



INSURANCE SUPERVISION AGENCY

2017
ANNUAL REPORT
OPERATIONS OF THE INSURANCE SUPERVISION AGENCY

Skopje, 2018

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 undertakings, insurance brokerage companies, insurance agencies and 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.

The role of ISA in the insurance market is aimed at strengthening the solvency position of the insurance companies, improving the manner of financial reporting of these entities and advancing the corporate governance processes. ISA affects the strengthening of the level of financial control and greater financial stability of the country, thus creating adequate protection of the rights and interests of the insured and the insurance 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 2017, ISA's Council of Experts was composed of:

- Klime Poposki, Ph.D., Executive Member and President of the Council of Experts,
- Zoran Stojanovski, Executive Member,
- Lulzim Imeri, Executive Member,
- Ilija Graorkovski, Non-executive Member, and
- Aleksandar Petreski, M.A., Non-executive Member.

Throughout 2017 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 2017, ISA's Council of Experts held 31 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, 01/15, 22/16 and 16/17), 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 the meeting held on 15 December 2017, the Council of Experts adopted the 2018 Financial Plan, which was subsequently submitted to the Parliament.

3. ACTIVITIES OF THE INSURANCE SUPERVISION AGENCY

Following priorities set for 2017, ISA enacted bylaws arising from the Law on Supervision of Insurance, passed measures based on on-site and off-site audits, including decisions on licensing, organized curricula and exam calendars for insurance agents and brokers. It also adopted actions with the aim to support and strengthen ISA's operations and its internal capacity.

3.1. Regulation

In 2017, ISA enacted 4 (four) new bylaws and 10 (ten) 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).

For the most part, the adopted bylaws regulate issues in the area of licensing insurance companies, insurance agencies, insurance brokerage companies, agents and brokers. The need for adopting these acts has been initiated by the need for harmonization of the provisions of the existing rulebooks in the area of licensing with the Law on General Administrative Procedure (Official Gazette of the Republic of Macedonia no.124 / 2015), adopted in July 2015, as well as with the Law on Amendments and Supplements to the Law on Insurance Supervision ("Official Gazette of the Republic of Macedonia" No. 23/2016). The adopted acts refer to prescribing the form and content of the forms referring to the requests for issuing licenses, approvals and licenses subject to rulebooks, prescribing provisions according to which the documentation prescribed by the Rulebooks but held by another competent public authority directly in the decision-making process upon request by the Insurance Supervision Agency should be submitted accordingly, as well as other provisions aimed at clarifying the form and content of the required documents which is submitted together with the requests for obtaining licenses, consents and licenses in accordance with the Law on Insurance Supervision. These include:

- Rulebook on the necessary documentation for obtaining a license for performing insurance brokerage activities ("Official Gazette of the Republic of Macedonia" No. 35/2017);

- Rulebook on the necessary documentation for obtaining a license for performing insurance activities ("Official Gazette of the Republic of Macedonia" No. 35/2017);
- Rulebook on the necessary documentation for obtaining a license for an insurance agent ("Official Gazette of the Republic of Macedonia" No. 152/2017); and
- Rulebook on the necessary documentation for obtaining a license for an insurance broker ("Official Gazette of the Republic of Macedonia" No. 152/2017).
- Rulebook on amending and supplementation of the Rulebook on the necessary documentation and the manner of acquiring qualified participation in an insurance undertaking, insurance brokerage company and insurance agency ("Official Gazette of the Republic of Macedonia" No. 35/2017);
- Rulebook amending and supplementing the Rulebook on conducting training for performing insurance activities ("Official Gazette of the Republic of Macedonia" No. 16/2017);
- Rulebook on amending and supplementing the Rulebook on conducting training for performing insurance brokerage activities ("Official Gazette of the Republic of Macedonia" No. 16/2017);
- Rulebook on amending and supplementing the Rulebook on conducting an expert exam for performing insurance activities ("Official Gazette of the Republic of Macedonia" No. 16/2017);
- Rulebook on amending and supplementing the Rulebook on conducting an expert exam for performing insurance brokerage activities ("Official Gazette of the Republic of Macedonia" No. 16/2017);
- Rulebook on amending and supplementing the Rulebook on the required documentation submitted to the application for obtaining licenses in accordance with the Law on Insurance Supervision ("Official Gazette of the Republic of Macedonia" No. 35/2017);
- Rulebook on amending and supplementing the Rulebook on the necessary documentation and the manner of acquiring qualified participation in an insurance undertaking, insurance brokerage company and insurance agency ("Official Gazette of the Republic of Macedonia" No. 138/2017);
- Rulebook on amending and supplementing the Rulebook on the manner, procedure and documentation necessary for obtaining consent from the Insurance Supervision Agency in accordance with the Law on Supervision of Insurance ("Official Gazette of the Republic of Macedonia" No. 152/2017); and
- Rulebook on amending and supplementing the Rulebook on the basic procedures, rules and the manner of conducting insurance supervision ("Official Gazette of the Republic of Macedonia" No. 59/2017).

In the area of conducting the supervision on the subjects of the insurance market, the ISA adopted the Rulebook on amending and supplementing the Rulebook on basic procedures, rules and the manner of conducting insurance supervision ("Official Gazette of the Republic of Macedonia" No. 59/2017) which additionally regulates the manner and procedure of conducting supervision by the ISA in the direction of greater efficiency of the supervision measures and their implementation on the part of the supervised entities.

3.2. Licensing

In the domain of licensing in 2017 ISA issued:

- 1 license for performing insurance activities;
- 2 permits for introducing a new class of insurance;
- 3 permits for performing insurance brokerage activities;
- 15 consents for performing a function as a member of a management body;
- 5 consents for amending the Statute of an insurance undertaking;
- 16 approvals for audit companies for auditing financial statements and consolidated financial statements of the insurance companies;
- 3 consents for acquiring qualified participation in an insurance undertaking;
- 3 consents for acquiring qualified participation in an insurance brokerage company;
- 1 bank consent for performing insurance activities;
- 1 consent to change the head office;
- 167 licenses for insurance agents; and
- 36 licenses for insurance brokers.

In the domain of licensing, ISA in 2017 withdrew:

- 3 permits for performing insurance activities; and
- 39 licenses for insurance agents.

In 2017, 36 licenses for insurance brokers were issued, bringing the total number of licensed insurance brokers to 505 as of December 31, 2017.

In the course of 2017, a total of 167 licenses for insurance agent were issued, and 39 licenses were revoked, thus the total number of licensed insurance agents as of December 31, 2017, was 1,153.

In the course of 2017, there were no trainings for insurance brokers and insurance agents.

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 via collection, analyses and verification of submitted reports and information, as well as via full or partial on-site supervision on the work of insurance entities.

In accordance with the adopted annual Supervision Plan, 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.

According to the Supervision Plan for 2017, ISA conducted 3 complete and 3 partial on-site supervision of insurance undertaking, and 1 complete on-site supervision of the National Bureau of Insurance of the Republic of Macedonia.

On the basis of the conducted on-site supervisions, ISA issued 17 orders requiring elimination of irregularities.

During 2017, ISA conducted regular off-site supervisions based on reports of the insurance undertakings, insurance brokerage companies and insurance agencies. Based on the findings from the conduct of the off-site supervision, ISA issued 2 orders for elimination of irregularities.

Out of the total supervision measures imposed, the majority were related to the following problems: inadequate records of claims and allocation of a first reservation, non-payment of claims within the legally determined 14-day deadline, sale of insurance policies through unlicensed entities, incorrect approval, reporting and records of premium income, non-compliance with risk management rules, and non-compliance with minimum standards of information systems of insurance undertakings.

For the established violations, the authorized persons of ISA, within the scope of their authorizations, try to negotiate and reach a consent with those who made the violation in order to achieve fine payment and other charges, or eliminate the consequences of the misdemeanour. The procedure for settlement in ISA is conducted before the Mediation Commission, consisting of employees from ISA, appointed by the Council of Experts. In 2017, the Settlement Committee in ISA conducted a procedure for settlement of 3 misdemeanours so that 3 agreements for payment of fines were achieved.

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 2017, ISA's Misdemeanour Commission did not receive any requests for conducting misdemeanour procedures.

3.4. Other activities

Based on the Law on Free Access to Information of Public Character ("Official Gazette of the Republic of Macedonia" No. 13/2006, 86/2008, 6/2010, 42/2014, 148/2015 and 55/2016), ISA in 2017 received two requests that were positively resolved and the applicants received the information within the legally prescribed deadline.

4. COOPERATION WITH DOMESTIC AND INTERNATIONAL INSTITUTIONS

One of the main priorities of ISA for 2017 was continuing a productive relationship with the local regulatory authorities and other institutions as well as 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. In 2017, 3 Memorandums of Understanding were signed.

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 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 thirteenth meeting of the Subcommittee on Internal Market and Competition and the thirteenth and fourteenth 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 Stabilization and Association Agreement with the European Union.

ISA as a regular 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. In addition, ISA's representative participated in the work of Supervisory Forum of Insurance Supervisors International Association- a body formed in 2011 aiming to enforce the efficiency of the insurance supervision and to promote harmonization of insurance 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 South Eastern 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, Bulgaria and Slovenia. 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.

On 17 February 2017, the Economic Chamber of Macedonia awarded the Insurance Supervision Agency the Award for the best partner of the Economic Chamber of Macedonia from the state institutions for 2016. It was awarded at the celebration of the 95th anniversary of the existence and work of the Economic Chamber of Macedonia, which was celebrated by organizing a round table on the topic: "The position of small countries in the international economy - advantages and disadvantages".

5. EDUCATION AND CAPACITY BUILDING

In order to effectively implement its legal competences and activities, ASO continuously invests in strengthening human resources through the establishment and implementation of a system of continuous education and professional development of employees.

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).

In July 2017, the Insurance Supervision Agency organized a Workshop with representatives from the Financial Market Regulators of Austria (FMA) and the Austrian Insurance Association (VVO), where the members of the management bodies of the insurance companies were members. This workshop was aimed to enable participants to become acquainted with the new challenges in the insurance regulations in the European Union, given the experience gained since January 2016 when the implementation of the Solvency 2 Directive in the EU Member States began. This workshop was a good opportunity to share the experience in the implementation of Pillar 2 regarding corporate governance. Furthermore, the challenges from future implementation of the Directive 2016/97 on the insurance distribution were also discussed and Regulation No. 1286/2014 for documents with key information on investment product packages for small investors and investment insurance products.

6. CONSUMER PROTECTION AND FINANCIAL EDUCATION

The main goal and main priority in the operation of ISA is reaching high level of consumer protection and helping them to achieve their legal rights in the field of insurance in an easier way. In this direction, during the year of 2017, ISA continued the activities for education of the citizens, and in particular education of the individual target groups as primary and secondary school students about the importance and the role of insurance and the manner of conducting supervision over insurance entities.

In March 2017, ISA marked the Global Week of Money event, which was part of the activities that the Coordination Body for Financial Education conducted as a part of the World Week of Money, which is organized annually by the International Organization for Financial Education of Children and young people. The main goal of this event is to provide knowledge and to encourage children and the young to invest in their future by emphasizing the importance of early financial education to help children become

aware of their financial rights, facilitate access to financial services and develop their financial skills. On this occasion, representatives from ISA through organized visits to primary and secondary schools using an interactive approach in communicating with students, have significantly contributed to increasing their knowledge about financial products and services, as well as their skills in managing financial assets.

Traditionally, this year not being an exception, as a joint initiative of the Ministry of Finance, ISA and NBRM a competition was announced for children and young individuals from primary and secondary education on the topics of savings and insurance titled "I Know How to Save" and "What Does Insurance of My Home and Family Mean to Me". Over 780 children participated in the competition, sending their artistic and literary works on savings and insurance. The best 12 works were financially rewarded and there was a big number of works awarded certificates.

The Council of Experts of the Insurance Supervision Agency, at the meeting held on October 27, 2017, adopted the Report of the Commission for selection of the best research paper in the field of risk management and insurance in the Republic of Macedonia for 2017, choosing the work of Angela Blazheska titled "Analysis of the impact of operational risk on the business success of non-life insurance companies in the Republic of Macedonia" as the most successful in the competition for selection of the best research paper in the field of risk and insurance management in the Republic of Macedonia for 2017. The winner Angela Blazheska presented her paper on November 7, 2017 in the Insurance Supervision Agency before representatives of the insurance companies.

In the course of 2017, in order to work transparently and inform the public, a press conference was held and some announcements were made for the public referring to the insurance sector conditions. Additionally, the employees and members of the Council of Experts conducted interviews in printed and electronic media.

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 2017, 97 complaints were submitted, where:

- 74 complaints have been resolved, out of which 22 in favour of the complainants;
- 9 complaints are ungrounded;
- 6 complaints are in the process of resolving and
- 1 complaint has been transferred to another authority for action.

7. PROJECTS

At the beginning of December 2017, finished 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 i.e. further movement towards regulatory systems (legislation and its enforcement) in order to integrate within the internal market in time of EU accession process. The project

started its implementation in March 2016 till December 2017 mutually by the Ministry of Finance and ISA with the twinning partner, 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.

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