



NATIONAL BANK OF SERBIA

INSURANCE SUPERVISION DEPARTMENT

INSURANCE SECTOR IN SERBIA

Third Quarter Report 2020

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List of abbreviations

mn	million
bn	billion
Q1	first quarter (1 January – 31 March)
Q2	second quarter (1 January – 30 June)
Q3	third quarter in one year (1 January – 30 September)

1 Insurance market¹

1.1 Market participants

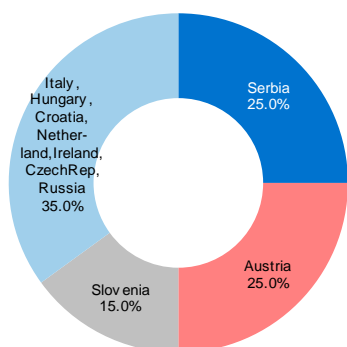
Insurance and reinsurance undertakings

At end-Q3 2020, the insurance market in Serbia comprised 20 insurance and reinsurance undertakings, unchanged in y-o-y terms. Sixteen undertakings engaged in insurance activities only and four in reinsurance activities. Of the insurance undertakings, four were exclusive life insurers, six exclusive non-life insurers, while six provided both life and non-life insurance.

The breakdown by ownership at end-Q3 2020 shows that of the 20 insurance undertakings, 15 were in majority foreign ownership.

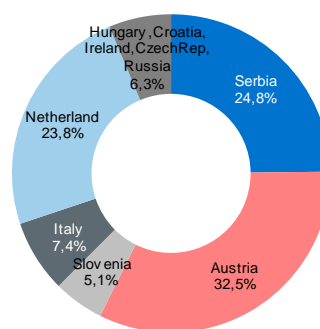
At end-Q3 2020, foreign-owned undertakings held majority shares of 88.3% in life insurance premium, 62.0% in non-life insurance premium, 75.2% in total assets and 66.9% in total employment.

Chart 1.1.1 Structure of (re)insurance undertakings in Serbia by ownership (in Q3 2020)



Source: National Bank of Serbia.

Chart 1.1.2 Balance sheet total of (re)insurance undertakings in Serbia by ownership (in Q3 2020)



Source: National Bank of Serbia.

¹ The report is based on data that insurance and reinsurance undertakings are obliged to submit to the NBS.

Other market participants

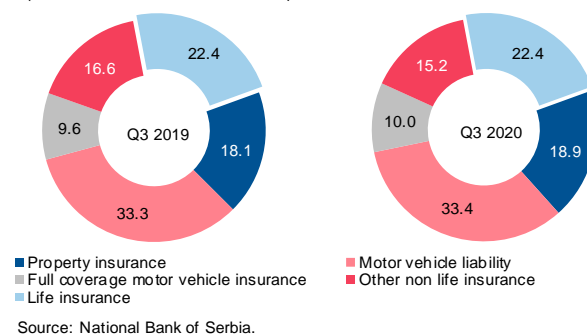
In addition to insurance and reinsurance undertakings, the market consisted of: 17 banks, six financial lessors and a public postal operator which are licensed for insurance agency operations, 101 legal entities (insurance brokerage and agency services), 76 insurance agents (natural persons – entrepreneurs) and 4,209 active certified agents/brokers in insurance.

1.2 Insurance portfolio structure

Total premium in Q3 2020 came at RSD 80.7 bn (EUR 687 mn or USD 806 mn)², which is an increase of 2.2% from a year earlier.

The premium structure remained unchanged relative to the same period of the previous year, due to almost equal growth in non-life and life insurance premiums.³ The share of non-life insurance in total premium was 77.6%, while the life insurance share was 22.4%.

Chart 1.2 Total premium according to the types of insurance (in Q3 2019 and Q3 2020, in %)



Observed by type of insurance, premium structure in Q3 2020 resembled that recorded in the same period of 2019, with motor vehicle liability insurance accounting for the largest share of total premium (33.4%). It was followed by life insurance (22.4%), property insurance (18.9%) and full coverage motor vehicle insurance (10.0%).

² At the NBS middle exchange rate as at 30 September 2020.

³ After Q3 2017, when its slowdown began, life insurance premium recorded higher nominal growth relative to non-life insurance premium only in Q3 2018, Q1 2019 and Q1 2020.

Non-life insurance premium rose by 2.2% in Q3 2020 relative to the same period of 2019. Property insurance, full coverage motor vehicle insurance, and voluntary health insurance recorded an increase (7.1%, 6.4% and 19.5%, respectively). After dropping in Q1 as a consequence of the coronavirus pandemic and recovering in Q2, motor vehicle liability insurance premium continued up – by 2.5% in Q3 2020.

The above rise in the voluntary health insurance premium was accompanied with an increase in the premium share of this type of insurance from 4.7% in Q3 2019 to 5.4% in Q3 2020. Four insurance undertakings accounted for more than four fifths of the market.

Accident insurance, including, inter alia, compulsory types of insurance such as passenger insurance in public transport and insurance of employees from injuries at work and professional illnesses, decreased by 8.0%, while accounting for only 2.6% of total premium in Q3 2020.

Looking at total, non-life and life insurance premiums, there was no change in the ranking of the five largest insurance undertakings in Q3 2020 relative to Q3 2019 – together they accounted for 78.0%, 79.7% and 82.9% respectively of those premium categories.

The Herfindahl Hirschman index, calculated by summing up the squares of the respective market shares or, in this case, balance sheet totals of all insurance and reinsurance undertakings, points to moderate market concentration. At end-Q3 2020, the HHI was 1,312⁴.

⁴ HHI up to 1,000 indicates that there is no market concentration; 1,000–1800 indicates moderate concentration; above 1,800 indicates high concentration.

Table 1.2 Ranking list of five largest insurance undertakings
(RSD mn, %)

	30/9/2019			30/9/2020			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
by total premiums							
Dunav	20431	25,9	1	21857	27,1	1	-
Generali	17125	21,7	2	16178	20,0	2	-
DDOR	9525	12,1	3	9848	12,2	3	-
Wiener	9009	11,4	4	9543	11,8	4	-
Triglav	5070	6,4	5	5533	6,9	5	-
by non-life premiums							
Dunav	18613	30,4	1	19746	31,5	1	-
Generali	11530	18,8	2	11130	17,8	2	-
DDOR	8113	13,2	3	8351	13,3	3	-
Wiener	5590	9,1	4	5715	9,1	4	-
Triglav	4701	7,7	5	4987	8,0	5	-
by life premiums							
Generali	5594	31,6	1	5048	27,9	1	-
Wiener	3419	19,3	2	3828	21,2	2	-
Grawe	2479	14,0	3	2504	13,8	3	-
Dunav	1819	10,3	4	2112	11,7	4	-
DDOR	1413	8,0	5	1497	8,3	5	-

Source: NBS.

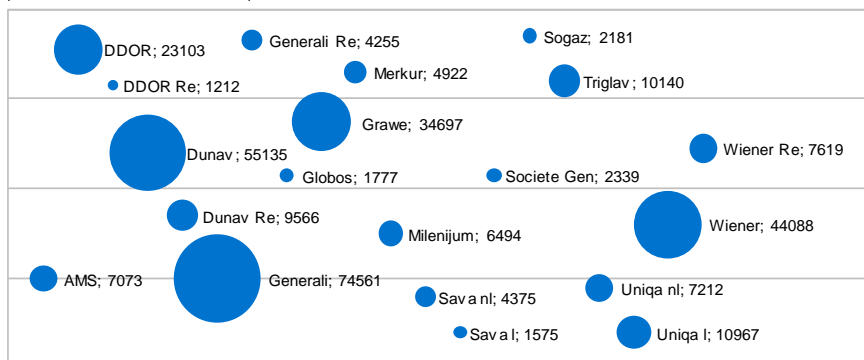
1.3 Balance sheet total and balance sheet structure

Balance sheet total

At end-Q3 2020, the balance sheet total of insurance and reinsurance undertakings increased to RSD 313.3 bn (EUR 2,664 mn or USD 3,128 mn)⁵, up by 7.0% y-o-y.

⁵ At the NBS middle exchange rate as at 30 September 2020.

Chart 1.3.1 **Balance sheet total of insurance undertakings**
(as at 30/09/2020, in RSD mn)



Source: National Bank of Serbia.

In terms of the balance sheet total, there was no change in the ranking of the top five insurance undertakings, which in Q3 2020 accounted for 79.7% of the industry's balance sheet total.

Table 1.3 **Ranking list of five largest insurance undertakings by balance sheet total**
(RSD mn, %)

	30/9/2019			30/9/2020			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
Generali	73,392	27,2	1	74,561	25,7	1	-
Dunav	47,571	17,6	2	55,135	19,0	2	-
Wiener	40,653	15,0	3	44,088	15,2	3	-
Grawe	30,654	11,3	4	34,697	11,9	4	-
DDOR	21,178	7,8	5	23,103	7,9	5	-

Source: NBS.

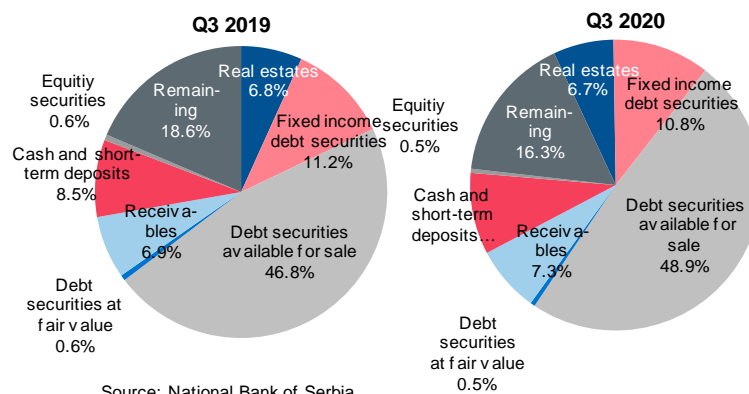
Structure of assets

As at 30 September 2020, the assets of insurance and reinsurance undertakings comprised mostly debt securities available for sale (48.9%), fixed income debt securities (10.8%) and debt securities recognised at fair value through profit or loss (0.5%), followed by cash and short-term deposits (9.1%), receivables and technical provisions charged to coinsurer, reinsurer and retrocessionaire (7.3% each), property, plant and equipment (6.7%) and other⁶.

⁶ The item „Other” in Chart 1.3.2 includes: intangible investments, goodwill, software and other rights, participating interests, other long-term financial investments (with the exception of fixed income debt securities), other long-term assets, deferred tax assets, inventories, non-current assets held for sale, other

Compared to the same day the year before, it can be concluded that in Q3 2020, the dominant share of debt securities increased to 60.2%, while the share of technical provisions charged to coinsurer, reinsurer and retrocessionaire (part of the item “Other” in Chart 1.3.2) decreased,⁷ as a result of the settlement of a large property damage in Q1 2020, in the full amount, which was earmarked as outstanding at end-2018.

Chart 1.3.2 **Structure of assets**
(as at 30/09/2019 and 30/09/2020)



Structure of liabilities

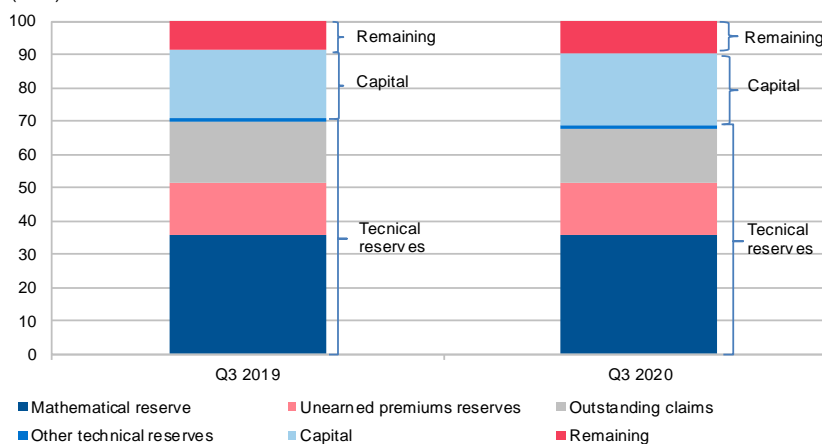
At end-Q3 2020, technical provisions accounted for 69.0% and capital for 21.6% of total liabilities.

Capital amounting to RSD 65.2 bn recorded growth at the rate of 12.8% as compared to end-Q3 of the previous year. Technical provisions amounting to RSD 208.4 bn again recorded a 3.6% growth at end-Q3 2020, after the years-long continuous increase, which was interrupted at end-Q1 and in Q2 2020 due to the settlement of a large property damage from September 2018. Mathematical reserve kept the dominant share in technical provisions, with the y-o-y growth rate of 6.8% in Q3 2020.

securities within financial investments, other short-term financial investments, value added tax, prepayments and accrued income and technical provisions charged to coinsurer, reinsurer and retrocessionaire.

⁷ The decline in share from 9.5% in Q3 2019 to 7.3% in Q3 2020.

Chart 1.3.3. **Structure of liabilities**
(in %)



Source: National Bank of Serbia.

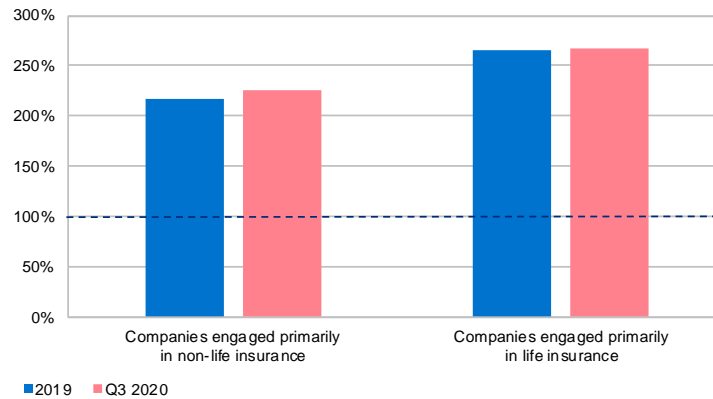
2 Performance indicators

2.1 Capital adequacy

The solvency of insurance and reinsurance undertakings largely depends on the sufficiency of technical provisions for undertaken obligations and primarily on meeting the conditions related to capital adequacy, which have been established as the ratio of the required and available solvency margin.

The available solvency margin of the insurance and reinsurance undertakings in Serbia as at 30 September 2020 amounted to RSD 46.4 bn, and the required solvency margin to RSD 19.4 bn. **The main capital adequacy indicator** (the ratio of the available to required solvency margin) was 225.3% for *non-life insurers* and 266.9% for *life insurers* in Serbia.

Chart 2.1. Capital adequacy of insurance undertakings



Source: National Bank of Serbia.

2.2 Quality of assets

The share of intangible investment, real estate, investment in non-tradable securities and receivables (as types of assets with possible difficulties in collectability) in total assets of undertakings engaged primarily in *non-life insurance*, i.e. **the ratio of less marketable assets**, came at a satisfactory 16.4% at end-Q3 2020, compared to 16.7% at end-2019. The ratio changed due to the lesser growth of the stated types of assets relative to the growth of the total assets.

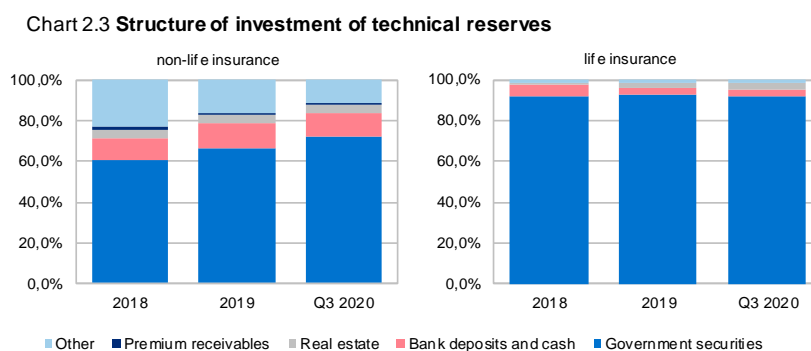
For undertakings engaged primarily in *life insurance* this indicator edged down slightly, from 6.1% at end-2019 to 5.6% at end-Q3 2020.

2.3 Investment of technical provisions

In order to protect the interests of the insured and third damaged parties and to ensure timely payment of damage claims, insurance undertakings need not only allocate adequate technical provisions, but also invest these assets to ensure that their real value is maintained and increased, so that the undertaken insurance obligations may be fully and timely met, both at present and in the future period. To be able to meet its liabilities, an undertaking must invest its assets taking due account of the risk profile and risk tolerance limits (qualitative and quantitative), by pursuing its investment policy.

In Q3 2020, technical provisions were fully invested in the prescribed types of assets, in both *non-life* and *life insurance*, as well as in *reinsurance undertakings*.

Non-life insurance technical provisions of all insurance undertakings in Serbia were mostly invested in government securities (72.0%), bank deposits and cash (11.7%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (9.8%), and real estate (4.1%), while insurance premium receivables recorded a share of 0.9%. Relative to the end of the previous year, the share of government securities increased, while the share of technical provisions charged to coinsurer, reinsurer and retrocessionaire (part of the item “Other” in Chart 2.3)⁸ and deposits and cash declined.



Life insurance technical provisions were in major part invested in government securities - 92.0%, while bank deposits and cash, as well as real estate accounted for only 3.3% and 3.2% respectively.

2.4 Profitability

A measure of profitability of an insurance undertaking is the **net combined ratio** (the sum of net claims and underwritten expenses relative to earned net premium). A ratio below 100% indicates that an undertaking is able to cover damage claims and expenses out of the premium written, while a ratio above 100% means that in premium pricing, it takes into account potential income received from investments in the financial and real estate markets, which exposes it to market risks and the risks of default by the counterparty. In undertakings primarily engaged in non-life insurance, the combined ratio declined from 83.5% in Q3 2019 to 79.4% in Q3 2020. The favourable trend of this ratio resulted from the growth of earned net premium and the decline in net claims and underwritten expenses.

⁸ As a result of the settlement of the above large property damage.

2.5 Liquidity

To be able to meet its liabilities, an insurance undertaking must ensure an asset-liability maturity match and make sure its assets are marketable and of adequate quality. As the size and timing of individual damage claims cannot be predicted, an insurance undertaking must carefully plan the composition of its assets in order to be able to meet first its liabilities under damage claims, and then all other liabilities.

Liquid assets to liquid liabilities ratio⁹ for the insurance sector (insurance and reinsurance undertakings) stood at 157.7% in Q3 2020, suggesting that liquid assets were sufficient for servicing short-term liabilities in the insurance sector.

3 Motor third party liability

At end-Q3 2020, 11 insurance undertakings engaged in MTPL insurance – one undertaking more than in the same period last year.¹⁰

The MTPL premium increased by 2.4% in Q3 2020 relative to the same period a year earlier, which speaks in favour of a further recovery of this insurance market segment from the consequences of the coronavirus. However, considering the uncertainty as to the duration and course of the pandemic, its effects could also be expected in the coming period.

Portfolio concentration in this segment was slightly lowered, as three insurance undertakings with the largest share in the MTPL premium accounted for 63.0% of the market in Q3 2020, as opposed to 66.8% in the same period last year.

4 Conclusion

The comparison of indicators between Q3 2020 and the same quarter in 2019 reveals the following changes:

- a total of 20 insurance and reinsurance undertakings operated in the Serbian market, same as in the same period last year, while employment in the sector increased, by 2.1% to 11,194 persons;
- the insurance sector balance sheet total rose by 7.0% to RSD 313.3 bn;
- capital increased by 12.8% to RSD 65.2 bn;

⁹ For the purposes of this Report, liquid assets comprise financial investments, cash and deposits with banks and other long-term financial investments, while liabilities refer to: short-term liabilities, accrued costs and deferred revenues, outstanding claims and other technical provisions in insurance up to one year.

¹⁰ One non-life insurance undertaking started selling MTPL insurance in November 2019.

- technical provisions gained 3.6%, coming at RSD 208.4 bn, and were fully invested in the prescribed types of assets;
- total premium gained 2.2% and came at RSD 80.7 bn;
- non-life insurance continued to account for the dominant share of total premium (77.6%). Non-life insurance premium rose by 2.2%, as property insurance, full coverage motor vehicle insurance (“kasko”) and voluntary health insurance recorded growth. Motor vehicle liability insurance premium recorded an increase again, after dropping in Q1 amid the coronavirus pandemic and recovering in Q2;
- life insurance kept its share in total premium unchanged, at 22.4%, recording a nominal growth of 2.1%, which was almost equal to that of non-life insurance premium.

The current insurance regulations in the Republic of Serbia laid the legislative groundwork for further convergence of the Serbian insurance sector to that of the EU.

Still, major changes to the insurance supervision regulatory framework are yet to be made with the full alignment with the Insurance Distribution Directive (IDD) and implementation of Solvency II.

The IDD brings solutions which regulate in more detail the supervision and management of insurance products in order to ensure that they meet actual consumer needs. It also prescribes the methods of informing consumers and distribution of insurance products, in order to improve the level of protection of the rights and interests of insurance service users.

An effective risk-based solvency regime is in line with trends in other segments of the financial sector, particularly banking. Therefore, for the sake of further improvement of prudential supervision regulatory framework, in the forthcoming period continued alignment of regulations with the Solvency II Directive is expected, which will change the manner of quantification of the level of risks to which insurance and reinsurance undertakings are exposed in their operations and therefore, also the manner of management of those risks. Completing the first phase of strategic activities aimed at implementing Solvency II – compliance analysis, implementing activities integral to the second phase – impact assessment, and moving to harmonisation of the regulatory framework, by the time Serbia accedes to the EU, as the third phase, will enable the insurance sector to respond to future challenges with a view to ensuring long-term stability of the insurance sector and protecting insurance service users.

In conditions when the whole world is facing the consequences of the coronavirus pandemic (a sudden contraction in economic activity and rise in unemployment, among other), the role of the insurance sector in providing protection to citizens and insured persons and ensuring continuity in the provision of insurance services, increasingly gains in importance. In this sense, since the introduction of the state of emergency, the NBS took a number of measures to prevent, mitigate and eliminate the

negative effects of the coronavirus pandemic and will continue to do so going forward. These activities are aimed at protecting the rights and interests of insurance service users, maintaining the stability of operations of all professional insurance market participants, and ensuring the continuity of the supervisory function.