National Bank of Serbia

INSURANCE SUPERVISION DEPARTMENT

INSURANCE SECTOR IN SERBIA

First Quarter Report 2024

Contents:

List of abbreviations

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

1 Insurance market[1]

1.1 Market participants

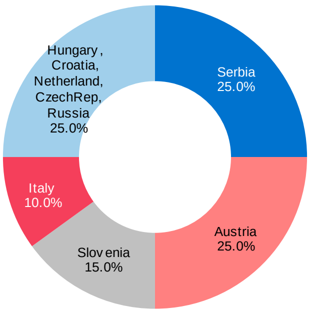
Insurance and reinsurance undertakings

At end-Q1 2024, 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 2024 shows that of 20 undertakings, 15 were in majority foreign ownership.

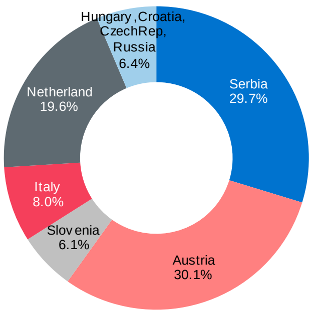
At end-Q1 2024, foreign-owned undertakings held majority shares of life insurance premium (83.7%), non-life insurance premium (59.6%), total assets (70.3%) and employment (65.1%).

Chart 1.1.1 **Structure of (re)insurance undertakings in Serbia by ownership**
(in Q1 2024)



Source: National Bank of Serbia.

Chart 1.1.2 **Balance sheet total of (re)insurance undertakings in Serbia by ownership**
(in Q1 2024)



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

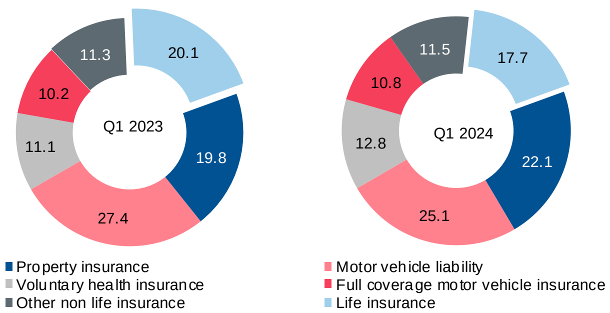
In addition to (re)insurance undertakings, at end-Q1 2024 the market also consisted of: 15 banks, nine financial lessors and a public postal operator which are licensed for insurance agency activities, 113 legal entities (insurance brokerage and agency services), 78 insurance agents (natural persons – entrepreneurs) and 4,212 active certified agents/brokers in insurance.

1.2 Insurance portfolio structure

Total premium in Q1 2024 amounted to RSD 41.7 bn (EUR 356 mn or USD 386 mn),[2] rising by 16.0% y-o-y.

In the composition of the premium, the share of life insurance premium dropped from 20.1% in Q1 2023 to 17.7% in Q1 2024, 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 2023 and Q1 2024, in %)



Source: National Bank of Serbia.

In terms of type of insurance, premium composition in Q1 2024 somewhat resembled that from the same period of 2023, with MTPL insurance accounting for the largest share of total premium (25.1%). Next comes property insurance (22.1%), life insurance (17.7%), voluntary health insurance (12.8%) and full coverage motor vehicle insurance – "kasko" (10.8%).

In Q1 2024, non-life insurance premium rose by 19.5% compared to the same period of 2023. MTPL insurance premium went up by 6.2%, property insurance premium by 29.2%, voluntary health insurance premium by 34.2%, and motor vehicle insurance ("kasko") premium by 22.6%.

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

The abovementioned substantial growth of the voluntary health insurance premium drove up its share in total premium from 11.1% in Q1 2023 to 12.8% in Q1 2024, with five insurance undertakings accounting for around three-quarters of this market segment.

Accident insurance[3] recorded an increase of 18.9%, with the unchanged share in total premium (2.6%).

In terms of the total non-life and life insurance premiums in Q1 2024, there was no change in the ranking of the top five insurance undertakings, which accounted for 73.9% and 82.0%, respectively, of those categories of premiums. However, in terms of the total premium, there was a change in the ranking of the top five insurance undertakings which accounted for 73.6% of the total market premium.

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

	31/3/2023			31/3/2024			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
by total premiums							
Dunav	9413	26.2	1	11466	27.5	1	-
Generali	7127	19.8	2	7271	17.4	2	-
DDOR	3837	10.7	4	4423	10.6	3	**increase**
Wiener	4082	11.4	3	4256	10.2	4	**decrease**
Triglav	2906	8.1	5	3311	7.9	5	-
by non-life premiums							
Dunav	8408	29.3	1	10266	29.9	1	-
Generali	5071	17.7	2	5365	15.6	2	-
DDOR	3225	11.2	3	3822	11.1	3	-
Triglav	2708	9.4	4	3115	9.1	4	-
Wiener	2607	9.0	5	2821	8.2	5	-
by life premiums							
Generali	2056	28.4	1	1906	25.8	1	-
Wiener	1475	20.4	2	1435	19.5	2	-
Dunav	1006	13.9	3	1200	16.3	3	-
Grawe	862	11.9	4	910	12.3	4	-
DDOR	612	8.5	5	601	8.1	5	-

Source: NBS.

[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.

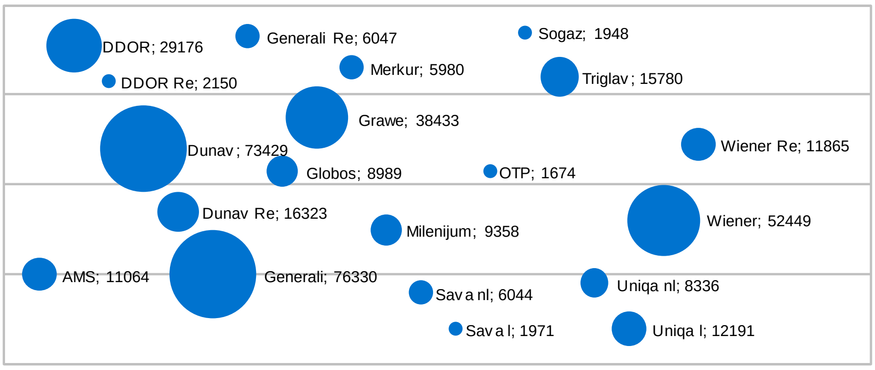
The Herfindahl Hirschman index (HHI), calculated by summing up the squares of the respective market shares or, in this case, balance sheet totals of all (re)insurance undertakings, points to moderate market concentration. At end-Q1 2024 the HHI was 1,159.[4]

1.3 Balance sheet total and balance sheet structure

Balance sheet total

Balance sheet total of (re)insurance undertakings increased at end-Q1 2024 to RSD 389.5 bn (EUR 3.3 bn or USD 3.6 bn),[5] going up by 11.5% y-o-y.

Chart 1.3.1 **Balance sheet total of (re)insurance undertakings**
(as at 31/03/2024, 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 2024 accounted for 76.5% of the total.

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

	31/3/2023			31/3/2024			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
Generali	73998	23.0	1	76330	21.6	1	-
Dunav	63445	19.7	2	73429	20.8	2	-
Wiener	50041	15.5	3	52449	14.9	3	-
Grawe	36812	11.4	4	38433	10.9	4	-
DDOR	26257	8.1	5	29176	8.3	5	-

Source: NBS.

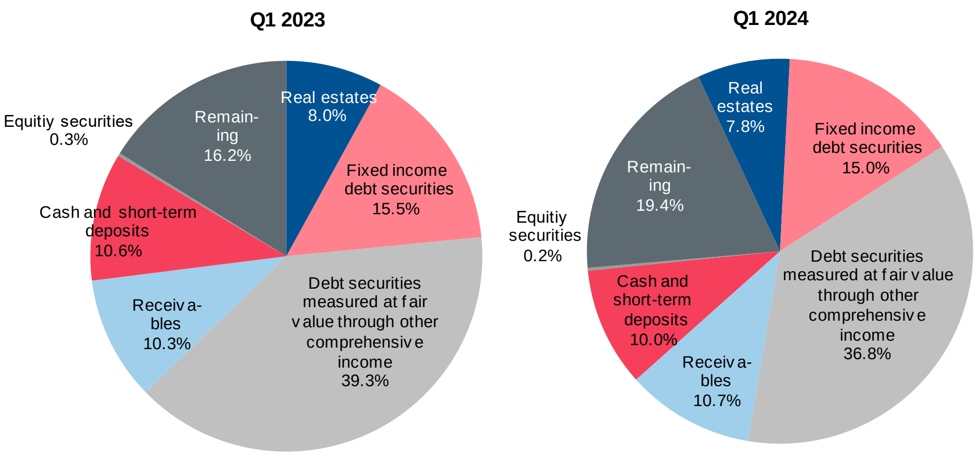
[4] HHI up to 1,000 indicates that there is no market concentration in the sector; 1,000–1800 indicates moderate concentration; above 1,800 indicates high concentration.
[5] At the middle exchange rate of the NBS on 31 March 2024.

Structure of assets

In the structure of (re)insurance undertakings' assets as at 31 March 2024, the major part were debt securities, specifically debt securities measured at fair value through other comprehensive income (36.8%), and fixed-income debt securities (15.0%), followed by: receivables (10.7%), cash and short-term deposits (10.0%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (9.7%), as a part of the category "Other"[6] in Chart 1.3.2, property, plant and equipment (7.8%) and other.

Compared to end-Q1 of the previous year, it can be concluded that, on the one hand, the share of technical provisions charged to coinsurer, reinsurer and retrocessionaire and receivables went up, while, on the other, that of debt securities and cash and short-term deposits went down, despite increasing in absolute terms.

Chart 1.3.2 **Structure of assets**
(as at 31/03/2023 and 31/03/2024)



Source: National Bank of Serbia.

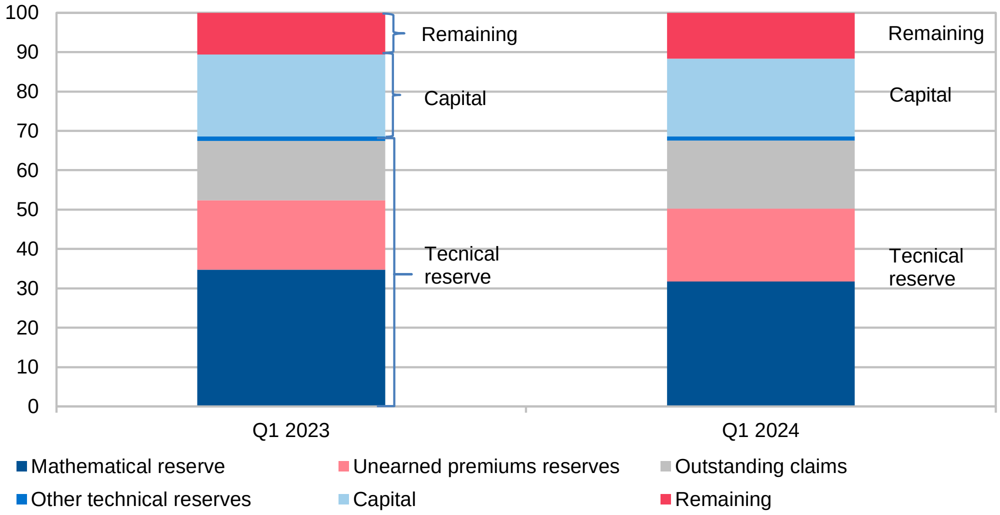
Structure of liabilities

In the structure of liabilities of (re)insurance undertakings at end-Q1 2024, technical provisions accounted for 68.6%, and capital for 19.7%.

[6] 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.

At RSD 76.3 bn, capital rose in y-o-y terms, at a rate of 6.0%. Technical provisions amounted to RSD 265.0 bn, posting 11.4% growth at end-Q1 2024. Mathematical reserve kept the dominant share in technical provisions, with a modest y-o-y growth rate of 1.8%.

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



Source: National Bank of Serbia.

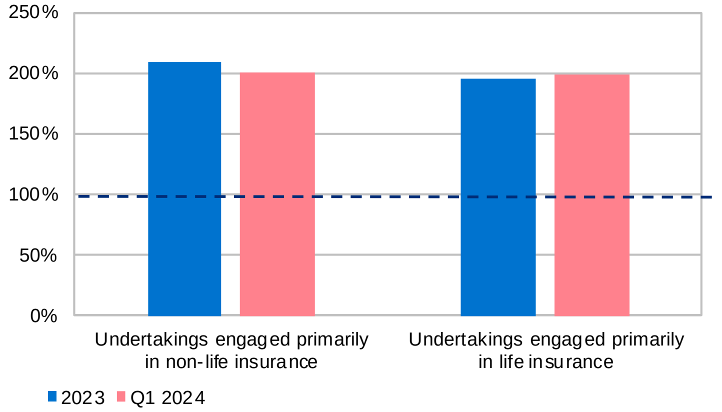
2 Performance indicators

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 2024 amounted to RSD 53.9 bn, and the required solvency margin to RSD 26.9 bn. In undertakings engaged mainly in non-life insurance, the main **capital adequacy ratio** (the ratio of the available to required solvency margin) was 200.9%, and for all predominantly life insurers in Serbia it equalled 199.6%.

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 20.8% at end-Q1 2024, compared to 20.3% at end-2023. For undertakings engaged primarily in life insurance, this ratio edged down mildly from 7.3% at end-2023 to 7.2% at end-Q1 2024.

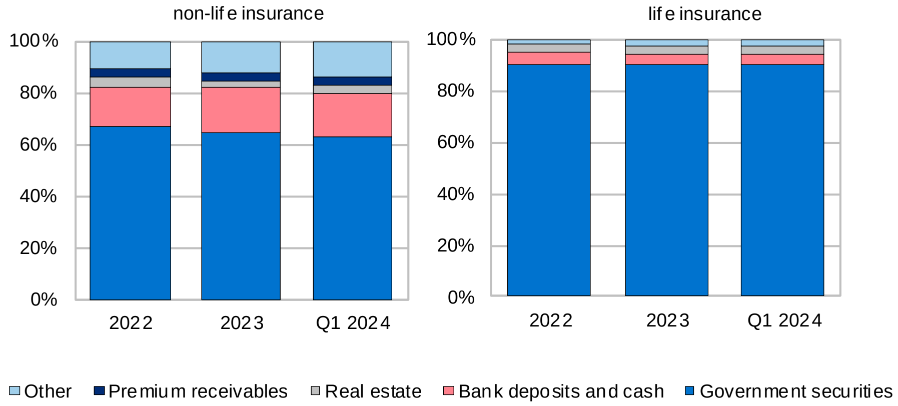
2.3 Investment of technical provisions

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 Q1 2024, 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 (63.2%), bank deposits and cash (16.7%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (13.5%), insurance premium receivables (3.5%) and real estate (2.5%). Compared to last year's end, on the one hand, the share of government securities contracted, while on the other, the share of technical provisions charged to coinsurer, reinsurer and retrocessionaire (part of the category "Other" in Chart 2.3) 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 mildly, to 90.5%, while the share of bank deposits and cash decreased slightly, to 3.9%.

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 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 decreased from 92.2% in Q1 2023 to 91.1% in Q1 2024, as a result of a somewhat stronger growth of the earned net premium relative to the sum of net claims and underwritten expenses reduced by the reinsurance and retrocession commission.

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, though showing a declining tendency, measured 110.0% in Q1 2024, suggesting that liquid assets were sufficient for servicing short-term liabilities of the insurance sector.

3 Motor third party liability

At end-Q1 2024, 11 insurance undertakings engaged in compulsory MTPL insurance – unchanged from the same period last year.

In Q1 2024, the MTPL premium rose by 6.1% y-o-y. Portfolio concentration in this segment dropped slightly, bearing in mind that three insurance undertakings with the largest share in the MTPL premium accounted for 57.6% of the market in Q1 2024, compared to 58.2% in the same period last year.

4 Conclusion

The comparison of indicators between Q1 2024 and the same quarter of 2023 points to the following changes:

- a total of 20 (re)insurance undertakings operated in Serbia, unchanged from the same period of the previous year, with a slightly increased employment in the sector by 0.4% to 11,430 persons;
- the insurance sector balance sheet total rose by 11.5% to RSD 389.5 bn;
- capital went up by 6.0% to RSD 76.3 bn;
- technical provisions gained 11.4%, coming at RSD 265.0 bn, and were fully invested in the prescribed types of assets;
- total premium gained 16.0% and came at RSD 41.7 bn;
- non-life insurance continued to account for the dominant share of total premium (82.3%). Non-life insurance premium rose by 19.5%, with more prominent insurance types, such as: property insurance, voluntary health

[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 and full coverage motor vehicle insurance (“kasko”) recording a two-digit percentage growth;
- the share of life insurance decreased, on account of stronger growth in non-life insurance premium compared to life insurance premium.

The current insurance regulations in Serbia have laid the legislative groundwork for a further substantial 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 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.

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, in line with the Strategy for Implementation of Solvency II in the Republic of Serbia from May 2021, 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 capital adequacy requirements and the manner of management of 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 rising global uncertainty induced by multiple intertwined crises over the past four years, the role of the insurance sector in providing protection to citizens and insured persons and ensuring continuity in the provision of insurance services is increasingly gaining importance. The NBS responded to the challenges stemming from the international environment by gradually tightening its monetary policy and raising its key policy rate, with a view to bringing inflation back within the bounds of the target, which is consistent with the projections and which was realized in May 2024, when inflation measured 4.5%. The NBS will also take all the necessary measures within its remit that could alleviate the effects of the prevalent risks on the insurance sector. The activities will be aimed at maintaining the stability of the insurance sector (by carrying out the on-site supervision plan, ongoing off-site supervision of (re)insurance undertakings and other supervised entities and contemplating the need for regulatory amendments) and improving the supervisory function, all with a view to ensuring stability of the insurance sector and protection of insured persons, insurance service users and third damaged parties.