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INSURANCE SUPERVISION AGENCY

2016  
ANNUAL REPORT  
OPERATIONS OF THE INSURANCE SUPERVISION AGENCY

Skopje, 2017

*This Report was prepared in accordance with Article 158-t of the Law on Insurance Supervision and for its preparation the Insurance Supervision Agency used data from its own records.*

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## 1. ESTABLISHMENT AND MISSION

The Insurance Supervision Agency of the Republic of Macedonia (hereinafter, ISA) is an autonomous, independent regulatory authority which administers public authorizations stipulated in the Law on Insurance Supervision and the Law on Mandatory Traffic Insurance.

ISA's legal responsibilities are to:

- Supervise market activities of insurance entities, i.e., insurance undertakings, insurance brokerage companies, insurance agencies, insurance brokers and insurance agents, legal entities associated with insurance undertakings and the National Insurance Bureau;
- Enact secondary legislation;
- Decide whether to grant or revoke licenses; grant or withdraw consents; remove or address irregularities and other issues following supervisory actions; and
- Impose sanctions on insurance entities over which it has jurisdiction.

Through its powers and responsibilities, its membership in international insurance associations and in cooperation with other supervisory authorities, ISA strives to facilitate a strong and growing insurance market which adequately protects the rights and interests of insureds and their beneficiaries.

ISA works to strengthen insurance undertakings' solvency position by monitoring their financial reporting, corporate performance, and work processes. By maintaining a strong level of financial control over insurance undertakings, ISA strengthens the financial stability of the country and provides for the adequate protection of the rights and interests of policyholders and beneficiaries.

ISA is accountable to the Parliament of Republic of Macedonia, which approves ISA's financial plan and annual accounts subject to mandatory audits by an independent, authorised auditor, the annual report on the operations of the Agency and the annual report on the situation and movements in the insurance market.

ISA's managing body consists of the Council of Experts, made up of the Council President and four members, who are all appointed and dismissed by the Parliament of the Republic of Macedonia upon recommendation by the Government of the Republic of Macedonia. In 2016, ISA's Council of Experts was composed of:

- Klime Poposki, Ph.D., President,
- Zoran Stjanovski, Executive Member,
- Lulzim Imeri, Executive Member,
- Ilija Graorkovski, Non-executive Member, and
- Aleksandar Petreski, M.A., Non-executive Member.

Throughout 2016 ISA actively performed its legally defined functions, in terms of improving the regulations, granting and revoking permits, consents and licenses, as well as in terms of supervising all participants subject to regulation within the Republic of Macedonia.

The Council of Experts works in sessions and adopts decisions by majority vote. In 2016, ISA's Council of Experts held 28 sessions.

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

Pursuant to the Rulebook on fees, annual fees and lump-sum fees collected by ISA and the respective due dates (“Official Gazette of Republic of Macedonia” No. 147/09, 149/09, 154/09, 20/12, 130/13 and 01/15), the operations of ISA are funded by the fees collected from insurance undertakings, insurance brokerage companies, insurance agencies and others entities supervised by ISA.

At its session on 29 December 2016, the Council of Experts adopted the 2017 Financial Plan, which was subsequently submitted to the Parliament.

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

Following priorities set for 2016 and as authorized by the Law on Insurance Supervision, ISA enacted bylaws and passed measures related to supervision based on-site and off-site controls, including decisions on licensing, as well as curricula and exam calendars for insurance agents and brokers. It also carried motions that support and strengthened ISA’s work and its internal capacity.

### **3.1. Regulation**

In 2016, ISA enacted 10 bylaws amending and supplementing the previous bylaws derived from the Law on Insurance Supervision (“Official Gazette of the Republic of Macedonia” No. 27/02, 98/02, 79/07, 88/08, 67/10, 44/11, 112/11, 188/13, 30/14, 43/14, 112/14, 153/15, 192/15 and 23/16).

Amendments were adopted to six bylaws in order to release the insurance undertakings from the obligation of paper submission of the required report, i.e. they are now obliged to submit it electronically in a form prescribed by ISA. These include:

- Rulebook on amending and supplementing the Rulebook on the form and content of the financial statements and detailed content of the annual report on the operations of the insurance and/or reinsurance undertakings (“Official Gazette of the Republic of Macedonia” No. 61/16);
- Rulebook on amending and supplementing the Rulebook on the types and description of items to be taken into account when calculating the capital of an insurance and/or reinsurance undertaking (“Official Gazette of the Republic of Macedonia” No. 61/16);
- Rulebook on amending and supplementing the Rulebook on the adequacy of reinsurance coverage, the method for calculating the amount of the maximum coverage of the 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. 61/16);
- Rulebook on amending and supplementing the Rulebook on the method for valuation of balance sheet items and preparation of business balance sheets (“Official Gazette of the Republic of Macedonia” No. 61/16);

- Rulebook on amending and supplementing the Rulebook on the method for calculating the liquidity ratio and minimum liquidity ("Official Gazette of the Republic of Macedonia" No. 61/16); and
- Rulebook on amending and supplementing the Rulebook on the calculation of the required level of solvency margin for insurance and/or reinsurance undertakings („Official Gazette of the Republic of Macedonia“ No. 61/16).

In the Rulebook for amending and supplementing the Rulebook on types and characteristics of funds covering the technical reserves and funds covering the mathematical reserve, as well as detailed placement and limitation of those investments and their valuation ("Official Gazette of the Republic of Macedonia" No. 61/16) in addition to the release from the obligation of the undertakings to submit the report in paper form, a deadline for reporting to the ISA is added, if the credit rating of the issuer or the securities decreased below the agreed level.

In the Rulebook on amending and supplementing the Rulebook on the contents of the reports submitted by the insurance agencies, insurance brokerage companies and banks to the Insurance Supervision Agency and the deadlines and ways of submitting them ("Official Gazette of the Republic of Macedonia" No. 61/16), in addition to the release from the obligation of the undertakings to submit the report in paper form, the Instructions for completing the forms are changed, where the banks are listed as entities that fill ODZ1 forms and examples are added how to complete ODZ1 and OBD1 forms.

In the Rulebook on amending and supplementing the Rulebook on the Form and Content of the supplementary financial statements of the insurance and/or reinsurance undertakings ("Official Gazette of the Republic of Macedonia" No. 61/16), apart from the exemption from the obligation of the undertakings to submit the report in paper form, the deadline for submitting the annual additional reports pursuant to Article 120 paragraph (2) of the Law on Insurance Supervision has been harmonized. Also, in the Instructions for completing the investment report that do not cover the technical and/or mathematical reserves, the report is changed, showing the amount that is taken into account when completing the report.

In the Regulation on amending and supplementing the Rulebook on Statistical Insurance Standards of the insurance and / or reinsurance undertakings ("Official Gazette of the Republic of Macedonia" No. 22/16), in addition to the relief from the obligation of the undertakings to submit the report in paper form, new statistical forms are introduced, and in that direction a corresponding change/amendment is made regarding the Instructions for completing the statistical insurance standards.

### **3.2. Licensing**

In the domain of licensing in 2016 ISA issued:

- 3 licenses for establishing an insurance brokerage company;
- 1 license for establishing an insurance agency;
- 2 licenses for introducing a new line of business insurance;
- 1 license for an authorized actuary;
- 20 consents to perform the function member of the management body;

- 10 consents to amend the Statute of an insurance undertaking;
- 15 consents for undertakings to audit the financial statements and the consolidated financial statements of the insurance undertakings;
- 1 consent for acquisition of qualified participation in an insurance undertaking;
- 3 consents for acquisition of qualified participation in an insurance brokerage company;
- 1 consent to change the name of an insurance undertaking;
- 2 consents to change the headquarters;
- 150 licenses for insurance agents; and
- 33 licenses for insurance brokers.

With 33 new licenses issued to insurance brokers in 2016, the total number of insurance brokers at year end had increased to 469. The 2 training sessions held to train insurance brokers in 2016 had 105 attendees. At 12 exam offerings organized during the year, 55 were able to successfully pass the exams.

Also, during 2016, 150 licenses for insurance agents were issued, whereas 27 were revoked. As a result, the number of licensed insurance agents as of 31 December 2016, reached 1065. In all, 368 met the educational requirements and passed by going through 2 trainings for insurance agents, for which 12 exams were provided as an integral part of the training process. All in all, 220 have passed these licensing exams.

### **3.3. Supervision**

ISA supervises insurance undertakings, insurance brokerage companies, insurance agencies, and the National Insurance Bureau in accordance with the Law on Insurance Supervision, the Law on Compulsory Insurance in Traffic and other relevant regulations. ISA also holds the authority to supervise natural persons engaged in insurance brokerage and insurance agency activities.

ISA conducts its work through both permanent off-site supervisions of insurance undertakings' operations and other insurance entities where it collects, analyses and verifies reports and information that it collects and through complete or partial on-site supervisions.

ISA conducts on-site supervision of the operations of the insurance undertakings, insurance brokerage companies, and insurance agencies. The purpose of on-site supervisions is assessment of the reliability, stability, risk and compliance of undertakings' operations.

During 2016, ISA conducted 14 partial and 1 extraordinary on-site supervision of insurance undertaking, 1 on-site supervision of insurance brokerage company, 1 on-site supervision of an insurance agency, as well as 1 on-site supervision of other legal entities.

On the basis of the conducted on-site supervisions, ISA issued 63 orders requiring elimination of irregularities.

During 2016, ISA conducted regular off-site supervisions based on reports of the insurance undertakings, insurance brokerage companies and insurance agencies. As of the first quarter, the subjects of supervision submitted anticipated reports in hard copy and electronic form, and starting from the second quarter,

reports were submitted electronically only via the software application platform - ISA Portal, in order to simplify the manner of collection, storage and processing of data from the entities on the insurance market.

In 2016, based on the conducted off-site supervisions, ISA issued 2 orders for remedying irregularities.

For the detected offences, authorized persons from ISA, within their powers, offered the offending party mediation and a settlement, where the offending party would pay the fine, and other fees, or address consequences of the offence. ISA leads the mediation procedure through its Mediation Commission, composed of ISA employees appointed by the Council of Experts. In 2016 ISA's Mediation Commission conducted mediation procedures for 16 misdemeanours, and 16 arrangements towards payment of fine were reached.

Regarding offenses stipulated in the Law on Insurance Supervision, ISA conducts misdemeanour proceedings and imposes sanctions accordingly. The misdemeanour proceedings before the Misdemeanour Authority is conducted by the Misdemeanour Commission comprised of ISA employees and appointed by the Council of Experts. In 2016, ISA's Misdemeanour Commission did not receive any requests for conducting misdemeanour procedures.

#### **4. COOPERATION WITH DOMESTIC AND INTERNATIONAL INSTITUTIONS**

One of the main priorities of ISA for 2016 was continuing a productive relationship with national regulatory authorities and other institutions which hold common concerns, including other bodies of supervision and related institutions abroad. Based on the established collaboration and the signed Memorandums of Understanding regular exchange of information and data was performed in order to share experiences and concerns for the stability of the insurance sector.

The cooperation with the domestic regulatory bodies in the financial sector was aimed at identifying significant system risks in the financial sector, cross-sectoral risk-spreading, as well as joint initiatives for the promotion of financial stability. ISA regularly participated in the preparation of the Annual Report on Financial Stability of the National Bank of the Republic of Macedonia (NBRM) by submitting data for the insurance sector. Also, at the invitation of the NBRM and the Ministry of Finance, ISA participated at a regular meeting with the domestic regulators of the financial system in the Republic of Macedonia.

In 2016, 2 Memorandums of Cooperation were signed with domestic institutions:

- the Chamber of Commerce of the Republic of Macedonia; and
- the Consumers' organization of Macedonia.

The Chamber of Commerce of the Republic of Macedonia is a significant partner of ISA, and because of this, the cooperation was formalized with the signing of a Memorandum of Cooperation in order to promote joint business activities by organizing projects, expert seminars and workshops. Also, the memorandum stipulates the organization of joint press conferences, educational events, preparation of informative manuals and brochures in the direction of further development of the insurance sector.

The Memorandum with the Consumers' organization envisages closer cooperation in the domain of protection of the insured persons and users of insurance products and services. Through the realization of projects and activities, the institutions plan to significantly contribute to strengthening the public awareness about the need to inform consumers properly in the field of insurance and also to raise the social responsibility of the insurance undertakings and other entities on the insurance market in the Republic of Macedonia.

As part of the activities for harmonization of the domestic legislation with the EU, in addition to regular preparation of status reports, ISA participated with its representatives in the work of the twelfth meeting of the Subcommittee on Internal Market and Competition and the Subcommittee on Economic and Financial Issues and Statistics, an integral part of the Stabilization and Association Committee (SAC), at which the achievements in the insurance sector in the Republic of Macedonia were presented in the part of fulfilling the obligations of the Stabilization and Association Agreement with the European Union.

ISA as a full member of the International Association of Insurance Supervisors (IAIS), participated in the work of the working groups of this body in order to promote effective and globally consistent supervision of the insurance industry. The ISA's activities included participation in research studies and seminars organized by the International Association of Insurance Supervisors. At the invitation of the Financial Supervision Commission from Poland (KNF), as a coordinator for the Central and Eastern European region and South Caucasus, for the first time a working meeting with representatives from the countries of the region was organized in order to identify the regional training needs and technical assistance, as well as to coordinate and undertake activities for strategy development regarding the implementation of the objectives set by the International Association of Insurance Supervisors. Also, ISA representative participated in the work of the Supervisory Forum of the International Association of Insurance Supervisors - a working body established in 2011, which aims to strengthen the efficiency of insurance supervision and to encourage standardization of supervisory practices.

In order to promote regional cooperation, ISA representatives participated at two regular meetings of the Insurance Supervision Initiative for the countries of Central, Eastern and Southeastern Europe (CESEE), aiming to exchange experiences in the area of conducting supervision of insurance undertakings, as well as to harmonize the legal and bylaw regulations in the field of insurance.

Upon invitation from regulatory bodies from EU - member states, ISA representatives participated in activities of 6 Supervisory Colleges of 3 EU member states' regulatory bodies, including Austria, Slovenia, and Bulgaria. The supervisory colleges were organized by the regulatory authorities of the EU in accordance with the guidelines set by the European Insurance and Occupational Pensions Authority (EIOPA) in order to ensure better supervision of insurance groups which are present in several EU countries and the countries at different stages of the EU accession processes. Supervisory colleges are excellent opportunity to exchange experiences and jointly apply methodologies.

Last year, a Memorandum of Cooperation was signed with the National Bank of Slovakia, which is a regulatory and supervisory body of the insurance industry in Slovakia.

## **5. EDUCATION AND CAPACITY BUILDING**

ISA continuously invests in professional development and continuing education programs for its human resources so that its employees carry out the organization's legal duties effectively and efficiently.

In the direction of education and professional development of the employees ISA organized visits of seminars, conferences and workshops organized by the International Association of Insurance Supervisors (IAIS), The European Supervisory Authority for Pension Funds and Insurance Undertakings (EIOPA), Toronto Centre - Global Leader for Education of Financial Supervision, Joint Vienna Institute Training Centre (JVI), European Actuarial Academy (EAA) and Financial Stability Institute (FSI).

The established cooperation between ISA and the Central Bank of the Netherlands (De Nederlandsche Bank-DNB) continued in 2016. In that direction, training was conducted in order to transfer knowledge and experience in the area of conducting supervision of the reinsurance activities of the insurance undertakings. At the training, the experts from DNB presented the types of reinsurance products, the role of the regulation and supervision, as well as the manner of conducting supervision of the reinsurance activities.

As part of the cooperation with the Macedonian Actuary Association "Aktuar", representatives of ISA took part in a seminar on the topic of Liability Adequacy Test (LAT) for experts in the field of insurance and finance. The purpose of the seminar was to enable the general public to get acquainted with the notion and essence of the LAT methodology, the ways and obligations for implementing LAT, as well as the benefits of implementing the LAT. The ultimate goal was for the participants to gain knowledge that would enable them to gain an adequate understanding of the results of the LAT analyses carried out by actuaries - which is a necessary condition for proper decision-making related to the work of insurance undertakings.

ISA, in cooperation with the World Bank and the European Insurance and Pension Fund Authority (EIOPA), organized a workshop on Risk Based Supervision Workshop in Ohrid on October 6-7, 2016, attended by 65 representatives from supervisory regulatory Bodies from 22 European countries. For the first time, this type of event is organized in cooperation with a regulatory authority from a non-EU country. Presenters and panellists were distinguished experts from the World Bank, EIOPA and various supervisory regulators from Europe. The purpose of the workshop was to introduce the participants to the manner of conducting risk-based supervision, which is a mandatory requirement under the Solvency 2 Directive. Panel discussions on various topics in the field of insurance supervision were organized at the workshop, such as: the supervision process under the Solvency 2 Directive, corporate governance, supervisory colleges. The workshop also presented the experiences of regulators from the European Union and regulators from non-EU countries regarding the conduct of risk-based supervision, as well as the future challenges for the insurance sector in the region.

## **6. CONSUMER PROTECTION AND FINANCIAL EDUCATION**

Achieving a high level of consumer protection is the main objective and a high priority of ISA's operations. Toward this end, ISA continued its educational activities in 2016, towards educating the citizens and legal entities about the significance and the role of insurance, informing about the rights and obligations of the

insurers arising from different insurance products, as well as regular treatment on the basis of the submitted complaints.

In 2016 press conferences were held in order to inform the public about the trends in the insurance sector after each quarter. The members of the Council of Experts, as well as the employees, participated as guests at the invitation of the television and radio media in order to inform the citizens about the role of the ISA, as well as the advantages and benefits of insurance. A number of interviews were also conducted in printed and electronic domestic and international media.

In the segment of education, ISA continuously promoted and distributed information materials to various target groups that were produced during the previous years. These are: a Manual on the insurance market, a manual "How insurance works", a life insurance flyer, a flyer for property insurance, a flyer for travel insurance, a flyer for Motor Third Party Insurance and the educational game "Less Risk, More Fun".

As part of the activities implemented in this domain, in March 2016, ISA issued an Agricultural Insurance Brochure which aims to promote the purchase of agricultural insurance policies as an effective way of protecting agricultural products against risks related to weather, natural disasters, pests and diseases. The brochure in simple terms explains the basic concepts of insurance in agriculture, with special development of crop and fodder insurance, the indices of the expected yield from crops and fruits and livestock insurance, together with examples of the scope of risks and the insurance premium.

In addition, the brochure explains the measures envisaged for support of the Program for Financial Support in Agriculture for 2016, which stipulates a measure for subsidizing a part of the insurance premium, as additional support for the development of agriculture by the state and The Program for Financial Support of the Rural Development for 2016, adopted by the Government of the Republic of Macedonia, which provides a measure for subsidizing insurance premiums for the development of agricultural cooperatives.

Also, in March 2016, a Global Money Week was organized in Macedonia by the Coordination Body for Financial Education<sup>1</sup>, which actively engaged and marked this world event created and supported by the International Organization for Financial Education of Children and Youth (INFE). The purpose of this event is to emphasize the importance of the continuous financial education of children and youth in order to become aware of their financial rights and responsibilities, as well as to get acquainted with the financial services and products. Through a series of caravan activities, ISA representatives conducted lectures in which in simple language the basic concepts and objectives of insurance were presented as well as risk management and the role of supervision on the insurance market.

On November 1, 2016, ISA marked the "Insurance Day" by holding a press conference for the media. On the same occasion, the paper titled "Managing Legal Risks in Insurance Undertakings" by Ivica Medarski was declared the winner of the competition for selection of the best research paper in the field of risk and insurance in the Republic of Macedonia for 2016.

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<sup>1</sup> Aside from ISA, members of the Financial Education Coordination Body are NBRM, the Ministry of Finance, the Agency for Supervision of Fully Funded Pension Insurance, and the Securities and Exchange Commission of the Republic of Macedonia

A joint initiative of the Ministry of Finance, ISA and NBRM announced a competition for children and youth from primary and secondary education on the topics of savings and insurance titled "I Know How to Save" and "What Does Home and Family Insurance Mean for Me". 402 works were received at the competition, and the top 15 received diplomas and cash prizes. 44 pupils and seven schools were awarded commemorative certificates.

With respect to protecting the rights of insureds, ISA acted upon cases submitted by policyholders, insurance beneficiaries, and third damaged parties, as they were dissatisfied with the actions of the insurance undertakings. During 2016, **131** complaints were submitted, with results as follows:

- 101 complaints were resolved;
- 22 complaints were without grounds for action; and
- 8 complaints were pending resolution on 31.12.2016.

## **7. PROJECTS**

At the beginning of March 2016, started the implementation of the twinning project "Further harmonization with the EU in the field of insurance and the increase of market activities" (MK 12 IPA FI 01 15), aimed at harmonization with the European Union in the field of insurance and increasing market activities on the insurance market in order to prepare for accepting the EU acquis and integrate into the internal market at the time of EU accession. The project is jointly implemented by the Ministry of Finance and ISA with the twinning partner, the General Directorate for Insurance and Pensions from Spain.

The final results expected from the implementation of this project are:

- Preparation of a new Law on Insurance in accordance with the Directive 2009/138/EC (Solvency 2) and preparation of new bylaws arising from it,
- Strengthening the capacities of the Ministry of Finance and ISA in terms of the adopted new legislation and by-laws, and
- Increase of the awareness of consumer protection.

The project will be implemented over a period of 18 months during 2016 and 2017.

In order to strengthen corporate governance in the insurance sector in Macedonia, the Insurance Supervision Agency in 2016, with the assistance of the International Finance Corporation - IFC and the Macedonian Institute of Directors - MIOD, conducted an evaluation of each insurance undertaking. Namely, the IFC's financial institutions matrix was tailored for the insurance undertakings in Macedonia, in accordance with the previously developed Handbook for Good Corporate Governance Practices in Insurance Undertakings (ISA, 2014).

The evaluation of the level of corporate governance in each undertaking was conducted in April 2016 through interviews with relevant undertaking representatives, following the issues and areas in the matrix, as well as insight into key documents. All undertakings received an assessment of the level of

corporate governance, as well as recommendations on how to continue to develop in this area. In addition, in June 2016, corporate governance training for insurance undertakings was conducted.

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