



INSURANCE SUPERVISION AGENCY

INSURANCE MARKET IN REPUBLIC OF MACEDONIA IN 2011
ANNUAL REPORT

Skopje, June 2012

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1. INTRODUCTION

The Insurance Supervisory Agency (hereinafter referred to as „ISA“) is an autonomous and independent regulatory authority on the insurance market undertaking public authorizations as stipulated by the Law on Insurance Supervision and the Law on Compulsory Insurance in Traffic. ISA aims to contribute to the legal and effective functioning of the domestic insurance market and to its continuous development and adequate protection of the rights and interests of policyholders, as well as strengthening the financial stability of the economy.

At the end of 2011, 15 insurance undertakings actively operated on the insurance market of Republic of Macedonia, out of which 11 are non-life insurance undertakings and 4 are life insurance undertakings. In the course of 2011, one new market participant – life Insurance undertaking “Unika - Life” S.C. Skopje was granted license for conducting life insurance operations.

During 2011, the number of insurance brokerage companies increased for 3 newly established companies reaching the total number of 17 companies. The total number of insurance agencies is 6 and remained unchanged as in 2010, namely, a new insurance agency emerged while one of the existing agencies was transformed into insurance brokerage company.

In 2011, the gross written premium (hereinafter referred to as “GWP”) on the Macedonian insurance market reached the total amount of MKD 6.81 billion, which makes an increase in GWP of 5.05% in comparison with 2010 (2010: MKD 6.48 billion).

Considering the analysis per insurance segments, the total of GWP in non-life insurance segment amounted to MKD 6.31 billion (2010: MKD 6.13 billion) which accounts for 92.70% of the total GWP of the insurance industry and increase of 3.02% compared to the same period of the last year. As the life insurance segment is concerned, the total GWP amounted to MKD 496.9 million (2010: MKD 354.5 million) which is an increase of 40.19%.

On 31.12.2011, the total assets of the insurance undertakings amounted to MKD 12.93 billion, which is an increase of 7.97% compared to 2010, whereby the positive trend of growth from the previous year continued (2010: MKD 11.98 billion).

At the end of 2011, the total capital of the insurance undertakings amounted to MKD 4.5 billion, which is an increase of 9.18% in comparison with 2010 (2010: MKD 4.1 billion), whereas the solvency margin as key indicator for the insurance industry stability amounts to MKD 1.10 billion, thus making the capital of the insurance sector 4.11 times above the level of the solvency margin.

In 2011, the insurance undertakings reported loss at the amount of MKD 73.4 million. Thus, the non-life insurance segment reported loss of MKD 78.8 million, while the life insurance segment reported profit of MKD 5.4 million.

With regard to the regulations in 2011, one amendment to the Law on Insurance Supervision was made, two amendments to the Law on Compulsory Insurance in Traffic were adopted, as well as, 18 by-laws that further regulate the insurance sector.

2. LEGAL FRAMEWORK

The Law on Insurance Supervision (“Official Gazette of R. Macedonia” No. 27/02, 84/02, 98/02, 33/04, 88/05, 79/07, 8/08, 88/08, 56/09, 67/10, 44/11 and 112/11) and the Law on Compulsory Insurance in Traffic (“Official Gazette of R. Macedonia” No. 88/05, 70/06, 81/08, 47/11 and 135/11) represent the basic legal framework which regulates the conditions and the manner of operating insurance and reinsurance activities, the manner and conditions of operating insurance agencies and conducting supervision over the operation of the insurance undertakings, insurance brokerage companies, and insurance agencies. The Contract Law, with regard to the insurance contracts, and the Company Law serve as complementary legislation.

The Law on Insurance Supervision embraces the insurance principles and standards of the International Association of Insurance Supervisors (IAIS), as well as the EU Insurance Directives. The law regulates the following: establishment and operation of insurance undertakings, risk management, role of authorised actuaries, financial reporting, internal and external auditing, activities of insurance brokerage and insurance agency, supervision over insurance undertakings, procedure for decision-making by ISA, operations of insurance and reinsurance pools, cooperation with supervisory agencies and EU authorities, as well as penalty provisions.

In 2011, the Law on Changes and Amendments to the Law on Insurance Supervision was adopted (“Official Gazette of R. Macedonia” No. 44/11).

The changes were mainly aimed to harmonize the penalty provisions stipulated by the Law on Insurance Supervision with the Law on Misdemeanour, to ensure further liberalisation of the provisions that regulate the investments of company’s own assets, as well as the licensing criteria and the manner of work of the insurance brokers and agents for the purpose of further harmonization of the Law on Insurance Supervision with the EU Directives and the principles and standards of the International Association for Insurance Supervisors (IAIS).

The compulsory motor insurance Insurance is regulated by the **Law on Compulsory Insurance in Traffic** which stipulates the following: extended protection of the interests of victims in traffic accidents by increasing the insured sum and their gradual (upon previously legally defined phases) harmonization with the insured sum adopted in the EU Directives, regulation of the deadlines for filing claims and indemnification of claims by the insurance undertakings, imposition of the entitlement to mediation, strict regulation of the competencies of the Guarantee Fund, changes in the manner of establishing the premium tariffs for which the Auto Insurance Commission has been established, as well as facilitating the provision of cross-border insurance services by

introduction of the so-called Authorised claims representative and introduction of Damage Compensation Service (the last two items shall be realised once Republic of Macedonia joins the European Union).

In 2011, two changes and amendments to the Law on Compulsory Insurance in Traffic ("Official Gazette of Republic of Macedonia" No. 47/11 and No. 135/11) were adopted.

The changes were made in order to improve the penal policy in Republic of Macedonia through harmonization of the penalty provisions with the Law on Misdemeanour, as well as to specify the competences related to the decision-making about the amount of additional premium for issuance of international green card policies.

3. INSURANCE MARKET IN R. MACEDONIA

A) INSURANCE UNDERTAKINGS

In 2011, two new insurance undertakings started life-insurance operations on the insurance market, i.e. the Joint Stock Company for Insurance “WINNER LIFE-Vienna Insurance Group”¹ Skopje and Joint Stock Company for Insurance “Uniqa – Life” Skopje. Along with these two undertakings, there are total of 15 insurance undertakings on the insurance market of R. Macedonia in 2011, out of which 4 undertakings work in the life insurance segment and the remaining 11 in the non-life insurance segment. Only one insurance undertaking is licensed for reinsurance business besides the non-life insurance operations.

Furthermore, two insurance undertakings were rebranded, i.e. the undertaking VARDAR was rebranded into TRIGLAV, and the undertaking SAVA TABAK was rebranded into SAVA INSURANCE. This activity was undertaken for the purpose of increasing the visibility of these undertakings within their respective insurance groups.

Table 1: Register of insurance undertakings

	Insurance undertaking	Insurance segment
1	QBE MACEDONIA	Non-life insurance and reinsurance
2	TRIGLAV	
3	SAVA INSURANCE	
4	EUROINS INSURANCE	
5	WINNER- Vienna Insurance Group	
6	EUROLINK	
7	INSIG MAKEDONIJA	
8	UNIQA	
9	INSURANCE POLICY	
10	ALBSIG	
11	CROATIA INSURANCE- NON LIFE	
12	CROATIA INSURANCE- LIFE	Life insurance
13	GRAWE	
14	WINNER LIFE- Vienna Insurance Group	
15	UNIQA LIFE	

1. Ownership structure

In the course of 2011, the ownership structure of the insurance undertakings underwent no significant changes. The insurance undertakings are in dominant ownership of foreign legal entities from the financial

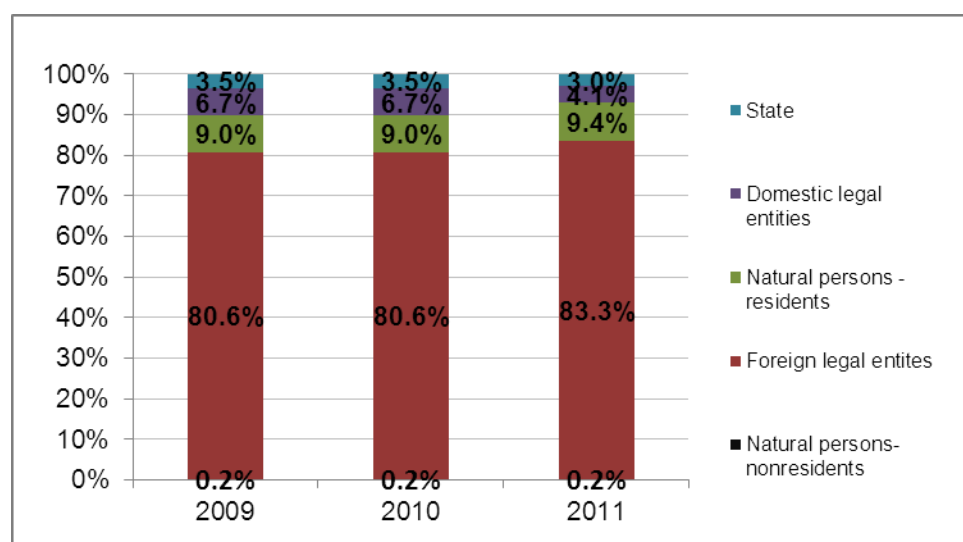
¹ License was issued in December 2010

sector. The foreign companies have 83,3% of the ownership, i.e. they have partial or complete ownership in 14 from total of 15 insurance undertakings on the market, whereas only one insurance undertaking is completely owned by domestic investors.

The trend of foreign capital entry on the insurance market contributes towards enhanced competition, introduction of new products, improved knowledge regarding risk management, timely and regular claims settlement and efficient assets liability management. Thus, it is worth noting that out of 14 insurance undertakings owned by foreign investors, 9 of the undertakings are part of insurance groups based in EU member countries.

The Chart No. 1 shows the ownership structure of the insurance undertakings until 31.12.2011.

Chart No. 1: Ownership structure of insurance undertakings



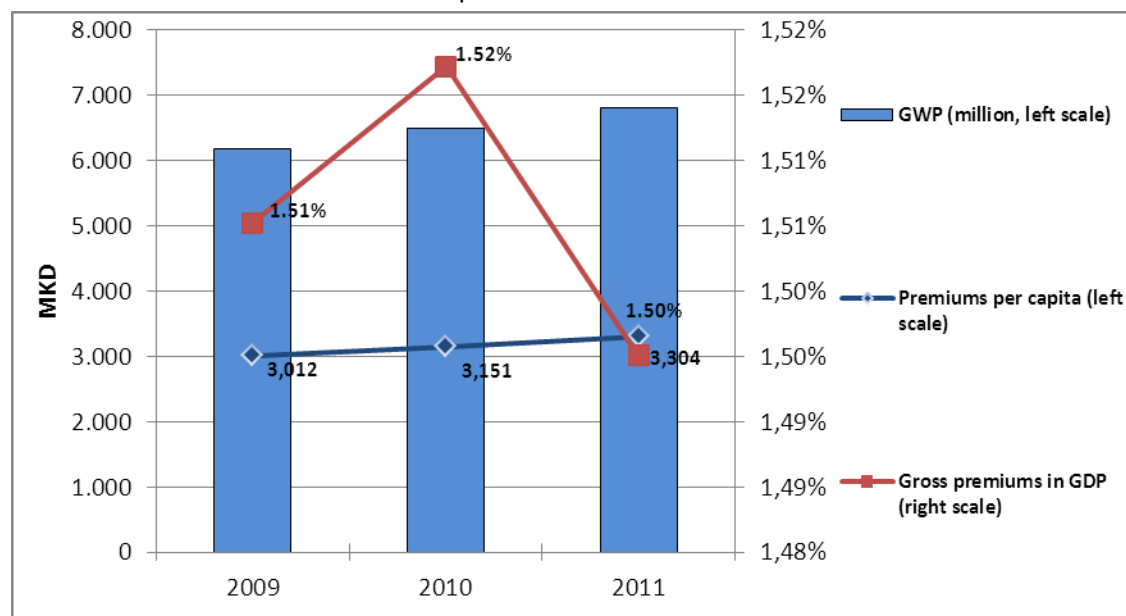
Source: Quarterly reports, ISA

2. Insurance market development

The basic indicators that measure the level of development of the insurance market are the insurance density rate and insurance penetration rate². The data on the insurance penetration in 2011 show that the total GWP in the country accounts for 1.50% of GDP, whereas the density rate is MKD 3.304 per capita. The data trends are presented in the Chart No.2.

²The density rate is calculated as the ratio of the gross written premium and the number of population in the country, whereas the penetration rate as the ratio of the gross written premium and the gross domestic product.

Chart No. 2: Insurance market development indicators



Source: Quarterly reports, ISA and Ministry of Finance of R. Macedonia

The insurance sector in Macedonia is characterised with moderate market concentration. The Herfindahl-index³, calculated in relation to GWP was 997.69 in 2011 (2010: 1,237.59). Similar trend is shown by the measurement of the index through the assets of the insurance undertakings, which decreased to 1,082.86 in 2011 (2010: 1,319.63).

The analysis per insurance segments, in particular, shows high concentration in life insurance and reinsurance, due to the small number of undertakings in this area. For life insurance undertakings, the Herfindahl-index measured against the GWP was 4,777.14, and 1,576.06 when measured against the assets of the undertakings.

With regard to non-life insurance, there is presence of continuous and moderate decline in concentration, which is also shown through the measurement of the Herfindahl-index (relative to GWP), which reached 1,135.61 in 2011 (2010: 1,249.90), and 1,363.33 – relative to assets (2010: 1,576.06). At the same time, the CR5⁴ index, measured against GWP for this insurance segment is 65.00% (2010: 73.07%), and measured against assets of the undertaking it accounts for 69.73%.

³Herfindahl- index is measured by the following formula:

$$HI = \sum_{i=1}^n (S)_i^2$$

where S is the market share of the company in the total assets (gross written premium) of the insurance industry, and n is the total number of institutions in the respective segment. If the index ranges in the interval of 1.000 units to 1.800 units, the level of concentration of the insurance sector is considered acceptable.

⁴ CR5 index combines the market share of five insurers with largest value of assets / gross written premium to total assets / gross written premium of the insurance industry.

The tables below show the Herfindahl-index and CR5 index by insurance segments:

Table No. 2 : Herfindahl index and CR5 index measured against GWP

Gross written premium	2010		2011	
	Herfindahl	CR5	Herfindahl	CR5
All sector	1,237.59	69.76%	997.68	60.25%
Non-life insurance	1,249.90	73.07%	1,135.61	65.00%
Life insurance	4,777.13	/	4,094.61	100%

Source: Quarterly reports, ISA

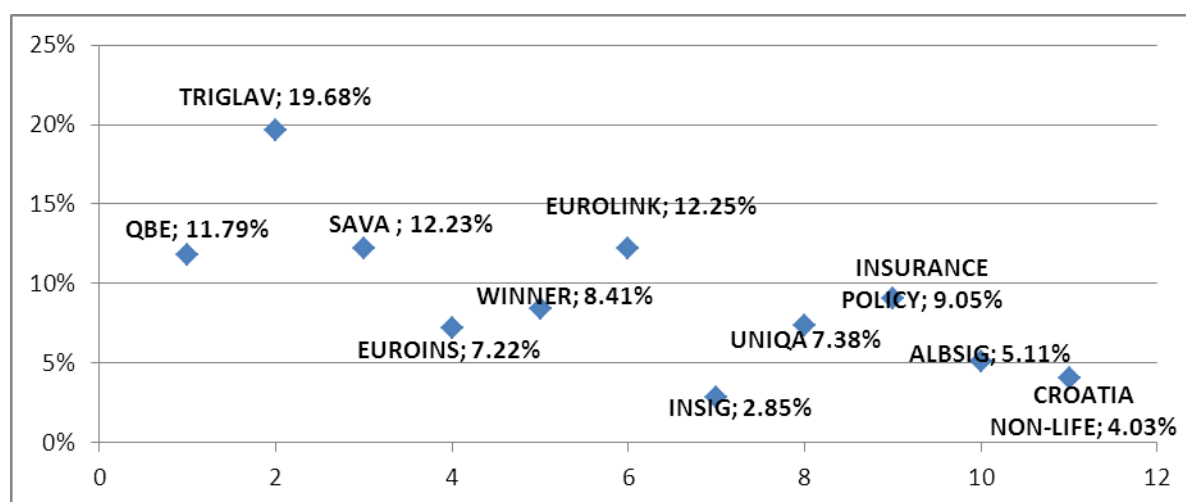
Table No. 3: Herfindahl index and CR5 index measured against the assets of insurance undertakings

Assets	2010		2011	
	Herfindahl	CR5	Herfindahl	CR5
All sector	1,319.631	69.92%	1,078.079	60.41%
Non-life insurance	1,576.058	74.21%	1,363.325	69.73%
Life insurance	3,676.731	/	3,074.657	100%

Source: Balance Sheet of the insurance sector

The decline in market concentration of the non-life insurance undertakings is also evidenced by the CR5 index measured against their share in GWP, which indicates decrease in 2011 and accounts for 65.00% (2010: 73.07%). Moreover, none of the insurance undertakings on the Macedonian insurance market exceed the threshold of over 20% market share.

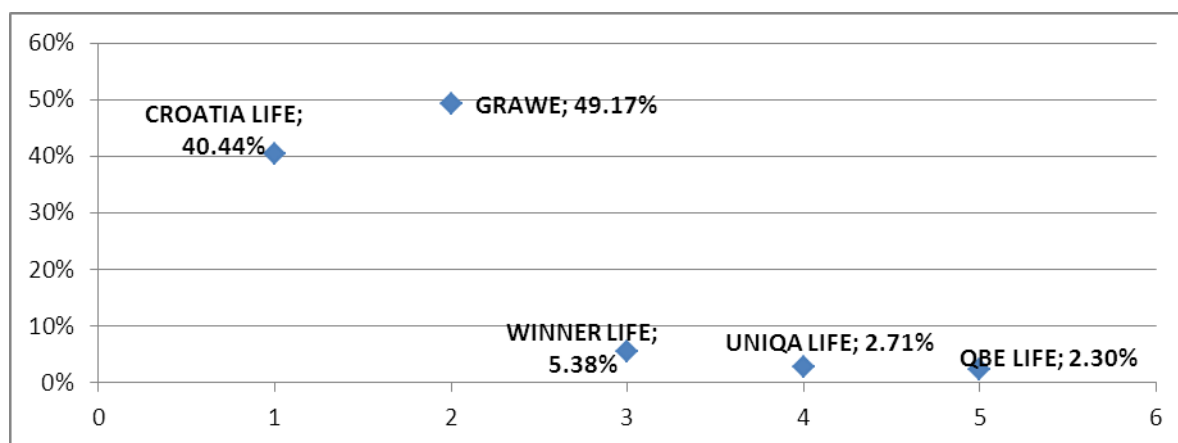
Chart No. 3: Market concentration relative to GWP in 2011 for non-life insurance sector



Source: Quarterly reports, ISA

Two insurance undertakings, i.e. Grawe with 49.17% and Croatia life with 40.44% have dominant market shares in the life insurance segment. The tiny market share of other undertakings is due to the fact that two of the undertakings started their business activities in 2011 (Winner Life and Uniqa Life), whereas QBE ceased the issuance of new life insurance contracts since 2004.

Chart No. 4: Market concentration relative to GWP in 2011 for life insurance sector



Source: Quarterly reports, ISA

3. Gross written premium

The gross written premium for insurance and reinsurance of the non-life insurance undertakings includes all the insurance premiums written (contracted) within the current accounting period, regardless if they partially or completely refer to the following period, whereas the total life-insurance written premium includes all the paid premiums until the end of the accounting period.

Based on the data provided by the insurance undertakings through their regular reporting to ISA, and pursuant to article 104 of the Law on Insurance Supervision, the total GWP in 2011 amounted to MKD 6.81 billion, which is an increase of 5.05% compared to the GWP in 2010.

The positive trend is evident for both insurance segments, whereby the non-life insurance group realised GWP at the amount of MKD 6.31 billion (2010: MKD 6.13 billion), which is 92.70% of the total GWP for the insurance sector, which represents a growth of 3.02% compared to the same period last year.

The life-insurance segment GWP amount MKD 496.9 million (2010: MKD 354.5 million), which represents a growth of 40.19%. This significant increase results from the low start-up position in life insurance and the operation of two newly established life insurance undertakings. Therefore, it is expected that there will be further development of this insurance group.

Table No. 4: Gross written premium by lines of business (in MKD '000)

Lines of business	GROSS WRITTEN PREMIUM (GWP)		CHANGE 2010/2011	SHARE IN TOTAL GWP	
	2010	2011		2010	2011
01. Accident insurance	546,617	542,270	-0.80%	8.43%	7.96%
02. Health insurance	19,082	6,618	-65.32%	0.29%	0.10%
03. Motor vehicles insurance – casco	797,509	781,924	-1.95%	12.31%	11.48%
05. Aircraft casco insurance	43,439	102,956	137.01%	0.67%	1.51%
06. Vessel insurance – casco	948	359	-62.13%	0.01%	0.01%
07. Insurance of goods in transit– casco	67,862	78,441	15.59%	1.05%	1.15%
08. Property insurance against fire	505,356	478,264	-5.36%	7.80%	7.02%
09. Other property insurance	772,686	768,211	-0.58%	11.92%	11.28%
10. Motor third party liability insurance	3,062,786	3,264,963	6.60%	47.26%	47.96%
11. Aircraft third party liability insurance	19,495	24,454	25.44%	0.30%	0.36%
12. Vessel third party liability insurance	1,509	1,629	7.95%	0.02%	0.02%
13. Other liability insurance	125,585	114,243	-9.03%	1.94%	1.68%
15. Guaranties insurance	445	195	-56.18%	0.01%	0.00%
16. Insurance against financial loss	5,129	3,554	-30.71%	0.08%	0.05%
17. Legal protection insurance	0	1		0.00%	0.00%
18. Travel insurance	157,919	143,189	-9.33%	2.44%	2.10%
19. Life insurance	354,507	496,995	40.19%	5.47%	7.30%
TOTAL	6,480,874	6,808,264	5.05%	100.00%	100.00%
TOTAL NON-LIFE	6,126,367	6,311,269	3.02%	94.53%	92.70%
TOTAL LIFE	354,507	496,995	40.19%	5.47%	7.30%

Source: Quarterly reports, ISA

The Table No. 5 shows the index of annual change of GWP for the period 2005 – 2011 by lines of business including life insurance, non-life insurance and the total respectively. It is evident that the total GWP trend corresponds to the trend in non-life insurance as a dominant insurance segment.

Table No. 5: Gross written premium indices in the 2006 -2011 period

	2007/2006	2008/2007	2009/2008	2010/2009	2011/2010
Total GWP	111.93%	105.36%	96.28%	104.83%	105.05%
Non-life insurance	111.20%	103.85%	95.56%	104.17%	103.01%
Life insurance	147.98%	155.76%	112.80%	117.85%	140.19%

Source: Annual accounts of insurance undertakings

The reinsurance premium in 2011 amounts to MKD 2.19 million (2010: MKD 2.47 million), and it was realised by QBE MACEDONIA as the only reinsurance undertaking on the market in Republic of Macedonia.

Respectively, if compared with 2010, the increase in GWP was noted in 8 from 11 non-life insurance undertakings in 2011 (Table no. 6).

Table No. 6: Gross written premium by non-life insurance undertakings (in MKD '000)

NO.	INSURANCE UNDERTAKING	GROSS WRITTEN PREMIUM (GWP)		DYNAMICS	SHARE TO TOTAL GWP	
		2010	2011		2010	2011
1	TRIGLAV	1,332,136	1,242,059	-6.76%	21.74%	19.68%
2	EUROLINK	667,180	772,888	15.84%	10.89%	12.25%
3	SAVA	935,128	771,727	-17.47%	15.26%	12.23%
4	QBE	810,100	744,381	-8.11%	13.22%	11.79%
5	INSURANCE POLICY	553,340	571,218	3.23%	9.03%	9.05%
6	WINNER	376,372	530,588	40.97%	6.14%	8.41%
7	UNIQA	411,781	465,729	13.10%	6.72%	7.38%
8	EUROINS	437,141	455,944	4.30%	7.14%	7.22%
9	ALBSIG	283,748	322,525	13.67%	4.63%	5.11%
10	CROATIA NON-LIFE	140,973	254,325	80.41%	2.30%	4.03%
11	INSIG	178,468	179,885	0.79%	2.91%	2.85%
	TOTAL NON-LIFE PREMIUM	6,126,367	6,311,269	3.02%	100.00%	100.00%

Source: Quarterly reports, ISA

With regard to the market concentration, at the end of 2011, 4 insurance undertakings exceeded the threshold of 10% to the total GWP. Accordingly, the share of the market leaders is as follows: Triglav at 19.68% (2010: 21.74%), Eurolink at 12.25% (2010: 10.89%), Sava at 12.23% (2010: 15.26%) and QBE at 11.79% (2010: 13.12%).

Table No. 7: Gross written premium by life insurance undertakings (in MKD '000)

NO.	INSURANCE UNDERTAKING	GROSS WRITTEN PREMIUM (GWP)		DYNAMICS	SHARE TO TOTAL GWP	
		2010	2011		2010	2011
1	GRAWE	202,533	244,371	20.66%	57.13%	49.17%
2	CROATIA LIFE	137,098	200,985	46.60%	38.67%	40.44%
3	WINNER LIFE	0	26,725	/	/	5.38%
4	UNIQA LIFE	0	13,461	/	/	2.71%
5	QBE LIFE	14,876	11,453	-23.01%	4.20%	2.30%
	TOTAL LIFE PREMIUM	354,507	496,995	40.19%	100.00%	100.00%

Source: Quarterly reports, ISA

The most adequate indicator regarding the development of the insurance sector is the analysis of the scope of operations in different lines of business of the insurance undertakings. Thus, the data about GWP by lines of business also represent the market structure of all insurance undertakings in 2011 (Table No.8).

Table 8. Gross written premium for the period 01.01.2011 - 31.12.2011

MKD '000

No,	Lines of business	Non-life insurance											Non-life
		QBE	Triglav	Sava	Euroins	Winner	Eurolink	Insig	Uniqa	Ins. policy	Albsig	Croatia	Total
1	01. Accident	95,301	108,798	46,059	39,434	58,865	88,766	6,620	22,099	46,237	9,741	20,349	542,270
2	02. Health			2,229		88				4,301			6,618
3	03. Casco motor vehicles	109,271	224,287	97,849	45,466	36,973	101,688	3,568	38,545	74,598	13,572	36,107	781,924
4	05. Aircraft insurance – casco		58,461	326		43,254	88			827			102,956
5	06. Vessel insurance - casco			101	8	105	118			13		14	359
6	07. Insurance of goods in transport - cargo	33,590	18,830	2,161	10,157	4,613	4,332		1,416	2,319	183	839	78,441
7	08. Property insurance	93,742	66,559	103,401	19,566	20,228	116,858	1,639	20,083	20,948	7,804	7,437	478,264
8	09. Other property insurance	153,902	146,050	171,235	15,303	67,506	149,355	1,617	30,840	19,863	2,324	10,216	768,211
9	10. MTPL (total)	230,445	589,820	323,061	306,648	253,008	244,474	159,815	330,079	380,213	277,802	169,598	3,264,963
10	11. Aircraft third party liability insurance		1,385			22,568				501			24,454
11	12. Vessel third party liability	123	223	401	27	111	245		10	420		69	1,629
12	13. General Liability insurance	11,998	9,895	8,018	6,960	13,454	45,755	32	7,222	7,778	680	2,451	114,243
13	15. Guaranties insurance	126		69									195
14	16. Insurance against financial loss	3,321	43	191									3,554
15	17. Legal Protection											1	1
16	18. Travel insurance	12,564	17,709	16,626	12,375	9,815	21,209	6,594	15,435	13,200	10,419	7,244	143,189
17	Total	744,381	1,242,059	771,727	455,944	530,588	772,888	179,885	465,729	571,218	322,525	254,325	6,311,269

No,	Class of insurance	Life insurance					Life Total
		QBE	Croatia	Grave	Winner	Uniqa	
18	19. Life insurance	11,453	200,985	244,371	26,725	13,461	496,995
19	Total	11,453	200,985	244,371	26,725	13,461	496,995

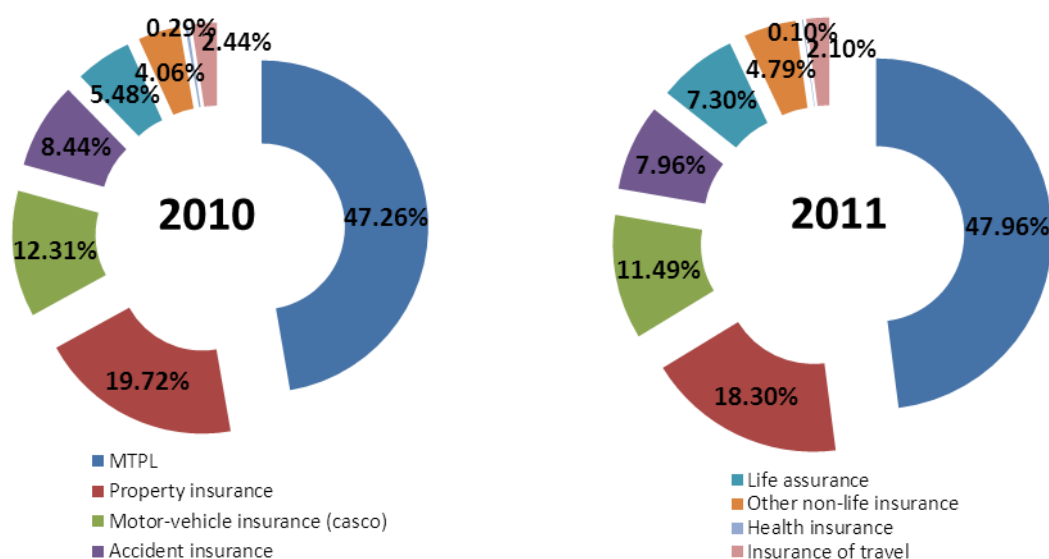
Total: 6,808,264

Source: Quarterly reports pursuant to Article 104 of the Insurance Supervision Agency

4. Gross written premium structure

Considering the total gross written premium, the most significant market share is recorded in motor third party liability insurance (MTPL) of 47.96% (2010: 47.26%), and voluntary vehicle insurance (all-risks) of 11.49% (2010: 12.31%). The property insurance line of business follows thereafter (insurance against risks of fire, natural disasters, theft and robbery and other risks) with 18.30% (2010: 19.72%), and accident insurance with 7.96% (2010: 8.44%). Furthermore, the life insurance line of business holds significant market share of 7.30%. The comparison of market share structure by lines of business with 2010 is shown in chart No. 5.

Chart no. 5: Market structure in gross written premium by lines of business



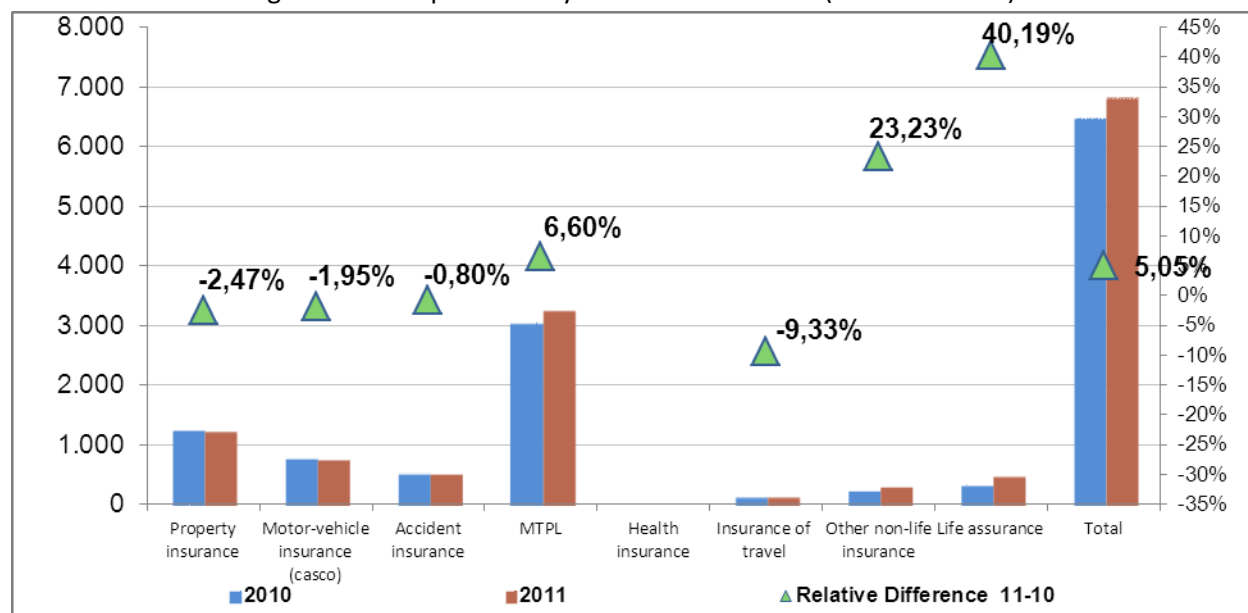
In comparison with 2010, a significant increase in GWP of 6.60% is recorded in motor third party liability insurance at the amount of MKD 3.26 billion (2010: MKD 3.06 billion). This increase primarily results from the measure adopted by the Government of R. Macedonia in 2010 about import of used-vehicles, i.e. EUR-1 standard used cars. Another reason is the decrease in the number of uninsured vehicles, due to the adopted complementary measure on limiting the registration of vehicles with foreign registration plates which are present in R. Macedonia for a period longer than 6 months.

The second more significant line of business within the GWP structure is the property insurance. With regard to this line of business, one can notice decrease in GWP of 2.47% in comparison with 2010. This is due to the more severe competition resulting in lower insurance prices that further resulted in increase in the concluded contracts, which is also evident from the number of 63,860 concluded insurance contracts (2010: 56,176) and accounts for an increase of 13.68%.

The same situation can be noticed with regard to motor vehicle insurance (all-risks), i.e. if compared to 2010 there is 1.95% decline of GWP, and increase of 16.73% in the number of concluded insurance contracts.

The growth in life insurance, which accounts for 40.19% in comparison with 2010 (2010: 17.85%; 2009: 12.80%), deserves special attention. Furthermore, growth can be noticed with regard to the number of concluded insurance contracts by 32.53% in comparison with the previous year. This outcome is mostly result of the emergence of two new undertakings on the life insurance market, as well as the increased business activities of the existing undertakings. (Chart No. 6)

Chart no. 6: Trend of gross written premium by classes of insurance (in MKD million)



Source: Quarterly reports, ISA

The new statistical reports introduced in 2011, brought methodological changes in the manner in which life insurance undertakings report about the number of contracts. Accordingly, in 2011, the life insurance undertakings provided more detailed reports which show the newly concluded and active insurance contracts respectively, which enables to differentiate the basic and supplementary contracts at the same time. In accordance with previous instructions about statistical reporting, the basic and supplementary contracts were previously recorded as total item. Therefore, methodological adaptations were undertaken for 2010, so that the methodological framework which is used since 2011 was also applied for 2010. (Table No. 9).

Table no. 9: Number of active contracts in life insurance undertakings

Number of active contracts	2010		2011	
	Basic insurance coverage	Supplemental coverage	Basic insurance coverage	Supplemental coverage
Grawe	5,604	9,784	7,077	6,573
Croatia life	5,678	4,780	7,760	6,710
Uniqa	/	/	443	352
Winner life	/	/	254	155
QBE life	811	592	493	325
TOTAL	12,093	15,156	16,027	14,115

Source: Quarterly reports, ISA

During 2011, the insurance undertakings paid claims at gross amount of MKD 3.01 billion. In comparison with 2010, the settled gross amount is increased by 0.60% (Table No. 10).

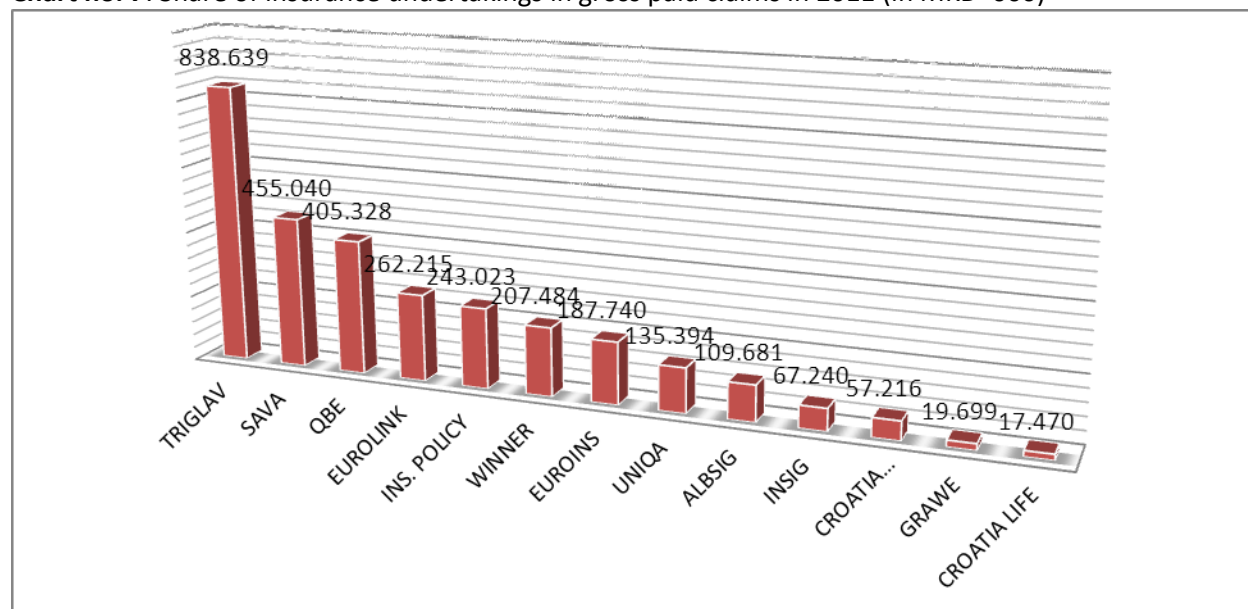
Table No. 10: Gross claims paid by classes of insurance (in MKD '000)

Line of business	2009	2010	2011
Property insurance	459,407	476,584	488,248
Motor insurance – Casco	529,979	539,443	532,569
Accident insurance	354,233	364,772	360,602
Motor Third Party Liability insurance	1,491,083	1,504,818	1,487,067
Travel insurance	15,372	28,102	37,486
Other insurance – non-life	14,728	21,401	20,131
Life insurance	97,448	53,253	80,066
Total	2,962,250	2,988,373	3,006,170

Source: Quarterly reports, ISA

The Chart No. 7 shows the share of insurance undertakings in the total gross paid claims in 2011 respectively.

Chart no. 7: Share of insurance undertakings in gross paid claims in 2011 (in MKD '000)



Source: Quarterly reports, ISA

5. Employment in the insurance undertakings

The following table below shows an overview of the number of staff in the insurance undertakings:

Table No. 11: Number of staff in the insurance undertakings

Year	2006	2007	2008	2009	2010	2011
Number of staff	970	1,057	1,262	1,283	1,356	1,423

Source: Quarterly reports, ISA

As one can notice on the table, there is a trend of increase in the number of staff in the insurance undertakings, which is one of the indicators for development of the insurance sector in R. Macedonia. The respective trend results from the emergence of new insurance undertakings on the market and the increased business activities of the existing insurance undertakings.

6. Assets and liabilities structure

6.1 Assets structure

On 31.12.2011, the total assets value of the insurance industry amounted to MKD 12.93 billion, which represents an increase of 7.97% in comparison with the total value of assets in the insurance industry in 2010 (Table No. 12), as well as continuation of the positive trend of growth from the previous year.

Within the total assets, the investments account for 66.33%, the receivables account for 22.58%, the co-insurer's and reinsurer's share in gross technical provisions account for 4.15%, and other assets account for 3.80%. Other items of assets (intangible assets, prepayments and deferred tax, and prepayments and accrued income) account for 3.13% of the total assets.

Table No. 12: Assets structure in the insurance undertakings (in MKD)

	31.12.2010	Share	31.12.2011	Share	Index
Intangible assets	49,550,997	0.41%	44,747,387	0.35%	90.31%
Investments	7,168,432,335	59.84%	8,578,832,319	66.33%	119.68%
Co-insurers' and reinsurers' share in gross technical provisions	454,394,828	3.79%	537,247,897	4.15%	118.23%
Prepayments and deferred tax	40,316,002	0.34%	26,750,436	0.21%	66.35%
Receivable	3,543,431,884	29.58%	2,920,940,217	22.58%	82.43%
Other assets	452,283,407	3.78%	492,110,701	3.80%	108.81%
Prepayments and accrued income	270,561,642	2.26%	333,185,332	2.58%	123.15%
TOTAL ASSETS	11,978,971,094	100.00%	12,933,814,289	100.00%	107.97%

Source: Balance Sheet of insurance undertakings, ISA

The assets of the non-life insurance undertakings comprise the dominant part in the total assets of the insurance industry, however, there is an increasingly present trend of growth of the share of life insurance undertakings which in 2011 accounts for 13.38% (2010:9.70%) of the total assets of the insurance undertakings.

Investments have the biggest share within the structure of total assets of insurance undertakings (accounts for 66.33%, which is an increase of 19.68% compared to 2010 (2010: 59.84%). Most significant share in the total investments is represented by other financial investments which account for 80.54%, whereby there is an increase of 26.43% in comparison with the previous year. The group of other financial investments include: deposits, loans and other investments which account for 58.79%, financial

investments held to maturity account for 21.23%, financial investments held for sale account for 18.43%, and financial investments held for trading account for 1.55% of other financial investments.

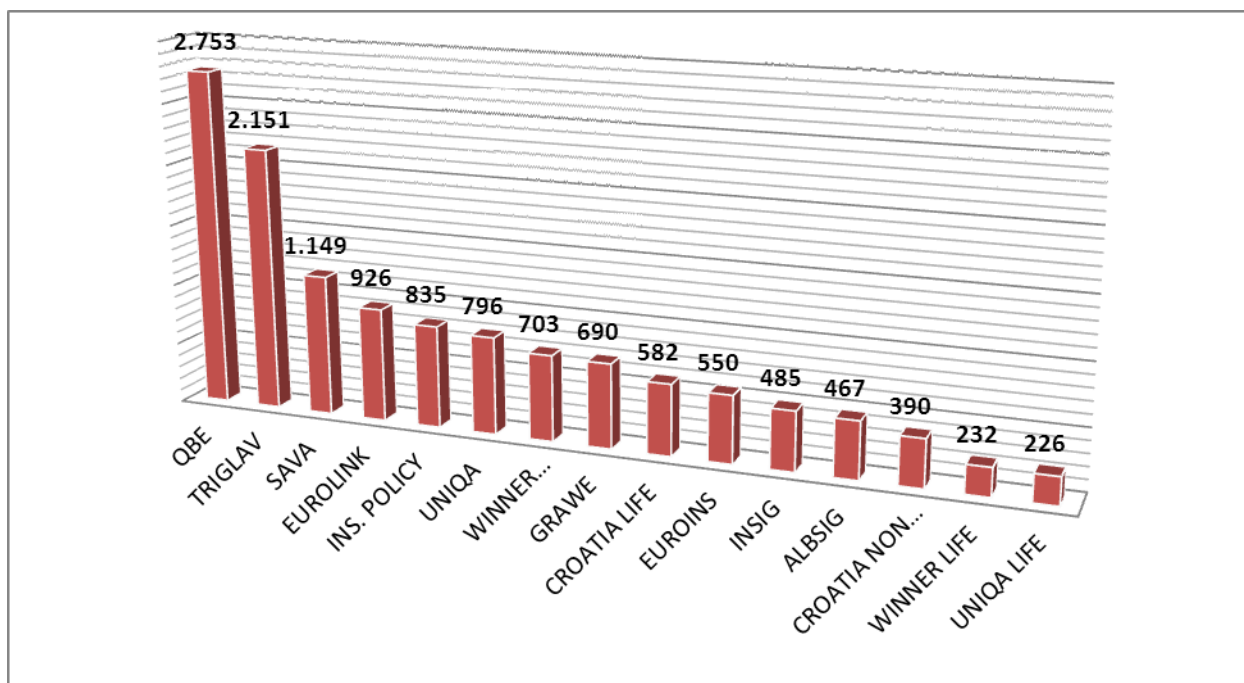
Total investments portfolio also include financial investments in companies forming a group affiliated undertakings and participating interests and jointly controlled entities which represent 2.93% of total investments and show an increase of 17.30%. In addition, land and buildings and other tangible assets are also part of the total investments, which account for 16.53% of the total investments, whereby there is decline of 4.76% in comparison with 2010.

Within the structure of total accounts receivable, the receivables from sales in the insurance industry account for 68.75% (at the amount of MKD 2.01 billion) and show decline of 18.04% in comparison with 2010. The significant decrease in receivables mostly results from the Rulebook on valuation of the balance sheet items, which is effective as of 01.01.2011. ("Official Gazette of R. Macedonia" no. 169/10). In accordance with the respective rulebook, all insurance undertakings are obligated to classify the receivables in different categories based on the number of days of delayed collection, whereby the prescribed percentage of provisions should be applied accordingly.

The receivables against co-insurance and reinsurance amount to MKD 318 million (10.89% of the total accounts receivable) and show decrease of 16.68% in comparison with 2010. The other receivables are at the amount of MKD 594 million (20.35% of the total accounts receivable) and show decline of 16.42% in comparison with the amount of MKD 711 million in 2010.

The structure of insurance undertakings' share in the total insurance assets is presented in Chart No. 8.

Chart No. 8: Structure of insurance undertakings' share in the total assets of the insurance sector in 2011 (in MKD)



Source: Balance Sheet of insurance undertakings, ISA

6.2 Liabilities structure

Within the total liabilities structure of insurance undertakings in 2011, technical provisions account for 50.39%, capital and reserves account for 36.17%, whereas all the other items account for 13.44% of the total liabilities structure of the insurance undertakings (Table No. 13).

Table No. 13: Liabilities structure in the insurance sector (in MKD)

	31.12.2010	Share	31.12.2011	Share	Index
Capital and reserves	4,286,113,096	35.78%	4,677,936,951	36.17%	109.14%
Gross technical provisions	5,972,580,404	49.86%	6,517,318,167	50.39%	109.12%
Other provisions	5,808,199	0.05%	10,401,273	0.08%	179.08%
Deferred and current tax liabilities	9,662,243	0.08%	8,020,645	0.06%	83.01%
Deposits received from reinsurers	419,972	0.00%	624,382	0.00%	148.67%
Creditors	1,590,698,767	13.28%	1,579,488,394	12.21%	99.30%
Accrual and deferred income	113,688,411	0.95%	140,024,478	1.08%	123.17%
TOTAL FUNDS	11,978,971,094	100.00%	12,933,814,289	100.00%	107.97%

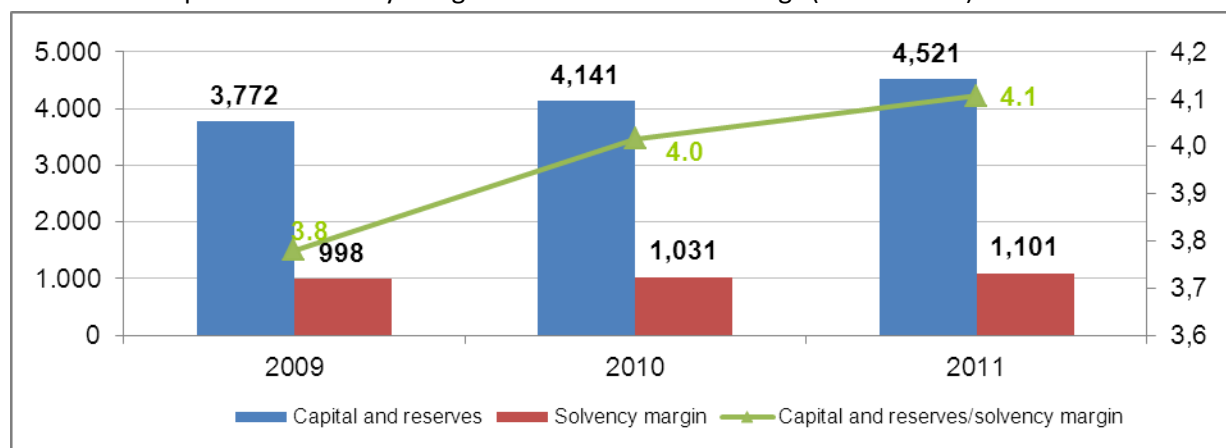
Source: Balance Sheet of insurance undertakings, ISA

7. Capital and required level of solvency margin

Pursuant to Article 76 of the Law on Insurance Supervision, insurance undertakings must maintain the capital value at least to the required level of the solvency margin. Based on the data submitted to ISA, the total capital of insurance undertakings at the end of 2011 amounted to MKD 4.5 billion, which is an increase of 9.18% in comparison with 2010. The analysis by insurance segments shows that the total capital of non-life insurance agencies is at the amount of MKD 3.62 billion and its share in the total liabilities accounts for 34.28%. Life insurance undertakings dispose of capital at the amount of MKD 904 million, which accounts for 48.38% of the total liabilities of these insurance undertakings.

The solvency margin, being the key indicator to assess the stability of the insurance market, is at the amount of MKD 1.10 billion (MKD 1.04 billion for non-life insurance and MKD 63 million for life insurance, respectively), whereby the insurance sector capital is 4.11 times above the level of the solvency margin. (Chart No. 9.)

Chart No. 9: Capital and solvency margin of insurance undertakings (MKD million)



Source: Quarterly reports, ISA

8. Technical provisions

Technical provisions were increased by 10.32% compared to 2010 and have the largest share in the structure of insurance undertakings' liabilities.

The total amount of technical provisions of non-life insurance undertakings at the end of 2011 is MKD 5.68 billion, or 16.52% higher than the previous year, whereas the total amount of technical provisions of life insurance undertakings is MKD 899 million, which is an increase of 41.41% compared to the previous year (Table No. 14). One of the most important factors that contributed towards the increase in the technical provisions is the enforcement of the Rulebook on minimal standards for calculation of technical provisions (Official Gazette of the Republic of Macedonia" No. 158/10, 169/10, 41/11), which ensures consistency in the performed actuarial calculations of technical provisions. The structure of technical provisions by insurance segments is shown on Table No. 14.

Table No. 14: Structure of technical provisions (in MKD '000)

Structure of technical provisions	Non-life insurance			Life insurance			Total		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Unearned premium provisions	2,207,628	2,276,395	2,590,880	74,412	87,926	17,518	2,282,041	2,364,321	2,608,398
Reserves for bonuses and rebates	8,878	2,500	52,153	0	0	12,777	8,878	2,500	64,930
Claims provisions	2,382,633	2,593,688	3,035,757	7,708	6,607	17,412	2,390,341	2,600,294	3,053,169
Mathematical reserve	0	0	0	390,284	541,520	851,735	390,284	541,520	851,735
Other technical provisions	16,459	4,238	3,820	0	0	0	16,459	4,238	3,820
Total	4,615,598	4,876,821	5,682,610	472,404	636,053	899,442	5,088,003	5,512,873	6,582,052

Source: Quarterly reports, ISA

The application of the Rulebook resulted in significant increase in the claims provisions in 2011, which amounts to MKD 3.05 billion or increased by 17.42% compared to 2010 (2010: MKD 2.60 billion).

Furthermore, the enhanced scope of sale by the insurance undertakings resulted in significant increase in the unearned premium provisions, which increased by 10.32% compared to the previous year.

Also, the mathematical reserve is at the amount of MKD 851.7 million or increased by 57.29% as result from the growth in the overall scope of sale by the life insurance undertakings.

9. Assets covering technical provisions

The assets covering technical provisions are the assets of the insurance undertakings used to cover future obligations arising from insurance contracts, as well as possible losses related to risks from the

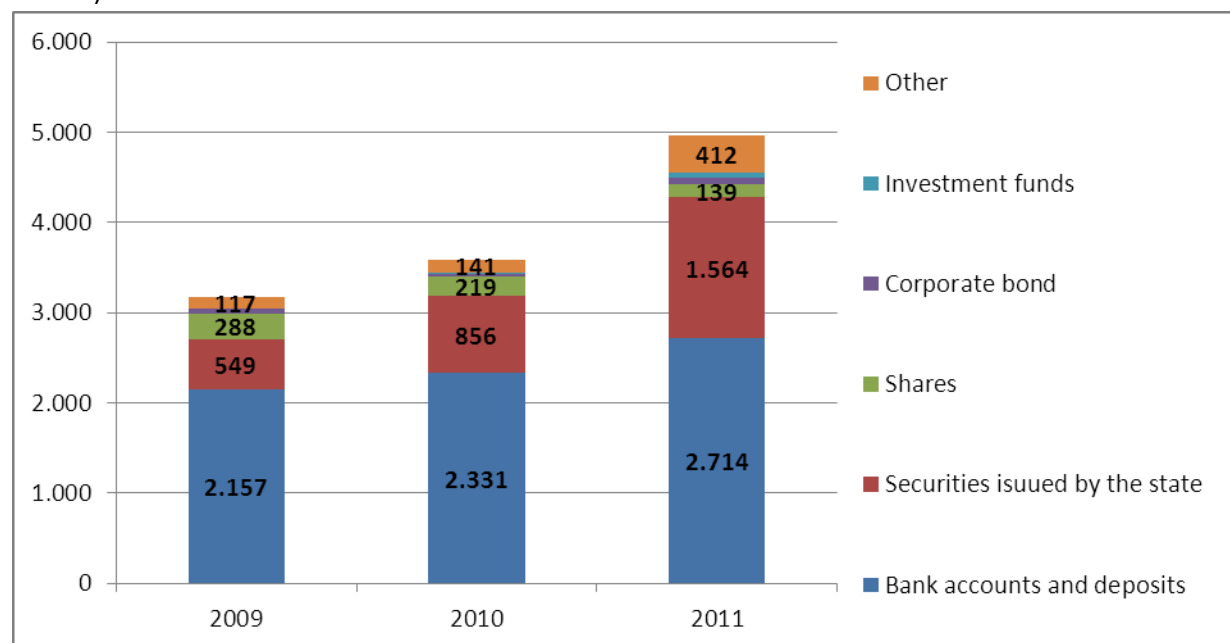
insurance operations for which the undertaking is obligated to allocate funds for technical provisions. The insurance undertaking is obligated to invest funds at least at an amount equivalent to the amount of the technical provisions, in accordance with the provisions of the Law on Insurance Supervision and the Rulebook on types and characteristics of assets covering technical provisions and assets covering the mathematical reserve, as well as details about investments and restrictions on investments and their respective valuation (“Official Gazette of the Republic of Macedonia” No. 64/11).

At the end of 2011, the investments in assets covering technical provisions of the non-life insurance undertakings were at the amount of MKD 4.96 billion and covered 96.26%. Thus, one could notice significant improvement in the coverage of technical provisions compared to the previous years, when it accounted for 75.72% in 2010 and 71.41% in 2009 respectively. This outcome is primarily due to implemented supervisory measures and taken measures for recapitalization.

The investments of the life insurance undertakings in assets covering technical provisions amounted to MKD 924 million, or 104.01% coverage of technical provisions, thus keeping the trend from 2010 when the coverage accounted for 104.81% (2009: 151.66%).

In 2011, the non-life insurance undertakings invested the largest part of the assets covering technical provisions in banks (54.69%), government securities (31.51%), shares (2.80%), corporate bonds (1.62%), investment funds (1.09%), and other financial instruments (8.30%). The amounts of the respective investments are shown in Chart No. 10.

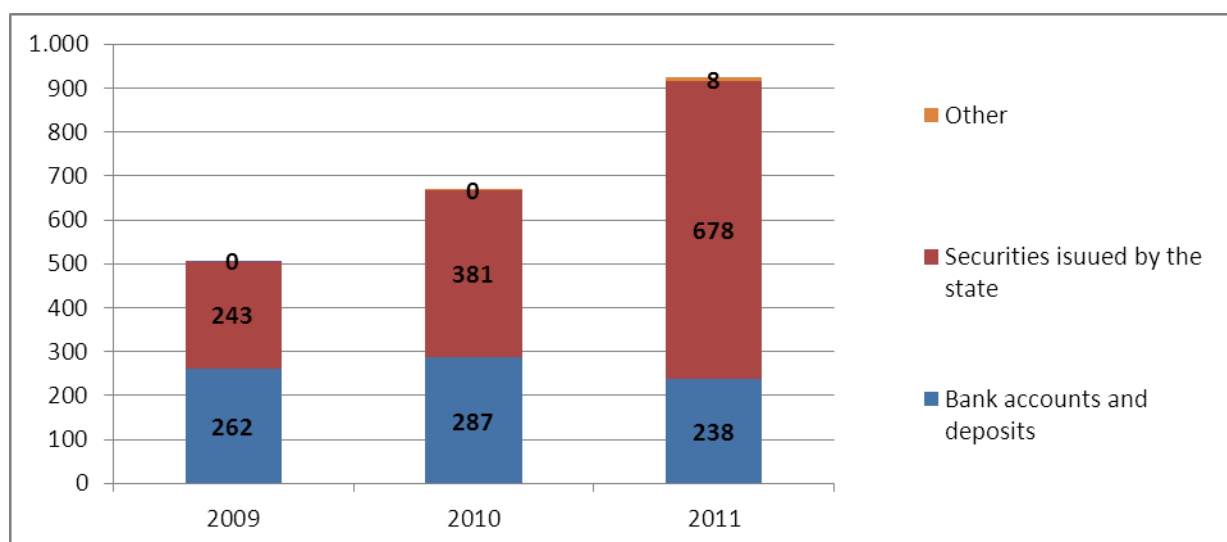
Chart No. 10: Structure of assets covering technical provisions in non-life insurance undertakings (MKD million)



Source: Quarterly reports, ISA

The life insurance undertakings invested the largest part of assets covering the mathematical reserve and other technical provisions in banks (25.71%), government securities (73.42%) and other financial instruments (0.87%). The amounts of the respective investments are shown in Chart No. 11.

Chart No. 11: Structure of assets covering technical provisions and mathematical reserve in life insurance undertakings (MKD million)



Source: Quarterly reports, ISA

10. Financial results

In the course of 2011, the insurance sector reported loss at the amount of MKD 73 million. Two of the non-life insurance undertakings reported loss at the amount of MKD 228 million, whereas the other nine undertakings generated profit at the amount of MKD 149 million.

The life insurance undertakings generated profit after taxation at the amount of MKD 5.4 million, i.e. two undertakings generated net-profit of MKD 30 million, and the remaining two undertakings reported loss at the amount of MKD 25 million.

The low profitability level of the undertakings that reported profit after taxation as well as the reported loss of the two non-life insurance undertakings is primarily result of the increased cost arising from the value adjustment of accounts receivables against the insurance premium, resulting from the application of the Rulebook on valuation of the balance sheet items.

The technical result⁵ is on negative level at the amount of MKD 451.8 million (2010: MKD - 210.5 million), whereby two non-life insurance undertakings reported positive technical result, and the other undertakings had negative technical result.

The analysis by insurance segments reveals that the technical result for the non-life insurance is at the amount of MKD -392.7 million (2010: MKD -243.1 million), whereas the technical result for life-insurance is at the amount of MKD – 59 million (2010: MKD 31.5 million).

Table No. 15: Structure of financial result – technical and non-technical (in MKD)

⁵The technical result of the insurance undertakings' operations represents the result from the performance of their primary activity- insurance i.e. collecting premium – claims paid. The other revenues and expenditures from their operations represent the non-technical result.

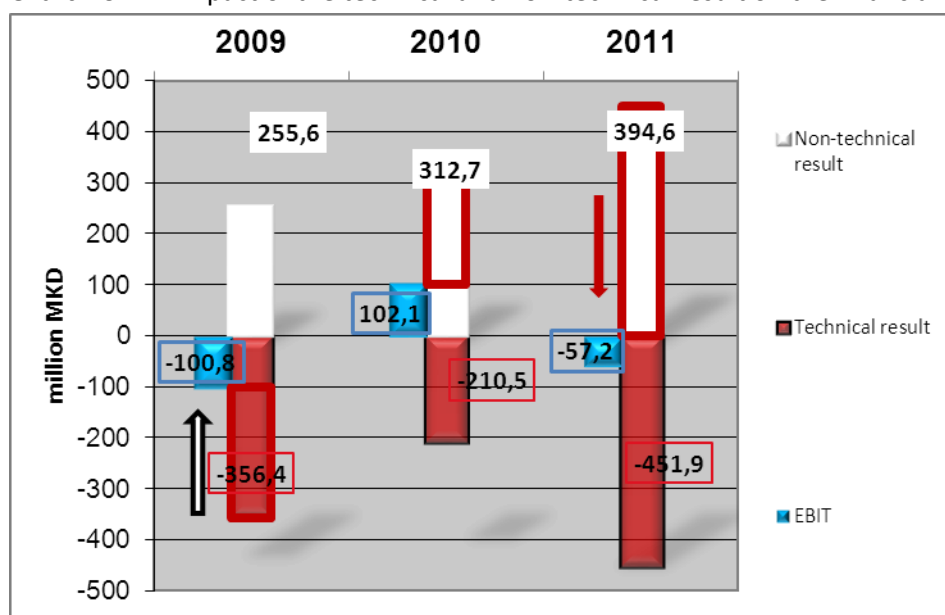
	2009	2010	2011
Technical result – life insurance	10,725,140	32,541,768	-59,086,288
Technical result – non-life insurance	-367,150,210	-243,071,913	-392,773,035
Technical result – total	-356,425,070	-210,530,145	-451,859,323
Non-technical result	255,576,078	312,658,115	394,620,316
Profit/loss- earnings before tax	-100,848,992	102,127,970	-57,238,407

Source: Annual accounts of insurance undertakings, ISA

Despite the negative technical result, yet the yielded non-technical results from the operations have corrective function. The non-technical result is on the increase by 26.21% compared to 2010, whereby the insurance undertakings generated solid non-technical result at the amount of MKD 394.62 million, i.e. result that does not significantly deviate from the trend as in the case of the technical result.

The Chart No. 12 shows the impact of both the technical and non-technical result on the financial results of the insurance sector. In this case, for the purposes of the analysis, one category was selected – profit from regular operations before taxation (EBIT-earnings before interest and tax) in order to isolate the various effects of the taxation and to precisely establish the impact of both the technical and non-technical result in the creation of the final financial result.

Chart No. 12: Impact of the technical and non-technical result on the financial result (MKD million)



Source: Annual accounts of insurance undertakings, ISA

11. Insurance industry indicators

The insurance indicators are used are to assess business operations of insurance undertakings.

The claims ratio, calculated as ratio among the sum of incurred claims in the respective period and the change in gross provisions and earned premium, accounts for 52.99% for the overall insurance sector in 2011, and declined in comparison with 2010 when it accounted for 57.45%. If considered separately by

insurance segments, the respective ratio in 2011 for non-life insurance accounts for 51.90%, as opposed to 57.20% in 2010, whereas for life-insurance in 2011 it accounts for 65.33% as opposed to 61.45% in 2010.

The expenses ratio is the ratio among the amount of expenses for the insurance undertaking operations and the earned premium. The expenses for the insurance operations include the expenses related to the acquisition, administrative expenses, expenses for bonuses and net discounts for reinsurance, and other insurance technical expenses, reduced by premiums ceded to reinsurance. This ratio in 2011 accounted for 45.17%, which is an increase compared to the 42.6% in 2010.

The combined ratio is calculated as the sum of the claims ratio and expense ratio, and it shows operating results before including income from investments. For the overall insurance sector, the combined ratio accounts for 98.16% as opposed to 100.1% in 2010. If considered separately by insurance segments, the combined ratio for non-life insurance in 2011 accounts for 96.82% as opposed to 99.9% in 2010, whereas for life insurance in 2011 it accounts for 113.40% as opposed to 103.28% in 2010.

Return on investment (ROI) is calculated as the ratio of income from investments reduced by investment expenses to the amount of investments. The return on investments in 2011 accounted for 5.35%, while in 2010 it accounted for 8.07%.

The debt ratio is calculated as the ratio of total liabilities to total assets. This ratio shows the amount of assets financed by liabilities which do not include capital and reserves.. In 2011, this ratio accounted for 63.83%, and 65.70% in 2010.

Return on Assets (ROA) and Return on Equity (ROE)⁶, are negative considering the generated loss by the insurance sector in 2011. The Table No. 16 shows these ratios for the respective years in the period from 2006-2011.

Table No. 16: Return on Assets (ROA) and Return on Equity (ROE)

ROA			
- Non-life insurance	-1.69%	0.28%	-0.70%
- Life insurance	1.85%	3.89%	0.31%
- Total	-1.40%	0.61%	-0.57%
ROE			
- Non-life insurance	-5.00%	0.84%	-2.05%
- Life insurance	3.78%	8.40%	0.65%
- Total	-3.99%	1.75%	-1.75%

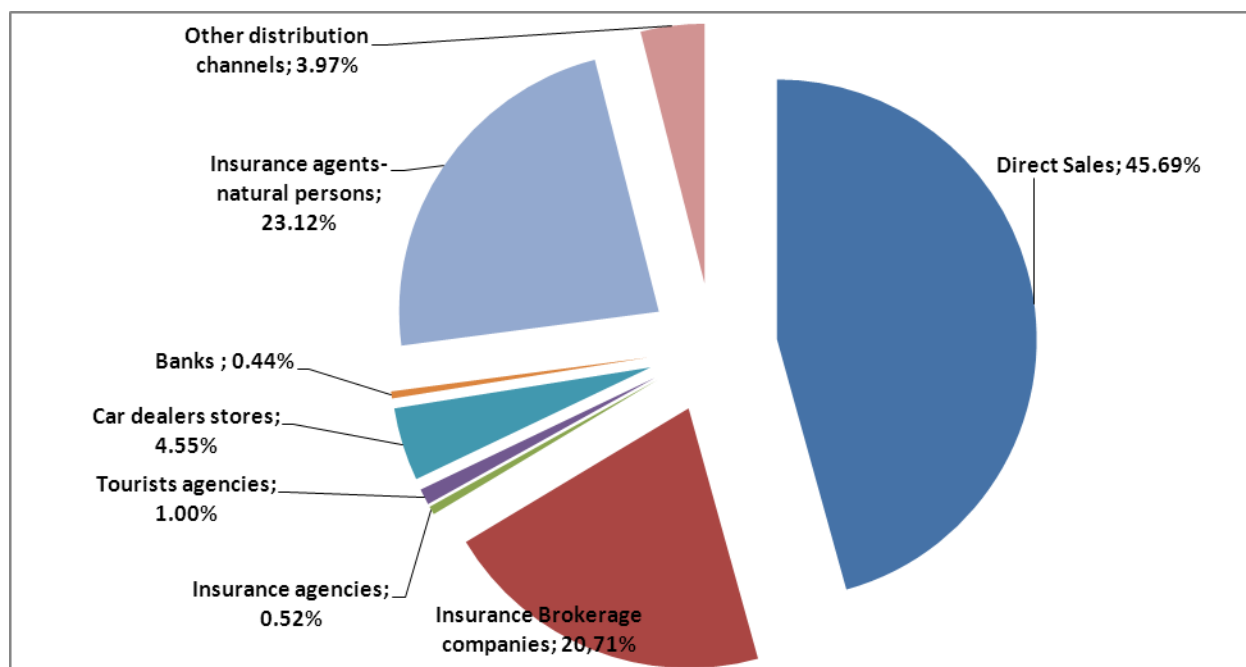
Source: Annual accounts of insurance undertakings, ISA

⁶ ROA= net-income/assets; (ROE) = Net-income/(capital+reserves).

B.) INSURANCE BROKERAGE COMPANIES AND INSURANCE AGENTS

The role of intermediaries regarding the insurance sale has increasingly affected the insurance sector. In the course of 2011, 54.31% of the GWP was realized through different distribution channels (Chart No. 13).

Chart No. 13: Structure of distribution channels relative to total GWP



Source: Annual accounts of insurance undertakings, ISA

One form of intermediation is the insurance brokerage, which implies intermediating in the negotiations for the insurance and reinsurance coverage and the settlement of claims arising out of an incurred insured event, on behalf of and at the account of the clients with regard to the insurance and reinsurance undertakings.

At the end of 2011, there were 17 active insurance brokerage companies on the insurance market, and if compared to the previous year, the number of these entities has increased for three brokerage companies (POLISA PLUS, SUPER BROKER and AMG PREMIUM which was transformed from insurance agency into insurance brokerage company). On 31.12.2011, the insurance brokerage companies disposed of total assets at the amount of MKD 428.6 million, and capital at the amount of MKD 192 million. The insurance brokerage companies ended the business year of 2011 with profit after taxation at the amount of MKD 67 million.

Table No. 17: Register of insurance brokerage companies

1	EUROEXPERTS
2	EUROMAK BROKER
3	VIASS
4	IN BROKER
5	VFP
6	MOBILITI BROKER
7	SEDA BROKER
8	NASHE OSIGURUVANJE
9	JDB BROKER
10	DELTA INS BROKER
11	A-TIM
12	LEGRA
13	MAKOIL BROKER
14	K MK BROKER
15	POLISA PLUS
16	AMG PREMIUM
17	SUPER BROKER

In this period, the insurance brokerage companies realised the sale of 188.810 insurance policies, out of which 3.289 were in the life-insurance group. In the total GWP of the overall sector, the insurance brokerage companies participate with 20.71%.

In the course of 2011, the insurance brokerage companies collected commission at the amount of MKD 262.866 from the insurance undertakings, whereas the calculated premiums amounted to MKD 1.514,587.

Another form of intermediation in insurance are the insurance agencies, which implies their preparation and conclusion of insurance contracts, on behalf and at the account of one or several insurance undertakings, for non-competitive insurance products.

During 2011, there were five active insurance agencies on the insurance market, i.e. the number of insurance agencies compared to 2010 was reduced for another agency (AMG Premium) which was transformed into insurance brokerage company. In December 2011, another insurance agency (LAJON INS) joined the insurance market in R. Macedonia, and started its business activity in 2012.

On 31.12.2011, the insurance agencies disposed of total assets at the amount of MKD 24.4 million, and capital at the amount of MKD 12.5 million.

Insurance agencies ended the business 2011 year with profit after taxation at the amount of MKD 3.7 million.

Despite the fact that insurance agencies had relatively smaller presence on the insurance market in comparison with the other distribution channels, yet it is expected that their presence on the market shall further develop the insurance sector in order to bring the insurance products closer to the clients.

Table No. 18: Register of insurance agencies

- | | |
|---|------------------|
| 1 | AKTIVA INSURANCE |
| 2 | TREND-MP |
| 3 | SAFE INVEST |
| 4 | VDS MAGMA |
| 5 | MK INSURANCE |
| 6 | LAJON INS |

In 2011, the insurance agencies concluded total of 49.863 insurance contracts (insurance policies), out of which 1.043 are life-insurance policies. The insurance agencies participated with 0.52% in the total GWP of the overall sector.

Insurance agencies collected commission at the amount of MKD 28,313 from the insurance undertakings, whereas the calculated premiums amounted to MKD 227,049.

INSURANCE SUPERVISION AGENCY
President of the Council of Experts
Klime Poposki, PhD

Number 0201-1385/4

Skopje

June 25, 2012