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In this report we make an analysis of the insurance industry in selected countries from the CA region. The selected countries are: Kazakhstan, Uzbekistan, Tajikistan and Kyrgyzstan.

Central Asia Insurance Sector Metrics 2018

	Penetration, %	Density, USD	GWP, USD m	GWP, y-o-y % Growth*	Claims to GWP, %
Kazakhstan	0,65	61,1	1116	4,0	24,7
Uzbekistan	0,40	6,2	202,7	76,0	28,2
Tajikistan	0,34	2,8	25,5	-0,7	4,5
Kyrgyzstan	0,20	2,5	15,9	8,8	11,6

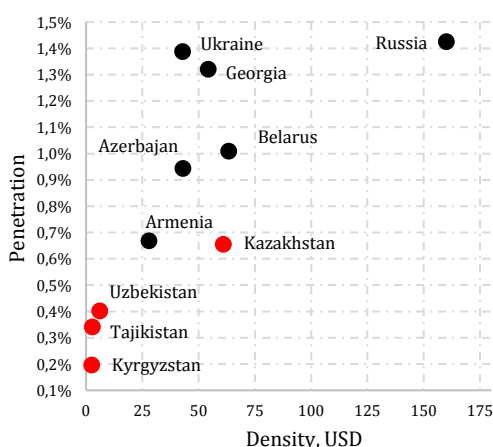
* GWP growth in national currency
Source: RAEX-Europe calculations based on data from the IMF, the local central banks and the local insurance market authorities data

1. SUMMARY

More than 25 years have passed since the Central Asia countries gained independence and the abolition of state monopolies on insurance services; however, the insurance market is still in its infancy, and in terms of penetration (the ratio of gross written premiums to GDP) is significantly inferior to the insurance markets of Russia and other CIS countries (see graph 2.1). On the background of stable economic growth and improvement of the investment climate, the main barriers to progress are deficient financial literacy of the population, weakness of financial markets and legislative imperfection. However, the growing openness and integration into the global economy, as well as the current life insurance boom and government stimulus initiatives, have raised the interest of international investors in the local insurance market. In this report, we analyze the insurance industry in the period from 2016 to 2019 in selected countries of Central Asia (CA) region: Kazakhstan, Uzbekistan, Tajikistan, and Kyrgyzstan.

- **Kazakhstan:** The most developed and the largest insurance market where, 82% of the CA region gross written premiums (GWP) were concentrated in 2018. The recent upward trend is primarily driven by the actively expanding life insurance sector, which has built-up its premiums during 2015-2018 by 62% fostered by the population's income growth. The number of life insurance players is expanding, whereas in the non-life segment the tightening of the regulatory policy has caused the reduction of licensed companies. Insurance companies have sound profitability indicators supported by increasing

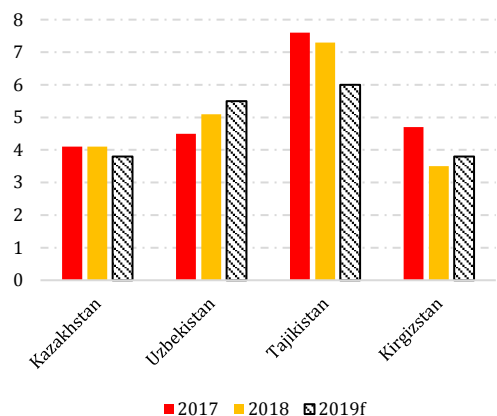
Graph 2.1: Penetration and density in 2018



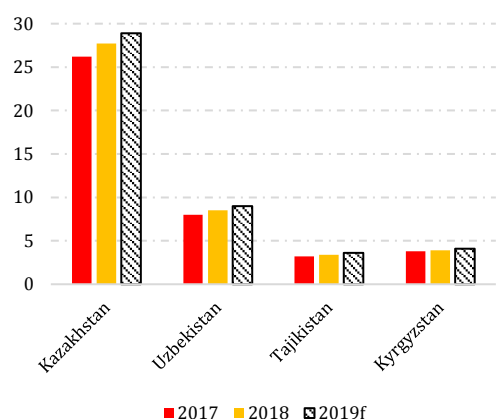
Source: RAEX-Europe calculations based on data from the IMF, the local central banks and the local insurance market authorities data

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Graph 2.2: Real GDP, % growth


Source: RAEX-Europe calculations based on data from the IMF

Graph 2.3: GDP per capita in PPP, USD th


Source: RAEX-Europe calculations based on data from the IMF

investment revenue, although their investment portfolios remain conservative with a large share of government and quasi-government bonds and vulnerable to foreign currency fluctuations.

- Uzbekistan:** The most dynamic market in the CA region showed in 2018 a record GWP growth of 76,3% y-o-y. The Life sector boosted premiums by 3x; however, its ratio of gross claims to GWPs is extremely high at more than 60% in comparison with other CA countries, which is connected with the specific characteristics of local life insurance products. In 2018 insurers' investment increased by more than third, but given the weaknesses of the capital market, the portfolios are conservative with more than half in bank's deposits. We expect further development of the insurance market supported by the regulator's initiatives and expanding demand. In addition, the companies face the obligation to gradually increase the minimum authorized capital.
- Tajikistan:** In spite of the highest economic growth posted in 2018 in the CA region, the insurance market remains subdued and volatile. The volume of GWPs generated has decreased by 0,7% y-o-y in 2018 mostly caused by negative dynamics of voluntary insurance premiums. In contrast, the compulsory insurance segment grew by 11% in 2018 and 23% in 1H 2019 y-o-y. The ratio of total claims to total GWPs remains the lowest among peers at 4,5% in 2018. We do not anticipate the market to revive in the short term due to the absence of sector reforms and lack of improvement of the country's financial system.
- Kyrgyzstan:** The insurance market is the weakest in the CA region owed by the low level of financial inclusion and government support. Overall, the market demonstrated a GWP growth of almost 9% y-o-y in 2018 with compulsory insurance growing at the highest pace of 30%. Claims grew faster than GWPs and increased by 13% in 2018, but the ratio of gross claims to GWPs remains low at 11,5% in 2018. Moreover, profitability metrics have improved with ROA and ROE at 4,4% and 5,1% respectively supported by an increasing contribution from the investment result. The further gradual development of the market is expected driven by the implementation of compulsory motor third-party liability insurance (MTPL) in 2019.

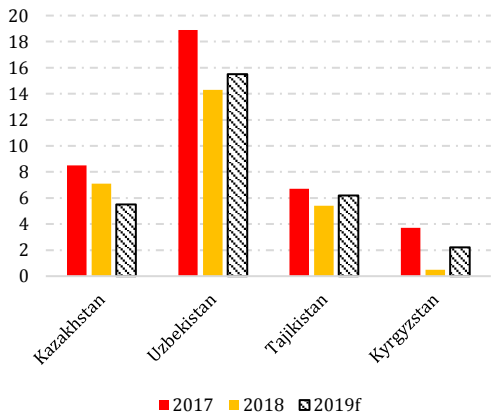
2. GENERAL OVERVIEW

The CA countries are heterogeneous and differ from each other in terms of territory and population, as well as the diversity of natural resources. On the other hand, apart from geographical location and climate, cultural and historical characteristics, they are largely united by the similarity of economic models and financial systems, the level of institutional development and the degree of integration into the global economy.

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Graph 2.4: Inflation, %



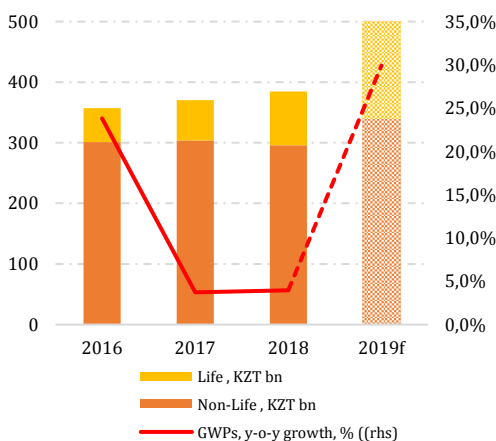
Source: RAEX-Europe calculations based on data from the IMF

Overall, the economic development in the region exceeds world growth levels as the region’s average real GDP is estimated at 4,6% as compared to a world average of 3,6% in 2018, and is expected to remain high in the short term (see graph 2.2). Kazakhstan and Uzbekistan, which are oil and gas exporters, are expected to support the region's growth next year, while the economies of Tajikistan and Kyrgyzstan, which are largely fuelled by remittances and government spending, are likely to lag behind. Nevertheless, the current positive dynamics are still not sufficient to significantly improve the standards of living in the region, the weakness of which constrains the active development of the insurance market.

Institutional fragility and dominance of the state prevent the growth of investments and productivity, while the high dependence on external demand and the economies of the main trade partners, especially Russia, create high exposure to external shocks. Inflationary pressures are gradually easing except for Uzbekistan; however, the monetary policy efficiency remains low due to weaknesses of the banking systems, high level of dollarization and dependence on imports.

The insurance market of the region, amid economic growth, shows positive dynamics in general, but not uniform across the countries in the region. In the whole CA region, property and civil liability insurance dominate, while the life insurance sector accounts for a smaller share of the market, and in Tajikistan and Kyrgyzstan, the life segment is practically absent. Insufficient development of the insurance sector, shown by levels of penetration and density lagging behind the average CIS and European figures, reflects the low level of financial awareness of the population. All the countries in the region are characterized by a high concentration of the market with a relatively small number of players. On the positive side, we can highlight the supporting role of the authorities in Kazakhstan and Uzbekistan, where over the past few years have been implementing initiatives aimed at market development and improving the reliability of the insurance business, bringing the legislative and regulatory framework in line with international standards.

Graph 3.11: KAZ – GWP, KZT bn



Source: RAEX-Europe calculations based on data from the National Bank of Republic of Kazakhstan (NBK)

3. COUNTRY SNAPSHOT

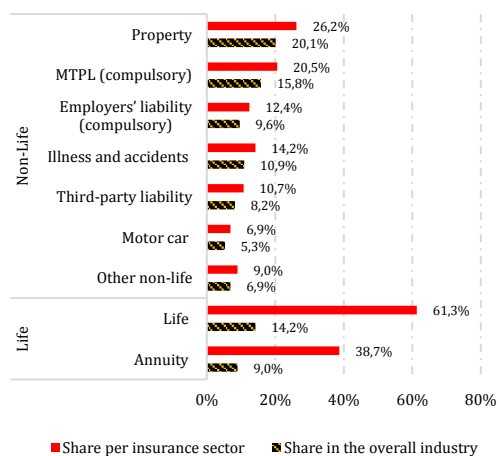
3.1 KAZAKHSTAN

The **Kazakh** economy has experienced robust growth, stable macroeconomic fundamentals, and improved public finances. The real GDP growth in 2017 and 2018 amounted to 4,1% per year due to the favorable export commodity prices and an increase in output (see graph 2.2). The positive dynamic remains in 2019 amid rising consumer demand stimulated by income hike and active consumer lending. Annual inflation amounted to 5,5% in August 2019, which is an acceptable level within the target range of 4-6% set by the National Bank of Kazakhstan (NBK).

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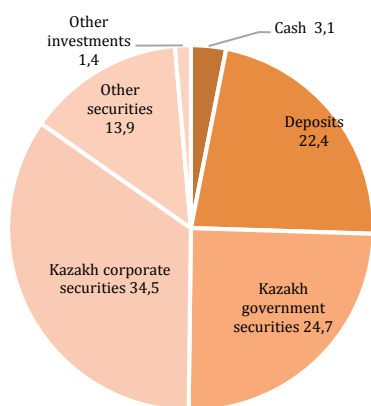
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Graph 3.12: KZ – Types of insurance, 2018



Source: RAEX-Europe calculations based on data from the NBK

Graph 3.13: KZ – Investment allocation, as of August 2019



Source: RAEX-Europe calculations based on data from the NBK

GDP per capita at PPP in 2018 stood at USD 27,7 th, which is the highest among CA's peers. Furthermore, the new president elected in June 2019, Kassym-Jomart Tokayev, declared the continuity of the country's development strategy, which is a signal of low political risks for business and foreign investors.

The **insurance market** of Kazakhstan is the most developed in the region with insurance penetration and density at 0,65% and USD 61,1 in 2018 respectively, though penetration has been decreasing over the last two years (see table 4.1). **Gross written premiums** increased by a third¹ from 2015 and stood at KZT 384 bn in 2018 (including reinsurance premiums). After a moderate pace of growth averaging 3,8% per annum in 2017-2018, total GWPs are surging in 2019, mainly due to life insurance products and for 9M 2019, the GWP growth already reached 32% y-o-y (see graph 3.11). The market is rather diversified by type of insurance. The highest share belongs to property insurance with 20,1%, followed by compulsory MTPL with 15,8% and life insurance with 14,2% of the whole market (see graph 3.12). Whereas the structure of general insurances is expected to remain stable in the short-run, the life sector will expand further its share.

The market is dominated by companies belonging to local financial and industrial groups and associated with banks. The **insurance sector concentration** in the top-5 and top-10 companies was 61% and 80% in 2018 respectively, making the sector one of the most concentrated amongst the peers (see table 4.5). However, the number of insurance companies continued to shrink and, as of September 2019, there were 27 insurance companies, compared to 33 at the end of 2015. One of the main reasons is that companies have left the Kazakh market as a result of tightening regulatory conditions, inspections, and penalties from the NBK, after introducing in 2018 a number of supervisory changes aiming to improve transparency and reduce the risks of reinsurance, the activities of insurance brokers, as well as increased capital requirements².

The regulator's activity is connected with the preparation for the changes that will take place from 2020 when foreign insurance companies will get access to the market within the framework of Kazakhstan's WTO integration commitments. In our view, removal of barriers is intended to be a strong incentive for development and at the same time a test of strength for national insurance companies, although in the near term we do not expect a considerable reshaping of the sector and coming of a large number of foreign players in view of the low interest in the Kazakh insurance market.

The structure of **insurance investments** is largely dictated by the requirements of the regulator and the limitations of the domestic capital

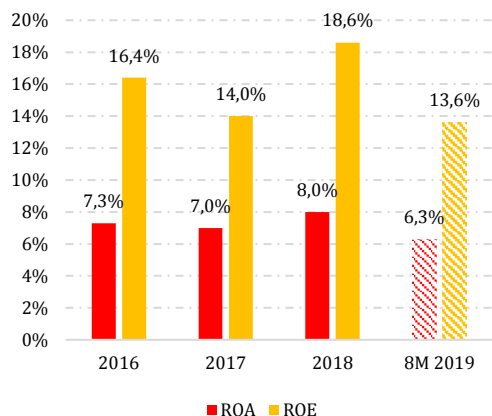
¹ Here and below GWP dynamics are expressed in national currency in nominal terms.

² On 2 July 2018, Kazakhstan adopted the Law No. 166-VI "On amendments and changes to certain legislative acts of the Republic of Kazakhstan on Insurance and Insurance Activities, the Securities Market".

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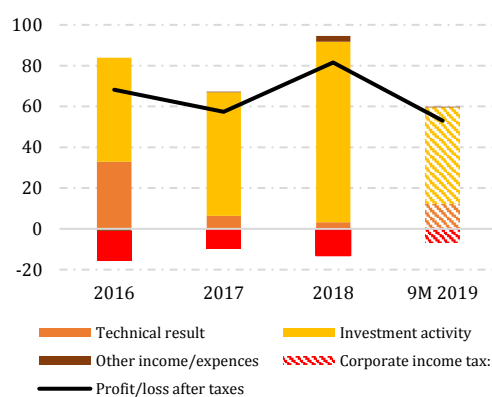
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Graph 3.14: KZ – Profitability metrics



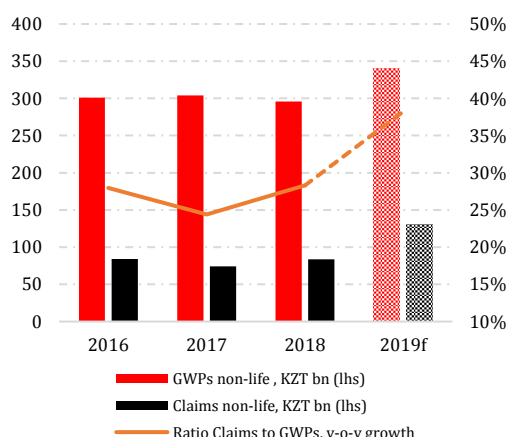
Source: RAEX-Europe calculations based on data from the NBK

Graph 3.15: KZ – P&L composition, KZT bn



Source: RAEX-Europe calculations based on data from the NBK

Graph 3.16: KZ – Non-life GWPs and Claims



Source: RAEX-Europe calculations based on data from the NBK

market. Traditionally, the investment portfolio comprises classical liquid financial instruments, such as bonds, deposits, and cash. As of August 2019, investment in securities accounted for more than 73% of investments, with a large presence of domestic government and non-government bonds owing to their availability and relatively high credit rating (see graph 3.13). Bank deposits and cash amount 25,5% of investments, however, their share is gradually decreasing over the last two years, while securities' stake is rising.

The **profitability of the insurance companies** remains high, with average ROA and ROE of 7,4% and 16,3% in 2016-2018, respectively (see graph 3.14). Net profit in 2018 increased by 42,2% compared to 2017. The main driver and component of the financial result is income from investment activities, which in 2018 increased by 46% largely as a result of the revaluation of foreign currency. The contribution of the technical result³ was the lowest in 2018 due to the significant increase in commission payments. (see graph 3.15). At the end of 2019, the profitability is expected to be less than in 2018 amidst moderate investment results.

The **capital** of insurance companies increased by 13,7% in 2018 driven by an increase in retained earnings, whereas in 2019 the main growth factor was additional capitalization from shareholders, which resulted in 25,4% rise in the charter capital of insurance companies in the first 8 months of 2019. Finally, the regulator's solvency margin was 4,9 with minimum requirements not less than 1, and highly liquid assets amount to 75,5% of the total assets as of September 2019.

Non-Life insurance

The core of the market is the non-life insurance sector which accounted for almost 77% of GWPs in 2018. However, it was the worst year in terms of GWPs, as after an upsurge in 2016, the sector entered a stagnation phase with negative growth in 2018, while gross claims, in contrast, went up by 12,8% (see graph 3.16). According to data for 9 months of 2019, the non-life market revives, demonstrating 20% rise year to year . We expect the upward trend will persist fostered by launching of the electronic policies, which clients can buy directly online. In terms of segment distribution, the largest share in GWPs poses property insurance accounting for 26% followed by compulsory insurances (MTPL and employees), which together represented 33% of total GWPs by the end of 2018 (see graph 3.12). In 2018, the most dynamic insurance products were insurance against accident and compulsory MTPL, with growth rates of 65% and 23% respectively. The ratio of gross claims to GWPs stood at 28,2% in 2018, however for the 9 months of 2019 gross claims increased significantly due to the large share of insurance against financial losses

³ The calculations based on the total income and expenses statement of insurance (reinsurance) organizations of Kazakhstan

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which amounted to KZT 34,4 bn. The main portion of claims are related to MTPL (26%), property insurance (31%), and illness insurance (22%) in 2018.

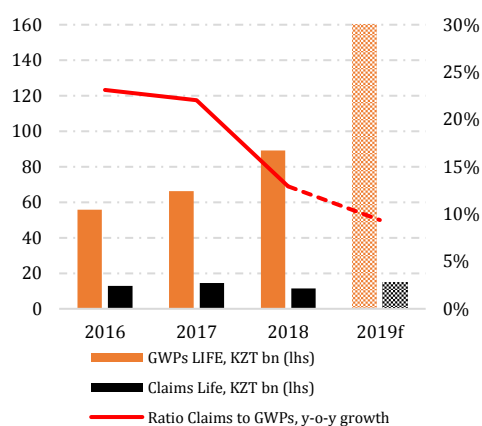
During 2019, four non-life insurance companies left the market, which was primarily influenced by the tightening of supervision over reinsurance operations and activities of insurance brokers. As a result, the share of premiums transferred to reinsurance in 2018 dropped to 16% in comparison to 35% in 2016. In 2019 the company Eurasia continuing to maintain the leading position on the non-life market, which already increased its share in non-life GWP to 27,7% as of 1 October 2019.

Life Insurance

The most dynamic **life insurance sector** has demonstrated accelerated growth, as in 2018 were collected by 35% more GWPs than in 2017. Classical types of life insurance products accounted for 61% of total life sector GWPs in 2018; however, the annuity pension insurance is actively increasing its share, having collected 2,3x more premiums in January-September 2019 y-o-y. On the other hand, the level of gross claims remains low with the ratio to GWP at 13% in 2018. The market comprises of 7 companies in 2019 with Halyk Life occupying the leading position, which, after the merger with Kazkommerts-Life, increased its market share in life insurance GWP up to 43,3% as of 1 October 2019. Given the high growth potential of the market, two new life insurance subsidiaries are going to enter the market in 2019.

Taking into account the high demand for life insurance products, we expect this sector to continue to grow dynamically by broadening the product range and increasing the number of market participants. We expect the growth rate of premiums to reach in 2019 new record levels, moreover, as 82% more premiums have already been collected in the first 9M 2019 than in the same period last year.

Graph 3.17: KAZ – Life GWPs and Claims



Source: RAEX-Europe calculations based on data from the NBK

Market leaders

Table 3.1: Market leaders' indicators for 2018, USD m

	GWP	Share of the market	GWP growth (%)	Claims	ROE (%)	ROA (%)
Non-Life insurance companies						
Eurasia	178,5	26,6	10,7	86,9	26,2	14
Halyk	115,9	17,3	50	26,6	9,7	4,1
Kazakhmys	81,4	12,1	-31,4	1,7	29,3	8,8
Life insurance companies						
Halyk -Life	132,8	40,2	20,4	11,8	24,2	3,8
Nomad Life	101,3	30,7	47,5	13,5	73,4	8,6
European Insurance Company	47,9	14,5	13,9	3,2	54,5	20,6

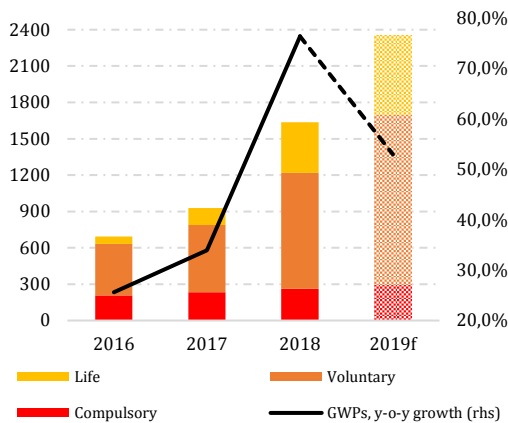
Source: RAEX-Europe calculations based on data from the NBK

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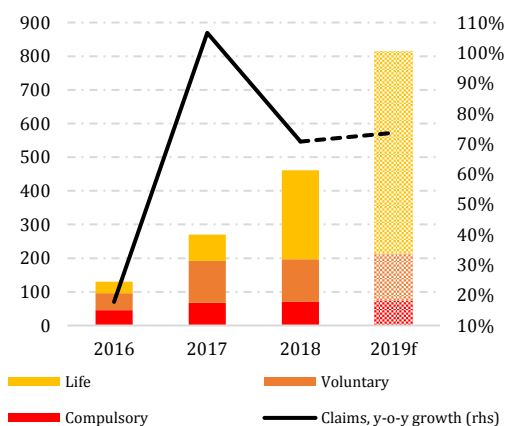
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Graph 3.21: UZ – Total GWPs, UZS bn



Source: RAEX-Europe calculations based on data from the Ministry of Finance of the Republic of Uzbekistan (MFU)

Graph 3.22: UZ – Total Claims, UZS bn



Source: RAEX-Europe calculations based on data from the MFU

3.2 UZBEKISTAN

Uzbek's economy continues to develop steadily, with real GDP growth of 5,1% in 2018 compared to 4,5% in 2017, while in 2019 GDP is also expected to grow by at least 5,5% (see graph 2.2). Due to a series of liberal economic reforms in recent years, the industry has gained momentum with a significant increase of investment in fixed assets, as well as the growth of foreign trade, construction, and services. However, unemployment remains high, with a large share of labor migration, and GDP per capita in 2018 is three times lower than in Kazakhstan (see graph 2.3). Furthermore, institutional development is restricted by the high level of corruption and various barriers for businesses. The Corruption Perception Index⁴ in 2018 was 23 (158th out of 180 countries), and in the World Bank's Ease of Doing Business Uzbekistan ranked 20th among 23 countries of Europe and CA. Growth in consumer demand and investment caused serious price pressures and the highest inflation in the region (see graph 2.4). Inflation and exchange rate volatility are adding instability, exacerbated by increased financial dollarization.

The **insurance market** in Uzbekistan showed in 2018 a record **GWP** growth in the CA region at 76,3%. Moreover, the Uzbek sector is the most dynamic in terms of development, and since 2016 the annual average growth rate was 45,3%. The market is represented by compulsory civil liability and voluntary types of insurance, as well as life insurance. The highest share belongs to voluntary non-life insurance products accounting for 58,3% of total GWP, followed by life insurance with 25,6%. Compulsory products represent 16,1% of the market (see graph 3.21 and table 4.4).

Gross claims have also been in an upward trend by 65% on average during 2016-2018 led mostly by the life segment, while the non-life claims leveled out in 2018 after an upsurge in 2017 (see graph 3.22 and table 4.3). Penetration has also grown and stood at 0,4% in 2018; however, density was USD 6,2, which is much lower than that of Kazakhstan indicating the poor stance of the insurance services consumption while, at the same time, it shows the huge potential of the market with a large share of the young working-age population (see table 4.1).

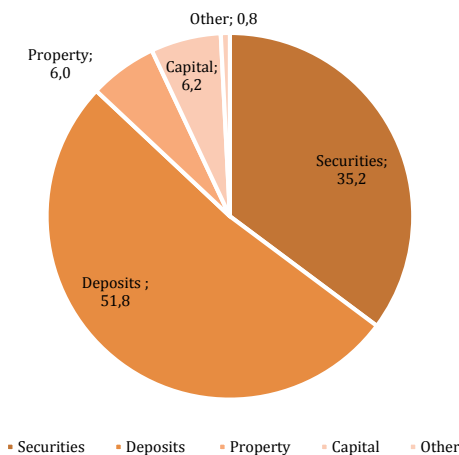
The growth in the number of players in the Uzbek insurance market has intensified over the past two years. Whereas in 2017 there were 27 companies in the market, in the second half of 2019 the number increased to 33. The life insurance sector is developing most actively as four new companies have emerged in the past two years and, as a result, the ratio of life to non-life insurance players is 8:25. **Market concentration** slightly decreased with the top-5 companies share of the market standing at

⁴ Source: Transparency International <https://www.transparency.org/cpi2018>

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Graph 3.23: UZ – Investment allocation, 2018



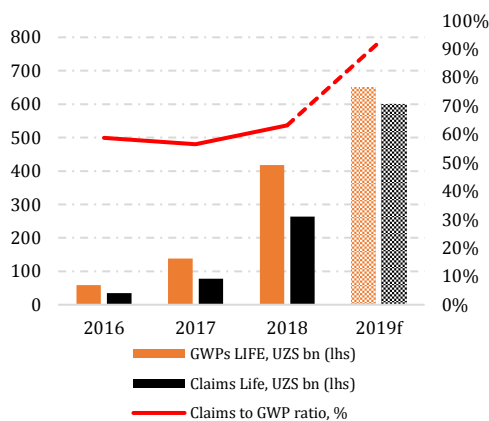
Source: RAEX-Europe calculations based on data from the MFU

48,3% and the top-10 at 78,4% in terms of GWP as of end-2018 (see table 4.5).

Due to considerable growth of premiums and capital, in 2018 the insurers' investments increased by 35,6%. However, given the weak functioning of the capital market, which is limited by state regulation and still has a narrow range of financial instruments, Uzbek insurers' **investment portfolios** are conservative and dominated by bank deposits, the share of which grew from 45,2% in 2017 to 51,8% in 2018. The second place, with a share of 35,2%, is occupied by investments in securities, followed by investments in the capital of enterprises and real estate with shares of 6,2% and 6% respectively (see graph 3.23).

In 2018, insurers' total equity increased by almost a quarter due to significant additional shareholder's **capitalization**. As a result, the charter capital was build-up by 69% in 2018. The total volume of insurance reserves also grew by 45% compared to 2017. To accelerate the development of the insurance industry, the government has introduced a series of reforms⁵, including a gradual increase of the minimum size of the charter capital depending on the types of insurance activity and increase of the size of the reserve fund. The minimum size of the authorized capital should be increased gradually till 2022 up to UZS 20 bn for companies operating in the area of voluntary insurance products, and up to UZS 35 bn for companies in the area of compulsory insurance products. Besides, it is planned to implement electronic policies, developing a mechanism of mandatory medical insurance and introduce international standards of capital adequacy and solvency of insurers.

Graph 3.24: UZ – life GWPs and Claims



Source: RAEX-Europe calculations based on data from the MFU

Life Insurance

Over the last two years, the life insurance segment has seen outsized rise driven by income tax incentives for the population⁶. The growth rate of GWPs has been doubling annually; while in 2016 the share of the life sector encompassed only 10% of the entire market, in 2018 already it went up to 25% (see graph 3.24). We anticipate the share to expand further in 2019 and will account for around 30% of the market. Insurance claims have also shown high growth rates, having more than doubled in 2018, and the ratio of claims to GWP has grown to 63,2%. As of 9M 2019, the ratio of claims to GWP reached 90%, which is explained by the specifics of life insurance products in Uzbekistan, focused on returning a major part of the premiums back to customers in the form of monthly rents or at the end of the insurance agreement, usually after 13 months. Thus, the real growth of the life insurance market is much inferior than the growth of premiums.

⁵ President's Decree from 02.08.2019 "On measures to reform and ensure accelerated development of the insurance market of the Republic of Uzbekistan".

⁶ The funds of the Insured Person allocated for life insurance are not subject to income tax in accordance with the Tax Code of the Republic of Uzbekistan.

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With the growing of the number of companies, concentration has decreased, but the TOP-3 companies still generated 70% of total GWPs in 9M 2019, while the two new companies are just starting operations. According to the results of 2018, the life insurance sector leaders in terms of volume of GWPs were New Life Insurance (38,3% share), Agros Hayot (31% share) and O'zbekinvest Hayot (24,2% share).

Non-life Insurance

The non-life sector also has been accelerating over the past few years, largely driven by GWPs in voluntary insurance products, which grew by 71,8% y-o-y in 2018, thus expanding its share in the total amount of GWPs to 78,4%. Compulsory insurance GWPs increased in a more moderate fashion, by 13% in 2018, mainly due to the insurance of civil liability of employers and vehicle owners. In contrast to the premiums, volumes of claims increased by only 2,7% in 2018, with the ratio of claims to GWP at 16,2% (see graph 3.25).

Concentration in the non-life insurance sector is much lower, the Top-3 and Top-5 companies accounted for 41,2% and 57,5% of all premiums in 2018 respectively. The obvious leaders of the life insurance sector are Uzagrosugurt (share of 14,6%), Uzbekinvest (share of 13,9%) and Gross Insurance (share of 12,6%). We expect further gradual development of the market due to the expansion of the product range and introduction of online policies. In the compulsory insurance segment, the compulsory MTPL coverage has already reached 90% of the market. Going forward, we expect this segment to grow at a slower pace.

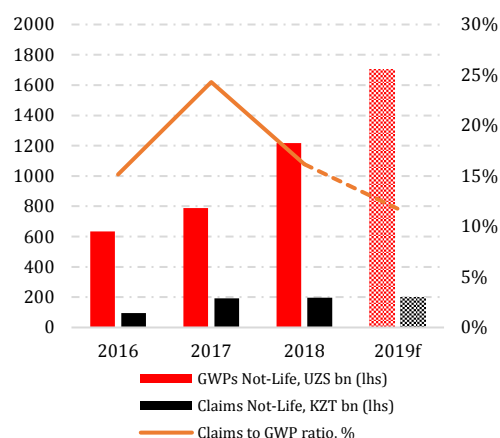
Market leaders

Table 3.2: Market leaders' indicators for 2018, USD m

	GWP	Share of the market	GWP growth (%)	Claims	ROE (%)	ROA (%)
Non-Life sector						
Uzagrosugurta	21,4	14,6	29,1	7,9	12	2,1
Uzbekinvest	20,3	13,9	25,9	3,7	0,2	1,1
Gross Insurance	18,4	12,6	83,9	1,8	27,7	9
Life insurance sector						
New Life Insurance	19,2	38,3	248	11,9	-	-
Agros Hayot	15,5	31,0	879	9,5	67,1	9,9
O'zbekinvest Hayot	12,1	24,2	55,2	8,2	1,6	1,2

Source: RAEX (Europe) calculations based on data from the annual reports

Graph 3.25: UZ – Non life GWPs and Claims



Source: RAEX-Europe calculations based on data from the MFU

3.3 TAJIKISTAN

Even though the Tajik economy showed high real GDP growth at an average of 7,5% in 2017-2018, the country has the lowest GDP per capita at USD 3,4 th in PPP levels in the CA region in 2018, as well as weak state institutions and business climate (see graph 2.2 and 2.3). Tajikistan ranks 126th out of 190 countries in the Doing Business Ranking report and has a Corruption Perception Index of 25 (152nd out of 180 countries). Although inflation remained moderate at 5,4% in 2018 (see graph 2.4), inflation

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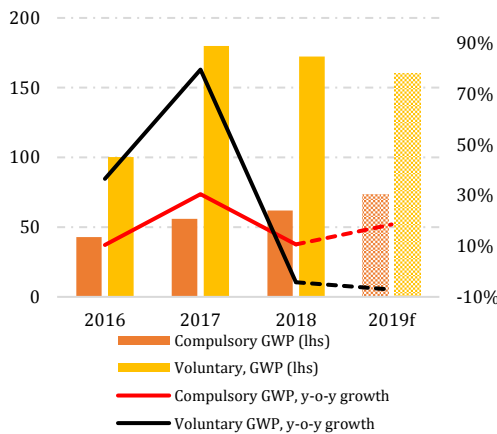
risks remain high amidst high financial dollarization, a fragile banking system with a ratio of banks' assets to GDP at 26% in 2018, as well as the absence of the local capital market since, currently, shares are not traded on Central Asian Stock Exchange. On the positive side, it can be noted that in February 2019, the National Association of Insurance Companies was established in Tajikistan, the purpose of which is to develop insurance activities and market competition, as well as to protect the rights of consumers.

The development of the **insurance market** in Tajikistan lags behind the markets of Kazakhstan and Uzbekistan, with a density of USD 2,8 and a penetration of 0,34% reading in 2018 (see table 4.1). The main problems hindering the development of the insurance market are low incomes of the population, underdeveloped insurance market infrastructure and regional disproportions, as well as lack of incentives in taxation. Since 2017, the number of insurance companies in the market has remained practically unchanged. In 2017, the market was represented by 18 private and 2 state-owned companies and, as of June 2019, after the withdrawal of 3 licenses and issuance of a new one, the number of private companies decreased to 16.

In contrast to other countries of the region, the **volume of GWPs** collected by insurance companies in Tajikistan decreased by 0,7% in 2018 (see graph 3.31). According to the National Bank of Tajikistan (NBT), the largest part of the GWPs is comprised of voluntary types of insurance with a share of 73,6% as of 2018; however, the negative dynamics of these types of insurance products continues and following the results of 2Q 2019, the volume of premiums decreased by 4% y-o-y. At the same time, a significant share of almost 50% in voluntary insurance GWPs was transferred to reinsurers. On the contrary, compulsory types of insurance products showed positive growth dynamics as GWPs for this segment grew by 10,7% in 2018 and by 23,4% in 1H 2019. The **gross claims** also declined by 8,8% due to almost half of a decrease in the compulsory insurance segment. The ratio of claims to GWPs remained the lowest in the region at 4,5% in 2018. Voluntary insurance products dominate in terms of claims, with a share of 85% of overall claims and a growth of 6% in 2018 (see graph 3.32).

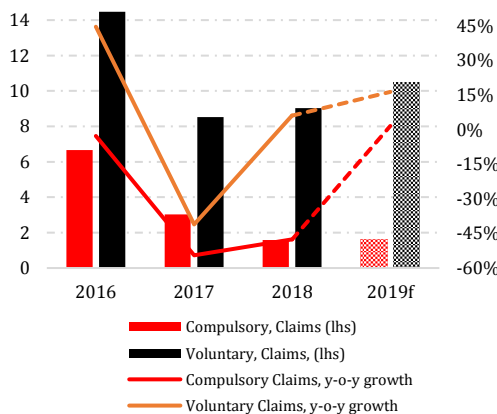
Due to the lack of reporting on the results of operations and assets published by the NBT and the companies themselves, there is no possibility to do a comprehensive analysis of the structure of investments, market concentration, and leaders. The concentration of companies by assets is high, as the Top-5 companies account for 88% of the total assets of the sector. The largest companies by assets are Sugurtai Avvalini Milli (34,5% share), Spitamen-Sugurta (25,2% share) and Tojikisugurta (15,2% share).

Graph 3.31: TJ – GWPs, TJS m



Source: RAEX-Europe calculations based on data from the National Bank of Tajikistan

Graph 3.32: TJ – Claims, TJS m



Source: RAEX-Europe calculations based on data from the NBT

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Table 3.3: Market leaders' for 2018, USD m

	Ownership	Total Assets	Share of the market (%)
Sugurtai Avvalini Milli	private	13,6	34,5
Spitamen-Sugurta	private	9,9	25,2
Tojikisugurta	government	5,3	15,2

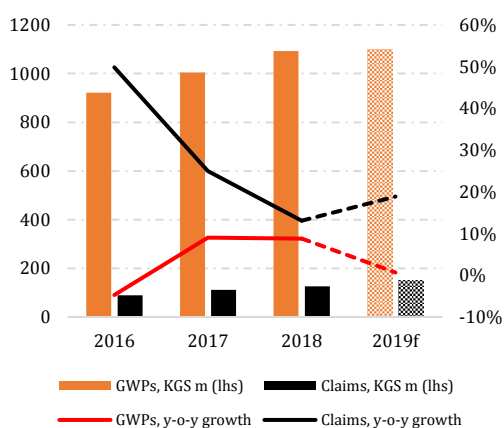
3.4 KYRGYZSTAN

In 2018, Kyrgyzstan's real GDP growth declined to 3,5% after a 4,7% reading from 2017 (see graph 2.2) and was the slowest in CA, while the **economy** remains highly dependent on remittances and exports from the extractive industry, making the country vulnerable to external demand. However, due to the policies implemented by the authorities, certain stability has been achieved in public finances and the banking sector, while the inflation rate has been low at 0,5% in 2018 (see graph 2.4). Although sustainability and positive economic dynamics remain in the medium term, faster growth is required to overcome one of the lowest poverty levels and improve living standards than in other peer countries.

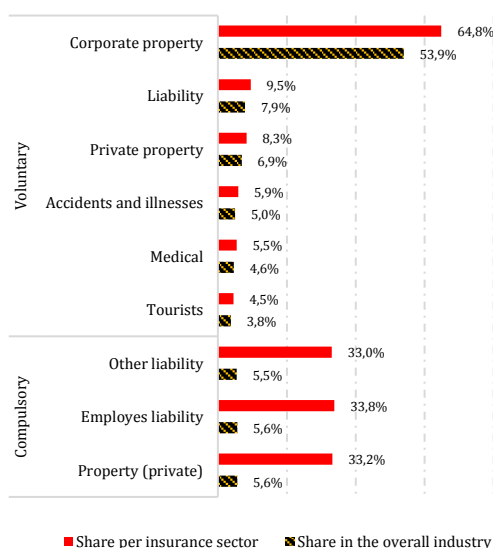
The country's **insurance market** is weak with penetration and density at 0,2% and USD 2,5 in 2018 respectively, both figures indicate that this market is the least developed amongst the selected CA country peers (see table 4.1). Low level of financial inclusion, poor personal disposable income and regulatory support from the state complicate the activation of the insurance business. In 2018, there were 22 registered insurance companies, although only 19 companies were operating. Furthermore, at the end of 2Q 2019, only 17 companies on the market generated premiums, as most companies with foreign capital have shrunk their activities. Except for only one company, the entire insurance business is concentrated in the capital of the country, which indicates a weak coverage of the population with insurance services.

During 2017-2018, **GWPs** grew at an average annual rate of 8,9%, but in 1H 2019 there was a slowdown as insurers collected less than 50% of last year's premiums. About half of the collected premiums were transferred under reinsurance contracts. We expect the GWP s collected in 2019 to be no higher than last year's figures, while the **gross claims** is likely to increase (see graph 3.41).

According to the official data as of 2018, 83,3% of GWPs on the market were generated from **voluntary** types of insurance. The leading position is occupied by corporate property insurance with a share of 53,9%, followed by liability insurance with a share of 7,9% (see graph 3.42). **Compulsory** types of insurance have around 16,7% of the market; however, these showed the strongest growth as their GWPs increased by almost 30%, especially from liability insurance products, which grew dramatically by 8x from 2016. This trend was caused by the adoption in 2016 of legislative acts on compulsory insurance and the establishment of

Graph 3.41: KG – GWPs vs Claims


Source: RAEX-Europe calculations based on data from the National Statistical Committee of the Kyrgyz Republic (NSCKR)

Graph 3.42: KG – Types of insurance, 2018


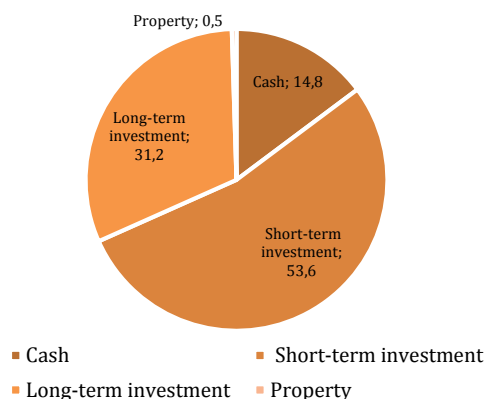
Source: RAEX-Europe calculations based on data from the NSCKR

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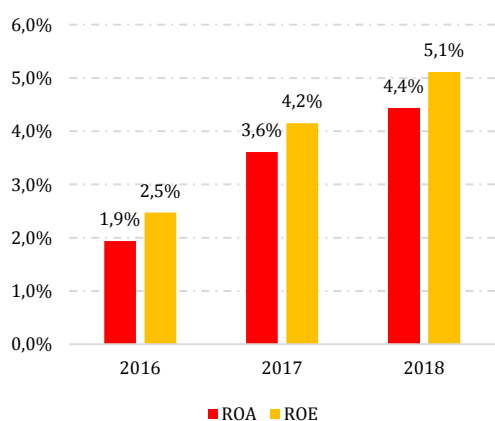
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Graph 3.43: KG – Structure of investment portfolio, % as of the end 2018



Source: RAEX-Europe calculations based on data from the NSCKR

Graph 3.44: KG – Profitability metrics, %



Source: RAEX-Europe calculations based on data from the NSCKR

the State Insurance Organization specializing in such types of insurance. When it comes to claims, these grew faster than GWPs in 2016-2018 by 29,3% average annually (see table 4.3) and in 2018 ratio of claims to GWP stood at 11,5%. The largest amount of the claims was represented by voluntary property and personal insurance products with shares of 56% and 36,2% respectively.

The Kyrgyz insurance sector is highly **concentrated** on the top companies; as of 1H 2019, Top-5 and Top-10 companies accounted for 68,3% and 94,5% of overall GWPs (see table 4.5). The largest companies in 2018 were Ingosstrakh with a share of 38,9%, Jubili Kyrgyzstan accounting for 10,6% and Insurance company Kyrgyzstan with 8,9% of the premiums (see table 3.4). The life insurance sector is not developed and the only company which wrote life insurance premiums in 1H 2019 was Insurance company Kyrgyzstan.

The bulk of **investment portfolios** of the Kyrgyz insurance companies is mostly made up of short-term investments, which comprise almost 54% of total investments, while 31,2% consist of long-term investments (see graph 3.43). Moreover, the amount of real estate and property investments in the portfolios of companies is almost negligible, while 15% of them are concentrated in cash. Unfortunately, there is no information on the structure of securities' investments; but, as in the case of other countries in the region, companies traditionally allocate funds on deposits and government bonds. Moreover, the domestic capital market is weak and provides few investment alternatives. In 2018-2019 the total market capitalization of companies listed on the Kyrgyz Stock Exchange stood below 5% of GDP.

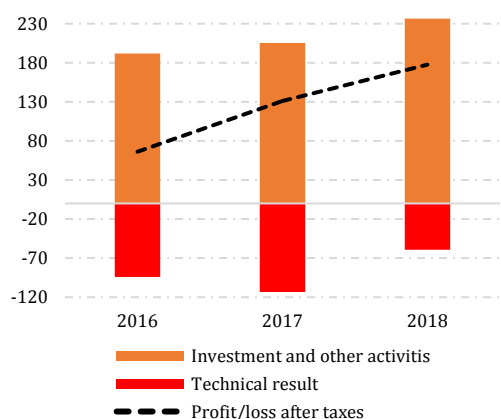
The insurance market **profitability** is growing, with ROA and ROE at 4,4% and 5,1% respectively in 2018 (see graph 3.44). Net profit in 2018 increased by 35% compared to 2017. The contribution of the technical result⁷ was negative but it improved in 2018, as premiums grew faster in absolute terms than claims and administrative expenses. The result from investment and other activities made a positive contribution and increased by 15,4% in 2018. (see graph 3.45).

Total equity of insurance companies increased annually by 14,3% on average during 2016-2018, which was mainly determined by increasing in 2016 the requirements of the minimum **authorized capital** for insurance companies by KGZ 50 m up to KGZ 150 m. Furthermore, it is likely that the minimum amount of the authorized capital will be increased further, which is associated with the forthcoming admission of private companies into the compulsory insurance market. Approximately, the requirements may double, which will affect the redistribution of the

⁷ The technical result is calculated as difference between GWPs and total expenses of insurance companies

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Graph 3.45: KG – P&L composition, KGS m


Source: RAEX-Europe calculations based on data from the NSCKR

market and the departure of small companies for which these requirements are difficult to meet.

We expect a gradual development of the insurance market with an increase in generated premiums by 5% after 2019. Drivers of growth will be voluntary personal insurance and mandatory insurance. The main factor which will propel the development of the market is the introduction of the law on compulsory insurance of civil liability of motor vehicle owners which will come into effect in 2019. Besides, the authorities intend to further develop compulsory property insurance for households, as this type of insurance covers no more than 10% of the country's housing fund.

Table 3.4: Market leaders' indicators for 2018, USD m

	GWP	Market share	GWP growth (%)	Claims	ROE (%)	ROA (%)
Ingosstrach	6,09	38,9	2,7	0,21	7,2	3,2
Jubili Kyrgyzstan	1,66	10,6	26,5	0,17	9,6	1,4
Kyrgyzstan	1,39	8,9	8,8	0,20	-	-

Source: RAEX (Europe) calculations based on data from the annual reports

4. PEER COMPARISON

Table 4.1: Density, USD (gross written premiums per capita) and Penetration (gross written premiums to GDP)

	Density			Penetration (%)		
	2016	2017	2018	2016	2017	2018
Kazakhstan	58,3	62,4	61,1	0,76	0,70	0,65
Uzbekistan	7,3	5,5	6,2	0,29	0,31	0,40
Tajikistan	2,1	3,1	2,8	0,26	0,39	0,34
Kyrgyzstan	2,2	2,3	2,5	0,19	0,19	0,20

Table 4.2: Total GWPs and Claims, USD m

	GWPs			Claims		
	2016	2017	2018	2016	2017	2018
Kazakhstan	1044,3	1135,2	1115,8	284,1	272,1	276,0
Uzbekistan	233,5	180,4	202,7	44,1	52,5	57,1
Tajikistan	18,3	27,5	25,5	2,7	1,4	1,2
Kyrgyzstan	13,2	14,6	15,9	1,3	1,6	1,8

Table 4.3: Total GWPs and Claims, y-o-y growth in Local Currency %

	GWPs			Claims		
	2016	2017	2018	2016	2017	2018
Kazakhstan	23,8	3,7	4,0	7,9	-8,6	7,3
Uzbekistan	25,6	33,9	76,3	17,8	106,6	70,7
Tajikistan	27,5	64,9	-0,7	25,7	-45,3	-8,1
Kyrgyzstan	-4,7	9,0	8,8	49,8	25,0	13,1

Table 4.4: Structure of total GWP (types of insurances), %

	2017			2018		
	Compulsory	Voluntary	Life	Compulsory	Voluntary	Life
Kazakhstan	26,2	55,9	17,9	26,6	50,2	23,2
Uzbekistan	25,2	59,9	14,9	16,1	58,3	25,6
Tajikistan	23,7	76,3	-	26,4	73,6	-
Kyrgyzstan	14,0	86,0	-	16,7	83,3	-

Table 4.5: Concentration of the insurance market, %

	Number of companies, year end		Top-5		Top-10	
	2017	2018	2017	2018	2017	2018
Kazakhstan (in total GWP)	32	29	47,8	60,9	70,9	79,9
Uzbekistan (in total GWP)	27	30	52,9	48,3	76,5	74,4
Tajikistan (in total assets)	20	18	88,2	88,0	96,3	97,3
Kyrgyzstan (in total GWP)	20	22	72,6	68,3*	-	94,5*

* as of the 1H 2019 Source: RAEX-Europe calculations based on data from the National Bank of Kazakhstan, Central Bank of the Republic of Uzbekistan, National Bank of Tajikistan, National Statistical Committee of the Kyrgyz Republic and State Service of Regulation and Supervision of the Financial Market at the Government of the Kyrgyz Republic

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