



INSURANCE SUPERVISION AGENCY

**ANNUAL REPORT ON THE INSURANCE SUPERVISION AGENCY OPERATIONS
FOR 2019**

Skopje, 2020

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1. Introduction

The Insurance Supervision Agency (**hereinafter "ISA"**) is an independent regulatory body exercising public authority, established by the Law on Insurance Supervision ("Official Gazette of the Republic of Macedonia" No. 27/2002, 98/2002, 79 / 2007, 88/2008, 67/2010, 44/2011, 112/2011, 188/2013, 30/2014, 43/2014, 112/2014, 153/2015, 192/2015, 23/2016, 83/2018 and 198/2018) and ("Official Gazette of the Republic of North Macedonia" No. 101/2019 and 31/2020), and the Law on Compulsory Traffic Insurance ("Official Gazette of the Republic of Macedonia" No. 88/2005, 70/2006 , 81/2008, 47/2011, 135/2011, 112/2014 and 145/2015 and "Official Gazette of the Republic of North Macedonia" no. 220/2019).

Within its competencies and authorities, ISA takes care of the legal and efficient functioning of the insurance market in order to protect the rights of insurance owners and users.

ISA has the following competencies:

- Conducts supervision of the insurance companies, insurance brokerage companies, insurance representation companies, insurance representation banks, insurance brokers and insurance agents, legal entities related to insurance companies and the National Insurance Bureau;
- Adopts bylaws for implementation of the Law on Insurance Supervision and makes proposals for enactment of laws in the field of insurance;
- Decides on granting or revoking licenses, granting or withdrawing consents, granting or revoking licenses;
- Imposes supervision measures;
- Cooperates with relevant domestic and foreign institutions and bodies and is a member of the International Association of Insurance Supervisors;
- Encourages the development of insurance and develops public awareness of the role of insurance and the role of insurance supervision.

Guided by professional standards and principles, including protection and reporting to insured persons on activities within its scope of work, ISA undertakes activities for users of insurance products and services with the aim of enabling timely acquisition of the necessary information.

The basic objectives of ISA related to the stability and development of the insurance market, and monitoring the legality of the operation of entities-subject to supervision, are directly related to the protection of consumers, i.e. insured persons and users of insurance products and services.

ISA is accountable for its work before the Assembly of the Republic of North Macedonia. The Assembly adopts: the ISA Financial Plan, the Financial Statements audited by an independent certified auditor, the ISA Annual Report and the Annual Report on the situation and movements in the insurance market.

2. Institutional Management

2.1. Work of the Council of Experts

The governing and managing body of the ISA is the Council of Experts, composed of a President of the Council and four members. The President and the four members of the Council of Experts of the ISA are appointed by the Assembly of the Republic of North Macedonia upon the proposal of the Government of the Republic of North Macedonia.

The Assembly of the Republic of North Macedonia, at its session held on November 28th 2019, concluded that the mandate of Klime Poposki, President of the Council of Experts of the Insurance Supervision Agency, and Zlate Simonovski, member of the Council of Experts finishes.

The Assembly of the Republic of North Macedonia, at its session held on December 12th 2019, adopted a Decision on appointing a President and a member of the Council of Experts of the Insurance Supervision Agency. Pursuant to the Decision, the Assembly appoints the following:

- ❖ Krste Shajnoski, PhD in Economics, for President of the Council of Experts for a mandate of five years, full time and
- ❖ Zlate Simonovski, Engineer in electrical engineering, for a professionally engaged member of the Council of Experts with a mandate of five years, full time

Composition of the Council of Experts:

- ❖ PhD Krste Shajnoski, professionally engaged full time, President of the Council of Experts,
- ❖ PhD Sulejman Ahmedi, professionally engaged full time, Member of the Council of Experts,
- ❖ Zlate Simonovski, professionally engaged full time, Member of the Council of Experts,
- ❖ PhD Igor Ivanovski, Member of the Council of Experts, not professionally engaged,
- ❖ Aleksandra Kokaroska, Member of the Council of Experts, not professionally engaged.

The Council of Experts is a collective body that works in sessions and makes decisions by a majority vote of the total number of members. During 2019, the Council of Experts, in accordance with the Law on Insurance Supervision, the Statute of the ISA and the Rules of Procedure of the Council of Experts, regularly held sessions where it decided on issues within its competence. The Council of Experts in 2019 held 28 sessions

2.2. Mission and vision

The mission and vision of ISA is aimed at creating and maintaining fair, secure, stable and transparent insurance market for the benefit and protection of the rights of policy holders, contributing to economic growth and ensuring stability of the financial system.

2.3. Values

The principles and values ISA is driven by are as follows: responsibility, expertise, conscientiousness and transparency.

2.4. Risk Management Strategy

In 2019, ISA adopted the Risk Management Strategy for 2020-2022 as a tool that helps to anticipate adverse events and respond to them, i.e. to direct internal control procedures and resources to key functions and related risks.

2.5. ISA Operation Planning

In order to define the framework for its work, at the end of 2019, ISA adopted:

- Work plan for 2020
- Annual plan for supervision on field for 2020
- Financial plan for 2020
- Plan for archival signs and lists of documented materials and archives for 2020

2.6. Internal audit

ISA's internal audit activity, using a systematic, disciplined and risk-based approach, has contributed to improving the management, risk management and maintenance of effective risk management processes in ISA's management, operations and information systems, regarding:

- Achieving the strategic goals of ISA;
- Compliance with laws, regulations, policies, procedures and agreements;
- Effectiveness and efficiency of the programs;
- Reliability and integrity of financial and operational information;
- Asset protection

2.7. ISA Organization and financing

Pursuant to the Rulebook on Internal Organization of Workplaces, the employees are assigned to 2 independent sections directly accountable to the President and the Council of Experts, 3 professional services and 9 sections within the professional services.

The operation of ISA is financed by fees charged by insurance companies, insurance brokerage companies, insurance representation companies, banks performing insurance representation activities and other entities supervised by ISA, established in the Tariff Book for the content and amount of fees charged by the Insurance Supervision Agency and payment deadlines, in accordance with the Law on Insurance Supervision

2.8. Corporate Social Responsibility

In its work, ISA follows the principles of corporate social responsibility as a set of all economic, legal, ethical expectations that society has towards legal entities. In that regard, ISA in 2019 undertakes the following activities:

- provides opportunities for practical work for high school and university students,
- Participates in humanitarian actions

3. COMPLETED ACTIVITIES IN THE REPORTING PERIOD IN FIELDS

3.1. Regulation and license

Within the authorities in the field of regulation and licensing, ISA in 2019 implemented the following activities

3.2. Adopted rulebooks

1. Rulebook on amending and supplementing the Rulebook on the necessary documentation for obtaining a license for an agent,
2. Rulebook on amending and supplementing the Rulebook on the necessary documentation for obtaining a broker license,
3. Rulebook on amending the Rulebook on the necessary documentation for obtaining licenses in accordance with the Law on Insurance Supervision,
4. Rulebook on amending and supplementing the Rulebook on the necessary documentation for obtaining a license to perform insurance representation activities,
5. Rulebook on amending and supplementing the Rulebook on the necessary documentation for obtaining a license for performing insurance brokerage activities,
6. Rulebook on the manner, procedure and conditions for conducting training and taking a professional exam for performing insurance representation activities,
7. Rulebook on the manner, procedure and conditions for conducting training and taking a professional exam for performing insurance brokerage activities,
8. Rulebook on amending and supplementing the Rulebook on the required documentation and the manner of acquiring qualified participation in an insurance company, insurance brokerage company and insurance representation company,
9. Rulebook on amending and supplementing the Rulebook on the types and characteristics of the assets that cover the technical reserves and the assets which cover the mathematical reserve, as well as the detailed placement and limitation of the investments and their valuation,
10. Rulebook on amending and supplementing the Rulebook on the form and content of the additional financial statements of the insurance and/or reinsurance companies,
11. Rulebook on investing the assets of the mathematical reserve that are specially allocated by the insurance companies on the basis of life insurance agreements in relation to shares in investment funds when the insured assumes the investment risk, valuation, manner and reporting deadlines,
12. Rulebook on amending and supplementing the Rulebook on chart of accounts of insurance and reinsurance companies,
13. Rulebook on amending and supplementing the Rulebook on the form and content of the financial statements and detailed content of the annual report on the operation of the insurance and/or reinsurance companies,
14. Rulebook on amending the Rulebook on the types and description of items that will be taken into account when calculating the capital of the insurance and/or reinsurance companies,
15. Rulebook on amending the Rulebook on the certification of the authorized actuary, and
16. Rulebook on the necessary documentation for obtaining consents.

The amendment of the bylaws in the field of licensing was implemented in order to comply them with the Law on Amendments to the Law on Insurance Supervision, published in the "Official Gazette of the Republic of Macedonia" no. 198/2018, in the part of the conditions for obtaining permits, consents and licenses. The amendments to the Law provided additional conditions for licensing of shareholders-holders of qualified participation in insurance companies, insurance brokerage companies, insurance representation companies, conditions for licensing of members of management bodies and supervision in insurance companies, actuaries, agents and insurance brokers, which have been properly incorporated in the content of the bylaws and refer to the regulation of the manner, procedure and documentation attached to the request for obtaining a license, consent and license.

The amendment of the bylaws in the field of accounting and financial reporting of insurance and/or reinsurance companies aims to regulate the manner of recognition, recording, subsequent measurement and disclosure of certain items of the financial statements of insurance companies (land, buildings, other tangible assets and acquisition costs) that were not subject to regulation in the content of the existing acts. The implemented changes enable a consistent way of recognizing the expenses, with the related operating income and hence ensuring their comparability within the financial statements of the insurance sector as a whole.

3.3. Issued permits and consents

- 11 permits for introduction of a new class of insurance;
- 4 permits for insurance brokerage activities;
- 1 permit to perform insurance representation activities;
- 24 consents for performing the function of a member of a management body;
- 16 consents for amending the Statute of an insurance company;
- 18 consents for companies for audit of financial statements and consolidated financial statements of insurance companies for 2019;
- 1 consent for acquiring qualified participation in an insurance company;
- 6 consents for acquiring qualified participation in an insurance brokerage company;
- 1 consent for acquiring qualified participation in an insurance agency;
- 3 consents of a bank to perform representation activities;
- 1 consent to change the registered office of an insurance company;
- 2 consents for changing the name of the insurance company

3.4. Issued licenses

- Issued 53 licenses for insurance brokers,
- 410 licenses for insurance agents.

3.5. Revoked permits and licenses

- Revoked 1 license for performing insurance brokerage activities of an insurance brokerage company,
- Termination of two licenses for performing insurance brokerage activities of insurance brokerage companies,

- One consent has been withdrawn for performing insurance representation activities in a bank and
- Revoked 68 licenses for insurance agents for natural persons

3.6. Organized training

In order to strengthen the insurance intermediation capacities in the insurance market, in 2019 ISA conducted two cycles of trainings for insurance brokers and insurance agents.

4. IMPLEMENTING SUPERVISION

ISA supervises insurance companies, insurance brokerage companies, insurance representation companies and the National Insurance Bureau, in accordance with the Law on Insurance Supervision, the Law on Compulsory Traffic Insurance and other relevant regulations. ISA has the authority to supervise the natural persons who perform insurance brokerage activities and insurance representation activities.

Supervision is carried out through permanent off-site supervision of the operations of insurance companies and other insurance entities by collecting, analyzing and verifying the submitted reports and information, as well as through on-site (full or partial) supervision of the operations of insurance entities for the purpose of assessment of stability, risk-taking and compliance of the operations of the entities.

4.1. On-site supervision

According to the Supervision Plan for 2019, ISA conducted 7 partial on-site supervisions with insurance companies. Based on the conducted supervisions, ISA issued 39 orders for elimination of illegalities against insurance companies.

4.2. Off-site supervision

Based on the findings from the implementation of off-site supervision, ISA issued 11 orders for elimination of illegalities and 8 additional measures of supervision of insurance companies.

Of the total supervision measures imposed, most refer to identified weaknesses in the methodology for determining technical reserves, inadequate recording of claims and allocation of reservations, non-compliance with risk management rules, non-compliance with minimum standards of information systems of insurance companies, violation of the rules of the actuarial profession.

5. COMMITTEES IN THE OPERATION OF ISA

5.1. Settlement Committee and Misdemeanor Committee

In 2019, the ISA Settlement Committee conducted 9 settlement procedures, during which 9 agreements for payment of fines were reached.

The Misdemeanor Committee conducted a misdemeanor procedure and imposed a misdemeanor sanction.

6. COLLABORATION

Performing the activities under the competence of ISA requires cooperation with domestic competent bodies and institutions, regional regulatory and international institutions. In order to maintain a fair, stable and transparent insurance market, ISA continuously strengthens and deepens cooperation with other regulators in the domestic market, in the region and in the European Union.

Strengthening cooperation between domestic regulators is important and is related to the exchange and use of information and data, provision of mutual training and the exchange of experiences. The cooperation with the Financial System Sector within the Ministry of Finance takes place on issues related to the regulation in the field of insurance. The cooperation with the National Bank takes place within the framework of data exchange for preparation of a report on financial stability, financial education and financial inclusion, as well as continuous exchange of experience and practices from the process of conducting supervision.

In order for the domestic legislation to comply with that of the European Union, ISA cooperates with the Secretariat for Economic Affairs providing data on the progress of the insurance market in order to prepare reports on the progress of the country in the field of internal market and competition and economic and financial issues and statistics, for the needs of the Subcommittees of the European Union.

7. ORGANIZING EVENTS

On November 4th, 2019, ISA organized a solemn celebration of the jubilee of 10 years of existence and solid operation and at the same time marked the Insurance Day, November 1st. The event was organized in two parts. Within the solemn part, there was an introductory addressing by both ISA and representatives of the Government of the Republic of North Macedonia, representatives of the Ministry of Finance, the delegation of the European Union in the Republic of North Macedonia.

As part of the event and in order to confirm the good business cooperation, ISA awarded acknowledgement notes to several relevant institutions and prominent individuals. An award and a plaque were awarded for the best research paper in the field of risk management and insurance in the Republic of North Macedonia for 2019. After the award ceremony, the attendees had the opportunity to get acquainted with the key points of the scientific paper originally from the author of the paper.

Within the working part of the event, a panel discussion was held on the topic "Moving factors for higher and sustainable insurance growth in the region of Southeast Europe", which was attended by representatives of ISA, representatives of regulatory bodies in the region, representatives of the insurance industry, professors, representatives of insurers' associations and insurance intermediaries.

In coordination with SC XPRIMM International from Bucharest, Romania (promoter of the insurance and reinsurance markets), ISA organized a regional actuarial conference in Skopje on Inclusive insurance, which involves accessing and using simple and affordable insurance products for insufficiently affordable clients, with special emphasis on the vulnerable categories of citizens, and above all on the low-income population.

In cooperation with the Chamber of Commerce in order to develop the insurance market, the following events were organized:

- Workshop for representatives of the insurance industry on the development and application of information technology in the insurance sector and supervisory standards and practices, at national and EU level,
- Insurtek event for startup companies in the country and the countries of Southeast Europe in order to present ideas and solutions for digitalization of the work processes of the insurance subjects,
- Hackathon intended for the student population from higher education institutions that work on curricula in the field of information technology in direction of promoting the entrepreneurial spirit among young people,
- Workshop for representatives of the insurance industry on direct processing of auto liability claims.

In September, ISA hosted a Regional Seminar on Digitization, Group Supervision and Market Behavior. The seminar was co-organized with the Financial Stability Institute (FSI) and the International Association of Insurance Supervisors (IAIS) and was intended for regulatory bodies and relevant institutions from the Central and Eastern European region and the Trans-Caucasian region.

In order to encourage the development of insurance in the Republic of North Macedonia and contribute to increasing the number and quality of applied scientific papers in the field of risk management and insurance, ISA announced a competition for awarding an annual award for research paper in the field of risk management and insurance in the Republic of North Macedonia for 2019. The best work was the paper entitled "Demand for life insurance and restrictions on borrowing" by the author Bojan Srbinoski and was awarded a monetary prize in amount of 30,000 MKD denars.

In order to raise the awareness of young people about the importance and role of insurance, in September 2019, ISA announced a competition for students of primary and secondary education on the occasion of Insurance Day - November 1st, with topics: "Insurance and I" for the selection of the best artwork-drawing and the best literary work - a song for primary school students, and "Life is full of surprises, insurance is my financial security and protection" for selection of the best literary work - short story, for high school students. 9 cash prizes were awarded (6 prizes of 3,000.00 MKD denars for primary school students for the best work - drawing and 3 prizes of 6,000.00 MKD denars each for secondary school students for the best work - short story).

8. EDUCATION AND CAPACITY BUILDING

The staff competence of ISA is a prerequisite for quality, efficient and timely performance of the works and tasks within its competence. In 2019, in accordance with the programs and the needs of the employees, internal trainings, use of external experts, study visits, participation in seminars, professional development, conferences, team trainings, workshops were realized and implemented. The ISA staff followed the educational programs and trainings of the International Association of Insurance Supervisors (IAIS), the European Supervisory Body (EIOPA), the Bank for International Settlements (BIS), the International Financial Education and Training Network (OECD-INF) and other relevant institutions and organizations.

In the framework of the regional cooperation, the representatives of ISA participated in the work of the supervisory colleges in the regulatory institutions of the member states of the European Union, such as: Austria, Bulgaria and Slovenia. Supervisory colleges are organized by the regulatory bodies of the European Union, in accordance with the guidelines of the European Insurance and Pension Funds (EIOPA), in order to better supervise the insurance groups that are present in several member states of the European Union and countries that are at different stages in the accession processes in the European Union and represent a platform for exchange of experiences and unified application of methodologies.

ISA, as a member of the International Association of Insurance Supervisors (IAIS), participated in the work of the working groups of this body. The activities of ISA were realized with participation through research studies and seminars organized by the International Association of Insurance Supervisors, participation in the work of the Supervisory Forum as the highest working body and participation in the annual conference.

In addition, ISA, as a member of the International Network for Financial Education at the Organization for Economic Cooperation and Development (OECD-INFE) since 2015, has participated in the work of this body. ISA activities were realized mainly through access to useful data and information, development of analyzes and comparative reports and creation of policy instruments related to the protection of insured persons, financial education and inclusion.

With its representatives ISA took part in the first Insurance Supervision Forum held in September 2019 at the headquarters of the European Regulatory Authority for Insurance and Pensions (EIOPA) in Frankfurt, Germany, which was attended by representatives of EIOPA, the European Commission and insurance regulatory bodies from the countries of the Western Balkans. The forum discussed the challenges in the implementation of European insurance directives in the national legislation of the Western Balkans, strengthening the dialogue between the regulatory bodies of the region and EIOPA, as well as strengthening the supervisory capacity and practices for greater stability of the insurance sector.

In order to increase the efficiency of the supervisory function, ISA signed a Memorandum of Cooperation with the Financial Intelligence Office in order to strengthen the fight against money laundering and terrorism financing.

9. PROTECTION OF CONSUMERS, FINANCIAL EDUCATION AND FINANCIAL INCLUSION

According to the Law on Insurance Supervision, one of the competencies of the Insurance Supervision Agency is to carry out activities for protection of insured persons, financial education and inclusion. The ultimate goal is to increase the financial literacy of the population, contributing to the well-being of the individual, the general well-being and the economy of the country. ISA implements these activities in accordance with the internationally accepted principles of the International Association of Insurance Supervisors (IAIS), the Organization for Economic Co-operation and Development (OECD), the Group of 20 Ministers and Governors (G20) and other relevant international organizations.

Within this framework, ISA continuously works on the implementing the following activities:

- encourages cooperation between the competent regulatory institutions in the financial market in the field of financial education,
- Initiates initiatives with the Ministry of Education and the Bureau for Development of Education to adopt policies that will support the idea of financial education in our country,
- cooperates with educational institutions (primary and secondary schools, faculties, institutes, etc.),
- Participates in the development of the National Strategy for Financial Education through the Coordination Body of the Regulatory Institutions in the Republic of North Macedonia, in the framework of the technical assistance provided by the Netherlands (project that started in September 2018 and shall last 5 years),
- Participates in organizing, conducting and evaluating financial literacy surveys,
- participated in meetings, workshops, seminars and other trainings and
- promotes regional and international cooperation in the field of financial education

In March 2019, ISA, along with members of the coordination body for financial education and financial inclusion, marked the Global Money Week through numerous activities. The premises of ISA were open for visits by students from primary and secondary schools and faculties, which enabled them to get acquainted with the competencies of ISA through educational presentations. Each student was given a copy of the educational game of ISA titled "Less risk, more fun". Visits to insurance companies were also organized in order to get acquainted with the role of insurance companies and their work on the insurance market.

ISA participated in the national event "Days of Financial Literacy" intended for the public and raising the level of awareness of financial literacy.

In order to protect the rights of policyholders and users of insurance products and services, ISA acted upon received complaints against insurance entities. In 2019, 96 complaints were submitted to ISA, of which:

- 73 complaints have been resolved, of which 27 in favor of the complainants;
- 9 complaints are without basis for action; and,
- 14 complaints are in the process of being resolved.

10. PROJECT ACTIVITIES

During 2019, ISA realized the Pilot project with the High School of Economics and Law of the City of Skopje "Vasil Antevski Dren", which started in 2018. The pilot project was implemented in a class of 40 students in their final fourth year, in school year 2018/2019, in several phases. The first phase was to introduce students to insurance material through presentations adapted to the age of the students. Several topics were presented: risks, notion of insurance (life insurance and non-life insurance), legislation in the field of insurance, ISA competencies, rights and obligations of the insured persons as consumers of insurance products and services, actuaries and their role, mediation in insurance, and protection of the interests of consumers in insurance. The second phase was checking the acquired knowledge through appropriate short tests, visits to regulatory bodies of the financial system and insurance companies were organized. The third phase of the project for financial education was organizing a competition-quiz for students as a reward for their work and commitment within the educational cycle. The quiz was conducted in the school, and for that purpose a test was prepared based on the material that was presented to the students during the class. The best two students were awarded 2 prizes by ISA, which provided them with free training and an exam for an insurance agent.

In the first half of 2019, ISA with its representatives took part in the project activity for national risk assessment, in the segment of prevention of money laundering and financing of terrorism. The activity took place in coordination with the Financial Intelligence Office. ISA as the regulator of the insurance market provided support and contribution to the process of preparing a Report on the implementation of the update of the National Risk Assessment of Money Laundering and Financing of Terrorism. As part of the five-year project for financial education (2018-2022), with the support of the Ministry of Finance of the Netherlands and the International Financial Education Network at the OECD (INFE-OECD), ISA with its representatives participated in a working meeting at the National Bank of Georgia on Promoting Financial Literacy in Southeast Europe. The meeting was attended by other representatives of the domestic regulatory bodies - members of the Coordination Body for Financial Education and Inclusion.

The focus was on institutional topics, concepts and issues related to the implementation of a national strategy for financial education in order to exchange experience and knowledge, share research analysis in the field of financial education and OECD inclusion, get acquainted with the challenges in the field, plan the next activities within the medium-term project. A workshop was organized focused on preparing a case study and policy for addressing the challenges of financial

literacy and education among the young population (pupils and students), rural population, small and medium enterprises.

11. INFORMING THE PUBLIC AND TRANSPARENCY

Based on the Law on Free Access to Public Information ("Official Gazette of the Republic of Macedonia" No. 13/2006, 86/2008, 6/2010, 42/2014, 148/2015, 55/2016 and 64/2018), in 2019, two requests for access to public information were submitted to ISA and they were replied to positively within the legally established deadline.

Based on the Law on Whistleblower Protection ("Official Gazette of the Republic of Macedonia" No. 196 of 10.11.2015) no whistleblower complaints were submitted to ISA.

In order to timely transfer information and strengthen communication with stakeholders, ISA redesigned its own website and created a new educational website designed to protect insured and financial education in order to offer useful content for financial consumers, insured persons, investors, for the purpose of improving understanding of insurance products, concepts and risks and by obtaining timely information, objective advice to develop their skills and confidence in making financial decisions.

INSURANCE SUPERVISION AGENCY

President of the Council of Experts,

PhD Krste Shajnoski

No. 01-395/1

Skopje

19.6.2020

I, the undersigned, hereby certify that the foregoing is a true and correct translation from Macedonian into English.

Skopje, August 09th 2020
Court Certified Translator
Aleksandra Jankova

Јас, долупотпишаната, потврдувам дека правилно го извршив преводот од македонски на англиски јазик.

Скопје, 09/08/2020г.
Постојан судски преведувач,
Александра Јанкова