NATIONAL BANK OF SERBIA

INSURANCE SUPERVISION DEPARTMENT

INSURANCE SECTOR IN SERBIA

Report for 2020

Contents:

List of abbreviations

mn	million
bn	billion
Q1	first quarter (1 January – 31 March)
Q2	two quarters in one year (1 January – 30 June)
Q3	three quarters in one year (1 January – 30 September)

1. Introduction

According to law, the National Bank of Serbia (NBS) is in charge of supervising the major part of the Serbian financial sector. At end-2020, the financial sector under the NBS's supervision included 26 banks, 20 (re)insurance undertakings, 16 financial lessors, 7 voluntary pension funds, 14 payment institutions and 2 electronic money institutions.

2. Activities of the National Bank of Serbia in 2020

In view of the importance of the insurance sector in protecting the insured from the consequences of the coronavirus pandemic and the significance of ensuring continuous provision of insurance services during the crisis, NBS activities in 2020 were focused on safeguarding the insurance sector's stability, creating conditions for its further development and strengthening the supervisory function with a view to protecting the rights and interests of the insured, insurance service users and injured parties.

Licences, consents and other supervisory regulatory activities

As part of its insurance supervision, the NBS also conducted a whole series of other, regular activities, such as processing of different types of applications for licences and approvals, issuing of professional opinions and similar.

Based on the analysis and assessment of the impact of relevant events on the operation of (re)insurance undertakings, the NBS issued prior approvals for: appointment of members of management (106), selection of firms to carry out audit of re(insurance) undertakings (20) and acquisition of qualified holding in (re) insurance undertakings (3). As regards other supervised entities, the NBS issued five insurance brokerage licences to undertakings carrying out insurance brokerage, three insurance agency licences to undertakings carrying out insurance agency and another nine insurance agency licenses to insurance agents. Also, in other supervised entities the NBS conducted 12 procedures for issuing prior approval for acquiring/increasing qualified holding and 12 procedures for issuing prior approval for appointment of members of management.

Off-site supervision and examinations

In parallel with on-site examinations, the NBS also conducted off-site supervision, both in the part of prudential supervision and the supervision of market behaviour and ML/TF risk management.

Prudential off-site supervision included continuous monitoring of (re)insurance undertakings both from the *financial-economic* and *actuarial* aspect, as well as taking activities to ensure reliability and accuracy of submitted data and information, and/or to remove the identified irregularities. Activities under the off-site prudential supervision were carried out separately, namely: (1) risk monitoring based on supervisory matrices of risks in (re)insurance undertakings, (2) analysis of quarterly opinions of the certified actuary, opinions of the certified actuary on financial statements and annual reports of (re)insurance undertakings, opinions of the certified actuary about the reports on implementation of co-insurance and re-insurance policy, analysis of internal audit reports of undertakings, receipt and analysis of submitted internal regulations of (re)insurance undertakings, (3) receipt and analysis of submitted annual, quarterly and monthly data of (re)insurance undertakings and compiling of appropriate reports, and (4) compiling of quarterly reports about the current state of the insurance sector.

Within off-site supervision of the market behaviour of insurance undertakings, supervisors continued regular monitoring, based on analysis of qualitative and quantitative indicators with a view to identifying problematic aspects of operation of insurance undertakings and other supervised entities. Potential inadequate market behaviours that were recognised as the most important from the aspect of protection of rights and interest of insurance service users were covered by the planned supervisory activities in order to timely examine the activities of insurance undertakings and other supervised entities and to ensure the necessary protection of rights and interests of insurance service users in case of identified irregularities.

In parallel with the above regular activities, the NBS invested special efforts in order to ensure the unhindered operation of insurance undertakings and other participants in the insurance market during the current coronavirus pandemic, among other things, by providing additional clarifications about the possibility of distance sale (online sale), enabled by the current regulations, the coverage of the coronavirus pandemic risk through insurance and introduction of new insurance products, the postponed payment of insurance premium, application of the moratorium on due insurance premium instalments associated with bank credit products and other similar situations. The NBS communicated with insurance undertakings in order to support further digitalisation of operations and expansion of the offer of insurance products that can be concluded via distance contracts. The novelty in the insurance market is distance contracting of life insurance using the video identification procedure.

Due to the large shock the pandemic inflicted on the tourism sector, the regulator was also committed to finding solutions to overcome the difficulties facing insurance agencies, so apart from other activities it also published recommendations which aimed to facilitate the operation of tourist agencies and help them stay in the business. The NBS also supported the efforts of other authorities in addressing this issue. As for other supervised entities, the NBS continued regular analysis of annual reports for 2019 submitted by entities conducting insurance brokerage/agency (insurance brokerage/agency undertakings, agents-entrepreneurs, banks, financial lessors, public postal operator).

On-site examinations

In order to maintain insurance sector stability in 2020, the NBS conducted 9 on-site examinations of supervised entities engaged in insurance business, three of which concerned prudential supervision of reinsurance undertakings and one exclusively concerning market behaviour, one examination covering both prudential supervision and market behaviour, one examination – prudential supervision of insurance undertakings in the area of AML/CTF, one on-site examination of a commercial bank licensed to perform insurance agency, one on-site examination of a financial lessor and one on-site supervision of information systems in an insurance undertaking.

On-site examinations conducted in supervised entities in 2020 in the area of prudential supervision included three examinations initiated in late 2019, two planned and one *ad hoc* on-site examination, concerning mainly the MTPL segment of the market, as well as other relevant activities identified during off-site supervision.

On-site examinations conducted in reinsurance undertakings in 2020 in the area of prudential supervision were full-scope examinations, placing emphasis on the identified relevant areas of operation and balance sheet positions, whereby irregularities were identified mainly in the part of the established system of internal controls and its proper functioning, as well as in the control of risk exposures by responsible persons.

Based on examinations conducted in 2019 and 2020, which established illegalities and irregularities in the operation of insurance undertakings and other supervised entities, four decisions were issued on corrective supervisory measures, imposing fines on the supervised entities and responsible persons in those entities (according to the Insurance Law and Law on Compulsory Traffic Insurance). Two on-site examinations were discontinued after the entities implemented the supervisory measures.

In the segment of supervision of *market behaviour* of insurance undertakings, irregularities were identified as regards: calculation of total damage in MTPL insurance and manner of informing of claimants, records and handling of claims for damages based on motor vehicle insurance and general liability insurance, the manner of informing and contracting collective pension insurance, inadequate implementation of the prescribed complaints procedure, etc.

The on-site examination of the set-up of the system for managing the risk of *money laundering and terrorism financing* identified omissions in the system’s functioning, i.e. a certain level of exposure to the ML/TF risk.

In the supervision of insurance agency, the focus was on the insurance service sale process, provision of adequate information to clients and transparency of the insurance service when offered together with another financial product. The NBS also warned insurance undertakings which are responsible for insurance agency about the incorrect calculation of insurance premium refund in the case of cancellation of insurance contract which is concluded together with the bank’s credit product, in order to prevent insufficient premium refunds.

In the supervision of *information systems* in one insurance undertaking, the NBS examined the information system risk management, the governance framework for the management of this risk, business continuity and disaster recovery, information system safety, development and maintenance.

Regulatory activities

With a view to improving the protection of insurance service users and stability of the insurance market, the NBS adopted the following secondary legislation:

- *Decision Amending the Decision on the System of Governance in an Insurance/Reinsurance Undertaking (RS Official Gazette, No 84/2020)*. The requirements introduced by amendments to this decision relating to the policy of reimbursements, wages and other income of employees in (re)insurance undertakings aim to ensure that (re)insurance undertakings have adequate policies on wages and other income for employees who make decisions on the assumption of risk and to promote through such policies prudent and cautious risk assumption, by applying the proportionality principle. The decision is aligned with the EU acquis governing this issue (Solvency 2 Directive),
- *Decision Amending the Decision on the Basic Criteria of the Bonus-Malus System, Data Required for Its Application, and Maximum Bonus (RS Official Gazette, No 84/2020)*. The main goal of amendments was to improve the existing bonus-malus system in the MTPL insurance through more adequate pricing of insurance premium for insured persons-drivers who do not jeopardise other traffic participants and their property. Raising the bonus level (reducing the insurance premium) for those insured persons who caused no traffic accidents over a period of several years will help improve traffic safety, which should lead to a decrease in the number of insurance damage claims.
- *Decision Amending the Decision on Investment of Insurance Funds (RS Official Gazette, No 149/2020).* This Decision prolonged until 31 December 2022 the deadline until which unearned premium receivables under unexpired non-life insurance, coinsurance and reinsurance may be acquired by using technical provisions. Apart from changing the starting date of application of IFRS 17 – Insurance contracts, the decision was amended also in order to ensure the continuity of provision of insurance services amid expected negative economic effects of the coronavirus pandemic, especially in view of the practice of insurance undertakings to allow postponed premium payments

during the state of emergency, while taking care that such postponement does not jeopardise their financial status.

In order to comply with the obligation prescribed by the new Accounting Law (RS Official Gazette, No 73/2019), three accounting decisions were adopted: *Decision on the Chart of Accounts and Content of Accounts in the Chart of Accounts for Insurance Undertakings, Decision on the Content and Layout of Financial Statement Forms for Insurance Undertakings and Decision on the Layout and Content of Statistical Report for Insurance Undertakings.*

Development activities

In 2020, NBS activities aimed at establishing conditions for the development of the insurance industry related, among other things, to European integration and regulatory activities.

The NBS continuously monitors EU regulations in the insurance area with a view to aligning domestic regulations and adequately preparing the Republic of Serbia for joining the EU, taking care of the financial stability of the insurance market and the protection of the rights and interests of insurance service users. Expert review of Serbian translations of the supplements to *Solvency 2 Directive, Insurance Distribution Directive* etc., is underway, as part of the process of translation of the *acquis communautaire* in the Republic of Serbia, which will facilitate further harmonisation of insurance regulations.

NBS activities aimed at establishing conditions for the development of the insurance industry primarily included preparations for the implementation of Solvency II in Serbia.

In accordance with the timeframe defined in the Strategy for Implementation of Solvency II in the Republic of Serbia, activities regarding the preparation of drafts and proposals of regulations necessary for establishing a new regulatory framework for carrying out insurance and reinsurance operations were continued in 2020.

As part of development of its supervisory function, in 2020 the NBS carried out activities aimed at continuous improvement of supervisory work methods and education and professional development of its employees, took part in supervisory colleges etc.

With a view to aligning domestic regulations with the EU regulations on accounting in insurance, draft regulations were prepared to govern this area.

Work on development of the new Law on Compulsory Traffic Insurance has continued, aimed at further harmonisation with the relevant EU *acquis*.

With a view to further alignment of domestic legislation with the EU *acquis* in insurance, the NBS successfully completed the IPA project **"Strengthening of the Institutional Capacities of the National Bank of Serbia in the Process of EU Accession"**. The most important project aspect was the sharing of experiences in the area of insurance supervision and giving recommendations for improvement of the NBS's regulatory framework.

Professional exams

The NBS devotes special attention to the education of certified insurance brokers and agents, as well as certified actuaries. According to the regulations, the candidates, prior to taking the exam at the NBS, should pass the appropriate levels of training, in order to acquire all the necessary knowledge for the successful performance of their new tasks.

In order to raise the level of competences of candidates who were certified for insurance brokerage/agency activities and to finalise the list of active insurance brokers/agents, continuous education was introduced as a requirement for renewing membership in the registry and staying in the business.

Based on the Agreement on Training for Certification Exam for Acquiring the Title of a Certified Broker or Certified Agent in Insurance and Continuous Professional Education of Certified Insurance Brokers/Agents which was signed between the NBS and the Serbian Chamber of Commerce, trainings were organised in 2020, as well as one regular and one extraordinary certification exam for insurance brokers/agents.

The NBS organised two professional exams for acquiring the title of a certified actuary.

Based on the final results of exams, the NBS issued 353 decisions on acquiring the title of a certified broker or a certified agent in insurance, and four persons acquired the title of a certified actuary.

In 2020, the NBS regularly supervised continuous professional development of certified insurance brokers and agents and certified actuaries.

3. Insurance market[1]

3.1. General indicators[2]

After 2.8% growth in 2019, real global GDP is estimated to have contracted by 3.3% in 2020, as a consequence of the coronavirus pandemic. However, the projections for 2021 envisage a global economic recovery of 6.0%, under the assumption of proper

[1] The report is based on data that (re)insurance undertakings are obliged to submit to the NBS.
[2] Source: Global economic prospects, World Bank, January 2021; World economic outlook, IMF, April 2021; Global economic and insurance market outlook 2021/22, Swiss Re, November 2020; World insurance, Swiss Re, Sigma No 4/2020, July 2020 and National Bank of Serbia.

pandemic management and efficient vaccination limiting the virus spread, as well as adequate monetary and fiscal policy measures.

In pandemic conditions, insurance markets showed a certain level of resilience. The estimated real growth in global *non-life insurance premium* in 2020 is 1.3% – 0.9% in advanced and 3.3% in emerging economies.

Global *life insurance premium* in 2020 recorded an estimated real fall of 4.5% – 5.7% in advanced and 0.2% in emerging economies.

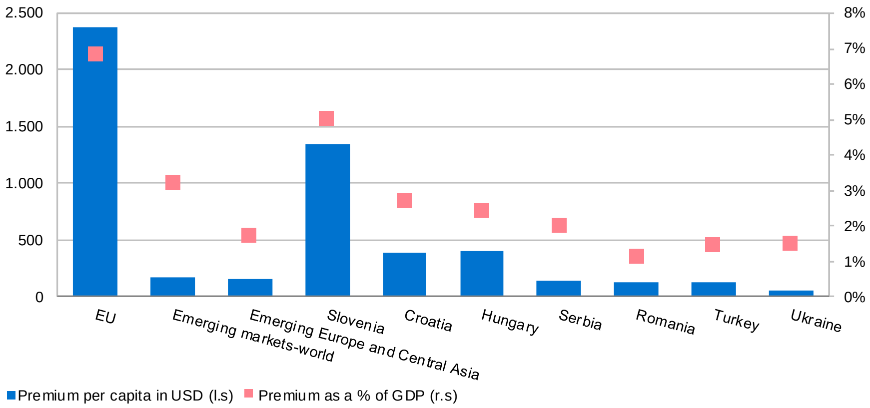
Five countries with the largest share in global premium (the US, China, Japan, the UK and France) covered 66.2% of the market in 2019. Serbia ranked 81st in the world by the size of its insurance premium.

According to the level of development, measured by the ratio of total premium to GDP and total premium per capita, the Serbian insurance sector is below the average for EU member states.

Judging by the 2019 premium to GDP ratio of 2.0%, Serbia ranked 64th in the world. The ratio for EU countries is as high as 6.8%. However, when compared with the 3.2% average for emerging economies and 1.7% average for emerging economies in Europe and Central Asia, and given that countries such as Turkey, Romania and Ukraine are behind Serbia, it may be concluded that Serbia holds a satisfactory position, with the potential to improve it further.

Measured by the 2019 premium per capita of USD 147 or EUR 131[3], Serbia was the 65th in the world. The same indicator for EU member states equalled USD 2,374, for emerging countries USD 175, and for the Europe and Central Asia emerging economies USD 163. The Cayman Islands topped the world rankings with USD 12,764, followed by Hong Kong and the USA, while Slovenia and Croatia held the 30th and 49th place with USD 1,354 and USD 391, respectively.

Chart 3.1.1 **Comparison of insurance sector development indicators**
(in 2019)



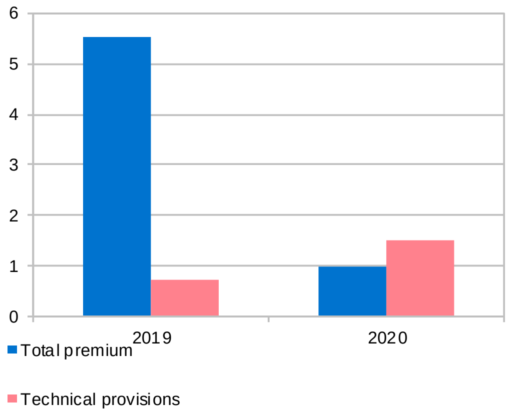
Source: Swiss Re, Sigma No 4/2020 and National bank of Serbia.

[3] According to the average annual exchange rate of the NBS for 2019.

In 2020, the premium to GDP ratio for Serbia remained 2.0%, as in the year before, while premium per capita rose to USD 154 or EUR 135.[4]

The development of the Serbian insurance market in terms of real premium growth[5] indicates that the positive trend was maintained[6], as can be seen in the Chart below.

Chart 3.1.2 **Real movement of total premium and technical provisions**
(in %)



Source: NBS.

In the financial sector supervised by the NBS (banks, (re)insurance, leasing and voluntary pension funds)[7], insurance ranked 2nd by its balance sheet total, capital and employment levels. Of the total financial sector balance sheet worth RSD 5,273 bn in 2020, banks accounted for 91.0% and (re)insurance undertakings for 6.0%.

Table 3.1.1. **Share in total financial sector**
(in %)

	Banks		Leasing		Insurance		VPF	
	2019	2020	2019	2020	2019	2020	2019	2020
Balance sheet total	90,1	91,0	2,3	2,2	6,6	6,0	1,0	0,9
Capital	89,7	89,3	1,2	1,2	9,1	9,6		
Number of employees	66,5	65,9	1,0	1,0	32,1	32,8	0,4	0,4

Source: NBS

[4] The data on the population is the latest available – as at 1 January 2021, while the premium was calculated at the average annual exchange rate of the NBS for 2020.
[5] The consumer price index was applied: the current month relative to the same month of the previous year.
[6] A mild real growth in total premium and in technical provisions relative to the year before resulted: in the first category, from the fall in premium in certain types of insurance, caused by the coronavirus pandemic, and in the second category – from settling a large part of a sizeable fire-caused property damage, the provisions for which were allocated at end-2018.
[7] Excluding payment institutions and electronic money institutions.

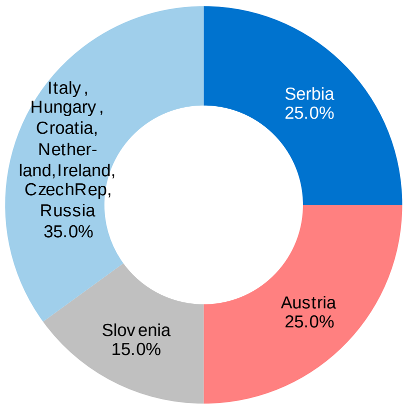
3.2. Market participants

(Re)insurance undertakings

At end-2020, the insurance market in Serbia comprised 20 (re)insurance undertakings, unchanged relative to the previous year. 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.

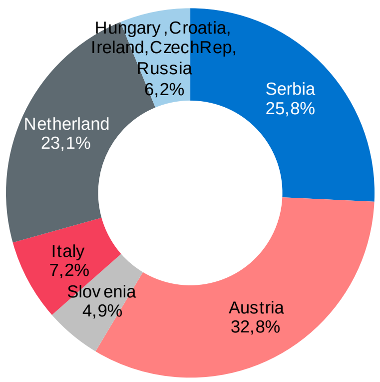
The breakdown by ownership shows that of the 20 insurance undertakings at end-2020, 15 were in majority foreign ownership.

Chart 3.2.1. **Structure of (re)insurance undertakings in Serbia by ownership**
(in 2020)



Source: National Bank of Serbia.

Chart 3.2.2. **Balance sheet total of (re)insurance undertakings in Serbia by ownership**
(in 2020)



Source: National Bank of Serbia.

At end-2020, foreign-owned insurance undertakings held the dominant share of: 88.6% in life insurance premium, 60.9% in non-life insurance premium, 74.2% of total assets and 66.0% of total employment.

Other market participants

Beside (re)insurance undertakings, the sales network included: 17 banks, six financial lessors and one public postal operator which are licensed for insurance agency operations, 101 legal entities (insurance brokerage and agency services), 77 insurance agents (natural persons – entrepreneurs) and 4,336 active certified agents/brokers in insurance.

3.3. Insurance portfolio structure

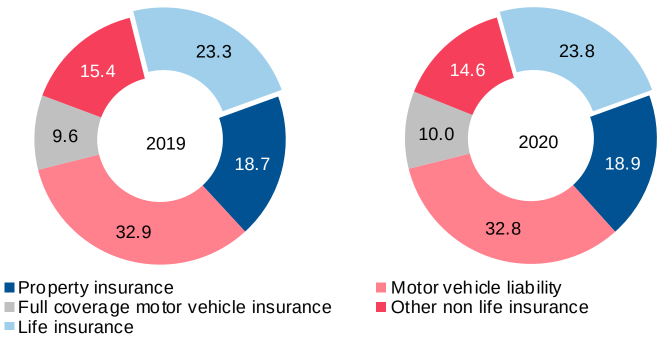
In 2020, total premium generated from insurance undertakings came at RSD 109.9 bn (EUR 935 mn or USD 1067 mn),[8] which is an increase of 2.3% in nominal and 1.0% in real terms, respectively.

The premium composition shows that the share of non-life insurance accounted for 76.2%, while the share of life insurance edged up mildly, from 23.3% in 2019 to 23.8% in 2020, owing to a stronger growth of *life* compared to *non-life* insurance premium.

The composition of the overall portfolio indicates that five types of non-life insurance alone – voluntary health insurance, motor vehicle insurance – "kasko", insurance of property against fire and other hazards, other property insurance and MTPL insurance – accounted for 66.6% of the total.

In 2020, the MTPL insurance kept the leading share in total premium (32.8%), followed by life insurance (23.8%) and property insurance (18.9%).

Chart 3.3.**Total premium according to the types of insurance**
(in 2019 and 2020, in %)



Source: National Bank of Serbia.

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 only 2.7% of the total premium in 2020.

The share of voluntary health insurance premium showed an increase from 4.3% in 2019 to 4.9% in 2020, owing to nominal growth of 18.2%. Four insurance undertakings covered as much as 81.4% of the market.

Non-life insurance premium in 2020 recorded an increase of 1.7% from 2019. Property insurance premium rose by 3.2%, premium for full coverage motor vehicle insurance ("kasko") expanded by 6.1%, while the MTPL insurance premium, which

[8] At the NBS middle exchange rate for 2020.

after a short-term blip in Q1 due to the coronavirus pandemic recovered in Q2 and continued up thereafter, posted a 1.8% rise in 2020. The coronavirus pandemic had expectedly the largest impact on the roadside assistance insurance, which shrunk by 59.6%, with its share in the total premium declining from 2.4% in 2019 to 0.9% in 2020.

Table 3.3.1. **Ranking list of five largest insurance companies**
(RSD mn, %)

	2019			2020			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
by total premiums							
Dunav	28411	26,4	1	29677	27,0	1	-
Generali	23098	21,5	2	22073	20,1	2	-
Wiener	12589	11,7	4	13247	12,1	3	**increase**
DDOR	12651	11,8	3	13096	11,9	4	**decrease**
Triglav	6845	6,4	5	7153	6,5	5	-
by non-life premiums							
Dunav	25773	31,3	1	26689	31,9	1	-
Generali	15737	19,1	2	14907	17,8	2	-
DDOR	10786	13,1	3	11068	13,2	3	-
Wiener	7371	8,9	4	7563	9,0	4	-
Triglav	6317	7,7	5	6400	7,6	5	-
by life premiums							
Generali	7362	29,4	1	7165	27,4	1	-
Wiener	5218	20,8	2	5684	21,7	2	-
Grawe	3762	15,0	3	3885	14,8	3	-
Dunav	2639	10,5	4	2988	11,4	4	-
DDOR	1865	7,4	6	2027	7,8	5	**increase**
Uniqa l	1898	7,6	5	1703	6,5	6	**decrease**

Source: NBS.

Looking at non-life insurance premiums, there was no change in the ranking of the top five insurance undertakings, which accounted for 79.5% of this market segment. However, observed by total premium and life insurance premium, there was a change in the ranking of the top five insurance undertakings, which participated in the said market premiums with 77.6% and 83.1%, respectively.

Observed by distribution channels, the major portion of *total premium* in 2020 was generated via: insurance undertakings (63%), brokers (12%), technical inspections (10%), insurance agency undertakings (6%) and banks (4%).

Speaking of *non-life insurance* premium, 63% of the total was collected by insurance undertakings, 15% via brokers and 13% via technical inspections. Banks collected as much as 51% of total loan insurance premium, brokers 46%, 44% and 39% of the total premium of voluntary health insurance, general liability insurance and insurance against financial losses, while 31% of total MTPL insurance premium was collected via technical inspections of vehicles.

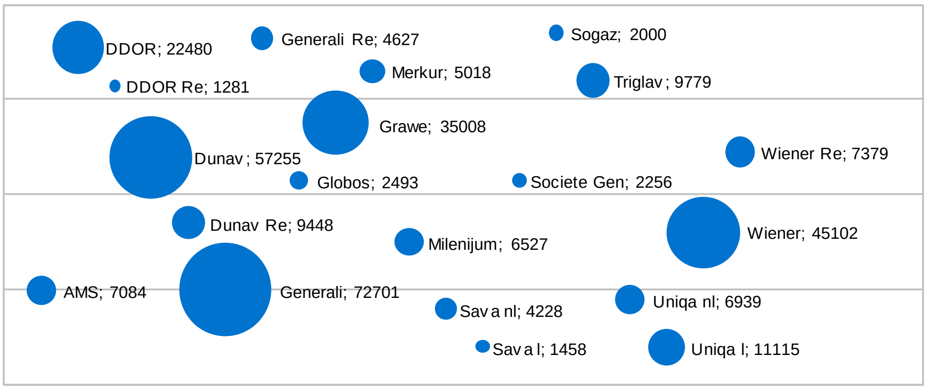
The largest portion of *life insurance* premium was collected by sale of: insurance undertakings (65%), banks and agents (13% each).

3.4. Balance sheet total and balance sheet structure

Balance sheet total

Balance sheet total of (re)insurance undertakings amounted to RSD 314.2 bn (EUR 2,672 mn or USD 3,284 mn)[9] at end-2020, rising by 4.8% relative to the end of last year.

Chart 3.4.1. **Balance sheet total of insurance companies**
(as at 31/12/2020, in RSD mn)



Source: National Bank of Serbia.

In 2020, in terms of the industry's balance sheet total, there was no change in the ranking of the top five insurance undertakings, which accounted for 79.7% of the total.

Table 3.4.1. **Ranking list of five largest insurance companies by balance sheet total**
(RSD mn, %)

	2019			2020			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
Generali	73435	26,5	1	72.701.091	24,9	1	-
Dunav	51130	18,5	2	57.254.669	19,6	2	-
Wiener	42381	15,3	3	45.101.871	15,5	3	-
Grawe	32862	11,9	4	35.007.876	12,0	4	-
DDOR	20737	7,5	5	22.480.125	7,7	5	-

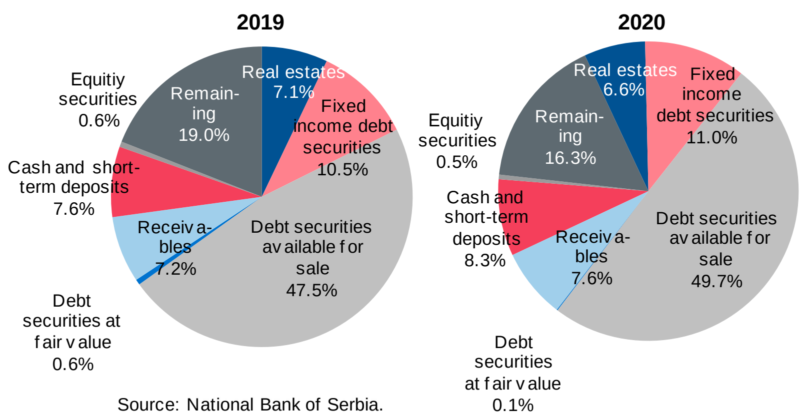
Source: NBS.

[9] At the NBS middle exchange rate as at 31 December 2020.

Structure of assets

In the structure of assets of (re)insurance undertakings, as at 31 December 2020 the dominant share was held by debt securities, of which: available for sale (49.7%), fixed income debt securities (11.0%) and debt securities recognised at fair value through income statement (0.1%), followed by: cash and short-term deposits (8.3%), receivables (7.6%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (7.2%) and property, plant and equipment (6.6%).

Chart 3.4.2.**Structure of assets**
(as at 31/12/2019 and 31/12/2020)



Source: National Bank of Serbia.

Compared to 2019, debt securities increased the dominant share in 2020 to 60.8%, while on the other hand technical provisions charged to coinsurer, reinsurer and retrocessionaire (part of the item "Other" in Chart 3.4.2) decreased their share,[10] due to the settling of a large damage caused by fire, the provisions for which were established at end-2018.

Structure of liabilities

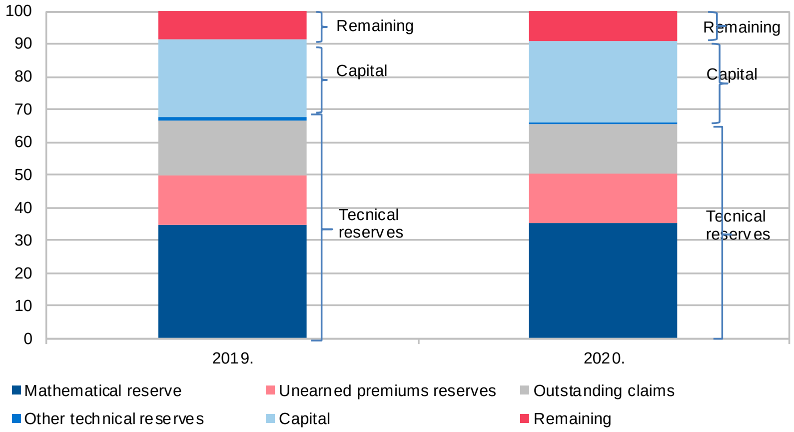
In the structure of liabilities as at 31 December 2020 technical provisions accounted for 66.3% and capital for 24.5%.

Capital equalled RSD 76.8 bn in 2020, rising at a rate of 6.5%, while technical provisions reached RSD 208.3 bn, recording a mild growth of 2.8%. Mathematical reserve kept the dominant share in technical provisions, increasing 6.7% relative to the end of last year.

[10] From 9.3% in 2019 to 7.2% in 2020.

After a brief discontinuation of the positive nominal growth at end-Q1 and Q2 2020, as a result of settling the abovementioned large property damage, technical provisions continued to record both nominal and real growth.

Chart 3.4.3. **Structure of liabilities**
(in %)



Source: National Bank of Serbia.

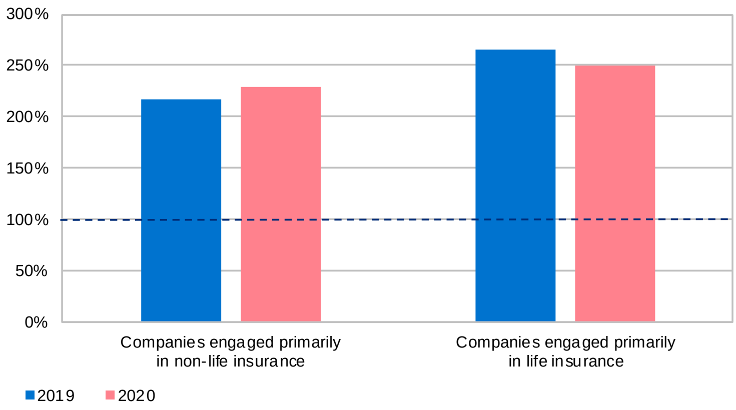
4. Performance indicators

4.1. 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 the Republic of Serbia as at 31 December 2020 amounted to RSD 46.9 bn and the required solvency margin to RSD 19.9 bn. **The main capital adequacy indicator** (ratio of the available to the required solvency margin) was 228.8% for insurance undertakings primarily engaged in *non-life insurance*, 249.9% for undertakings engaged in *life insurance* and 243.6% for *reinsurance undertakings*, which is a good capitalisation.

Chart 4.1.1. **Capital adequacy of insurance undertakings**



Source: National Bank of Serbia.

A *non-life insurer'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, inter alia, by the ratio of retained premium to total capital i.e. **the capital coverage ratio for non-life insurance.** Retained premium is the approximation of undertaken risks and must be sufficient to cover the insurance claims and compensations. In case of inadequacy of 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.

In 2020, capital coverage ratio of the non-life insurance sector i.e. all insurance undertakings in Serbia engaged primarily in *non-life insurance* stood at 143.3%, compared to 150.3% in 2019. This change resulted from capital growing faster than retained premium.

The **capital coverage ratio of the life insurance sector**, as a ratio of total capital to technical provisions of undertakings engaged primarily in *life insurance,* fell from 31.6% in 2019 to 31.1% in 2020, reflecting the technical provisions rising at a faster pace than capital.

Such ratio meant that in 2020 there was a "reserve" of 31.1% to cover inadequate assumption of risks by these undertakings (in life insurance, technical provisions represent a good approximation of risks).

4.2. Quality of assets

Judging by the share of intangible investment, property, investment in non-tradable securities and receivables in total assets of undertakings engaged primarily in *non-life insurance,* i.e. **the ratio of assets of lower marketability** which in 2019 and 2020 measured 16.7% and 16.3%, respectively, it may be concluded that total assets increased at a faster pace than these types of investments in 2020.

In undertakings engaged primarily in *life insurance* this indicator dropped from 6.0% in 2019 to 5.6% in 2020. The change in its value in 2020 relative to 2019 reflected the decline in less marketable assets and the rise in total assets.

Apart from calculating sufficient premium to compensate for the damages, it is also necessary to ensure premium collection. Otherwise, the insurer may face the risk of being unable to fulfil its obligations to the insured.

The **receivables ratio**, defined as a ratio of premium receivables to total premium written for all *non-life insurers* stepped up slightly, from 12.6% in 2019, to 13.3% in 2020, as a result of premium receivables rising more than the total premium written, with the indicator of less marketable assets edging down, as noted above.

In undertakings primarily engaged in *life insurance* this indicator remained unchanged from the year before, at 3.3%.

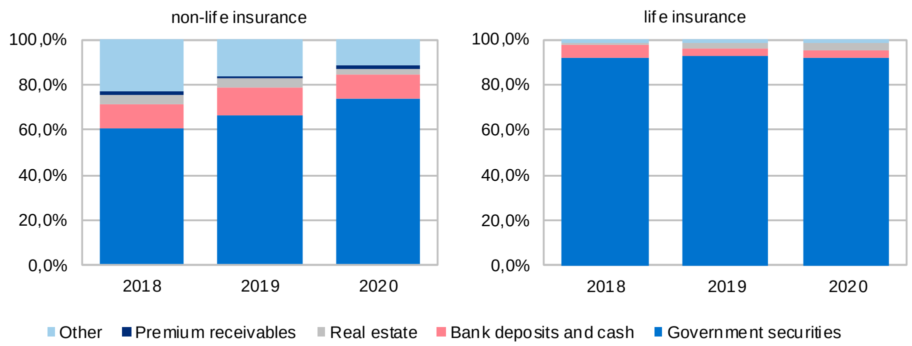
4.3. Investment of technical provisions

In order to protect the interests of the insured and third injured 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 their real value is maintained and increased, so that the undertaken 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* undertakings, as well as in reinsurance undertakings in 2020.

In 2020, *non-life insurance* technical provisions of all insurance undertakings in Serbia were mostly covered by government securities (74.1%), followed by bank deposits and cash (10.4%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (9.8%), property (3.0%) and insurance premium receivables (1.1%). Compared to the end of the last year, the share of government securities went up, while the decrease was recorded for technical provisions charged to coinsurer, reinsurer and retrocessionaire, as well as for deposits and cash.

Chart 4.3 **Structure of investment of technical reserves**



Source: National Bank of Serbia.

Life insurance technical provisions were for their major part invested in government securities – 91.9%, while bank deposits and cash accounted for 3.4% and property for 3.2%, respectively.

4.4. Reinsurance

Reinsurance and coinsurance provide 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 risks which is retained, the undertaking’s capital is used as a buffer for unforeseen events and inadequate premium prices.

The **premium retention ratio**, i.e. the share of earned net premium in total earned premium, points to the level of risks retained, i.e. the extent of risks transferred to reinsurance and coinsurance. In undertakings engaged primarily in *non-life insurance* this indicator declined from 82.8% in 2019 to 81.2% in 2020.

In terms of types of insurance, the percentage of risk transfer to reinsurance was the largest in aircraft liability insurance and aircraft insurance, followed by marine liability insurance, loan insurance, general liability insurance, property insurance against fire or other perils, insurance of goods in transport and insurance against financial losses, which corresponds to the nature of those types of insurance and level of risks assumed.

As regards *life insurance* undertakings, this indicator moved between 97% and 98% in the two years observed. 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 2020, the insurance industry posted a positive net result, which after tax[11] came at RSD 12.9 bn.

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 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 engaged primarily in *non-life insurance*, the net combined ratio declined from 84.2% at end-2019 to 79.3% at end-2020. The ratio improvement in 2020 resulted from the growth of earned net premium and the decrease of net claims and underwritten expenses.

For undertakings mainly engaged in *non-life insurance*, the **net loss ratio** (the ratio of net claims to earned net premium), 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 slightly from 49.5% at end-2019 to 45.8% at end-2020.

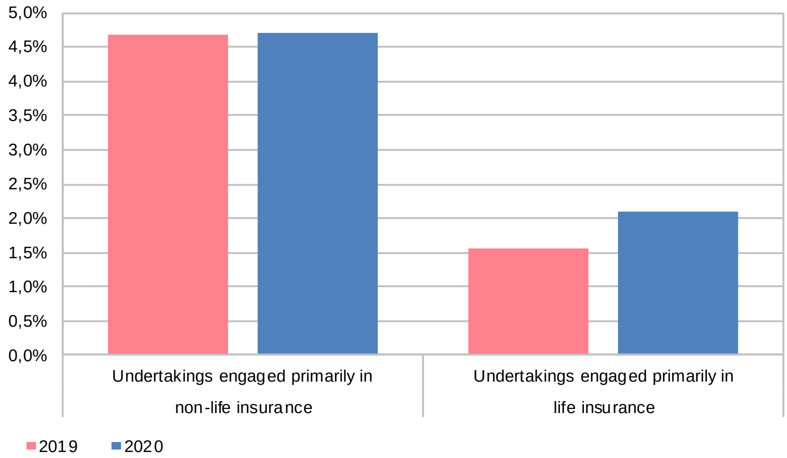
For undertakings engaged primarily in *life insurance*, the **benefit ratio**[12] went up from 85.5% at end-2019 to 86.1% at end-2020. That is a result of faster growth in the sum of net claims and changes in technical provisions compared to the earned net premium.

[11] Includes only tax expenses which (re)insurance undertakings carried until submission of data to the NBS.
[12] Ratio of sum of net claims and changes in technical provisions to earned net premium. In interpretation one needs to take into account the long-term character of life insurance and a significant impact of changes in technical provisions on this indicator.

For undertakings carrying out primarily non-life insurance business,[13] RoA (as a measure of return on total assets generated by their engagement in insurance, investment activities etc.) was positive in 2020 and unchanged from the year before, at 4.7%.

In undertakings engaged primarily in *life insurance*, RoA continued to post positive values in 2020, equalling 2.1% (2019: 1.6%).

Chart 4.5 **Return on assets - RoA**



Source: National Bank of Serbia.

Overall, the Serbian (re)insurance sector posted a positive RoA of 4.1%, up by 0.2 pp y-o-y.

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

The liquid assets to liquid liabilities ratio[14] for the (re)insurance sector which in 2020 amounted to 160.4%, improving from the year before (150.6%), suggests that liquid assets were sufficient for servicing short-term liabilities in the insurance sector.

[13] Net result after tax, except that only those tax expenses are included which (re)insurance undertakings carried before submission of data to the NBS.
[14] 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. Social responsibility and protection of citizens' rights

Supervision of insurance business conducted by the NBS aims to safeguard the stability and solvency of the insurance sector, as an important segment of the financial sector in Serbia, but above all, to protect our citizens and businesses – the users of insurance services (policyholders, the insured and injured parties). The NBS carries out monitoring and takes timely actions in order to maintain solvency of insurance undertakings, so that they are able to meet their liabilities toward insurance service users at all times. However, from this aspect, it is extremely important in what way insurance undertakings and other participants in the insurance market sell insurance services and whether and in what way insurance undertakings meet their liabilities toward their clients (deadlines and the size of compensation per claim event etc.), which is why special attention is paid to that segment of insurance business.

The NBS takes actions within its scope of competences to make sure that insurance services are easily accessible and understandable to all consumers, that the conclusion of insurance contracts is voluntary (unless otherwise determined by law), that services are sold by authorised persons possessing adequate knowledge and qualifications and, especially, that upon the occurrence of the insured event (the event covered by the policy, as a type of protection) the insurance compensation is paid out in a timely and fair manner.

In order to meet these objectives, the NBS analyses quantitative and qualitative indicators of market behaviour of participants in the insurance market (data on the number and type of complaints etc.), which helps to identify problematic segments of operation of insurance undertakings and insurance agents/brokers. The risks of inadequate market behaviour that are recognised as the most important from the aspect of protection of rights and interests of insurance service users are covered by the examination plan, in order to timely inspect activities of insurance undertakings and other participants in the insurance market and thus ensure the necessary protection of rights and interests of insurance service users.

6. Conclusion

The comparison of indicators at end-2020 and end-2019 points to the following changes:

- A total of 20 (re)insurance undertakings operate in the Serbian market, same as in the previous year, while in the period of global crisis, employment in the sector increased by 1.9% to 11,358 persons;
- The insurance sector balance sheet total rose by 4.8% to RSD 314.2 bn;

- Capital increased by 6.5% to RSD 76.8 bn;
- Technical provisions gained 2.8%, coming at RSD 208.3 bn, and were fully invested in the prescribed types of assets;
- Total premium gained 2.3% and came at RSD 109.9 bn;
- Non-life insurance continued to account for the dominant share of total premium (76.2%). Non-life insurance premium recorded a 1.7% increase amid the coronavirus pandemic, with voluntary health insurance, property insurance and motor vehicle insurance – "kasko" going up. MTPL insurance declined in Q1 2020, due to the coronavirus pandemic and recovered in Q2 2020, and continued up until the end of the year, while the roadside assistance insurance expectedly edged down;
- Life insurance slightly increased its share in total premium from 23.3% to 23.8%, recording a nominal premium growth of 4.4%.

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 are yet to be made, both when it comes to full alignment with the Insurance Distribution Directive (IDD) and implementation of Solvency II.

IDD brings solutions which, on the one hand, 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 the rights and interests of insurance service users.

An effective solvency regime is aligned with the risk-based approach and 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 the regulations should be aligned with the Solvency II Directive, 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 the ongoing activities which are integral to the second phase – impact assessment, and moving to the harmonisation of the regulatory framework, by the time Serbia accedes to the EU, as the third phase, will capacitate 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 COVID-19 pandemic (a sudden contraction in economic activity and rise in unemployment, among other), the role of the insurance sector in providing protection to citizens, i.e. insured persons and ensuring continuity in the provision of insurance services, increasingly gains in importance. In this context, the NBS took a series of measures, both monetary policy and additional measures, to prevent, mitigate and remove the negative effects of the coronavirus pandemic, in order to protect the rights and interests of insurance service users and preserve the stability of operation of all professional participants in the insurance market, i.e. in order to ensure the continuity of the supervisory function – and it will continue to do so in the future.