IFIGS Success Stories

Company: JSC Altyn-Polis

Lines of Business: General Insurance, Compulsory Motor Third-Party Liability Insurance (MTPL)

Date of Forced Liquidation Decision: August 18, 2009

Country: Kazakhstan

IGS: JSC Insurance Payment Guarantee Fund (IPGF)

1. Overview of the Failed Insurer

- For several years, JSC Altyn-Polis was the undisputed leader in the compulsory motor insurance segment (MTPL) in Kazakhstan.
- By early 2009, the company’s market share in the MTPL segment reached 23% of all insurance premiums.
- The insurance portfolio was heavily concentrated in compulsory lines: 74% MTPL and 2% compulsory carrier's liability insurance for passengers.
- The company’s aggressive strategy focused on rapid market share acquisition through price dumping, client incentives, and active poaching of competitors' agent networks.
- A vast network of agents ensured massive customer reach and high brand awareness nationwide.

2. Causes of Failure

- **Critical Loss Ratio:** In 2008, the company’s loss ratio reached 138%, compared to a market average of 42%.
- **Excessive Commission Expenses:** To displace competitors, the company paid insurance agents commissions of up to 50% of the premium amount.
- **Under-reserving:** Reserves were formed at only 35-40%, while the regulatory requirement was at least 60%, making quality claims settlement impossible.
- **Operational Risks:** Rapid uncontrolled growth through "street" agents led to systemic accounting errors and the issuance of policies that were not registered in the Unified Insurance Database (UIDB).
- **Lack of Long-Term Planning:** Management and shareholders prioritized premium volume over financial stability and asset quality.

3. Impact on Policyholders

- The default of a systemically important player jeopardized the interests of thousands of vehicle owners whose insurance coverage was at risk.
- The scale of the crisis is evidenced by the fact that over 6,000 people applied to just one of the member (pariticipant of the Insurance Guarantee System) companies to exchange their policies.
- The system had to process thousands of applications in a very short time to ensure continuous insurance protection for citizens.

4. Role of the Insurance Guarantee Scheme (IGS)

- During the insolvency resolution process, the IPGF acted as one of the key participants, working alongside the regulator and other market stakeholders.
- Joint efforts led to a structured process that allowed Altyn-Polis clients to exchange their policies for those of other member companies within a two-month window.
- **Financial Support:** To protect citizens' interests, the Fund paid a total of **696 million KZT** (USD 4.61 million at the August 2009 exchange rate), covering both claims for occurred insurance events and payments for the remaining unexpired terms of Altyn-Polis policies.
- **Resource Adequacy:** The Fund's reserve at the beginning of 2009 stood at **942 million KZT** (USD 6.24 million at the August 2009 exchange rate), and an additional **500 million KZT** (USD 3.3 million) in contributions were collected throughout 2009. This confirmed the system's high financial resilience and its ability to cover liabilities even upon the collapse of a major market player.
- The Fund's core mission of guaranteeing payouts during the forced liquidation of members was successfully fulfilled.

5. Recovery Efforts and Outcomes

- **Systemic Changes:** The Altyn-Polis liquidation experience led to the development of the "Unified Instruction" - a comprehensive action algorithm for insurance organizations and liquidation commissions for future cases.
- **Legislative Initiatives:** Following the default, standards were introduced to limit agent commissions, secure strict-accountability forms were implemented, and online policy verification mechanisms were established via the UIDB.
- **Market Cleansing:** The resolution process helped identify and eliminate unfair market practices, enabling the regulator to act preventively to protect the market from further shocks.
- **Regulatory Enhancements:** The methodology for calculating prudential ratios and forming insurance reserves was improved, and an early intervention mechanism was implemented to facilitate regulatory intervention and ensure the timely detection of financial risks.

About JSC Insurance Payment Guarantee Fund (IPGF)

The Fund was established in 2003 and was initially managed by the National Bank of the Republic of Kazakhstan. A significant milestone in the organization's development was the transition to a market ownership model: on July 21, 2008, the National Bank decided to sell 100% of its shares to insurance organizations. Since October 1, 2008, the Fund's shareholders have been its member insurance companies.

Participation in the Fund's capital is a mandatory condition for doing business: insurance organizations are not entitled to conduct insurance activities without being IPGF shareholders. The Fund's capitalization is formed through regular and extraordinary contributions from member companies. The Fund's primary goal and mission is to protect the rights and legitimate interests of policyholders by providing insurance payouts during the forced liquidation of member insurance organizations.