

N U L I

THE NATIONAL UNION OF LIABILITY INSURERS



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ANNUAL REPORT
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Dear Colleagues,

The year of 2011 has marked the start of significant changes for the entire insurance market, particularly for the sector of compulsory insurance of hazardous objects. During the year the foundation for further activity was laid out and the strategic goals and objectives were determined.

I am pleased to present a report on the work done by the National Union of Liability Insurers in preparation for the implementation of the Federal Law «On compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object».

In 2011, NULI, in cooperation with the federal executive authorities, carried out a significant amount of work on the development of statutory legal acts and internal documents, regulating the activity of the members of the Union. Much attention was paid to the organisation of the reinsurance pool and the creation of an automated information system. Throughout the year NULI has participated in a variety of insurance conferences, organised seminars and press conferences on topical issues concerning the organisation of compulsory insurance of hazardous objects.

Active cooperation with the Federal Financial Markets Service, the Ministry of Finance, the Federal Service for Ecological, Technological and Nuclear Supervision, the Ministry of Emergency Situations, and other executive authorities has helped the Union to create a fundamentally new insurance mechanism aimed at citizens protection.

The comprehensive work done by the Union in 2011, aimed at providing an effective and a high-quality system for general and employers' liability insurance of owners of hazardous objects, has allowed the insurance market to fully launch the implementation of the Law as of 1 January, 2012. Further work of NULI will be part of the verification process of the chosen strategy.

In conclusion, on behalf of the Union I would like to thank all those who participated in the development of compulsory insurance of hazardous objects in the Russian Federation and in the preparation for the implementation of the Law. Our special appreciation goes to the employees of insurance companies, members of NULI, and the staff of the Union for their enthusiasm and commitment to work.

President
National Union
of Liability Insurers

Andrey Yuriev





2 | THE CORPORATE STRUCTURE AND NULI MEMBERSHIP

The National Union of Liability Insurers is a non-profit organisation; the only Russian professional association of insurers formed on the principle of compulsory membership of insurers for the implementation of compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object. The Unions acts to ensure cooperation, build-up, and control of the implementation of standards of professional activity and codes of conduct in the realisation of compulsory insurance.

2.1 | NULI membership

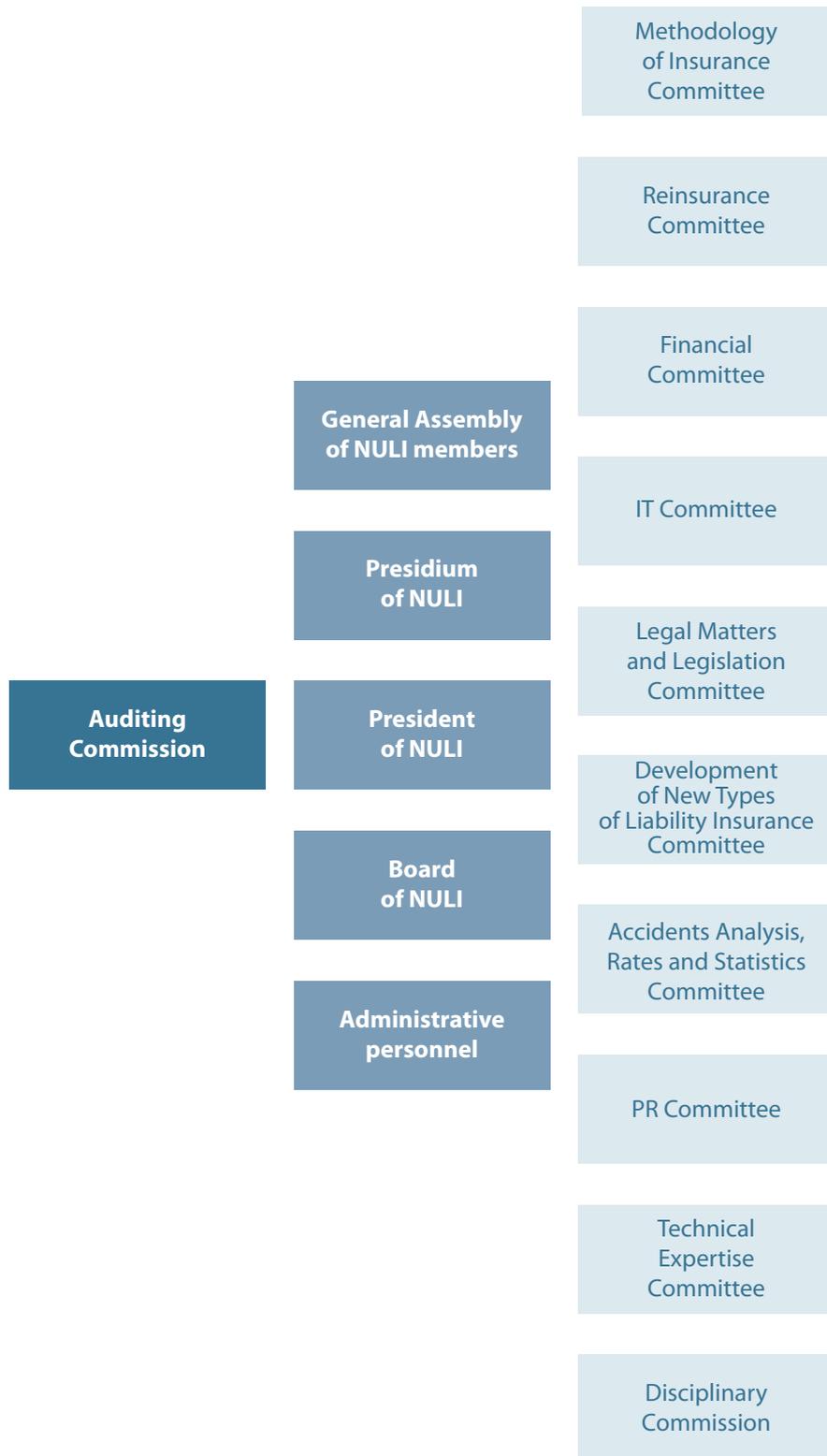
As of 31 December, 2011, NULI consisted of 54 members, i.e. 53 insurance companies and one non-profit organisation: the All-Russian Insurance Association. Of the 53 insurance companies, 48 are full members and 5 are observer members. The All-Russian Insurance Association is an observer member as well.

The licenses to implement compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object have been issued to 51 insurance organisations; 3 insurance companies do not hold licenses for reinsurance.



2.2 | Corporate structure of NULI

| The structure of NULI bodies





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Committees' performance results

Nº	Name of the Committee	Number of sittings	Number of questions discussed
1	Methodology of Insurance Committee	26	100
2	Reinsurance Committee	13	50
3	Technical Expertise Committee	13	50
4	IT Committee	14	50
5	Financial Committee	23	80
6	PR Committee	13	25
7	Accident Analysis, Rates and Statistics Committee	14	35
8	Legal Matters and Legislation Committee	22	70
9	Development of New Types of Liability Insurance Committee	9	20
	TOTAL	147	480



3 | MAJOR EVENTS

2011 was a year of active preparation for the entry into force of 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 a hazardous object» (hereinafter: the Law) that was adopted on 27 July, 2010, and came into force on 1 January, 2012.

In 2011 NULI operated according to the Guidelines on Primary Activities that were approved by the General Assembly.

As a result of productive work done prior to 1 January, 2012, NULI has provided the insurers – members of NULI with comprehensive methodological assistance in the implementation of a new type of compulsory insurance.

In 2011, the majority of regulatory legal acts, standards of professional activity and of codes of conduct required for the entry into force of the Law were developed and adopted.

On 7 December, 2010, the Deputy Prime Minister of the Russian Federation approved the Plan of activities that were required for the implementation of the Law. In accordance with the Plan, the following documents were to be developed:

- 6 regulatory legal acts of the Government of the Russian Federation;
- 4 regulatory legal acts of the federal executive authorities;
- 11 standards and codes of conduct of the National Union of Liability Insurers; some of them required advance consent by the federal executive authorities.

3.1 | Normative and legal regulation

The active involvement of NULI, in co-operation with the Ministry of Finance, the Ministry of Emergency Situations, the Federal Service for Ecological, Technological and Nuclear Supervision, the Ministry of Economic Development, the Ministry of Health and Social Development, and other federal executive authorities concerned, has allowed the following documents to be developed, endorsed and approved by the Government of the Russian Federation in 2011:

- Resolution of the Government of the Russian Federation No 808 of 01.10.2011 «On the approval of insurance rates for compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object, their structure and order of application by insurers for calculation of the insurance premium»;
- Resolution of the Government of the Russian Federation No 916 of 03.11.2011 «On the approval of Regulations of the compulsory general and employers' liability insurance of an owner of a hazardous object in case of an accident involving a hazardous object» including the contemplation for the adoption of standards for determining the amount of insurance benefit payments for damage caused in an accident involving a hazardous object, based on the characteristics and the level of damage caused to health;



- Resolution of the Government of the Russian Federation No 910 of 03.11.2011 «*On the Order of establishment of the fact of violation of living conditions in an accident involving a hazardous object and the criteria by which the fact is determined*»;
- Resolution of the Government of the Russian Federation No 846 of 28.10.2009 (version of 05.12.2011) «*On the approval of the Rules for examination of the causes of accidents in the power industry*».

The Order of information exchange between federal executive authorities, executive authorities of subjects of the Russian Federation, local self-governing authorities, victims, insurance organisations, and the professional association of insurers in the implementation of compulsory general and employers' liability insurance of an owner of a hazardous object in case of an accident involving a hazardous object is still under elaboration.

NULI took part in the development of the following documents issued by **the federal executive authorities**:

- The Order of the Ministry of Finance of the Russian Federation No 165n of 30.11.2011 «*On the introduction of amendments to the Order of formation of insurance reserves for insurance other than life insurance, approved by the Order of the Ministry of Finance of the Russian Federation, No 51n on 11.06.2002*» (registered by the Ministry of Justice of the Russian Federation on 21.12.2011, No 22710);
- The Order of the Federal Service for Ecological, Technological and Nuclear Supervision No 480 of 19.08.2011 «*On the approval of the Procedure of technical investigation of the causes of accidents, incidents and losses of explosive materials at industrial objects that are under the supervision of the Federal Service for Ecological, Technological and Nuclear Supervision*» (registered by the Ministry of Justice of the Russian Federation on 08.12.2011, No 22520);

Methodological recommendations on expert evaluation of hazardous objects, as well as on co-operation between the owners of hazardous objects, insurers, specialised organisations and experts conducting inspection of hazardous objects are still in progress.

The work on development of regulatory legal acts as performed by the Government of the Russian Federation and federal executive authorities with active participation by the Union, has allowed the insurance market to fully proceed with the execution of the Law from 1 January, 2012.

3.2 | Organisation of the reinsurance pool

In accordance with the Federal Law No 225-FZ of 27.07.2010 «*On compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object*» members of the professional association of insurers form a reinsurance pool to reinsure risks of general and employers' liability of an owner of a hazardous object for damages in case of an accident involving a hazardous object.

On 8 June, 2011, the Presidium decided to create a Reinsurance Committee, the foreground task of which was to develop the Agreement of the reinsurance pool and the Obligatory reinsurance contract.

On 4 August, 2011, the Reinsurance Committee chose a contractor for the development of the Agreement of the reinsurance pool and the Obligatory reinsurance contract.

On 30 November, 2011, the Agreement of the reinsurance pool was approved by the General Meeting and signed by all members of NULI. On 30 November, 2011, the reinsurance pool was created; 48 insurance companies became members of the pool. On 30 December, 2011, 5 more insurers entered the pool.

On 30 December, 2011, the Obligatory reinsurance contract was signed by all members of the pool. The facility of the pool was established at 2.371 billion rubles.

A special mechanism for settlement payments and financial guarantees is provided by the reinsurance pool. Settlement payments between members of the pool will be implemented through the Settlement Bank along with the Executive body of the pool - The Limited Liability Corporation of the Russian Association of Motor Insurers «Clearing». To ensure financial guarantees for settlement payments, members of the pool place a bank deposit in the amount of their net retention in the pool, but not less than twenty and no more than one hundred million rubles.



Main phases of work to provide reinsurance protection



08.06.2011

The Reinsurance Committee was set up



04.08.2011

Contractor was chosen to develop the Agreement of the reinsurance pool and the Obligatory reinsurance contract



30.11.2011

Reinsurance pool was created (all members of NULI approved and signed the Agreement of the reinsurance pool)

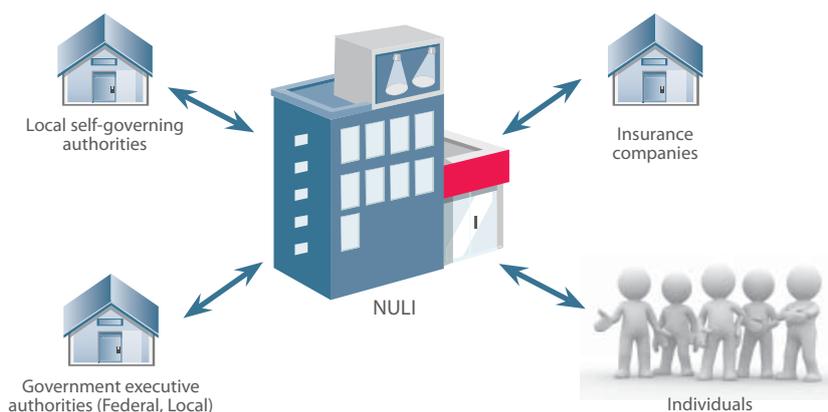


30.12.2011

Members of the pool signed the Obligatory reinsurance contract

3.3 | Creation of an Automated Information System

One of the priorities of NULI is the development of an automated information system for the compulsory general and employers' liability insurance of an owner of a hazardous object in case of an accident involving a hazardous object (AIS), through which the information exchange will be implemented between NULI, citizens, insurance companies, and executive authorities (the Federal Service for Ecological, Technological and Nuclear Supervision, the Ministry of Emergency Situations, etc.).



The creation of an automated information system as a unified system of information resources in the field of compulsory general and employers' liability insurance of owners of hazardous objects for damages caused during the operation of hazardous objects allows for a guarantee to provide efficient and consistent indemnification of damages caused to the victims, which corresponds to the core objectives of the Law. It also makes it possible to create effective mechanisms for prompt supervision of the observance of Law regulations.

The development of an automated information system is intended to facilitate the achievement of the following goals:

- implementing the information exchange between the citizens, insurance companies, NULI, and government authorities of the Russian Federation within the compulsory general and employers' liability insurance of an owner of a hazardous object, as stipulated by the legislation of the Russian Federation;
- ensuring the efficiency of the compulsory general and employers' liability insurance of an owner of a hazardous object, as a social and economic institution;
- ensuring the transparency and accessibility of services provided in the compulsory general and employers' liability insurance of an owner of a hazardous object for members of the insurance market and for the general public.

In order to create an automated information system, on 8 June, 2011, the Presidium of NULI approved the Conception of an automated information system that defines the main goals and objectives, principles, structures and fundamental stages for the creation and the development of an automated information system, as well as the amounts and sources required to finance the system.



4 | HAZARDOUS OBJECTS AND ACCIDENTS INVOLVING HAZARDOUS OBJECTS: STATISTICS AND KEY FIGURES

4.1 | Hazardous objects

In accordance with the Law, hazardous objects located on the territory of the Russian Federation are:

- 1) Hazardous industrial objects (HIO), approximately 300,000, that are liable to registration¹ in the State Register where:
 - hazardous substances are obtained, used, recycled, generated, stored, transported and disposed;
 - equipment working at a pressure of more than 0.07 megapascals or water heated to a temperature of over 115 degrees Celsius is used;
 - stationary mounted lifting devices, escalators, cableways and funicular railways are used;
 - melts of ferrous and nonferrous metals and alloys based on these melts are obtained;
 - mining operations and mineral processing, as well as works in underground conditions are conducted.

- 2) Hydraulic structures (HS), approximately 65,000, that are liable to registration in the Russian Register of hydraulic structures:
 - dikes;
 - hydropower stations;
 - water reservoirs;
 - tailing and sludge pits;
 - pumping stations;
 - channels;
 - dams, etc.

- 3) Filling stations (FS), approximately 30,000.

As of the beginning of 2011, there were approximately 400,000 hazardous objects on the territory of the Russian Federation, including:

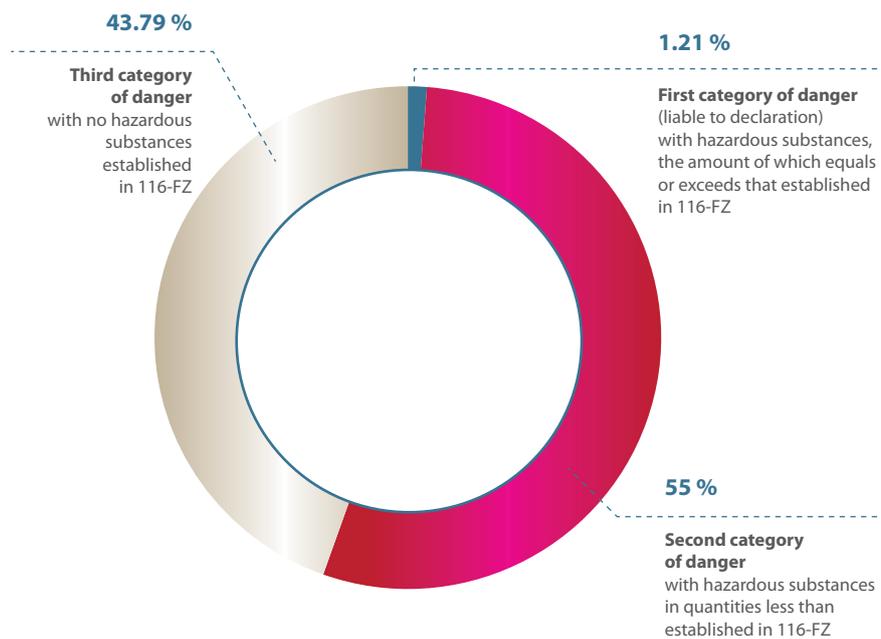
¹ In accordance to the Order of the Federal Service for Ecological, Technological and Nuclear Supervision No 641 of 16.11.2011 (Registered by the Ministry of Justice of the Russian Federation on 29 December, 2011, No 22806) the following objects were excluded from the list of objects subjected to registration in the State Register: transformer substations sites as well as elevators sites, lifting platforms for persons with disabilities and escalators related to housing stock.

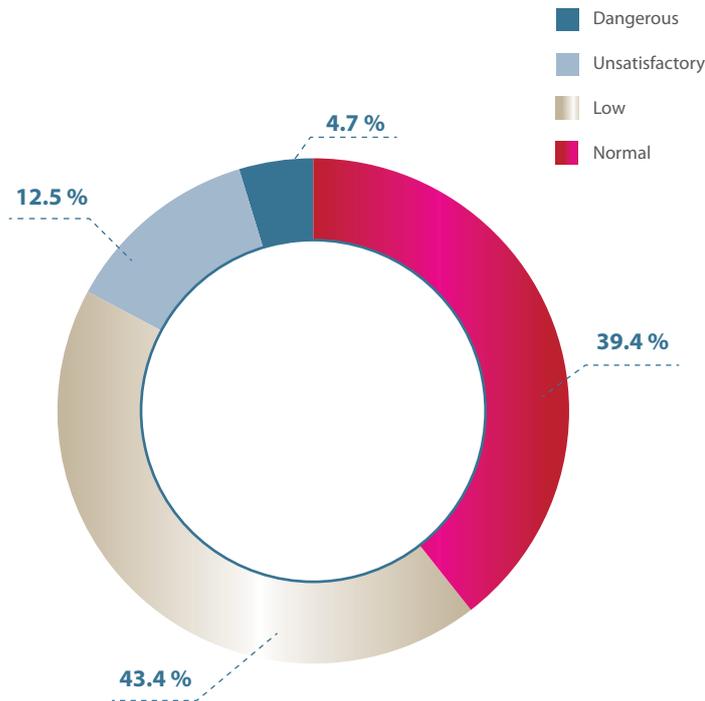


- 160,000 explosive, flammable and chemically hazardous objects;
- 167,000 km of gas mains;
- 75,000 km of pipelines and delivery ducts;
- 30,000 reservoirs.

4.2 | The safety level of hazardous objects and hydraulic structures

Hazardous industrial objects





The coverage of hazardous objects by the supervisory and the registration policies shows that:

- The State Register contains information on 295,813 hazardous industrial objects³;
- The Russian Register contains merely 9,000 hydraulic structures⁴.

Therefore, a huge amount of hydraulic structures are not included in the Register. One of the reasons is the absence of an actual owner (property under abeyance).

The level of industrial equipment wearing in the Russian Federation exceeds 80%. Moreover, most hazardous objects are located near urban structures with a high population density.

All of this points to a fairly high risk of accidents occurring at hazardous objects, which could result in severe consequences, both material and human!

² Hydraulic structures located on industrial and energy objects (data provided by the Federal Service for Ecological, Technological and Nuclear Supervision).

³ Statistics on hazardous objects (official data provided by the Federal Service for Ecological, Technological and Nuclear Supervision).

⁴ According to data provided by the Federal Agency for Water Resources.



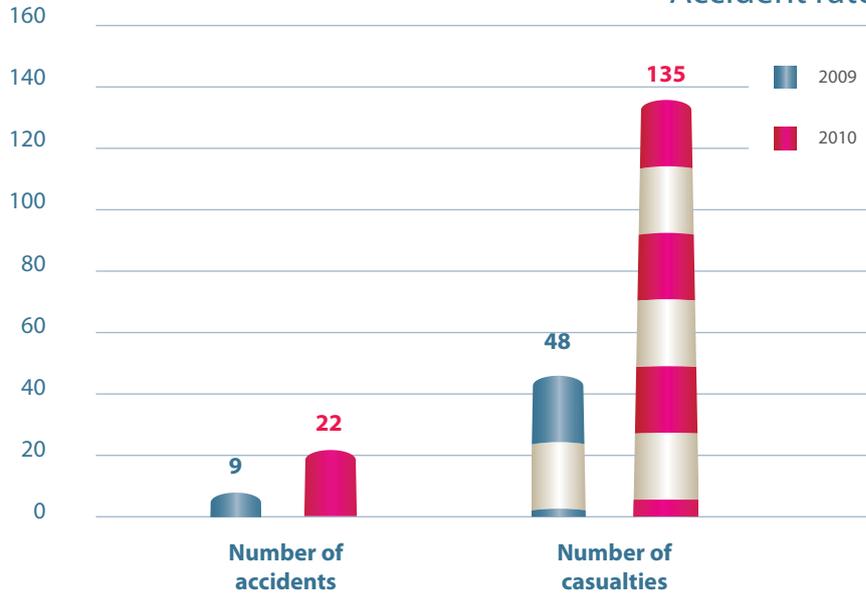
4.3 | Accident rates at hazardous objects

The general trend in recent years showed the reduction of accident and mortality rates at hazardous objects. However, a deterioration of statistics in almost all areas and types of objects occurred in 2010.

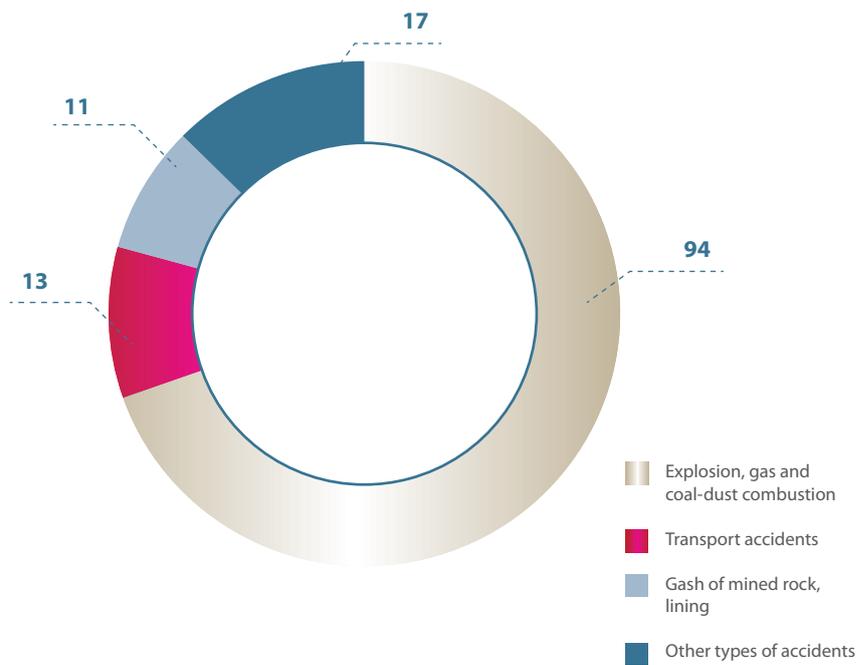


Accidents at coal industry objects

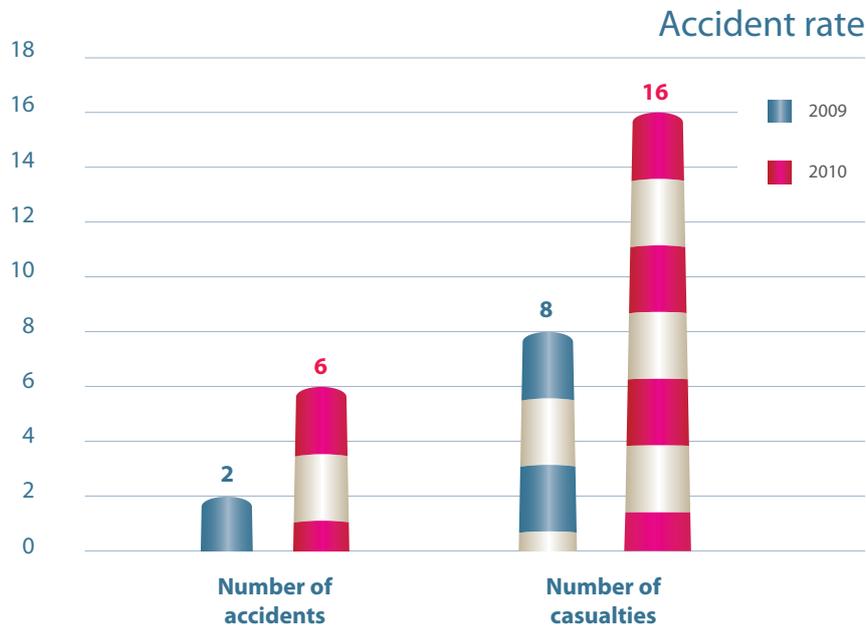
Accident rate



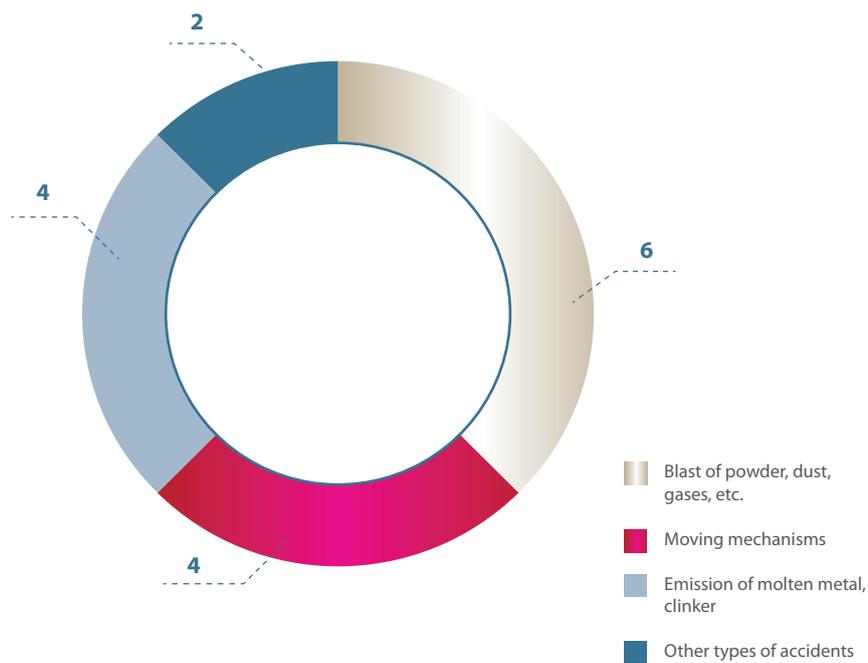
Traumatic factors
(number of casualties)



Accidents at metallurgy and chemical-recovery industry objects

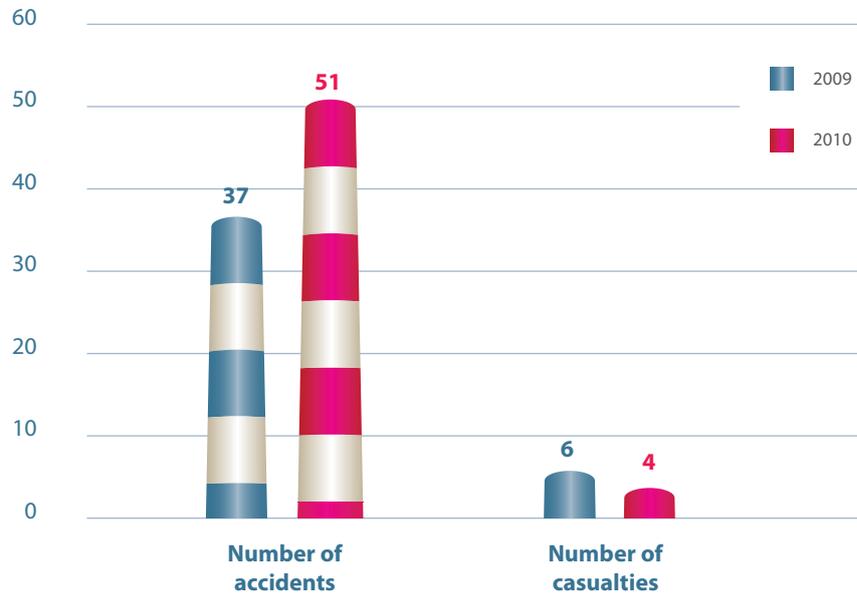


Traumatic factors (number of casualties)

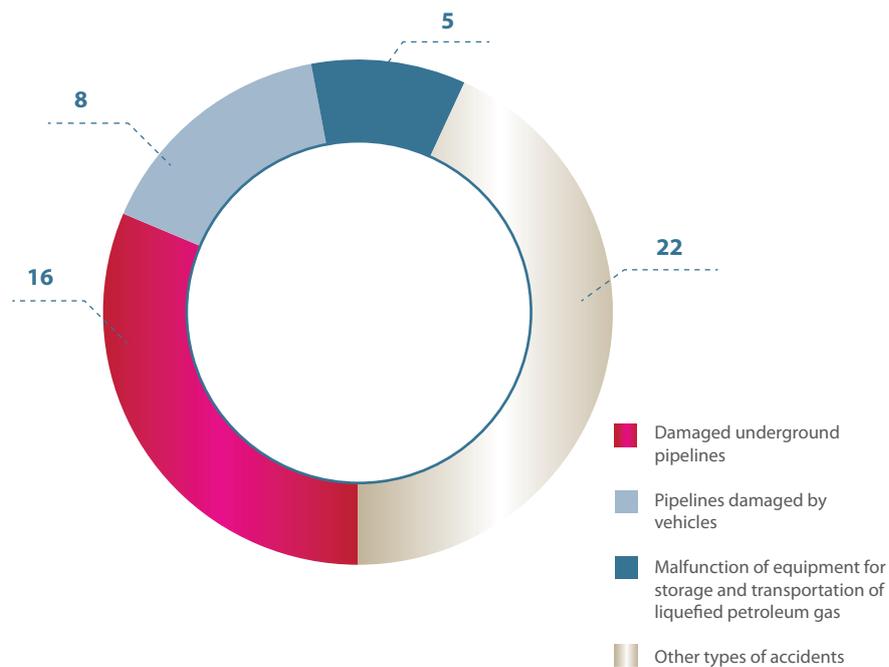


Accidents at objects of gas distribution and gas consumption

Accident rate



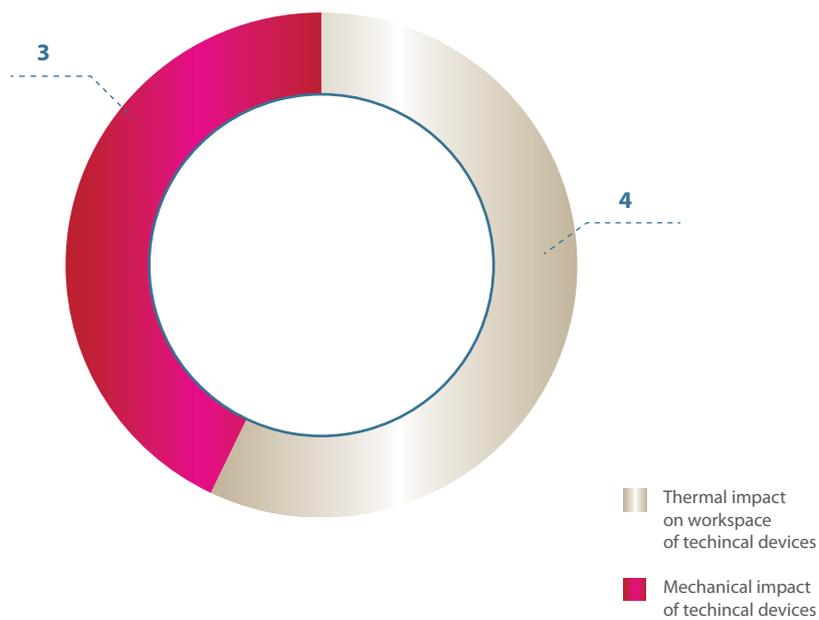
Causes of accidents (number of accidents)



Accidents at use of equipment working at a pressure



Traumatic factors (number of casualties)





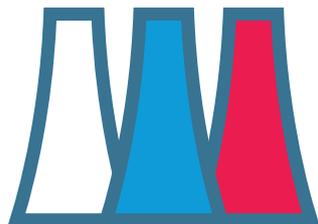
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