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List of abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>mn</td>
<td>million</td>
</tr>
<tr>
<td>bn</td>
<td>billion</td>
</tr>
<tr>
<td>Q1</td>
<td>first quarter (1 January – 31 March)</td>
</tr>
<tr>
<td>Q3</td>
<td>three quarters in one year (1 January – 30 September)</td>
</tr>
</tbody>
</table>
1 Insurance market

1.1 Market participants

Insurance and reinsurance undertakings

At end-Q1 2020, 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-Q1 2020 shows that of the 20 insurance undertakings, 15 were in majority foreign ownership.

At end-Q1 2020, foreign-owned undertakings held majority shares of 89.7% in life insurance premium, 63.4% in non-life insurance premium, 75.8% in total assets and 68.2% in total employment.

Other market participants

In addition to (re)insurance undertakings, the market consisted of: 17 banks, seven financial lessors and one public postal operator which are licensed for insurance

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1 The report is based on data that insurance and reinsurance undertakings are obliged to submit to the NBS.
agency operations, 99 legal entities (insurance brokerage and agency services), 81 insurance agents (natural persons – entrepreneurs) and 4,027 active certified agents/brokers in insurance.

1.2 Insurance portfolio structure

Total premium in Q1 2020 came at RSD 26.9 bn (EUR 229 mn or USD 253 mn)\(^2\), which is an increase of 8.5% from a year earlier.

The share of non-life insurance in total premium was 76.8%. Life insurance share increased from 22.7% in Q1 2019 to 23.2% in the same period of the current year, due to higher, two-digit nominal growth (10.8%) in life insurance premium relative to non-life insurance premium.

Observed by type of insurance, premium structure in Q1 2020 resembled that recorded in the same period in 2019, with MTPL insurance accounting for the largest share of total premium (26.7%). It was followed by life insurance (23.2%), property insurance (20.3%) and full coverage motor vehicle insurance (9.6%).

Non-life insurance premium rose by 7.9% in Q1 2020 relative to Q2 2019. Property insurance, full coverage motor vehicle insurance, and voluntary health insurance recorded a significant increase (12.7%, 11.2% and 28.8% respectively), while MTPL insurance premium dropped by 1.9% y-o-y, expectedly as a consequence of the coronavirus pandemic.\(^3\)

\(^2\) At the NBS middle exchange rate as at 31 March 2020.

\(^3\) For more detail see Section 3 Motor third party liability.
The above rise in the voluntary health insurance premium was accompanied with the increase in the premium share of this type of insurance from 6.4% in Q1 2019 to 7.6% in Q1 2020. Five insurance undertakings accounted for 88.1% 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 increased by 7.5% while accounting for only 3.3% of total premium in Q1 2020.

Looking at non-life insurance premium, there was no change in the ranking of the five largest insurance undertakings in Q1 2020 relative to Q1 2019 and together they accounted for 81.2% of all premiums in this segment of the market. However, their ranking by the level of the total and life insurance premium did change, and together they accounted for 79.6% and 83.6% respectively of those premium categories.

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 2020 the HHI was 1,326⁴.

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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.
1.3 Balance sheet total and balance sheet structure

**Balance sheet total**

At end-Q1 2020, the balance sheet total of insurance and reinsurance undertakings amounted to RSD 300.2 bn (EUR 2,554 mn or USD 2,814 mn)\(^5\), up by 4.8% y-o-y.

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\(^5\) At the NBS middle exchange rate as at 31 March 2020.
In terms of the balance sheet total, there was no change in the ranking of the top five insurance undertakings, which in Q1 2020 accounted for 80.1% of the industry’s balance sheet total.

<table>
<thead>
<tr>
<th></th>
<th>31 March 2019</th>
<th>31 March 2019</th>
<th>Ranking change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Share</td>
<td>Rank</td>
</tr>
<tr>
<td>Generali</td>
<td>71379</td>
<td>27.4</td>
<td>1</td>
</tr>
<tr>
<td>Dunav</td>
<td>45315</td>
<td>17.4</td>
<td>2</td>
</tr>
<tr>
<td>Wiener</td>
<td>39345</td>
<td>15.1</td>
<td>3</td>
</tr>
<tr>
<td>Grawe</td>
<td>29437</td>
<td>11.3</td>
<td>4</td>
</tr>
<tr>
<td>DDOR</td>
<td>19889</td>
<td>7.6</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: NBS.

Structure of assets

As at 31 March 2020, the assets of insurance and reinsurance undertakings comprised mostly debt securities: debt securities available for sale (49.2%), fixed income debt securities (10.9%) and debt securities recognised at fair value through income statement (0.5%), followed by receivables (8.1%), cash and short-term deposits...
Insurance Sector in Serbia – Second Quarter Report 2020

(7.5%), property, plant and equipment (7.0%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (6.8%) and other 6.

Compared to the same period the year before, in Q1 2020 the dominant share of debt securities increased to 60.6%, on the one hand, while on the other hand the share of technical provisions charged to coinsurer, reinsurer and retrocessionaire (part of the item “Other” in Chart 1.3.2) decreased 7 as a result of the settlement of a damage caused by fire in Q1 2020, in the full amount, which was earmarked at end-2018.

Structure of liabilities

At end-Q1 2020, technical provisions accounted for 66.6% and capital for 24.3% of total liabilities.

Capital amounting to RSD 72.1 bn recorded growth at the rate of 17.5% as compared to Q1 of the previous year, while technical provisions, after the yearslong continuous increase, declined by 0.3% to RSD 197.6 bn, due to the 24.8% y-o-y decrease in outstanding claims brought about by the great property damage in September 2018 (Imlek AD). Mathematical reserve kept the dominant share in technical provisions, with the y-o-y growth rate of 7.7% in Q1 2020.

6 The 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.

7 The decline in share from 11.8% in Q1 2019 to 6.8% in Q1 2020.
2 Performance indicators

2.1 Capital adequacy

The solvency of insurance undertakings largely depends on the sufficiency of technical provisions for undertaken obligations and primarily 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 31 March 2020 amounted to RSD 48.8 bn, and the required solvency margin to RSD 19.3 bn. The main capital adequacy indicator (the ratio of the available to required solvency margin) was 239.5% for non-life insurers and 282.1% for life insurers in Serbia.

![Chart 2.1 Capital adequacy of insurance undertakings](chart)

Source: National Bank of Serbia.

2.2 Quality of assets

The share of intangible investments, real estate, 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 17.5% at end-Q1 2020, compared to 16.7% at end-2019. 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 6.1% at end-2019 to 5.8% at end-Q1 2020.

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), in line with its investment policy.

In Q1 2020, technical provisions were fully invested in the prescribed types of assets, in both non-life and life insurance, as well as in reinsurance undertakings.

Non-life insurance technical provisions of all insurance undertakings in Serbia were mostly invested in government securities (72.7%), bank deposits and cash (11.7%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (8.8%), and real estate (4.3%), while insurance premium receivables recorded a share of less than 1%. The composition of investments of these assets was somewhat changed from 2019. While the share of government securities rose, the share of technical provisions charged to coinsurer, reinsurer and retrocessionaire (part of the item "Other" in Chart 2.3) declined, as did the share of deposits and cash.

Life insurance technical provisions were in major part invested in government securities - 92.5%, while bank deposits and cash accounted for only 2.5%.

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8 As a result of the settlement of the above large property damage.
2.4 Profitability

A measure of profitability of an insurance undertaking is the **net combined ratio** (the sum of net claims and underwriting 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 81.2% in Q1 2019 to 78.2% in Q1 2020. The favourable trend of this ratio resulted from the growth of the earned net premium relative to the sum of the growth in net claims and the decline in underwriting expenses, which is a significant indicator of the results of activities undertaken by the NBS with a view to improving the insurance market.

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**\(^9\) for the insurance sector (insurance and reinsurance undertakings) stood at 160.1% in Q1 2020, suggesting that liquid assets were sufficient for servicing short-term liabilities in the insurance sector.

3 Motor third party liability

At end-Q1 2020, 11 insurance undertakings engaged in compulsory MTPL insurance – one undertaking more than in the same period last year.\(^10\)

The MTPL premium declined by 1.9% in Q1 2020 relative to the same period a year earlier, as an expected consequence of the coronavirus pandemic. Namely, the lockdown during the emergency state resulted in less vehicle registrations and thus in reduced volume of MTPL insurance in the observed period.

Portfolio concentration in this segment was slightly lowered, as three insurance undertakings with the largest share in the MTPL premium accounted for 65.7% of the market in Q1 2020, as opposed to 67.1% in the same period last year.

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\(^9\) 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.

\(^10\) One non-life insurance undertaking started selling MTPL insurance in November 2019.
4 Conclusion

The comparison of indicators between Q1 2020 and the same quarter in 2019 points to the following changes:

- a total of 20 (re)insurance undertakings operated in the Serbian market, same as in the same period last year, while employment in the sector increased by 4.3% to 11,151 persons;
- the insurance sector balance sheet total rose by 4.8% to RSD 300.2 bn;
- capital increased by 17.5% to RSD 72.1 bn;
- technical provisions dropped by 0.3% as a consequence of the settlement of the above large property damage in the full amount. They stood at RSD 197.6 bn and were fully invested in the prescribed types of assets;
- total premium gained 8.5% and came at RSD 26.9 bn;
- Non-life insurance continued to account for the dominant share of total premium (76.8%). Non-life insurance premium rose by 7.9%, as property insurance, full coverage motor vehicle insurance (“kasko”) and voluntary health insurance increased, while MTPL insurance, declined amid the coronavirus pandemic;
- Life insurance slightly increased its share in total premium, from 22.7% to 23.2%, while life insurance premium recorded a nominal growth of 10.8%.

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 are yet to be made with the 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 consumers and distribution of insurance products, in order to improve the level of protection of rights and interests of insurance service users.

An effective risk-based solvency regime is in line with development trends in other segments of the financial sector, particularly banking. Therefore, for the sake of further improvement of prudential supervision regulatory framework, in the forthcoming period continuation of the alignment of the regulations with the Solvency II Directive is expected, which will change the manner of quantification of the level of risks to which (re)insurance undertakings are exposed in their operations and therefore, also
the manner of management of those risks. Completing the first phase of strategic activities aimed at implementing Solvency II – compliance analysis, implementing the ongoing activities which are integral to the second phase – impact assessment, and moving to harmonisation of the regulatory framework, by the time Serbia accedes to the EU, as the third phase, will enable the insurance sector to respond to future challenges adequately, 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 (a sudden contraction in economic activity and rise in unemployment, among other), the role of the insurance sector in providing protection to citizens and insured persons and ensuring continuity in provision of insurance services, increasingly gains in importance. In this sense, in 2020 the NBS will take all the necessary measures within its scope of competence to mitigate the effects of the pandemic on the insurance sector. These activities will be aimed at maintaining the stability of the insurance sector (by implementing the on-site examinations plan, continuous off-site supervision of (re)insurance undertakings and other supervised entities and considering the need for regulatory amendments) and improving the supervisory function, all with a view to ensuring the stability of the insurance sector and protecting the insured persons, insurance service users and injured parties.