the market. It defines insolvency and establishes the criteria and procedure for dealing with insolvency of insurance legal entities. In the event of winding-up proceedings of insurance legal entities, the legal framework gives priority to the protection of policyholders and aims at minimizing disruption to provision of benefits to policyholders.</p>

ICP/Std.	Description
Description	<p>The legislation provides for a number of ways in which insurers can exit the market, including arrangements for winding-up when the company becomes insolvent and ceases to be sufficiently able to carry out its insurance operations, regain, or maintain financial strength, thus potentially placing its policyholders at an unreasonably higher risk of loss.</p> <p>There is a structured supervisory process towards the involuntary withdrawal of insurance companies based on their continuing failure to address the CBR concerns relating to the unreasonably increased risk for the policyholders (Insurance Law, Article 32.8).</p> <p>In addition, the Bank of Russia in the cases established by law, takes part in the procedure of bankruptcy of insurance organizations.</p> <p>There are also numerous legal provisions which enable insurers to exit the market voluntarily in an orderly fashion through:</p> <ul style="list-style-type: none"> <li>(a) simple liquidation at the request of a solvent company (Insurance Law, Article 32.8);</li> <li>(b) discontinuance of insurance business at the request of a solvent insurer, which transfers the portfolio to another insurer (Insurance Law, Article 26.1 and Federal Law No. 127-FZ, Article 184.9).</li> </ul> <p>These transactions are subject to the CBR's prior approval and are given only if the CBR has established that the company has the financial and other resources necessary to meet its obligations to policyholders throughout the voluntary process proposed by the company and there would be no detrimental consequences for policyholders. The CBR has the right to prevent the voluntary withdrawal if it is of the view that the company has inadequate capital or weak management, by initiating in turn involuntary withdrawal from the market.</p> <p>The legal framework for insurers' insolvency is set out in the Federal Law of No. 127-FZ "On Insolvency (bankruptcy)" while other general provisions can be found in the Civil Code and Federal Laws No. 208-FZ "On Joint Stock Companies" and No. 14-FZ "On Limited Liability Companies". The Insurance Law (Article 32) sets the ground for the restriction, suspension, revocation of the license and termination of insurance activities. On the point of winding-up, an insurer has no right to carrying on business. Within a month from the CBR's decision to terminate the license, insurer should notify policyholders about the early termination of insurance contracts and (or) transfer of liabilities under their insurance contracts to a new insurer.</p> <p>Under the current bankruptcy legislation, policyholders and insurance beneficiaries rank ahead of investors and general creditors with a priority given to bodily injury and death claimants. The procedures for the</p>

ICP/Std.	Description
	<p>winding-up and exit are clearly set out in the current legislation. Priority is given to the protection of policyholders rights. The regulatory procedures aim at minimizing the disruption of benefits to policyholders.</p> <p>Within its supervisory powers, and in light of new capital requirements, the CBR has revoked licenses from a large number of insurers (70 in 2015 alone), which failed to meet statutory financial requirements. While the temporary administrations (prior the license revocations) and portfolio transfers (are closely monitored by the CBR, the process of liquidation (and the administration of assets) is handled by the court based on clear rules. In the case of compulsory insurances, the protection of policyholders and beneficiaries' interests are further protected through the establishment of guarantee funds (financed by all insurers carrying out the respective type of insurance), which are obliged to pay claims in case of insurers' insolvencies.</p>
Assessment	OBSERVED
Comment	The procedures for the winding-up and exit are clearly set out in the current legislation. Priority is given to the protection of policyholders rights. The regulatory procedures aim at minimising the disruption of benefits to policyholders.
<b>ICP 13</b>	<b>Reinsurance and Other Forms of Risk Transfer</b>
13	The supervisor sets standards for the use of reinsurance and other forms of risk transfer, ensuring that insurers adequately control and transparently report their risk transfer programmes. The supervisor takes into account the nature of reinsurance business when supervising reinsurers based in its jurisdiction.
Description	<p>Insurance Law empowers the CBR to regulate and supervise the inward and outward reinsurance activities. However, there are no specific requirements for insurers to have risk transfer strategies, systems, procedures and controls over their risk transfer transactions.</p> <p>The current regulation does not require insurers to develop reinsurance risk management policies that would ensure that objectives of reinsurance arrangements are in line with their risk appetite, risk concentration and own net capacity. There are no requirements to the insurer's approach to:</p> <ul style="list-style-type: none"> <li>(a) Assessment of the insurer's tolerance to risk and risk retention levels. Determination of reinsurance types.</li> <li>(b) Selection of the panel of reinsurers based on diversification and credit worthiness criteria.</li> </ul>

ICP/Std.	Description
	<p>There are no regulatory requirements with regard to insurers' per-risk and aggregate net risk retentions relative to their net capacity. Major losses arising from catastrophic events may lead to numerous insolvencies in the sector. However there are no regulatory requirements on the insurers' net claims paying capacity for accumulations of catastrophic risk.</p> <p>The regulation on the investment of assets covering technical reserves sets indirect restrictions on the credit quality of reinsurance counterparties. The regulation restricts the allowed amounts of reinsurance assets that can account for the coverage of insurers' technical reserves subject to minimum criteria on credit ratings given to local and foreign reinsurers by the credit rating agencies (see ICP 15).</p> <p>The CBR (a) requires insurers to report information relating to the reinsurance share of premiums, claims and reinsurance share of technical reserves; and (b) checks reinsurance information, including claims paid by the reinsurers in the course of general onsite inspections.</p> <p>A new draft law has been recently prepared to establish a national reinsurance company (NRC) to be capitalized by the CBR. The proposed national reinsurer intends to address the current difficulties faced by the Russian insurers with reinsuring risks of Russian companies on the Western sanctions list (over 1500 in total) with well rated US and EU reinsurers which in the past assumed about 80 percent of such risks. Based on the draft law, the national reinsurer will reinsure the risks of sanctioned companies, the Russian military and the state. Furthermore, to improve the overall risk profile of the NCR, the insurers will be required to mandatorily place 10 percent of their reinsurance programs with the NRC. In addition, the NRC intends to provide reinsurance capacity to those insurers who provide third party liability coverage to residential developers that finance construction projects with deposits from buyers of apartments. In this context, we must point out that creation of the NCR may not be the most effective solution to the problems created by the sanctions regime for the insurance industry due to the rather negative international experience with national reinsurance companies, most of which have been eventually privatized at a considerable cost to the state. Creation of NCR will also have adverse effects on the market competition and long-term stability of the insurance market as the company is likely to emerge as the largest and best capitalized reinsurance player in the Russian insurance/reinsurance market without being bound by market competition.</p>
Assessment	NOT OBSERVED



ICP/Std.	Description
Comment	<p>The current regulation does not require insurers to have a reinsurance policy that would define the objectives of reinsurance arrangements in line with the company's risk appetite, risk concentrations and its net capacity for risk retention.</p> <p>There are no regulatory requirements with regard to insurers' per-risk or aggregate net risk retentions relative to their net capacity. While major losses arising from catastrophic events may lead to numerous simultaneous insolvencies, there are no regulatory requirements to limit the insurers' own risk exposure to such catastrophic scenarios through a catastrophe reinsurance arrangement.</p> <p>The regulation on the investment of assets covering technical reserves sets indirect restrictions on the credit quality of reinsurance counterparties. However, in practice these fall well beyond the minimum credit quality standards set by advanced regulatory regimes.</p> <p>There are no requirements which take into account the nature of supervision of reinsurers and other counterparties, including any supervisory recognition arrangements in place.</p> <p>There are no requirements or control over the cedants' liquidity position relative to the structure of risk transfer contracts and likely payment patterns arising from these.</p> <p>The supervision of reinsurance operations requires relevant expertise among the CBR experts.</p> <p>Creation of NCR will also have adverse effects on the market competition and long-term stability of the insurance market as the company is likely to emerge as the largest and best capitalized reinsurance player in the Russian insurance/reinsurance market without being bound by market competition.</p> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>(a) Require insurers to develop annual reinsurance programs that would spell out details of reinsurances they plan to arrange for main lines of business, with specific emphasis placed on net retentions, limits and criteria for selecting reinsurers;</li> <li>(b) Introduce regulatory requirements regarding per-risk and aggregate net risk retentions relative to their net capacity with a special focus on the risk of natural disasters;</li> <li>(c) Develop supervisory expertise in the area of reinsurance and involve actuaries in supervision of reinsurance.</li> <li>(d) Instead of creating the NRC the CBR should consider an alternative market-based approach to securing additional reinsurance capacity,</li> </ul>

ICP/Std.	Description
	which may comprise a national special risks reinsurance pool (owned and managed by the industry) <sup>14</sup> .
<b>ICP 14</b>	<b>Valuation</b>
14	The supervisor establishes requirements for the valuation of assets and liabilities for solvency purposes.
Description	<p>The CBR requires insurers to maintain accounting systems and compile accounting reports based on the national accounting standards. Insurers are recently required to compile alternative IFRS-like accounts (CBR document No. 491-P, 04. 09. 2015). However, the IFRS based accounts are not used for solvency purposes. The CBR plans to enact an accounting standard which is close to the IFRS in January 2017, however it is not yet clear whether the actuarially set reserves (as required by the IFRS) will be used for the purpose of insurers' solvency reporting. Insurers are required to carry out the valuation of their assets and liabilities as a part of their quarterly and annual financial reporting.</p> <p>There are no investments in non-fixed interest assets, where insurers may have a greater discretion on assumptions related to reinvestment rates of returns than they have in practice on fixed income investments. The real estate valuation is done based on its book value accounting using the statutory depreciation rate. Insurers are allowed to use the real estate market value only if it is lower than the statutory depreciated book value.</p> <p>The CBR carries out its insurance supervision under a rule-based approach, therefore the calculation of the solvency margin (EU S1) and valuation of liabilities are not compliant with the risk-based approach required by this ICP.</p> <p>Insurers should assess their non-life and life insurance liabilities based on directives issued by the MoF (Directive 51N, 01.06.2002 and Directive 32N, 09.04.2009), which describe the methodology required for the calculation of insurance reserves. Non-life insurance reserves should be calculated separately for each insurance line and comprise the following components:</p> <ul style="list-style-type: none"> <li>(a) Unearned premiums reserve;</li> <li>(b) Reserve for reported but not settled losses (RBNS);</li> <li>(c) Reserve for incurred but not reported losses (IBNR); and</li> <li>(d) Stabilization reserve.</li> </ul>

<sup>14</sup> This recommendation on the NCR is beyond the ICP requirement and for that matter the scope of the ICP assessment and is provided on an exceptional basis only because of the systemic concern for the market.

ICP/Std.	Description
	<p>Insurers are required to assess the RBNS using (a) best estimates for each reported loss or (b) conservatively use the maximum possible loss in the cases where no estimates are available. The RBNS reserve should be further increased by a 3% to account for the loss adjustment costs, which in reality are materially higher (up to 20%).</p> <p>Insurers calculate the IBNR for all insurance lines based on the Bornhuetter-Ferguson method (Directive 51N) formula-driven assessment, which is universally applied to all lines of insurance business. This approach may materially underestimate the insurers' real solvency.</p> <p>However, the CBR is currently in the process of preparing a major change in its supervision practices which would require companies to present actuarial assessments of their reserves based on the IFRS approach. To this effect, the supervisor intends to gradually move away from the currently static supervisory approach to the valuation of IBNR to a risk-based model which accounts for actuarial calculations of liabilities. The proposed changes in the current regulatory framework envisage introducing:</p> <ul style="list-style-type: none"> <li>(a) requirements to actuarially assess the IBNR reserves based on claims patterns and trends;</li> <li>(b) guidance on the use of specific actuarial methods;</li> <li>(c) requirements on the roles and obligations of responsible insurance actuaries and the CBR's own actuaries in the process of supervisory monitoring of insurance reserves.</li> </ul> <p>The introduction of an IFRS-like approach as of 2017 would require the risk-based actuarial assessments of insurance liabilities to be considered in the calculation of insurers' solvency. While such a decision is yet to be made by the CBR, the supervision of risk-based reserves will require a major strengthening and consolidation of the actuarial function within the CBR.</p> <p>Actuarial activities are regulated by the Law No. 293-FZ, 02. 11. 2013 and several insurance regulations which define the role of responsible actuary and self-regulated actuarial organizations (SRO).</p> <p>The valuation of technical reserves exceeds the current estimate by a margin (Margin over the Current Estimate or MOCE) equal to the stabilization reserve. However, the stabilization reserve does not properly account for the inherent uncertainty related to all relevant future cash flows that arise from fulfilling insurance obligations over the full time horizon.</p>

<b>ICP/Std.</b>	<b>Description</b>
	<p>Life insurance reserves should be calculated separately for each insurance line and comprise the following components:</p> <ul style="list-style-type: none"> <li>(a) Mathematical reserve;</li> <li>(b) Reserve for reported but not settled losses (RBNS);</li> <li>(c) Reserve for loss adjustment expenses;</li> <li>(d) Reserve for incurred but not reported losses IBNR;</li> <li>(e) Provision for insurance bonuses;</li> <li>(f) Equalization reserve.</li> </ul> <p>The mathematical reserve is calculated for each individual contract using actuarial methods. Life insurance reserving regulation requires life insurers to use a maximum technical interest of 5 percent for the purpose of calculating their mathematical reserve, and makes allowance for guarantees offered through rather short-term life insurance contracts (mostly up to five years).</p> <p>The regulation does not contain specific reserving requirements for life insurance with regard to the time value of money to reflect the expected present value of all relevant future cash flows.</p>
Assessment	PARTLY OBSERVED
Comment	<p>The insurance accounting is done on the basis of national accounting standards. In addition, insurers are now required to also compile alternative IFRS- like accounts. However, such accounts are not used for the calculation of insurer's solvency. As of January 2017, the CBR plans to (a) enact an accounting standard which is close to the IFRS (with slight deviations in the asset valuation approaches). To this effect, the current valuation approach to liabilities is not undertaken on consistent bases and there is no economic valuation of assets and liabilities, which reflects the risk-adjusted present values of their cash flows.</p> <p>The valuation of non-life technical provisions is done based on a rule-based approach and does not account for the best estimate and the margin (margin over the current estimate or MOCE).</p> <p>While there are regulatory criteria for the determination of appropriate rates to be used in the discounting of mathematical provisions, there are no requirements to make appropriate allowance for embedded options and guarantees.</p> <p>There are currently no investments in non-fixed interest assets, where insurers may have greater discretion on assumptions on reinvestment rates of returns.</p>

ICP/Std.	Description
	<p>The CBR is currently in the process of preparing a major change in its supervision practices which would require companies to present actuarial assessments of their reserves based on the IFRS approach. To this effect, the system intends to gradually move away from the currently static supervisory approach to the assessment of IBNR to a risk-based model which accounts for actuarial calculations of liabilities.</p> <p><b>Recommendations:</b></p> <p>(a) Introduce requirements on the risk-based actuarial assessments of insurance liabilities and ascertain their use in the calculation of insurers' available solvency:</p> <ul style="list-style-type: none"> <li>i. requirements to actuarially assess IBNR reserves based on claims patterns and trends;</li> <li>ii. guidance on the use of specific actuarial methods;</li> <li>iii. requirements on the roles and responsibilities of responsible actuaries and the CBR's actuaries in the process of supervisory monitoring of insurance reserves.</li> </ul> <p>(b) Require the use of actuarially set reserves for the purpose of solvency calculations;</p> <p>(c) Strengthen and consolidate the actuarial function in insurers and the CBR.</p>
<b>ICP 15</b>	<b>Investment</b>
15	The supervisor establishes requirements for solvency purposes on the investment activities of insurers in order to address the risks faced by insurers.
Description	<p>The CBR has enacted prudent investment regulations which address (i) investment of (i) own funds and (ii) assets covering technical reserves. The regulation clearly (i) defines investment categories for assets covering technical and mathematical provisions and (ii) sets limitations for specific types of investments.</p> <p>Insurance Law (paragraphs 1 and 5 of Article 26) and regulation No. 3445 specify areas of investment and set requirements on the types of investments in insurers can invest own funds. The CBR regulation No. 3444 further sets clear requirements on the categories and maximum allowable limits of permitted assets covering insurers' technical reserves and mathematical reserves:</p> <p>(a) The regulation defines the obligation to fully cover technical and mathematical provisions with allowed types of assets which should</p>

ICP/Std.	Description																				
	<p>preserve investment appropriateness, diversification, diversification, profitability and liquidity. To this effect, insurers should ensure that assets covering technical provisions are invested adequately to (i) cover obligations arising from insurance contracts in full and on time and (ii) address eventual risks, such as fluctuation in exchange rates and other market risks.</p> <p>(b) The regulation clearly sets limits of permitted assets relative to the total amount or particular types of technical and mathematical reserves, including allowable assets invested in related parties within the same group. The regulation imposes restrictions on the credit quality of reinsurance assets and shares subject to minimum credit ratings provided by the following rating agencies:</p> <table border="1" data-bbox="690 751 1205 1171"> <thead> <tr> <th data-bbox="690 751 894 814" rowspan="2">Rating Agency</th> <th colspan="2" data-bbox="894 751 1205 814">Minimum credit rating</th> </tr> <tr> <th data-bbox="894 814 1073 863">International</th> <th data-bbox="1073 814 1205 863">National</th> </tr> </thead> <tbody> <tr> <td data-bbox="690 863 894 957">Standard &amp; Poors</td> <td data-bbox="894 863 1073 957">"B-"</td> <td data-bbox="1073 863 1205 957">"ruBBB-"</td> </tr> <tr> <td data-bbox="690 957 894 1010">Fitch Ratings</td> <td data-bbox="894 957 1073 1010">"B-"</td> <td data-bbox="1073 957 1205 1010">"ruBB-"</td> </tr> <tr> <td data-bbox="690 1010 894 1062">Moody's</td> <td data-bbox="894 1010 1073 1062">"B3"</td> <td data-bbox="1073 1010 1205 1062" style="background-color: #cccccc;"></td> </tr> <tr> <td data-bbox="690 1062 894 1115">A.M. Best</td> <td data-bbox="894 1062 1073 1115">"B-"</td> <td data-bbox="1073 1062 1205 1115" style="background-color: #cccccc;"></td> </tr> <tr> <td data-bbox="690 1115 894 1171">Expert RA</td> <td data-bbox="894 1115 1073 1171">"A"</td> <td data-bbox="1073 1115 1205 1171" style="background-color: #cccccc;"></td> </tr> </tbody> </table> <p>However, the current investment regulation does not make distinction between investment allowances and limitations in life and non-life insurance.</p> <p>The current regulations do not permit investments in highly risky types of assets. Given the growing complexity of capital markets, the CBR is working to develop a more comprehensive investment regulatory framework which will set specific requirements and limitations on derivatives relative to the credit quality of issuers.</p> <p>New amendments to the Insurance Law (2015) require insurers which offer life insurance with savings, compulsory insurance, pension insurance or annuities to appoint a specialized depository to manage the assets covering insurers' own funds and insurance reserves. The depository must monitor the funds on a daily basis in compliance with the investment guidelines established by Law and the CBR.</p>	Rating Agency	Minimum credit rating		International	National	Standard & Poors	"B-"	"ruBBB-"	Fitch Ratings	"B-"	"ruBB-"	Moody's	"B3"		A.M. Best	"B-"		Expert RA	"A"	
Rating Agency	Minimum credit rating																				
	International	National																			
Standard & Poors	"B-"	"ruBBB-"																			
Fitch Ratings	"B-"	"ruBB-"																			
Moody's	"B3"																				
A.M. Best	"B-"																				
Expert RA	"A"																				
Assessment	LARGELY OBSERVED																				

ICP/Std.	Description
Comment	<p>The CBR has enacted prudent investment regulations which address (i) investment of (i) own funds and (ii) assets covering technical reserves. The regulation clearly (i) defines investment categories for assets covering technical and mathematical provisions and (ii) sets limitations for specific types of investments, by addressing the issues of security, liquidity, diversification and nature of liabilities (for non-life).</p> <p>In 2015, the Insurance Law was amended to introduce the depository function for investments of life, annuities, pensions and CMTPL related assets.</p> <p>However, a separate investment regulation may be developed for life insurance (assets covering mathematical provisions). The CBR should also introduce ALM principles for interest, currency and duration matching for the long- term life insurance contracts.</p> <p>The current regulations do not permit investments in highly risky types of assets. Given the growing complexity of capital markets, the CBR is working to develop a more comprehensive investment regulatory framework which will set specific requirements and limitations on derivatives relative to the credit quality of issuers.</p> <p><b>Recommendations:</b></p> <p>(a) Develop a separate investment regulation for assets covering mathematical provisions (life insurance);</p> <p>(b) Develop regulatory requirements for the asset-liability matching to ascertain the ALM in long-term life insurance contracts.</p>
<b>ICP 16</b>	<b>Enterprise Risk Management for Solvency Purposes</b>
16	The supervisor establishes enterprise risk management requirements for solvency purposes that require insurers to address all relevant and material risks.
Description	<p>Due to the current rules-based supervisory regime, the requirements of enterprise risk management are not met. The legislation does not define ERM requirements for quantification of risk under a sufficiently wide range of risk scenarios that require the use of complex simulation techniques to reflect the nature, scale and complexity of risks borne by the insurer.</p> <p>However, the Insurance Law requires identification of risks through internal audit and actuarial reports which should provide details on (i) the company's performance, (ii) compliance with regulations and internal guidelines, (iii) adequacy of technical reserves and (iii) irregularities. Based on legal requirements, audit reports have to report irregularities</p>

<b>ICP/Std.</b>	<b>Description</b>
	<p>and violations and their estimated impact on the solvency margin, liquidity and other business performance.</p> <p>The regulation specifies clear rules on the investment of assets. However, due to the strict limitations provided by the regulation, insurers are not further required to develop their explicit investment policies.</p> <p>In contrast to the ICPs requirements on risk management, the current regulatory framework does not require insurers to measure their risks or explain their internal risk measurement approaches to the regulator. To be fully in compliance with this ICP, the CBR should require companies to have their risk management policies at the individual and group level:</p> <ul style="list-style-type: none"> <li>(a) outline how all relevant and material categories of risk are managed, both in the insurer’s business plan and its day-to-day operations;</li> <li>(b) describe the relationship between the insurer’s tolerance limits, regulatory capital requirements, economic capital and the processes and methods for monitoring risk;</li> <li>(c) include an explicit asset-liability management (ALM) policy which clearly specifies the nature, role and extent of ALM activities and their relationship with product development, pricing functions and investment management;</li> <li>(d) establish and observe the risk tolerance level.</li> </ul> <p>The current rule-based regulation also does not provide for the use of own risk and solvency assessment (ORSA) to determine the adequacy of insurers’ risk management, and current and likely future of their solvency position.</p>
<b>Assessment</b>	<b>NOT OBSERVED</b>
Comment	<p>Due to the current rules-based supervisory regime, the requirements of enterprise risk management are not met. The legislation does not define ERM requirements to quantification of risk under a sufficiently wide range of risk scenarios that require the use of complex simulation techniques to reflect the nature, scale and complexity of the risks at the insurer or group level.</p> <p><b>Recommendations:</b></p> <p>Switch gradually to the risk- based supervisory approach (see recommendations in ICP2, ICP7, ICP9, ICP13, and ICP17).</p>
<b>ICP 17</b>	<b>Capital Adequacy</b>



ICP/Std.	Description
17	<p>The supervisor establishes capital adequacy requirements for solvency purposes so that insurers can absorb significant unforeseen losses and to provide for degrees of supervisory intervention.</p>
Description	<p>Capital adequacy requirements are by and large in line with EU Solvency I requirements and hence are not risk sensitive. The Insurance Law (Article 25) requires insurers to meet at all times the solvency requirements which are monitored by the CBR on a quarterly basis. Insurers are required to calculate the normative solvency ratio as a ratio of available capital to the required solvency margin (EU S1 – like approach) and guarantee that it does not fall below 1.</p> <p>The current rule-based regulation does not observe the concept of 'Prescribed Capital Requirement (PCR),' which requires a specified level of safety over a defined time horizon and clear thresholds to trigger a supervisory intervention.</p> <p>Non-compliance with solvency and capital adequacy triggers a supervisory request for the plan of measures to restore own capital. Failure to comply with an order to increase capital gives grounds for the CBR to suspend and in some cases even revoke the insurer's license.</p> <p>The CBR further requires insurers to report their a) capital, b) statutory solvency margin, c) technical reserves and d) assets covering technical provisions. However, due to the rule-based solvency regime, insurers are not required to maintain an adequate margin of assets over liabilities.</p> <p>Available capital is calculated based on the balance sheet by taking into account the valuation of all assets and liabilities. The Insurance Law clearly and in line with best international practices specifies the types of assets which can be taken into account for the calculation of available capital. However, the capital adequacy of insurers can be materially underestimated due to the current regulatory requirements on the calculation of technical reserves, due to which the total balance sheet approach is not met. In addition, the CBR is yet to determine its approach to assessing the capital adequacy at the group level.</p> <p>The concern recently raised by the CBR that insurance company shareholders may potentially withdraw money from the company on a short notice is a major problem in its own right, which should be regulated by law and relevant insurance regulations. The estimate of statutory reserves used to calculate available capital may be totally different from the estimate obtained by actuarial methods which take into account (a) the nature and scale of risks and (b) involve realistic assumptions reflecting developments and trends at both insurer and market level. Reserve valuation is yet to be brought in line with the IFRS and actuarially accepted standards, which are expected to be fully</p>

ICP/Std.	Description
	implemented by in 2017. The CBR has recently required insurers to carry out alternative actuarial calculations of their technical reserves. However, as of now the actuarial estimates of reserves are not taken into account to assess insurers' capital adequacy.
<b>Assessment</b>	<b>PARTLY OBSERVED</b>
Comment	<p>Capital adequacy in the context of a total balance sheet approach is not met, while capital adequacy requirements are by and large in line with EU Solvency I requirements and hence are not risk sensitive. The Insurance Law (Article 25) requires insurers to meet at all times the solvency requirements which are monitored by the CBR on a quarterly basis. Insurers are required to calculate the normative solvency ratio as a ratio of available capital to the required solvency margin (EU S1 – like approach) and guarantee that it does not fall below 1.</p> <p>The approach to determining the capital resources eligible to meet regulatory capital requirements and their value are defined by the law through references to the quality and suitability of capital elements. However, the capital adequacy of insurers can be materially underestimated due to the current regulatory requirements on the calculation of technical reserves.</p> <p>The current rule-based regulation does not observe the concept of 'Prescribed Capital Requirement (PCR),' which requires a specified level of safety over a defined time horizon and clear thresholds to trigger a supervisory intervention.</p> <p>The concern raised by the CBR that insurance company shareholders may potentially withdraw money from the company on a short notice is a major problem in its own right, which should be regulated by law and relevant insurance regulations.</p> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>(a) Introduce requirements for risk-based actuarial assessments of insurance liabilities and ascertain their use in the calculation of insurers' available solvency (see details in ICP 14).</li> <li>(b) Introduce a buffer on solvency ratio, which shall be used as a threshold to trigger early interventions (See ICP for additional information on the proposed early warning system of indicators).</li> <li>(c) The regulations should envisage serious sanctions (including criminal) against those shareholders who withdraw funds from an insurance entity w/o an explicit approval from the CBR or unless the funds are paid out in the form of an approved dividend (the</li> </ul>

ICP/Std.	Description
	maximum default amount of a dividend not requiring the CBR approval must be also defined by law/regulations).
ICP 18	<b>Intermediaries</b>
18	The supervisor sets and enforces requirements for the conduct of insurance intermediaries, to ensure that they conduct business in a professional and transparent manner.
Description	<p>Licensing of insurance brokers (Law on Insurance, Article 32), is predicated on their ability to meet certain financial and integrity criteria stipulated by the Insurance Law. There are insufficient criteria to brokers' professional qualifications, minimum professional training and competence and no requirements for minimum third party liability insurance.</p> <p>Insurance agents, who account for most of intermediaries operating in the insurance market, are not subject to the licensing requirements. Their suitability, professional training and market conduct are the responsibility of insurers.</p> <p>Although there are no licensing requirements for insurance agents, the Insurance Law (paragraph 11 of article 8), requires insurers to (a) maintain up to date registries of intermediaries (insurance brokers and agents) with which they have concluded insurance intermediation contracts and (b) publish the registries of intermediaries in their web-sites.</p> <p>The CBR Instruction N 3499 (2014) defines the forms, timing and modalities of supervisory filing for the insurance brokers to the CBR for The Insurance Law (paragraph 9 of article 8) specifically requires the CBR to carry out the direct supervision of insurance brokers with regards to their insurance mediation operations, including their responsibilities arising from the contracts arranged with insurance companies.</p> <p>The CBR carries out the supervision of insurance brokers directly, while insurance agents are supervised as a part of on-site insurance supervision on respective insurers.</p> <p>The Law also spells out public disclosure requirements to intermediaries which include a review with the client of insurance policy terms and conditions, contract time periods, limitations or exclusions, insurance premium, and the disclosure of the intermediary's relationship with the insurer. In addition, the CBR requires an insurance intermediary which handles client money to have sufficient safeguards in place to protect these funds.</p>

ICP/Std.	Description
	<p>For this purpose, brokers and agents are obliged to a) set up separate bank accounts to deposit insurance premiums received by the policyholders and b) transfer insurance premiums to insurers within three working days after receiving them from the policyholders. The intermediaries have no right to use the separate premium account for any other purpose.</p> <p>The law prohibits insurance brokers from receiving commission from both the insurer and the insured for the same policy. Insurance brokers should set up and maintain at all times a bank cash guarantee which is no lower than RUB 3mm. However, there are no requirements for the professional liability insurance, which would protect intermediaries against professional errors and omissions.</p> <p>Insurance law requires insurance agents and brokers to publish information on their websites relating to their data, office location, insurers, as well as the amount of their commission. The Law requires insurers to maintain an updated registry of all agents and brokers, which intermediate their insurance contracts.</p> <p>Although insurance premium in Russia is not subject to either a VAT or sales tax, insurance brokerage commission is. The 18 percent VAT on the brokerage commission translates into the additional 1.5-2 percent markup on insurance premium, which seems to be inconsistent with the general spirit of the current insurance tax regime.</p>
Assessment	LARGELY OBSERVED
Comment	<p>Licensing of insurance brokers is predicated on their ability to meet certain financial and integrity criteria stipulated by the Insurance Law.</p> <p>Although there are no specific licensing requirements for insurance agents, the Insurance Law requires insurers to (a) maintain up to date registries of intermediaries (insurance brokers and agents) with which they have concluded insurance intermediation contracts and (b) publish the registries of intermediaries in their web-sites.</p> <p>The CBR supervises the insurance intermediaries and has the right to take appropriate supervisory action as necessary. While insurance brokers are required to meet certain financial and integrity criteria, there are no specific criteria on their appropriate levels of professional knowledge and experience for insurance intermediaries.</p> <p>The Law sets out consumer protection requirements for intermediaries which include (a) a review with the client of insurance policy terms and conditions, (b) and the disclosure of the intermediary's relationship with the insurer.</p>

ICP/Std.	Description
	<p>In addition, the CBR requires an insurance intermediary, which handles client money, to have sufficient safeguards in place to protect these funds through separate bank accounts to deposit insurance premiums received by the policyholders and swift transfer of insurance premiums to insurers.</p> <p>Although insurance premium in Russia is not subject to either a VAT or sales tax, insurance brokerage commission is subject to an 18 percent VAT.</p> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>(a) Ensure the registration of insurance agents in a central registry of intermediaries, subject to their professional certification (by insurers or SROs), which should be subject to a minimum qualification exam;</li> <li>(b) Introduce licensing requirement on brokers' professional experience;</li> <li>(c) Consider introducing a requirement for brokers' liability insurance;</li> <li>(d) Consider reducing or waiving the current VAT tax on brokerage commissions.</li> </ul>
<b>ICP 19</b>	<b>Conduct of Business</b>
19	<p>The supervisor sets requirements for the conduct of the business of insurance to ensure customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.</p>
Description	<p>The Insurance Law, (Article 3 para. 1) explicitly requires insurers to act with due skill, care and diligence when dealing with customers. Insurers must properly inform consumers on the products and services offered. The law sets the rules on the contents of insurance contract by also providing the CBR with the right to introduce additional minimum standards, criteria and procedures with regards to various types of voluntary insurance. (Article 3).</p> <p>Insurers, insurance brokers and agents are required to provide clients with relevant information and thorough explanations for all elements of insurance contract, including terms and conditions, limits of coverage, deductible and premiums, as well as surrender options, information on calculation of savings, and investment return in the case of 'with participation' contracts. However, due to the lack of professional criteria for intermediaries, the full compliance with this legal requirement is yet to be achieved. The legislation does not require professional qualifications for insurance intermediaries.</p>

<b>ICP/Std.</b>	<b>Description</b>
	<p>Insurance brokers must obtain the necessary information to assess clients' needs and propose products that best meet those needs after having compared their terms and conditions, limits of coverage, premiums and other coverage elements with alternative products offered by other insurers (Article 8).</p> <p>The insurers are required to have clear guidelines and processes in place to handle claims relating to compulsory insurance in a timely and fair manner.</p> <p>To avoid conflicts of interest, the Insurance Law requires intermediaries to disclose business relationships with insurers.</p> <p>The Laws 38-FZ "On Advertising" and 2300-1 "On Protection of Consumer Rights" require (a) clear, fair and non-misleading promotion of products and services and (b) their immediate banning if the promotion fails to meet the criteria.</p> <p>The protection of consumer data is mandatory for insurers and insurance intermediaries (Civil Code, Article 946) and Law 152-FZ "On Personal Data). In addition, brokers are legally required to preserve the confidentiality of all data, facts and circumstances related to the insurer's business secrecy.</p> <p>A separate service is established in the CBR to protect consumers and minority shareholders in financial institutions. The objectives of the service are to:</p> <ul style="list-style-type: none"> <li>(a) assess the current financial regulation on consumer and investor protection and prepare proposals for legal changes; and</li> <li>(b) review and address consumer complaints.</li> </ul> <p>Consumers can address their complaints directly to the CBR through a consumer portal on the CBR's official website.</p>
Assessment	LARGELY OBSERVED
Comment	<p>The current regulation has established sound business conduct requirements which are largely monitored by the CBR. The Insurance Law explicitly requires insurers to act with due skill, care and diligence when dealing with customers. Insurers must properly inform consumers on the products and services, which should also be promoted in a manner that is clear, fair and not misleading.</p> <p>The CBR requires that insurers have policies and processes in place to handle claims in a timely and fair manner and address the consumers' complaints.</p>

<b>ICP/Std.</b>	<b>Description</b>
	<p>The protection of consumer data is mandatory for insurers and insurance intermediaries.</p> <p>A separate service is established in the CBR to protect consumers and minority shareholders in financial institutions. The objectives of the service are to: (a) assess the current financial regulation on consumer and investor protection and prepare proposals for legal changes; and (b) review and address consumer complaints. Consumers can address their complaints directly to the CBR through a consumer portal on the CBR's official website.</p>
<b>ICP 20</b>	<b>Public Disclosure</b>
20	<p>The supervisor requires insurers to disclose relevant, comprehensive and adequate information on a timely basis in order to give policyholders and market participants a clear view of their business activities, performance and financial position. This is expected to enhance market discipline and understanding of the risks to which an insurer is exposed and the manner in which those risks are managed.</p>
Description	<p>Insurance Law (Articles 6, 28 and 30) and the CBR Instruction 3740, 27.07.2015 clearly define the list of information that insurers should make available to the public.</p> <p>In accordance with Article 29 of the Insurance Law, insurers are required to publish their audited annual financial statements, including the auditor's opinion, no later than 6 months after the end of financial year. The audited statements should be published on insurers' websites, or in newspapers which have a circulation in the territory of insurer's operations.</p> <p>In accordance with Article 21.1, paragraph 7 of the Insurance Law, the transferor should announce its intention to transfer its insurance portfolio on the websites determined by the CBR, as well as in two printed editions of periodic newspapers, which are circulated in the territory of insurer's operations at no less than 10 thousand copies each. The notification should be also published on insurer's own website upon the CBR's request and contain:</p> <ul style="list-style-type: none"> <li>(a) reasons and procedures relating to the portfolio transfer;</li> <li>(b) the name and location of transferee (company);</li> <li>(c) information on the activities and financial statements of the transferee.</li> </ul> <p>The notification on the transfer of insurance portfolio should be published by the transferring and receiving insurers on their respective</p>

<b>ICP/Std.</b>	<b>Description</b>
	<p>websites within three working days from the date of portfolio transfer (Article 21.1, paragraphs 13/1). Within 15 working days from the completion of portfolio transfer, the insurer which accepted the portfolio should further publish the notification of transfer in two in two printed editions of periodic newspapers, with a minimum circulation of 10,000 copies in the territories of the insurer's operations (Article 21.1, paragraphs 13/2).</p> <p>There are no legal requirements regarding enterprise risk management (ERM), including asset-liability management (ALM) in total and to this effect the disclosure requirement is non-applicable.</p> <p>Although are no requirements to publicly disclose detailed information on the company profile (nature of its business, general description of its key products, objectives and strategies), as a matter of practice, most insurers have developed their interactive websites where the abovementioned information can be easily found.</p> <p>However, as per ICP specific requirements, the CBR should require insurers to disclose more detailed financial information to the public.</p>
Assessment	LARGELY OBSERVED
Comment	<p>Annual financial statements and respective audit opinion are made available to the public directly by insurance companies. In addition, insurers are required to disclose relevant information regarding the profile, corporate governance, key products and services in their websites.</p> <p>However, there are no requirements to disclose more detailed financial information with regard to the segmentation of technical provisions, future cash flow assumptions, the method used to determine technical provisions, asset – liability matching, as well as quantitative source of earnings analysis, claims development, pricing adequacy, risk concentrations, reinsurance (as required in the ICP).</p> <p>There are no specific disclosure requirements to address insurance groups.</p>
<b>ICP 21</b>	<b>Countering Fraud in Insurance</b>
21	The supervisor requires that insurers and intermediaries take effective measures to deter, prevent, detect, report and remedy fraud in insurance.
Description	Fraud in insurance is a criminal offence and is addressed by the Criminal Code, Article 159, which stipulates that submission of false insurance application (or false information) or fabrication of false circumstances to



ICP/Std.	Description
	<p>unfairly obtain insurance compensation is punished with five years of imprisonment.”</p> <p>The Russian Motor Insurance Association has recently developed a common claims and policy database for the motor insurances which helps to combat insurance fraud. The database however is still too young and incomplete (as not all insurers supply it with required data) to act as an effective tool for combating insurance fraud. Based on the President’s Decree 224, upon identifying signs of illegal activities the CBR should inform relevant federal bodies.</p> <p>Although there are no insurance-specific regulations, or regulatory manuals on countering insurance fraud, the CBR holds regular meetings and workshops with financial institutions on fraud combating techniques.</p>
Assessment	PARTLY OBSERVED
Comment	<p>Fraud in insurance is a criminal offence and is addressed by the Criminal Code. Upon identifying signs of illegal activities the CBR should inform relevant federal bodies.</p> <p>Although there are no insurance-specific regulations, or regulatory manuals on countering insurance fraud, CBR holds meetings and workshops with financial institutions to review the measures taken and suggest improvements on the subject matter. The Russian Motor Insurance Association has recently developed a common claims and policy database for the motor insurances which helps to detect and combat insurance fraud.</p> <p><b>Recommendation:</b></p> <p>(a) Develop insurance-specific regulatory manuals for countering insurance fraud.</p>
<b>ICP 22</b>	<b>Anti-Money Laundering and Combating the Financing of Terrorism<sup>15</sup></b>
22	The supervisor requires insurers and intermediaries to take effective measures to combat money laundering and the financing of terrorism. In addition, and the supervisor takes effective measures to combat money laundering financing of terrorism.

<sup>15</sup> The ICP 22 Anti-Money Laundering and Combating the Financing of Terrorism was revised in 2013 and adopted at the IAIS Annual General Meeting in October 2013

ICP/Std.	Description
A.	<b>Where the insurance supervisor is a designated AML/CFT competent authority</b>
A.	The supervisor has a thorough and comprehensive understanding of the ML/FT risks to which insurers and intermediaries are exposed and uses available information to assess the ML/FT risks to the insurance sector in its jurisdiction on a regular basis.
Description	<p>The Law 115/FZ defines the objectives and powers of the country's Financial Intelligence Unit (FIU). The FIU has 3 oversight functions: (a) monitoring the implementation by legal and private persons of Russia's anti-money laundering legislation and prosecution of violations in this field; (b) coordinating activities of federal executive authorities and (c) maintaining cooperation with the CBR.</p> <p>Insurers, insurance brokers and mutual insurers are subject to the Law 115/FZ which governs the operation of the AML/CFT system. Insurers are also subject to the broader AML/CFT legislation, including Know Your Customer rules, Customer Due Diligence and reporting requirements, as well as the CBR AML/CFT requirements. The most important of these regulations are listed below:</p> <ul style="list-style-type: none"> <li>(a) CBR regulation 12.12.2014 No. 444-P 'On the identification of the financial organizations, customers, their representatives, representatives of beneficiaries for combating ML/FT);</li> <li>(b) CBR Instruction of 05.12.2014 No. 3470-U, "Qualification requirements for special officials responsible for the implementation of rules of internal control for combating of ML of crime and CF";</li> <li>(c) CBR Instruction 05.12.2014 No. 3471-U, "Requirements for education and training of financial organizations";</li> <li>(d) CBR Instruction 15.12.2014 No. 3484-U, "On the submission AML/CFT information ".</li> </ul> <p>To strengthen the AML/CFT control in the insurance sector, in 2015 the CBR enacted the insurance regulations on:</p> <ul style="list-style-type: none"> <li>(a) Internal control requirements with regard to AML/FT;</li> <li>(b) Duties of special officials responsible for the implementation of the AML/CFT rules of internal control;</li> <li>(c) Requirements relating to the organization of AML/CFT trainings;</li> <li>(d) Requirements on identification of clients, their representatives, customers and the beneficiary owners;</li> <li>(e) AML/CFT reporting requirements.</li> </ul>

ICP/Std.	Description
	<p>The AML/CFT Law allows insurers to accept amounts up to RUB 15 thousand without the need for customer's identification (if there is no ML/FT suspicious sign). Any transaction related to life insurance or similar which exceeds RUB 600 thousand (or equivalent in foreign currency) is subject to mandatory control and reporting to the FIU.</p> <p>In addition, the CBR has introduced additional AML/CFT rules relating to the internal control of financial organizations (Regulation № 445-P of December 15<sup>th</sup>, 2014). The document provides a list of potential signs of suspicious transactions which must be identified, recorded and analyzed by the insurer. If a transaction seems to be suspicious, the insurer should immediately forward the information to the FIU.</p> <p>For the purpose of managing the ML/FT risks, the CBR classifies insurance market participants into two groups: (a) Group 1 comprises small market participants, including small insurance brokers and mutual insurers; and (b) Group 2 consisting of insurers as well as mutual insurers which have not been included in Group 1. In accordance with the CBR Regulation № 445-P effective from March 1<sup>st</sup>, 2015, insurance entities falling in Group 2 should fulfill the following requirements:</p> <ul style="list-style-type: none"> <li>(a) Establish a separate AML/CFT unit with at least two persons;</li> <li>(b) Conduct regular checks on the implementation of legal requirements by the staff;</li> <li>(c) Submit written records of the company's management on the AML/CFT checks.</li> </ul> <p>The AML law and CBR regulations subject insurers to the obligation of establishing a permanent structure and procedures for internal control purposes. The internal control shall consist of (a) management oversight; (b) risk control (including AML/CFT), (d) reporting and information and (d) internal audit. The existence and effectiveness of compliance with these requirements is assessed by the CBR, which monitors insurers on the basis of relevant information obtained from the supervision of credit institutions and from FIU. The CBR has the right to apply measures against insurers which do not implement the AML/CFT requirements (Act 27.11.1992 N 4015-1, Article 32.6 of Chapter IV and the Code of the Russian Federation on Administrative Offenses - Article 15.27). The CBR measures may escalate from the order to eliminate the violations to the restriction or suspension of license.</p> <p>To facilitate insurers' compliance with the new regulations, the CBR prepares letters with clarifications on the questions relating to the implementation of legal and regulatory requirements (information letter of 28 January 2014 No. 14-T, information letter of 29 December 2014 No. 25, dated 16 June 2015 and No. 014-12-1/5123, letter of 17 June</p>

<b>ICP/Std.</b>	<b>Description</b>
	<p>2015 and No. 12-1-10/1383, letter of 27 August 2015 No. 12-1-10/1988). The letters are published in the “Bank of Russia Bulletin” of the CBR and posted on the CBR official website.</p> <p>The CBR cooperates actively with other domestic and foreign relevant authorities. Even though FIU is not a financial sector supervisory body, it is responsible, among others, for “monitoring the implementation by legal entities (and individuals) of AML legislation and maintaining cooperation with the CBR. As a result, a close and fruitful cooperation has been established with the CBR”.</p> <p>Further, the interdepartmental Working Group on Combating Illegal Financial Transactions (IWG) was established by the order of the President of the Russian Federation on July 31, 2014. The Working Group was established in addition to the already existing Interagency Commission on AML/CFT. For a more in-depth study of existing tasks, FIU set up a permanent IWG Expert Group comprising representatives of the Bank of Russia, public authorities as well as scientific and professional communities. In 2014, the Working Group held 13 meetings.</p> <p>The Russian Federation is a member of the FATF, MONEYVAL and one of the founding members of the Eurasian Group (EAG), which is a FATF-style regional body uniting Belarus, India, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan.</p>
Assessment	OBSERVED
Comment	<p>Insurers, insurance brokers and mutual insurers are subject to Law 115/FZ16 which governs (a) the operation of the AML/CFT system, (b) the list of entities subject to the AML/CFT legislation and arising from it legal obligations. The CBR has a thorough and comprehensive understanding of the ML/FT risks and uses available information to assess the ML/FT risks to the insurance sector on a regular basis.</p> <p>The regulatory framework has been extensively amended to increase the AML/CFT compliance of insurers and insurance brokers.</p> <p>The CBR has an effective supervisory framework to monitor and enforce compliance by insurers and intermediaries with AML/CFT requirements and take necessary action.</p> <p>The CBR cooperates actively with other domestic and foreign relevant authorities and is part of the permanent Expert Group comprising</p>

<sup>16</sup> Federal Law “On Countering the Legalization (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism”.

<b>ICP/Std.</b>	<b>Description</b>
	<p>representatives of the Bank or Russia, public authorities as well as scientific and professional communities.</p> <p>The Russian Federation is a member of the FATF, MONEYVAL and one of the founding members of the Eurasian Group (EAG), which is a FATF-style regional body uniting Belarus, India, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan.</p>
<b>ICP 23</b>	<b>Group-wide Supervisor</b>
23	The group-wide supervisor, in cooperation and coordination with other involved supervisors, identifies the insurance group and determines the scope of group supervision.
Description	<p>At present, the CBR mainly supervises insurers at the level of individual legal entity. With the introduction of the IFRS in 20017, the CBR will start requiring the consolidated accounts of all companies consolidated at the group level.</p> <p>With its establishment as a mega-regulator of the overall financial sector, the CBTR has adopted a good practice of coordinated on-site inspections over individual companies of same financial groups (conglomerates), including insurers and banks. There are no legal restrictions for the CBR to coordinate its on-site inspections of the members of a financial group and take supervisory decisions for the inspected entities based on such inspections. During 2015 – 16 alone, the Chief Inspection arranged coordinated inspections over 117 financial entities, including 14 insurers.</p> <p>However, the CBR is yet to consistently identify all legal entities that are part of the insurance groups, in cooperation and coordination with other involved supervisors for the purpose of defining the scope of group-wide supervision. In this context, the CBR needs to establish a structured approach to group supervision, to ensure the coverage of all relevant entities by taking into account their participation, influence and/or other contractual obligations, interconnectedness, risk exposure, risk concentration, risk transfer, and/or intra-group transactions and exposures.</p>
Assessment	PARTLY OBSERVED
Comment	At present, the CBR supervises insurers at the level of individual legal entity. With the introduction of the IFRS in 20017, the CBR will start requiring the consolidated accounts of all companies consolidated at the group level.

ICP/Std.	Description
	<p>With its establishment as a mega-regulator of the overall financial sector, the CBR has adopted a good practice of coordinated inspections over individual companies of the same financial groups (conglomerates), including insurers and banks.</p> <p>However, the CBR is yet to establish a structured approach to group supervision, to ensure the coverage of all relevant entities by taking into account their participation, influence and/or other contractual obligations, interconnectedness, risk exposure, risk concentration, risk transfer, and/or intra-group transactions and exposures.</p> <p><b>Recommendation:</b></p> <p>(a) Establish a structured approach to group supervision in cooperation with other involved supervisors.</p>
<b>ICP 24</b>	<b>Macro-prudential Surveillance and Insurance Supervision</b>
24	<p>The supervisor identifies, monitors and analyses market and financial developments and other environmental factors that may impact insurers and insurance markets and uses this information in the supervision of individual insurers. Such tasks should, where appropriate, utilise information from, and insights gained by, other national authorities.</p>
Description	<p>The CBR collects a vast amount of data for the purpose of financial monitoring and carries out quarterly macro-economic reviews. The off-site monitoring makes use of other available sources of information, including data from the banking system. The reports are analyzed by the CBR to gain insight into the performance, profitability, capital position, liabilities, assets and underwriting practices of systemically important market players.</p> <p>The CBR has started to carry out analysis of the potential impact of macroeconomic shocks to insurance sector and systemically important insurers due to unfavorable dynamics of GDP, exchange rates, inflation, personal income, and capital investment. To this effect a stress testing was carried out in the first half of 2015 and results were further discussed among the CBR departments with a view to determining key areas requiring close attention and monitoring from the CBR.</p> <p>However, due to (a) the relatively short time passed from the beginning of insurance supervision mandate and (b) the current rule-based supervision approach, the CBR has not been able to develop sufficient analytical tools which take into account the nature, scale and complexity of insurers, to limit potential impact of large and systemic risks that may threaten the development of the insurance sector and adversely affect the financial sector at large.</p>

<b>ICP/Std.</b>	<b>Description</b>
	<p>The current legal framework neither specifically addresses macro prudential surveillance issues nor does it provide for proper and timely risk-based intervention in the case of negative macro-economic trends that might adversely affect individual insurers and/or the insurance market as a whole. The CBR is planning to introduce an early warning system with a set of key financial indicators which would enable detecting the risks and preventing or mitigating them at an early stage. However, this system requires the adoption of a risk-based supervision approach and adequate management information systems which would allow for a proper measurement of macroeconomic risks to the insurance industry in a timely fashion.</p>
Assessment	LARGELY OBSERVED
Comment	<p>The CBR identifies underlying trends by collecting data on, but not limited to, profitability, capital position, liabilities, assets and underwriting, to the extent that it has information available at the level of legal entities, though not yet at a group level.</p> <p>The CBR has started to carry out analysis of the potential impact of macroeconomic shocks to insurance sector and systemically important insurers due to unfavorable dynamics of GDP, exchange rates, inflation, personal income, and capital investment considered in the light of relevant regulatory requirements (e.g. allowed types of investments and restrictions).</p> <p>The CBR has established the process for identifying the systemically important insurers and allocation of curators based on business volumes and social significance of certain types of insurance. However, the CBR has not been able to develop yet appropriate analytical and supervision tools which take into account the nature, scale and complexity of insurers and have been specifically designed to limit the impact of macro-economic risks on the development of the insurance sector.</p>
<b>ICP 25</b>	<b>Supervisory Cooperation and Coordination</b>
25	The supervisor cooperates and coordinates with other relevant supervisors and authorities subject to confidentiality requirements.
Description	The current legal and regulatory framework (Article 51.1 of the CBR Law) allows the CBR to obtain and share information with other financial supervisors and authorities based on bilateral mutual or multilateral agreements subject to confidentiality, purpose and use requirements (See ICP 3).

<b>ICP/Std.</b>	<b>Description</b>
	<p>The CBR is a signatory to the following bilateral MoUs with financial/insurance market regulators:</p> <ul style="list-style-type: none"> <li>(a) FSMA (Belgium),</li> <li>(b) FMA (Liechtenstein),</li> <li>(c) FSC ( Republic of Korea),</li> <li>(d) CMA (Sultanate of Oman),</li> <li>(e) BaFin (Germany),</li> <li>(f) State Service for Supervision and Regulation of the Financial Market of the Kyrgyz Republic,</li> <li>(g) Ministry of Finance of the Republic of Belarus on the Procedure for Information Interaction in the Securities Market.</li> </ul> <p>As of September 2013 (Federal Law No. 251-FZ of July 23rd, 2013), the CBR was assigned with functions of the FFMS and became its legal successor in the relations associated with international and foreign organizations on the financial markets. As a result, the CBR inherited the following agreements and MoUs, signed earlier by the FFMS with the international financial institutions:</p> <ul style="list-style-type: none"> <li>(h) Agency of the Republic of Kazakhstan on Regulation (2008).</li> <li>(i) National Association of Insurers Commissioners (NAIC) of the USA (2006).</li> <li>(j) In 2015 the CBR also signed the MoU with China Insurance Regulation Commission.</li> </ul> <p>In April 2014, the IAIS officially approved transfer of the IAIS membership from the FFMS to the CBR. The CBR has submitted the application and is in the process of joining the IAIS MMoU, which will allow the cooperation with other MMoU signatories.</p> <p>Coordination agreements include establishing effective procedures for: (a) information sharing between supervisors; (b) convening periodic meetings of involved supervisors; and (c) conducting of joint assessments within the framework of respective MoUs.</p> <p>The requirements of the designated group supervisor do not apply to the CBR.</p>
Assessment	OBSERVED
Comment	The current legal and regulatory framework (allows the CBR to obtain and share information with other financial supervisors and authorities



<b>ICP/Std.</b>	<b>Description</b>
	<p>based on bilateral mutual or multilateral agreements subject to confidentiality, purpose and use requirements</p> <p>To this effect, CBR has established effective cooperation with insurance supervisors from various jurisdictions and is in the process of joining the IAIS MMoU. The CBR is a full IAIS member and contributes actively to its activities.</p> <p>The agreements enable establishing effective procedures for: information flows between involved supervisors; convening periodic meetings of involved supervisors; and conducting comprehensive assessment of the involved entities. The agreements are flexible to support the group supervision and participation in supervision colleges, as well as to tailor particular roles and functions of involved parties.</p>
<b>ICP 26</b>	<b>Cross-border Cooperation and Coordination on Crisis Management</b>
26	The supervisor cooperates and coordinates with other relevant supervisors and authorities such that a cross-border crisis involving a specific insurer can be managed effectively.
Description	<p>The CBR is an active member of the IAIS and actively participates in all its activities and discussions by providing contributions in the following forums:</p> <ul style="list-style-type: none"> <li>(a) Financial Stability and Technical Committee</li> <li>(b) Implementation Committee</li> <li>(c) Accounting and Auditing Working Group</li> <li>(d) Governance Working Group</li> <li>(e) Insurance Groups Working Group</li> <li>(f) Market Conduct Subcommittee</li> <li>(g) Financial Inclusion Working Group</li> <li>(h) Expert Team for the Self-Assessment and Peer Review on Macro-prudential Surveillance and Reinsurance</li> <li>(i) Expert Team for conducting the Self-Assessment and Peer Review on Solvency</li> <li>(j) ICP Review Task Force</li> <li>(k) Macro-prudential Policy and Surveillance Working Group</li> </ul> <p>Close cooperation have been established with supervisory authorities of various countries through MoUs. The CBR has been participating in a</p>

ICP/Std.	Description
	<p>supervisory college for one large international group with operations in the Russian Federation (see ICP 3 and ICP 25).</p> <p>However, the current rule-based supervisory approach impairs the CBR's ability to (a) carry out proper and timely assessment of insurers, (b) timely detect the risks and look into contingency plans and operational risk management of insurers and (d) initiate the necessary cross-border communication in time in case of an emergency.</p>
Assessment	LARGELY OBSERVED
Comment	<p>The CBR is an active member of the IAIS and participates in all its activities by providing contributions in numerous forums and discussions. The CBR keeps communication with insurance supervisors from various jurisdictions and has established a close cooperation with CIS countries where Russian insurers operate. The agreements with other supervisors allow sharing information, on (as the group structure (including legal, financial and operational intra-group dependencies) and inter-linkages between the insurer and the financial system in each jurisdiction where it operates.</p> <p>The CBR requires insurers to collect and report relevant information, which would need to be supplied also for the purpose of assessing and managing a financial crisis. While insurers are required to comply with regulatory norms on capital adequacy and other financial indicators, the CBR is yet to require them develop contingency plans and procedures based on their specific risk for use in a going-and gone-concern situation as required by the ICP.</p> <p>The CBR is also prepared to (a) share information (subject to data protection and confidentiality agreements) and (b) cooperate to find internationally coordinated, timely and effective solutions, or otherwise discuss other jurisdictional measures with relevant supervisors. However, the current rule-based supervisory approach impairs the CBR's ability to (a) carry out proper and timely assessment of insurers, (b) timely detect the risks and look into contingency plans and operational risk management of insurers and (c) timely initiate the necessary cross-border communication in time in the case of an emergency.</p> <p>The CBR is yet to establish a structured approach to the group supervision in general and particularly its public communication roles in the function of group-wide supervisor.</p> <p><b>Recommendations:</b></p>

<b>ICP/Std.</b>	<b>Description</b>
	<ul style="list-style-type: none"><li>a) Develop a risk based approach to crisis management, which ensures early identification and cooperation</li><li>b) Establish public communication roles in the function of group-wide supervisor.</li></ul>