NATIONAL BANK OF SERBIA

INSURANCE SUPERVISION DEPARTMENT

INSURANCE SECTOR IN SERBIA

Second Quarter Report 2023

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

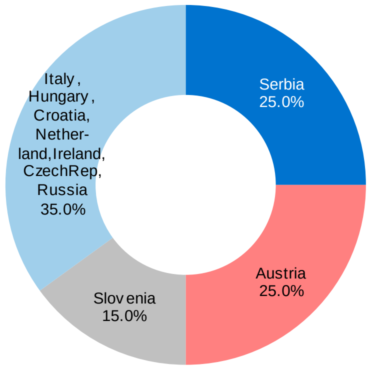
Insurance and reinsurance undertakings

At end-Q2 2023, the insurance market in Serbia comprised 20 (re)insurance 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 2023 shows that of 20 undertakings, 15 were in majority foreign ownership.

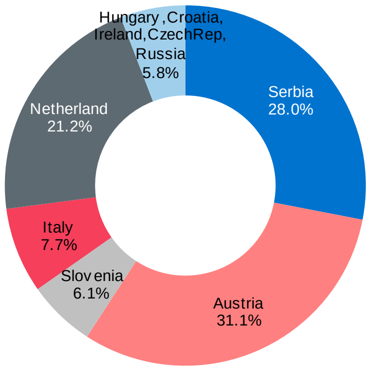
At end-Q2 2023, foreign-owned undertakings held majority shares of life insurance premium (86.1%), non-life insurance premium (60.9%), total assets (72.0%) and employment (64.7%).

Chart 1.1.1. **Structure of (re)insurance undertakings in Serbia by ownership**
(in Q2 2023)



Source: National Bank of Serbia.

Chart 1.1.2. **Balance sheet total of (re)insurance undertakings in Serbia by ownership**
(in Q2 2023)



Source: National Bank of Serbia.

[1] The *Report* is based on data submitted by (re)insurance undertakings to the NBS in line with regulations.

Other market participants

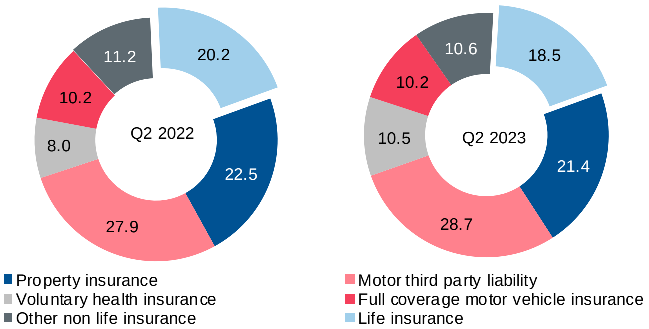
In addition to (re)insurance undertakings, at end-Q2 2023 the market also consisted of: 15 banks, nine financial lessors and a public postal operator which are licensed for insurance agency activities, 109 legal entities (insurance brokerage and agency services), 75 insurance agents (natural persons – entrepreneurs) and 4,204 active certified agents/brokers in insurance.

1.2 Insurance portfolio structure

Total premium in Q2 2023 amounted to RSD 78.6 bn (EUR 670 mn or USD 724 mn),[2] rising by 16.3% y-o-y.

In the composition of the premium, the share of life insurance premium dropped from 20.2% in Q2 2022 to 18.5% in Q2 2023, due to higher nominal growth in non-life insurance premium than in life insurance premium.

Chart 1.2.**Total premium according to the types of insurance**
(in Q2 2022 and Q2 2023, in %)



Source: National Bank of Serbia.

In terms of type of insurance, premium composition in Q2 2023 somewhat changed compared to the same period of 2022. Namely, MTPL insurance continued to account for the largest share of total premium (28.7%), followed by property insurance (21.4%) and life insurance (18.5%). However, in the observed period and starting from Q1 2023, with a 10.5% share in total premium, voluntary health insurance went ahead of motor vehicle insurance – "kasko" (10.2%).

In Q2 2023, life insurance premium rose by 18.7% compared to the same period of 2022. MTPL insurance premium went up by 19.6%, property insurance premium by

[2] At the middle exchange rate of the NBS for the period observed.

10.5%, voluntary health insurance premium by as much as 51.6%, and motor vehicle insurance (“kasko”) premium by 17.1%.

The above double-digit percentage rise in MTPL insurance premuim resulted mostly from a higher number of concluded contracts and increase in the minimum tarrif of MTPL insurance premium, applicable as of 1 January of the current year.

The voluntary health insurance premium has expectedly recorded a significant rise, given that the awareness of the importance of our health and the health of our families is the aspect that has changed the most since the beginning of the pandemic. Four insurance undertakings accounted for almost three-fquarters of this market segment, with employer-sponsored insurance policies featuring to a great extent.

Accident insurance[3] recorded a mild increase of 0.8%, but also a decline in share from 2.6% in Q2 2022 to 2.2% in Q2 2023.

In terms of the total premium, there was no change in the ranking of the top five insurance undertakings in Q2 2023, which accounted for 74.8% of the total market premium. However, in terms of the total non-life and life insurance premiums, there was a change in the ranking of the top five insurance undertakings, accouting for 75.4% and 82.9%, respectively of those categories of premiums.

The Herfindahl Hirschman index, calculated by summing up the squares of the respective market shares or, in this case, balance sheet totals of all (re)insurance undertakings, points to moderate market concentration. At end-Q2 2023 the HHI was 1,219.[4]

[3] This insurance includes both voluntary accident insurance and types of compulsory insurance, such as insurance of passengers in public transport and insurance of employees from occupational injury and illness.
[4] HHI up to 1,000 indicates that there is no market concentration in the sector; 1,000–1800 indicates moderate concentration; above 1,800 indicates high concentration.

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

	30/6/2022			30/6/2023			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
by total premiums							
Dunav	17762	26,3	1	20440	26,0	1	-
Generali	12960	19,2	2	14978	19,1	2	-
DDOR	7864	11,6	3	8705	11,1	3	-
Wiener	7638	11,3	4	8443	10,7	4	-
Triglav	5038	7,5	5	6190	7,9	5	-
by non-life premiums							
Dunav	15887	29,4	1	18423	28,8	1	-
Generali	9301	17,2	2	11101	17,3	2	-
DDOR	6763	12,5	3	7429	11,6	3	-
Triglav	4675	8,7	5	5818	9,1	4	**increase**
Wiener	4884	9,0	4	5531	8,6	5	**decrease**
by life premiums							
Generali	3659	26,8	1	3877	26,6	1	-
Wiener	2755	20,2	2	2912	20,0	2	-
Dunav	1876	13,8	4	2018	13,9	3	**increase**
Grawe	1924	14,1	3	1973	13,6	4	**decrease**
DDOR	1101	8,1	5	1277	8,8	5	-

Source: NBS.

1.3 Balance sheet total and balance sheet structure

Balance sheet total

Balance sheet total of (re)insurance undertakings increased at end-Q2 2023 to RSD 364.2 bn (EUR 3.1 bn or USD 3.4 bn),[5] going up by 5.1% relative to end-Q2 2022.

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

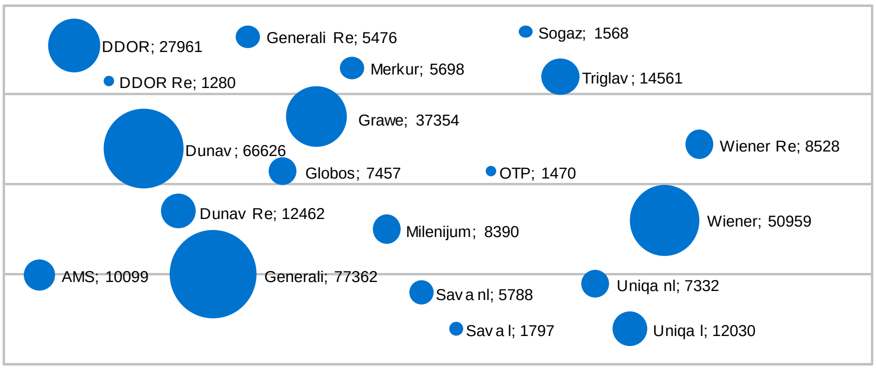
	30/6/2022			30/6/2023			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
Generali	76845	24,0	1	77362	23,0	1	-
Dunav	62049	19,4	2	66626	19,8	2	-
Wiener	49233	15,4	3	50959	15,1	3	-
Grawe	37692	11,8	4	37354	11,1	4	-
DDOR	25539	8,0	5	27961	8,3	5	-

Source: NBS.

[5] At the middle exchange rate of the NBS as at 30 June 2023.

In terms of the industry's balance sheet total, there was no change in the ranking of the top five insurance undertakings, which in Q2 2023 accounted for 77.3% of the total.

Chart 1.3.1. **Balance sheet totals of (re)insurance undertakings**
(as at 30/06/2023, in RSD mn)

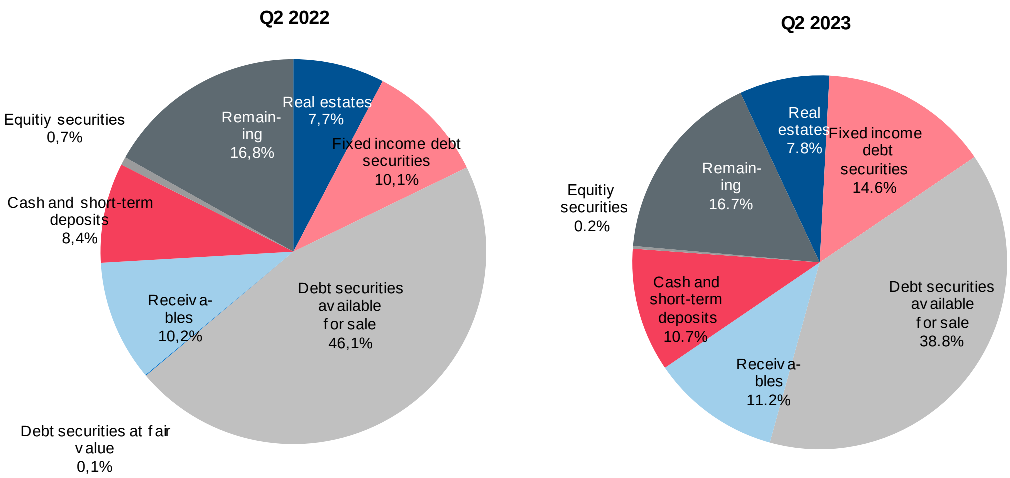


Source: National Bank of Serbia.

Structure of assets

In the structure of (re)insurance undertakings' assets as at 30 June 2023, the major part were debt securities available for sale (38.8%) and fixed-income debt securities (14.6%), followed by: cash and short-term deposits (10.7%), receivables (11.2%), property, plant and equipment (7.8%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (7.1%) and other.

Chart 1.3.2.**Structure of assets**
(as at 31/06/2022 and 31/06/2023)



Source: National Bank of Serbia.

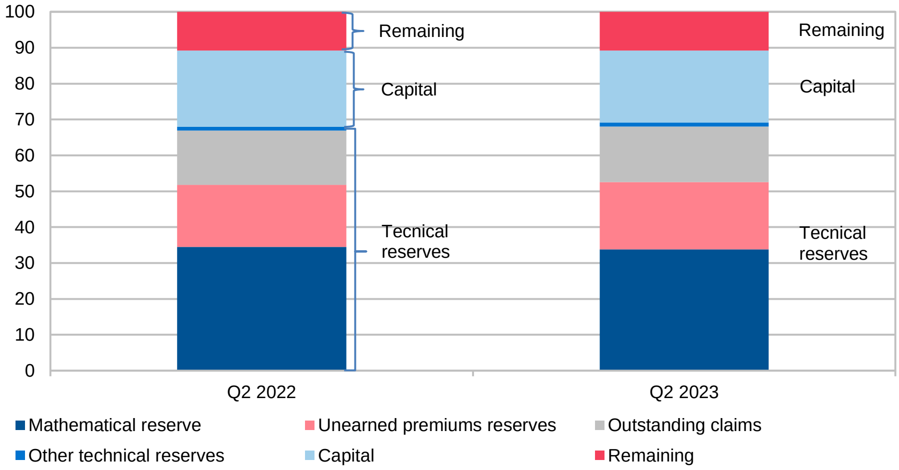
Compared to the same day of the previous year, it can be concluded that, on the one hand, the share of debt securities decreased in Q2 2023, while, on the other hand, that of cash and short-term deposits, as well as receivables, went up.

Structure of liabilities

In the structure of liabilities of (re)insurance undertakings at end-Q2 2023, technical provisions accounted for 69.2%, and capital for 20.0%.

At RSD 72 bn, capital shrunk in y-o-y terms, at a rate of 1.7%, due to a decline in unrealised gains and an increase in unrealised losses. Coming at RSD 248.4 bn at end-Q2 2023, technical reserves increased by 6.4%. Mathematical reserve kept the dominant share in technical provisions, with the y-o-y growth rate of 2.3% in Q2 2023.

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



Source: National Bank of Serbia.

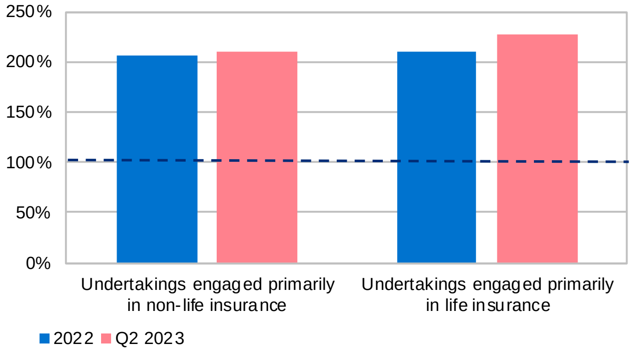
2 Performance indicators

2.1 Capital adequacy

The solvency of (re)insurance undertakings largely depends on the sufficiency of technical provisions for undertaken obligations and 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 in Serbia as at 30 June 2023 amounted to RSD 54.1 bn, and the required solvency margin to RSD 25.2 bn. In undertakings engaged mainly in non-life insurance, the main **capital adequacy ratio** (the ratio of the available to required solvency margin) was 210.0%, and for all predominantly life insurers in Serbia it equalled 226.8%.

Chart 2.1. **Capital adequacy of insurance undertakings**



Source: National Bank of Serbia.

2.2 Quality of assets

The share of assets that can qualify as difficult to collect (intangible investments, real estate, investment in non-tradable securities and receivables) in the total assets of undertakings engaged primarily in non-life insurance, i.e. the **ratio of less marketable assets**, came at the satisfactory 21.5% at end-Q2 2023, compared to 20.3% at end-2022. The ratio changed due to the higher growth of the stated types of assets relative to the growth of total assets.

For undertakings engaged primarily in life insurance, this ratio edged down mildly from 7.2% at end-2022 to 7.0% at end-Q2 2023, due to the fall in the stated types of assets, on the one hand, and an increase in total assets, on the other.

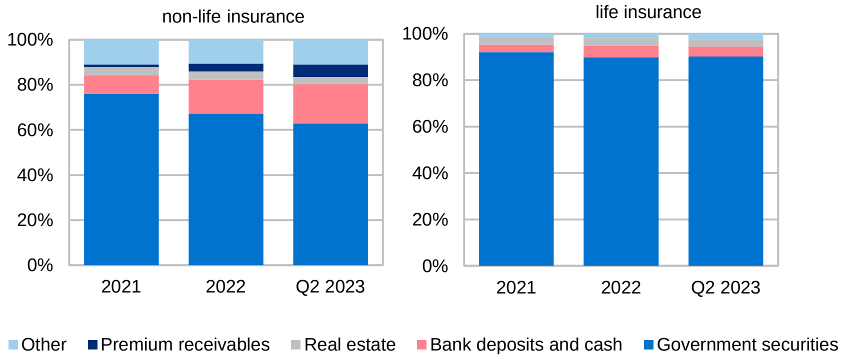
2.3 Investment of technical provisions

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), in line with its investment policy.

In Q2 2023, 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 Serbian insurance undertakings were mostly invested in government securities (62.8%), bank deposits and cash (17.5%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (10.5%), insurance premium receivables (5.4%) and real estate (3.2%). Compared to last year's end, on the one hand, the share of government securities contracted, while on the other, the share of deposits and cash and insurance premium receivables increased.

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



Source: National Bank of Serbia.

There was no major change in the structure of investment of life technical provisions - investment in government securities edged up slightly, to 90.2%, while the share of bank deposits and cash decreased to 4.2%.

2.4 Profitability

A measure of profitability of an insurance undertaking is the **net combined ratio** (the sum of net claims and underwritten expenses[6] relative to earned net premium). A ratio below 100% indicates that an undertaking can 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 from investments in the financial and real estate market, which exposes it to inherent market risks and counterparty risk. In undertakings primarily engaged in non-life insurance, the combined ratio increased slightly from 92.2% in Q2 2022 to 92.5% in Q2 2023, as a result of the weaker growth of the earned net premium relative to the rise in net claims and underwriting expenses.[6]

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[7] for all (re)insurance undertakings stood at 121.9% in Q2 2023, suggesting that liquid assets were sufficient for servicing short-term liabilities of the insurance sector.

3 Motor third party liability

At end-Q2 2023, 11 insurance undertakings engaged in compulsory MTPL insurance – unchanged from the same period last year.

The MTPL premium rose by 19.7% in Q2 2023 relative to to the same period in 2022, mostly as a result of the abovementioned increase in the number of concluded contracts and the minimum tariff of MTPL insurance premimum.

Portfolio concentration in this segment increased slightly, bearing in mind that three insurance undertakings with the largest share in the MTPL premium accounted for 58.1% of the market in Q2 2023, compared to 57.7% in the same period last year.

[6] According to the Decision on the Content and Layout of Financial Statement Forms for Insurance Undertakings, insurance underwriting costs are considered to be the sum of the costs of acquisition, administration and other insurance costs less revenues from reinsurance commission and retrocession.

[7] 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.

4 Conclusion

The comparison of indicators between Q2 2023 and the same quarter of 2022 points to the following changes:

- a total of 20 (re)insurance undertakings operate in Serbia, unchanged from the same period of the previous year, with increased employment in the sector by 0.5% to 11,428 persons;
- the insurance sector balance sheet total rose by 5.1% to RSD 364.2 bn;
- capital fell by 1.7%, mostly on account of changes in unrealised gains and losses, amounting to RSD 72 bn;
- technical provisions gained 6.4%, coming at RSD 248.4 bn, and were fully invested in the prescribed types of assets;
- total premium gained 16.3% and came at RSD 78.6 bn;
- non-life insurance continued to account for the dominant share of total premium (81.5%). Non-life insurance premium rose by 18.7%, with more prominent insurance types, such as: MTPL insurance, property insurance, voluntary health insurance and full coverage motor vehicle insurance ("kasko") recording a two-digit percentage growth;
- the share of life insurance decreased, on account of a stronger growth in non-life insurance premium compared to life insurance premium.

In observing the above categories, one should also take into account inflation, which significantly affects their real movements.

The current insurance regulations in the Republic of Serbia have 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 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 so as 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 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 (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 Solvency II – compliance analysis, implementing ongoing activities which are integral to the second phase – impact assessment, and moving to the harmonisation of the regulatory framework 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 of global growth slowdown amid heightened geopolitical tensions and energy crisis, the persisting relatively high inflation and tightened global financial conditions, the role of the insurance sector in providing protection to citizens and insured persons and ensuring continuity in the provision of insurance services are increasingly gaining importance. The NBS responded to the challenges stemming from the international environment by gradually tightening its monetary policy and, as of April 2022, raising its key policy rate, with a view to bringing inflation back within the bounds of the target. As a result, y-o-y inflation started to lose pace as of April 2023. The NBS will continue to monitor trends in the international markets, in order to respond timely and adequately by taking appropriate measures with a view to ensuring the rights and interests of insurance service users and preserving the stability of operation of all professional participants in the insurance market, as well as ensuring the continuity of the supervisory function.