

Vitaly Shapran, Vladimir Dukhnenko, Oksana Dubrova, Adip Khisamov

The uncovered transparency

The persisting opacity of the insurance market is to a large extent the regulator's fault. Yet, some companies have started to disclose information regarding their owners, as well as the details of their financial reports



The insurance market remains a closed segment of the Ukrainian financial services market due to the insurers' involvement in 'grey' insurance schemes, the banks' undisputed market domination and the inconsistent policy of the major regulator — the State Commission for Regulation of Financial Services Markets of Ukraine (Gosfinuslug). For six consecutive years Gosfinuslug has been trying to convince the insurers to follow the bankers' example and start publishing their data. Given that the majority of large insurance companies are joint stock companies, Gosfinuslug — after adopting a template for the insurers' public accounting — could potentially join forces with the Securities and Stock Market State Commission (GKTsBFR) in enforcing policy among the stock-issuing insurers. So far, however, the two regulators failed to strike an agreement. As a result, Gosfinuslug has to derive its information in bits and pieces from those insurers that had had to issue securities.

Gosfinuslug possesses software which not only allows it to receive companies' reports via the Internet, but also lets the regulator analyse them, enabling the continuous reception and automation of the insurers' data. An average size of one report is one to two megabytes, which means that all 350 reports that Gosfinuslug received in the first half of 2006 could be stored on a single CD. Due to the absence of

The Gold Reserves

Group A consists of the six most transparent insurance companies (ICs). As of the first half of 2006, they collected gross premiums worth nearly \$200m, which makes up 16% of the gross premiums collected by all Ukrainian insurers over the same period. Our estimations suggest that Group A companies collected roughly half of all premiums untainted by the 'grey' insurance schemes market. These companies comprise the gold reserves fund of the Ukrainian insurance market. Sixteen out of the 36 Group A insurers received the highest rating grade (Aaa) for their performance in 2005.

ROSNO Ukraine, Alfa-Garant, Status, Rezerv, VESKO and Veksel are in the forefront of the leading group. ROSNO, the Russian group controlled by the German financial holding company Allianz Group and the Russian-based AFK Sistema, is a newcomer to the Ukrainian insurance market: It began its operations in September 2005 after purchasing the Gelios IC. ROSNO's gross premiums in the first half of 2006 amounted to \$2.4m, which is roughly equivalent to its total intake in 2005. The company's rapid ascent in Ukraine can be attributed to a corporate client database lined up for its use. AFK Sistema, one of ROSNO's major shareholders, controls UMS, a Ukrainian mobile operator, while Dresdner Bank, which is part of Allianz, services many Ukrainian companies' European loans. In fact, ROSNO Ukraine's biggest insurance claim was made by UMS. The company's combined coefficient

INGO-Ukraine is primarily controlled by Ingosstrakh, Russia's biggest insurance company, with another 18% of its stock held by the Association of International Road Carriers of Ukraine. In autumn 2004 Ingosstrakh purchased Ostra-Kiev, an insurance company that was later renamed INGO-Ukraine. Ingosstrakh is controlled by the Russian tycoon Oleg Deripaska who owns 10% of the company. Deripaska is also the Chairman of the board of OJSC RUSAL, which controls the Nikolaev Alumina Refinery. Fifty percent of ASKA's stock belongs to SCM Finance, Ltd., which makes it part of Rinat Akhmetov's financial-industrial empire.

Although Alfa-Garant, which holds second place in Group A, was set up as a company with additional responsibilities it has made the decision to open up to the market. However, no information is given about its founders other than the fact that Alfa-Garant is Ukrprombank's principal insurance partner.

Group A insurance companies are all closely affiliated with banks. Thus, a portion of Rezerv's stock is owned by JSCB Kyiv. The Veksel IC has two individual owners, while at the same time holding 38.33% of JSCB National Credit stock. Another 42.27% of National Credit's shares are owned by Prominvestbank. Rezerv and Veksel were the most profitable insurance companies among the leaders of Group A. Twenty-two per cent of VESKO's stock, another IC in Group A, belongs to Aleksandr Kuznetsov, the company's CEO. Moreover, there are reasons to believe that VESKO is closely affiliated with the Finances and Credit Bank. Finally, the names of such companies as Brokbiznes Insurance and TAS Insurance Group clearly indicate which banking groups back them.

Insurers tend to maintain close links with banks, as demand for insurance products is formed through the development of consumer and mortgage credit programmes. Additionally, the insurers can use the premises of banks, realtors or automobile dealerships to avoid additional costs associated with setting up insurance branches.

Some large insurance companies do quite well due to their integration with large financial industrial groups (IFGs). However, being integrated with an IFG does not always imply that the IC will also be involved in 'grey' insurance schemes. Conversely, such companies often act as managers of large industrial and financial risks inside Ukrainian informal IFGs.

The almost transparent companies

Companies that comprise Group B have failed to disclose their financial statements to Expert RC. Nevertheless, reasonably detailed information on these companies is publicly available. Three of the large companies with gross premium takings exceeding \$20m made it to Group B: Lemma, Garant-Avto (which in summer of 2005 was sold to Generali, a large

The financial indicators for the first half of 2006 have caused us to downgrade the stability rating of eight out of sixteen companies due to general slowdown of the insurance market

official information, the market has to make do with data (such as databases and research reports) leaked from large international companies that monitor the operations of their Ukrainian reinsurance partners. Additionally, several Ukrainian insurers have decided to publish the details of their companies' performance.

Expert RC (the rating and ranking centre of Expert Ukraine) has for the first time conducted a research investigation that aimed to identify stable insurance companies which are adopting transparency standards. It is the first project that offers the rating of the insurers' financial stability to the public.

(the ratio of the sum total of the company's insurance payments to its revenue), which is a principal profitability ratio in insurance, reached 0.85 — an impressive growth given that the European average is 0.95. In other words, ROSNO Ukraine's profitability is already assured for the first few years in the market.

Only two companies from this group managed to collect gross premiums that exceeded \$20m during the first six months of 2006: INGO-Ukraine and ASKA, with \$24m and \$20m respective gross premium takings. Nevertheless, the combined coefficient of the two companies' operations was more than one — a clear indication that they were unprofitable.

The regulator's algorithm

For the basis of its stability rating, Expert RC assumed the model devised by Gosfinuslug that was certified in May 2005. This model for risk insurers consists of eleven coefficients that account for the specificity of the insurance business. Expert RC has only slightly adjusted the regulator's model.

For Group A companies, the calculations were made in the following stages:

1. On the basis of the data submitted by the insurance companies, we calculated all eleven coefficients according to the aforementioned Gosfinuslug May 2005 decree. The calculation methodology was altered for one indicator only: "growth rate of net premiums" was substituted with "growth rate of gross premiums". This move was substantiated by the observations of Expert RC specialists of the performance of the companies, which specialise in one type of insurance and have a diverse reinsurance portfolio. For these companies, the change of net premiums would have had an extremely wide range. The derived coefficient value was assigned from one to four points, in accordance with the evaluation parameters specified in Gosfinuslug's manual.

2. The derived points for each coefficient were multiplied by its share in the integral indicator and

then summed up, creating the intermediate integral indicator.

3. Companies received reward points through the multiplication of the intermediate value of the integral indicator by a reward coefficient: 0.9, 0.95 or 1 (based on the regulator's methodology calculation – the lower the value of integral indicator, the better). There were four parameters for the assignment of reward points: the quantity and quality of the disclosed information, actuarial strategy, the diversification of premium sources, and the diversification of the reinsurance portfolio. A 10% transparency reward score ($k = 0.9$) was assigned to insurance companies which submitted a fully completed questionnaire, a diverse reinsurance portfolio and a complete package of reports. A 5% reward score ($k = 0.95$) was assigned to companies which submitted sections of their reports to Gosfinuslug, together with their balance sheets and financial reports. No reward points were granted to the companies which completed the questionnaire but failed to disclose their reinsurance portfolio. Points for the diversification of the reinsurance portfolio were awarded to companies which disclosed their portfolio and which worked with leading international reinsurers. Expert RC analysts redu-

ced the reward score for those companies that listed the names of reinsurers from the classic offshores in the questionnaire and maintained portfolios that consisted of three to four reinsurers. Points for the range of premium sources were given according to each insurance type's share in premiums' gross total. Po-

arial reserves" were changed into "claims ratio" and "actuarial reserves ratio". All Group B companies were rewarded for relative transparency with a reduction of the integral indicator by 5%. For Group C companies, the return of investment ratio was not calculated and its share value was given to the inverse sol-

The Insurance Companies' Stability Rating scale

Table 1

RC	Value	Value of the integral indicator
aa	High stability level	<1,5
a	Acceptable stability level	1,5–2,5
bb	Satisfactory stability level	2,5–3,5
b	Low stability level	3,5–3,8
d	Absence of stability	>3,8

*Rating category

ints for actuarial strategy were calculated according to the share of five largest insurance payments in payments' sum total. In this case, the standards of evaluation were unified for all companies, irrespective of each company's insurance specialization.

For the calculation of coefficients for Groups B and C several indicators had to be changed. For instance, "net equity", calculated as shareholders' equity minus depreciated cost of intangible assets, was substituted by "shareholders' equity", while "net premium earned" was replaced with "net premium ratio". Such indicators as "claims and costs" and "net actu-

ality ratio. As a result, assessment reliability for Group A companies is at the 90% level, for Group B — 60% and for Group C — 30%. The values of rating categories and intervals of the integral indicator are given in Table 1.

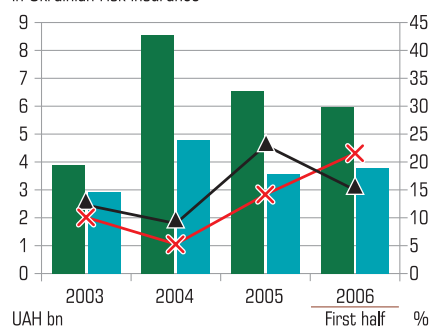
In our rating, we did not assign positions. Here, we follow the international rating practice in which a rating position is defined by a rating category. The ranking of insurance companies with the same rating was deduced by the value of their integral indicators.

■ Vitaly Shapran

A full version of the article is available at www.expert.ua

Map 1
Gross premiums continue to decrease while net premiums are on the rise

Changes in premiums and insurance payments in Ukrainian risk insurance

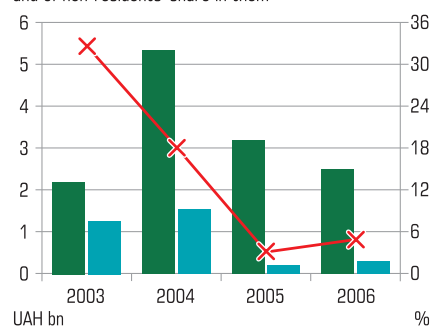


■ Gross premiums
■ Net premiums
■ Rate of gross indemnity payments (scale on the right)
■ Rate of net indemnity payments (scale on the right)

Source: State Commission for Regulation of Financial Services Markets of Ukraine

Map 2
The proportion of non-residents in reinsurance slumped by ten times over the three years

Changes in the volume of reinsurance premiums and of non-residents' share in them

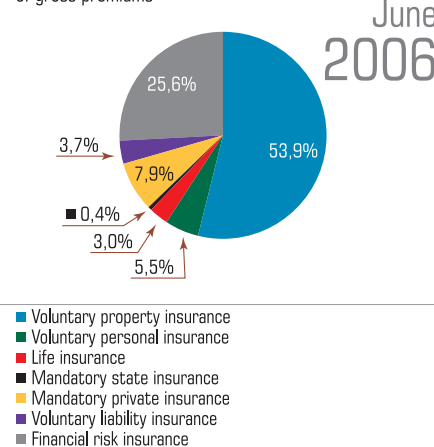


■ Volume of reinsurance
■ Reinsurance premiums owned by non-residents
■ Share of premiums owned by non-resident reinsurers in gross premiums

Source: State Commission for Regulation of Financial Services Markets of Ukraine

Map 3
More than half of gross premiums comes from voluntary property insurance

Different types of insurance in the structure of gross premiums

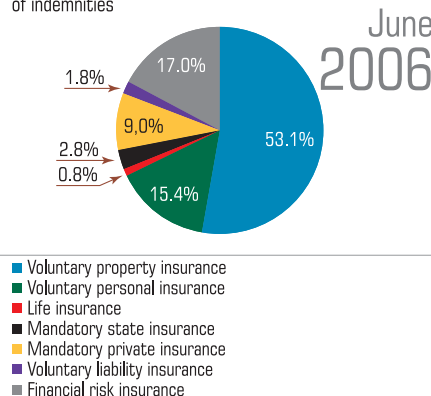


Source: State Commission for Regulation of Financial Services Markets of Ukraine

Indemnity payments in financial risk insurance lag far behind the collected premiums

Map 4

Different types of insurance in the structure of indemnities



Source: State Commission for Regulation of Financial Services Markets of Ukraine

Italian financial holding company) and the Ukrainian Fire & Safety Company (UFSC).

The Lemma IC has topped various risk insurance companies' rankings for several years in a row due to its high gross premiums. However, the company avoided large-scale PR campaigns and remained a mystery to those who were not particularly familiar with the intricacies of the Ukrainian insurance market. This year, Lemma announced its reorganization into an open joint stock company and published

its annual report ahead of time in the national system for information disclosure for its small shareholder base. The president of the company, Sergey Chernyshev, owns 24.5% of the company's shares. The names of other shareholders — Scientific Foundation Company (USA), International Reinsurance Trust Corporation (USA), New Recycling Technologies (USA) — do not reveal anything about the companies behind them. In April 2006, Lemma, together with Dneprinmed (a Group A company), won a tender for the provision of medical insurance services for Mittal Steel Kryviy Rih. Our sources indicate that Lemma's transformation into an OJSC may be part of the preparations toward the company's IPO.

In general, all Group B companies, except for Skaid, Evropolis and Oranta-Sich, exhibit decent levels of profitability of shareholders' equity. Garant-Avto and UFSC were the two companies that recorded the fastest growth of gross premiums in 2005. These companies were quick to publish their reports on the website of the Stock Market Infrastructure Development Agency (ARIFR), which demonstrates their openness toward the market.

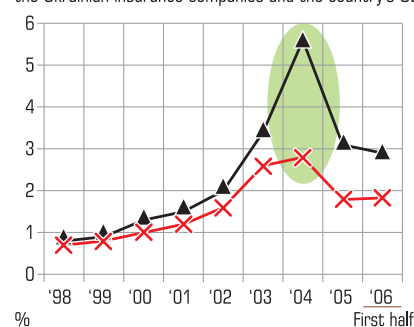
The black box

Group C is comprised of companies that have the least reliable data, if any at all. Some of these companies are controlled by individuals,

The volume of 'gray' schemes in insurance reached its peak in 2004

Map 5

The relationship between gross and net premiums of the Ukrainian insurance companies and the country's GDP



■ Gross premiums
■ Net premiums

Source: State Commission for Regulation of Financial Services Markets of Ukraine

while others are controlled by large corporations. Although their financial indicators for 2005 can be used to classify Group C companies as financially stable, the exact value of their final indicator cannot be calculated.

Some insurance companies in this group are worth paying attention to: it seems likely that they might augment their premiums substantially and consider future information disclosure. JSPPB Aval's top management used to control large shares of this bank through the

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44 / THE STABILITY RATING OF INSURANCE COMPANIES / RISK INSURANCE
The Stability Rating of Risk Insurance Companies
Group A insurance companies

№	Company	2005													
		Net capital,	Insurance claims and costs,	Gross pre-miums,	Equity/Debt	Assets' liquidity	Insurance risk	Inverse solvency	Profitability	Insurance volume	Changes in gross premiums,	Capacity to cover own risks,	Net actuarial reserves/ capital ratio, %	Return of investment,	
		thousand USD	thousand USD	thousand USD	ratio, %	ratio, %	ratio, %	ratio, %	ratio, %	ratio, %	%	%	%	%	
1	ROSNO Ukraine	8,429.1	188.7	2,599.4	15.67	123.84	17.86	17.02	0.37	32.55	630.00	57.93	13.58	0.70	
2	Alfa-Garant	11,159.5	736.0	3,649.6	5.32	666.61	26.08	16.53	2.49	42.11	210.40	79.75	14.79	6286.27	
3	Status	6,004.6	553.6	4,059.9	18.20	127.23	34.85	16.78	−1.37	27.99	131.70	51.55	9.68	0.92	
4	Rezerv	1,961.6	91.8	780.0	15.61	247.26	20.60	9.69	11.82	21.14	−10.40	51.80	8.80	1.46	
5	Vesko	27,756.9	5,593.8	21,281.0	43.33	130.03	44.08	23.26	19.66	50.67	44.60	57.49	21.78	9.95	
6	Veksel	19,923.6	5,590.2	19,606.8	10.40	247.28	53.48	38.93	24.10	34.81	44.10	54.35	41.90	27.61	
7	Raritet	2,542.8	724.9	1,720.6	14.51	101.29	38.23	16.60	14.02	65.06	−5.80	56.51	15.49	0.15	
8	Ukrainian Transport Insurance Company	27,137.0	3,498.1	9,316.5	25.75	80.94	27.51	13.86	5.23	46.60	19.10	80.14	11.41	0.43	
9	Salamandra-Ltava	12,874.4	322.0	8,859.0	10.89	57.05	43.26	16.14	35.98	5.57	31.27	62.86	13.57	−0.57	
10	Azov	1,968.5	459.1	370.1	5.40	593.38	9.63	17.12	8.88	172.80	14.90	51.21	13.52	N/A	
11	Crimean Insurance Company	1,918.3	212.9	1,216.5	1.98	141.96	63.42	22.05	5.25	29.86	80.30	100.00	11.83	8.13	
12	ASKA	27,534.1	10,239.7	39,547.3	4.89	45.61	101.91	41.57	28.97	33.37	−8.90	70.95	36.81	−10.72	
13	INTO	6,597.4	2,366.0	4,973.2	23.09	65.12	47.40	15.63	12.24	72.10	45.10	62.88	15.19	2.81	
14	ASKO-Medservice	4,468.0	688.0	3,991.7	43.83	117.25	65.49	59.65	45.98	23.65	4.30	73.30	43.07	9.68	
15	TAS Insurance Group	42,225.2	5,017.6	17,873.7	36.10	17.48	33.93	45.45	0.22	30.09	−15.90	80.15	18.90	0.81	
16	City Insurance Company	6,737.2	1,155.3	8,714.1	44.46	409.52	26.56	9.88	0.22	64.33	108.00	20.54	7.52	3.13	
17	Zahid-Rezerv	61,971.8	28.2	5,552.2	3.18	820.03	1.65	1.74	12.21	1.52	−76.70	18.43	0.46	14.00	
18	Nova	3,575.7	2,402.8	6,015.5	48.22	131.07	116.11	94.01	11.48	74.88	63.20	69.02	70.50	17.31	
19	OLVI	7,149.8	48.0	3,009.9	10.71	168.02	42.10	10.71	49.61	1.34	91.50	100.00	10.60	4.61	
20	Roksolana	2,331.1	794.0	2,485.1	65.29	9.38	74.21	69.90	28.01	45.09	−5.70	69.61	41.52	18.19	
21	Globus	1,545.7	447.9	2,458.4	8.49	172.28	148.88	48.05	1.97	22.70	85.00	93.61	46.87	323.99	
22	Providna (IFD Kapital Ukraine)	2,614.3	4,202.6	11,648.5	102.85	83.55	237.47	181.43	1.38	72.79	2.20	53.30	88.09	137.57	
23	Ukrainian Insurance Group	10,822.7	2,564.9	7,718.2	31.62	113.98	62.65	89.93	8.28	49.57	85.41	87.85	33.50	−6.37	
24	Alkona	3,404.5	4,368.7	12,539.2	54.95	78.85	202.23	83.95	18.60	57.93	−38.20	54.91	68.14	−16.71	
25	BrokBiznes Insurance	10,235.7	53.8	828.2	0.55	86.41	5.55	18.57	0.79	16.70	2986.00	N/A	2.47	1.85	
26	East-Ukrainian Insurance Company	15,625.1	N/A	5,140.9	3.61	663.64	32.74	2.97	12.59	N/A	−46.00	99.51	12.71	N/A	
27	Universal	9,590.1	10,979.7	28,313.2	63.09	42.04	204.23	156.38	1.19	56.01	46.10	69.18	75.95	−2.85	
28	Dneprinmed	12,504.4	976.9	21,950.6	6.27	67.93	31.60	66.83	27.66	24.92	−81.30	18.00	16.86	6.20	
29	Illichivska	8,989.9	2,383.7	11,200.6	4.06	52.45	59.88	28.63	14.87	48.27	−80.43	48.06	22.63	−7.36	
30	Busin Insurance	2,592.2	2,141.8	4,319.2	18.90	225.49	35.69	49.73	21.41	144.99	2.80	21.42	0.89	394.51	
31	ASKO-Donbass Severnyi	1,919.4	1,739.1	3,964.5	15.71	51.33	177.09	78.60	10.57	55.81	53.80	85.74	70.84	6.25	
32	INGO Ukraine	8,814.9	16,837.3	37,403.4	92.43	67.60	346.29	155.91	31.07	61.03	24.11	81.61	130.12	76.20	
33	Partner	1,499.4	941.7	4,742.3	29.43	93.63	139.22	82.70	1.63	72.12	50.30	44.02	72.95	3.58	
34	Ostra	1,308.6	N/A	484.8	6.61	50.10	33.85	28.39	−11.33	N/A	180.00	91.37	25.28	N/A	
35	PZU Ukraine	7,539.8	0.0	23,363.3	75.75	60.58	210.22	195.99	−85.08	0.00	62.10	67.84	120.06	−6.88	
36	Oradon	1,764.3	N/A	5,066.4	59.83	46.52	244.22	173.33	13.09	N/A	2.40	85.04	123.12	15.73	
Group mean		385,037.2	88,349.0	346,763.4	28.36	173.80	85.00	55.50	10.67	47.22	131.37	64.85	36.98	221.84	

*Combined coefficient is the sum of insurance payment coefficient and cost coefficient. If combined coefficient is less than 1, it indicates that the company made a profit. Conversely, combined coefficient of more than 1 indicates that the company made a loss.
Source: companies' data; calculations by Expert

THE STABILITY RATING OF INSURANCE COMPANIES / RISK INSURANCE / 45

Table 2

								First half of 2006						Combined coefficient	
	Intermediate integral indicator	Points for actuarial strategy	Points for quality and quantity of disclosed data	Points for diversifica- tion of pay- ment sources	Points for diversifica- tion of the reinsurance portfolio	Integral indicator	Stability rating	Net capital, thousand USD	Insurance payments and costs, thousand USD	Net premi- ums sum total, thousand USD	Intermediate integral indicator	Integral indicator	Stability rating	2005	First half of 2006
	1.20	0.90	0.90	0.90	0.90	0.787	Aaa	10,530.4	386.0	928.3	1.92	1.477	Aaa	0.64	0.85
	1.12	0.90	0.95	0.95	0.95	0.864	Aaa	11,500.0	1,131.6	3,016.0	1.42	1.282	Aaa	0.93	0.93
	1.38	0.90	0.95	0.95	0.90	1.009	Aaa	6,031.2	561.3	1,529.9	1.88	1.612	Aa	1.08	1.15
	1.38	0.90	0.90	0.95	0.95	1.009	Aaa	1,928.9	37.1	110.5	1.70	1.381	Aaa	0.60	0.60
	1.40	0.90	0.95	0.95	0.90	1.023	Aaa	30,407.4	3,206.2	6,922.1	1.42	1.153	Aaa	0.23	1.00
	1.30	0.90	0.95	0.95	1.00	1.056	Aaa	15,989.0	4,966.2	14,029.1	2.26	1.836	Aa	0.79	0.73
	1.44	0.90	0.95	0.95	0.95	1.111	Aaa	2,645.2	188.3	789.2	1.26	1.023	Aaa	0.47	0.91
	1.48	1.00	0.95	0.90	0.90	1.139	Aaa	27,974.8	1,464.6	3,631.4	2.10	1.796	Aa	0.96	1.04
	1.60	0.90	0.95	0.95	0.90	1.170	Aaa	15,615.7	732.7	2,726.0	1.84	1.578	Aa	0.17	0.45
	1.50	0.95	0.95	0.95	0.95	1.222	Aaa	2,108.4	140.0	473.2	1.18	1.012	Aaa	1.34	1.37
	1.88	0.90	0.90	0.90	0.90	1.233	Aaa	2,065.4	241.7	492.3	1.28	1.037	Aaa	1.08	0.96
	1.90	0.90	0.95	0.90	0.90	1.316	Aaa	28,268.1	8,440.5	14,616.9	2.16	1.662	Aa	0.83	1.20
	1.52	1.00	0.95	0.95	1.00	1.372	Aaa	7,487.4	930.1	2,736.2	2.28	2.058	Aa	0.77	0.41
	1.70	0.95	0.95	0.95	0.95	1.385	Aaa	3,856.9	327.2	885.5	1.72	1.475	Aaa	0.54	0.96
	1.98	0.90	0.95	0.95	0.90	1.447	Aaa	37,210.8	6,407.0	11,578.9	2.34	1.641	Aa	0.54	1.11
	1.92	0.90	0.95	0.95	0.95	1.482	Aaa	5,400.1	437.3	1,435.3	2.06	1.670	Aa	1.06	1.06
	1.84	0.95	0.90	1.00	1.00	1.573	Aa	63,618.2	2.7	432.5	1.98	1.604	Aa	0.49	0.57
	1.94	0.90	0.95	0.95	1.00	1.576	Aa	4,580.9	2,351.8	2,525.9	2.00	1.625	Aa	0.97	0.93
	1.68	1.00	1.00	0.95	1.00	1.596	Aa	8,123.3	22.3	785.5	1.92	1.824	Aa	0.03	0.05
	2.00	0.90	0.95	0.95	1.00	1.625	Aa	2,501.8	386.6	216.0	2.46	1.998	Aa	0.70	0.80
	1.90	0.90	0.95	1.00	1.00	1.625	Aa	1,610.2	278.3	1,950.9	2.54	2.172	Aa	1.00	0.92
	2.50	0.90	0.90	0.90	0.90	1.640	Aa	2,613.5	2,333.4	4,514.2	2.72	1.983	Aa	1.21	1.15
	2.38	0.90	0.90	0.95	0.90	1.648	Aa	10,011.9	2,052.2	6,251.2	2.96	2.278	Aa	0.49	6.88
	2.54	0.90	0.90	0.90	0.90	1.666	Aa	3,103.8	1,488.8	2,740.4	2.86	2.085	Aa	0.76	0.95
	1.96	1.00	0.95	0.95	0.95	1.680	Aa	10,209.8	-361.5	898.7	1.92	1.646	Aa	1.25	1.20
	2.14	0.90	1.00	0.95	0.95	1.738	Aa	16,637.3	N/A	3,693.0	2.34	2.001	Aa	н.д.	0.63
	2.62	0.90	0.95	0.90	0.90	1.814	Aa	18,052.4	4,283.4	10,969.0	2.08	1.601	Aa	1.09	1.40
	2.38	0.90	0.95	0.90	1.00	1.831	Aa	13,172.6	532.6	2,220.7	2.10	1.706	Aa	0.27	0.49
	2.08	1.00	1.00	0.95	0.95	1.877	Aa	7,981.3	1,815.2	3,306.0	2.56	2.432	Aa	0.60	0.90
	2.32	1.00	0.90	0.95	0.95	1.884	Aa	2,433.1	194.8	562.7	2.44	1.982	Aa	2.47	1.55
	2.82	0.90	0.95	0.90	0.90	1.953	Aa	1,837.4	1,132.9	2,021.0	3.40	2.616	Abb	0.99	1.14
	2.72	0.90	0.95	0.95	0.90	1.988	Aa	12,467.3	12,735.8	20,717.0	3.24	2.632	Abb	0.99	1.02
	2.42	1.00	0.95	0.90	1.00	2.069	Aa	1,508.8	1,083.3	1,244.4	2.56	2.189	Aa	1.16	1.29
	2.56	0.95	0.95	0.95	0.95	2.085	Aa	1,400.0	-51.8	280.5	2.34	2.006	Aa	1.75	1.50
	2.82	1.00	0.95	0.90	0.90	2.170	Aa	3,045.2	11,746.0	11,822.3	3.28	2.804	Abb	1.91	3.72
	3.44	1.00	0.95	0.90	0.90	2.647	Abb	1,925.3	767.7	2,096.2	2.80	2.394	Aa	1.80	1.90
	—	—	—	—	—	—	—	395,853.8	72,392.4	145,149.0	—	—	—	0.95	1.23

re than 1 indicates a loss-making company.

46 / THE STABILITY RATING OF INSURANCE COMPANIES / RISK INSURANCE
The Stability Rating of Risk Insurance Companies
Group B Insurance Companies

№	Company	2005									
		Shareholders' equity, thousand USD	Insurance claims thousand USD	Gross premiums, thousand USD	Equity/debt ratio, %	Assets' liquidity ratio, %	Insurance risk ratio, %	Inverse solvency ratio, %	Profitability, %	Insurance volume ratio, %	Changes in equity, %
1	Energopolis	2,422.8	1,098.7	5,416.6	26.03	152.22	126.45	44.39	13.17	35.87	38.47
2	Oranta-Luhan	3,538.0	609.6	3,082.5	10.46	15.56	66.59	33.87	12.34	25.88	11.18
3	Evropolis Re	1,911.4	2.8	175.6	0.49	69.90	3.85	1.69	2.34	3.77	2.40
4	Skide	7,000.4	248.7	1,923.8	12.82	59.43	10.21	16.99	3.04	34.79	143.87
5	Garantia	3,596.1	304.3	2,182.0	7.52	25.18	60.67	33.53	7.82	13.95	8.10
6	Lemma	164,024.8	16,009.7	133,694.9	8.47	56.18	3.59	32.90	5.32	271.61	5.62
7	Oranta-Sich	2,037.8	903.0	2,793.7	1.73	65.50	122.98	62.99	1.07	36.03	38.21
8	Garant-Avto	14,895.8	13,048.4	47,026.2	11.62	58.49	238.38	123.14	18.38	36.75	25.61
9	Ukrainian Fire & Insurance Company	13,534.3	3,674.6	29,478.3	6.66	77.22	217.81	58.59	33.98	12.47	41.50
Group total		212,961.3	35,899.9	225,773.5	9.53	64.41	94.50	45.34	10.83	52.34	34.99

Group C Insurance Companies

№	Company	2005									
		Shareholders' equity, thousand USD	Liquid assets, thousand USD	Liabilities' total, thousand USD	Insurance claims, thousand USD	Gross premiums, thousand USD	Equity/debt ratio, %	Assets' liquidity ratio, %	Insurance risk ratio, %	Inverse solvency ratio, %	
1	Aelita	2,858.6	2,636.6	503.6	521.1	2,801.6	1.27	523.51	53.79	17.62	
2	Kiy Avia Garant	2,479.9	735.8	286.1	138.2	1,451.8	0.30	257.23	38.47	11.54	
3	FortEast	2,522.2	554.1	400.2	184.6	1,513.1	0.03	138.46	38.49	15.87	
4	Stroipolis	15,921.1	4,486.8	4,427.4	1,686.0	19,212.4	5.54	101.34	68.36	27.81	
5	Lider Re	10,006.3	802.7	695.3	163.2	2,530.5	3.18	115.45	11.98	6.95	
6	Aura	130,465.8	8,983.7	4,329.1	800.1	39,201.7	76.03	207.52	23.63	3.32	
7	Zaliznichni shlyahi	8,446.2	321.3	374.6	186.9	773.4	12.53	85.78	7.57	4.43	
8	Arma	18,203.7	2,892.4	3,109.0	533.7	5,632.8	4.70	93.03	21.44	17.08	
9	General Insurance Fund	32,191.3	301.5	5,534.5	246.4	24,750.4	0.87	5.45	45.09	17.19	
10	Lider	13,535.0	754.7	982.4	238.5	2,509.8	1.04	76.82	12.24	7.26	
11	Dnister	2,095.8	608.3	581.8	264.0	1,040.0	2.68	104.55	39.70	27.76	
12	Renaissance	3,421.7	717.9	767.0	203.2	3,210.2	7.64	93.60	54.71	22.41	
13	Inspol	2,806.5	360.5	255.9	85.5	1,517.9	33.90	140.90	17.09	9.12	
14	Upter-M	2,070.2	185.5	190.6	8.9	1,242.8	0.00	97.31	19.92	9.21	
15	INPRO	4,726.5	1,142.6	1,179.5	845.8	2,816.0	8.53	96.87	42.66	24.95	
16	Crimean Insurance Alliance	2,936.0	467.7	428.1	31.0	2,866.0	11.07	109.25	31.36	14.58	
17	Ukrainian Insurance Group	6,593.9	1,108.7	924.4	102.0	6,858.0	0.00	119.94	4.55	14.02	
18	Ukrainian Insurance House	1,790.3	291.8	433.2	87.9	1,160.4	2.11	67.36	34.55	24.20	
19	Kredo-Klassik	31,264.2	7,521.0	11,790.8	4,550.7	33,575.7	9.04	63.79	70.50	37.71	
20	Oniks	8,369.0	1,522.1	2,552.3	60.8	4,760.8	10.70	59.64	33.32	30.50	
21	Universal'ny Polis	2,808.5	1,046.6	1,229.6	107.6	3,165.9	4.34	85.12	81.24	43.78	
22	Skarbnitsya	3,219.3	483.6	629.4	121.4	1,613.1	2.08	76.83	48.19	19.55	
23	Oriana	7,500.5	386.1	3,324.0	615.0	2,908.4	6.32	11.62	26.92	44.32	
24	Dobrobut ta Zakhyst	11,705.1	7,262.6	2,136.7	487.2	4,494.6	0.78	339.89	37.22	18.25	
25	Evropolis	1,517.8	1.2	4.7	0.0	214.1	0.04	25.63	7.39	0.31	
26	Kremen	102,732.2	8,707.3	4,011.2	1,370.2	65,913.0	6.12	217.07	11.46	3.90	
27	Velta	3,685.7	2,277.7	1,760.8	127.9	5,086.1	0.47	129.35	94.74	47.77	
28	Kyiv-Enerho-Polis	6,044.3	885.4	1,166.5	916.9	2,926.1	12.35	75.90	42.26	19.30	
29	Solidarnost	2,007.2	979.4	591.5	125.7	2,393.7	2.20	165.59	44.20	29.47	
30	European Insurance Alliance	11,801.4	3,172.0	5,334.0	4,433.1	13,333.6	22.97	59.47	91.49	45.20	
31	Monomah	2,618.9	1,304.7	265.5	200.5	3,240.3	50.71	491.40	24.90	10.14	
32	Industrial Insurance Alliance	30,403.8	1,869.2	3,122.0	273.3	13,213.6	1.38	59.87	38.78	10.27	
33	Ukreksimstrah	11,566.3	576.0	361.3	90.9	2,537.1	0.08	159.42	8.74	3.12	
34	AKB Garant	21,800.7	1,623.3	2,074.7	717.0	34,175.9	1.21	78.24	19.95	9.52	
35	Energoreserve	1,972.6	1,026.1	689.1	236.3	2,670.6	11.92	148.90	52.94	34.93	
36	Gala-SKD	1,421.8	1,370.1	68.7	55.0	702.3	0.21	1995.64	6.15	4.83	
37	Garant-Sistema	1,932.5	26.9	260.2	106.2	1,439.8	0.90	10.35	25.24	13.46	
38	Galitskaya	5,030.1	1,365.3	2,220.5	113.4	4,303.9	7.59	61.49	81.76	44.14	
39	Dynasty Insurance	1,627.8	512.0	517.4	42.5	648.4	0.31	98.95	39.81	31.79	
40	Knyazha	3,690.4	1,673.4	2,483.6	1,063.9	5,997.1	1.94	67.38	113.12	67.30	
41	Etalon	53,019.9	12,766.6	15,078.8	15,331.4	22,767.2	0.43	84.67	41.14	28.44	
42	Disco	1,964.2	20.3	1,328.1	133.7	2,226.7	4.46	1.53	82.31	67.62	
43	Kashtan	6,950.2	186.9	5,136.3	280.8	6,117.6	20.73	3.64	85.20	73.90	
44	Orant-Dnepr	3,085.0	770.6	954.0	917.3	2,037.4	0.96	80.78	61.51	30.92	
45	Rokada	4,927.5	143.3	3,006.5	1,430.3	5,840.8	0.73	4.77	114.36	61.02	
46	DASK	2,223.2	8.5	1,273.5	30.4	2,191.6	16.30	0.67	93.53	57.28	
47	Krayina	1,997.6	624.2	595.1	109.6	5,197.1	7.49	104.88	49.40	29.79	
48	Ukrainian Insurance Alliance	6,397.7	4,382.8	7,171.7	3,181.1	16,568.4	14.11	61.11	183.46	112.10	
49	Profesinyi Zakhyst	1,595.6	534.1	741.6	329.6	4,182.3	9.44	72.01	92.57	46.48	
50	FG Insurance Traditions	7,633.5	1,917.7	5,556.4	587.0	4,136.8	3.93	34.51	48.27	72.79	
51	Avante	65,506.1	15,277.1	52,092.7	18,995.1	51,106.9	1.55	29.33	75.86	79.52	
52	Ukrainian Safety Insurance Company	2,234.4	1,453.3	1,984.9	1,264.8	5,238.1	9.68	73.22	135.97	88.83	
53	PROsto Insurance	5,085.3	544.7	6,996.3	4,105.8	12,343.4	30.65	7.79	178.75	137.58	
54	QBE-UGPB Insurance	3,579.4	3,415.6	3,888.7	2,580.2	7,580.2	29.38	87.83	195.70	108.64	
55	Narodna	1,299.4	10.7	1,564.9	205.3	2,048.9	49.46	0.68	33.60	120.43	
Group total		705,289.8	115,001.0	179,366.8	71,625.0	479,986.5	9.53	137.52	55.23	35.64	

Sources: companies' data, Stock Market Infrastructure Development Agency (ARIFR); calculations by Expert

THE STABILITY RATING OF INSURANCE COMPANIES / RISK INSURANCE / 47

Table 3

	Changes in gross premium, %	Capacity to cover own risk, %	Net actuarial reserves/capital ratio, %	Return of investment, %	Intermediary integral indicator	Points for transparency	Integral indicator	Stability Rating
	19.03	56.56	74.15	5.33	1.68	0.95	1.596	Ba
	2.84	76.43	30.42	-9.61	1.84	0.95	1.748	Ba
	-53.55	41.91	3.88	0.93	1.92	0.95	1.824	Ba
	N/A	37.16	13.86	-0.21	2.08	0.95	1.976	Ba
	16.35	99.98	31.60	11.81	2.32	0.95	2.204	Ba
	14.05	4.41	34.34	8.97	2.54	0.95	2.413	Ba
	33.10	89.71	67.50	6.27	2.54	0.95	2.413	Ba
	60.71	75.51	136.34	12.19	2.56	0.95	2.432	Ba
	38.32	100.00	80.33	11.58	2.66	0.95	2.527	Bbb
	16.35	64.63	52.49	5.25	—	—	—	—

Table 4

	Profitability ratio, %	Insurance volume ratio, %	Changes in equity, %	Changes in gross premiums, %	Capacity to cover own risks, %	Actuarial reserves/equity ratio, %	Integral indicator	Stability rating
	34.75	33.89	33.61	4.15	54.88	27.48	1.180	Caa
	5.66	14.49	2.34	80.41	65.71	18.70	1.240	Caa
	27.18	19.01	30.22	-46.11	64.16	18.97	1.240	Caa
	38.03	15.49	60.91	58.49	56.65	46.58	1.280	Caa
	1.13	13.61	361.05	1406.41	47.38	12.65	1.300	Caa
	40.52	2.60	68.13	-46.74	78.63	5.77	1.320	Caa
	25.04	29.25	34.21	-81.96	82.63	3.47	1.340	Caa
	11.45	13.68	12.93	-34.52	69.28	18.35	1.400	Caa
	37.06	1.70	58.88	25.72	58.64	26.45	1.480	Caa
	3.13	14.40	334.65	-10.76	66.00	9.11	1.500	Caa
	6.95	31.73	14.09	-5.45	80.01	23.80	1.520	Ca
	35.73	10.86	55.59	N/A	58.31	32.27	1.560	Ca
	0.26	17.82	16.79	23.75	31.60	20.78	1.600	Ca
	9.55	2.15	10.56	18.89	33.19	23.27	1.600	Ca
	0.58	41.95	0.58	-2.53	71.60	29.67	1.640	Ca
	7.72	3.36	8.37	11.28	32.13	30.92	1.660	Ca
	1.72	34.02	161.65	405.24	4.37	42.13	1.660	Ca
	10.72	14.20	11.98	27.02	53.31	26.37	1.660	Ca
	22.88	20.65	47.32	32.96	65.64	44.02	1.760	Ca
	28.84	2.18	40.52	-2.21	58.58	26.77	1.760	Ca
	24.71	4.72	23.83	-41.89	72.07	39.64	1.780	Ca
	26.59	7.83	51.29	57.46	96.17	18.01	1.800	Ca
	6.66	30.47	7.13	6.51	69.41	14.38	1.820	Ca
	23.61	11.18	30.91	-30.28	96.92	18.89	1.840	Ca
	-1.58	0.02	-1.55	-28.52	52.37	0.55	1.840	Ca
	10.03	11.64	11.15	N/A	17.86	15.53	1.840	Ca
	1.18	3.66	-1.19	N/A	68.65	61.02	1.860	Ca
	11.39	35.90	101.29	71.06	87.30	18.38	1.860	Ca
	18.52	14.17	22.73	87.63	37.07	51.37	1.860	Ca
	2.74	41.06	2.81	23.88	80.97	40.03	1.880	Ca
	9.13	30.75	10.05	-20.26	20.13	33.92	1.880	Ca
	28.93	2.32	43.30	55.10	89.24	12.24	1.900	Ca
	-9.44	8.99	-8.62	-7.04	39.84	8.89	1.900	Ca
	50.74	16.49	100.27	-41.29	12.72	38.45	1.920	Ca
	6.52	22.63	6.97	61.16	39.11	63.39	1.920	Ca
	8.33	62.86	9.08	-71.88	12.45	19.13	1.960	Ca
	17.40	21.78	21.06	-16.76	33.88	23.77	1.960	Ca
	48.59	2.76	105.40	68.95	95.55	44.37	2.120	Ca
	2.77	6.56	2.85	5.31	99.95	19.50	2.120	Ca
	14.66	25.48	79.04	-43.72	69.61	69.70	2.160	Ca
	29.75	70.28	26.83	-64.37	95.81	20.77	2.160	Ca
	4.50	8.27	0.71	32.17	72.60	51.00	2.260	Ca
	50.84	4.74	10.19	68.58	96.80	30.27	2.280	Ca
	0.75	48.34	0.75	N/A	93.13	3.04	2.280	Ca
	58.96	25.38	28.36	109.17	96.48	39.40	2.340	Ca
	5.18	1.46	4.09	52.65	94.88	43.14	2.460	Ca
	33.44	11.10	16.19	N/A	18.99	117.84	2.480	Ca
	57.14	27.10	133.34	149.99	70.84	154.15	2.500	Ca
	-11.97	22.31	-10.69	N/A	35.32	80.65	2.640	Cbb
	8.75	15.93	9.59	-14.42	89.08	48.49	2.640	Cbb
	51.27	38.22	105.23	-54.97	97.24	32.32	2.680	Cbb
	1.04	41.63	-10.63	-32.97	58.00	91.21	2.720	Cbb
	-9.88	45.17	-9.00	25.77	73.64	108.50	3.060	Cbb
	19.20	36.83	23.76	-5.80	92.41	114.15	3.140	Cbb
	-4.17	47.02	-4.01	N/A	21.31	79.32	3.360	Cbb
	17.19	20.77	41.94	47.19	62.37	38.42	—	—

Etalon IC. At present, however, Aval's top-management, which had set up Prestige Bank, has started a banking business with Austria's Erste Bank. If Etalon were to take part in Erste Bank's operations in Ukraine, the company could expect its gross premium takings to surge by the end of 2006. Eighty per cent of Ukrainian Insurance House, another Group C company, is owned by the Moscow-based United Financial Group, which is currently controlled by the Deutsche Bank. Ukrainian Insurance Alliance is controlled by UkrSib-Bank; Oriana is owned by TMM, a construction company; and Ukrainian Safety Insurance is controlled by the structures affiliated with the Ministry of Domestic Affairs of Ukraine. In the Group C rating, QBE Insurance Ukraine (with a 49% stake belonging to QBE, an Australian insurance group) and Kredo-Klassik (35% of which is owned by UNIQA, an Austrian group) are the only two companies whose institutional investors have only recently entered the Ukrainian market and have started implementing their development strategy.

Oranta NASK, one of Ukraine's oldest insurance companies that has recently celebrated its 85th anniversary and has become somewhat of an insurance personnel training factory, refused to take part in our rating. At present, it remains a mystery who controls Oranta — the structures affiliated with Viktor Pinchuk, the shareholders of Turan Alem, a Kazakhstan-based bank, or Raiffeisen, an Austrian group. Despite the fact that Group B companies have already published their 2005 reports with the national information disclosure system, Oranta, the former insurance market leader, is yet to disclose its information to its investors. Oranta's financial indicators also remain undisclosed. At Expert, we believe that this company is not meeting its development potential. Its present state of affairs is a reproach to its owners, the patriots of the Ukrainian insurance market. For example, Ingosstrakh, the leading insurance company in Russia, which — similarly to Oranta — has been privatized, is already competing with the latter on Ukrainian territory and has offices in Azerbaijan, Kazakhstan, Uzbekistan, India and China. Oranta shows a different dynamic: not only has it allowed itself to be acquired by foreign investors, but it has also let its leading market position slip away. Moreover, while Ingosstrakh has acquired ratings from Expert RA, Moody's Interfax Rating Agency, Moody's Investors Service and Standard & Poor, Oranta NASK can only boast some compulsory ratings by Credit Rating, Ltd., which do not even entitle the company to access the rating report. Given Oranta's opacity, Expert RC decided against including it into its rating.

The title of the most unique company in the Ukrainian insurance market went to CJSC Zemskaya Insurance Company. Despite being

Expert ingenuities

In July 2006, Expert's Rating Centre (Expert RC) invited Ukrainian insurance companies to take part in a stability rating project. Out of 400 registered companies only 54 agreed. Having read Expert RC's questionnaire and having familiarized themselves with the principal rating criteria, another eight companies refused to disclose their data. By revealing our evaluation criteria and inviting the companies to open up, we inadvertently orchestrated a natural selection procedure. As a result, we divided all risk insurance companies into three groups.

Group A is comprised of companies that announced their transparency and fully disclosed their data to Expert RC. In addition to the completed questionnaire, twelve out of thirty-six Group A companies submitted full versions of their reports for the first six months of 2006 and did not request a confidentiality agreement.

Group B consists of companies which did not respond to our inquiry, but which otherwise make an effort to stay transparent. These companies' reports to the Securities and Stock Market State Commission are published on an open-access website of the Stock Market Infrastructure Development Agency (www.smida.gov.ua). This group

is made up of only nine companies. It should be mentioned that their reports to the securities market regulator contained insufficient information to fully account for insurance specificity.

The data on the companies that made it into Group C was only available through published media and Ukrainian newswires. These companies tend to publicise their results only when it suits their own interests, which makes it rather complicated to unveil even the basic facts about a one-third of these companies — such as the amount of gross premiums or insurance payments in 2004. When available data was insufficient to calculate a particular indicator the insurer was assigned a minimum score for each missing indicator.

Altogether, Expert RC collected data for 140 insurance companies, which had collected a total of \$1.6bn in premiums, or 60% of the overall premiums collected on the market, in 2005. Our rating includes all of Ukraine's largest insurance companies, except for Oranta NASK, which, together with nine other companies, was not rated because its inconsistent financial indicators precluded us from reaching any conclusions about their stability.

■ Vladimir Dukhnenko, Vitaly Shapran

registered in Kremennaya (Luhansk region), a town with a population of 30,000, this company somehow managed to collect premiums worth \$78m in 2005. This means that, in 2005, each town inhabitant spent an astounding \$2.6 thousand on insurance. Officially, 99% of this company belongs to the Kremensk local council. Moreover, the company spent no money on reinsurance. It comes as no surprise that we failed to retrieve any reliable information about the company and, thus, could not rate its stability.

'Grey' does not mean 'tainted'

The financial indicators for the first half of 2006 have caused us to downgrade the stability rating of eight out of sixteen companies. The stability decline of top-group companies is primarily associated with the general slowdown of the insurance market. According to Gosfinuslug's data, during the first half of 2006, insurers' collected premiums amounted to \$1.2bn, down from \$1.3bn from the previous year. Nevertheless, the negative growth of premiums does not indicate that the market is shrinking. The growth of net and gross premiums exhibited diverging trends. For instance, an 8.5% decline of gross premiums occurred concurrently with a 6.2% increase in net premiums — a trend that signals that the market has been growing, while activity within the reinsurance sector has been dwindling. The fact that Ukrainian insurers have become less inclined to reinsure

their risks demonstrates that 'grey' insurance scheming is on the wane. In the last two years reinsurance levels plunged, while the share of non-residents in reinsurance payments decreased tenfold (from 32% in 2003 down to 3.1% in 2005). The shrinking of reinsurance volumes is linked with the toughening standards of Gosfinuslug toward non-resident reinsurers — companies are encouraged to reinsure their risks with the non-residents that have been rated by nationally recognized US agencies: Fitch, Standard & Poor's, Moody's and A.M. Best. As a result, over the last year the role of 'grey' insurance schemes has noticeably diminished, to the extent that funds, deliberately concealed from taxation, currently do not exceed 40% of collected premiums.

Nevertheless, 'grey' schemes remain an indispensable part of the insurance market. There are two basic ways of using insurance companies to avoid taxation. The first is available to all insurers that exploit the faculties of Article 7 of the Ukrainian Law 'On Taxation of Profits of Enterprises'. The law provides insurers with a special taxation scheme, with tax rates comprising 0% and 3% of premiums. The existence of such a loophole enables enterprises, normally liable for profit tax, to avoid payment by means of inflating their gross expenditure to cover the insurance premium. In the spring of 2005, in an attempt to suppress this scheme, Viktor Suslov, the former chairman of Gosfinuslug, suggested

'Grey' schemes endure primarily due to the low quality of corporate governance in Ukraine, the weak protection of minority shareholders' rights and the lack of public monitoring of large corporations' activities

amending the tax legislation, a move that aroused a negative reaction from the insurers. The regulator's new governing body has not come up with any new initiatives so far.

The essence of the second scheme revolves around an individual who wishes to take his capital abroad: he insures the risks that can be claimed in principle and reinsures the risk with an offshore reinsurance company. For instance, a bank buys a \$10m software product from a firm that belongs to the bank's shareholder. The firm then issues \$9.99m to an insurance company affiliated with the bank to purchase a policy covering the software producer's liability to the financial institution, meaning that the premium goes to the reinsurer.

Despite all efforts, Gosfinuslug will be unable to crash such schemes if it only fights against the symptoms. Such schemes endure primarily due to the low quality of corporate governance in Ukraine, the weak protection of minority shareholders' rights and the lack of public monitoring of large corporations' activities. As a result, minority shareholders can do nothing to prevent the underreporting of profits. In the meantime, majority shareholders and top-management will continue to find 'grey' schemes advantageous. Therefore, the regulator should not rush with amending the tax legislation: if the tax burden is increased, all premiums, including the non-'grey' scheme ones will decrease sharply. ■