NATIONAL BANK OF SERBIA

INSURANCE SUPERVISION DEPARTMENT

# INSURANCE SECTOR IN SERBIA

## Second Quarter Report 2020

**Contents:**

# List of abbreviations

| | |
|---|---|
| mn | million |
| bn | billion |
| Q1 | first quarter (1 January – 31 March) |
| Q2 | second quarter (1 January – 30 June) |

# 1 Insurance market[1]

## 1.1 Market participants

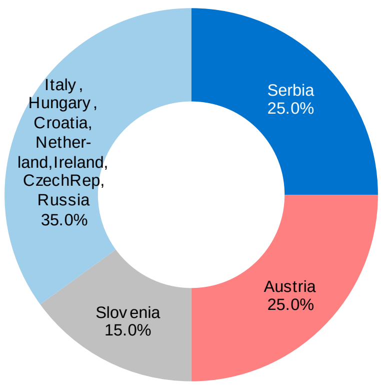
### *Insurance and reinsurance undertakings*

At end-Q2 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-Q2 2020 shows that of the 20 insurance undertakings, 15 were in majority foreign ownership.

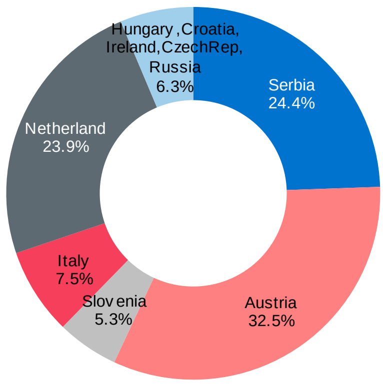
At end-Q2 2020, foreign-owned undertakings held majority shares of 88.9% in life insurance premium, 62.8% in non-life insurance premium, 75.6% in total assets and 67.9% in total employment.

Chart 1.1.1 **Structure of (re)insurance undertakings in Serbia by ownership**
(in Q2 2020)




Source: National Bank of Serbia.

Chart 1.1.2 **Balance sheet total of (re)insurance undertakings in Serbia by ownership**
(in Q2 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*

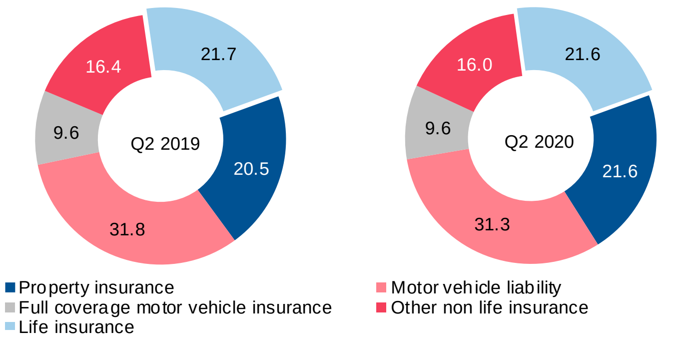
In addition to insurance and reinsurance undertakings, the market consisted of: 17 banks, seven financial lessors and public postal operator which are licensed for insurance agency operations, 100 legal entities (insurance brokerage and agency services), 81 insurance agents (natural persons – entrepreneurs) and 4,044 active certified agents/brokers in insurance.

## 1.2 Insurance portfolio structure

Total premium in Q2 2020 came at RSD 55.9 bn (EUR 475 mn or USD 534 mn)[2], which is an increase of 4.0% from a year earlier.

The share of non-life insurance in total premium was 78.4%. The life insurance share decreased mildly from 21.7% in Q2 2019 to 21.6% in the same period of the current year, due to slightly higher nominal growth in non-life insurance premium relative to life insurance premium growth.

Chart 1.2 **Total premium according to the types of insurance**
(in Q2 2019 and Q2 2020, in %)




Source: National Bank of Serbia.

Observed by type of insurance, the premium structure in Q2 2020 resembled that recorded in the same period in 2019, with motor vehicle liability insurance accounting for the largest share of total premium (31.3%). It was followed by life insurance (21.6%), property insurance (21.6%) and full coverage motor vehicle insurance (9.6%).

Non-life insurance premium rose by 4.1% in Q2 2020 relative to the same period in 2019. Property insurance, full coverage motor vehicle insurance, and voluntary health insurance recorded an increase (9.6%, 3.7% and 21.8%, respectively). Motor

[2] At the NBS middle exchange rate as at 30 June 2020.

vehicle liability insurance premium again recorded an increase – by 2.3%, after dropping in Q1 2020 as a consequence of the coronavirus pandemic.

The above rise in the voluntary health insurance premium was accompanied with the increase in the premium share of this type of insurance from 5.2% in Q2 2019 to 6.1% in Q2 2020. Four insurance undertakings accounted for almost 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 5.5%, while accounting for only 2.6% of total premium in Q2 2020.

Looking at total and non-life insurance premiums, there was no change in the ranking of the five largest insurance undertakings in Q2 2020 relative to Q2 2019 and together they accounted for 78.6% and 80.5% respectively of those premium categories. However, their ranking by the level of life insurance premium did change, and it accounted for 82.8% of this premium category.

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-Q2 2020 the HHI was 1,325[3].

[3] 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, %)

| | 30/6/2019 | | | 30/6/2020 | | | Ranking change |
|---|---|---|---|---|---|---|---|
| | Amount | Share | Rank | Amount | Share | Rank | |
| **by total premiums** | | | | | | | |
| Dunav | 13907 | 25.9 | 1 | 15134 | 27.1 | 1 | - |
| Generali | 11473 | 21.4 | 2 | 11388 | 20.4 | 2 | - |
| DDOR | 6628 | 12.3 | 3 | 6837 | 12.2 | 3 | - |
| Wiener | 6169 | 11.5 | 4 | 6584 | 11.8 | 4 | - |
| Triglav | 3541 | 6.6 | 5 | 3992 | 7.1 | 5 | - |
| **by non-life premiums** | | | | | | | |
| Dunav | 12734 | 30.3 | 1 | 13792 | 31.5 | 1 | - |
| Generali | 7834 | 18.6 | 2 | 7940 | 18.1 | 2 | - |
| DDOR | 5689 | 13.5 | 3 | 5916 | 13.5 | 3 | - |
| Wiener | 3961 | 9.4 | 4 | 4002 | 9.1 | 4 | - |
| Triglav | 3309 | 7.9 | 5 | 3639 | 8.3 | 5 | - |
| **by life premiums** | | | | | | | |
| Generali | 3639 | 31.2 | 1 | 3448 | 28.6 | 1 | - |
| Wiener | 2209 | 18.9 | 2 | 2582 | 21.4 | 2 | - |
| Grawe | 1692 | 14.5 | 3 | 1705 | 14.1 | 3 | - |
| Dunav | 1173 | 10.0 | 4 | 1342 | 11.1 | 4 | |
| DDOR | 939 | 8.0 | 6 | 922 | 7.6 | 5 | **increase** |
| Uniqa I | 967 | 8.3 | 5 | 836 | 6.9 | 6 | **decrease** |

Source: NBS.

## 1.3 Balance sheet total and balance sheet structure

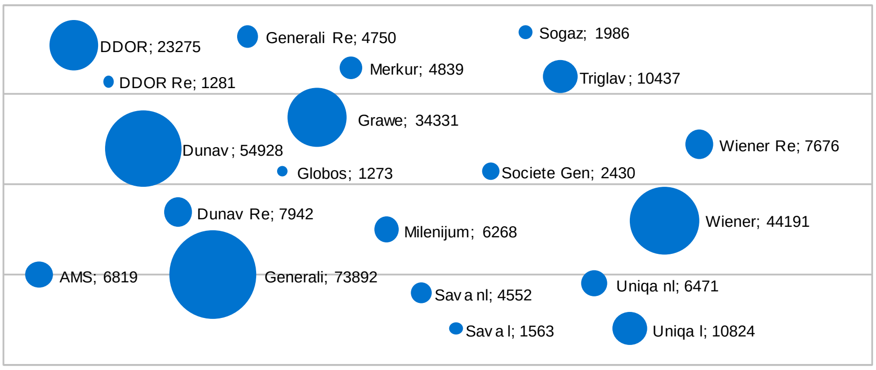
### *Balance sheet total*

At end-Q2 2020, the balance sheet total of insurance and reinsurance undertakings amounted to RSD 309.7 bn (EUR 2,634 mn or USD 2,960 mn)[4], up by 4.4% y-o-y.

In terms of the balance sheet total, there was no change in the ranking of the top five insurance undertakings, which in Q2 2020 accounted for 80.1% of the industry's balance sheet total.

[4] At the NBS middle exchange rate as at 30 June 2020.

Chart 1.3.1 **Balance sheet total of insurance undertakings**
(as at 30/06/2020, in RSD mn)




Source: National Bank of Serbia.

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

| | 30/6/2019 | | | 30/6/2020 | | | Ranking change |
|---|---|---|---|---|---|---|---|
| | Amount | Share | Rank | Amount | Share | Rank | |
| Generali | 74082 | 27.4 | 1 | 73892 | 25.7 | 1 | - |
| Dunav | 47454 | 17.5 | 2 | 54928 | 19.1 | 2 | - |
| Wiener | 40324 | 14.9 | 3 | 44191 | 15.3 | 3 | - |
| Grawe | 29571 | 10.9 | 4 | 34331 | 11.9 | 4 | - |
| DDOR | 21095 | 7.8 | 5 | 23275 | 8.1 | 5 | - |

Source: NBS.

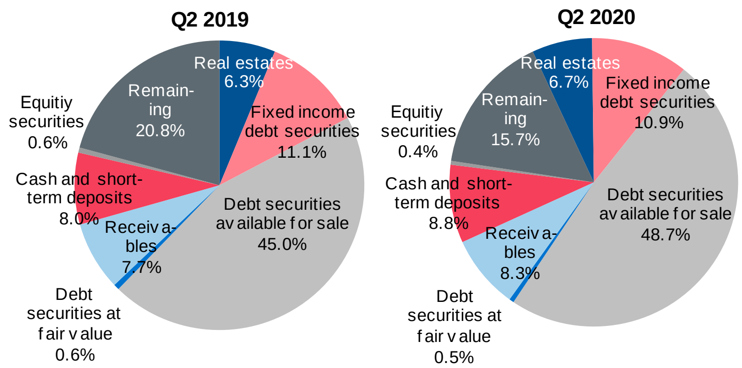
### *Structure of assets*

As at 30 June 2020, the assets of insurance and reinsurance undertakings comprised mostly debt securities available for sale (48.7%), fixed income debt securities (10.9%) and debt securities recognised at fair value through profit or loss (0.5%), followed by cash and short-term deposits (8.8%), receivables (8.3%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (6.9%), property, plant and equipment (6.7%) and other[5].

[5] 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 securities within financial investments, other short-term financial investments, value added tax,

Compared to the same period the year before, in Q2 2020, the dominant share of debt securities increased to 60.1%, while the share of technical provisions charged to coinsurer, reinsurer and retrocessionaire (part of the item "Other" in the Chart 1.3.2) decreased[6] as a result of the settlement of a damage caused by fire in Q1 2020, in the full amount, which was earmarked at end-2018.

Chart 1.3.2 **Structure of assets**
(as at 30/06/2019 and 30/06/2020)




Source: National Bank of Serbia.

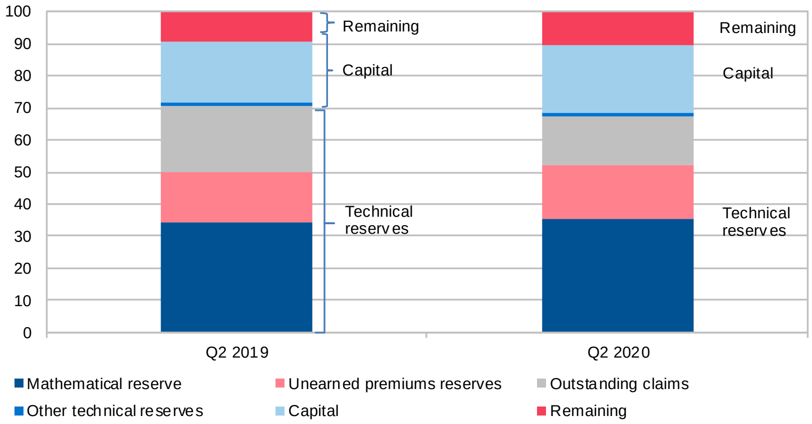
*Structure of liabilities*

At end-Q2 2020, technical provisions accounted for 68.2% and capital for 21.6% of total liabilities.

Capital amounting to RSD 65.3 bn recorded growth at the rate of 17.0% as compared to Q2 of the previous year, while technical provisions, after the years-long continuous increase, declined by 1.0% to RSD 206.1 bn, due to the 23.9% y-o-y decrease in outstanding claims brought about by the great property damage in September 2018. Mathematical reserve kept the dominant share in technical provisions, with the y-o-y growth rate of 7.2% in Q2 2020.

prepayments and accrued income and technical provisions charged to coinsurer, reinsurer and retrocessionaire.
[6] The decline in share from 12.2% in Q2 2019 to 6.9% in Q2 2020.

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




Source: National Bank of Serbia.

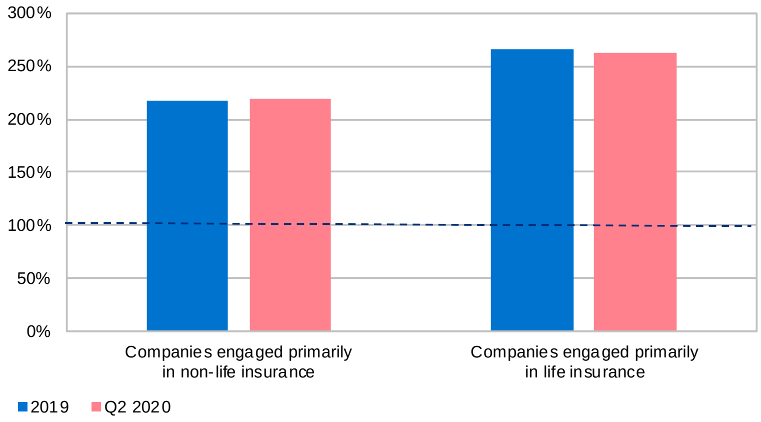
# 2 Performance indicators

## 2.1 Capital adequacy

The solvency of (re)insurance 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 June 2020 amounted to RSD 45.4 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 218.8% for *non-life insurers* and 263.4% 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 investments, 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 17.4% at end-Q2 2020, compared to 16.7% at end-2019. The ratio changed due to the higher 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% in Q2 2019 to 5.9% in Q2 2020.

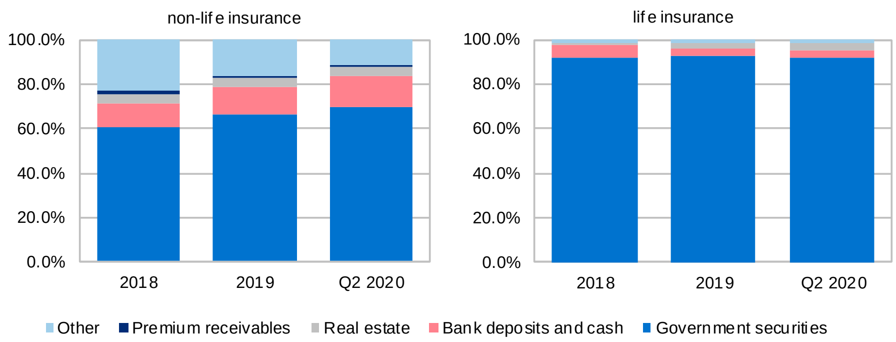
## 2.3 Investment of technical provisions

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 Q2 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 (69.6%), bank deposits and cash (14.1%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (9.8%) and real estate (4.1%), while insurance premium receivables recorded a share of 1.0%. The composition of investments of these assets was somewhat changed from 2019. While the share of government securities, deposits and cash rose, the share of technical provisions charged to coinsurer, reinsurer and retrocessionaire (part of the item “Other” in Chart 2.3) declined[7].

Chart 2.3 **Structure of investment of technical reserves**




Source: National Bank of Serbia.

*Life insurance* technical provisions were in major part invested in government securities – 92.1%, while bank deposits and cash accounted for only 3.0%.

## 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 primarily to market risks and the risks of default by the other party. In undertakings primarily engaged in non-life insurance, the combined ratio declined from 83.3% in Q2 2019 to 77.5% in Q2 2020. The favourable trend of this ratio resulted from the growth of earned net premium and

[7] As a result of the settlement of the above large property damage.

the decline in net claims and underwritten expenses, which is a significant indicator of the results of activities undertaken by the NBS with a view to improving the insurance market.

## 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 ratio**[8] for the insurance sector (insurance and reinsurance undertakings) stood at 152.1% in Q2 2020, suggesting that liquid assets were sufficient for servicing short-term liabilities in the insurance sector.

# 3 Motor third party liability

At end-Q2 2020, 11 insurance undertakings engaged in MTPL insurance – one undertaking more than in the same period last year.[9]

The MTPL premium increased by 2.3% in Q2 2020 relative to the same period a year earlier, which could speak in favour of the recovery of this insurance market segment from the consequences caused by the coronavirus.

Portfolio concentration in this segment was slightly lowered, as three insurance undertakings with the largest share in the MTPL premium accounted for 64.1% of the market in Q2 2020, as opposed to 66.9% in the same period last year.

# 4 Conclusion

The comparison of indicators between Q2 2020 and the same quarter in 2019 points to the following changes:

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[8] 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.

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

- 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 2.0% to 11,182 persons;
- the insurance sector balance sheet total rose by 4.4% to RSD 309.7 bn;
- capital increased by 17.0% to RSD 65.3 bn;
- technical provisions dropped by 1.0% as a consequence of the settlement of the above large property damage in the full amount. They stood at RSD 206.1 bn and were fully invested in the prescribed types of assets;
- total premium gained 4.0% and came at RSD 55.9 bn;
- non-life insurance continued to account for the dominant share of total premium (78.4%). Non-life insurance premium rose by 4.1%, 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 2020 amid the coronavirus pandemic;
- life insurance slightly decreased its share in total premium, from 21.7% to 21.6%, while life insurance premium recorded nominal growth of 3.4%.

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 in the insurance supervision are yet to be made with the full alignment with the Insurance Distribution Directive (IDD) and implementation of Solvency II.

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 rights and interests of insurance service users.

An effective risk-based solvency regime is in line with development 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 continuation of the alignment of the 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 the ongoing activities which are 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 adequately 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 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. 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, which will continue going forward.