NATIONAL BANK OF SERBIA

INSURANCE SUPERVISION DEPARTMENT

# INSURANCE SECTOR IN SERBIA

## Third Quarter Report 2023

**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

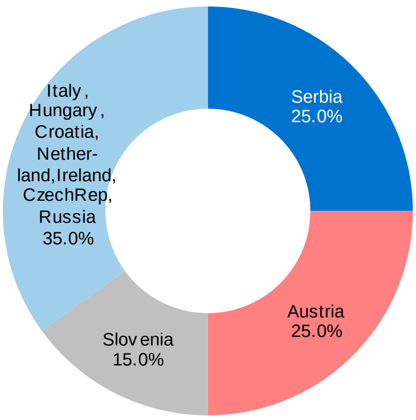
### *Insurance and reinsurance undertakings*

At end-Q3 2023, 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 2023 shows that of the 20 insurance undertakings, 15 were in majority foreign ownership.

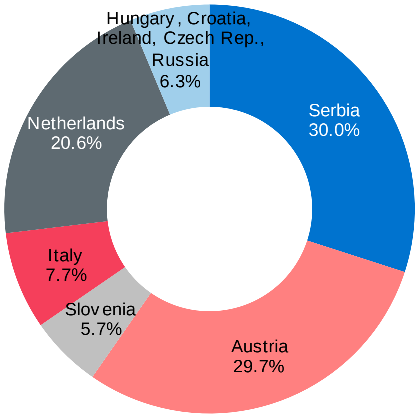
At end-Q3 2023, foreign-owned insurance/reinsurance undertakings held majority shares of life insurance premium (85.7%), in non-life insurance premium (61.0%), total assets (70.0%), and employment (64.8%).

Chart 1.1.1 **Structure of (re)insurance undertakings in Serbia by ownership**
(in Q3 2023)




Source: National Bank of Serbia.

Chart 1.1.2 **Balance sheet total of (re)insurance undertakings in Serbia by ownership**
(in Q3 2023)




Source: National Bank of Serbia.

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

*Other market participants*

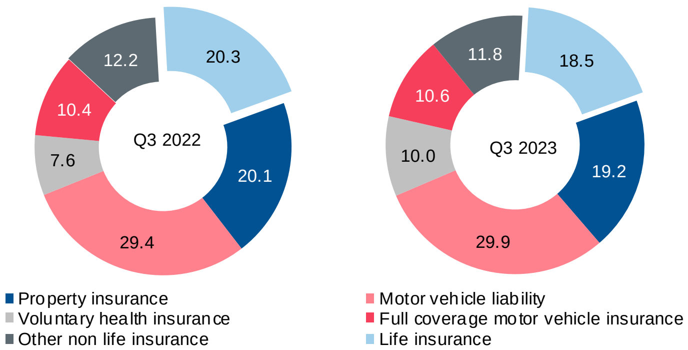
In addition to (re)insurance undertakings, at end-Q3 2023 the market also consisted of: 15 banks, nine financial lessors and a public postal operator which are licensed for insurance agency activities, 111 legal entities (insurance brokerage and agency services), 76 insurance agents (natural persons – entrepreneurs) and 4,323 active certified agents/brokers in insurance.

## 1.2 Insurance portfolio structure

Total premium in Q3 2023 amounted to RSD 115.6 bn (EUR 986 mn or USD 1,068 mn)[2], a rise of 16.3% relative to the same period last year.

In the composition of the premium, the share of life insurance premium dropped from 20.3% in Q3 2022 to 18.5% in Q3 2023, 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 2022 and Q3 2023, in %)




Source: National Bank of Serbia.

Observed by type of insurance, premium structure in Q3 2023 resembled somewhat that recorded in the same period in 2022, with motor vehicle liability insurance accounting for the largest share of total premium (29.9%), this time, followed by property insurance with 19.2%, life insurance with 18.5%, full coverage motor vehicle insurance (“kasko”) 10.6% and voluntary health insurance with 10.0%.

Non-life insurance premium rose by 19.0% in Q3 2023 relative to the same period in 2022. MTPL insurance premium went up by 18.4%, property insurance premium by 11.4%, full coverage motor vehicle insurance premium by 17.7% and voluntary health insurance premium by as much as 53.4%.

[2] At the middle exchange rate of the NBS for the period observed.

The above double-digit percentage growth in MTPL reflects mainly an increase in the number of concluded contracts and minimum MTPL insurance tariff, effective as of 1 January 2023.

The voluntary health insurance premium expectedly recorded a significant rise, given that the awareness of the importance of our health and the health of our families is the aspect that has changed the most since the beginning of the pandemic. Four insurance undertakings accounted for almost three-fourths of this market segment, with employer-sponsored insurance policies featuring to a great extent.

Accident insurance[3] increased by 7.1%, but its share fell from 2.5% in Q3 2022 to 2.3% in Q3 2023.

In terms of total premium in Q3 2023, there was no change in the ranking of the top five insurance undertakings, which accounted for 74.5% of the total market premium. However, there was a change in the ranking of the five largest insurance undertakings in terms of the non-life and life insurance premiums, which accounted for 75.1% and 82.8%, respectively, of the total listed categories of all insurance undertakings.

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

| | 30/9/2022 | | | 30/9/2023 | | | Ranking change |
|---|---|---|---|---|---|---|---|
| | Amount | Share | Rank | Amount | Share | Rank | |
| **by total premiums** | | | | | | | |
| Dunav | 25926 | 26.1 | 1 | 29960 | 25.9 | 1 | - |
| Generali | 19094 | 19.2 | 2 | 22409 | 19.4 | 2 | - |
| DDOR | 11406 | 11.5 | 3 | 12781 | 11.1 | 3 | - |
| Wiener | 11205 | 11.3 | 4 | 12204 | 10.6 | 4 | - |
| Triglav | 7294 | 7.4 | 5 | 8690 | 7.5 | 5 | - |
| **by non-life premiums** | | | | | | | |
| Dunav | 23053 | 29.1 | 1 | 26904 | 28.6 | 1 | - |
| Generali | 13821 | 17.5 | 2 | 16842 | 17.9 | 2 | - |
| DDOR | 9750 | 12.3 | 3 | 10873 | 11.5 | 3 | - |
| Triglav | 6757 | 8.5 | 5 | 8148 | 8.7 | 4 | **increase** |
| Wiener | 7066 | 8.9 | 4 | 7974 | 8.4 | 5 | **decrease** |
| **by life premiums** | | | | | | | |
| Generali | 5273 | 26.1 | 1 | 5567 | 26.0 | 1 | - |
| Wiener | 4139 | 20.5 | 2 | 4230 | 19.7 | 2 | - |
| Dunav | 2873 | 14.2 | 4 | 3056 | 14.3 | 3 | **increase** |
| Grawe | 2874 | 14.2 | 3 | 2971 | 13.9 | 4 | **decrease** |
| DDOR | 1655 | 8.2 | 5 | 1908 | 8.9 | 5 | - |

Source: NBS.

[3] This insurance includes voluntary accident insurance, and compulsory types of insurance such as passenger insurance in public transportation and insurance of employees against occupational injuries and illnesses.

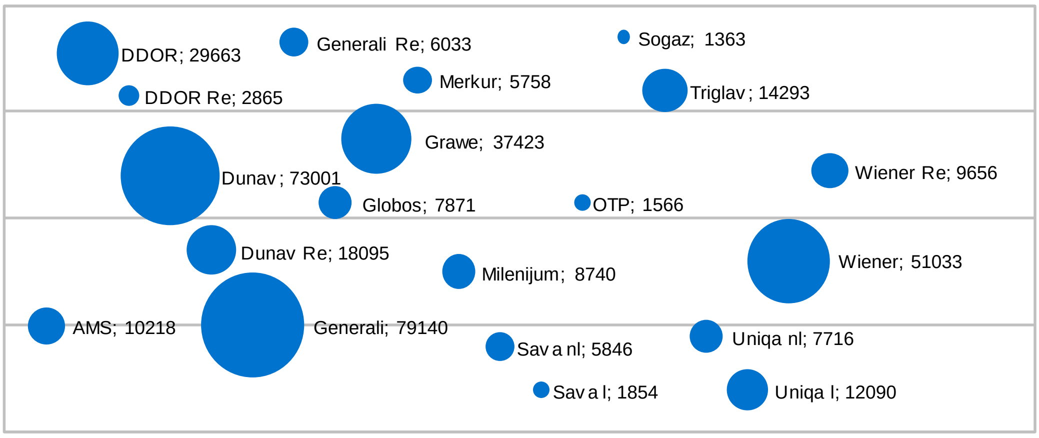
The Herfindahl Hirschman Index, calculated by summing up the squares of the respective market shares or, in this case, balance sheet totals of all (re)insurance undertakings, points to moderate market concentration. At end-Q3 2023 the HHI was 1,197[4].

## 1.3 Balance sheet total and balance sheet structure

### *Balance sheet total*

Balance sheet total of (re)insurance undertakings increased at end-Q3 2023 to RSD 384.2 bn (EUR 3.3 bn or USD 3.5 bn)[5], up by 12.0% y-o-y.

Chart 1.3.1 **Balance sheet total of insurance companies**
(as at 30/09/2023, in RSD mn)




Source: National Bank of Serbia.

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

| | 30/9/2022 | | | 30/9/2023 | | | Ranking change |
|---|---|---|---|---|---|---|---|
| | Amount | Share | Rank | Amount | Share | Rank | |
| Generali | 75115 | 23.8 | 1 | 79140 | 22.8 | 1 | - |
| Dunav | 59743 | 18.9 | 2 | 73001 | 21.0 | 2 | - |
| Wiener | 49529 | 15.7 | 3 | 51033 | 14.7 | 3 | - |
| Grawe | 38029 | 12.0 | 4 | 37423 | 10.8 | 4 | - |
| DDOR | 25141 | 8.0 | 5 | 29663 | 8.5 | 5 | - |

Source: NBS.

[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 September 2023.

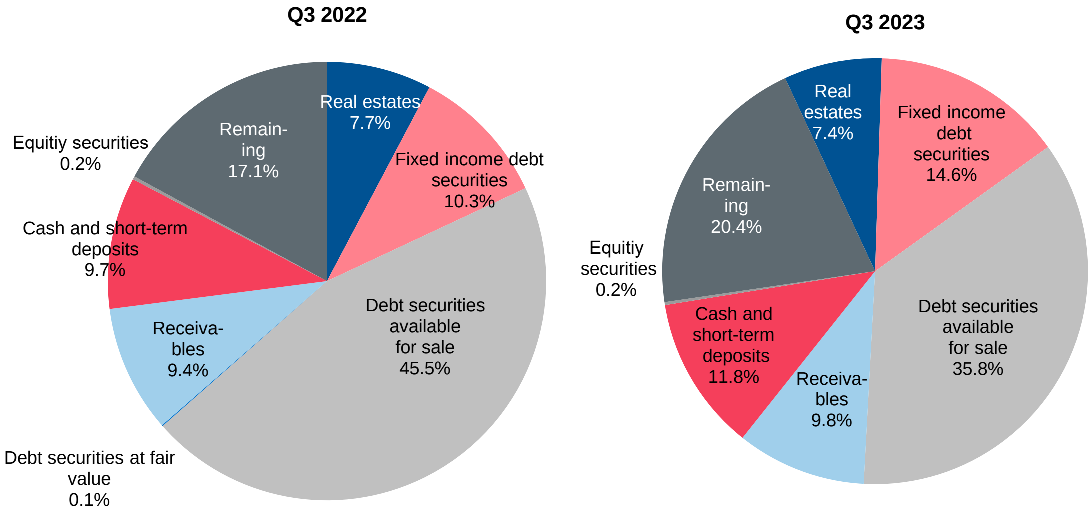
In terms of the industry's balance sheet total, there was no change in the ranking of the top five insurance undertakings, which in Q3 2023 accounted for 77.8% of the total.

*Structure of assets*

As at 30 September 2023, assets of (re)insurance undertakings comprised mostly debt securities available for sale (35.8%), and fixed income debt securities (14.6%), followed by: cash and short-term deposits (11.8%), technical provisions charged to coinsurer, reinsurer and retrocessionaire, as part of the item "Other"[6] in Chart 1.3.2 (11.2%), receivables (9.8%), property, plant and equipment (7.4%) and other.

Compared to the same period the year before, it can be concluded that, on the one hand, the share of debt securities dropped in Q3 2023, while on the other hand the share of cash and short-term deposits as well as technical provisions charged to coinsurer, reinsurer and retrocessionaire increased.

Chart 1.3.2 **Structure of assets**
(as at 30/09/2022 and 30/09/2023)




Source: National Bank of Serbia.

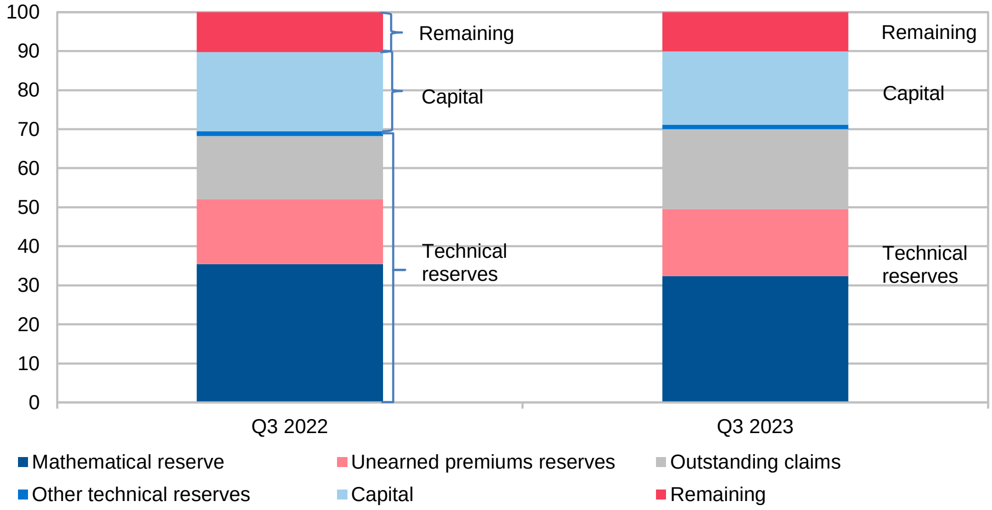
[6] This comprises: intangible investments, goodwill, software and other rights, participating interests, other long-term financial investments (with the exception of fixed income debt securities), other long-term assets, deferred tax assets, inventories, non-current assets held for sale, other securities within financial investments, other short-term financial investments, value added tax, prepayments and accrued income and technical provisions charged to coinsurer, reinsurer and retrocessionaire.

*Structure of liabilities*

In the structure of liabilities of (re)insurance undertakings at end-Q3 2023, technical provisions accounted for 71.2%, and capital for 18.7%.

Capital amounting to RSD 70.7 bn recorded mild growth of 3.3% as compared to end-Q3 of the previous year. Technical reserves worth RSD 268.8 bn rose by 14.7% at end-Q3 2023. Mathematical reserve kept the dominant share in technical provisions, with the modest y-o-y growth rate of 2.3% y-o-y in Q3 2023.

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




Source: National Bank of Serbia.

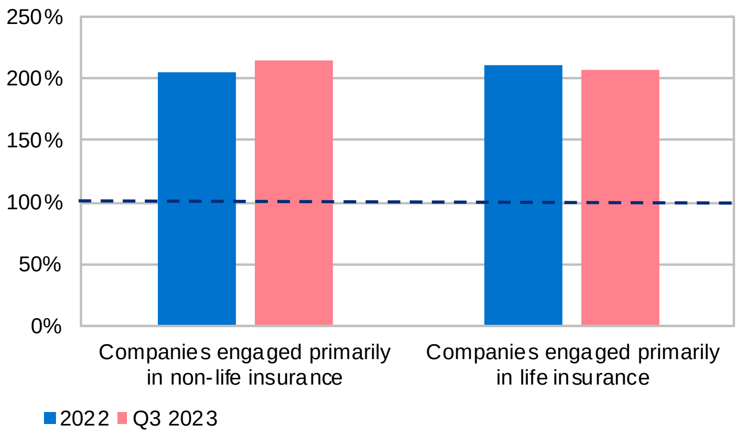
# 2 Performance indicators

## 2.1 Capital adequacy

The solvency of (re)insurance undertakings depends on meeting the conditions related to capital adequacy, particularly the condition defined as the ratio of the required and available solvency margin. The solvency is affected greatly by the sufficiency of technical provisions for undertaken obligations.

The available solvency margin of the insurance and reinsurance undertakings in Serbia as at 30 September 2023 amounted to RSD 53.3 bn, and the required solvency margin to RSD 25.2 bn. **The main capital adequacy indicator** (the ratio of the available to the required solvency margin) was 214.3% for undertakings primarily engaged in non-life insurance and 208.2% for undertakings primarily engaged in life insurance.

Chart 2.1 **Capital adequacy of insurance undertakings**




Source: National Bank of Serbia.

## 2.2 Quality of assets

The share of types of assets with possible difficulties in collectability (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 a satisfactory 19.9% at end-Q3 2023, compared to 20.3% at end-2022. The ratio changed due to the somewhat lower growth in the stated types of assets relative to the growth in the total assets.

For undertakings engaged primarily in *life insurance* this ratio edged down mildly from 7.2% at end-2022 to 7.0% at end-Q3 2023, reflecting lower growth in the stated types of assets than in total assets.

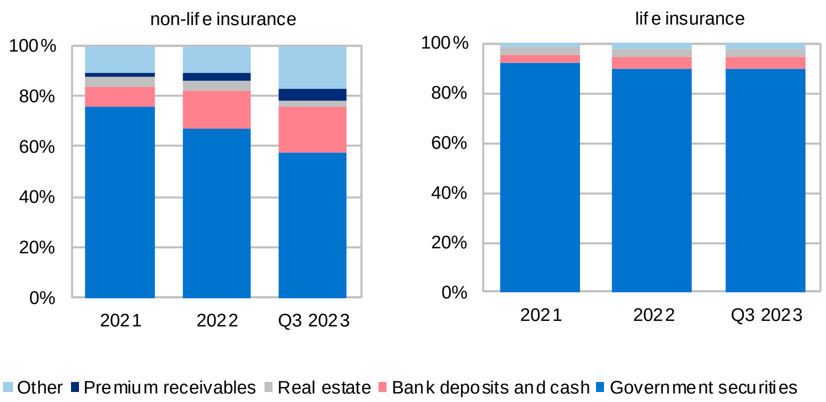
## 2.3 Investment of technical provisions

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 prescribed types of assets, in *both non-life* and *life insurance*, as well as in reinsurance undertakings, in Q3 2023.

In Q3 2023, *non-life insurance* technical provisions of all insurance undertakings in Serbia were mostly invested in government securities (57.4%), bank deposits and cash (18.7%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (16.2%), insurance premium receivables (4.8%) and real estate (2.4%). Relative to the end of the previous year, the *share* of government securities *went down*, while an *increase* was recorded for technical provisions charged to coinsurer, reinsurer and retrocessionaire (part of the item "Other" in Chart 2.3), as well as deposits and cash and, insurance premium receivables.

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




Source: National Bank of Serbia.

The composition of investment of *life insurance* technical provisions displayed no major changes – there was a negligible decrease in the share of investments in government securities to 89.5%, and an increase in the share of bank deposits and cash, to 5.1%.

## 2.4 Profitability

A measure of profitability of an insurance undertaking is the **net combined ratio** (the sum of net claims and underwritten[7] 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

[7] The Decision on the Content and Layout of Financial Statement Forms for Insurance Undertakings stipulates that insurance underwriting costs are considered to be the sum of the costs of acquisition, administration and other insurance costs less revenues from reinsurance commission and retrocession.

financial and real estate market, which exposes it to inherent market risks and risks of counterparty default. In undertakings primarily engaged in non-life insurance, the combined ratio rose moderately from 91.4% in Q3 2022 to 92.7% in Q3 2023. The trend of this ratio resulted from somewhat weaker growth in the earned net premium relative to the growth in the sum of 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.

The **liquid assets to liquid liabilities ratio**[8] for all (re)insurance undertakings stood at 110.6% in Q3 2023 and is on the downward path, suggesting that liquid assets were sufficient for servicing short-term liabilities of the insurance sector.

# 3 Motor third party liability

At end-Q3 2023, 11 insurance undertakings engaged in MTPL insurance – unchanged relative to the same period last year.

The MTPL premium rose by 18.4% y-o-y in Q3 2023, reflecting the above stated increase in the number of concluded contracts and the minimum MTPL insurance tariff.

Portfolio concentration in this segment increased slightly, as three undertakings with the largest share in the MTPL insurance premium accounted for 58.1% of the market in Q3 2023, compared to 57.7% in the same period last year.

# 4 Conclusion

The comparison of indicators between Q3 2023 and the same quarter in 2022 points to the following changes:

- a total of 20 (re)insurance undertakings operated in Serbia, unchanged from the same period in the previous year, with increased employment in the sector by 1.0% to 11,417 persons;
- balance sheet total of the insurance sector went up by 12.0%, to RSD 384.2 bn;

[8] 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.

- capital increased slightly, by 3.3% to RSD 70.7 bn;
- technical provisions gained 14.7%, coming at RSD 268.8 bn, and were fully invested in the prescribed types of assets;
- total premium gained 16.3% and came at RSD 115.6 bn;
- non-life insurance continued to account for the dominant share of total premium (81.5%). Non-life insurance premium rose by 19.0%, with more prominent insurance types, such as: MTPL insurance, property insurance, voluntary health insurance and full coverage motor vehicle insurance – “kasko” recording double-digit percentage growth;
- the share of life insurance decreased, on account of stronger growth in non-life insurance premiums compared to life insurance premiums.

In observing the above categories, one should also take into account inflation, which significantly affects their real movements.

The current insurance regulations in the Republic of Serbia laid the legislative groundwork for a further convergence of the Serbian insurance sector to that of the EU.

Major changes in the insurance supervision are yet to be made with the full alignment with 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 of 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, to further improve the prudential supervision regulatory framework, in the forthcoming period continuation of the alignment of the regulations with 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 of global growth slowdown amid heightened geopolitical tensions and energy crisis, the persisting relatively high inflation and tightened global financial conditions, 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. The NBS responded to the challenges stemming from the international environment by gradually tightening its monetary policy and, as of April 2022, raising its key policy rate, with a view to bringing inflation back within the bounds of the target. As a result, y-o-y inflation started to significantly lose pace as of April 2023. The NBS will continue to monitor trends in the international markets, in order to respond timely and adequately by taking appropriate measures aimed at ensuring the rights and interests of insurance service users and preserving the stability of operation of all professional participants in the insurance market, and/or ensuring the continuity of supervisory function.