

Accounting system risk management

Insurance by accounting institutes (by registrars and depositories) of their professional activity for a long time is recognized by professional infrastructure community, and also by clients of accounting institutes as necessary and inseparable element of full-fledged risk management system.

PARTAD develops the issue of accounting institutes professional activity insurance since the year 1998, as a constituent part of the Program of developing and implementation of risk decreasing arrangements, connected with the professional activity in securities market (further – the Program), in which for the first time were established requirements for organizations – members of PARTAD on minimization and insurance of risks connected with their professional activity (new edition of the Program was approved by the Board of Directors of PARTAD on 19.10.2006)¹.

After almost 10-year Program realization it can be said with certainty that the accounting system insurance market had not just established as a part of general financial institutes insurance market, but continues to develop with the implementation of new technologies (in recent years – electronic document management) and understanding of accumulated experience.

To strengthen securities market infrastructure reliability and to protect investors rights, PARTAD, as a Self-Regulating Organization of accounting institutes, systematically works on accounting institutes insurance quality increasing, in particular by developing of requirements to contents of insurance contracts, made by organizations – members of

¹ Program of developing and implementation of risk decreasing arrangements, connected with the professional activity of organizations – members of PARTAD in securities market, approved by the Board of Directors of PARTAD (minutes No. 07/2006 from 19.10.2006). Published on site www.partad.ru/materialy/all/insurance

SRO², and also of assessment criterions of insurance organizations, which exercise accounting institutes insurance³.

Terms of insurance contracts registration approved by PARTAD set a number of requirements of quantitative and qualitative character in relation to basic terms of accounting institutes insurance contracts – list of insurable risks, minimal size of insurance compensation according to the contract and liability limits for one insured accident, franchise maximal size; and criterions of insurance companies assessment include presence at insurer of suitable license and insurance rules, sufficiency of own capital, presence of necessary work experience.

Control over correspondence of concluded by accounting institutes – members of PARTAD insurance contracts to SRO requirements is made through the insurance contracts registration procedure, which is an examination of insurance contracts for their correspondence to requirements of Terms of registration. Positive results of such examination (the fact of registration in PARTAD of insurance contract/policy) are taken into account in corresponding ratings of registrars and depositories,⁴ made by INFI/PARTAD, as indexes which increase accounting institute reliability.

Monitoring of accounting institutes insurance market allows to make a conclusion that during the past 5 years (for 2002-2006) in spite of all unfavorable facts – cancellation of mandatory membership of market participants in SRO, decrease of the total amount of registrars, existing tax regulations (not allowing to put insurance payment of own professional

² Terms of insurance contracts registration of organizations – members of PARTAD, approved by the Management of PARTAD (minutes No. 3/2007-p from 15.02.2007). Published on site www.partad.ru/materialy/all/insurance

³ Requirements to insurance organizations, exercising insurance of professional participants – members of PARTAD, approved by the Management of PARTAD (minutes No. 3/2007-p from 15.02.2007). Published on site www.partad.ru/materialy/all/insurance

⁴ National rating of registrars and depositories reliability // Rating is published on sites www.reestrng.ru, www.safedepo.ru.

liability on enterprise expenses), - insurance market continues dynamical development, what is indicated by statistical data (see tables 1-5)⁵.

Table 1.

Amount of insurance contracts registered in PARTAD for years 2002-2006

Amount of registered insurance contracts	2002	2003	2004	2005	2006
Total amount of accounting institutes insurance contracts	62	59	57	76	68
Including insurance contracts of:					
Registrars	43	44	43	53	43
Depositories	19	15	14	23	25

Table 2.

Total volume of insurance covering (IC), equivalent to million \$

Total volume of insurance covering (IC), equivalent to million \$	2002 (31 rub./\$)	2003 (30 rub./\$)	2004 (29 rub./\$)	2005 (28,5 rub./\$)	2006 (27 rub./\$)
Total volume of accounting institutes insurance contracts	21,6	34,2	54,6	70,7	72,9
Including insurance contracts of:					
Registrars	8,1	19,6	35,4	43,1	53,2
Depositories	13,5	14,6	19,2	27,6	19,7

Table 3.

Average volume of insurance covering, equivalent to thousand \$

Average volume of insurance covering, equivalent to thousand \$	2002 (31 rub./\$)	2003 (30 rub./\$)	2004 (29 rub./\$)	2005 (28,5 rub./\$)	2006 (27 rub./\$)
On all accounting institutes insurance contracts	349	579	959	931	1072
Separately on insurance contracts of:					
Registrars	189	446	823	814	1238
Depositories	711	970	1374	1200	786

Table 4.

Share of contracts with minimal* insurance covering, %

Share of contracts with minimal insurance covering, %	2002	2003	2004	2005	2006
On all accounting institutes insurance contracts	65	51	37	30	29
Separately on insurance contracts of:					
Registrars	60	43	35	25	16
Depositories	74	73	43	43	52

* for registrars – 2 500 000 rub., for depositories – 5 000 000 rub.

It follows from given statistical data that for the past 5 years with stable, in whole, amount of insurance contracts annually registered by

⁵ Bekarevich P. "Increasing registrars reliability: on whose own account?" // Securities market. 2007. No. 21(348). November

PARTAD (with growing trend for the past two years in relation to depositories) more than threefold growth occurred both for total insurance volumes and average volume of insurance covering on one contract (mainly because of registrars – for both indexes for more than 6 times), exceeded in the year 2006 a symbolic level at the rate of equivalent to 1 million dollars. And share of contracts with minimal insurance covering decreased for 2,2 times during 5 years (for registrars for 3,8 times).

Mostly representative from given data (table 3) is that in the year 2006 the average volume of insurance covering on registrars insurance contracts exceeded for the first time the analogous index for depositories, which points on greater, in comparison with depositories, interest of registrars to conclude insurance contracts to sums, multiply exceeding minimal established requirements – because of occurred accidents of risks realization, and, thus by increasing necessity of registrars in improving of their insurance protection quality.

As it was shown by further practice on regulation of events, having signs of insured accident, all kinds of insurable risks in accordance with Terms of registration, of both unintended (mistakes, incorrect personnel actions, failures and errors of software and other used equipment) and intended character (illegal actions of accounting system personnel and external persons, including actions with false documents, electronic and computer crimes), were somehow realized. And the consequences of risks realization (criminal, as a rule) often led to significant losses initially of accounting institutes clients (persons using their services) and then, through the judicial procedure of damages reparation, of the accounting institutes themselves. It is obvious that in case of major losses (comparable or exceeding organization's own capital) only insurance may somehow (in corpore or at least partially) compensate to investors and/or accounting institute caused damage (table 5)⁶.

⁶ Ibid.

Table 5.

Statistics of insurance benefits received by accounting institutes on risks, realized during the analyzed period of 2006-2007

Year	Accounting institute	Realized risk	Loss	Insurance compensation*
2006	Registrar	Application of the false document	10,9 million, rub.	10,9 million, rub.
2007	Registrar	Computer crimes	14 million, rub.	1,5 million, rub.
2007	Registrar	Personnel fraudulent actions	7,8 million, rub.	5,4 million, rub.

* according to terms of insurance contracts.

On the basis of above-stated it seems obvious that the accounting institutions professional activity insurance (of registrars, in the first place) formed under the control of “profile” SRO and proved its effectiveness in practice, should be considered as the most important and integral element of the full-fledged risk management system of any professional participant and it is not quite appropriate to speak seriously about increasing of reliability of securities market without taking into account of insurance instruments (both classic insurance and other forms of mutual insurance).

But for the former management of FCSM/FFMS of Russia the insurance of market participant’s professional activity always was terra incognita (may be because the development of this insurance market sector occurred on market participants initiative and not because of regulator direction). It possible that because of this there is still no FCSM/FFMS document in which was stated the necessity of such insurance but there is even no document with its appreciation as an important factor of accounting institute reliability.

Unfortunately, with the old way of repeated ignoring of PARTAD suggestions on changing of approaches on accounting institutes activity regulation remained to the market as the “inheritance” of the former FFMS management – already mentioned Order from 24.04.2007 No. 07-50/pz-n⁷,

⁷ FFMS of Russia Order from 24.04.2007 No. 07-50/pz-n “About the approval of sufficiency standards of own capital of professional securities market participants, as well of management companies of

which approved sufficiency standards of own capital (see section 4). According to it an outrageous and not conditioned by public arguments requirements to the size of own capital which are close to applied to trade organizers (?!), are introduced in relation to accounting institutes (especially to registrars). This puts 2/3 of currently existing regional registrars (substantially regional) in complicated situation of searching of funds for inefficient investments into low-profit infrastructure business for execution of surplus regulator requirements.

Surprising that covering by the words of necessity of infrastructure institutes reliability increasing, the former management of regulator, making every effort on pumping formal accounting indexes, didn't say a word about the necessity of market participants insurance development, as of the major element of risk management system.

Because of these, PARTAD suggestions about the necessity of the offset in sufficiency standards of accounting institutes (up to 50% of own capital size) insurance covering sums of on concluded contracts on professional activity insurance, corresponding to SRO requirements⁸ are especially timely.

Understanding of the necessity of usage and accounting of professional activity risks insurance in the regulatory activity by new FFMS management gives the only hope for future.

As an illustration to the insurance role and place in the accounting institutes activity further is given one of the most significant rankings (table 6), characterizing financial stability of accounting institutes, - TOP 30 of registrars according to the total value of own capital and insurance covering on the results of the 1 half-year 2007.

investment funds, unit investment funds and non-governmental pensionary funds" // Statutory acts bulletin of federal executive authorities. 2007. No. 23. June 4.

⁸ Table of remarks and suggestions of PARTAD on the licensing Order of professional kinds of activity in the securities market, approved by FFMS of Russia Order from 06.03.2007 No. 07-21/pz-n // Published on site www.partad.ru/materialy/all/licens

Table 6.

TOP 30 of registrars according to the total sum of own capital and insurance covering for 30.06.2007

Rank	Name	City	OC and IC sum, rub.	Own capital (OC), rub.	Insurance covering (IC), rub.	IC share in the total index, %
1	open joint-stock company CENTRAL MOSCOW DEPOSITORY	Moscow	457232000	69 989 000	387 243 000	84,7
2	closed joint-stock company NATIONAL REGISTRATION COMPANY	Moscow	283942000	154 61000	129 081000	45,5
3	closed joint-stock company SR-DRAGA	Moscow	279610 00	229610000	50 000 000	17,9
4	open joint-stock company REGISTER	Moscow	243773000	114692000	129 081 000	53,0
5	closed joint-stock company IRKOL	Moscow	189813000	60 732 000	129 081 000	68,0
6	open joint-stock company REGISTRAR R.O.S.T.	Moscow	129104000	79 104 000	50 000 000	38,7
7	closed joint-stock company PROFESSIONAL REGISTRATION CENTER	Moscow	125656000	110656000	15 000 000	11,9
8	open joint-stock company UNITED REGISTRATION COMPANY	Moscow	120961000	90 961 000	30 000 000	24,8
9	open joint-stock company REGISTRAR NIKoil	Moscow	111663000	96 663 000	15 000 000	13,4
10	limited liability company REGISTER-RN	Moscow	94 088 000	54 088 000	40 000 000	42,5
11	open joint-stock company INTERREGIONAL REGISTRATION CENTER	Moscow	91 736 000	71 736 000	20 000 000	21,8
12	closed joint-stock company RDC PARITET	Moscow	89 709 000	69 709 000	20 000 00**	22,3
13	closed joint-stock company M-REGISTER	Moscow	88 898 000	73 898 000	15 000 000	16,9
14	closed joint-stock company RK-REGISTER	Moscow	84 711 000	79 711 000	5 000 000	5,9
15	closed joint-stock company SERVICE-REGISTER	Moscow	84 319 000	64 319 000	20 000 000	23,7
16	closed joint-stock company REGISTER A-PLUS	Novosibirsk	80 470 517	41 746 217	38 724 300	48,1
17	closed joint-stock company REGISTRAR INTRAKO	Perm	80 407 000	50 407 000	30 000 000	37,3
18	closed joint-stock company MOSCOW STOCK CENTER	Moscow	78 585 100	65 677 000	12 908 100	16,4
19	open joint-stock company "Agency "RNR"	Tula	77 648 000	47 648 000	30 000000**	38,6
20	closed joint-stock company PARTNER	Cherepovets	76 675 000	51 675 000	25 000 000	32,6
21	open joint-stock company RSR "YAKUTSK STOCK CENTER"	Yakutsk	74 680 000	64 680 000	10 000 000*	13,4
22	closed joint-stock company COMPANY REGISTER MAINTANANCE	Ekaterinburg	71 008 000	41 008 000	30 000 000	42,2
23	Closed joint-stock company SINGLE REGISTRAR	Saint-Petersburg	69 806 000	49 806 000	20 000 000	28,7
24	open joint-stock company SR "AVISTA"	Moscow	67 356 000	52 356 000	15 000 000	22,3
25	closed joint-stock company DAROSS	Moscow	62 167 000	59 667 000	2 500 000**	4,0
26	open joint-stock company CENTRAL REGISTRATION OFFICE	Ufa	61 576 000	51 576 000	10 000 000	16,2
27	closed joint-stock company NEW REGISTRAR	Moscow	56 693 100	43 785 000	12 908 100	22,8
28	closed joint-stock company SURGUTINVESTNEFT	Surgut	54 542 000	39 542 000	15 000 000	27,5
29	open joint-stock company URR "VESTA"	Saint-Petersburg	53 082 000	43 082 000	10 000 000	18,8
30	closed joint-stock company PETERSBURG CENTRAL REGISTRATION COMPANY	Saint-Petersburg	52 853 000	47 853 000	5 000 000	9,5