NATIONAL BANK OF SERBIA

INSURANCE SUPERVISION DEPARTMENT

INSURANCE SECTOR IN SERBIA

First 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)

1. Insurance market[1]

1.1 Market participants

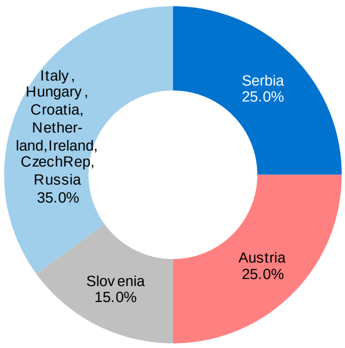
Insurance and reinsurance undertakings

At end-Q1 2021, the insurance market in Serbia comprised 20 (re)insurance 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-Q1 2021 shows that of 20 insurance undertakings, 15 were in majority foreign ownership.

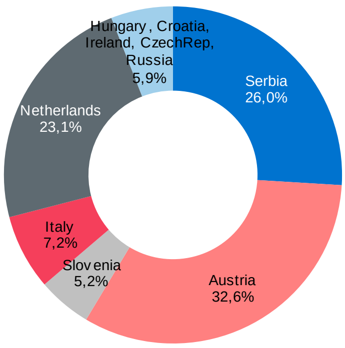
At end-Q1 2021, foreign-owned insurance/reinsurance undertakings held majority shares of 87.2% in life insurance premium, 61.1% in non-life insurance premium, 74.0% in total assets and 65.7% in total employment.

Chart 1.1.1 **Structure of (re)insurance undertakings in Serbia by ownership**
(in Q1 2021)



Source: NBS.

Chart 1.1.2 **Balance sheet total of (re)insurance undertakings in Serbia by ownership**
(in Q1 2021)



Source: NBS.

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

Other market participants

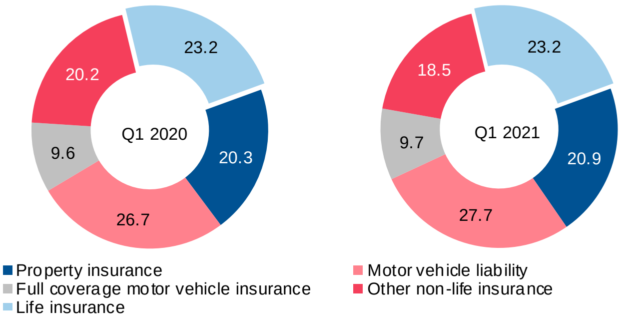
In addition to (re)insurance undertakings, at end-Q1 2021 the market also consisted of: 17 banks, six financial lessors and public postal operator which are licensed for insurance agency operations, 101 legal entities (insurance brokerage and agency services), 78 insurance agents (natural persons – entrepreneurs) and 3,967 active certified agents/brokers in insurance.

1.2 Insurance portfolio structure

Total premium in Q1 2021 came at RSD 27.8 bn (EUR 237 mn or USD 285 mn)[2], which is an increase of 3.2% from a year earlier.

The premium structure remained unchanged relative to the same period of the previous year, due to the almost equal growth in non-life and life insurance premiums, therefore the share of non-life insurance in total premium was 76.8%, and of life insurance 23.2%.

Chart 1.2**Total premium according to insurance type**
(in Q1 2020 and Q1 2021, in %)



Source: NBS.

Observed by type of insurance, premium structure in Q1 2021 resembled that recorded in the same period in 2020, with motor vehicle liability insurance accounting for the largest share of the total premium (27.7%). Life insurance followed with 23.2%, property insurance with 20.9% and motor vehicle insurance – “kasko” with 9.7%.

Non-life insurance premium rose by 3.2% in Q1 2021 relative to Q1~~2~~ 2020. Property insurance, full coverage motor vehicle insurance, and voluntary health insurance recorded an increase (6.3%, 4.7% and 6.9%, respectively). In Q1 2021, motor vehicle liability insurance premium continued to record an increase – by 7.2%, after a brief decline in Q1 2020 as a consequence of the coronavirus pandemic and a recovery in Q2 2020.

[2] According to the NBS’s average middle exchange rate for Q1 2021.

The above rise in the voluntary health insurance premium was accompanied by an increase in the share of premiums of this type of insurance from 7.6% in Q1 2020 to 7.8% in Q1 2021. Three insurance undertakings accounted for 68.5% of the market.

Accident insurance, including, inter alia, compulsory types of insurance such as passenger insurance in public transport and insurance of employees from injuries at work and professional illnesses, edged down mildly by 0.8%, while accounting for 3.2% of total premium in Q1 2021.

In terms of the life insurance premium, which accounted for 83.4% of the total, in Q1 2021 there was no change in the ranking of the top five insurance undertakings. However, there was a change in the ranking of the five largest insurance undertakings in terms of the total and non-life insurance premiums, which accounted for 78.3% and 79.8%, respectively, of the total listed categories of all insurance undertakings.

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-Q1 2021 the HHI was 1,302.[3]

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

	31/3/2020			31/3/2021			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
by total premiums							
Dunav	7339	27,2	1	7425	26,7	1	-
Generali	5728	21,3	2	6018	21,6	2	-
DDOR	3013	11,2	4	3211	11,5	3	**increase**
Wiener	3387	12,6	3	2995	10,8	4	**decrease**
Triglav	1954	7,3	5	2143	7,7	5	-
by non-life premiums							
Dunav	6696	32,4	1	6599	30,9	1	-
Generali	3874	18,7	2	4039	18,9	2	-
DDOR	2548	12,3	3	2713	12,7	3	-
Triglav	1778	8,6	5	1938	9,1	4	**increase**
Wiener	1897	9,2	4	1761	8,2	5	**decrease**
by life premiums							
Generali	1854	29,7	1	1979	30,7	1	-
Wiener	1489	23,8	2	1234	19,1	2	-
Grawe	777	12,4	3	844	13,1	3	-
Dunav	643	10,3	4	826	12,8	4	-
DDOR	465	7,4	5	498	7,7	5	-

Source: NBS.

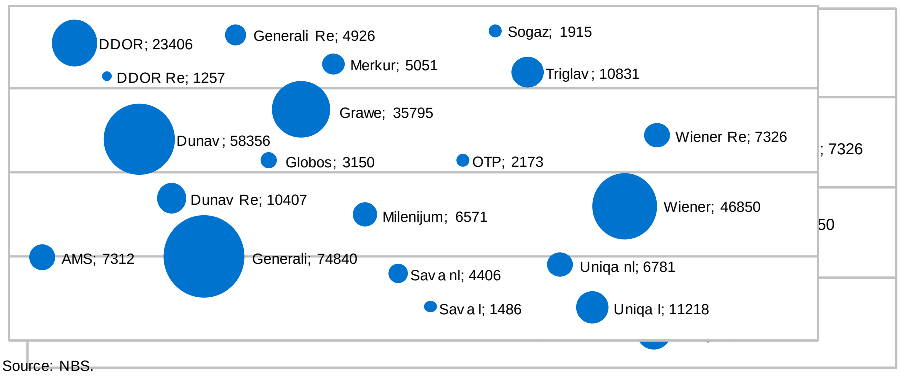
[3] HHI up to 1,000 indicates that there is no market concentration; 1,000–1800 indicates moderate concentration; above 1,800 indicates high concentration.

1.3 Balance sheet total and balance sheet structure

Balance sheet total

Balance sheet total of insurance and reinsurance undertakings increased at end-Q1 2021 to RSD 324.1 bn (EUR 2,756 mn or USD 3,227 mn),[4] up by 8.0% y-o-y.

Chart 1.3.1 **Balance sheet total of insurance undertakings**
(as at 31/3/2021, in RSD mn)



Source: NBS.

Source: NBS.

In terms of the industry's balance sheet total, there was no change in the ranking of the top five insurance undertakings, which in Q1 2021 accounted for 79.6% of the total.

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

	31/3/2020			31/3/2021			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
Generali	71833	25,8	1	74840	24,9	1	-
Dunav	52760	18,9	2	58356	19,4	2	-
Wiener	43293	15,5	3	46850	15,6	3	-
Grawe	33632	12,1	4	35795	11,9	4	-
DDOR	21652	7,8	5	23406	7,8	5	-

Source: NBS.

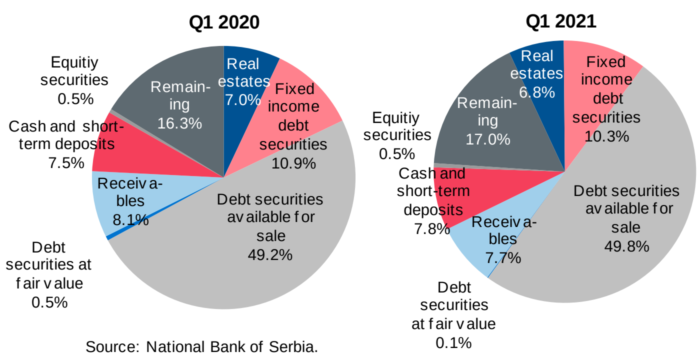
[4] According to the NBS middle exchange rate as at 31 March 2021.

Structure of assets

As at 31 March 2021, assets of (re)insurance undertakings comprised mostly debt securities available for sale (49.8%), fixed income debt securities (10.3%) and debt securities recognised at fair value through income statement (0.1%), followed by: cash and short-term deposits (7.8%), receivables (7.7%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (7.5% each), property, plant and equipment (6.8%) and other.[5]

Compared to the same period the year before, it can be concluded that in Q1 2021, the dominant share of debt securities decreased to 60.2%, while the share of technical provisions charged to coinsurer, reinsurer and retrocessionaire (part of item "Other" in Chart 1.3.2) increased.[6]

Chart 1.3.2 **Structure of assets**
(as at 31/03/2020 and 31/03/2021)



Source: National Bank of Serbia.

Structure of liabilities

At end-Q1 2021, technical provisions accounted for 66.2% and capital for 24.2% of total liabilities.

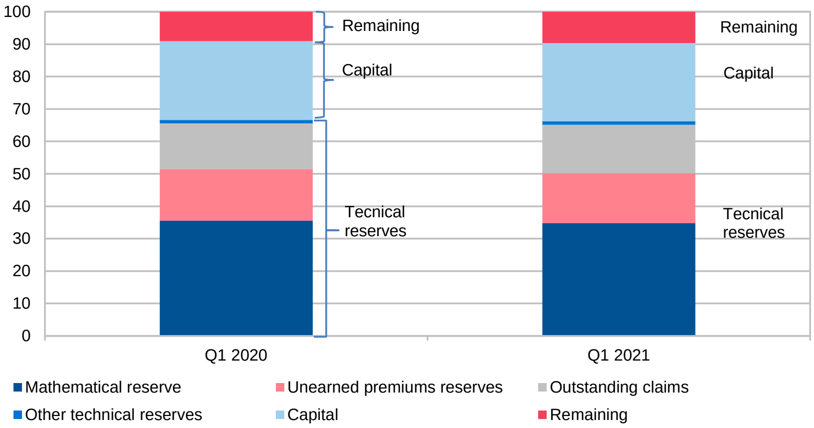
Capital amounting to RSD 78.0 bn recorded growth at the rate of 8.1% as compared to end-Q1 of the previous year. Technical provisions amounting to RSD 213.2 bn again recorded a 7.9% growth at end-Q1 2021, after a years-long continuous increase, which was interrupted at end-Q1 2020 and Q2 2020 due to the settlement of a

[5] Item „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.

[6] Growth in the share from 6.8% in Q1 2020 to 7.5% in Q1 2021.

large property damage from September 2018. Mathematical reserve kept the dominant share in technical provisions, with the growth rate of 6.2% in Q1 2021 y-o-y.

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



Source: NBS.

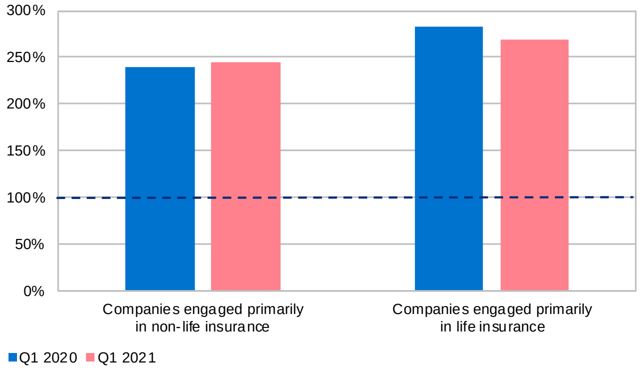
2. Performance indicators

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 the insurance and reinsurance undertakings in Serbia as at 31 March 2021 amounted to RSD 51.0 bn, and the required solvency margin to RSD 20.1 bn. **The main capital adequacy indicator** (the ratio of the available to required solvency margin) was 245.5% for *non-life insurers* and 269.1% for *life insurers* in Serbia.

Chart 2.1 **Capital adequacy of insurance undertakings**



Source: NBS.

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 16.9% at end-Q1 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 indicator edged down slightly from 5.6% at end-2020 to 5.3% at end-Q1 2021.

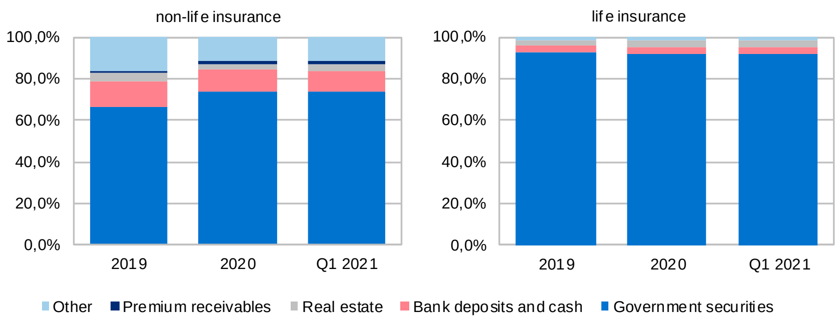
2.3 Investment of technical provisions

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 Q1 2021.

Non-life insurance technical provisions of all insurance undertakings in Serbia in Q1 2021 were mostly invested in government securities (74.0%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (10.1%), bank deposits and cash (9.6%) and real estate (3.6%), while insurance premium receivables recorded a share of 1.1%. Relative to the end of the previous year, the share of government securities and deposits and cash decreased slightly, while the share of technical provisions charged to coinsurer, reinsurer and retrocessionaire (part of item "Other" in Chart 2.3) increased.

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



Source: NBS.

Life insurance technical provisions were in major part invested in government securities - 92.1%, while bank deposits and cash, as well as real estate accounted for only 3.2% and 3.1% 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 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 market risks and the risks of default by the other party. In undertakings primarily engaged in non-life insurance, the combined ratio rose from 78.2% in Q1 2020 to 84.2% in Q1 2021. The trend of this ratio was under the impact of the weaker growth of the earned net premium relative to the rise in 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.

Liquid assets to liquid liabilities ratio[7] for the insurance sector (insurance and reinsurance undertakings) stood at 159.3% in Q1 2021, suggesting that liquid assets were sufficient for servicing short-term liabilities in the insurance sector.

3. Motor third party liability

At end-Q1 2021, 11 insurance undertakings engaged in MTPL insurance – unchanged relative to the same period last year.

The MTPL premium rose 7.4% in Q1 2021 relative to the same period in 2020 when, due to the coronavirus pandemic, it recorded a fall of 2.3% compared to the corresponding period in 2019.

Portfolio concentration in this segment was lowered, as three insurance undertakings with the largest share in the MTPL premium accounted for 63.5% of the market in Q1 2021, as opposed to 65.7% in the same period last year.

4. Conclusion

The comparison of indicators between Q1 2021 and the same quarter in 2020 points to the following changes:

- a total of 20 insurance and reinsurance undertakings operated in the Serbian market, unchanged from the same period last year, while employment in the sector increased by 3.4% to 11,529 persons;
- the insurance sector balance sheet total rose by 8.0% to RSD 324.1 bn;
- capital increased by 8.1% to RSD 78.0 bn;
- technical provisions gained 7.9%, coming at RSD 213.2 bn, and were fully invested in the prescribed types of assets;
- total premium gained 3.2% and came at RSD 27.8 bn;

[7] 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.

- non-life insurance continued to account for the dominant share of total premium (76.8%). Non-life insurance premium rose by 3.2%, as property insurance, full coverage motor vehicle insurance ("kasko") and voluntary health insurance recorded growth. Motor vehicle liability insurance premium continued to rise, after dropping in Q1 2020 amid the coronavirus pandemic, and recovering in Q2 2020;
- life insurance kept its share in total premium unchanged, at 23.2%, recording growth equal to that of non-life insurance premium.

The current insurance regulations in the Republic of Serbia 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 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 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 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 insurance and reinsurance 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. These activities are aimed at 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, which will continue going forward.