NATIONAL BANK OF SERBIA

INSURANCE SUPERVISION DEPARTMENT

INSURANCE SECTOR IN SERBIA

Second Quarter Report 2021

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

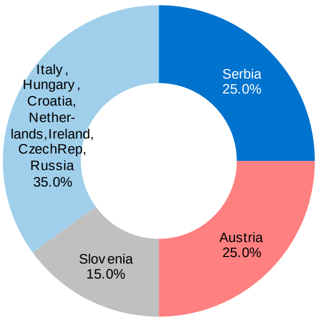
(Re)insurance undertakings

At end-Q2 2021, 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 in Q2 2021 shows that of 20 insurance undertakings, 15 were in majority foreign ownership.

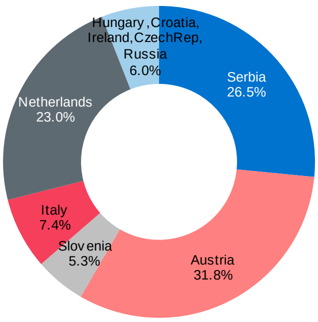
At end-Q2 2021, foreign-owned insurance undertakings held majority shares in life insurance premiums (87.4%), in non-life insurance premiums (60.7%), in total assets (73.5%) and in total employment (65.7%).

Chart 1.1.1 **Structure of (re)insurance undertakings in Serbia by ownership**
(in Q2 2021)



Source: National Bank of Serbia.

Chart 1.1.2 **Balance sheet total of (re)insurance undertakings in Serbia by ownership**
(in Q2 2021)



Source: National Bank of Serbia.

Other market participants

At end-Q2 2021, in addition to insurance/reinsurance undertakings, the market consisted of: 16 banks, six financial lessors and one public postal operator, which are licensed for insurance agency operations, 104 legal entities (insurance brokerage and agency services), 77 insurance agents (natural persons – entrepreneurs) and 4,166 active certified agents/brokers in insurance.

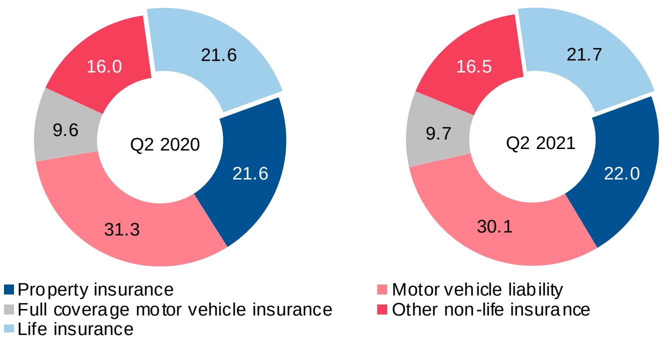
[1] The Report is based on data that (re)insurance undertakings are obliged to submit to the NBS.

1.2 Insurance portfolio structure

Total premium in Q2 2021 came at RSD 60.4 bn (EUR 514 mn or USD 619 mn)[2], which is an increase of 8.2% from a year earlier.

The premium composition improved y-o-y, on account of higher life insurance premiums than non-life insurance premiums, and the share of life insurance rose slightly from 21.6% in Q2 2020 to 21.7% in Q2 2021.

Chart 1.2 **Total premium by type of insurance**
(in Q2 2020 and Q2 2021, in %)



Source: National Bank of Serbia.

In Q2 2021, the insurance premium structure by insurance type somewhat resembled the structure recorded in the same period in 2020, with MTPL insurance accounting for the largest share of total premium (30.1%). This time, it was followed by property insurance (22.0%), life insurance (21.7%) and motor vehicle insurance – "kasko" (9.7%).

Non-life insurance premium rose by 8.1% in Q2 2021 relative to the same period in 2020. Property insurance premium went up by 10.1%, premium for full coverage motor vehicle insurance ("kasko") by 10.3%, and voluntary health insurance premium by 18.2%. After a short fall due to the coronavirus pandemic in Q1 2020, MTPL insurance recovered in Q2 2020 and resumed an upward trajectory, recording 4.0% growth in Q2 2021.

The above increase in voluntary health insurance premium is accompanied with the rise in the share of premium for this type of insurance from 6.1% in Q2 2020, to 6.6% in Q2 2021. Three insurance undertakings covered 64.6% of the market.

Accident insurance, including, inter alia, compulsory types of insurance such as passenger insurance in public transport and insurance of employees from injuries at work and professional illnesses, rose by 6.2%, with an unchanged share of 2.6% in Q2 2021.

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

In Q2 2021 in terms of the total and life insurance premiums, there was no change in the ranking of the top five insurance undertakings, accounting for 76.6% and 83.3% respectively of those categories of premiums. However, looking at non-life insurance premiums, there was a change in the ranking of the top five insurance undertakings, which accounted for 77.8% of this market segment.

The Herfindahl Hirschman index, calculated by summing up the squares of the respective market shares or, in this case, balance sheet totals of all insurance/reinsurance undertakings, points to moderate market concentration. At end-Q2 2021 the HHI was 1,292[3].

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

	30 June 2020			30 June 2021			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
				total premiums			
Dunav	15134	27.1	1	15996	26.5	1	-
Generali	11388	20.4	2	12287	20.3	2	-
DDOR	6837	12.2	3	7222	12.0	3	-
Wiener	6584	11.8	4	6310	10.4	4	-
Triglav	3992	7.1	5	4448	7.4	5	-
				non-life premiums			
Dunav	13792	31.5	1	14341	30.3	1	-
Generali	7940	18.1	2	8459	17.9	2	-
DDOR	5916	13.5	3	6196	13.1	3	-
Triglav	3639	8.3	5	4047	8.6	4	**increase**
Wiener	4002	9.1	4	3743	7.9	5	**decrease**
				life premiums			
Generali	3448	28.6	1	3828	29.2	1	-
Wiener	2582	21.4	2	2567	19.6	2	-
Grawe	1705	14.1	3	1848	14.1	3	-
Dunav	1342	11.1	4	1655	12.6	4	-
DDOR	922	7.6	5	1025	7.8	5	-

Source: NBS.

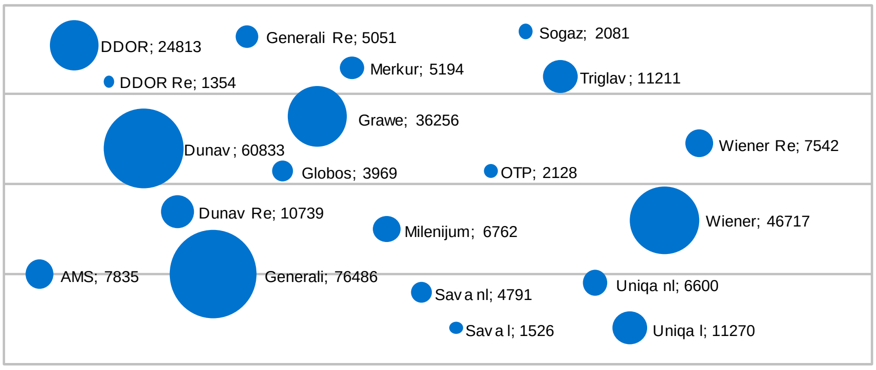
[3] HHI up to 1,000 indicates that there is no market concentration; 1,000–1800 indicates moderate concentration; above 1,800 indicates high concentration.

1.3 Balance sheet total and balance sheet structure

Balance sheet total

Balance sheet total of insurance and reinsurance undertakings increased at end-Q2 2021 to RSD 333.2 bn (EUR 2,834 mn or USD 3,374 mn)[4], up by 7.6% year-on-year.

Chart 1.3.1 **Balance sheet total of insurance undertakings**
(as at 30 June 2021, 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 Q2 2021 accounted for 79.4% of the total.

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

	30 June 2020			30 June 2021			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
Generali	73892	25.7	1	76486	24.8	1	-
Dunav	54928	19.1	2	60833	19.7	2	-
Wiener	44191	15.3	3	46717	15.1	3	-
Grawe	34331	11.9	4	36256	11.8	4	-
DDOR	23275	8.1	5	24813	8.0	5	-

Source: NBS.

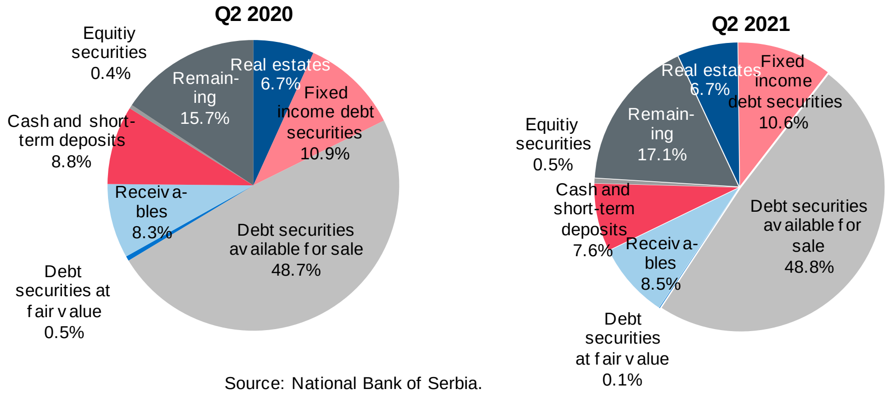
[4] At the NBS middle exchange rate as at 30 June 2021.

Structure of assets

As at 30 June 2021, assets of (re)insurance undertakings comprised mostly debt securities available for sale (48.8%), fixed income debt securities (10.6%) and debt securities recognised at fair value through income statement (0.1%), followed by: receivables (8.5%), cash and short-term deposits (7.6%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (7.4%), property, plant and equipment (6.7%) and other[5].

Compared to the same day of the previous year, in Q2 2021, debt securities and cash and short-term deposits decreased their dominant share, on one hand, while, on the other, technical provisions charged to coinsurer, reinsurer and retrocessionaire (part of the item "Other" in Chart 1.3.2) and receivables increased their shares.[6]

Chart 1.3.2 **Structure of assets**
(as at 30 June 2020 and 30 June 2021)



Source: National Bank of Serbia.

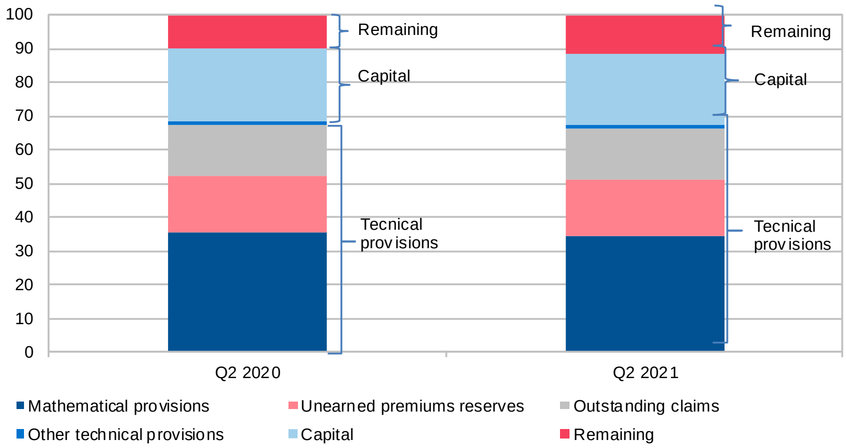
Structure of liabilities

At end-Q2 2021, technical provisions accounted for 67.3% and capital for 21.0% of total liabilities of insurance/reinsurance undertakings.

[5] The item „Other" in the Chart 1.3.2 include: 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.
[6] A rise in share from 6.8% in Q1 2020 to 7.5% in Q1 2021.

Capital amounting to RSD 68.8 bn recorded growth at the rate of 5.4% as compared to end-Q2 of the previous year. RSD 220.8 bn of technical reserves recorded growth again, after several years of a continued rise, interrupted at end-Q1 2020 and Q2 2020 owing to resolving a large property damage caused in September 2018. At end-Q2 2021 they measured 7.2%. Mathematical reserve kept the dominant share in technical provisions, with the growth rate of 5.7% y-o-y in Q2 2021.

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



Source: National Bank of Serbia.

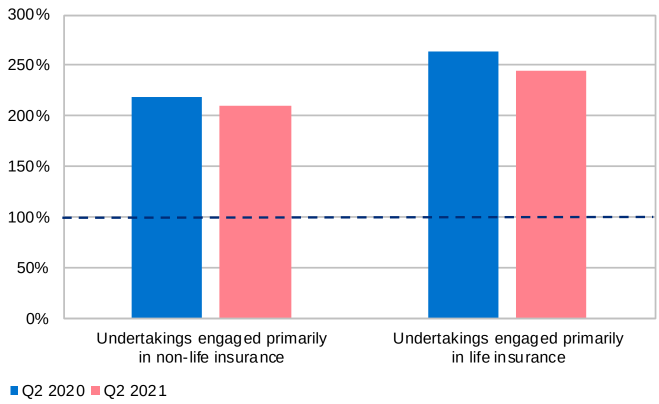
2 Performance indicators

2.1 Capital adequacy

The solvency of (re)insurance undertakings depends on the sufficiency of technical provisions for undertaken obligations and primarily on meeting the conditions related to capital adequacy, which have been established as the ratio of the required and available solvency margin.

The available solvency margin of Serbian insurance/reinsurance undertakings amounted to RSD 46.2 bn as at 30 June 2021, and the required solvency margin to RSD 20.5 bn. **The main capital adequacy ratio** (the ratio of the available to required solvency margin) was 210.3% for all predominantly *non-life insurers* and 245.5% for all predominantly *life insurers* in Serbia.

Chart 2.1 **Capital adequacy of insurance undertakings**



Source: National Bank of Serbia.

2.2 Quality of assets

The share of assets that can qualify as difficult to collect (intangible investments, real estate, investment in non-tradable securities and receivables) in total assets of undertakings engaged primarily in *non-life insurance*, i.e. **the ratio of less marketable assets**, came at the satisfactory 17.6% at end-Q2 2021, compared to 16.3% at end-2020. The ratio changed due to the higher growth of the stated types of assets relative to the growth of the total assets.

For undertakings engaged primarily in *life insurance* this ratio edged down slightly from 5.6% at end-2020 to 5.5% at end-Q2 2021.

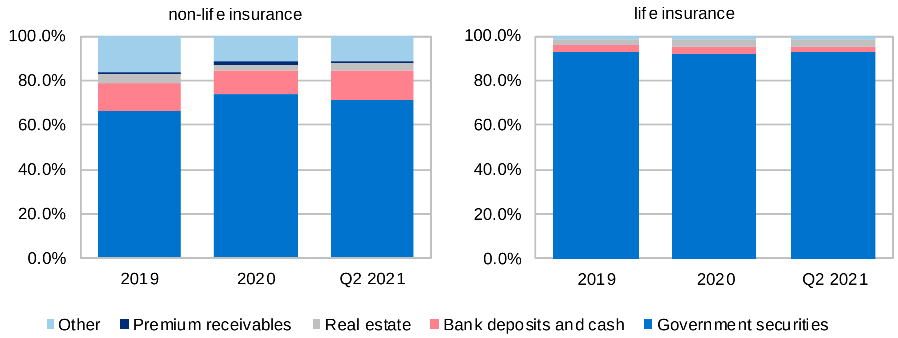
2.3 Investment of technical provisions

To protect the interests of the insured and third damaged parties and to ensure timely payment of damage claims, insurance undertakings need not only allocate adequate technical provisions, but also invest these assets to ensure that their real value is maintained and increased, so that the undertaken insurance obligations may be fully and timely met, both at present and in the future period. To be able to meet its liabilities, an undertaking must invest its assets taking due account of the risk profile and risk tolerance limits (qualitative and quantitative), by pursuing its investment policy.

Technical provisions were fully invested in prescribed types of assets, in undertakings dealing primarily with *non-life insurance, life insurance*, and *reinsurance undertakings* in Q2 2021.

In Q2 2021, *non-life insurance* technical provisions of all Serbian insurance undertakings were mostly invested in government securities (71.6%), bank deposits and cash (12.6%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (9.6%), and real estate (3.6%) while the share of insurance premium receivables amounted to 1.1%. Compared to last year's end, the share of government securities and technical provisions charged to coinsurer, reinsurer and retrocessionaire dropped while the share of cash and deposits as well as real estate increased.

Chart 2.3 **Structure of investment of technical provisions**



Source: National Bank of Serbia.

Life insurance technical provisions were in major part invested in government securities – 92.8%, while investments in real estate, bank deposits and cash accounted for only 3.0% and 2.5%, respectively.

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 from investments in the financial and real estate markets, which exposes it to primarily market risks and risk of the other contractual party failing to meet its obligations. In undertakings primarily engaged in non-life insurance, the combined ratio increased from 77.5% in Q2 2020 to 84.7% in Q2 2021. The trend of this ratio resulted from the weaker growth of the earned net premium relative to the rise in 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 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 insurance/reinsurance undertakings stood at 145.5% in Q2 2021, suggesting that liquid assets were sufficient for servicing short-term liabilities in the insurance sector.

3 Motor third party liability

At end-Q2 2021, 11 insurance undertakings engaged in compulsory MTPL insurance – unchanged from the same period last year.

The MTPL premium rose by 3.9% in Q2 2021 relative to the same period in 2020 when it rebounded from the coronavirus impact.

Portfolio concentration in this segment decreased bearing in mind that three undertakings with the largest share in the MTPL premium accounted for 62.3% of the market in Q2 2021, compared to 64.1% in the same period last year.

4 Conclusion

The comparable indicators for Q2 2021 and the same period in 2020 point to the following changes:

- a total of 20 insurance/reinsurance undertakings operate in Serbia, unchanged from the same period of the previous year, with increased employment in the sector by 2.9% to 11,510 persons;
- the insurance sector balance sheet total rose by 7.6% to RSD 333.2 bn;
- capital increased by 5.4% to RSD 68.8 bn;
- technical provisions gained 7.2%, coming at RSD 220.8 bn, and were fully invested in prescribed types of assets;
- total premium gained 8.2% and came at RSD 60.4 bn;
- Non-life insurance continued to account for the dominant share of total premium (78.3%). Non-life insurance premium rose by 8.1%, with property

[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.

insurance, full coverage motor vehicle insurance ("kasko"), and voluntary health insurance increasing. MTPL insurance also continued to rise after a drop in Q1 2020 due to the coronavirus pandemic and recovery in Q2 2020;

- the share of life insurance rose slightly, on account of somewhat more pronounced growth in life insurance premiums than in non-life insurance premiums.

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.

Major changes in the insurance supervision regulatory framework are yet to be made when regulations are fully aligned with the Insurance Distribution Directive (IDD) and with implementation of Solvency II.

The Insurance Distribution Directive (IDD) sets forth in more detail the supervision and management of insurance products to ensure that these products really meet the actual needs of consumers. In addition, this Directive prescribes how users should be informed and insurance products distributed thus improving the level of protection of insurance service consumers' rights and interests.

An effective solvency regime based on risk exposure is in line with development trends in other segments of the financial sector, particularly banking. Accordingly, to further improve prudential supervision regulations, the plan for the forthcoming period is to continue with alignment of regulations with the Solvency II Directive, which will change how the level of risks to which a (re)insurance undertaking is exposed is qualified and hence how these risks are managed. Completing the first phase of strategic activities aimed at implementing Solvency II – compliance analysis, implementing current activities, which are integral to the second phase – impact assessment, and transition to alignment of the regulatory framework, as the third phase, will enhance the ability of the insurance sector to respond to future challenges to ensure long-term stability of the insurance sector and beneficiary protection.

In the face of the global impact of the still ongoing coronavirus pandemic, the role of the insurance sector in providing citizens, i.e. insured persons with protection and ensuring continuity of insurance service provision gains in importance even more. The NBS timely adopted a series of well-calibrated measures to prevent, reduce and eliminate the adverse effects of the coronavirus pandemic, protect the rights and interests of insurance service consumers, and to preserve business stability of all professional participants in the insurance market, i.e. ensure the continuity of the supervisory function. The NBS will continue implementing these measures in the period ahead.