

VIA FACSIMILE

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Aleksey Kudrin
Minister
Ministry of Finance
Ulitsa Il'inka, 9
Moscow 109097
Russian Federation

Fax: (095) 925-0889

Dear Minister Kudrin,

On behalf of the Coalition of Service Industries Insurance Committee, we are writing to advocate establishing a more liberal insurance regime in Russia as part of its accession to the World Trade Organization (WTO). We respectfully disagree with the All-Russia Insurance Association (ARIA) letter to you of October 11, which argues for trade restrictions against foreign insurers. According to this letter, the ARIA believes sectoral liberalization is against Russia's fundamental economic interests. On the contrary, we believe, and we believe experience in other markets demonstrates, that broad market access and national treatment commitments would benefit Russian economic growth and Russian consumers.

Liberalized trade in insurance services facilitates greater investment and transfer of advanced technology and expertise, both essential for Russia's growing economy. As experience shows, foreign competition will also result in improved quality and variety of insurance services at a lower cost, increasing Russian business productivity and the competitiveness of Russian industry.

Foreign insurers offer security needed for business expansion and provide capital for investment in Russian enterprises and critical infrastructure. They bring a strong focus on loss prevention practices and provide compensation for injuries and property losses that were previously drains on Russian resources. For these reasons, we consider Russia's current limitations on foreign insurance companies and intermediaries both damaging to future sectoral growth and counterproductive for the entire Russian economy.

We believe that Russia's accession commitments in insurance should be no less ambitious than those provided by new WTO members. Those members' services schedules stipulate valuable obligations in cross-border trade and trade through commercial presence, including companies' right to establish in a corporate form of their choice.

We are concerned that Russia's proposed sectoral cap on foreign penetration will unavoidably create problems of definition, measurement, national treatment and transparency. With regard to foreign equity restrictions, the capital cap limiting foreign ownership to minority positions will repel serious investors.

We believe that Russia's phase-out periods for foreign equity limitations will unnecessarily delay much needed sectoral liberalization. The long transitional period to secure foreign access to life and compulsory lines, particularly third party auto liability insurance, would hurt Russia. Auto liability insurers bring highway safety advocacy and risk based pricing systems that will help address Russia's highway safety problems. Discouraging these insurers from entering and expanding in the market will adversely affect the public in terms of preventable accidents, deaths, injuries and associated economic losses.

The industry also urges that the scope of Russia's compulsory insurance be limited only to the existing four lines and that all restrictions on compulsory insurance be phased out within 2-3 years of accession.

Since the sectoral cap is not stipulated under any accession agreement, the US insurance industry suggests that this restriction be eliminated within a five-year period. We also urge you to consider exempting from this cap companies that are already operating or applying to operate in Russia.

Although Russia's offer allows operation through foreign insurance subsidiaries, it is equally important for US companies to be able to enter the market as direct branches. Unlike subsidiaries or joint ventures, direct branches are one and the same legal entity as their corporate parents. This means that the parent is fully liable for a branch, and branch capital is the capital of the foreign parent.

The fact that the branch is the same legal entity as its parent does not, however, restrict the ability of Russian regulators to effectively regulate foreign branch activities. Branch operations of foreign insurers are fully subject to the insurance, labor, tax and other laws governing domestic insurers operations in their host country. In addition, the prudential carve-out of the GATS Annex on Financial Services explicitly recognizes the insurance regulator's authority to establish a regime that maintains the stability of the market and provides appropriate protections for consumers. To address the lack of Russia's regulations on direct branching, we suggest considering a reasonably short transition period of 5 years. The National Association of Insurance Commissioners can offer technical assistance with the drafting of appropriate regulations and advice on supervision of foreign branch operations.

We also wish to emphasize the importance of guaranteeing acquired rights for insurance companies already operating or applying to operate in the Russian market. We believe the agreement should not impair such operations, and should permit companies to continue to expand their business on the basis of their existing license and corporate structure. Russia's commitment to acquired rights will be consistent with other accession agreements and with the GATS principle of progressive liberalization.

Experience shows that foreign insurers remain committed to continued business even during financial crises, such as the Asian crisis of 1997. Foreign insurers strengthen the market during such times by providing an additional source of capital and investments through an insurer's obligation to match risks in the currency of the host country. US insurers also place great importance on protecting their brand internationally, and are committed to foreign markets as an element of their global strategy.

We welcome Russia's accession to the WTO, but we also believe strongly that its accession terms should meet the liberalization level required from comparable WTO economies and acceding countries. A high quality accession agreement will be crucial to maintain the integrity of the WTO system and secure strong support from the industry and US Congress.

Thank you for considering our views.

Sincerely,

David Snyder
Chairman

Coletta Kemper
Vice Chair

Brad Smith
Vice Chair

Cc: German Gref, Trade Minister
Maxim Medvedkov, Deputy Trade Minister
Andrey Dolgorukov, Minister Counselor