INSURANCE SECTOR IN SERBIA

Report for 2015
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List of abbreviations

mln  million
bln  billion
Q3  third quarter (1 January – 30 September)
1. Introduction

The National Bank of Serbia (NBS) is mandated by law to supervise the majority of the country’s financial sector. In 2015, it was in charge of the supervision of 30 banks, 24 insurance undertakings, 16 lessors and 7 voluntary pension funds.

2. NBS activities in 2015

In 2015, activities of the NBS were aimed at maintaining the stability of the insurance sector, ensuring conditions for sector development and improvement of the supervision function, thereby ensuring the protection of insured persons, beneficiaries and third damaged parties.

To help maintain the stability of the insurance sector, in 2015 the Insurance Department conducted on-site examination of 13 entities – eight insurance undertakings and five other entities subject to supervision.

In two insurance undertakings supervisors conducted a full-scope examination, in three undertakings they examined higher-risk activities identified through off-site supervision, while three undertakings were the subject of follow-up examinations focused on compliance with the imposed supervisory measures. Supervision of higher-risk activities was conducted in one insurance undertaking. On-site examination was also conducted in one bank licenced by the NBS to carry on insurance agency activities, as well as in three insurance agents and one insurance broker.

All the procedures were duly recorded in examination reports and an official note was made in five cases regarding objections to the examination report.

The on-site examinations identified: weaknesses in the governance system and/or in managing operational risks, accounting omissions i.e. non-compliance with international standards, omissions in internal acts, irregularities in informing policyholders and/or insured persons about the rights arising from the insurance contract, vague and inaccurate advertising of insurance products etc. Focus was also placed on market behaviour of insurance undertakings observed through supervision of: distribution channels, marketing and promotional activities, handling of damage claims in MTPL insurance, doing business with related persons and calculating insurance administration costs. Supervision of insurance undertakings engaged in MTPL insurance revealed irregularities in carrying insurance administration costs and settling damage claims within the mandated deadlines. An examination of operations of one systemically important insurance undertaking was also carried out in 2015.

Follow-up examinations in three insurance undertakings showed that measures imposed by the NBS were implemented or that their implementation was in progress, but supervisors also imposed additional measures in response to the newly detected irregularities.
In five entities supervisors conducted full-scope examinations, inspecting in particular whether insurance agency activities were carried out in accordance with the contracts concluded with insurance undertakings. In the examined bank, supervisors identified omissions in informing of clients on insurance products, disclosure of insurance cost as an integral part of the cost of the bank’s product, use of insurance products as a collateral contrary to the current credit risk management policies in retail lending etc.

Upon completion of examinations, supervisory measures were imposed on ten supervised entities – six entities examined in 2015 and four entities examined in 2014. Apart from the measures imposed, supervisors also adopted four conclusions to suspend on-site examination procedure, because identified irregularities were removed during on-site examination or within the deadline for objections, while in one case the examination was suspended because the entity ceased to operate.

Apart from conducting on-site examinations scheduled for 2015, insurance supervisors also examined reports on the implementation of supervisory measures imposed in 2014 and 2015 in 15 supervised entities, of which they prepared official notes.

In 2015, offence or commercial offence charges were filed against three supervised entities.

Supervisors also conducted four off-site examinations of supervised entities, specifically, one reinsurance undertaking, one insurance brokerage undertaking and two entrepreneurs – insurance agents.

The NBS’s activities aimed at establishing conditions for the development of the insurance sector included the preparation and adoption of 14 pieces of secondary legislation enabling full implementation of the new Insurance Law. The new law introduced a set of novel solutions with a view to improving insurance supervision, regulating the insurance market and protecting the rights and interests of policyholders and beneficiaries.

The Decision on Implementing Provisions of the Insurance Law relating to the Issuance of License to Carry on Insurance/Reinsurance Activities and Specific Approvals of the National Bank of Serbia regulates in detail the procedure of licensing of insurance/reinsurance undertakings, fit and proper requirements for members of managing and/or supervisory bodies of an undertaking, acquisition of a qualifying holding in an undertaking and approval to set up a branch abroad.

The Decision on Capital Adequacy of Insurance/Reinsurance Undertakings establishes a new system for solvency assessment of an undertaking in compliance with the Solvency I regime, while improving the procedure of asset valuation and liquidity assessment.

The Decision on the Conditions and Manner of Supervision of Operations of Insurance/Reinsurance Undertakings and Other Supervised Entities in the Insurance Business, which is harmonised with the European Insurance and Occupational
Pensions Authority’s (EIOPA) guidelines on supervision procedure, regulates risk-based insurance supervision in compliance with best international practice.

The Decision on the System of Governance in an Insurance/Reinsurance Undertaking transposes into the domestic legal system qualitative requirements under Pillar 2 of Solvency II Directive. It introduces and regulates in detail key functions of an undertaking – risk management, system of internal controls, internal audit and actuarial function. In accordance with the Decision, undertakings conducted for the first time their own risk and solvency assessment (ORSA), for the year 2015. Also, this Decision regulated the issue of outsourcing which was formerly unregulated.

The Decision on Reporting by Insurance/Reinsurance Undertakings has simplified reporting regulations by bringing all reporting requirements under a single umbrella: statistical data, annual, quarterly and regular reporting. At the same time, the decision ensures that data used for supervisory purposes are up-to-date and of high quality. Based on the decision, the NBS issued guidelines for electronic data submission by insurance/reinsurance undertakings.

The Decision on Technical Provisions compiles the rules for determining all types of technical provisions: unearned premium reserves, unexpired risk reserves, reserves for bonuses and rebates, outstanding claims reserves, mathematical reserves, reserve for insurance where the investment risk is borne by the insured, risk equalisation reserves and other technical provisions. The decision implements the requirements of Solvency II Directive which are applicable at the current level of development of the Serbian insurance market and relate to data quality, verification of the adequacy of individual technical provisions and comparing of the amount of technical provisions and assumptions used in their calculation against experience. The decision also introduces new types of technical provisions with a view to determining more precisely an undertaking’s liabilities toward the insured and explicitly stipulates the requirement to determine technical provisions in gross amount.

The Decision on Investment of Insurance Funds defines new investment rules which are expected to encourage active portfolio management and optimum diversification of investments.

The Decision on Actuary Certification and Further Professional Education improves the manner of actuary certification in the Republic of Serbia aligning it with best international practice and implements the requirements for actuarial certification envisaged by the programme of the International Actuarial Association.

The Decision on the Contents of the Opinion of a Certified Actuary prescribes that a certified actuary gives opinion on technical provisions, sufficiency of the premium and the reinsurance and coinsurance policies, taking into account the requirements of Solvency II Directive regarding actuarial opinion.

The Decision on the Content of Report on the Audit of Financial Statements of an Insurance/Reinsurance Undertaking enhances the requirements regarding the information contained in the audit report.
The Decision on Implementing Provisions of the Insurance Law Relating to Insurance Brokerage and Agency Activities regulates in more detail the issuance of a license to carry on insurance brokerage/agency activities and conditions for the pursuance of insurance agency activities as a supplementary activity.

The Decision on Insurance Broker and Agent Certification and Further Professional Education regulates professional requirements (professional qualifications and experience) for obtaining the title of certified broker and certified agent in insurance in the Republic of Serbia, including mandatory completion of the pre-certification training course and continuous professional development of insurance brokers and agents.

The Decision on the Content and Manner of Keeping Data Registers of Insurance/Reinsurance Undertakings and Other Subjects of Supervision in Insurance regulates in detail the contents and manner in which the NBS keeps data registers on supervised entities in insurance.

The Decision on the Manner of Protecting the Rights and Interests of Insurance Service Consumers brings the domestic legal framework into alignment with EIOPA guidelines on handling of complaints by insurance undertakings and insurance brokers/agents. It regulates in detail the manner of protecting the rights and interests of insurance beneficiaries by insurance service providers, insurance brokers/agents and the NBS.

In order to tailor the insurance regulations to practical aspects of insurers/reinsurers’ business, in December 2015 the NBS issued the Decision on the Chart of Accounts and Content of Accounts in the Chart of Accounts for Insurance Undertakings which, among other, prescribes the requirement of property valuation in every three years by an independent valuer, as well as the Decision Amending the Decision on the Content and Layout of Financial Statement Forms for Insurance Undertakings which, among other, specifies in more detail the content of notes to financial statements.

An important activity of the NBS aimed at setting up conditions for insurance sector development included the alignment of the Serbian legislation with the EU’s acquis communautaire in insurance field. Negotiations on Serbia’s accession to the EU include negotiations on conditions, dynamics and the manner of transposing and implementing the EU’s acquis communautaire divided in 35 chapters. The NBS is a leading institution in the Negotiating Group 9 on Financial Services. Insurance and occupational pension services represent a separate sub-area within this negotiating group. Within the Negotiating Group 9 the NBS representatives took part in analytical review and assessment of compliance of the Serbian legislation with the acquis communautaire in insurance field, at the explanatory screening in January 2015 and bilateral screening in March 2015.
As part of development of its supervisory function, in 2015 the NBS performed activities in relation to the improvement of early warning indicators, electronic reporting, education and professional development of NBS employees etc.

In 2015 the NBS held one broker/agent certification exam. A total of 109 persons qualified at the exam and obtained the title of certified broker and/or agent.
3. Insurance market

3.1. General indicators

The growth of the world economy was positive in 2015, but assessed as moderate. After growing by 2.8% in 2014, the growth in real GDP underperformed the forecasts and measured 2.5% in 2015.

The growth of the world economy was mainly influenced by persistently low interest rates, globally low inflation except in some developing countries, as well as subdued prices of goods and services.

In 2015, global insurance premium recorded a real 3.8% rise – 2.5% in advanced countries and 9.8% in developing countries, while Central and Eastern European countries recorded a real drop of 4.5%.

Global life insurance premium grew by 4.0% in real terms – 2.5% in advanced countries and 11.7% in developing countries, while dropping by 3.5% in Central and Eastern European countries.

The real growth in global non-life insurance premium in 2015 measured 3.6% – 2.6% in advanced countries and 7.8% in developing countries, while Central and Eastern European countries experienced a 4.9% fall.

Four countries with the largest share in global premium (the US, Japan, China and the UK) covered more than half of the global market (54.3%) in 2015. At the same time, Serbia ranked 86th by the size of its insurance premium.

The Serbian insurance sector remained underdeveloped and significantly below the average for EU member states. This is corroborated by the insurance market development indicators – the ratio of total premium to GDP and total premium per capita.

Judging by the 2015 premium to GDP ratio of 2.0%, Serbia ranks 61st in the world. The ratio for EU countries is as much as 7.6%. However, when compared with the 2.9% average for the developing countries group and 1.9% average for countries in Central and Eastern Europe, and given that countries such as Romania and Turkey are behind Serbia, it may be concluded that Serbia holds a satisfactory position.

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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 in its on-site examinations. When analysing the insurance market, it should be borne in mind that changes presented in the Report are calculated relative to data for insurance undertakings which operated in 2014.

2 Sources: World insurance in 2015, Swiss Re, Sigma No 3/2016 and the National Bank of Serbia.
Measured by the 2015 premium per capita of USD 102 or EUR 93, Serbia was 67th in the world, while the same indicator for EU member states equalled USD 2,412, for the Central and Eastern European region USD 166, and for the developing countries USD 135. Cayman Islands ranked top in the world with USD 12,619, followed by Switzerland and Honk Kong, while Slovenia and Croatia held 31st and 52nd place with USD 1,058 and USD 299, respectively.

The development of the Serbian insurance market measured in terms of real premium growth indicates that the positive trend was maintained.
In the financial sector as a whole (banks, insurance, leasing and voluntary pension funds) insurance ranked 2nd by its balance sheet amount, capital and employment levels. Of the total financial sector balance sheet of RSD 3,329 bln in 2015, banks accounted for 91.6%, and insurance undertakings for 5.8%.

Table 3.1.1 Share in total financial sector (in %)

<table>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance sheet total</td>
<td>92.4</td>
<td>92.0</td>
<td>91.6</td>
<td>2.2</td>
<td>2.8</td>
<td>1.8</td>
<td>4.8</td>
<td>5.2</td>
<td>5.8</td>
<td>0.6</td>
<td>0.7</td>
<td>0.9</td>
</tr>
<tr>
<td>Capital</td>
<td>93.5</td>
<td>93.6</td>
<td>92.2</td>
<td>0.9</td>
<td>1.1</td>
<td>1.2</td>
<td>5.5</td>
<td>5.4</td>
<td>6.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of employees</td>
<td>69.0</td>
<td>67.9</td>
<td>68.0</td>
<td>1.1</td>
<td>1.2</td>
<td>1.2</td>
<td>29.5</td>
<td>30.5</td>
<td>30.5</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
</tr>
</tbody>
</table>

Source: NBS.

3.2. Market participants

Insurance undertakings

Compared to a year earlier, the number of insurance undertakings in 2015 fell by one, down to twenty-four. The number of insurance undertakings was exclusive insurers and four exclusive reinsurers. Of the undertakings engaged in insurance activities, five engaged only in life insurance, nine only in non-life insurance and six undertakings in both life and non-life insurance.

The breakdown by ownership shows that 18 insurance undertakings were in majority foreign ownership.

As a result of successful privatisation in the past period and the entry of foreign companies in the market based on greenfield licences, in 2015 foreign-owned insurance undertakings accounted for a dominant share in life insurance premium (93.3%), non-life insurance premium (62.6%), total assets (76.4%) and total employment (68.9%).

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3 In April 2015, one life insurer obtained the NBS’s consent to initiate voluntary liquidation.
Other market participants

The insurance sales network also included 20 banks licensed to carry on insurance agency activities, 95 legal entities (insurance agency/brokerage undertakings), 113 insurance agents (natural persons – entrepreneurs), as well as 15,545 natural persons holding an authorisation to carry on insurance agency/brokerage activities.

3.3. Insurance portfolio structure

Total premium generated from insurance business in 2015 came at RSD 80.9 bln (EUR 665 mln or USD 727 mln)\(^4\), which is an increase of 16.6% in nominal or 14.9% in real terms.

The share of non-life insurance in total premium was 76.1%. Life insurance increased its share from 23.1% in 2014 to 23.9% in 2015, owing to a 21.0% rise in premium relative to a year before.

Five types of non-life insurance made up 67.1% of the total insurance portfolio: accident insurance, motor vehicle insurance, property insurance against fire and other hazards, other property insurance and MTPL insurance.

MTPL compulsory insurance increased its leading share in total premium to 35.8%, followed by life insurance with 23.9% and property insurance with 18.2%.

\(^4\) According to the middle exchange rate of the NBS as at 31 December 2015.
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 5.3% of the total premium in 2015.

The MTPL insurance premium rose by 27.8% and the premium for property insurance by 4.1% relative to the year before. Having discontinued the downward trend in Q3 2015, the full coverage motor vehicle insurance (“kasko”) recorded a 3.0% growth in 2015, though its share in total premium continued to decline, dropping to 7.7%.

The share of voluntary health insurance premium increased mildly from 1.9% in 2014 to 2.0% in 2015, and by 19.7% in nominal terms. Two insurance undertakings covered almost two thirds of the Serbian market.

In 2015, there was no change in the ranking of the five top insurance companies. They accounted for 76.1%, 79.7% and 86.6% of the total premium, non-life insurance premium and life insurance premium, respectively.
<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>Change in ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Share</td>
<td>Rank</td>
</tr>
<tr>
<td><strong>Total premiums</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dunav</td>
<td>17552</td>
<td>25.3</td>
<td>1</td>
</tr>
<tr>
<td>Generali</td>
<td>15026</td>
<td>21.7</td>
<td>2</td>
</tr>
<tr>
<td>DDOR</td>
<td>9507</td>
<td>13.7</td>
<td>3</td>
</tr>
<tr>
<td>Wiener</td>
<td>7037</td>
<td>10.1</td>
<td>4</td>
</tr>
<tr>
<td>Uniqa nl</td>
<td>3976</td>
<td>5.7</td>
<td>5</td>
</tr>
<tr>
<td><strong>Non-life premiums</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dunav</td>
<td>1757</td>
<td>30.3</td>
<td>1</td>
</tr>
<tr>
<td>Generali</td>
<td>10268</td>
<td>19.2</td>
<td>2</td>
</tr>
<tr>
<td>DDOR</td>
<td>8831</td>
<td>16.5</td>
<td>3</td>
</tr>
<tr>
<td>Uniqa nl</td>
<td>3976</td>
<td>7.4</td>
<td>4</td>
</tr>
<tr>
<td>Wiener</td>
<td>3737</td>
<td>7.0</td>
<td>5</td>
</tr>
<tr>
<td><strong>Life premiums</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generali</td>
<td>4758</td>
<td>29.7</td>
<td>1</td>
</tr>
<tr>
<td>Wiener</td>
<td>3301</td>
<td>20.6</td>
<td>2</td>
</tr>
<tr>
<td>Grawe</td>
<td>2862</td>
<td>17.9</td>
<td>3</td>
</tr>
<tr>
<td>Uniqa nl</td>
<td>1492</td>
<td>9.3</td>
<td>4</td>
</tr>
<tr>
<td>Dunav</td>
<td>1355</td>
<td>8.5</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: NBS.

In terms of distribution channels, the largest share of total premium in 2015 was generated by insurance undertakings (66%), vehicle inspections (12%), insurance brokers (7%), banks (5%) and agents (5%).

Non-life insurance premium shows a similar composition, with 67% of the total premium generated through insurance undertakings, 16% by vehicle inspections, 9% by brokers and 3% by agents. Banks underwrote as much as 71% of the total credit insurance premium, while 34% of the MTPL insurance premium was underwritten at vehicle inspections.

A bulk of life insurance premium is generated through the following distribution channels: insurance undertakings (63%), banks (14%), insurance agents (11%) and natural persons – entrepreneurs (9%).
3.4. Balance sheet total and balance sheet structure

**Balance sheet total**

The scale of insurance business, measured by the balance sheet total of insurance/reinsurance undertakings, increased by 14.2% relative to 2014, and reached RSD 191.8 bln.

![Chart 3.4.1 Balance sheet total of insurance undertakings](chart)

Source: NBS.

In terms of the industry’s balance sheet total, there was no change in the ranking of the top five insurance undertakings, which in 2015 accounted for 76.6% of the total.

**Table 3.5.1 Ranking of five largest insurance undertakings by balance sheet total**

<table>
<thead>
<tr>
<th></th>
<th>2014 Amount</th>
<th>2014 Share</th>
<th>2014 Rank</th>
<th>2015 Amount</th>
<th>2015 Share</th>
<th>2015 Rank</th>
<th>Change in ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generali</td>
<td>34384</td>
<td>22.5</td>
<td>1</td>
<td>43709</td>
<td>24.5</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Dunav</td>
<td>28778</td>
<td>18.8</td>
<td>2</td>
<td>31774</td>
<td>17.8</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Wiener</td>
<td>20717</td>
<td>13.5</td>
<td>3</td>
<td>24762</td>
<td>13.9</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Grawe</td>
<td>17749</td>
<td>11.2</td>
<td>4</td>
<td>20871</td>
<td>11.7</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>DDOR</td>
<td>14714</td>
<td>9.6</td>
<td>5</td>
<td>15332</td>
<td>8.6</td>
<td>5</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: NBS.
Structure of assets

As at 31 December 2015, assets of insurance undertakings comprised debt securities available for sale (38.6%), fixed income debt securities (10.3%), property plant and equipment (9.6%), debt securities recognised at fair value through income statement (7.3%) and receivables (6.2%).

Structure of liabilities

At 31 December 2015 technical provisions accounted for 68.3%, and capital and reserves for 23.4% of total liabilities.
In 2015, capital grew by 27.3% and amounted to RSD 44.8 bln, while technical provisions increased by 12.0%, reaching RSD 131.0 bln, the most significant portion relating to mathematical reserve which recorded growth of 20.0% in 2015.

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

4.1. Capital adequacy

The solvency of an insurance undertaking depends on the adequacy of its technical provisions for liabilities and adequacy of the available solvency margin as a form of protection of insured persons in case of unforeseen operational losses, and/or as safety buffer against losses not covered by the technical provisions.

In accordance with the new regulatory methods for determining capital adequacy in force as of 2015, the available solvency margin of Serbia’s insurance sector (insurance and reinsurance undertakings) as at 31 December 2015 measured RSD 31.8 bln, and the required solvency margin RSD 13.8 bln. Capital adequacy ratio (ratio of available to required solvency margin) was 213.4% for all non-life insurers and 239.7% for all life insurers.

![Chart 4.1 Capital adequacy ratio of insurance undertakings](source)

An undertaking’s ability to absorb the risk of inadequate premium pricing, unforeseen claims and inadequate transfer of risk to coinsurance and reinsurance etc. (insurance risk) is measured, among other, by the ratio of retained premium to total capital. For non-life insurers, retained premium is the approximation of undertaken risks and must be sufficient to cover the insurance claims and compensations. In case of inadequacy of the premium pricing or risk transfer to coinsurance and reinsurance,
as well as in case of other insurance risks, total capital or parts thereof are used to guarantee the coverage.

The ratio of retained premium to total capital for undertakings primarily engaged in non-life insurance was 189.2% in 2015, while in 2014 it stood at 208.7%. The ratio edged up as a result of the capital growing faster than retained premium.

The ratio of total capital to technical provisions for undertakings engaged primarily in life insurance increased to 28.1% in 2015, compared to 25.5% in 2014, reflecting the capital rising at a faster pace than mathematical reserve.

Such ratio meant that in 2015 there was a “reserve” of 28.1% to cover inadequate assumption of risk by these undertakings (in life insurance, technical provisions represent a good approximation of risks).

4.2. Quality of assets

The share of intangible investments, property, investment in non-tradable securities and receivables in total assets of undertakings engaged primarily in non-life insurance stood at 24.0% in 2014, but contracted to 19.9% in 2015.

The share of these types of assets for undertakings primarily engaged in life insurance declined from 3.1% in 2014 to 2.6% in 2015. The ratio was changed from the year before due to an increase in total assets.

Apart from an undertaking’s ability to ensure that calculated premiums provide sufficient coverage for claims, it is also necessary to ensure collection of the premium. Otherwise, the insurer may not be able to meet its obligations toward the insured persons.

The ratio of premium receivables to total premium for all undertakings engaged primarily in non-life insurance decreased from 9.4% in 2014 to 8.9% in 2015, as a result of a faster growth in total premium underwritten compared to premium receivables.

In undertakings that are predominantly life-insurers, the share of receivables in total premium underwritten dropped slightly, from 3.0% in 2014 to 2.9% in 2015.

4.3. 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. In order 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.

In 2015, both non-life and life insurers achieved full coverage of their technical
provisions by asset types mandated by investment rules.

In compliance with the new investment rules applied as of 2015, non-life insurance
technical provisions of all insurance undertakings in Serbia were mostly covered by
government securities (69.5%), bank deposits and cash (11.3%), investment property
(7.5%) and insurance premium receivables (4.6%).

Life-insurance technical provisions were in major part covered by government
securities (93.2%), followed by bank deposits and cash (4.5%).

Chart 4.3 Structure of investment of technical provisions

4.4. Reinsurance

Reinsurance and coinsurance provide for the so-called risk offsetting and
protection of insurers against major or massive losses that may jeopardise their
operations. In relation to the portion of the risk which is retained, the undertaking’s
capital is used as a buffer for unforeseen events and inadequate premium prices.

The share of earned net premium in total earned premium points to the extent
of risks transferred to reinsurance and coinsurance. Relative to the year before, this
indicator dropped slightly in undertakings engaged primarily in non-life insurance –
from 84.2% to 84.0%.
In terms of insurance types, the percentage of risk transfer to reinsurance was the largest in aircraft liability insurance and aircraft insurance, followed by general liability insurance, insurance of goods in transport, fire or other hazard insurance, marine liability insurance, rail vehicle insurance, other property insurance, financial loss insurance, warranty and credit insurance, which corresponds to the nature of those insurance types and the level of risks assumed.

As regards life insurance undertakings, this indicator moved around 98%. High indicator values resulted from the transfer of a portion of pure risk premium to reinsurance, while the investment portion (as a significantly larger portion of life insurance premium) remained in insurers’ portfolio holdings.

4.5. Profitability

In 2015, the insurance sector posted a positive net result, which after partial distribution of profits after tax came at RSD 2.8 bln.

A measure of profitability of an insurance undertaking is a 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, combined ratio dropped from 100.9% at end-2014 to 94.8% at end-2015. The ratio decline in 2015 resulted from faster growth of premium earned relative to incurred losses and administration expenses.

For undertakings mainly engaged in non-life insurance, a loss ratio (the ratio of total losses incurred in claims divided by the total premiums earned), as an indicator of price policy and adequacy, i.e. sufficiency of the premium to cover liabilities arising from insurance contracts and adequacy of the transfer of risk to reinsurance and coinsurance, decreased from 54.4% at end-2014 to 53.4% at end-2015.

ROA (net income to total assets) illustrates how well the undertaking is employing its total assets in insurance, investment and other activities. Having moved for two consecutive years in the negative territory, ROA of undertakings that are chiefly non-life insurers switched to positive in 2015 (1.4% in 2015 compared to -0.6% in 2014).

In undertakings engaged primarily in life insurance, the ratio of net income to total assets continued to record positive values, measuring 1.2% in 2015 (vs. 2.1% in 2014).
Overall, the Serbian insurance sector posted a positive ROA of 1.3%.

4.6. 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 first meet its liabilities under damage claims, and then all other liabilities.

Liquid assets to liquid liabilities ratio\(^5\) for the insurance sector (insurance and reinsurance undertakings) stood at 155.3% in 2015, compared to 144.2% in 2014.

Movement of this ratio suggests that liquid assets were sufficient for timely servicing of short-term liabilities in the insurance sector.

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\(^5\) 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.
5. Conclusion

The comparison of indicators for 2015 and 2014 points to the following changes in the year under review:

- The insurance sector balance sheet total rose by 14.2% to RSD 191.8 bln;
- Capital increased by 27.3% to RSD 44.8 bln;
- Technical provisions gained 12.0% and reached RSD 131.0 bln, being fully covered by the eligible types of assets in both life and non-life insurance;
- Investment into securities and money market instruments issued by the government increased;
- Total premium grew at a rate of 16.6% to RSD 80.9 bln;
- Non-life insurance continued to account for the largest share of total premium (76.1%), while at the same time recording an unbroken decline. Non-life insurance premium rose by 15.3%, with motor liability insurance, property insurance and full coverage motor vehicle insurance going up;
- The share of life insurance in total premium increased from 23.1% to 23.9%;
- The number of insurance undertakings fell from 25 to 24, while total insurance sector employment declined by 3.8% to 10,859.

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 enjoyed in the EU. At the time of drafting the regulations, the EU applied the Solvency I regime and 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.).

Solvency II will be implemented in stages, placing an emphasis on quantitative requirements under Pillar 2 and requirements under Pillar 3 pertaining to the transparency of operation of market participants, which will include a detailed compliance analysis, compliance impact analysis and harmonisation of the regulatory framework. This process will ensure that by the time Serbia accesses the EU, its insurance sector will have achieved full compliance with the EU rules, i.e. an even greater stability and beneficiary protection.