

Newsletter

New Russian insurance market opportunities for foreign insurers

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The Russian insurance market is facing fundamental changes that will reshape the industry, by creating new opportunities for **foreign insurance companies** to operate in Russia.

Within the framework of its obligations as a WTO member state, Russia must allow access of branches of foreign insurers, from WTO countries, to the Russian insurance market, by August 2021. Today, foreign investors can access the Russian insurance market **only through their Russian subsidiaries** that do business in Russia, based on the insurance license issued by the Central Bank of the Russian Federation ("**CBR**").

A number of draft laws on amending various acts, including the Law of the Russian Federation No. 4015 - I "On organization of insurance business in the Russian Federation", are now being considered by the Government of the Russian Federation. They are yet to be submitted to the State Duma, the Russian Parliament, so the final wording of the draft laws is subject to further consideration by Russian lawmakers.

1. Russian branches

The draft laws provide for **an accreditation procedure** that branches of foreign insurers will need to undergo, under the supervision of the CBR. Following completion of accreditation, a Russian branch of a foreign insurer must enter into a Russian self-regulatory organization of insurers.

A Russian branch of a foreign insurer will be able to offer the following insurance services: voluntary life insurance, voluntary personal insurance, voluntary property insurance and reinsurance. Currently, the draft laws provide for the possibility to provide only one type of compulsory insurance – compulsory third-party liability motor vehicle insurance (OSAGO).

2. Requirements for foreign insurers

In order to operate through a Russian branch, a foreign insurer must comply with **a number of regulatory requirements**, in particular, it must:

- have an insurance license (or permission to carry out insurance activities) in its jurisdiction of incorporation and have relevant experience in the following types of insurance:
 - at least **eight (8) years** for life insurance;
 - at least **five (5) years** for other types of insurance and/or reinsurance; and
 - at least **five (5) years** of experience in operating a branch, or branches, in foreign markets;
- have total assets of more than **US\$5 billion**, as of the end of the calendar year prior to the date of application to establish a branch in Russia;
- have its registration address and principal place of business in the same jurisdiction (and a parent foreign insurance company must not be incorporated in an offshore jurisdiction);

- ensure financial stability by:
 - creating insurance reserves;
 - opening a security deposit bank account with the Russian Deposit Insurance Agency; and
 - mandatory reinsurance of ten (10) per cent of branch's reinsured obligations with the Russian National Reinsurance Company;
- have software and hardware in Russia that ensure exchange and storage of information; and
- organise internal compliance and audit systems in accordance with the requirements of Russian law.

In addition, establishment of a Russian branch is subject to the existence of **an information-exchange agreement** between the CBR and an insurance regulator of a foreign insurer's jurisdiction of registration.

3. Supervision over Russian branches

All branches will be obliged to submit reports on their KPIs and IFRS/GAAP financial statements, annual audited reports, internal auditor's reports and annual statistical reports on their activities, to the CBR. Branches will be also subject to Russian anti-money laundering requirements. If a branch terminates its activities, it will be obliged to transfer its insurance portfolio to Russian insurers, or other Russian branches of foreign insurers.

The rule on limiting the percentage of foreign capital in the charter capitals of Russian insurance companies will remain. If the **fifty (50) per cent quota** is exceeded, a foreign insurer's application to create a branch will be rejected. According to the CBR, as of the January 1st 2020, the share of foreign capital in the charter capitals of insurance companies was approximately eleven (11) per cent.

ALRUD Team will be happy to assist you with all necessary procedures for establishing a branch of a foreign insurance company in Russia.

Note: Please be aware that all information provided in this letter was based on the information from the open sources. Neither ALRUD Law Firm, nor the authors of this letter, bear any liability for consequences of any decisions made in reliance upon this information.

If you have any questions, please do not hesitate to contact ALRUD partner.

Sincerely,
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