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INSURANCE SUPERVISION AGENCY

ANNUAL REPORT OF THE  
INSURANCE SUPERVISION AGENCY 2010

Skopje, June 2011

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## 1. ESTABLISHMENT AND MISSION

The Insurance Supervision Agency of Republic of Macedonia (hereinafter: ISA) is an autonomous and independent regulatory body which executes public authorizations prescribed by the Law on Insurance Supervision and the Law on Compulsory Insurance in Traffic.

The competences of ISA relate to:

- Conduction of supervision of insurance undertakings, insurance brokerage companies, insurance agencies, insurance brokers and agents, legal entities associated to insurance undertakings and the National Insurance Bureau;
- Enactment of secondary legislation (by-laws);
- Adoption of decisions on issuance and withdrawal of licenses, consents, elimination of violations in supervised entities and other individual issues; as well as
- Enforcement of supervisory measures on insurance undertakings, insurance brokerage companies, insurance agencies and other legal entities and natural persons supervised by ISA.

Within its authorizations and competences, as well as through its membership in international insurance associations and cooperation with other supervisory bodies, the objective of ISA is to provide adequate protection of rights and interests of insurance policyholders and other insurance beneficiaries by strengthening and promoting development of the insurance market in the country.

The role of ISA on the insurance market is to strengthen the solvency capital of the insurance undertakings, to improve financial reporting of these subjects, thereby contributing to the improvement of the financial control and a larger financial stability of the country.

ISA is accountable to the Parliament of Republic of Macedonia. The Parliament adopts the financial plan of ISA, as well as the annual accounts, which must be audited by an independent authorized auditor.

The management body of ISA is the Council of experts, consisting of the President of the Council and 4 other members. The President and the 4 members of the Council of experts of ISA are appointed and dismissed by the Parliament of Republic of Macedonia, on Government's proposal. On August 25<sup>th</sup> 2009, The Parliament of Republic of Macedonia adopted a decision to appoint the President and the members of the Council of experts of ISA:

- Klime Poposki, PhD, president,
- Zoran Stojanovski, member
- Lulzim Imeri, member
- Ilija Graorkovski, member, and
- Silvana Mojsavska, PhD, member.

ISA has a status of a legal entity registered in the Central Registry of Republic of Macedonia and started its operations on November 1<sup>st</sup>, 2009. Upon establishment of ISA, the competences of the Ministry of Finance for conduction of insurance supervision ceased.

During 2010, ISA has been active in performing its the legally determined functions, from the aspect of improvement of the insurance market regulation, as well as from the aspect of supervision of all participants in the insurance market operations in the Republic of Macedonia.

The Council of experts holds sessions and adopts decisions with majority of votes from the total number of members. During 2010, the Council of experts of ISA held 27 sessions.

## **2. FINANCING OF THE INSURANCE SUPERVISION AGENCY**

By adopting the Tariff on fees, annual fees and lump-sum fees which ISA charges and the due dates (Official Gazette of Republic of Macedonia nr. 147/09, 149/09 and 154/09), which came into force on January 1<sup>st</sup>, 2010, the operations of ISA are financed by contribution paid by the insurance undertakings, insurance brokerage companies, insurance agencies and other legal entities and natural persons supervised by ISA.

The Council of experts adopted the financial plan of ISA for the year of 2010 on the session held on December 23<sup>rd</sup>, 2010 and has submitted the plan to the Parliament of Republic of Macedonia to be adopted.

## **3. ACTIVITIES OF THE INSURANCE SUPERVISION AGENCY IN 2010**

In accordance with the priorities set for 2010, ISA adopted by-laws arising from the Law on Insurance Supervision, supervision measures, decisions related to the licensing area, organized education and exams for insurance brokers and agents, as well as numerous acts which support the operations of ISA.

### **3.1. Regulation**

During 2010, 12 by-laws<sup>1</sup> were adopted, by which a big part of the regulation in many areas was concluded.

**In the licensing area**, 4 by-laws were adopted. These by-laws regulate the requirements for obtaining and examination of the professional knowledge required to carry out insurance representation and insurance brokerage operations, and also precise the necessary documentation for obtaining a license for insurance agents and insurance brokers. The by-laws represent legal basis for starting the education process in 2010 and for renewed licensing of the intermediaries that operate on the insurance market in the Republic of Macedonia. For this reason, the following rulebooks were adopted:

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<sup>1</sup> Four of the by-laws were published in the "Official Gazette of the Republic of Macedonia" nr. 5 from January 14<sup>th</sup>, 2011.

1. Rulebook on the requirements for professional training and examination of professional knowledge required to carry out insurance representation operations;
2. Rulebook on the requirements for professional training and examination of professional knowledge required to carry out insurance brokerage operations;
3. Rulebook on the necessary documentation for obtaining a license for insurance agent, and
4. Rulebook on the necessary documentation for obtaining a license for insurance broker.

During 2010, the following by-laws were adopted in the area of accounting, financial reporting and auditing:

1. Rulebook on chart of accounts for insurance and reinsurance undertakings;
2. Rulebook on the methods of evaluation of items on the balance sheets and preparation of financial reports;
3. Rulebook on the form and content of audit reports and minimum audit scope for insurance and reinsurance undertakings; and
4. Rulebook on the form and the content of the balance schemes and detailed content of the Annual reports of the insurance and/or reinsurance undertakings.

By adoption and adequate utilization of these by-laws, an improved quality and larger scope of the financial reporting is expected, which is very significant for efficient and effective conduction of supervision over insurance undertakings, as well as for realization of reporting uniformity.

The following by-laws were adopted in the area of supervision and statistics:

1. Rulebook on minimum standards for calculation of technical provisions;
2. Rulebook on calculation of the necessary level of solvency margin;
3. Rulebook on types and description of items for calculation of the capital of the insurance and/or reinsurance undertaking; and
4. Rulebook on the statistical insurance standards of the insurance and/or reinsurance undertakings.

The adoption of the supervision and statistics rulebooks is a result of the obligation of ISA, determined by Articles 74 and 102 from the Law on Insurance Supervision. By these rulebooks, a compliance of the working standards in the insurance undertaking's operations will be achieved; improvement of the quality and the content of reporting, as well as uniformity in reporting to ISA, by which, framework and directions in supervision operations will be set, especially in the area of risk control, monitoring of the solvency position of the insurance undertakings and a possibility to establish and develop a system for early warning.

## 3.2. Supervision

ISA conducts supervision over insurance undertakings and supervision subjects (insurance brokerage companies, insurance agencies and the National Insurance Bureau) in compliance with the Law on Insurance Supervision, the Law on Compulsory Insurance in Traffic and the rest of the relevant regulation. Also, according to powers under the Law on Insurance Supervision, ISA is authorized to conduct supervision of subjects that carry out insurance operations, insurance brokerage operations and/or insurance representations operations without an adequate authorization given by ISA (illegal conduction of insurance operations, insurance brokerage operations and/or insurance representations operations).

During 2010, ISA conducted regular off-site supervision, based on reports made by the insurance market participants. The information from all undertakings is submitted to ISA no later than 30 days from the end of each quarter. Basic reports are: Reports on the capital scope; necessary level of the solvency margin with an authorized actuary opinion; the amount of technical provisions with an authorized actuary opinion; the value of assets covering technical provisions; types, investment and localization of assets covering technical provisions or mathematical reserves; types, investment and localization of the capital; liquidity of the undertaking and statistical data.

The goal of the analysis is to monitor conduct of the insurance undertakings from the aspect of compliance to the provisions of the Law on Insurance Supervision regarding risk management.

During 2010, the Insurance Supervision Agency conducted 2 on-site supervisions and participated in the operations of another supervision authority.

The on-site controls (out of which one was comprehensive, and the other one partial) were related to the operations of 2 insurance undertakings. Based on the on-site controls, ISA issued 2 Orders for elimination of violation, consisting of 3 regulations for incompliances and 5 additional measures.

In December 2010, for the first time ISA representatives, invited by the Bulgarian regulatory body, attended a so-called Supervisory College, i.e. a Coordination Meeting regarding the need of supervision over an insurance undertaking seated in Bulgaria, who is controlling an insurance undertaking in the Republic of Macedonia. This meeting will be regularly held annually.

## 3.3. Licensing

In the licensing area, ISA issued:

- 1 license for conduction of life insurance operations (**“WINNER Life-Vienna Insurance Group”-Skopje**);
- 2 licenses for conduction of insurance brokerage operations (Insurance brokerage company **“K MK BROKER”-Skopje** and Insurance brokerage company **“MAKOIL BROKER”-Skopje**);
- 1 license for conduction of insurance representation operations (Insurance agency **“MK OSIGURUVANJE”-Skopje**);

- 1 decision for refusal of application for conduction of insurance operations to a non-life insurance undertaking;
- 1 license for introduction a new line of business ("**VARDAR OSIGURUVANJE**"-Skopje);
- 2 consents for performance of the function member of the management body;
- 1 consent for change of the insurance undertaking's Statute;
- 10 consents for audit companies for conduction of audit of financial reports and consolidated financial reports of insurance undertakings;
- 393 licenses for insurance agents; and
- 15 licenses for insurance brokers.

In compliance with Article 154, paragraph 2 from the Law on Insurance Supervision, ISA started to organize regular Training for conduction of insurance representation operations and Training for conduction of insurance brokerage operations. For this reason, ISA issued a Manual for preparation of expert exam for conduction of insurance representation (agency) operations and Manual for preparation of expert exam for conduction of insurance brokerage operations. The education process started on October 14<sup>th</sup>, 2010 and continues on regular basis. By the end of the year, 9 trainings for insurance agents and 2 trainings for insurance brokers were held. For the candidates who complete training, ISA conducts an exam for check-up of the acquired professional knowledge. The candidates with successfully passed exam obtain a certificate, which represents one of the requirements for obtaining a license for insurance agent/broker from ISA.

On December 31<sup>st</sup> 2010, the total number of licensed insurance agents was 2180, yet this number comprises also of agents not having passed the training process. All licensed insurance agents were obliged to apply for training no later than November 29<sup>th</sup> 2010, and to pass the exam for their license to be renewed. Until December 31<sup>st</sup> 2010, 540 persons (existed licensed insurance agents and new candidates) applied for training for conduction of insurance representation operations. Out of these 540 persons, 258 passed the exam and have started the licensing process by the end of 2010.

In 2010, 118 candidates applied and passed the process for training for insurance brokers.

#### **4. Cooperation with domestic and foreign institutions**

One of the main priorities of ISA in 2010 has been realization of intensive cooperation with domestic regulatory bodies and other authorized institutions, as well as with supervisory bodies and institutions abroad. During 2010, ISA signed MOUs with the Agency for Supervision of Fully Funded Pension Insurance, the Securities and Exchange Commission in the Republic of Macedonia and the Administration for Prevention of Money Laundering and Financing of Terrorism.

In international cooperation, the participation of ISA on the regular annual conference of the International Association of Insurance Supervisors (IAIS), held from October 27<sup>th</sup> - October 29<sup>th</sup> 2010 in

Dubai, United Arab Emirates, is of exceptional significance. Within this conference, the membership of ISA as an equal member of IAIS was officially proclaimed and accepted, and ISA was documented in the registers under our country's constitutional name.

Also during 2010, the cooperation between ISA and the regulatory bodies from the foreign investor countries and the countries with which ISA permanently cooperates was significantly improved through signing MOUs with:

- the Austrian Financial Markets Authority;
- the Insurance Supervision Agency of Slovenia;
- the Financial Supervision Commission of Bulgaria;
- the Croatian Financial Services Supervisory Agency;
- the Insurance Supervision Agency of Montenegro;
- the Albanian Financial Supervisory Authority; and
- the Central Bank of Kosovo.

Within the Report of the European Commission for the improvement of the Republic of Macedonia in 2010 (Chapter 9: Financial services), it has been determined that an improvement in the insurance area has been achieved, and the fact that ISA became a functional and self-sustainable independent institution has been emphasized.

## **5. Education and participation on events**

In 2010, within its program determinations, ISA has strengthened the supervision capacities through establishment and implementation of a system for continuous education and specialization of the employees in ISA to efficiently conduct supervision.

For this reason, internal trainings of ISA consultants were conducted, visits within TAIEX were approved, as well as different visits on seminars, conferences and regulatory insurance bodies. The more significant are:

- Regional seminar on selected topics: Implementation of risk based solvency and Supervisory techniques, Belgrade, Serbia, May 2010;
- Investment activities of insurers – new challenges for supervisory institutions, Warsaw, Poland, October 2010;
- 11<sup>th</sup> conference for Information and communication technology and insurance – ICTI 2010, Plitvice Lakes, Croatia, October 2010;

- First conference for insurance in the CEFTA region, Zlatibor, Serbia, October 2010;
- Conference of CEIOPS 2010, Frankfurt, Germany, November 2010;
- 5<sup>th</sup> biannual conference for risk management and supervision, Basel, Switzerland, November 2010; and
- Course for continuous education of actuaries organized by IAA, the Serbian Actuarial Association and the Institute of Actuaries of Serbia, Belgrade, Serbia, December 2010.

In April 2010, ISA organized a debate on topic “Global development of insurance.” All insurance undertakings from the Republic of Macedonia and the president of the board of the International Association of Insurance Supervisors (IAIS) attended this event.

Within the 11<sup>th</sup> conference of the Macedonian stock exchange held in May 2010, ISA participated in the panel discussion dedicated to the insurance business and the implications of the Macedonian capital market.

In September 2010, the special representative of the European Union and Chief of Delegation Erwan Fouéré visited ISA to get closely acquainted with the activities of ISA related to the technical assistance secured by the European funds from with the IPA Program.

In October 2010, on initiative of ISA, representatives of regulatory bodies from Germany, Slovenia and Bulgaria participated on the 2<sup>nd</sup> annual conference in the insurance area organized by the National Insurance Bureau on topic “Prospects of the insurance market in the Republic of Macedonia”.

Also, in November 2010, ISA organized a two-day seminar on topic “An Overview of Enterprise Risk Management (ERM)”. The seminar was attended by actuaries, portfolio managers and representatives from financial departments of the insurance undertakings. The lecturer on this seminar was the well known professor from the USA, Thomas A. Aiuppa, Ph.D., CPCU, from Colorado State University.

Within “Finexpo 2010”, ISA participated on a forum organized by the Insurance Companies Association within the Economic Chamber of Macedonia, dedicated to the conditions on the Macedonian insurance market, with a special review of the prospects in life insurance.

## 6. Projects

In 2010, 2 projects from the assistance approved by the pre-access funds (IPA funds) for realization of a Framework contract were active (Framework contract LOT 10: Trade, Standards and Private sector - EuropeAid/127054/C/SER/multi).

One of these projects, which ended in 2010, contributed to further strengthening of ISA capacities in conduction of the supervision process, which objective is to further support the development of an efficient, stable and secure insurance market.

The goal of the other project, which realization continued in 2011, is to support the licensing process in order to strengthen the insurance area regulation in harmonization with the EU legislative and praxis, and the international standards as well.

Also, ISA submitted an application for reforms in the compulsory MTPL insurance to the World Bank. The main goal of this project activity is to support the reforms in the MTPL insurance, as an insurance product which dominates in the portfolios of the domestic insurance undertakings.

Also, ISA submitted an application for a financial grant to the European Bank for Reconstruction and Development (EBRD) for implementation of software for improvement of insurance supervision through building an efficient monitoring and reporting system.

ISA supported the initiative suggested by the World Bank on catastrophe risk insurance. The goal of this project is to enable the households, the business sector and the government agencies a financial protection from losses due to climate changes and geohazards. This project will be realized through establishment of a separate regional reinsurance institution for Southeastern Europe and the Caucasus region, which will enable fast growth of the catastrophe risk insurance market in the member countries.

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