



NAAI
NATIONAL ASSOCIATION
OF AGRICULTURE INSURERS

10
YEARS

NAAI Annual Report 2017

Agricultural insurance for Russia

KORNEY BIZHDOROV

President of the National Association of Agriculture Insurers



*Ladies and gentlemen!
Dear colleagues!*

2017 was not easy for the agricultural insurance system in Russia. A sharp revision of planning and organization principles of state support for the agro-industrial complex at the federal level led to the so-called «single subsidy problem»: when the territorial entities of the Russian Federation got the authority to independently manage the financing of agro-industrial complex development programs, the task of subsidizing agricultural insurance turned out to be in the shadow of current production issues. Also, the four-year favorable period in crop production did not contribute to the demand for risk insurance in this industry. The risk of crop loss, which is protected by the system of multi-risk insurance introduced in 2012, has moved to second place for agrarians after the risk of income loss due to price changes.

At the same time, in 2017 agricultural insurance was in the focus of attention of all authorities - the State Duma and the Federation Council, the Government and the Bank of Russia. The outcome of the discussions, which involved NAAI, led to preparation of legislative initiatives to amend the basic law on agricultural insurance with state support along with the Bank of Russia's advisory report, which marked a strategic vector of the insurance protection for agriculture development. It is aimed at increasing the diversification, transparency, and convenience of insurance instruments for agrarians.

The issue of agricultural insurance becomes especially important today, as our country takes the leading position in the world on the development of the agro-industrial complex. Russia's main competitors in this market - such as the United States, China, India, and the EU countries - have made breakthroughs in the development of their insurance systems for agricultural risks over the past 15 years. According to the International Association of Agricultural Production Insurers (AIAG), for 10 years the world market of agricultural insurance has grown by 400% and now exceeds 30 billion dollars. At least 70% of the world's agricultural insurance benefits from state support, which in 2017 provided coverage of 30-to-85% of crops. Russia, too, was part of this global processes.

The law on agricultural insurance with state support was adopted in 2011, after a drought that caused crop losses of over 40 billion roubles, ushering in the first post-Soviet Russia experience of organizing agricultural insurance on a systematic basis. For 6 years the agricultural insurance system, which maintained more than 30 thousand agricultural business insurance contracts, was fully implemented and became a tool for solving new problems. The main ones are: amendments to law to increase the flexibility of the system and compliance of insurance conditions with the current level of agricultural business development, including the agricultural insurance system as part of the comprehensive risk management of Russian agriculture.

With the start of 2018, the process of revising the entire agricultural strategy of our country has begun. NAAI is certain that subsidized agricultural insurance should become an integral part of the whole system of prevention and protection against risks in the agro-industrial complex. As well, the insurance market, which has already proved its ability to engage in consistent long-term work, will be able to assume protection in partnership with the government even against major risks. Together we will protect the agricultural business of Russia.



NIKOLAY FEDOROV

First Deputy Chairman of the Federation Council of the Federal Assembly of the Russian Federation

Dear representatives of the National Association of Agriculture Insurers! I greet you on behalf of the Federation Council.

Russian agrarians often have to engage in confrontation with grueling heat and severe frosts, drought and floods, and epizootic threats. In these difficult conditions a reliable mechanism for agrarians and livestock farmers is the mechanism of agricultural insurance with state support.

The fruitful activity of the agricultural insurance market participants contributes to increasing the production of agro-industrial complex products, ensuring the country's food security. At the same time, the analysis of applications coming from the territorial entities indicates that the system of subsidizing agricultural insurance needs substantial improvement.

The Federation Council keeps the situation under control and actively participates in the improvement of the relevant legislative framework. I am convinced that all of those who are not indifferent to the fate of the Russian village should support the settlement of issues concerning the development of the agricultural insurance system.

I wish you successful work and all the best.

ANATOLY KUTSENKO

Director of the Economics, Investments and Regulation of Agro-industrial Complex Markets Department, Ministry of Agriculture of Russia



Dear colleagues!

On behalf of the Ministry of Agriculture of the Russian Federation and on my own behalf, I welcome the participants of the agricultural insurance market.

2017 was marked by significant changes in the system of agricultural insurance. From 1 January, 2017, agricultural insurance with state support is carried out within the framework of a «single subsidy». Consolidation of state measures to support the agro-industrial complex provided the territorial entities of the Russian Federation with the opportunity to independently formulate priorities for the allocation of federal budget funds, taking into account the specifics of the agricultural production of the region.

Moreover, amendments were made to the Rules for the provision and distribution of a «single subsidy» from the federal budget to the budgets of territorial entities of the Russian Federation. This provides an opportunity for agricultural producers to receive part of the money they paid in the previous year to pay the second part of the insurance premium in the current year in order to obtain full insurance coverage under the insurance contract in connection with the failure of granting a subsidy.

However, in addition to positive aspects, recent years have been marked by a significant decrease in the volume of the agricultural insurance market as a whole; thus, the number of territorial entities of the Russian Federation that provide agricultural insurance with state support is decreasing, the interest of agricultural producers in agricultural insurance is also declining, and many insurance companies are reluctant to go into this field, or completely refuse to insure agricultural risks.

In order to improve and develop the agricultural insurance system, the Ministry of Agriculture of the Russian Federation, together with NAAI, relevant federal executive authorities, the Bank of Russia and the agro-industrial complex management bodies of the territorial entities of the Russian Federation, drafted amendments to the federal legislation on agricultural insurance.

Agricultural insurance with state support should play a key role in ensuring sustainable development of the agricultural sector in our country. Thus, the Ministry of Agriculture of the Russian Federation expects that the insurance community will work with NAAI, in partnership with the government, to achieve new results in the development of a modern agricultural insurance system in Russia.

I wish you further successful and fruitful work!

On behalf of the State Duma Agrarian Issues Committee and on my own behalf, I welcome the participants of the Russian agricultural insurance market.

Agriculture is the industry most affected by natural disasters that can damage not only individual farms, but also the food security of the Russian Federation. Improvement of the legislative base of the agricultural insurance system with state support is an important task necessary to ensure the protection and financial stability of the agro-industrial complex of Russia.

The State Duma Agrarian Issues Committee, in conjunction with the Ministry of Agriculture of the Russian Federation and the National Association of Agriculture Insurers, is actively working to improve legislation. A working group has been set up in the Agrarian Issues Committee to finalize the draft Federal Law "On Amendments to the Federal Law On State Support in the Sphere of Agricultural Insurance" and "On Amendments to the Federal Law On the Development of Agriculture".

Russia has enormous natural resources, one of them being fertile land. At the same time, most of the agricultural land is in an area that presents significant farming risks. One of the ways to protect against risks in the agrarian sphere is to use insurance instruments that have a significant advantage over direct payments from the budget, allowing the state to allocate funds on a planned basis to offset insurance premiums. However, at the same time, the government lays high demands on the agricultural insurance system itself to protect agricultural production from natural risks.

Our common task is to create conditions for the implementation of the Doctrine of Food Security of Russia.

I wish all participants of the agricultural insurance market fruitful work, bringing new ideas and solutions for the benefit of our country!



AIRAT KHAYRULLIN

**Deputy Chairman
of the State Duma Committee
on Agrarian Issues**

SVETLANA NIKITINA

**Deputy Director of the Insurance Market
Department of the Bank of Russia**



Dear participants of the agricultural risk insurance market!

In global practice, one of the ways to minimize the consequences of risks in the agrarian sphere is through insurance, which allows agricultural producers not only compensation for losses associated with lost production, but also protection against possible bankruptcy, payment of debt obligations, and increased predictability of financial performance results. This instrument has been especially developed in the last few years, when agricultural insurance systems with state support were created, reformed or strengthened in virtually all countries that are Russia's main competitors in the agrarian products market.

The agricultural insurance system with state support is of great strategic importance for our country. A specialized legislation regulating the agricultural insurance system with state support has been in place in Russia since 2012. Since 2016, this system has been centralized and mechanisms have been introduced to control the Bank of Russia's work, which is organized by the National Association of Agriculture Insurers. Today it is a tool that can be adapted to new, modern needs of agriculture development.

In 2017, the Bank of Russia paid special attention to the development of strategic directions for the development of agricultural insurance in our country. A consultative report was issued, the proposals of which were supported in the course of public consultations by representatives of the expert community, government bodies, and branch unions. The main proposals are to provide agrarians with more opportunities to choose insurance conditions with state support, create additional incentives for concluding agricultural insurance contracts, improve the systems for claims settlement and subsidies, and to create a single information field. NAAI took an active part in expert discussion of the issues stated in the report, demonstrating special interest in making the agricultural insurance system more flexible and effective. I hope that the course for positive changes will continue, and agricultural insurance will strengthen its role as a partner of the government and the agrarian sector in protecting against agricultural risks. I wish success in realizing this task!

IGOR YURGENS

President of the All-Russian Insurance Association



Dear colleagues!

On behalf of the All-Russian Association of Insurers and on my own behalf, I welcome all participants of the agricultural insurance market.

During 2017, NAAI carried out a wide range of tasks, including insurance support at the legislative level. In particular, by initiating amendments to the law on insurance with state support, NAAI took a major step in resolving a difficult situation which occurred as a result of the decision to amalgamate state support into a "single subsidy". A lot of work has been completed, much has been done and much remains to be done. I am sure that the consolidated interaction of NAAI, government bodies and the Bank of Russia will produce positive results.

Despite considerable difficulties, NAAI did not ignore other aspects of its activities. I would like to note the work of NAAI in the development of targeted programs aimed at developing agricultural insurance and increasing the financial literacy of agrarians. The last area is precisely given special attention as a promising component, being the basis for further growth of the market.

In the near future, the integration of NAAI into SRO, which is formed on ARIA basis, is expected, but even today the Association is closely cooperating in solving a number of important professional tasks. I am sure that fruitful cooperation and long-term warm relations of our organizations will continue to serve as a guarantee of growth and success of all joint projects.

I wish all participants of the market prosperity and successful work!

PAVEL SKURIKHIN

President of the National Union of Grain Producers



Dear participants of the National Association of Agriculture Insurers!

On behalf of the National Union of Grain Producers, I welcome all agricultural insurance market representatives, who have demonstrated that they are not indifferent to the fate of Russian agriculture.

The agricultural sector is a capital-intensive segment of the country's economy, and agrarians are interested in reducing risks and preserving their investments. The experience of recent years has expanded with understanding and revealed the presence of risks not only of natural causes but also of an economic nature. At the same time, despite record indicators throughout the country, agrarians suffered losses from emergency situations in dozens of territorial entities of the Russian Federation in 2017.

In this regard, no one doubts that an effective domestic insurance system is needed for the sustainable management of agriculture. Our joint work with you and the Ministry of Agriculture of the Russian Federation in this direction allows us to improve the mechanism of agricultural insurance, leading to mutually beneficial cooperation.

I hope that NAAI, as an association of Russian agricultural insurance companies that are partners of the state, will continue working to develop insurance protection that best meets the current and future needs of the agricultural sector. Insurance should help Russian agriculture not only to survive in difficult conditions, but also maintain its position in the global market.

My wish to you is the achievement of fruitful results in this work!

YURI KOVALEV

General Director of the National Union of Swine Breeders



Dear colleagues!

On behalf of the National Union of Swine Breeders, I welcome the participants of the agricultural risk insurance market.

Over the past decade, the swine industry has achieved results that will fully ensure Russia's food security with regard to the production of meat products. Simultaneously, NAAI, in partnership with the Ministry of Agriculture of the Russian Federation, other government bodies and industry organizations, has built mechanisms for the subsidized agricultural insurance system.

Since 2013, when livestock risk insurance was included in the state-supported agricultural insurance system, the National Union of Swine Breeders has been in constant contact with NAAI on the development of swine risk insurance methodology, reaching conciliated positions and receiving effective expert support in the field of agricultural insurance.

In 2017, the main theme of cooperation between our unions was the development of a solution for effective insurance protection of risks to which the swine industry is exposed as a result of the spread of African swine plague in Russia. In 2007-2016, outbreaks of ASF were detected in 46 territorial entities of the Russian Federation, with direct damage from this disaster annually amounting to about 1 billion roubles. We hope that the insurance industry will be able to respond to this challenge and, together with the government, will protect the swine industry from losses that threaten its sustainability.

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NATIONAL ASSOCIATION OF AGRICULTURE INSURERS: 10 YEARS OF DEVELOPING THE AGRICULTURAL INSURANCE SYSTEM

The creation of the National Association of Agriculture Insurers in 2007 was the response of the insurance industry to Russia's transition to long-term fundamentals of agrarian policy based on the common Law «On the Development of Agriculture». The association ensured the consolidation of the largest insurance companies, at both federal and regional levels, interested in the development of agricultural insurance, and became the center for the development of modern agricultural risk insurance with state support, meeting interests of the state, agrarians and insurers.

DEVELOPMENT OF AGRICULTURE IN RUSSIA

First basic law in post-Soviet Russia on the fundamentals of agrarian policy - the Law «On the Development of Agriculture» No. 264-FZ of 29 December, 2006, came into force. Implementation of the first state program for the development of agriculture and regulation of agricultural products, raw materials and food markets, stipulated by Law No. 264-FZ (for 2008-2013).

Russia suffers from the African pig plaque for the first time

The large-scale drought in 2010 led to direct losses to Russian agrarians of more than 40 billion roubles.

Development of the specialized law on subsidized agricultural insurance, advanced at the initiative of the Government and the President of the Russian Federation in the second half of 2010.

On 25 July, 2011, Law No. 260-FZ was adopted - the first specialized legal act in the history of Russia on subsidized agricultural insurance.

Law No. 260-FZ entered into force. The second government program for the development of agriculture (for 2013-2020) was adopted.

Russia becomes a member of the WTO.

Large-scale drought in Siberia (losses: 37 billion roubles.)

2007-2008

2009-2010

2011

2012

Agricultural insurance is provided by Law No. 264-FZ as one of the strategic focus areas of government support.

The National Association of Agriculture Insurers was established.

NAAI is involved in the development of legislation by the order of the Government and the President of the Russian Federation.

NAAI takes part in the development of the sublegislative regulatory framework to Law No. 260-FZ. The insurance community decides to strengthen the organizational base of NAAI.

NAAI is proceeding to enforce the Law No. 260-FZ.

NAAI ACTIVITY

In the period up to 2016 г. up to **6–7 000** insurance contracts with state support were concluded in Russia annually.

About **50** regions of the Russian Federation took part in the insurance with state support annually.

The main goal of NAAI was the formation of a modern agricultural insurance system in Russia, based on transparent principles and common standards in accordance with global practices.

The decision to create a non-profit organization of agricultural insurers was made in January 2007 by industry participants at a round table on the development of an agricultural insurance system with state support. In the memorandum «On the principles of organization of agricultural insurance», signed by 26 participants of the event, the following problems were addressed:

- lack of legislative and regulatory framework for the formation of a comprehensive system of subsidized agricultural insurance;
- lack of a sole line of insurance products with state support, a unified claims settlement process, and a balanced tariff policy;

- impossibility for a significant number of agrarians to use the agricultural insurance mechanism with state support because of the need to pay 100% of the insurance premium before receiving a subsidy;
- low awareness of agricultural producers about the real benefits of insurance protection and the prevailing practice of applying various «gray» schemes in order to obtain state support funds, which hinders the development of real insurance.

To systematically change the situation in agricultural insurance in August 2009, members of the insurance industry, with active support of the Ministry of Agriculture and the Ministry of Finance of Russia, the Federal Service for Insurance Supervision and the All-Russian Association of Insurers created NAAI. The Association fully implemented the provisions, meeting all of the objectives.

Large-scale flooding in the Far East of Russia.

State support covers livestock insurance.

The beginning of a favorable four-year period for Russian crop production, characterized by high yields.

Transition to a unified agricultural insurance system.

Changes in basic principles of agriculture with state support. Consolidation of support measures into a «single subsidy», including the means of agricultural insurance with state support.

Russia started transforming its agricultural insurance from 2012, than a first federal Law on state-supported insurance had entered into force.

2013

2014–2015

2016

2017

The development of livestock insurance.

Preparing for transition to the centralization of the agricultural insurance system; amendments to Law No. 260-FZ on expanding the list of risks and liabilities of insurers.

Transition to a unified agricultural insurance system is fully implemented by NAAI.

NAAI stands in defense of the agricultural insurance system against the negative consequences of its integration into the «single subsidy» system



I. Egorov, the first NAAI President and Chairman of the Presidium of the NAAI, and K. Bizhdov, NAAI President (2012)



Unified insurance standards have allowed the simplification and shortening of the time required in claims settlement processes: in general,

Since 2016, the agricultural insurance system in Russia has been fully formed and has become an instrument that can be used to solve government tasks of agricultural management.

Since 2017: Customization of the agricultural insurance system to the measures taken by the Government of the Russian Federation in order to revise the organization fundamentals of agricultural support; participation of NAAI in the development of new agrarian policy principles and the selection of new vectors for the development.

from **2012–2017**

only **10%**

out of the total number of payments

7 thousand from more than payments – were denied

2008–2016: CREATING A SINGLE CENTRALISED AGRICULTURAL INSURANCE SYSTEM

2008-2011 – NAAI actively participated in the development of the first basic law on agricultural insurance with state support: “On State Support in the Field of Agricultural Insurance ...” (No. 260-FZ of 25 July, 2011).

2012-2014 – With the entry into force of Law No. 260-FZ and despite the possibility of many associations of agricultural insurers’ activities in the field of agricultural insurance with state support, NAAI assumed full responsibility for the formation of a modern, subsidized, agricultural insurance system in Russia. The organizational foundations of the system were laid, a methodological and regulatory framework was developed, and an information system of agricultural insurance was created. At the same time, the issue of consolidating the position of all main participants of the agricultural insurance market was resolved.

2015-2016 – As a result of amendments to Law No. 260-FZ, adopted in 2014, in accordance with the objectives of the government and the need to protect the rights of insured agrarians, the insurance community was presented with the challenge of centralizing the agricultural insurance system from 2016. It was fully implemented: a unified union of agricultural insurers was created and regulated by the Bank of Russia, standard insurance rules were introduced, approved by the Ministry of Finance, the Ministry of Agriculture and the Bank of Russia, and modern methods of agricultural space monitoring to enhance crop insurance expertise were introduced throughout the market. At the same time, the Bank of Russia and law enforcement agencies carried out measures to clean up the agricultural insurance market from financially unsustainable agricultural insurers and the practice of involving agrarians in “gray schemes” of pseudo-insurance with the aim of absorbing subsidies. NAAI conducted complex actions to counter insurance fraud in agricultural insurance.

INTERNATIONAL RELATIONS

Development of NAAI's international relations, 2014–2016:

2014 г. NAAI entered the AIAG.

2015 г. K. Weinberger (President of AIAG) visited the NAAI's International Conference on Agricultural Insurance in Moscow.

2016 г.

MAY: Korney Bizhdov (President of NAAI) met the newly-elected President of the AIAG, A. de Beaucaron, in Paris.

NOVEMBER: Cooperation agreement concluded between NAAI and the Spanish Agricultural Insurance System for Combined Agricultural Insurance (AGROSEGURO)

International seminar for participants of the Russian insurance market and representatives of regulatory structures was held by Swiss Re and NAAI in Zurich (Switzerland), to study the experiences of agricultural insurance.

Arnaud de Beaucaron, AIAG President, and Korney Bizhdov, NAAI President (Warsaw, 2017)



The main directions of NAAI s international activities:

- strengthening links with the International Association of Agricultural Production Insurers (AIAG);
- exchanging of experiences with agricultural insurance structures in the EU and other countries with practices in the development of agricultural insurance systems;
- participating in the integration processes of the Eurasian Economic Union (EAEU);
- establishing cooperation with reinsurance organizations and organizations in the field of agricultural expertise at the international level.

The entry of NAAI into the International Association of Agricultural Production Insurers in 2014 was aimed at incorporating the world's agriculture experiences accumulated for the last 20 years.

Global agricultural insurance market development has accelerated from the beginning of the 2000s. According to AIAG, for the 10 years from 2005 to 2015 the volume of this market grew by a factor of 4, exceeding \$30 billion. This was due to reforms in the field of agricultural insurance systems that took place from the end of the 1990s to the beginning of the second decade of the 21st century – primarily concerning the United States, China and India, but also smaller countries such as The Philippines and a number of African countries. At the beginning of 2017, the largest volumes of national agricultural insurance markets were located in the US, China, India, Canada and Spain (see diagram) – countries that are among the largest producers of agricultural products in the world.



K. Bizhdov, NAAI President,
and K. Weinberger, AIAG
President, 2015 (Moscow)



A. de Beaucaron, AIAG President,
speaking at the International Round
Table on Agricultural Insurance
in Saint-Petersburg, 2017 (at
the International Insurance
Conference of ARIA)



Currently, an important task is to bridge the gap between Russia and its main competitors in the global agricultural production market, which deepened in the sphere of using insurance instruments to protect farmers from risk.

The largest agricultural insurance markets in the world (2016) and the Russian market



Source: AIAG, according to APREF 2017

NAAI President K. Bizhdov speaking at the AIAG Congress, 2017 (Warsaw)



NAAI activities for the development of international relations in 2017:

JUNE:

Seminar on improving specialists' qualifications in the field of corn crop insurance in the province of Tarragona (Spain), under a cooperation agreement between NAAI and AGROSEGURO. Participants in the seminar included representatives from insurance companies/members of NAAI and FSBI (Federal Agency for State Support of the Agro-Industrial Complex).

JULY:

International round table "Agricultural insurance: world experience and Russian practices" in the framework of the ARIA conference in St. Petersburg. Participants: Anatoly Aksakov - Chairman of the State Duma Financial Market Committee; Igor Zhuk - Director of the Insurance Market Department of the Bank of Russia; Vera Balakireva - Deputy Director of the Financial Policy Department of the Ministry of Finance; Arnaud de Beaucaron (France) - President of AIAG; Marcel Andresse (Switzerland) - underwriter in Swiss Re; Thomas Neer (USA) - Risk Management Manager in Geosys International..

OCTOBER:

Speech given by the NAAI President at the 34th AIAG Congress in Warsaw (Poland).

NOVEMBER:

NAAI President's report at the 5th International Forum "Climate change and the instability of agricultural producers' incomes - Innovation and experience in risk management" in Rome, being invited by the National Association of Mutual Agricultural Insurance of Italy (ASNACODI). The forum is organized under the patronage of the Ministry of Agriculture, Food and Forestry for Italy and the State Institute for Services for the Agricultural and Food Market of Italy (ISMEA).

Characteristics of the largest agricultural insurance markets in the world and in Russia for 2017

Country	Share of the insured crops area	Insurance system	Subsidies	Insurance pool	State reinsurance
USA	85	Multi-risks	>70	-	+
China	35	Multi-risks	80	+	Partial (+/-)
India	30	Multi-risks	80	-	+
Canada	85	Multi-risks & hail	55	-	+
Spain	60	Multi-risks	50	+	+
Turkey	23	Multi-risks	50	+	+
France	55	Multi-risks & hail	65 (multi-risks)	-	-
Italy	20	Multi-risks	65	In bounded form	-
Germany	60	Hail	0	-	-
Argentina	58	Multi-risks & hail	0	-	-
South Africa	40	Multi-risks & hail	0	-	-
Russia	Less than 2%	Multi-risks	До 50	-	-

Source: AIAG, according to APREF 2017



At the NAAI International Round Table, 8 April 2015: A. Navickas (VH Lietuva), K. Bizhdov (NAAI), O. Shelepneva (Bank of Russia), dr. Rainer Langner (Vereinigter Hagelversicherung VVaG; Member of the Board, AIAG)



NAAI
NATIONAL ASSOCIATION
OF AGRICULTURE INSURERS

1

Russian agricultural insurance system

AGRICULTURE INDUSTRY IN RUSSIA: KEY FIGURES

The development of the agricultural insurance system with state support on the basis of specialized legislation coincided with the period of active growth of the agro-industrial complex in Russia. In 2017, the output of agro-industrial production reached 5.7 trillion roubles, of which 3.0 trillion were crop products and 2.6 trillion were livestock products.

36,1 thousand of agricultural enterprises in Russia are the main customers of agricultural insurance.

FINANCIAL INDICATORS OF THE AGRO-INDUSTRIAL COMPLEX OF THE RUSSIAN FEDERATION IN 2017:

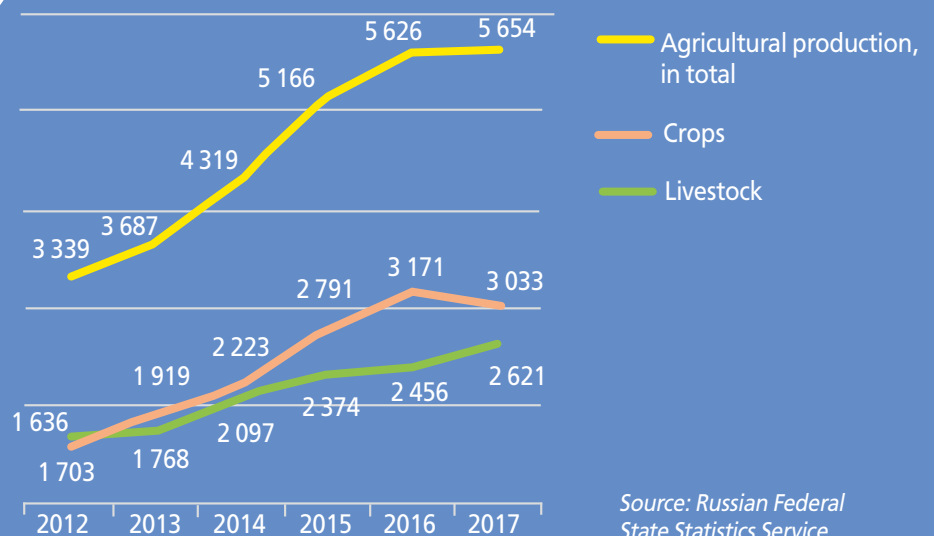
- 248,4 billion roubles** – volume of the agro-industrial complex state support from the federal budget
- 374,7 billion roubles** – investments in fixed assets
- 1204 billion roubles** – volume of short-term crediting
- 317,0 billion roubles** – volume of allocated loans for seasonal field works
- 319,4 billion roubles** – profit before taxation
- 87,1%** – share of profitable organizations



In 2017, for the first time in more than five-years, the growth rate in the agro-industrial complex slowed.

For the fourth consecutive year, an outstanding harvest was obtained. Moreover, in 2017, the gross grain harvest for the first time in the history of the country exceeded 135.4 million tons, which is 12.2% higher than in 2016. As a result of the subsequent price drop, the volume of products with current prices slightly decreased (despite the increase in production with comparable prices by 2.4%).

Diagram 1. Agricultural production in Russia, billion roubles (in actual prices)

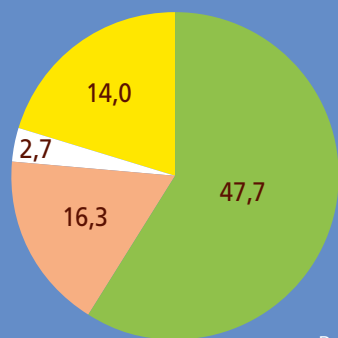


Source: Russian Federal State Statistics Service

IN RELATION TO 2012, THE GROWTH IN PRODUCTION WAS:

- +69% for the whole agriculture sector
- +85% in crop products
- +60% in livestock breeding

Diagram 2. Agricultural crops structure, 2017 (millions of hectares):



■ Cereals and grain legume crops

■ Technical crops

■ Potatoes and vegetables

■ Forage crops

CROP PRODUCTION STRUCTURE

The area of agricultural land in Russia amounts to **349.2** million hectares, **80.6** million of which were used for seed crop in 2017 (a year earlier - **80.0** million hectares). According to the Russian Federal State Statistics Service, main owners of the land are agricultural organizations, owning **83%** of all lands and **67.5%** of seeded arable land (according to the National Report of the Ministry of Agriculture of the Russian Federation for 2017). At the same time, agricultural land – an area of not less than 1.5 thousand hectares – is accommodated by:

13,000 agricultural organizations;
5,800 farmers and individual entrepreneurs.

3 billion rubles of crop production produced Russian farmers in 2017

LIVESTOCK BREEDING STRUCTURE

In livestock breeding, agricultural organizations breed the main part of pigs (**85.6% of livestock**) and poultry (**82.4% of heads**). They also account for **44.2%** of cattle livestock and **16.5%** of sheep and goat heads.

AGRO-INDUSTRIAL COMPLEX STRUCTURE

The agricultural census of 2017 showed that **36,100 agricultural organizations** and **174,800 farms and individual entrepreneurs** are involved in the production of agro-industrial products in Russia (as recipients of state support)



Livestock agricultural animals in Russia by the end of 2017 heads mln:

Cattle **18,7**

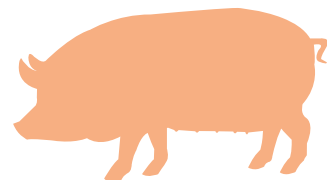
- including: Cows



8,2

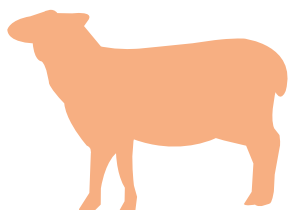
Pigs

23,2



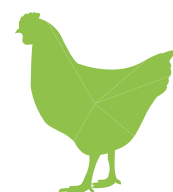
Sheep and Goats

24,5



Poultry

557



1.2

THE ROLE OF INSURANCE IN COMPENSATION FOR DAMAGES TO THE AGRICULTURE IN RUSSIA

Crop production and livestock breeding in Russia is fraught with risks of a number of dangerous natural phenomena, leading to the failure of crops and the deaths of farm animals. According to the Ministry of Agriculture of the Russian Federation, in the period from 2012 to 2017, more than 23.2 thousand farms suffered from emergency situations (natural disasters) in which the destruction of crops occurred on an area of more than 12 million hectares. Direct damage from these disasters reached 41.21 billion roubles. For livestock production, the spread of African pig plague has become one of the most severe disasters, causing direct losses in the amount of at least 5 billion roubles, and indirect losses between 50 to 70 billion roubles (an estimate by FSVPS RF), since the appearance of the first outbreak in Russia in 2007.

In 2017, insurers paid agrarians 1.59 billion roubles, 1.08 billion roubles of which were for crop insurance contracts with state support (the payment rate for this type of insurance was at 70%). Payments were made in 61 regions of the Russian Federation.

1.2.1. The role of agricultural insurance in farmers compensation for claims throughout 2012-2017

According to the Ministry of Agriculture of the Russian Federation, throughout 2012-2017, agricultural producers that suffered damages from emergency situations received 16.93 billion roubles in compensation from federal budget allocations. During the same period, insurers paid agrarians 27.2 billion roubles* in compensation under agricultural risks insurance contracts, which is 61% more than the state's participation in the compensation of agricultural losses.

Agricultural insurance practices throughout 2012-2017 showed that the main risks leading to realization of insured losses in crop production in Russia are related to the moisture deficit caused by soil and atmospheric drought, and also drying winds. According to the statistics of losses accumulated by NAAI, during the following period losses from this category accounted for 65.1% of claims paid by NAAI members for crop insurance. Risks of soil waterlogging and floods (15.8% of payments) were in fourth place. Third place, with a share of 8.6%, is given to risks related to the wintering period of crops: freezing (the main risk for winter crops - the share of claims paid is 8.1%), damping and ice crusting. Hail and strong winds (5% of losses), as well as frosts (4.3% of losses) were also significant risks. In addition, dust storms, the spread of pests, and natural fires added to the losses of insured crops in the specified period.

In livestock insurance, virtually all payments entered in NAAI's database concern the risk of infectious diseases. There were also isolated cases of death of insured livestock due to avalanches, wildfires, and power failures caused by natural phenomena.

*Here and below are used the NAAI statistical data, updated on March 2018.

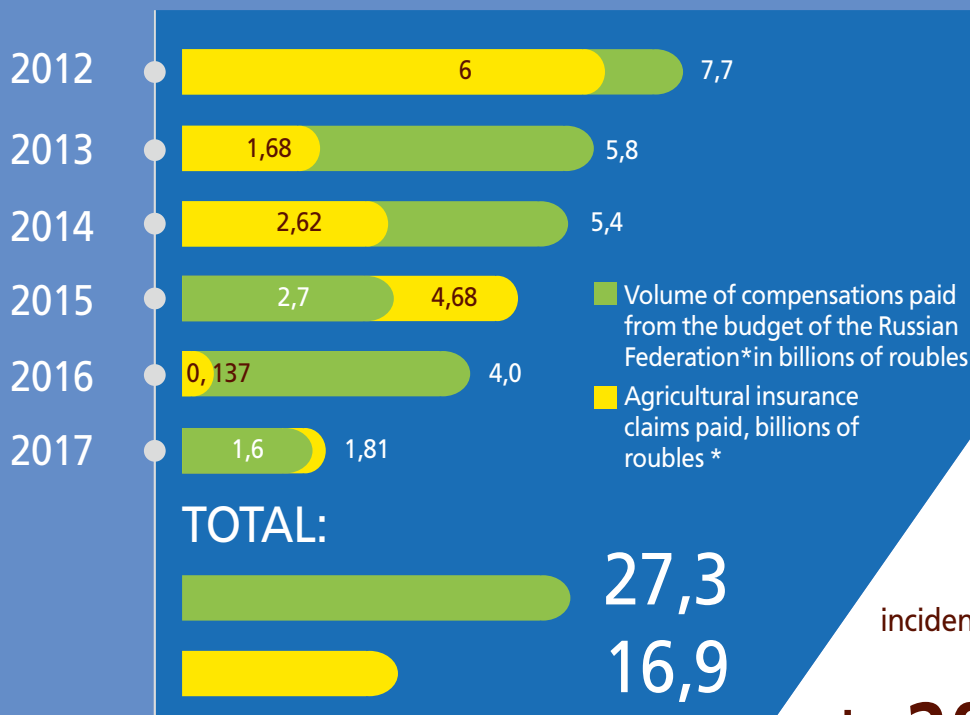
1.2.2. Realization of agricultural risks and insurers' payments for losses in 2017

According to NAAI's Monitoring Emergencies Commission, emergency situations were declared in 32 regions of the Russian Federation throughout 2017, due to unfavorable weather conditions for agriculture. Preliminary assessment of agrarian damages amounted to over 4 billion roubles. According to the National Report of the Ministry of Agriculture of the Russian Federation on the implementation of the Agricultural State Program, after their expert assessment of the documents submitted by the entities, the state of agricultural emergency was confirmed in 20 regions and the losses were estimated at 3.64 billion roubles. The bulk of the loss (3.60 billion roubles) was for the loss of crops, which occurred on a total area of 489.4 thousand hectares. To compensate for losses, the Government of the Russian Federation sent allocations in the amount of 1.82 billion roubles to the budgets of the affected territorial entities of the Russian Federation in 2017.

In addition, in order to provide financial support to agrarians who suffered as a result of natural disasters in a number of regions throughout 2016, in accordance with the Orders of the Government of the Russian Federation, federal budget funds were allocated in the amount of 1.98 billion roubles. Thus, the total amount of budget allocations sent to agrarians in 2017, as compensation for damages caused by emergency situations in 2016-2017, amounted to 3.80 billion roubles (including 1.07 billion roubles from the reserve fund of the Government of the Russian Federation).

Moreover, 22 territorial entities of the Russian Federation had a total of 165 incidences of African pig plague among domestic pigs, including two sites in industrial enterprises in 2017. Estimated direct economic damage from the spread of African pig plague in 2017 (the total estimated amount of funds allocated from regional budgets to compensate owners for alienated and annihilated pigs in the elimination of African pig plague sites) amounted to 758.4 million roubles.

Diagram 3. Comparison of budgetary emergencies payments and insurance payments to agrarians



22
territorial
entities
of the Russian
Federation
had a total of

165

incidences of African pig plague
among domestic pigs

in **2017** including **2**

industrial cases

*Volume of federal budget allocations paid to affected agricultural producers

Diagram 4. Distribution of insurance loss payments made by NAAI members for crop losses, state-supported insurance, 2012-2017 rr.

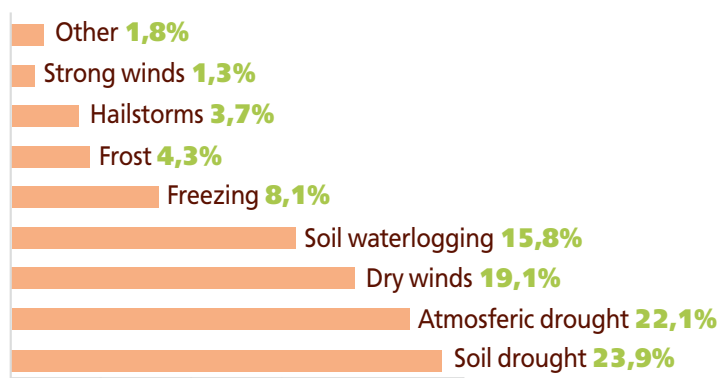
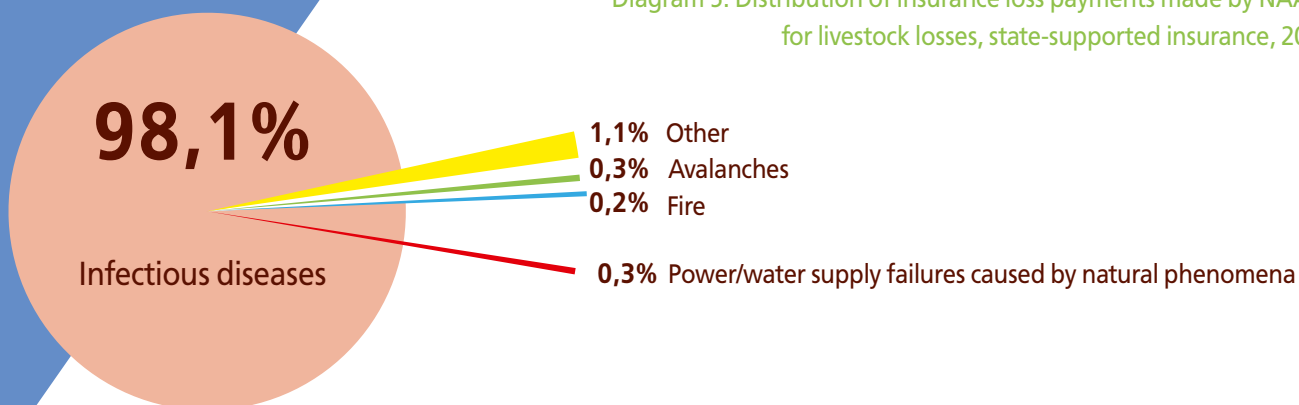


Diagram 5. Distribution of insurance loss payments made by NAAI members for livestock losses, state-supported insurance, 2013-2017 rr.



STATE SUPPORT TO AGRICULTURAL INSURANCE

Throughout 2012 – 2016, the Russian federal system of subsidizing agricultural insurance was completely formed with joint efforts of the state authorities and NAAI.

In 2017, the principles of organizing government support for agriculture at the federal level were substantially changed in Russia, with the specificity of agricultural insurance not being taken into account. This resulted in a 3.5-fold decrease in the volume of agricultural insurance subsidies.

Destabilization of subsidizing procedures has become the main threat to the system of agricultural insurance in Russia in 2017, which NAAI repeatedly drew attention to, reaching out to government authorities during 2016–2017.

1.3.1. Legal and regulatory framework

In accordance with Laws № 260-FZ and №264-FZ, state support for agroproducers should be provided by the territorial entities of the Russian Federation. Each region finances the agro-industrial complex in accordance with its own regulatory and legal acts, but also in compliance with federal requirements. For example, in order to calculate the amount of state support for each specific insurance contract, agro-industrial complex bodies are obliged to use the subsidy rates established for each territorial entity of the Russian Federation by the Agricultural Insurance Plan (approved each year by the Ministry of Agriculture of the Russian Federation). Funds for state support of regional programs aimed at the development of the agro-industrial complex are allocated from the budget of the territorial entities of the Russian Federation. The federal budget, in turn, transfers subsidies to the regional budgets for supporting the implementation of this activity. In practice, the regions' own participation is not significant. Therefore, throughout 2012-2017, the share of federal allocations exceeded 90% of the whole state-supported agricultural insurance subsidies.

The main executive document in the field of state agricultural policy in Russia at the federal level is the State Program for the Development of Agriculture and Regulation of Agricultural Products, Raw Materials and Food Markets for 2013-2020, approved by the Government of the Russian Federation. The amount of financing, needed for the subsidized activities stipulated by the State Program, including agricultural insurance, should be taken into account annually within the Law on the Federal Budget of the Russian Federation. The subsidizing process should be implemented by the regional authorities in the order established by the Law on the Federal Budget and the Government of the Russian Federation.

Government Decree №1556, adopted on 30 December, 2016, led to a fundamental revision of the organizational principles for subsidizing agriculture; in particular, a number of subsidized activities, including agricultural insurance, were becoming parts of a "single" subsidy, within which regional authorities were given the right to redistribute state support at their discretion.

In practice, in 2017, there was a significant deviation from the organizational model of subsidies for agricultural insurance stipulated by Laws No. 260-FZ and No. 266-FZ, since the funds for state support of this field were not explicitly provided for in the Law on the Federal Budget for 2017. Government Decree

No. 1544, accepted on 13 December, 2017, allowed for the State program to be transferred to project management from 2018 onward.

1.3.2. Practical organization of agricultural insurance with state support in 2012-2017.

2012–2015: The annual amount of subsidies transferred for insurance with state support was 4.5 to 5.4 billion roubles. Crop subsidies increased from 4.5 to 5.0 billion roubles while animal insurance grew from 276 to 484 million roubles.

The first experience of organizing subsidies for agricultural insurance revealed the following problem: at the level of territorial entities of the Russian Federation, the planned volume of state support did not meet the real needs of the agrarians. In this regard, at the end of each year, the Government of Russia redistributed the funds of insurance subsidies, unclaimed in a number of territorial entities of the Russian Federation, to regions where demand exceeded the planned indicators.

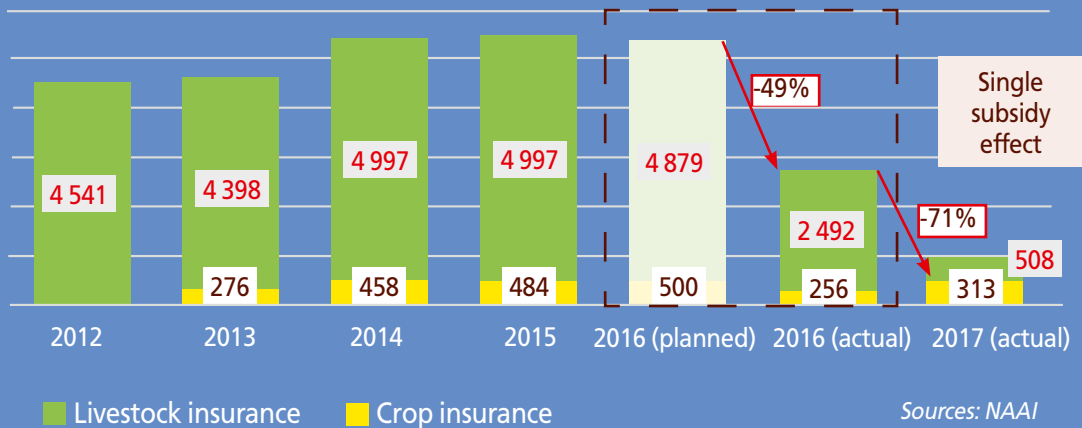
2016: The volume of actually allocated subsidies decreased by nearly half - to 2.7 billion roubles. (2.5 billion roubles for crop insurance and 256 million roubles for animal insurance).

This year, the distribution of agricultural subsidies between the territorial entities of the Russian Federation was firstly approved not by the Government, but directly specified in the Law on the Federal Budget. The redistribution of insurance subsidies at the end of the year was not carried out; having a large number of applications for subsidizing already-concluded insurance contracts, a portion of the funds was declared unclaimed and returned to the budget.

2017: As a result of transferring to a "single subsidy", the amount of state support provided was reduced to 821 million roubles: 508 million roubles for crop insurance and 313 million roubles for animal insurance. Beginning with the second half of 2016, NAAI repeatedly drew the authorities' attention to the incorrectness of their decision regarding agricultural insurance.

NAAI's concerns were confirmed: in 2017, the bodies of the Agro-industrial Complex in the territorial entities of the Russian Federation preferred to use subsidy funds for other purposes. Out of 48 entities of the Russian Federation, 31 entity (63%) failed to meet insurance target values, in accepting obligations for crop risk insurance with state support, when concluding agreements with the Ministry of Agriculture of the Russian Federation for 2017.

Diagram 6. Federal subsidies for state support to agricultural insurance, million rubles

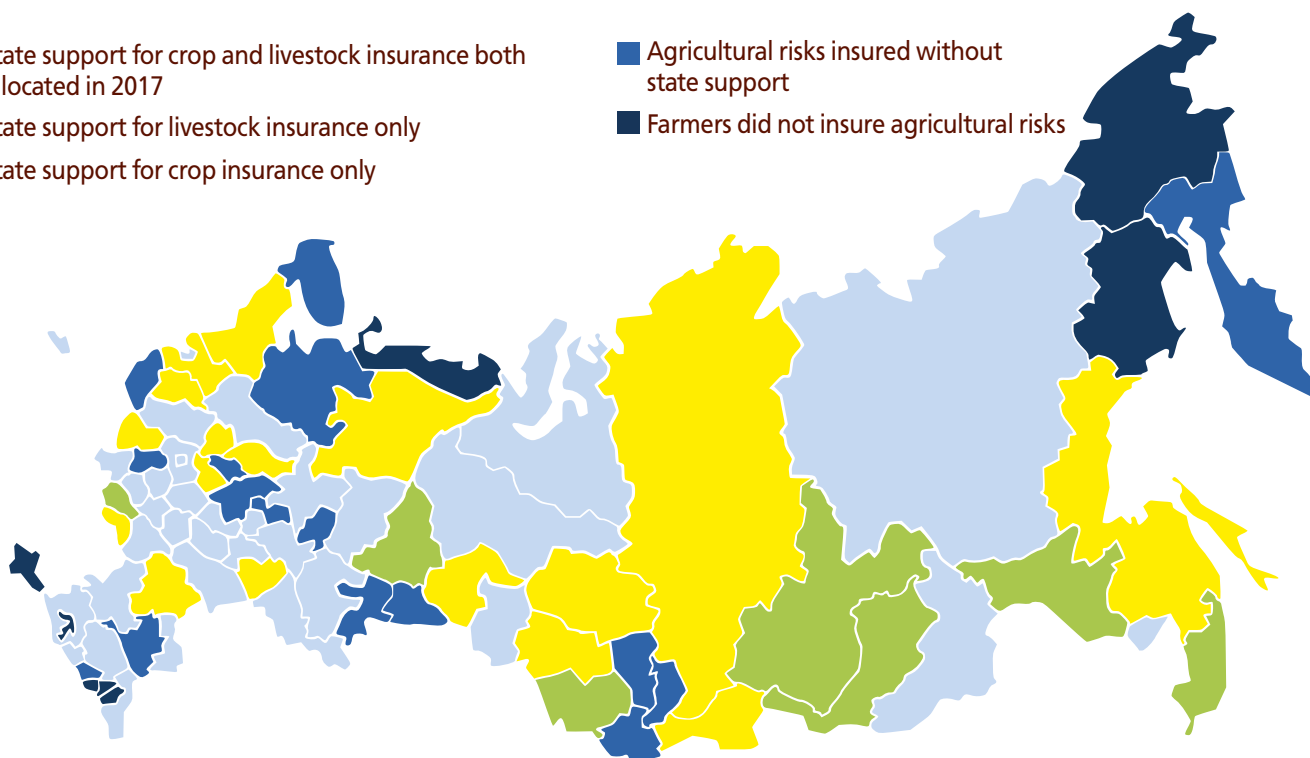


In 2017, Bank of Russia prepared an Advisory Report, concerning the development of agricultural insurance, in which outlined the need of improving the subsidizing process. O. Shelepneva, deputy head of Insurance Market Regulation Division, Bank of Russia.

The development of agricultural insurance at the regional level in 2017

- State support for crop and livestock insurance both allocated in 2017
- State support for livestock insurance only
- State support for crop insurance only

- Agricultural risks insured without state support
- Farmers did not insure agricultural risks



1.4

RUSSIAN AGRICULTURAL INSURANCE MARKET IN 2017

In 2017, the growth of the agricultural insurance market, displayed in the previous year (2016 to 2015: + 25%), stopped: the volume of the insurance premiums in agricultural insurance decreased by more than half (-55% by 2016). The main reason – which had a negative impact on the market – was the inclusion of agricultural insurance with state support in a «single subsidy». This measure led to a sharp reduction in the volume of subsidies (by more than 3 times: from 2.6 billion roubles to 821 million roubles), directly affecting crop production insurance, where state support decreased 5-fold – from 2.27 billion to 508 million roubles.

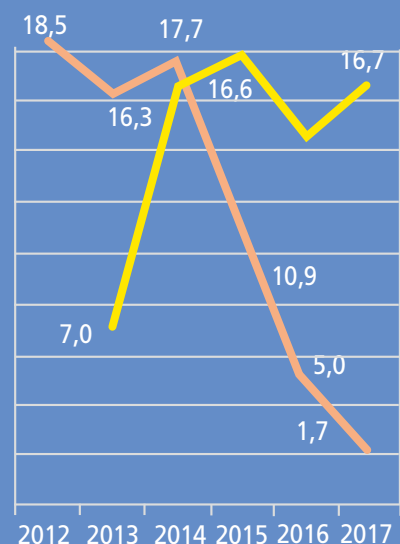
As a result, the agricultural insurance market decreased from 9.8 to 4.4 billion roubles. At the same time, its structure changed: in 2016, insurance with state support accounted for 87% of insurance premiums, declining to 65% in 2017. For the first time in a couple of years, the agricultural insurance market without state support has grown (+ 246 million roubles by 2016), but its growth can not compensate for the decrease of agricultural insurance with state support (-5.4 billion roubles by 2016).

1.4.1. Market participants and the regional structure

According to the Bank of Russia and NAAI, 34 insurance companies carried out agricultural insurance in 76 regions of the Russian Federation in 2017. In 55 regions, agrarians used agricultural insurance on conditions that would allow them to get state support. State support for crop insurance policies was received by farms in 36 regions of the Russian Federation, and for livestock insurance in 49 regions. In several regions, state support was provided for both fields of agricultural insurance.

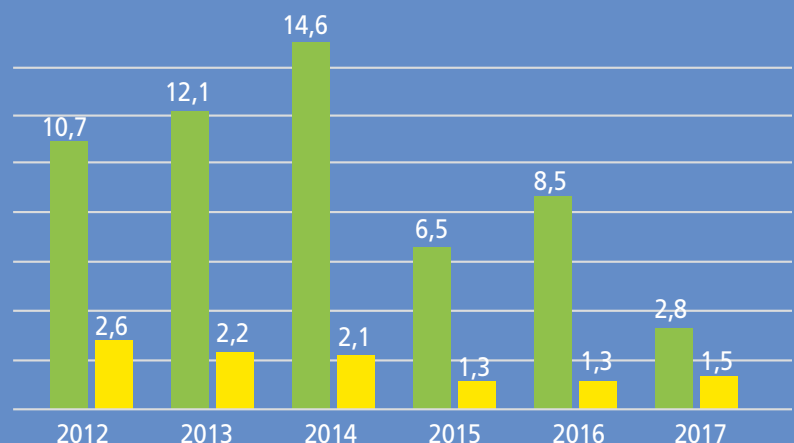
18 insurance companies (members of NAAI)

Diagram 7. State-supported agricultural insurance penetration in Russian Federation, 2012-2017, bln roubles



— Share of insured livestock (conventional heads), %
 — Share of insured acreage in the total cultivated area, %

Diagram 8. Agricultural insurance premiums in Russian Federation, 2012-2017, bln roubles



■ State-supported
 ■ Without state support

Diagram 9. Agricultural insurance market structure in Russia in 2017 (premiums, bln rubles)

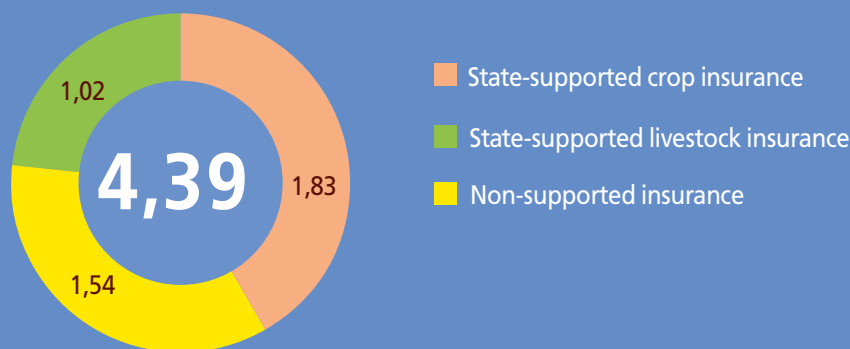
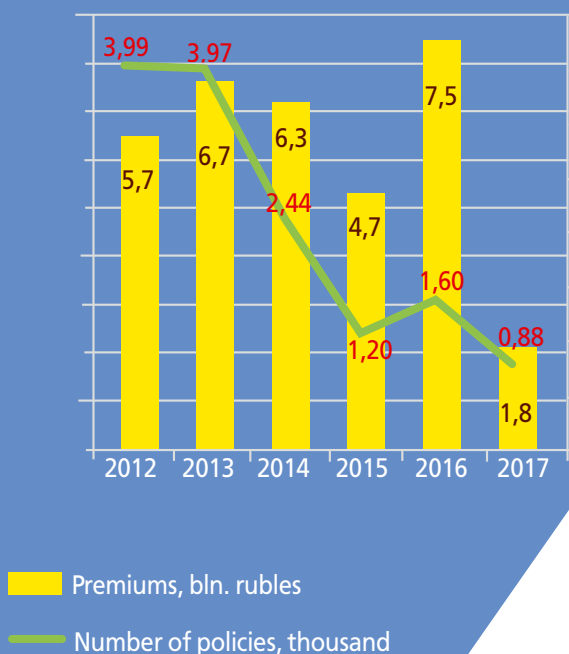


Diagram 10. Dynamics of the overall portfolio of insurers – members of the NAAI in the state-supported crop insurance segment, 2012-2017



Sources: NAAI, Bank of Russia, Ministry of Agriculture of Russia

worked under conditions of the agricultural insurance with state support. Without state support, agricultural insurance contracts were concluded by 30 insurance companies, but only 7% of the unsubsidized agricultural insurance market belongs to the insurance companies that are not members of NAAI. Regional networks of insurers (members of NAAI) provided for the presence of at least three members in each territorial entity of the Russian Federation in 2017. Thus, the system of agricultural insurance helped ensure the protection of farmers throughout the country.

1.4.2. Insurance with state support: general market structure

Agricultural insurers concluded 881 contracts in 2017 on state support conditions, which is less than half the number from the previous year (1954 contracts). Due to the inaccessibility of subsidies, insurance premiums with state support in 2017 decreased to 2.85 from 8.5 billion rubles. The structure of this market has changed: in 2016, 88% of its volume was crop insurance, whereas in 2017 this segment accounted for only 60%; the share of livestock insurance increased from 12 to 40%.

1.4.3. Subsidized crop insurance

Crop insurance in 2017 was carried out by 16 insurers under the state support terms. In the conditions of a sharp restriction of subsidies, they concluded 494 contracts (in 2016 – 1,595 contracts), providing for a total insurance premium amount of more than 44.8 billion rubles (in 2016 - 129.1 billion rubles). The accrued insurance premium was 1.8 billion rubles (in 2016 - 7.5 billion rubles). In total, 1.35 million hectares of acreage (in 2016 - 3.8 million hectares) were insured, which amounted to 1.7% of the country's planting area. The main objects of insurance were grains, oilseeds and industrial crops (see diagram 11).

Throughout 2012-2017, insurance of agricultural crops with state support changed, with relation to a shift in the preferences of farmers from grain insurance to insurance of more-expensive oilseeds and industrial crops (see diagram 12). As a result, in 2017, grain insurance for the first time accounted for less than half of this market (47%), with 27% going to technical crops and 16.5% to oilseeds.

These trends could be seen since 2012: the indicators of the average sum insured and the average policy cost have gradually increased (see diagram 13).

However, in 2017, in regard to the unavailability of subsidies, farmers began to purchase insurance with less coverage; as a result, the average policy cost in comparison to 2016 decreased. Nevertheless, the cost of an average policy in 2017 is 2.1 times higher than in 2012 (in 2012 - 1.44 million rubles; in 2017 - 3.05 million rubles), while the average sum insured under a single contract increased by 2.9 times (from 28 to 82 million rubles). At the same time, the average tariff in 2017 for the first time significantly decreased to 3.7%, while in 2012-2017, it was in the range of 5.1 - 5.8%. This happened mainly due to the wider use of franchises in 2017.

1.4.4. Subsidized animal insurance

Insurance coverage of livestock risks on subsidized terms was provided by 10 insurance companies which concluded 387 contracts with a total sum insured of 83.9 billion roubles in 2017 (in 2016 - 359 contracts for a total sum insured of 83.2 billion roubles). The accrued premiums did not change significantly and remained at the level of 1.0 billion roubles. In total, within the framework of livestock insurance support in 2017, 4.5 million head were insured (in 2016 - 4.0 million), which came to 16.7% of the total head of livestock (in 2016 - 14.6%).

The main trend in subsidized livestock insurance was the expansion of its use on pig and poultry. In 2013 (the year of state support introduction for the insurance of agricultural animals), 68.2% of premiums fell within cattle insurance; by 2016 more than half of this market had been for pig risk insurance.

In 2017, there was a sharp increase in the share of poultry insurance - from 10% to 17%, compared to 2013-2016

The process of policy consolidation due to the growth of insured sums was also typical for livestock insurance: the average sum insured under the contract increased by

31%

in **2017** (from 183 to 240 million roubles)

compared to 2013, with the average policy cost increasing by

40%

(from 1.6 to 2.3 million roubles)

The average tariff varied within the limits of

0,9–1,2%

(in 2017 r. – 1,0%)

Diagram 11. Crops insured acreage (state-supported insurance) in 2017, thousand hectares

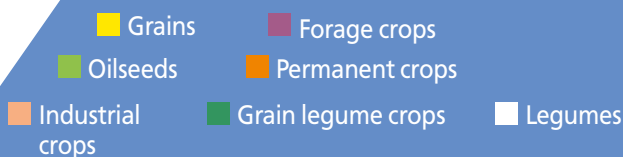
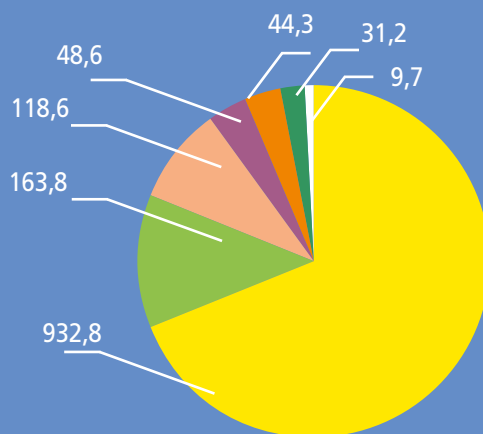


Diagram 12. Changes in premium structure 2017/2012, state-supported crop insurance (NAAI members), %

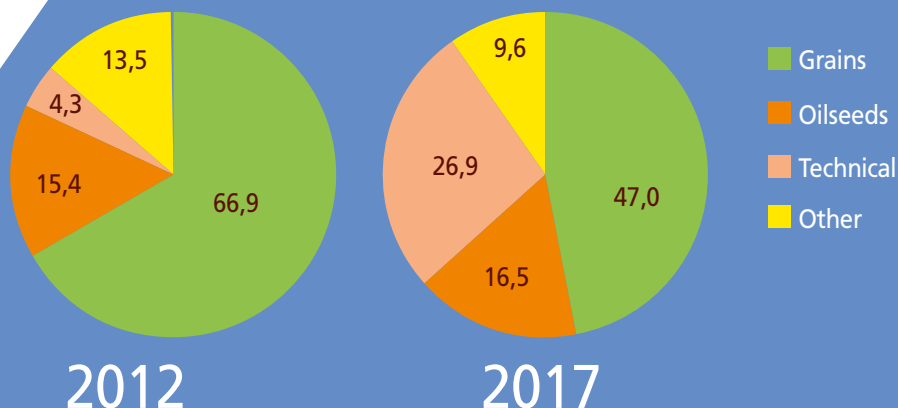


Diagram 13. Dynamics of the overall portfolio of insurers – members of the NAAI in the state-supported livestock insurance segment, 2012-2017

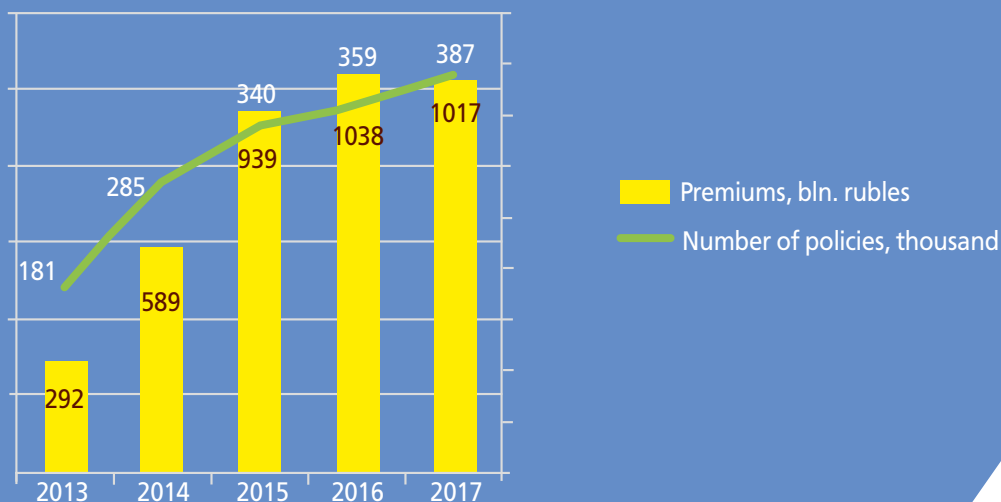
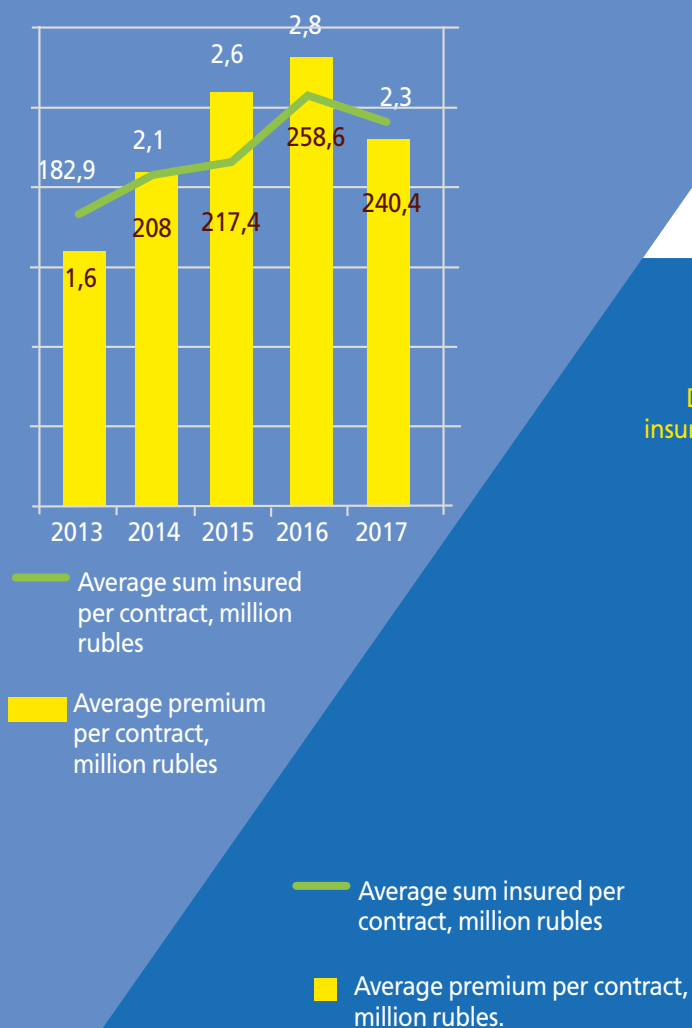


Diagram 14. Dynamics of the average insured sum and the average insurance premium per contract, state-supported livestock insurance (NAAI members), 2013-2017



1.4.5. Агрострахование 1.4.5. Agricultural insurance without state support

Russia's agrarians concluded 72.8 thousand agricultural insurance contracts without state support in 2017, 94% of which were livestock insurance contracts on personal households of individuals. Another 4.2 thousand livestock insurance contracts without state support were concluded by agricultural enterprises, this group accounting for 54% of the insurance premiums in this segment. Only 202 crop risk insurance contracts were concluded without state support (33% of insurance premiums in the segment).

Diagram 10. Dynamics of the average insured sum and the average insurance premium per contract, state-supported crop insurance (NAAI members), 2013-2017

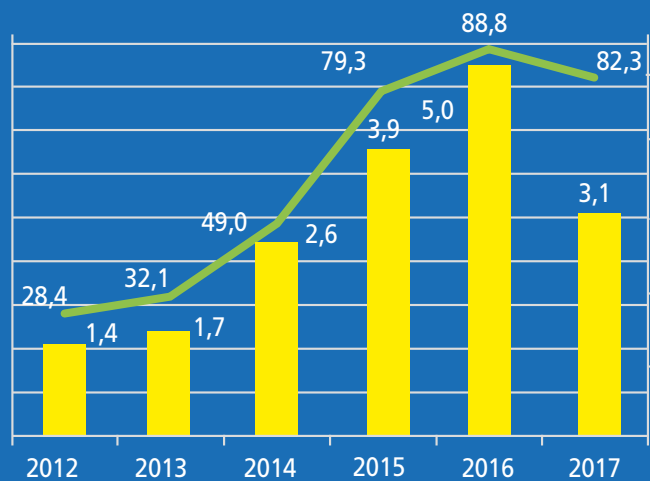
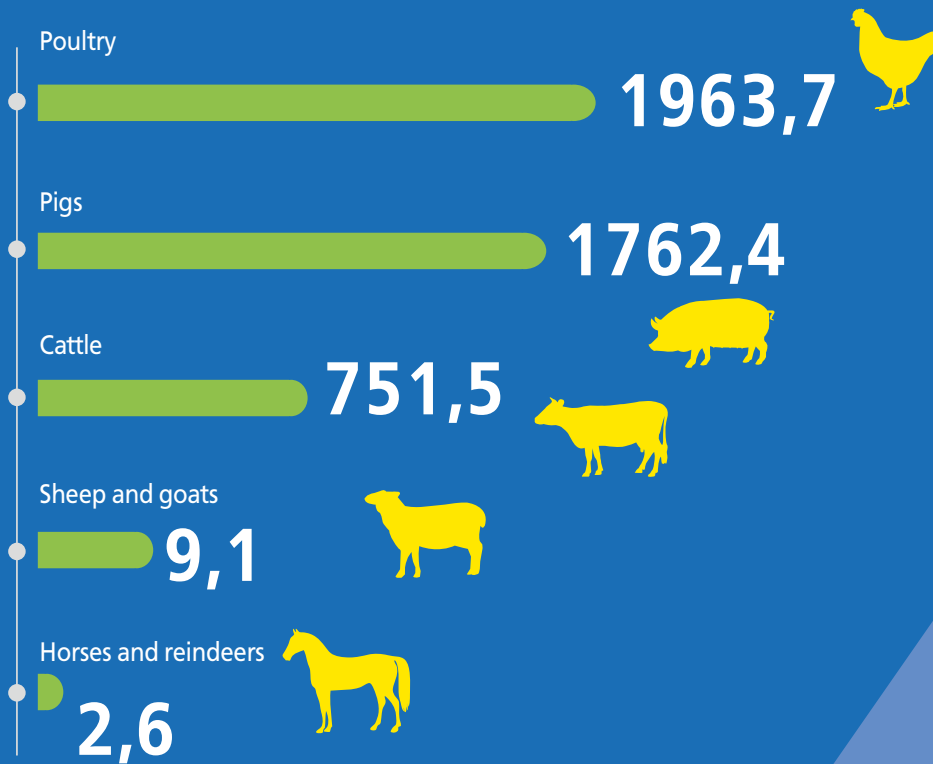


Diagram 16. Insured livestock structure in Russia in 2017 (state-supported insurance), thousand conventional heads



The bulk of the premiums in 2017 was paid by agricultural producers for the insurance of pigs (59.2% of premiums). Cattle insurance (22.9%) and poultry insurance (17.3%) were also in demand. Insurance of other animal species was less than 1%.

The total amount of insurance premiums in the non-subsidized segment amounted to

1,54 billion roubles

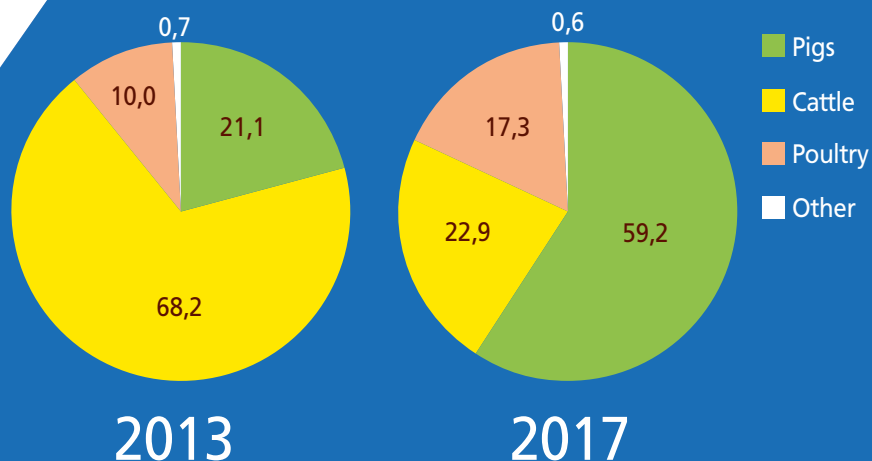
with only **15%**

falling on individuals. In general

the amount of premiums in agricultural insurance without state support increased by

19%

Diagram 17. Changes in premium structure 2017/2012, state-supported livestock insurance (NAAI members), %



1.5

REGULATORY FRAMEWORK FOR AGRICULTURAL INSURANCE SYSTEM IN THE RUSSIAN FEDERATION

The development of the regulatory and legal framework for agricultural insurance in Russia is divided into main periods, within which:

Until 2007: Support for agricultural insurance is provided for by the orders of the Government of the Russian Federation.

2007–2012: The development of agricultural insurance is included in the list of the main state-supported activities in the field of agriculture at the federal agrarian legislation level.

2012 – 2015: The special law on agricultural insurance with state support, being the first in the history of modern Russia, came into force (on 1 January, 2012). Foundations of the agricultural insurance system were being developed within the framework of NAAI.

Since 2016: The transition to a single all-Russian system of subsidized agricultural insurance, based on single rules, standards and principles of state control, has been completed. NAAI was granted the status of a single all-Russian association of agricultural insurers.

Since 2016

legal and regulatory framework for the unified agricultural insurance system has been fully formed.

1.5.1. Legal framework of the agricultural insurance system

The legal framework of the agricultural insurance system with state support in Russia is formed by two federal laws:

- Law No. 264-FZ “On the development of agriculture” - is the platform of agrarian policy (since 2006);
- Law No. 260-FZ “On State Support in the Field of Agricultural Insurance...” is the first

law in Russia regulating the terms of subsidized agricultural insurance (since 2012).

The Law “On the Development of Agriculture” prescribes 12 focus areas, according to which the federal budget supports the agrarian sector, and determines the conditions for federal financing for each of them. This list also includes the task of developing a “risk insurance system in agriculture”. According to Law No.264-FZ, the legal framework for providing state support in the field of agricultural insurance should be regulated by a special federal law.

In accordance with this legal norm, in 2012, Law No. 260-FZ “On State Support in the Field of Agricultural Insurance...” was adopted and entered into force, which thoroughly regulates:

- the conditions of agricultural insurance under which agrarians are entitled to compensation for part of the insurance premium;
 - requirements to the insurance contract;
 - conditions of state support in the field of agricultural insurance;
- requirements for the organization of a guarantee system to protect the interests of insured agrarians in the event of an insurer’s bankruptcy.

According to Law No. 260-FZ, the regulatory acts of the Government and the Ministry of Agriculture of the Russian Federation must approve:

METHODS for calculating the insured value of objects (crops, perennial plantations or livestock), as well as calculating the amount of their loss (death);

LIST of contagious animal diseases covered by agricultural insurance with state support;

RULES for carrying out the expertise under the agricultural insurance contract, as well as requirements for experts, including the conditions and procedure for their certification;

THE AGRICULTURAL insurance plan for the current year (containing a list of crops subjected to insurance and the rates of subsidizing insurance contracts).

Changes to the Law №260-FZ were discussed at the different levels in 2017



In accordance with the Law «On the Development of Agriculture», the task of developing an agricultural insurance system has a special status. Out of all activities supported by the Russian Federation under its agrarian policy, only agricultural insurance is regulated by a separate federal law.



The responsibility for providing state support to agrarians is transferred by the law to the administrative bodies of the agro-industrial complex of the territorial entities of the Russian Federation.

Since 2016, Law No. 260-FZ also introduced a special regulation of the activities of a single all-Russian association of agricultural insurers – responsible for the development and compliance of subsidized agricultural insurance standards, as well as the organization of a guarantee system. In addition, the provisions of Laws No. 264-FZ and No. 260-FZ prescribe that funds for state support of agricultural insurance should be provided for by the Law on the Federal Budget for the next financial year.

1.5.2. Sublegislative regulatory framework and the responsibility of government authorities in organizing the agricultural insurance system

Effective functioning of the agricultural insurance system with state support requires a sublegislative regulatory framework adopted by the Government and the Ministry of Agriculture of the Russian Federation.

The peculiarity of the regulatory framework necessary for the implementation of Law No. 260-FZ is its multistage organization, which stipulates the processes by-laws must follow through the following stages:

- The Agricultural Insurance Plan and the List of Infectious Animal Diseases are approved by the Ministry of Agriculture of the Russian Federation as a federal executive body, which exercises functions on regulatory and legal regulation in the sphere of the agro-industrial complex;
- The rules for carrying out the expertise under the agricultural insurance contract with state support are approved by the Government of the Russian Federation;
- The procedure for adopting methods for calculating the insured value and the amount of claims is not defined by law. This issue was submitted to the Government of the Russian Federation, which, in turn, delegated the relevant authority to the Ministry of Agriculture of the Russian Federation from 2012 to 2016.

The subsidizing of the agricultural insurance system, stipulated by the Law No. 260-FZ and 260-FZ, also requires the development of additional legislative and regulatory acts of the Government of the Russian Federation and government executive bodies of the territorial entities of the Russian Federation. At the same time, responsibility for providing direct state support to agrarians was transferred to the administrative bodies of the agro-industrial complex of the territorial entities of the Russian Federation, which are obliged to implement it in accordance with procedures established by the relevant regulatory and legal acts.

After the 2016 transition to a single agricultural insurance system based on common standards, insurance contracts on state support terms should also comply with the sole standard rules of insurance. They are approved by NAAI in coordination with the Ministry of Agriculture, the Ministry of Finance of the

Russian Federation and the Bank of Russia. Pursuant to this provision of the law, the Union developed, agreed upon and approved sole standard rules for crop and livestock insurance effective since 2016. The activities of a single all-Russian association of agricultural insurers are carried out under the supervision of the Bank of Russia.

1.5.3. Problems of regulatory and legal regulation of agricultural insurance with state support in 2017

In 2017, the main problem in the field of regulatory and legal regulation of agricultural insurance with state support was the need to maintain the sustainability of the regulatory framework.

In implementing state support to agrarians for financing insurance protection, the regional agrarian authorities are obliged to verify compliance of the contract terms not only with Law No. 260-FZ, but also with the requirements of sublegislative acts. Thus, the absence of any normative acts that regulate the parameters of insurance protection, in fact, stops the process of implementing state support for agricultural insurance throughout Russia, regardless of the availability of budget funds. Similar incidents were repeatedly observed from 2014 to 2015, when the adjustment of regulatory documents lagged behind the introduction of amendments to the legislation.

In 2017, the situation of legal uncertainty was provoked by regulatory changes related to the decision of the Government of the Russian Federation on combining a number of focus areas of state support for the agro-industrial complex, including agricultural insurance subsidies, into the so-called "single subsidy".

As a result, Government Decree No. 1371 of the Russian Federation (22 December, 2012), which gave the Ministry of Agriculture of the Russian Federation the authority to approve the methods for calculating insured values and claims losses, was terminated, causing a legal gap in determining the specific authority entitled to issue this document. The problem was resolved in November 2017, with the adoption by the Government of the Russian Federation of a new normative act (Decree No. 1347 of 10 November, 2017), allowing the Ministry of Agriculture of the Russian Federation, on the basis of reclaimed authority, to adapt insurance methods concerning the changes that had occurred. At the same time, there were introduced no significant changes in the methodology when renewed.

Sublegislative regulatory base of agricultural insurance with state support in 2017

Regulatory areas	Regulatory act	Comments
List of contagious animal diseases used for agricultural insurance with state support	Order of the Ministry of Agriculture of Russia No. 242 of 24 June, 2013	Adopted in 2013, with state support coverage for farm animals insurance. No changes have been made since then.
Expertise rules for agricultural insurance purposes	Government Decree of the Russian Federation No. 120 of 30 December, 2011	Changed 2 times (in 2012 and in 2014)
Agricultural insurance plan for 2017	Order of the Ministry of Agriculture of Russia No. 341 of 29 July, 2016 «On the approval of the Agricultural Insurance Plan for 2017»	Approved in 2016 in accordance with legislation requirements
Methods for calculating the insured value and the claims loss of insured objects	<ul style="list-style-type: none"> • Постановление Правительства РФ Government Decree of the Russian Federation No. 1347 of 10 November, 2017 • Order of the Ministry of Agriculture of the Russian Federation No. 578 of 16 November, 2017 	Uncertainty on further application of the Order of the Ministry of Agriculture of the Russian Federation No. 133 of 10 April 2015, adopted on the basis of the Government Decree of the Russian Federation No. 1371 of 22 December, 2012

In 2017, the main problem in the field of regulatory and legal regulation of agricultural insurance with state support was the need to maintain the sustainability of the regulatory framework.

1.6

AGRICULTURAL INSURANCE DEVELOPMENT FOCUS AREAS

The complete transition to a single, centralized system of agricultural insurance with state support in 2016, together with an increase in transparency and reliability of the agricultural insurance market created prerequisites for further development of the system and extensive use of insurance instruments in agriculture.

The main objectives of the agricultural insurance development:

- inclusion of agricultural insurance in the updated structure of the State Program for the Development of Agriculture, based on project management;
- deducing agricultural insurance with state support from a "single subsidy";
- improving legal conditions for agricultural insurance with state support;
- additional insurance promotions aimed at agrarians;
- developing insurance of small business forms of husbandry;
- improving the procedures for loss settlement;
- developing information exchange between main participants of the agricultural insurance system.

In 2017

the issue of further development of the agricultural insurance system was raised/ At the level of the Government of the Russian Federation and the Legislative Assembly of the Russian Federation in the course of:

2 meetings in the Executive Office of the Government of the Russian Federation

5 working group meetings in the State Duma of the Russian Federation

2 meetings in the Federation Council

>15 meetings in the Bank of Russia, the Ministry of Agriculture, the Ministry of Finance of the Russian Federation

In discussions regarding the drafting of the Advisory Report of the Bank of Russia, concerning the development of agricultural insurance;

As part of the presentation on the scientific research done by the Scientific Research Financial Institute of the Ministry of Finance of Russia

CHANGES EXPECTED IN 2018:

In the Law No. 260-FZ:

Increasing the variability of agricultural insurance programs on state support terms;

Expanding insurance with state support to insurance of aquaculture facilities.

In the subsidies system:

allocation of funds to support agricultural insurance from the "single subsidy"



NAAI
NATIONAL ASSOCIATION
OF AGRICULTURE INSURERS

2

**NAAI's activities
on the development
of the agricultural
insurance system**

2.1

DEVELOPMENT OF THE AGRICULTURAL INSURANCE LEGAL FRAMEWORK

In 2017, the main efforts of NAAI were initiated in two directions:

- counteraction to the threat of the destruction of the agricultural insurance system, which arose as a result of the inclusion of agricultural insurance with state support into a «single subsidy»;
- preparation of amendments to the agricultural insurance with state support legislation jointly with the special committees of the State Duma of the Russian Federation and the Federation Council, the Ministry of Agriculture, the Ministry of Finance and the Bank of Russia.

2.1.1. Countering the challenge of destabilization of the agricultural insurance system

Following the inclusion of agricultural insurance into a “single subsidy”, during 2017 NAAI:

- systematically apprised authorities regarding the negative impact of the new subsidy procedure on agricultural insurance;
- initiated proposals for correcting the situation created by the changes in the legislative and regulatory framework (proposals to the Law on the Federal Budget, the State Program for the Development of Agriculture throughout 2013-2020, Law No. 260-FZ, etc.).

At the regional level:

NAAI held working meetings with governors, heads of management bodies of the agro-industrial complex of a number of territorial entities of the Russian Federation, regional seminars/meetings and other events, including discussing the issue of a “single subsidy” (the Republic of Buryatia, the Stavropol Territory, Rostov, Irkutsk, Orel, Kostroma, Moscow area).

In cooperation with the Ministry of Agriculture of the Russian Federation:

NAAI initiated a discussion of a “single” subsidy at the meetings of the Working Group of the Ministry of Agriculture of Russia, chaired by the Deputy Minister I.R. Cousin (on 6 March, 2017 and on 22 August, 2017); took part in a number of meetings, sessions of the Public Council and the Collegium of the Ministry of Agriculture of Russia. Three working meetings of the President of NAAI with the First Deputy Minister D.H. Khatuov and with Deputy Minister I.R. Cousin were held concerning this issue.

The Administrative Office of NAAI initiated:

- proposals for improving the distribution of subsidies, introducing changes to the State Program for the Development of Agriculture and other normative legal acts;
- proposals for changing the report forms for receiving subsidies, approved by the Ministry of Agriculture of Russia with regards to subsidizing insurance contracts of the previous year;



COOPERATION WITH THE COUNCIL

of Federation Committee on Agrarian and Food Policy and Nature Management:

Round tables

“On the implementation progress of the Strategy for the Development of Food and Processing Industries of the Russian Federation for the period up to 2020”; “On the improvement of the system for granting subsidies from the federal budget for the implementation of state support in the sphere of the agro-industrial complex”;

Meetings

“On organizing the harvesting of agricultural work in 2017”; “On the improvement of the legislative framework of the agricultural insurance system”



Agricultural insurance subsidizing issues were regularly discussed at parliamentary forums in 2017

- comments on the introduction of new target indicators for agricultural insurance with state support.

In order to solve the problem of the legal vacuum that arose after the subsidy procedure was changed in 2017 (see 3.2.3.), NAAI sent a letter to the Ministry of Agriculture of Russia concerning the application validation of regulatory legal acts that were in force before the approval of the Government Decree of the Russian Federation No. 1347 on 10 November, 2017 and the Order of the Ministry of Agriculture of Russia No. 578 on 16 November, 2017. These issues were addressed in the reports of the FSBI “Federal Expert and Legal Center for the Agro-Industrial Complex” of the Ministry of Agriculture of the Russian Federation and the Analytical Center under the Government of the Russian Federation, corresponding to the letter of NAAI.

At the level of the Government of the Russian Federation:

NAAI took part:

- in the working meeting of the Government of the Russian Federation on 25 January, 2017;
- in the meeting “On the progress of seasonal field works in 2017” on 22 September, 2017, in the Republic of Adygea under the leadership of the Chairman of the Government of the Russian Federation D. A. Medvedev.

From January to October 2017, NAAI sent 8 letters to all interested government authorities concerning the need to correct the situation in the field of subsidizing agricultural insurance. The Deputy Chairman of the Government of the Russian Federation, A.V. Dvorkovich, gave instructions for further elaboration of issues related to the “single” subsidy after considering the received appeals.

At the level of the legislative bodies of the Russian Federation:

NAAI prepared and sent proposals to the State Duma of the Russian Federation for amending the draft Federal law No. 274618-7 “On the federal budget for 2018 and the planning period for 2019-2020” in terms of deducting agricultural insurance from the “single” subsidy into a separate line of the budget.

The question of possible ways out of the situation concerning the inclusion of agricultural insurance in a “single” subsidy was repeatedly discussed at meetings of the Working Group on drafting a bill on amending the Federal Law No. 260-FZ on the basis of the State Duma Committee on Agrarian Issues and Parliamentary Hearings (5 meetings). Round tables and meetings (6 events) were held in the Federation Council of the Federal Assembly of the Russian Federation.

> 100 press releases on the impact of the «single subsidy» were released by NAAI in 2017.

> 3000 publications

Mass media reaction: **20** articles and an interview of the President of NAAI

9 speeches on federal TV and radio

2.1.2. Proposals preparation for amending the Law on Agricultural Insurance with State Support

In 2017, legislative activity in the field of agricultural insurance with state support was initiated simultaneously in the agrarian committees of the State Duma of the Russian Federation and the Federation Council, as well as in the Ministry of Agriculture of the Russian Federation with participation of NAAI. An active position was taken by the Bank of Russia, which prepared a consultative report on the system of agricultural insurance. Evaluation of the effectiveness of agricultural insurance with state support and the preparation of proposals for the implementation of best practices was conducted by the Scientific and Research Financial Institute of the Ministry of Finance of Russia.

The need to improve the current system of agricultural insurance was declared within the framework of the unified NAAI position, which was approved in 2017 by the Methodology of Insurance Committee. In 2017, NAAI developed and proposed a draft of amendments to Federal Law No. 260-FZ, aimed at increasing the availability of agricultural insurance with state support for agrarians to the legislative authorities. In 2017, under the Committee on Agrarian Issues of the State Duma of the Russian Federation, with the participation of NAAI, a working group was set up to draft a bill on amending Federal Law No. 260-FZ under the leadership of the Deputy Chairman of the Committee, A.N. Khairullin. During the 5 meetings of the group the main amendments were approved.

At the same time, NAAI sent a proposal to the Public Council of the Ministry of Agriculture of Russia to include agricultural insurance issues in the plan for organizing the legislative work of the Ministry for 2017. The Ministry of Agriculture of the Russian Federation established a working group on improving agricultural insurance with state support; NAAI took an active part in the meetings that followed.

As part of the strategic initiatives development for changing the agricultural insurance system, NAAI prepared proposals for the Bank of Russia's Consultative Report concerning this topic and took part in the discussion of the scientific research made by the Scientific and Research Financial Institute of the Ministry of Finance of Russia.

Moreover, NAAI sent additional proposals to the involved government agencies:

- on the possibility of applying index insurance (in connection with the request of the Ministry of Finance of the Russian Federation);
- on insurance of commercial aquaculture objects (in connection with the State Duma's consideration of the bill on the extension of agricultural insurance with state support for the development of aquacultures).

NAAI President,
K. Bizhdov, and State
Duma deputy, ex-minister
of agriculture of Russia,
G. Kulik



In 2017 r. agricultural insurance was discussed at:

5 meetings of the working group in the State Dumas Agrarian Committee

6 events in the Federation Council

COOPERATION WITH THE COMMITTEE

on Agrarian Issues of the State Duma of the Russian Federation:

Parliamentary hearings

“Legal aspects of increasing the profitability of agricultural production”; “Legislative support for the development of agricultural products processing”; “Priority directions of legislative support for the development of the agro-industrial complex”; “Legislative support of fertility reproduction for lands used for agriculture”; “Legal and social aspects of sustainable development of rural areas”;

Round tables

«Improvement of legislation to support small forms of management and cooperation»; «Development of meat cattle breeding in Russia: trends and measures of state support to the industry»; «Improvement of the legislation on state support in the field of agricultural insurance».



2.2

REALIZATION OF THE FEDERAL AGRICULTURAL INSURANCE SYSTEM WORK IN REGIONS

The fulfillment of statutory goals of NAAI aimed at the development of the agricultural insurance system is associated with the need for regular collection and systematization of information from the Ministry of Agriculture of the Russian Federation, regional agro-industrial complex governing bodies and members of NAAI in the stages of planning the volume of subsidies, implementing state support and in the stage of insurance contracts validity. NAAI informs the agro-industrial complex governing bodies about all changes in the agricultural insurance system and conducts explanatory work for them in the various regions.

Minister of Agriculture of the Irkutsk Region, I. Sumarokov, and NAAI President K. Bidzhdov



In order to promote the development of agricultural insurance, NAAI signed an agreement on cooperation with the Ministry of Agriculture of the Irkutsk region and the Moscow region in 2017.

2.2.1. Interaction with management bodies of the agro-industrial complex of the territorial entities of the Russian Federation

In 2017, NAAI was in constant contact with regional agro-industrial complex bodies that played a key role in organizing the work of the system on the ground. Within the framework of regular cooperation, NAAI carried out:

- systematization of information on key indicators (target indicators) in the field of agricultural insurance, planned for 2017 by the agro-industrial complex bodies of 83 territorial entities of the Russian Federation;
- analysis of the regional regulatory and legal framework governing the procedure for granting subsidies for agricultural insurance in 83 regions of the Russian Federation. Based on the results of the analysis, NAAI informed regional agro-industrial complex governing bodies of the revealed inconsistencies with federal legislation;
- quarterly reconciliation of data on accrued subsidies under agricultural insurance contracts (56 regions);
- monitoring of emergency situations in the field of agriculture (conducted by the permanent NAAI's Monitoring Emergencies Commission; hotlines for agrarians of 32 regions of the Russian Federation were organized);
- prompt information support on changes in the membership of NAAI (83 regions);
- development of an educational and methodological manual for the management bodies of the agro-industrial complex of the territorial entities of the Russian Federation in conjunction

with the FSBSI (All-Russian Research and Development Institute of Agricultural Economics);

- the sending of inquiries to the Ministry of Agriculture of the Russian Federation about the problems faced by the regional bodies of the agro-industrial complex in the organization of subsidizing agricultural insurance;
- the provision of explanations in response to requests sent by the agro-industrial complex bodies (more than 50 appeals).

Information exchange between the Ministry of Agriculture of the Russian Federation and agro-industrial complex bodies in 2017 was carried out, concerning main issues in the field of agricultural insurance organization:

- illegal refusals by territorial entities of the Russian Federation to grant subsidies, by demanding redundant documents from applicants;
- necessity of explaining the provisions of the normative legal base in the field of agricultural insurance to territorial entities of the Russian Federation;
- planning target indicators for agricultural insurance;
- enforcing sanctions to the territorial entities of the Russian Federation for failure to meet the target indicators due to a shortage of subsidy funds.





Meetings were held with the management of regional administrations of the agro-industrial complex of Vladimir, Bryansk, Rostov, Oryol, Irkutsk, Kurgan Regions, the Republic of Buryatia, the Trans-Baikal Territory and others.



The signing of an agreement on the development of agricultural insurance in the Republic of Buryatia (Republic's Minister of Agriculture, D.Z. Chiripov; President of NAAI, K. Bizhdov).



2.2.2. Regional projects of agricultural insurance development

The Republic of Buryatia. In 2017, NAAI implemented a project to create an agricultural insurance system in the Republic of Buryatia, where for a number of years, not a single agricultural insurance contract was concluded, and periodic drought resulted in annual losses in crop production. In October 2016, NAAI signed an agreement on the development of agricultural insurance with the Republic's Ministry of Agriculture and Food. Preferentially-selected parameters of the insurance program, an increase in the level of subsidizing insurance premiums due to the participation of the region, as well as individual work with insurance organizations – members of NAAI in 2017 – resulted in more than 18 thousand hectares of crops being insured in the republic, comprising up to 25% of grain and leguminous plants area. The region's target indicator for insurance in crop production (10 thousand hectares in 2017) was exceeded by a factor of almost 2. In 2017, at the invitation of the administrative bodies of the agro-industrial complex of the territorial entities of the Russian Federation, NAAI took part in the following events:

- Extended meeting of the Board of the Ministry of Agriculture and Food of the Republic of Buryatia;
- Southern Grain Forum, Seminar "Measures of State Support in the Grain Market in 2017: Forecasts and Expectations", Stavropol;
- XX Agro-industrial forum of the South of Russia, Rostov-on-Don;
- Working meeting of the Ministry of Agriculture and Food of the Rostov Region "Relevant issues of agricultural insurance"



almost **2 fold**

The Republic of Buryatia regions target indicator for insurance in crop production (10 thousand hectares in 2017) was exceeded as a result of a NAAI project

In **2017** in the Republic of Buryatia
more than **18**

thousand hectares of crops were insured

comprising up to **25%** of grain
plants area

P. Chekmaryov,
Director of
the Department
of agriculture,
mechanisation,
chemicalisation and plant
protection, Minister of
Agriculture of Russia

Training seminars/meetings of NAAI
on increasing the financial literacy
of agrarians were held in the

Republic of Buryatia,
Irkutsk, Orel,
Bryansk
and Kurgan
Regions.



- "Cooperation with state support throughout the year", Rostov-on-Don;
- II Middle Russian grain forum, Lipetsk;
- Business Forum in the framework of the first exhibition of agricultural technologies "Podmoskovie- 2017», Moscow region.

2.2.4. Promotion of the relationship between NAAI and industry unions

In 2017, a meeting was held in NAAI with the participation of the Russian Grain Union, the National Union of Pig Breeders, the National Association of Suppliers, Producers and Consumers of Meat and Meat Products, and the Russian Union of Industrialists and Entrepreneurs. Based on the results of the meeting, an expert working group was formed in NAAI concerning the development of agricultural insurance.

In 2017, NAAI signed an agreement on cooperation with another agrarian association: the Union of Potato and Vegetable Market Participants.

2.3

DEVELOPMENT OF THE AGRICULTURAL INSURANCE SYSTEM

In 2016, NAAI received the statutory right to finance targeted programs for the development of agricultural insurance with state support.

In 2017, NAAI developed and approved 5 targeted programs in accordance with laws and procedures established by the Ministry of Finance, the Ministry of Agriculture and the Bank of Russia

Risk zoning of the Russian territory

Goals of the program:

development of agricultural insurance with government support through the consideration of regional characteristics, including increasing the interest in farmers and insurance companies in agricultural insurance in high-risk regions.

Development of the agricultural space monitoring system

Goals of the program:

- increasing the trust of farmers in crop risk insurance through state support on the basis of increasing the affordability of policies and the transparency of the loss adjustment process;
- ensuring the safety and targeted use of NAAI compensation fund's assets.

Increasing the financial literacy of agrarians

Goals of the program:

- common understanding by agrarians of the order and conditions of insurance with state support;
- interest of all parties – agrarians, the state, and insurance organizations – in developing proposals for improving the agricultural insurance system with state support.

Development of additional insurance programs

Goals of the program:

Development of agricultural insurance with state support based on the needs of a wider range of farmers, including the preparation of amendments:

- on the introduction of the most affordable insurance products and insurance programs with state support for farmers;
- on the introduction of a line of insurance products and programs with state support, accounting for the specific needs of different groups of farmers.

The creation of a unified information system of agricultural insurance with state support

Goals of the program:

- summarizing the data of all information resources in a unified, up-to-date and reliable system for evaluating the results of agricultural insurance development with state support, including agro-industrial complex indicators;
- increasing the transparency of agricultural insurance with state support, including the assessment of effectiveness in the usage of budgetary funds and choices in the direction of developing the system.

Exchanging experience on agricultural insurance issues with Spanish colleagues. AGROSEGURO's seminar for NAAI members, 2017 r.



ACTIVITIES FOR IMPLEMENTING SPACE MONITORING DEVELOPMENT

Creation and maintenance of a unified system of agricultural satellite monitoring of insured agricultural crops with state support, on the basis of NAAI.

Development and implementation of methods for assessing risks and tracking and settlement of insurance losses with state support using agricultural space monitoring.

The unified information system of agricultural insurance with state support will summarize the data of all information resources in a unified, up-to-date and reliable system for evaluating the results of agricultural insurance development.

Members of the executive bodies of NAAI: M. Boranukov, Y. Volovik, S. Shuster and I. Vourey (GEOSYS-EUROPE). Joint seminar on the development of the space-monitoring tools for crop insurance, Toulouse.

ACCORDING TO ARTICLE 10 of the Law «On state support in the field of agricultural insurance», for financing targeted programs, the association of agricultural insurers can disburse 25% of the funds received from investing the assets of its compensation fund.



In 2017, within the framework of the target program «The development of additional insurance programs», «ANCO IAAC», on behalf of NAAI, carried out a research project on the actuarial analysis and economic justification of amendments to include new insurance programs for crops and perennial plantings in the agricultural insurance system with state support. Options to change or exclude the threshold of crop loss, expand the range of franchises and insurance amounts, while maintaining the remaining insurance conditions provided by law in 2017 were considered in the amendments. Based on the results of the analysis, the following changes were prepared and sent to the State Duma of the Russian Federation to amend FZ- 260.

2.4

SUPPORT OF INNOVATIONS

One of the key NAAI activities is the introduction of modern methods and technologies in order to effectively use agrometeorological data and remote sensing of the Earth to the benefit of the agricultural insurance system. In the agricultural insurance industry, this task was implemented at the federal level for the first time in Russian practice.

2014: NAAI's study revealed that remote sensing technologies of the Earth, widely used around the world for accompanying contracts and settling claims in agricultural insurance, have already been demanded by individual insurance companies among members of the Union. At the same time, the individual use of such data was not supported by a common base of standards and normative acts and could not be taken into account at the official level, including when considering legal issues.

2015: The Department of Insurance Expertise and Space Monitoring was established within the structure of NAAI, to function as a coordination center for the centralized use of agrometeorological data and remote sensing of the Earth. The Monitoring and Insurance Expertise Committee of NAAI conducted a detailed analysis of proposals from domestic and foreign suppliers that provide services in this area.

2016: The Management Board of NAAI approved the purchase of the Geosys (AgriQuest tool) service. The terms of the contract allow NAAI and the agricultural insurance units of all members of the Union to monitor the meteorological indicators and the state of sowing for the vegetation index throughout the Russian Federation for the purpose of underwriting, contract support and claims settlement.

2017: The Monitoring and Insurance Expertise Committee of NAAI came to a decision to continue the practical use of space technologies (AgriQuest Ultimate tool of GEOSYS EUROPA). Members of NAAI have been granted access to the new Geosys FieldLogs tool (Field Inspector), designed to optimize the field survey process using satellite imagery and mobile devices in real time. A two-day training seminar, concerning the usage of the AgriQuest and FieldLogs tools, was held for the members of NAAI. Specialists from insurance companies/members of NAAI tested the space monitoring systems of domestic developers ("FIXSES Underwriting" from CJSC Scientific and Production Corporation "BARL" and "Vega-Pro" from LLC "IKIZ").

In 2017, space monitoring data was used by NAAI:

- in preparing expert opinions when examining claims of agricultural producers to receive compensation payments;
- in the framework of a pilot project for the organization of agricultural insurance with state support in the Republic of Buryatia;
- in assessing the circumstances of emergencies and the condition of crops in 16 territorial entities of the Russian Federation;
- in carrying out regional measures to increase the financial literacy of farmers (Irkutsk, Orel, Bryansk, Kurgan, Moscow region, Republic of Buryatia);
- in responding to requests from regional media (more than 20 information materials published).



Satellit monitoring in NAAI: at the confluence of insurance and state goals (2017)

An agreement has been concluded with the All-Russian Center for Monitoring and Forecasting Emergencies of the EMERCOM Russia (Center "Antistikhia") on the emergencies information exchange.

A presentation of the space monitoring instrument for insurance purposes in the Government of Russia was held.

A report at the ARIA forum "Intellectual Management of the Global Social and Economic Risks of the Country" was presented.

2.5

ORGANIZATION OF STATISTICAL ACCOUNTING

NAAI carries out continuous collection and storage of statistical information in the field of agricultural insurance with state support from 2012 (the moment when the law on agricultural insurance with state support No. 260-FZ came into force).

Since 2016, NAAI, being a single association of agricultural insurers in the field of agricultural insurance with state support, is obliged to maintain statistical records of this area in accordance with Law No. 260-FZ. Thus, since 2016, NAAI's database contains information on the implementation of agricultural insurance with state support by all insurance organizations in Russia.

The following measures were taken by the Union in the field of organization and usage of statistical accounting in 2017.

2.5.1. Development of the automated information system (AIS of NAAI) functional

Changes were made to the AIS of NAAI organizational structure, concerning terms of reception, admission control and uploading of monthly and quarterly reports, aimed at improving the efficiency of the system.

The development and creation of an additional block in the AIS of NAAI began in 2017. This block will implement the loading of information on quarterly reports by the insurance organizations, submitted to the Central Bank of Russia in the form of the National Index of Administrative Documents 0420162 (effective from 2016). The necessary reporting forms have already been set up.

2.5.2. Collection of statistical information

Collection and loading of information on concluded agricultural insurance contracts with state support and settlement of claims under these contracts to the AIS of NAAI were carried out in the following mode:

MONTHLY collection of latest information on agricultural insurance contracts with state support, concluded by insurance organizations (members of NAAI in 2016-2017), broken down by agricultural crops insurance contracts / agricultural animals insurance contracts in the territorial entities of the Russian Federation.

QUARTERLY - detailed statistical reports of NAAI members on contracts concluded in 2016-2017, with specifications of the latest reporting data for that period.

SEMI-ANNUAL - reports on agricultural insurance contracts with state support, concluded by members of NAAI for the period from 2012 to 2015, with the purpose of accounting for changes in insurance payments data.

2.5.3. AIS of NAAI statistical information use

Statistical information in aggregate form from the AIS of NAAI provided on a permanent basis to government bodies of the Russian Federation and territorial entities of the Russian Federation, insurance organizations (members of the Union), was used to calculate the allocations of NAAI members to the Union's compensation fund. Information from the AIS of NAAI was used in the preparation of

In 2017

NAAI in order to reconcile statistical information:



sent **98** letters to regional bodies of the agro-industrial complex



received **86** responses with data clarification

analytical and presentational materials for reports by NAAI management at events, press releases, and media coverage of NAAI's activities.

Statistical information from the AIS of NAAI was:

- sent monthly to the Ministry of Agriculture of Russia, the Executive Office of the Government of the Russian Federation and the Central Bank of Russia.
- provided quarterly to all members of the Union (according to the decision made by the Management Board of NAAI)
- on the basis of half-year results, sent to the regional administration of the agro-industrial complex in order to reconcile information on the transfer of subsidy funds.

In 2017, NAAI, in cooperation with the Autonomous Non-Commercial Organization "IAAC", updated the database on crop culture in 79 regions of the Russian Federation during 2013-2015, in accordance with the information on reporting forms 4 and 29 of the state statistical observation for the period 2013-2015. This information was acquired by NAAI in 2016 from the territorial bodies of the Federal State Statistics Service.

This information, as well as data from AIS of NAAI for the period 2012-2016, was used by NAAI and the Autonomous Non-Commercial Organization "IAAC" in conducting research work in 2017 on the topic of: "Development of new insurance programs for crop insurance of perennial plantations for the purpose of implementing agricultural insurance with state support and its economic justification".

As of 31 December, 2017, NAAI's information system contained

more than **300** thousand records

information on **14 977**

agricultural insurance contracts

2.6

EXECUTION OF THE GUARANTEE FUNCTION

The transition to unification in agricultural insurance with state support has made it possible to increase the reliability and transparency of the guarantee system for insurance obligations.

2.6.1. Legal status of the agricultural insurance guarantee system

Originally, the mechanism of the compensation fund was provided for the state-supported agricultural insurance with Law No. 260-FZ coming into force on January 01st, 2012. On that day, NAAI began to create the compensation fund. The agrarians' rights to receive compensation payments for contracts that have been in force since 2012 began on January 01st, 2014.

With transition to a centralized system of agricultural insurance since January 01st, 2016, the law significantly increased the responsibility of agricultural insurers' to ensure the operation of the guarantee system. For the first time in the history of the organization of industry associations of insurers, this mechanism was put under direct supervision of the Bank of Russia. The stability of the guarantee system has received additional protection in the form of the direct legislative prohibition on the extraction of compensation funds for other requirements not related to compensation payments. The subsidiary liability of insurers, the obligation to credit the compensation fund in case of insufficiency of the fund's assets, as well as the union's compensation rights in relation to bankruptcy of the insurer for whose obligations the payments were made, were introduced.

2.6.2. The formation of the compensation fund and the implementation of compensation payments

During 2017, NAAI fully ensured the functioning of the guarantee system within the legal framework. The amount of deductions submitted to the compensation fund was set at 5% of the total insurance premium volume for contracts concluded on state support terms.

The transfer of deductions by members of NAAI and the correctness of the compensation fund formation were constantly

As a result of the following analysis

1 claim for compensation payment was denied

11 applications were pending at the end of the reporting period

monitored. The assets were placed in strict accordance with the Directive of the Bank of Russia of 16.11.2015 N 3849-D "On the requirements for investing compensation funds' assets by the association of insurers..." and the plan for investing temporarily idle NAAI funds during 2017.

2.6.3. The implementation of compensation payments

In 2017, NAAI received 6 claims for compensation payments from agricultural manufacturers in 4 regions for the obligations of 4 companies (LLC "IO Kupecheskoe", LLC "NPSK", LLC IC "Severnaya Kazna", LLC "National Insurance House").

Necessary measures were taken to settle the received claims, including confirming the occurrence of the insured event and determining the amount of the compensation payment. In particular, each application was followed by an expert analysis using Earth remote sensing data, which revealed significant discrepancies with the information provided by the claimants. Therefore:

- 2 analyses were conducted with the involvement of independent experts certified by the Ministry of Agriculture of Russia;
- 77 inquiries were sent to the Ministry of Agriculture of Russia, the management bodies of the agro-industrial complex in subjects of the Russian Federation and various federal authorities.

TOTAL NAAI
for the period

2014-2017 гг.

14 compensation payments implemented for a total amount of

68,1 million roubles

The mechanism for compensation payments in agricultural insurance is introduced for the benefit of farmers through insuring against risks on state support terms. In case of the insolvency of an insurance company, the agrarians will receive payments for the insured loss from the agricultural insurers union's fund assets, which are formed out of the received insurance premiums deductions submitted by insurers.

2.7

COUNTERACTION TO INSURANCE FRAUD AND LEGAL PROTECTION OF NAAI INTERESTS

NAAI continued the work to counteract insurance fraud in the field of agricultural insurance in 2017, which was actively conducted by the union since 2014.

Key directions:

- protection of the NAAI compensation funds' assets from unreasonable demands of policyholders and their representatives ("agro-lawyers");
- participation in the complex counteraction of the insurance fraud together with the insurance community.

277
million roubles
of unreasonable write-offs from the
NAAI Compensation Fund were
prevented in 2017.

82
million roubles
alone were related
to «agro-legal claims»
from Siberia.

Combating fraud: an issue for the NAAI
International Round Table, Sanct-
Petersburg, 2017



In 2017, the problem of the submission of unreasonable claims to NAAI remained.

Throughout the period from January to December **2017**

over **40** claims were submitted to the courts for compensation payments from NAAI

amounting to more than **350** million roubles

The Supreme Court considered 15 cases of demanding payments by farmers of one of the Siberian regions from NAAI which had the landmark character for the whole agro-insurance market. NAAI defended the impossibility of writing off the assets of the agricultural guarantee insurance system to pay “liabilities” under pseudo-insurance contracts, according to which the agrarians decided to apply.

2.7.1. Legal protection of NAAI's interests, associated with ensuring the functionality of the compensation payments system

In 2017, the problem of the submission of unreasonable claims to NAAI remained. The jurisprudence confirmed that in most cases these requirements were related to the plaintiffs' desire to use the guarantee mechanism to protect the insured's rights for writing off the funds for their own advantage without sufficient grounds.

Throughout the period from January to December 2017, over 40 claims were submitted to the courts for compensation payments amounting to more than 350 million roubles. With regard to measures for protecting the interests of NAAI in the arbitration courts of various instances, not more than 42 million roubles were written off against the total amount of the compensation fund, which prevented write-offs totaling more than 277 million roubles (judicial acts were in favor of NAAI).

The most significant NAAI lawsuit achievement was for 15 related claims demanding compensation payments, totaling more than 82 million roubles, brought by representatives of one of the leading agro-producing regions of Siberia with the mediation of the same law firm. In 2017, the Supreme Court

concluded 15 cases - recognizing them all as being unreasonable.

In all cases where decisions were in favor of NAAI, the Union filed applications for reimbursement of court expenses from the party representing the unreasonable demands. This measure, according to NAAI, has reduced the activity of unscrupulous lawyers with respect to agricultural insurance.

2.7.2. Integrated anti-insurance fraud

NAAI took part in the International Conferences on Counteracting Insurance Fraud:

- «Rubezh - 2017. Methods and tools for fighting illegal cases in insurance»;
- «Barrier - 2017. Fighting insurance fraud: prevention, protection, investigation.»

The President of NAAI raised the following topics concerning the need for:

- Strengthening the fight against abuse of law by agricultural lawyers;
- Assignment of legal status to the results of expert analyses carried out by using agricultural space monitoring tools;
- Creating the structure to counter insurance fraud on the basis of ARIA.

The conference Conference on Combating Insurance Fraud “Barrier-2017” in Saint-Petersburg, 2017, were held with the support of NAAI.



2.8

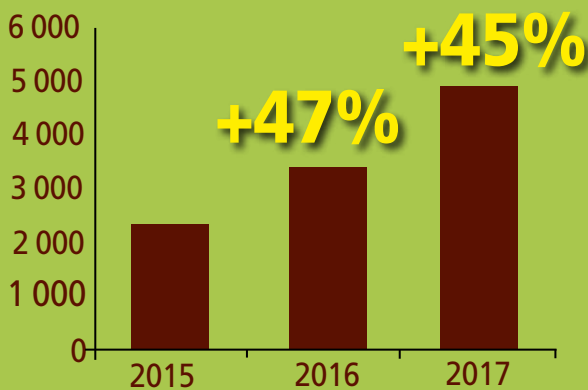
INFORMATIONAL SUPPORT FOR AGRICULTURAL INSURANCE

Throughout 2017, the press service of NAAI carried out continuous information support of the agricultural insurance system in the media. Particular attention was paid to presenting NAAI's position on the issues concerning the «single subsidy», promoting agricultural insurance, modern methods of agricultural space monitoring and countering insurance fraud.

R. Dalikina, Chairman of PR Committee of NAAI in 2017



The growth in the number of NAAI references in the media per year



In 2017, NAAI continued the information campaign aimed at counteracting fraud in agricultural insurance. Comments were regularly made in the media: special material for the journal "Agrarian Izvestia" (No. 4), was released with the aim of reaching the participants of the agricultural forum in the South of Russia. Publications on the topic of countering fraud were published in the regional media of the Altai Territory and the Chelyabinsk region.

2.8.1. Informational support in the media

During 2017, NAAI significantly strengthened its visibility in the media. The activities of NAAI were covered in print and electronic media, both at federal and regional levels, mainly being in the TOP-10 media, according to the citation rating of mediology. NAAI's position was broadcast on federal and regional TV and radio channels: NTV, Russia 24, ORT, OTR, Don channel (Rostov-on-Don); The first regional television (Orel), radio BUSINESS FM-Ufa; with the following publications in IA "Interfax", "Kommersant", "Rossiyskaya Gazeta", "Izvestia", "Parliamentary Gazeta", RBC, Interfax, ITAR TASS, MIA "Russia Today", "Prime", Kommersant-Chernozemye», «Kommersant-Kuban», «Kommersant-Yug», RBC-Tatarstan, Expert-Tatarstan, «Abireg» (Voronezh), «Volga» (Astrakhan), «Delovoy Petersburg», «Delovaya Gazeta Yug» (Krasnodar), «Molot», RBC-South (Rostov-on-Don), «Primorskaya Gazeta», «Konkurent» and ITAR TASS-Far East (Vladivostok), 74 ru (Chelyabinsk); «Delo» (Irkutsk); "Rossiyskaya Gazeta" (Nizhny Novgorod, RBC-Perm, «UralBusiness-Consulting» (Ekaterinburg), «Konkurent»(Vladivostok), ITAR

TASS-Far East, «Agrotaim» magazines (Omsk), «Agro Izvestia» (interregional magazine in Ural, Siberia, Volga, South of Russia); «Expert-Tatarstan»; "Finances of Bashkortostan" (Ufa), "Agricultural News" and many others.

As part of the information campaign to counter fraud in agricultural insurance, NAAI's comments were regularly printed in the media. A special article was published in the magazine "Agrarian Izvestia" (No. 4), which was part of the agricultural forum in the South of Russia. Publications on countering fraud were published in the newspaper AiF (Altai Territory) and on Portal74.ru (Chelyabinsk).

The campaign to popularize agricultural space monitoring was continued by NAAI: regular press releases were issued with information on the state of crops in federal districts and in separate regions - at the request of regional media.

In order to promote agricultural insurance among agrarians, NAAI issued leaflets explaining the terms of agricultural insurance with state support: "OPTIMUM", "20X20", "Practice", "Crop Insurance with state support"

To strengthen its place in the information sphere, NAAI maintained close contacts with press services of the All-Russian Insurance Organization, the Ministry of Agriculture of the Russian Federation, NAAI's members and regional agricultural-industrial companies.

2.8.2. Activities of NAAI

In order to inform the media and the public on the current agricultural insurance market situation, NAAI held six events:

JUNE:

- Round table "Improvement of agricultural insurance with state support for farms" in the framework of the All-Russian Forum "Russian Selo".
- Press conference on the results of the Annual General Meeting of NAAI.
- Section "Relevant agricultural insurance problems in the Russian Federation" in the framework of the XVIII International Scientific and Economic Conference "Insurance in financial services in Russia: place, problems, transformation" (organized jointly with PJSC IC "Rosgosstrakh" in Kostroma).

OCTOBER:

Round table "Agricultural insurance: ways of development", organized by NAAI jointly with the Federation Council within the framework of the "Golden Autumn 2017".

JULY:

International round table on agro-insurance (St. Petersburg).

DECEMBER:

Press conference dedicated to the 10th anniversary of NAAI.

2.8.3. Promotion of NAAI's position at industry conferences

JANUARY:

Presentation by the President of NAAI on the analysis of issues and proposals for the Second World Grain Forum working group

FEBRUARY:

- Speech by the President of NAAI at the All-Russian Agronomical Meeting.
- Speech by the President of NAAI at the International Conference "Insurance fraud in Russia and the CIS".

MARCH:

- Participation of the President of NAAI in the workshop on the development of agricultural insurance with state support in Rostov-on-Don.
- Report of the President of NAAI on "Fraud in agricultural insurance: the experience of counteraction at a round table "Rubezh-2017"

MAY:

NAAI participated in the strategic session "The Future of the Insurance Market"

JUNE:

- Participation of NAAI in the XVIII International Scientific and Economic Conference "Insurance in financial services in Russia: place, problems, transformation" (organized jointly with PJSC IC "Rosgosstrakh" in Kostroma).
- Report of the President of NAAI at the conference "Counteraction to Fraud in Agricultural Insurance"
- Report of the President of NAAI at the annual general meeting of the National Union of Pig Breeders' members.

JULY:

- NAAI participated in the business forum within the framework of the First Agrotechnology Exhibition "Podmoskovye-2017", being invited by the Ministry of Agriculture and Food of the Moscow Region
- The President of NAAI took part in the 26th International Financial Congress of the Bank of Russia and the International Conference on Insurance in St. Petersburg.

SEPTEMBER:

Report of the President of NAAI on the Insurance Business Forum in Sochi "Challenges of the Year 2017".

OCTOBER:

Round table "Relevant issues of supervision, control and regulation in insurance", organized by the All-Russian Insurance Organization.

DECEMBER:

NAAI participated in the seminar in St. Petersburg "Insurance in the Media Mirror"..

During the year **138** press releases were issued

The number of publications mentioning NAAI's press releases or comments amounted to **4 925**

(+ 45% more than in 2016, 3,355 publications)

2.9

THE ORGANIZATION OF REINSURANCE

In 2017, reinsurance of agricultural risks continued to remain one of the NAAI's objectives. The Union monitored reinsurance practices and supported business contacts with Russian and international reinsurance markets.

In 2017, 21 insurance companies took part in the reinsurance of agro-insurance risks in the Russian market, 4 of them in the state support segment.

In 2017, NAAI conducted a survey on the need for outward reinsurance of agricultural risks, with participation of JSC «RNRC». The preparation of the reinsurance concept was postponed to 2018 by the decision of the Reinsurance Committee in order to take into account the results of interaction between NAAI and JSC «RNRC».

O. Perfilyeva,
Chairman of
the Reinsurance
Committee of NAAI
(Rosgosstrakh)



The creation of the Russian National Reinsurance Company (RNRC), which was established in July 2016, greatly affected the market. In 2017, RNRC became the leader in domestic reinsurance market of agro-insurance risks.

2.9.1. Key figures of the Russian agricultural reinsurance market

In 2017, the outward reinsurance of agricultural risks markets was influenced by trends that prevailed on the agro-insurance market, including:

- annual written premium for subsidized contracts with state support decreased by 67%;
- volume of the market without state support increased by 19%;
- volume of the agricultural insurance market as a whole decreased by 55%.

Consequently, the premium for agro-insurance contracts that was transferred to reinsurance:

- decreased by 64% in the segment with state support (from 1,374.8 million roubles to 499.4 million roubles);
- increased by 62% in the segment of unsubsidized insurance (from 264.9 to 430.0 million roubles);
- decreased by 43% in agro-insurance in general (from 1,639.6 million roubles to 929.4 million roubles).

The share of the written premium transferred to reinsurance (from acquisitions for direct insurance):

- decreased by 18% in insurance with state support (from 20.5% in 2016);
- boosted up to 28% in the unsubsidized agricultural insurance segment (from 16%)
- increased by 21% in agro-insurance in general (from 17% in 2016).

2.9.2. Development of agricultural risks reinsurance system

In 2017, the reinsurance of Russian agro-risks continued to be dominated by international capacities: the share of premiums transferred from Russia amounted to 88% out of the total premiums transferred to reinsurance by agricultural insurers in 2017 (820.2 million roubles out of 929.4 million roubles). However, there was a significant decrease in this indicator for the first time (see diagram).

The creation of the Russian National Reinsurance Company (RNRC), which was established in July 2016, greatly affected the market. In 2017, RNRC became the leader in domestic reinsurance market of agro-insurance risks with a share of 36% (the company had written 56.0 million roubles out of 155.6 million roubles of premiums transferred to reinsurance on the Russian market).

The share of ceded premiums from Russia amounted to

88%

out of the total premiums transferred to reinsurance by agricultural insurers

In 2017

Reinsurers' share in payments carried out under insurance of agricultural risks amounted to

195,8

million roubles

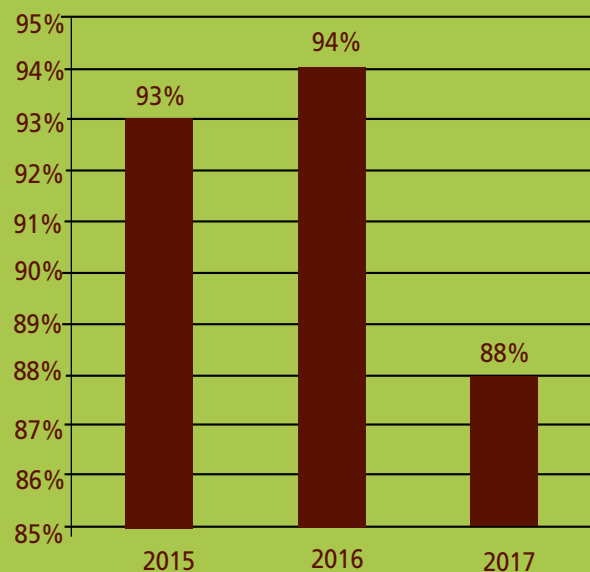
69,1

million roubles

of which were under insurance contracts with state support.

In 2017

Decrease in the dependence of agricultural insurance in the Russian Federation on international reinsurance



■ Share of the written premium transferred outside the Russian Federation



НСА
НАЦИОНАЛЬНЫЙ СОЮЗ
АГРОСТРАХОВЩИКОВ

3

NAAI:
General Information



From the left: K. Bizhdov, NAAI President; A. Rybina, NAAI, member of the Board (VSK, deputy CEO); I. Yurgens, All-Russian Insurance Association, President; E. Ufimtsev, Russian Association of Motor Insurers, Executive Director.

From the left: A. Legchilin, Energogorant, deputy CEO; V. Novikov, Sberbank Insurance, deputy CEO.

A. Kirillova, AVANGARD-GARANT Insurance Group, deputy CEO





S. Prostatin, NAAI, member of the Presidium and of the Board (RSHB Insurance, CEO)



From the left: A. Shtanko (VSK, deputy CEO); V. Egnarov (RESO-Garantia, deputy director of VIP-5 Direction)

D. Markarov, NAAI, member of the Presidium and of the Board in 2017 (2017: Rosgosstrakh, CEO); members of the Executive Office of NAAI Y. Volovik, A. Nefediev; I. Egorov, Chairman of the Presidium of the NAAI; N. Galaguza, NAAI, member of the Presidium and of the Board (Rosgosstrakh, CEO's counselor)



3.1

ENSURING INTRA-INDUSTRY INTERACTION AND CONTROL OF THE SYSTEM

Since 1st January, 2016, NAAI operates on the basis of an internal regulatory framework approved in 2015 and agreed to by the Bank of Russia.

3.1.1. Ensuring intra-industry interaction

In 2017, new editions of the following documents were approved by the Presidium of NAAI and agreed to by the Bank of Russia:

- the procedure for the investigation of complaints on the actions of NAAI members and the settlement of disputes arising between the insured, and beneficiaries, and members of NAAI in the implementation of agricultural insurance;
- the procedure for entry of new members into NAAI and withdrawal or exclusion of members.

A new version of Section VIII of the rules of activity regulating the organization of corporate information systems of insurance organizations (members of NAAI), concerning the implementation of agricultural insurance with state support was developed and sent to the Bank of Russia.

3.1.2. Methodological support of NAAI members

ultations were held on a regular basis with members of NAAI on questions concerning the subsidization of agricultural insurance and interactions with regional administration bodies of the Agro-industrial Complex, including:

- creating insurance contracts using standard forms;
- determining the validity periods of animal insurance contracts;
- applying standard criteria of insurance risks to insurance contracts concluded before the adoption of uniform insurance rules;
- determining the status of an insurance contract in the event of not receiving state support;
- changes in insurance terms in the event of not receiving state support and non-payment of the next insurance premium;
- accounts receivable under insurance contracts;
- informing on changes in the conditions of state support, including the procedure for providing support within the framework of a «single» subsidy;
- explaining the consequences of insuring identical risks in relation to one object of insurance by two insurance contracts;
- insurance in the Republic of Crimea.



The agricultural insurance topics were presented by NAAI at the XV International insurance conference in Sanct–Petersburg in 2017

NAAI developed and the Methodology of Insurance Committee approved the following documents: standard forms for crop insurance contracts, insurance of perennial plantations, insurance of farm animals, as well as additional mandatory and recommended provisions of standard forms.

From the left: K. Bizhdov, NAAI President; members of the Presidium and of the Board of the NAAI: V. Skvortsov, AlfaStrahovanie, CEO; D. Rakovschik, RESO-Garantia, CEO; D. Markarov, NAAI, member of the Presidium and of the Board in 2017 (2017: Rosgosstrakh, CEO)

3.1.3. Ensuring controlling activity of NAAI members in the field of state-supported insurance

In 2017, 3 orders for disciplinary liability were passed concerning delays in the payment of allocations to the compensation fund of NAAI and/or mandatory payments, and failure to pay financial sanctions by insurance companies (members of NAAI). Violators were subject to financial sanctions amounting to 984 thousand roubles.

In 2017, NAAI conducted audits of compliance with the Rules of NAAI activity of all insurance companies (members of NAAI), who concluded agricultural insurance contracts with state support during the reporting period. According to the results, there were no disciplinary violations.

3.1.4 Admission of membership in NAAI

In 2017, 2 insurance companies applied for NAAI membership, passing the procedures stipulated by the Charter and Rules of NAAI activities, and became NAAI members.

The number of NAAI members as of 31st December, 2017, amounted to 21.

3.1.5. Cooperation with the All-Russian Association of Insurers (ARIA)

In 2017, NAAI took an active part in the work of the self-regulatory insurance market organization:

- The President of NAAI, as member of the Presidium of ARIA, took part in five meetings of the Presidium;
- NAAI participated in more than 20 meetings devoted to the development of a mandatory standards of activity list for SRO participants in the insurance market and the preparation of basic SRO standards concerning the protection of insurance services consumers' rights and interests.

In accordance with the consolidation plan, NAAI implemented the following measures to support the consolidation of NAAI with the self-regulatory insurance market organization:

- Principles of organizing NAAI's IT and AIS systems for further integration into ARIA information systems were discussed within the framework of NAAI and ARIA working group meetings.
- NAAI's PR activities in 2017 were carried out in close cooperation with the press service of ARIA, including the format of joint events.

3.2

CORPORATE STRUCTURE AND EXECUTIVE OFFICE OF NAAI

The corporate management system of the NAAI consists of:

- the General Meeting of NAAI members – the supreme governing body of the Association;
- the Presidium of NAAI – the permanent governing body coordinating the general direction and supervision of the union;
- the President of NAAI – the sole executive body coordinating the general management of the Association;
- the Management Board of NAAI – the collegial body coordinating the current activities

THE MANAGEMENT BOARD

Bizhdov Korney Datkovich – President of NAAI Galaguzha Nikolai Fedoseevich – interaction with government authorities advisor PJSC IC (Rosgosstrakh)

Egorov Innokentiy Nikolaevich – Chairman of The Presidium

Galaguzha Nikolai Fedoseevich – liaison with government authorities advisor PJSC IC (Rosgosstrakh)

Prostatiin Sergey Ivanovich – General Director of JSC IC (RSHB Insurance)

Rybina Anna Gennadiyevna – Deputy General Director, member of the Board of Directors, Head of the Underwriting Center JSIC (VSK)

Skvortsov Vladimir Yurievich – General Director of JSC (AlfaStrahovanie)

THE PRESIDUM

Bizhdov Korney Datkovich – President of NAAI

Egorov Innokentiy Nikolaevich – Chairman of The Presidium

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

Galaguzha Nikolai Fedoseevich – liaison with government authorities advisor PJSC IC (Rosgosstrakh)

Martyanova Nadezhda Vasilievna – General Director of CJSC (MAKS)

Ovsyanitskiy Oleg Sergeevich – General Director of JSIC (VSK)

Prostatiin Sergey Ivanovich – General Director of JSC IC (RSHB Insurance)

Rakovshik Dmitry Grigorievich – General Director of IPJSC (RESO-Garantia)

Skvortsov Vladimir Yurievich – General Director of JSC (AlfaStrahovanie)

Tikhonova Maya Alexandrovna – General Director of LLC IC (Soglasie)

Yurgens Igor Yurievich – President of the All-Russian Insurance Association

The President of the NAAI manages the administrative staff of the union. The Audit Commission (Auditor) is the body controlling financial and economic activity of the NAAI.

COMMITTEES AND COMMISSIONS OF NAAI

Committees and commissions have been formed within the framework of the NAAI, with the purpose of considering the interests of all members in adopting decisions by the Association. In 2017, NAAI's committees and commissions consisted of:

- Methodology of Insurance Committee
 - Reinsurance Committee
 - Legal Matters Committee
 - Public Relations Committee
 - Financial Committee
 - Disciplinary Commission
 - Monitoring and Insurance Expertise Committee
 - Information Technology Committee
 - Audit Commission (Auditor)

In 2017

there were:

3 General Meetings of NAAI's members

8 Presidium of NAAI meetings

8 Management Board of NAAI meetings

The General Meeting of NAAI members is the supreme governing body of the NAAI



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

TO MEMBERS OF THE UNION "THE UNITED ASSOCIATION OF AGRICULTURAL INSURERS – THE NATIONAL UNION OF AGRICULTURAL INSURERS"*

Opinion

We conducted an audit of the annual accounting statements of the Union "Single Association of Agro-industrial Complex Insurers - National Union of Agricultural Insurers", consisting of the balance sheet as of 31 December, 2017, the report on financial results, the report on the target funds use for 2017 and an explanatory note to the financial statements for 2017.

In our opinion, the attached annual financial statements reflect faithfully, in all material respects, the financial position of the Union "Single Association of Agro-industrial Complex Insurers - National Union of Agricultural Insurers" (hereinafter referred to as the Association) as of 31 December, 2017, the financial results of its activities and the targeted financing flow for 2017 in accordance with the rules of the annual financial statements preparation established in the Russian Federation.

Basis for expressed opinion

We conducted the audit in accordance with the International Audit Standards (hereinafter - IAS). Our responsibility in accordance with these standards is described in the section "Auditor's responsibility for the annual financial statements audit" of our opinion.

We are independent in relation to the Association in accordance with the Rules for the Independence of Auditors and Audit Organizations and the Code of Professional Ethics of Auditors that comply with the Code of Professional Ethics of Accountants developed by the Council for International Ethical Standards for Professional Accountants and we have fulfilled other duties in accordance with these professional requirements ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide as basis of our opinion.

Other information, other than the annual accounting statements and the audit report of it

Management is responsible for other information, which includes information contained in the Annual Report of the Association for 2017, but does not include accounting statements and our audit report on it. The Annual Report of the Association for 2017, presumably, will be provided to us after the date of this audit report.

*Literal translation of the Russian official name of the National Association of Agriculture Insurers



APPENDIX 1

Our opinion on the annual financial statements does not apply to other information, and we will not provide a conclusion expressing confidence in any form regarding this information.

In connection with our audit of the annual financial statements, our responsibility is to acquaint ourselves with other information as and when it is provided to us and to consider whether there are material inconsistencies between such other information and annual financial statements or our knowledge obtained during the audit, and whether the other information contains other possible material misstatements.

Management's responsibility and individuals responsible for corporate management of annual financial statements

Management is responsible for the preparation and fair presentation of these annual financial statements in accordance with the rules for compiling the annual financial statements established in the Russian Federation and for internal control systems that management considers necessary for the preparation of annual financial statements that do not contain material misstatement due to fraud or errors.

In preparing the annual financial statements, management is responsible for assessing the ability of the Association to continue operating continuously, to disclose, as appropriate, information relating to business continuity and for reporting on the basis of the assumption of business continuity, unless the management intends to liquidate the Company, terminate its activities or whenever it lacks any other real alternative other than the liquidation or termination of activity.

The individuals responsible for corporate management are responsible for overseeing the preparation of the Association's annual financial statements.

Auditor's responsibility for the annual financial statements audit

Our goal is to obtain reasonable assurance that the annual financial statements are free from material misstatement, whether due to fraud or error, and the preparation of an audit report containing our opinion. Reasonable confidence is defined as a high degree of certainty, but it is not a guarantee that an audit conducted in accordance with IAS always reveals significant distortions (if they exist). Distortions could be a result of unfair actions or mistakes and are considered significant if one can reasonably assume that, individually or in aggregate, they can affect the economic decisions of users taken on the basis of this annual accounting.

As part of the audit conducted in accordance with IAS, we apply professional judgment and maintain professional skepticism throughout the audit. In addition, we:

- identify and assess the risks of material misstatement of the annual financial statements due to fraud or error; develop and conduct audit procedures in response to these risks; obtain audit evidence that is sufficient and appropriate to serve as a basis for expressing our opinion. The risk of not detecting a material misstatement as a result of unfair acts is higher than the risk of not detecting a significant distortion as a result of an error, as unfair acts may include collusion, fraud, intentional omission, misrepresentation of information or actions bypassing internal control systems;
- -develop an understanding of the internal control systems that are relevant to the audit in order to develop audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion as to the effectiveness of the Association's internal control system;
- -assess the proper nature of the applied accounting policies, the reasonableness of accounting estimates and the corresponding disclosure of information prepared by the management of the Association;
- -come to a conclusion regarding the legitimacy of management's use of the assumption of continuing activity and, on the basis of the audit evidence obtained, a conclusion about whether there is a significant uncertainty in connection with events or conditions which may raise significant doubts about the ability of the Association to continue its business. If we come to the conclusion that there is significant uncertainty, we should draw attention to our disclosure in our annual financial statements in our audit report or, if such disclosure is inappropriate, modify our opinion. Our conclusions are based on the audit evidence received before the date of our audit report. However, future events or conditions may lead to the Association losing the ability to continue its activities continuously;
- - assess the presentation of the annual financial statement in general, its structure and content, including disclosure of information, as well as whether annual accounting reporting represents the underlying operations and events so that they are reliably presented.

We carry out informational interaction with individuals responsible for corporate management, bringing to their attention, among other things, information on the planned scope and timing of the audit, as well as significant comments on the results, including significant deficiencies in the internal control systems that we identify in the audit process.

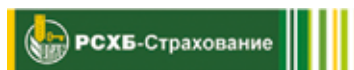
Director of the General Audit Department
E.N. Gerasimovskaya
Auditor Company «Marillion», LLC
on the basis of the power of attorney №005-AC-2018 of 12 January, 2018
25 April, 2018



NAAI

NATIONAL ASSOCIATION
OF AGRICULTURE INSURERS

SUPPORTING AGRIBUSINESS TOGETHER



The National Union 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
E-mail: info@naai.ru

MEMBERSHIP IN THE NAAI

According to Article 9 of Law No. 260-FZ, both the entry of insurance companies into a unified all-Russian association of agricultural insurers and the withdrawal or exclusion from it are carried out in accordance with the procedures accepted by the Bank of Russia since 2016.

Insurance companies can be members of the Union:

- If they have a valid voluntary property insurance license;
- If they fully recognize the requirements of the NAAI's Charter and offer to contribute to achieving the main goals of the Association;
- If they have accepted the obligations arising from the rules of activities established by the Association in accordance with the laws of the Russian Federation and the NAAI's Charter, corresponding to the requirements of these documents.

The NAAI is open to the admission of new members. The entry of a new member could be due to his subsidiary liability for the obligations of the Association that arose prior to its entry to the NAAI.

Insurance organizations – members of NAAI As of 31st December, 2017

		Central Bank of Russia Registration number
1.	AVANGARD-GARANT Insurance group, JSC	0796
2.	AlfaStrahovanie, JSC	2239
3.	ASKO, LLC IG	2489
4.	Verna, LLC	3245
5.	VSK, JSIC	0621
6.	GUTA-Insurance, JSC	1820
7.	MAKS, CJSC	1427
8.	OPORA, IC JSC	3099
9.	RESO-Garantia, IPJSC	1209
10.	Rosgosstrakh, IC PJSC	0001
11.	RSHB Insurance, IC JSC	2947
12.	ROSMED, JSC SIC	3451
13.	SOGAZ, JSC	1208
14.	Soglasie, LLC IC	1307
15.	Sterkh, JSC RIC	3983
16.	Talisman, JSC IO	1587
17.	CSO LLC	3517
18.	Energogarant, PJSC SIC	1834
19.	Sberbank Insurance, LLC IC	4331
20.	Investstrakh, JSC SIC	2401
21.	RIKS, LLC	0473

Withdrawal from the Union

A member of the NAAI has the right, at his discretion, to withdraw from the NAAI. A member may also be expelled from the union following a decision made by the Presidium of the NAAI in cases provided by the NAAI Charter.

In the case of a voluntary withdrawal or exclusion, the member of the NAAI holds subsidiary liability for the obligations of the Association within two years from the date of exiting the Association, with the exception of the NAAI's obligations for implementing compensation payments. Concerning the NAAI's obligations for implementing compensation payments, a member of the Association holds subsidiary liability in the amount of the compensation fund in accordance with the Charter of the NAAI and Article 10 of Federal Law No. 260-FZ of 25.07.2011 «On State Support in the Sphere of Agricultural Insurance and on Amending the Federal Law On the Development of Agriculture.

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