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INSURANCE SUPERVISION AGENCY

INSURANCE MARKET IN THE REPUBLIC OF MACEDONIA FOR 2010  
ANNUAL REPORT

Skopje, June 2011

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## 1. INTRODUCTION

The Insurance Supervision Agency of the Republic of Macedonia (hereinafter: "ISA") is an autonomous and independent regulatory body of the insurance market which executes public authorizations determined by the Law on Insurance Supervision and the Law on Compulsory Insurance in Traffic. The objective of ISA is to contribute to legal and efficient functioning of the insurance market in the country and its continuous development, to protect the rights and interests of the policyholders, and to increase the financial stability of the country.

At the end of 2010, 13 insurance undertakings have been active on the Macedonian insurance market, i.e., the same market participants as in 2009, of which, 11 are non-life insurance, and 2 are life insurance undertakings. Toward the end of December 2010, the new participant "WINNER Life-Vienna Insurance Group"-Skopje was granted with a license for conduction of life insurance operations. During 2010, the number of insurance brokerage companies has reached 14, i.e., it was increased by 2 new companies ("MAKOIL BROKER" and "K MK BROKER"), and the number of insurance agencies has reached the number of 6, i.e., it was increased by one new agency ("MK OSIGURUVANJE") compared to 2009.

In 2010, the gross written premium (hereinafter: "GWP") on the Macedonian insurance market has grown by 4.83% compared to the previous year, and the number of the concluded insurance policies has also increased by 8.04%. Primarily, this is due to the growth of the GWP in the compulsory MTPL insurance for 8.9%, and in the property insurance for 7.4%. Also, the two digit growth of the GWP of 17.8% in the life insurance group has been maintained.

In 2010, the insurance sector yielded profit in the amount of 75 million MKD. In the life insurance segment, the realized profit was 43.2 million MKD, and in the non-life insurance segment, the profit was 31.8 million MKD.

In the legislative domain, one amendment of the Law on Insurance Supervision<sup>1</sup> was made and 12 by-laws which regulate the working of the insurance market subjects were adopted. On the other hand, no other significant changes (change of taxes, tax relief, etc.) that would indirectly influence the business success of the subjects have been made, implying that all insurance market participants in the R. of Macedonia perform their activities in a prudent manner.

## 2. LEGAL FRAMEWORK

The Law on Insurance Supervision and the Law on Compulsory Insurance in Traffic constitute the basic legal framework which regulates the conditions and manner of executing insurance and reinsurance operations, the manner and conditions of executing intermediation operations and conduction of supervision of insurance undertakings, insurance brokerage companies and insurance agencies. An

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<sup>1</sup> Law on Amendments and Supplements to the Law on Insurance Supervision ("Official Gazette of the Republic of Macedonia" nr. 67/2010)

additional legal framework constitutes the Contract Law regarding insurance policies and the Company Law.

**The Law on Insurance Supervision**, adopted in April 2002, incorporates the insurance principles and standards of the International Association of Insurance Supervisors (IAIS), as well as the EU insurance directives. In compliance with the Law, an insurance undertaking may only be established as a joint stock company with its main office in the Republic of Macedonia. To establish and operate, the insurance undertaking may obtain a license for performing activities in one of insurance groups, i.e. life or non-life. Domestic and foreign legal entities and natural persons may establish an insurance undertaking under equal conditions. Provisions directed toward establishment of strict rules for risk management in the insurance undertakings have been enclosed in the Law.

In June 2007, the Law on Amendments and Supplements to the Law on Insurance Supervision was adopted ("Official Gazette of the Republic of Macedonia" nr. 79/2007), which main goal is further harmonization with the EU insurance legislation and a complete adoption of the international principles and standards for efficient supervision, especially in the segment of strengthening the independence of the supervisory body, imposition of fit and proper requirements of shareholders and managers in the insurance undertakings, and improvement of prevention and corrective supervision measures. A further harmonization in the segment of solvency requirements of insurance undertakings was made by this Law, as well as harmonization with the directives regarding insurance intermediation and representation.

In 2009, the Law was changed with the Constitutional Court's Decision for abolition of the Article 134-I, by which, performing of insurance activities in the technical inspection centers was completely banned. This change allowed the insurance undertakings and the technical inspection centers to arrange terms for mutual operations, in order to freely correlate within the market and the entrepreneurship.

In 2010, the Law on Amendments and Supplements to the Law on Insurance Supervision was adopted ("Official Gazette of the Republic of Macedonia" nr. 67/2010). The reasons for the changes resulted from the need to comply the existing Law on Insurance Supervision with the Criminal Code ("Official Gazette of the Republic of Macedonia" nr. 37/1996, 80/1999, 4/2002, 43/2003, 19/2004, 60/2006, 73/2006, 7/2008, 139/2008 and 114/2009), and to introduce provisions of the Law on Money Laundering Prevention and Other Proceeds from Crime and Financing of Terrorism for insurance undertakings.

The compulsory motor insurance is regulated by the **Law on Compulsory Insurance in Traffic**, which provides better protection of rights of the victims in traffic accidents through increasing the insurance coverage amounts and their gradual up to legally defined stages) harmonization with the insurance coverage amounts adopted with the EU directives; regulation of reporting dates and reimbursement of claims by the insurance undertakings; imposition of the right for intermediation; strict regulation of the competences of the Guarantee Fund; change in the manner of determining premium tariffs through forming a Commission for MTPL insurance, as well as mitigation of cross-border insurance service through establishment of so called, certified representative for claims and establishment of a Service for

claims compensation (the implementation of last two decisions is pending accession of Republic of Macedonia as a full member of the European Union member country).

### 3. INSURANCE MARKET IN THE REPUBLIC OF MACEDONIA

#### A) INSURANCE UNDERTAKINGS

At the beginning of 2010, 13 insurance undertakings were functioning on the Macedonian insurance market (2 for life and 11 for non-life insurance). There is only one insurance undertaking that has a license for conduction of reinsurance operations, besides its non-life insurance operations. The new life insurance undertaking ("WINNER Life-Vienna Insurance Group"-Skopje) was granted with a working license in 2010 and started its business activity in 2011.

**Table 1:** Insurance undertakings registry

	Name of the undertaking	Insurance type
1	KJUBI MAKEDONIJA <sup>2</sup>	Non-life insurance
2	VARDAR	
3	SAVA TABAK	
4	EVROINS	
5	VINER	
6	EUROLINK	
7	INSIG – MAKEDONIJA	
8	UNIKA	
9	OSIGURITELNA POLISA	
10	ALBSIG	
11	KROACIJA OSIGURUVANJE-NEZHIVOT	
12	KROACIJA OSIGURUVANJE	Life insurance
13	GRAVE	
14	VINER LAJF	

Source: ISA

#### 1. Ownership structure

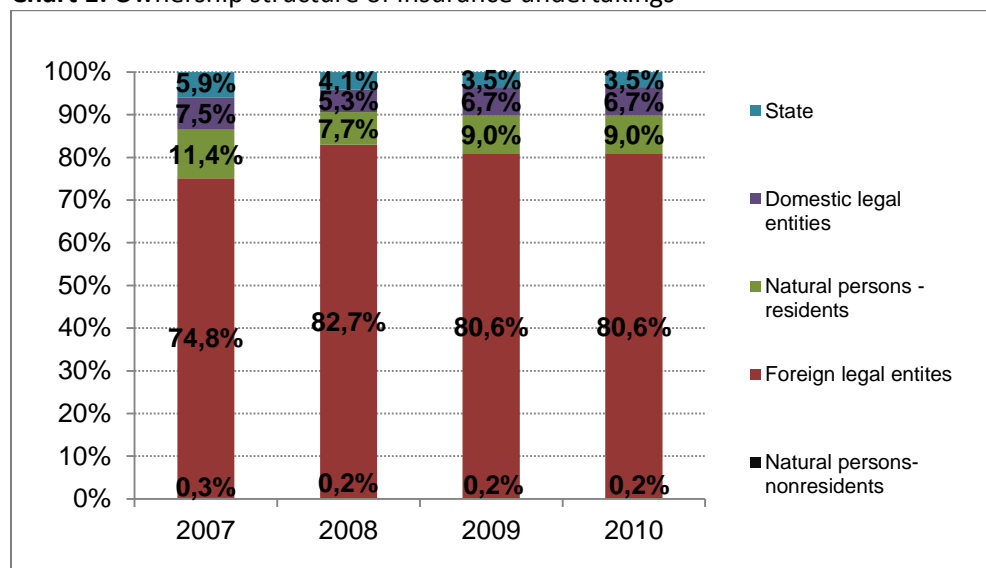
The changes in the ownership structure of insurance undertakings in 2010 were not significant. The insurance undertakings are in dominant ownership of foreign investors, 80.8% of the full ownership, while only one insurance undertaking is in complete ownership of domestic investors. The foreign investors are mainly foreign legal entities, i.e. foreign insurance companies with 80.6% of the full ownership. They are partially or fully present in 12 out of 13 insurance undertakings on the market.

<sup>2</sup> Since 2004, this insurance undertaking does not conclude life insurance policies and performs servicing of previously concluded life insurance policies.

There to, 11 insurance undertakings are in dominant ownership of foreign insurance groups with participation of 74.9%. The trend of foreign capital entering the insurance sector stimulates the competition and the promotion of new products, improvement of know-how for risk management, interim and regular servicing of claims and efficient policy in management of assets and their sources.

Chart 1 represents a review of the ownership structure of insurance undertakings (December 31<sup>st</sup>, 2010).

**Chart 1:** Ownership structure of insurance undertakings



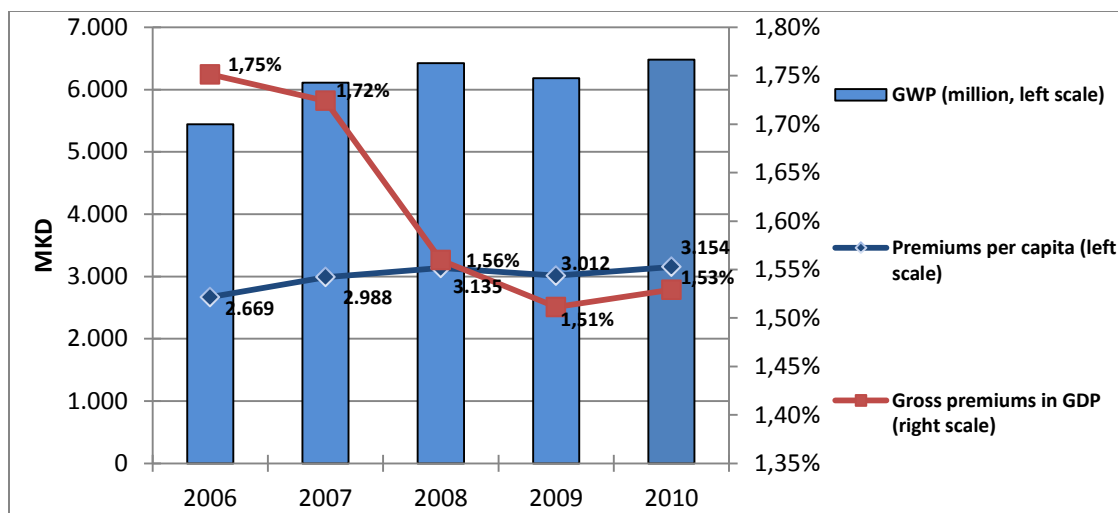
Source: ISA

## 2. Market performance

Basic indicators for measuring the market performance are the density rate and the penetration rate<sup>3</sup>. Data for the insurance penetration rate in 2010 show that the total GWP in the country constitutes 1.53% of GDP, while the density rate is 3,154.00 MKD/per capita, which is on the same level compared to the rate in related countries from the region. The changes in these values are shown in Chart 2.

**Chart 2:** Indicators for insurance market development

<sup>3</sup>The density rate is the ratio between the gross written premium and the number of inhabitants in the country, while the penetration rate is the ratio between the gross written premium and the gross domestic product.



Source: ISA

The relatively high market concentration is another of the basic characteristics of the insurance sector in Macedonia, despite the trend of its reduction. The Herfindahl index<sup>4</sup>, calculated through GWP is within the acceptable level of concentration, i.e., 1,237.59, the same as in 2009. The same index measured through the assets of insurance undertakings is similar; it decreased from 1,489.71 in 2009 to 1,319.63 in 2010.

In the context of different insurance types, an especially high concentration is present in life insurance and reinsurance due the small number of undertakings in these domains. Regarding non-life insurance, there is a continuous moderate reduction of concentration, shown by the Herfindahl index (through GWP) in 2010: 1,249.90 (2009: 1,355.66), and through the assets: 1,576.05 (2009: 1,742.24). At the same time, the indicator CR5<sup>5</sup>, calculated through GWP for this insurance type, is 73.07% (2009: 73.93%).

Despite the reduction at the end of 2010, the market concentration, calculated through the share of the 5 leading insurance undertakings in gross written premium, remains still high: 69.76% (2009: 70.69%).

**Chart 3:** Market concentration according to gross written premium in 2010<sup>6</sup>

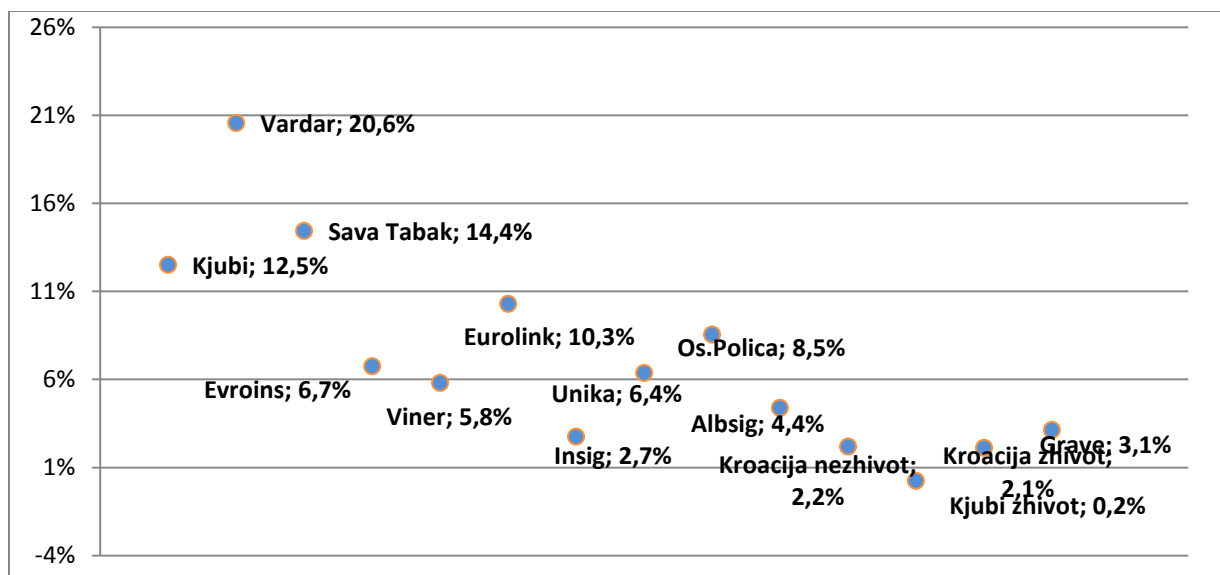
<sup>4</sup>The Herfindahl index can be calculated by the formula:

$$HI = \sum_{i=1}^n (S_i)^2$$

where  $S$  is the share of each insurance undertaking in the total assets (gross written premium) of the insurance sector, and  $n$  is the total number of institutions in the adequate segment. When the index is within 1000 an 1800 units, the level of concentration of the insurance sector is acceptable.

<sup>5</sup> The indicator CR5 represents the share of the 5 insurance undertakings with largest assets/gross written premium in total assets/gross written premium of the insurance sector.

<sup>6</sup> Kjubi - 12.7%, of which 12.5% GWP is from conduction of non-life insurance operations, and 0.2% GWP is from conduction of life insurance operations.



Source: ISA

### 3. Gross written premium

GWP of insurance and reinsurance companies for non-life insurance operations includes premiums written (contracted) in the current accounting period, irrespective of whether those amounts fully or partially relate to the following accounting period, while in life insurance operations, the total GWP includes all premiums paid by the end of the accounting period.

According to the information received from the insurance undertakings that regularly report to ISA, and in compliance with Article 104 from the Law on Insurance Supervision (“Official Gazette of the Republic of Macedonia” nr. 27/02, 84/02, 98/02, 33/04, 88/05, 79/07, 8/08, 88/08, 56/09 and 67/10”), the amount of gross written premium realized in 2010 was 6,48 billion MKD, which represents a growth of 4.83% compared to the GWP realized in 2009.

**Table 2:** Gross written premium by lines of business (in 000 MKD)

INSURANCE UNDERTAKING	GROSS WRITTEN PREMIUM (GWP)		CHANGE 2010/2009	SHARE IN TOTAL GWP	
	2009	2010		2009	2010
<b>01. Accident insurance</b>	577,136	546,617	-5.29%	9.34%	8.43%
<b>02. Health insurance</b>	24,873	19,082	-23.28%	0.40%	0.29%
<b>03. Motor vehicles insurance-Casco</b>	809,450	797,509	-1.48%	13.09%	12.31%
<b>05. Aircraft Casco insurance</b>	123,843	43,439	-64.92%	2.00%	0.67%
<b>06. Vessels insurance -Casco</b>	760	948	24.74%	0.01%	0.01%
<b>07. Insurance of goods in transit-cargo</b>	66,954	67,862	1.36%	1.08%	1.05%
<b>08. Property insurance against fire</b>	373,910	505,356	35.15%	6.05%	7.80%



<b>09. Other property insurance</b>	814,965	772,686	-5.19%	13.18%	11.92%
<b>10. MTPL insurance</b>	2,813.003	3,062.786	8.88%	45.50%	47.26%
<b>11. Aircraft TPL insurance</b>	63,908	19,495	-69.50%	1.03%	0.30%
<b>12. Vessel third party liability insurance</b>	1,675	1,509	-9.91%	0.03%	0.02%
<b>13. Other liability insurance</b>	64,364	125,585	95.12%	1.04%	1.94%
<b>14. Credit insurance</b>	109	0	-100%	0.00%	0.00%
<b>15. Guaranties insurance</b>	220	445	102.27%	0.00%	0.01%
<b>16. Insurance against financial loses</b>	2,524	5,129	103.21%	0.04%	0.08%
<b>17. Tourist assistance</b>	143,890	157,919	9.75%	2.33%	2.44%
<b>19. Life insurance</b>	300,817	354,507	17.85%	4.87%	5.47%
<b>TOTAL</b>	<b>6,182.401</b>	<b>6,480.874</b>	<b>4.83%</b>	<b>100.00%</b>	<b>100.00%</b>
<b>TOTAL NON-LIFE</b>	<b>5,881.584</b>	<b>6,126.367</b>	<b>4.16%</b>	<b>95.13%</b>	<b>94.53%</b>
<b>TOTAL LIFE</b>	<b>300,817</b>	<b>354,507</b>	<b>17.85%</b>	<b>4.87%</b>	<b>5.47%</b>

Source: ISA

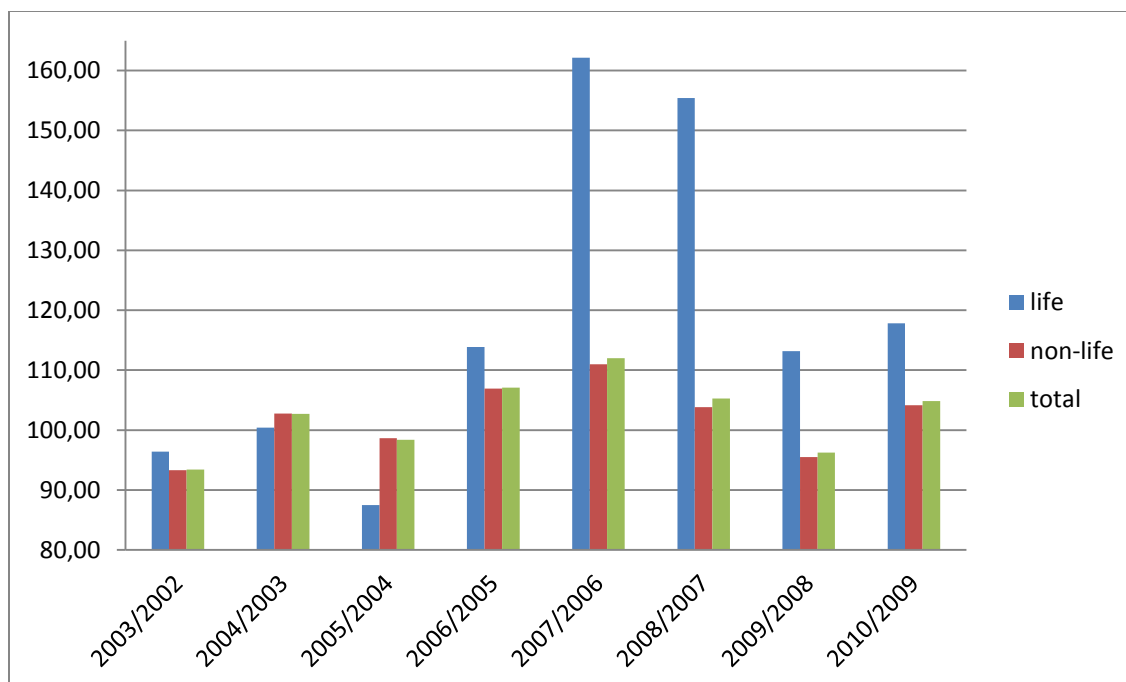
The positive trend has been present in both insurance groups, i.e., 6.13 billion MKD (2009: 5.88 billion MKD) or 94.53% of the total GWP in the insurance sector refers to non-life insurance operations, which represents a growth of 4.16% compared to the same period the previous year.

5.47% of the total GWP in the insurance sector refers to life insurance, i.e., the realized GWP was 354,5 million MKD (2009: 300,81 million MKD), which represents a growth of 17.85%. This significant growth is a result of the low initial base in the life insurance, but it confirms the expected further development of this insurance group.

Chart 4 shows the index of annual changes of the GWP<sup>7</sup> for the period 2002 -2009, in the life, the non-life and the whole insurance sector.

**Chart 4:** Index of changes of gross written premium

<sup>7</sup>From annual accounts of insurance undertakings submitted to ISA pursuant to Article 120 from the Law on Insurance Supervision.



Source: ISA

Only one reinsurance undertaking offers reinsurance as a business activity on the Macedonian insurance market, and its performance is on a very low level: 2,47 million MKD, or 0.038% share in the total GWP.

Any significant changes in the total GWP structure of separate non-life insurance groups have not been noticed. As previously, the most prevalent category was the compulsory MTPL insurance with 47.26% (in 2009: 45.50%), the voluntary motor vehicle insurance (Casco) with 12.31% (in 2009: 13.09%), the property insurance with 19.72% (in 2009: 19.23%) and accident insurance with 8.43% (in 2009: 9.34%). In these categories, a more notable change has appeared in the GWP of the compulsory MTPL insurance, which was 3,06 billion MKD, a growth of 8.88% (in 2009: 2,81 billion MKD). The growth of the compulsory MTPL insurance is a result of the measure introduced in 2010 for import of used vehicles, i.e., vehicles with EUR 1-standard and due to the decreased number of uninsured vehicles resulting from a complementary measure for restriction of re-registration of vehicles with foreign license plate numbers which remain in the Republic of Macedonia longer than 6 months. The property insurance was also significantly increased with an amount of 1,27 billion MKD, a growth of 6.86% (in 2009: 1,18 billion MKD).

Separately, in 11 out of 13 insurance undertakings that operated in 2010, the GWP was raised, compared to 2009. Two insurance undertakings (KJUBI MAKEDONIJA and SAVA TABAK), as insurance undertakings with standard share of over 10% in the total GWP, showed lower GWP than in 2009 (Table 3).

**Table 3:** Gross written premium of insurance undertakings (in 000 MKD)

NR.	INSURANCE UNDERTAKING	GROSS WRITTEN PREMIUM (GWP)	CHANGE 2010/2009	SHARE IN TOTAL GWP
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		2009	2010		2009	2010
1	<b>KJUBI<sup>8</sup></b>	911,053	82,976	-9.45%	14.74%	12.73%
2	<b>VARDAR</b>	1,316.168	1,332.136	1.21%	21.29%	20.55%
3	<b>SAVA TABAK</b>	1,023.383	935,128	-8.62%	16.55%	14.43%
4	<b>EVROINS</b>	415,385	437,141	5.24%	6.72%	6.75%
5	<b>VINER</b>	305,242	376,372	23.30%	4.94%	5.81%
6	<b>EUROLINK</b>	612,959	667,180	8.85%	9.91%	10.29%
7	<b>INSIG</b>	170,533	178,468	4.65%	2.76%	2.75%
8	<b>UNIKA</b>	359,773	411,781	14.46%	5.82%	6.35%
9	<b>OSIGURITELNA POLISA</b>	506,652	553,340	9.22%	8.20%	8.54%
10	<b>ALBSIG</b>	248,851	283,748	14.02%	4.03%	4.38%
11	<b>KROACIJA-(non-life)</b>	33,634	140,973	319.14%	0.54%	2.18%
12	<b>KROACIJA</b>	113,436	137,098	20.86%	1.83%	2.12%
13	<b>GRAVE</b>	165,332	202,533	22.50%	2.67%	3.13%
	<b>TOTAL</b>	<b>6,182.401</b>	<b>6,480.874</b>	<b>4.83%</b>	<b>100.00%</b>	<b>100.00%</b>

Source: ISA

At the end of 2010, in the market concentration area, 4 insurance undertakings have passed the participation threshold in the total GWP for over 10%, relative to 3 insurance undertakings in the same period the previous year. The participation of the market leaders is the following: Vardar Osiguruvanje with 20.55% (in 2009: 21.29%), Sava Tabak with 14.43% (in 2009: 16.55%), Kjubi with 12.73% (in 2009: 14.74%) and Eurolink with 10.29% (in 2009: 9.91%).

**Table 4:** Ranking of insurance undertakings according to gross written premium (in 000 MKD)

NR	INSURANCE UNDERTAKING	GROSS WRITTEN PREMIUM (GWP)		CHANGE 2010/2009	SHARE IN TOTAL GWP	
		2009	2010		2009	2010
1	<b>VARDAR</b>	1,316.168	1,332.136	101,21	21.29%	20.55%
2	<b>SAVA TABAK</b>	1,023.383	935,128	91,38	16.55%	14.43%
3	<b>KJUBI</b>	911,053	824,976	90,55	14.74%	12.73%
4	<b>EUROLINK</b>	612,959	667,180	108,85	9.91%	10.29%
5	<b>OSIGURITELNA POLISA</b>	506,652	553,340	109,22	8.20%	8.54%
6	<b>EVROINS</b>	415,385	437,141	105,24	6.72%	6.75%
7	<b>UNIKA</b>	359,773	411,781	114,46	5.82%	6.35%
8	<b>VINER</b>	305,242	376,372	123,30	4.94%	5.81%
9	<b>ALBSIG</b>	248,851	283,748	114,02	4.03%	4.38%

<sup>8</sup> In 2010, this undertaking realized premium of 810 million MKD (2009: 889 million MKD) within the non-life, and 14,9 million MKD (2009: 22.,1 million MKD) in the life insurance line of business.

10	<b>GRAVE</b>	165,332	202,533	122,50	2.67%	3.13%
11	<b>INSIG</b>	170,533	178,468	104,65	2.76%	2.75%
12	<b>KROACIJA NEZHIVOT</b>	33,634	140,973	419,14	0.54%	2.18%
13	<b>KROACIJA ZHIVOT</b>	113,436	137,098	120,86	1.83%	2.12%
	<b>TOTAL</b>	<b>6,182.401</b>	<b>6,480.874</b>	<b>104,83</b>	<b>100.00%</b>	<b>100.00%</b>

Source: ISA

One of the most appropriate indicators for the scope of completed operations of insurance undertakings is the analysis of this scope in different lines of business. So, with data for GWP in lines of business, this is an additional way of showing the market structure of the insurance undertakings in 2009 (Table 5).

**Table 5: Market structure according to gross written premium by lines of business (in 000 MKD)**

000 мкд

Ред. бр.	Класа на осигурување	неживот											неживот Вкупно
		Кјуби	Вардар	Сава Табак	Евроинс	Винер	Еуролинк	Инсиг	Уника	Осиг. полиса	Албсиг	Кроација	
1	класа 01. Незгода	111.752	112.636	52.127	46.752	61.566	73.067	6.616	15.523	48.377	6.931	11.270	546.617
2	класа 02. Здравствено			1.731		279				2.917	14.155		19.082
3	класа 03. Моторни возила (каско)	121.679	242.889	104.468	45.163	24.843	117.464	6.036	34.494	73.188	10.900	16.385	797.509
4	класа 05. Воздухоплови (каско)		18.862			10.906	12.883			788			43.439
5	класа 06. Пловни објекти (каско)	72		538	52	102	171			13			948
6	класа 07. Стока во превоз (карго)	35.535	6.510	2.804	4.874	4.727	5.420		2.365	2.166	1.473	1.988	67.862
7	класа 08. Имот од пожар и природни непогоди	120.539	145.505	59.858	18.477	11.861	99.388	864	23.081	17.375	3.901	4.507	505.356
8	класа 09. Имот - оста нато	151.784	115.269	306.891	20.464	80.443	30.163	1.125	17.134	40.400	3.219	5.794	772.686
9	класа 10. Автомобилска одговорност	238.393	657.542	385.885	280.271	164.495	212.511	154.376	290.040	343.402	243.169	92.702	3.062.786
10	класа 11. Одговорност - воздухоплови		6			571	18.630			288			19.495
11	класа 12. Одговорност - пловни објекти	181	7	135	191	112	288			576		19	1.509
12	класа 13. Општа и професионална одговорност	9.951	10.021	7.405	6.439	6.391	70.522		3.766	8.818		2.272	125.585
13	класа 15. Гаранции	119		326									445
14	класа 16. Финансиски загуби	3.517	1.612										5.129
15	класа 18. Туристичка помош	16.578	21.277	12.960	14.458	10.076	26.673	9.451	25.378	15.032		6.036	157.919
16	<b>Вкупно</b>	<b>810.100</b>	<b>1.332.136</b>	<b>935.128</b>	<b>437.141</b>	<b>376.372</b>	<b>667.180</b>	<b>178.468</b>	<b>411.781</b>	<b>553.340</b>	<b>283.748</b>	<b>140.973</b>	<b>6.126.367</b>

Ред. бр.	Класа на осигурување	живот			живот Вкупно
		Кјуби	Кроација	Граве	
17	класа 19. Живот	14.876	137.098	202.533	354.507
18	<b>Вкупно</b>	<b>14.876</b>	<b>137.098</b>	<b>202.533</b>	<b>354.507</b>

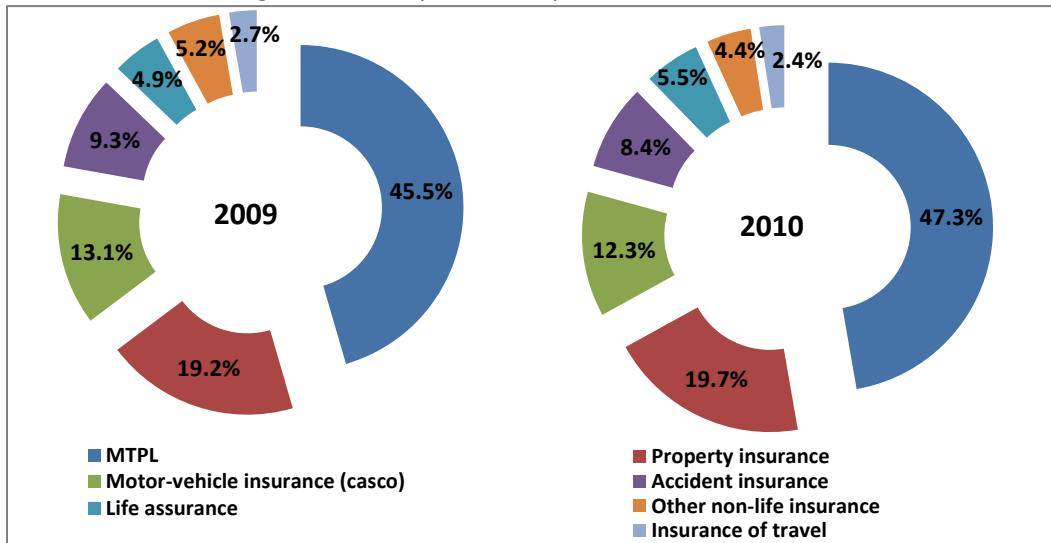
**Вкупно: 6.480.874**

Source: quarterly report pursuant to Article 104 from the Law on Insurance Supervision.

## 4. Market structure

During 2010, motor vehicle insurance is the most prevalent insurance in the total gross written premium with 59.6% of which, 47.3% fall out to motor third-liability (MTPL) insurance and 12.3% to voluntary motor vehicle insurance (Casco). Then follows the property insurance (against fire, natural disasters, theft and other risks), with 19.7% and accident insurance with 8.4%. The structure by lines of business and the comparison with 2009 is given in Chart 5.

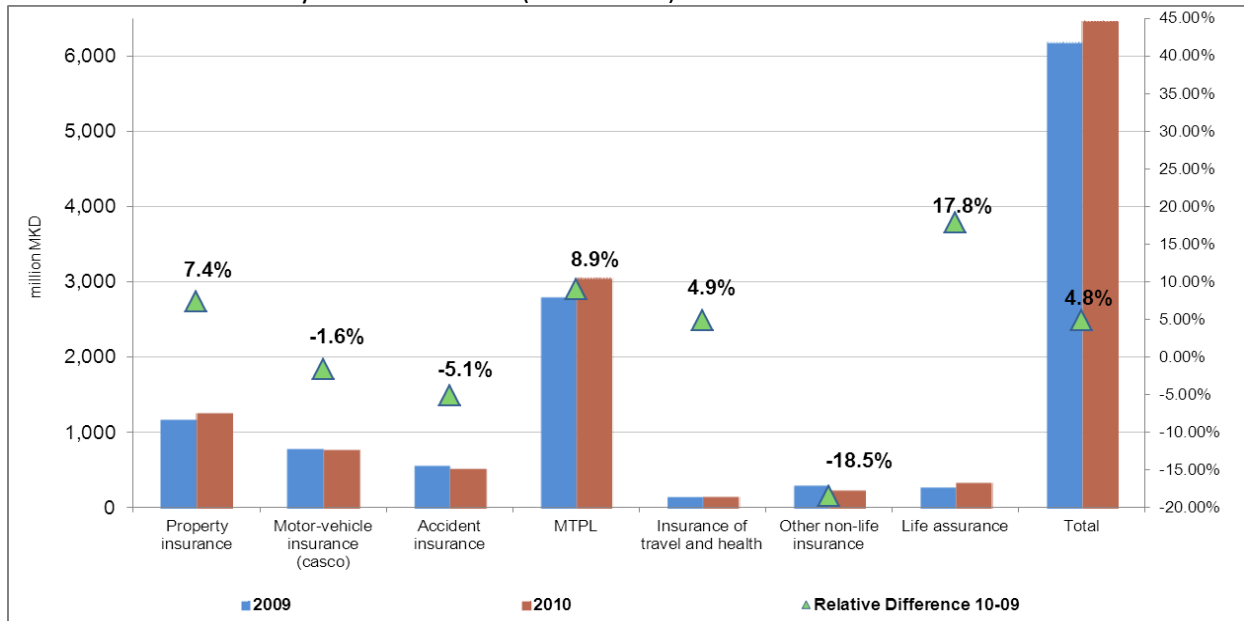
**Chart 5:** Structure of gross written premium by lines of business



Source: ISA

The structure of forming GWP in non-life insurance for 2010 is similar with the one for 2009. The only thing that deserves attention is the increase of the GWP for 8.9% in the MTPL class (Chart 6).

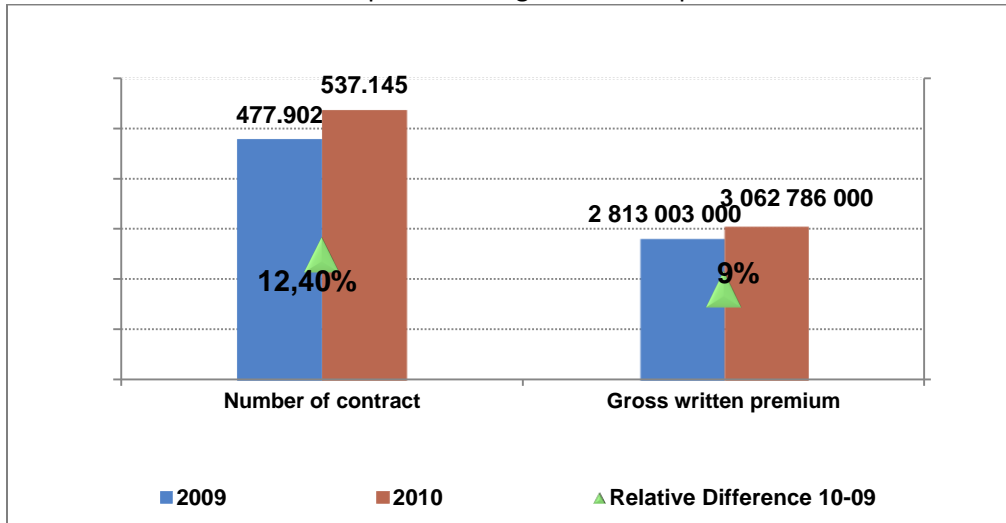
**Chart 6:** Trend of GWP by lines of business (in 000 MKD)



Source: ISA

The most important factor which influenced the increase of the GWP is a result of the measure introduced in 2010 by the Government of the Republic of Macedonia for import of used vehicles, i.e., vehicles with EUR 1-standard as well as due to the decreased number of uninsured vehicles resulting from a complementary measure for restriction of re-registration of vehicles with foreign license plate numbers which remain in the Republic of Macedonia longer than 6 months (Chart 7).

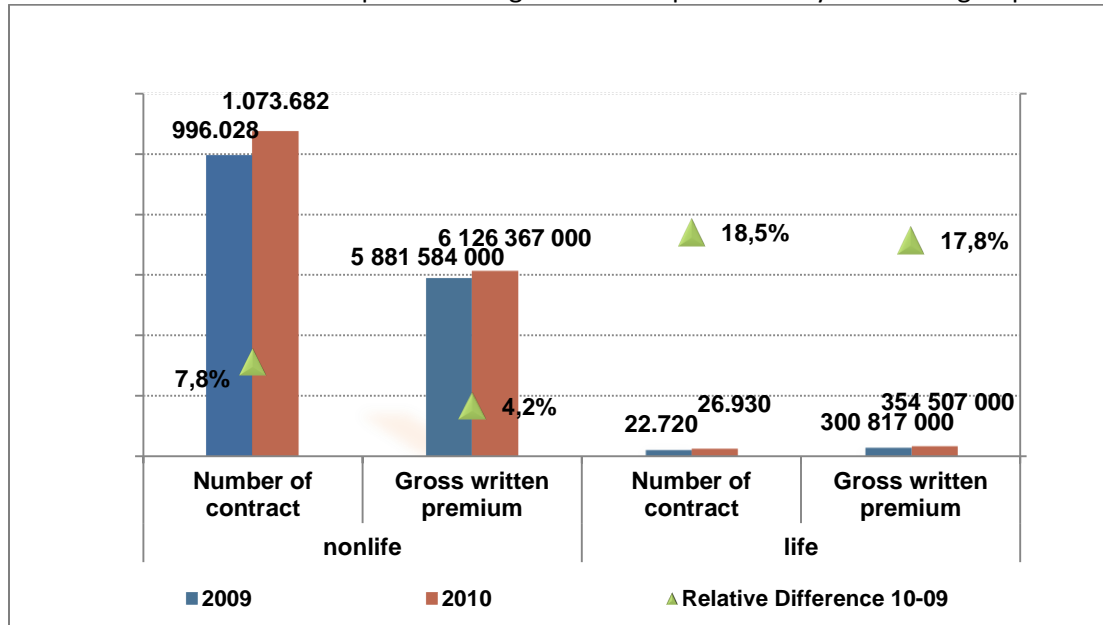
**Chart 7:** Number of insurance policies and gross written premium in MTPL.



Source: ISA

In 2010, 1,100.612 insurance policies were issued. 26,930 or 2.45% of the total issued policies refer to life insurance, and 1,073,682 or 97.55% of the total issued policies refer to non-life insurance (Chart 8).

**Chart 8:** Number of insurance policies and gross written premiums by insurance groups



Source: ISA

The MTPL policies constitute the largest part of the issued policies structure, or a total of 537,145 issued policies in the quoted period, followed by tourist assistance with 274,074 issued policies and accident insurance with 129,002 policies.

During 2010, the gross amount of claims paid by the insurance undertakings was 2,988 million MKD. Compared to 2009, the gross amount of paid claims is higher for 0.88% (Chart 6).

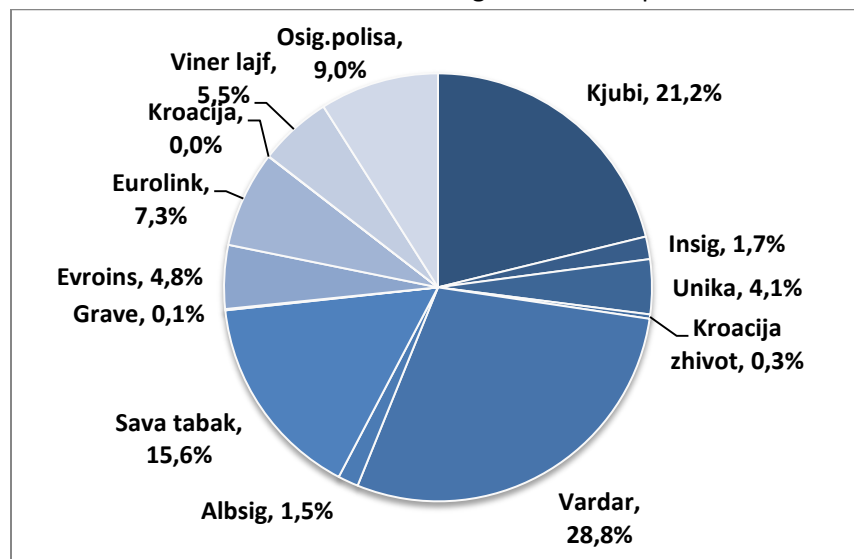
**Table 6:** Gross paid claims by lines of business (in 000 MKD)

Lines of business	2007	2008	2009	2010
Property insurance	365,351	443,382	459,407	476,584
MTPL insurance - Casco	410,669	489,178	529,979	539,443
Accident insurance	335,611	384,564	354,233	364,772
MTPL insurance	1,573.497	1,697.244	1,491.083	1,504.818
Tourist assistance	9,922	14,146	15,372	28,102
Other insurances – non-life	34,933	49,292	14,728	21,401
Life insurance	135,572	104,535	97,448	53,253
<b>Total</b>	<b>2,865.555</b>	<b>3,182.341</b>	<b>2,962.250</b>	<b>2,988.373</b>

Source: ISA

The individual share of the insurance undertakings in the total amount of gross paid claims for 2010 is given in Chart 9. We can notice that insurance undertakings which participate in the total GWP of the insurance sector, as well as in the total assets with 10%, are present with domestic share in the total paid claims. In addition, the total amount of gross paid claims in the insurance sector is a minimal share of the two life insurance undertakings, i.e. their amounts are only 0.42% of the total claims.

**Chart 9:** Share of insurance undertakings in the total paid claims in 2010<sup>9</sup>



Source: ISA

<sup>9</sup> Kjubi participates in the gross paid claims with 16.04%, of which 14.88% falls out to conduction of non-life insurance operations, and 1.17% to life insurance operations.



## 5. Assets and liabilities

### 5.1. Structure of assets

On December 31<sup>st</sup> 2010, the amount of the insurance undertakings' assets was 12,518 million MKD, i.e., 315.7 million MKD (or 2.59%) higher than the total assets of the insurance undertakings in 2009. This shows a continuation of the positive trends from the previous year (Chart 7).

The highest percent (51.99%) of the total assets refers to debts owed by policyholders and other debts, 28.49% refer to investments, 10.33% to tangible assets and 6.39% to other assets. The other items in the assets (intangible assets and prepayments and accrued income) constitute 2.81% of the total assets.

**Table 7:** Structure of insurance undertakings' assets (MKD)

	31.12.2009	Share	31.12.2010	Share	Index 2010/2009
<b>Intangible assets</b>	76,934,503	0.63%	58,951,377	0.47%	<b>76.63</b>
<b>Tangible assets</b>	1,249,182,822	10.24%	1,293,463,009	10.33%	<b>103.54</b>
<b>Investments</b>	2,935,389,038	24.06%	3,565,905,061	28.49%	<b>121.48</b>
<b>Investments for the benefit of life- assurance policyholders who bear the investment risk</b>	/	/	/	/	/
<b>Debts owed by policy holders and other debts</b>	6,561,321,123	53.77%	6,507,969,392	51.99%	<b>99.19</b>
<b>Other assets</b>	1,096,971,795	8.99%	799,689,530	6.39%	<b>72.90</b>
<b>Prepayments and accrued income</b>	282,908,302	2.32%	292,504,123	2.34%	<b>103.39</b>
<b>TOTAL ASSETS</b>	<b>12,202,707,583</b>	<b>100.00%</b>	<b>12,518,482,492</b>	<b>100.00%</b>	<b>102.59</b>

Source: ISA

Although the dominant part of the total assets in the insurance sector is comprised of non-life insurance undertakings' assets, the share of life insurance undertakings' assets is still increasing and represents 9.70% of the total insurance undertakings assets for 2010 (2009: 8.27%).

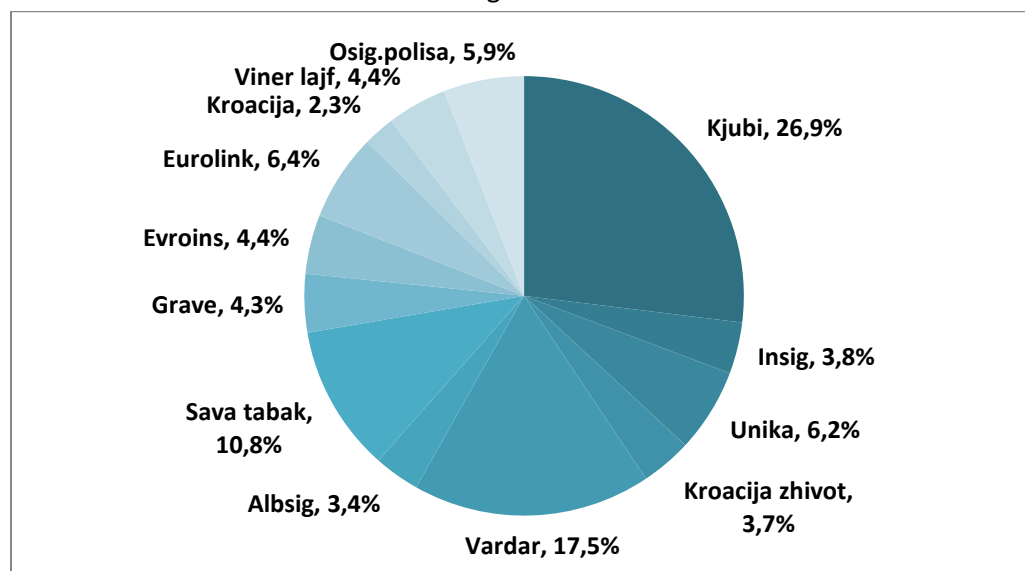
In the investment structure, a significant absolute and relative growth has been noticed relative to the previous year. The investments in shares are 666,5 million MKD and the same were increased for 465,1 million MKD (231%) relative to the situation of 201,4 million MKD in 2009. The investments in debt instruments are 856,3 million MKD, which is an increase of 192,6 million MKD (29.02%) compared to the amount of 663,6 million MKD in 2009, while the deposits are 1,392 million MKD, which is a small decrease of 0.3% compared to the amount of 1,396 million MKD in 2009.

In the structure of receivables (debts owed by policy holders and other debts), the receivables of direct insurance operations are 3,420 million MKD (52.56% of the total receivables), a fall of 8.6% compared to the amount of 3,740 million MKD in 2009. The receivables from reinsurance operations are 410,1 million MKD (5.29% of the total receivables), which is an increase of 6.3% compared to the amount of 347,3

million MKD in 2009. The rest of the receivables are 2,677 million MKD (41.14% of the total receivables), which is an increase of 8.3% compared to the amount of 2,473 million MKD in 2009.

The structure of the insurance undertakings' share in the total assets of the insurance market is shown in Chart 10.

**Chart 10:** Share of insurance undertakings in the total assets of the insurance sector in 2010



Source: ISA

## 5.2. Structure of capital and liabilities

In 2010, the technical provisions comprised 44.04%, the capital and reserves 34.30%, while the rest of the items comprised 21.66% in the total capital and liabilities of the insurance undertakings (Table 9).

**Table 9:** Structure of capital and liabilities of insurance undertakings (MKD)

	31.12.2009	Share	31.12.2010	Share	Index 2010/2009
<b>Capital and reserves</b>	4,283,896,403	35.11%	4,294,396,529	34.30%	<b>100.25</b>
<b>Subordinated liabilities</b>	/	/	/	/	/
<b>Technical provisions</b>	5,088,002,374	41.70%	5,512,873,267	44.04%	<b>108.35</b>
<b>Technical provisions for life insurance policies where the investment risk is borne by the policyholder</b>	/	/	922,500	0.01%	/
<b>Other provisions</b>	1,180,363,418	9.67%	962,650,651	7.69%	<b>81.56</b>
<b>Deposits retained from operations transferred to reinsurance and financial fiscal relations</b>	/	/	/	/	/
<b>Other liabilities</b>	1,390,208,085	11.39%	1,560,659,832	12.47%	<b>112.26</b>
<b>Accruals and deferred income</b>	260,237,322	2.13%	186,979,739	1.49%	<b>71.85</b>
<b>TOTAL</b>	<b>12,202,707,602</b>	<b>100.00%</b>	<b>12,518,482,518</b>	<b>100.00%</b>	<b>102.59</b>

Source: ISA

## 6. Capital and the required solvency margin

The total capital of non-life insurance undertakings is 3,757 million MKD and its share in the total capital and liabilities of these undertakings is 33.24%. The total capital of life insurance undertakings is 536,6 million MKD, or 44.17% of the total assets of these undertakings. The insurance undertakings perform calculations on the required solvency margin, in accordance with the provisions of the Law on Insurance Supervision, on a regular quarterly basis. The insurance undertakings' capital should at any moment be at least equal with the required level of the solvency margin.

All insurance undertakings in the Republic of Macedonia are solvent. The required solvency margin of non-life insurance undertakings is 987,664 thousands MKD, which indicates that the total capital of these undertakings is 3.7 times higher than the required solvency margin. The life insurance undertakings calculated that the necessary solvency margin is 44,833 thousands MKD, which indicates that the calculated capital is 11 times higher than the calculated required solvency margin.

Every insurance undertaking has a certified actuary who checks and approves the calculations. The actuary implicitly accepted the submitted reports, which confirms the trustworthiness of the reports.

## 7. Technical provisions

The technical provisions were increased by 8.35% compared to 2009, and they retained the largest share in capital and liabilities' structure of insurance undertakings.

The total amount of technical provisions of non-life insurance undertakings, at the end of 2010, is 4,877 million MKD or 5.66% higher than the previous year, while the total amount of technical provisions of life insurance undertakings is 636 million MKD, which is an increase of 34.64% compared to the previous year (Table 10).

**Table 10:** Structure of technical provisions (in 000 MKD)

Structure of technical provisions	Non-life		Life		Total	
	2009	2010	2009	2010	2009	2010
Unearned premium provisions	2,207,628	2,276,395	74,412	87,926	2,282,041	2,364,321
Reserves for bonuses and rebates	8,878	2,500	0	0	8,878	2,500
Claims provisions	2,382,633	2,593,688	7,708	6,607	2,390,341	2,600,294
Mathematical reserve	0	0	390,284	541,520	390,284	541,520
Other technical provisions	16,459	4,238	0	0	16,459	4,238
<b>Total</b>	<b>4,615,598</b>	<b>4,876,821</b>	<b>472,404</b>	<b>636,052</b>	<b>5,088,002</b>	<b>5,512,873</b>

Source: ISA

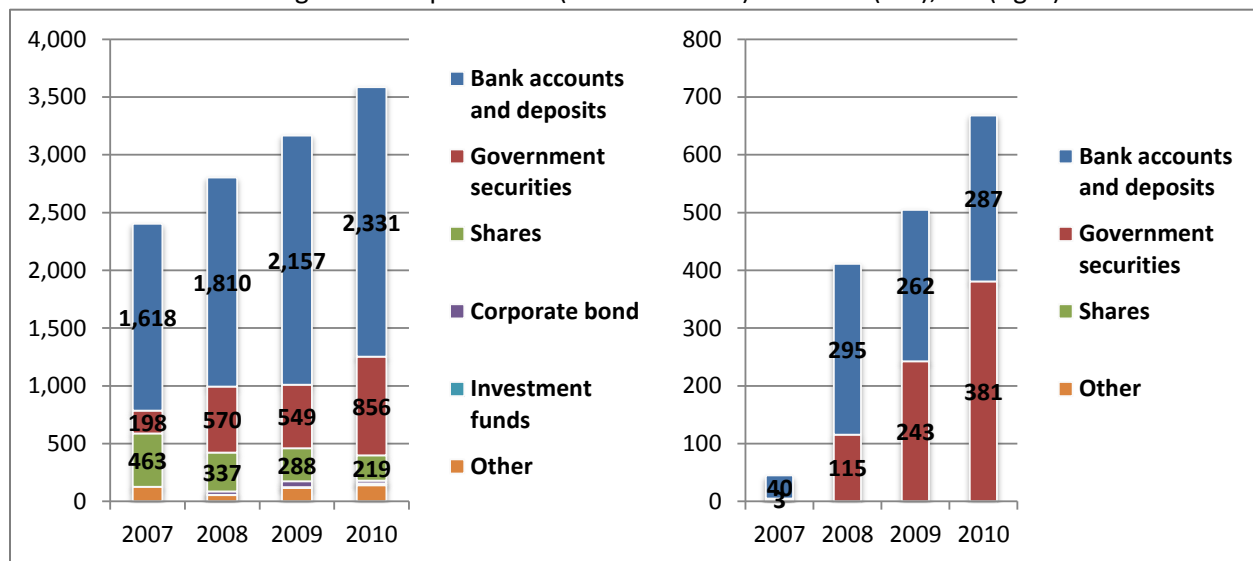
## 8. Assets covering the technical provisions

The assets covering technical provisions are resources of the insurance undertaking set aside for covering future obligations that derive from insurance policies, as well as the possible losses from risks related to performing insurance operation. Pursuant the Law on Insurance Supervision and the regulations adopted on its basis, the insurance undertakings are obliged to invest in have admissible assets, at least on the level of the value of the technical provisions.

In 2010, the non-life insurance undertakings have invested the largest part of the assets covering technical provisions (total of 2.33 billion MKD) in bank deposits, followed by 855 million MKD in government securities, 218 million MKD in shares, 15 million MKD in investment funds, and 140 million MKD in other investments.

Relative to the assets covering the mathematical reserve and other technical provisions, the life insurance undertakings invested 286 million MKD in bank accounts and bank deposits, 380 million MKD in government securities and 356 thousands MKD in securities from foreign issuers (Chart 11).

**Chart 11:** Assets covering technical provisions (in million MKD) - non-life (left); life (right)



Source: ISA

## 9. Financial result

In the period of January 1<sup>st</sup> – December 31<sup>st</sup> 2010, the insurance sector realized profit of 75 million MKD.<sup>10</sup> The life insurance sector generated profit of 43.2 million MKD, while the non-life insurance sector generated profit of 31.8 million MKD.

In the non-life insurance segment, 10 insurance undertakings have shown net profit of 164.9 million MKD for the financial year, while 1 insurance undertaking has shown a loss of 133.2 million MKD.

<sup>10</sup>The insurance undertakings submitted their annual accounts and financial reports to the Insurance supervision agency, pursuant to regulations from the Law on Insurance Supervision.

In the life insurance segment, all insurance undertakings have shown net profit of 43.2 million MKD for the financial year.

The technical result<sup>11</sup> was negative, 210.5 million MKD, yet being better than in previous year (356,4 million MKD). This technical result is due mostly to the falling of the technical result in the segment of non-life insurance, which, at the end 2010 was negative with an amount of 243,1 million MKD, versus the negative result of 367,1 million MKD in 2009.

In 2010, the technical result in life insurance remains positive, with an amount of 32,5 million MKD, which is an increase of 203.42% compared to the level of 10,72 million MKD in 2009 (Table 11).

**Table 11:** Structure of the financial result-technical and non-technical result (MKD)

	2006	2007	2008	2009	2010
<b>Technical result-life</b>	-2,120,019	4,177,677	7,910,265	10,725,140	32,541,768
<b>Technical result -non-life</b>	-72,984,951	73,456,921	4,892,835	-367,150,210	-243,071,913
<b>Technical result -total</b>	-94,104,970	77,634,598	12,803,100	-356,425,070	-210,530,145
<b>Non-technical result</b>	405,815,833	233,026,080	263,015,862	255,576,078	312,658,115
<b>Profit/loss - earnings before tax</b>	<b>311,710,863</b>	<b>310,660,678</b>	<b>275,818,962</b>	<b>-100,848,992</b>	<b>102,127,970</b>

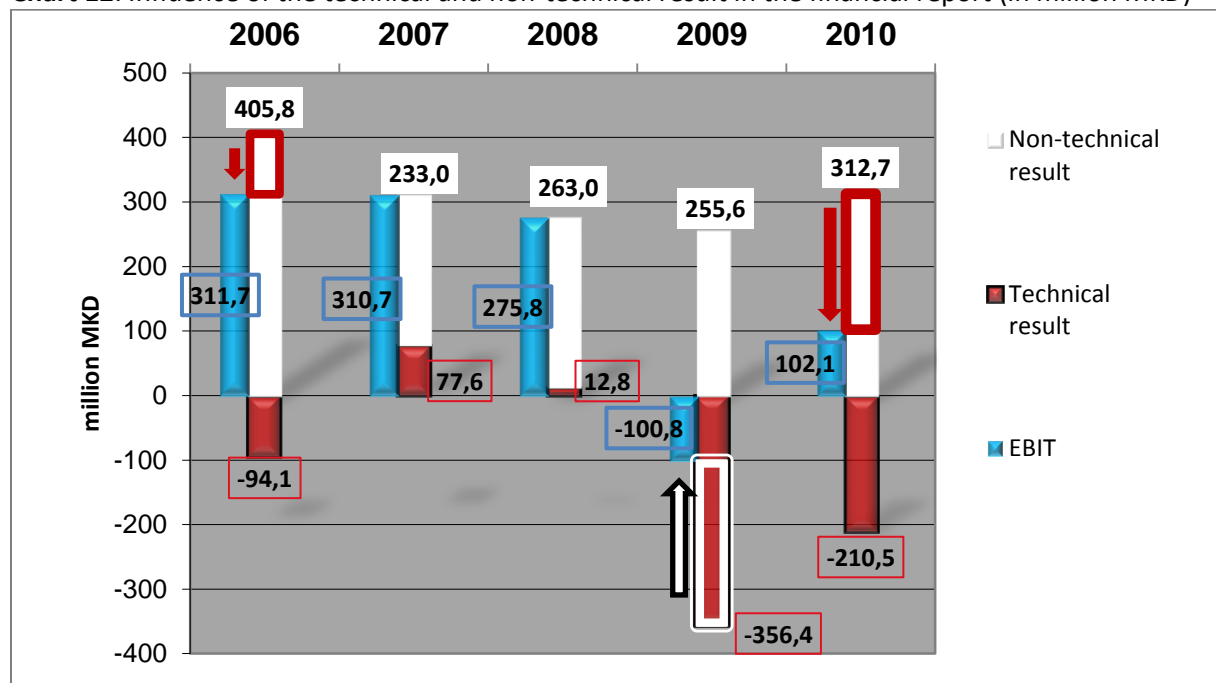
Source: ISA

Although the technical result is negative, it is compensated by the non-technical result. The insurance undertakings produced a solid non-technical result of 312.68 million MKD, an increase of 22.33% relative to 2009, i.e. a result without significant volatility from the trend noticed in the technical result.

The Chart 12 represents the influence of the technical and non-technical result in creating the financial result in the insurance sector. In this case, in order to isolate the different effects of taxation, and to precisely determine the influence of the technical and non-technical result while creating the financial report for the purpose of analysis, the category profit/loss from regular earnings before interest and taxes (EBIT) has been chosen.

<sup>11</sup>The technical result of the insurance undertakings is the result of executing their basic function-insurance. The rest of the incomes and expenses from their operations represent the non-technical result.

**Chart 12:** Influence of the technical and non-technical result in the financial report (in million MKD)



Source: ISA

## 10. Insurance sector indicators

The insurance sector indicators have been used for better monitoring of insurance undertakings' operations.

**The claims ratio**, which represents the ratio between incurred claims and the earned premium for 2010 is 57.45% and is significantly higher than the one in 2009 of 56.12%.

Compared within insurance groups, this ratio in non-life insurance for 2010 is 57.2% versus 56.2% for 2009, and in life insurance for 2010 is 61.45%, versus 53.97% for 2009.

**The expenses ratio** represents the ratio between expenses from insurance undertakings' operations and the earned premium. Expenses from insurance undertakings' operations are acquisition costs (commissions and other acquisition costs), administrative expenses (expenses for employees, amortization and value adjustments of the equipment and other tangible assets and other administrative expenses), expenses for bonuses and discounts, net of reinsurance and other insurance technical expenses, net of reinsurance. This ratio in 2010 was 42.6%, which is lower than the one of 44.98% in 2009, and this is a consequence of the increased earned premium of the insurance undertakings. In 2010, the total expenses (expenses for insurance operations) of all insurance undertakings were 2,296 million MKD, an increase of 4.6% compared to 2009.

**The combined ratio** in the insurance sector for 2010 is 100.1% versus 97.2% in 2009. It represents the ratio between incurred claims in the period, increased for the total expenses and the earned premium,

and it shows the result from operations before incorporating the revenues and the expenses from investments. Analyzed by insurance groups, this ratio in non-life insurance in 2010 is 99.9%, versus 96.82% in 2009 and in life insurance for 2010 is 103.28%, versus 104.14% in 2009.

**The return of investment (ROI)** can be calculated as a ratio between revenues reduced by investment expenses and the amount of investment. The return of investment for 2010 is 8.07%, while in 2009 was 9.29%.

**The solvency ratio** represents a ratio between the total liabilities and the total assets. This solvency ratio shows the quantity of assets financed by liabilities (technical provisions and other liabilities), without the capital and the reserves. In 2010 this ratio is 65.70%, compared to 2009, when it was 64.89%.

The **return on assets (ROA)** and the **return on equity (ROE)**<sup>12</sup>, in context of the realized profit in the insurance sector in 2010 are positive and we can notice an improvement in their segmentation, considering that the rates were negative due to the realized loss in the non-life insurance segment. The Table 12 shows the rates by years in the period of 2006-2010.

**Table 12:** ROA and ROE

	2006	2007	2008	2009	2010
<b>ROA</b>					
- total	2.06%	2.13%	1.96%	-1.69%	0.28%
- life	-1.89%	0.81%	-2.04%	1.85%	3.89%
- total	1.86%	2.05%	1.66%	-1.40%	0.61%
<b>ROE</b>					
- total	9.50%	7.10%	5.72%	-5.00%	0.84%
- life	-8.23%	2.22%	-3.87%	3.78%	8.40%
- total	8.58%	6.77%	4.65%	-3.99%	1.75%

Source: ISA

For life insurance, the realized revenue from investments in 2010 is 60.6 million MKD, which is an increase of 6.13% compared to the one of 57.1 million MKD in 2009.

For non-life insurance, the realized revenue from investments in 2010 is 419.2 million MKD, which is an increase of 14.98%, compared to the one of 364.6 million MKD in 2009.

For life insurance, the realized expenses from investments in 2010 are 338.4 thousands MKD, which is an increase of 80.38% compared to the level of 187.6 thousands MKD in 2009.

For non-life insurance, the realized expenses from investments in 2010 are 136.3 million MKD, which is a fall of 40.38% compared to the level of 228.6 million MKD in 2009.

<sup>12</sup> ROA= net profit/assets; (ROE) = net profit/(capital + reserves). The calculation of indicators is based on data from the annual account and the financial report submitted by insurance undertakings to ISA, pursuant to the Law on Insurance Supervision.

## B) INSURANCE AGENCIES AND INSURANCE BROKERAGE COMPANIES

At the end of 2010, the majority of the 1,100,612 insurance policies sold, were concluded by insurance undertakings, while the role of the intermediaries in selling policies remains on a low level.

One form of intermediation are insurance brokerage operations, consisting of intermediation in arranging insurance and reinsurance coverage and also assistance in settlement of claims, on behalf and for account of its clients with respect to insurance and reinsurance undertakings.

At the end of 2010, 14 insurance brokerage companies are functioning, and compared to 2009, the number of these subjects has increased by 2 insurance brokerage companies (MAKOIL BROKER and K MK BROKER).

**Table 13:** Registry of insurance brokerage companies

Name of the brokerage company
EURO EKPERTS
EUROMAK BROKER
VIASS
IN-BROKER
VFP
MOBILITI BROKER
SEDA BROKER
NASHE OSIGURUVANJE
JDB BROKER
DELTA INS BROKER
A-TIM
LEGRA
MAKOIL BROKER
K MK BROKER

Source: ISA

In this period, the insurance brokerage companies sold 169,650 policies, of which, 1,962 are life insurance policies, or 15.41% of the total number of sold policies.

The total capital of the insurance brokerage companies at the end of 2010 is 51.2 million MKD.

Another form of intermediation is insurance representation, which constitutes preparation and conclusion of insurance policies, on behalf or for the account of one or more insurance undertakings, for insurance products that mutually do not compete.



In 2010, 6 insurance agencies are actively functioning, i.e., the number of the insurance agencies relative to 2009 increased for one agency (MK OSIGURUVANJE). Although their prevalence in selling policies was relatively lower compared to other subjects that sell insurance, still, with their appearance on the market, we can expect a further insurance development and approaching of insurance products and services to end consumers.

**Table 14:** Registry of insurance agencies

Name of the agency
AMG PREMIUM
AKTIVA OSIGURUVANJE
TREND-MR
SAFE INVEST
VDS MAGMA
MK OSIGURUVANJE

Source: ISA

The total capital of the insurance agencies at the end of 2010 is 5.5 million MKD, the same as in 2009. In 2010, the insurance agencies sold total of 37,480 insurance policies, of which 606 are life insurance policies. The share of the insurance agencies in the total number of sold policies is 3.41%.

INSURANCE SUPERVISION AGENCY  
President of the Council of Experts,  
Klime Poposki, PhD

Nr. 0103-1023/3

Skopje

June 27<sup>th</sup>, 2011