***R***ussian ***E***conomic ***A***cademy named after G.V.Plekhanov

Chair of Foreign Language

***REPORT***

on the subject:

***THE INSURANSE MARKET:***

***STRUCTURE & SITUATION IN RUSSIA.***

*student of*

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***Serge***

***Lotchan***

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***INTRODUCTION***

The term 'market' denotes a place where people buy and sell goods. There is, of course, no good reason why services should not also be sold in a market. For many years Lloyd's of London was the only place where representatives of buyers could meet sellers face to face but there are now similar markets in the United States.

Most insurance today is arranged by intermediaries acting on behalf of clients. Their job is to arrange insurances on behalf of people who ask them to do so but also to encourage people to insure in respect of needs which the intermediary - being experienced in insurance and risk - makes them aware of.

The diagram shows the general structure of the insurarice market. The buyers in the market are the public, industry and commerce as well as some local government and nationalised enterprises. Obviously there is a difference in the sizes of risks offered ranging from the contents of very small flats insured against fire, to large office blocks in the centre ot a big town.

The people who offer insurance cover are the insurers who may be proprietary companies, societies, mutual indemnity associations or Lloyd's Undenvriters. Insurance may be bought directly from companies at their branch offices or through their represeptatives. Most insurance, however, is arranged through intermediaries who are approached by prospective insureds or bring the need for insurance to the notice of their clients.

Intermediaries are brokers and agents who act on behalf of their clients but are usually paid in the form of commission by the insurers.

***PROPRIETARY INSURANCE COMPANIES***

Proprietary companies are owned by the shareholders whose liability for losses is restricted to the nominal value of their shares (basically that is the originally stated face value of the shares).

***MUTUAL COMPANIES***

Mutual companies have been formed by Deed of Settlement or registration under the Companies Acts. They are owned by the policyholders who share any profits made. The shareholder in the proprietary company receives his share of the profit by way of dividends, but in the mutual company the policyholder owner may enjoy lower premiums or higher life assurance bonuses tha would otherwise be the case.

It is no longer possible to tell from the name of a company whether it is proprietary or mutual. Many companies which were originally formed as mutual organisations have now registered as proprietary companies.

There are other ways of classifying insurance companies.

(a) Specialist companies- are those which underwrite one type of insurance business only, e.g. life companies, engineering insurance companies.

(b) Composite companies- are those which underwrite several types of business.

***INDUSTRIAL LIFE INSURANCE***

***(HOME SERVICE INSURANCE)***

These are proprietary companies transacting "industrial" life assurance and increasingly, "ordinary" life assurance as well. Their activities in industrial life assurance are controlled by the Industrial Assurance & Friendly Societies Acts. Premiums are collected weekly, fortnightly or monthly. Collectors are employed to call at the homes of the policyholders and new business is also transacted in this way.

Ordinary Branch life assurance premiums are collected quarterly, half-yearly or annually, or paid by Direct Debit monthly. If the premiums were physically collected more frequently than every two months the policies would be considered to be Industrial Life Assurance and subject to the appropriate laws.

***COLLECTING FRIENDLY SOCIETIES***

These societies are run on a mutual basis and are formed by registration under the Friendly Societies Acts. They transact industrial life assurance and, in some cases, personal accident and sickness cover.

Friendly societies can issue specially attractive life assurances subject to an overall premium limit of quite a low level; this premium limit does not apply to Industrial Life Assurance companies.

***CAPTIVE INSURANCE COMPANIES***

Captive insurance is a method of transacting risk transfer which has become more common in recent years among the large national and international industrial compahies. The parent company forms a subcidiary company to underwrite certain of its insurable and sometimes otherwise uninsurable risks.

Indeed the incentive to form a captive company for many large industrial concerns was that the insurance market generally was not prepared to write particular risks or provide full cover (an example would be insurance guaranteeing a product's performance).

***MUTUAL INDEMNITY ASSOCIATIONS***

Mutual indemnity associations differ from mutual companies in that the latter will accept business from the public at large, whereas an indemnity association originally would only accept business from members of a particular trade. Over the years many of the associations have had to accept business from members of the public in order to have greater financial stability and spread of risk and have been reformed as mutual or proprietary companies.Examples of trades which had such associations at one time were pharmacists, farmers, furntiure manufacturers and shipowners.

***LLOYD'S UNDERWRITERS***

There are just over 26,000 members of Lloyd's grouped into approximately 400 syndicates. The trend seems to be a reducing number of richer members (names) grouped into larger syndicates. These syndicates can be made up of only a few members or in some cases more than a thousand.

We should note that the "names", the underwriting members, are not normally insurance professionals. They come from many walks of life including the professions, the world of entertainment, the aristocracy etc. Each underwriting member is, however, fully and personally liable for all the business written on his behalf by the underwriter of the syndicate.

In view of this unlimited liability it is essential that strict regulations apply to any person wishing to become an underwriting member. For example UK member must nowadays provide evidence of minimum means of 250,000 pounds and also deposit a proportion at Lloyd's.

***INTERMEDIARIES***

The intermediaries in the market are insurance brokers, agents, consultants and a variety of oiher people operating with differing titles. In some respects they all vary slightly in what they do, how they do it and in their responsibility for their actions.

***Agent.***

An agent in law is one who acts for another but in insurance the term is usually reserved for the individual or firm whose main occupation is in another field.

***Broker.***

A broker is an individual or firm whose full-time occupation is the placing of insurance with insurers.

There are two categories of brokers:

(a) Lloyd's brokers: they are the only persons permitted to place business at Lloyd's.

They a)so place business in the company market;

(b) other brokers (just termed "brokers").

Both categories are full-time professionals who must be registered in accordance with the Insurance Brokers (Registration) Act 1977.

They normally act as agents for the insured (Lloyd's brokers always so), and are generally remunerated by a higher rate of commission than agents. By calling themselves "brokers" they are holding themselves out to be experts in the field of insurance and have a higher duty of care to their clients than agents.

***Insurance Consultant.***

Another category of intermediary is the insurance consultant, who may act in a similar manner to an insurance broker.

***Industrial Assurance Agent.***

The industrial life insurance offices and friendly societies employ representatives to call at the homes of their policyholders to collect the weekly premiums and hopefully to sell further policies. They are not intermediaries in the same way as the others. In this case the representative is employed by the insurance company but nevertheless he or she performs the functions of an intermediary.

***SELF-INSURANCE***

As an alternative to purchasing insurarice in the market, or as an adjunct to it where the first layer or proportion of a claim is not insured in the commercial market, some public bodies and large industrial concerns set aside funds to meet insurable losses. As the risk is retained within the organisation, there is no market transaction of buying and selling.

These organisations have made decisions to self-insure because they feel they are large enough financially to carry such losses, and because the cost to them, by way of transfers to the fund, is lower than commercial premium levels as they are saving the insurer's administration costs and profit.

***REINSURANCE***

Having decided on the maximum that it is prepared to lose in the event of a major loss, an insurer is faced with a number of choices. He may refuse the risk, agree to accept a part of it ("coinsurance") or accept it with the intention of reinsuring. What is important to know here is that an insurer is faced with the same pioblem as the insured - to share his risk so as not to suffer a loss that would be catastrophic. In the case of co-insurance, insurers share the risk (in the same way as Lloyd's underwriters share risks).

Co-insurance differs from re-insurance inasmuch as the insured has a relationship with every insurer whose name appears on the policy document. In re-insurance the insurer is himself fully liable to the insured because he (the insurer) has made arrangements for reinsurance and the failure of the reinsurer cannot therefore affect the insured.