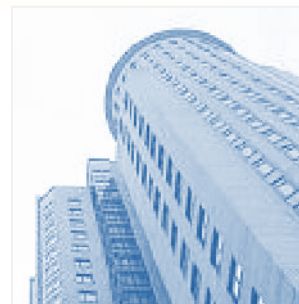




FOUNDED BY THE GOVERNMENT OF RUSSIAN FEDERATION

Mortgage insurance in Russia: achievements & prospects

World Bank Conference
28 May 2014
Washington, USA



Mortgage Outstanding Debt to GDP: Russia vs. Other Countries

Current: Mortgage outstanding debt to GDP 4%

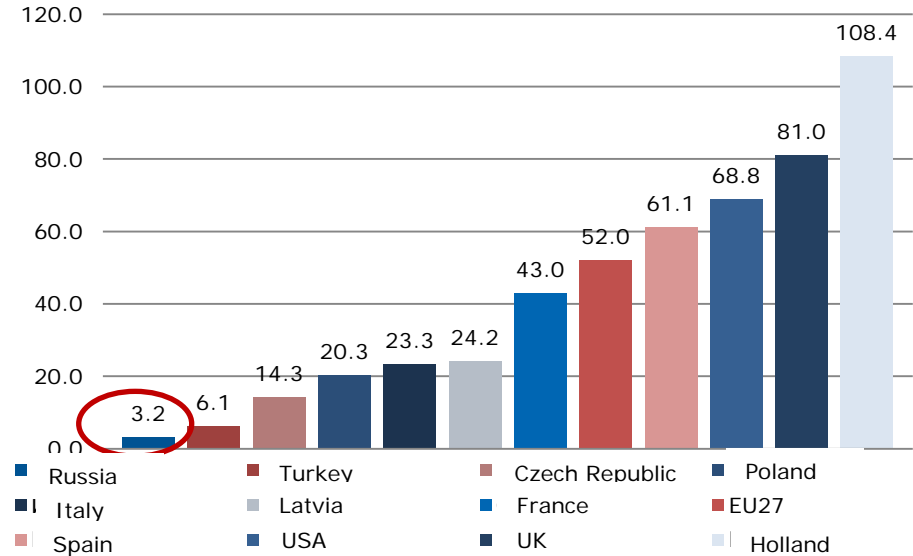
Government objective: 20% by 2030

M2GDR
4% → 20%

Mortgage outstanding debt to GDP in Russia, 2005-2013



Mortgage outstanding debt to GDP in 2012, %



Source: Bank of Russia, AHML calculations

Mortgage Loans Market Key Features

Instrument	Comments
Law on Mortgage	ADOPTED in 1998
Law on Mortgage Assets Securitization	ADOPTED in 2003 Max LTV < 70%, since 2010 < 80%
Average LTV	~ 50%
Average loan parameters	Rate 12,2% Provision period – 15 years Actual period– 6,5 years (high CPR)
Foreclosure period	24 months, in 40% of cases the property is on the creditor's balance
Creditor's actual breakeven point in case of a foreclosure	LTV < 60-62%
Borrower's right for restructurisation	None (creditor's goodwill)
Measures to prevent bubbles in the market	Investment housing blocking – none

Mortgage Insurance Market Key Features

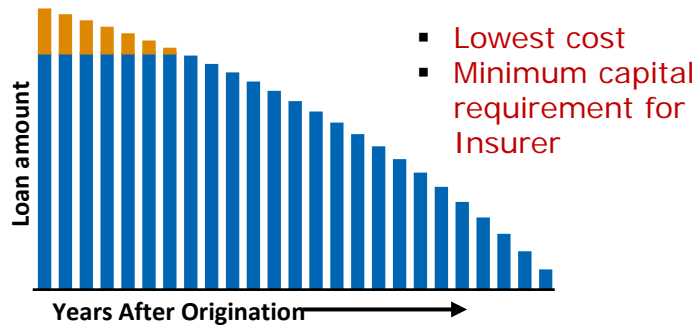
Instrument	Comments
Mortgage insurance (as a definition of protection)	Included in Law on Mortgage in 2004 as Private voluntary insurance (no public MI in Russia) Max MI cover: 20% of property value, plan: up to 50%
Strategy of Government for the Mortgage, Mortgage insurance and MBS development	ADOPTED in 2010 (horizon 2030)
Insurance cover formula	Fixed insurance sum for the period “up to LTV=70%”. Payment after court proceedings
«Skin in the game» MBS	not required by law. De facto applies in every transaction
Risk mitigation instruments	Risk Retrocession to foreign markets (not applied yet) Loan restructuring – not applicable as rule (yet) Credit risk sharing with lender – formula is not set
Approach to MI Market Development	Key role of AHML Insurance: Governmental reinsurer for flow & direct insurer for RMBS

AHML Insurance: key role in national MI program development & marketing

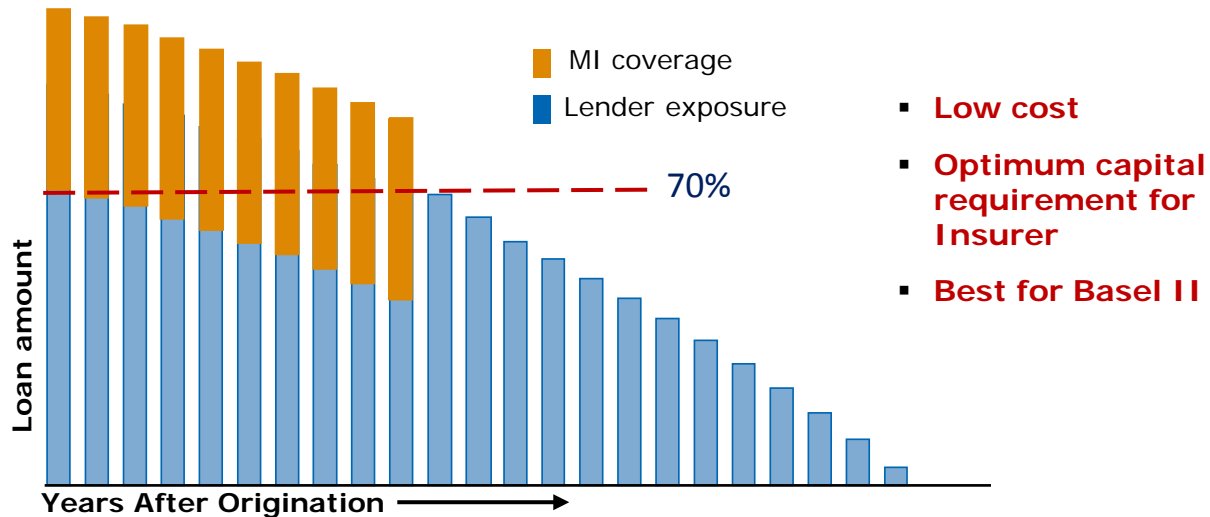
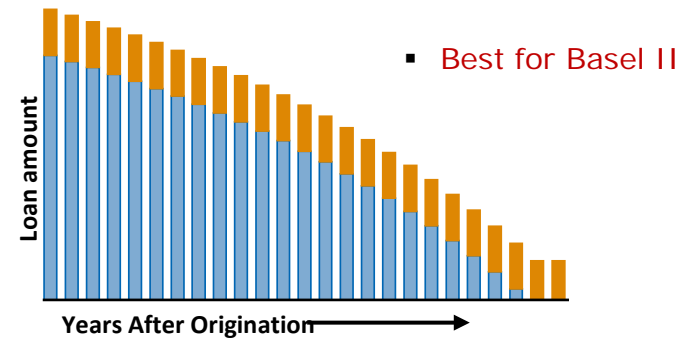
1. **Subsidiary** of state Agency of Housing & Mortgage Lending (AHML)- **mortgage market-maker** in Russia
2. **Provides easy market entry for** any insurer (**Reinsurance as a condition for a startup**): product development, reinsurance capacity, underwriting guidelines development, pricing, know-how transfer). **Law adopted in 2004, but MI market took off only in 2010 when AHMLI appeared.**
3. **Provides for quite high MI penetration:** All top insurers and lenders are involved in MI.
4. **Compact, but still in control of the whole MI market**, develops essential amendments to insurance and bank regulations
5. **Creates confidence** in MI in the market: trustworthy pricing, reliance on the significant capital of AHMLI, confidence via high responsibility for performing the duties (including the protection recovery of bankrupt insurers)
6. **Monoliner**, but there is a high demand for insurance in neighbouring sectors
7. **Ready for privatization once MI market is matured (~ 2018).**

National MI program (Russian style): Europe+Asia = Eurasia

DECLINING COVER – Asia (Hong Kong)



FLAT COVER – Used in Europe



Mortgage insurance market achievements

Instrument	Comments
MI first policy for flow	2010
MI first policy for bulk	2012
MI first policy for RMBS	2013
Unity of insurance terms and conditions	AHMLI practice since 1 June 2014
MI penetration	2,4%
Mortgage insurance regulation as insurance	None. Plan for 2015
MI necessity	Not available for any LTV
PPP model	Private insurers Public reinsurer (AHMLI)

Gap between practice and law

- **Mortgage insurance regulation – none:**

- Revenue recognition method– «pro rata»
- Requirement for the capital– 16% from the premium (general for «non life»)
- Catastrophe reserve, unexpired risk reserve– none.
- Certified actuarial models– none.

- **MI integration in bank regulation - none.**

- Prohibition on insurance of affiliated structures - none
- Prohibition on banks charging a commission from the insurer – comes into force since 1 July 2014
- Mortgage insurance integration in bank regulation* – none, plan 2015

*Current Banks risk requirements

150% - loans in foreign currency and floating rate

100% - standard loans

70% - loan with LTV<70% and PTI<33%

35% - none

Death of marketing midgets => documentation unity.

Market problem: 140 m/banks x 5 m/products x 33 MI = ∞ MI forms

Used to be:

«-» Every bank demands a separate policy form for every product

«-» Every insurer has its own opinion on the insurance documentation

Problems:

Complexity of MI integration in bank regulation

Complex reinsurance treaty (a lot of addenda)

Solution under the direction of AHMLI:

All market members (banks, insurer, regulators) come to an agreement on the policy unity (transition start from 1 June)

Possibilities:

«+» Possibility to integrate MI in bank regulation

«+» Reinsurance universality

«+» Possibility to recover the insurance protection if the insurance is bankrupt

Solution: one common form of MI policy



Thank you for your attention!

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