

Russia ripe for cat bond solutions

Reinsurance magazine spoke to **Kirill Savrassov** – Chairman & CEO of PhoenixCRetro on the potential for the use of innovative risk instruments to kick start greater penetration in the Russian market.

In your view why does Russia lend itself so well to the use of cat bonds and which companies or organisations do you think would benefit most from such a solution to their risks?

There are several factors which are quite unique for the Russian Federation's potential situation with ILS market.

First of all is a lack of insurance penetration (1.4%), which makes this mechanism almost useless when the question comes to really large natural disasters. Unfortunately at the macro economy level insurance solutions are not immediately viable.

Second is the potential role of the Government. Unlike UK/US, in Russia government is able and expected to play a greater role in protecting its citizens in case of a natural catastrophe.

Third is the obvious benefits to investors who will have much demanded diversification of risk portfolios and additional areas for investment into well established instrument being cat bonds.

And lastly this is a real benefit to the Russian people, state and business as protection found to preserve the economy and possibly reboot it of region in the event of large disaster. The initiative, which is well supported by the World Bank for some other countries has seen some remarkable recent developments such as Mexican FONDEN and Pandemic Emergency Financing Facility (PEF) Cat bonds.

Is there an appetite for cat bonds in Russia and who do you think would be driving their use, the brokers or underwriters such as yourselves?

On the sponsoring side, considering the size of the country and therefore various exposures to natural disasters the most interested party naturally is the government, who currently carry a direct fiscal loss in case of large catastrophe, especially on the infrastructure side. On the investment side there are dedicated

ILS funds interested in enhanced diversification as well as Russian investors who may want to try a new uncorrelated asset class.

Does Russia get ignored by the global reinsurance industry?

The lack of progress in insurance penetration into Russia has meant that the insurance and reinsurance industry have not been able to provide solutions to the growing economy of Russia. This project could assist in helping to catalyse a growth in insurance penetration and therefore ways in which the international markets could provide additional solutions. That said, this solution is geared to a country without any meaningful insurance penetration which can therefore leapfrog into the next wave of protection without utilising the insurance infrastructure that other nations do. This solution is progressive and will place Russia ahead of the game.

You are heavily involved in the debate on the use of Asset backed ILS (ABILS) how well is the solution being received and is there an appetite from the investment market?

Indeed the ABILS concept showed itself as a unique solution for asset rich but cash poor investors (which is very much the case in the region) as well as small and mid-sized local CEE insurers who by utilising this concept may not only diversify their portfolios but access a healthy innovative solution within Solvency II framework. Beside use of assets as end collateral is in fact very much "back to the roots" way it is just reminding the industry how things started at Lloyd's coffee house in the 17th century. re



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KIRILL SAVRASSOV, PHOENIXCRETRO