



INSURANCE SUPERVISION AGENCY

ANNUAL REPORT
OF THE INSURANCE SUPERVISION AGENCY IN 2011

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Contents

1. ESTABLISHMENT AND MISSION	3
2. FINANCING THE INSURANCE SUPERVISION AGENCY	4
3. ACTIVITIES OF THE INSURANCE SUPERVISION AGENCY	4
3.1 Regulations.....	4
3.2 Supervision.....	6
3.3 Licensing.....	7
4. COOPERATION WITH NATIONAL AND INTERNATIONAL INSTITUTIONS	8
5. EDUCATION AND CAPACITY BUILDING OF ISA.....	9
6. CONSUMER PROTECTION	10
7. PROJECTS.....	10

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, legal entities 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 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 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 2011, 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 2011, the Council of Experts held 26 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 and 154/09), 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 23rd December 2011, the Council of Experts adopted the ISA's financial plan for 2012 and has submitted it to the Parliament of Republic of Macedonia for its approval.

3. ACTIVITIES OF THE INSURANCE SUPERVISION AGENCY

In accordance with the priorities set for 2011, 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 the course of 2011, 18 by-laws were adopted as well as 6 amendments to previously adopted by-laws, which provided for completion of the major part of legal framework in several areas.

In the licensing area, 6 by-laws were adopted, which precisely regulate the conditions that define the required documentation for obtaining license for insurance agent, insurance broker and accredited actuary; as well as by-laws which define the form, content and manner of keeping the register of insurance agents and insurance brokers by the insurance undertakings, insurance brokerage companies and insurance agencies and the form, content and manner of keeping the

register of insurance agents, insurance agencies, insurance brokers, insurance brokerage companies and banks by ISA.

Accordingly, the following rulebooks were enacted:

1. Rulebook on the form, content and manner of maintaining the register of insurance agents and insurance brokers by insurance undertakings, insurance brokerage companies and insurance agencies;
2. Rulebook on the form, content and manner of maintaining the register of insurance agents, insurance agencies, insurance brokers, insurance brokerage companies and banks by the Insurance Supervisory Agency;
3. Rulebook on the required documentation to be submitted for obtaining license for performing insurance agency activities;
4. Rulebook on the required documentation to be submitted for obtaining license for a certified actuary;
5. Rulebook on the manner of conducting the professional exam required for granting licence for certified actuary;
6. Rulebook on the required documentation to be submitted for obtaining license for conducting insurance brokerage activities.

During 2011, the following rulebooks were enacted in the area of accounting, finance and auditing:

1. Rulebook on the form and content of financial reports and detailed content of the annual business report of insurance and/or reinsurance undertakings ; and
2. Rulebook on the method of valuation of certain balance sheet items and preparation of the financial reports of the insurance undertakings.

It is expected that the adoption and appropriate implementation of the respective by-laws shall improve the quality and scope of financial reporting, which is of major importance for efficient and effective conducting of supervision over the insurance undertakings as well as for the uniformity in reporting.

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

1. Rulebook on the manner of calculation of the required level of solvency margin;
2. Rulebook on types and characteristics of items considered in the calculation of the capital of an insurance and reinsurance companies
3. Rulebook on the statistical insurance standards for insurance undertakings and/or reinsurance undertakings;
4. Rulebook on the manner of calculating the liquidity coefficient and minimal liquidity;
5. Rulebook on the types and characteristics of assets covering the technical provisions and assets covering mathematical reserve; as well as details of permitted investments, the respective limitations for investments and their valuation;
6. Rulebook on the detailed content of the certificate for a certified actuary;
7. Rulebook on the manner of collection and transfer of collected premium by insurance brokerage companies.

The respective rulebooks are expected to improve the quality and content of reporting, as well as uniformity in the reporting about their operations to ISA, which in turn shall enable to set the framework and guidelines for the supervisory operations.

The following rulebook was enacted in the consumer protection area:

1. Rulebook on the manner of acting upon complaints submitted to ISA by policyholders, insurance beneficiaries and third party claimants.

Articles 235-a, 235-b and 235-c of the Law on Insurance Supervision stipulate the existence of Mediation Commission and Misdemeanour Commission in the framework of ISA. In order to precisely define the work of both the Mediation Commission and Misdemeanour Commission, the following by-laws were enacted:

1. Rules of procedure for the work of the Mediation Commission; and
2. Rules of procedure for the work of the Misdemeanour Commission.

The adoption of the respective by-laws enabled precise specification of the obligations and authorisations of both the Mediation Commission and the Misdemeanour Commission of ISA, which are expected to improve the procedure for pronouncing sanctions, as well as the procedure for mediation and reaching consent with the party that committed the misdemeanour.

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 carries out 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 2011, ISA conducted regular off-site supervision, which was based on the reporting by the participants on the insurance market. The following reports from all insurance undertakings are submitted on quarterly basis: statistical reports, financial reports, valuation of items on the balance sheet, supervisory reports and actuarial report, while only the liquidity coefficient is submitted on monthly basis.

Furthermore, both the insurance brokerage companies and insurance agencies started to submit quarterly statistical reports on the structure and scope of insurance intermediation work, i.e. within 30 days following each quarter.

On the basis of the off-site conducted supervision, ISA issued 9 orders for elimination of irregularities, as well as 6 additional measures.

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 2011 Supervision Plan, ISA conducted 7 on-site controls which referred to the operation of 5 insurance undertakings, 1 insurance agency and 1 insurance brokerage company. On the basis of the conducted on-site supervision, ISA issued 9 orders for elimination of irregularities.

The Mediation Commission of ISA undertook mediation procedure for 14 misdemeanours. The action resulted in the following:

- 6 arrangements for elimination of the consequences from misdemeanour; and
- 8 arrangements for payment of fine.

The Misdemeanour Commission of ISA conducted procedure for 1 misdemeanour.

3.3 Licensing

With regard to the licensing, in 2011, ISA issued:

- 1 license for the establishment of a life insurance undertaking (Joint Stock Company for insurance **UNIQA LIFE** Skopje)
- 4 licenses for the establishment of insurance brokerage companies (Insurance brokerage company **POLISA PLUS** S.C. Skopje, Insurance brokerage company **SUPER BROKER** S.C. Skopje, Insurance brokerage company **AMG PREMIUM** S.C. Skopje and Insurance brokerage company **KORAB INS** S.C. Skopje);
- 1 license for the establishment of an insurance agency (Insurance agency **LAJON INS** S.C. Skopje);
- 1 license for the introduction of a new line of business (Joint Stock Company for insurance **UNIQA** Skopje);
- 4 consents for management body member;
- 16 consents for changes to the Insurance undertaking Statute;
- 14 consents for companies that audit the financial reports and consolidated financial reports of insurance undertakings;
- 3 consents for acquiring a qualified holding in the share capital;
- 202 licenses for insurance agents; and
- 196 licenses for insurance brokers.

On 31.12.2011, the total number of licensed insurance brokers was 198. In the course of 2011, three professional trainings were organized with total of 129 participants. In addition, in 2011, 11

examinations were organised with 124 candidates taking part, out of who 94 passed the examination.

On 31.12.2011, the total number of licensed insurance agents was 664. During 2011, total of 202 licenses were granted for insurance agents. 441 candidates went through the professional training process. There were 4 professional trainings organized as well as 14 examinations, whereby 354 candidates passed the examination.

In accordance with Article 112, paragraph (3) of the Law on Insurance Supervision, ISA started to professional trainings for actuaries. The educational process commenced on 01.11.2011 and will last for 2 years. Following the completion of the professional trainings and the successful completion of the examinations, the candidates will be awarded a certificate for successfully passed examination, which is a requirement to obtain license for a certified actuary. The curriculum for the professional training for actuaries was designed in cooperation with the Macedonian Actuarial Association and was harmonized with the curriculum of the International Actuarial Association (IAA) and Groupe Consultatif (Des Associations d'Actuaries des Pays de Communautés Européennes). The professional training on each of the subjects from the curriculum is carried out by members of the Macedonian Actuarial Association, the Croatian Actuarial Association, as well as known professors from Macedonian universities and the Faculty of science and mathematics in Zagreb.

4. COOPERATION WITH NATIONAL AND INTERNATIONAL INSTITUTIONS

One of the main priorities of ISA in 2011 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 2011, ISA signed an MOU with the National Bank of the Republic of Macedonia, which served as a base for successful cooperation between the two institutions. Also, an MOU was signed with the regulatory authorities of the countries that have continuous cooperation with ISA, namely the Insurance Supervision Commission of Romania.

In the framework of the signed MOUs with regulatory bodies and the 2011 plan for on-site supervision, aiming to enhance the supervisory capacities, two joint on-site supervisions were conducted with the representatives of regulatory authorities from Slovenia and Albania.

The representatives of ISA, on invitation from regulatory bodies from EU member countries (Austria, Slovenia and Bulgaria) participated in the activities of 3 Supervisory colleges. 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.

With regard to the international cooperation, the participation of ISA at the 18th annual conference of the International Association of Insurance Supervisors (IAIS) was of major significance. As a result of previous cooperation with international authorities, in the course of 2011, the representatives of ISA participated in the activities of IAIS for the purpose of harmonising the implementation of the Insurance Core Principles (ICP) and the international insurance supervision standards. The Supervisory Forum was established in the framework of IAIS in 2011, as a new body for exchanging experiences on handling the global risks, whereby a representative of ISA was nominated for the working meetings of this body.

5. EDUCATION AND CAPACITY BUILDING OF ISA

In 2011, as part of its specified program, 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.

As part of the technical assistance provided by the regulatory authority from Germany - BAFIN, and in cooperation with ISA, the training for education and professional development of ISA's staff was organized in February 2011 in order to ensure conducting efficient insurance supervision. Through such trainings, and in order to efficiently carry out its legal competencies and activities, ISA has been continually investing in the strengthening of its supervision capacity by organizing and implementing continuous education and professional development for its staff.

In addition, in May 2011, ISA hosted the conference entitled "The challenges in harmonizing of the national insurance legislation and supervision to the EU acquis" which was supported by the USAID regional project – Partners for Financial Stability (PFS). The conference was attended by representatives of regulatory authorities from countries in Southeast Europe, representatives of regulatory authorities from EU member countries, the International Association of Insurance Supervisors (IAIS), European Insurance and Occupational Pensions Authority (EIOPA) and the International Centre for Insurance Regulation (ICIR) based at the Goethe University in Frankfurt, Germany. The conference was evaluated as exceptionally successful as it was the first regional meeting of regulators from Southeast Europe.

ISA in cooperation with the World Bank, UNISDR (Secretariat of the United Nations International Strategy for Disaster Reduction) and the Swiss State Secretariat for Economic Affairs (SECO), organized a conference with Europe Re entitled "Developing Catastrophe and Weather Risk Markets in Southeast Europe: from Concept to Reality" in October 2011. The conference was attended by more than hundred participants from various institutions that have significant place in the European insurance and reinsurance industry.

In November 2011, ISA in cooperation with the USAID project Partners for Financial Stability (PFS) organised a workshop on the topic "Risk Based Supervision in Insurance". Over 50 representatives

from insurance supervisory authorities from Albania, Bosnia & Herzegovina, Bulgaria, Macedonia, Moldova, Serbia, Hungary, Croatia and Montenegro participated at the conference.

In the framework of the project for implementation of new software solutions for supervision carried out by ISA, the software company VIZOR was selected to perform several trainings in order to prepare ISA staff for successful implementation of the supervision software, which was scheduled for 2012.

6. CONSUMER PROTECTION

In 2011, the main priority of ISA was the development in the consumer protection area, which was accomplished by the adoption of legal acts pertaining to handling complaints from policyholders.

In an effort to raise the awareness and financial literacy of the public both about the role of insurance and insurance supervision, ISA published the brochure entitled “The Insurance Market”, which gives explanation about the purpose of insurance in a simple and comprehensive manner. The brochure is structured in parts, relating to the work performed by ISA, the insurance legal framework, the insurance market with detailed explanation about insurance terms, lines of business, insurance supervision, the process of claims settlement and consumer protection. The student population was selected as a special target group, whereby lectures were delivered for the students in order to familiarize them with the basics of insurance.

One of the consumer protection tools is the Rulebook on handling complaints from policyholders, beneficiaries of insurance products and services and third parties, which was adopted by ISA.

In this area, ISA took action on submitted complaints by policyholders and beneficiaries of insurance, and the achieved results thereof are as follows:

- 62 submitted complaints
- 46 resolved complaints, out of which 26 in favour of the policyholder and 20 rejected,
- 8 complaints were groundless for taking further action, i.e. had incomplete documentation, and
- 8 complaints are in the process of being resolved.

7. PROJECTS

With regard to the project activities in 2011, ISA gained support for 3 projects, namely:

- 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

- European Bank for Reconstruction and Development (EBRD) grant for implementation of IT solutions at ISA for efficient conduction of supervision.

The World Bank regional project on catastrophe risk insurance was initiated, and ISA was designated as 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 local businesses and residents to purchase affordable insurance products against these risks, which are not currently available on the market.

As part of the cooperation with the World Bank, ISA applied for technical assistance for the liberalisation of the motor third party liability insurance market and development of the legal framework in accordance with European standards. 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.

On the basis of the submitted application in 2010, ISA was granted financial assistance from the European Bank of Reconstruction and Development (EBRD) for development and implementation of IT solution (software), aimed to improve the quality of supervision over the insurance industry through the development of an efficient monitoring and reporting system. The Irish company VIZOR was selected to design the software solution, as it is the global leader in the design of software for financial regulators.

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