

Analytic Research

Russian Insurance Market for Oil & Gas risks will increase 35% by 2010

Energy insurance market will increase 35% in money terms by 2010. Such conclusion has been made by the specialists of Malakut Insurance Brokers after taking complex study of energy insurance.

Within the scope of this research Malakut has carried out a poll with the major players on the Russian energy insurance market. It should be noted that the poll concerned only classic risks insurance – those which can be reinsured by the international market. The figures stated in this research do not include insurances under Product Sharing Agreements.

The main reasons of the market growth from Malakut point of view are the following:

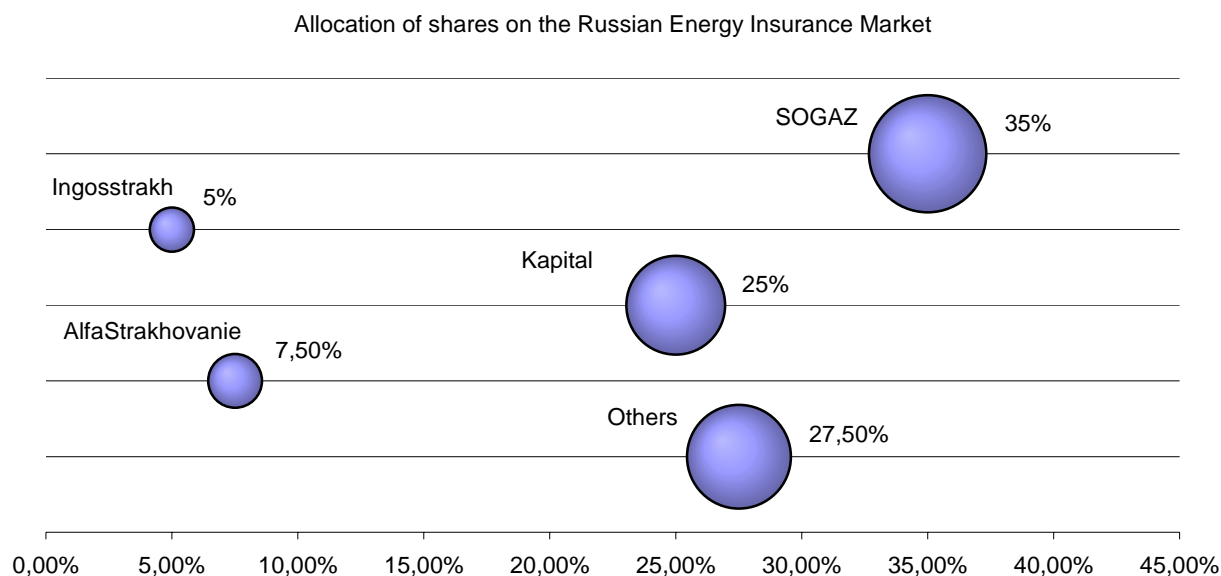
- Investments inflow to the industry from abroad for realization of new projects and modernization,
- Production increase due to active fields exploration works and construction of new refining capacities,
- Modernization of the existing oil and gas refineries,
- Increase of sums insured due to change of insurance basis from book value to reinstatement value.

Insurance of oil and gas risks in Russia is usually carried out by insurance companies affiliated to Energy companies. Their share on this market is about 70%. The Leader is SOGAZ Insurance Group which takes 35% of the premium, then goes Kapital Insurance Group with 25% share. AlfaStrakhovanie is on the 3rd place with 7.5%. Among the other active market players are Surgutneftegaz, National Insurance Group and First Insurance Company.

Ingosstrakh is also an active player on the market. They participate in insurance of rather big energy risks. Its market share is up to 5%. All other insurers together have less than 30% of the market.

All insurers given in the list quite often use each other's reinsurance capacities. Almost every insurer affiliated with a major Energy company has its treaties which can be used for insurance of not only parent company risks but also reinsurance of risks of the other market players.

It is less expensive than placing risks on facultative basis directly on the European or London markets.



Within the research, the insurance was separated into upstream and downstream risks coverage. Risks connected with the wells, oilfield production process and pipelines from the oilfield production sites to the primary refining plants were classified as upstream risks. All oil and gas refinery plants, petrochemical plants and all system of pipelines and products pipelines were referred to downstream group.

Total sum insured for Upstream risks is about USD 70 bln, and premium for them is estimated by Malakut to be USD 68 mln.

In spite of the impressive total sum insured, major part of the Upstream risks is retained by the Insurers, affiliated with the oil and gas companies and not reinsured on International Insurance Market. The main reasons for this are respectively low cost of the equipment and accordingly low sums insured for risk locations and small limits of liability for control of well risks, mostly because of the geological features of the production regions. Thus, the amount of premium ceded to reinsurance is only USD 30 mln which is half of the gross written premium.

However, the situation is slightly different at the Downstream market. The total sum insured on the basis of Maximum Probable Loss is USD 10 bln and insurance premium for such risks is USD 75 mln. In the same time, two thirds of the premiums are ceded to

reinsurance, mainly overseas. For this market, sufficiently large individual risks are typical: there are over 150,000 oil and gas wells in Russia, whereas there are only several tens of refinery plants but their costs are quite high. Because of low capitalization, Russian companies cannot retain risks of this size and main part of the money goes to the International Markets.

Despite 10-year continuing growth of the competitive market from the one side and high oil prices from the other, capitalization of insurance companies affiliated to oil and gas companies is not enough yet for retaining high risks from exterior companies. That is why the total net capacity of the Russian insurance market for Upstream and Downstream business (without treaty involvement) is only USD 20 mln.

Malakut Insurance Brokers – is the biggest Russian insurance broker. The company is specialized in servicing and consulting of the corporate clients in insurance field and reinsurance of different risks. Malakut has representative office in Ukraine and Vietnam, broker companies in Kazakhstan - «SP-MALAKUT» and in Azerbaijan - «MALAKUT Sigorta».

Being the member of International Insurance Brokers Association (IBA), Malakut represents the interest of Association on the territory of CIS Countries.

Malakut Insurance Broker has Professional Liability Insurance Policy. For 2008 – the limit of liability is EURO 10 mln.

By «Reactions» magazine Malakut is the best Russian insurance broker for 2005 and 2006.

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