



Kazakhstan: Enhancing Insurance Market Efficiency and Outreach

Project Name	Enhancing Insurance Market Efficiency and Outreach		
Project Number	48037-001		
Country	Kazakhstan		
Project Status	Active		
Project Type / Modality of Assistance	Technical Assistance		
Source of Funding / Amount	TA 8738-KAZ: Enhancing Insurance Market Efficiency and Outreach		
	Financial Sector Development Partnership Special Fund		US\$ 500,000.00
	Technical Assistance Special Fund		US\$ 300,000.00
Strategic Agendas	Inclusive economic growth		
Drivers of Change	Governance and capacity development Partnerships Private sector development		
Sector / Subsector	Finance - Insurance and contractual savings		
Gender Equity and Mainstreaming	No gender elements		
Description	The TA will support the Kazakhstan government to enhance the efficiency of insurance markets and expand their outreach. The TA will help improve the quality and efficiency of supervision of the insurance system, including cross-border supervision, and deepen insurance penetration through better product design and pricing and use of alternative distribution channels. The enhanced capacity of the NBRK to implement and observe international insurance principles and standards and promote customer protection will also contribute to greater confidence and trust of market participants.		

Project Rationale and Linkage to Country/Regional Strategy

In 2013, Kazakhstan had an insurance market penetration of 0.8% of the country's gross domestic product, which is low compared with the global average of 6.3% and emerging markets average of 3.0%. Insurance spending per capita is also low. In 2013, the insurance density rate equaled \$101 per capita, compared with the global average of \$652. Most insurance activity is limited to urban areas, concentrated around Astana and Almaty. Although the subsector is small, it has been growing significantly, with total assets of T521 billion (\$3.4 billion) in 2013. Premiums reached T253 billion (\$1.4 billion) in 2013, a 20% increase from the end of 2012. Premium growth is associated with the government's health and pension reforms and a growing economy that has boosted per capita incomes and insurance demand.

The country has 34 licensed insurance companies (including 7 life insurers) and 14 registered insurance brokers. The subsector is moderately concentrated, with the three largest companies holding 40% of assets. These insurers, however, are very small by international standards, and unable to benefit from economies of scale. Two of the insurers are state-owned. Foreign insurers are practically nonexistent, with two insurers recently leaving the market. Due to their small market capitalization, insurance funds are insufficient to underwrite and they retain significant proportions of large corporate risk on their balance sheets. As a result, almost 90% of the corporate risk is reinsured outside Kazakhstan. Reinsurance activity remains a key concern for the regulator given the significant share of reinsurance that takes place outside of Kazakhstan and the difficulty of monitoring these activities. Without large local reinsurance companies, most risks are ceded to reinsurers outside of the country (mainly Russian and European companies). In many cases, the primary insurer cedes all, or virtually all, of the risk of loss to a reinsurer who also controls the underwriting and/or claim-handling process (fronting process). Similarly, Kazakhstan insurers accept inward reinsurance premiums from foreign companies on a reciprocal basis. Since foreign reinsurers are not licensed or monitored by Kazakh regulators, concerns focus on reinsurance placements with or from institutions with low credit quality and without adequate transparency. The supervisor lacks the capacity and resources to monitor ceding company transactions, particularly for risks being reinsured through entities in offshore jurisdictions. New regulations were introduced in 2012 to increase domestic risk retention. As of 1 October 2013, only 25.2% of the insurance premium was ceded by way of reinsurance to foreign insurers and reinsurers. Rating requirements have also been increased for the placement of risk with foreign reinsurers. The new requirements encourage domestic insurers to work with large reinsurers and increase the domestic share of reinsurance, but concerns remain.

The National Bank of the Republic of Kazakhstan (NBRK) is responsible for insurance regulation and supervision. Most of the regulations are modeled on European Union directives. Consolidation of the insurance industry is under way, including tightening the prudential regulatory regime. Kazakhstan's participation in a customs union with Belarus and the Russian Federation, as well as the ratification of the protocol on the creation of a single insurance market for the Eurasian Economic Community member countries, are driving forces for harmonization of insurance legislation and unification of insurance markets by 2019. Protocols and procedures for cross-border supervision of branches, subsidiaries, and insurance intermediaries through supervisory colleges are likely to be established. This will help avoid the unintended consequences of regulatory arbitrage, while preserving the stability of the insurance market.

The insurance subsector has growth potential but faces several major challenges. Constraints include (i) fragmented market structure, with many insurers not having the critical size to build adequate risk pools, underwrite contracts, and innovate; (ii) weaknesses in regulation and supervisory capacity, and in consumer protection, which undermine confidence and trust, and the sound development of the market; (iii) grossly underdeveloped life insurance subsector, dominated by annuities; (iv) catastrophic insurance, which is rarely sold or reinsured for the risks taken; (v) limited availability of professionally qualified staff, including in insurance companies; and (vi) limited development of other segments of the finance sector allowing for long-term investments, which results in insurance companies having difficulty finding profitable placements for their funds.

ADB's country operations are guided by the Country Partnership Strategy (2012-2016). A diversified financial sector, with robust insurance markets that assess and price risks appropriately and support an efficient allocation of capital is a cornerstone for the development of the private sector.

Impact Greater outreach of insurance achieved

Project Outcome

Description of Outcome Strengthened policy and regulatory framework for insurance supervision and product design

Progress Toward Outcome On going

Implementation Progress

- Description of Project Outputs
1. Risk-based supervision strengthened
 2. Reinsurance, and group and cross-border supervision improved
 3. NBRK staff capacity to regulate and supervise the insurance subsector improved
 4. Actuarial database for insurance product' design strengthened

Status of Implementation Progress (Outputs, Activities, and Issues)

Output 1: The early warning system component and the profiling tool component have been completed and are now entering the test phase as a supervisory tool for NBRK. The QIS/Solvency II component has been completed. The risk-based supervision internal guidelines has also been completed and will be incorporated into NBRK's manual for offsite supervision.

Output 2: The reinsurance component has been completed. Additionally regulation amendments will be supported.

Output 3: Several trainings on Solvency II, supervisory tools and mortality tables, among others, have been implemented.

Output 4: A new database including updated mortality and disability tables have been completed.

The following additional TA activities are expected to be completed within 2016.

- Development of a market wide stress test;
- Standardization of sensitivity test;
- Reserve calculations for worker's compensation and for annuity business have new regulation which also addresses general reserve calculation issues; and
- Conducting a regional seminar on insurance.

Geographical Location

Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design	Initial stakeholders' consultations with the Ministry of Economy and Budget Planning, the National Bank of the Republic of Kazakhstan (NBRK), relevant associations and insurance companies have taken place during review missions for other projects in 2012 and 2013. The scope, outcome and outputs of the proposed PATA were firmed up during fact finding.
During Project Implementation	The TA co-funded the fourth Actuarial School event with the Actuarial Society of Kazakhstan and the NBRK from 16 to 18 September 2015 in Almaty. The team engaged with industry representatives, actuaries and regulators from the region. A regional seminar on insurance will also be conducted in October 2016 in Almaty as an additional TA activity.

Business Opportunities

Consulting Services	The technical assistance (TA) will require 34 person-months of consulting services-- three international consultants for a total of 12 person-months, and two national consultants for 22 person-months. The consultants will be recruited as individual consultants in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). The team of individual consultants will be required to provide deliverables consistent with the design and monitoring framework activities, outputs, and delivery dates. Precise work timelines and deliverables with dates will be defined at inception, documented in the final inception report, and agreed with the executing agency and the ADB. Approval of a new position of Actuary (national) and revised terms of reference for the positions of Actuary (international) and Project analyst (national) has been granted after the TA inception mission fielded on 3 February 2015. In addition, approval for engagement of a Risk Management Expert (international) was granted in April 2016. The expert will speak at and assist the team leader in conducting the regional seminar on insurance in October 2016.
Procurement	Not applicable.

Responsible Staff

Responsible ADB Officer	Martinez, Inmaculada
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Public Management, Financial Sector and Trade Division, CWRD
Executing Agencies	<i>The National Bank of Kazakhstan Koktem-3, 21, Almaty 480070 Republic of Kazakhstan</i>

Timetable

Concept Clearance	19 May 2014
Fact Finding	09 Apr 2014 to 11 Apr 2014

MRM	-
Approval	17 Oct 2014
Last Review Mission	-
Last PDS Update	20 Sep 2016

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Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
17 Oct 2014	21 Nov 2014	21 Nov 2014	30 Nov 2016	31 Jul 2017	-

Financing Plan/TA Utilization							Cumulative Disbursements	
ADB	Cofinancing	Counterpart				Total	Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
800,000.00	0.00	0.00	0.00	0.00	0.00	800,000.00	17 Oct 2014	595,738.24

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