

# Press-release of 14.07.2010

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On 13 July 2010, the Federal Antimonopoly Service (FAS Russia) forwarded for inter-branch approval the draft Decree of the Government of the Russian Federation "On Introducing Amendments to General Exceptions to Agreements between Credit and Insurance Organizations: and the Explanatory Notes to it.

The Decree is drafted to expand the General Exceptions to Agreements between Credit and Insurance Organizations (approved by No.386 Decree of the Government of the Russian Federation of 30th April 2009) to cooperation between banks and insurers for insuring borrowers' risks under mortgage loan programmes. The draft also includes provisions, importance of which became obvious through antimonopoly enforcement practice.

The draft Decree was preliminary discussed by the Working Group, comprising members of the FAS Russia's Expert Council for Protecting Competition on the Markets of Financial Services and representatives of banking and insurance community.

Drafting the Decree, FAS Russia took into account many comments made by the Working Group. Some of the issues, raised in course of project, sparked off a lively dispute and, according to the experts, deserve special attention.

In particular, it was pointed out that insurance organizations are being engaged in intensive price competition on insurance market; however, they do not exploit all possibilities of quality competition - competition in terms of conditions of insurance services.

For instance, insurance organizations do not offer to their potential clients, including bank borrowers, such conditions as returning part of the paid insurance premium in case of premature termination of the insurance contract.

If a borrower presumes in advance a possibility of preliminary loan repayment and does not need to continue insurance protection, then, other conditions being equal, (s)he can prefer the insurer that is prepared to return some of the paid funds.

Also the Working Group discussed possible methods to counteract abuse by management of credit organizations, when even if the bank has an open list of insurance organizations, bank officers force potential borrowers to enter into insurance contracts with particular insurers included in this list, threatening to refuse to conclude the loan agreement. Such abuse is possible if the loan procedures are based on the principle "first - the insurance agreement and payment of the insurance premium, next - the loan agreement and actual loan granting".

"A possible solution, proposed by the Working Group is such loan procedures, when first a loan agreement is concluded (the bank's obligation to grant a loan is formalized) and actual loan granting takes place within several days, as specified in the loan, after the borrower concludes an insurance agreement and pays the insurance premium.

In this case a potential borrower is not afraid that the bank will refuse loan services and (s)he can choose an insurance company from the whole list of insurance organizations. If managerial abuse still take place, it can be discovered by comparing the date of concluding the loan agreement with the date of paying the insurance premium", pointed out Yulia Bondareva, the Head of the FAS Russia's Department for Control over Financial Markets.

FAS Russia hopes that adopting the Decree will not only set unified competition rules for cooperation in granting any types of loans and credits, but will also bring quality changes in supply of insurance products, including life insurance.