NATIONAL BANK OF SERBIA

INSURANCE SUPERVISION
DEPARTMENT

INSURANCE SECTOR IN SERBIA

Third Quarter Report 2021

Contents:

List of abbreviations

mn	million
bn	billion
Q1	first quarter (1 January – 31 March)
Q2	second quarter (1 January – 30 June)
Q3	third quarter (1 January – 30 September)

1 Insurance market[1]

1.1 Market participants

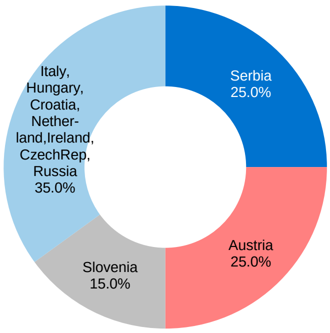
Insurance and reinsurance undertakings

At end-Q3 2021, the insurance market in Serbia comprised 20 insurance and reinsurance 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-Q3 2021 shows that of the 20 undertakings, 15 were in majority foreign ownership.

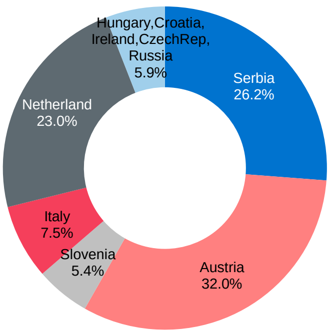
At end-Q3 2021, foreign-owned undertakings held majority shares of life insurance premium (86.9%), non-life insurance premium (60.5%), total assets (73.8%) and employment (65.7%).

Chart 1.1.1. **Structure of (re)insurance undertakings in Serbia by ownership**
(in Q3 2021)



Source: National Bank of Serbia.

Chart 1.1.2. **Balance sheet total of (re)insurance undertakings in Serbia by ownership**
(in Q3 2021)



Source: National Bank of Serbia.

Other market participants

In addition to (re)insurance undertakings, the market consisted of: 16 banks, six financial lessors and the public postal operator which are licensed for insurance agency operations, 104 legal entities (insurance brokerage and agency services), 78 insurance agents (natural persons – entrepreneurs) and 4,241 active certified agents/brokers in insurance.

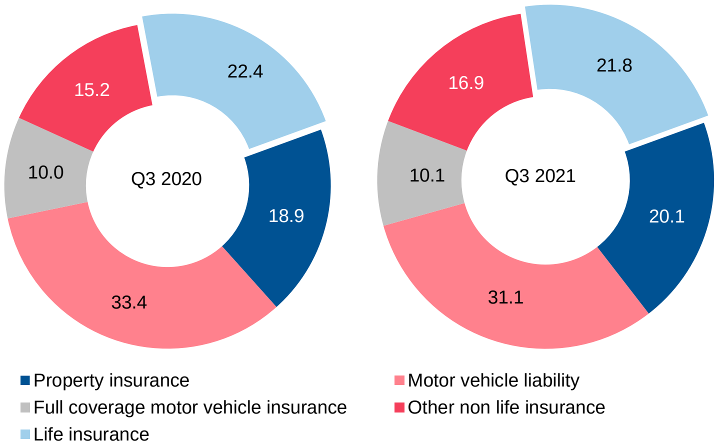
[1] The report is based on data that (re)insurance undertakings are obliged to submit to the NBS.

1.2 Insurance portfolio structure

In Q3 2021 total premium stood at RSD 88.6 bn (EUR 753 mn or USD 901 mn)[2], which is a rise of 9.7% relative to the same period last year.

In the premium composition, the share of life insurance premium dropped from 22.4% in Q3 2020 to 21.8% in Q3 2021, 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 Q3 2020 and Q3 2021, in %)



Source: National Bank of Serbia.

In terms of type of insurance, premium composition in Q3 2021 was similar to the composition in the same period of 2020, with the MTPL insurance holding the largest share (31.1%). Next came life insurance (21.8%), property insurance (20.1%) and motor vehicle insurance – "kasko" (10.1%).

In Q3 2021, non-life insurance premium increased by 10.6% y-o-y. Property insurance premium went up by 16.4%, premium of motor vehicle insurance "kasko" by 10.3%, and of voluntary health insurance by 21.8%. After a temporary decline in Q1 2020 induced by the coronavirus pandemic, and the recovery in Q2 2020, MTPL insurance premium continued its nominal growth, which in Q3 2021 amounted to 2.3%.

The above growth in voluntary health insurance premium was followed also by the rise in its share from 5.4% in Q3 2020 to 6.0% in Q3 2021, with three insurance undertakings accounting for two thirds of the market.

Accident insurance, which among other includes compulsory insurance such as passenger insurance in public transportation and insurance of employees against occupational injuries and illnesses, recorded an increase of 8.3% and an unchanged share of 2.6% in Q3 2021.

[2] At the average middle exchange rate of the National Bank of Serbia for the period observed.

In terms of the total and life insurance premiums in Q3 2021, there was no change in the ranking of the top five insurance undertakings, accounting for 76.2% and 83.2% respectively of those categories of premiums. However, looking at non-life insurance premiums, there was a change in the ranking of the top five insurance undertakings, which accounted for 77.3% of this market segment.

The Herfindahl Hirschman index, 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-Q3 2021 the HHI was 1,284[3].

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

	30/9/2020			30/9/2021			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
by total premiums							
Dunav	21857	27.1	1	23383	26.4	1	-
Generali	16178	20.0	2	17630	19.9	2	-
DDOR	9848	12.2	3	10475	11.8	3	-
Wiener	9543	11.8	4	9595	10.8	4	-
Triglav	5533	6.9	5	6462	7.3	5	-
by non-life premiums							
Dunav	19746	31.5	1	20849	30.1	1	-
Generali	11130	17.8	2	12207	17.6	2	-
DDOR	8351	13.3	3	8920	12.9	3	-
Triglav	4987	8.0	5	5874	8.5	4	**increase**
Wiener	5715	9.1	4	5711	8.2	5	**decrease**
by life premiums							
Generali	5048	27.9	1	5423	28.1	1	-
Wiener	3828	21.2	2	3884	20.1	2	-
Grawe	2504	13.8	3	2690	13.9	3	-
Dunav	2112	11.7	4	2535	13.1	4	-
DDOR	1497	8.3	5	1555	8.0	5	-

Source: NBS.

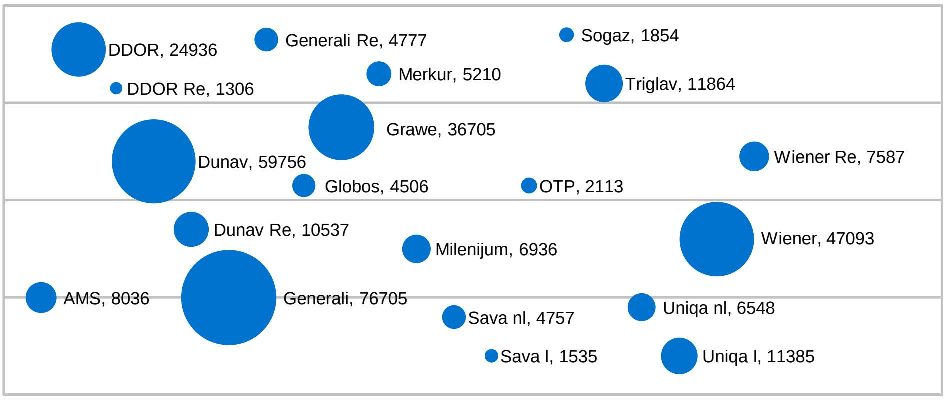
[3] HHI up to 1,000 indicates that there is no market concentration; 1,000–1800 indicates moderate concentration; above 1,800 indicates high concentration.

1.3 Balance sheet total and balance sheet structure

Balance sheet total

Balance sheet total of (re)insurance undertakings increased at end-Q3 2021 to RSD 334.1 bn (EUR 2,842 mn or USD 3,299 mn)[4], up by 6.7% y-o-y.

Chart 1.3.1. **Balance sheet total of insurance undertakings**
(as at 30/09/2021, 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 2021 accounted for 79.1% of the total.

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

	30/9/2020			30/9/2021			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
Generali	74561	25.7	1	76705	24.7	1	-
Dunav	55135	19.0	2	59756	19.3	2	-
Wiener	44088	15.2	3	47093	15.2	3	-
Grawe	34697	11.9	4	36705	11.8	4	-
DDOR	23103	7.9	5	24936	8.1	5	-

Source: NBS.

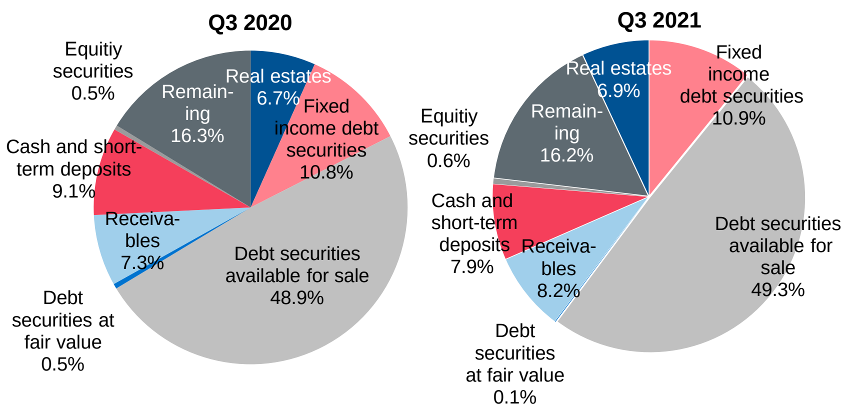
[4] At the NBS middle exchange rate as at 30 September 2021.

Structure of assets

As at 30 September 2021, assets of (re)insurance undertakings comprised mostly debt securities available for sale (49.3%), fixed income debt securities (10.9%) and debt securities recognised at fair value through income statement (0.1%), followed by: receivables (8.2%), cash and short-term deposits (7.9%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (7.1%), property, plant and equipment (6.9%), and other[5].

Compared to the same day of the previous year, it can be concluded that, on the one hand, the share of debt securities available for sale and receivables increased in Q3 2021, while on the other hand, that of cash and short-term deposits declined.

Chart 1.3.2.**Structure of assets**
(as at 30/09/2020 and 30/09/2021)



Source: National Bank of Serbia.

Structure of liabilities

In the structure of liabilities of insurance and reinsurance undertakings at end-Q3 2021, technical provisions accounted for 67.7% and capital for 20.9% of total liabilities.

Capital amounted to RSD 68.4 bn, having risen by 4.9% y-o-y. Amounting to RSD 221.6 bn at end-Q3 2021, technical provisions, which posted years-long continous growth – interrupted at end-Q1 2020 and in Q2 2020 as a result of resolving a large property damage caused in September 2018, recorded growth again, which at end-Q3 2021 equalled 6.3%. Mathematical reserve kept the dominant share in technical provisions, with the y-o-y growth rate of 5.8% in Q3 2021.

[5] Other in Chart 1.3.2. 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.

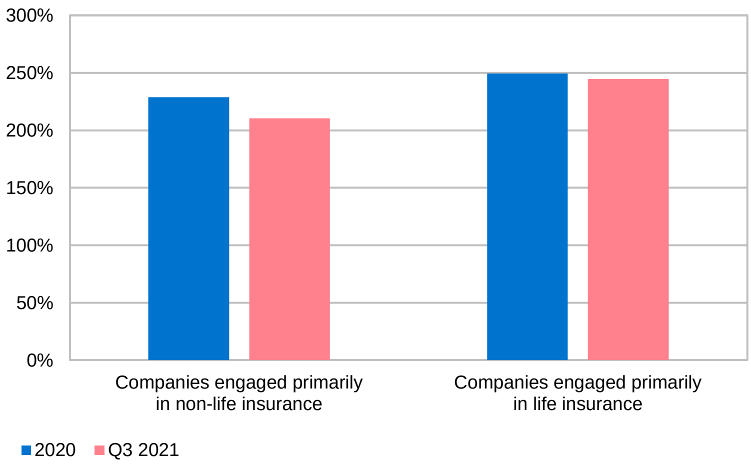
2 Performance indicators

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 30 September 2021 amounted to RSD 46.7 bn, and the required solvency margin to RSD 20.8 bn. In undertakings engaged mainly in *non-life insurance*, **the main capital adequacy ratio** (the ratio of the available to required solvency margin) was 210.4%, and for all predominantly *life insurers* in Serbia it equalled 244.6%.

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 total assets of undertakings engaged primarily in non-life insurance, i.e. the **ratio of less marketable assets**, came at the satisfactory 17.5% at end-Q3 2021, compared to 16.3% at end-2020. The ratio changed due to the higher growth of the stated types of assets relative to the growth of the total assets.

For undertakings engaged primarily in *life insurance* this ratio edged down from 5.6% at end-2020 to 5.3% at end-Q3 2021.

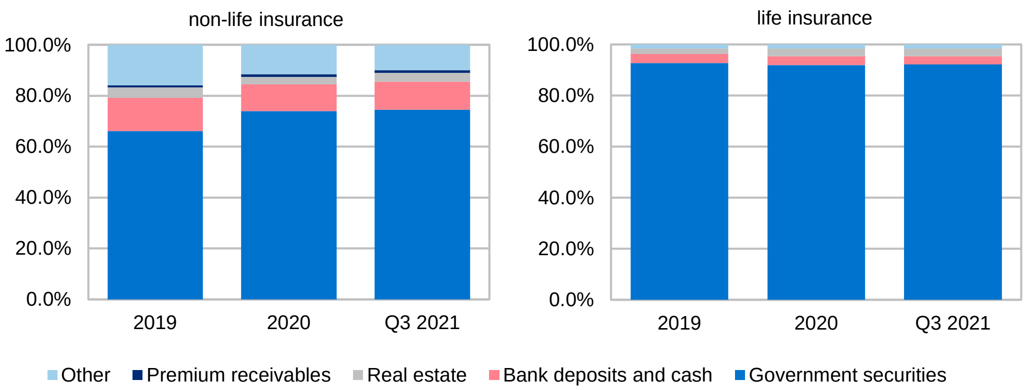
2.3 Investment of technical provisions

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), by pursuing its investment policy.

Technical provisions were fully invested in the prescribed types of assets, in both non-life and life insurance, as well as in reinsurance undertakings, in Q3 2021.

In Q3 2021, non-life insurance technical provisions of all Serbian insurance undertakings were mostly invested in government securities (74.5%), bank deposits and cash (11.0%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (8.3%), and real estate (3.5%), while the share of insurance premium receivables amounted to 1.1%. Compared to last year's end, on the one hand, the share of government securities, deposits and cash, as well real estate increased, while on the other hand, the share of technical provisions charged to coinsurer, reinsurer and retrocessionaire (part of the category "Other" in Chart 2.3) dropped.

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



Life insurance technical provisions were for their major part invested in government securities – 92.2%, while investments in bank deposits and cash, as well as real estate accounted for only 3.2% and 3.0%, respectively.

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 risk of the other contractual party failing to meet its obligations. In undertakings primarily engaged in non-life insurance, the combined ratio increased from 79.4% in Q3 2020 to 86.6% in Q3 2021, as a result of the weaker growth of the earned net premium relative to the rise in net claims and underwriting 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 all (re)insurance undertakings stood at 149.3% in Q3 2021, suggesting that liquid assets were sufficient for servicing short-term liabilities in the insurance sector.

3 Motor third party liability

At end-Q3 2021, 11 insurance undertakings engaged in compulsory MTPL insurance – unchanged from the same period last year.

The MTPL premium rose by 2.3% in nominal terms in Q3 2021 relative to the same period in 2020.

Portfolio concentration in this segment decreased, bearing in mind that three undertakings with the largest share in the MTPL premium accounted for 61.5% of the market in Q3 2021, compared to 63.0% in the same period last year.

[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.

4 Conclusion

The comparison of indicators from Q3 2021 and the same quarter in 2020 points to the following changes:

- a total of 20 (re)insurance undertakings operate in Serbia, unchanged from the same period of the previous year, with increased employment in the sector by 1.1% to 11,316 persons
- the insurance sector balance sheet total rose by 6.7% to RSD 334.1 bn;
- capital increased by 4.9% to RSD 68.4 bn;
- technical provisions gained 6.3%, coming at RSD 221.6 bn, and were fully invested in the prescribed types of assets;
- total premium gained 9.7% and came at RSD 88.6 bn;
- non-life insurance continued to account for the dominant share of total premium (78.2%). Non-life insurance premium rose by 10.6%, with property insurance, full coverage motor vehicle insurance ("kasko") and volunatry health insurance increasing. MTPL insurance also continued to rise after a drop in Q1 2020 due to the coronavirus pandemic and recovery in Q2 2020;
- the share of life insurance decreased, on account of stronger growth in non-life insurance premiums compared to life insurance premiums.

The current insurance regulations in the Republic of Serbia have laid the legislative groundwork for further 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 in order to ensure that they meet actual consumer needs. It also prescribes the methods of informing consumers and distribution of insurance products, in order to improve the level of protection of rights and interests of insurance service users.

An effective risk-based solvency regime is in line with development trends in other segments of the financial sector, particularly banking. 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, 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 manner of management of those 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 when the whole world is facing the consequences of the coronavirus pandemic, 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. In this sense, the NBS took a number of measures to prevent, mitigate and eliminate the negative effects of the coronavirus pandemic, with a view to protecting the rights and interests of insurance service users, maintaining the stability of operations of all professional insurance market participants, and ensuring the continuity of the supervisory function, and will continue to do so going forward.