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Finance Ministry Proposes Liberalization of Insurance Rates

By The Moscow Times

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The Finance Ministry wants to change the way that mandatory insurance policies are priced, replacing the current fixed-rate system with one that calculates premiums on an individual basis, Vedomosti reported Tuesday.

In the "road map" for the development of the insurance industry submitted to the parliament, the ministry proposes to gradually phase out all fixed-rate policies, including mandatory vehicle insurance, by 2020.

Economic Development Minister Alexei Ulyukayev last week said the current fixed-price system for insurance was unacceptable.

The Finance Ministry plans to work with the State Duma and consumers to set a price range that would stop insurance rates fluctuating too much, but that would allow a degree of liberalization, Deputy Finance Minister Alexei Moiseyev said.

But the gradual replacement of state-imposed price controls with free-market mechanisms would require strict government oversight, Sogaz CEO Sergei Ivanov said.

The insurance industry reform should be approached with caution, Ingosstrakh vice president Ilya Solomatin said.

Former Finance Minister Alexei Savatyugin is even more skeptical, suggesting that the reform can bring the industry to the situation of the early 2000s, when captive insurance companies were widespread.

Mandatory types of insurance will never be fully revoked because they have the highest profit margins, Dmitry Yanin, head of the International Confederation of Consumer Associations, said. However, if vehicle insurance becomes market-regulated, it will bring better service and a reduction in prices by about 40 percent, Yanin says.

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