NATIONAL BANK OF SERBIA

INSURANCE SUPERVISION
DEPARTMENT

INSURANCE SECTOR IN SERBIA

Third Quarter Report 2018

Contents:

List of abbreviations

mn	million
bn	billion
Q3	three quarters in one year (1 January – 30 September)

1 Insurance market[1]

1.1 Market participants

Insurance undertakings

At end-Q3 2018, the insurance market in Serbia numbered 21 insurance undertakings, the same as in the corresponding period a year earlier. Seventeen undertakings engaged in insurance activities only and four in reinsurance activities. Of the insurance undertakings, four were exclusive life insurers, seven exclusive non-life insurers, while six provided both life and non-life insurance.

The breakdown by ownership shows that of the 21 insurance undertakings, 16 are in majority foreign ownership.

At end-Q3 2018, foreign-owned insurance companies, which entered the market based on greenfield licences, continued to record a dominant share of 90.4% in life insurance premium, 63.3% in non-life insurance premium, 77.8% in total assets and 68.7% in total employment.

Chart 1.1.1 **Structure of insurance undertakings in Serbia by ownership**
(in Q3 2018)

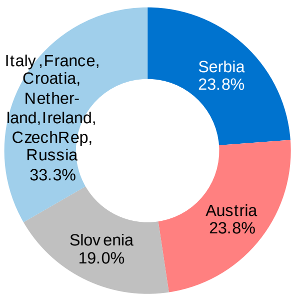
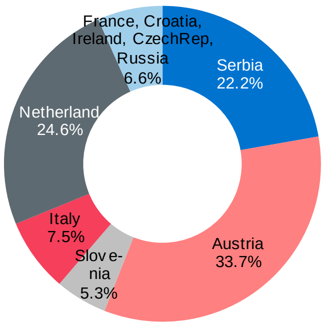


Chart 1.1.2 **Balance sheet total of insurance undertakings in Serbia by ownership**
(in Q3 2018)



Source: National Bank of Serbia.

[1] The Report is based on data that insurance undertakings are obliged to submit to the NBS, but their accuracy was not verified by the NBS on-site examinations.

Other market participants

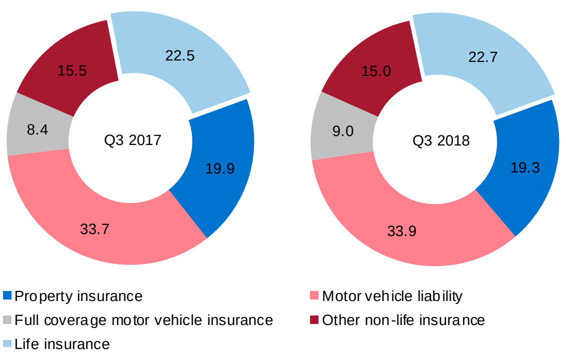
In addition to insurance undertakings, the market included 18 banks, eight financial lessors and one public postal operator, all of which are licensed for agency operations, 90 legal entities (insurance brokerage/agency services), 84 insurance agents (natural persons – entrepreneurs) and 6,893 active certified agents/brokers in insurance.

1.2 Insurance portfolio structure

Total premium generated from the insurance business in Q3 2018 came at RSD 74.6 bn (EUR 630 mn or USD 734 mn)[2], which is an increase of 5.2% from a year earlier.

The share of non-life insurance in total premium was 77.3%. Life insurance increased its share from 22.5% in Q3 2017 to 22.7% in the same period of the current year, due to a 6.4% nominal growth in life insurance premium relative to Q3 2017.

Chart 1.2 **Total premium according to the types of insurance**
(in Q3 2017 and Q3 2018, in %)



Source: National Bank of Serbia.

[2] At the NBS middle exchange rate as at 30 September 2018.

The insurance premium structure by insurance type in Q3 2018 resembled that recorded in the same period of 2017, with MTPL insurance accounting for the largest share of total premium (33.9%). It was followed by life insurance (22.7%), property insurance (19.3%) and motor vehicle insurance - "kasko" (9.0%).

Non-life insurance premium rose by 4.8% in Q3 2018 relative to the same period of 2017. MTPL insurance premium rose by 5.6%, property insurance premium by 2.1%, premium for full coverage motor vehicle insurance (“kasko”) expanded by 13.4%, while accident insurance premium recorded a fall of 23.6%.

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, accounted for only 2.8% of total premium in Q3 2018.

The share of voluntary health insurance premium showed an increase from 3.2% in Q3 2017 to 3.8% in Q3 2018, and a nominal growth of 25.8%. Three insurance undertakings covered slightly less than three quarters of the market.

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

	30.9.2017			30.09.2018			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
by total premiums							
Dunav	19642	27,7	1	20048	26,9	1	-
Generali	14949	21,1	2	16444	22,0	2	-
DDOR	8607	12,1	3	9017	12,1	3	-
Wiener	7802	11,0	4	8491	11,4	4	-
Triglav	4103	5,8	5	4490	6,0	5	-
by non-life premiums							
Dunav	18524	33,7	1	18418	32,0	1	-
Generali	10565	19,2	2	10870	18,9	2	-
DDOR	7617	13,9	3	7689	13,3	3	-
Wiener	4587	8,3	4	5499	9,5	4	-
Triglav	3749	6,8	5	4150	7,2	5	-
by life premiums							
Generali	4384	27,5	1	5574	32,9	1	-
Wiener	3215	20,2	2	2992	17,6	2	-
Grawe	2531	15,9	3	2434	14,3	3	-
Dunav	1118	7,0	6	1630	9,6	4	**increase**
Uniqa l	1262	7,9	5	1345	7,9	5	-

Source: NBS.

Observed by the total and non-life insurance premiums, accounting for 78.4% and 80.9% respectively of those categories of premiums of all insurance undertakings, there was no change in the ranking of the top five insurance undertakings in Q3 2018 relative to Q3 2017. However, observed by life insurance premiums, which account for

82.4% of total life insurance premiums, there was a change in the ranking of the top five insurance undertakings.

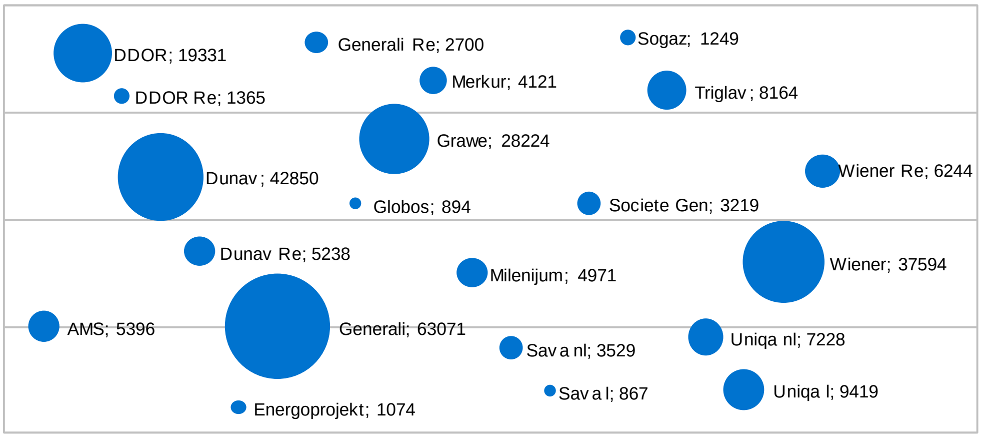
The Herfindahl Hirschman index, calculated by summing up the squares of the respective market shares or, in this case, balance sheet totals of all insurance undertakings, points to moderate market concentration. At end-Q3 2018 the HHI was 1,332[3].

1.3 Balance sheet total and balance sheet structure

Balance sheet total

Balance sheet total of insurance and reinsurance undertakings increased at end-Q3 2018 to RSD 256.7 bn (EUR 2,168 mn or USD 2,525 mn)[4], up by 10.0% year-on-year.

Chart 1.3.1 **Balance sheet total of insurance undertakings**
(as at 30/09/2018, 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 Q3 2018 accounted for 79.2% of the total.

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[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.
[4] At the NBS middle exchange rate as at 30 September 2018.

Table 1.3. **Ranking list of five largest insurance undertakings by balance sheet total**

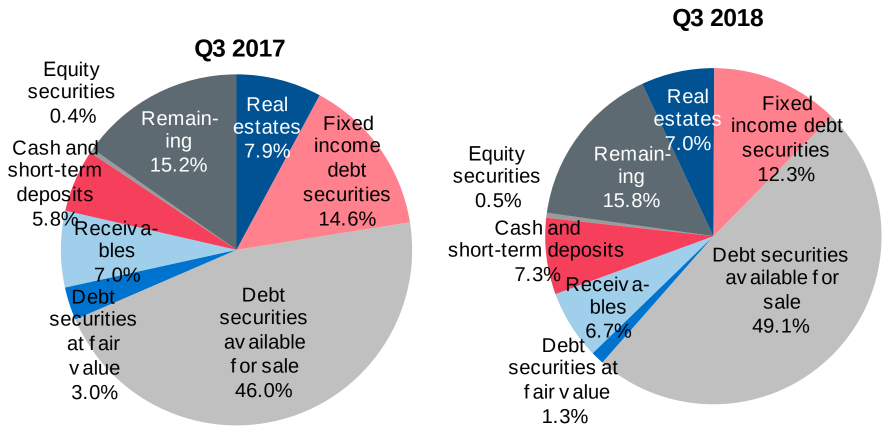
	30.9.2017			30.09.2018			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
Generali	56592	25,8	1	63071	26,1	1	-
Dunav	39399	18,0	2	42850	17,8	2	-
Wiener	33691	15,4	3	37594	15,6	3	-
Grawe	24964	11,4	4	28224	11,7	4	-
DDOR	18127	8,3	5	19331	8,0	5	-

Source: NBS.

Structure of assets

As at 30 September 2018, assets of insurance and reinsurance undertakings comprised mostly debt securities available for sale (49.1%), fixed income debt securities (12.3%) and debt securities measured at fair value through profit or loss (1.3%), followed by: property, plant and equipment (7.0%), receivables (6.7%), cash and short-term deposits (7.3%), equities (0.5%) and other[5].

Chart 1.3.2 **Structure of assets**
(as at 30/09/2017 and 30/09/2018)



Source: National Bank of Serbia.

[5] This comprises: 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, added value tax, prepayments and accrued income and technical provisions borne by the coinsurance and reinsurance.

When compared to the same period of the previous year, we can conclude that, on the one hand, the dominant share of debt securities available for sale increased at the rate of 17.3%, recording growth in nominal terms, while on the other hand, the share of real estate in total assets continued to decrease.

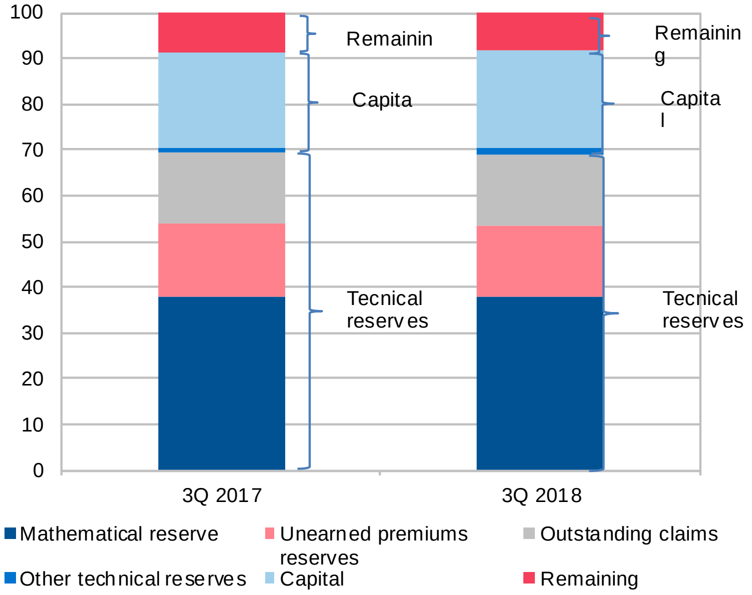
Structure of liabilities

At end-Q3 2018, technical provisions accounted for 70.4% and capital for 21.2% of total liabilities.

Capital amounting to RSD 53.0 bn recorded growth at the rate of 12.1% as compared to end-Q3 of the previous year, while technical provisions in the amount of RSD 175.8 bn recorded growth of 9.3%, the most significant portion relating to mathematical reserves, with the growth rate of 9.5%.

Technical provisions enjoyed uninterrupted growth in both nominal and real terms.

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



Source: National Bank of Serbia.

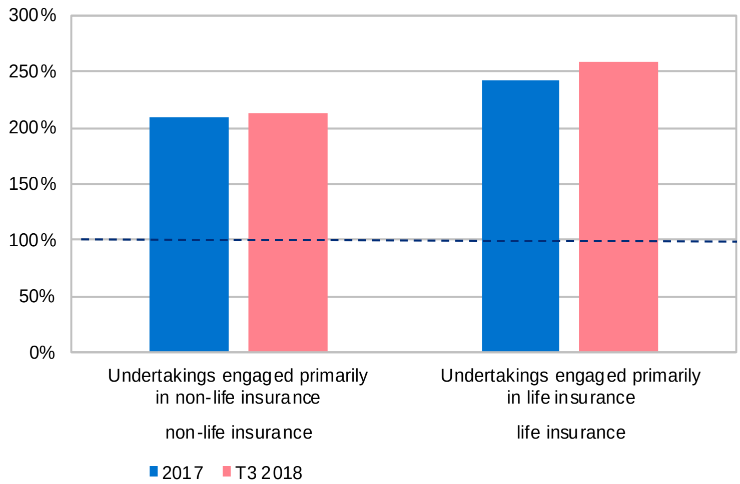
2 Performance indicators

2.1 Capital adequacy

The solvency of insurance undertakings 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 the insurance sector (insurance and reinsurance undertakings) in Serbia as at 30 September 2018 amounted to RSD 40.2 bn, and the required solvency margin to RSD 17.2 bn. **The main capital adequacy indicator** (the ratio of the available to required solvency margin) was 212.7% for all *non-life insurers* and 258.1% for all *life insurers* in Serbia.

Chart 2.1 **Ratio of available solvency margin to required solvency margin of insurnace undertakings**



Source: National Bank of Serbia.

2.2 Quality of assets

The share of intangible investments, real estates, investment in non-tradable securities and receivables (as types of assets with possible difficulties in collectability) in total assets of undertakings engaged primarily in *non-life insurance*, i.e. **the ratio of less marketable assets**, came at a satisfactory 17.3% at end-Q3 2018, compared to

17.9% at end-2017. The ratio improved because of the slower growth of the stated types of assets relative to the growth of total assets.

For undertakings engaged primarily in *life insurance*, this indicator edged up from 1.7% at end-2017 to 1.8% at end-Q3 2018.

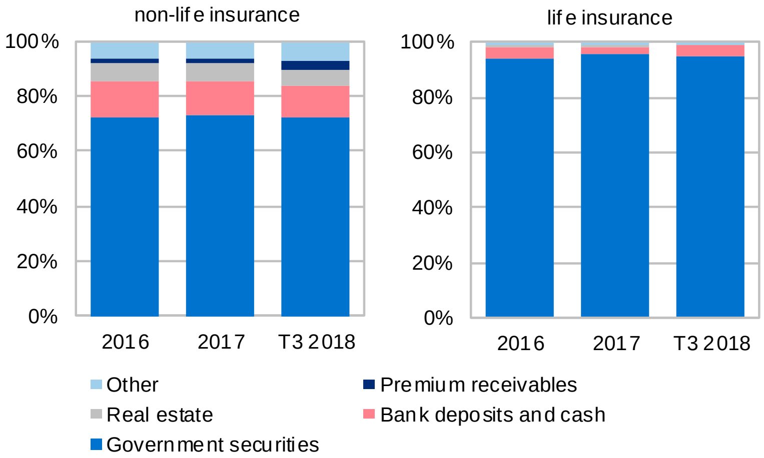
2.3 Investment of technical provisions

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 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.

Non-life insurance technical provisions of all insurance undertakings in Serbia in Q3 2018 were mostly invested in government securities (72.1%), bank deposits and cash (11.8%), real estate (5.6%) and insurance premium receivables (3.5%).

Life insurance technical provisions were for their major part invested in government securities (94.7%), followed by bank deposits and cash (3.9%).

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



Source: National Bank of Serbia.

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 markets, which exposes it to market risks. In undertakings primarily engaged in *non-life insurance*, the combined ratio declined from 88.4% in Q3 2017 to 87.9% in Q3 2018. The favourable trend of this ratio resulted from the faster growth of the earned net premium relative to the 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.

Liquid assets to liquid liabilities ratio[6] for the insurance sector (insurance and reinsurance undertakings) stood at 163.2% in Q3 2018, which is higher than in Q3 2017 when it equalled 151.1%.The movements of this ratio suggest that liquid assets were sufficient to timely service short-term liabilities in the insurance sector.

[6] 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.

3 Motor third party liability

At end-Q3 2018, 10 insurance undertakings engaged in compulsory MTPL insurance – one undertaking more than in the same period last year.[7]

The MTPL premium rose by 5.6% in Q3 2018 relative to the same period a year earlier.

Portfolio concentration in this segment was slightly lower, as three insurance undertakings with the largest share in the MTPL premium accounted for 67.8% of the market in Q3 2018, as opposed to 68.6% in the same period last year.

[7] In January 2018, one composite insurance undertaking started offering such services.

4 Conclusion

The comparison of indicators for Q3 2018 and the same quarter of 2017 points to the following changes:

- a total of 21 insurance undertakings operate in Serbia, unchanged y-o-y, while employment in the sector dipped by 2.1% to 10,591 persons;
- the insurance sector balance sheet total rose by 10.0% to RSD 256.7 bn;
- capital increased by 12.1% to RSD 53.0 bn;
- technical provisions gained 9.3%, coming at RSD 175.8 bn, and were fully invested in prescribed types of assets, both in life and non-life insurance;
- total premium gained 5.2% and came at RSD 74.6 bn;
- the share of non-life insurance was dominant in total premium, equalling 77.3%. Non-life insurance premium rose by 4.8%, with MTPL insurance, property insurance and full coverage motor vehicle insurance going up 5.6%, 2.1% and 13.4% respectively;
- life insurance slightly increased its share in total premium from 22.5% to 22.7%, recording a nominal growth of 6.4%.
- the Herfindahl Hirschman index points to moderate market concentration.

Insurance regulations adopted in late 2014 and the first half of 2015 laid the legislative ground for a significant step forward of the Serbian insurance sector to that of the EU, with a view to ensuring the level of protection of insured persons in Serbia equivalent to that in the EU. Since the EU applied the Solvency I regime at the time of drafting the above-mentioned regulations, the domestic framework was Solvency I-compliant, while incorporating some requirements of Solvency II, in accordance with the level of development of the Serbian insurance market. Accordingly, it may be said that Solvency 1½ regime is currently in force in Serbia. To be exact, domestic regulations have implemented certain Solvency II provisions pertaining to the qualitative requirements under Pillar 2 (governance system comprising four key functions: risk management, system of internal controls, internal audit and actuarial function, as well as own risk and solvency assessment – ORSA, risk-based supervision, fit and proper requirements in licensing of supervised entities, etc.).

Completing the first phase of strategic activities aimed at implementing of the new methodological framework – compliance analysis, implementing current activities, which are integral to the second phase – impact assessment, and moving to the harmonisation of the regulatory framework, as the third phase, will ensure that by the time Serbia accesses the EU, its insurance sector will have achieved full compliance with the EU rules, i.e. even greater stability and beneficiary protection.