



INSURANCE SUPERVISION AGENCY

ANNUAL REPORT
ON THE OPERATION OF THE INSURANCE SUPERVISION AGENCY IN 2012

Skopje, 2013

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1. ESTABLISHMENT AND MISSION

The Insurance Supervisory Agency (hereinafter referred to as „ISA“) is an autonomous and independent regulatory body undertaking public authorisations as stipulated by the Law on Insurance Supervision and the Law on Compulsory Insurance in Traffic.

ISA's legal authorisations refer to:

- Conducting supervisory activities over insurance undertakings, insurance brokerage companies, insurance agencies, insurance brokers and agents, legal entities associated with insurance undertakings and the National Insurance Bureau;
- Enacting secondary legislation;
- Decision-making on granting or revoking licenses, giving or withdrawing consents, elimination of irregularities following the conducted supervision and other individual cases; as well as
- Issuing measures against insurance undertakings, insurance brokerage companies, insurance agencies, and the legal and natural persons subject to ISA's supervision.

In the framework of its authority and competencies as well as its membership in international associations in the field of insurance and other supervisory authorities, ISA aims to contribute towards strengthening and promoting the growth and development of the domestic insurance market, thus providing adequate protection of the rights and interests of policyholders and other insurance beneficiaries.

The role of ISA on the insurance market is directed towards strengthening the solvent position of the insurance companies, improving the financial reporting of said entities, enhancing the corporate operations and processes of said entities. ISA has an impact on strengthening the level of financial control and increased financial stability of the country, thus creating adequate protection of the rights and interests of the insured and the insurance beneficiaries.

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

The management body of ISA is the Council of Experts, consisting of the President of the Council and four members. The President and four members of ISA's Council of Experts are appointed and dismissed by the Parliament of the Republic of Macedonia on proposal by the Government of the Republic of Macedonia. The Parliament of the Republic of Macedonia, at the session held on the 25th August 2009, adopted the decision for appointment of the President and the members of ISA's Council of Exerts, consisting of:

- Klime Poposki, PhD, President,
- Zoran Stojanovski, member,
- Lulzim Imeri, member,
- Ilija Graorkovski, member, and,
- Silvana Mojsovska, PhD, member.

ISA has the status of legal entity registered at the Central Registry of the Republic of Macedonia and commenced its work on the 1st of November 2009. The authorizations of the Ministry of Finance regarding the insurance supervision ceased with the establishment of ISA.

Throughout 2012, ISA actively pursued its legally defined functions, both from the aspect of improving the regulations for the insurance market and the supervision of all participants on the insurance market in the Republic of Macedonia.

The Council of Experts undertakes its work in sessions and reaches decisions with majority votes by its members. In the course of 2012, the Council of Experts held 27 sessions.

2. FINANCING THE INSURANCE SUPERVISION AGENCY

In accordance with the Tariff on fees, annual fees and lump-sum fees collected by ISA and the respective due dates (Official Gazette of the Republic of Macedonia No. 147/09, 149/09, 154/09 and 20/12), which came into force on 01.01.2010, the operations of ISA are financed from the contributions collected from insurance undertakings, insurance brokerage companies, insurance agencies and other entities supervised by ISA.

At the session held on 14th of December 2012, the Council of Experts adopted the ISA's financial plan for 2013 and has submitted it to the Parliament of Republic of Macedonia for its approval.

3. ACTIVITIES OF THE INSURANCE SUPERVISION AGENCY IN 2012

In accordance with the priorities set for 2012, ISA enacted secondary legislation (by-laws) arising from the Law on Insurance Supervision; brought supervision measures and decisions related to the licensing area; organized professional trainings and examinations for insurance agents, brokers and actuaries; and adopted numerous acts aimed to support the work and enhance the internal capacities of ISA.

3.1. Regulations

In 2012, 6 bylaws were adopted, introducing additional regulations in several legal matters.

In the **licensing area**, 2 bylaws were adopted:

- Rulebook on the manner, procedure and documentation required for obtaining consents from the ISA as per the Law on Insurance Supervision;
- Rulebook on the required documentation enclosed to the license application.

These bylaws precisely prescribe the manner, procedure, and documentation required for obtaining permits and consents from the ISA as per the Law on Insurance Supervision, and prescribe the detailed standards on the procedures for licensing members of the management bodies in the insurance company, changing of Statutes, acquiring qualified share, and other procedures for issuing permits and consents as prescribed in the Law on Insurance Supervision.

In 2012, the Rulebook on the form and content of additional financial statements of insurance and/or reinsurance companies in the **area of accounting, finances, and auditing** was adopted. The Rulebook prescribes the additional forms for financial reporting that the insurance companies are obliged to submit along with the basic set of financial statements. The additional financial statements defined the reporting standards that explain in details the main financial categories presented in the financial statements. The adoption of this Rulebook is expected to improve the scope and quality of the financial reporting, which is of great importance for the implementation of efficient and effective supervision.

The following rulebooks were enacted **in the supervision and statistics area**:

- Rulebook on the content of regular reporting that the insurance and/or reinsurance companies submit to the ISA as per the Law on Insurance Supervision;
- Rulebook on the minimal content on the records and manner of reporting, reservation and liquidation of claims by the insurance companies;
- Rulebook on the content of reports that the insurance agencies, the insurance brokerage companies, and the banks submit to the ISA, and the deadlines and methods for submission thereof.

These rulebooks are expected to improve the compliance with applicable standards on the operations of companies, improving the quality and content of reporting, as well as the uniformity of the reporting.

3.2. Supervision

ISA conducts supervisory activities over insurance undertakings, insurance brokerage companies, insurance agencies and the National Insurance Bureau in accordance with the Law on Insurance Supervision, Law on Compulsory Insurance in Traffic and other relevant regulations. In addition, ISA has the authority to conduct supervision over natural persons dealing as insurance brokers and insurance agents.

ISA conducts the supervision through: permanent off-site supervision over the insurance undertakings' operations and other insurance entities by collecting, analysing and verifying submitted reports and information as well as through on-site (complete or partial) supervision over the activities of the insurance undertakings.

In the course of 2012, ISA conducted regular off-site supervision, which was based on the reporting by the participants on the insurance market. The data from all insurance companies are submitted quarterly: statistics forms; financial statements; valuation of items in the balance sheet; supervision reports; additional financial statements, and the actuarial report, and the following on monthly basis: liquidity ratios. Furthermore, both the insurance brokerage companies and insurance agencies submit on quarterly basis statistical forms on the structure and scope of the insurance intermediation operations.

In the first quarter of 2012, insurance companies, insurance brokerage companies, and insurance agencies, started to submit the set of reports, aside in a hardcopy format, also in an electronic format via the ISA web-portal which represents a sophisticated application platform implemented by ISA, for the purpose of improving the manner in which data from the insurance market entities are collected,

stored and processed. On this way a more efficient and effective off-site inspection of the companies is enabled, on the basis of reports submitted to the ISA.

On the basis of the conducted off-site supervision, ISA issued 31 orders for elimination of irregularities.

With regard to the supervision, in line with the adopted Supervision Plan, ISA conducts on-site supervision over the operations of the insurance undertakings, insurance brokerage companies, and insurance agencies. The on-site supervision is aimed to assess the financial stability, risk exposure and compliance in the operation of the company.

In accordance with the Supervision Plan for 2012, ISA conducted 9 on-site controls which referred to the operation of 6 insurance undertakings, 2 insurance brokerage companies, and the National Insurance Bureau. 3 supervision controls were conducted at insurance companies jointly with the representatives from the regulatory bodies in the domicile countries of parent companies. On the basis of the conducted on-site supervision, ISA issued 76 orders for elimination of irregularities.

The Mediation Commission of ISA undertook mediation procedure for 24 misdemeanours. The action resulted in the following:

- 13 arrangements for elimination of the consequences from misdemeanour; and
- 11 arrangements for payment of fine.

Whereas, the Misdemeanour Commission of ISA did not conduct any misdemeanour procedures.

3.3. Licensing

With regard to the licensing, in 2012, ISA issued:

- 3 permits for establishing insurance brokerage companies (Insurance brokerage company KORAB INS AD Skopje, Insurance brokerage joint stock company NOV OSIGURITELEN BROKER Skopje, and the Insurance brokerage company CERTUS AD Skopje);
- 3 permits for establishing insurance agencies (joint stock insurance agency FORTIS PRO AD Skopje, JS insurance agency SAFE LIFE Skopje, and insurance agency REA INSURANCE GROUP AD Skopje);
- 3 permits for introducing a new line of business (joint stock insurance company INSIG MACEDONIA AD Skopje); Insurance company UNIQA AD Skopje, and the National Insurance Group OSIGURITELNA POLISA AD SKOPJE);
- 2 permits for an authorised actuary;
- 5 consents for management body member;
- 14 consents for changes the Insurance undertaking Statute;
- 16 consents for companies that conduct audits of the financial statements and consolidated financial statements of insurance undertakings;
- 1 prior consents for a bank to conduct insurance agency operations (Ohridska Banka AD Ohrid);
- 3 consents for acquiring a qualified holding in the share capital;
- 412 licenses for insurance agents; and
- 63 licenses for insurance brokers.

The situation as on 31.12.2012 was 262 of licensed insurance brokers in total, with 63 licenses for insurance brokers issued in 2012. During 2012, three training sessions for insurance brokers were conducted, and the total number of participants was 133. Also, during the same year, 5 exams were organised for 105 applicants, of whom 80 passed the exam.

The situation as on 31.12.2012 was 667 licensed insurance agents in total. During 2012, a total of 412 licenses for insurance agents were issued, whereas 124 licenses were revoked. 240 persons passed the educational process within 3 trainings for insurance agents. Also, 3 exams were organized for 159 applicants, of whom 116 passed the exam.

4. COOPERATION WITH NATIONAL AND INTERNATIONAL INSTITUTIONS

One of the main priorities of ISA in 2012 has been the strengthening of the intensive cooperation with national regulatory bodies and other competent institutions, as well as with supervisory authorities and institutions from abroad.

During 2012, a Memorandum of Understanding (hereinafter referred to as “MOU”) with Health Insurance Fund of R. of Macedonia (FZOM) was signed, which served as a base for successful cooperation related to the exchange and use of information between the two institutions. Also, another MOU was signed with the regulatory authorities of the countries that have continuous cooperation with ISA, namely the National Commission for Financial Markets of Moldova.

In 2012, 2 working sessions were organised for the representatives of the financial supervisory authorities of Republic of Macedonia. The objective of these meetings was enhancing the cooperation between the regulatory and supervisory authorities, for the purpose of maintaining a solid and stable financial system, representing the current international practice.

In the framework of the signed MOUs with regulatory bodies and the 2012 plan for on-site supervision, aiming to enhance the supervisory capacities, three joint on-site supervisions were conducted with the representatives of regulatory authorities from Slovenia, Austria, and Croatia.

The representatives of ISA, on invitation from regulatory bodies from EU Member States participated in the activities of 6 Supervisory colleges within the regulatory institutions of 3 EU Member States, that is, Austria, Slovenia, and Bulgaria. The Supervisory colleges are organised by the regulatory bodies of the EU in compliance with the guidelines of the European Insurance and Occupational Pensions Authority (EIOPA) which aim towards better supervision over insurance groups. The supervisory colleges are an excellent opportunity for exchanging experiences and joint implementation of methodology.

ISA representatives participated in the work of the 19th Annual Conference of the International Association of Insurance Supervisors (IAIS) that was held between the 10th and 12th October 2012 in Washington, USA, on the topic *Insurance Supervision: Basics of the Global Financial Force*. Also, a representative of ISA took part in the work of the Supervisory Forum of the International Association of

Insurance Supervisors (IAIS) - work body established in 2011, which purpose is to strengthen the efficiency of insurance supervision and to encourage the harmonisation of supervisory practices.

Also, the representatives of ISA participated in the regular work of the subcommittees which are part of the Stabilisation and Association Committee (SAC), where the achievements in the insurance sector of Republic of Macedonia were presented in fulfilling the obligations from the Stabilisation and Association Agreement with the European Union.

5. EDUCATION AND CAPACITY BUILDING

In 2012, as part of its specified program commitments, ISA enhanced its supervisory capacities through establishment and implementation of a system for continuous education and professional development of ISA's staff, aimed to provide for efficient supervisory activities.

In the context of education and vocational advanced training of the ISA's staff, seminars, and conferences were attended and visits were paid to the insurance regulatory bodies. Among the more relevant were the following:

- Regional seminar on Improving the Resilience of Insurers in a Changing Financial World Basel, Switzerland, May 2012;
- Solvency 2 Seminar – Regulatory Requirements Panel, Belgrade, Serbia, May 2012;
- Participation on the Consumer Protection Seminar – Insurance Beneficiaries, Tirana, Albania, June 2012;
- 8th International Insurance Supervision Seminar, Beatenberg, Switzerland, July 2012;
- Risk Based Insurance Supervisions Workshop, Tirana, Albania, September 2012;
- Training in the Field of Actuarial Activities, Helsinki, Finland, November 2012;
- Course for continuous education of actuaries and other experts, Belgrade, Serbia, December 2012.

In May 2012, ISA was the host of the Regional Seminar of Insurance Regulatory Bodies from Central and Eastern Europe, Central Asia, and the Transcaucasus, on the topic: "Macro-prudential and group wide supervision". This event was organised in cooperation with the Financial Stability Institute, and the International Association of Insurance Supervisors (IAIS). The seminar was attended by representatives from the insurance regulatory bodies of: the Czech Republic, Lithuania, Albania, Bulgaria, Poland, Azerbaijan, Turkey, Moldova, Slovenia, Serbia, Bosnia and Herzegovina, Republic of Macedonia, and Montenegro.

In November 2012, ISA commemorated the "Insurance Day" with an appropriate ceremony in the Museum of Macedonian Struggle for Statehood and Independence, in Skopje. Many state representatives, representatives from the insurance industry, and representatives from various institutions that collaborate with ISA, were invited on this ceremonial event. During the commemoration, an prize was awarded for an junior research work in the field of insurance and risk management to Jordan Kosevski, Ph.D., for his work on the topic: *The impact of insurance on the*

economic growth: Case in Point Republic of Macedonia. Within the event, ISA organised an exhibition in the Museum of Macedonian Struggle for Statehood and Independence. The exhibition presented the policies related to the historic development of the insurance in our country, as well as other publications, and literature on insurance and risk management.

6. CONSUMER PROTECTION

The main objective and priority in the activities of ISA was the achievement of high level consumer protection. In this context, during 2012, ISA undertook activities that commenced the process of education of the citizens on the importance and role of insurance, as well as informing them on the rights and obligations of the insureds arising from various insurance products.

Therefore, ISA prepared and published educational materials, such as brochures and leaflets for various insurance types explaining the insurance terminology, as well as more detailed information of the relevance of risks covered with the individual insurance products.

ISA published a brochure and leaflet on the *agriculture insurance* with the purpose of promoting the purchasing of policies for agricultural insurance, as an efficient way to protect agricultural products from risks related to weather conditions, natural disasters, pests, and diseases. ISA, in cooperation with the Agency for Financial Support of Agriculture and Rural Development (AFPZRR), participated on 11 public debates organised by the Agency for Promoting the Development of the Agriculture (APRZ) in the period July-August 2012, in order to enable more information for farmers on the advantages available if they insure their agricultural produce.

Also, ISA published leaflets on *life insurance* and *household insurance* containing data on the basic terms used in insurance, as well as more detailed clarifications for these two types of insurance.

All educational materials were presented before the student population, and the electronic versions were available to the wider public on the ISA's web-site.

In the context of the rights of insured, ISA acted upon cases submitted by policyholders and insurance beneficiaries, who were unsatisfied how the insurance companies acted thereof. During 2012, **82** complaints were submitted, as follows:

- **64** were resolved, of which **30** in favour of the complainants,
- **14** of the complaints were groundless for taking further action, i.e., had incomplete documentation, and
- **4** are in the process of being resolved.

7. PROJECTS

Within the project activities in 2012, ISA continues the implementation of the three projects initiated in 2011, as follows:

- World Bank Project for Catastrophe Risk Insurance SEEC CRIF;
- World Bank Project for the Liberalisation of the Motor Third Party Liability Insurance Market in Macedonia, and
- Grant from the European Bank for Reconstruction and Development (EBRD) for implementing an IT solution at ISA for efficient supervision.

In 2011, the World Bank commenced a Regional Project on Catastrophe Risk Insurance, and ISA was designated as the implementing partner in Republic of Macedonia. The Project's implementation continued in 2012. The main goal of this project is to promote the development of natural disasters and weather risk insurance on the domestic market, thus enabling local businesses and residents to purchase affordable insurance products against these risks, which are not currently available on the market.

Two workgroups coordinated by ISA are functional within the Project, where one is comprised of representatives from state institutions, and the other is comprised of representatives from insurance companies. The objective of both workgroups is to contribute to the full implementation of the Project, as appropriate to the market conditions in R. of Macedonia.

Also, in 2012 continued and the activities of the World Bank's Project on the Liberalisation of the Motor Third Party Liability Insurance Market in Macedonia. The goal of the project is to assist the development of the regulatory framework and the required technical tools for setting fair tariffs and technical provisions for motor third party liability insurance, as well as to ensure that the proposed regulatory framework for motor third party liability insurance is in accordance with EU legislation, in particular regarding the obligations arising from the Stability and Association Agreement with the EU.

Upon the approved financial assistance for development and implementation of the IT solution (software) by the European Bank of Reconstruction and Development (EBRD), ISA commenced utilising the new software solution in the first quarter of 2012. Accordingly, the insurance companies, the insurance brokerage companies, and the insurance agencies began submitting the set of reports using electronic means via the ISA web-portal.

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