NATIONAL BANK OF SERBIA

INSURANCE SUPERVISION
DEPARTMENT

INSURANCE SECTOR IN SERBIA

Report for 2019

Contents:

List of abbreviations

mn	million
bn	billion
Q1	first quarter (1 January – 31 March)
Q3	three quarters in one year (1 January – 30 September)

1. Introduction

According to law, the National Bank of Serbia (NBS) is entrusted with supervising the major part of the Serbian financial sector. At end-2019, the financial sector under the NBS's supervision included 26 banks, 20 (re)insurance undertakings, 17 financial lessors, seven voluntary pension funds, 13 payment institutions and two electronic money institutions.

2. Activities of the National Bank of Serbia in 2019

Activities of the National Bank of Serbia in 2019 were focused on safeguarding the insurance sector's stability, creating conditions for its further development and strengthening the supervisory function with a view to protecting the rights and interests of the insured, insurance service users and injured parties.

On-site examinations

In order to maintain insurance sector stability in 2019, the NBS conducted 11 on-site examinations of supervised entities engaged in insurance business, seven of which concerned prudential supervision and one exclusively concerning market behaviour, one examination covering both prudential supervision and market behaviour, one examination – prudential supervision of insurance undertakings in the area of AML/CTF and one one-site examination of a commercial bank licensed to perform insurance agency. Also, the NBS conducted an *ad hoc* on-site examination of an insurance undertaking in the area of prudential supervision.

Based on examinations conducted in 2018 and 2019, which established non-compliance and irregularities in operation of insurance undertakings and other supervised entities, six decisions[1] were issued on corrective supervisory measures and six fines were imposed – in two cases the fines were imposed both to insurance undertakings and responsible persons in those undertakings (according to the Insurance Law and Law on Compulsory Traffic Insurance). Seven examinations were discontinued after the entities implemented supervisory measures or in cases where no non-compliance or irregularities were detected.

On-site examinations conducted in *insurance undertakings* in 2019 in the area of prudential supervision were targeted and mainly related to the MTPL insurance market. It was found that insurance undertakings used the funds earmarked for settlement of liabilities under insurance contracts to "cover" underwriting expenses, and that they did so in a way as to provide benefits to persons who are in accordance

1 The NBS issued two decisions in early 2020.

with traffic safety regulations authorised to carry out technical inspection of vehicles. Examinations also established deficiencies in the system of internal controls, primarily in ensuring the sufficiency of the premium to cover the liabilities arising from insurance contracts, the manner of distributing insurance underwriting expenses by different types of insurance and in the segment of reporting to the NBS.

In the segment of supervision of *market behaviour* of insurance undertakings, irregularities were identified as regards the manner of informing and contracting collective pension insurance; manner of providing pre-contractual information which is not in line with the prescribed obligations; inadequate handling of insurance claims in life-insurance; contracting an unfair provision of insurance terms allowing for the collection of insurance premium receivables that are not yet due; inadequate handling of complaints and failing to take measures to remove and/or limit or prevent the underlying causes of complaints. Supervisors identified omissions in the work of insurance agents in the segment of reporting to the NBS, and in the work of a supervised bank – regarding the implementation of NBS's orders issued in the previous period.

An on-site examination of the set-up of the system for managing the risk of *money laundering and terrorism financing* did not identify omissions that would require the adoption of corrective supervisory measures.

Off-site supervision and examinations

In parallel with on-site examinations, the NBS also conducted *off-site supervision*, both in the part of prudential supervision and supervision of market behaviour and managing the risk of money laundering and terrorism financing.

Prudential off-site supervision included continuous monitoring of re(insurance) undertakings both from the *financial-economic* and *actuarial* aspect, as well as taking activities to clarify the submitted data and information and to remove the identified irregularities. Activities under the off-site prudential supervision were carried out separately, namely: (1) risk monitoring based on supervisory matrices of risks in (re)insurance undertakings, (2) analysis of quarterly opinions of the licensed actuary, opinions of the licensed actuary on financial statements and annual reports of (re)insurance undertakings, opinions of the licensed actuary about the reports on implementation of co-insurance and re-insurance policy, the receipt and analysis of submitted internal acts of (re)insurance undertakings, (3) receipt and analysis of submitted annual, quarterly and monthly data of (re)insurance undertakings and compiling of appropriate reports, (4) receipt and analysis of extraordinary quarterly data on large damages and information on expected payouts by insurance undertakings and/or collection by reinsurance undertakings from retrocessioners, compensation of damages over certain amounts, and (5) compiling of quarterly reports about the current state of the insurance sector.

As part of conducting off-site supervision of *market behaviour* of insurance undertakings, apart from regular monitoring of risks associated with market behaviour, the manner of risk monitoring and analysis was improved by applying yet another cutting-edge business intelligence tool which, coupled with the tool implemented in 2016 enables real-time comprehensive analysis and appraisal of indicators relevant for supervision of market behaviour. This laid the groundwork for further improvement of these activities and for gradual introduction of electronic reporting by other supervised entities and introducing digitalisation in everyday operations.

As part of regular supervision of market behaviour, insurance supervisors continued to analyse qualitative and quantitative indicators with a view to identifying problematic aspects of operation of insurance undertakings and other supervised entities. They detected several different risks of inadequate market behaviour, especially regarding the manner of compiling pre-contractual information which did not comply with the prescribed obligations, as well as inadequate informing of insurance service users when contracting collective insurance; the manner of calculating the refund of insurance premium when cancelling the insurance contract linked with the loan contract; method of calculating total damages; manner of handling claims; failing to take or untimely taking of action to remove or reduce the underlying causes of complaints etc.

The risks that were recognised as the most important from the aspect of protection of rights and interest of insurance service users were covered by the planed supervisory activities in order to timely examine the activities of insurance undertakings and other supervised entities and to ensure the necessary protection of rights and interests of insurance service users, as well as the safety and stability of the insurance market.

In addition, insurance supervisors carried out the regular analysis of annual reports for 2018 submitted to the NBS by other supervised entities engaged in insurance agency and brokerage (insurance brokers/agents, agents-entrepreneurs, banks, financial lessors, the public postal operator). Based on the analysis of these reports, the NBS sent nine letters of warning due to the unfulfilled conditions for carrying out insurance agency and initiated one *off-site examination* procedure.

Regarding the supervision of *AML/CFT activities*, supervisors carried out off-site supervision of insurance undertakings and insurance brokers engaged in life insurance in the area of managing ML/FT risk, in order to indirectly assess the set-up of the system for the detection and prevention of this risk, as well as to analyse the implementation of regulations in this area and to assess the riskiness of operation of insurance undertakings in order to plan on-site examinations for the next year.

Licences, consents and other supervisory regulatory activities

As part of its insurance supervision, the NBS also conducted a whole series of other, regular activities, such as processing of different types of applications for licences and approvals, issuing of professional opinions and similar.

Based on the analysis and assessment of impact of relevant events on operation of (re)insurance undertakings, the NBS issued prior consents for: selection of firms to carry out audit of (re)insurance undertakings (20), appointment of members of management of (re)insurance undertakings (30), acquisition of qualified holding in insurance undertakings (3) and permanent transfer of capital and appertaining property from the group of non-life to the group of life insurance (1).

NBS activities aimed at ensuring conditions for the development of the insurance sector in 2019 were related, among other things, to European integrations and regulatory activities.

Namely, the NBS continuously monitors EU regulations in the insurance area with a view to aligning domestic regulations and adequately preparing the Republic of Serbia for joining the EU, taking care of the financial stability of the insurance market and protecting the rights and interests of insurance service users. In 2019, the NBS Supervision Department performed expert editing of the Solvency 2 Directive, Commission Delegated Regulation (EU) 2015/35, as well as additions to Solvency II Directive, Directive on insurance distribution and other documents as part of the process of translation of *acquis communautaire* in the Republic of Serbia, which will facilitate further harmonisation of insurance regulations.

In the course of 2019, within the negotiating chapter 9 – Financial services, the most important activities were: opening of the negotiating chapter 9 – Financial services at the Intergovernmental Conference on Serbia's accession negotiations; the document Common Position of the EU assessed that the Republic of Serbia reached a satisfactory level of alignment with the *acquis* in the area of financial services and that it is sufficiently prepared for the beginning of negotiations; a video conference was held at which the Commission representatives presented the benchmarks for closing of this chapter; submissions for the Annual Report on the progress achieved in the area of insurance services and occupational pensions were regularly prepared; additional arguments were provided to the questions posed by the European Commission related to the Annual Report in the area of insurance services – Solvency 2; reports on the implementation of NPAA were regularly drawn up; other documents and presentations were also prepared and meetings were held related to the work within this chapter.

With a view to further alignment of the domestic legislation with the *Solvency II Directive and Insurance distribution directive*, more efficient insurance supervision and improvement and more efficient implementation of the MTPL regulatory framework, the NBS successfully implemented activities planned under the IPA project "Strengthening of the Institutional Capacities of the National Bank of Serbia in the Process of EU Accession". The planned project results were achieved: harmonising business practice, building and strengthening of institutional cooperation and efficient implementation and harmonisation of regulations in the area of insurance supervision with the relevant *acquis*, which will contribute to higher efficiency and safety of the overall financial system and improve the protection of insurance service beneficiaries. The most important project aspect was the sharing of experiences in the area of insurance supervision and giving recommendations for improvement of NBS's regulatory framework, as well as the supervisory practice, for the sake of better protection of insurance service users. The year 2019 saw the adoption of the Plan for Implementation of the Insurance distribution directive in the Republic of Serbia.

The working group for the development of the new Law on Compulsory Traffic Insurance, with a view to further alignment with the *acquis*, became operational. The WG was formed by the Ministry of Finance in 2019 and it also includes NBS representatives.

In 2019, the NBS adopted the Decision Amending the Decision on Guidelines for the Application of the Provisions of the Law on the Prevention of Money Laundering and Terrorism Financing for Obligors Supervised by the National Bank of Serbia (RS Official Gazette, No 57/2019), which specified in detail the obligations of financial institutions regarding the adoption of acts about and analysis of ML/TF risk.

In order to ensure a more comprehensive analysis of operation of (re)insurance undertakings and insurance market as a whole, and timely detection and management of insurance risk in individual (re)insurance undertakings, through reporting on large damages, the NBS adopted the Decision Amending the Decision on Reporting by Insurance/Reinsurance Undertakings (RS Official Gazette No 88/2019), with the accompanying annexes. In accordance with this Decision, amendments were also implemented in the Guidelines governing the format and purpose of electronic messages by which the insurance/reinsurance undertaking submits data to the National Bank of Serbia.

Development activities

NBS activities aimed at establishing conditions for the development of the insurance industry primarily included preparations for the implementation of Solvency II in Serbia.

In accordance with the timeframe defined in the Strategy for Implementation of Solvency II in the Republic of Serbia, 2019 saw the continuation of activities related to the assessment of readiness of (re)insurance undertakings to respond to regulatory requirements prescribed in Solvency II, through implementation of the second quantitative impact study and the initiation of activities related to drafting of preliminary versions of regulations necessary for setting up a new regulatory framework for carrying out (re)insurance business.

The completion of drafts and proposals of regulations necessary for establishing a new regulatory framework for carrying out (re)insurance activities, aimed at further alignment with Solvency II requirements, is envisaged for 2021. The full alignment of domestic regulations with this directive is expected by the time of Serbia's accession to the EU.

As part of development of its supervisory function, in 2019 the NBS carried out activities aimed at continuous improvement of supervisory work methods and education and professional development of its employees, took part in supervisory collegiums etc.

Professional exams

The NBS devotes special attention to the education of certified insurance brokers and agents, as well as certified actuaries. According to the regulations, the candidates, prior to taking the exam at the NBS, should pass the appropriate levels of training, in order to acquire all the necessary knowledge for the successful performance of their new tasks.

In order to raise the level of competences of candidates who were certified for insurance brokerage/agency activities and to finalise the list of active insurance brokers/agents, continuous education was introduced as a requirement for renewing the membership in the registry and staying in the business.

Based on the Agreement on Training for Certification Exam for Acquiring the Title of a Certified Broker or Certified Agent in Insurance and Continuous Professional Education of Certified Insurance Brokers/Agents which was signed between the NBS and the Serbian Chamber of Commerce, three trainings and two regular and one extraordinary certification exams were organised for insurance brokers/agents in 2019.

The NBS organised one professional exam for certified actuary.

Based on the final results of exams, it issued 266 decisions on acquiring the title of a certified broker or a certified agent in insurance, and one person acquired the title of a certified actuary.

In 2019, the NBS regularly supervised continuous professional development of certified insurance brokers and agents and certified actuaries.

3. Insurance market[2]

3.1. General indicators[3]

In 2019, global economic growth remained sluggish, due to the persistence of trade and geopolitical tensions and, consequently, the slowdown in global investment. After the 3.6% real GDP growth in 2018, the estimated real growth in 2019 measured 2.9%, while due to the COVID-19 pandemic, the year 2020 is set for a fall of -3.0%, worse than the one induced by the 2008–2009 financial crisis.

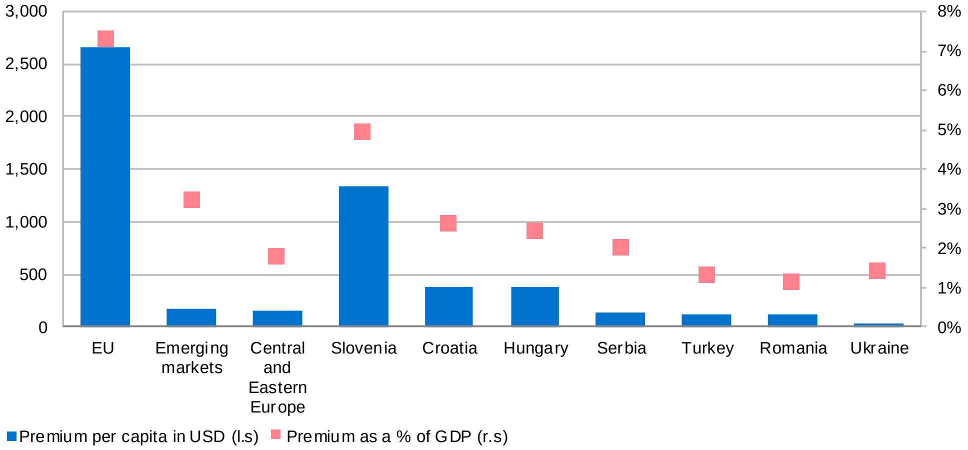
The estimated real growth in global *non-life insurance premium* in 2019 is 2.9% – 2.0% in advanced and 5.8% in emerging economies.

Global *life insurance premium* in 2019 recorded the estimated real growth of 2.3% – 0.5% in advanced and 8.8% in emerging economies.

Four countries with the largest share in global premium (the US, China, Japan and the UK) covered more than half of the global market (54.4%) in 2018. At the same time, Serbia ranked 80th in the world by the size of its insurance premium.

According to the level of development, the Serbian insurance sector is still significantly below the average for EU member states. This is corroborated by the insurance market development indicators – the ratio of total premium to GDP and total premium per capita.

Chart 3.1.1 **Comparison of insurance sector development indicators**
(in 2018)



Source: Swiss Re, Sigma No 3/2019 and National bank of Serbia.

[2] The report is based on data that (re)insurance undertakings are obliged to submit to the NBS.
[3] Source: Global Economic Prospects, World Bank, January 2020; World Economic Outlook, IMF, April 2020; Global Economic and Insurance Outlook 2020/2021, Swiss Re, November 2019; World Insurance, Swiss Re, Sigma No 3/2019, July 2019 and National Bank of Serbia.

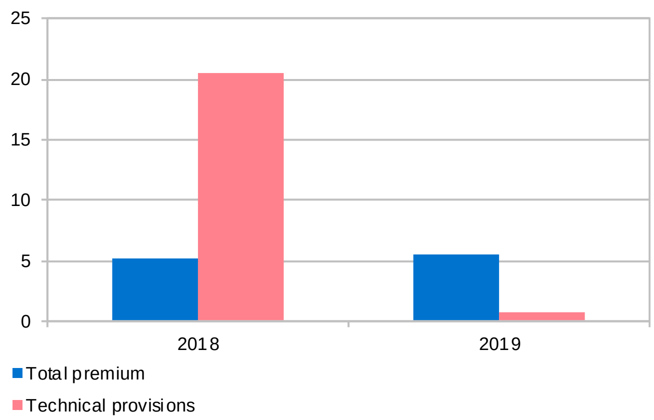
Judging by the 2018 premium to GDP ratio of 2.0%, Serbia ranked 65th in the world. The ratio for EU countries is as high as 7.3%. However, when compared with the 3.2% average for developing economies and 1.7% average for countries in Central and Eastern Europe[4], and given that countries such as Turkey, Romania and Ukraine are behind Serbia, it may be concluded that Serbia holds a satisfactory position.

Measured by the 2018 premium per capita of USD 138 or EUR 121, Serbia was 63rd in the world. The same indicator for EU member states equalled USD 2,655, for developing countries USD 169, and for the Central and Eastern European region USD 164. The Cayman Islands ranked top in the world with USD 11,642, followed by Hong Kong and Switzerland, while Slovenia and Croatia held the 29th and 48th place with USD 1,336 and USD 383, respectively.

In 2019, the premium to GDP ratio for Serbia was 2.0%, as in the previous year, while premium per capita rose to USD 147 or EUR 131. [5]

The development of the Serbian insurance market in terms of real premium growth indicates that the positive trend was maintained,[6] as can be seen in the Chart below.

Chart 3.1.2 **Real movement of total premium and technical provisions**
(in %)



Source: NBS.

In the financial sector supervised by the NBS (banks, (re)insurance, leasing and voluntary pension funds)[7], (re)insurance ranked 2nd by its balance sheet amount, capital and employment levels. Of the total financial sector balance sheet worth RSD 4,537 bn in 2019, banks accounted for 90.1% and (re)insurance undertakings for 6.6%.

[4] Including Turkey and Central Asia.
[5] The datum on the number of the population is the latest available – as at 01/01/2020.
[6] Mild real growth in technical provisions compared to the end of the last year resulted from settling a large part of a sizeable fire-caused property damage, the provisions for which were allocated at end-2018.
[7] Excluding payment institutions and electronic money institutions.

Table 3.1.1. **Share in total financial sector**
(in %)

	Banks		Leasing		Insurance		VPF	
	2018	2019	2018	2019	2018	2019	2018	2019
Balance sheet total	90.3	90.1	2.1	2.3	6.7	6.6	1.0	1.0
Capital	90.5	89.7	1.3	1.2	8.2	9.1		
Number of employees	67.4	66.5	1.1	1.0	31.2	32.1	0.4	0.4

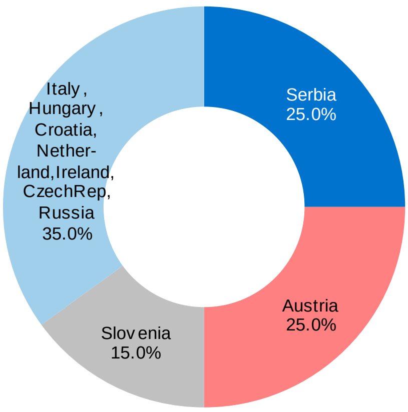
Source: NBS

3.2. Market participants

(Re)insurance undertakings

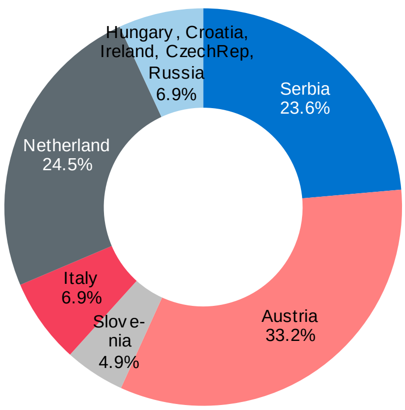
At end-2019, the insurance market in Serbia comprised 20 (re)insurance undertakings, unchanged relative to the previous year. Sixteen undertakings engaged in insurance activities only and four in reinsurance activities. Of the insurance undertakings, four were exclusive life insurers, six exclusive non-life insurers, while six provided both life and non-life insurance.

Chart 3.2.1 **Structure of (re)insurance undertakings in Serbia by ownership**
(in 2019)



Source: National Bank of Serbia.

Chart 3.2.2 **Balance sheet total of (re)insurance undertakings in Serbia by ownership**
(in 2019)



Source: National Bank of Serbia.

The breakdown by ownership shows that of the 20 insurance undertakings at end-2019, 15 were in majority foreign ownership.

At end-2019, foreign-owned insurance undertakings held the dominant share of 89.5% in life insurance premium, 63.6% in non-life insurance premium, 76.4% of total assets and 68.5% of total employment.

Other market participants

Beside (re)insurance undertakings, the sales network included: 17 banks, seven financial lessors and one public postal operator which are licensed for insurance agency operations, 95 legal entities (insurance brokerage and agency services), 80 insurance agents (natural persons – entrepreneurs) and 4,696 active certified agents/brokers in insurance.

3.3. Insurance portfolio structure

In 2019, total premium generated from insurance undertakings came at RSD 107.5 bn (EUR 914 mn or USD 1024 mn)[8], which is an increase of 7.5% in nominal and 5.5% in real terms.

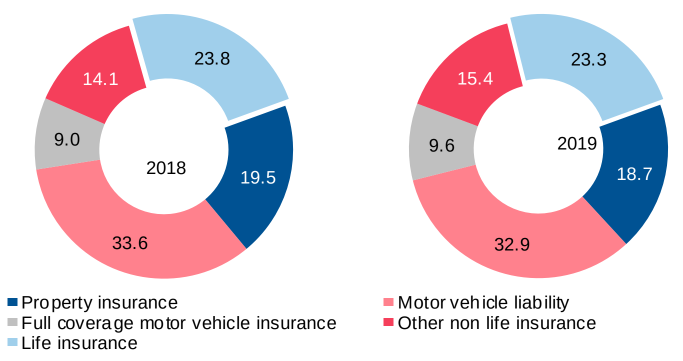
The share of non-life insurance accounted for 76.7%, while the share of life insurance shrunk mildly, from 23.8% in 2018 to 23.3% in 2019, reflecting the slowdown in life insurance premium which began in Q3 2017.[9]

The composition of the overall portfolio indicates that five types of non-life insurance alone – voluntary health insurance, motor vehicle insurance, insurance of property against fire and other hazards, other property insurance and MTPL insurance – accounted for 65.5% of the total.

In 2019, MTPL insurance kept the leading share in total premium (32.9%), followed by life insurance (23.3%) and property insurance (18.7%).

Accident insurance, including, inter alia, compulsory types of insurance such as passenger insurance in public transport and insurance of employees from injuries at work, professional and work-related illnesses, accounted for only 2.9% of the total premium in 2019.

Chart 3.3 **Total premium according to the types of insurance**
(in 2018 and 2019, in %)



Source: National Bank of Serbia.

[8] At the NBS middle exchange rate as at 31 December 2019.
[9] One-digit growth in Q3 2017 and nominal fall in 2017 and Q1 2018.

The share of voluntary health insurance premium showed an increase from 3.5% in 2018 to 4.3% in 2019 owing to nominal growth of 32.2%. Four insurance undertakings covered as much as 83.6% of the market.

MTPL insurance recorded growth in premium of 5.4% and property insurance of 3.2% relative to the year before. Having reversed the falling trend in Q3 2015, "kasko" motor vehicle insurance posted continuous growth which reached 15.1% in 2019, with an increased 9.6% share in the total premium.

Table 3.3.1. **Ranking list of five largest insurance companies**
(RSD mn, %)

	2018			2019			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
by total premiums							
Dunav	27566	27.6	1	28411	26.4	1	-
Generali	21421	21.4	2	23098	21.5	2	-
DDOR	11936	11.9	3	12651	11.8	3	-
Wiener	11636	11.6	4	12589	11.7	4	-
Triglav	5797	5.8	5	6845	6.4	5	-
by non-life premiums							
Dunav	25354	33.3	1	25773	31.3	1	-
Generali	13997	18.4	2	15737	19.1	2	-
DDOR	10188	13.4	3	10786	13.1	3	-
Wiener	7256	9.5	4	7371	8.9	4	-
Triglav	5356	7.0	5	6317	7.7	5	-
by life premiums							
Generali	7425	31.2	1	7362	29.4	1	-
Wiener	4380	18.4	2	5218	20.8	2	-
Grawe	3782	15.9	3	3762	15.0	3	-
Dunav	2211	9.3	4	2639	10.5	4	-
Uniqa l	1952	8.2	5	1898	7.6	5	-

Source: NBS.

Observed by rank of the five biggest insurance undertakings, there were no changes in total, non-life and life insurance premium. These undertakings participate in the total premium, non-life and life insurance premium of all the insurance undertakings with 77.8%, 80.1% and 83.3%, respectively.

Observed by distribution channels, the major portion of *total premium* in 2019 was generated via: insurance undertakings (63%), brokers and technical inspections (10% each), insurance agency undertakings and banks (6% each).

Speaking of *non-life insurance* premium, 63% of the total was collected by insurance undertakings, 13% via technical inspections and 13% via brokers. Banks generated 56% and 55% of total premium of loan insurance and insurance against financial losses, respectively, brokers 46% and 45% of total voluntary health insurance and general liability insurance premium, respectively, while technical inspections accounted for 31% of total MTPL insurance premium.

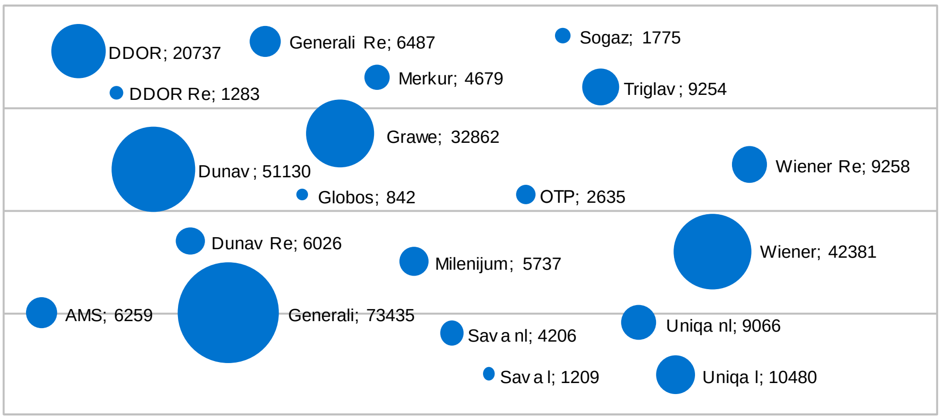
The largest portion of *life insurance* premium was collected by sale of: insurance undertakings (63%), banks (16%) and insurance agency undertakings (13%).

3.4. Balance sheet total and balance sheet structure

Balance sheet total

Balance sheet total of (re)insurance undertakings increased at end-2019 to RSD 299.7 bn (EUR 2,549 mn or USD 2,857 mn)[10], rising by 7.4% y-o-y.

Chart 3.4.1 **Balance sheet total of (re)insurance undertakings**
(as at 31/12/2019, in RSD mn)



Source: National Bank of Serbia.

In 2019, in terms of the industry's balance sheet total, there was no change in the ranking of the top five insurance undertakings, which accounted for 79.7% of the total.

[10] At the NBS middle exchange rate as at 31 December 2019.

Table 3.4.1. **Ranking list of five largest insurance companies by balance sheet total**
(RSD mn, %)

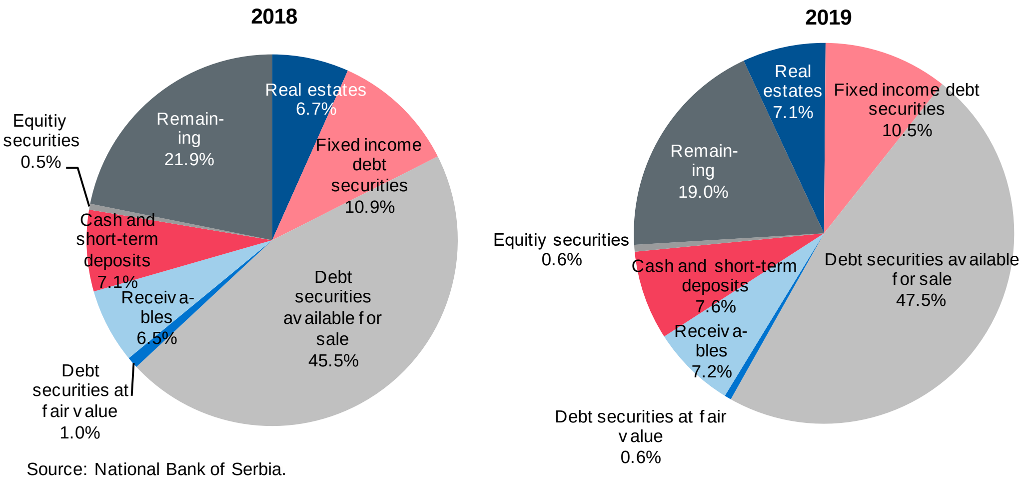
	2018			2019			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
Generali	70458	27.7	1	73435	26.5	1	-
Dunav	44097	17.3	2	51130	18.5	2	-
Wiener	38304	15.0	3	42381	15.3	3	-
Grawe	28912	11.4	4	32862	11.9	4	-
DDOR	18826	7.4	5	20737	7.5	5	-

Source: NBS.

Structure of assets

In the structure of assets of (re)insurance undertakings, as at 31 December 2019, the dominant share were debt securities, of which: available for sale (47.5%), fixed income debt securities (10.5%) and debt securities recognised at fair value through income statement (0.6%), followed by: technical provisions charged to coinsurer, reinsurer and retrocessionaire (9.3%), cash and short-term deposits (7.6%), receivables (7.2%), property, plant and equipment (7.1%), equities (0.6%) and other[11].

Chart 3.4.2 **Structure of assets**
(as at 31/12/2018 and 31/12/2019)



Source: National Bank of Serbia.

[11] This comprises: 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, prepayments and accrued income and technical provisions charged to coinsurer, reinsurer and retrocessionaire.

Compared to 2018, debt securities increased the dominant share in 2019 to 58.6%, while on the other hand technical provisions charged to coinsurer, reinsurer and retrocessionaire (part of the item "Other" in the Chart 3.4.2) decreased their share,[12] due to the settling of a large damage caused by fire, the provisions for which were established at end-2018.

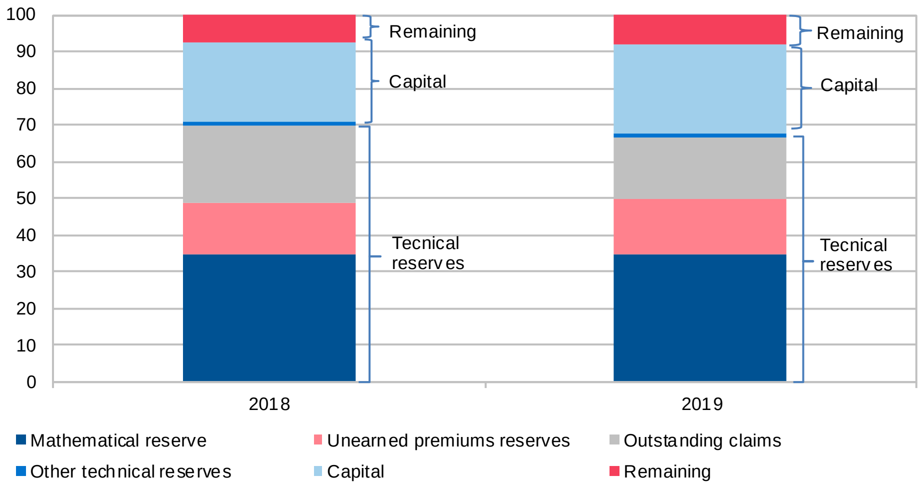
Structure of liabilities

In the structure of liabilities of (re)insurance undertakings, as at 31 December 2019, technical provisions accounted for 67.6% and capital for 24.1%.

Capital equalled RSD 72.1 bn in 2019, rising at a rate of 17.3%, while technical provisions in the period observed reached RSD 202.5 bn, recording mild growth of 2.6%, due to the partial settling of the above mentioned large damage. Mathematical reserve kept the dominant share in technical provisions, increasing by 7.5% in 2019.

Technical provisions enjoyed uninterrupted growth in both nominal and real terms.

Chart 3.4.3 **Structure of liabilities**
(in %)



Source: National Bank of Serbia.

[12] From 12.7% in 2018 to 9.3% in 2019.

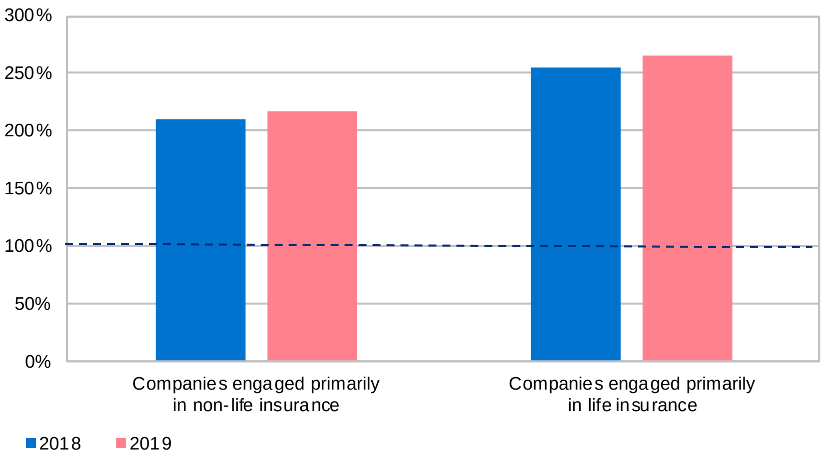
4. Performance indicators

4.1. Capital adequacy

The solvency of (re)insurance undertakings depends on the sufficiency of technical provisions for undertaken obligations and 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 (re)insurance undertakings as at 31 December 2019 in the Republic of Serbia amounted to RSD 44.4 bn and the required solvency margin to RSD 19.0 bn. **The main capital adequacy indicator** (the ratio of the available to required solvency margin) was 217.6% for all insurance undertakings primarily engaged in *non-life insurance*, 265.5% for those primarily engaged in *life insurance* in Serbia and 258.3% for reinsurance undertakings, which is a good capitalisation.

Chart 4.1.1 **Capital adequacy of insurance undertakings**



Source: National Bank of Serbia.

A non-life insurer’s ability to absorb the risk of inadequate premium pricing, unforeseen claims and inadequate transfer of risk to coinsurance and reinsurance etc. (insurance risk) is measured, among other, by the ratio of retained premium to total capital i.e. **the capital coverage ratio for non-life insurance.** Retained premium is the approximation of undertaken risks and must be sufficient to cover the insurance claims and compensations. In case of inadequacy of premium pricing or risk transfer to coinsurance and reinsurance, as well as in case of other insurance risks, total capital or parts thereof are used to guarantee the coverage.

In 2019, capital coverage ratio of the non-life insurance sector i.e. all insurance undertakings in Serbia engaged primarily in *non-life insurance* stood at 150.3%, compared to 167.0% in 2018. This change resulted from capital growing faster than retained premium.

The **capital coverage ratio of the life insurance sector**, as a ratio of total capital to technical provisions of undertakings engaged primarily in *life insurance*, rose from 27.4% in 2018 to 31.6% in 2019, as capital rose faster than mathematical reserve.

Such ratio meant that in 2019 there was a “reserve” of 31.6% to cover inadequate assumption of risks by these undertakings (in life insurance, technical provisions represent a good approximation of risks).

4.2. Quality of assets

Judging by the share of intangible investment, property, investment in non-tradable securities and receivables in total assets of undertakings engaged primarily in *non-life insurance*, i.e. **the ratio of assets of lower marketability** which in 2018 and 2019 measured 16.3% and 16.7%, respectively, it may be concluded that these types of investments increased at a faster pace than total assets in 2019.

In undertakings engaged primarily in *life insurance* this indicator rose from 3.8% in 2018 to 6.0% in 2019. The change in its value in 2019 relative to 2018 reflected faster growth of less marketable assets compared to total assets.

Apart from calculating sufficient premium to compensate for the damages, it is also necessary to ensure premium collection. Otherwise, the insurer may face the risk of being unable to fulfil its obligations to the insured.

The **receivables ratio**, defined as a ratio of premium receivables to total premium written for all *non-life insurers* stepped up slightly, from 11.9% in 2018, to 12.6% in 2019, reflecting a faster rise in premium receivables compared to the rise in total premium written.

In undertakings primarily engaged in *life insurance* this indicator measured 3.3%, rising slightly from the year before (3.0%).

4.3. Investment of technical provisions

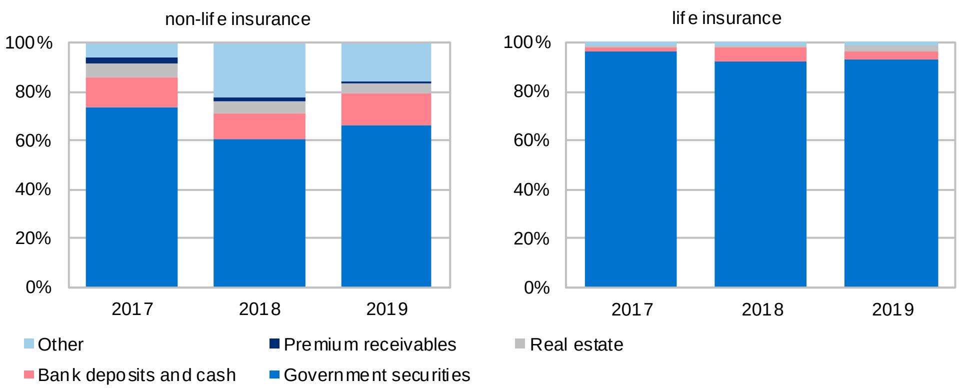
In order to protect the interests of the insured and injured parties and to ensure timely payment of damage claims, insurance undertakings need not only allocate adequate technical provisions, but also invest these assets so as to ensure that their real value is maintained and increased, so that the undertaken 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.

Technical provisions were fully invested in the prescribed types of assets, in both *non-life* and *life insurance* undertakings, as well as in *reinsurance undertakings* in 2019.

In 2019, *non-life insurance* technical provisions of all insurance undertakings in Serbia were mostly covered by government securities (66.2%), followed by technical provisions charged to coinsurer, reinsurer and retrocessionaire (14.1%), bank deposits and cash (13.0%), property (4.1%) and insurance premium receivables (0.8%). Compared to the year before, the structure of investment of these assets somewhat changed. One observes, on the one hand, higher share of government securities and deposits and cash, and on the other hand, lower share of technical provisions charged to coinsurer, reinsurer and retrocessionaire[13], as well as insurance premium receivables.

Life insurance technical provisions were in major part invested in government securities – 92.8%, while bank deposits and cash accounted for only 3.5%.

Chart 4.3 **Structure of investment of technical reserves**



Source: National Bank of Serbia.

[13] Due to the settlement of the above mentioned large property damage.

4.4. Reinsurance

Reinsurance and coinsurance provide the so-called risk offsetting and protection of insurers against major or massive losses that may jeopardise their operations. In relation to the portion of risks which is retained, the undertaking's capital is used as a buffer for unforeseen events and inadequate premium prices.

The **premium retention ratio**, i.e. the share of earned net premium in total earned premium, points to the extent of risks transferred to reinsurance and coinsurance. In undertakings engaged primarily in *non-life insurance* this indicator declined from 84.0% in 2018 to 82.8% in 2019.

In terms of types of insurance, the percentage of risk transfer to reinsurance was the largest in aircraft liability insurance and aircraft insurance, followed by loan insurance, general liability insurance, marine liability insurance, property insurance against fire or other perils, insurance of goods in transport, railway rolling vehicles insurance, which corresponds to the nature of those types of insurance and level of risks assumed.

As regards *life insurance* undertakings, this indicator moved around 98% in the two years observed. High indicator values resulted from the transfer of a portion of pure risk premium to reinsurance, while the investment portion (as a significantly larger portion of life insurance premium) remained in insurers' portfolio holdings.

4.5. Profitability

In 2019, the insurance industry posted a positive net result, which after tax[14] came at RSD 11.6 bn.

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 additional market risks. In undertakings engaged primarily in *non-life insurance*, the net combined ratio declined from 87.9% at end-2018 to 84.2% at end-2019. The ratio improvement in 2019 resulted from somewhat faster growth of earned net premium relative to the sum of net claims growth and the fall in underwritten expenses.

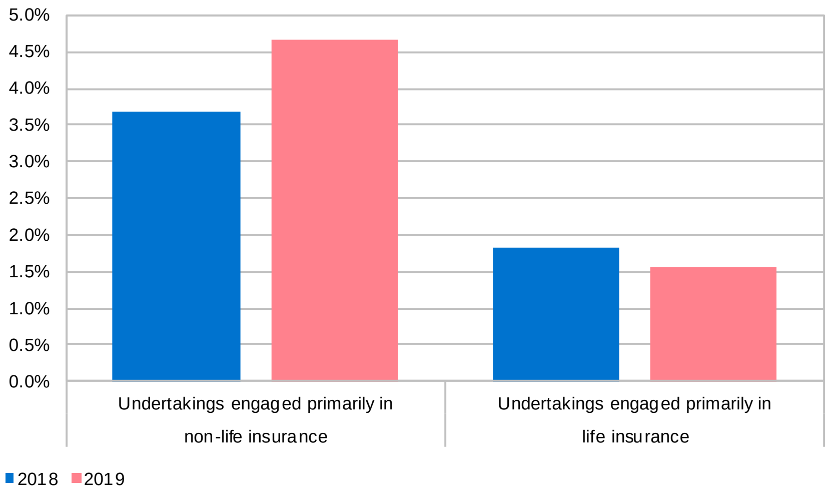
[14] Includes only tax expenses which (re)insurance undertakings carried until submission of data to the NBS.

For undertakings mainly engaged in *non-life insurance*, the **net loss ratio** (the ratio of net claims to earned net premium), as an indicator of price policy and adequacy, i.e. sufficiency of the premium to cover liabilities arising from insurance contracts and adequacy of the transfer of risk to reinsurance and coinsurance, decreased slightly from 49.9% at end-2018 to 49.5% at end-2019.

For undertakings engaged primarily in *life insurance*, the **benefit ratio**[15] went up from 83.7% at end-2018 to 85.5% at end-2019. That is a result of faster growth in the sum of net claims and changes in technical provisions compared to the earned net premium.

For undertakings carrying out primarily non-life insurance business,[16] RoA (as a measure of return on total assets generated by their engagement in insurance, investment activities etc.) was positive at 4.7% (2018: 3.7%).

Chart 4.5 **Return on assets - RoA**



Source: National Bank of Serbia.

In undertakings engaged primarily in *life insurance* RoA continued to post positive values in 2019, equalling 1.6% (2018: 1.8%).

Overall, the Serbian (re)insurance sector posted a positive RoA of 3.9%, up by 0.7 pp y-o-y.

[15] Ratio of sum of net claims and changes in technical provisions to earned net premium. In interpretation one needs to take into account the long-term character of life insurance and a significant impact of changes in technical provisions on this indicator.

[16] Net result after tax, except that only those tax expenses are included which (re)insurance undertakings carried before submission of data to the NBS.

4.6. 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.

The liquid assets to liquid liabilities ratio[17] for the (re)insurance sector which in 2019 equalled 150.6% suggests that liquid assets were sufficient to timely service short-term liabilities in the insurance sector.

5. Social responsibility and protection of citizens' rights

Supervision of insurance business conducted by the NBS safeguards the stability and solvency of the insurance sector, as an important segment of the financial sector in Serbia, but above all, it protects our citizens and businesses – users of insurance services (policyholders, the insured and injured parties). The NBS carries out monitoring and takes timely actions in order to maintain solvency of insurance undertakings, so that they are able to meet their liabilities toward insurance service users at all times. However, from this aspect, it is extremely important in what way insurance undertakings and other participants in the insurance market sell insurance services and whether and in what way insurance undertakings meet their liabilities toward their clients (deadlines and the size of compensation per claim event etc.), which is why special attention is paid to that segment of insurance business.

The NBS takes actions from its competence to make sure that insurance services are easily accessible and understandable to all consumers, that conclusion of insurance contracts is voluntary (unless otherwise determined by law), that services are sold by authorised persons possessing adequate knowledge and qualifications and, especially, that upon the occurrence of the insured event (the event covered by the policy, as a type of protection) the insurance compensation is paid out in a timely and fair manner.

In order to meet these objectives, the NBS analyses quantitative and qualitative indicators of market behaviour of participants in the insurance market (data on the number and type of complaints etc.), which helps to identify problematic segments of operation of insurance undertakings and insurance agents/brokers. The risks of inadequate market behaviour that are recognised as the the most important from the aspect of protection of rights and interests of insurance service users are covered by the examination plan, in order to timely inspect activities of insurance undertakings and other participants in the insurance market and thus to ensure the necessary protection of rights and interests of insurance service users.

[17] 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.

6. Conclusion

The comparison of indicators at end-2019 and end-2018 points to the following changes:

- a total of 20 (re)insurance undertakings operated in Serbian market, same as in the previous year, while employment in the sector increased by 5.5% to 11,146 persons;
- the insurance sector balance sheet total rose by 7.4% to RSD 299.7 bn;
- capital increased by 17.3% to RSD 72.1 bn;
- technical provisions gained 2.6%, coming at RSD 202.5 bn, and were fully invested in prescribed types of assets;
- total premium gained 7.5% and came at RSD 107.5 bn;
- Non-life insurance continued to account for the dominant share of total premium (76.7%). Non-life insurance premium rose by 8.2%, with MTPL insurance, property insurance and full coverage motor vehicle insurance going up;
- Life insurance share in total premium declined from 23.8% to 23.3%, despite the nominal growth in life insurance premium of 5.4%.

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

Still, major changes in the insurance supervision are yet to be made, both when it comes to full alignment with the Insurance Distribution Directive (IDD) and implementation of Solvency II.

IDD brings solutions which, on the one hand, 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 of consumers and distribution of insurance products, in order to improve the level of protection of rights and interests of insurance service users.

An effective solvency regime is aligned with the risk-based approach and 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 the regulations should be aligned with the Solvency II Directive, which will change the manner of quantification of the level of risks to which (re)insurance 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 the 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 accesses the EU, as the third phase, will capacitate 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 caused by the COVID-19 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 that sense, in 2020 the NBS will take all the necessary measures within its competence to mitigate the effects of the pandemic on the insurance sector. These activities will be aimed at maintaining the stability of the insurance sector (by implementing the on-site examinations plan, continuous off-site supervision of (re)insurance undertakings and other supervised entities and considering needed regulatory amendments) and improving the supervisory function, all with a view to ensuring the stability of the insurance sector and protecting the insured persons, insurance service users and injured parties.