NATIONAL BANK OF SERBIA

INSURANCE SUPERVISION DEPARTMENT

INSURANCE SECTOR IN SERBIA

First Quarter Report 2023

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List of abbreviations

mn	million
bn	billion
Q1	first quarter (1 January – 31 March)

1 Insurance market[1]

1.1 Market participants

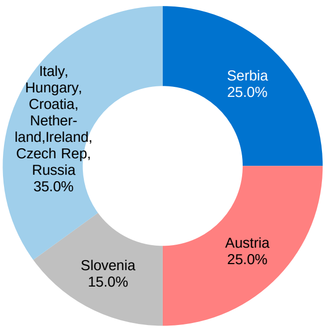
Insurance and reinsurance undertakings

At end-Q1 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-Q1 2023 shows that of 20 undertakings, 15 were in majority foreign ownership.

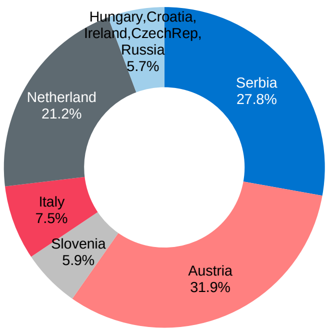
At end-Q1 2023, foreign-owned undertakings held majority shares of life insurance premium (86.1%), non-life insurance premium (61.3%), total assets (72.2%), and employment (64.8%).

Chart 1.1.1 **Structure of (re)insurance undertakings in Serbia by ownership**
(in Q1 2023)



Source: National Bank of Serbia.

Chart 1.1.2 **Balance sheet total of (re)insurance undertakings in Serbia by ownership**
(in Q1 2023)



Source: National Bank of Serbia.

[1] The report is based on data that (re)insurance undertakings are obliged to submit to the NBS.

Other market participants

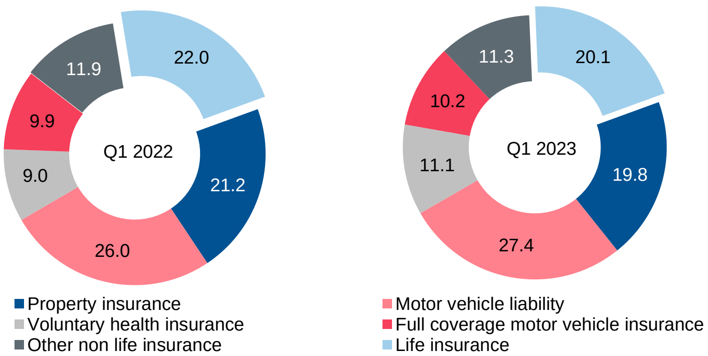
In addition to (re)insurance undertakings, at end-Q1 2023 the market also consisted of: 16 banks, eight financial lessors and a public postal operator which are licensed for insurance agency activities, 108 legal entities (insurance brokerage and agency services), 77 insurance agents (natural persons – entrepreneurs) and 3,989 active certified agents/brokers in insurance.

1.2 Insurance portfolio structure

Total premium in Q1 2023 amounted to RSD 35.9 bn (EUR 306 mn or USD 329 mn)[2], a rise of 13.9% relative to the same period last year.

In the composition of the premium, the share of life insurance premium dropped from 22.0% in Q1 2022 to 20.1% in Q1 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 Q1 2022 and Q1 2023, in %)



Source: National Bank of Serbia.

In terms of type of insurance, premium composition in Q1 2023 was somewhat changed from the composition in the same period of 2022, with the MTPL insurance still holding the largest share (27.4%). Next come life insurance (20.1%) and property insurance (19.8%). However, in the period observed, with a 11.1% share in the total premium, for the first time, voluntary health insurance recorded a higher share than the full coverage motor vehicle insurance – “kasko” (10.2%).

In Q1 2023, non-life insurance premium rose by 16.7% y-o-y. MTPL insurance premium went up by 20.3%, property insurance premium by 6.5%, voluntary health

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

insurance premium by as much as 40.8%, and the premium of full coverage motor vehicle insurance – “kasko” by 17.3%.

The above two-digit percentage growth in MTPL reflects an increase in the number of concluded contracts and in the minimum MTPL insurance tariff, effective as of 1 January 2023.

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 three-fourths of this market segment, with employer-sponsored insurance policies featuring to a great extent.

Accident insurance[3] recorded a decrease of 2.2%, its share falling from 3.0% in Q1 2022 to 2.6% in Q1 2023.

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

	31/3/2022			31/3/2023			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
by total premiums							
Dunav	8323	26.4	1	9413	26.2	1	-
Generali	6256	19.8	2	7127	19.8	2	-
Wiener	3692	11.7	3	4082	11.4	3	-
DDOR	3515	11.1	4	3837	10.7	4	-
Triglav	2537	8.1	5	2906	8.1	5	-
by non-life premiums							
Dunav	7393	30.1	1	8408	29.3	1	-
Generali	4225	17.2	2	5071	17.7	2	-
DDOR	2968	12.1	3	3225	11.2	3	-
Triglav	2352	9.6	4	2708	9.4	4	-
Wiener	2250	9.1	5	2607	9.0	5	-
by life premiums							
Generali	2031	29.2	1	2056	28.4	1	-
Wiener	1442	20.8	2	1475	20.4	2	-
Dunav	930	13.4	3	1006	13.9	3	-
Grawe	867	12.5	4	862	11.9	4	-
DDOR	547	7.9	5	612	8.5	5	-

Source: NBS.

Looking at total, non-life and life insurance premiums, there was no change in the ranking of the five top insurance undertakings, which accounted for 76.2%, 76.6% and 83.1%, respectively.

[3] This insurance includes voluntary accident insurance, and compulsory types of insurance such as passenger insurance in public transportation and insurance of employees against occupational injuries and illnesses.

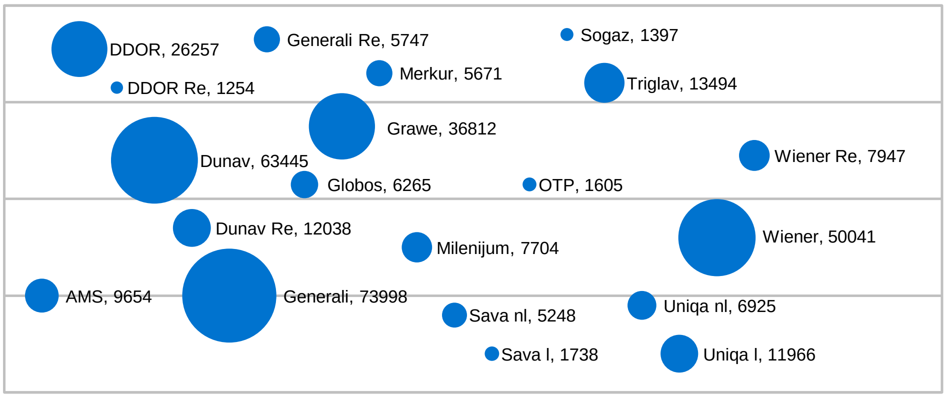
The Herfindahl Hirschman index, calculated by summing up the squares of the respective market shares or, in this case, balance sheet totals of all (re)insurance undertakings, points to moderate market concentration. At end-Q1 2023 the HHI was 1,224[4].

1.3 Balance sheet total and balance sheet structure

Balance sheet total

Balance sheet total of (re)insurance undertakings increased at end-Q1 2023 to RSD 349.2 bn (EUR 2.98 bn or USD 3.25 bn),[5] up by 2.2% y-o-y.

Chart 1.3.1 **Balance sheet total of (re)insurance undertakings**
(as at 31/03/2023, in RSD mn)



Source: National Bank of Serbia.

In terms of the industry’s balance sheet total, there was no change in the ranking of the top five insurance undertakings, which in Q1 2023 accounted for 77.7% of the total.

[4] HHI up to 1,000 indicates that there is no market concentration; 1,000–1800 indicates moderate concentration; above 1,800 indicates high concentration.
[5] At the middle exchange rate of the NBS as at 31 March 2023.

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

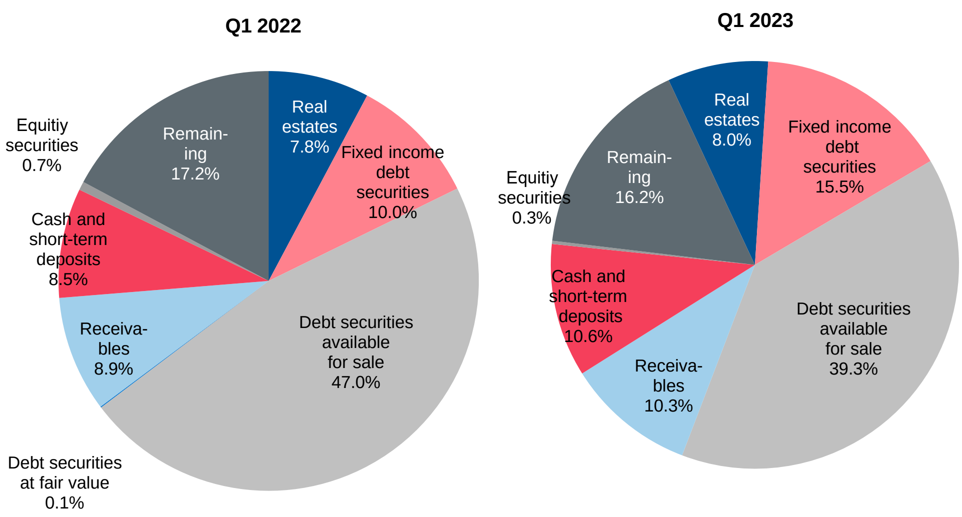
	31/3/2022			31/3/2023			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
Generali	75650	24.0	1	73998	23.0	1	-
Dunav	61726	19.6	2	63445	19.7	2	-
Wiener	49556	15.7	3	50041	15.5	3	-
Grawe	37226	11.8	4	36812	11.4	4	-
DDOR	24567	7.8	5	26257	8.1	5	-

Source: NBS.

Structure of assets

As at 31 March 2023, assets of (re)insurance undertakings comprised mostly debt securities available for sale (39.3%) and fixed income debt securities (15.5%), followed by: cash and short-term deposits (10.6%), receivables (10.3%), property, plant and equipment (8.0%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (7.1%), and other[6].

Chart 1.3.2 **Structure of assets**
(as at 31/03/2022 and 31/03/2023)



Source: National Bank of Serbia.

[6] The item ”Other” in Chart 1.3.2 includes: intangible investments, goodwill, software and other rights, participating interests, other long-term financial investments (with the exception of fixed income debt securities), other long-term assets, deferred tax assets, inventories, non-current assets held for sale, other 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 the same period the year before, it can be concluded that the share of debt securities available for sale and recognised at fair value through income statement declined in Q1 2023, while the share of cash and short-term deposits and receivables increased.

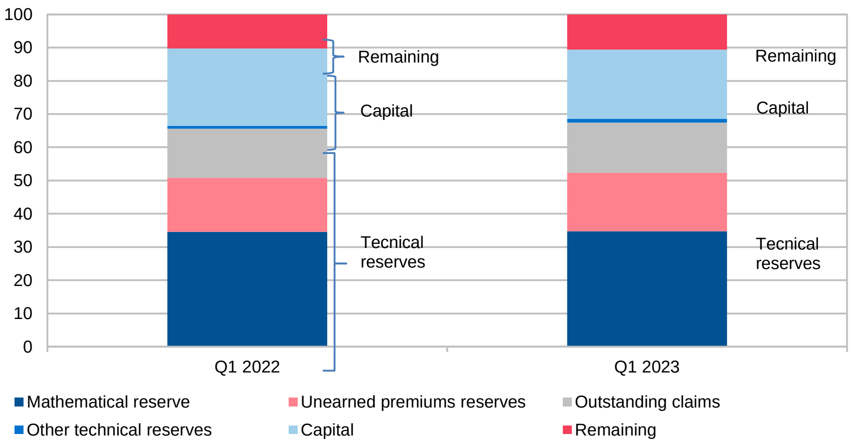
Structure of liabilities

In the structure of liabilities of (re)insurance undertakings at end-Q1 2023, technical provisions accounted for 68.6%, and capital for 20.7%.

Capital worth RSD 71.9 bn declined by 9.0% y-o-y, reflecting a decline in unrealised gains and a rise in unrealised losses, prompted by an increase in interest rates.

Technical reserves worth RSD 237.9 bn rose by 5.2% at end-Q1 2023. Mathematical reserve kept the dominant share in technical provisions, with the y-o-y growth rate of 2.5%

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



Source: National Bank of Serbia.

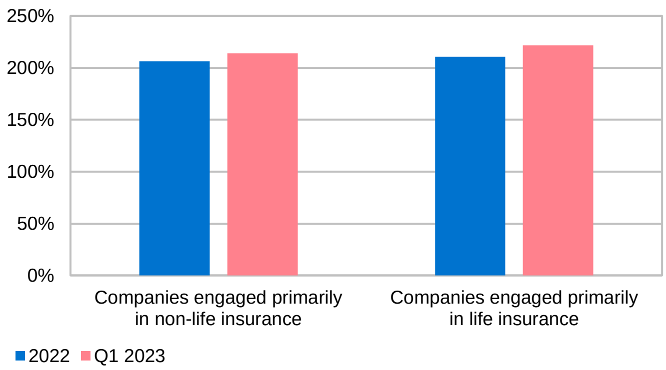
2 Performance indicators

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 31 March 2023 amounted to RSD 52.8 bn, and the required solvency margin to RSD 24.3 bn. The **main capital adequacy indicator** (the ratio of the available to the required solvency margin) was 213.9% for undertakings engaged primarily in *non-life insurance* and 221.8% for undertakings engaged primarily in *life insurance*.

Chart 2.1 **Capital adequacy of insurance undertakings**



Source: National Bank of Serbia.

2.2 Quality of assets

The share of types 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 20.6% at end-Q1 2023, compared to 20.3% at end-2022. The ratio changed due to the somewhat higher growth of the stated types of assets relative to the growth of the total assets.

For undertakings engaged primarily in *life insurance*, this ratio edged down mildly from 7.2% at end-2022 to 6.9% at end-Q1 2023, as a consequence of the fall in the stated types of assets, on the one hand, and the growth in total assets, on the other.

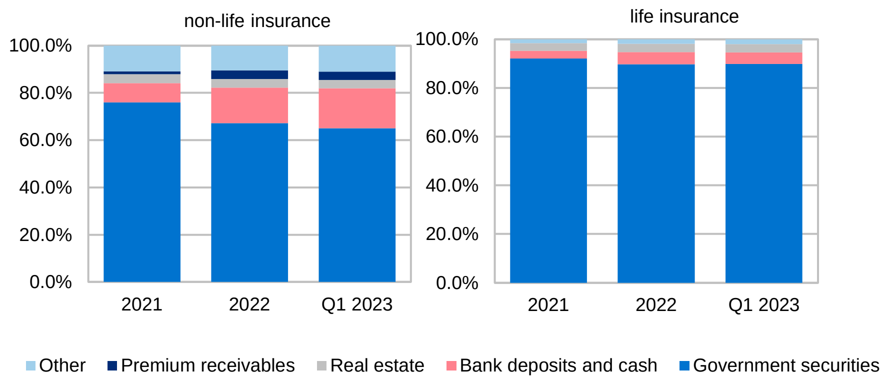
2.3 Investment of technical provisions

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 can 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 accordance with its investment policy.

Technical provisions were fully invested in the prescribed types of assets, in both *non-life* and *life insurance*, as well as in *reinsurance undertakings*, in Q1 2023.

In Q1 2023, *non-life insurance* technical provisions of all insurance undertakings in Serbia were mostly invested in government securities (65.0%), bank deposits and cash (16.9%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (10.3%), insurance premium receivables (3.6%) and real estate (3.5%). Relative to the end of the previous year, the *share* of government securities *went down*, while an *increase* was recorded for deposits and cash and technical provisions charged to coinsurer, reinsurer and retrocessionaire (part of the item "Other" in Chart 2.3).

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



Source: National Bank of Serbia.

The composition of investment of *life insurance* technical provisions displayed no major changes – there was a negligible increase in the share of investments in government securities to 89.9%, while investments in bank deposits and cash declined to 4.7% y-o-y.

2.4 Profitability

A measure of profitability of an insurance undertaking is the **net combined ratio** (the sum of net claims and underwritten expenses relative to earned net premium). A ratio below 100% indicates that an undertaking is able to cover damage claims and expenses out of the premium written, while a ratio above 100% means that in premium pricing it takes into account potential income received from investments in the financial and real estate market, which exposes it to inherent market risks and risks of counterparty default. In undertakings engaged primarily in non-life insurance, the net combined ratio rose moderately from 91.8% in Q1 2022 to 92.2% in Q1 2023. The trend of this ratio reflects somewhat weaker growth of the earned net premium relative to the rise in net claims and underwritten expenses.

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.

The **liquid assets to liquid liabilities ratio**[7] for all (re)insurance undertakings stood at 125.6% in Q1 2023, suggesting that liquid assets were sufficient for servicing short-term liabilities of the insurance sector.

3 Motor third party liability

At end-Q1 2023, 11 insurance undertakings engaged in compulsory MTPL insurance – unchanged relative to the same period in 2022.

The MTPL premium rose by 20.2% y-o-y, reflecting the above stated increase in the number of concluded contracts and the minimum MTPL insurance tariff.

Portfolio concentration in this segment remained broadly unchanged, as three undertakings with the largest share in the MTPL insurance premium accounted for 58.2% of the market in Q1 2023, compared to 58.0% in the same period last year.

4 Conclusion

The comparison of indicators for Q1 2023 and the same quarter in 2022 points to the following changes:

- a total of 20 (re)insurance undertakings operate in Serbia, unchanged from the same period in the previous year, with increased employment in the sector by 0.5% to 11,387 persons;
- balance sheet total of the insurance sector went up by 2.2%, to RSD 349.2 bn;
- capital decreased by 9.0%, to RSD 71.9 bn, primarily as a result of the change in unrealised gains and losses;

[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.

- technical provisions gained 5.2%, coming at RSD 237.9 bn, and were fully invested in the prescribed types of assets;
- total premium gained 13.9% and came at RSD 35.9 bn;
- non-life insurance continued to account for the dominant share of total premium (79.9%). Non-life insurance premium rose by 16.7%, with more prominent insurance types, such as MTPL insurance, voluntary health insurance and full coverage motor vehicle insurance – "kasko" recording two-digit percentage growth;
- the share of life insurance decreased, on account of stronger growth in non-life insurance premiums compared to life insurance premiums.

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 in order to ensure that they meet actual consumer needs. It also prescribes the methods of informing of consumers and distribution of insurance products, with a view to improving 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 we expect further alignment of regulations with the Solvency II Directive, which will change the manner of quantification of the level of risks to which insurance and reinsurance undertakings are exposed in their operations and therefore, also the manner of management of those risks. Completing the first phase of strategic activities aimed at implementing Solvency II – compliance analysis, implementing 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 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.