



INSURANCE SUPERVISION AGENCY

INSURANCE MARKET IN REPUBLIC OF MACEDONIA FOR 2009
ANNUAL REPORT

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1. INTRODUCTION

The most important event on the Macedonian insurance market in 2009 was the establishment of the Insurance Supervision Agency (hereinafter: "ISA"). The objective of ISA is to contribute to the development of the insurance market in the country and the protection of rights and interests of the policyholders as well, and to increase the financial stability of the country. ISA is an autonomous and independent regulatory body which executes public authorizations regulated by the Law on Insurance Supervision and the Law on Compulsory Insurance in Traffic. With the establishment of ISA, the insurance market participants will be treated equally as the other subjects of the financial market in the country.

In 2009, the amendments of the primary and secondary legislation regulating activities of the insurance market subjects were not significant. Also, the amendments of the regulation (amendments of taxes, tax relief, etc.), which would implicitly reflect the business result of the subjects, were not significant, implying that all insurance market participants in the R. of Macedonia perform their activities in a prudent manner.

On the Macedonian insurance market in 2009, there are 13 insurance undertakings (11 non-life and 2 life insurance undertakings), 12 insurance brokerages and 5 insurance agencies. Compared to the same period in 2008, the number of insurance undertakings increased by one non-life insurance undertaking, while the number of insurance brokerage companies increased by 4 new brokerage companies. There is only one insurance undertaking that has a license for conduction of reinsurance operations, besides its non-life insurance operations.

On the Macedonian insurance market in 2009, the number of the insurance policies has increased by 8%, while there was a slight decrease in the gross written premiums (herein: "GWP) by 3.7%, compared to previous year. Primarily, this is due to reduction in incomes from motor third-party liability (MTPL) premiums, reduction in technical premium rates and growth of the loading expenses.

2. LEGAL FRAMEWORK

The Law on Insurance Supervision and the Law on Compulsory Insurance in Traffic constitute the essential legal framework which regulates the conditions and manner of executing insurance and reinsurance operations, the manner and conditions of brokerage operations and conduction of supervision of insurance undertakings and insurance brokerage companies. An additional legal framework comprises 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. The adoption of the Law was directed toward establishment of strict rules for risk management in the insurance undertakings. In accordance with the Law, an insurance undertaking may 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 both

lines of business, life or non-life. Domestic and foreign legal entities and natural persons may establish an insurance undertaking under equal conditions.

In June 2007, the Law on Amendments and Supplements to the Law on Insurance Supervision was adopted, 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 preventive and corrective supervisory 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.

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 allows 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.

The compulsory motor insurance is regulated by the **Law on Compulsory Insurance in Traffic**, which provides better protection of victims in traffic accidents through increasing the minimum insurance coverage amounts and their gradual (by ahead 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; strict regulatory approach by determining premium tariffs through forming a Commission for MTPL insurance, as well as mitigation of cross-border insurance service through establishment of certified representative for claims and establishment of a Service for claims compensation (the last two decisions will enforced as soon as the Republic of Macedonia becomes a full member of the European Union member country).

3. INSURANCE MARKET IN THE REPUBLIC OF MACEDONIA

A) INSURANCE UNDERTAKINGS

In the beginning of 2009, there were 12 insurance undertakings (2 for life and 10 for non-life insurance) on the Macedonian insurance market. There is only one insurance undertaking that has a license for conduction of reinsurance operations, besides its non-life insurance operations.

In 2009, one new non-life insurance undertaking obtained a working license and began its insurance operations.

Table 1: Insurance undertakings registry

Name of the undertaking		Insurance type
1	KJUBI MAKEDONIJA	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	

Source: ISA

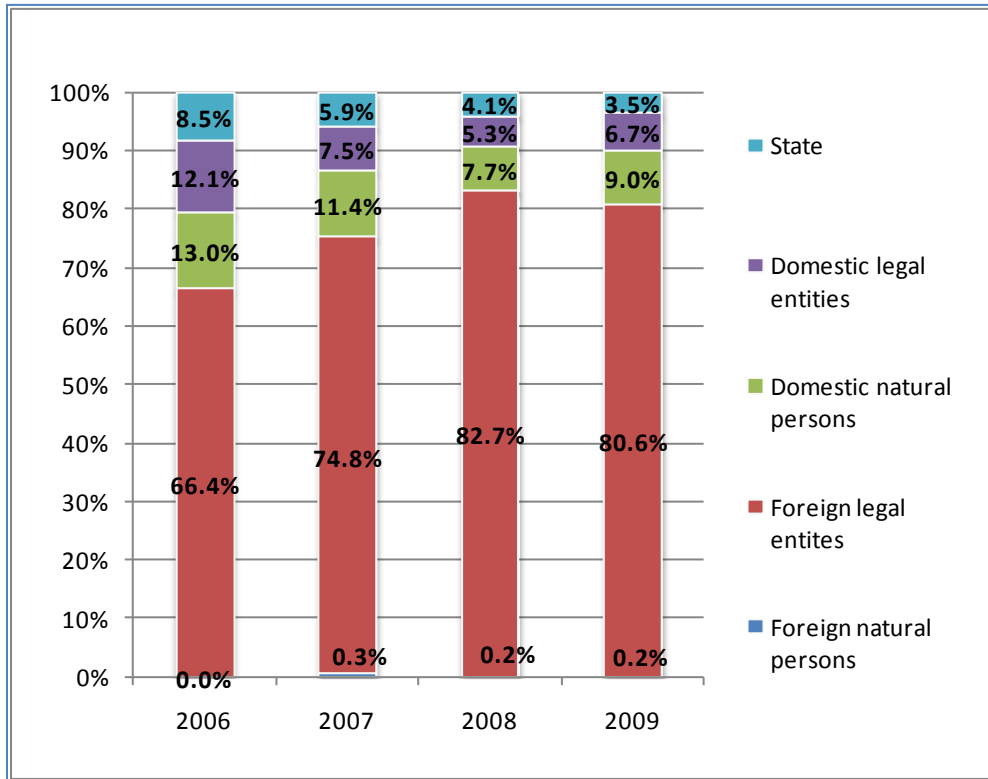
1. Ownership structure

The changes in the ownership structure of insurance undertakings in 2009 were not significant. Two of the existing undertakings made private offering of securities for additional capitalization, and a new non-life insurance undertaking appeared on the market. 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; therefore, they are partially or fully present in 12 out of 13 insurance undertakings on the market. The trend of entering foreign capital in the insurance sector stimulates the competition and the promotion of new products on the market, especially promotion of agriculture insurance, “mini Casco” insurance and liability insurance, as well as

improvement of know-how for risk management, consumer care in context of interim and regular servicing of claims and efficient risk management policy.

Chart 1 represents a review of the ownership structure of insurance undertakings (December 31st, 2009).

Chart 1: Ownership structure of insurance undertakings



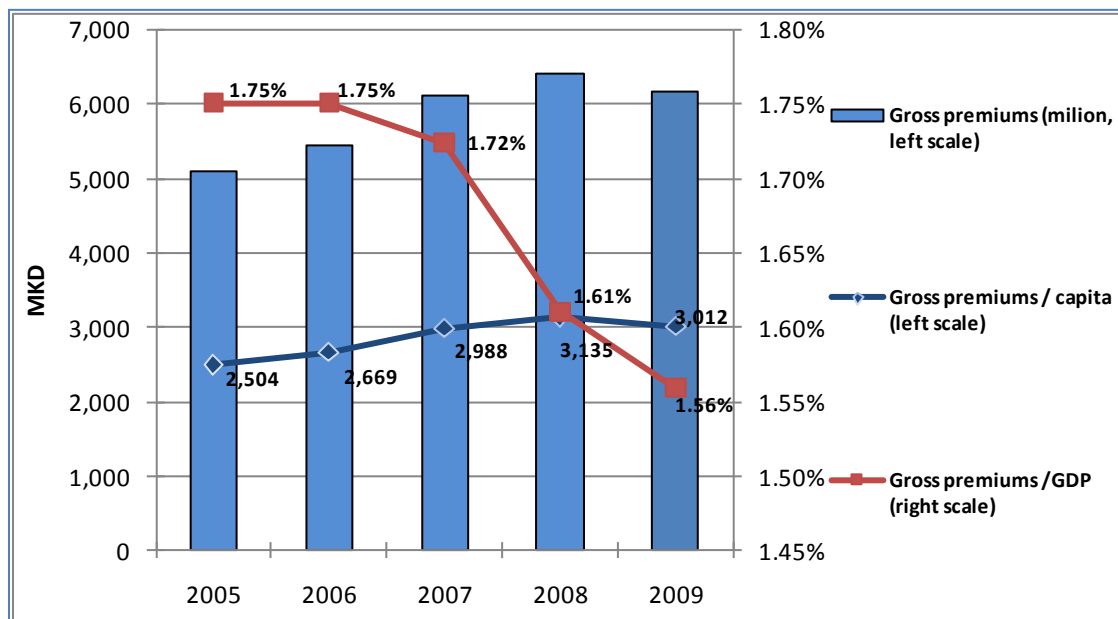
Source: ISA

2. Market performance

Basic indicators for measuring the market performance are the density rate and the penetration rate¹. Despite the positive trend, data for the insurance penetration rate in 2009 show that the total GWP in the country constitutes 1.53% of GDP, while the density rate is 3,012.00 MKD/per capita, which is similar, but lower, compared to the rate in related countries from the region. The changes in these values are shown in Chart 2.

¹ The density rate is the ratio between the gross written premium and the number of inhabitants in the country, the penetration rate is the ratio between the gross written premium and the gross domestic product.

Chart 2: Indicators for insurance market development



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 index², calculated through GWP, decreased from 1303.37 in 2008, to 1237.59 in 2009, which is within the acceptable level of concentration. The same index measured through the assets of insurance undertakings is similar; it decreased from 1660.63 in 2008 to 1489.71 in 2009.

In the context of different insurance types, an especially high concentration is present in life insurance and reinsurance because of 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 2009: 1355.66 (2008: 1410.91), and through the assets: 1742.24 (2008: 1921,25). At the same time, the indicator CR5³, calculated through GWP for this insurance type, is 73.93%, (76.46% in 2008).

Despite the reduction at the end of 2009, the market concentration, calculated through the share of the 5 leading insurance undertakings in gross written premium, remains still high: 70.69% (73.80% in 2008).

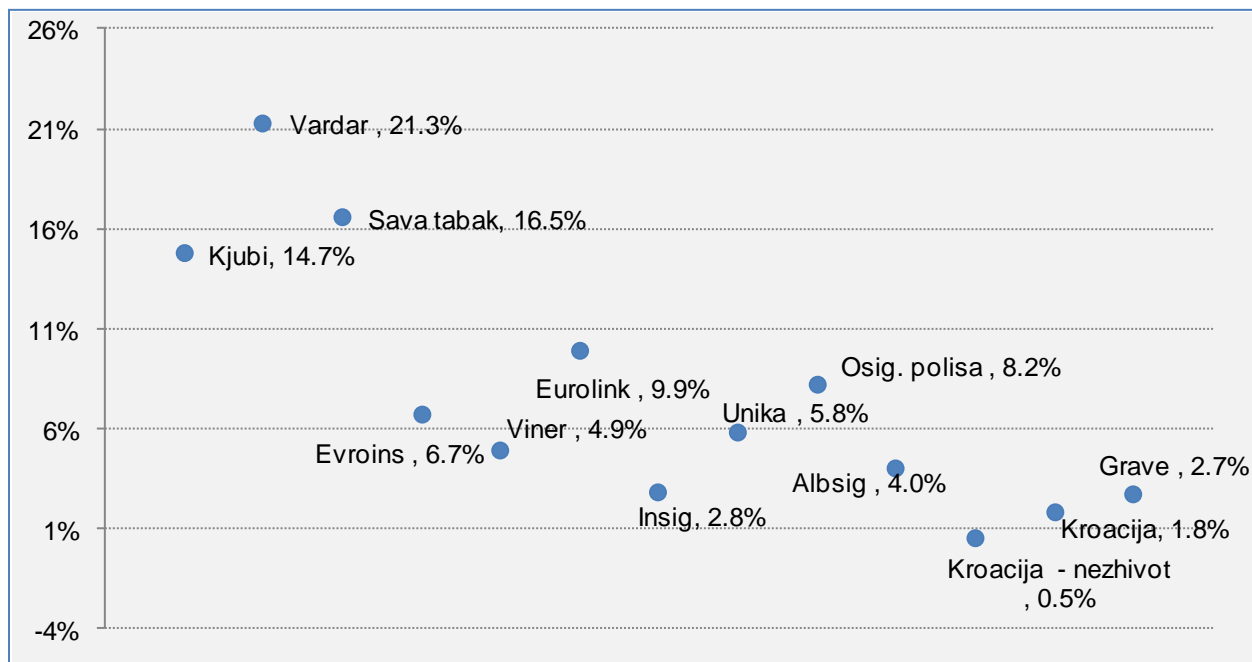
² The Herfindahl index can be calculated by the formula:

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

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.

³ 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.

Chart 3: Market concentration according to gross written premium (2009)



Source: ISA

3. Gross written premium

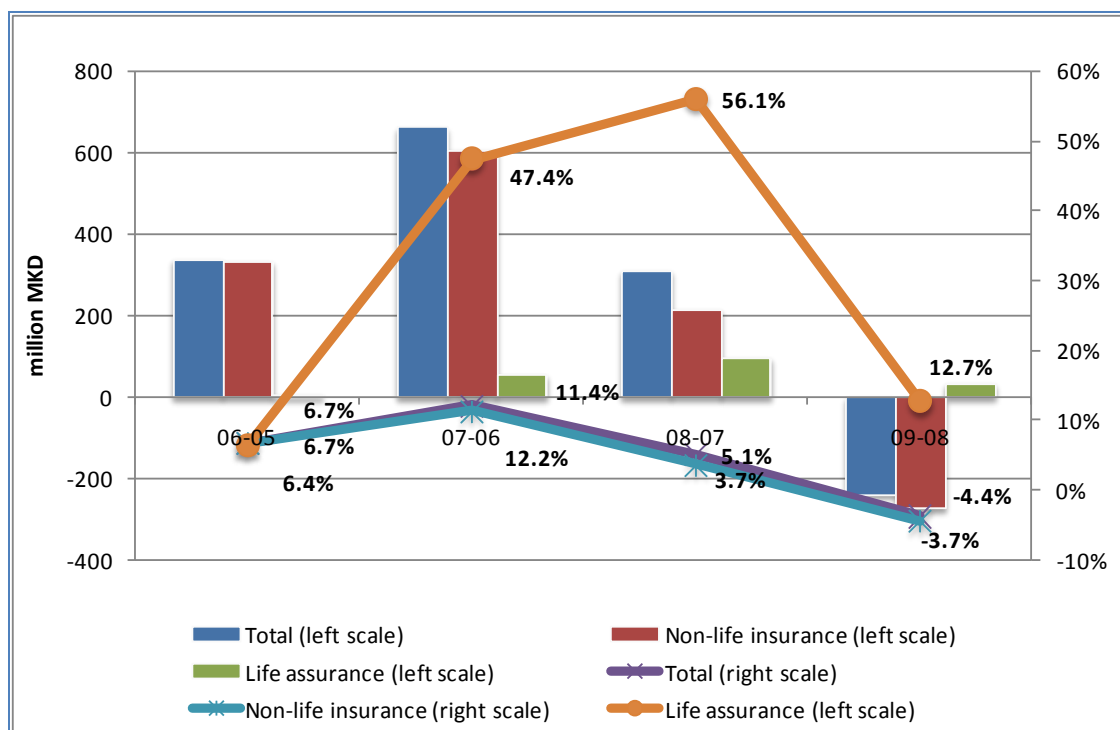
GWP of insurance and reinsurance companies for non-life insurance operations includes premiums written (contracted) in the current accounting period, irrespective of whether those amounts fully or partially relate to the following accounting period, while in life insurance operations the total GWP includes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

The amount of gross written premium for 2009 was 6,182.401 thousand MKD, of which, 5, 881.584 thousand or 95.13% refers to non-life insurance operations, while 300.817 thousand MKD, or 4.87% refers to life insurance operations.

The active reinsurance premium amount realized by the only reinsurance undertaking in the country is 2.955 thousand MKD and constitutes 0.33% of the active reinsurance premium in the undertaking's GWP.

The total GWP in 2009 was reduced by 3.7% compared to 2008, and approached the GWP in 2007. The non-life insurance premiums, which in 2009 participated in the GWP structure with 95.13%, were reduced by 4.4% compared to 2008, while the life insurance premiums were increased by 12.7% (Chart 4).

Chart 4: Development of the insurance sector



Source: ISA

Compared to 2008, the GWP increased in 7 out of 12 insurance undertakings that operated in 2008, while 5 insurance undertakings had a lower GWP than in 2008, among these were KJUBI and VARDAR, insurance undertakings with a standard share of more than 10% of the total GWP (Table 2).

Table 2: Gross written premium of insurance undertakings for 2008 and 2009 (in 000 MKD)

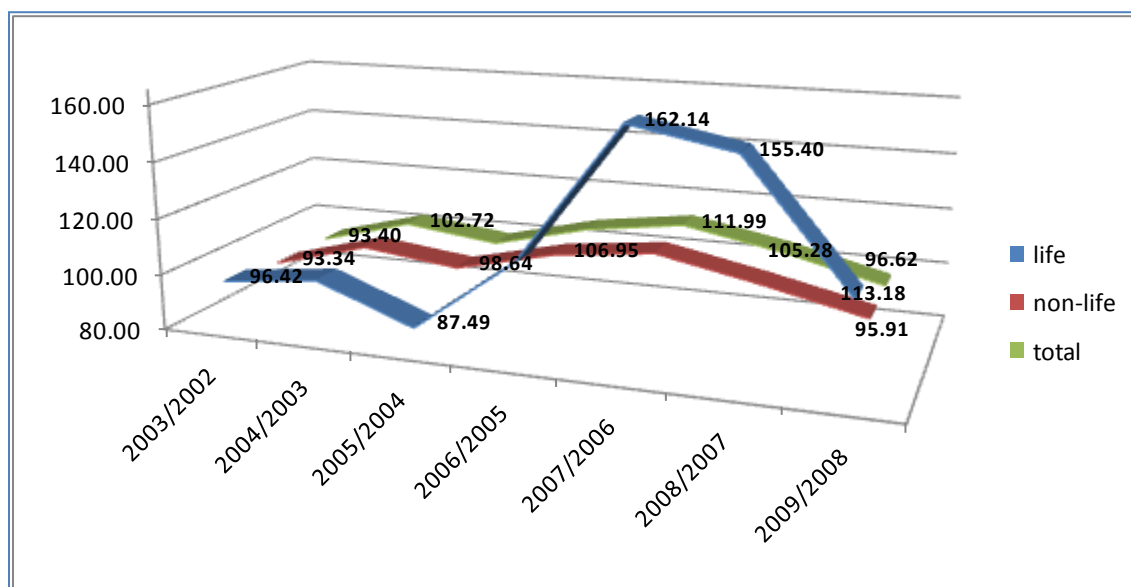
Nr.	INSURANCE UNDERTAKING	GROSS WRITTEN PREMIUM (GWP)		CHANGE 2009/2008	SHARE IN TOTAL GWP	
		2008	2009		2008	2009
1	KJUBI (non-life)	1.152.934	889.004	77,11	17,95%	14,38%
	KJUBI (life)	32.849	22.049	67,12	0,51%	0,36%
2	VARDAR	1.368.218	1.316.168	96,20	21,31%	21,29%
3	SAVA TABAK	1.003.672	1.023.383	101,96	15,63%	16,55%
4	EVROINS	367.353	415.385	113,08	5,72%	6,72%
5	VINER	271.755	305.242	112,32	4,23%	4,94%
6	EUROLINK	606.084	612.959	101,13	9,44%	9,91%
7	INSIG	189.795	170.533	89,85	2,96%	2,76%
8	UNIKA	332.371	359.773	108,24	5,18%	5,82%

9	OSIGURITELNA POLISA	575.350	506.652	88,06	8,96%	8,20%
10	KROACIJA - NEZHIVOT		33.634			0,54%
11	ALBSIG	287.287	248.851	86,62	4,47%	4,03%
12	KROACIJA	91.237	113.436	124,33	1,42%	1,83%
13	GRAVE	142.584	165.332	115,95	2,22%	2,67%
	TOTAL	6.421.489	6.182.401	96,28	100,00%	100,00%

Source: ISA

According to the index of changes of gross written premium⁴ for the period 2004-2009, it is clearly noticeable that non-life and life insurance operations have a similar trend line, with an obvious dominant share of non-life insurance operations in the insurance sector (Chart 3).

Chart 5: Index of changes of gross written premium



Source: ISA

One of the most adequate indicators for the scope of completed operations of insurance undertakings is the analysis of this scope in different lines of business. With data for GWP in lines of business, it shows the market structure of the insurance undertakings in 2009 (Table 3).

⁴ From annual accounts of insurance undertakings submitted to ISA pursuant to Article 120 from the Law on Insurance Supervision.

Table 3: Market structure according to gross written premium by lines of business (000 MKD)

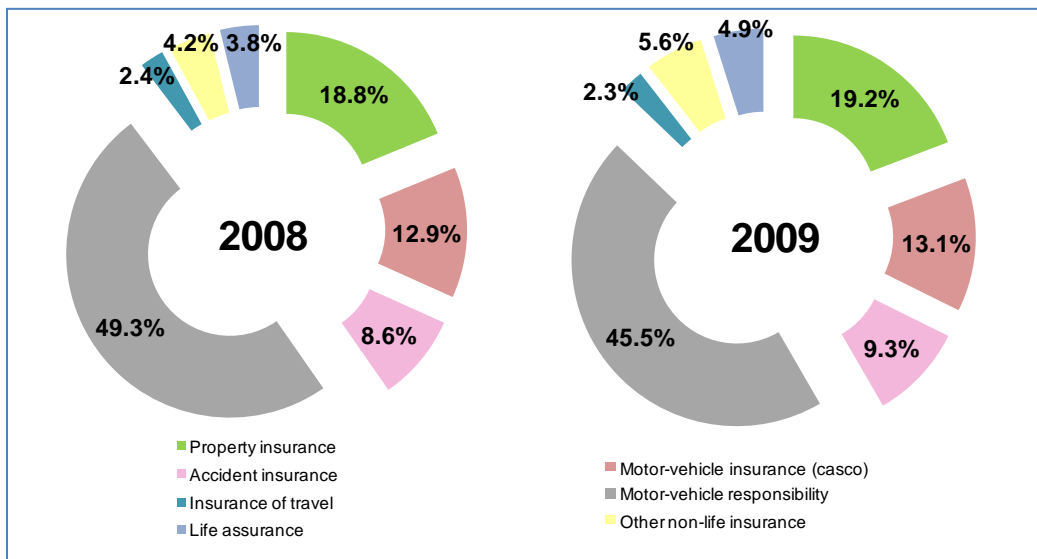
	Kjubi	Vardar	Sava Tabak	Evroins	Viner	Eurolink	Insig	Unika	Osig. polisa	Albsig	Kroacija	Kroacija- zhivot	Grave	Total
01.Accident insurance	128,121	131,303	50,061	32,168	79,891	76,156	5,479	13,811	47,486	8,451	4,209			577,136
02.Health insurance			1,415		6,887				1,571	15				24,873
03.Motor vehicles insurance-Casco	137,329	243,251	114,803	50,502	15,591	127,393	5,407	27,165	71,966	11,48	4,563			809,45
05.Aircraft Casco insurance		66,616			6,118	50,925			184					123,843
06.Vessels insurance - Casco	96		344	108	25	185			2					760
07.Insurance of goods in transit	36,743	7,319	3,943	10,385	801	4,279		609	1,471	948	456			66,954
08.Insurance against fire and other insured events	121,858	69,925	60,915	18,233	6,078	52,944	1,083	19,662	16,539	5,608	1,065			373,91
09.Other property insurance	172,198	127,76	354,848	25,442	65,307	29,908	1,061	10,967	23,729	2,325	1,42			814,965
10.MTPL insurance	256,497	662,012	391,861	248,019	119,687	179,159	146,437	263,838	319,32	205,039	21,134			2,813,003
11.Aircraft TPL insurance		872	25,331		1,029	36,549			127					63,908
12.Vessel third party liability insurance	240	35	184	247	32	200			737					1,675
13.Other liability insurance	7,896	6,662	4,554	7,082	3,562	21,183		4,834	8,073		518			64,364
14.Credit insurance	109													109
15.Guaranties insurance	154		66											220
16.Insurance against financial loses	1,85	413	27		234									2,524
18. Tourist assistance	25,913		15,031	23,199		34,078	11,066	18,887	15,447		269			143,89
19.Life insurance	22,049											113,436	165,332	300,817
TOTAL NON-LIFE (1 -18)	889,004	1,316,168	1,023,383	415,385	305,242	612,959	170,533	359,773	506,652	248,851	33,634			5,881,584
TOTAL LIFE (19)	22,049											113,436	165,332	300,817
Total	911,053	1,316,168	1,023,383	415,385	305,242	612,959	170,533	359,773	506,652	248,851	33,634	113,436	165,332	6,182,401

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

4. Market structure

During 2009, motor vehicle insurance is the most prevalent insurance in the total gross written premium with 58.6%, of which, 45.5% fall out to motor third-liability (MTPL) insurance and 13.1% to voluntary motor vehicle insurance (Casco). Then follows the property insurance (against fire, natural disasters, theft and other risks, with 19.2%, and accident insurance with its standard share of 9.3%. The structure by lines of business and the comparison with 2008 is given in Chart 6.

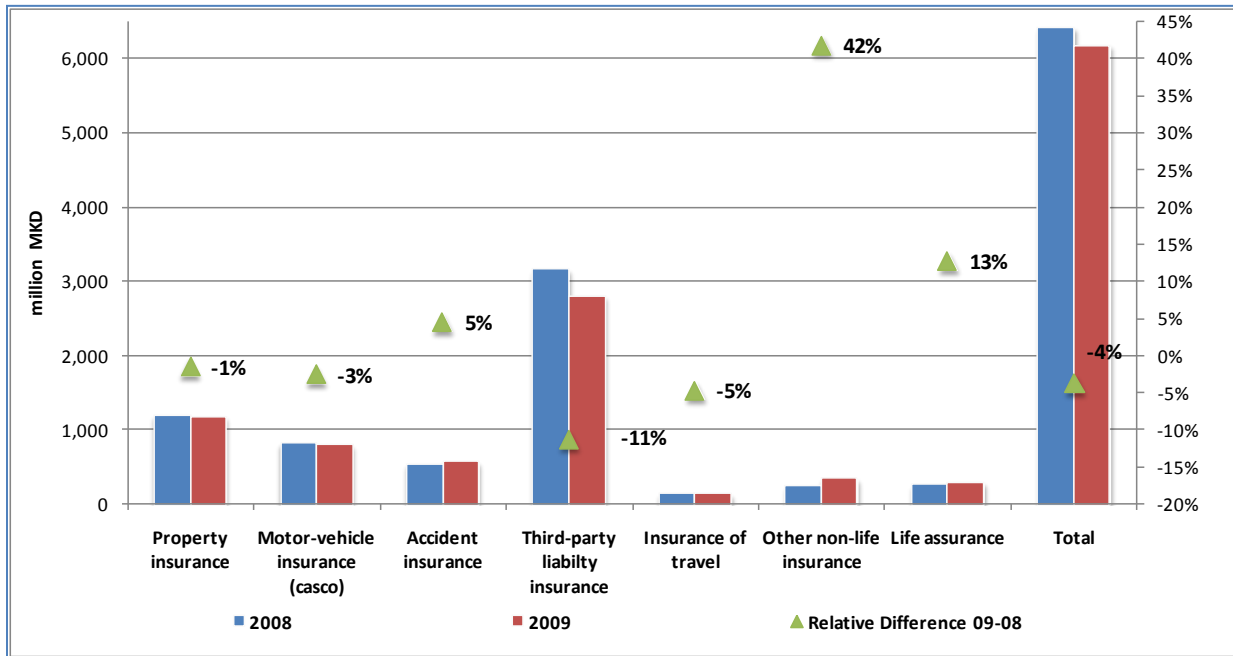
Chart 6: Structure of gross written premium by lines of business



Source: ISA

The structure of forming GWP in non-life insurance for 2009 is similar with the one for 2008. The only thing that deserves attention is the decrease of premiums by 11% in the MTPL class, which is, at the same time, the most important component in total GWP (Chart 7).

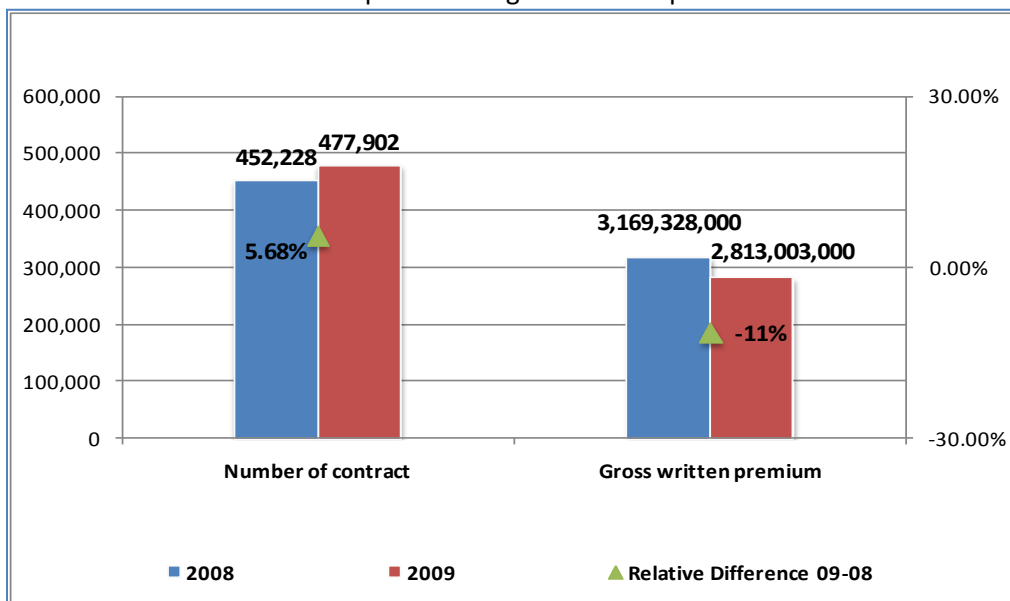
Chart 7: GWP by lines of business



Source: ISA

The most important factor which affects the decrease of GWP is the adopted decision for reduction of technical premium rates for MTPL insurance⁵. As a parallel effect of this measure is the increase of insurance policies for MTPL insurance by 5.68% in 2009 compared to 2008 (Chart 8).

Chart 8: Number of insurance polices and gross written premium in MTPL

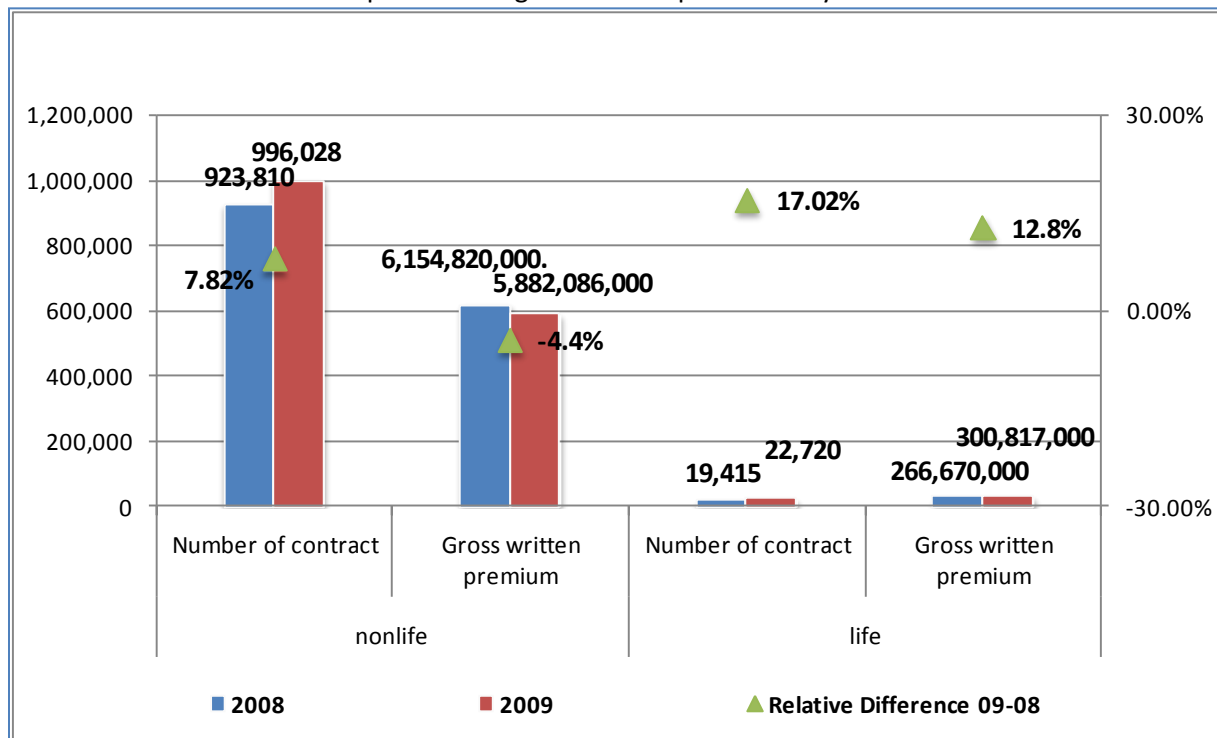


Source: ISA

⁵ Decision on determination of minimum and maximum technical premium rate for motor third-party liability (MTPL) insurance in 2008. (Official Gazette of Republic of Macedonia nr.115/2008).

During 2009, the insurance undertakings issued a total of 1,018.746 insurance policies, which is an increase in the number of policies by 8% compared to 2008. 22. 720 or 2.23% of the total issued policies, are policies for life insurance, which represents an increase by 17.02% compared to the number of issued policies in 2008. 996.028 or 97.77% of the total issued policies are non-life insurance policies, which represents an increase by 7.82% compared to the number of issued policies in 2008 (Chart 9).

Chart 9: Number of insurance policies and gross written premiums by sectors



Source: ISA

The MTPL policies constitute the largest part of the issued policies structure, or a total of 477.902 issued policies in the quoted period, and then follows the accident insurance with 171.172 issued policies and tourist assistance with 211.013 issued policies. The amount of gross paid claims by the insurance undertakings for 2009 is 2.962 million MKD. Compared to 2008, the amount of gross paid claims is 6.85% lower (Table 4).

The individual share of the insurance undertakings in the total amount of gross paid claims for 2009 is given in Chart 10. We can notice that insurance undertakings which participate in the total GWP of the insurance sector, as well as in the total assets with more than

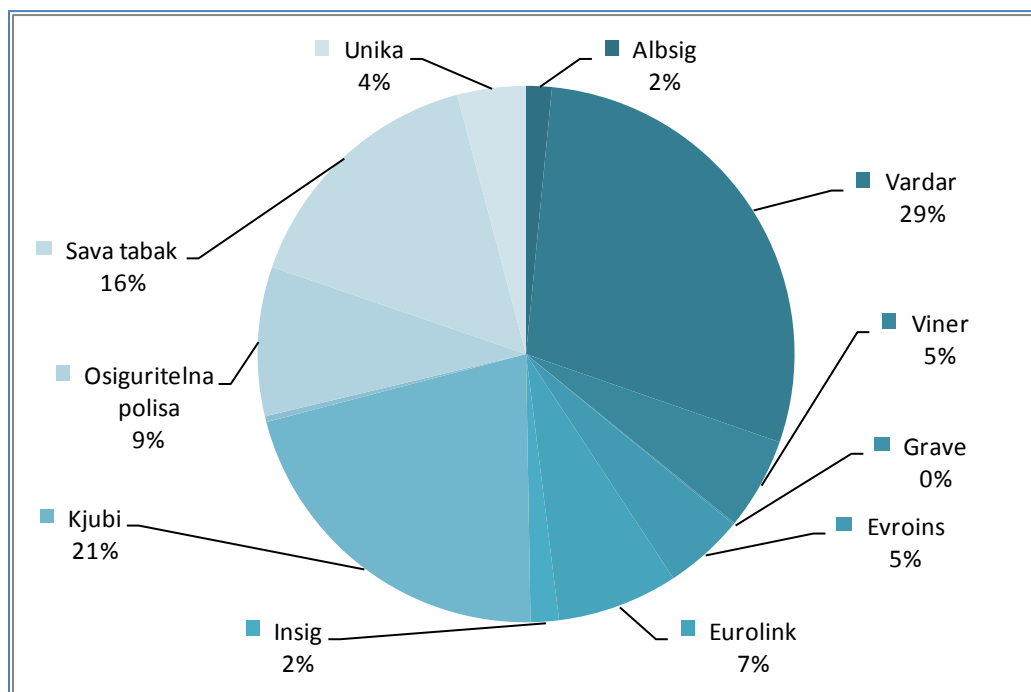
Table 4: Gross claims paid by lines of business (in 000 MKD)

Insurance classes	2006	2007	2008	2009
Property	400.240	365.351	443.382	459.407
Motor vehicles (Casco)	400.937	410.669	489.178	529.979
Accident	314.154	335.611	384.564	354.233
Motor TPL	1.495.144	1.573.497	1.697.244	1.491.083
Tourist Assistance	52.964	9.922	14.146	15.372
Other non-life insurance operations	24.591	34.933	49.292	14.728
Life	109.094	135.572	104.535	97.448
Total	2.797.124	2.865.555	3.182.341	2.962.250

Source: ISA

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 claims⁶ (Chart 10).

Chart 10: Share of insurance undertakings in the total paid claims in 2009



Source: ISA

⁶ The percentage of KJUBI MAKEDONIJA (21.19%) incorporates 2.87% on basis of servicing previous life insurance policies.

5. Assets and liabilities

5.1. Structure of assets

The value of assets of the insurance undertakings on December 31st, 2009, was 12.202 million MKD and it is 282.2 million MKD or 2.37% higher than the total value of assets in 2008. This implies that the positive growth from last year continues (Table 5).

The highest percent (53.77%) of the total assets, refers to debts owed by policy holders and other debts, of which, 24.06% refer to investments, 10.24% to tangible assets and 8.99% to other assets. The other items in the assets (intangible assets and prepayments and accrued income) constitute 2.95% of the total assets.

Table 5: Structure of assets insurance undertaking assets (MKD)

	31.12.2008	Share	31.12.2009	Share	Index 2009/2008
Intangible assets	108.133.179	0,91%	76.934.503	0,63%	71,15
Tangible assets	1.310.461.082	10,99%	1.249.182.822	10,24%	95,32
Investments	2.185.995.673	18,34%	2.935.389.038	24,06%	134,28
Investments for the benefit of life- assurance policyholders who bear the investment risk					
Debts owed by policy holders and other debts	6.646.981.203	55,76%	6.561.321.123	53,77%	98,71
Other assets	1.419.671.605	11,91%	1.096.971.795	8,99%	77,27
Prepayments and accrued income	249.186.343	2,09%	282.908.302	2,32%	113,53
TOTAL ASSETS	11.920.429.085	100,00%	12.202.707.583	100,00%	102,37

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 increasing and represents 8.27% of the total insurance undertakings assets for 2009 (7.57% in 2008).

In line with the increased relative share of investments in the total assets and the absolute growth, the changes in the investment structure are noticeable. As a result of corrections in the prices of shares on the capital market influenced by the world financial crisis, the investment in equity instruments decreased for the account of debt instruments on the capital market and traditional bank products.

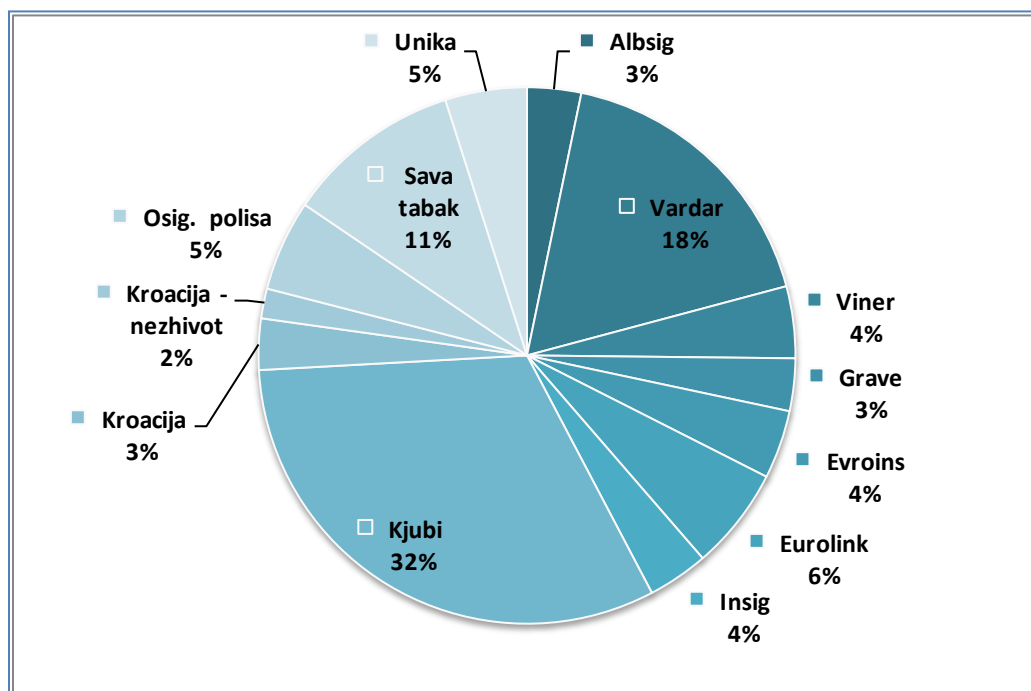
The investments in shares are 201.4 million MKD and they were decreased by 55.15% compared to the amount of 449.1 million MKD in 2008. The investments in debt instruments are 663.6 million MKD, which is an increase of 233.2% compared to the amount of 19.1 million MKD in 2008, while the deposits are 1.396 million MKD, which is an increase of 38.7% compared to the amount of 1,007 million MKD in 2008.

In the structure of receivables (debts owed by policy holders and other debts), the receivables of direct insurance operations are 3.740 million MKD (57.01% of the total receivables), an increase by 2.9%

compared to the amount of 3.634 million MKD in 2008. The receivables from reinsurance operations are 347.3 million MKD (5.29% from the total receivables), which is a decrease of 3.5% compared to the amount of 359.9 million MKD in 2008. The rest of the receivables are 2.473 million MKD (37.69% from the total receivables), which is a decrease of 6.8% compared to the amount of 2.652 million MKD in 2008.

The structure of the insurance undertakings share in the total assets of the insurance market is shown in Chart 12.

Chart 12: Share of insurance undertakings in the total assets of the insurance sector in 2009



Source: ISA

5.2. Structure of capital and liabilities

In the total capital and liabilities of the insurance undertakings, the technical provisions participate with 41.70%, the capital and reserves with 17.6%, while the rest of the items with 23.19% (Table 6).

Table 6: Structure of capital and liabilities of insurance undertakings (MKD)

	31.12.2008	Share	31.12.2009	Share	Index 2009/2008
Capital and reserves	4.255.947.867	35,70%	4.283.896.403	35,11%	100,656694
Subordinated liabilities					
Technical provisions	4.948.661.708	41,51%	5.088.002.374	41,70%	102,815724
Technical provisions for life insurance policies where the investment risk is borne by the policyholder					
Other provisions	1.177.121.593	9,87%	1.180.363.418	9,67%	100,275403
Deposits retained from operations transferred to reinsurance and financial fiscal relations					
Other liabilities	1.357.673.468	11,39%	1.390.208.085	11,39%	102,396351
Accruals and deferred income	181.024.449	1,52%	260.237.322	2,13%	143,758108
TOTAL	11.920.429.085	100,00%	12.202.707.602	100,00%	102,368023

Source: ISA

In 2009, the paid up-share capital is 3,022 million MKD and compared to 2008, there was an increase of 363.446 million MKD or 12%, which is a result of the additional paid-up capital of two non-life insurance undertakings, as well as the establishment of a new non-life insurance undertaking.

6. Capital and the required solvency margin

The total capital of non-life insurance undertakings is 3.790 million MKD and its share in the total capital and liabilities of these undertakings is 33.86%. The total capital of life insurance undertakings is 493.3 million MKD, or 48.91% 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 always at least be equal with the required level of the solvency margin, at any moment.

All insurance undertakings in Republic of Macedonia are solvent. By adding the sums on the required solvency margin of non-life insurance undertakings, an amount of 956. 257 thousand MKD will be obtained, which indicates that the total capital of these undertakings is 3,45 times higher than the required solvency margin. The life insurance undertakings calculated that the necessary solvency margin is 42.232 thousand MKD, which indicates that the calculated capital is 11,24 times higher than the calculated required solvency margin.

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

7. Technical provisions

The technical provisions were increased by 2.81% compared to 2008, 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 2009, is 4.615 million MKD, or 1.58% higher than the previous year, while the total amount of technical provisions of life insurance undertakings is 472 million MKD, which is an increase of 16.67% compared to the previous year (Table 7).

Table 7: Structure of technical provisions

Structure of technical provisions	Non-life		life		total	
	2008	2009	2008	2009	2008	2009
Unearned premium provisions	2.334.784	2.207.628	62.527	74.412	2.397.311	2.282.041
Reserves for bonuses and rebates	24.621	8.878	0	0	24.621	8.878
Claims provisions	2.174.511	2.382.633	5.289	7.708	2.179.800	2.390.341
Mathematical reserve	0	0	335.099	390.284	335.099	390.284
Other technical provisions	9.861	16.459	1.970	0	11.831	16.459
Total	4.543.776	4.615.598	404.886	472.404	4.948.662	5.088.002

Source: ISA

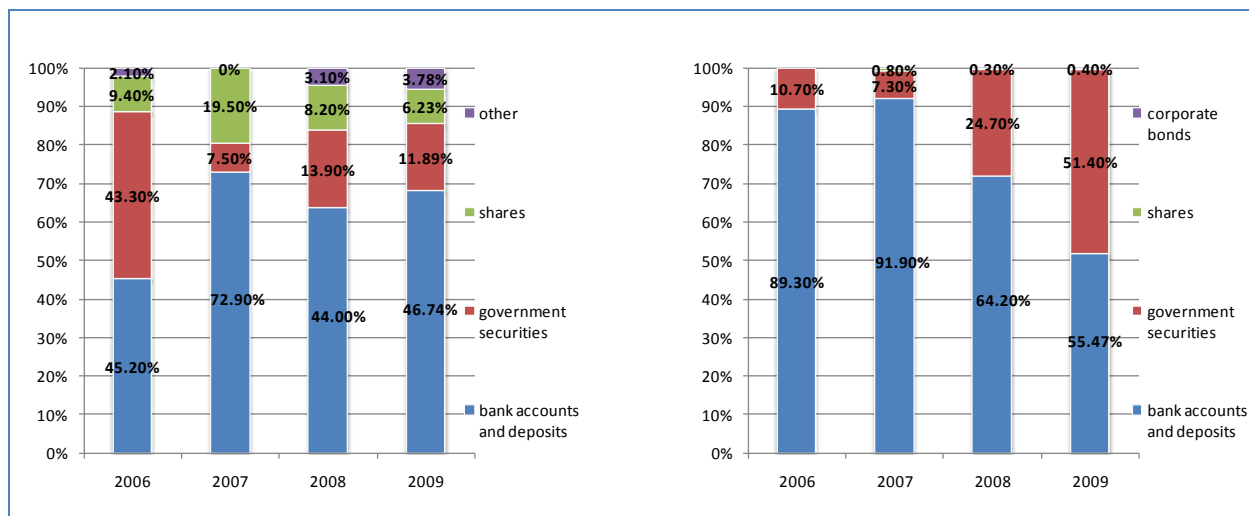
8. Assets covering the technical provisions

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 admissible assets, at least up to the level of the value of the technical provisions.

In 2009, the non-life insurance undertakings have invested the largest part of the assets covering technical provisions (total of 2.157 million MKD) in bank deposits, then, 548 million MKD in government securities, 287 million MKD in shares registered on the Macedonian Stock Exchange based on approval from the Securities and Exchange Commission, 49 million MKD in securities from foreign issuers, 8.2 million MKD in share units in open-ended investment funds and 116.7 million MKD in other investments.

Relative to the assets covering the mathematical reserve and other technical provisions, the life insurance undertakings invested 262 million MKD in bank accounts and bank deposits, then, 242 million MKD in government securities and 1.8 million MKD in securities from foreign issuers (Chart 13).

Chart 13: Assets covering technical provisions; non-life (left); life (right)



Source: ISA

9. Financial result

In the period of January 1st – December 31st 2009, the insurance sector realized losses of 170.83 million MKD.⁷ The life insurance sector realized profit of 18.6 million MKD, while the non-life insurance sector realized a loss of 189.58 million MKD, which is primarily due to changes in internal accounting policies with regard to the valuing of the investments and write-off of debts owned by policy holders.

In the non-life insurance segment, 8 insurance undertakings have shown net profit of 226.9 million MKD for the financial year, while 3 insurance undertakings have shown loss of 416.4 million MKD.

In the life insurance segment, all insurance undertakings have shown net profit of 18.6 million MKD for the financial year.

Since the insurance sector in 2009 suffered losses, an attention for analysis attracts the structure of insurance undertakings' losses, i.e. the features of the realized technical and non-technical result, as a component of the financial report.

⁷ The insurance undertakings submitted their annual accounts and financial reports to the Insurance supervision agency, pursuant to regulations from the Law on Insurance Supervision.

The technical result⁸ in 2009 was dramatically negative, 356.4 million MKD in 2009, in comparison to 2008 when it was positive, 12.8 million MKD. Although the technical result was positive in 2008, this negative trend was already present. The negative technical result in 2009 is due mostly to the decrease of the technical result in the segment of non-life insurance, which, at the end of 2009 was negative with an amount of 367.1 million MKD, versus the positive account of 4.8 million MKD in 2008. This reduction is mostly due to changes in internal accounting policies in some insurance undertakings related to evaluation of receivables, based on insurance premium and financial investments, as well as to the growth of acquisition expenses for sale in most of the insurance undertakings.

In 2009, the technical result in life insurance remains positive, with an amount of 10.7 million MKD, which is an increase of 35.58% compared to the level of 7.91 million MKD in 2008 (Table 8).

Table 8: Structure of the financial result-technical and non-technical result (MKD)

	2006	2007	2008	2009
Technical result-life	-21.120.019	4.177.677	7.910.265	10.725.140
Technical result -non-life	-72.984.951	73.456.921	4.892.835	-367.150.210
Technical result -total	-94.104.970	77.634.598	12.803.100	-356.425.070
Non-technical result	405.815.833	233.026.080	263.015.862	255.576.078
Profit/loss - earnings before tax	311.710.863	310.660.678	275.818.962	-100.848.992

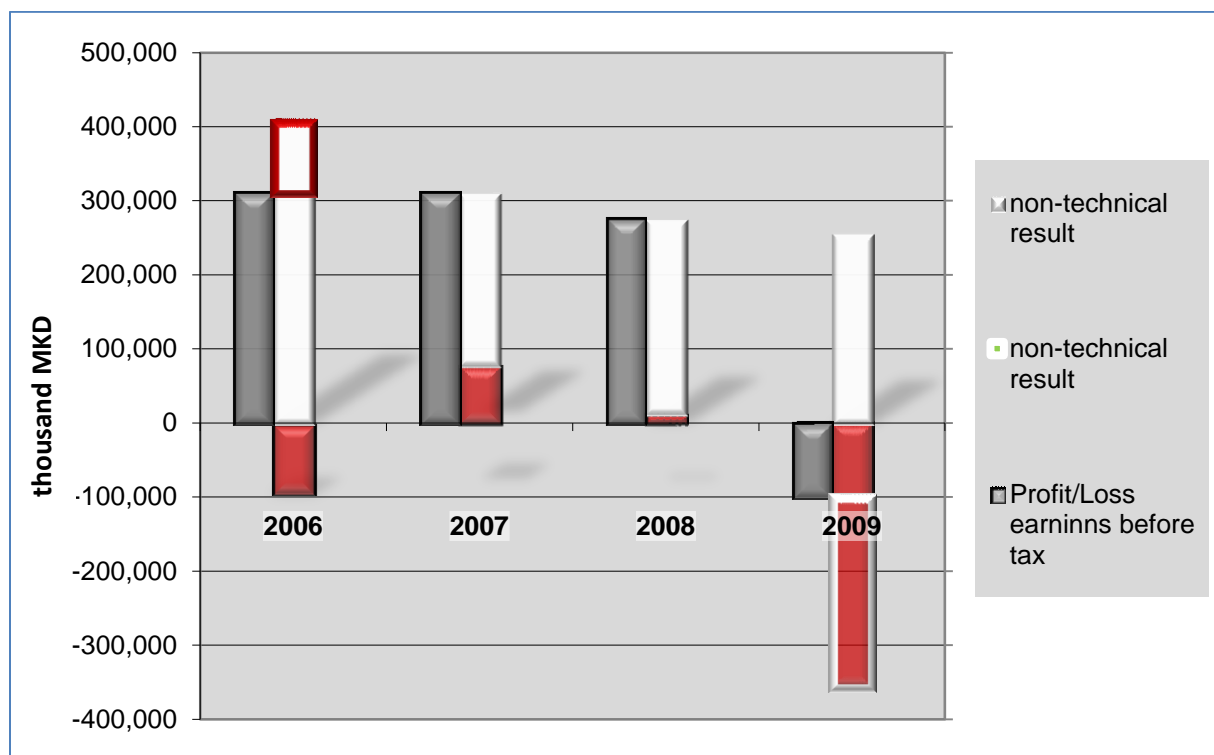
Source: ISA

Although the reasons for loses in the insurance sector are located in the technical result, they are compensated by the realized non-technical result. Besides the decrease of 2.82% compared to 2008, the insurance undertakings realize a substantial non-technical result of 255.5 million MKD, i.e. a result without significant volatility from the trend noticed in the technical result.

The Chart 14 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.

⁸ 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 14: Influence of the technical and non-technical result in the financial report



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, net of reinsurance, and the earned technical premium, net of reinsurance, is 73.11% for 2009, and is higher than the one in 2008 of 72.47%. Compared within the insurance groups, this ratio in non-life insurance is 73,41% for 2009, versus 72,96% for 2008, and in life insurance is 79.43% for 2009, versus 77,47% for 2008.

The expenses ratio represents the ratio between expenses from insurance undertakings' operations and total written premiums, net of reinsurance. Total operating expenses are insurance expenses (commission and other expenses for insurance), general administrative expenses (expenses for employees and other administrative expenses), amortization and value adjustments of the equipment and other tangible assets, reduced by reinsurer's commission, increased or reduced by the change of deferred acquisition costs, and other operating expenses, reduced by reinsurer's share. This ratio in 2009 was 44.98%, higher than the one of 38.43% in 2008, and this is a consequence of the increased expenses from insurance undertakings' operations. In 2009, total operating expenses (expenses for insurance operations) of all insurance undertakings were 2.792 million MKD, an increase of 13.2% compared to 2008.

The combined ratio in the insurance sector for 2009 is 111.99%, and for comparison it was 89.68% in 2008. This growth is due to the increased total operating expenses. It represents the ratio between incurred claims, net of reinsurance, plus total expenses for operations, and earned technical premium, net of reinsurance. This ratio shows the result from operations before incorporating the investment income. Analyzed by lines of business, this ratio in non-life insurance in 2009 is 111.90% versus 88.86% in 2008, and in life insurance for 2009 is 113.65% versus 107.14% in 2008.

The return of investment (ROI) can be calculated as a ratio between revenues reduced by investment expenses, from aspect of the investment situation. The result of investment for 2009 is 9.29%, and 6.58% for 2008. The decrease in 2009 is due to the reduced investments on the financial markets.

The solvency ratio represents a ratio between the total liabilities and the total assets. This solvency ration shows the quantity of assets financed by liabilities, without the capital and the reserves. In 2009, this ratio is 64.89%, compared to 2008, when it was 64.30%.

The **return on assets (ROA)** and the **return on equity (ROE)**⁹, in context of the realized loss in the insurance sector in 2009, are negative, although we can notice an improvement in their segmentation, considering the positive results in this segment. The Table 9 shows the rates by years in the period of 2006-2009.

Table 9: ROA and ROE

	2006	2007	2008	2009
ROA				
- non-life	2,06%	2,13%	1,96%	-1,69%
- life	-1,89%	0,81%	-2,04%	1,85%
- total	1,86%	2,05%	1,66%	-1,40%
ROE				
- non-life	9,50%	7,10%	5,72%	-5,00%
- total	-8,23%	2,22%	-3,87%	3,78%
- life	8,58%	6,77%	4,65%	-3,99%

Source: ISA

For life insurance, the realized revenue from investments in 2009 is 57.1 million MKD, which is an increase of 86.15% compared to investments of 30.7 million MKD in 2008.

For non-life insurance, the realized revenue from investments in 2009 is 364.6 million MKD, which is an increase of 32.58% compared to investments of 275.2 million MKD in 2008.

⁹ 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.

For life insurance, the realized expenses from investments in 2009 are 187.6 thousand MKD, which is an increase of 2.96% compared to the level of 182.2 thousand MKD in 2008.

For non-life insurance, the realized expenses from investments in 2009 are 228.6 million MKD, which is an increase of 122.96% compared to the level of 102.5 million MKD in 2008.

B) INSURANCE INTERMEDIATION – INSURANCE AGENCIES AND INSURANCE BROKERAGE COMPANIES

At the end of 2009, the majority of the 1,018,748 insurance policies sold, were made by insurance undertakings, while the role of the intermediaries in selling policies is still insignificant, but increasing.

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

At the end of 2009, 12 insurance brokerage companies are functioning, and compared to 2008, the number of these subjects has increased by 4 insurance brokerage companies (JDB BROKER, DELTA INS BROKER, A-TIM and LEGRA).

Table 10: 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

Source: ISA

In this period, the insurance brokerage companies sold 277,093 policies, of which, 2,135 are life insurance policies, or 27% of the total number of sold policies. One insurance brokerage company has a dominant share.

The total capital of the insurance brokerage companies at the end of 2009 is 47.1 million MKD.

Another form of intermediation is insurance representation, which implies to preparation and conclusion of insurance policies, on behalf or for the account of one or more insurance undertakings established in accordance with the Law on Insurance Supervision, for insurance products that mutually do not compete.

In 2009, 5 insurance agencies are actively functioning, i.e. the same participants that were active on the insurance market the previous year. 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 11: Registry of insurance agencies

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

Source: ISA

The total capital of the insurance agencies at the end of 2009 is 4.5 million MKD, the same as in 2008. In 2009, the insurance agencies sold total of 23.669 insurance policies, of which, 572 are life insurance policies. Two insurance agencies have dominant share on the market.

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

Nr. 0103-1023/3

Skopje

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