NATIONAL BANK OF SERBIA

INSURANCE SUPERVISION
DEPARTMENT

INSURANCE SECTOR IN SERBIA

Second Quarter Report 2018

Contents:

List of abbreviations

mn	million
bn	billion
Q2	second quarter (1 January – 30 June)
Q3	three quarters in one year (1 January – 30 September)

1 Insurance market[1]

1.1 Market participants

Insurance undertakings

At end-Q2 2018, the insurance market in Serbia comprised 21 insurance undertakings, two less[2] compared to the corresponding period a year earlier. Seventeen undertakings engaged in insurance activities only and four in reinsurance activities. Of the insurance undertakings, four were exclusive life insurers, seven exclusive non-life insurers, while six provided both life and non-life insurance.

The breakdown by ownership shows that of the 21 insurance undertakings, 16 are in majority foreign ownership.

At end-Q2 2018, foreign-owned insurance undertakings, which entered the market based on greenfield licences, continued to record a dominant share of 90.8% in life insurance premium, 62.6% in non-life insurance premium, 77.2% of total assets and 69.0% of total employment.

Chart 1.1.1 **Structure of insurance undertakings in Serbia by ownership** (in Q2 2018)

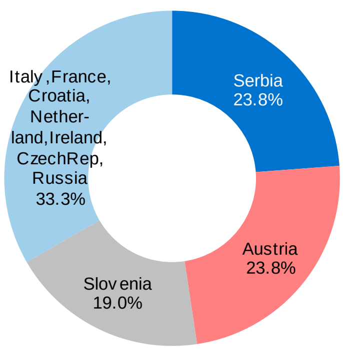
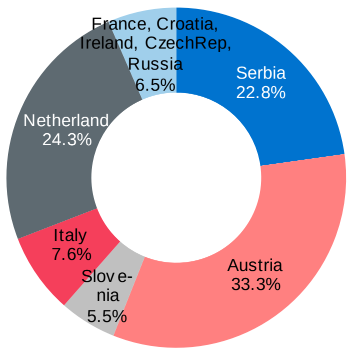


Chart 1.1.2 **Balance sheet total of insurance undertakings in Serbia by ownership** (in Q2 2018)



Source: National Bank of Serbia.

[1] The Report is based on data that insurance undertakings are obliged to submit to the NBS, but their accuracy was not verified by the NBS on-site examinations. When analysing the insurance market, it should be borne in mind that changes presented in the Report are calculated relative to data for insurance undertakings which held the license in Q2 2017.

[2] One non-life insurer and one life insurer joined the third insurance undertaking in Q3 2017.

Other market participants

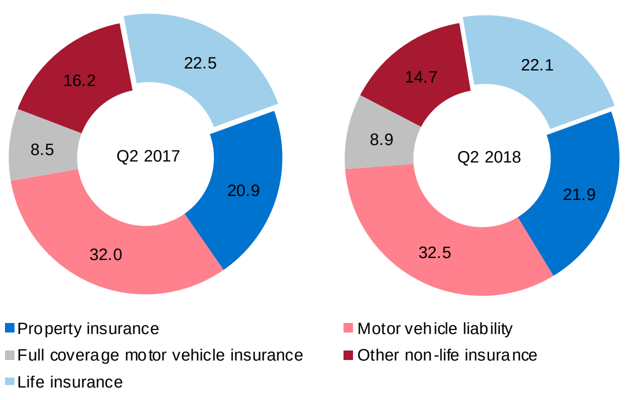
In addition to insurance undertakings, the market consisted of 19 banks, eight financial lessors and one public postal operator, all of which are licensed for agency operations, 89 legal entities (insurance brokerage/agency services), 86 insurance agents (natural persons – entrepreneurs) and 6,761 active certified agents/brokers in insurance.

1.2 Insurance portfolio structure

Total premium generated from the insurance business in Q2 2018 came at RSD 52.2 bn (EUR 442 mn or USD 515 mn)[3], which is an increase of 6.8% from a year earlier.

The share of non-life insurance in total premium was 77.9%. Life insurance decreased slightly its share from 22.5% in Q2 2017 to 22.1% in the same period of the current year, due to a slowdown trend of life insurance premium, which recorded an increase of 5.0% relative to Q2 2017.

Chart 1.2 **Total premium according to the types of insurance**
(in Q2 2017 and Q2 2018, in %)



Source: National Bank of Serbia.

The insurance premium structure by insurance type in Q2 2018 somewhat resembled that recorded in the same period a year earlier, with MTPL insurance accounting for the largest share of total premium (32.5%). It was followed by life

3 At the NBS middle exchange rate as at 30 June 2018.

insurance (22.1%), property insurance (21.9%) and motor vehicle insurance - "kasko" (8.9%).

Non-life insurance premium rose by 7.4% in Q2 2018 relative to Q2 2017. MTPL insurance premium rose by 8.5%, property insurance premium by 11.8%, premium for full coverage motor vehicle insurance (“kasko”) expanded by 11.5%, while accident insurance premium recorded a fall of 36.0%.

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, accounted for only 2.8% of total premium in Q2 2018.

The share of voluntary health insurance premium showed an increase from 3.7% in Q2 2017 to 4.2% in Q2 2018, and a nominal growth of 21.9%. Three insurance undertakings covered more than two thirds of the market.

Observed by the total and non-life insurance premiums, there was no change in the ranking of the top five insurance undertakings in Q2 2018 relative to Q2 2017, and they accounted for 78.9% and 81.5% respectively of the mentioned categories of premiums. However, observed by life insurance premiums, there was a change in the ranking of the top five insurance undertakings, which accounted for 82.0% of the total.

The Herfindahl Hirschman index, calculated by summing up the squares of the respective market shares or, in this case, balance sheet totals of all insurance undertakings, points to moderate market concentration. At end-Q2 2018 the HHI was 1,323[4].

[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.

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

	30.06.2017			30.06.2018			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
by total premiums							
Dunav	13217	27,1	1	14390	27,6	1	-
Generali	10246	21,0	2	11568	22,2	2	-
DDOR	5856	12,0	3	6309	12,1	3	-
Wiener	5340	10,9	4	5777	11,1	4	-
Triglav	2820	5,8	5	3132	6,0	5	-
by non-life premiums							
Dunav	12514	33,0	1	13332	32,8	1	-
Generali	7220	19,1	2	7595	18,7	2	-
DDOR	5269	13,9	3	5437	13,4	3	-
Wiener	2995	7,9	4	3890	9,6	4	-
Triglav	2608	6,9	5	2883	7,1	5	-
by life premiums							
Generali	3027	27,6	1	3973	34,5	1	-
Wiener	2345	21,4	2	1887	16,4	2	-
Grawe	1709	15,6	3	1662	14,4	3	-
Dunav	703	6,4	6	1058	9,2	4	**increase**
Uniqa l	863	7,9	5	879	7,6	5	-

Source: NBS.

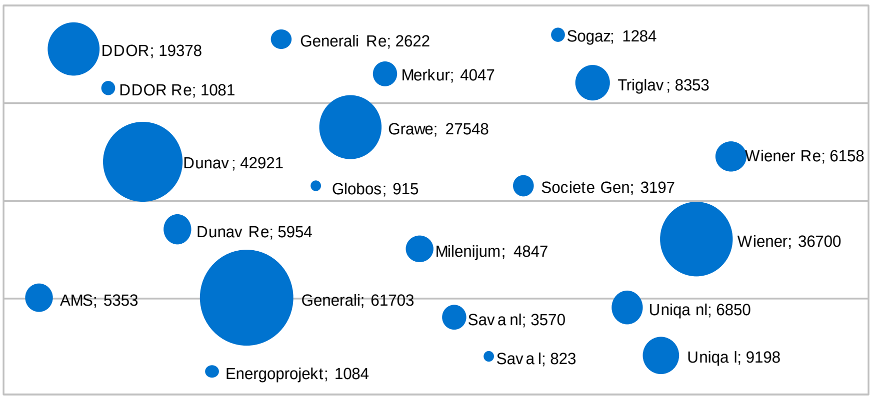
1.3 Balance sheet total and balance sheet structure

Balance sheet total

Balance sheet total of insurance and reinsurance undertakings increased at end-Q2 2018 to RSD 253.6 bn (EUR 2,148 mn or USD 2,502 mn)[5], up by 9.8% year-on-year.

5 At the NBS middle exchange rate as at 30 June 2018.

Chart 1.3.1 **Balance sheet total of insurance undertakings**
(as at 30/06/2018, 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 Q2 2018 accounted for 79.2% of the total.

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

	30.06.2017			30.06.2018			Ranking change
	Amount	Share	Rank	Amount	Share	Rank	
Generali	55440	25,7	1	61703	26,0	1	-
Dunav	38657	17,9	2	42921	18,1	2	-
Wiener	30711	14,2	3	36700	15,4	3	-
Grawe	24793	11,5	4	27548	11,6	4	-
DDOR	18038	8,3	5	19378	8,1	5	-

Source: NBS.

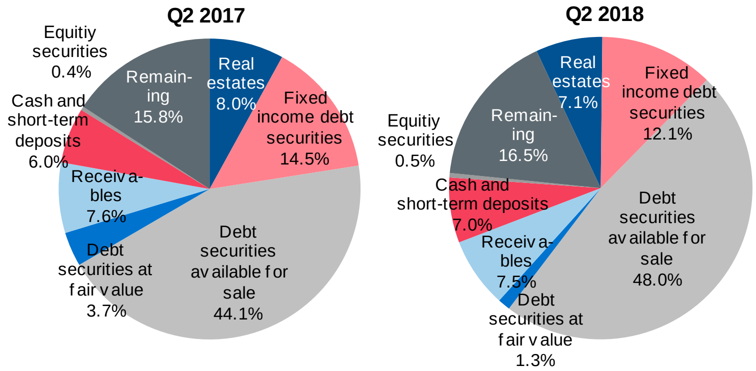
Structure of assets

As at 30 June 2018, assets of insurance and reinsurance undertakings comprised mostly debt securities available for sale (48.0%), fixed income debt securities (12.1%) and debt securities recognised at fair value through income statement (1.3%), followed by: receivables (7.5%), property, plant and equipment (7.1%), cash and short-term deposits (7.0%), equities (0.5%) and other[6].

[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

When compared to the same period of the previous year, we can conclude that, on the one hand, the dominant share of debt securities available for sale increased at the rate of 19.6%, recording growth in nominal terms, while on the other hand, the share of real estate in total assets continued to decrease.

Chart 1.3.2 **Structure of assets**
(as at 30/06/2017 and 30/06/2018)

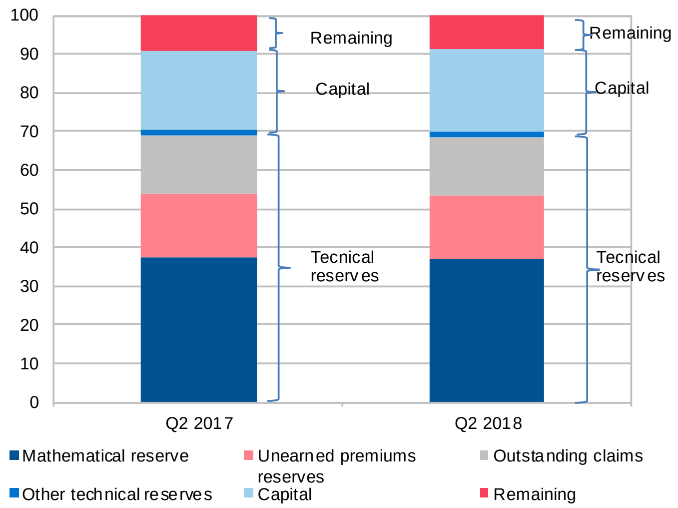


Source: National Bank of Serbia.

Structure of liabilities

At end-Q2 2018, technical provisions accounted for 70.1% and capital for 21.1% of total liabilities.

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



Source: National Bank of Serbia.

investments, other short-term financial investments, added value tax, prepayments and accrued income and technical provisions borne by the coinsurance and reinsurance.

Capital amounting to RSD 52.6 bn recorded growth at the rate of 11.6% as compared to end-Q2 of the previous year, while technical provisions with the amount of RSD 174.9 bn recorded growth of 9.1%, the most significant portion relating to mathematical reserves, with the growth rate of 7.9%.

Technical provisions enjoyed uninterrupted growth in both nominal and real terms.

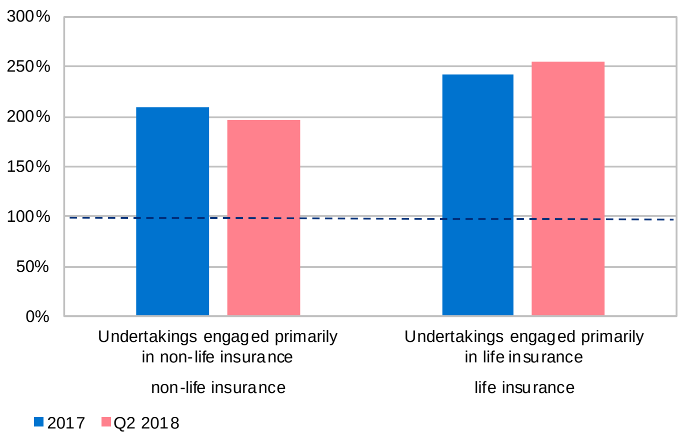
2 Performance indicators

2.1 Capital adequacy

The solvency of insurance undertakings 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 sector (insurance and reinsurance undertakings) in Serbia as at 30 June 2018 amounted to RSD 38.4 bn, and the required solvency margin to RSD 17.3 bn. **The main capital adequacy indicator** (the ratio of the available to required solvency margin) was 197.0% for all *non-life insurers* and 255.6% for all *life insurers* in Serbia.

Chart 2.1 **Ratio of available solvency margin to required solvency margin of insurnace undertakings**



Source: National Bank of Serbia.

2.2 Quality of assets

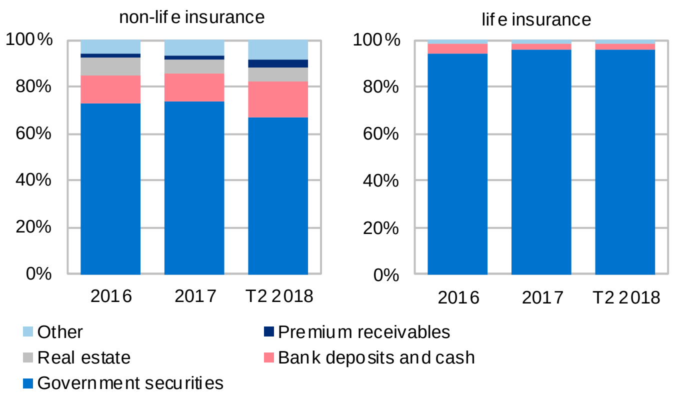
The share of intangible investments, real estates, investment in non-tradable securities and receivables (as types of assets with possible difficulties in collectability) in total assets of undertakings engaged primarily in *non-life insurance*, i.e. **the ratio of less marketable assets**, came at a satisfactory 18.4% at end-Q2 2018 (it measured 17.9% at end-2017). The ratio was 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 from 1.7% at end-2017 to 1.6% at end-Q2 2018.

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 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.

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



Source: National Bank of Serbia.

Non-life insurance technical provisions of all insurance undertakings in Serbia in Q2 2018 were mostly invested in government securities (66.9%), bank deposits and cash (15.5%), real estate (5.5%) and insurance premium receivables (4.2%).

Life insurance technical provisions were in major part invested in government securities (96.1%), followed by bank deposits and cash (2.6%).

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. In undertakings primarily engaged in *non-life insurance*, the combined ratio declined from 90.5% in Q2 2017 to 89.2% in Q2 2018. The favourable trend of this ratio resulted from the faster growth of earned net premium relative to 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 154.4% in Q2 2018, which is higher than in Q2 2017 when it equalled 145.2%.

The movements of this ratio suggest that liquid assets were sufficient to timely service short-term liabilities in the insurance sector.

[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.

3 Motor third party liability

At end-Q2 2018, 10 insurance undertakings engaged in compulsory MTPL insurance – unchanged from the same period last year.[8]

The MTPL premium rose by 8.5% in Q2 2018 relative to the same period a year earlier.

Portfolio concentration in this segment was slightly lowered, as three insurance undertakings with the largest share in the MTPL premium accounted for 67.6% of the market in Q2 2018, as opposed to 68.4% in the same period last year.

[8] In the observed period, one non-life insurance undertaking discontinued offering MTPL insurance services (joining other insurance undertaking), while one composite insurance undertaking started offering such services.

4 Conclusion

The comparison of indicators between Q2 2018 and the same quarter in 2017 points to the following changes:

- a total of 21 insurance undertakings operate in Serbia, two undertakings less then in the same period of the previous year, while employment in the sector dipped by 1.9% to 10,697 persons;
- the insurance sector balance sheet total rose by 9.8% to RSD 253.6 bn;
- capital increased by 11.6% to RSD 52.6 bn;
- technical provisions gained 9.1%, coming at RSD 174.9 bn, and were fully invested in prescribed types of assets, both in life and non-life insurance;
- total premium gained 6.8% and came at RSD 52.2 bn;
- the share of non-life insurance was dominant in total premium, equalling 77.9%. Non-life insurance premium rose by 7.4%, with MTPL insurance, property insurance and full coverage motor vehicle insurance going up 8.5%, 11.8% and 11.5% respectively;
- Life insurance reduced their share in total premium from 22.5% to 22.1%, recording a nominal growth of 5.0%.
- the Herfindahl Hirschman index points to moderate market concentration.

Insurance regulations adopted in late 2014 and the first half of 2015 laid the legislative ground for a significant step forward of the Serbian insurance sector to that of the EU, with a view to ensuring the level of protection of insured persons in Serbia equivalent to that in the EU. Since the EU applied the Solvency I regime at the time of drafting the above mentioned regulations, the domestic framework was Solvency I-compliant, while incorporating some requirements of Solvency II, in accordance with the level of development of the Serbian insurance market. Accordingly, it may be said that Solvency 1½ regime is currently in force in Serbia. To be exact, domestic regulations have implemented certain Solvency II provisions pertaining to the qualitative requirements under Pillar 2 (governance system comprising four key functions: risk management, system of internal controls, internal audit and actuarial function, as well as own risk and solvency assessment – ORSA, risk-based supervision, fit and proper requirements in licensing of supervised entities, etc.).

Completing the first phase of strategic activities aimed at implementing of the new methodological framework – compliance analysis, implementing current activities, which are integral to the second phase – impact assessment, and moving to harmonisation of the regulatory framework, as the third phase, will ensure that by the time Serbia accesses the EU, its insurance sector will have achieved full compliance with the EU rules, i.e. even greater stability and beneficiary protection.