NATIONAL BANK OF SERBIA

INSURANCE SUPERVISION DEPARTMENT

INSURANCE SECTOR IN SERBIA

Second Quarter Report 2017

Contents:

List of abbreviations

mn	million
bn	billion
Q2	second quarter (1 January – 30 June)

1. Insurance market[1]

1.1 Market participants

Insurance undertakings

At end-Q2 2017, the insurance market in Serbia comprised 23 insurance undertakings, the same as in the corresponding period a year earlier. Nineteen undertakings engaged in insurance activities only and four in reinsurance activities. Of the insurance undertakings, five were exclusive life insurers, eight exclusive non-life insurers, while six provided both life and non-life insurance.

The breakdown by ownership shows that of the 23 insurance undertakings, 17 are in majority foreign ownership.

At end-Q2 2017, foreign-owned insurance companies, which entered the market based on greenfield licences, continued to record a dominant share of 93.6% in life insurance premium, 62.1% in non-life insurance premium, 76.9% of total assets and 68.7% of total employment.

Chart 1.1.1 **Structure of insurance undertakings in Serbia by ownership**
(in Q2 2017)

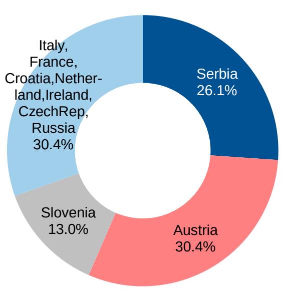
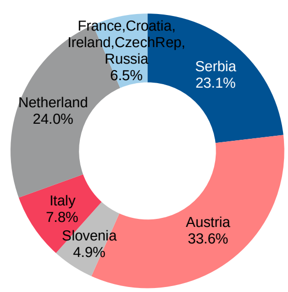


Chart 1.1.2 **Balance sheet total of insurance undertakings in Serbia by ownership**
(in Q2 2017)



Source: National Bank of Serbia

Other market participants

In addition to insurance undertakings, the market consisted of 19 banks, seven financial lessors and one public postal operator, all of which are licensed for agency

[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.

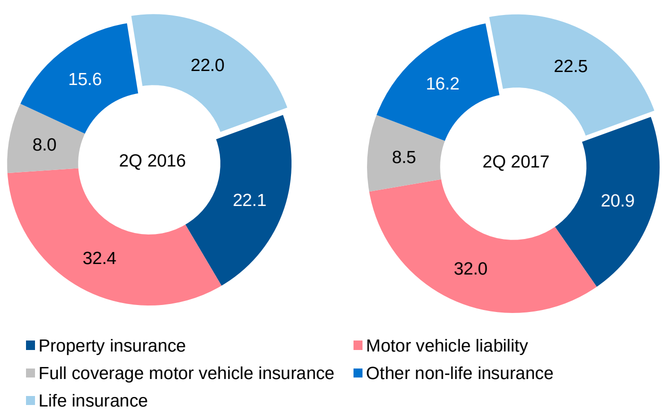
operations, 86 legal entities (insurance brokerage/agency services), 93 insurance agents (natural persons – entrepreneurs) and 6,088[2] certified agents/brokers in insurance.

1.2 Insurance portfolio structure

Total premium generated from the insurance business in Q2 2017 came at RSD 48.8 bn (EUR 404 mn or USD 462 mn),[3] which is an increase of 8.1% from a year earlier.

The share of non-life insurance in total premium was 77.5% and the share of life insurance premium 22.5%. The share of life insurance premium rose from 22.0% a year earlier due to nominal growth in life insurance by 10.7%.

Chart 1.2 **Total premium according to types of insurance**
(in Q2 2016 and Q2 2017, in %)



Source: National bank of Serbia

The insurance premium structure by insurance type in Q2 2017 somewhat resembled that recorded in the same period a year earlier, with MTPL insurance accounting for the largest share of total premium (32.0%). Unlike in Q2 2016, when property insurance against fire or other perils followed right after MPTL insurance, in the second quarter of 2017 life insurance was second-ranked (22.5%) owing to the rise in life insurance premium which outstripped the increase in property insurance premium. After property insurance with 20.9% came full coverage motor vehicle insurance with 8.5%.

Non-life insurance premium rose by 7.4% in Q2 2017 relative to Q2 2016. MTPL insurance premium rose 6.6%, property insurance premium 2.4%, premium for full

[2] Active certifications in accordance with amendments to the secondary legislation.
[3] At the NBS middle exchange rate as at 30 June 2017.

coverage motor vehicle insurance ("kasko") expanded by 15.1% and accident insurance premium by 0.9%.

Accident insurance, including, inter alia, compulsory types of insurance such as passenger insurance in public transport and insurance of employees from injuries at work, professional and work-related illnesses, accounted for 4.6% of total premium in Q2 2017.

The share of voluntary health insurance premium showed an increase from 3.2% in Q2 2016 to 3.7% in Q2 2017, and a nominal growth of 24.1%. Three insurance undertakings covered more than three quarters of the market.

Observed by the total and non-life insurance premiums, accounting for 76.8% and 80.8% respectively of those categories of premiums of all insurance undertakings, there was no change in the ranking of the top five insurance undertakings in Q2 2017 relative to Q2 2016. However, observed by life insurance premiums, which account for 80.8% of total life insurance premiums, there was a change in the ranking of the top five insurance undertakings.

Table 1.2 Ranking of the five largest insurance undertakings

(RSD mn, %)

	6/30/2016			6/30/2017			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
by total premiums							
Dunav	12392	27.4	1	13217	27.1	1	-
Generali	10315	22.8	2	10246	21.0	2	-
DDOR	5553	12.3	3	5856	12.0	3	-
Wiener	4204	9.3	4	5340	10.9	4	-
Triglav	2107	4.7	5	2820	5.8	5	-
by non-life premiums							
Dunav	11721	33.2	1	12514	33.0	1	-
Generali	6824	19.4	2	7220	19.1	2	-
DDOR	5079	14.4	3	5269	13.9	3	-
Wiener	2301	6.5	4	2995	7.9	4	-
Triglav	2050	5.8	5	2608	6.9	5	-
by life premiums							
Generali	3491	35.2	1	3027	27.6	1	-
Wiener	1903	19.2	2	2345	21.4	2	-
Grawe	1502	15.1	3	1709	15.6	3	-
Societe Gen	306	3.1	8	909	8.3	4	increase
Uniqa l	909	9.2	4	863	7.9	5	decrease
Dunav	671	6.8	5	703	6.4	6	decrease

Source: National Bank of Serbia.

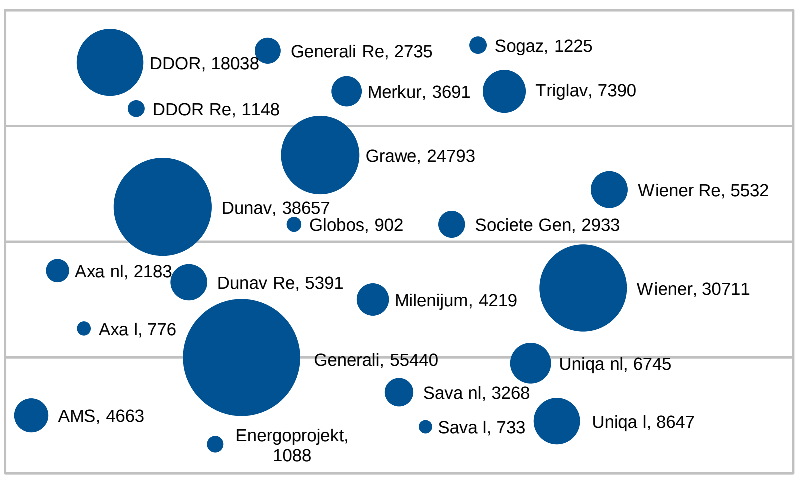
The Herfindahl Hirschman index, calculated by summing up the squares of the respective market shares or, in this case, balance sheet totals of all insurance undertakings, points to moderate market concentration. At end-Q2 2017 the HHI was 1,271.[4]

1.3 Balance sheet total and balance sheet structure

Balance sheet total

Balance sheet total of insurance and reinsurance undertakings increased at end-Q2 2017 to RSD 230.9 bn (EUR 1,911 mn or USD 2,186 mn),[5] up by 10.3% year-on-year.

Chart 1.3.1 **Balance sheet total of insurance undertakings**
(as at 30/06/2017, 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 2017 accounted for 77.6% 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 NBS middle exchange rate as at 30 June 2017.

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

	6/30/2016			6/30/2017			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
Generali	49398	25.5	1	55440	25.7	1	-
Dunav	35233	18.2	2	38657	17.9	2	-
Wiener	26577	13.7	3	30711	14.2	3	-
Grawe	22480	11.6	4	24793	11.5	4	-
DDOR	16686	8.6	5	18038	8.3	5	-

Source: National Bank of Serbia.

Structure of assets

As at 30 June 2017, assets of insurance and reinsurance undertakings largely comprised debt securities available for sale (44.1%), fixed income debt securities (14.5%) and debt securities recognised at fair value through income statement (3.7%), followed by property, plant and equipment (8.0%), receivables (7.6%), cash and short-term deposits (6.0%), equities (0.4%) and other.[6]

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 23.2%, recording significant growth in nominal terms, while on the other hand, the share of real estate and cash and short-term deposits in total assets continued to decrease.

Structure of liabilities

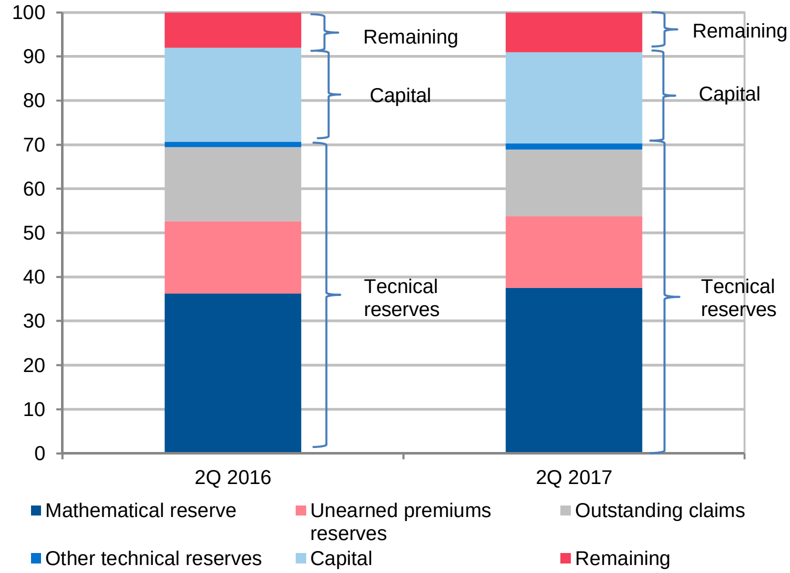
At end-Q2 2017, technical provisions accounted for 70.3% and capital for 20.7% of total liabilities.

Capital amounting to RSD 47.1 bn recorded growth at the rate of 7.7% as compared to Q2 of the previous year, while technical provisions with the amount of RSD 160.2 bn recorded growth of 10.1%, the most significant portion relating to mathematical reserves, with the growth rate of 14.5%.

Technical provisions enjoyed an interrupted growth in both nominal and real terms.

[6] 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.

Chart 1.3.3 Structure of liabilities (in %)



Source: National Bank of Serbia

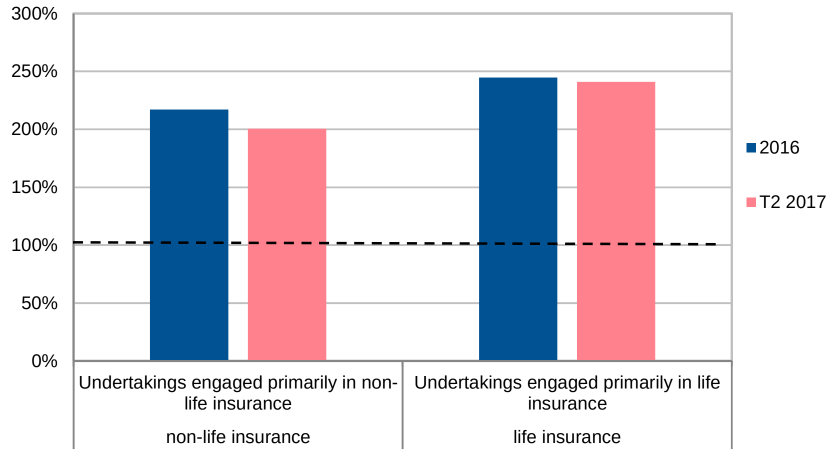
2. Performance indicators

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 June 2017 amounted to RSD 35.4 bn, and the required solvency margin to RSD 16.0 bn. **The main capital adequacy indicator** (the ratio of the available to required solvency margin) was 200.6% for all *non-life insurers* and 240.9% for all *life insurers* in Serbia.

Chart 2.1 **Ratio of the available solvency margin to required solvency margin of insurance 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 19.8% at end-Q2 2017, compared to 18.7% at end-2016.

For undertakings engaged primarily in *life insurance* this indicator edged down from 2.3% at end-2016 to 2.1% at end-Q2-2017. The ratio was changed due to a drop in the said types of assets.

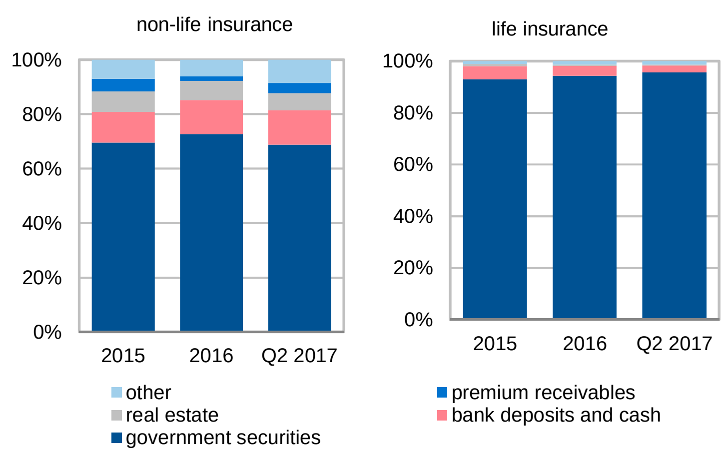
2.3 Investment of technical provisions

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 the undertaken obligations are 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 Q2 2017 were mostly invested in government securities (68.8%), bank deposits and cash (12.6%), real estate (6.3%) and insurance premium receivables (3.7%).

Life insurance technical provisions were in major part invested in government securities (95.6%), followed by bank deposits and cash (2.7%).

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 **combined ratio** (the sum of incurred losses and expenses divided by the premium earned). 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 additional market risks. In undertakings primarily engaged in *non-life insurance*, the combined ratio rose moderately from 89.0% in Q2 2016 to 90.5% in Q2 2017. The increase in the ratio resulted from the slightly faster growth of incurred losses and administration expenses relative to the growth of premium earned.

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 the insurance sector (insurance and reinsurance undertakings) stood at 145.2% in Q2 2017, almost unchanged from Q2 2016 when it equalled 145.6%.

The movements of this ratio suggest that liquid assets were sufficient to timely service short-term liabilities in the insurance sector.

[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.

3. Motor third party liability

At end-Q2 2017, 10 insurance undertakings engaged in compulsory MTPL insurance – unchanged from the same period last year.

The MTPL premium rose by 6.6% in Q2 2017 relative to the same period a year earlier.

Portfolio concentration in this segment was barely changed, as three insurance undertakings with the largest share in the MTPL premium accounted for 68.4% of the market in Q2 2017, as opposed to 68.2% in the same period last year.

4. Conclusion

The comparison of indicators between Q2 2017 and the same quarter in 2016 points to the following changes:

- a total of 23 insurance undertakings operate in Serbia, unchanged y-o-y, while employment in the sector dipped by 0.3% to 10,904 persons;
- the insurance sector balance sheet total rose by 10.3% to RSD 230.9 bn;
- capital increased by 7.7% to RSD 47.1 bn;
- technical provisions gained 10.1%, coming at RSD 160.2 bn, and are mostly invested in government securities, both in life and non-life insurance;
- total premium gained 8.1% and came at RSD 48.8 bn;
- the share of non-life insurance was dominant in total premium, equalling 77.5%. Non-life insurance premium rose by 7.4%, with MTPL insurance, property insurance and full coverage motor vehicle insurance going up 6.6%, 2.4% and 15.1% respectively;
- the share of life insurance in total premium increased from 22.0% to 22.5%;
- 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 convergence of the Serbian insurance sector to that of the EU, with a view to ensuring the level of protection of insured persons equivalent to that in the EU. At the time of drafting the regulations, the EU applied the Solvency I regime, hence the domestic framework was designed as Solvency I-compliant, while incorporating some requirements of Solvency II, in response to 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.).

With the completion of phase I of the strategically chosen activities to implement the new methodological framework – compliance analysis, and moving on to the implementation of the following two phases – compliance impact analysis[8] and harmonisation of the regulatory framework, we will ensure that by the time Serbia

[8] This phase began in Q2 2017 and, among other, it entails a quantitative study on the impact of new Solvency II requirements on capital adequacy and technical provisions of individual undertakings and the insurance sector as a whole. This phase will be completed by end-Q2 2018.

accesses the EU its insurance sector will have achieved full compliance with the EU rules, i.e. an even greater stability and beneficiary protection.