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INSURANCE SECTOR IN THE REPUBLIC OF NORTH MACEDONIA AND POSSIBILITIES OF IMPLEMENTATION OF SOLVENCY 2 MODEL

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Abstract

The economic importance of insurance is to enable families and companies to manage risk. Diversification and risk transfer are the most important factors in creating added value in insurance. The insurance sector in Macedonia is characterized by a small share in the financial system of about 3.3%, dynamic development and challenges for harmonization of domestic regulation and supervision of insurance with the regulation and practice of the European Union.

It is characterized by dynamic development and challenges for harmonization of the regulation and supervision of the insurance with the practice and regulation with the regulation that is practiced in the countries of the European Union. Insurance is gaining momentum in all spheres of human activity, increasing the number of participants in the insurance sector, ie the number of insurance companies as its main pillar. In the last decade, the insurance industry has faced various important changes, such as increasing liberalization, deregulation, financial and economic crisis, etc. The purpose of this paper will be to collect information and analyze the current situation of the business climate of the insurance industry in general in the EU members and with special reference in Macedonia, in order to encourage insurance companies to think and start preparations for partial implementation of the Solvency 2 project, which requires more time in preparation and increase of financial and human capacities. The low level of insurance penetration in the Republic of Macedonia, leads to significant space and opportunities for future growth

Key words; Insurance, capital adequacy, solvency, risks.

Indicators for the operation of the insurance companies in the Republic of North Macedonia

The insurance sector in Northern Macedonia is the third largest sector in the financial system after the banking one, which is by far the largest in the market with 82.5% of the total share in the financial sector, followed by pension insurance with about 10.5% (NBRM Annual Report, 2018). The insurance sector in Macedonia consists of 11 non-life insurance companies and five life insurance companies. The share of non-life insurance in the total gross policy premiums is dominant and is around 90% in 2013.

In 2019, the gross written premium (hereinafter, GRP) was realized in the total amount of Denar 10.58 billion, which is an increase of 6.61% compared to the GRP realized in 2018 (2018, -9.93 billion denars). In the non-life insurance sector, the GVA was realized in the amount of Denar 8.75 billion (2018, 8.26% billion denars), ie an increase of 5.99% compared to 2018. At the same time, life insurance realized GDP in the amount of Denar 1.83 billion (2018, Denar 1.67 billion), which is an increase of 9.69%.

On December 31, 2019, the insurance companies have assets in the amount of Denar 23.92 billion, which is an increase of 10.53% compared to last year (2018, Denar 21.64 billion). The total estimated capital of the insurance companies increased by 5.22% compared to 2018, ie at the end of 2019 it amounted to Denar 6.65 billion. The solvency margin, as the main indicator for assessing the stability of the insurance sector, is Denar 1.69 billion, with which

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the capital of the insurance sector is 3.9 times above the level of the solvency margin. During 2019, the insurance sector realized a loss of 25.36 million denars. Thereby, the non-life insurance companies realized a loss of Denar 125.91 million, while the life insurance companies realized a profit after tax of Denar 100.55 million.

The structure of the insurance is as follows, in the total GVA the most significant share has the insurance of mortal vehicles with 51.17% (2018, - 51.4%), which consists of the dominant compulsory motor third party liability insurance (AO), which participates with 43.25% (2018, - 43.45%), and from the voluntary insurance of motor vehicles (casco) which I participated with 7.92% (2019, - 8.03%). Significant place in the structure of GRP has property insurance with 16.75% (2018, - 17.31%), life insurance with a share of 17.3% (2018, - 16.82%) and insurance against the consequences of an accident case (accident) with a participation of 6.56 (2018, - 6.85%). The structure by major insurance classes.

The number of gross claims paid during 2019 is 4.03 billion denars. Compared to 2018, this number of gross claims paid increased by 2.87% (2018 - 3.92 billion denars). The share of reinsurance in the gross claims paid is 13.34%. In the structure of gross claims paid, the largest share has the claims for auto liability with 51.11%, followed by the paid claims for motor insurance casco insurance with 13.46%, property insurance claims with a share of 11.99%, damages for Accident insurance with 10.44% and 12.99% claims were paid in the other classes of insurance. In the area of property insurance, a significant place is occupied by agricultural insurance with a share of 41.89% and total paid damages of 202.49 million denars.

The value of the assets of the insurance companies on 31.12.2019 is 23.92 billion denars and is higher by 10.53% compared to the total assets of the insurance companies in 2018. The investments have the largest share of 76.02% in the structure of the assets of the insurance companies (2018, - 75.75% and they have increased by 10.93% in relation to the invested assets in 2018. In terms of investments, the most significant share of 91.53% occupies the category of other financial investments and it has an increase of 13.23% compared to the previous year.

This category includes available-for-sale financial investments (47.15%), bank deposits, loans and other placements (35.99%), held-to-maturity financial investments (13.01%) and trading financial investments. (3.85%). The next more significant category are investments in land, buildings and other tangible assets (7.07%) which decreased by 10.64% compared to 2018. Next in importance, with a share of 11.42% in the structure of assets, are requirements that include requirements from direct insurance operations (requirements from insured persons, receivables from intermediaries and other requirements from direct insurance operations).

Structure of sources of funds

The sources of assets of the insurance companies in 2019 increased by 10.53% compared to 2018%, ie 23,917,949,505 denars in 2019, while in 2018 it amounted to 21,638,765,308 denars. The largest share of 59.74% in the structure of the sources of assets of the insurance companies have the gross technical reserves (2018, - 58.95%) and they had an increase of 12.03% compared to the previous year. The next category, with a share of 29.77% in the structure of the sources of funds, are the capital and reserves which increased by 4.99%. Liabilities of insurance companies, which in the structure of sources participate with 7.30% (2018, - 7.43%) increased by 13.04% in the previous year. Other liabilities (50.23%), liabilities from reinsurance and co-insurance (43.72%) and liabilities from direct insurance (6.06%) have the largest share in the structure of liabilities.

Technical reserves

The total amount of technical reserves of insurance companies performing non-life insurance operations at the end of 2019 is 8.24 billion denars, or 8.20% increase compared to the

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previous year, while the total amount of technical reserves of companies for Insurance companies performing insurance activities in the life insurance group amounted to Denar 6.28 billion, which is an increase of 19.77% compared to the previous year.

In the structure of the technical reserves, the reserves for losses have the largest share, the reserves for portable premiums, and in the insurance companies that perform insurance activities in the life group, after these categories, the technical reserve occupies the most important place.

The assets that cover the technical reserves are those assets of the insurance company that serve to cover the future liabilities arising from the insurance contracts, as well as to cover the possible losses in relation to those risks related to performing insurance activities, for which the company for insurance is obliged to allocate funds to cover net technical reserves. The insurance company is obliged to invest funds in an amount at least equal to the value of the technical reserves in accordance with the Law on Insurance Supervision.
The investments of these funds at the end of 2019 amount to Denar 8.29 billion and cover 117.29% (2018 - 110.76%) of the total net technical reserves. The assets that cover the technical reserves of the non-life insurance companies are placed in securities issued by the Republic of Northern Macedonia (47.94%), bank deposits (40.32%), shares in investment funds (9.17%) and in shares (2.57%).

Risk management in the insurance industry in the Republic of North Macedonia
The purpose is to examine the risks to the stability of the Macedonian insurance sector. The theoretical literature indicates two groups of risks to the stability of the insurance sector, risks taken by individual companies and market and economic risks.

The insurance sector in Macedonia is a small market with a share in the financial system of 3.3%, dynamic development and challenges for harmonization of domestic regulations and insurance supervision with the regulation and practice of the European Union (EU).

The share of liquidated claims in gross written premiums was moderate 40% versus 71% in the EU in 2010, but the investment portfolio is highly concentrated in deposits and placements with a share of 47% in total investments versus only 6% in the EU. However, insurance risk management in Macedonia is not sufficiently developed, given that the focus is mainly on the individual risks undertaken by companies, and less on market and macroeconomic risks.

The insurance sector in Macedonia is the third largest sector of the financial system. Its share in the total assets of the financial system in 2013 was 3.3% (NBRM Annual Report on Financial Stability, 2013). The insurance sector in Macedonia consists of 11 insurance companies for non-life insurance and five for life insurance. The share of non-life insurance in the total gross written premiums is dominant and is around 90% in 2013. Due to such a high share, only non-life insurance companies will be further analyzed. The analyzed period will be from 2008 to 2012. The Macedonian insurance sector is characterized by significant differences in the quality of the insurance portfolio, as well as variations in the risks taken by individual insurance companies (Figure 1). Liquidated claims in relation to the gross written premium, as an indicator of the risk of individual companies, in the observed period have a median value of 40.7% and a moderate coefficient of variation of about 34%.

The second characteristic of the Macedonian insurance sector is the moderate market concentration, which affects the systemic risk of the entire market (Figure 2). Insolvency or the collapse of a dominant insurance company with a high market share can cause instability in the sector. The figure shows the market share of insurance companies divided into large, medium and small, calculated through the share of individual insurance companies in the total

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gross written premium. High market concentration increases systemic risk. Macedonia's insurance system is characterized by moderate market concentration, with the top four insurance companies accounting for about 55% of gross written premiums, but no company exceeds a share of more than 20% in 2012 or 23% in 2008. In the analyzed period, there is a trend of decreasing the market share of the group of large companies and increasing the market share of the groups of small and medium companies, which is aimed at relativizing the importance of systemic insurance risk.

In addition to the risk of the individual loss portfolio, as well as the market and production concentration of the insurance sector, it is characterized by the dominance of deposits and loans in the investment portfolio. Figure 4 presents the structure of investments in the insurance sector. The share of investments in the total assets of the insurance sector in 2012 is 72%, of which the group of other investments is dominant, where, on the other hand, investments in deposits, loans and other placements account for a high 48%.

Hence, the biggest exposure of the insurance sector is to changes in the price or returns on deposits, loans and other placements and, consequently, to the stability of the banking system. In Macedonia, deposits are usually with variable interest rate, so there is a risk of lower interest rates, which would be reflected in reduced returns on investments. Lower interest rates in the banking sector are associated with a potentially higher need for solvency relative to total insurance capital. Hence, the presence of such market risk can be potentially significant for the Macedonian insurance sector. Macroeconomic risks can also be covered by the usual economic measure - gross domestic product, which covers the risk of a decline in economic activity that would potentially worsen the solvency margin.

Capital adequacy and solvency margin in insurance companies

In accordance with Articles 75 and 76 of the Law on Insurance Supervision, insurance companies must maintain the value of capital at least in the amount of the required level of solvency margin. According to the data submitted to the ISA, at the end of 2019, the total calculated capital of insurance companies5 is 6.65 billion denars, which is an increase of 5.22% compared to 2018.

Analyzed by insurance groups, the capital of non-life insurance companies is 5.18 billion denars, and of life insurance companies 1.46 billion denars. The solvency margin, as the main indicator for assessing the stability of the insurance sector, is Denar 1.69 billion (Denar 1.30 billion in non-life insurance and Denar 391 million in life insurance), thus the capital of the insurance sector is 3, 9 times above the solvency margin level.

In general, capital adequacy should be calculated based on the actual risk profile of the company, taking into account the impact of possible risk mitigation techniques, as well as the effects of diversification.

We will present the stability of the insurance sector through the participation of the solvency margin in the total insurance capital. The solvency margin is an accounting category that shows the minimum amount of capital that insurance companies should have at their disposal, depending on the size of the gross written premium and the claims. The higher the gross written premiums and liquidated claims, the higher the solvency margin required.
Thus, the company is considered riskier if it has high risks taken (gross written premiums) and high claims payments, so a higher solvency margin will be required. On the other hand, the total capital is a source of funds that should cover the incurred damages. Therefore, the lower the share of the solvency margin in the total capital, the more stable the insurance company (system) is considered, the greater the availability of sources of funds to cover claims, and vice versa. The risk threshold is considered to be the share of the solvency margin in the total

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capital per unit, ie the value of this indicator above one indicates that the company does not have enough capital to cover the risks and creates a risk of individual collapse and risk of infection of the entire insurance sector. analysis Blagica Petreski).

In this context, Figure 6 shows that in the period 2008-2010, on average, the capital of the insurance sector in Macedonia recorded an upward trend, and the solvency margin slightly decreased, which affects the reduction of the share of the solvency margin in the total capital. . While in 2011 and 2012, on average, the capital registered a slight downward trend with a simultaneous slight increase in the solvency margin, which caused an increase in the share of the solvency margin in the total capital, however, these are slight shifts, mainly due to the overdue effect of the economic crisis. Throughout the analyzed period, on average, the share of the solvency margin in the total capital is relatively low, and the insurance system is in potentially good condition. According to these stylized facts about the Macedonian insurance system, in section 4 we will test its resistance to shocks, so we leave the identification of potential causal links for section 4. (empiriska analiza Blagica Petreski).

Implementation of the Solvency 2 project in the Republic of Northern Macedonia
Priorities for the Insurance Agency or the regulator of the insurance industry that is responsible for the implementation of the Solvency 2 project in 2021 will be several processes to which we will pay equal attention and energy. First, the Agency will actively cooperate with the Ministry of Finance in the preparation of the new Insurance Law in order to comply with the EU regulation - Solvency 2, as well as compliance with the Insurance Distribution Directive.

In the next period, the Insurance Supervision Agency will work on building a new risk-based supervision approach, which will identify and encourage sound operations both in terms of maintaining the solvency and financial stability of insurance companies and in terms of their market behavior. transparency and fair attitude towards the insured.

Within its competencies, the Agency will ensure full transparency of positive corporate practices and public recognition when the satisfaction of policyholders with the use of insurance services is indisputable, and this is achieved without compromising the financial situation and solvency, said the President of the Council of Experts. insurance supervision.

The general conclusion is that this process should be started by the insurance industry immediately in cooperation with the insurance market regulator (ISA), which should use the experience of the countries in the region, which already analyze the first experiences and problems from the application of Solvency II. This is because Solvency II is not a time-lapse law, but a process that needs to start and require a longer period of adjustment for companies. Macedonian insurance companies, given that 90% have a dominant share capital of EU member states, in which the process of compliance with Solvency II has long been completed, are in a more favorable position, because so far domestic companies are harmonizing their operations at the level of the grouping, so that the harmonization with the directives of Solvency II, will be much simpler in the insurance market of the Republic of Macedonia.

Opportunities for application of the Solvency 2 model
With the adoption of the Law on Insurance Supervision in April 2002, the process of harmonization of the Macedonian legislation with Solvency 1 formally started. 2 projects, thus starting a new era in insurance supervision.

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Within its competencies, the Agency will ensure full transparency of positive corporate practices and public recognition when the satisfaction of policyholders with the use of insurance services is indisputable, and this is achieved without compromising the financial condition and solvency. It will stimulate competition between market participants to better meet the interests of policyholders, and add value to the corporate image, through public recognition of their business policies. However, the Agency will do the same if it identifies the development of negative corporate phenomena that disrupt the financial stability of the sector, provide incorrect and incomplete information about insurance services and affect the deterioration of the reputation of insurance services. The Agency will use all legal powers, and will propose amendments to existing laws, in order to fundamentally adjust the course of supervision of European regulations.