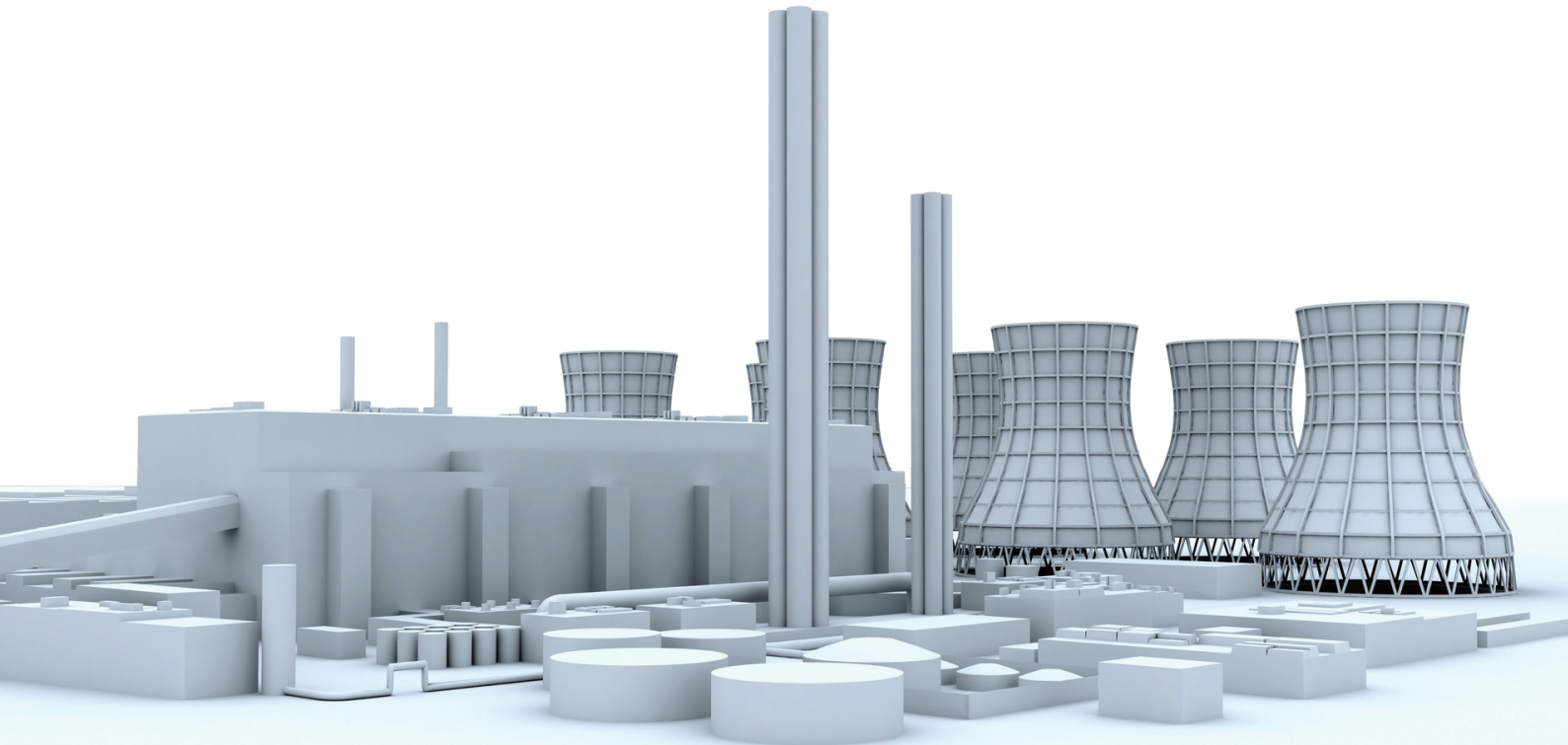




# ANNUAL REPORT 2010



**THE NATIONAL UNION OF LIABILITY INSURERS**

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# 1. WELCOMING ADDRESS OF THE PRESIDENT OF NULI



Dear Colleagues,

A public presentation of the 2010 Report of the National Union of Liability Insurers (hereinafter – NULI) is an important event for our professional association. Important, because in 2010 the issues on compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving the hazardous object have been given much attention by the executive and legislative authorities.

The most significant event in 2010 is undoubtedly the adoption of the Federal Law of 27.07.2010 No. 225-FZ «On compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving the hazardous object» (hereinafter – the Law), which defines the principles and lays the foundation for civil settlement of losses arising from accidents involving dangerous objects.

Despite the fact that the Law comes into force on 1 January 2012, NULI, along with the Ministry of Finance, the Federal Service for Insurance Supervision, the Ministry of Emergency Situations, the Federal Service for Ecological, Technological and Nuclear Supervision and other authorities of executive power has done much in 2010 to establish legal, administrative, organisational, financial and other frameworks contributing to further qualitative performance by NULI members of their functions and obligations under the Law.

It should also be noted that in 2010, a plan of activities was prepared and approved by the Russian Government that aims to fulfill the requirements of the Law, which requires close cooperation between NULI and the above mentioned federal authorities for the establishment of a methodological framework for compulsory insurance in 2010-2011.

I believe that this report provides detailed information on the activities of the Union in 2010. Furthermore, it will not only help insurers but will also give insured parties a comprehensive look at the full picture of this segment of the insurance market.

President  
of the National Union  
Liability Insurers

Andrey Yuriev



## 2. DANGEROUS OBJECTS IN THE RUSSIAN FEDERATION

### Characteristics<sup>1</sup>

Russia is an industrial country with a fairly high population density in areas where dangerous objects are located.

The deterioration of equipment has reached 80%, as a result of which there is a high probability of accidents occurring. Moreover, a large number of citizens reside in areas of potential danger.

The provisions of the Law contain a legislative definition of dangerous objects, according to which dangerous objects comprise two distinct groups: dangerous industrial objects and hydraulic structures.

#### TYPES OF DANGEROUS OBJECTS:

##### ➤ 1. Dangerous Industrial objects on which:

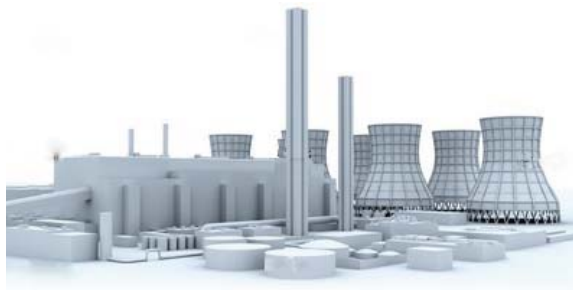
- hazardous substances are obtained, used, recycled, generated, stored, transported and liquidated;
- equipment working under a pressure of more than 0.07 megapascals or a water heating temperature of over 115 degrees Celsius is used;
- stationary mounted lifting devices, escalators, cable cars or chairlifts are used;
- melts of ferrous and nonferrous metals and alloys on the basis of these melts are obtained;
- mining operations, mineral processing and labor in underground conditions are conducted.

##### ➤ 2. Hydraulic structures.

Over 300 000 dangerous objects of different types and different forms of ownership are located on Russian Federation territory, including:

- 8 000 explosive and flammable objects;
- 150 000 km of gas mains;
- 62 000 km of pipelines;
- 25 000 km of delivery ducts;
- 30 000 water reservoirs;
- 60 large reservoirs with a capacity of more than 1 billion m<sup>3</sup>;
- several hundred industrial discharge and waste stores.

<sup>1</sup>Characteristics as of 01.01.2010



## DANGEROUS OBJECTS – approximately 365 000

### Dangerous industrial objects (300 000) on which:

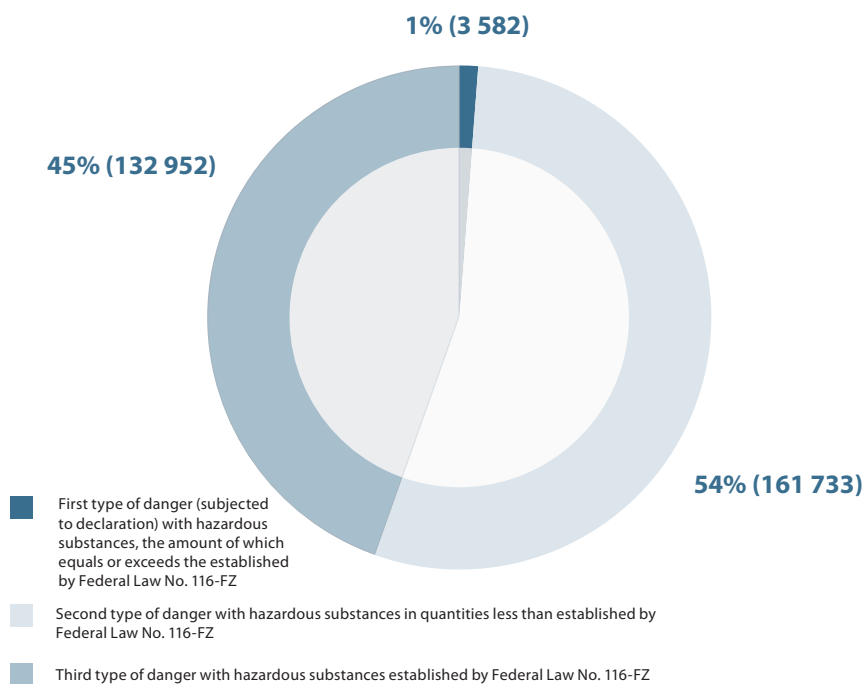
- hazardous substances are used (144 000);
- equipment working under pressure and high temperature is used (35 000);
- lifting devices, escalators, cable cars, chairlifts, etc. are used (105 000);
- melts/alloys of metals are obtained (4 000);
- mining operations are conducted (12 000).

### Hydraulic structures (65 000):

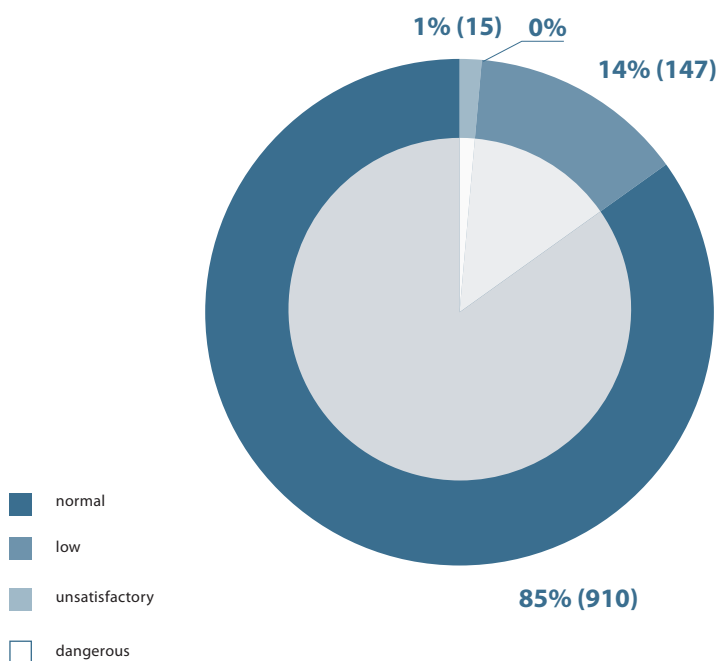
- dikes;
- hydraulic works;
- tunnels;
- pumping stations;
- canals;
- dams, etc.

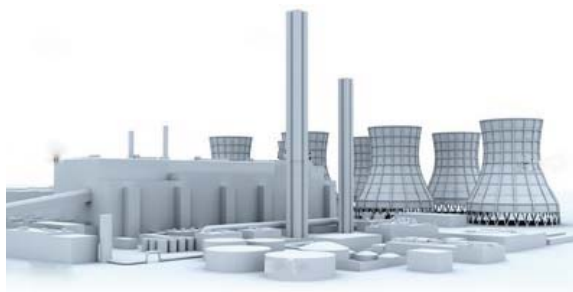


## The safety level of dangerous industrial objects

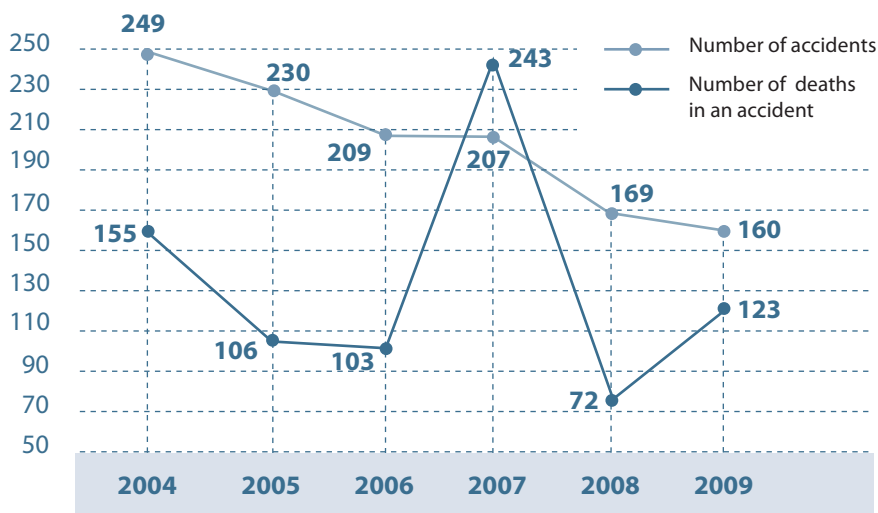


## The safety level of hydraulic structures on objects in the industrial and energy sector





### Accidents and number of deaths due to accidents (2004-2009)



### Data on the safety of hydraulic structures (Rostekhnadzor)

The supervising authority	Number of complexes of hydraulic structures included in the register		%	The safety level of hydraulic structures	Number of hydraulic structures	%
Rostekhnadzor		4 203		total	8 830	
	including			no data	1 090	12,3
	by declarations	901	21,4	normal	3 509	39,7
	by applications	3 302	78,6	low	2 843	32,2
				unsatisfactory	1 015	11,5
Rostransnadzor				dangerous	373	4,2
		115		total	295	
	including			no data	3	1,0
	by declarations	115	100	normal	52	17,6
	by applications	0	0	low	150	50,8
Total				unsatisfactory	75	25,4
				dangerous	15	5,1
		4 318		total	9 125	
	including			no data	1 093	12,0
	by declarations	1 016	23,5	normal	3 561	39,0
	by applications	3 302	76,5	low	2 993	32,8
				unsatisfactory	1 090	11,9
				dangerous	388	4,3



THE NATIONAL UNION OF LIABILITY INSURERS

Compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving the hazardous object is a socially valuable form of insurance and facilitates a significant economic effect in the case of an accident, namely: reducing the burden of expenses for citizens, budgetary expenditures and business owners and, as a result, increasing the financial stability of enterprises for which dangerous objects are required.



### 3. OVERVIEW OF THE FEDERAL LAW OF 27.07.2010 No. 225-FZ



#### «On compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving the hazardous object»

On 27 July 2010, the President of the Russian Federation signed the Federal Law No. 225-FZ «On compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving the hazardous object».

Under the provisions of the Law, owners of dangerous objects are obliged, at their own expense, to insure general and employers' liability for damage to the lives, health and/or property of other persons for the whole period of operation.

A dangerous object may not be operated unless the obligations for such insurance are met by the owner of the dangerous object.

The Law does not apply to relations arising from:

- damage outside the Russian Federation;
- usage of atomic energy;
- causation of harm to the environment.

In accordance with the provisions of the Law, the object of compulsory insurance is the property interest of an owner of a dangerous object associated with his/her duty to compensate damage to the injured party.

The insured event is the occurrence of the general and employers' liability of the insured party arising from damage to the injured party during the period of the compulsory insurance contract, which entails an obligation of the insurer to make insurance payments to the injured party.

The insured party is the owner of the dangerous object (legal entity or individual entrepreneur) that possesses a dangerous object on the right of ownership, economic or operational management, or other legal grounds, and which maintains that dangerous object. The dangerous object can be government, municipal or private property.

Dangerous objects for which the owner is obliged to implement compulsory insurance must be located on the territory of the Russian Federation and must be registered either in the State Register (in accordance with the legislation on industrial safety of dangerous industrial objects) or in the Russian Register of hydraulic structures (in accordance with the legislation on the safety of hydraulic structures).

## 1. Dangerous industrial objects on which:

- hazardous substances (inflammable, oxidizing, combustible, explosive, toxic, highly toxic and hazardous to the environment), including gas-line stations where filling of liquefied hydrocarbon gases and/or liquid fuel are obtained, used, recycled, generated, stored, transported and liquidated;
- equipment working under a pressure of more than 0.07 megapascals or a water heating temperature of over 115 degrees Celsius is used;
- stationary mounted lifting devices, escalators (including elevators and escalators in apartment buildings, as well as in facilities of trade, catering, administrative offices and other establishments associated with providing living conditions to citizens), cable cars or chairlifts are used;
- melts of ferrous and nonferrous metals and alloys on the basis of these melts are obtained;
- mining operations, mineral processing and labor in underground conditions are conducted.

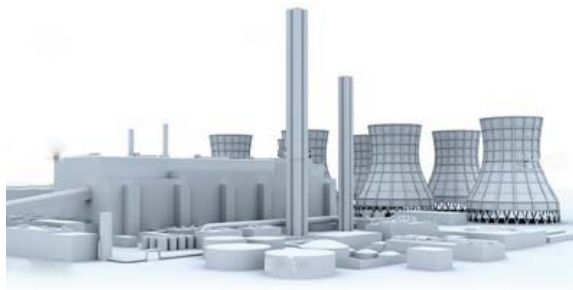
## 2. Hydraulic structures:

dams, hydroelectric power stations, spillways, water discharge and water outlet structures, tunnels, canals, pumping stations, shipping locks, boat lifts, structures protecting against floods and destruction of reservoir banks, banks and bottoms of riverbeds, constructions (dams), preventing storage of liquid industrial and agricultural waste from eroding canals and other structures designated for usage of water resources and prevention of adverse impacts from water and liquid waste.

## The amount of the insured sum under the compulsory insurance contract is determined as follows:

1. For dangerous objects that require a mandatory declaration on industrial safety or a declaration on the safety of hydraulic structures required by the legislation on industrial safety of dangerous industrial objects or the legislation on the safety of hydraulic structures:

- 6 billion 500 million rubles – if the maximum possible number of injured parties whose lives or health could be harmed in an accident involving a dangerous object is more than 3 000;
- 1 billion rubles – if the maximum possible number of injured parties whose lives or health could be harmed in an accident involving a dangerous object is more than 1 500 but does not exceed 3 000;



- 500 million rubles - if the maximum possible number of injured parties whose lives or health could be harmed in an accident involving a dangerous object is more than 300 but does not exceed 1 500;
- 100 million rubles – if the maximum possible number of injured parties whose lives or health could be harmed in an accident involving a dangerous object is more than 150 but does not exceed 300;
- 50 million rubles – if the maximum possible number of injured parties whose lives or health could be harmed in an accident involving a dangerous object is more than 75 but does not exceed 150;
- 25 million rubles – if the maximum possible number of injured parties whose lives or health could be harmed in an accident involving a dangerous object is more than 10 but does not exceed 75;
- 10 million rubles – for other dangerous objects that require a mandatory declaration on industrial safety or a declaration on the safety of hydraulic structures.

2. For dangerous objects that do not require a mandatory declaration on industrial safety or a declaration on the safety of hydraulic structures required by the legislation on industrial safety of dangerous industrial objects or the legislation on the safety of hydraulic structures:

- 50 million rubles – for dangerous industrial objects of chemical, petrochemical and refining industries;
- 25 million rubles – for usage and supply gas networks, including inter-settlement;
- 10 million rubles – for other dangerous objects.

Insurance rates, the structure of insurance rates and the order in which they are applied in the calculation of an insurance premium are established by the Government of the Russian Federation.

The proportion of an insurance premium earmarked for compensation payments to injured parties cannot comprise less than 80% of the insurance premium.

Insurance rates are composed of basic rates and coefficients. Basic insurance rates are determined based on the technical and constructional characteristics of dangerous objects.



### Coefficients of insurance rates are determined depending on:

- the damage that could possibly be caused as a result of an accident involving a dangerous object, and the maximum possible number of injured parties;
- the presence or absence of insurance claims that occurred during the period of the previous compulsory insurance contract due to a violation of the standards and rules for operating a dangerous object determined by the legislation of the Russian Federation.

When calculating the insurance premium for the compulsory insurance contract the insurer has a right to apply an additional reduction coefficient, which it determines on the basis of the safety level of a dangerous object, including observance of the technical and fire safety requirements when operating a dangerous object and the preparedness to prevent, localize and liquidate an emergency situation which has resulted from an accident involving a dangerous object.

The values of the additional reduction coefficient are established by the Law and range from 0.6 to 1.0. According to Article 29 of the Law, prior to 1 January 2016 the minimum values of the additional reduction coefficient are established at the following rates:

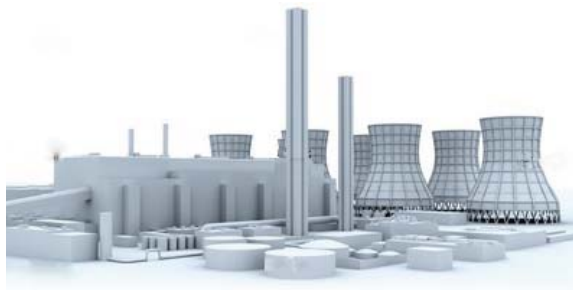
- from 1 January 2012 to 31 December 2013: – 0.9
- from 1 January 2014 to 31 December 2015: – 0.7

The Law provides for the possibility of making payments by installments for an insurance premium.

The insurance contract comes into force upon full payment of the insurance premium or the first insurance payment. The insurer is entitled to demand cancellation of the compulsory insurance contract if payment of the insurance premium (installment premium) is delayed by more than 30 days.

In the event of significant changes in circumstances reported by an insured party to the insurer while concluding a compulsory insurance contract (including a decrease in the damage that could possibly be caused in case of an accident involving a dangerous object and the maximum possible number of injured parties, if these changes might significantly affect the increase of the insurance risk), the insurer is entitled to demand that the conditions of the compulsory insurance contract be changed and that the size of the insurance premium be reduced in proportion to the reduced insurance risk.

In turn, in the event of significant changes in circumstances reported to the insurer while concluding a compulsory insurance contract (including a decrease in the damage that could possibly be caused in case of an accident involving a dangerous object and the maximum possible number of injured parties), the insured party is entitled to demand that the conditions of the compulsory insurance contract be changed and that the size of the insurance premium be reduced in proportion to the reduced insurance risk.



### Insurance payment amounts under the compulsory insurance contract:

- two million rubles – as compensation to individuals who have suffered as a result of the death of each injured party (breadwinner);
- no more than 25 thousand rubles – as compensation for the funeral expenses of each injured party;
- no more than two million rubles – as compensation for damage to the health of each injured party;
- no more than 200 thousand rubles – as compensation for damage due to violation of living conditions for each injured party;
- no more than 360 thousand rubles – as compensation for damage to the property of each injured party (individual), except for damage due to violation of living conditions;
- no more than 500 thousand rubles – as compensation for damage to the property of each injured party (legal entity).

### Under the provisions of the Law the insurer is exempted from the obligation to make an insurance payment if the damage to the injured party, in case of an accident involving a hazardous object, occurred as a result of:

- the impact of a nuclear explosion, radiation or radioactive contamination;
- military action, as well as maneuvers or other military activities;
- civil war, civil unrest or strikes of any kind;
- acts of sabotage and terrorist acts.

### The insurer will not compensate:

- damage to the property of the insured party;
- the expenses of the injured party associated with a failure or improper performance of their civil and legal obligations;
- damage to the property of an injured party who deliberately caused the accident involving the dangerous object;
- damage to profits, including damage associated with the loss of commercial value of the property, and moral damage.



### The insurer has the right of recourse from the insured party in only two cases:

- if the damage was caused as a result of the insured party's non-fulfillment of the requirements (regulations) of the federal executive authority authorized to control and supervise the security of dangerous industrial objects or hydraulic structures; and/or the requirements of the federal executive authority authorized to solve problems in the field of protection of the population and territories from emergency situations;
- if the intentional action (inaction) of an employee of the insured party resulted in damage to the injured party, including controlled explosions, emission of hazardous substances, discharge of water from a reservoir, and liquid industrial and agricultural waste.

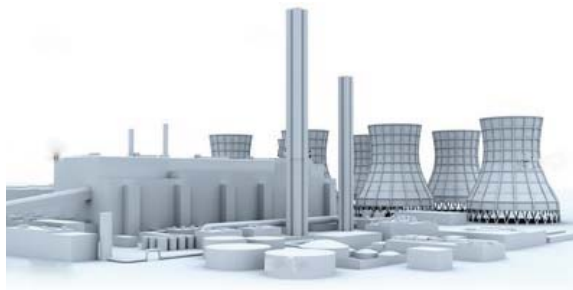
### Execution of the compulsory insurance obligation by an owner of a hazardous object is controlled by:

- The federal executive authority authorized to control and supervise the security of dangerous industrial objects or hydraulic structures,
- The federal executive authority authorized to solve problems in the field of protection of the population and territories from emergency situations.

The responsibility for non-fulfillment of the compulsory insurance obligation is established on 1 April 2012 and imposes administrative fines of fifteen thousand to twenty thousand rubles on officials and three hundred thousand to five hundred thousand rubles on legal entities.

### Requirements for insurers implementing compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving the hazardous object:

- Insurers are obliged to join a professional association of insurers and obtain a license for the appropriate type of compulsory insurance.
- An insurance business applying for a license to implement compulsory insurance must have at least two years' experience conducting general and employers' liability insurance operations in respect to organisations.



NULI establishes mandatory standards and rules of professional activity for its members, containing requirements concerning:

- the order and conditions for compensation payments made by NULI;
- the order for financing compensation payments made by members of NULI;
- the formation of NULI information resources;
- the order of entry/exit/expulsion from NULI;
- the order of handling complaints from insured and injured parties against actions of NULI members;
- the order for determining the damage that could possibly be caused in case of an accident involving a dangerous object, the maximum possible number of injured parties and the level of safety of a dangerous object;
- the qualification of the employees;
- the procedure for conducting audits of NULI members' activity;
- the sanctions and other measures applicable to members of NULI;
- the resolution of disputes between members of NULI;
- the order and conditions of formation and expenditure of NULI assets for purposes other than financing compensation payments;
- other standards and rules whose establishment falls within the competence of NULI.

Compensation payment is made by the Union:

For individuals in the following cases:

- conducting a bankruptcy procedure for the insurer;
- the revocation of an insurer's license;
- an unknown person responsible for damage;
- the absence of a compulsory insurance contract.

For legal entities in the following cases:

- conducting a bankruptcy procedure for the insurer;
- the revocation of an insurer's license.



## Coming into force of the Law

Thus, the provisions of the Law on compensation payments and on the obligation of a professional association of insurers to make compensation payments come into force on 1 July 2012. Prior to 1 January 2013, the amount of an insurance payment in case of causing damages to health of the injured party is determined by the rules of Chapter 59 of the Civil Code.

In relation to dangerous objects that are government or municipal property and whose financing maintenance is entirely or partly made from the relevant budget funds, as well as elevators and escalators in apartment buildings, the provisions of the Law come into force on 1 January 2013.

The usage of an additional reduction coefficient that is determined based on the safety level of a dangerous object when calculating an insurance premium is postponed until 1 January 2016. Prior to this date, minimal values of this coefficient are established.

The provisions of the Law regulating preparatory and organisational procedures (the establishment of a professional association of insurers, the procedure for obtaining a license by the insurer, etc.) come into force after the official publication of the Law.



## 4. ARRANGEMENTS FOR THE ESTABLISHMENT OF A PROFESSIONAL ASSOCIATION OF INSURERS:



The National Union of Liability Insurers (NULI) was established on 9 July 2005.

NULI is a non-profit organisation representing the professional association of Russian insurers and operates within the framework of compulsory general and employers' liability insurance of an owner of a dangerous object.

The founders of NULI are 24 insurance companies and one non-profit organisation, All-Russian Insurance Association insurers.

As of 31 December 2010, 30 insurance companies and one non-profit organisation, All-Russian Insurance Association, are members of NULI. Of the 30 insurance companies, 27 are full members and 3 are observer members.

On 28 December 2010, pursuant to the requirements of paragraph 2 of Article 17 of the Law, NULI was added to the Register of associations of subjects in the insurance business as a professional association of insurers.

## 5. THE MAIN ACTIVITIES OF NULI IN 2010 AND 2011

The main efforts of NULI in 2010 focused on the development of a plan of activities required for the successful implementation of the Law, as well as on activities to bring the constituent documents into compliance with the legislative requirements.

### Cooperation with government authorities and other organisations

During 2010 NULI cooperated with the following executive authorities and organisations:

- The Ministry of Finance;
- The Federal Service of Insurance Supervision;
- The Ministry of Emergency Situations;
- The Federal Service for Ecological, Technological and Nuclear Supervision;
- The Federal Agency of Water Resources;
- The Ministry of Natural Resources and Ecology of the Russian Federation;
- The Center of Russian Register of Hydraulic Structures and Government Water Cadaster;
- The Russian Research Institute of Fire Defense;
- The Research Institute of Civil Defense and Emergency Situations;
- The Scientific and Technical Center «Industrial Safety»;
- The Autonomous Non-profit Organisation «Agency for Industrial Risk Studies».

## Priority activities of NULI in 2010-2011





### 1. Rule-making activity:

- Participation in the development and harmonization of normative documents related to the adoption of the Law;
- Participation in the development and implementation of other types of compulsory general and employers' liability insurance in the Russian Federation.

### 2. Standards and rules of professional activity:

- Development of standards and rules of professional activity (about 30 documents, 11 of which are stipulated by the Law);
- Concordance of selected standards and rules of professional activity with ministries and departments.

80 Per cent of all standards and rules of professional activity need to be developed no later than 1 July 2011.

### 3. Informational cooperation:

- Development of an information system to collect information on concluded compulsory insurance contracts;
- Development of principles of information exchange between NULI and departments.

### 4. Organisation of the reinsurance pool:

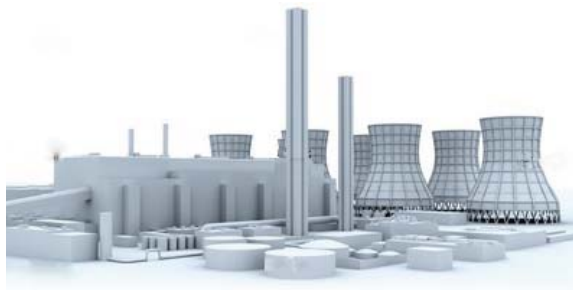
- Definition of conditions and organisation of reinsurance within the framework of the reinsurance pool.

### 5. PR activities:

- Promotion of insurance awareness among the general public;
- Formation of a positive image of compulsory insurance of dangerous objects;
- Formation of a positive image of the establishment of new types of compulsory general and employers' liability insurance.

### 6. Analysis of foreign experience in providing compulsory insurance of dangerous objects:

Collection, compilation and analysis of information about foreign countries' experience of the implementation of compulsory general and employers' liability insurance of an owner of a dangerous object for damage in case of an accident involving the dangerous object.



## 7. Conferences and seminars:

- Conducting seminars with the employees of NULI;
- Participation in conferences on issues concerning compulsory general and employers' liability insurance of an owner of a dangerous object for damage in case of an accident involving the dangerous object;
- Conference calls among the staff of NULI affiliates;
- Preparation of explanatory materials for the provision of compulsory general and employers' liability insurance of an owner of a dangerous object for damage in case of an accident involving the dangerous object.



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