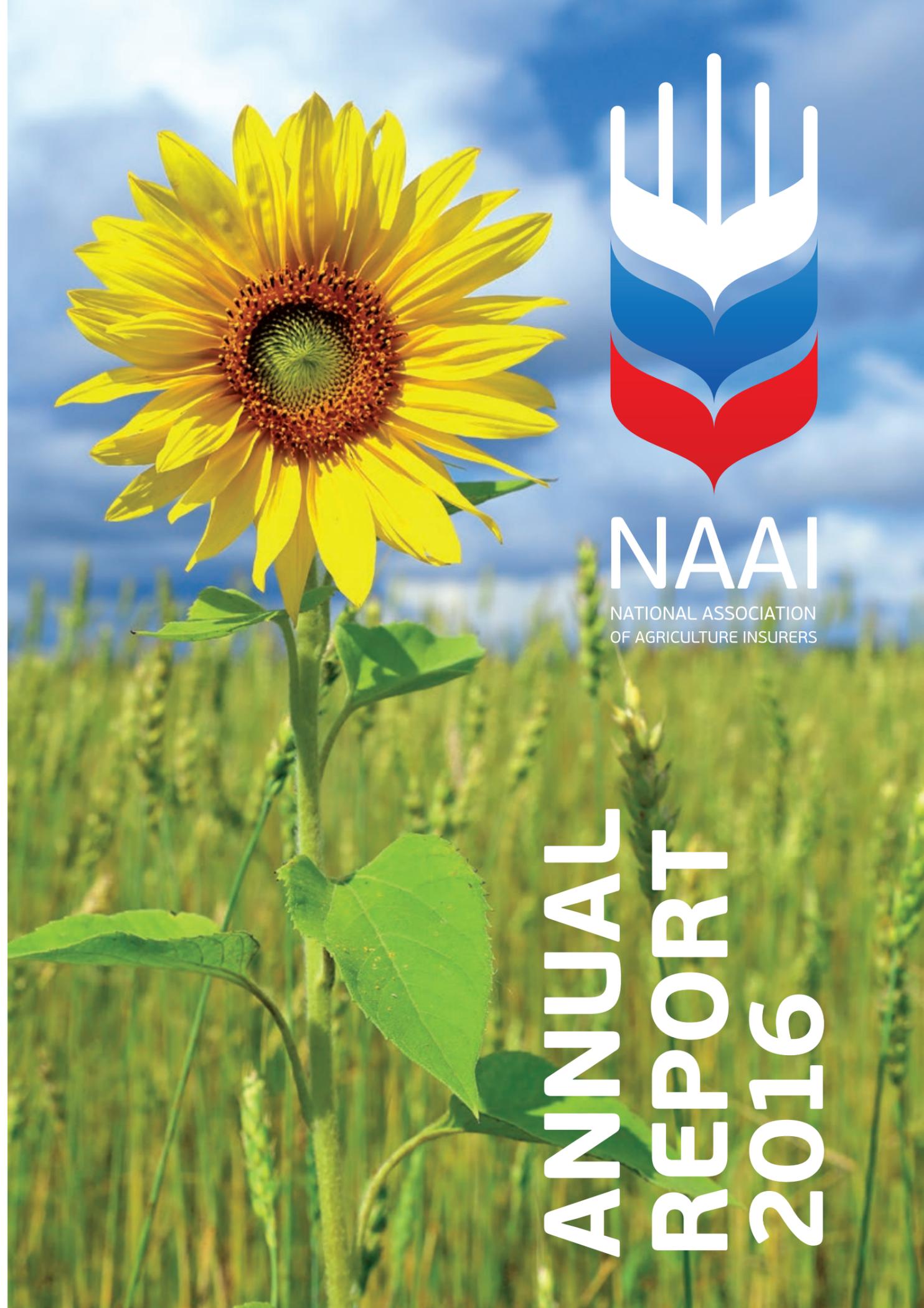




**NAAI**

NATIONAL ASSOCIATION  
OF AGRICULTURE INSURERS

## PROTECTING AGRIBUSINESS TOGETHER



**NAAI**

NATIONAL ASSOCIATION  
OF AGRICULTURE INSURERS

# ANNUAL REPORT 2016

**Ladies and gentlemen!**

**Dear colleagues and partners!**

When presenting the report of the National Association of Agricultural Insurers for 2016 to you, in the first place, I would like to note that last year was a landmark year for the Russian system of agricultural insurance.

It was the first year of operation of the NAAI as a unified all-Russian professional association of insurers operating on the market of agricultural insurance with state support. A strategic goal that the insurance community has been pursuing for than ten years has been achieved – as a unified association, the NAAI has been codified not only by legislative but also by regulatory documents by the Bank of Russia.

Other challenges were set for the NAAI as well. Primarily, with the direct control of the regulator – the Bank of Russia, in a close cooperation with the Ministry of Finance and the Ministry of Agriculture to create a centralized system of agricultural insurance, operating according to uniform rules, practices, and standards that will balance the interests of agricultural producers and the insurance market. Fundamentally, this task has been solved: currently, the agricultural insurance with state support is the only voluntary property insurance which operates according to uniform standards throughout the country, and we appreciate such an achievement.

It was also necessary to consolidate companies of the federal and regional levels interested in the development of agricultural insurance under the banner of a unified association. At this stage, the NAAI has coped with this difficult task and responsibility. By the end of 2016, the market of agricultural insurance with state support in our country has increased by almost 31% to 8.5 billion rubles, and in general, considering the unsubsidized insurance, by 25% – to 9.8 billion rubles. The growth of the total insurance market in the country amounted to 15%, which means that the agricultural insurance has become one of its fastest-growing segments.

The NAAI has become one of the first trade associations in the insurance that adopted the most advanced technologies and implemented a satellite monitoring tool in the daily practice of agricultural insurance.

One of the most important activities of the NAAI in 2016 became the extension of regional and international relations. The NAAI has constantly developed and continues to strengthen cooperation with the subjects of the Russian Federation, including those that most actively participate in its activities. There is regular communication with agro-industry authorities on the organization of agricultural insurance and the development of joint projects. One of the latest examples is the Republic of Buryatia, where for several years there has been a complete absence of agricultural insurance. For sake of decision-making and joint efforts, the NAAI and the Ministry of Agriculture of the Republic signed a cooperation agreement in October 2016 and developed a special program for the development of agricultural insurance. As a result of joint efforts and with the related support of local agro-industry authorities, farmers of Buryatia territories were able to obtain adequate insurance coverage even on such extra risk lands.

An important aspect of the work of the Union is an interaction with representatives of major foreign companies working in the system of agricultural insurance with the aim of utilizing their experience for the development of agricultural insurance in our country. Last year in May a meeting of the President of the NAAI with the President of AIAG Arnaud de Beaucaron took place in Paris. In November, a cooperation agreement between the NAAI and the Spanish Association of Insurance Agencies of Combined Agricultural Insurance AGROSEGURO was signed. Together with the international reinsurer Swiss Re, a seminar devoted to the study of the international experience of agricultural insurance and reinsurance of agricultural risks was held in Zurich (Switzerland). All the activities were aimed at strengthening ties between the Russian and international insurance market. Moreover, the NAAI has been developing and maintaining contacts with



colleagues from CIS countries and the former Soviet Union.

Over the year the NAAI had been preparing for the integration into the newly created Self-Regulating Organization of Insurers (SRO) by developing and controlling compliance with the uniform rules of the agricultural insurance with state support by the members of the NAAI in coordination with the Ministry of Agriculture of the Russian Federation, the Ministry of Finance and the Central Bank. The integration into the SRO is an important strategic step, and the NAAI is conducting this work taking into account the particularities of its activities in the same mode as other insurance unions.

In 2016, the agricultural insurance community had to face serious challenges: the growth of agricultural insurance has been significantly restricted by almost double reduction of subsidies, in several key agricultural regions the contracting campaign was actually stopped. The inclusion of insurance costs in the so-called "single subsidy" also limited the insurance protection of farmers. The NAAI warned of serious negative consequences of such a step earlier, and today it is obvious that our fears were confirmed.

Such issues are a focus of the NAAI's daily activities that are aimed in particular at regularly drawing attention to the problems of agricultural insurance on various levels of public authorities. The NAAI has a long-term vision, a system of specific proposals and a clear action plan aimed at further development of agricultural insurance with state support.

In general, the challenges that the NAAI was facing in 2016 were solved: the system centralization led to greater transparency and clarity of insurance for farmers, the government and the agricultural sector have a practical tool that needs to be seriously improved.

Korney Bizhdov  
President of the National Association  
of Agricultural Insurers



### Dear colleagues!

On behalf of the Council of the Federation Committee for the Agrarian and Food Policy and Environmental Management and myself, I welcome the participants of the insurance market of the Russian Federation.

Agricultural insurance is one of the main elements of protection of farmers' property interests, so it is important to consider this factor when formulating national agricultural policy. As the risks in agriculture are manifested throughout the entire cycle of reproduction, the key point in agribusiness management is the need for timely financial support of each phase. We should not forget that the stability of the agro-industrial complex affects the entire performance of the main parameters of the the Food Security Doctrine in our country.

The Federation Council Committee on the Agro-Industrial Policy and Environmental Management works closely with the National Association of Agricultural Insurers on the introduction of uniform standards within the transition to a centralized insurance system.

Russia is famous for its fertile soils. However, the vast majority of our country's territory belongs to the area of risk farming, so the risks of agricultural production are quite high. The government helps the farmers while making high demands on the insurance system so that the work of protecting the financial stability of the agricultural sector is consistent with the objectives of the state's agricultural policy. In this context, increasing food supply and provision of complete import substitution is a strategic task. Therefore, the definition of priority directions of the agro-industrial complex development, the increase of its competitiveness is the subject of attention of not only economists but also the political and agrarian community.

I wish all participants of the agricultural insurance market fruitful work, new ideas and solutions and success in achieving goals for the benefit of our Motherland!

Mikhail Shchetinin

The Chairman of the Council of the Federation Committee for the Agrarian and Food Policy and Environmental Management

### Dear colleagues!



The State Duma Committee for Agrarian Issues notes that the system of agricultural insurance plays a key role in ensuring sustainable development of the agroindustrial complex of the country and in the implementation of the main parameters of the Food Security Doctrine of the Russian Federation.

Starting from January 1<sup>st</sup>, 2016, a unified all-Russian national union has been operating on the market of agricultural insurance with state support – the National Association of Agricultural Insurers, actions of which are aimed at implementing uniform standards and creating a centralized system of agricultural insurance in the country. Insurance mechanisms should be clear, transparent and aimed at protecting the financial stability of commodity producers, and hence at the development of basic industries of agriculture. To move the system of agricultural insurance to a new level the solution of problems related to the development of insurance market infrastructure taking into account regional peculiarities is required.

The State Duma Committee for Agrarian Issues together with the Ministry of Agriculture of the Russian Federation and the National Union of Agricultural Insurers work to improve legislation in the sphere of agricultural insurance with the aim of developing methods and insurance programs that take into account the interests of agricultural producers of the regions in Russia and offer a reliable guarantee of giving farmers compensation in case of harvest loss and other risks events.

The development of the domestic insurance market is in line with global trends and is determined by the fact that the frequency of losses in agriculture is higher than in all other sectors of the economy, and having insurance subsidies is beneficial both for the state and farmers who receive a quick compensation in a predetermined amount.

I am confident that our common goal is to revive the village and to create a reliable base that will ensure the food security in Russia.

Vladimir Kashin

The Chairman of the State Duma Committee for Agrarian Issues

**Dear colleagues!**

The year 2016 was a starting point for the NAAI 's activities as a unified association of agricultural insurers that provide insurance with state support. The agricultural risks insurance market for many years has had strong support provided by the NAAI, and the Bank of Russia has had a reliable partner in enhancing transparency, strengthening the financial stability of market participants, and combating fraud.

The industry in the conditions of crisis factors serves as the most reliable guarantee of financial protection for farmers. The NAAI contributes significantly to the improvement of the legislative base of insurance, and it is a cornerstone for the development of this area. The joint work of the Union, the Ministry of Finance, the Ministry of Agriculture and the Bank of Russia allows to form the basis for the growth of the insurance sector, improvement of mechanisms of farmers' protection, stabilization of the state support of agricultural insurance. The NAAI is an insurance association with a special role and with a dual mission. The Union has been implementing the best experience in the insurance market and providing effective support of the interests of the agricultural sector through the improvement of insurance mechanisms. Successful implementation of large-scale tasks in both directions is a definite confirmation of the professionalism and dedication of the NAAI staff. Thank you so much for that, and I wish you success and stability!

Igor Zhuk  
Director of the Insurance Market Department, the  
Central Bank of the Russian Federation

**Dear colleagues!**

I am pleased to greet the participants of the NAAI. This year marks the anniversary of the Union and 10 years that the NAAI has been carrying out its professional activity. It cooperates closely and fruitfully with the All-Russian Insurance Association. We are confident to continue our effective cooperation on a fundamentally new level for both parties.

The changed status of the All-Russian Insurance Association that is now is a self-regulatory organization in the insurance market dictates new forms and mechanisms of interaction with partners. With this in mind, the insurance community expects that insurance mechanisms brought to common standards and rules will create opportunities to increase the efficiency of agricultural insurers in the interests of both the insurance market and the agricultural sector.

It has been half a year since the NAAI acts as a Unified Association of Agricultural Insurers, and during this seemingly short period of time, the activities of the Union confirmed the effectiveness and constructiveness of the new format of agricultural insurance. Today, when the acquired experience allows us to draw conclusions and sum up the intermediate results, we can consolidate our collaboration with the practical activities and lay a solid foundation for further development and improvement the agricultural industry.

I am sure that the long-term work of the NAAI aimed at providing financial protection and strengthening agricultural and agricultural insurance sectors of our country will lead to the expected high results and will give an impulse to the development of new ambitious projects.

I wish all participants of the insurance system luck and fruitful work!

Igor Yurgens  
President of the Russian Union of Insurers



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# 1

## THE AGRICULTURAL INSURANCE SYSTEM IN RUSSIA

**For the first time in modern Russia in the field of agricultural insurance, the foundations of private and state partnership with built-in accountability systems were laid. The result is a mechanism that can be set up in such a way that it most effectively meets the goals and objectives relevant to the strategic interests of the agricultural sector.**

# 1.1

## THE NAAI AS THE FOUNDER OF THE AGRICULTURAL INSURANCE SYSTEM: NEW CREDENTIALS OF THE UNION SINCE 2016

According to the legislation, starting from January 1<sup>st</sup>, 2016, only members of the national union of the agricultural insurance can engage with the agricultural insurance with state support.

According to the decision of the Bank of Russia, the status of a unified all-Russian Union of Agricultural Insurers was assigned to the National Union of Agricultural Insurers.

Requirements of the relevant Law # 260-FZ in part of the powers and responsibilities of the unified association entered into force on January 1<sup>st</sup>, 2016.

For the first time in the history of the Russian insurance, the direct reporting of an insurance association to the Bank of Russia and the obligation of interacting with executive authorities of the Russian Federation were introduced.

### 1.1.1. The NAAI 's Goals and Objectives

The National Association of Agricultural Insurers was founded in 2007 with the active support of the Ministry of Agriculture of Russia and the Ministry of Finance of Russia, the Federal Insurance Supervision Service (function of the Bank of Russia nowadays) and the All-Russian Insurance Association.

**The main objectives of the NAAI are to coordinate the activities of the Association members to ensure collaboration while exercising insurance activities on the agricultural insurance market and the development of the agricultural insurance system in the Russian Federation.**

Since 2012, the Association has been operating in strict accordance with Law # 260-FZ "On the State Support in the Sphere of Agricultural Insurance...".

### 1.1.2. The Rights and Obligations of the NAAI as a Unified Association of Agricultural Insurers Starting from 2016

In accordance with the provisions of Law # 260-FZ, in addition to ensuring the interaction of its members, **the unified association of agricultural insurers is responsible for the functioning of key elements of the agricultural insurance system:**

- **formulating and monitoring compliance with common insurance standards and rules (the NAAI develops and changes these rules in coordination with the Ministry of Agriculture, the Ministry of Finance, and the Bank of Russia);**
- **ensuring compensation payments to farmers under insurance contracts with government support in case of the insurer's bankruptcy;**
- **maintaining statistical records;**
- **mandatory publication of the information about the system of agricultural insurance on the Internet.**

The Union represents and protects interests related to non-agricultural insurance in public authorities, local government bodies, other bodies and organizations.



Agricultural insurance with state support is in the focus of attention of the Bank of Russia

# 1.2

## THE SYSTEM OF AGRICULTURAL INSURANCE WITH STATE SUPPORT IN RUSSIA

State support of the agricultural insurance is included in the Federal legislation in the main directions of the state agrarian policy. However, of all the areas of agriculture support, the agricultural insurance is governed by the special Federal law.

In 2016, a condition of a presence of an insurance policy was added to the requirements imposed on farmers in providing government compensation for losses in case of emergencies.

### 1.2.1. Legal Basis and Basic Principles of the Agricultural Insurance System

Support of agricultural insurance in Russia is carried out in the framework of the state agrarian policy the basis of which is determined by the Federal Law "On the Agriculture Development" # 264-FZ adopted in 2006. Its main objectives are:

1. Improving the competitiveness of Russian agriculture;
2. Sustainable development of rural areas;
3. Preservation and reproduction of natural resources;
4. The formation of the effectively functioning market of agricultural products;
5. Creating a favorable investment climate and increasing investment in agriculture;
6. The maintenance of parity of prices indexes (tariffs) for agricultural products and industrial products used for agricultural production.

**Support of insurance of agricultural risks according to Law # 264-FZ is one of the main directions of state support in the sphere of agriculture development.**

Medium-term goals, objectives and main directions of the development, as well as mechanisms of implementation and their funding, were approved by the Government of the Russian Federation in the framework of the State Program of the Agriculture Development and Regulation of Agricultural Products, Raw Materials and Food Markets for the years 2013-2020.

**The Federal law as of December 22<sup>nd</sup>, 2014, # 424-FZ amendments were made to the Law # 260-FZ, including a transition to the unified system of agricultural insurance with state support based on the activities of the unified association of agricultural insurers and common rules of agricultural insurance. These changes came into force on January 1<sup>st</sup>, 2016.**

The functioning of the agricultural insurance system requires a normative by-laws framework adopted by the Ministry of Agriculture. In particular, the methods of determining insurable value and amounts of loss (destruction) of agricultural crops, planting perennial crops and farm animals need to be approved in the order established by the Government of the Russian Federation.

### 1.2.2. Agricultural Insurance Model with State Support

The basis of the system of subsidized agricultural insurance in Russia 2012 is a model of a multi-risk agricultural insurance that providing coverage for major risks of natural hazards in a single insurance policy. Such a model of agricultural insurance systems is quite common in the world practice.

The act provides insurance for almost all types of crops: cereal crops, grain legumes, oilseeds, technical, fodder, gourds, potatoes, vegetables, vineyards, fruit, berry, nut plantations, plantations of hops, tea.

Objects of insurance during the protection of crop production risks are property interests of an insurant (beneficiary) associated with loss risks (failure) of agricultural cultures crop. An insurable event takes place upon condition that the loss of the harvest occurred as a result of the events specified in the list of insurable agricultural risks. Starting from January 1<sup>st</sup>, 2016, the threshold for the insured crops failure was established at 20%.

In 2013, for the first time in the Russian practice, the state support for the livestock insurance was introduced which also covers all major groups of farm animals: cattle and small ruminants, pigs, poultry and other farm livestock.

# 1.3

## THE AGRICULTURAL INSURANCE MARKET IN RUSSIA IN 2016

The transition to the system of agricultural insurance based on common rules and standards has led to positive results: **at the end of 2016, the growth of premium for agricultural risks with state support amounted to 31%.**

The insurance of agricultural risks is maintained and is inextricably linked to the agro-industrial complex in Russia that in 2016 was characterized by the following parameters:

- enterprises: 36.4 thousand agricultural enterprises (including small businesses), of which 15.2 thousand are agricultural enterprises;
- cropland acres: 80.0 million ha;
- farm animals:
  - 18.7 million of cattle (of which 8.3 million cattle in agricultural enterprises);
  - 22.0 million pigs (18.4 million in agricultural organizations);
  - 552.8 million poultry (451.8 million hens in agricultural organizations);
- production volume: more than 5.6 trillion rubles;
- growth industry over the year: 4.8%

### Financial performance of the agro-industrial complex in 2016:

- the volume of support for agriculture from the Federal budget: 223.2 billion rubles
  - out of them actually allocated to the insurance\*: 2.4 billion rubles
- the volume of attracted credit resources during the year: 1,543.8 billion rubles
  - of which short-term loans for seasonal works: 1,163.3 billion RUB.;

- total profit: 359.2 billion rubles.
- profitability: 17.3 %
  - excluding subsidies: 10.2%
- investment in the guarantee capital: 387.6 billion rubles

In 2016, thanks to exceptionally favorable weather conditions in most grain-producing regions of the Russian Federation record-breaking yield was achieved in post-Soviet harvest history. In particular, in 2016, 120.7 million tons of grain were harvested which is 15.2% more than in 2015, and 29.1% above the annual average in 2011–2015. Moreover, 51.4 million tons of sugar beet were collected which is 31.6% more than in 2015.

### 1.3.1. Insurance of Agricultural Risks in Russia: The Key Role of The State

According to the Bank of Russia, at the end of 2016, the insurance of agricultural risks developed at a rate higher than the insurance market of Russia in general. The increase in the volume of premium in the insurance contracts in relation to 2015 reached 25%, while the overall insurance sector of the Russian Federation reached 15%.

In 2016, the premium for agricultural risks insurance amounted to 9.8 billion rubles or 2.1% of the property insurance market of the Russian Federation. The biggest amount of the premium was received by the agricultural insurers under the contracts concluded on the terms of government support: almost 8.5 billion rubles, which makes up 87% of the agricultural insurance market. The accrued premium of agricultural risks insurance without state support amounted to 1.3 billion rubles.

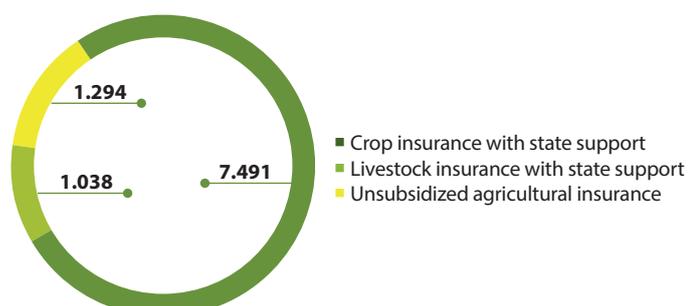
However, if agricultural insurance with state support saw an upward trend – the volume of premium grew by 30.9% (from 6.5 billion rubles a year earlier), the volume of premium in the agricultural insurance without state support decreased by 3.4%.

In 2016, only members of the NAAI were engaged in the agricultural insurance with state support. At the same time, in the sector of agricultural risks insurance without state support, the share of the companies-members of the NAAI constituted about 90% of the general volume in this segment (1.16 billion rubles worth of premium). Thus, in 2016, the NAAI united the main participants of the agricultural insurance market in Russia in all forms of insurance.

### 1.3.2. The Main Indicators of Agricultural Insurance with State Support in 2016

The basis of the agricultural insurance market with state support is formed by the protection of risks of crop production, which the premiums accounting for 7.5 billion rubles, or 88% of the premium volume in the segment of insurance with state support. The market volume of subsidized insurance of farm animals reached 1.0 billion rubles (see Fig. 1.3.1).

**Fig. 1.3.1. The structure of the agricultural risks insurance market in the Russian Federation (premium) in 2016, bln rubles**



\* Cash execution of the federal budget according to the data from the Ministry of Agriculture of the Russian Federation.

On conditions of state support, crop insurance of agricultural crops in 2016 was carried out by 21 insurance companies. They issued 1448 policies providing for aggregate sum insured over 129.1 bln rubles. There were 3.8 million ha of cropland insured, which accounted for 5% of the total (planting) area. The main insured crops were cereals, oilseeds, and industrial crops (see Fig. 1.3.2).

In 2016, the average premium with state support in crop production amounted to 5.0 mln rubles, the average limit of liability (insurance coverage) under one contract – 89.2 million rubles, the average insurance rate was 5.65%.

13 insurance companies provided insurance protection of livestock risk conditions on a subsidized basis, that signed 353 insurance contracts with the total insurance coverage of 83.2 billion rubles. In total, the support of insurance in the field of farm animal production in 2016 insured 4 million farm animals (14.6% of the total population of farm animals). The main part of the premium was paid by farmers for pigs insurance; moreover, cattle and poultry insurance was also in high demand (see Fig. 1.3.3).

On average, per a single contract of livestock insurance the premium made up 2.45 million rubles, the average sum insured reached 236.0 million rubles per contract. The average tariff for the insurance of farm animals was equal to 1.04%.

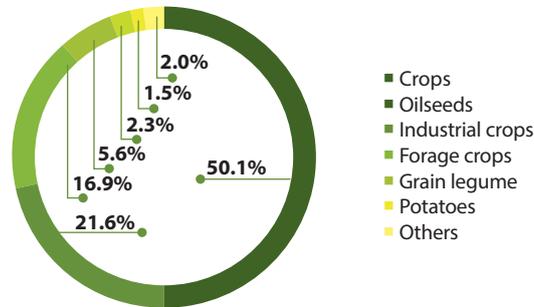
**1.3.3. The Regional structure of the Agricultural Insurance Market in 2016**

The transition to a unified system of agricultural insurance and the exclusion of pseudo-insurance operations in 2016 led to the restructuring of the agricultural insurance market. Its main regional centers became the leading subjects of the Russian Federation in the field of grain production and livestock, which are concentrated in big agricultural organizations.

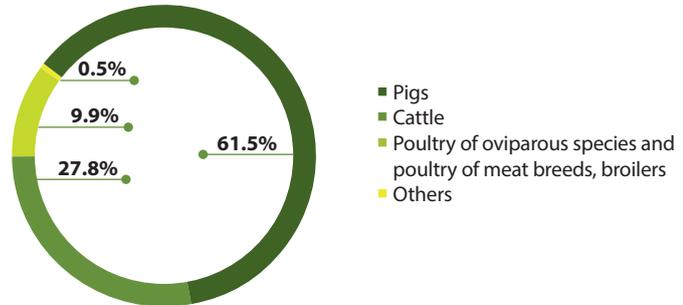
In total, in 2016, the insurance of agricultural production risks was carried out in 77 subjects of the Russian Federation. However, government funds to pay farmers’ purchased insurance protection were accrued only in 53 regions. Accordingly, in 24 constituent entities of the Russian Federation, the farmers purchased the insurance protection outside of the state support system, but the share of these regions in the formation of the Russian market of agricultural insurance is insignificant, accounting for only 1% of the volume of agricultural risks insurance.

The top 20 regional markets (see Table 1.3.1) accounts for 92% of the agricultural insurance market in general, and 95% of the insurance on the terms of state support. This list covers primarily the southern Russia and the Central Chernozem as well as some regions of the Volga region. In the Eastern part of the country, the Primorsky Krai joined the list. At the same time, in a number of leading agricultural regions (the Saratov region, the Altai Krai, and others) the agricultural insurance has not been promoted properly in 2016, which is connected with the local peculiarities of the subsidization organization of the agricultural insurance.

**Fig. 1.3.2. The structure of the subsidized crop insurance market based on groups of objects in 2016 (premium)**



**Fig. 1.3.3. The structure of the subsidized insurance market of livestock based on the groups of objects in 2016 (premium)**



**Fig. 1.3.4. The development of agricultural insurance in the constituent entities of the Russian Federation in 2016**

- State support of insurance in both directions
- Only subsidized crop insurance
- Only subsidized livestock insurance
- Farmers utilized insurance without state support
- Farmers did not insure agricultural risks



10 In the regions of developed agricultural insurance, insurance services were mostly in demand both for crop and animal husbandry, state support was provided to farmers in both areas of insurance coverage in 35 regions of Russia. In three regions (the Krasnodar Krai, Kabardino-Balkaria, the Astrakhan region) was only crop insurance was subsidized. In 15 regions, insurance contracts with state support were concluded only for livestock of farm animals (see map in Fig. 1.3.4).

**Table 1.3.1**

**20 major regional markets of agricultural insurance of the Russian Federation in 2016 (mln rubles)**

#	Subject of the Russian Federation	Agricultural insurance, premium					Payments, Total
		Total	Directions				
			Within state support	Without state support	Crop insurance with state support	Livestock insurance with state support	
1	The Krasnodar Krai	1,593	1,529	64	1,529	-	549
2	The Stavropol Krai	1,437	1,382	55	1,350	31	560
3	Moscow	1,131	960	171	834	126	262
4	The Belgorod region	805	746	59	491	256	309
5	The Voronezh region	729	630	99	586	44	735
6	The Republic Of Tatarstan	689	582	106	540	42	418
7	The Kursk region	468	412	55	363	50	189
8	The Samara region	445	442	3	442	-	77
9	The Oryol region	373	336	38	314	22	313
10	The Lipetsk region	260	228	32	217	12	98
11	The Republic Of Mordovia	165	130	35	109	21	16
12	The Bryansk region	159	124	35	14	110	40
13	The Perm Krai	127	112	14	94	18	66
14	The Penza region	122	110	13	103	7	5
15	The Rostov region	121	110	11	98	12	28
16	The Primorsky Krai	101	85	16	85	-	7
17	The Kaliningrad region	73	57	16	34	24	5
18	The Tambov region	73	55	18	50	5	2
19	The Republic Of Bashkortostan	73	39	34	13	25	9
20	The Tula region	71	65	6	54	10	12
	<b>Total, in the Russian Federation</b>	9,823	8,529	1,294	7,491	1,038	4,017

### 1.4.1. Main risks of crop and livestock production in the practice of the NAAI insurance companies in 2012–2016

During 5 years' operation of the agricultural insurance system in the Russian Federation based on the Federal Law # 260-FZ insurance companies — members of the NAAI paid 5.9 billion rubles to the insured farmers. Out of them, 65.9% of payments were made for grain crops claims, 18.2 % – for oilseeds insurance claims, and 5.9% – for leguminous plants crops losses.

A total amount of 12 insurable risks occurred were registered by the members of the NAAI during this period. The main risks that led to insurance payouts were soil drought (24.9% of the total amount of payments), atmospheric drought (24.4%), and dry hot wind (19.1%). In the fourth place, there was the waterlogging of the soil (11.5 percent), on the fifth – the winterkill of winter crops (8.4 %). In general, risks associated with damage to winter crops (freeze, rot, ice crust) became a reason for 8.9% of the payments. Frosts, hail damage, strong wind, dust storm, penetration of harmful organisms were also registered and led to the payments of insurance compensation.

The main volume of payments on insurance of livestock was realized for losses in the pig husbandry (69.6%), and for the death of cattle (29.1 %). Almost all the paid insurance indemnity (98% of the volume) compensated for the loss of livestock because of the spread of contagious diseases of livestock.

### 1.4.2. Payments on agricultural insurance in 2016

In 2016, the main trend in the field of insurance compensation to agricultural producers was a significant growth of payments on agricultural risks insurance: in general, they increased by 48%, while the volume of claims paid in the field of agricultural insurance with state support increased more than 2 times by 139% compared to 2015. Such growth is due mainly to the change in the quality of the market compared to 2015. A considerable amount of pseudo-insurance operations were ceased thanks to measures implemented in 2015 by the Central Bank of the Russian Federation on the improvement of the market, to the elimination of unstable insurance companies, and transition to a unified standardized system of agricultural insurance. Overall, despite the favorable conditions in crop production, the level of agricultural insurance payments (see Fig. 1.4.1 ... 1.4.6) has been constantly growing over the past 3 years.

Altogether the total payments on agricultural insurance in 2016 reached 4.0 billion rubles. They are approximately equally distributed among the segments with and without state support: claims paid on the insurance contracts with state support made up 2.1 billion rubles, while 1.8 billion rubles were paid on other commercial insurance contracts. In general, the level of payments in agricultural insurance has reached 41%.

For several years insurance without state support continues to observe a very high level of payments in relation to the premium: in

# 1.4

## RISKS OF AGRICULTURE IN THE RUSSIAN FEDERATION: THE EXPERIENCE OF AGRICULTURAL INSURANCE IN 2012–2016 AND SETTLEMENT OF LOSSES IN 2016

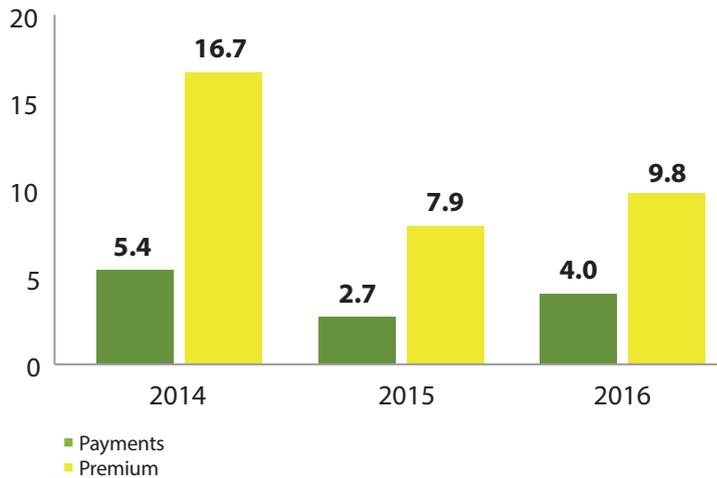
The practice of insurance in 2012–2016 showed that the main risks leading to insurance payments in crop production in Russia are associated with the phenomena of lack of moisture: 68% of payments made by the NAAI companies account for the losses from soil and air drought and dry winds.

In livestock insurance, 98% of insurance payments with state support were remunerated for the compensation of losses from the spread of infectious diseases.

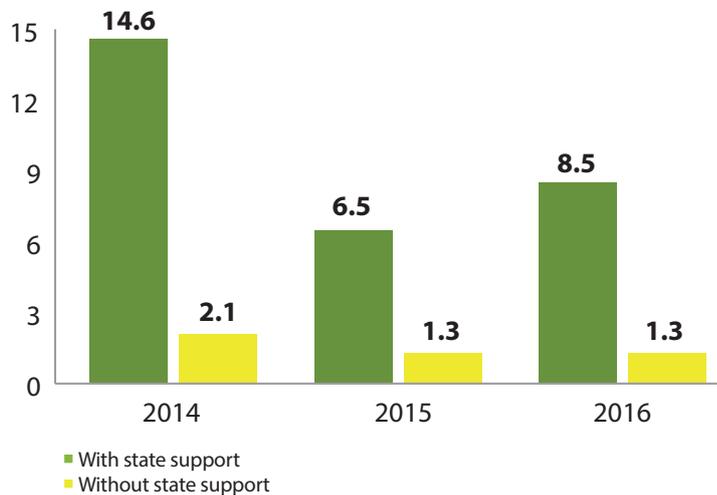
The transition to a unified association in 2016 and policies of the Bank of Russia on the elimination of companies that were not carrying out real insurance risks protection from the market led to the improvement of the situation in the field of the settlement of losses: the growth of claims paid amounted to 48% over the year.



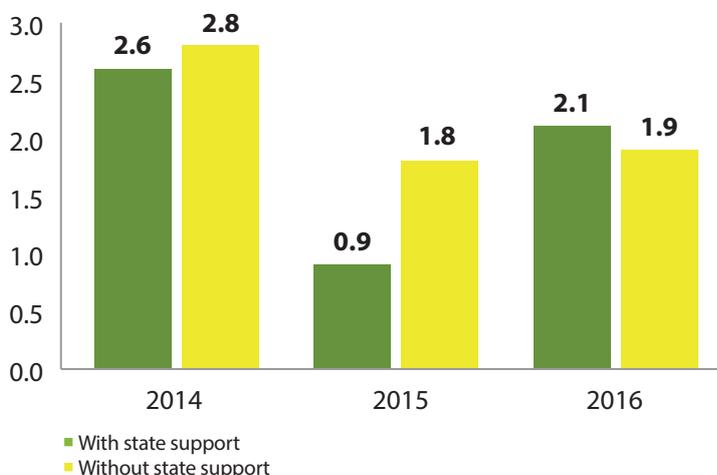
**Fig. 1.4.1. Dynamics of premium and payments for insurance of agricultural risks, Russia, 2014–2016, bln rubles**



**Fig. 1.4.2. Dynamics of premium for agricultural risks insurance, Russia, 2014–2016, bln rubles**



**Fig. 1.4.3. Dynamics of payments for agricultural risks insurance, Russia, 2014–2016, bln rubles**



2016, it constituted 145%. According to the NAAI, a part of payments for those insurance certificates applies to overlapping agricultural risk coverage of contracts concluded with the goal of expanding insurance coverage in the complex form, in addition to the insurance coverage supported by the state. In this regard, because of the nature of accounting, a significant portion of actual payments for non-subsidized insurance may be referred to the contracts with state support.

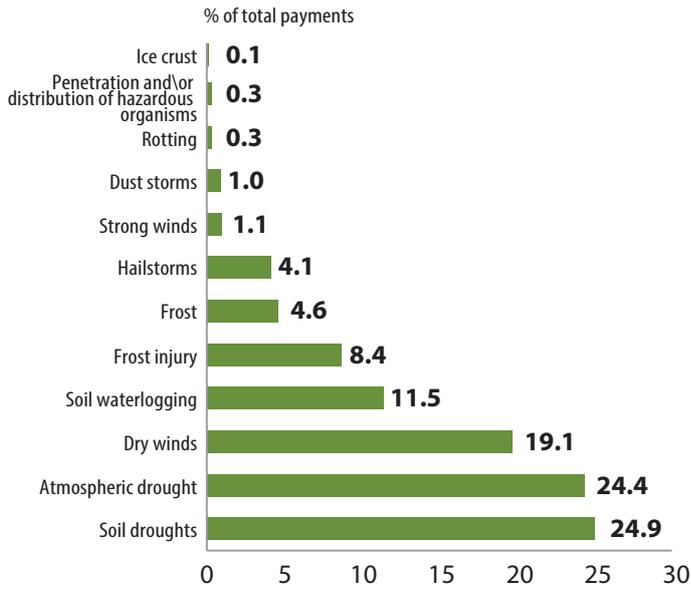
A particularly important result of 2016 is that a public and private partnership confirmed its efficiency. Insurance payments that farmers received from agricultural insurers in 2016 (more than 4 billion rubles), 1.5 times exceed the amount of subsidies transferred to insurance companies from the federal and regional budgets to partially pay the cost of insurance (2.6 billion rubles).

Moreover, insurers' payments for agricultural insurance claims in 2016 were 26% higher than the reported damage to farmers from emergency situations according to the Ministry of Agriculture of the Russian Federation (3.2 billion rubles, of which 2.1 billion rubles – for crop loss, and 1.1 billion rubles for the spread of the African swine fever).

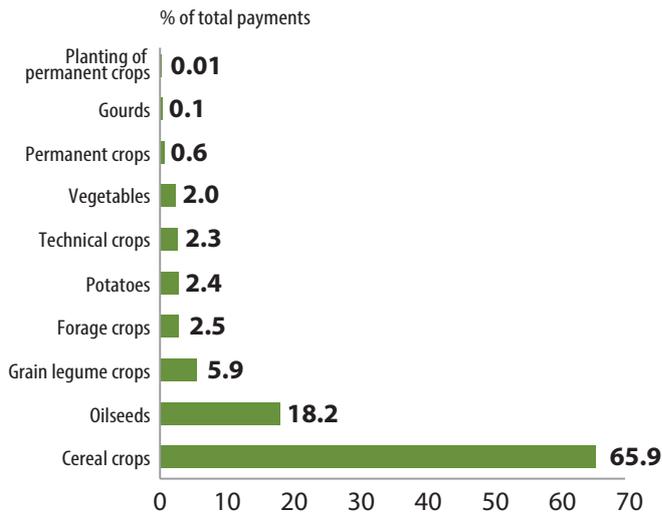
In 2016, a regime of emergency in connection with adverse weather conditions (heavy rains, hail, drought, waterlogged soil and flooding) was introduced on the territory of 17 subjects of the Russian Federation. Documentation of damage passed the expert evaluation by the Ministry of Agriculture of the Russian Federation in 11 regions. In the Zabaykalsky Krai, the Republic of Buryatia, Bashkortostan crop damage was caused by the atmospheric and soil drought, in the Chechen Republic, the Khabarovsk territory and the Tula region – by waterlogging of the soil. In the Republic of Tuva and in the Volgograd region crops suffered from heavy rain and hail, in the Karachay-Cherkess Republic – from a strong wind. The Primorsky Krai and the Vologda region suffered from flooding. As a result of these events, the loss of crops on a total area of 279.16 thousand hectares with 2.1 billion rubles of caused damaged was confirmed.

In the animal husbandry, the main damage was caused by the spread of the African swine fever (ASF). During 2016 in 26 constituent entities of the Russian Federation 239 outbreaks of the ASF were identified among domestic pigs. ASF spread in the Central (100 outbreaks), the Volga (55 outbreaks), the North-Western (54 outbreaks) and Southern (29 outbreaks) Federal districts. According to the Ministry of Agriculture of the Russian Federation, in the course of measures to eliminate outbreaks of the ASF 233.4 thousand pigs were slaughtered, including 217.4 thousand heads in 10 large pig farms. The estimated direct economic damage from the spread of the ASF in 2016 exceeded 1.1 billion rubles.

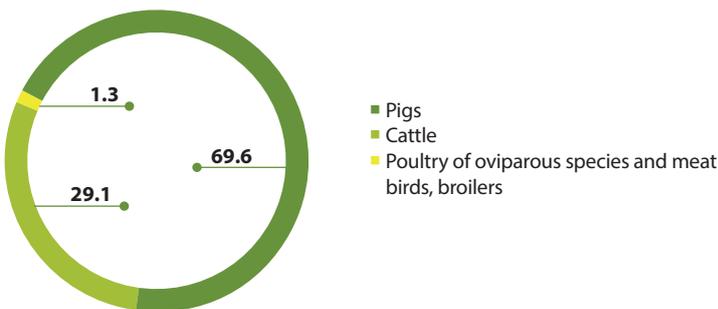
**Fig. 1.4.4. Distribution of payments by NAAI insurance companies for crop insurance based on categories of natural hazards, 2012–2016**



**Fig. 1.4.5. Distribution of payments by NAAI insurance companies for crop insurance with state support based on categories of insured crops, 2012–2016**



**Fig. 1.4.6. Distribution of payments by the NAAI insurance companies on agricultural animals insurance with state support, 2013–2016, % of total payments**



# 1.5

## DEVELOPMENT OF THE SYSTEM: MAIN ACHIEVEMENTS AND TRENDS IN 2012–2016

The main trends of the development of the agricultural insurance market with state support in 2012–2016 are the following:

- 1. Creation of the foundation for agricultural insurance in 2012–2014: paving a way towards a unified system of real insurance protection.**
- 2. Reformatting the market in 2015–2016: removal of financially unstable insurers, the transition to a unified association.**
- 3. Change in the qualitative characteristics of concluded insurance contracts and their enlargement.**
- 4. Persisting of regional diversification trends that are affecting the dynamics of insurance in the regions.**

### 1.5.1. Dynamics of Agricultural Insurance with State Support in Russia, 2012–2016

The development of the agricultural insurance market in the period of 2012–2016 can be divided into **2 stages: the initial construction of the system from 2012 till 2014 and transition to a unified system of agricultural insurance in 2015–2016.**

After the entry into force of the Federal law as of July 25<sup>th</sup>, 2011, # 260-FZ for three years, **from 2012 to 2014, the initial formation of the agricultural insurance system with state support took place:** development of the methodology, gathering of statistics, establishment of the guaranteed measures of compensation to farmers in case of the insurer's bankruptcy, preparation and launch of state insurance of animals, identification of organizational deficiencies of the subsidy system. At this stage, the annual growth of the market of the subsidized agricultural insurance were registered, the vol-

ume of which increased from 10.7 billion rubles in 2012 to 14.6 billion rubles in 2014 took place.

At the same time, a lack of a centralized system, the possibility to choose the most convenient association, the absence of rules on controlling unions by the Bank of Russia created conditions for the activities of companies that instead of real insurance protection in case of losses offered pseudo-insurance schemes to farmers aimed at disbursement of subsidies only. But, those insurers whose activities did not assume the accumulation of insurance reserves and real assets were unable to meet their obligations upon the occurrence of real insurance cases and, accordingly, did not meet the requirements of the Bank of Russia on the reliability and financial solvency while strengthening supervision on the insurance market in 2014–2015. In addition, the transition to a single system of agricultural insurance and a unified association of agricultural insurers limited their ability to continue pseudo-insurance activities dramatically.

In total, during 2015–2016, 28 insurance companies ceased their activities on the market of agricultural insurance with state support. The share of the areas insured by these insurance companies in 2015 constituted 57.2%. Thus, the improvement of the agricultural insurance market also led to a sharp reduction of market indicators in 2015 (see Fig. 1.5.1): from 14.6 to 6.5 billion rubles of premium. However, the quality of the insurance protection has increased because the business model of the insurers that left the market because of licenses revocation did not imply a long-term sustainable conduct of insurance activities. Thus, since 2016, the volume of premiums increased to 8.5 billion rubles – after a transition to a unified system of agricultural insurance a gradual recovery of premiums has been going on.

However, the greatest impact on the results of 2016 **had almost a double reduction of subsidies from 5.4 to 2.7 billion rubles** which led to the emergence farmers' debts on payments of the second part of their insurance costs due to not receiving subsidies. In addition, a lack of subsidies led to the fact that agricultural insurance contracts that were concluded and actually paid by farmers were not taken into account by the Ministry of Agriculture in the results of agricultural insurance with state support. **Because of unrecorded insurance contracts, the Ministry of Agriculture showed a decrease of the amount of insured acreage and livestock in 2016 (see Fig. 1.5.2) despite the actually increased volume of insurance.**

### 1.5.2. Dynamics of Agricultural Insurance with State Support of Insurers — Members of the NAAI, 2012–2016

The dynamics of the total portfolio performance of insurers-members of the NAAI on agricultural insurance with state support was generally in line with the general market development. However, several active insurance companies focused on classic insurance ("Allianz", "Ingosstrakh") ceased their activities in the agricultural insurance market due to the high losses and unprofitability of the line in the previous period.

In this regard, at the level of the NAAI, a slowdown in the growth of crops insurance started being evident in 2014. However, after the decline in 2014 and 2015, already in 2016 there took place a restoration (see Fig. 1.5.3). As a result, in 2016 the total portfolio of the NAAI in crop production insurance reached a record for the entire period of increased insurance premiums. At the same time, in fact, the volume of premiums actually received by the insurance companies were smaller due to the reduction of subsidies in the second half of 2016. As a result, based on the indicator of the actually received premiums the insurance market returned to the level of 2012.

Processes that happened in 2014–2015 did not affect animals insurance, in this direction there was a steady growth of the total portfolio on all the key indicators. It is mostly due to the fact that mainly large, classic insurers deal with the insurance of farm animals, and the proportion of pseudo-insurance transactions in this segment was negligible. At the same time, in 2016, the reduction of the federal subsidy resulted in a reduction in premiums for the year (see Fig. 1.5.4).

### 1.5.3. Changes in Qualitative Characteristics of Agricultural Insurance Contracts in 2012–2016

During 5 years of operation of the law as of July 25<sup>th</sup>, 2011, # 260-FZ there have been major structural changes in the insurance portfolio of the NAAI companies under contracts of agricultural insurance with state support.

In crop insurance, the basic trend was a **decrease in the share of main groups of crops – cereals – due to the growth of insurance of other groups**. In 2012, grain insurance accounted for 67% of the premium with state support written by the companies of the NAAI, in 2016 this proportion decreased to 50% (see Fig. 1.5.5). While **the volume of accumulated annual premiums for the grain insurance has not changed significantly**: 3.8 billion rubles in 2012, 3.7 billion rubles in 2016, at the same time, **the share of oilseeds insurance increased from 15 to 22%** which corresponded to almost **two-fold growth of annual premiums** with 883 million rubles in 2012 to almost 1.6 billion rubles in 2016. **The quadrupling demand for technical crops insurance** for the protection of which farmers and the budget spent 244 million rubles in 2012, and 1.2 billion rubles in 2016, became even more prominent. One of the drivers of this trend was the development of **sugar beet growing** and the corresponding demand for the insurance coverage of sugar beet crops over the last 5 years. Insurance of vegetables, potatoes, orchards is still at the initial stage of development in Russia.

Moreover, a prominent trend in the crop insurance with state support over 5 years of system development became **the consolidation of insurance contracts in terms of average sum insured and average premium** which was due to the transition to the insurance of more productive crops with a higher cost of production per 1 hectare. The average limit of liability of the insurance company under one contract increased over 5 years from 28 million rubles in 2012 to 89 million rubles in 2016, the average premium increased from 1.4 million rubles to 5.0 million rubles (see Fig. 1.5.6) This was due to the rise of prices for agricultural products and yield growth in a favorable period. The average insurance rates for 5 years fluctuated in the range from 4.97 % (in 2015) to 5.65 % (in 2016).

Changes in livestock insurance occurred due to the increasing demand **for insurance of risks of pig farming**. If during the start of the state-supported livestock insurance in 2013 the premium for the pigs amounted to 61.5 million rubles, in 2016 **the volume of premiums on the insurance of pigs increased by almost 9 times** to 535 million rubles. Respectively, **the share of pigs insurance in the structure of the livestock insurance market increased from 21% to 62%** (see Fig. 1.5.7). At the same time, **the premium for cattle insurance for the men-**

Fig. 1.5.1. Dynamics of the premium on agricultural insurance with state support in Russia

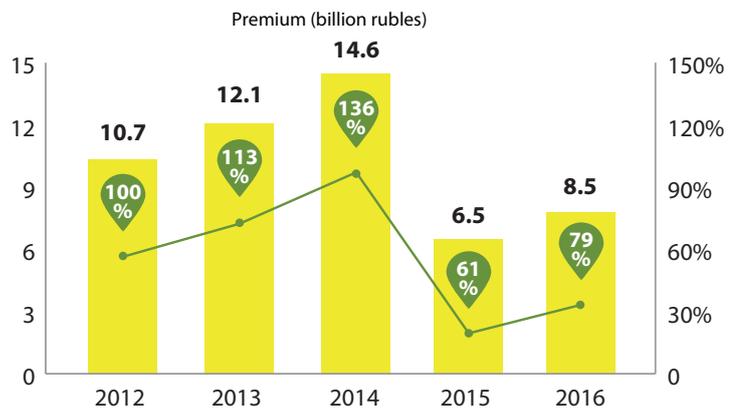


Fig. 1.5.2. The coverage of agricultural insurance with state support in Russia

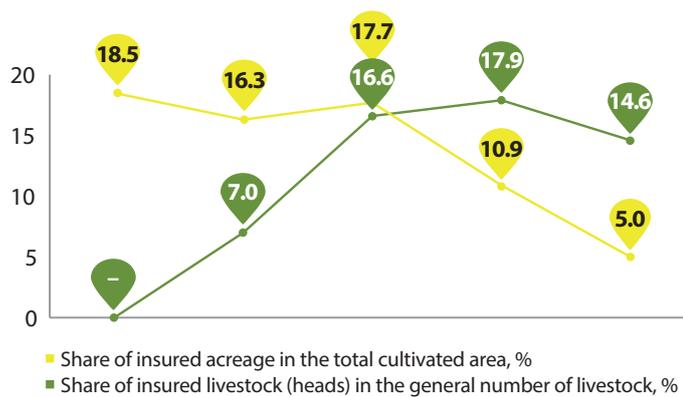


Fig. 1.5.3. Dynamics of the overall portfolio of insurers — members of the NAAI on the insurance of agricultural crops with state support, 2012–2016

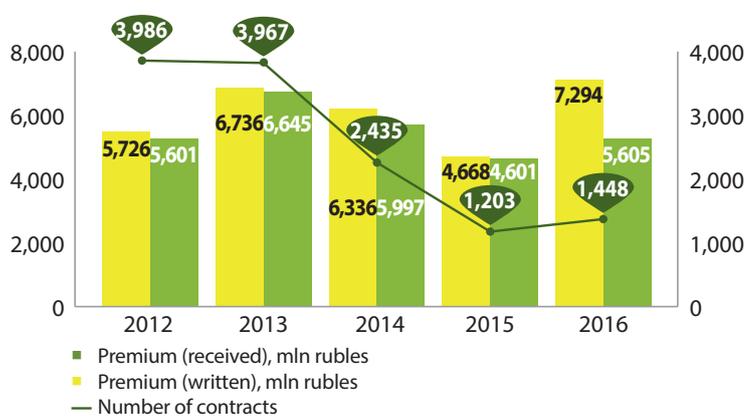
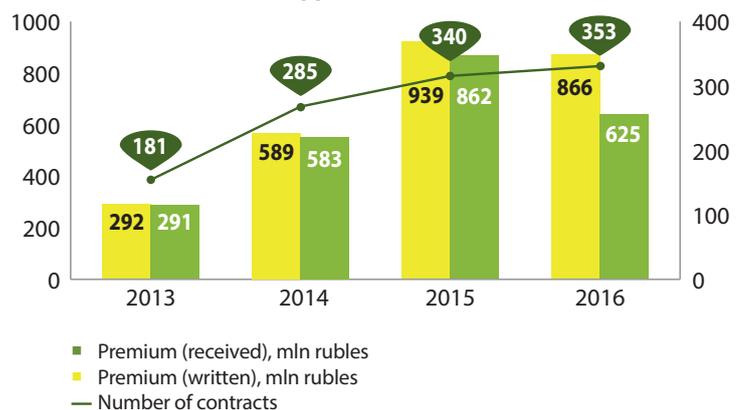


Fig. 1.5.4. Dynamics of the overall portfolio of insurers — members of the NAAI on the insurance of livestock with state support, 2013–2016



tioned period increased, although less dramatically: from 199 million rubles to 242 million rubles. The share of this insured species has declined from 68% to 28%. The share of the third important group — **poultry** — despite a threefold increase in the insurance premium (29 million rubles to 86 million rubles) has remained at a stable level of 10% for 5 years.

The process of consolidation of the treaties was observed in livestock insurance, however, was more gradual. The average sum insured has increased over the period from 2013 to 2016 from 180 million rubles to RUB 236 million, the average premium – from 1.6 million to 2.5 million rubles (see Fig. 1.5.8). The average rate ranged from 0.9% (in 2013) to 1.25% (in 2015) in 2016, decreased to 1.04%.

### 1.5.4. Regional Diversity in the Agricultural Insurance with State Support

**The Far Eastern federal district**, susceptible to the high risk of floods, have demonstrated the most dynamic growth of demand for agricultural insurance with state support. The volume of insurers' liability under the contracts with state support have increased over 5 years by 8.5 times, the number of insurance contracts — by almost 6 times.

In **the North-Western federal district**, there was a manifold increase in the insured liability, corresponding to the increase in the number of insurance contracts with state support by more than 3 times. The trend is partly linked to the development of livestock insurance.

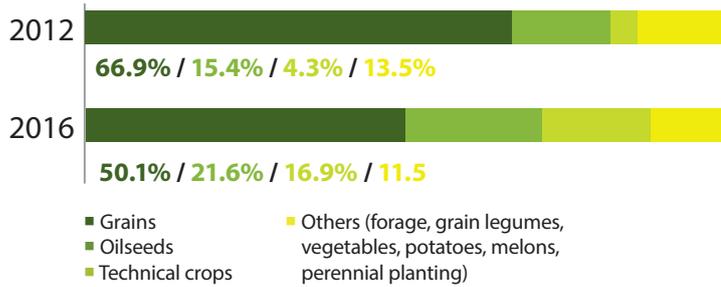
In **the Volga federal district**, the volume of liability insurance increased by 12%. At the same time, there was a 68% decrease in the number of contracts. This trend is due to the large distribution of subsidized agricultural insurance among large farms.

Similar trends were observed in **the Southern federal district**, where there was an increase in the volume of sum insured by 19% while reducing the number of contracts is 68%, and **the North Caucasian Federal district**, where the same figures were +15% (sum insured) and minus 65% (number of contracts) respectively.

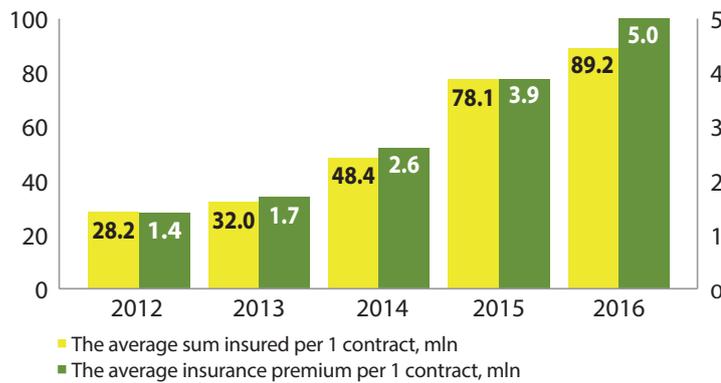
The increase in the volume of insured risks in **the Central federal district** became even more prominent: the total liability of agricultural insurers under contracts with the state support increased from 2012 to 2016 by 378%, while the number of contracts decreased slightly by 37%.

At the same time, **the Ural and the Siberian federal districts** in the field of agricultural insurance with state support have experienced setbacks for over 5 years. In **the Ural federal district**, the volume of insured sum decreased by 19% compared to 2012 while decreasing the number of concluded insurance contracts 61% during the year. The

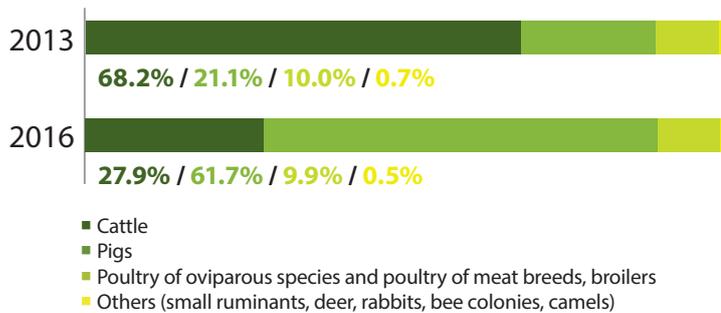
**Fig. 1.5.5. Changes in the structure of the insured premium with state support for the insured agricultural crops in 5 years: comparison of 2012 and 2016 (the NAAI companies)**



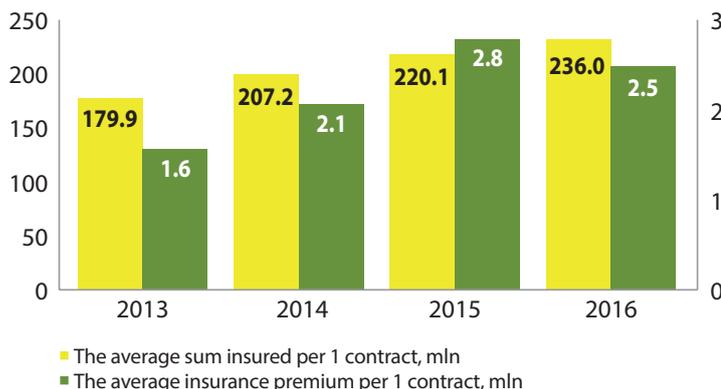
**1.5.6. Change of the average insured sum and the average premium for the crop insurance with state support (the NAAI companies), 2012–2016**



**Fig. 1.5.7. Changes in the structure of the insured premium with state support for the insured livestock in 5 years: comparison of 2013 and 2016 (the NAAI companies)**



**Fig. 1.5.8. Change of average insured sum and the average premium for the livestock insurance (the NAAI companies), 2013–2016**



degradation of the market in **the Siberian federal district** was even more severe where the incidence of the relevant indicators was minus 62% and minus 76% respectively. The main factor affecting the insurance was high exposure of the region to the spread of pseudo-insurance that was subject to the criminal investigation within the specified period, and, accordingly, the former strong position in the market of agricultural insurers that lost their licenses in 2014–2016 because of the lack of financial sustainability.

**Table 1.5.1**  
**The development of the agricultural insurance system with state support in Russia, 2012–2016 (the NAAI companies' data)**

Region	Indicators	2012	2013	2014	2015	2016
<b>The Far Eastern federal district</b>	Sum insured, agricultural insurance contracts with state support, mln	887	2,029	4,113	4,269	7,589
	Number of insurance contracts	43	191	229	214	252
<b>The Volga federal district</b>	Sum insured	27,297	36,020	33,570	20,513	30,674
	Number of insurance contracts	1,227	1,035	668	349	392
<b>The North-Western federal district</b>	Sum insured	675	1,843	7,449	8,681	12,294
	Number of insurance contracts	27	10	25	78	90
<b>The North Caucasus federal district</b>	Sum insured	17,354	21,800	18,752	18,488	19,911
	Number of insurance contracts	492	413	310	210	172
<b>The Siberian federal district</b>	Sum insured	13,597	8,353	12,356	6,448	5,229
	Number of insurance contracts	430	238	220	55	103
<b>The Ural federal district</b>	Sum insured	2,338	1,907	2,119	1,972	1,902
	Number of insurance contracts	69	76	71	21	27
<b>The Central federal district</b>	Sum insured	20,855	54,288	69,344	80,764	99,707
	Number of insurance contracts	722	1,677	884	411	457
<b>The Southern federal district</b>	Sum insured	29,615	33,237	29,258	27,684	35,159
	Number of insurance contracts	976	508	313	205	308

# 1.6

## SUBSIDIES: THE ORGANIZATION ISSUES IN 2016

In the period between 2012 and 2016 thanks to the joint efforts of public authorities and the NAAI for the first time the Federal system of subsidies for agricultural insurance was established; common principles for the provision of subsidies were set, although there were weaknesses that emerged in the course of practical work.

More than 90% of funds for state-supported insurance provided in 2012–2016 were forwarded from the federal budget.

The organization of subsidies for crop insurance in 2012–2016 identified a systemic problem of inconsistency of the planned volume of funding of the Federal budget with the existing needs of the constituent entities of the Russian Federation. In this regard, every year there was a need for redistributing subsidies between regions according to the results of the agricultural season, that was carried out by the orders of the Government of Russia. However, in 2016 the distribution of funds was first approved by the federal law on the budget.

All this led to the fact that in 2016 the subsidies that some subjects of the Russian Federation refused due to the undeveloped stage of their agricultural insurance were not reallocated in favor of the subjects of the Russian Federation with high demand for insurance, where the subsidies were not enough to support farmers. The result was almost a double reduction of budget funds allocated to support insurance which in the first place violated the interests of the insured farmers and resulted in significant arrearage in the payment of the premium.

At the end of 2016, there happened another important issue: a radical revision of the principles of the organization of agricultural subsidies in the region was carried out and a “uniform” subsidy was introduced. A “uniform” subsidy united a large number of separate subsidies into one, it included support for agricultural insurance. The NAAI believes that this decision is incorrect, which in 2017 will lead to a sharp reduction in the availability of insurance protection for farmers.

### 1.6.1. The Order of Subsidizing Agricultural Insurance

The current system of state support of agricultural insurance in Russia is based on the principle according to which subjects of the Russian Federation are responsible for ensuring that the support is provided locally, despite the fact that the system was introduced by a uniform federal law. The principle of co-financing provides funding for partial compensation of expenses for a premium from the federal and regional budgets.

Federal budget funds to support agricultural insurance are granted to budgets of constituent entities of the Russian Federation in the form of subsidies in an order defined by the Government of the Russian Federation. Conditions of granting subsidies to budgets of subjects are also set by the Government of the Russian Federation.

The highest executive bodies of state power of subjects of the Russian Federation are responsible for the organization of agricultural insurance subsidization locally. They should establish the order of rendering the state support in each subject via their regulatory acts.

Subsidies funds for premium payment on a particular contract are transferred by the body of the agro-industrial complex to the account of the insurer in the amount of 50% of premium on the basis of the application from the agricultural producer provided that the insurance contract complies with the requirements of Law # 260-FZ.

The premium amount for the purposes of subsidy is calculated in accordance with the agricultural insurance plan that contains a list of objects of agricultural insurance (crops and animals) and limits of the rates for subsidies calculation, differentiated with respect to the subjects of the Russian Federation for each category of insurance objects based on the size of the straight deductible.



One of the major topics at the round table organized by the NAAI in October 2016 was the topic of subsidies.

### 1.6.2. The Practical Organization of Subsidies, 2012–2016

By 2016, thanks to the joint efforts of authorities and the NAAI for the first time in Russia the federal system of subsidies for the agricultural insurance, working according to unified principles was established.

The basic document in the period 2013–2016 was the decree of the Government of the Russian Federation dated December 22<sup>nd</sup>, 2012, # 1371 "On the Confirmation of Rules on Granting and Distribution of Subsidies from the Federal Budget to Budgets of Subjects of the Russian Federation Aimed at Compensating Part of Agricultural Producers' Expenses for the Payment of Premium for Agricultural Insurance Contracts".

The main challenges in the organization of the subsidies in this period were related to the discrepancy between the estimated volume of the federal budget funds allocated for agricultural insurance support in each region at the beginning of the year and the actual needs of the region in the agricultural insurance. This led to a shortage of funds that were aimed at addressing all the applications received in some subjects of the Russian Federation and the lack of demand for insurance funds for other regions. In 2012–2015, this problem was addressed by the Government of the Russian Federation by means of the annual production of re-orders for the reallocation of subsidies between the regions after receiving data on the progress of contracts. Thus, despite the significant receivables, the total annual difference between the premium written and the received premiums in 2012–2015 did not exceed -5.3% on the crop insurance contracts and -8.2% in livestock insurance contracts annually (see tables).

In 2016, the scheme was changed, and the government funds were distributed among subjects directly by the Law on the Budget of the Russian Federation for 2016. Rapid re-distribution became possible only in the framework of the overall adjustment of the budget law by means of the legislative process. Changes were made in autumn, 2016, in the framework of the overall reduction of budget expenditures, including the volume of state support for the agriculture. The decline in subsidies for the agricultural insurance amounted by almost 2 times, from 6.4 billion rubles to 2.8 bln rubles, mainly due to the reduction of subsidies for crop insurance from 4.9 billion rubles to 2.5 billion rubles.

The reduction was realized at the expense of subsidies that were not demanded by the regions with a weak level of agricultural insurance development. But in the end, it affected the subjects of the Russian Federation with the active demand for insurance coverage: farmers who signed insurance contracts on conditions of state support in reliance on the subsequent redistribution of the subsidies faced the fact that their insurance contracts were not fully paid and,

accordingly, reduced the insurance coverage. The same situation was observed in the Primorsky Krai which in 2016 became the emergency area because of the "Lionrock" typhoon.

As a result, 21 subjects of the Russian Federation were not able to fully fund insurance contracts for crops and livestock concluded with the conditions of state support crops and animals which caused serious concern in the regions, and distrust for the support from the state.

**Table 1.6.1**  
**A number of subsidies allocated from the federal budget to support agricultural insurance, 2014–2016, billion rubles**

Year	Total		Crop insurance		Livestock insurance	
	Allocated initially	After redistribution	Allocated initially	After redistribution	Allocated initially	After redistribution
2014	5.9	5.5	5.0	5.0	0.9	0.5
2015	6.4	5.5	5.0	5.0	1.4	0.5
2016	6.4	2.8	4.9	2.5	0.5	0.3

**Table 1.6.2**  
**Underfunding of the payment of contracts of crop insurance entered on the terms of state support, 2012–2016 (NSA)**

Year	Premium (written), mln rubles	Premium (received), mln rubles	Debt (% of premium)	Size of indebtedness, mln rubles
2012	5,726	5,601	-2.2%	-125
2013	6,736	6,645	-1.4%	-91
2014	6,336	5,997	-5.3%	-339
2015	4,668	4,601	-1.4%	-67
2016	7,294	5,605	-23.2%	-1,690

**Table 1.6.3**  
**Underfunding of payment for livestock insurance contract concluded on the conditions of state support, 2013–2016 (the NAAI companies)**

Year	Premium (written), mln rubles	Premium (received), mln rubles	Debt (% of premium)	Size of indebtedness, mln rubles
2013	292	291	-0.4%	-1
2014	589	583	-1.1%	-6
2015	939	862	-8.2%	-77
2016	866	625	-27.8%	-241

The second negative change in the area of subsidies of the agricultural insurance in 2016 became the inclusion of state support of agricultural insurance in 2017 in the so-called "united" subsidy simultaneously with the other branches of the state support for agro-industrial complexes.

The transition to "unified" subsidies took place as a result of the adoption of the resolution of the Government of the Russian Federation as of December 30<sup>th</sup>, 2016, # 1556 that approved "Rules of Provision and Distribution of Subsidies from the Federal Budget to Bud-



gets of Subjects of the Russian Federation Aimed at the Facilitation of Achieving Targets of the Regional Programs of the Agro-Industrial Complex Development". This decree revoked the previous regulatory framework on the organization of agricultural insurance subsidies in the regions which are largely determined by the common approaches to the state support of agricultural insurance.

Since the preparation for change in the subsidy systems, the NAAI presented a consistent criticism of the inclusion of agricultural insurance in the "unified" subsidy pointing to the expected negative implications of this decision, as evidenced by the first forecasts made by insurers and regions.

### **1.6.3. The NAAI 's Measures to Restore the Integrity of the System of Agricultural Insurance**

In order to restore the volume of subsidies for agricultural insurance support in 2016 and debt repayment under agricultural insurance contracts the NAAI took the following measures:

Personal meetings and intensive consultations with the heads of regional governments (the Stavropol Krai, the Belgorod region, the Samara region, the Voronezh region, the Republic of Tatarstan) were conducted. Heads 3 of subjects of the Russian Federation sent letters to the Prime Minister of the Russian Federation Dmitry Medvedev about the need to allocate additional funds for debt repayment.

The NAAI sent appeals to the State Duma and the Federation Council, held talks with heads of relevant committees of the State Duma and the Federation Council with particular Parliament representatives. As a result, the NAAI 's position on the need to restore the volume of subsidies in terms of agricultural insurance was supported by a number of legislative officers and put forward in the form of amendments during the consideration of adjustments to the Federal budget for 2016, the draft budget for 2017 and the planning period of 2018–2019. Those amendments were not accepted when voting.

The President of the NAAI took part in 2 meetings of the Government of the Russian Federation, based on the results of which inquiries and orders were directed to the Ministry of Agriculture of the Russian Federation to provide information on the amount of debt to agricultural agencies, as well as the explanation of the reasons for the formation of the above-mentioned debt.

The NAAI sent inquiries about the debt problem to the Ministry of Agriculture, the Ministry of Finance and the Central Bank of the Russian Federation.

The NAAI took part in 6 meetings and held 3 working meetings with representatives of the Ministry of Agriculture.

The NAAI also sent proposals to the Ministry of Agriculture and the Ministry of Finance of the Russian Federation on the changes in the rules of the "uniform subsidy" provision, including:

- on the allocation or the granting of protected status to the insurance subsidies;
- on the inclusion of the provision for receiving state support under contracts from 2016, including the insurance of spring crops.

The actions of the NAAI were accompanied by the increase of information activity: within the press coverage of this topic, 20 press releases were issued by the NAAI. According to the system "Interfax" SCAN system, based on the information from press releases and the NAAI 's comments, the subject of the subsidization of agricultural insurance for the period from September 19<sup>th</sup>, 2016, till December 31<sup>st</sup>, 2016, (90 days) was raised in 320 publications, 68% of which were the publications of the federal level.

### 1.7.1. Measures Taken by the NAAI for the Development of the Agricultural Insurance System in 2016

In 2016, the NAAI was actively working to improve the agricultural insurance system. The following documents were prepared and forwarded to the executive and legislative bodies, industry and expert institutions:

- suggestions on methods of improving the state support system of agricultural insurance to the State Duma;
- proposals on the introduction of the minimal agricultural technologies to the Government and the Ministry of Agriculture of the Russian Federation;
- proposals to the programming document of the "United Russia" party at the request of the Committee on Agrarian Issues of the State Duma;
- suggestions for the Food Security Doctrine based on the request from the Russian Union of Industrialists and Entrepreneurs;
- comments and proposals to the draft of the National report on the progress of the implementation of the State Program of the Agriculture Development for 2013–2020 in 2015;
- comments on the draft project on the subsidies consolidation to the Ministry of Finance, the Ministry of Agriculture of the Russia, the Bank of Russia, the Government of Russia;
- proposals to the Ministry of Agriculture of Russia, the Public Council under the Ministry of Agriculture of Russia, the Ministry of Finance of Russia on the improvement of normative acts, on the procedure of subsidies distribution, changes in the State Program of the Agriculture Development in 2012–2020;
- materials on the possibility of the index insurance and insurance costs implementation in Russia;
- materials on the possible involvement of the National Reinsurance Company in the agricultural risks reinsurance.

The executive office of the NAAI together with the Committee for the Insurance Methodology agreed upon and submitted to the Ministry of Agriculture of Russia a common position of the NUIA regarding the desirability of changing the current model.

Consolidated proposals for improving the current system of the agricultural insurance with state support in the framework of the instructions of the Deputy Chairman of the Government of the Russian Federation A.V. Dvorkovich as of July 23<sup>rd</sup>, 2016, # AD-P11-116pr were prepared. Proposals were sent to the Ministry of Agriculture, the Ministry of Finance, the Ministry of Economic Development of Russia, the Bank of Russia, the State Duma, the Federation Council, the Presidential Administration of the Russian Federation, and the Government of Russia.

Thanks to the invitation from the Bank of Russia in April 2016, the NAAI took part in the Program of the Russian financial sector evaluation, held by the mission of the International Monetary Fund and the World Bank. The NAAI introduced basic conditions and data on the agricultural insurance in Russia and proposals to be included in the report on the results of the assessment. The following recommendations including those made by the NAAI were included in the report:

- compulsory insurance for grantees as a simple and pragmatic way to increase the penetration of the agricultural insurance;
- reduction in payments for emergency situations for the uninsured (payments in lesser amounts than for the insured) in order to stimulate demand for insurance.

# 1.7

## PRIORITIES IN THE AGRICULTURAL INSURANCE DEVELOPMENT

A successful transition to a single centralized system of agricultural insurance with state support in 2016, increase in the transparency and reliability of the agricultural insurance market have created preconditions for the further development of the system and a widespread use of insurance instruments in agriculture.

Priority directions of the agricultural insurance development in 2017 should be:

- Ensuring the stability of the state support system in the agricultural insurance. To adopt measures for the removal of support of agricultural insurance from a "unified" subsidy or to assign a protected status on the first stage.
- Changes in the system of state support with due regard to the best international practices aimed at improving its efficiency and flexibility, and therefore, availability to different groups of farmers.
- Improving insurance literacy among farmers.
- Implementation of targeted programs on the agricultural insurance development.

The practice of agricultural insurance in 2012–2016 by the NAAI companies demonstrated that in order to increase the coverage of the agro-industrial sector with the insurance protection, essential changes in the conditions of state support for agricultural insurance have to be introduced. The following changes should be considered:

- different needs and financial capacities of farmers;
- specific features of various objects of insurance;
- specific features of farmers' groups (including small businesses);
- a special approach to regions with systemic risk.

22 **1.7.2. The NAAI 's Proposals on Changing the System of the Agricultural Insurance**

Withdrawal of agricultural insurance support from the "unified" subsidies as a separate direction of subsidies.

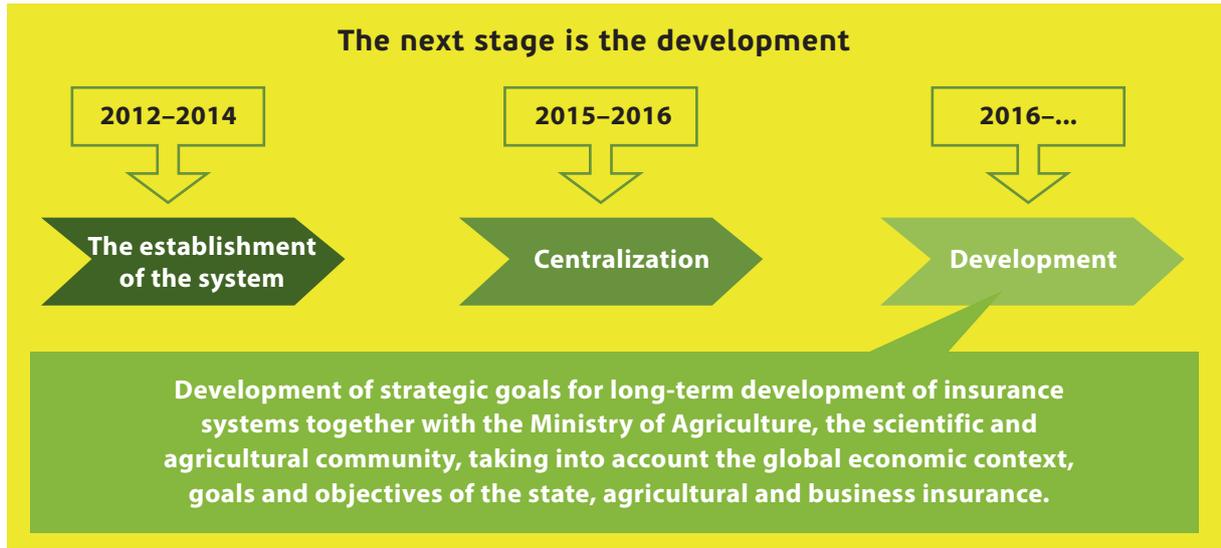
Rejection of the use of a threshold for determining the loss (failure) of the crop.

Expansion of insurance products by increasing the range of the deductible (from 5% to 50%) and the insured amount (from 100% to 50%).

Standardization of conditions for granting subsidies (elimination of redundant requirements in the regions, reduction of terms of subsidies transfer).

Transition to the actuarial calculation of the subsidy rates.

Development of satellite monitoring to reduce the cost of insurance and improve the level of service.



# 2

## THE NAAI'S ACTIVITIES ON THE DEVELOPMENT OF THE AGRICULTURAL INSURANCE SYSTEM

# 2.1

## DEVELOPMENT OF THE METHODOLOGICAL FRAMEWORK

Development of the methodological framework of agricultural insurance with state support during the transition to a common system of agricultural insurance was carried out in 2016 based on the documentation set developed by the NAAI in the previous period.

Simultaneously, the NAAI continued the cooperation with the Ministry of Agriculture of the Russian Federation on the key issues related to the necessity of improvement of normative documents and took steps to modernize the scientific methodological framework of crop insurance.

### 2.1.1. Preparation of Methodological Documents of Informational and Advisory Nature for the Organization and Conduct of Agricultural Insurance in the Framework of the Unified System

As part of the transition to the implementation of the functions of the unified association, the NAAI developed and agreed with

the Ministry of Agriculture, the Ministry of Finance and the Bank of Russia on the following:

- Common rules of agricultural insurance for crops, plantations of perennial plants with state support;
- Common rules for livestock insurance with the state support.

On the basis of common rules of insurance, the following procedures were developed by the NAAI and approved for the purposes of the implementation of the insurance with state support:

- Standard forms of contracts of harvest and planting of perennial plantations insurance;
- Standard forms of contracts of agricultural livestock insurance;
- Unified methodology of insurance tariffs calculation for crops and planting of perennial plantations insurance;
- Unified methodology of insurance tariffs calculation for livestock insurance;
- Methodological recommendations on the settlement of losses under agricultural livestock insurance contracts;
- Criteria for mass poisoning of agricultural animals;
- Standard programs of crop insurance.

Based on the need to adapt the methodological base for the new uniform insurance rules, in February 2016, the NAAI approved the updated standard forms of crops and plantations of perennial plants insurance contracts, as well as livestock insurance. Taking into account the practice of uniform rules application in May 2016 additional required and recommended provisions of these standard forms were accepted. The adopted changes were aimed at increasing the transparency of insurance conditions for farmers.

Summarizing the results of the first year of operation of the unified association, the NAAI developed methodical recommendations on risk assessment of crops insurance realized with state support. The recommendations were approved by the Committee for Insurance Methodology and sent to the members of the NAAI so that they are implemented in their work in December 2016.

In 2016, the NAAI also completed the first phase of the scientific and practical project initiated by the Union for the purpose of modernizing the system of criteria of dangerous agro-meteorological phenomena, the need for which was confirmed by the insurance companies – members of the NAAI in 2012–2015. “The All-Russian Research Institute of the Agricultural Meteorology”, the Federal Government



Speech of the Chairman of the Committee on the Insurance Methodology under the NAAI, O. N. Blinkov

Budgetary Institution, based on the order from the NAAI, developed criteria of dangerous agro-meteorological phenomena for the purposes of providing insurance for major crops cultivated in the Southern and the North-Caucasian federal districts. Report on the research was approved by the Committee for the Insurance Methodology at the NAAI in August 2016. The next stage of the project should be the introduction of those criteria in the insurance in the South of Russia.

### **2.1.2. Collaboration with the Ministry of Agriculture of Russia on the Improvement of Normative Legal Acts on State Support of the Agricultural Insurance**

In 2016, the NAAI was constantly in touch with the Ministry of Agriculture of the Russian Federation on all the issues associated with changes in the regulatory framework of agricultural insurance with state support. In particular, the NAAI prepared and sent to the Ministry the following documents:

- Proposals on the formation of an Agricultural Insurance Plan in 2017 together with methods for calculating the marginal rates to calculate the amount of subsidies (in April 2017);
- Proposals relating to the development of methods for determining insurable value and size of loss (failure) of agricultural crops, plantations of perennial plants, livestock;
- Clarification of problematic issues arising during the implementation of agricultural insurance, including issues of determining rates for calculating subsidies, recording improper denials made by agro-industrial agencies when providing subsidies to farmers and reclamation of improper documents for subsidies.

The most problematic issue in terms of the regulatory framework of agricultural insurance, as in prior periods, was the order of subsidies including the allocation of subsidies between the subjects of the Russian Federation, conditions for their provision, etc. The topic remained on the agenda of the Union in 2017, as in connection with the accelerated transition to a "unified subsidy" starting from 2017, the regulatory framework was not prepared in the required timeframe.

### **2.1.3. Methodological Support of the NAAI Members**

In 2016, the NAAI continually consulted members of the Union on various issues of cooperation with regional management bodies agro-industrial complex while subsidizing insurance contracts. On the basis of the requests received by the insurance companies, agricultural agencies and the Ministry of Agriculture of Russia written explanation were sent, including:

- on the margin of the insurance organizations solvency;
- on the definition of the timeframe for livestock insurance contracts;
- on the calculation of the average yield of winter crops.

Moreover, in 2016, the Union carried out the generalization and analysis of the application of the rules of agricultural insurance on a permanent basis, the realization of compensation payments and sending out the results of the analysis to the NAAI members. According to the report, the NAAI members were informed of typical errors during the conclusion of insurance contracts, maintenance and settlement of losses; the need to prevent them in the future was also highlighted.



# 2.2

## APPLICATION OF INNOVATIONS: THE INTRODUCTION OF MODERN SATELLITE TECHNOLOGIES

One of the key activities of the NAAI as a unified association of agricultural insurers is the introduction of modern methods and technologies of agrometeorological data and remote sensing of the Earth into a system of insurance. The realization of this task for the industry of agricultural insurance at the federal level was implemented for the first time in the Russian practice.

This project was one of the elements of preparation for the transition to a system of crop insurance based on common standards in 2016. In 2014, the NAAI identified that the technology of remote sensing of the Earth, widely used in world practice, was already known by some insurance companies among the members of the Union to accompany the contracts of agricultural crops insurance of and claims settlement. At the same time, the individual use of such data differed in various details, it was not supported by a common base of standards and regulations and could not be considered at the official level, including during the litigation.

In 2015, in accordance with the main directions of activities of the NAAI a department of insurance expertise and satellite monitoring was created. The department is entrusted with the functions of the coordinating center for the centralized use of agro-meteorological data and remote sensing of the Earth.

In 2015, the Committee for Monitoring and Insurance Expertise of the NAAI conducted a detailed analysis of the proposals from domestic and foreign suppliers that provide services of remote sensing of the Earth. Based on the conducted work, the Board of the NAAI approved the acquisition of the service company GEOSYS ("AgriQuest" portal) as a tool for the centralized provision of data of satellite monitoring in accordance with the Committee. The terms of the agreement, effective from November 2015 allow the NAAI to monitor meteorological parameters and the state of the crops, the index of vegetation on the territory of the Russian Federation, and to assess the conditions of separate fields. Since January 2016, this information is available online not only for the NAAI specialists but also for the departments for agricultural insurance of all members of the association for the purposes of underwriting, servicing and maintenance of contracts and the settlement of losses for agricultural crop insurance.

In 2016, the NAAI developed the following directions in the introduction and development of satellite monitoring technologies for the agricultural insurance system of the Russian Federation.

### 2.2.1. The Development of Regulations on the Organization of the Satellite Monitoring and Examination of Agricultural Crops Insurance

The use of satellite monitoring methods for agricultural crops insurance is carried out in the framework of the internal regulations of the NAAI that was approved in April 2016. The Regulations encourage insurance companies – members of the NAAI to conduct satellite monitoring at all stages of agricultural crop insurance and in the preparation of analytical reports. At the level of the NAAI satellite monitoring as a prerequisite for consideration of applications for compensation payments is envisaged.

### 2.2.2. Training for Insurance Professionals

In February 2–3<sup>rd</sup>, 2016, there took place a seminar on the application of the AGRIQUEST Ultimate web service tools AGRIQUEST Ultimate to get acquainted with the NAAI system together with specialists from "GEOSIS EUROPE" on the basis of "VSK" (open joint-stock insurance company) training center. At the end of the workshop, each participant received a certificate of the training completion; the insurance company received the access code to the AGRIQUEST portal to run individual monitoring sessions. Individual training of new members was conducted during 2016 progressively as insurance companies joined the Association.

In April 2016, the NAAI experts participated in the seminar on improving the AgriQuest tool conducted by GEOSYS in Toulouse (France). At



Participants of a seminar for insurance companies

the seminar, the NAAI presented the proposals of agricultural insurers of Russia on the revision of the IT application taking into account the existing experience of companies.

On September 19–21<sup>st</sup>, 2016, in Toulouse, at GEOSYS' office, a seminar for the Russian delegation on the expansion of the application possibilities of satellite monitoring during crop insurance was held. Experts from insurance companies and the NAAI employees, as well as invited representatives of the Ministry of Finance and the Bank of Russia, took part in the seminar.

### **2.2.3. The Application of Satellite Monitoring in the NAAI 's Activities**

In 2016, the NAAI conducted 15 examinations using the data of satellite monitoring applications for compensation payments from the compensation payments fund. The utilization of remote sensing of the Earth allowed to identify cases of providing farmers with false information about the condition of crops in the period of conclusion and effect of insurance contracts which initiated procedures of the statements for verification on the signs of insurance fraud.

Satellite monitoring tool was also used by the NAAI in 2016 to assess the state of crops in the regions for which the formation of the consolidated position of the Union was required, including the interactions with official bodies. A detailed analysis of the condition of crops in 10 constituent entities of the Russian Federation in the context of municipalities, including regions where a state of emergency was declared (the Republic of Bashkortostan, the Republic of Tatarstan, the Republic of Buryatia, the Zabaykalsky Krai and the Tula region) was conducted.

### **2.2.4. Further Development of Satellite Monitoring Tool**

In the framework of the development of satellite monitoring tool, "GEOSIS-EUROPE" and the NAAI tested a new tool developed by taking into account the proposals of the Russian insurance companies' experts – a "FieldLogs" application ("Inspector of Fields"). The mobile application "Inspector of Fields" allows the insurance company to place a specific task on the field survey for the expert traveling to the area, and to construct the optimal route for inspection based on the maps of the farm fields where the data on the vegetation index of crops on the field is presented. With that, the data of examination using a mobile application are logged by the expert into the phone in an online mode directly on the field into the database system and transmitted to the insurance company in the form of a completed inspection report with participants' signatures, timing and coordinates of the inspection points, photos and videos.

Testing of this instrument was conducted in July and September 2016, in the Krasnodar Krai and the Orel region together with JSC "SK "Rosselkhozbank – Insurance," and "SK "Soglasie". According to the results of the test examinations of the pilot project proposals for the use of mobile applications, "Inspector of the Field" was proposed by members of the NAAI in 2017.



# 2.3

## IMPLEMENTATION OF THE FEDERAL CROP INSURANCE SYSTEM: INTERACTION OF THE NAAI WITH THE MINISTRY OF AGRICULTURE OF RUSSIA, CONSTITUENT ENTITIES OF THE RUSSIAN FEDERATION AND LOCAL UNIONS

The key role in the organization of agricultural insurance locally is played by the agricultural business management bodies of the constituent entities of the Russian Federation that are directly responsible for subsidizing crop insurance. In the framework of the execution of these tasks, regional authorities cooperate with the Ministry of Agriculture of the Russian Federation. Due to a significant regional diversification of the agricultural insurance market in the NAAI starting from the end of 2015, the activities aimed at its organization are drawn to the level of constituent entities of the Russian Federation. In order to implement it, a special unit within the Directorate of the Insurance Methodology and Development – the Regional Relations Department – was created.

### 2.3.1. Development of Cooperation between the NAAI and Agricultural Agencies of Constituent Entities of the Russian Federation and the Ministry of Agriculture of the Russian Federation

The interaction of the NAAI with the subjects of the Russian Federation is focused on the provision of information exchange on the implementation of the agricultural insurance, on the problems and needs of regions and agricultural producers. Another priority is the development and implementation of regional programs and activities with the purpose to increase the level of popularity of insurance among agricultural producers.

In 2016, the organization of agricultural insurance at the regional level was the focus of special attention of the Ministry of Agriculture of the Russian Federation. In May – June 2016, the NAAI participated in 10 video conference calls on the issues of agricultural insurance with all the subjects of the Russian Federation based on the results of the spring sowing campaign carried out by the Ministry of Agriculture.

In the framework of the organization of the system of interaction with regions in 2016:

- responsible officers on the real-time interaction with the NAAI were agreed in 53 agricultural business management bodies of constituent entities of the Russian Federation;
- a survey of the agricultural business management bodies of the subjects of the Russian Federation on the common problems of agricultural insurance development was conducted. Based on the results suggestions were sent to the Ministry of Agriculture;
- the analysis of the regional regulatory framework on the procedures of granting subsidies on paying part of the premium under agricultural insurance contracts with state support. Based on the findings of the analysis, recommendations and proposals were forwarded to the regional agricultural administrative bodies of constituent entities of the Russian Federation and the Ministry of Agriculture;
- the regular communication with the regional bodies of the agro-industrial complex (in particular, real-time data about the changes in the membership of the NAAI are sent) was organized;
- the information bulletin "Agricultural Crop Insurance with State Support" developed by the NAAI was sent.

Collection and systematization of information were conducted:

- on the additional needs of the subjects of the Russian Federation in the federal budget funds for compensating part of agricultural producers' expenses for paying a premium under agricultural insurance contracts;
- on the regions' planned targets of using subsidies for agricultural risks insurance in 2017.



Signing of the agreement on the development of the agricultural insurance system in the Republic of Buryatia, October, 2016

### 2.3.2. Organization of the Agricultural Insurance System in Case of Catastrophic Risks for Agriculture at the Regional Level

In 2016, the NAAI developed and approved the Algorithm of actions of the Union's divisions in case of emergency situations in the regions. In accordance with the algorithm, the NAAI established special Committees for monitoring emergency situations in 5 regions of Russia (the Kaliningrad and Tula regions, the Primorsky and Khabarovsk territory, the Republic of Bashkortostan); hotline for farmers were opened that are also meant to notify the regional administrations of agriculture and the Ministry of Agriculture on the work of the NAAI's Committee on emergencies monitoring.

In connection with the identification of systemic risks of drought preventing the organization of insurance systems in the regions of Eastern Siberia, a workshop for the development of the agricultural insurance system with state support was conducted in the Republic of Buryatia, the Irkutsk region and the Zabaykalsky Krai with the participation of Deputy Ministers of these regions and insurance organizations – members of the NAAI. In October 2016, an Agreement to promote the development of agricultural insurance with state support between the NAAI and the Ministry of Agriculture and Food of the Republic of Buryatia was signed.

### 2.3.3. Regional and Inter-Regional Activities on the Issues of the Organization and Conduct of the Agricultural Insurance with State Support

In 2016, a cooperation agreement between the NAAI and "The Federal Center for Agricultural Consulting and Retraining of the Agro-industrial complex" (the Federal State-Funded Educational Institution, further vocational education) within which seminars were held for training of farmers, leaders of peasant associations and staff of the regional advisory services from 30 regions in the field of agrarian business.

During 2016, with the participation of the Union the following regional and inter-re-

gional activities on the issues of the organization and conduct of agricultural insurance with state support for specialists of insurance companies – members of the NAAI, farmers, representatives of agricultural administrative bodies of the regions – were organized and conducted by the NAAI.

- The regional roundtable of the NAAI in the framework of the XIX agro-industrial forum in the South of Russia (Rostov-on-Don).
- Participation of the NAAI in the work of the Headquarters on the preparation and conduct of seasonal agricultural field work in the Committee on Agriculture and Fishery complex of the Leningrad region, including a working meeting with the Deputy Chairman of the Government of the Leningrad region (Saint Petersburg).
- Interregional meeting on the implementation of agricultural insurance with state support in the Siberian Federal district organized by the "Siberian Agreement" Interregional Association with representatives of agricultural agencies of the Novosibirsk region and the Altai territory, insurance and agricultural professional community (Novosibirsk).
- Seminar with the participation of the NAAI "Paths of Innovation and Technological Development of Crop Production in the Modern Context" on the basis of the federal state budgetary institution "Tula Research Institute of Agriculture". The event was attended by over 80 farmers, managers and specialists of regional and municipal bodies of the agricultural management of the Tula region (the Dairy Yards, the Tula region).
- A seminar with the participation of the NAAI in the preparation and conduct of spring field works of the Republic of Mari El (Yoshkar-Ola).
- Participation of the NAAI in a meeting of the Ministry of Agriculture of the Russian Federation on the protection of crops against hail in the Southern and North Caucasian federal districts and the Republic of Crimea with the participation of the agricultural agencies of constituent entities of the Russian Federation (Moscow).
- Participation of the NAAI in the meeting "Topical Issues in the Development of Insurance Market of the Orenburg region" on the basis of the Bank of Russia branch (Orenburg).
- Participation in a research-to-practice conference on the topic of "The Climate, Soil Fertility and Agricultural Technologies" in the Samara region.
- Participation in the forum "Agricultural Business today. Problems. Challenges and solutions" within the II Agricultural Technology Exhibition and Forum "International Field Days in the Volga region" in the Republic of Tatarstan.
- Organization of the round table "Insurance as a Factor of Sustainable Development of Agriculture. The experience of the Russian regions" organized in the framework of 18<sup>th</sup> Russian agro-industrial exhibition "Golden Autumn" in Moscow.



# 2.4

## ORGANIZATION OF STATISTICAL ACCOUNTING

From January 1<sup>st</sup>, 2016, due to changes in the legislation the obligation to maintain statistics in the field of agricultural insurance with state support was directly assigned to the integrated Union of Agricultural Insurers.

The NAAI has already been maintaining the ongoing collection of information about its members' activities on agricultural insurance with state support from the moment of entry into force of Law # 260-FZ as of January 1<sup>st</sup>, 2012. As of December 31<sup>st</sup>, 2016, the NAAI had more than 250 million records, reflecting data on 14,198 contracts of agricultural insurance concluded on the conditions of state support in the period from 2012 to 2016.

The collection and storage of the NAAI's statistical reporting are aimed at accumulating the Union's primary statistical data required for calculating insurance tariffs on agricultural insurance, as well as for the maintenance of the Union's statistics data.

In 2016, the NAAI took the following measures in the field of management and use of statistics.

### 2.4.1. Measures for the Development of the Automated Information System (AIS NAAI)

The work on improving AIS NAAI is going on. Starting from January 1<sup>st</sup>, 2016, a unified statistical report of the members of the NAAI was introduced that is the standard for providing statistical data for all the participants in the system of agricultural insurance. In March 2016, amendments were introduced in the Unified form regarding the clarification of the available statistical information. The IT service of the NAAI was organized: a programmer of MS Access (VBA) was employed.

### 2.4.2. Formation, Processing and Analysis of Statistical Information

During 2016 the monthly collection of statistical information was conducted for all agricultural insurance contracts with state support concluded in the period from 2012 to 2016 by insurance organizations – members of the NAAI in constituent entities of the Russian Federation. On the basis of this information monthly database updates to reflect changes the status of previously concluded contracts or insurance payments was carried out.

The acquisition of the detailed statistical reporting (in the context of insurance contracts and types of insured objects) on the contracts concluded in 2016 was made on a quarterly basis, and on the contracts for the period from 2012 to 2015 – on a semiannual basis.

### 2.4.3. Informing Members of the NAAI and Public Authorities on the Indicators of Agricultural Insurance with State Support

Preparation of the summarized statistical information on the progress of the conclusion and execution of agricultural insurance contracts with state support was carried out by the NAAI on a monthly basis. These data in an aggregate form were sent to the Ministry of Agriculture, the Government of the Russian Federation and the Central Bank of the Russian Federation.

Creating awareness among members of the NAAI on getting consolidated statistical information by the Union on the concluded contracts on agricultural insurance with state support in the regions of Russia was carried out on a quarterly basis in accordance with the established forms.

In order to verify information on the transfer of subsidies the information about the agricultural insurance contracts with state support concluded by members of the NAAI was sent regularly to the regional agricultural administrative bodies. Based on the responses from agricultural business management bodies clarification of subsidies amount were made, causes of delays and failures in the transfer of state funds were investigated, and information was provided to members of the NAAI.

### 2.4.4. The use of Statistical Data for Actuarial Calculations

In 2016, the NAAI together with the autonomous non-commercial organization "NAATS" developed a new edition of the "Uniform Methodology of Insurance Tariffs on Agricultural Crops and Plantations of Perennial Plants Insurance Calculation Carried out with State Support". The method contains a file of the rates calculation differentiated among the subjects of the Russian Federation and objects of agricultural insurance taking into account the participation of the insurer in the risk in accordance with the Federal Law # 260.

The new version of the methodology approved by the Board of the NAAI and sent to the members of the NAAI in February 2016 was created on the basis of actuarial studies carried out using the updated database of reporting forms 4-sh and 29-sh of the state statistical observation over 2001–2012 and insurance companies' statistics.

In April 2016, proposals for inclusion in the draft plan of agricultural insurance by 2017 were prepared and submitted to the Ministry of Agriculture; they contained marginal rates for subsidies calculation together with methods of their calculation using actuarial methods in particular and taking into account the differentiation of subjects of the Russian Federation and the objects of agricultural insurance and also the insurer's participation of the risk.

In order to update the database of the reporting forms 4-sh and 29-sh of the state statistical observation and realization of the recalculation of insurance rates on its basis the statistical information for the period of 2013–2015 in the context of agricultural crops and planting of perennial plants in the municipalities (districts) of 80 subjects of the Russian Federation was acquired in the territorial bodies of the Federal State Statistic Service.

# 2.5

## EXECUTION OF THE GUARANTEE FUNCTION

The transition to a unified association in agricultural insurance with state support has allowed to increase the reliability and transparency of the system of guaranteeing the insurance liabilities.

The mechanism of compensatory payments in the crop insurance was introduced in the interests of the insured farmers and provides them with a guaranteed receipt of insurance compensation under contracts crop and livestock insurance concluded on the terms of state support. In the event of the insolvency of the insurance company, the Union of Agricultural Insurers is obliged to carry out payment to the landowner from the fund that is formed by contributions from the insurers of the received premium.

The first time the mechanism of the compensation payments fund (CPF) was provided in agricultural insurance was on January 1<sup>st</sup>, 2012, and from that moment began the formation of the compensation payments fund of the NAAI. Farmers became eligible for compensation payments according to the law from January 1<sup>st</sup>, 2014, on the agreements that were in effect since 2012.

### 2.5.1. The Change in the Legal Status of the Guarantee System with the Transition to a Unified Association

With the transition to a centralized system of agricultural insurance from January 1<sup>st</sup>, 2016, the liability of the Union of Agricultural Insurers Association on the maintenance of the warranty system increased significantly. The work in this area was transferred under the direct supervision of the Bank of Russia for the first time in the history of the associations of insurers. The stability of the guarantee system has received extra protection in the form of a direct legislative ban on the collection of the CPF based on requirements not directly related to utility payments. The subsidiary liability of insurers and the responsibility of replenishment of the CPF in the case of funds insufficiency and the right to claim

of the Union against the insurer of a bankrupt on the obligations of which the payments are made was also introduced.

According to the new version of the Law # 260-FZ that entered into force on January 1<sup>st</sup>, 2016, the NAAI shall:

- create CPFs and implement compensation payments;
- keep statistics on compensatory payments, replenishment of the CPF and management of CPF funds;
- provide quarterly data on the CPF management to the authorized body of the Bank of Russia;
- ensure the safe and targeted use of the CPF;
- invest CPF in accordance with the requirements established by the Bank of Russia with the exception of the placement of CPF funds in the credit institutions under direct or indirect control of members of the union of insurers (with the exception of state banks), and securities whose issuers are legal entities affiliated in relation to the members of the NAAI;
- provide at least 75% of funds received from the investment of the CPF solely on the replenishment of the CPF. Not more than 25% of these funds can be used by the Union in coordination with the Bank of Russia, the Ministry of Agriculture and the Ministry of Finance of the Russian Federation for financing target programs of the Union of Insurers on the development of the agricultural insurance system.

During 2016 the NAAI fully provided the functioning of the guarantee system within statutory obligations.

### 2.5.2. The formation of the Fund for Compensation Payments and Compensation Payments

In accordance with the Federal Law # 260, the general meeting of the members of the NAAI approved the five percent rate of payments to the CPF for 2016. The executive office monitored the transfer of funds by members of the NAAI to the CPF and the correctness of its formation. Placement of the Union's funds, including CPF funds, is carried out in strict accordance with the Plan of investments of the NAAI's temporarily available funds in 2016.

The volume of the NAAI's CPF as of December 31<sup>st</sup>, 2016, amounted to 1,4 billion rubles.

In 2016, the NAAI received 13 statements on the compensation payments for the obligations of 4 companies from the agricultural producers from 7 regions (with regard to insurers OOO "SO "Kupecheskoye", OOO "NPSK", OAO SK "MRSK", OOO "SK "Severnaya Kazna").

The necessary activities for losses settlement have been carried out on the received applications in order to confirm the occurrence of the insured event and to determine the compensation amount, including:

- for each statement, an expert analysis using remote sensing data of the Earth was conducted;
- the expert examination by independent experts certified by the Ministry of Agriculture was conducted;
- 60 requests were directed to the Ministry of Agriculture, the agricultural business management bodies of constituent entities of the Russian Federation and various federal agencies;
- there has been ongoing operational interaction with the applicants (producers of the agricultural commodities).

In 2016, the NAAI carried out 4 compensatory payments to agricultural producers in 3 regions (the Altai Krai, the Stavropol region, the Rostov region) for a total amount of 42 million rubles. 7 claims were denied compensation. There were 6 applications before the end of the reporting period.

# 2.6

## SUPPORT OF THE SCIENTIFIC BASIS DEVELOPMENT FOR THE AGRICULTURAL INSURANCE

The NAAI as the Union of Agricultural Insurers responsible for the organization of the system of agricultural insurance with state support has consistently been working on the development of the scientific basis for agricultural insurance. In 2016, the NAAI increased interaction with the scientific community to upgrade the scientific foundations of the agricultural insurance.

### 2.6.1. Research in the Field of Agricultural Insurance: Development of Criteria for Natural Disasters

In 2016, the federal state budget institution "The Research Center for the Agricultural Meteorology" based on the order from the NAAI developed criteria of dangerous agro-meteorological phenomena for the

purposes of providing insurance for major crops cultivated in southern and North-Caucasian federal districts. Report on the research work was approved by the Committee for the Insurance Methodology under the NAAI in August 2016.

In 2012–2014, the practice of insurance companies – members of the NAAI let reveal the inadequacy of the regulatory framework for the criteria of natural phenomena that are dangerous for agriculture. Criteria for dangerous events that resulted in plant damage are of key importance in the crop insurance to determine the signs of the insured event: in the absence of natural hazards reduction in yield is due to the human factor (usually a violation of agricultural technology) and cannot be compensated through insurance.

Criteria should be regularly reviewed in conjunction with climate change, varieties of crops and development of agricultural technologies, but the most recent studies of this kind for the regions of Russia was carried out in the Soviet times. Development of normative criteria for natural hazards that meet the current level of agricultural technologies and take into account regional characteristics will help to reduce the number of disputes, transparent relations between the insurer and the farmer and reduce insurance fraud. In this regard, the NAAI made a decision to conduct a pilot research in specialized research organizations.

In November 2015, the NAAI and the federal state budget institution "The Research Center for the Agricultural Meteorology" signed a contract on the realization of works on "The Development of Regional Criteria for Hazardous Agro-Meteorological Phenomena for the Major Agricultural Crops Cultivated on the Territory of the Southern and North Caucasus Federal Districts". In the framework of this project the following activities were produced:

- data analysis about the influence of the hazardous nature phenomena on the growth, development and productivity of crops in the territory of the Southern and North Caucasus federal districts.
- development of criteria for hazardous nature phenomena taking into account the biological characteristics of the crops for the territories of the Southern and North Caucasus federal districts.

In the next phase of the project, the results will be transferred for tests in the federal state budget institution "The Research Center for the Agricultural Meteorology". In the case of positive results, similar projects can be conducted in other regions of the Russian Federation.

The section "Topical Issues of Agricultural Insurance" on June 2<sup>nd</sup> was opened by the Professor of the Department of the Economic Theory of the Southern Federal University Olga Belokrylova and the Dean of the SFU Marina Borovskaya. In addition to the NAAI representatives, the reports of scientists, specialists from different regions of Russia were attended. Professor of the RGSU Vladimir Nosov devoted his speech to the periodization of the development of agricultural insurance with state support. Director of the Research Institute of Agricultural Meteorology Valery Dolgiy-Tratch presented a paper on the topic "Problems and Prospects of the Hydrometeorological

Support of the Agricultural Insurance". Moreover, reports of scientists from the N. I. Vavilov Saratov State Agrarian University, the All-Russia Research Institute of Agricultural Economics, the Orel State Agrarian University, the Samara State Agricultural Academy, the Bashkir State Agrarian University, the Penza State Technological University, the Saratov Socio-Economic Institute, etc. were attended.

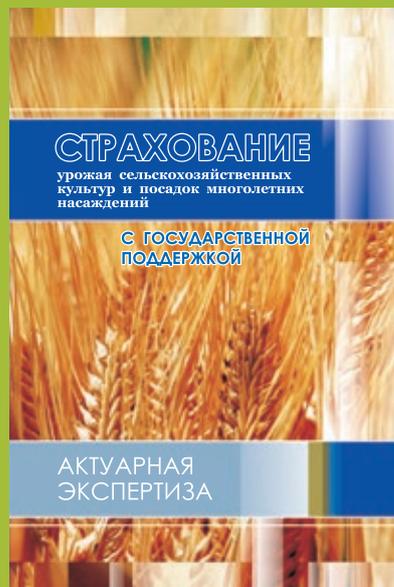


### 2.6.2. Support of Scientific Publications

In 2016, the NAAI issued a scientific publication "Crop and Plantations of Perennial Plants Insurance with State Support" in the form of printed books prepared by the staff of ANO IAATS. The book represents the first study of the actuarial expertise in the field of agricultural insurance with state support. The monograph contains a description multi-risk system of crop insurance, actuarial data and a mathematical model for the calculation of tariffs.

### 2.6.3. Support of Scientific Conferences

At the initiative of the National Union of Agricultural Insurers, a scientific discussion of the problems and prospects of the system of agricultural insurance in Russia was held in the Southern Federal University. A section "Topical issues of Agricultural Insurance" was included in the program of the XVII International Research and Practice Conference "Future of the Russian Insurance: Evaluation, Problems, Points of Growth" that took place in Rostov-on-Don in June 1–3<sup>rd</sup>. The event was organized by the insurance company "Rosgosstrakh" and the Southern Federal University. Over 75 representatives from 55 educational institutions, universities and colleges from the most regions of Russia and from Belarus visited Rostov-on-Don.



The monograph "Crop and Plantations of Perennial Plants Insurance with State Support" is the first Russian study of the actuarial expertise and calculation of tariffs for a multi-risk system of crop insurance. This scientific work is based on the research conducted by the Independent Actuarial Information and Analytical Center for 2011–2014 for the NAAI. The book analyzes the regulatory framework and practice of crop insurance with state support in Russia and abroad. It focuses on the billing of this type of insurance and analysis of the available bases for calculating insurance tariffs and rates in order to assess the amount of subsidy.



# 2.7

## ORGANIZATION OF REINSURANCE

In 2016, the reinsurance of agricultural risks continued to be the focus of attention of the NAAI. The Union monitored the practice of reinsurance of agricultural risks in Russia and international experience, established business contacts from the Russian and international reinsurance market.

### 2.7.1. The Main Indicators of the Agriculture Reinsurance Market of the Russian Federation

By removing pseudo-insurance operations together with direct insurance in 2015, the reinsurance of agricultural risks in 2016 showed a positive trend due to the growth of premium transferred to reinsurance contracts of agricultural insurance with state support.

The main indicators of reinsurance of agricultural risks in 2016:

- the volume of premium transferred to reinsurance increased by 31% from 1.25 billion to 1.64 billion rubles;
- share transferred to reinsurance premium increased from 15.9% to 16.7% (of the premium for direct insurance).

Thus, if under insurance contracts with state support the volume of reinsurance increased:

- premium transferred in reinsurance increased by 75% (from 784 million to 1.37 billion rubles);
- share transferred to premium was 20.5% (of premiums for direct insurance),

Then the amount of reinsurance decreased in the insurance contracts without state support:

- premium transferred to reinsurance decreased from 464 million to 265 million rubles;
- share transferred to reinsurance premium made 16.1% (of the premium for direct insurance).

As in the previous year, a critical dependence of the Russian agricultural insurance from the international reinsurance market remained: a share of premium transferred abroad amounted to 94% in the total volume of premiums transferred to reinsurance in 2016 (in 2015 – 93%). The National Russian Reinsurance Company (NRRC) was established in July 2016 and did not manage to have a significant impact on this indicator.

At that, individual insurance companies, including key players in the market, were dependent significantly on reinsurance: such companies transferred more than one-third of the premiums for agricultural insurance to reinsurance.

The share of reinsurers in payments of agricultural risks insurance in 2016 amounted to 437 million rubles, out of them 44 million rubles – under contracts of insurance with state support.

### 2.7.2. The Development of the System of Agricultural Risks Reinsurance

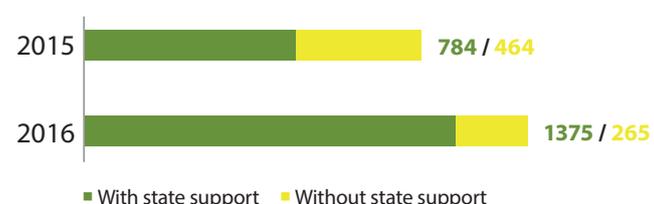
Issues of reinsurance and the position of the Russian community of agricultural insurers in this area was repeatedly covered by representatives of the NAAI in the course of international meetings at various events. Including the XX Annual Conference of Reinsurance under the auspices of the All-Russia Insurance Association in April 2016 where the NAAI presented the main features of agricultural risks and their reinsurance, including international experience in reinsurance.

With the aim of expanding contacts with the international reinsurance market in 2016, the NAAI held a working meeting with representatives of the Swiss reinsurance company Swiss Re dedicated to the organization of agricultural insurance and reinsurance in Russia. Moreover, in autumn 2016, the NAAI with the participation of Swiss Re held a seminar for members of the Committee for the Insurance Methodology under the NAAI with the purpose of studying the international experience of the agricultural insurance and reinsurance development, including countries with the largest systems of agricultural insurance – the US and China.

Simultaneously, the NAAI supports the development of domestic reinsurance in Russia. The NAAI lobbied the establishment by the Bank of Russia of the National Reinsurance Company. Since its establishment in 2016, the NAAI and the NRRC started discussing possibilities and conditions of NRRC's participation in the reinsurance of agricultural risks, including such a relevant topic for pig production as the risk of the ASF.

In 2016, in order to protect the intended for payments to farmers from the Fund for Compensation Payments, the NAAI began a preliminary analysis of the proposed insurance broker "Aon" of the concept of the risk reinsurance of the lack of the FCP.

**Fig. 2.7.1. The dynamics of the transferred premium on the agricultural risks reinsurance of the Russian Federation, mln rubles**



# 2.8

## COMBATING FRAUD IN THE FIELD OF AGROINSURANCE AND LEGAL PROTECTION OF THE NAAI'S INTERESTS

In 2016, the NAAI continued and intensified work on fighting the insurance fraud phenomena in the field of agricultural insurance. This activity was conducted in two directions:

- protection of the FCP from the unreasonable demands of insurers and their representatives – "agro lawyers";
- proposing and carrying out systematic measures to prevent fraud and other illegal actions in the sphere of agricultural insurance of the Russian Federation.

### 2.8.1. Legal Protection of the Legitimate Interests of the Russian Enterprises Related to the Operation of the Compensation System

In connection with giving by the Bank of Russia the status of a unified all-Russian Union of Insurers for the agro-industrial complex to the NAAI, the NAAI continued the implementation of appropriate measures.

In accordance with the Law # 260-FZ and on the basis of the Instructions of the Bank of Russia as of November 3<sup>rd</sup>, 2015, # 3837-U the "Agropromstrah" association is required to transmit to a unified all-Russian Union of Insurers the funds of the established compensation fund. The transfer of funds should be made in order to execute by the unified union of obligations on paying compensations under contracts of insurance companies – members of the "Agropromstrah" association concluded under Law #. 260-FZ, in 2012–2016.

On March 14<sup>th</sup>, 2016, the NAAI sent a letter to the "Agropromstrah" association on the transfer of the funds for compensation payments. Due to the fact that the funds were not transferred, on June 27<sup>th</sup>, 2016 the NAAI

submitted a petition with the requirements on carrying out the examination of regulations observance by the "Agropromstrah" association of the Federal Law # 424 to the Prosecutor General's Office (the law on amendments to the Law # 260-FZ in part of the creation of the unified association of agricultural insurers).

Moreover, the NAAI addressed the Ministry of Economic Development with the aim to receive an answer the question about the obligations of the Union before farmers insured in companies of the Association "Agropromstrah". The Ministry of Economic Development gave an official explanation that the NAAI is not obligated to make compensation payments to insureds – clients of the members of the "Agropromstrah" association until the moment of compensation payments transfer by the association. As of the end of 2016, the funds were not provided by the "Agropromstrah" association to the NAAI.

### 2.8.2. Legal Protection of Violated Rights and Legitimate Interests of the NAAI in Court Proceedings Related to Compensation Payments

The executive office carried out activities aimed at the protection of the NAAI's interests in arbitration courts of different instances associated with the stated requirements on the implementation of the compensation payments. Cooperation with law firms and expert organizations on the issues of judicial protection of the interests of the NAAI and the validity of legal requirements was established and developed.

As for the end of 2016, the NAAI was charged with the 7 requirements – all of them based on the obligations of the "Agropromstrah" association. Only in 2016, the courts satisfied 3 requirements of applicants on the obligations of the NAAI companies. The court dismissed the declared requirements for 20 claims.

### 2.8.3. Complex Anti-Fraud Measures

Due to well-founded fears of the NAAI illegal actions in relation to the funding of compensation payments, in 2016, the NAAI addressed various state authorities including the supervisory and law enforcement authorities on the verification of the legality of insureds' actions who applied to the courts with claims about collecting compensation from the NAAI. The information obtained was systematized with the objective of identifying in separate regions of the Russian Federation the increased activity associated with the presentation of unlawful claims in the field of agricultural insurance with state support.

During 2016, the NAAI conducted a continuous information campaign on combating insurance fraud in agricultural insurance which included a series of publications in the federal and regional mass media, regular press releases, participation in meetings and conferences on this issue.

In particular, the proposals of the NAAI were represented at the conferences "The Boundary–2016...", "The Barrier–2016...", the XVI Interregional research and practice conference "State Policy on the Improvement of Legal Mechanisms and Legal Practice in the Insurance Industry. Strengthening of the Cooperation between the Insurance Community with the Bodies of the Ministry of Internal Affairs and the Prosecutor's Office on Combating Insurance Fraud" in Novosibirsk.

The main proposal of the NAAI is the need to create specialized agencies on fighting the insurance fraud throughout the insurance industry of the Russian Federation.

# 2.9

## ACTIVITIES OF THE NAAI

In 2016, the NAAI continued its active participation in the agricultural industry and insurance events in order to promote a centralized system of agricultural insurance with state support. Moreover, the Union organized and held 5 thematic events aimed at informing about the current state of the agricultural insurance market and the unified system of agricultural insurance.

### 2.9.1. Press conferences, the Activity of the NAAI in the Meetings with the Media

Events held:

#### February

A press conference with the participation of the NAAI "New Agricultural Insurance" in the press center of the state television and a radio company in Novosibirsk. Head of the Siberian Interregional Association of insurers, the Interregional Association "Siberian Agreement" and the Association of Managers of Agricultural Enterprises of the Novosibirsk region took part in the press conference.

#### April

The President of the NAAI presented in the framework of the round table "The Sowing Campaign 2016", at the press center of the "Parliamentary Newspaper".

#### June

A business meeting on the development of the satellite monitoring system of crop insurance and the practice of the NAAI with the participation of the State Duma, the Ministry of Agriculture of the Russian Federation, the Bank of Russia representatives, insurance, agricultural industry and expert communities (initiated by the NAAI in Moscow on June 6<sup>th</sup>, 2016).

#### October

A round table "Insurance as a Factor of Sustainable Development of Agriculture. The practice of the Russian Regions". Organized by the NAAI in the framework of the 18<sup>th</sup> Russian agro-industrial exhibition "Golden Autumn" in Moscow on October 6<sup>th</sup>, 2016.

#### November

A business meeting of the NAAI "2016 in Russia. Problems and Prospects" in Moscow. The event took place on November 10<sup>th</sup> with the participation of the federal and regional mass media, representatives of the State Duma, the Bank of Russia, the Ministry of Agriculture of the Russian Federation and the branch unions of agricultural producers.

#### December

A press conference following the meeting of the Board of the NAAI on the preliminary results of the market system of agricultural insurance with state support in 2016 that was held on December 21<sup>st</sup>, 2016.

### 2.9.2. Participation in Industry Conferences, Forums and Exhibitions

In 2016, the NAAI took part with a presentation in 13 specialized agricultural conferences, forums and meetings of the federal and regional levels and 8 financial activities including:

#### March

An international exhibition "Dairy and Meat Industry", participation of the NAAI at the invitation of the National Union of Beef Producers (Moscow)

#### April

A Forum of the party "United Russia" – "A Modern Russian village" (the Saratov region)

#### July

A meeting of the Government Committee on agriculture and sustainable rural development (the Moscow region)

#### November

The Second World Grain Forum (Sochi)

#### December

VIII Research and Practice Conference "Pig Breeding 2016" (Moscow)

XI National Congress "Modernization of the Russian Industry: Development Priorities" (Moscow).



# 2.10

## INFORMATIONAL SUPPORT FOR AGRICULTURAL INSURANCE

During 2016, the press service of the NAAI carried out continuous information support in the media, the intensity of which was significantly enhanced compared to 2015 in connection with the transition to a centralized system of agricultural insurance with state support. Special attention was paid to the representation of the position of the NAAI on the following issues delivered to the press: the anti-fraud activities, the need for normalization of the crop insurance subsidies, the introduction of modern tools of satellite monitoring.

### 2.10.1. Informational Support in The Media

The main tool of information interaction with the media in 2016, was issuing press releases and providing comments to the media. In 2016, 163 press releases were issued devoted to the main events and activities of the NAAI, analysis of the agricultural insurance market and the expression of the position of the Union on key issues of the organization of agricultural insurance (an increase of this indicator was 30% by 2015). From 10 to 20 reviews in the media were provided on a monthly basis.

The extra channel of broadcasting the position of the NAAI in the bodies of the agricultural regions was the interaction with the press service of the Ministry of Agriculture of the Russian Federation. On the website of the press service of the Ministry of Agriculture there was published a banner of the NAAI leading to the official website of the NAAI, and on an ongoing basis press releases of the Union were published on a weekly basis.

In 2016, the presence of the NAAI in print and electronic media were provided on a regular basis. The activities of the NAAI and agricultural insurance were the focus of attention of all major federal and specialized

media (Kommersant, RBC, Interfax, TASS, RIA Novosti, Agroinvestor, ASN, etc.).

During the year the activities of the NAAI were covered in the subjects of the Russian Federation and on regional TV and radio channels: "GTRK Stavropol", "STRC-Don", "New Television of Kuban", "Kuban 24". The President of the NAAI spoke at the federal channels "Radio Russia" (May, "Persona Grata" program), OTR (August, "Reflection" program). In December, there were 2 TV programs "Point of view" on the specialized channel "AGRO TV" where the President of NAAI and the Director of the Insurance Market Department at the Bank of Russia I. Zhuk, as well as representatives of insurance companies – members of the NAAI took part.

The number of publications with the mention of the NAAI in the media, according to the "Interfax" SCAN system made up of 3,400 (in 2015 – 2312, an increase of +47%).

In 2016, the press service of the NAAI maintained contacts with the permanent pool of reporters covering the topic of agricultural insurance, federal and regional media. To enhance the information response, with the support of contacts the synergy with the press service of the Russian Union of Insurers was utilized.

### 2.10.2. The Organization of Specialized Campaigns in Order to Make Changes in the Information Field

During 2016, the NAAI conducted a continuous information campaign for the support of the prevention of fraud in crop insurance. Within the campaign thematic issues of press releases (1–3 per month) were conducted, regular comments in the media, a special publication in the regional editions of MK (Stavropol) and "Komsomolskaya Pravda" (the Altai Krai), as well as the speech of the President of the NAAI (at "Boundary–2016...", "Barrier–2016..." conferences, the XVI Interregional Research and Practice Conference "State Policy on the Improvement of Legal Mechanisms and Legal Practice in the Insurance Industry. Strengthening of the Cooperation between the Insurance Community with the Bodies of the Ministry of Internal Affairs and the Prosecutor's Office on Combating Insurance Fraud" in Novosibirsk).

In July 2016, the NAAI launched an information campaign to raise awareness of methods of satellite monitoring: monthly releases on the condition of crops in major agricultural regions of Russia were issued based on the monitoring data.

In September 2016, the NAAI launched an intensive information campaign on the issue of the normalization of subsidies and the exclusion of insurance from the "unified subsidy" providing regular weekly press releases and comments to the media.

Moreover, the NAAI conducted additional awareness campaigns to promote agricultural insurance, including those aimed at improving the financial literacy of the regions.

In August 2016, the NAAI organized a special project on agricultural insurance in the "Modern Technology Insurance" magazine that resulted in the first publication of the ranking of the leading agricultural insurers in all regions of the Russian Federation in the media (besides, a publication of the interview of the President of the NAAI, representatives of the Ministry of Agriculture of the Russian Federation and the State Duma of the Russian Federation, the insurance organizations – members of the NAAI were realized).

To increase awareness of farmers in 2016 on a centralized system of agricultural insurance by the NAAI and on the impact of certain risks on agricultural production, a special project called "Agricultural Insurance" in the medical journal "Agrarian Plus" (publication of 4 projects) was organized.

# 2.11

## THE DEVELOPMENT OF INTERNATIONAL RELATIONS

According to the International Association of Agricultural Insurers (AIAG International Association of Agricultural Production Insurers), for 10 years, since 2005, the global agricultural insurance market has increased 4 times exceeding \$ 30 billion. Membership of the NAAI in AIAG in 2014 facilitates the global experience for qualitative changes in the development of agricultural insurance in Russia is, first and foremost – in the system of agricultural insurance with state support. Approval of membership in AIAG confirmed the professional level of the Russian market of insurance of agricultural risks and the role of the NSAI as the leading professional union of Russia in this field.

In 2016, the main directions of international relations of the NAAI were to establish and strengthen cooperation with AIAG, reinsurance companies, structures on agricultural insurance in the EU and the countries of the EEU.

### 2.11.1. Interaction at the International Level

In Paris, on May 25<sup>th</sup>, a meeting of the President of the NAAI Korney Bizhdov with the

President of AIAG Arnaud de Beaucaron took place. The topic of the meeting was the development of relations between the Russian insurance market and the international community of agricultural insurers. Korney Bizhdov and Arnaud de Beaucaron discussed global trends of development of agricultural insurance, the state and prospects of the Russian market in the light of changes in legislation and the transition to a single centralized system, ways of intensifying exchange of experience and participation of the NAAI and AIAG in joint activities.

In November 2016, an agreement on the cooperation between the NAAI and the Spanish Association of Insurance Agencies of the Combined Agricultural Insurance, AGROSEGURO, was signed. The signing of the agreement took place in Madrid during a working visit of the President of the NAAI in the exchange of experience with AGROSEGURO and the Ministry of Agriculture of Spain (ENESA). The document presupposes the exchange of methodological base, statistical data, seminars for training specialists in certain areas of insurance. Thus, the NAAI had the opportunity to use the know-how of one of the oldest and most efficient global system of agricultural insurance with state support that has been operating since 1978 and today provides insurance coverage for over half of the crops and plantations for the major crops. In particular, the interest of the NAAI is driven by the organization of crop insurance programs in Spain tailored for the structure and a list of risks for each group of crops.

Besides, in November, the NAAI together with one of the leading international reinsurers "Swiss Re" held an international seminar in Zurich (Switzerland) dedicated to the study of international experience in agricultural insurance and reinsurance of agricultural risks. Besides insurance companies, the seminar was attended by the representatives of the Bank of Russia.

### 2.11.2. Participation in International Conferences of the Macro-Regional Level

At the invitation of the organizer, the NAAI took part in the X International Conference "Insurance in Central Asia" held in April 2016 in Almaty (Kazakhstan).

Moreover, in April, the NAAI participated in the international conference on agricultural insurance held in Tbilisi (Georgia). The conference dealt with the system of agricultural insurance in various countries, including Russia (presentation submitted by the NAAI), Georgia, Ukraine and such countries as Turkey, Israel, Iran, Australia.

In June, the President of the NAAI presented the results of the development of the agricultural insurance system in the Russian Federation at the VII Azerbaijan International Insurance Forum (AIIF 2016) that was held in Baku.



# 3

## THE NAAI: GENERAL INFORMATION

# 3.1

## THE PROVISION OF THE INTRA-INDUSTRY INTERACTION AND CONTROL OF PARTICIPANTS OF A UNIFIED SYSTEM OF THE AGRICULTURAL INSURANCE

The transition to work in the status of the unified all-Russian association starting from January 1<sup>st</sup>, 2016, was carried out by the NAAI on the basis of the internal regulatory framework adapted to changes in legislation and approved in 2015 in coordination with the Bank of Russia. In 2016, a number of documents were adjusted to reflect the practical steps.

### 3.1.1. The Development and Approval of Rules Mandatory for the NAAI and Its Members and Implementation of Control on Their Realization

On the basis of the Provision on the collection and storage of statistical reporting of the NAAI under contracts of agricultural insurance with state support a section of the Rules for the activities of "The Order of the Organization of Corporate Information Systems of Insurance Companies – Members of the NAAI in the Field of Agricultural Insurance with The State Support" was organized. This section includes the requirements for corporate information systems and rules of submission of the statistical reports by members of the NAAI with the changes of the presentation patterns of statistical information of the Uniform statistical reporting by members of the NAAI starting from January 1<sup>st</sup>, 2016.

In December 2016, Section VI of the Rules of the activities "The Order of Application and Consideration of Sanctions and Other Measures to Members of the NAAI together with the Control Over Their Execution" was developed and approved by the Presidium of the NAAI and sent to the Bank of Russia according to the notification procedure.

### The rules of the NAAI's include:

- The order of joining the "United Association of Agricultural Insurers — the National Union of Agricultural Insurers" for new members and exit or dismissal from its members";
- "The exercise of compensation payments by the Union (...);"
- "The order of financing of compensatory payments by members of the Union (...);"
- "The order of formation and expenditure of the Union (...) for purposes other than financing compensation payments";
- "The review procedure by the Union (...) of complaints against members of the Union in the implementation of agricultural insurance and the settlement of disputes arising between the Union members and insurers, beneficiaries during the implementation of agricultural insurance";
- "The application order and the consideration of sanctions and other measures to the members of the Union (...), as well as control over their execution";
- "The review procedure for conducting inspections of the activities of members of the Union (...) on agricultural insurance with state support and compliance with rules of operation";
- "The order of organization of corporate information systems of insurance companies – members of the Union (...) in the field of agricultural insurance with the state support"

### 3.1.2. Monitoring Compliance with the Common Standards by Participants of the Insurance System

In 2016, the NAAI held regular checks of all insurance companies – members of the NAAI for compliance with the Rules of the NAAI's activities and other internal documents of the Union. According to their results, serious disciplinary violations were found.

There was issued 1 decree on the disciplinary liability of insurance company – member of the Union in connection with the late payment of contributions. A liability in the form of a warning was applied to the offender.

Monitoring of other members of the NAAI will continue as planned. In December 2016, the Board approved the plan of the audit the members of the NAAI for 2017 proposed by the Disciplinary Committee of the NAAI.

# 3.2

## THE EXECUTIVE OFFICE OF THE NAAI

The activities of the executive office, committees and commissions of the NAAI in 2016 was aimed at ensuring the implementation of a unified system of agricultural insurance.

In 2016, there were held:

- 2 general meeting of the NAA members;
- 12 meetings of the Presidium of the NAAI;
- 13 meetings of the Board of the NAAI.

Committees and commissions of the NAAI worked actively. In the course of the year there took place:

- 13 meetings of the Committee for the Insurance Methodology;
- 5 meetings of the Disciplinary Committee;
- 4 meeting of the Committee on the Information Technology;
- 3 meetings of the Finance Committee;
- as well as meetings of Committees: – on legal issues; – monitoring and insurance expertise; – reinsurance; – public relations.



# 3.3

## THE NAAI GOVERNING BODIES

The control system of the Union consists of:

- The General meeting of the Union members that is the highest governing body of the Union;
- The Presidium of the Union that is a collegial management body of the Union;

- The Board of the Union that is a collegial management body of the Union, which coordinates the current activities of the Union;

- President of the Union, who is the only Executive member of the Union providing general management of the Union.

The President of the Union directs the Executive office of the Union. The body controlling financial and economic activities of the Union is the audit commission (auditor) of the Union.

### The Presidium of the NAAI

Bizhdov Korney Datkovich	President
Egorov Innokentiy Nikolaevich	Chairman Of The Presidium
Zhuk Igor Nikolaevich	Director of the Insurance Market Department, the Central Bank of the Russian Federation
Lesina Irina Ivanovna	President of "GUTA-Insurance" ZAO
Markarov Dmitry Eduardovich	Director General of "Rosgosstrakh" ZAO SK
Martyanova Nadezhda Vasilievna	General Director of "MAKS" ZAO
Ovsyanitsky Oleg Sergeevich	General Director of "Alfa Insurance" SAO
Prostatin Sergey Ivanovich	General Director of "Rosselkhozbank-Insurance" ZAO SK
Rakovshchik Dmitry Grigorievich	General Director "RESO-Guarantee" SPAO
Skvortsov Vladimir Yurievich	General Director of "AlfaStrahovanie" OAO
Tikhonova Maya Alexandrovna	General Director of "SK "Soglasie" OOO
Yurgens Igor Yurievich	President of the All-Russian Union of Insurers



Korney Bizhdov, NAAI President (on the right), and Igor Yurgens, ARIA President

## The NAAI Managing Board

Bizhdov Korney Datkovich	President of the NAAI
Egorov Innokentiy Nikolaevich	Chairman of the Presidium of the NAAI
Markarov Dmitry Eduardovich	Director General of "Rosgosstrakh" PAO SK
Prostatin Sergey Ivanovich	General Director of "Rosselkhozbank-Insurance" ZAO SK
Rybina Anna Gennadievna	Deputy General Director, Member of the Board of Directors, Head of the Underwriting Center, "VSK" SAO
Skvortsov Vladimir Yurievich	General Director of "Alpha-Insurance" OAO

## Committees and commissions of the NAAI

The Union formed committees and commissions the purpose of which is to consider the interests of all members in the development of the solutions made by the Union. In 2016, the NAAI worked with:

### The Committee for the Insurance Methodology

### The Committee on Reinsurance

### The Committee on Legal Affairs

### The Committee on Public Relations

### The Finance Committee

### The Disciplinary Commission

### The Committee for Monitoring and Insurance expertise

### The Committee on Information Technology

### The Audit Commission



# 3.4

## THE COMPOSITION OF THE NAAI

During 2016 the Executive Office of the NAAI realized the process of adoption of insurance companies, members of the Union. In 2016, the following companies applied for membership in the NAAI passed procedures for accession established by Statute and Rules of operation of the NAAI and became members of NAAI:

- "Rosmed" JSC;
- "Sberbank Insurance" OOO SK;

- "Med-Garant" JSC SK;
- CSO" OOO;
- "Strazh" OOO MSK;
- "Pomoshch" OOO SO;
- "SG "ASKO" OOO.

The number of members of the NAAI as of December 31<sup>st</sup>, 2016 amounted to 24 insurance companies.

#	The name of the insurance organization full/short	The registration number in the Central Bank of the Russian Federation
1	"Insurance group AVANGARD-GARANT" Joint-stock company <b>"Insurance group AVANGARD-GARANT" JSC</b>	0796
2	"AlfaStrahovanie" OAO <b>"AlfaStrahovanie" OAO</b>	2239
3	"Insurance Group "ASKO" OOO <b>"SG "ASKO" OOO</b>	2489
4	"Insurance company "Verna" OOO <b>"IC "Verna" OOO</b>	3245
5	"VSK" insurance joint-stock company <b>"VSK" IJSC</b>	0621
6	"GUTA-Insurance" ZAO <b>"GUTA-Insurance" ZAO</b>	1820
7	"Insurance company "Europe" Joint-stock company <b>"IC "EUROPE" JSC</b>	0990
8	"Moscow joint-stock insurance company" ZAO <b>"MAKS" ZAO</b>	1427
9	"Insurance company "Med-Garant" Joint-stock company <b>"IC "Med-Garant" JSC</b>	0797
10	"National insurance company TATARSTAN" OAO <b>"NASKO" OAO</b>	3116
11	"Insurance Company Opora" Joint-stock company <b>"ICO" JSC</b>	3099
12	"Insurance company "Pomosch" OOO <b>"Pomosch Insurance Society " OOO</b>	3834

#	The name of the insurance organization full/short	The registration number in the Central Bank of the Russian Federation
13	"RESO-Guarantiya" Insurance public joint stock company <b>"RESO-Guarantiya" IPJSC</b>	1209
14	"Rosgosstrakh" Insurance public joint stock company <b>"IC "Rosgosstrakh" IPJSC</b>	0001
15	"Insurance company "RSHB-Insurance" ZAO <b>IC "RSHB-Insurance" ZAO</b>	2947
16	"Joint-Stock Insurance Company "ROSMED" Joint-stock company <b>"ROSMED" JSC</b>	3451
17	Insurance company "Sberbank Insurance" LLC <b>IC "Sberbank insurance" LLC</b>	4331
18	"Insurance Company of the Gas Industry" Joint-stock company <b>"SOGAZ" JSC</b>	1208
19	"Insurance Company "Soglasie" OOO <b>"IC "Soglasie" OOO</b>	1307
20	"Regional Insurance Company "Sterkh" Joint stock company <b>"RIC "Sterkh" JSC</b>	3983
21	S. Zhivago Municipal insurance company "Strazh" OOO <b>MSK "STRAZH" OOO</b>	0413
22	"Insurance company "Talisman" Joint-stock company <b>"IC "Talisman" JSC</b>	1587
23	"Central Insurance company" LLC <b>"CIC" LLC</b>	3517
24	"Energogarant" Insurance Joint Stock Company <b>"IJSC "Energogarant" PAO</b>	1834



# 3.5

## CONDITIONS OF MEMBERSHIP IN THE NAAI

In 2016, according to Article 9 of the Law # 260-FZ, the entry of insurance companies into a unified National Association of Agricultural Insurers as well as withdrawal or dismissal of members are made in the manner agreed with the Bank of Russia.

Conditions of membership in the NAAI in accordance with the Charter of the Association, are the following.

### Joining the Association

Members of the Association can be the insurance organizations:

- that possess a valid license to carry out voluntary property insurance;
- that fully recognize the requirements of the Charter of the Association and those who express willingness to contribute to the achievement of the statutory objectives of the Association;

- that accept the obligations arising from the rules of operation established by the Association in accordance with the legislation of the Russian Federation and the Charter of the Association, and comply with requirements to the members of the Association.

The Association is open to new members. The accession of a new member may be conditioned on its subsidiary liability for the obligations of the Association that arise before its entry into the Association.

### Withdrawal from the Association

A member of the Association has the right to withdraw from the Association at its own discretion.

A member of the Association may be expelled from the Association by the decision of the Presidium of the Association if they commit one of the following violations:

- does not meet the requirements of the Member of the Association mentioned in the Charter and operating Rules;
- their actions (or inaction) causes substantial harm to the interests of the Association and/or the interests of the Association members related to their implementation of agricultural insurance;
- systematically (two and more times within 12 months) fails to pay the fees fully or partially and other obligatory payments to the Association in a timely manner;
- does not comply with the requirements of the Charter, decisions of the management bodies of the Association taken in accordance with their competence established by the Charter and the requirements of the Rules of operation and internal documents of the Association;
- the Association's member the license for the implementation of insurance revoked

In the case of voluntary withdrawal or dismissal, a member of the Association bears subsidiary liability for the obligations of the Association within two years from the date of termination of membership in the Association, except for obligations of the Association to implement compensation. As for the obligations of the Association on the compensations payment, the member of the Association bears subsidiary liability in the amount of stock compensation in accordance with this Charter and Art. 10 of the Federal Law as of July 25<sup>th</sup>, 2011, # 260-FZ "On the State Support in the Sphere of Agricultural Insurance and on Introducing Amendments to the Federal Law "On the Agriculture Development".



# 3.6

## CONTACTS

### **The National Association of Agricultural Insurers**

107217, Russian Federation, Moscow,  
Sadovaya Spasskaya str., 21/1, office 1012

**Tel./Fax:** +7 (495) 782-04-99, 782-05-34

**Website:** [www.naai.ru](http://www.naai.ru)

**E-mail:** [info@naai.ru](mailto:info@naai.ru)



## APPENDIX 1. EXTRACT FROM THE AUDIT REPORT

### MARILLION

#### The audited entity

The Union "The United Association of Agricultural Insurers – the National Union of Agricultural Insurers"

107217, Russian Federation, Moscow  
Sadovaya-Spasskaya str., 21/1, room 1  
OGRN (primary state registration number)  
1077799027811

#### The auditing organization

"The Audit Company "Marillion" OOO  
125040, Russia, Moscow, Protopopovskiy  
lane, 25, bld. A

OGRN (primary state registration number)  
1027700190429

The member of the Self-Regulating Organization of Auditors

"Soobshchestvo" Association (CPO AAQ)

PRNE 11606054861

### MEMBERS OF THE UNION "THE UNITED ASSOCIATION OF AGRICULTURAL INSURERS – THE NATIONAL UNION OF AGRICULTURAL INSURERS"

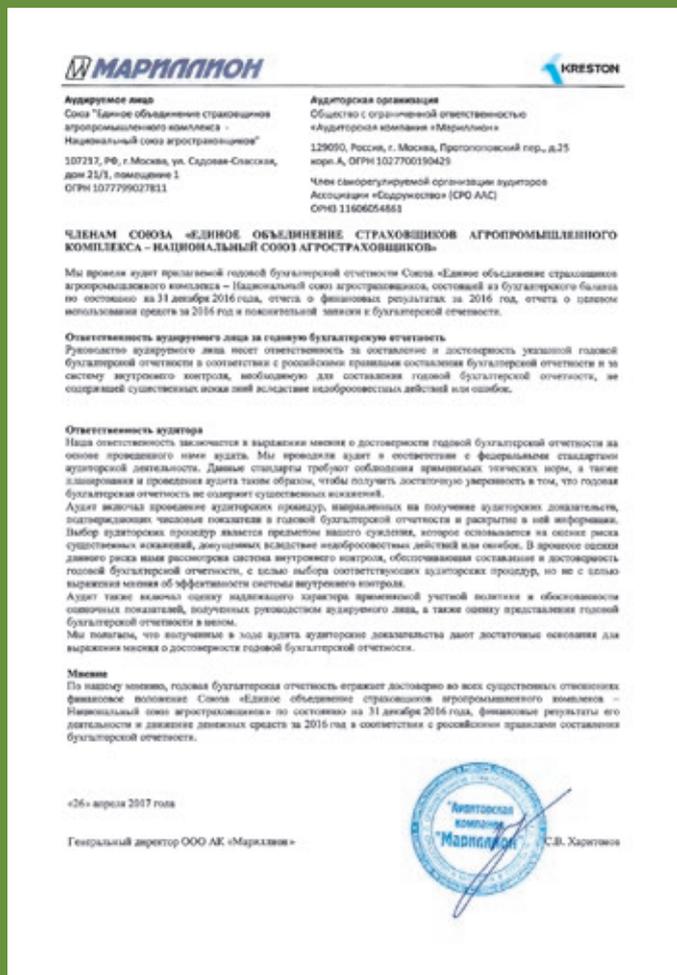
We conducted our audit of the proposed annual financial statements of the Union "The United Association of Agricultural Insurers – the National Union of Agricultural Insurers", consisting of the balance sheet as of December 31<sup>st</sup>, 2016, a report on the financial results for 2016, a report on the targeted use of funds in 2016, and explanatory notes to the financial statements.

#### Responsibility of the audited legal entity for the annual financial statements

The management of the audited entity is responsible for the preparation and a fair presentation of these annual financial statements in accordance with the Russian rules of preparing accounting statements and for the internal control system required for the preparation of the annual accounting reporting not containing essential distortions due to unfair actions or mistakes.

#### Responsibility of the auditor

Our responsibility is to express an opinion on the annual financial statements based on our audit. We conduct an audit in accordance with the federal auditing standards. These standards require observance of the applicable ethical norms, as well as the conduct and planning of the audit in order to obtain confidence that the annual financial statements do not contain substantial misstatements.



The audit will include the performance of the audit procedures aimed at obtaining the audit evidence confirming numerical indicators in the annual accounting statements and disclosure of the information. The choice of auditing procedures is subject to our judgment that is based on the risk assessment of material misstatements due to fraud or error. In the process of assessing this risk, we considered the internal control system ensuring preparation and fair presentation of the annual financial statements with the purpose of choosing appropriate auditing procedures but not for the purpose of expressing an opinion on the effectiveness of the internal control system.

The audit also includes the evaluation of the appropriateness of applicable accounting policies and the validity of the estimated figures received by the management of the audited entity, as well as evaluating the presentation of the annual financial statements in general.

We believe that the evidence provided the audit ensure a reasonable basis for our opinion on the reliability of the annual financial statements.

#### Opinion

In our opinion, the annual accounting statements reflect authentically in all material respects, the financial position of the Union "The United Association of Agricultural Insurers – the National Union of Agricultural Insurers" as of December 31<sup>st</sup>, 2016, financial results of its operation and cash flows in 2016 in accordance with the Russian rules of preparing accounting statements.

April 26<sup>th</sup>, 2017

General Director of "Marillion" AC

S. V. Kharitonov