

DOI 10.20544/HORIZONS.A.20.1.17.P41
UDC 368.9(497.7)

**LAW ASPECTS OF LIFE INSURANCE
DEVELOPMENT IN THE REPUBLIC OF
MACEDONIA¹⁰⁶**

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ABSTRACT

Development of insurance, as one of crucial finance sectors in each economy, is very essential for whole increasing of economy in the state. Possibilities for insurance development in the Republic of Macedonia are growing through the time. In the period of five to ten years ago from now, it has developed significant and freely it can be spoken that it has full renaissance. Insurance is multidisciplinary phenomenon and can be analyze from economic, actuary and law aspect. The aim of the paper is to analyze law aspects for development of insurance, with particular accent of life insurance, as a main pillar for insurance development. Law regulation of life insurance is in accordance with EU and world standards and it gives possibilities for further development. Development of life insurance is the most important, because it injects direct financial means to the sector, and one of the main roles of life insurance is the function of saving. With analyzing parameters, it can be concluded that numbers, percentages of life insurance in total insurance are increased every year. This trend should be used from different subjects affected by insurance. Also different laws, its implication, implementation and criminal prevention of insurance fraud, will be analyzed in the paper with appropriate methodological instruments. All that should be done in order to extract useful conclusions and recommendations for future development of the sector.

¹⁰⁶ Review article

Keywords: law aspects, life insurance, development, economic growth

LAW ASPECTS OF LIFE INSURANCE DEVELOPMENT IN THE REPUBLIC OF MACEDONIA

Insurance market and other financial markets, longer periods are influenced by financial deregulation and liberalization. The global financial crisis has a big impact on the Macedonian economy, hindering the implementation of numerous projects.

Life insurance is one of the two main forms of insurance besides non-life insurance. This type of insurance covers in case of living, insurance in case of death, mixed life insurance, car insurance and life assurance with return of premiums.

In developed countries, life insurance is something that has any reasonable person, but in Macedonia it is still undergoing a luxury, even it is necessity, but low standard of living, low salaries are main factors for reason that life insurance is not yet developed. Fact that is good is that recent trends in this sector are very rejoicing. All this is due to lack of awareness about itself and life insurance which is a kind of savings or investment savings. If you come to the realization of any risks that would have harmful effects on life, then money after the expiry of the insured period may be used by the insured or any other person. There is a strong association between life insurance and the development of the domestic capital market.

Within the insurance innovations of existing and development of new products are needed and that will increase sales in the insurance sector. The most successful will be those companies which will place new innovative products. Insurance as one of the main economic institutions occurred spontaneously, in the development of human civilization is experiencing a long evolutionary path, adaptation, innovation and modernization. Life insurance is experiencing a upswing especially in the last few decades, primarily in developed countries, but efforts are being made in the less developed and developing countries which can't stay out of world processes of globalization and integration. Republic of Macedonia is no exception to these trends.

Law regulation of life insurance is in accordance with high modern standards of regulation and it gives opportunity for further development of the sector. In general all law regulations, from Constitution, different laws and bylaws passed by Parliament of Macedonia, Ministry of finance and especially Insurance Supervision Agency of Macedonia-ISA. According to all previous EU progress reports for Macedonia, insurance sector is going very well and in right direction, which means that law regulation is fully in accordance with all that, but in the future necessary changes must be done and will be done.

GENERAL CHARACTERISTIC OF INSURANCE SECTOR IN MACEDONIA

At the end of 2015, there were 15 insurance companies on the insurance market in Macedonia, of which 11 operating in the area of non-life insurance, and 4 operating in the area of life insurance. During the analyzed period an operating license was issued to 1 insurance brokerage company, and 1 license was revoked from an undertaking, maintaining the count to 30 insurance brokerage companies unchanged as compared to 2014. The count of insurance agencies increased by 3 new companies, reaching a total of 13 companies, and also the number of banks, which are performing insurance agency activities, increased by 2 banks, reaching a total count of 3 banks.

In 2015, a total Gross Written Premium (GWP) is 8.28 billion denars, representing an 8.50% increase compared to 2014, which was 7.63 billion denars. In the non-life insurance segment this sum is 7.18 billion denars, in comparison with 2014, 6.74 billion denars, that means a 6.47% growth compared to 2014. The life-insurance segment is 1.10 billion denars in comparison with 888.32 million denars in 2014, which represents a growth of 23.94% compared to 2014.

At the end of 2015, the insurance undertakings had at their disposal amount of 17.56 billion denars, an increase of 7.32% compared to the 2014, with 16.42 billion denars. At the end of 2015, the total calculated capital of insurance undertakings was 5.49 billion denars, a 5.93% growth compared to 2014.

In 2015, the insurance sector reported profits in the amount of 513 million denars. The non-life insurance segment reported profits of 469 million denars, and the life insurance segment reported profits of 44 million denars.

LEGAL FRAMEWORK FOR INSURANCE IN MACEDONIA

Legal framework for insurance in Macedonia is represented by basic and broader framework. The Law on Insurance Supervision, the Law on Compulsory Insurance in Traffic, and the Law on Voluntary Health Insurance, represent the basic legal framework regulating the conditions and the manner of performing insurance and reinsurance activities, the manner and conditions of performing insurance intermediation activities and conducting supervision over the operations of insurance undertakings, insurance brokerage companies, and insurance agencies.

The broader legal framework comprises the Contractual Law, the part referring to insurance contracts and the Company Law.

THE LAW ON INSURANCE SUPERVISION

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

THE LAW ON COMPULSORY INSURANCE IN TRAFFIC

The compulsory insurance in traffic is regulated by the Law on Compulsory Insurance in Traffic prescribing the agreements for compulsory insurance, the minimum insured amounts, the deadlines for reporting claims to and receiving claim compensations from the insurance undertakings, establishing the right to mediation, the competences of the Guarantee Fund, changing the method for determining the premium tariffs via the operations of the Commission for motor third party liability insurance. Also, the Law envisages facilitation of cross-border provision of insurance services by setting-up a so called authorised claims representative, and a damage compensation service, thus effecting these activities as soon as Macedonia becomes part of the EU.

The adoption of amendments of this law, harmonises the Law on Misdemeanours from a point of view of the fixed amount of fines imposed on insurance undertakings, that is to say, on the National Insurance Bureau. It also stipulates the amount of the fine for the responsible person within the legal entity at 30% of the fine set for the insurance undertaking, that is to say, to the National Insurance Bureau.

THE LAW ON VOLUNTARY HEALTH INSURANCE

This law prescribes allows the legal possibility and opens a wider scope of activities for the insurance undertaking to offer packages of health services, which are not covered with the system for compulsory health insurance. The voluntary health insurance is regulated as supplementary and private. Supplementary health insurance insures the partial costs coverage from own funds when using medical services from the compulsory health insurance (co-payment), in accordance with the regulations of compulsory health insurance and health care protection. The private health insurance allows cost coverage for using healthcare services with higher standard than those within the compulsory health insurance, the costs for supplementary healthcare services, as well using healthcare services in medical institutions outside the network of healthcare institutions where healthcare activities are carried out, and in private institutions that make, issue, and service orthopaedic and other devices.

OWNERSHIP STRUCTURE

The insurance companies are in dominant ownership of foreign legal entities from the financial sector (92.17%), which are partially or completely present in 14 of the total 15 insurance subjects on the market (Appendix A1 Table). 11 insurance companies are parts of insurance groups with head offices in EU Member States, whereas only one insurance subject is fully owned by domestic investors.

In the life insurance segment, two insurance companies predominated, as a result of the short presence in the market (since 2011) of the remaining two life insurance subjects. (Appendix B1)

In all life insurance companies, there was an increase in GWP. The insurance and reinsurance company - Macedonia in 2015 did not perform life insurance

operations given that the existing portfolio was transferred to the insurance company WINNER Life (Appendix A2)

In regards to the total GWP, the most significant market share is recorded in motor vehicle insurance of 52.96% (in 2014: 55.47%), where the motor third-party liability insurance (MTPL) participates with 44.59% (in 2014: 46.43%), and the voluntary motor vehicle insurance policies (Casco) with 8.37% (in 2014: 9.04%). Property insurance (against fire, natural disasters, theft and other risks) follows with 19.82% (in 2014: 18.07%), and insurance against accident consequences with 7.23% (in 2014: 7.61%). Also, the life insurance holds a significant market share with 11.64% (in 2013: 10.14%). The structure by lines of business, including a comparison with 2014, is shown in Appendix B2.

PREMIUMS IN 2015

In 2015, the insurance market recorded an increase of 8,52 % in the total written premium, compared to 2014. Taking into consideration the total amount of 8.279.764.000 denars GWP, 7.178.772.000 are result of non – life insurance, and the remaining 1.100.992.000 denars of life insurance.

In 2015 the non - life insurance indicated an increase of 437.678.000 denars in the GWP, namely an increase of 6,49 % compared to 2014.

The life insurance had an increase of 212.663.000 denars in the total GWP compared to 2014, namely an increase of 23,94 %. As a reflection of this increase, the share in the total GWP is increased for 1,7 % and it takes part in the total GWP with 13,30% (Appendix B3).

Graph in Appendix B4 shows ratio between life insurance premium and life insurance claims for period 2006-2015, and from that it can be seen that numbers of life insurance claims are similar in this period of one decade, and opposite of that in life insurance numbers show that there is a big growth at almost 10 times, i.e. 1000 % growth from 2006 to 2015.

NUMBER OF CLAIMS IN 2015

The total number of settled claims in 2015 is 50.081 out of which 48.709 are claims of non-life insurance classes, while the remaining 1.372 settled claims are of life insurance classes.

The non-life insurance claims have an increase of 1.466 in 2015 (3,10 %), while the life insurance claims have an increase of 11,54% in 2015, compared to 2014. (Appendix B5)

In Appendix B6 it can be seen an Historical trend of GWP and Gross settled claims for period 2006-2015, and with this Graph it can be seen the real development and benefits of insurance development sector of Macedonia in one decade.

INSURANCE FRAUDS

Attempts of insurance frauds are becoming more frequent. It varies according to the manner of execution of crimes and by the way of its organization. Association and cooperation between various institutions can contribute to detect attempts at fraud in insurance and prevention of harmful consequences. Each institution - Ministry of Interior, insurance companies, prosecutors, courts, are integral parts of the unique system that can and must contribute to the detection and prevention.

As perpetrators of insurance frauds often occur people employed in insurance companies, which implies the need to build a special system for controlling the employees in insurance companies. It is necessary to point out that insurance fraud crimes often are made by arrangement of more people and in that sense, despite the commission of the basic insurance fraud crime, other crimes are performed, such as: falsification of documents, receiving and giving bribes, fraud of official position, malfeasance and other cases, which are usually detected by the collection of data and evidence about insurance frauds. A particular problem is that 90-95% of honest insurers pay increased premiums because of those 5-10% dishonest, that realize benefits through fraud insurance.

CONCLUSIONS

Form all above it can be concluded that:

1. The level of development of insurance and reinsurance market depends on the degree of economic development of the country. Macedonia belongs to the countries with low economic development and consequently features a low developed sector life insurance. The development of the insurance market is affected by movements in the overall financial sector. It is in times of crisis and slower economic activity in the country and uncertainty in financial markets, the

dynamics of development of the insurance sector dictate events in financial industry. In the insurance market in Macedonia 15 insurance companies exist, of which only 4 insurance companies operating in the life insurance, while others are active in the group of non-life insurance. As in past years for reinsurance is registered only one company. In global terms, over 2/3 of the available financial resources on capital markets come from insurance and pension funds. These are also the longest funds in a national economy, with an average term to maturity of more than 10 years. The significance of the insurance premium and the investment is growing in the country, although Macedonia still lags the list of EU countries in terms of relative share premium to the country's Gross domestic product (GDP).

2. Macedonian insurance sector is characterized by relatively low share of GWP in GDP, compared to other EU countries. GWP participation in GDP in 2015 is 1.48% of GDP, which is really small and because of that it can be seen a big space for development of insurance and it is necessary. According to these indicators, the insurance sector of Macedonia is approximately in the same level of development as in Romania, Serbia, Greece and Turkey.

3. In the year 2015 realized GWP is in the amount of 8.28 billion denars, and that is increase of 8.50% compared to the GWP in 2014. In non-life insurance GWP was realized in the amount of 7.18 billion denars, which is an increase of 6.47% compared to 2014. In the area of life insurance GWP realized the amount of 1.10 billion denars in comparison with 2014, which is an increase of 23.94% compared to the previous year.

4. One of the real problems in insurance is the small number of companies for life insurance, insufficient knowledge of insurance products, and low living standards.

5. In terms of regulative, it can be said that law regulative – laws and bylaws are in accordance to the European standards, and combined with bigger economic growth can means opening of insurance market for new players, bigger transparency in performing of activities of different subjects, introducing new products and packages, decreasing of costs of premiums, bigger competitiveness, bigger diversification of risks, improving the investment policies for achievement of higher yields at a given level of risk, the emergence of new financial instruments in the market of capital, establishing stronger internal control system of insurance and reinsurance, maintaining the long-term financial stability which is the basis for long-term economic growth.

6. Insurance frauds are in expansion this period, and negatively affect financial position and stability of insurance companies, which are offset by the increased cost of the insurance premium where policyholders which don't make frauds are suffered and damaged by that. Therefore, it is important to take steps aimed at preventing fraud and restoring confidence in the financial system and the reputation of the insurance companies.

7. The development of life insurance in the country today is under real progress. In consideration of the reasons for this phenomenon, probably the biggest part should be sought in the insufficient use of the potential for development of life insurance in market in recent years and the gradual recovery of the macroeconomic environment in the country which creates a positive climate for maintaining financial stability.

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APPENDIX A

Table A1
 Ownership structure of insurance undertakings (percentages)

	2015	2014	2013
1. Foreign shareholders	92.17%	92.25%	91.83%
1.1. Natural persons	0.08%	0.08%	0.12%
1.2. Non-financial legal persons	0.00%	0.01%	0.00%
1.3. Financial Institutions	92.09%	92.16%	91.71%
2. Domestic shareholders	7.79%	7.70%	8.13%
2.1. Natural persons	6.61%	6.60%	6.99%
2.2. Non-financial legal persons	0.79%	0.79%	0.79%
2.3. Financial Institutions	0.39%	0.32%	0.35%
3. State-ownership	0.04%	0.04%	0.04%
Total	100.00%	100.00%	100.00%

Source: ISA

Table A2
 Gross written premium by life insurance undertakings (thousand denars)

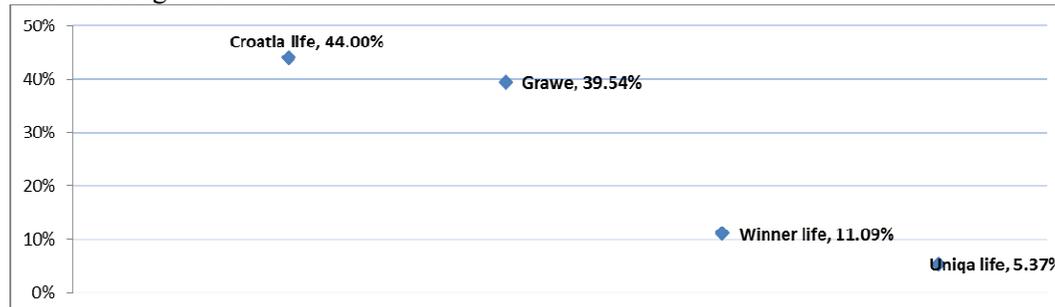
Ser.	INSURANCE UNDERTAKING	Gross Written Premium (GWP)		Change 15/14	Share in total GWP	
		2015	2014		2015	2014
1	CROATIA LIFE	484,428	384,706	25.92%	44.00%	43.31%
2	GRAWE	435,289	371,554	17.15%	39.54%	41.83%
3	WINNER LIFE	122,107	83,209	46.75%	11.09%	9.37%
4	UNIQA LIFE	59,167	46,741	26.58%	5.37%	5.26%

5	MACEDONIA	0	2,119	-	100.00%	0.00%	0.24%
	TOTAL LIFE INSURANCE	1,100,991	888,329	23.94%	100.00%	100.00%	100.00%

Source: ISA

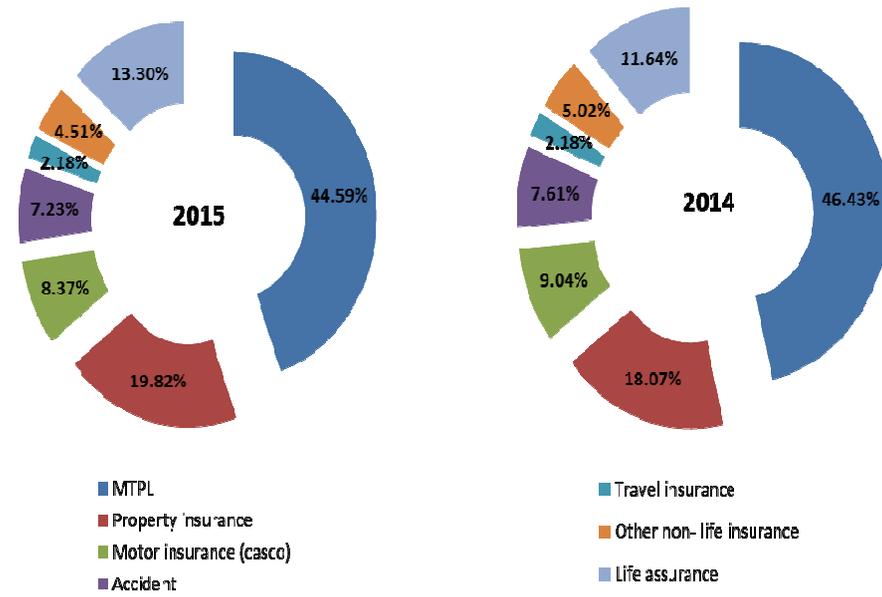
APPENDIX B

B1. Market concentration relative to gross premium in 2015, for life insurance segment in %



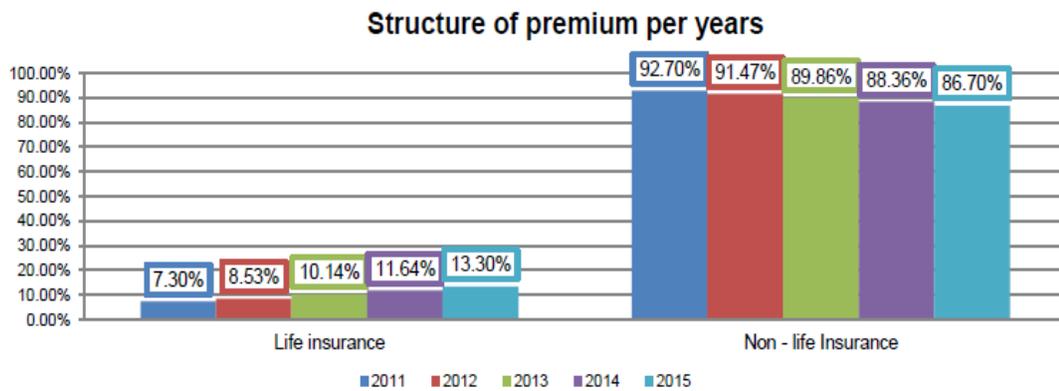
Source: ISA

B2. Gross written premium structure by line of business insurance (percentages)

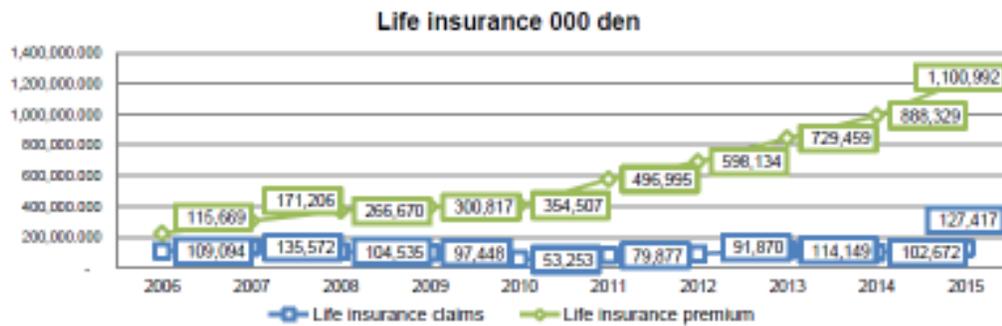


Source: ISA

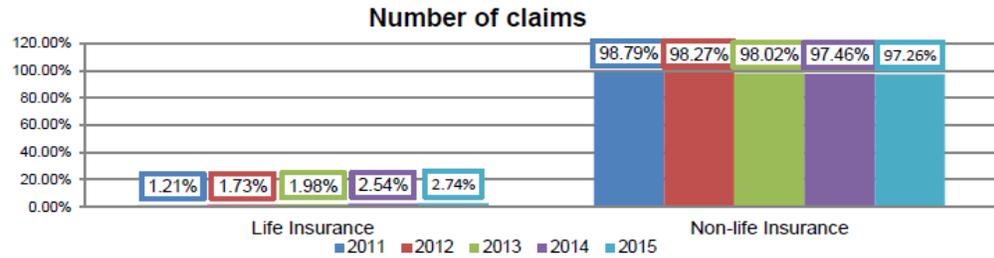
B3. Structure of premium for period 2011-2015



B4. Life insurance premium and life insurance claims for period 2006-2015 (in thousand denars)



B5. Number of claims for the period of 2011-2015



B6. Historical trend of Gross written premium and Gross settled claims in Macedonia (2006-2015 in thousands denars)

