NATIONAL BANK OF SERBIA

INSURANCE SUPERVISION DEPARTMENT

INSURANCE SECTOR IN SERBIA

Report for 2022

Contents:

List of abbreviations

mn	million
bn	billion

1 Introduction

According to law, the National Bank of Serbia (NBS) is in charge of supervising the major part of the Serbian financial sector. At end-2022, the financial sector under the NBS's supervision included 21 banks, 20 (re)insurance undertakings, 15 financial lessors, seven voluntary pension funds, 12 payment institutions and three electronic money institutions.[1]

2 Activities of the National Bank of Serbia in 2022

In view of the importance of the insurance sector in protecting the insured from the consequences of the Covid-19 pandemic and the significance of ensuring continuous provision of insurance services during the crisis, NBS activities in 2022 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 consumers and injured parties.

On-site examinations

As part of safeguarding the stability of the insurance sector, in 2022 the NBS conducted four on-site examinations of supervised entities in insurance, all of which within *prudential supervision*. Of these, two were comprehensive examinations of insurance undertakings, one was a comprehensive examination of a reinsurance undertaking, and one was a targeted examination of an insurance undertaking.

In 2022, as part of prudential supervision, insurance undertakings were delivered minutes of on-site examinations concerning three procedures initiated in the prior period, and supervisory measures were pronounced in relation to three already implemented procedures[2].

In 2022, four examination procedures[2] were completed in the segment of *market behaviour* – they were initiated in the prior period with the adoption of the decision on supervisory measures. One on-site examination was suspended after supervisory measures were carried out and fines were paid.

Through comprehensive on-site examinations concerning prudential supervision, compliance with legal provisions was checked – primarily in regard to capital adequacy, manner of allocation of technical reserves, compliance with the rules of

[1] Together with the Securities Commission, the NBS supervises the operations of virtual currency service providers (there were two such providers at end-2022).
[2] One one-site examination also covered activities under the remit of supervision of market behaviour and prudential supervision.

investing insurance funds in terms of forms and limitations of investment in specific types of assets, the impact of interest rate changes relating to capital adequacy and investment, and assessment of other important balance sheet items, including other important activities ascertained during off-site supervision. In addition, the examinations assessed the adequacy of the established system of internal controls, identified the operational risks and carried out the assessment of governance of a (re)insurance undertaking. All this within the governance system was assessed also by means of the targeted on-site examination of an insurance company, aimed at the allocation and calculation of outstanding claims reserves, and allocation and calculation of mathematical reserve. This examination resulted in a significant improvement of the internal controls system by means of supplementing internal acts in regard to claims reserve rules, verification of adequacy of technical reserves, life insurance contracts processing methodology etc.

The examinations of *market behaviour* in 2022 involved the analyses of methods in which insurance companies carry out sales activities, handle damage claims and complaints, the manner in which they analyse complaint causes, and whether they undertake timely and adequate measures to prevent the occurrence of complaints, as well as other activities important for protecting the rights and interests of insurance service consumers. The examinations identified omissions in the manner of informing and contracting insurance, handling of damage claims and complaints contrary to internal acts – in regard to life insurance, accident insurance, property insurance, insolvency insurance, passenger damage insurance, particularly in case of collective insurance where the coverage of the insured is large, which is why the importance of proper information must not be disregarded. Moreover, owing to adequate supervisory measures, insured pensioners were refunded the insurance funds paid on account of the insurance premium, and compensations were paid to them based on damage claims and submitted complaints, due to irregularities ascertained in sales activities, dissemination of information to the insured, and the conclusion of insurance contracts. Also, the insurance undertakings that provided travel guarantees paid to travellers the funds for their unrealised journeys as the travel agencies concerned became insolvent. In addition, the quality of information disseminated to the insured was improved to an extent, as well as the quality of undertaking the insurance risk, and the manner of informing the insured in the process of decision-making about damage claims or complaints.

Off-site supervision and off-site examinations

In parallel with on-site examinations, the NBS also carried out off-site supervision both in the area of prudential supervision and supervision of market behaviour.

Off-site *prudential supervision* included continuous monitoring of operations of (re)insurance undertakings, both from the *financial-economic* and *actuarial* aspect, and taking actions to clarify the data and information submitted by supervised entities and remove the identified irregularities. Specific off-site prudential supervision included: (1) risk monitoring through supervisory risk matrices of (re)insurance undertakings, (2) analyses of quarterly opinions of the certified actuary, as well as actuarial opinions about: financial statements and annual reports of undertakings, reports on implementation of co-insurance and re-insurance policies, analysis of internal audit reports, receipt and analysis of internal acts submitted by (re)insurance undertakings, (3) receipt and analysis of submitted annual, quarterly and monthly data of insurance undertakings and compiling of appropriate reports, and (4) compiling quarterly reports about the current status of the insurance sector. A particular focus was placed on the implementation of legal provisions concerning solvency requirements, allocation of prescribed technical reserves, implementation of the coinsurance and reinsurance policy, investment of insurance funds, liquidity, assessment of balance sheet items, costs of performing insurance etc.

Within off-site supervision of *market behaviour* of insurance undertakings, the supervisors regularly monitored market behaviour risks, based on the analysis of qualitative and quantitative indicators, while recognising the problematic aspects in operations of some insurance undertakings and other supervised entities. Those aspects of operations and/or activities of insurance undertakings and other supervised entities which were recognised as potentially detrimental to the interests and rights of insurance service consumers were covered by examination procedures in order to timely examine these activities and take appropriate measures to protect the rights and interests of insurance service consumers. In parallel, the supervisors conducted numerous thematic analyses, provided the sought opinions to insurance service consumers, supervised entities, journalists, and other interested parties as regards the introduction of new insurance products, advertising and sale of insurance, channels of distribution of various types of insurance, distance contract conclusion, contents of insurance conditions, the right to compensation under the insurance contract and other.

Supervisors also conducted regular analyses of annual reports for 2021 submitted by 205 other supervised entities carrying out insurance brokerage/agency activities (insurance brokers/agents, agents – entrepreneurs, banks, financial lessors, public postal operator), based on which supervisory activities were undertaken (written warnings, off-site examination).

In 2022, one more insurance undertaking fulfilled the conditions for identifying and verifying the identity of a client by means of electronic communication and without the mandatory presence of the person being identified (video identification). There are currently two such undertakings.

Licences, approvals and other regulatory supervisory activities

As part of insurance supervision, the NBS carried out a series of other, regular activities, such as processing different kinds of licence and approval applications, issuing expert opinions, and similar.

In relation to this, based on the prior analysis and assessment of the impact of these events on the operation of (re)insurance undertakings, the NBS modified the licence for operation of one insurance undertaking and issued prior approvals for: appointment of a member of management (34), selection of the audit company (20), acquisition of qualifying holding (1), permanent transfer of capital and assets from non-life to life insurance (3), permanent transfer of capital and assets from life to non-life insurance (1), investment into another legal person (1), and change of the head office address (1). When it comes to other supervised entities, the NBS issued insurance brokerage licences to insurance brokerage undertakings (4), insurance agency licences to insurance agency undertakings (2), and insurance agency licences to insurance agents (3). It issued prior approvals for engagement in insurance agency as a supplementary activity (2), acquiring/increasing qualifying holding (7), carrying out the duty of a member of management (5), investment into another legal person (1), and change of the business name and/or head office address (13).

NBS activities aimed at ensuring the conditions for the development of the insurance sector in 2022 pertained, among other, to European integration and regulatory activities.

The NBS continuously keeps abreast of EU insurance regulations and aligns domestic regulations with a view to adequately preparing the Republic of Serbia for EU accession, taking due care of the stability of the insurance market and protection of the rights and interests of insurance service consumers. Expert editing of translated regulations complementing Solvency II Directive is underway, as part of the procedure of translation of the *acquis communautaire* in the Republic of Serbia, which will facilitate further alignment of regulations in the insurance area.

In 2022, the NBS adopted the following pieces of secondary legislation:

- Decision on Application of the Sex Factor in Insurance (RS Official Gazette, No 58/2022), governing the manner of ensuring uniform application of the rule that an insurance undertaking shall not use the sex factor in pricing insurance premiums and benefits which entails differences in individual premiums and benefits, with a view to promoting gender equality in access to insurance services, in accordance with the Law on Gender Equality.
- Decision Amending the Decision on the System of Governance in an Insurance/Reinsurance Undertaking (RS Official Gazette, No 94/2022), governing a change in conditions and tariffs of compulsory insurance in insurance undertakings, and notifying the NBS about the planned change of the premium tariff and the premium system with the technical bases of

compulsory motor third party liability insurance for damage inflicted to third parties.

- Decision on Investment of Insurance Funds (RS Official Gazette, Nos 137/2022), prolonging the validity of unearned premium receivables under unexpired non-life insurance, coinsurance and reinsurance as a form of investment of technical reserves, by two years, i.e. from 31 December 2022 until 31 December 2024.
- Decision Amending the Decision on Reporting by Insurance/Reinsurance Undertakings (RS Official Gazette, No 58/2022), stipulating the obligation of (re)insurance undertakings to submit to the NBS the proposals of decisions on the distribution of profit or interim dividends, and, upon the adoption of these decisions, the notifications about the planned dates of their payment to shareholders.

Development activities

As part of NBS activities aimed at ensuring conditions for the development of the insurance sector, the implementation of Solvency II in the Republic of Serbia is particularly important.

In line with the timeframe defined in the Strategy for Implementation of Solvency II in the Republic of Serbia, in 2022 we continued to develop preliminary drafts of regulations necessary for setting up a new regulatory framework for carrying out insurance and reinsurance business. We also continued to develop preliminary drafts of regulations transposing the Insurance Distribution Directive into the domestic legislation.

As part of the development of supervisory function, in 2022 the NBS was engaged in: continuous improvement of work methods, taking part in supervisory colleges, continuous education and professional development of NBS employees 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, 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 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, signed between the NBS and the Serbian Chamber of Commerce, trainings were organised in 2022, as well as regular certification exams for certified insurance brokers/agents.

The NBS organised two professional exams for acquiring the title of a certified actuary.

Based on the final results of exams, the NBS issued 393 decisions on acquiring the title of a certified broker and certified agent in insurance, while six persons acquired the title of a certified actuary.

In 2022, the NBS regularly supervised continuous professional development of certified insurance brokers and agents and certified actuaries. The evidence of continuous professional development of certified actuaries for 2022 was submitted by 61 certified actuaries, and the obligation of continuous professional development in 2022 was fulfilled by 3,246 certified insurance brokers and agents.

3 Insurance market[3]

3.1 General indicators[4]

After posting 6.3% real growth in 2021, GDP rose 3.4% in 2022 globally. It is forecast to grow slowly – 2.8% in 2023, in an environment of accumulated negative effects in the past three years (the Covid-19 pandemic, geopolitical tensions, inflation and interest rate movements).

Amid multiple, elevated risks, in 2022 the global insurance market recorded an estimated moderate decline of -0.2% in real terms. It is likely to gradually recover in the next two years, but will stay below the real growth trend.

The estimated real growth in global *non-life insurance premium* in 2022 is 0.9% – 0.6% in advanced and 2.7% in emerging economies.

In 2022 global *life insurance premium* recorded an estimated real fall of 1.9%, i.e. a fall of 2.8% in advanced and a rise of 0.9% in emerging economies.

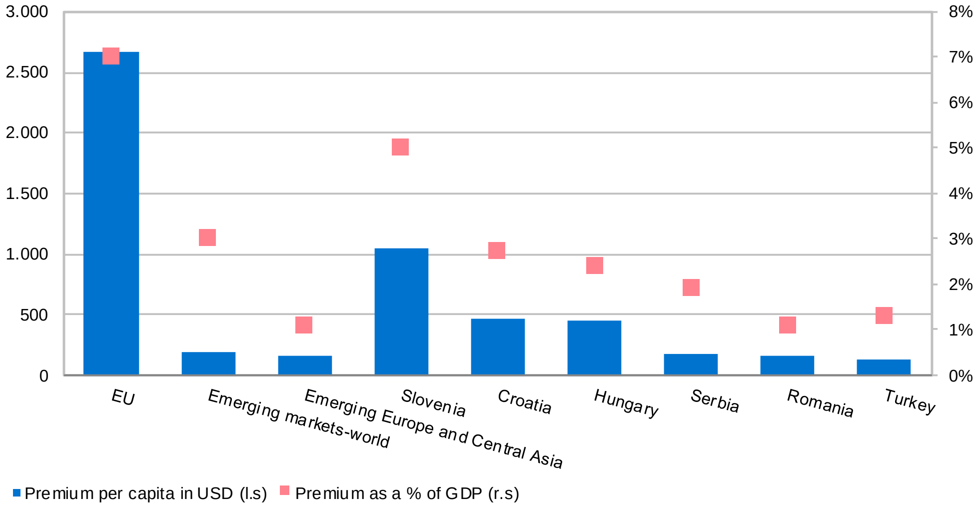
Five countries with the largest share in global premium (the US, China, Japan, the UK and France) covered 65.8% of the market in 2021. Serbia ranked 79th in the world by the size of its insurance premium.

According to the level of development, measured by the ratio of total premium to gross GDP and total premium per capita, the Serbian insurance sector is considerably below the average for EU member states.

[3] The report is based on data that (re)insurance undertakings are obliged to submit to the NBS.
[4] Sources: World Economic Outlook, IMF, April 2023; Global Economic and Insurance Market Outlook 2023/24, Swiss Re, Sigma No 6/2022, November 2022; World Insurance, Swiss Re, Sigma No 4/2022, July 2022 and NBS.

Judging by the 2021 premium to GDP ratio of 1.9%, Serbia ranked 65th in the world. The ratio for EU countries is as high as 7.0%. However, when compared with the 3.0% average for emerging economies and 1.1% average for emerging economies in Europe and Central Asia and given that countries such as Romania and Turkey are behind Serbia, it may be concluded that Serbia holds a satisfactory position, with the potential to improve it further.

Chart 3.1.1 **Comparison of insurance sector development indicators**
(in 2021)



Sources: Swiss Re, Sigma No 4/2022 and National Bank of Serbia.

Measured by the 2021 premium per capita of USD 176 or EUR 149[5], Serbia was the 62nd in the world. The same indicator for EU member states equalled USD 2,670, for emerging countries USD 191, and for Europe and Central Asia emerging economies USD 168. The Cayman Islands topped the world rankings with USD 19,177, followed by Hong Kong and the USA, while Slovenia and Croatia held the 32th and 42nd place with USD 1,047 and USD 473, respectively.

In 2022, the premium to GDP ratio for Serbia remained at 1.9% and premium per capita went up to USD 179 or EUR 170.[6]

In the financial sector supervised by the NBS (banks, insurance, leasing and voluntary pension funds)[7], insurance ranked 2nd by its balance sheet total, capital and employment levels. Of the total financial sector balance sheet worth RSD 5,985 bn, banks accounted for 91.1% and (re)insurance undertakings for 5.6%.

[5] The data on the population are the estimated figure (annual average), while the premium was calculated at the average annual exchange rate of the NBS for 2021.
[6] The data on the population are the latest available – according to the first results of the 2022 census, while the premium was calculated at the average annual exchange rate of the NBS for 2022.
[7] Excluding payment institutions, electronic money institutions and virtual currency service providers.

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

	Banks		Leasing		Insurance		VPF	
	2021	2022	2021	2022	2021	2022	2021	2022
Balance sheet total	90,9	91,1	2,2	2,4	6,0	5,6	0,9	0,8
Capital	88,8	89,6	1,2	1,5	10,0	9,0		
Number of employees 1)	65,8	65,0	1,0	0,9	32,8	33,8	0,4	0,4

Source: National Bank of Serbia.

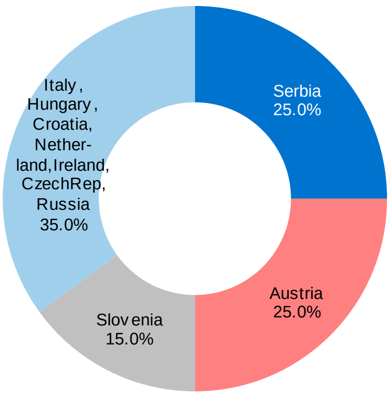
1) Within VPFs, the number of employees in VPF management companies is shown.

3.2 Market participants

(Re)insurance undertakings

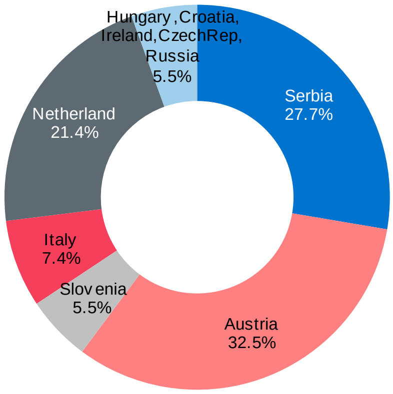
At end-2022, the insurance market in Serbia comprised 20 (re)insurance undertakings, unchanged in y-o-y terms. Sixteen undertakings engaged in insurance activities only and four in reinsurance activities. Of the insurance undertakings, four were exclusive life insurers, six exclusive non-life insurers, while six provided both life and non-life insurance.

Chart 3.2.1 **Structure of (re)insurance undertakings in Serbia by ownership**
(in 2022)



Source: National Bank of Serbia.

Chart 3.2.2 **Balance sheet total of (re)insurance undertakings in Serbia by ownership**
(in 2022)



Source: National Bank of Serbia.

The breakdown by ownership at end-2022 shows that of 20 undertakings, 15 were in majority foreign ownership.

At end-2022, foreign-owned undertakings held majority shares of life insurance premium (86.3%), non-life insurance premium (59.9%), total assets (72.3%), and employment (65.1%).

Other market participants

In addition to (re)insurance undertakings, the sales network also consisted of: 17 banks, eight financial lessors and a public postal operator, licensed for insurance agency activities, 109 legal persons (insurance brokerage and agency services), 78 insurance agents (natural persons – entrepreneurs), and 4,404 active certified agents/brokers in insurance.

3.3 Insurance portfolio structure

In 2022, total premium generated by insurance undertakings came at RSD 133.9 bn (EUR 1.1 bn or USD 1.2 bn) [8], which is an increase of 12.2%.

The premium composition shows that the share of non-life insurance accounted for 78.6%, while the share of life insurance edged down from 22.7% in 2021 to 21.4% in 2022, owing to stronger nominal growth in non-life compared to life insurance premium.

The composition of the overall portfolio indicates that five types of non-life insurance alone – voluntary health insurance, motor vehicle insurance – “kasko”, insurance of property against fire and other hazards, other property insurance and MTPL insurance – accounted for 66.8% of the total.

In 2022, MTPL insurance kept the leading share in total premium (29.1%), followed by life insurance (21.4%) and property insurance (19.9%).

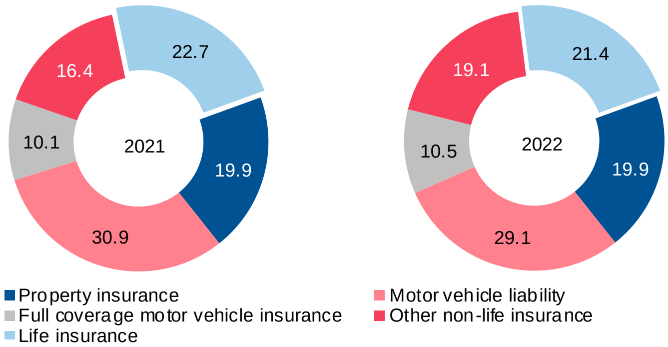
Accident insurance, which, among other things, includes compulsory insurance such as passenger insurance in public transportation and insurance of employees against occupational injuries and illnesses, accounted for merely 2.6% in 2022.[9]

Judging by the premium of voluntary health insurance, which increased by as much as 43.5%, the share of this type of insurance went up from 5.8% in 2021 to 7.4% in 2022. Four companies accounted for 77.4% of the market.

[8] The average annual exchange rate of the NBS for 2022.

[9] The new Law on Safety and Health at Work (RS Official Gazette, 35/2023) stipulates fines for employers failing to insure their employees against occupational injuries and diseases.

Chart 3.3 **Total premium according to types of insurance**
(in 2021 and 2022, in %)



Source: National Bank of Serbia.

In 2022 the non-life insurance premium recorded an increase of 14.0% relative to 2021. The property insurance premium rose by 12.2%, premium for full coverage motor vehicle insurance ("kasko") by 16.2%, and the MTPL insurance premium by 5.6%. The roadside assistance insurance, which in the year of the pandemic outbreak suffered the largest impact, recorded a rise of as much as 57.9% in 2022 and an increased share in total premium from 1.9% in 2021 to 2.6% in 2022.

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

	2021			2022			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
by total premiums							
Dunav	31578	26,4	1	35239	26,3	1	-
Generali	23396	19,6	2	24845	18,6	2	-
Wiener	13518	11,3	4	15690	11,7	3	**increase**
DDOR	13948	11,7	3	15296	11,4	4	**decrease**
Triglav	8147	6,8	5	9378	7,0	5	-
by non-life premiums							
Dunav	28072	30,4	1	31313	29,8	1	-
Generali	16362	17,7	2	17682	16,8	2	-
DDOR	11777	12,8	3	13058	12,4	3	-
Wiener	7755	8,4	4	9411	8,9	4	-
Triglav	7375	8,0	5	8651	8,2	5	-
by life premiums							
Generali	7035	25,9	1	7163	25,0	1	-
Wiener	5763	21,3	2	6279	21,9	2	-
Grawe	4102	15,1	3	4299	15,0	3	-
Dunav	3506	12,9	4	3925	13,7	4	-
DDOR	2170	8,0	5	2239	7,8	5	-

Source: National Bank of Serbia.

There was no change in the ranking of the top five insurance undertakings according to non-life and life insurance premium, which participated in the said market premiums with 76.1% and 83.4%, respectively. However, there was a change in the ranking of the top five insurance undertakings, according to the level of total premium, as these undertakings held 75.0% of the total market premium.

Observed by distribution channels, the major portion of *total premium* in 2022 was generated via: insurance undertakings (63.0%), brokers (12.9%), technical inspections (8.9%), insurance agency undertakings (5.5%) and banks (4.5%).

Speaking of *non-life insurance* premium, 62.6% of the total was collected by insurance undertakings, 16.0% via brokers and 11.3% via technical inspections. Banks collected as much as 49.4% of the total loan insurance premium, brokers 45.2%, 41.9% and 34.0% of the total premium of voluntary health insurance, general liability insurance and insurance against financial losses, respectively, while 30.6% of total MTPL insurance premium was collected via technical inspections of vehicles.

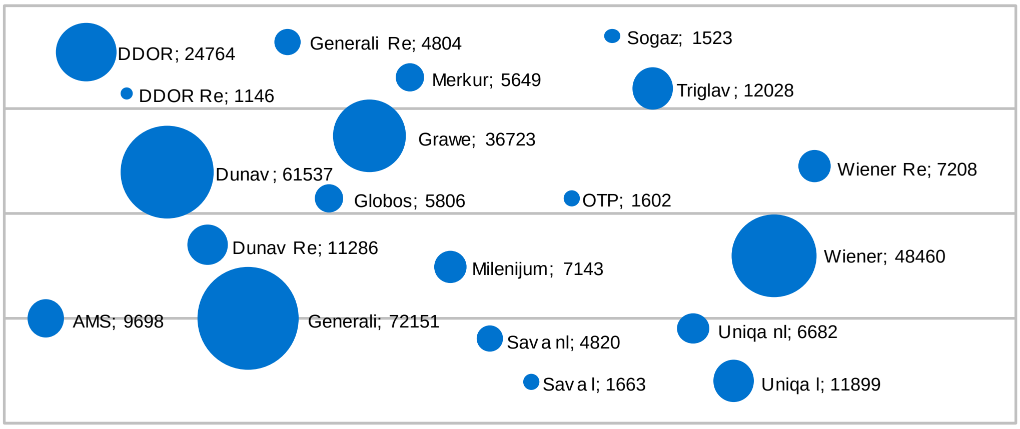
The largest portion of *life insurance* premium was collected by sale through insurance undertakings (64.3%), banks (15.1%) and agents (13.9%).

3.4 Balance sheet total and balance sheet structure

Balance sheet total

The balance sheet total of (re)insurance undertakings increased slightly – by 0.8% y-o-y to RSD 336.6 bn at end-2022 (EUR 2.9 bn or USD 3.1 bn)[10].

Chart 3.4.1 **Balance sheet total of insurance undertakings**
(as at 31/12/2022, in RSD mn)



Source: National Bank of Serbia.

[10] At the middle exchange rate of the NBS as at 31 December 2022.

In 2022, 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 78.0% of the total.

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

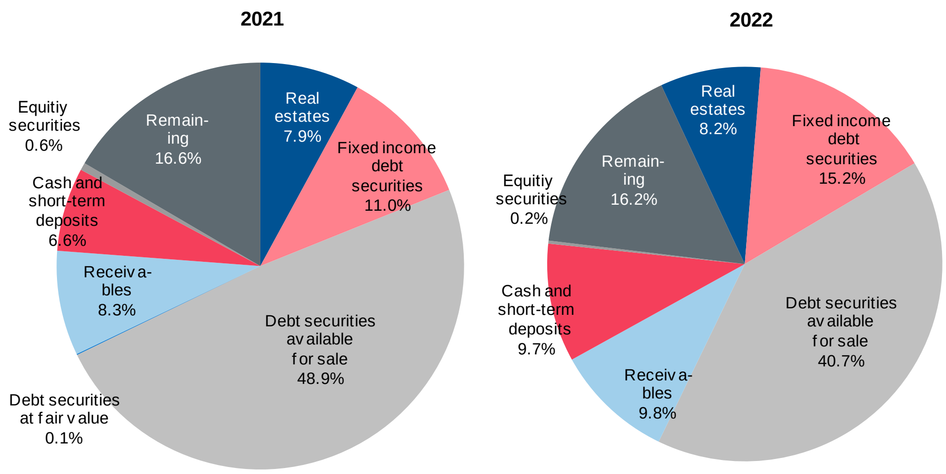
	2021			2022			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
Generali	74708	24,1	1	72151	23,1	1	-
Dunav	60773	19,6	2	61537	19,7	2	-
Wiener	48339	15,6	3	48460	15,5	3	-
Grawe	37213	12,0	4	36723	11,8	4	-
DDOR	23713	7,7	5	24764	7,9	5	-

Source: National Bank of Serbia.

Structure of assets

In the structure of assets of (re)insurance undertakings, as at 31 December 2022 the dominant share was held by debt securities, of which: available for sale (40.7%), fixed income debt securities (15.2%), followed by: receivables (9.8%), cash and short-term deposits (9.7%), property, plant and equipment (8.2%), and technical provisions charged to coinsurer, reinsurer and retrocessionaire (6.4%) (as part of the category "Other"[11] in Chart 3.4.2).

Chart 3.4.2 **Structure of assets**
(as at 31/12/2021 and 31/12/2022)



Source: National Bank of Serbia.

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

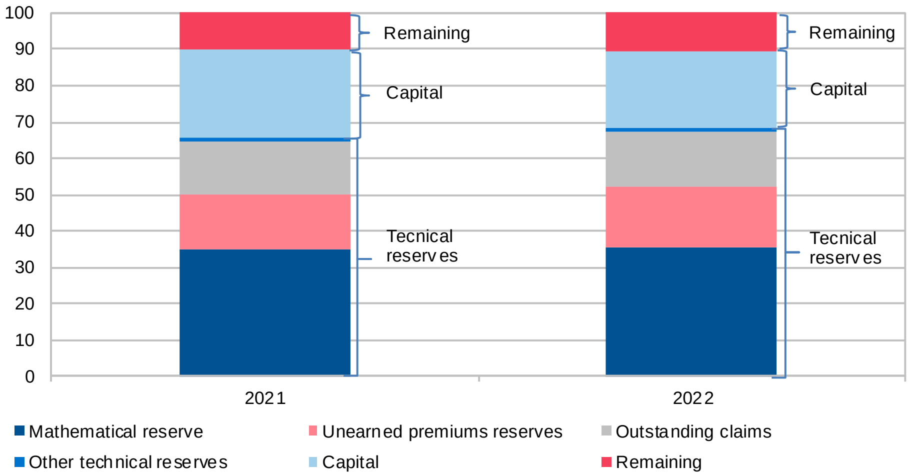
Compared to 2021, the share of debt securities available for sale and debt securities recognised at fair value through income statement declined in 2022, while the share of cash and short-term deposits and receivables increased.

Structure of liabilities

In the structure of liabilities of insurance and reinsurance undertakings as at 31 December 2022, technical provisions accounted for 68.3%, and capital for 21.4%.

Capital worth RSD 72.0 bn declined by 11.2%, reflecting a decline in unrealised gains and a rise in unrealised losses, prompted by an increase in interest rates, which, in turn, drove down the fair value of securities. Technical reserves worth RSD 229.7 bn rose by 4.8%. Mathematical reserve kept the dominant share in technical provisions, with the y-o-y growth rate of 3.3%.

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



Source: National Bank of Serbia.

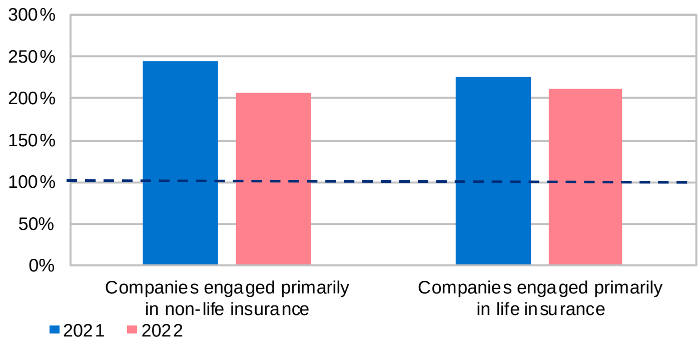
4 Performance indicators

4.1 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 the Republic of Serbia as at 31 December 2022 amounted to RSD 49.7 bn and the required solvency margin to RSD 23.7 bn. The **main capital adequacy indicator** (ratio of the available to the required solvency margin) was 206.4% – 210.6% for undertakings primarily engaged in *life insurance*, and 231.1% for *reinsurance undertakings*. This indicates good capitalisation, despite the decline relative to the year before, which resulted mainly from a decline in revaluation reserves with unrealised results.

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, inter alia, by the ratio of retained premium to total capital i.e. the **capital coverage ratio for non-life insurance**. Retained premium[12] 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 2022, the capital coverage ratio of the non-life insurance sector, i.e. all insurance undertakings in Serbia engaged primarily in *non-life insurance* stood at 179.6%, compared to 144.8% in 2021. This change resulted from retained premium growing and capital falling.

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*, fell from 30.2% in 2021 to 24.1% in 2022, reflecting the technical provisions rising and capital falling.

Such ratio meant that in 2022 there was a "reserve" of 24.1% to cover inadequate assumption of risks by these undertakings (in life insurance, technical provisions represent a good approximation of risks).

[12] Retained premium also serves to cover the costs of carrying out insurance.

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 2021 and 2022 measured 18.3% and 20.3%, respectively, it may be concluded that these types of investments increased at a faster pace than total assets in 2022.

In undertakings engaged primarily in *life insurance* this indicator stayed unchanged from 2021 and equalled 7.2%.

Apart from calculating sufficient premium to compensate for damages and the costs of carrying out insurance, it is also necessary to ensure premium collection. Otherwise, the insurer may face the risk of being unable to fulfil its obligations and 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 from 13.7% in 2021 to 14.7% in 2022, as a result of premium receivables rising more than the total premium written.

In undertakings primarily engaged in *life insurance* this ratio also rose slightly from the year before, from 3.5% in 2021 to 3.8% in 2022.

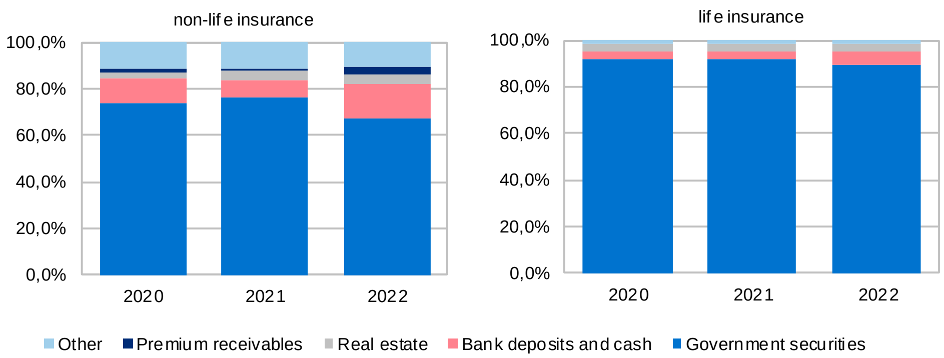
4.3 Investment of technical provisions

In order to protect the interests of the insured and third 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 2022.

In 2022, *non-life insurance* technical provisions of all insurance undertakings in Serbia were mostly covered by government securities (67.2%), bank deposits and cash (15.0%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (9.9%), property (3.7%) and insurance premium receivables (3.6%). Compared to the end of the previous year, the share of government securities went down, while an increase was recorded for deposits and cash, insurance premium receivables, and technical provisions charged to coinsurer, reinsurer and retrocessionaire.

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



Source: National Bank of Serbia.

The structure of investment of *life insurance* technical provisions displayed a decline in the share of government securities to 89.7% and a rise in the share of bank deposits and cash to 5.0% and of property to 3.4%.

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 level of risks retained, i.e. the extent of risks transferred to reinsurance and coinsurance. In undertakings engaged primarily in *non-life insurance* this indicator declined from 79.8% in 2021 to 77.3% in 2022.

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 marine liability insurance, loan insurance, property insurance against fire or other perils, general liability insurance, financial loss insurance, railway rolling stock insurance, and cargo insurance, which corresponds to the nature of those types of insurance and the level of risks assumed.

As regards *life insurance* undertakings, this indicator remained unchanged from the year before, measuring 96.6%. The high indicator value 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 2022, the insurance industry posted a positive net result, which after tax[13] came at RSD 8.2 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 from investments in the financial and real estate market, while taking into account market and counterparty risks. In undertakings engaged primarily in *non-life insurance*, the net combined ratio increased from 85.3% at end-2021 to 93.4% at end-2022. The ratio increase in 2022 resulted from earned net premium growing at a slower rate than net claims and underwritten expenses.

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, increased from 48.9% at end-2021 to 55.2% at end-2022.

For undertakings engaged primarily in *life insurance*, the **benefit ratio**[14] went down from 89.8% in 2021 to 85.7% in 2022, as a result of faster growth in the earned net premium compared to the sum of net claims and changes in technical provisions.

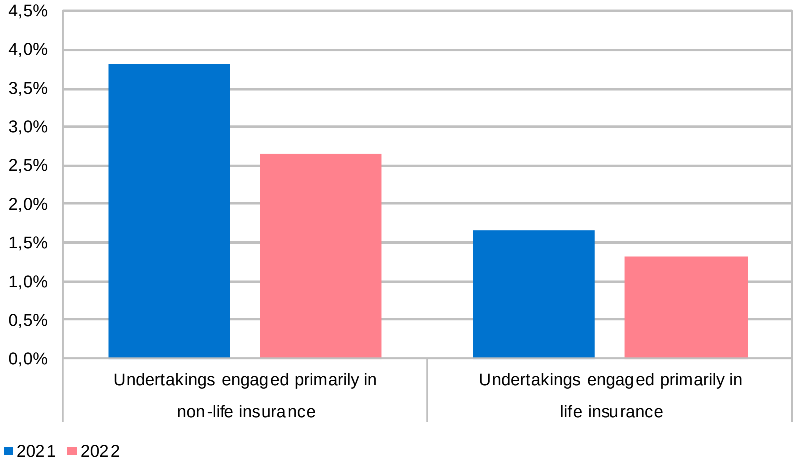
For undertakings carrying out primarily *non-life insurance* business, **RoA** (as a measure of return on total assets generated by their engagement in insurance, investment activities etc.)[15] was positive in 2022, at 2.7% (2021: 3.8%).

In undertakings engaged primarily in *life insurance*, RoA amounted to 1.3% in 2022 (2021: 1.7%).

Overall, the Serbian (re)insurance sector posted a positive RoA of 2.4% (2021: 3.3%).

[13] Includes only tax expenses which (re)insurance undertakings disclosed until the submission of data to the NBS.
[14] Ratio of the 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.
[15] Net result after tax, with only those tax expenses included which (re)insurance undertakings disclosed before the submission of data to the NBS.

Chart 4.5 **Return on assets - RoA**



Source: National Bank of Serbia.

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**[16] for all (re)insurance undertakings stood at 132.5% in 2022, suggesting that liquid assets were sufficient for servicing short-term liabilities of the insurance sector.

5 Social responsibility and protection of citizens' rights

Supervision of insurance business conducted by the NBS aims to safeguard the stability and solvency of the insurance sector, as an important segment of the financial sector in Serbia, but above all, to protect our citizens and businesses – the consumers of insurance services (policyholders, the insured and injured parties). The NBS carries out monitoring and takes timely actions in order to maintain the solvency of insurance undertakings, so that they are able to meet their liabilities toward insurance service

[16] 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.

consumers at all times. However, apart 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 the insurance business.

The NBS takes actions within its scope of competences to make sure that insurance services are easily accessible and understandable to all consumers, that the conclusion of insurance contracts is voluntary (unless otherwise determined by law), that insurance products 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 most important from the aspect of protection of rights and interests of insurance service consumers are covered by the examination plan, in order to timely inspect the activities of insurance undertakings and other participants in the insurance market and thus ensure the necessary protection of rights and interests of insurance service consumers.

6 Conclusion

The comparison of indicators at end-2022 and end-2021 points to the following changes in the year under review:

– a total of 20 (re)insurance undertakings operated in the Serbian market, same as in the previous year, while employment in the sector increased by 1.6% to 11,419 persons;
– the insurance sector balance sheet total inched up by 0.8% to RSD 336.6 bn;
– capital contracted by 11.2%, amounting to RSD 72.0 bn, reflecting mainly the change in unrealised gains and losses;
– technical provisions went up by 4.8%, to RSD 229.7 bn, and were fully invested in the prescribed types of assets;
– total premium increased by 12.2%, to RSD 133.9 bn;
– non-life insurance continued to account for the dominant share of total premium (78.6%). Non-life insurance premium grew by 14.0%, while insurances with significant shares, such as motor vehicle insurance and property insurance, recorded a nominal increase, but also a real decrease;

– the share of life-insurance contracted, amid a stronger rise in the premium of non-life insurance.

In observing the above categories, on 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 further convergence of the Serbian insurance sector to that of the EU.

Still, major changes in 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.

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 distributing insurance products, in order to improve the level of protection of rights and interests of insurance service consumers.

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 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 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, all with a view to ensuring long-term stability of the insurance sector and protecting insurance service consumers.

In the conditions of mounting global uncertainty in 2022 and the impact of the Covid-19 pandemic since 2020, the role of the insurance sector in providing protection to citizens, i.e. insured persons, and ensuring continuity in the provision of insurance services are increasingly gaining in importance. The NBS responded to the challenges stemming from the international environment in 2022 by gradually tightening its monetary policy and the key policy rate, with a view to bringing inflation back within the bounds of the target. It also took a number of well-timed measures to prevent, mitigate and eliminate the negative effects of the Covid-19 pandemic, with a view to protecting the rights and interests of insurance service consumers, maintaining the stability of operations of all professional insurance market participants, and ensuring the continuity of the supervisory function, and will continue to do so going forward.