

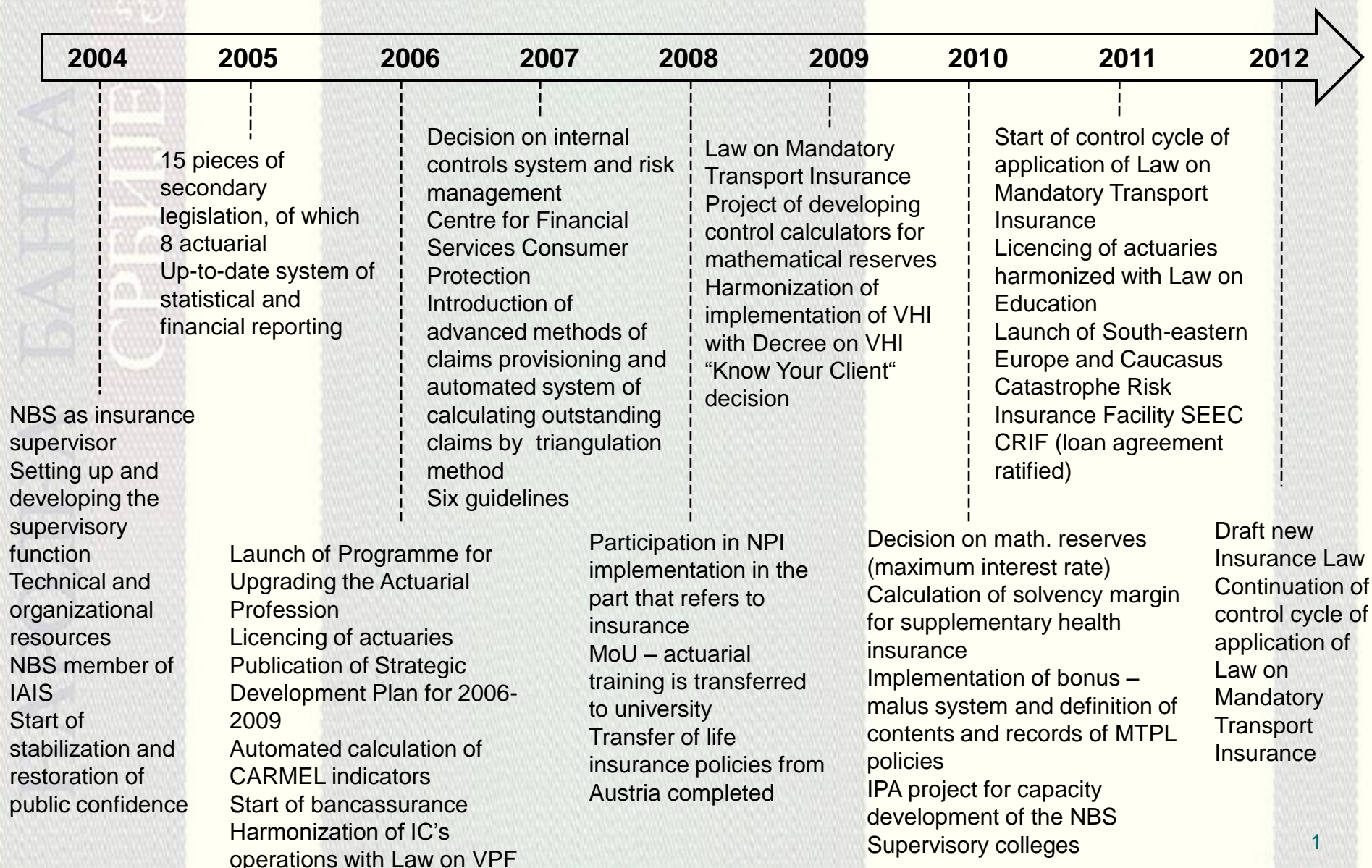


RESULTS OF INSURANCE MARKET SUPERVISION IN SERBIA 2004 – 2012

**Mira Erić Jović, Vice Governor of the National Bank of
Serbia**

Belgrade, 12 June 2012

Activities of the NBS in the insurance sector 2004 – 2012



Insurance market stabilized and, despite the impact of real sector developments, continues to record positive trends

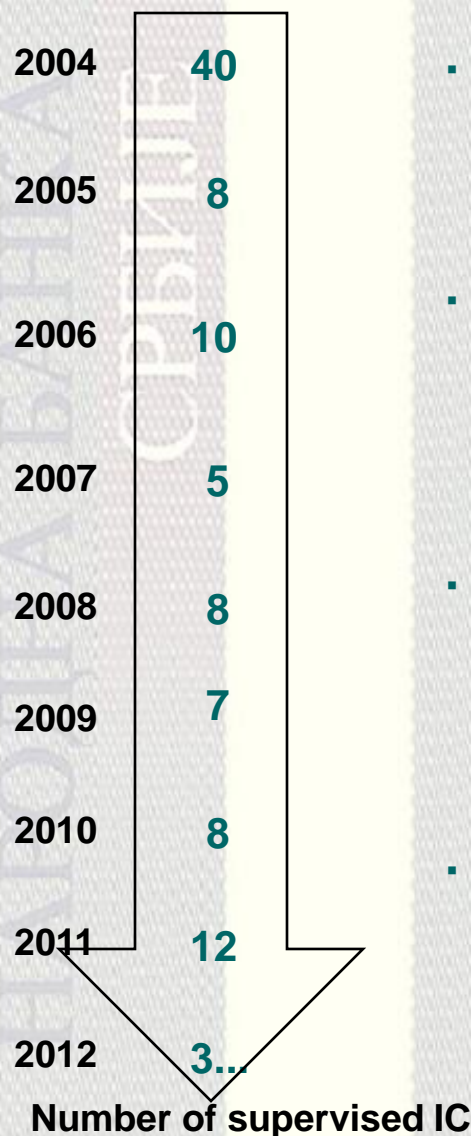
in RSD bln

	2004	2008	2009	2010	2011	1Q 2011	1Q 2012	trend
Total premium	22.6	52.2	53.5	56.5	57.3	14.3	14.9	
Life insurance premium	1.7	6.3	7.9	9.3	10	2.3	2.6	
share of total premium	7.4%	12.2%	14.7%	16.5%	17.4%	16%	17.2%	
Non-life insurance premium	20.9	45.8	45.7	47.2	47.3	12	12.3	
Premium per capita	€38	€80	€ 76	€73	€75			
Life insurance premium per capita	€3	€10	€ 11	€12	€13			
Share of premium in GDP	1.6%	2%	2%*	2%*	1.8%**			
Balance sheet total	30.8	84.8	99.2	117.1	125.7	121.2	133.4	
Capital	15.6	25.3	29.2	32.2	33.3	32.4	33.9	
Technical reserves	11.5	51.5	60.5	71.1	76.8	73.6	81.9	
Number of IC	40	24	26	26	28	26	28	
Number of employees	5407	11713	11142	11142	11289	11154	11437	

*GDP figure was revised by RSO in April 2012.

**GDP estimate.

On-site supervision of IC operations – lowering system risk



- In the period of sector stabilization **2004 – 2005**, substantial irregularities were identified: overestimated assets and underestimated liabilities (unrealistically disclosed technical reserves), disorderly bookkeeping, untimely claims settlement, unreliable data on sold policies, etc.
- In the **second half of 2005 – early 2007**, the following irregularities were identified: application of IAS and valuation of balance sheet and off-balance sheet items, calculation of technical reserves, limitations on investment of technical reserves and available surplus capital, weaknesses in management, internal controls system, internal audit, etc.
- In the **second half of 2007 – 2010**, the following irregularities were identified: calculation of outstanding claims, structure of investment of technical reserves, matching of claims and liabilities, programme solutions in the financial-accounting system, internal controls system, bookkeeping, application of regulations, etc.
- In **2011 and 2012**, focus was placed on supervising mandatory motor third party liability insurance; the following irregularities were identified: deadlines for processing and settling damage claims, costs not covered by expense loading, costs of advertising, marketing and office rentals, etc.

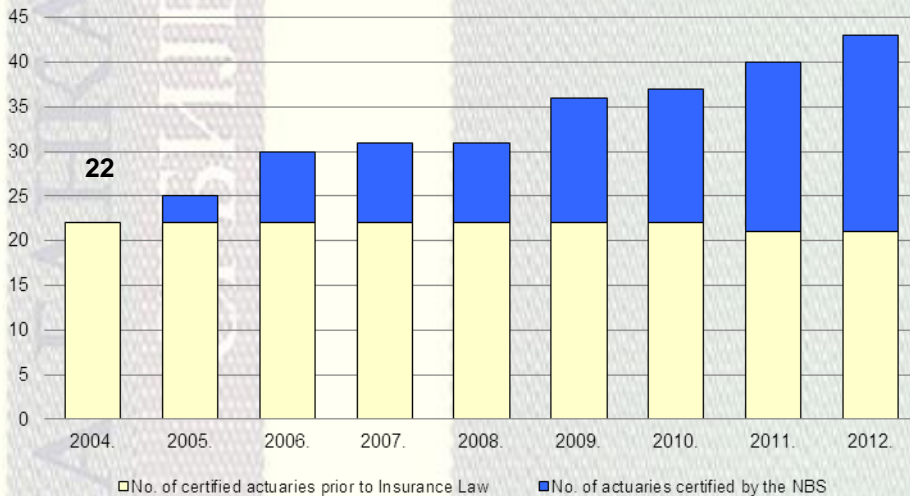
Off-site supervision focused on risk exposure

- ICs report regularly to the NBS (annually, quarterly, monthly)
- Quantitative monitoring and analysis of financial stability of ICs – CARMEL indicators
- Identification and monitoring of significant activities of ICs
- Identification and monitoring of risks inherent to significant activities
- Analysis of quality of risk management and the internal controls system (in on-site supervision)
- Determining net risk and direction of risk
- Determining composite risk and intervention rating of the IC – planning of on-site supervision

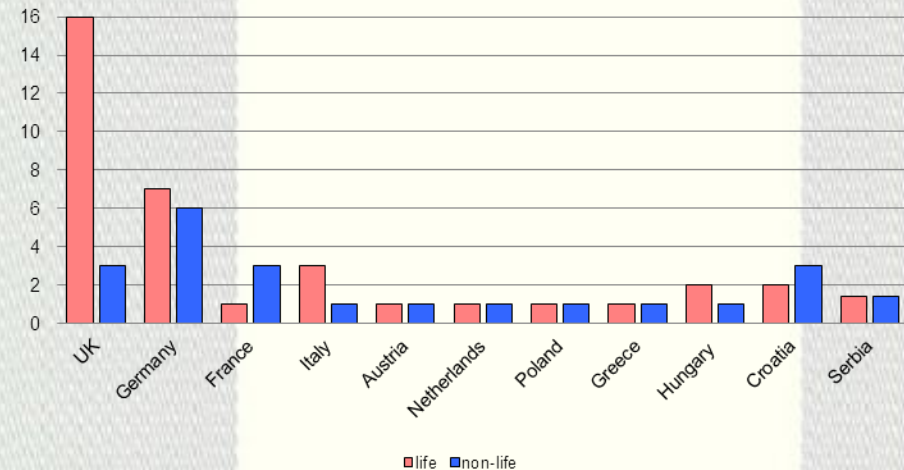
Risk matrix as at...					
Significant activities	Significance	Inherent risks	Quality of risk. management	Net risk	Direction of risk
			Operational management		
Overall rating					
Capital		Earnings			
Composite risk		Direction of risk		Time frame	
Intervention rating					

Upgrade of the actuarial profession as a significant factor in risk management

A new generation of actuaries



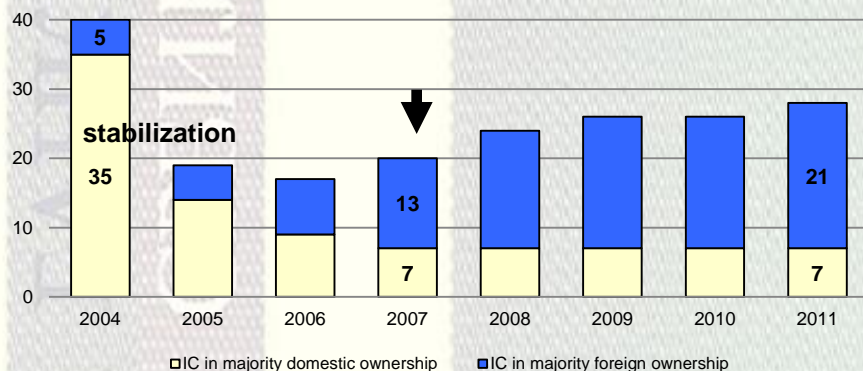
Number of actuaries per company in European countries and Serbia



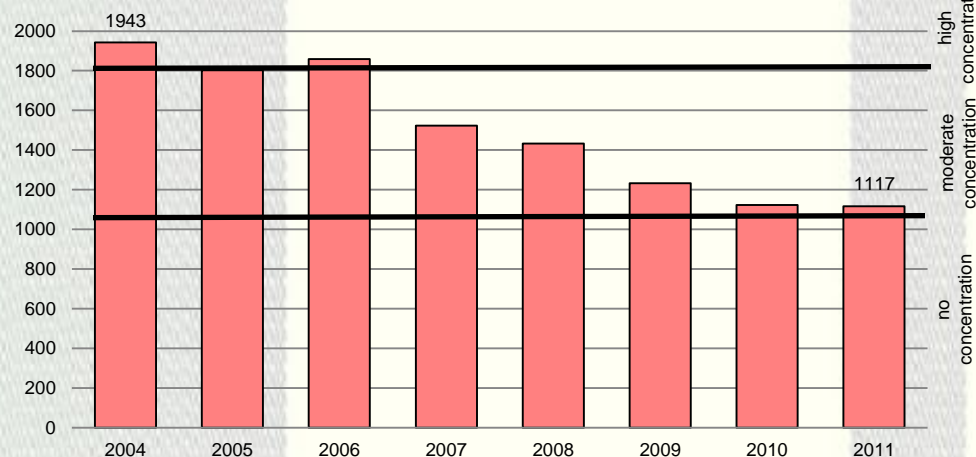
- Launch of Programme for Upgrading the Actuarial Profession harmonized with IAA programme in 2006 (NBS held 54 examinations and licenced 22 certified actuaries)
- Ongoing supervision and inspection of work of certified actuaries
- Ongoing improvement of professional knowledge and application of ethical work standards – strengthening professional capacities of actuaries to meet the requirements of the actuarial function

Entry of foreign investors and development of distribution channels

Mostly foreign owned insurance companies take over a dominant share



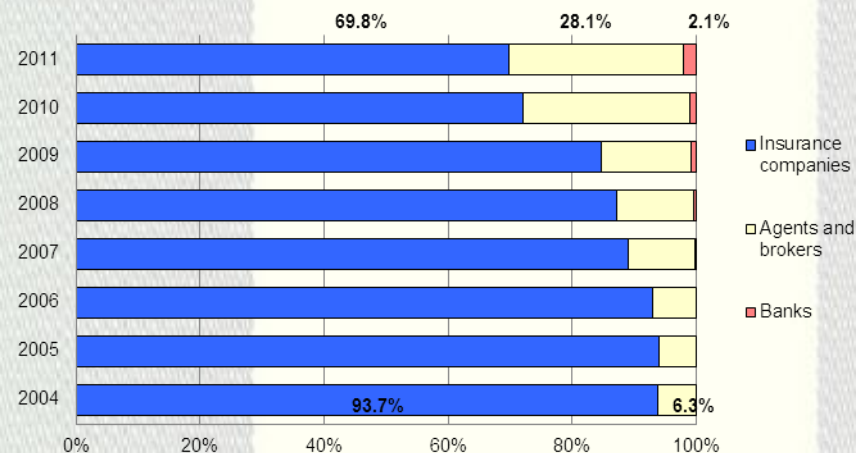
Decline in market concentration as measured by HHI



Development of distribution channels

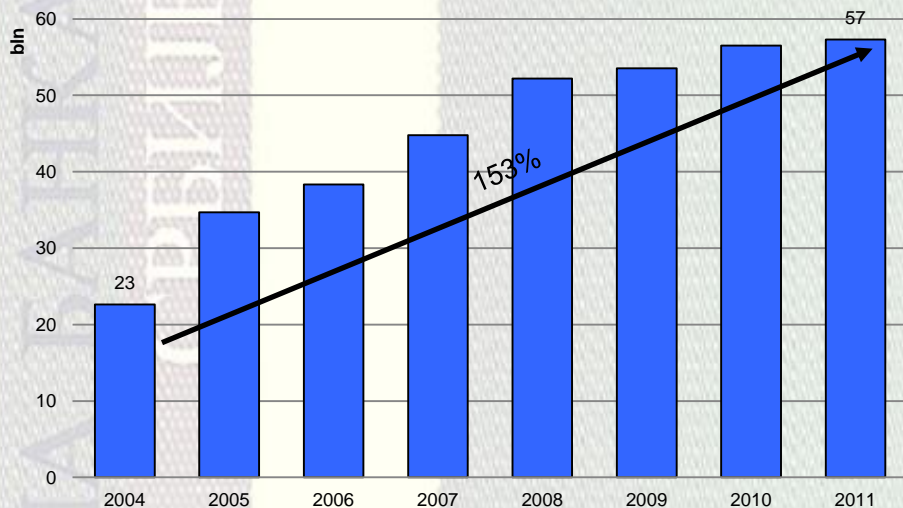
	2004	2005	2006	2007	2008	2009	2010	2011
Legal entities	149	40	44	59	65	69	77	79
Natural persons - entrepreneurs	-	35	87	123	123	123	117	109
Natural persons holding insurance agency/brokerage licence	-	2578	3983	5002	8190	10124	11418	13363
Banks	-	-	-	4	11	15	16	19

Premium by channel of distribution (in %)

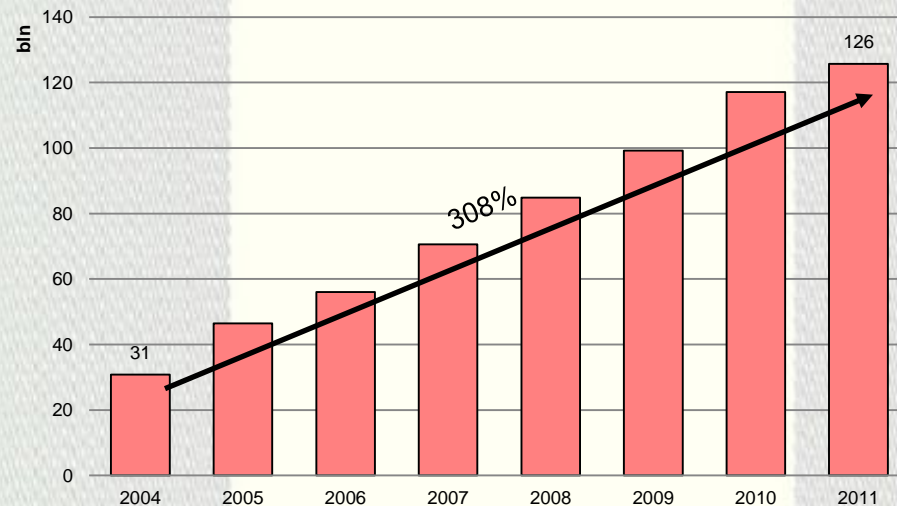


Market regulation laid the groundwork for the development of the Serbian insurance market ...

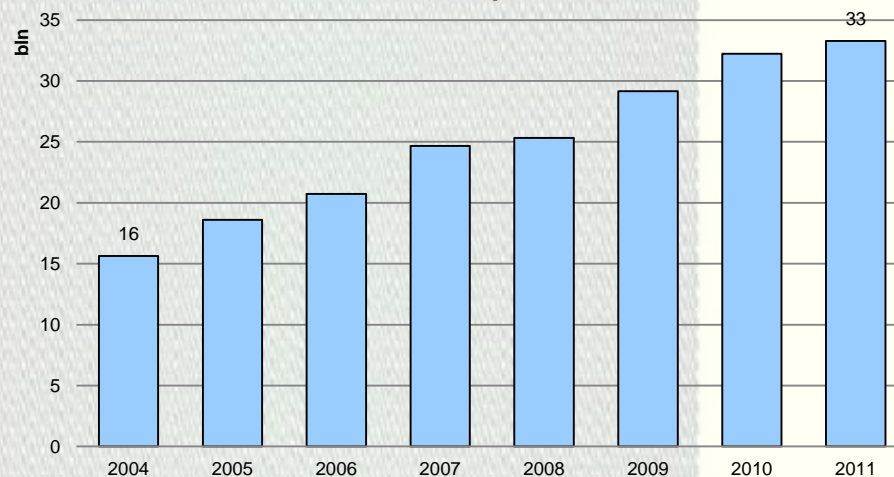
Rise in premium



Rise in balance sheet assets

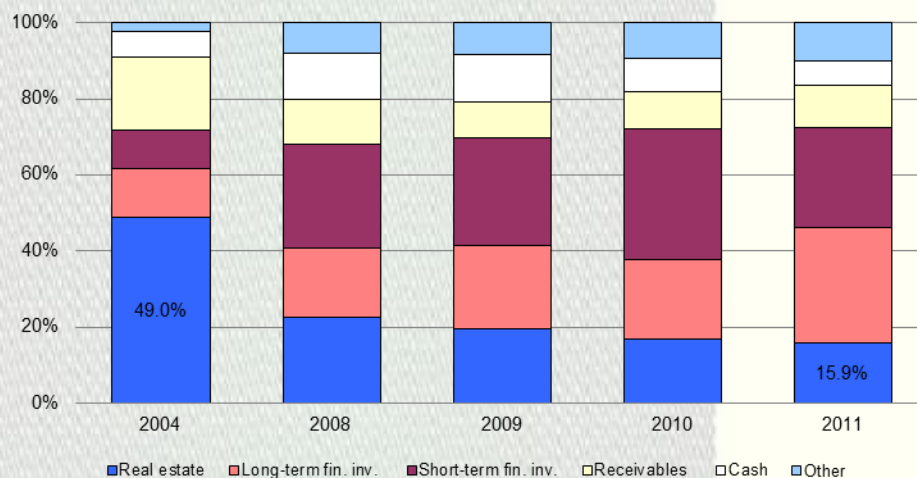


Rise in capital

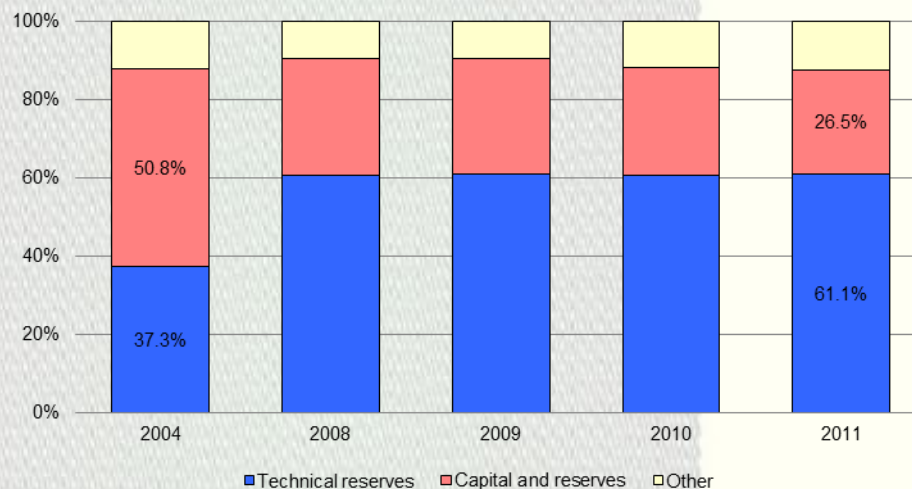


...balance sheet structure significantly improved

Change in the structure of assets

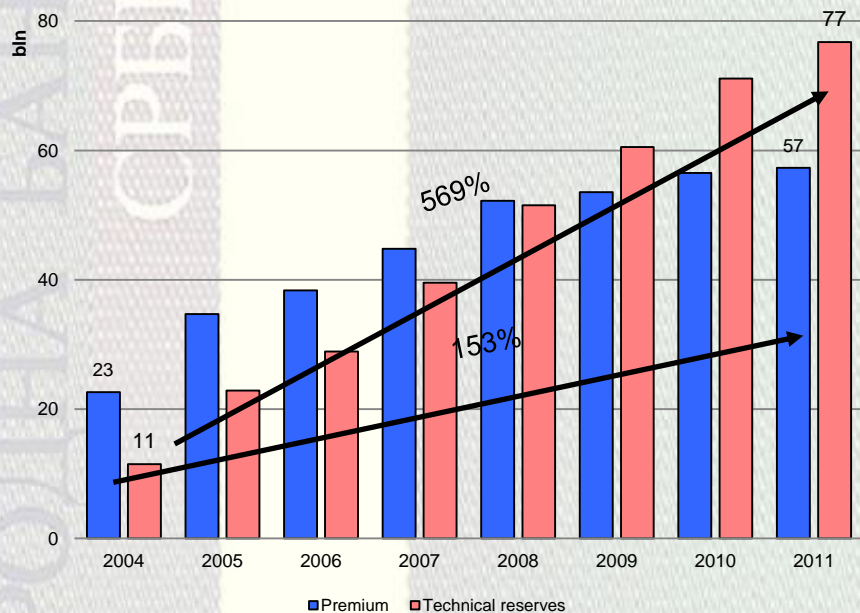


Change in the structure of liabilities

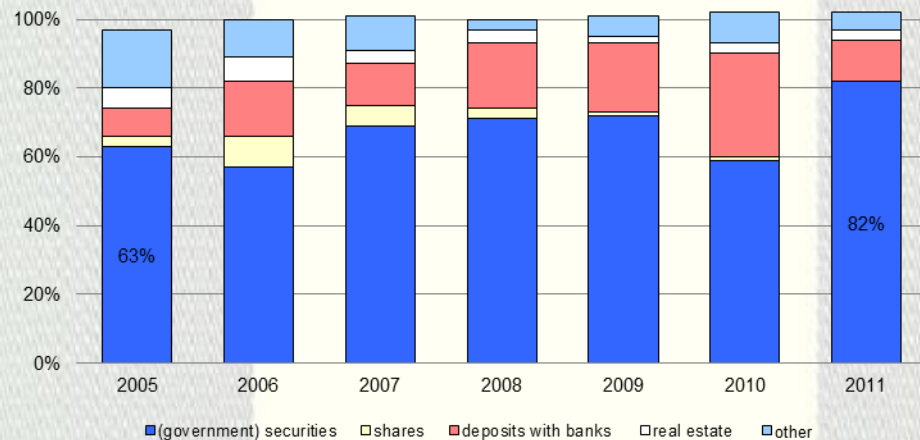


...technical reserves increased and investment structure improved

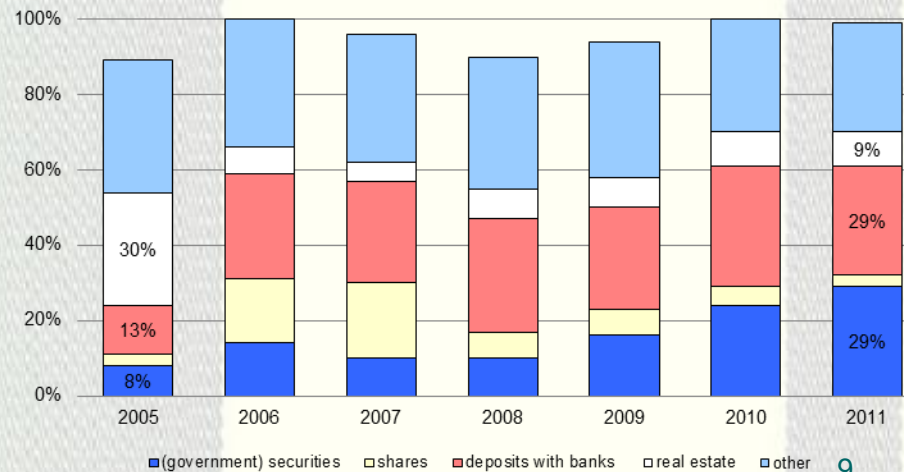
Rise in technical reserves more pronounced than rise in total premium



Structure of investment of technical reserves in life insurance (%)

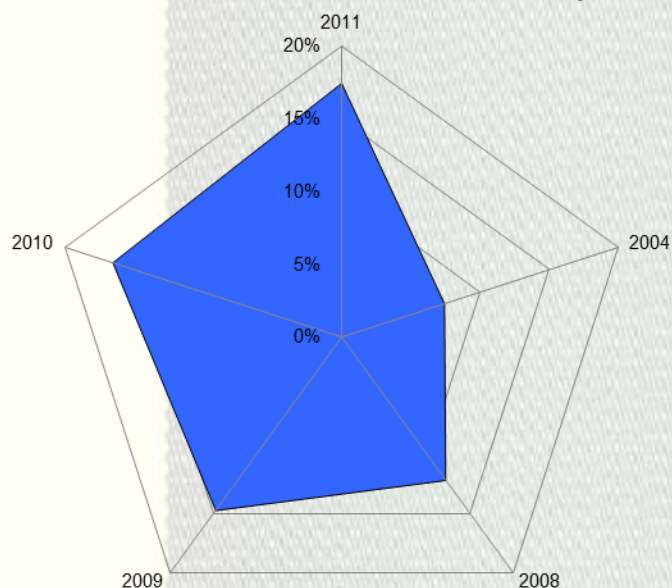


Structure of investment of technical reserves in non-life insurance (%)

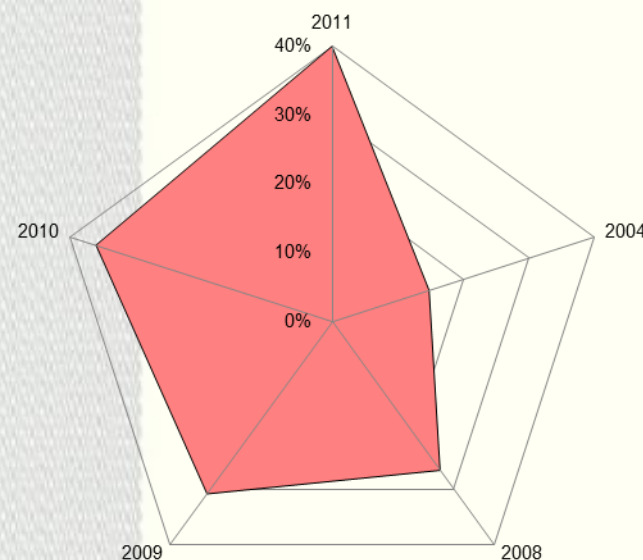


...development of life insurance

Life insurance increased its share in the total portfolio

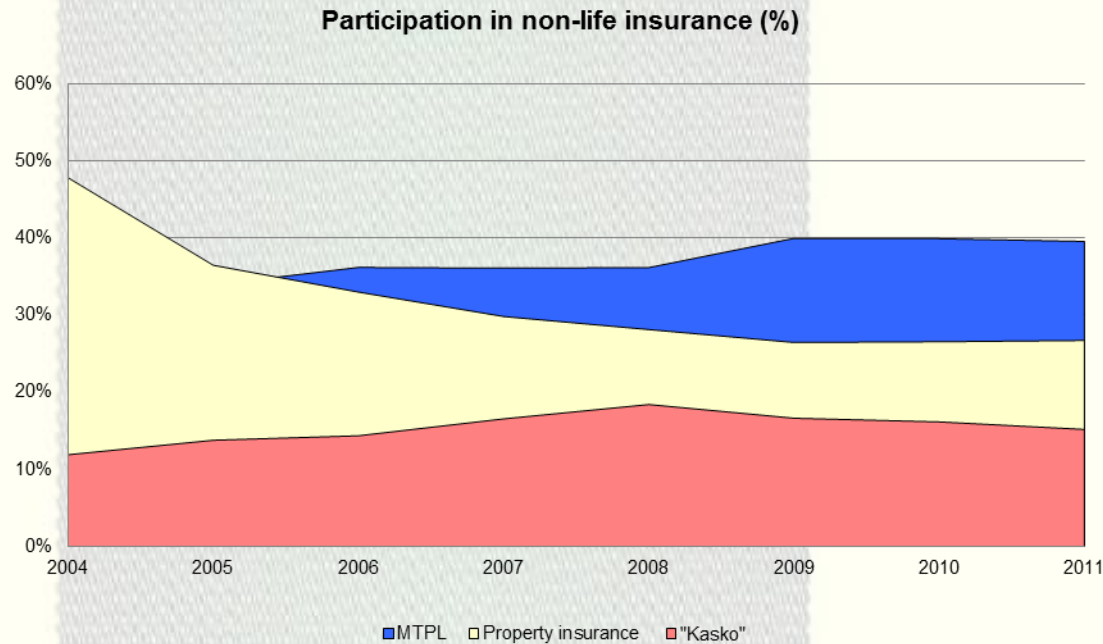


Mathematical reserves increased their share in total technical reserves



- Life insurance premium rose almost 6 times, from 1.7 bln in 2004 when it made up 7.4% of the total premium to almost 10 bln in 2011, i.e. 17.4%
- Mathematical reserves grew 18 times stronger, from 1.7 bln in 2004 i.e. 14.8% of total technical reserves to 30.6 bln in 2011 which constituted 40%

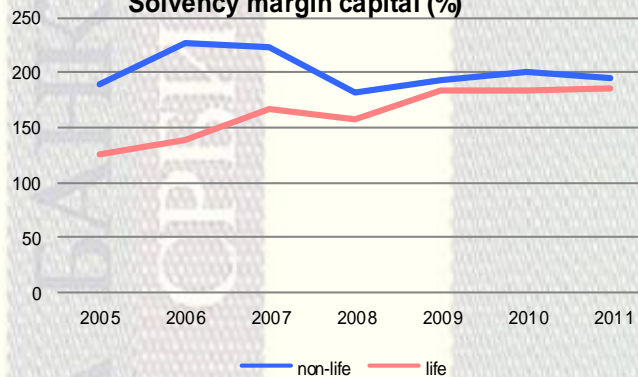
...however, the share of voluntary insurance in non-life insurance premium shrunk as a result of the crisis



- The share of voluntary insurance in non-life insurance premium has decreased in recent years
 - Property insurance plunged from almost 50% in 2004 to 27% in 2011.
 - Full coverage motor vehicle insurance (kasko), which recorded the highest growth before the crisis, from 12% in 2004 to 18% in 2008, came at 15% in 2011.
- MTPL insurance, being mandatory, strengthened its share from 1/4 in 2004 to 40% in 2011.

Analysis of the insurance sector – adjusted to the effects of the crisis and maintained stability

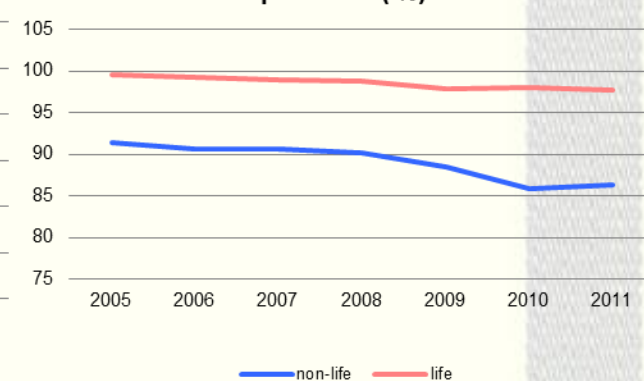
C4 = Total available surplus capital / Solvency margin capital (%)



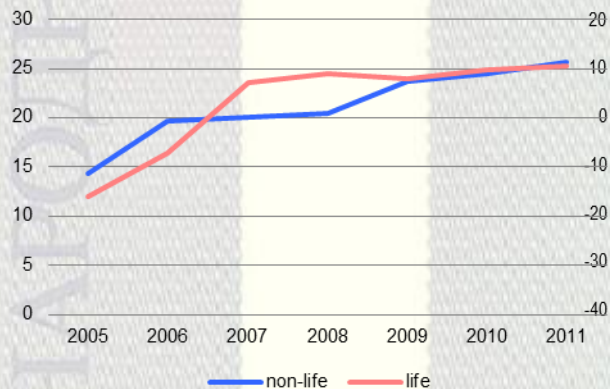
A5 = Coverage of technical reserves by the prescribed types of assets (%)



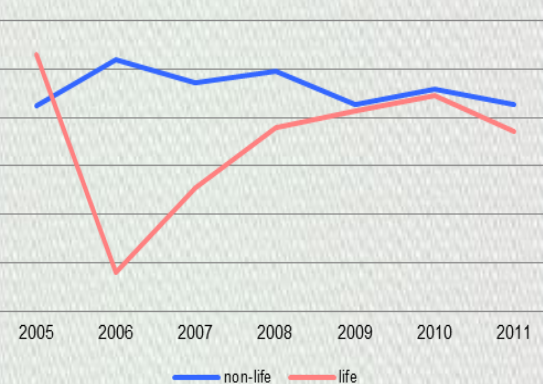
R1 = Earned net premium / Earned gross premium (%)



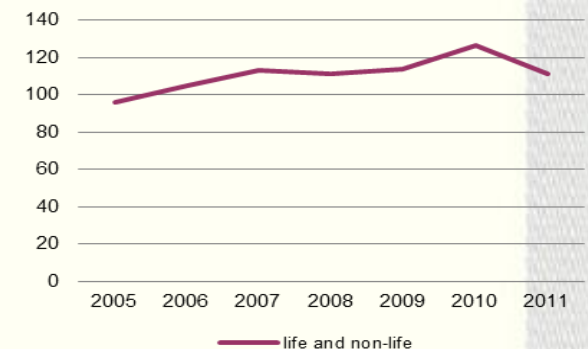
M3 = Salary expenses / Net premium (%)



E8 = Net result / Average total capital (%)



L2 = Current assets less inventories / Short-term liabilities (%)



Challenges ahead

New directive – EU Solvency II

- Aims to establish financial condition of insurance companies by taking into account all real risks and raise transparency and confidence in the overall insurance sector
- The directive sets general rules on the taking up and pursuit of the business of life and non-life insurance and reinsurance, supervision of insurance company and insurance group, reorganisation and liquidation of insurance companies
- Three pillars:
 - quantitative requirements
 - qualitative requirements and supervision
 - market discipline
- The results of the NBS questionnaire stress the importance of continuous education



Draft new Insurance Law

Regulates, among other:

- Capital adequacy framework
- System of governance including the following functions
 - risk management
 - compliance
 - internal audit
 - actuarial function
- Participation in insurance companies and related persons
- Insurance group supervision
- Informing policyholders and safekeeping confidential data
- Branches and cross-border insurance provision

НАРОДНА БАНКА

СРБИЈЕ



THANK YOU FOR YOUR ATTENTION
