



INSURANCE SUPERVISION AGENCY

2015
ANNUAL REPORT
OPERATIONS OF THE INSURANCE SUPERVISION AGENCY

Skopje, 2016

This Report was prepared in accordance with Article 158-t of the Law on Insurance Supervision and for its preparation the Insurance Supervision Agency used data from its own records.

Content:

<u>1.</u>	<u>ESTABLISHMENT AND MISSION</u>	<u>4</u>
<u>2.</u>	<u>FUNDING OF THE INSURANCE SUPERVISION AGENCY</u>	<u>5</u>
<u>3.</u>	<u>ACTIVITIES OF THE INSURANCE SUPERVISION AGENCY</u>	<u>5</u>
<u>3.1.</u>	REGULATION	<u>5</u>
<u>3.2.</u>	LICENSING	<u>6</u>
<u>3.3.</u>	SUPERVISION	<u>7</u>
<u>4.</u>	<u>COOPERATION WITH DOMESTIC AND INTERNATIONAL INSTITUTIONS</u>	<u>8</u>
<u>5.</u>	<u>EDUCATION AND CAPACITY BUILDING</u>	<u>9</u>
<u>6.</u>	<u>CONSUMER PROTECTION AND FINANCIAL EDUCATION</u>	<u>10</u>
<u>7.</u>	<u>PROJECTS</u>	<u>11</u>

1. ESTABLISHMENT AND MISSION

The Insurance Supervision Agency of the Republic of Macedonia (hereinafter, ISA) is an autonomous, independent regulatory authority which administers public authorizations stipulated in the Law on Insurance Supervision and the Law on Mandatory Traffic Insurance.

ISA's legal responsibilities are to:

- Supervise market activities of insurance entities, i.e., insurance undertakings, insurance brokerage companies, insurance agencies, insurance brokers and insurance agents, legal persons associated with insurance companies, and the National Insurance Bureau;
- Enact secondary legislation;
- Decide whether to grant or revoke licenses; grant or withdraw consents; remove or address irregularities and other issues following supervisory actions; and
- Impose sanctions on insurance entities over which it has jurisdiction.

Through its powers and responsibilities, its membership in international insurance associations and in cooperation with other supervisory authorities, ISA strives to facilitate a strong and growing insurance market which adequately protects the rights and interests of insureds and their beneficiaries.

ISA works to strengthen insurance companies' solvency position by monitoring their financial reporting, corporate performance, and work processes. By maintaining a strong level of financial control over insurance undertakings, ISA strengthens the financial stability of the country and provides for the adequate protection of the rights and interests of policyholders and beneficiaries.

ISA is accountable to the Parliament of Republic of Macedonia, which approves ISA's financial plan and annual accounts subject to mandatory audits by an independent, authorised auditor.

ISA's managing body consists of the Council of Experts, made up of the Council President and four members, and who are all appointed and dismissed by the Parliament of the Republic of Macedonia upon recommendation by the Government of the Republic of Macedonia. In 2015, ISA's Council of Experts was composed of:

- Klime Poposki, president,
- Zoran Stojanovski, executive member,
- Lulzim Imeri, executive member,
- Ilija Graorkovski, non-executive member, and
- Aleksandar Petreski, non-executive member.

Throughout 2015, ISA actively performed its legally defined functions, both in terms of improving the overall insurance market and in supervising all participants subject to regulation within the Republic of Macedonia.

The Council of Experts works in sessions and adopts decisions by majority vote. In 2015, ISA's Council of Experts held 31 sessions.

2. FUNDING OF THE INSURANCE SUPERVISION AGENCY

Pursuant to the Rulebook on fees, annual fees and lump-sum fees collected by ISA and the respective due dates ("Official Gazette of Republic of Macedonia" No. 147/09, 149/09, 154/09, 20/12, 130/13, 01/15), the operations of ISA are funded by the fees collected from insurance companies, insurance brokerage companies, insurance agencies and others entities supervised by ISA.

At its session on 25 December 2015, the Council of Experts adopted the 2016 Financial Plan, which was subsequently submitted to the Parliament.

3. ACTIVITIES OF THE INSURANCE SUPERVISION AGENCY

Following priorities set for 2015 and as authorized by the Law on Insurance Supervision, ISA enacted bylaws and passed measures related to supervision, including decisions on licensing, as well as curricula and exam calendars for insurance agents and brokers. It also carried motions that support and strengthened ISA's work and its internal capacity.

3.1. Regulation

In 2015, ISA enacted 2 new bylaws and amended 2 bylaws derived from the Law on Insurance Supervision („Official Gazette of the Republic of Macedonia“ No. 27/02, 98/02, 79/07, 88/08, 67/10, 44/11, 112/11, 188/13, 30/14, 43/14, 112/14, 153/15 and 192/15).

In order to adopt the Law amending and supplementing the Law on Insurance Supervision („Official Gazette of Republic of Macedonia“ No. 188/13), the following two new rulebooks set forth training guidelines for activities carried out by insurance brokerage companies and insurance agencies:

1. The Rulebook on the procedure for conducting training for insurance brokerage activities („Official Gazette of Republic of Macedonia“ No. 24/15); and
2. Rulebook on the procedure for conducting training for insurance agency activities („Official Gazette of Republic of Macedonia“ No. 24/15).

Also, during 2015, in order to harmonise with the Law on Personal Data Protection („Official Gazette of Republic of Macedonia“ No. 7/05, 103/08, 124/08, 124/10, 135/11, 43/14 and 153/15), two previously adopted bylaws that concern maintenance of registries of insurance agents, insurance agencies, insurance brokers, insurance brokerage companies, and banks were amended accordingly with:

1. Rulebook amending and supplementing the Rulebook on the form, content, and manner of keeping registries of insurance agents, insurance agencies, insurance brokers, insurance brokerage companies, and banks by the Insurance Supervision Agency („Official Gazette of Republic of Macedonia“ No. 50/15);
2. Rulebook amending and supplementing the Rulebook on the form, content, and manner of keeping registries of insurance agents and insurance brokers by insurance agencies and insurance brokerage companies („Official Gazette of Republic of Macedonia“ No. 50/15).

3.2. Licensing

In 2015, ISA issued:

- 1 license for establishing an insurance brokerage company;
- 3 licenses for establishing an insurance agency;
- 3 licenses for introducing a new line of business insurance;
- 1 license for transferring the insurance portfolio from ADOR MACEDONIA INSURANCE to WINNER LIFE JSC Skopje;
- 10 consents to perform the function member of the management body;
- 12 consents to amend the Statute of an insurance undertaking;
- 15 consents for companies to audit the financial statements and the consolidated financial statements of the insurance undertakings;
- 1 consents for acquisition of qualified interest in an insurance agency;
- 1 consents for acquisition of qualified interest in an insurance brokerage company;
- 1 consent to change the name of the head office;
- 214 licences for insurance agents; and
- 59 licences for insurance brokers.

With 59 new licenses issued to insurance brokers in 2015, the total number of insurance brokers at year end had increased to 436. The 2 training sessions held to train insurance brokers in 2015 had 94 attendees. At 12 exam offerings organized during the year, 34 were able to successfully pass the exams. Also, during 2015, 214 licenses were issued, whereas 72 were revoked. As a result the number of licensed insurance agents as of 31 December 2015 reached 976. In all, 192 met the educational requirements and passed by going through 2 trainings for insurance agents, for which 12 exams were provided as an integral part of the training process. All in all, 99 have passed these licensing exams.

3.3. Supervision

ISA supervises insurance companies, insurance brokerage companies, insurance agencies, and the National Insurance Bureau in accordance with the Law on Insurance Supervision, the Law on Compulsory Insurance in Traffic and other relevant regulations. ISA also holds the authority to supervise natural persons engaged in insurance brokerage and insurance agency activities.

ISA conducts its work through both permanent off-site supervisions of insurance undertakings' operations and other insurance entities where it collects, analyses and verifies reports and information that it collects and through complete or partial on-site supervisions.

ISA conducts on-site supervision of the operations of the insurance undertakings, insurance brokerage companies, and insurance agencies. The purpose of on-site supervisions is assessment of the reliability, stability, risk and compliance of companies' operations.

During 2015, ISA conducted 8 partial on-site supervisions of insurance undertakings, as well as 3 extraordinary on-site supervisions of insurance brokerage companies.

On the basis of the conducted on-site supervisions, ISA issued 67 orders requiring elimination of irregularities.

During 2015, ISA conducted regular off-site supervisions based on reports of the insurance market players. The reports are submitted in hardcopy, and also electronically through ISA's web-portal, a software application platform ISA uses to improve the method of collecting, storing and processing data provided by the insurance market entities. A majority of the insurance undertakings' data is submitted quarterly by a set of reports (statistics forms; financial statements, valuation reports of balance sheet items; supervision reports, additional financial statements, and actuarial reports), with the remainder on monthly basis (report on the liquidity ratios). Also, insurance brokerage companies and insurance agencies submit on a monthly basis data on paid premiums and unearned paid premiums, on a quarterly basis and the statistics informs ISA of the structure and volume of operations concerning insurance intermediation, rather than merely relying on annual financial statements.

In 2015, based on the conducted on-site supervisions, ISA issued 1 order for remedying irregularities.

For the detected offences, authorized persons from ISA, within their powers, offered the offending party mediation and a settlement, where the offending party would pay the fine, and other fees, or address consequences of the offence. ISA leads the mediation procedure through its Mediation Commission, composed of ISA employees appointed by the Council of Experts. In 2015, ISA's Mediation Commission conducted mediation procedures for 11 misdemeanours. Consequently, the following arrangements were reached:

- 1 agreements to remedy a misdemeanour related consequence, and
- 10 arrangements towards payment of fine.

Regarding offenses stipulated in the Law on Insurance Supervision, ISA conducts misdemeanour proceedings and imposes sanctions accordingly. The misdemeanour proceedings before the Misdemeanour Authority is conducted by the Misdemeanour Commission comprised of ISA employees and appointed by the Council of Experts. In 2015, ISA's Misdemeanour Commission did not receive any requests for conducting misdemeanour procedures.

4. COOPERATION WITH DOMESTIC AND INTERNATIONAL INSTITUTIONS

One main priority of ISA for 2015 was continuing a productive relationship with national regulatory authorities and other institutions which hold common concerns, including other bodies of supervision and related institutions abroad. In line with this aim, 2 Memorandums of Understanding were signed, with the Public Revenue Office of Republic of Macedonia, and the National Bank of Serbia, which is the institution responsible for insurance supervision in Serbia.

On 11 February 2015, the Collective Agreement for independent regulators was signed at ISA's office, affirming trust among social partners who share a collective aim of improving across sectors- norms that will improve employment rights and obligations. Upon invitation from regulatory bodies from EU Member States, ISA representatives participated in activities of 6 Supervisory College of 3 EU member states' regulatory bodies, including Austria, Slovenia, and Bulgaria. The supervisory colleges were organized by the regulatory authorities of the EU in accordance with guidelines set by the European Insurance and Occupational Pensions Authority (EIOPA) in order to ensure better supervision of insurance groups which are present in several EU countries and countries at different stages of the EU accession process. Supervisory colleges represent are excellent opportunity to exchange experiences and jointly apply methodologies.

In order to promote regional cooperation, ISA representatives took part in 2 regular meetings of the Central, Eastern and Southeast Europe (CESEE) Insurance Supervision Initiative, whose purpose is the exchange of experiences regarding implementation of supervision of insurance undertakings, as well as harmonization of insurance-related laws and bylaws.

ISA representatives also participated in the 22nd Annual Conference of the International Association of Insurance Supervisors (IAIS), where ISA has been a regular member and part of the working groups. ISA representative also participated in the work of the Supervisory Forum of the International Association of Insurance Supervisors (IAIS), a working body established in 2011 with the aim of enhancing the efficiency of the insurance supervisions and to encourage equalization of supervisory practices.

Also, representatives of ISA took part in the 11th Meeting of the Subcommittee for Internal Markets and Competition and the Subcommittee on Economic and Financial Issues and Statistics, which form an integral part of the Stabilisation and Association Committee (SAC), during which the achievements in the

insurance sector of Republic of Macedonia were presented, concerning the compliance with the commitments arising from the Stabilisation and Association Agreement with the European Union.

5. EDUCATION AND CAPACITY BUILDING

ISA continuously invests in professional development and continuing education programs for its human resources so that its employees carry out the organization's legal duties effectively and efficiently. In 2015, ISA has formalized a system for developing and monitoring the continuous education and professional development initiatives of its employees.

Towards education and professional development, ISA employees attended seminars and participated in conferences, especially those organized by insurance regulatory bodies. The more significant seminars and conferences at which they participated include the following:

- Seminar on "Cyber security and insurance risks associated with information technology", Zagreb, Croatia, March 2015;
- Seminar on "Practical approach of the methodology for determining insurance tariffs", Banja Luka, Bosnia and Herzegovina, March 2015;
- XVI Annual Conference on "Insurance law, public administration and transparency - grounds of legal certainty", organized by AIDA Serbia – International Association for Insurance Law - Republic of Serbia, Palic, Serbia, April 2015;
- Conference for motor vehicle insurance entitled "Profitability in the motor vehicle insurance", Istanbul, Turkey, April 2015;
- Conference on "Challenges and practice of supervision of insurance undertakings", Zagreb, Croatia, May 2015;
- IV Conference of the International Actuarial Association, Ljubljana, Slovenia, May 2015;
- International Security Forum on "Property insurance in uncertain times", Munich, Germany, June 2015;
- International Programme for insurance and pension supervisors entitled "Balancing the need for supervisory activities and proportionality", organized by the Toronto Centre, Montreal, Canada, July 2015;
- World Risk and Insurance Economics Congress (WRIEC), Munich, Germany, August 2015;
- Regional Conference on Solvency 2, Ljubljana, Slovenia, September 2015;
- IV Conference on Global insurance supervision, Frankfurt, Germany, August 2015;
- Seminar on "Risk and Solvency 2", organized by the Macedonian Actuarial Association "Actuary", Skopje, September 2015;
- Participation at regional seminar on risk-based supervision and early intervention, Bratislava, Slovakia, October 2015;
- Seminar on "Health Insurance: From the Actuarial Background to Product Development", organized by the European Actuarial Academy, Vienna, Austria, December 2015.

On 27 February 2015, on the premises of the National Bank of the Republic of Macedonia (NBRM), workshop highlighting the potential impacts of natural disasters on the operations of commercial banks took place. The workshop was organized as a joint project of NBRM and ISA in order to increase the awareness of risks faced by banks and the overall financial system of the country, arising from catastrophe risks and weather disasters given the lack of sufficient mechanisms for their mitigation. The workshop gave an overview of the low penetration of property and natural catastrophe insurance in the country and of the potential impact natural disasters would bear on the operations of commercial banks and the financial system of the country. The workshop also emphasized the role of Europe Re in raising awareness among the public and businesses regarding the impact of natural disasters and development of insurance for catastrophe risks in the region through an insurance model developed by Europa Re.

On 11 September 2015, ISA held an international conference exploring "Challenges and trends in the global insurance industry and their impact on the insurance industry in Macedonia". The conference aimed to familiarise domestic stakeholders of global trends and challenges faced by the insurance industry. The conference was attended by prominent guest-lecturers, representatives of regulatory bodies, members of the local insurance industry, the academic community, and representatives from the country's public institutions.

6. CONSUMER PROTECTION AND FINANCIAL EDUCATION

Achieving a high level of consumer protection is the main objective and a high priority of ISA's operations. Toward this end, ISA continued its educational activities in 2015. These included citizen awareness programs on the importance and role of insurance and of insured's rights and obligations in insurance contracts.

In March 2015, the Republic of Macedonia hosted the Global Money Week, as part of activities undertaken by the Financial Education Coordination Body¹ for the Global Money Week, organized by Child & Youth Finance International (CYFI). The purpose of this organization is to encourage children and youths to invest in their future by emphasizing the importance of early financial education in order to help children become aware of their financial rights, to facilitate access to financial services and develop their financial skills. ISA representatives presented the basic insurance terms and insurance risk management at the high schools. Also, ISA, in collaboration with the Ministry of Education and the National Insurance Bureau, launched a social children's game "Less Risk, More Fun".

In a joint initiative, the Ministry of Finance, ISA, and NBRM, announced a children and youth competition for primary and secondary schools regarding the topic of savings and insurance. The competition received 310 works, of which 51 were literary art, and 259 were painted art. Diplomas and

¹ Aside from ISA, members of the Financial Education Coordination Body are NBRM, the Ministry of Finance, the Agency for Supervision of Fully Funded Pension Insurance, and the Securities and Exchange Commission of the Republic of Macedonia

cash prizes were given to the 12 most successful participants, and commemorative certificates were issued to the schools that participated in the competition.

On 2 November 2015, ISA commemorated the “Insurance Day” with a ceremony where it awarded a prize in risk management and insurance to Risto Bajatov, for the work “Mortality analysis of annuity beneficiaries in several countries, and correction of the Macedonian population mortality tables”.

With respect to protecting the rights of insureds, ISA acted upon cases submitted by policyholders, insurance beneficiaries, and third damaged parties, as they were dissatisfied with the actions of the insurance undertakings. During 2015, **110** complaints were submitted, with results as follows:

- **81** complaints were resolved, of which **37** in favour of the complainants;
- **17** complaints were without grounds for action;
- **12** complaints are pending resolution.

7. PROJECTS

ISA completed a project to implement a quality management system that allows it to improve its work processes. After successfully conducting an initial run, in September 2015, ISA was issued the ISO 9001:2009 certificate by an accredited organization.

Within the Programme of the European Union, and the Instrument for Pre-accession Assistance (IPA) TAIB 2012, Component 1, Sector 3, Measure 2 - MK12/IB/FI/01, the Ministry of Finance and ISA initiated a process for implementation of the Project "Further harmonization with EU in the field of insurance and increasing market activities". Its implementation began with the preparation of project documentation that was submitted to the national twinning contact points of EU Member States. Upon receiving the submitted documents, and assessing said documents for implementation of the twinning project, the General Directorate for Insurance and Pension Funds of the Kingdom of Spain was selected to serve as a twinning partner. The project is planned to be implemented over an 18 month period in 2016 and 2017.

INSURANCE SUPERVISION AGENCY

President of the Council of Experts,

Klime Poposki

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