



INSURANCE SUPERVISION AGENCY

ANNUAL REPORT
ON THE OPERATIONS OF THE INSURANCE SUPERVISION AGENCY IN 2013

Skopje, 2014

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1. ESTABLISHMENT AND MISSION

The Insurance Supervisory Agency of Republic of Macedonia (hereinafter: „ISA“) is an autonomous and independent regulatory authority on the insurance market performing its public authorizations as stipulated in the Law on Insurance Supervision and the Law on Mandatory Traffic Insurance.

The legal responsibilities of ISA refer to:

- Conducting supervision of insurance undertakings, insurance brokerage companies, insurance agencies, insurance brokers and insurance agents, legal persons associated with insurance undertakings and the National Insurance Bureau;
- Adoption of bylaws;
- Deciding on granting or revoking licenses, giving or withdrawing consent, removing irregularities identified during conducted supervisions and other issues; as well as
- Imposing measures against insurance undertakings, insurance brokerage companies, insurance agencies and other legal and natural persons subject to ISA’s supervision.

Within its powers and responsibilities, as well as through the membership in international associations in the field of insurance and cooperation with other supervisory authorities, ISA aims to contribute to the strengthening and incentivising the development of the insurance market in the country, thus creating adequate protection of the rights and interests of policyholders and other insurance beneficiaries.

The role of the ISA on the market insurance is focused on strengthening the solvency position of the insurance undertakings, improving the manner of financial reporting of these entities, improving their corporate performance and the work processes of these entities. ISA aims at strengthening the level of financial control and greater financial stability of the country, thus creating adequate protection of the rights and interests of policyholders and insurance beneficiaries.

For its operations, ISA is accountable before the Assembly of Republic of Macedonia. The Assembly approves the financial plan of the ISA, and the annual accounts, which must be audited by an independent authorised auditor.

Management body of ISA is the Council of Experts, consisting of President of Council and 4 members. The President and four members of ISA’s Council of Experts are appointed and dismissed by the Assembly of Republic of Macedonia upon proposal by the Government of Republic of Macedonia. In 2013, ISA’s Council of Experts was composed of:

- Klime Poposki, Ph.D., President,
- Zoran Stojanovski, executive member,
- Lulzim Imeri, executive member,
- Ilija Graorkovski, executive member, and
- Aleksadar Petreski, M.Sc., executive member.

Throughout 2013, ISA actively worked on performing its legally defined functions, both in terms of improving the regulation of the insurance market and in terms of supervision of all participants on the insurance market in Republic of Macedonia.

The Council of Experts working on sessions and adopts decisions by a majority vote of all members. In 2013, ISA’s Council of Experts held 28 sessions.

2. FINANCING OF THE INSURANCE SUPERVISION AGENCY

Pursuant to the Tariff on the content and amount of fees and charges collected by the Insurance Supervision Agency and the terms of payment ("Official Gazette of Republic of Macedonia" no. 147/09, 149/09, 154/09, 20/12, 130/13), the operations of ISA are funded by the fees collected from insurance undertakings, insurance brokerage companies, insurance agencies and others persons supervised by ISA.

At the session that took place on the 26th of December 2013, the Council of Experts adopted the Financial Plan of the ISA for 2014 and submitted it to the Assembly of Republic of Macedonia for adoption.

3. ACTIVITIES OF THE INSURANCE SUPERVISION AGENCY IN 2013

Pursuant to the priorities set for 2013, ISA adopted bylaws deriving from the Law on Insurance Supervision, supervisory measures, decision in the field of licensing, organized a cycle of education and exams for insurance agents, brokers and actuaries, as well as numerous acts supporting and strengthening the work of ISA's internal capacity.

3.1. Regulation

During 2013, 5 new by-laws and 2 amendments to previously adopted by-laws were adopted, thus contributing to a more detailed regulation of the legal matters in several fields.

In the field of licensing, the Rulebook on the required documentation and methods for acquiring qualified participation in an insurance company, insurance brokerage company and insurance agency ("Official Gazette of Republic of Macedonia" no. 58/13) was adopted on 29.03.2013. This Rulebook prescribes the necessary documentation, and the manner of acquiring qualified participation in an insurance company, insurance brokerage company, and insurance agency.

In the field of accounting, finances and auditing, the Rulebook on amending and supplementing the Rulebook on the form and content of the financial statements and the detailed content of the annual report on the operations of insurance and/or reinsurance undertakings ("Official Gazette of Republic of Macedonia" no. 187/13) was adopted on 26.12.2013. This Rulebook was adopted in order to harmonise the position net expenditures for performing insurance activities in the Comprehensive Income Statement (IS) that is submitted along with ISA's Income Statement to the Central Registry of the Republic of Macedonia, upon recommendation of the Government of Republic of Macedonia within the Project We are learning from the business community.

In the field of supervision and statistics 4 new bylaws and 1 amendment to previously adopted bylaw, were adopted.

On 19.12.2013, the Rulebook on minimum standards for calculation of technical provisions ("Official Gazette of Republic of Macedonia" no. 187/13) was adopted, where aside from the use of quantitative actuarial methods, the necessity of qualitative actuarial analysis, and the necessity of overall actuarial procedures are emphasised and properly documented in order to allow third parties to reason the suitability of the recommendations, consequences and use of conducted actuarial estimates. This Rulebook repealed the existing Rulebook on the minimum standards for calculating the technical provisions ("Official Gazette of Republic of Macedonia" no. 158/2010, 169/2010 and 41/2011), taking into account that the international actuarial practice, and the experience gained from the conducted supervisions pertaining to the assessment of technical provisions in insurance undertakings raised the need for amending the principles upon which the supervision of technical provisions is based.

On 26.12.2013, the Rulebook on the adequacy of reinsurance coverage, the method for calculating the maximum amount of coverage of an insurance undertaking in the table for maximum coverage and the method for calculating the maximum possible claim ("Official Gazette of the Republic of Macedonia" no.

189/13) in order to introduce stricter criteria to be satisfied by insurance undertakings in respect of the reinsurance programme, and in terms of reporting to the ISA.

On 26.12.2013 the Rulebook on basic procedures, rules and manner of insurance supervision ("Official Gazette of Republic of Macedonia" no. 09/14) was adopted. This Rulebook prescribes the basic procedures, rules and manner of conducting supervision of insurance undertakings, insurance brokerage companies, insurance agencies and the National Insurance Bureau, and it regulates in details the responsibilities of persons authorized by the ISA to perform supervision.

On 30.12.2013, the Rulebook on amending and supplementing the Rulebook on statistical insurance standards for insurance and/or reinsurance undertakings ("Official Gazette of Republic of Macedonia" no. 189/13) was adopted in order to introduce additional parameters necessary to monitor the performance of insurance undertakings, and the need to appropriately update the lines of business insurance on the existing statistical insurance forms in order to comply with the Law on Voluntary Health Insurance ("Official Gazette of Republic of Macedonia" no. 07/13).

In the field of information technology the Rulebook on minimum standards for the information systems of insurance undertakings ("Official Gazette of Republic of Macedonia" no. 187/13) was adopted on 19.12.2013. This Rulebook prescribes the minimum standards for the operation of information systems of insurance undertakings. The prescribed minimum standards relating to the management, security and operations of the undertakings' information systems, as well as providing business continuity in case of a disaster.

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 by: 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 entities.

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 operations of the company.

Pursuant to the 2013 Supervision Plan, ISA conducted 15 on-site supervisions, as follows:

- 7 full on-site supervision regarding the work of 7 insurance undertakings,
- 3 full on-site supervisions of insurance brokerage companies, and
- 5 partial on-site supervisions of insurance undertakings.

On the basis of the conducted on-site supervision, ISA issued 91 orders for elimination of irregularities.

In the course of 2013, ISA conducted regular off-site supervision, which was based on the reporting by the participants on the insurance market. These reports, in addition to being submitted in hardcopy, are also submitted electronically via the ISA's web portal, which is a software application platform implemented by the ISA for the purpose of improving the method of collection, storage and processing of data from entities on the insurance market. Majority of the data from all insurance undertakings are

submitted quarterly, through a set of reports (statistical forms; financial statements; report on the valuation of items in the balance sheet; supervision reports; additional financial statements; and the actuarial report), and some of them are submitted on monthly basis (report on the 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, and their financial statements on annual basis.

On the basis of the conducted off-site supervision, ISA issued 1 order for elimination of irregularities.

The Mediation Commission of ISA undertook mediation procedure for 29 misdemeanours. The action resulted in the following:

- 15 settlements for elimination of the consequences of the misdemeanour, of which 5 were imposed on the basis of conducted off-site supervision, and 10 were based on on-site supervision; and
- 14 settlements for payment of fine were issued on the basis of conducted on-site supervision.

In 2013, the Misdemeanour Commission of ISA did not conduct any misdemeanour procedures.

3.3. Licensing

With regard to the licensing, in 2013, ISA issued:

- 6 permits to establish an insurance brokerage company (STM Broker, AM Broker, MEGA BROKER, CVO Broker, ASUC Broker, SAFE INVEST MACEDONIA);
- 1 permit to establish an insurance agency (Mako AS);
- 5 permits introducing a new line of business insurance (CROATIA INSURANCE COMPANY AD-life insurance undertaking, JSC for Insurance WINNER Life-Vienna Insurance Group Skopje, TRIGLAV INSURANCE JSC Skopje, GRAWE Insurance JSC Skopje, JSC for insurance EUROINS Skopje);
- 6 permits for an authorised actuary;
- 12 consents to perform the office of management body member;
- 21 consents to change an insurance undertaking Statute;
- 15 consents for undertakings to audit financial statements and consolidated financial statements of insurance undertakings;
- 10 consents to acquire a qualified share;
- 110 licenses for insurance agents; and
- 72 licenses for insurance brokers.

As on 31.12.2013, the total count of licensed insurance brokers was 334, with 72 licenses for insurance brokers issued in 2013. In 2013, there was 1 training for insurance brokers, and the total count of persons who attended the training was 60. Also, throughout the year there were 3 (three) exams taken by total of 132 persons, of whom 71 passed the exam.

As at 31.12.2013, the total count of licensed insurance agents was 669. During 2013, a total of 110 licenses for insurance agent were issued, and 73 licences were revoked. 448 persons passed through the educational process organised in 3 trainings for insurance agents. Also, 5 exams were organized and 191 applicants passed the exam.

In 2013, the third educational cycle for actuaries, which lasted two years and was launched on 01.11.2011, was completed. After completing the training and successfully passing the exams, 11

candidates received a certificate for successfully passing an expert exam, which is required to obtain a license to practice as certified actuary. The curriculum for the training of actuaries was developed in cooperation with the Actuarial Association of Macedonia and was aligned with the programme of the International Actuarial Association (IAA) and Groupe Consultatif (Des Associations d'Actuaries des Pays de Communautés Européennes). The training on each of the subjects from the curriculum was conducted by members of the Actuarial Association of Macedonia, the Actuarial Association of Croatia, and renowned professors from universities in Macedonia and the Faculty of Natural Sciences in Zagreb.

4. Cooperation with National and International Institutions

One of the main ISA's priorities in 2013 was the rounding-up of the intensive cooperation with national regulatory authorities and other competent institutions, as well as foreign supervisory bodies and institutions.

In 2013, a Memorandum for Cooperation was signed with the Audit Enhancement and Development Council of R. of Macedonia (AEDC), which was basis for successful cooperation pertaining to the exchange and use of information between the two institutions.

Also, a multilateral Memorandum of Cooperation was signed by the Personal Data Protection Directorate, the Insurance Supervision Agency, the National Insurance Bureau, the insurance undertakings and insurance brokerage companies for the purpose of implementing project activities in the field of consumers' personal data protection when using the services of insurance undertakings and insurance brokerage companies, as well as providing personal data in the context of exemptions from the Law on Personal Data Protection.

In 2013, a multilateral Memorandum of Cooperation was also signed by the National Bank of Republic of Macedonia, the Ministry of Finance of Republic of Macedonia, ISA, the Agency for Supervision of the Fully Funded Pension Insurance, and the Securities and Exchange Commission of Republic of Macedonia. The purpose of this Memorandum of Cooperation was the institutions competent for regulating the financial services in Macedonia, and parties to the Memorandum, to increase the level of financial literacy among the population by joint commitment and participation in project activities.

In 2013, 1 working session was 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.

The representatives of ISA, upon invitation from regulatory bodies from EU Member States, participated in the activities of 5 Supervisory Colleges within the regulatory institutions of 3 EU Member States, that is to say, 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) for the purpose of enhancing the supervision of insurance groups operating in several EU Member States and countries that are in various stages of their accession to the EU. The Supervisory Colleges are an excellent opportunity for exchanging experiences and joint implementation of methodology.

ISA representatives participated in the work of the 20th Annual Conference of the International Association of Insurance Supervisors (IAIS) that was held between the 16th and 19th October 2013 in Taipei, Taiwan. 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 that are part of the Stabilisation and Association Committee (SAC), where the achievements in the insurance sector of Republic of Macedonia were presented with regard to the fulfilling of the obligations from the Stabilisation and Association Agreement with the European Union.

5. Education and Capacity Building

In order to efficiently perform its legal competences and activities, ISA is continuously investing in strengthening its human resources by establishing and implementing a system of continuous education, and professional development of its employees. As part of the activities to develop these resources, in 2013, ISA has strengthened its capacity through the establishment and implementation of a system of continuing education and professional development of employees.

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

- International Insurance Forum on Motor insurance - the Road to Profitability, Istanbul, Turkey, in March 2013;
- Participation in a round table discussion on Experiences of MTPL Insurance Market Liberalization, Ljubljana, Slovenia, April 2013;
- Regional Seminar on Improving the Resilience of Insurers in a Changing Financial World, Basel, Switzerland, April 2013;
- Participation in an International Seminar on Recent trends in the global regulatory and supervisory architecture, Geneva, Switzerland, April 2013;
- Participation in the 14th Annual Conference of the Association for Insurance Law in Serbia, Arangjelovac, Serbia, April 2013;
- Participation at the 5th Meeting of the Insurance Supervision Initiative of Central, Eastern and South-Eastern Europe (CESEE ISI), Sarajevo, Bosnia and Herzegovina, May 2013;
- Participation in the Conference on Financial Education in OECD - Promoting Financial Prosperity through Financial Education and Awareness, Prague, Czech Republic, May 2013;
- Participation in the 14th ICTI Conference 2013 - Information and Communication Technology in Insurance, Osijek, R. of Croatia, in May 2013;
- Regional seminar for insurance supervisors in Central and Eastern Europe, Central Asia and the Caucasus on consumer protection and their education, Chisinau, Republic of Moldova, May 2013;
- Participation in the Workshop Application of International Financial Reporting Standards by Regulatory Authorities on the Financial Markets, presented by three executive members of the International Accounting Standards Board, Vienna, Austria, June 2013;
- Participation in the Seminar on Financial Markets and New Financial Instruments, Vienna, Austria, June 2013;
- Participation of the Fifth International Insurance Conference in Europe on Stability and Security: Ensuring our Future, Rome, Republic of Italy, June 2013;
- Participation in the XI International Symposium - Insurance and Reinsurance Market, Vrnjačka Banja, Serbia, June 2013;

- Participation in SORS 2013, 24th Insurers and Reinsurers Meeting in Sarajevo, Bosnia and Herzegovina, June 2013;
- Participation in the Workshop on Risk-based Supervision in the field of Catastrophe Risks Insurance (Europa RE), Tirana, Albania, August 2013;
- Participation in the XVI International Scientific Conference - Insurance and Claims Compensation, Zlatibor, Republic of Serbia, September 2013;
- Participation in the Roundtable on Insurance Fraud Detection and Prevention, organized by the Centre of Excellence in Finance (CEF) and the Insurance Supervision Agency in Slovenia, Ljubljana, Republic of Slovenia, September 2013;
- Visit of the Cross-sectoral Seminar of Supervisory Colleges organized by EIOPA, Berlin, Federal Republic of Germany, November 2013;
- Participation in the EIOPA Committee Meeting, Vienna, Austria, in December 2013;
- Participation in the Second meeting of the Advisory Board of Europe RE (EUROPA Reinsurance Facility Ltd), Bucharest, Romania, December 2013.

In April 2013, a study visit took place covering the topic of risk-based supervision at the headquarters of the German Federal Financial Supervision Authority (BaFin) in Bonn, Germany, organized by the European Commission - DG Enlargement within the TAIEX instrument. The study visit focused on the preparations for the implementation of the Solvency 2 Directive with emphases on the second pillar of the Directive.

ISA established cooperation and began using technical assistance from the National Bank of the Netherlands (De Nederlandsche Bank-DNB). In 2013, 3 trainings were organised. The first training was related to the implementation of off-site supervision and took place in July 2013, at the headquarters of the DNB in Amsterdam, the Netherlands. During this training, DNB experts presented the manner of performing off-site supervision. Then, in September 2013, another training took place at the ISA's headquarters on the method and procedures for conducting risk-based supervision. In November 2013, again at the ISA's headquarters, training was conducted for the purpose of transferring the know-how and experience of supervisors from the Netherlands in implementing on-site supervision of insurance entities. Through cooperation with DNB Netherlands, ISA's supervisors acquired know-how and experience that will further help in promoting and enhancing the manner of exercising supervision over insurance entities in the Republic of Macedonia.

In November 2013, ISA commemorated the "Insurance Day" with an adequate ceremonial event, held at Hotel Aleksandar Palace, Skopje. Many state representatives, representatives from the insurance industry, and representatives from various institutions who are collaborating with the ISA, were invited on this ceremonial event. During the event, an award was presented for a junior research paper in the field of insurance and risk management to Tanja Drvošanova-Eliskovska, M.Sc., for the paper "Microeconomic and Macroeconomic determinants for the Profitability of the Insurance Sector - the Case of Macedonia". As part of the event, ISA also awarded 11 certificates for passing an expert exam to practice as authorised actuary, thus promoting the third generation of actuaries in the Republic. Macedonia.

6. Consumer Protection

The main objective and priority in the activities of ISA was the achievement of high level of consumer protection. In this context, during 2013, ISA continued the educational activities 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 on the relevance of risks covered by individual insurance products. In 2013, ISA has published a leaflet for motor third party liability insurance containing detailed explanations for this type of insurance.

In the context of the rights of insureds, ISA acted upon cases submitted by policyholders and insurance beneficiaries, who were dissatisfied with the actions of the insurance undertakings. During 2013, 148 complaints were submitted, as follows:

- **109** complaints were resolved, of which **51** in favour of the complainants,
- **31** complaints were without grounds for action, and
- **8** complaints are pending resolution.

7. Projects

Within the project activities in 2013, ISA continued the implementation of two projects initiated in 2011, as follows:

- World Bank Project for Catastrophe Risk Insurance SEEC CRIF; and
- World Bank Project for the Liberalisation of the Motor Third Party Liability Insurance Market in Macedonia.

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 main goal of this project is to promote the development of natural disasters and weather risk insurance on the domestic market, thus enabling the local businesses and residents to purchase affordable insurance products against these risks, which are not currently available on the market. In 2013, more important activities within the Project were as follows:

- In March 2013, representative office of Europe RE was registered in the Republic of Macedonia
- In May 2013, the Institute of Earthquake Engineering and Engineering Seismology (IZIIS) organised a conference to commemorate the 50th anniversary of the catastrophic earthquake in Skopje. There was a special session at the Conference dedicated to Europe RE with the title "Development of earthquake insurance mechanisms in South-Eastern Europe", elaborating the activities undertaken within the Project, and presenting the need to introduce catastrophe risks insurance in our country.
- In August 2013, Europe Re organised a regulatory workshop in Tirana, Albania.
- In November 2013, the team of European RE presented innovative products for agricultural insurance (1. Named Peril Crop Insurance, 2. Multi-Peril Crop Insurance, and 3. Area Yield Index Insurance - AYII) to representatives of the ISA and the insurance undertakings.
- The Swiss Financial Market Supervisory Authority (FINMA) issued a license for performing reinsurance activities to the Europa Reinsurance Facility Ltd (Europa Re) on the 13th of December 2013 with effect from the 1st of January 2014.

Also, in 2013, the activities of the World Bank's Project on the Liberalisation of the Motor Third Party Liability Insurance Market in Macedonia were finalised. The goal of the Project was to assist the development of the regulatory framework and the required technical tools for setting actuarially substantiated premiums 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, particularly regarding the obligations arising from the Stability and Association

Agreement with the EU. In January 2013, representatives of the World Bank's team held a one-day presentation for the ISA employees, where:

- the main findings of the team were discussed;
- the methodologies developed within the Project to assess the claims provisions and to calculate the technical premium for compulsory motor third party liability insurance were presented;
- the risk-based application developed within the Project to assess the claims provisions and to calculate the technical premium for compulsory motor third party liability insurance were demonstrated;
- proposals for minimum standards applicable to reinsurance coverage of insurance undertakings for international motor insurance card (green card) were submitted;
- final proposals based on the main findings of the team were delivered.

Pursuant to the feedback and suggestions that the team received from the ISA employees, in February 2013, the World Bank team delivered the final set of reports and tools needed for setting actuarially substantiated premium rates and technical provisions for motor third party liability insurance.

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