

**20TH ANNIVERSARY OF THE INSURANCE
SUPERVISION AGENCY OF REPUBLIC OF SRPSKA**

2006. – 2026.

20
years **AND ASSURANCE TRUST**



IARS
Insurance Agency
of the Republic of Srpska

20 years
of the Insurance Agency
of Republic of Srpska

Бања Лука, 2026.

Publisher:
Insurance Agency of Republic of Srpska
Bana Milosavljevića 8/II Street, Banja Luka
kabinet@azors.rs.ba
azors.rs.ba

For the Publisher:
Draženka Janjanin, Director

Editor:
Prof. Nataša Petrović Tomić, PhD

Cover Design:
Ivana Zoranović

Prepress and Printing House:
GRAFID d.o.o.
Banja Luka

For Grafid:
Branislav Ivanković

Print Run
300

ISBN 978-99997-51-00-1

20 years
of the Insurance Agency of Republic of Srpska

Contents

FOREWORD	9
DIRECTOR'S WORD	15
20 YEARS OF THE INSURANCE AGENCY OF REPUBLIC OF SRPSKA	21
OUR 20 YEARS.....	23
Establishment	25
Key Phases of Institutional Development.....	26
Mission, Vision and Objectives of the Agency.....	27
Governance Bodies	28
Terms and Compositions of the Management Board:	28
Organizational Structure	29
Supervisory Activities	30
Activities Related to the Prevention of Money Laundering and Terrorist Financing.....	31
Consumer Protection and Education in Insurance	32
Activities Related to the Preparation for the Implementation of Solvency II.....	33
International Financial Reporting Standard 9 – Financial Instruments (IFRS 9) and International Financial Reporting Standard 17 – Insurance Contracts (IFRS 17).....	34
Assessment of Compliance with the Insurance Core Principles	34
Unified Integrated Information System	35
Committee for the Coordination of Financial Sector Supervision of Republic of Srpska	35
Membership in the International Association of Insurance Supervisors (IAIS) and the International Organisation of Pension Supervisors (IOPS)	36
REGULATORY FRAMEWORK – A HISTORICAL OVERVIEW	37
Regulatory Framework	39
INSURANCE MARKET OF REPUBLIC OF SRPSKA.....	43
PARTICIPANTS IN THE INSURANCE MARKET OF REPUBLIC OF SRPSKA	47
COMPETITION INDICATORS IN THE INSURANCE MARKET OF REPUBLIC OF SRPSKA.....	49
PERFORMANCE INDICATORS OF INSURANCE COMPANIES BASED IN REPUBLIC OF SRPSKA.....	53
Comparative Overview of Trends in Calculated Technical Provisions, Share Capital, and Written Premium.....	57
Calculation and coverage of technical provisions.....	59
OTHER PERFORMANCE INDICATORS.....	64

VOLUNTARY PENSION INSURANCE IN REPUBLIC OF SRPSKA	65
CHALLENGES AND DEVELOPMENT TRENDS.....	69
Liberalization of the Motor Third- Party Liability (MTPL) Market.....	71
Transition to the Solvency II Regulatory Framework	72
Implementation of International Financial Reporting Standards, Primarily IFRS 9 and IFRS 17, Relating to the Field of Insurance.....	74
Risk-Based Supervision	74
Digitalization	76
Intelligent ESG Risk Management and its Integration into Supervisory Practice.....	77
Unified Insurance Distribution Regime – The Principle of the Best Interest of the User	78

List of Charts and Tables

Charts

Chart 1: Organizational structure of the Agency	29
Chart 2: Supervised Entities in 2025.....	31
Chart 3: Premium per capita in BAM.....	45
Chart 4: Basic indicators of the insurance market of Republic of Srpska in 2025	46
Chart 5: The total share and number of insurance companies in the total insurance market premium	49
Chart 6: HHI by types of insurance	49
Chart 7: Premium trend	50
Chart 8: Paid claims	51
Chart 9: Performance indicators of insurance companies in 2025	55
Chart 10: Comparative overview of calculated technical provisions, share capital, and written premium.....	57
Chart 11: Capital adequacy rate	58
Chart 12: Technical provisions – TOTAL	60
Chart 13: Technical provisions – non-life insurance	60
Chart 14: Investment structure of technical provisions – non-life insurance.....	61
Chart 15: Technical provisions – life insurance	62
Chart 16: Investment structure of technical provisions – life insurance.....	63
Chart 17: Number of total active members of voluntary pension fund.....	67
Chart 18: Net asset value of voluntary pension fund	68

Tables

Table 1: Participants in the insurance market of Republic of Srpska	48
Table 2: Insurance companies based in Republic of Srpska (2006–2025)	56
Table 3: Other performance indicators	64

FOREWORD



Prof. Nataša Petrović Tomić, PhD

Insurance is a product of Italian business ingenuity. Everything started in Northern Italy, more precisely in Lombardy, where the first genuine insurance transaction was concluded, relating to the coverage of goods against risks in transportation. Over time, this practice evolved into a customary rule, which the entrepreneurial merchants from Lombardy spread throughout the cities of Europe with which they maintained business relations. The manner in which the regulatory framework of insurance evolved is particularly remarkable and instructive.

The process was initially slow and gradual, which resulted in the predominance of professional rules and customary law primarily aimed at protecting one contracting party – the insurer. When the need arose to formalize the transfer of risk contractually, merchants in the early stages of development had to create something entirely new – a contract for which they could not find adequate rules within the existing legal framework. By creating their own *lex mercatoria*, the Lombard merchants gradually developed a set of clauses which eventually constituted *lex assecurationis*, that is, autonomous and specific contractual rules founded on the principle of aleatory transactions. It is hardly necessary to emphasize that the field of insurance contract law still represents a distinct *lex assecurationis*, i.e. a special legal regime.

Due to its seemingly speculative nature (which even today may appear so to those insufficiently familiar with insurance!), insurance for a long time remained outside the mainstream of business and occupied a marginal legal position. It is therefore not surprising that for centuries insurance law was primarily contained in contractual provisions and policy terms unilaterally drafted by insurers. Only a small portion of insurance regulation – dealing with the status-related issues of conducting insurance activities – was included in corporate charters, professional codes and, to a certain extent and without systematic structure, in court decisions. Only from the beginning of the twentieth century did insurance enter a phase of intensive regulatory development. In this regard, it is necessary to distinguish between the contractual segment (which remains largely non-harmonized even within the European Union) and the regulatory segment, in which the EU has taken a leading role. **The most striking and**

constant feature of the evolution of insurance and insurance law is the slow but steady process of transformation from the image of a highly suspicious aleatory transaction – akin to gambling and games of chance – into a highly regulated financial transaction that has become not only a normal but an indispensable segment of modern social and economic life. Generally speaking, insurance today is highly regulated. There is intensive regulatory activity not only on the part of legislators but also supervisory authorities, all with the intention of ensuring adequate protection for users of insurance services. From an activity that was initially business-oriented, insurance in recent decades has become synonymous with a special legal regime in which systematic departures from general legal principles are introduced.

The reality of the twenty-first century is very different from that described at the beginning of this foreword. Whenever an incident occurs in the modern world (meaning an event that generates harmful consequences), the first question usually asked is whether insurance coverage exists. Whether it is a pandemic, a supercell storm, a war or an energy crisis that produces global inflationary pressures, instead of “looking to the sky” (a metaphor for leaving matters to fate instead of adopting a rational risk protection strategy!) both professionals and the general public turn to insurance. In that sense, it is reasonable to what would have happened had insurance not emerged to protect us from liabilities that reach unimaginable proportions in the post-technological society.

In recent decades, the insurance contract has become an example of a mass - market transaction within the legal systems of the European Union and

worldwide. In the modern consumer and technological society of the twenty-first century, two words are key: risk and risk management. Purchasing insurance is therefore an indicator of responsible behaviour - a form of individual risk management at the micro level and a benchmark of a new social and political culture characteristic primarily of Western societies. The risk that surrounds us from all sides – as one American author wrote, *„One of the few certainties in our world is that uncertainty rules our existence...”* – whether in private or professional life, requires the adoption of meaningful strategies for risk management and transfer. In a society where insurance is perceived as a mechanism for preventing and compensating the consequences of undesirable events beyond the control of individuals or companies, the fundamental question is no longer whether one has invested in this highly sophisticated financial market product, but rather which types of insurance one has invested in. At the present stage of development it is reasonable to conclude that life events are not entirely left to chance. Based on past experience, reliable projections can be made regarding such events and the consequences they may produce. Under such a perception of life, insurance becomes part of the mainstream, which distinguishes the current millennium from previous ones when there was no awareness that risk could be managed in order to maximize profit, technological progress and quality of life. Insurance is therefore, above all, the business of providing financial security against unforeseen events.

From an activity of assuming risk – offering individuals and corporate clients private risk-management mechanisms – the insurance business, when an insured event occurs, first transforms into the business of claims processing, and ultimately, if disagree-

ments arise, into the business of resolving claims. Without an efficient and effective dispute-resolution process, insurance – as an activity based on the trust of service users – loses part of its identity. Therefore, establishing an adequate network of alternative dispute-resolution bodies forms an integral part of risk-management processes within the insurance industry. For the purposes of legal regulation in relation to insurance contracts, a distinction is often made between *mass risks* and *large risks*.

Although those insufficiently familiar with the sector often conceal their lack of knowledge through a dismissive attitude towards insurance, the following statement from a judgment of an American court remains valid: “No modern corporation affects all aspects of life as directly as insurance companies. Insurance affects the home, the family, the profession or business of almost every person.” Considering the far-reaching role of insurance as a factor of risk management and security, it is difficult today to imagine a serious and favorable regulatory framework that does not implement an appropriate strategy for promoting insurance as one of the most significant contracts in a post-technological society. An indispensable part of a well-founded strategy for developing the insurance market is also a strategy aimed at improving the financial literacy of service users and raising general awareness of risk, which represents the gateway to the development of a desirable level of insurance culture.

Understanding the development potential of insurance services, as a prerequisite for achieving the full potential of the insurance market, requires a synergy of expertise and the combination of scientific and pragmatic approaches. Increasing the share of insurance in gross domestic product to a level of 8–10%,

which is typical for developed insurance cultures, is not an unattainable goal, but it requires a gradual process. For this process to materialize, it is crucial that all stakeholders – from insurers to the state – assume their share of responsibility. In this context, it is important to mention that the insurance industry stands at the centre of the transition driven by the adoption of ESG standards and the broader culture of sustainability. Insurance companies are in a position not only to lead by example but also to adopt corporate risk-assessment policies that send a clear message to their clients that business operations should align with sustainability standards. Decarbonization, investments in green bonds, care for employees, and clear criteria for selecting board members based on diversity in terms of gender, professional background and age are only some indicators of corporate social responsibility that may facilitate entry into the “club of the selected”, that is, the insured.

At the moment when the Insurance Agency of Republic of Srpska marks two decades of operation and “draws a line”, one thing is certain: the local insurance market is developing. Although its sensitivity to developments in the global market cannot be avoided, Republic of Srpska has before it a path that can be eased by wisely taking into account the experiences of developed insurance cultures. This does not imply that the experiences of other countries should be adopted *telle quelle* without consideration of the specific characteristics of the local insurance environment. Comparative legal solutions and practices should serve as guidelines, while the relevant actors of the domestic insurance market should assess the pace and direction of reforms. All this with the intention of building a well-founded regulatory frame-

work that will be *consumer-friendly* and contribute to the development of an insurance culture.

Finally, the first twenty years of the Insurance Agency of Republic of Srpska represent an appropriate moment to publicly support the ongoing process of improving financial literacy and promoting insurance services. Risk literacy forms part of broader financial education and aims to reduce the digital divide that clearly affects insurance penetration.

Belgrade, 10 March 2026

DIRECTOR'S WORD



*Draženka Janjanin,
Director of the Insurance Agency of Republic of Srpska*

Although insurance as a financial product with a protective function developed relatively late, this does not mean that certain forms of organized protection against dangers and risks did not exist from the earliest times. From the earliest organized communities until today, human life has been accompanied by numerous hazards. No one is exempt from exposure to a wide range of risks: death, illness; accidents that may result in illness, loss of working capacity or premature death; damage to property resulting in fi-

nancial loss; loss of expected income; liability arising from actions performed in a professional capacity, and so forth. One of the strongest arguments in favor of the institution of insurance is the fact that risks in modern society are an integral part of socially beneficial activities. For this reason, legislators have an interest in covering such risks through compulsory insurance schemes. From the perspective of a victim or injured party, the occurrence of a risk may represent a catastrophe. It is therefore not surprising that there has always been a demand for protective mechanisms. However, the path that insurance has taken—from an instrument for risk prevention to an instrument for assuming the consequences of realized risk—has been long and marked by misunderstanding, the slow development of the regulatory framework, and a general denial of its usefulness.

Insurance should therefore be viewed in precisely this context. It is an *institution that has developed as part of a broader strategy for controlling and managing risks* that have multiplied alongside socio-economic development.

We may agree that the primary function of insurance is to *provide protection*. By assuming the consequences of a specific event (an insured risk whose occurrence constitutes an insured event), the insurer provides protection to the policyholder or the beneficiary under the insurance contract. The protective function of insurance becomes even more pronounced in relation to business entities, for whom unforeseen events may cause enormous losses. Thanks to insurance, interruptions in business operations are avoided—interruptions that may sometimes lead to liquidation or bankruptcy.

In the twenty-first century, the protective function of insurance is no longer limited solely to the

participants in the contractual relationship. In modern society, insurance has become a factor enabling the performance of socially beneficial activities, and the scope of protection extends to persons outside the insurance contract itself (so-called third parties). Furthermore, the funds accumulated in insurers' reserves are of such magnitude that insurers are rightly referred to as institutional investors. For this reason, the regulatory framework governing insurance activities—contained in specific legislation regulating insurance operations and supervision—is equally important. If such a framework is conducive to the development of insurance undertakings and accompanied by educational efforts aimed at potential users of insurance services, positive effects on economic growth can be expected.

It is generally known that an insurance contract differs from other contracts in that it provides a service rather than a tangible product. Unlike goods—whose quality can be assessed prior to the conclusion of a contract—insurance policies, as legal products, require explanations from insurers, authorized brokers, or insurance agents. It is therefore of crucial importance that consumers understand what insurance represents, in which situations they may rely on insurance protection, and when insurance coverage does not apply. Achieving this objective requires the provision of information and advice to consumers by insurance professionals. In modern legal systems this obligation is regulated as a statutory duty that applies from the pre-contractual phase until the termination of the contractual relationship.

Let us briefly reflect on the previous business year. For many observers it was, to say the least, a complex year. Nevertheless, the stability of insurers' operations was preserved, as was a high level of securi-

ty for all users of insurance services. The insurance sector proved resilient in the face of numerous crises. The uncertainty that has increasingly characterized the insurance market over the past several years raises an important question: will we be able to respond to all the challenges ahead? How can we reach a point where citizens no longer ask whether insurance is necessary, but instead which insurance product or policy is the most suitable for them? How can we find the “magic solution”?

During its first twenty years of existence and operation, the Agency faced numerous challenges typical of developing markets. Even after two decades of existence and considerable experience, it is not easy to predict with certainty which challenges the Agency will face in the coming period. What is certain, however, is that the market must be strategically developed. After twenty years of performing regulatory and supervisory functions, the insurance market has reached a certain level of maturity and readiness to enter the next stage of development. Such an agenda will represent a new challenge for the Agency. Globally and locally alike, the insurance market is dynamic and sensitive to numerous risks, including geopolitical tensions, climate-related and environmental risks of unprecedented scale, increasingly frequent war and political risks, and the unavoidable threat to cyber security. When these circumstances are taken into account, it may seem that the coming decades will be even more challenging—and they probably will be. However, the Agency now possesses strong human resources, is well connected with key international supervisory organizations and networks, and, most importantly, its name is associated with a significant capital of trust.

The continued growth of the insurance market in Republic of Srpska will primarily require the continuation of reforms aimed at aligning the domestic legal framework with European Union law. Although there are substantial differences among EU Member States in terms of their level of preparedness for EU accession—particularly in relation to insurance markets—the adoption of a well-founded reform strategy remains essential. Such a strategy should clearly define the sequence of regulatory and supervisory measures to be undertaken while at the same time taking into account the specific characteristics of the local socio-economic environment. Among the unavoidable topics are the liberalization of premium pricing in compulsory motor third-party liability insurance, the full transition to a regulatory framework based

on Solvency II, the implementation of International Financial Reporting Standards (IFRS)—primarily IFRS 9 and IFRS 17 relating to insurance—as well as the application of risk-based supervision. At the same time, new challenges are emerging that are already present in developed insurance markets, such as the identification of risks related to climate change and their integration into supervisory practices, as well as the opportunities and risks associated with digitalization and artificial intelligence. Taken together, these factors will lead to a long-term transformation of the regulatory approach. Ultimately, achieving progress in financial literacy and in the development of an insurance culture remains the final objective of every modern regulator.

20 YEARS OF THE
INSURANCE AGENCY OF
REPUBLIC OF SRPSKA

OUR 20 YEARS

2006

The Insurance Agency of Republic of Srpska was established and commenced operations pursuant to the Law on Insurance Companies.

2006

Cooperation was established with TARMIS (European Commission project “Technical Assistance for the Reform and Modernization of the Insurance Sector in BiH”).

2007

The first professional examination required for obtaining a license to perform insurance brokerage and insurance agency activities was held, preceded by a preparatory education programme.

2009

The Financial Sector Supervisory Coordination Committee of Republic of Srpska was established, consisting of the Minister of Finance of Republic of Srpska, the President of the Securities Commission of Republic of Srpska, the Director of the Banking Agency of Republic of Srpska and the Director of the Insurance Agency of Republic of Srpska.

2010

The Agency participated in the Twinning Project BA 07 IB FI 01 “EU Support for Sustainable Insti-

tutional Capacity Building of the Insurance Agency in BiH, the Insurance Agency of Republic of Srpska and the Insurance Supervisory Agency of the FBiH”.

2013

The Agency participated in the project “BiH 10295: Liberalization of the Motor Third-Party Liability Insurance Market”, implemented by the *FIRST Initiative*.

2014

Participants in the insurance market were identified as entities obliged to apply the Law on the Prevention of Money Laundering and Financing of Terrorist Activities.

2014

An assessment of the financial sector of BiH (*Financial Sector Assessment Program – FSAP*) was conducted, in which the Agency took part, within the cooperation with the World Bank and the International Monetary Fund.

2015

The Law on Compulsory Traffic Insurance was adopted, continuing the process of alignment with EU directives.

2015

The Agency hosted a meeting of supervisors from Central, Eastern and South-Eastern Europe within the *CESEE ISI* framework.

2017

The Law on Insurance Agency and Brokerage Activities partially aligned the regulatory framework with EU directives in the area of insurance distribution.

The Agency issued the license for the establishment of the first voluntary pension fund management company in Republic of Srpska and BiH.

2018

The Agency adopted the Strategic Framework for Preparation for the Transition to the Solvency II Regulatory Framework, identifying the activities necessary for the transition.

2021

The Agency conducted the first stress test of insurance companies and of the sector as a whole, developed in accordance with recommended supervisory practices and with appropriate adaptation of the methodology used by the European Insurance and Occupational Pensions Authority (EIOPA).

2022

In order to raise awareness of the importance of timely preparation for future regulatory requirements, the Agency organized—for the first time—training for members of management boards and directors of insurance companies on the topic “Integrated Risk Management and the ORSA Process.”

2023

A Unified Integrated Information System of the Agency was established, integrating a large volume of data and previously used applications, expanding the possibilities for preventive action through early identification and assessment of risks, and enhancing supervision over the operations of participants in the insurance and voluntary pension insurance markets.

2024

Within a technical assistance project, the Agency conducted a self-assessment of compliance with the *Insurance Core Principles (ICPs)*.

2024

The Insurance Agency of Republic of Srpska was admitted as a full member of the *International Association of Insurance Supervisors (IAIS)* and the *International Organisation of Pension Supervisors (IOPS)*.

2025

Central electronic records for compulsory MTPL insurance, at the Protection Fund of the RS, have been launched.

Establishment

The Insurance Agency of Republic of Srpska (hereinafter: the Agency) was established under the Law on Insurance Companies of 2005 as an independent and non-profit institution of Republic of Srpska, accountable for its work to the National Assembly of Republic of Srpska. The Agency is headquartered in Banja Luka.

Simultaneously with the adoption of the Law on Insurance Companies, the Law on Insurance Intermediation and the Law on Motor Third-Party Liability Insurance and Other Compulsory Liability Insurance were also adopted. Prior to the enactment of these laws, supervision and the conduct of insurance activities were regulated by legislative solutions that did not fully reflect modern international standards and best practices. It should also be noted that the aforementioned legislative package adopted in 2005 was based on the then-applicable European Union insurance directives and was adopted as part of the commitment to align the insurance sector of Republic of Srpska with European and international regulatory standards and principles.

The process of establishing the Agency as a legal entity capable of exercising its statutory competencies lasted from the end of December 2005 until the end of March 2006. During this period, efforts were undertaken to create the necessary operational conditions and to address challenges typical of a transition from the former socialist institutional framework. Numerous secondary regulations had to be adopted, employees had to acquire specialized knowledge in the field of insurance, supervisory methodologies had to be developed, and the information system had

to be established. The beginning of supervisory activities at the Agency's planned operational capacity is associated with 1 April 2006. In order to build the institutional capacity of the Agency, an *Action Plan for the period 2006–2007* was adopted, outlining activities aimed at establishing organizational units, securing financial resources for the Agency's operations, developing the legislative framework, improving modern communication practices, and enhancing the professional qualifications of staff. Continuous cooperation was also established with TARMIS (the European Commission project "Technical Assistance for the Reform and Modernization of the Insurance Sector in BiH").

In accordance with the legal framework, the Agency's competencies may be grouped into: regulatory functions (exercised through the adoption of secondary legislation, recommendations, and guidelines); supervisory functions (aimed at ensuring legality of operations and financial discipline within the insurance market); and consumer protection and education functions for users of insurance services. Pursuant to the Law on Voluntary Pension Funds and Pension Plans, the Agency is also responsible for regulating and supervising the area of voluntary pension insurance.

The Agency aligns the operating rules and practices of insurance market participants, as well as supervisory rules and principles, with internationally accepted insurance supervisory standards.

Key Phases of Institutional Development

During its two decades of existence, the Agency has undergone three phases of institutional development.

Phase One – Establishment of the Institution and Regulatory Framework

The initial period of the Agency's work was marked by the establishment of its basic institutional structure. The primary focus was on adopting key regulations in the field of insurance, establishing the register of insurance market entities, and implementing the licensing process for insurance companies, intermediaries, and insurance agents. At this stage, the supervisory function primarily had a control-oriented character, aimed at ensuring minimum conditions for lawful and stable business operations. The period of establishing the Agency as a legal entity capable of exercising its statutory competencies lasted from the end of December 2005 to the end of March 2006. During this period, numerous issues and challenges typically encountered by newly established institutions were successfully addressed. The Agency began performing its legally prescribed functions at full operational capacity on 1 April 2006.

Phase Two – Consolidation and Strengthening of Institutional Capacity

Following the initial establishment period, the Agency entered a phase of institutional consolidation. This phase was characterized by the strengthening of professional and organizational capacities, improvement of internal procedures, and standardization of supervisory activities. Special emphasis was placed on staff training, the development of special-

ized knowledge—particularly in the fields of actuarial science and risk management—and the enhancement of cooperation with domestic and international institutions, and with professional associations. At the same time, the regulatory framework continued to evolve through the adoption of new secondary legislation and supervisory guidelines for insurance market participants. The improvement and standardization of supervisory practices and work processes became an integral part of the Agency's activities. Within this framework, early warning indicators were developed as a preparatory step toward the transition to risk-based supervision.

Phase Three – Modernization of the Regulatory and Supervisory Approach

In this phase, the Agency operates not only as a supervisory authority but also as an active participant in the development of the insurance market, through the initiation of regulatory improvements, strengthening of policyholder protection, promotion of sound business practices, and enhancement of public awareness regarding the role and importance of insurance. Particular attention has been devoted to transparency of operations, improved reporting practices, digitalization of supervisory processes, and further alignment with international insurance standards, particularly the *Insurance Core Principles (ICPs)*. This phase is also characterized by the adoption and implementation of strategies preparing for the transition to Solvency II, preparations for the liberalization of motor third-party liability insurance premiums, and the implementation of IFRS 17. The Agency has reached full institutional maturity, but at the same time faces the challenge of maintaining the stability of the insurance sector in an increasingly volatile environment.

Mission, Vision and Objectives of the Agency

The mission of the Agency is to ensure effective regulation and supervision of the insurance sector, specifically:

- insurance activities (insurance companies, insurance agents, and insurance brokers), and
- voluntary pension insurance (voluntary pension fund management companies and voluntary pension funds),

with the aim of protecting and maintaining the confidence of policyholders, third parties, beneficiaries of insurance services, and members of voluntary pension funds, while creating conditions for the stable and transparent functioning of the insurance market in Republic of Srpska.

The vision of the Agency is the continuous development of the institution as an independent and modern regulator and supervisory authority, operating in accordance with best practices and international standards.

The Agency harmonizes the operating rules of insurance market participants—including insurance companies based in Republic of Srpska, branches of insurance companies based in the FBiH, insurance agents and brokers, voluntary pension fund management companies, and the Protection Fund of Republic of Srpska—as well as supervisory rules and principles with internationally accepted standards of insurance supervision. The Agency supervises market participants and undertakes measures necessary to ensure lawful and sound operations within the insurance market.

In cooperation with insurance market participants in Republic of Srpska, the Agency undertakes activities aimed at raising awareness of the need for continuous improvement of business practices and increasing compliance with insurance standards and regulations.

Through these activities, the Agency contributes to the development of a stable, well-regulated, and efficient insurance market in Republic of Srpska, providing users with insurance services that are reliable, high-quality, and transparent.

The Agency's strategic objectives include:

- building supervisory competence and openness toward constructive interaction with all stakeholders,
- promoting a competitive environment and supporting the development of self-regulation among insurance market participants,
- developing risk-based regulation and supervision, gradually shifting the supervisory focus from ex-post legality control toward supervision based on risk assessment and risk management within supervised entities,
- maintaining an active position within BiH and implementing EU and other international standards,
- increasing public confidence in insurance and voluntary pension insurance services and products,
- developing an effective policy in the area of human resources management and development,
- optimizing processes and procedures and advancing the use of information technologies.

Governance Bodies

The governing bodies of the Agency are the *Management Board* and the *Director*. The Management Board consists of a Chairperson and four members, appointed and dismissed by the National Assembly of Republic of Srpska upon the proposal of the Government of Republic of Srpska. The Director of the Agency is also appointed by the National Assembly of Republic of Srpska upon the proposal of the Government. The first session of the Management Board was held on 23 December 2005, and by the end of 2006 a total of 12 sessions had been held.

Marking the 20th anniversary of the Agency's work, it is important to briefly recall the members of the Management Board and the Directors who, through their leadership, organizational efforts, and professional experience, guided the Agency and contributed significantly to the development of the insurance sector.

Terms and Compositions of the Management Board:

2005 – 2007

- Zdravko Marinković, Chairperson
- Mirjana Stojanović Trivanović
- Slobodan Čarapić
- Vujo Stanivuk
- Đuro Beronja

2007 – 2010

- Branka Bodroža, Chairperson
- Mile Tamamović

- Ljiljana Marković
- Darko Radić
- Brane Stupar

2010 – 2013

- Branka Bodroža, Chairperson
- Mile Tamamović
- Ljiljana Marković
- Darko Radić
- Boris Dmitrašinić

2013 – 2017

- Branka Bodroža, Chairperson
- Darko Radić
- Nikola Vojvodić
- Srđan Šuput
- Boris Dmitrašinić

2017 – 2022

- Goran Račić, Chairperson
- Ranko Mijić
- Boško Mekinjić
- Darko Radić
- Nikola Vojvodić

2022 – 2024

- Goran Račić, Chairperson
- Ranko Mijić
- Boško Mekinjić
- Milan Trninić
- Dejan Jeremić

2024 – Present

- Goran Račić, Chairperson
- Boško Mekinjić
- Milan Marković

- Vedrana Vrhovac
- Dejan Jeremić

Directors of the Agency

- Vladislav Babić (2005 – 2007)
- Miodrag Babić (Acting Director, 2007)
- Božana Šljivar (2007 – 2015)
- Slaven Dujaković (2015 – 2021)
- Draženka Janjanin (Acting Director, 2021 – 2023)
- Draženka Janjanin (2023 – Present)

Organizational Structure

The legal position of the Agency as a supervisory and regulatory authority determines its organizational structure, which defines organizational units, their competencies, and the systematization of positions with job descriptions classified according to type, complexity, and related responsibilities.

For a completely new institution entrusted with responsibilities that had not previously existed in this region to begin operations under conditions of very modest technical and material resources, secondary legislation was adopted to enable the recruitment of a certain number of employees. In 2006, the Agency's operational capacity was ensured by 13 employees with legal and economic backgrounds. They were organized within a structure appropriate to the Agency's initial priorities, which were largely focused on regulatory activities and the issuance of licenses to insurance market participants. Staffing needs gradually increased in line with the growing scope of activities and institutional needs. Today, the Agency employs 43 staff members. Employees are organized within the following sectors: Director's cabinet, Secretariat, Financial and Accounting Supervision Sector, Actuarial Supervision Sector, Licensing and Legal Supervision Sector and Statistics, Development and Cooperation Sector. The Agency also includes the Insurance Ombudsman.

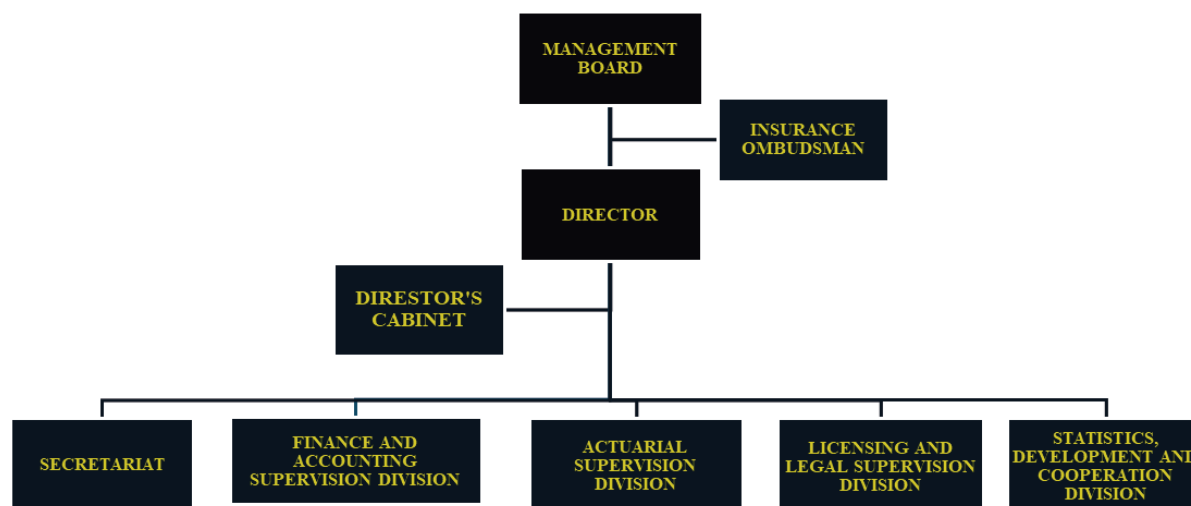


Chart 1: Organizational structure of the Agency

Of the total number of employees, 90% hold university degrees in economics, law, electrical engineering, and information technology. Among them, four employees hold Master's degrees in Economics, two hold Master's degrees in Economics (MSc), and one employee holds a Master's degree in Management.

The Agency's vision as a modern regulator can only be achieved through continuous professional education and training of its employees.

Supervisory Activities

Within the framework of its legally defined supervisory function and with the objective of assessing conditions in the insurance market, the Agency already conducted inspections in insurance companies, intermediaries, and the Protection Fund of Republic of Srpska during the second half of 2006. In 2007, the establishment of an efficient supervisory system began, focusing on the continuous monitoring of the operations of insurance companies. During this period, the Rulebook on Supervision of Insurance Market Participants was adopted, supervisory methodologies were further developed, and activities aimed at establishing the Agency's information system were initiated. At the beginning of 2008, the first Annual Programme of Regular Inspections was adopted. Since then, this programme has been adopted on an annual basis.

The Agency's supervisory responsibilities may be grouped as follows:

- supervision of compliance with requirements for issuing licenses to insurance companies and voluntary pension fund management companies, as well as supervision of the

establishment and management of voluntary pension funds,

- supervision of compliance with requirements for authorization and registration of insurance agents and insurance brokers, including the organization of professional examinations for performing insurance intermediation and representation activities,
- supervision of compliance with requirements for granting authorization to perform actuarial services and registration in the Register of Authorized Actuaries,
- supervision of compliance with requirements for issuing other approvals and consents to insurance market participants,
- off-site supervision (legal, financial-accounting, and actuarial) of insurance market participants based on the analysis of reports and other documentation submitted to the Agency,
- on-site supervision of insurance market participants,
- supervision of the operations of the Protection Fund of Republic of Srpska,
- exchange of supervisory information with other financial market regulators in Republic of Srpska and the Federation of BiH,
- cooperation and information exchange with insurance supervisory institutions from EU Member States, including participation in colleges of supervisors, for the purpose of supervising insurance companies operating within international insurance groups.

The development of the supervisory function is based on the improvement of supervisory methodologies, the enhancement of professional expertise

among Agency staff, and the development of the Agency’s information system in order to increase the efficiency of supervisory activities. The improvement and standardization of supervisory practices represent a continuous process within the Agency. Identifying opportunities for the introduction of risk-based supervision of insurance companies remains a continuous activity and continues to represent one of

the most significant challenges in the development of the Agency’s supervisory practices. Cooperation and information exchange with insurance supervisory authorities from neighbouring countries and EU Member States, as well as participation in supervisory colleges, also constitute an important component of the Agency’s supervisory activities.

14	9	689	20	3	Protection Fund of Republic of Srpska
insurance companies from Republic of Srpska	branch offices of insurance companies from FBiH	insurance agents, of which 103 registered businesses as entrepreneurs	insurance agency companies from Republic of Srpska	branch offices of the insurance agency companies from FBiH	
24	7	6	40	Voluntary pension Fund Management Company	
insurance brokers – natural persons	brokerage companies from Republic of Srpska	branch offices of the brokerage companies from FBiH	certified actuaries		

Chart 2: Supervised Entities in 2025

The number of entities supervised by the Agency has been continuously increasing, which will be presented in more detail in subsequent sections.

The Agency also conducts training and licensing of authorized insurance intermediaries and agents. The first professional examination for obtaining the title of insurance intermediary was organized in May 2007. Within the TARMIS project, the Agency organized preparatory training for candidates who had registered for the examination. During that year’s examination session, 436 candidates applied. From 2007 to the present, the Agency has organized 17 regular examination sessions and 16 extraordinary sessions, and 2,106 candidates have successfully passed the professional examination.

Activities Related to the Prevention of Money Laundering and Terrorist Financing

In accordance with the recommendations of FATF and Moneyval, and based on the Law on the Prevention of Money Laundering and Financing of Terrorist Activities and related secondary legislation, the Agency continuously monitors the implementation of regulations concerning the prevention of money laundering and terrorist financing through regulatory, supervisory, and educational activities. Through its representatives in the Permanent Coordination Body and the Working Group for Reporting and Implementation of International Obligations in the Field of Anti-Money Laundering and Counter-Terrorist Fi-

nancing, the Agency actively participates in the co-ordination of competent institutions and reports on activities related to the implementation of international obligations in this field. Agency staff regularly participate in seminars and workshops aimed at strengthening the exchange of experience and enhancing inter-institutional cooperation in the area of supervision related to anti-money laundering and counter-terrorist financing.

Consumer Protection and Education in Insurance

In addition to supervisory and regulatory activities—which indirectly contribute to consumer protection in insurance (policyholders, third-party claimants, and insurance beneficiaries)—the Agency also addresses consumer protection through direct communication with consumers, both through the Agency’s professional services and through the Insurance Ombudsman.

Insurance Ombudsman

The Law on Insurance Companies, adopted in 2005, introduced the institution of the Insurance Ombudsman into the legal system of Republic of Srpska. In line with this regulatory approach, the Insurance Ombudsman was established within the Agency in 2007.

A Rulebook on the Ombudsmen was adopted, regulating the establishment, functioning, and financing of this institution responsible for consumer protection in insurance. Ljiljana Sokolić was appointed as the first Insurance Ombudsman. The establishment of the Insurance Ombudsman within the Agency represents a step toward promoting out-of-court dispute resolution related to insurance contracts between in-

surance companies or the Protection Fund of Republic of Srpska, on the one hand, and policyholders, insured persons, beneficiaries, and third-party claimants, on the other. Through this mechanism, Republic of Srpska joins legal systems that promote strategies aimed at reducing litigation in insurance disputes, which in the long term contributes to strengthening public confidence in insurance as an important form of social capital for sustainable development of the insurance market. The activities of the Insurance Ombudsman may be grouped as follows: handling complaints and requests for out-of-court dispute resolution in insurance, consumer education in insurance, contributing to the improvement of the regulatory framework, and performing other activities relevant to users of insurance services.

Функцију Омбудсмана у осигурању обављали су:

- Ljiljana Sokolić (2008–2019)
- Marinko Kovačević (2019–2021)
- Milena Gajić, Acting Ombudsman (2021–2022)
- Željko Slijepčević (2022–present)

Financial Literacy in Insurance

One of the Agency’s most important roles related to the development of the insurance market is the implementation of activities aimed at improving financial literacy in insurance. Financial literacy contributes to the development of insurance culture, which requires increasing public knowledge about the role and importance of insurance and voluntary pension insurance.

Activities aimed at improving public awareness about the importance of insurance are based on the results of the first insurance market survey conducted in Republic of Srpska, which assessed the general level of public awareness and knowledge regard-

ing insurance. A summary of the research results was made publicly available on the Agency's website.

The Agency has also organized lectures, open days, and competitions for the best undergraduate or professional papers in the field of insurance, in cooperation with secondary schools and universities.

Additionally, the Agency has published informational brochures and leaflets distributed to targeted audiences through appropriate channels, including:

- brochures "What You Should Know About Insurance" and "Life Insurance", as well as the leaflet Property Insurance, distributed through daily newspapers;
- brochure Motor Third-Party Liability Insurance, along with informational leaflets Motor Insurance (MTPL and Motor Hull Insurance) and Traffic Accident Abroad, made available at vehicle registration offices;
- leaflet Student Insurance, distributed through primary schools;
- leaflet Travel Health Insurance, distributed through travel agencies;
- leaflet Voluntary Pension Insurance, distributed through daily newspapers and regional chambers of commerce
- leaflet Insurance Ombudsman, distributed through consumer protection associations.

The Agency also implemented an advisory and educational programme titled "Consumer Protection in Insurance." The programme aimed to increase public awareness about the importance and role of insurance, its social and economic significance, and to educate citizens about procedures in the event of insured events and mechanisms for protecting their rights through familiarization with relevant regula-

tions and institutions. Within this programme, several lectures in driving schools and public forums across Republic of Srpska were organized. Consumer protection and risk prevention in insurance were promoted through digital media, and a special telephone hotline was established to enable citizens to submit inquiries related to insurance matters.

An additional educational programme titled "Financial Literacy in Insurance" was implemented for citizens of Republic of Srpska. The programme primarily targeted younger generations entering the labour market, who would soon become consumers of insurance services. The project included educational video materials offering practical advice and knowledge on how to protect oneself from various risks.

Activities Related to the Preparation for the Implementation of Solvency II

In the preceding period, the Agency carried out activities related to the preparation, adaptation, and implementation of Solvency II." Following the adoption of legislation requiring insurance activities to be conducted in accordance with Solvency II, insurance companies in Republic of Srpska will be required to align their operations with the new regulatory requirements, which are conceptually different from the currently applicable framework. For this purpose, the Agency adopted a Strategic Framework for the Preparation of the Transition to the Solvency II-Based Regulatory Framework. After the adoption of the new regulatory framework, further implementation activities and transition measures will need to be defined and carried out.

Within the activities related to the preparation of a new Strategic Framework for the transition to a Solvency II-based regulatory framework, the Agency conducted research and analyses using its own institutional capacities. An analysis was carried out regarding the possibility of excluding small insurance undertakings from the scope of application of Solvency II. Furthermore, a survey was conducted among insurance companies through the distribution of the questionnaire “Assessment of the Level of Development of Governance System Functions in accordance with Solvency II Requirements.” The questionnaire was prepared with the aim of determining the initial level of understanding of the Solvency II concept among market participants. In addition, the questionnaire “Qualitative Impact Study of Solvency II” was implemented. This questionnaire was developed within the consultancy support project for the insurance market in BiH and financially supported by the World Bank and the European Union. The Agency also conducted two stress tests of the insurance sector, developing its own tables and methodologies for conducting stress testing in order to identify risk exposures and assess the ability of insurance companies to manage those risks. The stress tests were developed in line with recommended supervisory practices and were adapted from the stress-testing methodology of the European Insurance and Occupational Pensions Authority (EIOPA).

Through this strategic framework, and within its competencies, the Agency also provides operational support to the process of Bosnia and Herzegovina’s accession to the European Union.

International Financial Reporting Standard 9 – Financial Instruments (IFRS 9) and International Financial Reporting Standard 17 – Insurance Contracts (IFRS 17)

In accordance with its role as the supervisory authority for the insurance sector, the Agency initiated activities related to the preparation for the implementation of IFRS 9 and IFRS 17. Representatives of the Agency participated in two workshops organised within the consultancy support project for the insurance market in BiH, financially supported by the World Bank and the European Union. In addition, within the framework of TAIEX – the Technical Assistance and Information Exchange instrument, made available by the European Commission to new Member States, candidate countries and potential candidates, representatives of HANFA shared their supervisory experience related to the preparation and implementation of IFRS 9 and IFRS 17, particularly with regard to the timeline and scope of preparatory activities. The Agency also prepared and distributed a questionnaire to insurance companies in order to assess the level of preparatory activities undertaken and the understanding of the changes introduced by these standards.

Assessment of Compliance with the Insurance Core Principles

Within its development activities, a technical assistance project of the World Bank – *Finance for Development Trust Fund (F4D TF): Insurance Core*

Principles – was launched, related to the assessment of compliance with the *Insurance Core Principles (ICPs)* developed by the *International Association of Insurance Supervisors (IAIS)*. In the report from the first mission, the World Bank project team noted that the Agency is equipped with adequate information technology and human resources, and that the newly introduced integrated information system of the Agency has significantly improved the use of data for supervisory purposes. It was also noted that initial risk-based supervisory approaches had been established.

Unified Integrated Information System

The majority of the Agency's administrative, general and human resources records have been organised in electronic form.

The Information System Development Plan of the Agency was adopted in 2008. During 2009, several modules were defined and repeatedly tested in order to create the prerequisites for the system's operational launch. The information system encompassed general administrative operations, maintenance of registers, performance of supervisory functions, statistics, public information and submission of reports. In 2010, the Agency also ensured the basic regulatory prerequisites for the functioning of the information system by adopting the Rulebook on the Implementation of the Law on Personal Data Protection of BiH within the Insurance Agency of Republic of Srpska, the Rulebook on the Content, Method of Collection, Maintenance and Access to Data from the Register of the Information Centre within the Insurance Agency of Republic of Srpska as well as several internal acts

regulating the use of information equipment and access to electronic registers and applications. In 2014, the part of the information system related to electronic reporting by insurance undertakings and other authorised market participants (e-forms) was aligned and upgraded. Amendments were implemented on most reporting templates in accordance with the Decision on Electronic Submission of Supervisory and Statistical Reports by Participants in the Insurance Market, with the aim of automating off-site supervisory activities.

Since 2023, the Agency has further enhanced its records through the introduction of the Unified Integrated Information System of the Insurance Agency of Republic of Srpska, which includes general administrative operations, maintenance of registers, the Information Centre, execution of supervisory functions, statistics, reports from all records and registers, public information (the Agency's website with extracts from registers) and submission of reports by insurance market participants.

With the continuous participation of employees, applications are regularly upgraded and new ones developed.

Committee for the Coordination of Financial Sector Supervision of Republic of Srpska

The Agency is a member of the Committee for the Coordination of Financial Sector Supervision of Republic of Srpska. The Committee was established in 2009 by the Law on the Committee for the Coordination of Financial Sector Supervision of Republic

of Srpska with the purpose of establishing coordination among supervisory authorities of the financial sector in Republic of Srpska, adopting a common supervisory strategy and development guidelines and ensuring protection of the rights of users of financial services in Republic of Srpska.

Members of the Committee are the Minister of Finance of Republic of Srpska, the President of the Securities Commission of Republic of Srpska, the Director of the Banking Agency of Republic of Srpska and the Director of the Insurance Agency of Republic of Srpska.

Within the framework of the Committee's activities, the Agency continuously cooperates with the Banking Agency of Republic of Srpska and the Securities Commission of Republic of Srpska, primarily through the exchange of data and information necessary for conducting supervisory activities and coordination of activities within the European integration process. The Committee members also conduct educational and promotional activities aimed at the development of the financial market of Republic of Srpska. The Director of the Agency, Draženka Janjanin, serves as Chair of the Committee in 2026.

As the sole institution responsible for the supervision of insurance and voluntary pension insurance in Republic of Srpska, operating independently of any institution at the level of BiH. This reputation was confirmed in 2024, when the Agency became a full member of the *International Association of Insurance Supervisors (IAIS)* and the *International Organisation of Pension Supervisors (IOPS)*. Through membership in IAIS and IOPS, the Agency has gained the opportunity to participate through its representatives in highly specialised working groups and forums for the exchange of experience and supervisory standards. This will enable the Agency to acquire timely knowledge and best practices for addressing potential risks to the stability of the insurance market and voluntary pension insurance sector. Global challenges and risks arising from technological and digital innovations, climate-related risks and sustainable development requirements will undoubtedly have an impact on the domestic insurance market as well. Therefore, it is expected that the adapted implementation of standards and guidelines issued by *IAIS* and *IOPS* will enable appropriate regulatory action aimed at preserving market stability.

Membership in the International Association of Insurance Supervisors (IAIS) and the International Organisation of Pension Supervisors (IOPS)

During its twenty years of operation as a supervisory and regulatory authority, the Agency has managed to establish international visibility and recog-

REGULATORY FRAMEWORK – A HISTORICAL OVERVIEW

Regulatory Framework

With the aim of modernising and harmonising the regulatory framework with EU law, in addition to the Law on Insurance Companies, which established the Agency, the same year also saw the adoption of the Law on Insurance Intermediation, and the Law on Motor Third Party Liability Insurance and Other Mandatory Liability Insurance. In performing its regulatory function, between 1 April and the end of 2006, the Agency prepared and adopted 22 by-laws provided for by insurance legislation, and prepared six additional bylaws adopted at the beginning of the following year, thereby establishing the legal framework for the insurance sector in Republic of Srpska.

In cooperation with the Ministry of Finance of Republic of Srpska, the Agency actively participates in the development of proposals for new legal solutions in the field of insurance. The Law on Mandatory Traffic Insurance, adopted in 2015, introduced the transition to free pricing of motor third party liability insurance premiums, more precise regulation of other forms of mandatory insurance in traffic and a clearer definition of the competences of the Protection Fund of Republic of Srpska. The Law on Insurance Representation and Insurance and Reinsurance Intermediation, adopted in 2017, regulates in detail the activities and scope of insurance representation and insurance/reinsurance intermediation, the conditions for issuing and revoking authorisations and supervision over the performance of representation and intermediation activities.

The Agency's regulatory activities are aimed at preserving the stability and promoting the development of the insurance sector in Republic of Srpska,

through the adoption of new and improvement of existing secondary legislation in the field of insurance

The legal framework governing insurance activities in the Republic of Srpska consists of the following laws and by-laws (in force as of 31 December 2025):

- **Law on Insurance Companies** ("Official Gazette of the Republic of Srpska", No. 17/05, 01/06, 64/06, 74/10, 47/17 and 58/19)
- Rulebook on Additional Supervision of Insurance Groups ("Official Gazette of the Republic of Srpska", No. 55/24)
- Rulebook on the Form and Content of Supervisory and Statistical Reports of Insurance and Reinsurance Companies ("Official Gazette of the Republic of Srpska", No. 3/24)
- Rulebook on the Rules for Establishment and Operations of Branch Offices of Insurance Companies in Inter-Entity Business ("Official Gazette of the Republic of Srpska", No. 77/19, 96/19, 117/20, 3/24)
- Rulebook on the Content, Manner, and Deadlines for Submission of Reports, Notifications, and Other Data by Insurance Companies ("Official Gazette of the Republic of Srpska", No. 91/14, 3/24)
- Rulebook on the Procedure for Acquisition of a Qualified Holding in an Insurance Company ("Official Gazette of the Republic of Srpska", No. 89/19)
- Rulebook on Internal Audit in Insurance Companies ("Official Gazette of the Republic of Srpska", No. 77/19)
- Rulebook on the Handling of Complaints by Insurance Companies ("Official Gazette of Republic of Srpska", No. 10/15)

- Rulebook on the Content and Manner of Maintaining the Register of Insurance Companies and Branch Offices at the Insurance Agency of the Republic of Srpska ("Official Gazette of the Republic of Srpska", No. 65/13, 77/19, 37/24)
- Rulebook on the Elements and Control of the Solvency Margin of Insurance Companies ("Official Gazette of the Republic of Srpska", No. 103/12)
- Rulebook on the Method of Calculating Capital and Capital Adequacy of Insurance Companies ("Official Gazette of the Republic of Srpska", No. 89/19)
- Rulebook on Persons in Significant Positions in Insurance Companies ("Official Gazette of the Republic of Srpska", No. 61/16, 77/19, 37/24)
- Rulebook on the Method of Determining and Monitoring the Liquidity of Insurance and Reinsurance Companies ("Official Gazette of the Republic of Srpska", No. 38/15)
- Rulebook on the Valuation of On-Balance-Sheet and Off-Balance-Sheet Positions of Insurance Companies ("Official Gazette of the Republic of Srpska", No. 10/09, 91/14, 57/22)
- Rulebook on the Investment of Insurance Company Assets ("Official Gazette of the Republic of Srpska", No. 117/20, 23/21, 118/22, 1/23, 25/23, 83/24, 7/25)
- Rulebook on the Content of the Independent Auditor's Report on the Audit of Financial and Other Reports of Insurance Companies ("Official Gazette of the Republic of Srpska", No. 7/08, 106/08, 127/11)
- Rulebook on the Supervision of Market Participants in the Insurance Sector ("Official Gazette of the Republic of Srpska", No. 77/19)
- Rulebook on the Method of Registration and Maintenance of the Register of Licensed Actuaries with the Insurance Agency of the Republic of Srpska ("Official Gazette of the Republic of Srpska", No. 57/06)
- Rulebook on the Conditions for Acquiring and Revoking the Title of Licensed Actuary ("Official Gazette of the Republic of Srpska", No. 57/06, 71/08)
- Rulebook on Unit-Linked Life Insurance ("Official Gazette of the Republic of Srpska", No. 116/06)
- Rulebook on Technical Provisions ("Official Gazette of the Republic of Srpska", No. 116/06)
- Decision on Types of Insurance ("Official Gazette of the Republic of Srpska", No. 3/24)
- Decision on Electronic Submission of Supervisory and Statistical Reports of Market Participants in the Insurance and Voluntary Pension Insurance Sectors ("Official Gazette of the Republic of Srpska", No. 3/24, 79/25)
- Decision on the Manner of Using Certain Categories of Assets to Cover Technical Provisions of Insurance Companies ("Official Gazette of the Republic of Srpska", No. 87/15, 118/20)
- Decision on the Conditions Under Which an Insurance Company May Conclude a Reinsurance Contract with a Reinsurance Company Not Licensed to Operate in BiH ("Official Gazette of the Republic of Srpska", No. 32/08)

- Decision on Legal Protection Insurance and Assistance Insurance ("Official Gazette of the Republic of Srpska", No. 15/07)
- Decision on Conditions for Insurance with a Foreign Insurer ("Official Gazette of the Republic of Srpska", No. 15/07)
- Decision on the Content of the Opinion of a Licensed Actuary ("Official Gazette of the Republic of Srpska", No. 15/07)
- Decision on Establishing the List of Experts Authorized to Conduct Inspections in Insurance Companies ("Official Gazette of the Republic of Srpska", No. 70/06, 15/07)
- Decision on the Documents to be Submitted with an Application for an Operating License ("Official Gazette of the Republic of Srpska", No. 116/06)
- **Law on Compulsory Traffic Insurance** ("Official Gazette of the Republic of Srpska", No. 82/15, 78/20 и 1/24)
- Rulebook on the Content, Method of Collection, Maintenance, and Access to Data from the Register of the Information Centre of the Insurance Agency of the Republic of Srpska ("Official Gazette of the Republic of Srpska", No. 61/16)
- Rulebook on the Minimum Content of Databases and the Central Electronic Record for Compulsory Traffic Insurance ("Official Gazette of the Republic of Srpska", No. 37/24, 116/25)
- Rulebook on the Method of Determining, Calculating, and Payment Deadlines for Contributions to the Protection Fund of the Republic of Srpska ("Official Gazette of the Republic of Srpska", No. 107/15, 50/16)
- Decision on the Joint Tariff of Premiums and the Price List for Motor Vehicle Third-Party Liability Insurance in the Republic of Srpska ("Official Gazette of the Republic of Srpska", No. 8/24, 91/24, 41/25, 111/25)
- Decision on the Form and Content of Supervisory and Statistical Reports of the Protection Fund of the Republic of Srpska ("Official Gazette of the Republic of Srpska", No. 91/14, 113/17, 75/22)
- Decision on the Minimum Content of Terms and the Insurance Policy for Motor Vehicle Owners' Liability for Damage Caused to Third Parties ("Official Gazette of the Republic of Srpska", No. 101/15, 79/25)
- Decision on Granting Consent to the Decision on the Organization of the Protection Fund of the Republic of Srpska ("Official Gazette of the Republic of Srpska", No. 57/06)
- **Law on Insurance Agency and Intermediation in Insurance and Reinsurance** ("Official Gazette of the Republic of Srpska", No. 47/17)
- Rulebook on the Content and Method of Maintaining the Registers of Insurance and Reinsurance Agents and Brokers ("Official Gazette of the Republic of Srpska", No. 21/19)
- Rulebook on the Relations between Insurance Agents and Insurance Companies and on the Limitation of Agent Commissions ("Official Gazette of the Republic of Srpska", No. 21/19, 85/21, 65/25)
- Rulebook on the Professional Examination for Performing Insurance Agency and Brokerage Activities and Activities of Voluntary Pension

- Fund Agency (“Official Gazette of the Republic of Srpska”, No. 23/18, 14/25)
- Rulebook on the Procedure for Issuing Authorizations and Licenses for Insurance Agency and Brokerage and Registration in the Registers of the Insurance Agency of the Republic of Srpska (“Official Gazette of the Republic of Srpska”, No. 23/18, 57/22)
- Rulebook on the Submission of Reports, Notifications, and Other Data by Insurance and Reinsurance Agents and Brokers (“Official Gazette of the Republic of Srpska”, No. 113/17, 117/20, 3/24)
- **Law on Voluntary Pension Funds and Pension Plans** (“Official Gazette of the Republic of Srpska”, No. 13/09, 107/19 и 100/25)
- Rulebook on the Conditions and Manner of Programmed Withdrawals of Accumulated Assets in a Voluntary Pension Fund (“Official Gazette of the Republic of Srpska”, No. 117/20)
- Rulebook on the Audit of Reports of the Voluntary Pension Fund Management Company and the Voluntary Pension Fund (“Official Gazette of the Republic of Srpska”, No. 120/18)
- Rulebook on the Content and Manner of Submitting Reports by Voluntary Pension Fund Management Companies and Voluntary Pension Funds to the Insurance Agency of the Republic of Srpska (“Official Gazette of the Republic of Srpska”, No. 43/18, 75/22)
- Rulebook on the Content and Manner of Maintaining the Register of Voluntary Pension Fund Management Companies and Voluntary Pension Funds (“Official Gazette of the Republic of Srpska”, No. 23/18)
- Rulebook on the Determination of Asset Value, Calculation of Net Asset Value, and Determination of Unit Value of a Voluntary Pension Fund (“Official Gazette of the Republic of Srpska”, No. 113/17, 43/18)
- Rulebook on the Content and Standardized Form of the Application for Issuance of a License to Operate and a License for the Organization and Management of a Voluntary Pension Fund (“Official Gazette of the Republic of Srpska”, No. 76/09)
- Rulebook on the Minimum Organizational, Staffing, and Technical Requirements for Voluntary Pension Fund Management Companies (“Official Gazette of the Republic of Srpska”, No. 76/09)
- Rulebook on the Procedure for Opening Individual Accounts, Maintaining the Register of Individual Accounts, Transfer of Funds, and Issuance of Individual Account Statements for Members of Voluntary Pension Funds (“Official Gazette of the Republic of Srpska”, No. 76/09)
- Rulebook on Advertising and Marketing of Voluntary Pension Funds (“Official Gazette of the Republic of Srpska”, No. 76/09)
- Rulebook on the Content of the Prospectus and Short Prospectus of Voluntary Pension Funds (“Official Gazette of the Republic of Srpska”, No. 76/09)
- Rulebook on the Procedure for Risk Assessment Related to Money Laundering and Financing of Terrorist Activities (“Official Gazette of the Republic of Srpska”, No. 114/24)

INSURANCE MARKET OF REPUBLIC OF SRPSKA

As is well known, the development of insurance is conditioned by general economic development, specifically the level of socio-economic growth. Developed insurance systems are characteristic of market-oriented economies, while insurance is in its infancy in states that have faced the burden of transition from a centrally planned to a market economy. In this sense, one should understand the initial state in Republic of Srpska at the time of the Agency's establishment, as well as the achieved level of develop-

ment, which can and must be linked to the economic growth rate. Generally speaking, the last twenty years have been marked by a turbulent business and legal environment, which directly reflected on the insurance sector, which underwent a transition from a self-managed economy to the establishment of a market economy in an incomparably shorter period than other states with similar social systems. In this regard, the specificities of the insurance market, which will be discussed below, should be understood.

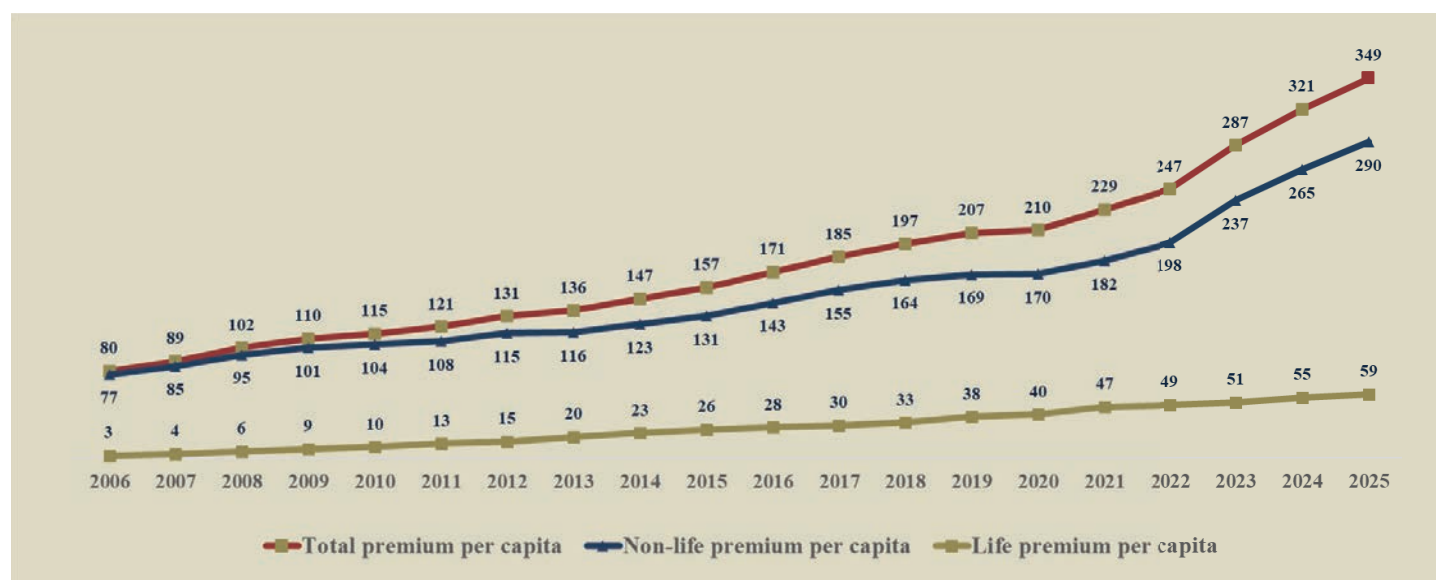


Chart 3: Premium per capita in BAM ¹

The first and fundamental feature of the insurance market in the observed period is state interventionism. Namely, the state sought, through a set of regulations relating to insurance, to create an encouraging environment for the development of insurance on one hand, while on the other, it undoubtedly had to protect the liquidity and solvency of insurers who

faced additional challenges during the transition. Insurers in the former Yugoslavia were mostly state-owned companies in a monopolistic position, and their portfolio related almost exclusively to compulsory insurance. It is clear that there could be no talk of developing the life insurance business, especially given the living standard of citizens and their lack of

¹ All 2025 data in this edition are unaudited

familiarity with financial services in general, and insurance in particular. At the moment when the insurance market of Republic of Srpska began preparing for European integration, a new era began for insurers. Therefore, the period of twenty years ago is associated with intensive legislative activity, which was necessary to create a strong legal and institutional framework for insurance. In the following section, we will review the most significant characteristics and trends present in the insurance market of Republic of Srpska during the observed period.

Insurance penetration and insurance density in the market are usually taken as indicators of the achieved level of insurance market development. Regarding insurance penetration, there were no significant changes; specifically, the share of insurance premiums in GDP stagnated at a level of around 2% throughout the entire observed period. On the other hand, the premium amount per capita increased from 80 BAM in 2006 to 349 BAM in 2025, representing a positive trend, with the observation that special attention needs to be paid to the growth of life insurance premiums per capita.

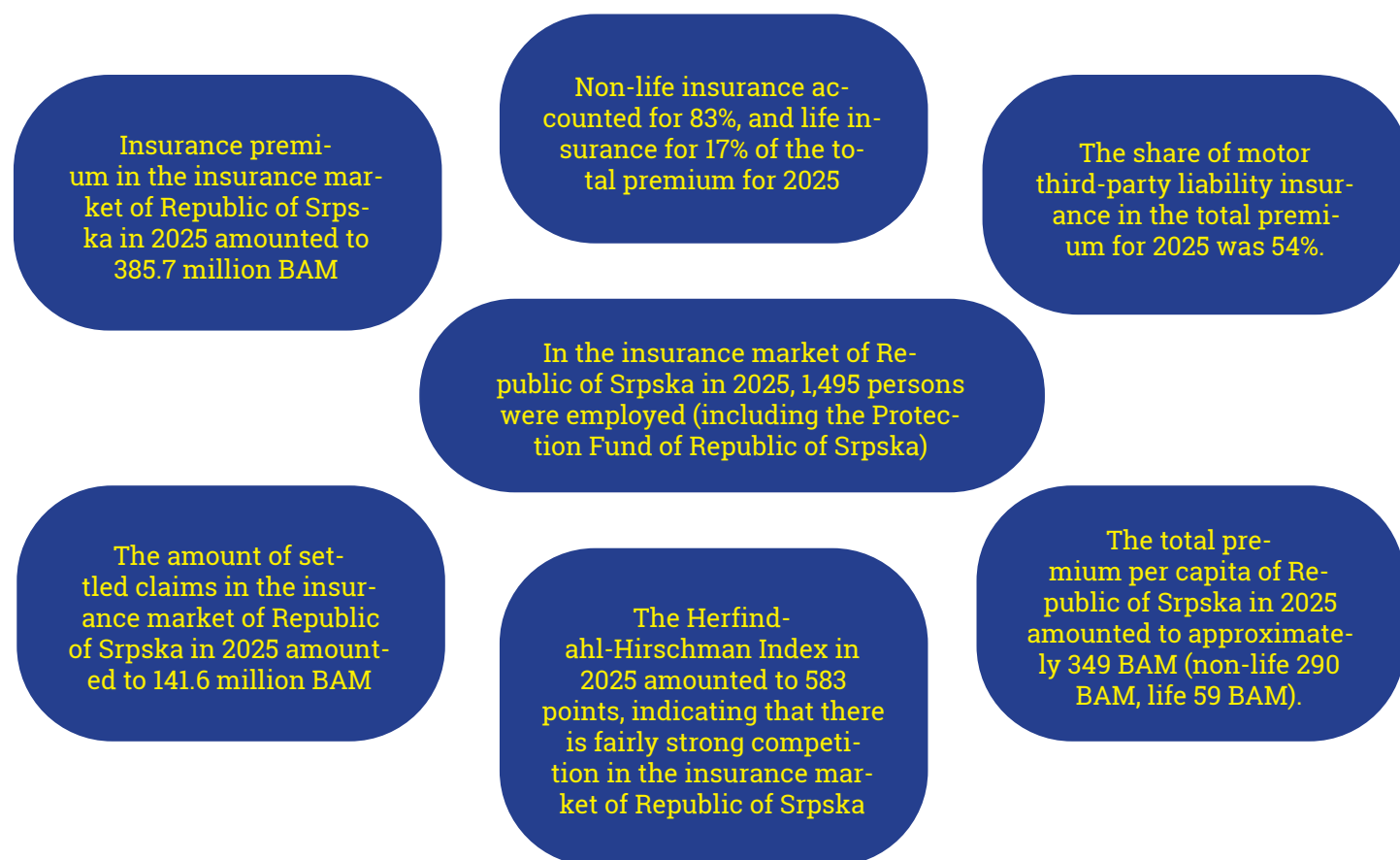


Chart 4: Basic indicators of the insurance market of Republic of Srpska in 2025

The observed insurance market development indicators clearly show a positive growth trend of the insurance market in Republic of Srpska. Two key indicators stand out from the observed data. First, the share of motor third-party liability insurance in the total portfolio amounted to as much as 54% for 2025, clearly confirming the observation that the insurance market was and remains motor-centric. Related to this is the fact that the share of life insurance in the total premium is 17%. Second, the total premium per capita in the same year is slightly higher than 150 euros, with one-fifth of that amount going to life insurance. From this scheme, we can conclude that there is a potential for the development of the insurance market in RS, which should be utilized.

More than the twenty years, celebrated by the Agency, is required for a fundamental transformation of the RS insurance market. Two main factors for the positive growth trend of the Republic of Srpska insurance market *pro futuro* are identified as the development of an insurance culture and economic stabilization. Inherited mistrust in insurance, dating back to the 1980s, can be overcome as an obstacle to market development through education and finan-

cial literacy, which has been on the Agency's agenda since its establishment.

Specific to BiH is that, thanks to the agreement signed in Dayton in 1995, insurance fell under the jurisdiction of the entities, leading to the adoption of parallel entity laws.

PARTICIPANTS IN THE INSURANCE MARKET OF REPUBLIC OF SRPSKA

During the twenty-year period, a continuous growth in the number of participants has been present in the insurance market. Primarily, the number of companies based in Republic of Srpska increased from 9 to 14, and there is an evident intensive growth in the number of physical and legal entities representing external insurance sales channels. The 2005 legislative package enabled the inter-entity provision of insurance services, which further influenced the number of active market participants. The following tabular overview shows how the number of active participants changed during the twenty-year period.

PARTICIPANT	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Insurance companies from Republic of Srpska	9	11	11	11	11	11	11	12	12	12	14	14	15	15	14	14	14	14	14	14
Branch offices of the insurance companies from FBiH	0	0	5	8	9	9	9	9	11	11	11	11	12	11	10	10	10	9	9	9
Insurance agents – natural persons, of which	190	206	163	143	129	145	134	144	154	164	203	300	382	521	552	569	594	602	689	
registered businesses as entrepreneurs					28	26	26	20	27	30	33	31	32	33	32	41	60	72	93	103
Insurance agency companies from Republic of Srpska	4	10	10	10	6	7	7	8	10	12	13	16	19	18	18	17	17	20	20	
Branch offices of the insurance agency companies from FBiH				3	4	5	4	4	5	4	5	4	4	4	4	4	4	4	4	3
Insurance brokers – natural persons		1				0	5	58	85	117	143	103	35	24	24	19	15	14	21	24
Brokerage companies from Republic of Srpska							0	3	6	7	6	5	5	5	5	5	6	6	7	7
Branch offices of the brokerage companies from FBiH							2	2	1	1	3	3	2	2	2	2	2	2	5	6
Certified actuaries	12	15	16	12	16	18	21	28	31	32	33	36	38	38	38	38	40	40	40	40

Table 1: Participants in the insurance market of Republic of Srpska

COMPETITION INDICATORS IN THE INSURANCE MARKET OF REPUBLIC OF SRPSKA

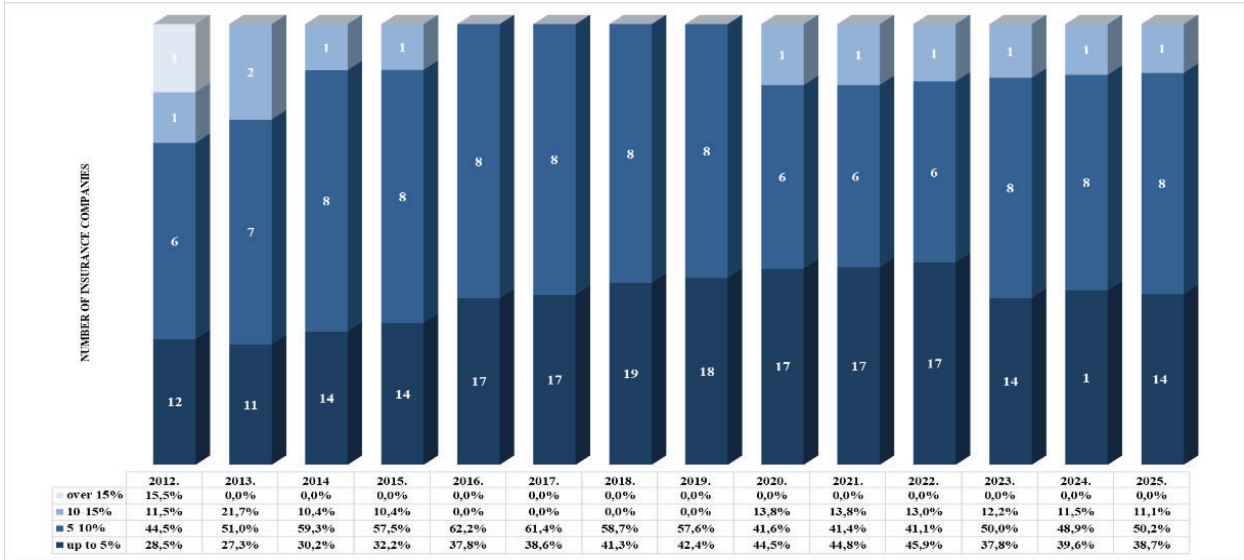


Chart 5: The total share and number of insurance companies in the total insurance market premium

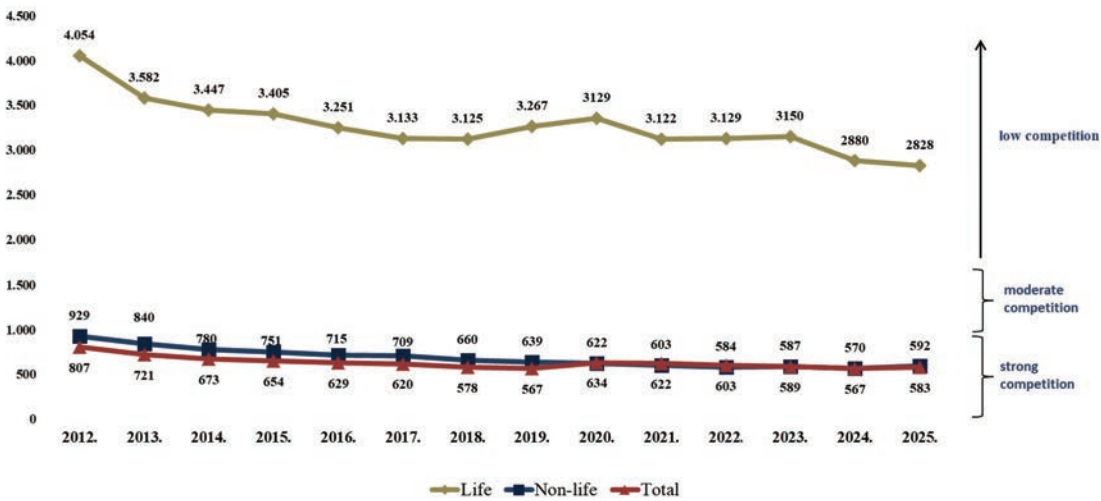


Chart 6: HHI by types of insurance

The Herfindahl Hirschman index and the share of companies by peer groups indicate a continuous growth of competition in the insurance market, due to increased competition in the non-life insurance segment.

Insurance premiums record continuous growth, with an average annual growth rate of approximately 8%. In the observed twenty-year period, the total insurance premium increased fourfold, from 95.0 million BAM to 385.7 million BAM. Non-life insurance premiums increased 3.5 times, while on the other hand, life insurance premiums are as much as 19.6 times higher due to a low initial amount in 2006.

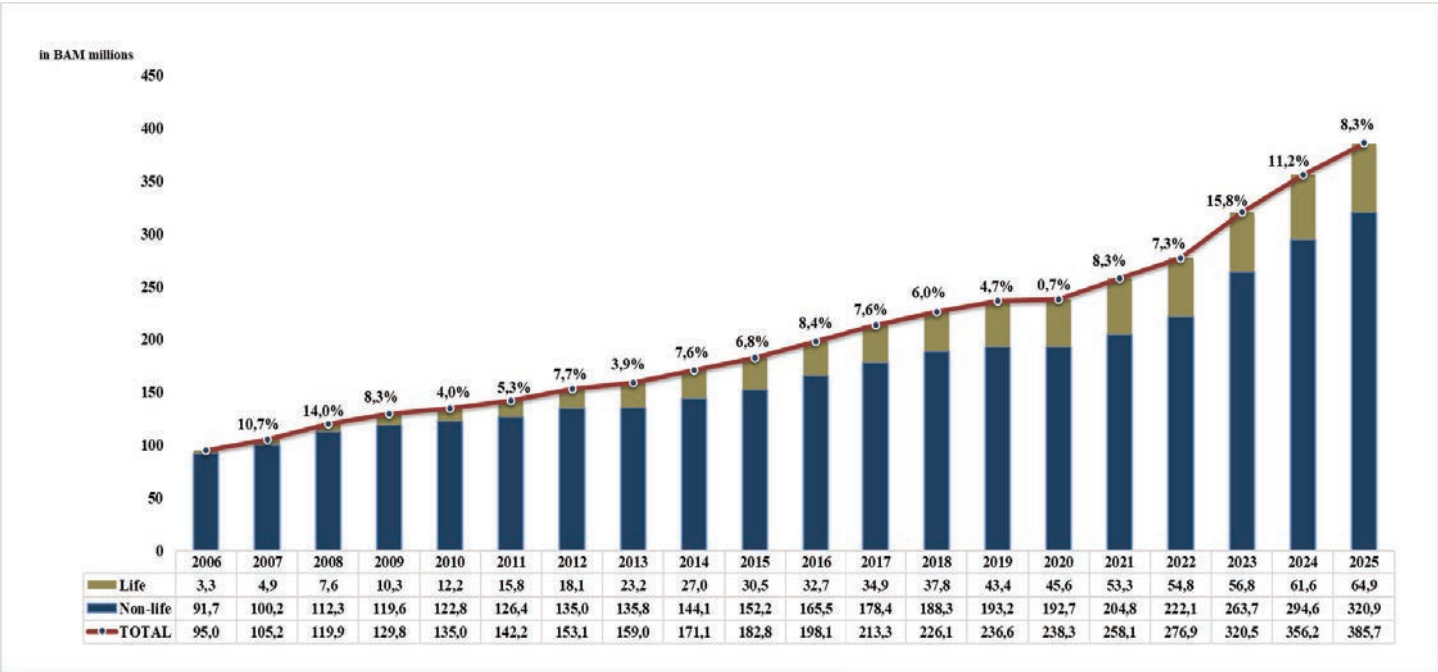


Chart 7: Premium trend

From the previously presented chart, the conclusion is that throughout the entire observed period, there were no significant changes in the insurance

portfolio structure, except for a minor increase in the share of life insurance premiums.

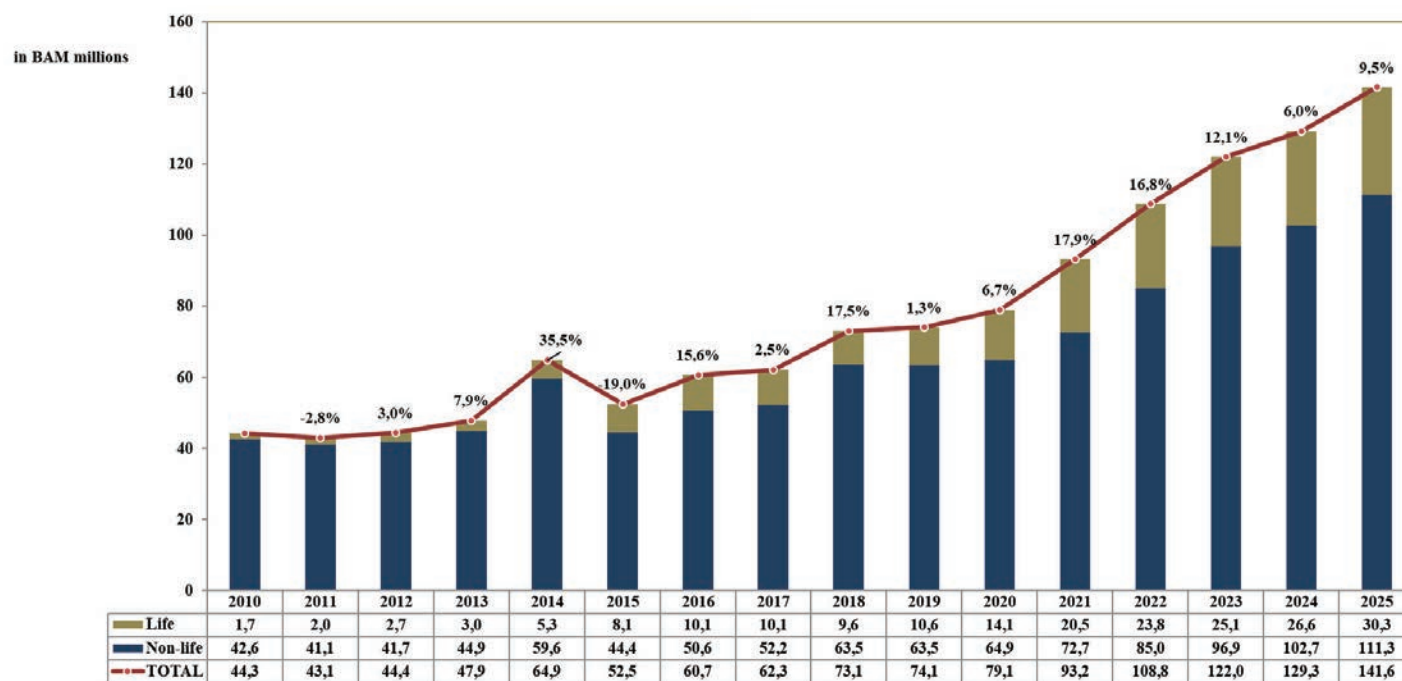


Chart 8: Paid claims

Data on paid claims show that in the observed period from 2010 to 2025, 1.24 billion BAM was paid out. In the observed period, the amount of paid claims increased 3.2 times, from 44.3 million BAM to 141.6 million BAM. This is very significant data, as the insurance sector builds consumer trust, among other things, through its relationship with clients during the claim settlement phase.

PERFORMANCE
INDICATORS OF INSURANCE
COMPANIES BASED IN
REPUBLIC OF SRPSKA

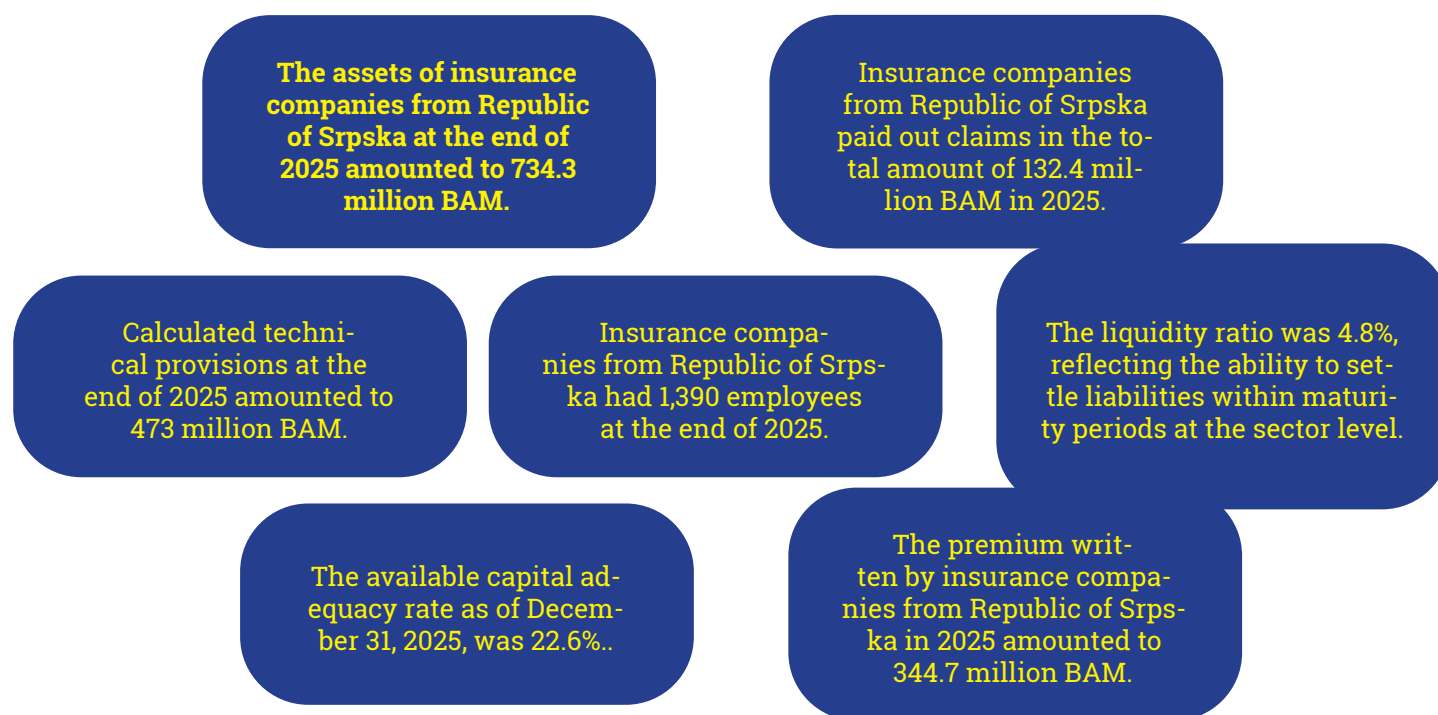


Chart 9: Performance indicators of insurance companies in 2025

INSURANCE COMPANY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Note
Bobar																					2016. changed name to Atos
Atos																					2020. merged to Grawe
Grawe																					
Aura																					
Brčko-gas																					
Garant																					
Drina																					
Kosig Dunav																					2010. changed name to Dunav
Dunav																					
Euros																					
Krajina																					
Mikrofin																					
Nešković																					
SAS-SuperP																					
Krajina Kopaonik																					2008. changed name to Triglav Krajina Kopaonik
Triglav Krajina Kopaonik																					2011. changed name to Triglav
Triglav																					
Jahorina																					2008. changed name to Wiener
Wiener																					
	9	11	11	11	11	11	11	12	12	12	14	14	15	15	14	14	14	14	14	14	

Table 2: Insurance companies based in Republic of Srpska (2006–2025)

Comparative Overview of Trends in Calculated Technical Provisions, Share Capital, and Written Premium

The following chart presents a comparison of the trends in the amounts of calculated technical provisions, written premiums, and share capital for the period 2006–2025. This overview reveals both a stable development trend and an adequate nominal and relative correlation of the displayed indicators throughout the entire period.

When analyzing the presented data, it should be noted that the level of share capital is linked to legally prescribed amounts and that capital adequacy is an indicator observed from the standpoint of solvency requirements for insurance companies.

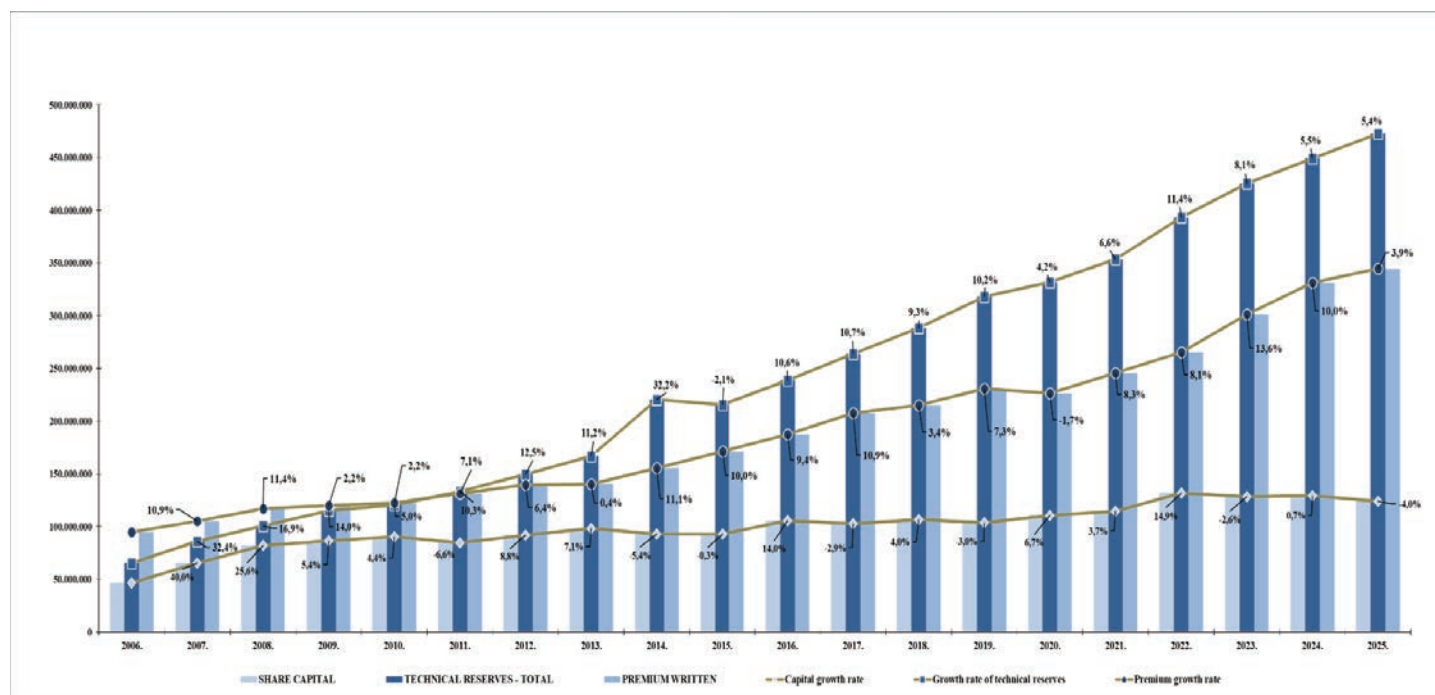


Chart 10: Comparative overview of calculated technical provisions, share capital, and written premium

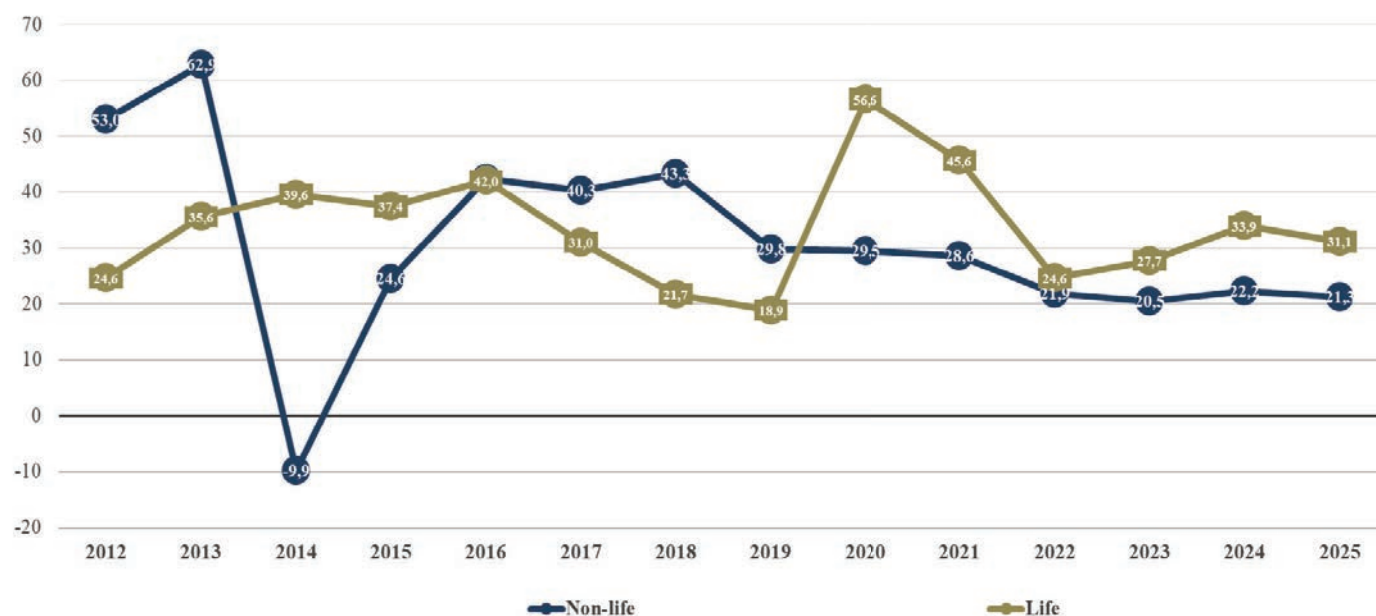


Chart 11: Capital adequacy rate

Insurance companies based in Republic of Srpska are obliged to continuously maintain a level of capital adequate to the volume and types of insurance business they perform, i.e., the risks they are exposed to in their operations.

Throughout the observed period, compliance with the prescribed capital adequacy requirements is evident in both life and non-life insurance, with a certain shortfall expressed only in 2014 due to risks that spilled over from the banking sector.

In addition to meeting the prescribed capital adequacy requirements, insurance companies are re-

quired to hold an amount of at least 50% of the minimum guarantee fund in dedicated term deposits or securities issued or guaranteed by Bosnia and Herzegovina, Republic of Srpska, or the Central Bank of BiH. Throughout the entire observed period, all insurance companies met this requirement, maintaining the required coverage in the aforementioned assets, which serve exclusively to protect policyholders and preserve the solvency of the insurance company and cannot be used for other purposes.

Calculation and coverage of technical provisions

An actuarially-based calculation of technical provisions is a vital prerequisite for maintaining the solvency of insurance companies, thereby contributing to better protection of the interests of policyholders and insurance beneficiaries, as well as strengthening trust in the insurance industry. In their operations, aiming for long-term business sustainability and the protection of insurance users and third-party injured persons, insurance companies are obliged to form an adequate level of technical provisions. Besides the amount itself, attention must be paid to the adequacy of the structure to ensure the preservation and increase of their real value.

The rules for calculating technical provisions are prescribed by the Agency's subordinate legislation, and their adequate application is subject to control by both authorized actuaries and the Agency through mandatory periodic reports and off-site and on-site supervision. Since different conditions and investment limits apply to life and non-life insurance, sep-

arate overviews for non-life and life insurance for the period 2006–2025 are provided below.

Insurance companies are guided by two principles when placing funds:

- providing a high level of risk protection for their policyholders,
- achieving the highest possible return on investment.

The significance of insurance companies' activities as participants in financial markets is reflected in the following:

- Insurance provides financial stability and reduces uncertainty through the indemnification function for those who have suffered a loss. This reduces the effect of mass bankruptcies that could have catastrophic consequences for production, employment, tax revenues, and the general state of the economy.
- Based on collected premiums, insurance companies are able to finance large infrastructure projects, thereby positively impacting the country's economic growth.
- Insurance ensures efficient risk management and the transformation of risk assessment.

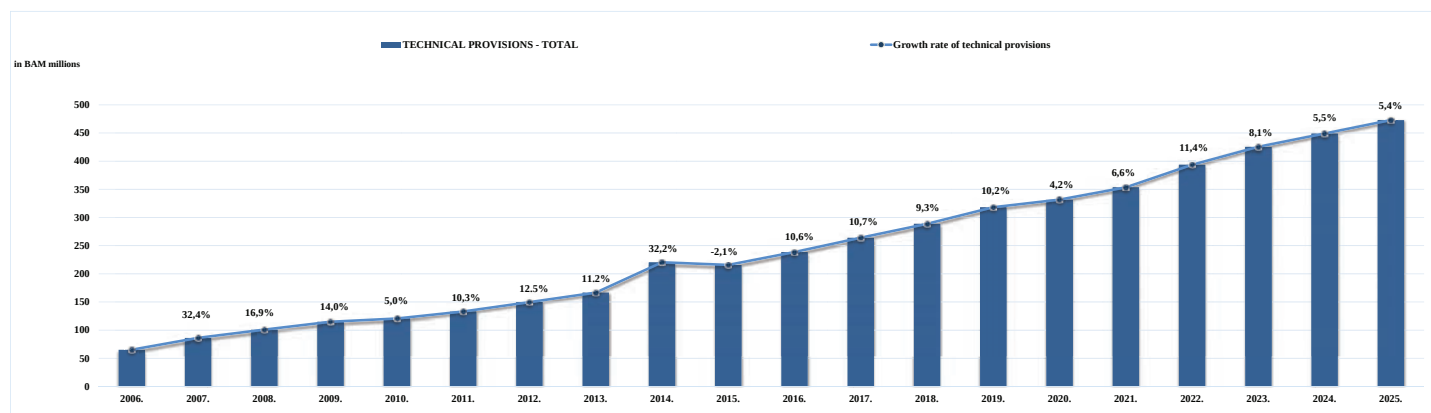


Chart 12: Technical provisions – TOTAL

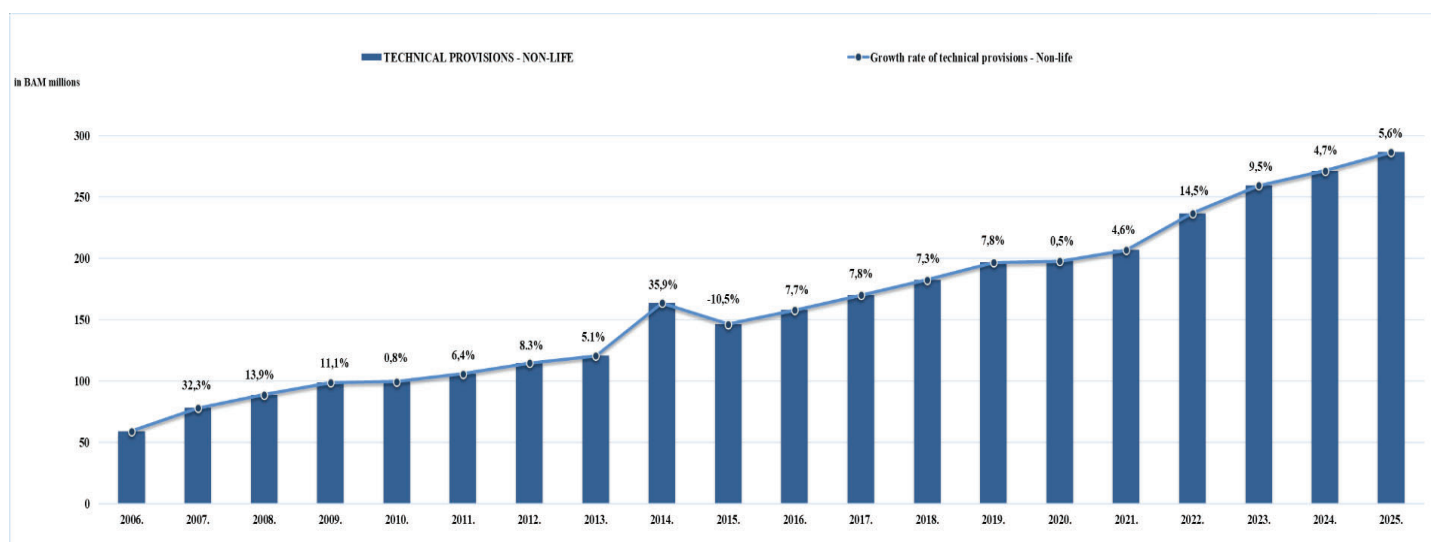


Chart 13: Technical provisions – non-life insurance

While the regulator prescribes the investment of insurance funds through bylaws, companies are left to further specify the risk profiles they assume during investment through their investment policy as an internal act, regarding both quantitative and qualitative criteria. This approach allows companies to adapt their investments to their business strategies

and short-term and long-term goals within regulatory constraints, remaining flexible to the extent that exogenous variables dictate the need for adjustments.

The categories of assets in which funds can be invested are aligned with the level of development of the capital market in Republic of Srpska, and the prescribed maximum for investment in individual

categories corresponds to the risk profile of the asset. The Agency's bylaws prescribe limits for investing technical provision funds into specific forms of assets listed in the Agency's Rulebook.

Observing the share of individual asset categories and changes in the structure during the observed period, primarily in non-life insurance, we note the following:

- Due to the level of capital market development, the share of government securities in the portfolio structure is dominant. Given that this market segment is very dynamic, with satisfactory yields and a diversified maturity

and currency structure, investing in government securities represents a high-quality option for companies

- It is noticeable that, considering the maturity of securities, investment flexibility in life insurance is lower, with the share of government securities hovering around 90%, while non-life insurance offers more room to react to changes in market conditions and subsequent changes in the portfolio structure. Regarding the impact on investment income, this circumstance acts to some extent as a limiting factor in investment management

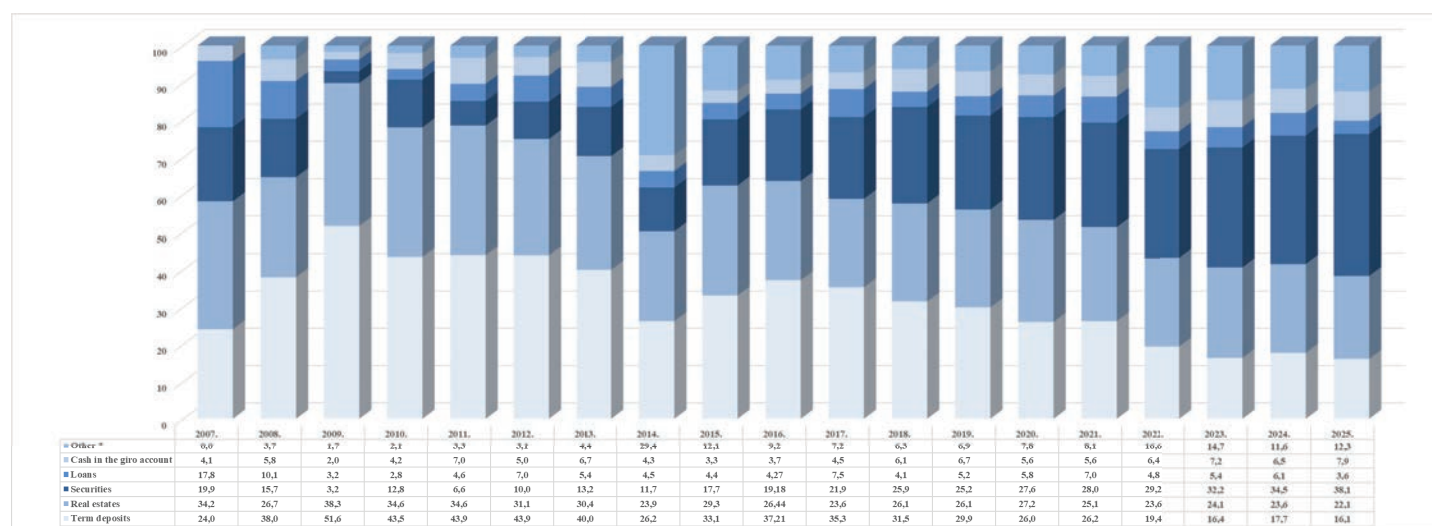


Chart 14: Investment structure of technical provisions – non-life insurance

- Deposits with commercial banks, relative to changes in market interest rates and given their usual maturity of up to 12 months or less, represent a profitable investment option in conditions of rising interest rates, with the

possibility of achieving prompt alignment of yields with market changes through short-term contracts—a strategy companies clearly utilized during the observed period.

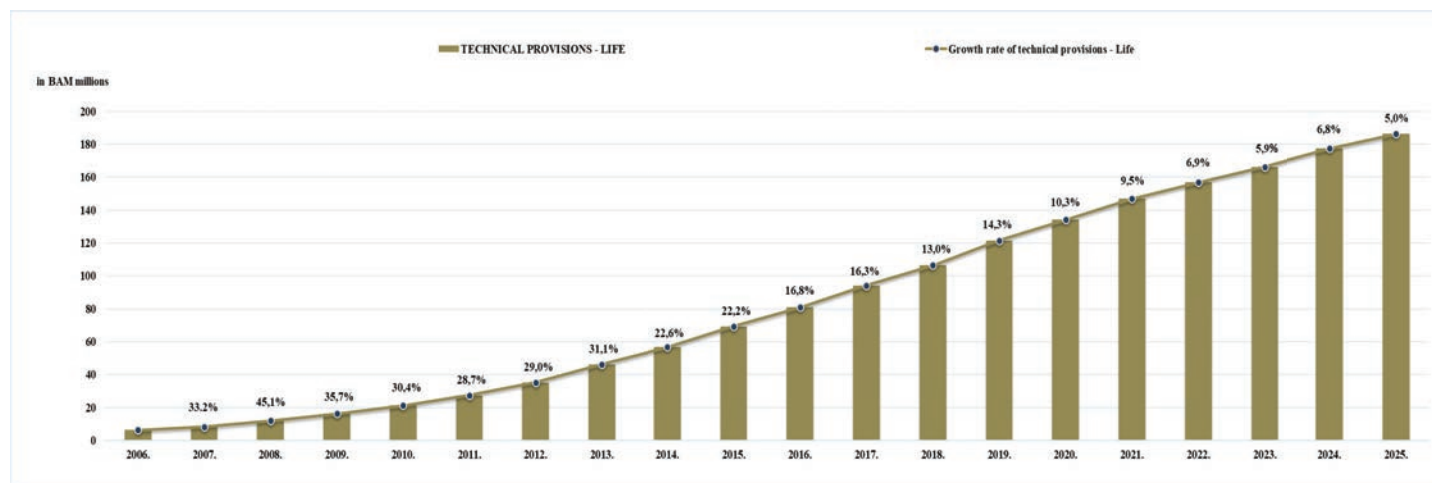


Chart 15: Technical provisions – life insurance

Life insurance premiums in Republic of Srpska grow year by year, meaning that insurance companies possess significant potential for investment in the financial market in the form of technical provisions. It is the obligation of insurance companies to invest technical provisions in accordance with regulations to increase their value and meet their liabilities. When placing available funds, insurance companies must strive for a profit at least equal to the average interest rate earned on the capital market.

What is crucial from the capital market perspective are the technical provisions of insurance companies, which can be invested in various forms of assets. In 2025, technical provisions for life insurance amounted to 186.4 million BAM. The largest share of total technical provisions consists of the mathematical reserve, which grows annually. Given the scarce supply of securities on the capital market and prescribed investment limits, insurance companies are required to invest technical provision funds in assets

considered reliable, available over a longer period, and of stable real value.

Total investments of insurance companies are divided into the following individual items: investments in bank deposits, investments in bonds, funds in gyro accounts, loans, and real estate.

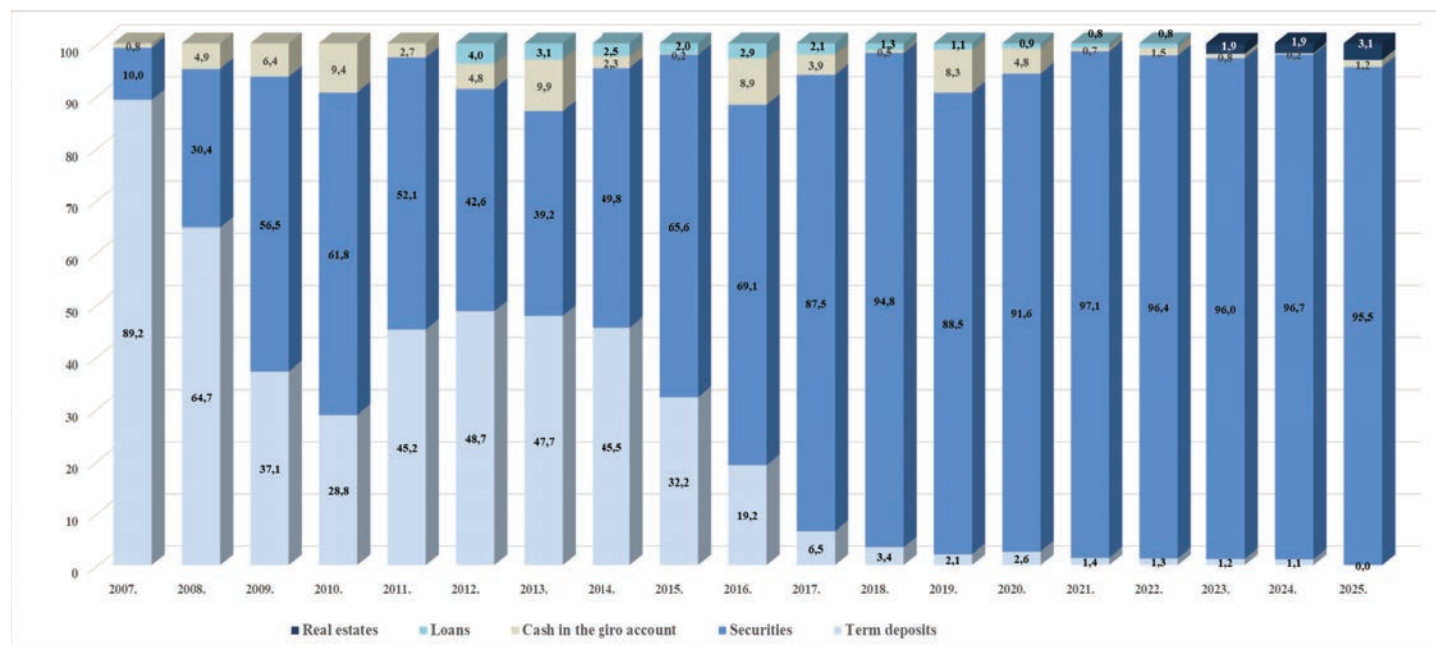


Chart 16: Investment structure of technical provisions – life insurance

Throughout the observed period from 2006 to 2025, despite environmental challenges, the amount of invested funds in the Republic of Srpska insurance market grew continuously.

The conclusion to be drawn is that investment, especially in complex times, is an extremely important activity for both the professional services and the management of insurance companies, requiring adequate attention as it yields multiple positive effects. The observed period brought specifically difficult business conditions in the core activity and above-average interest rate levels, so the analysis of investment effects for this period carries limitations that must be acknowledged. As inflationary pressures ease and inflation returns to central bank target corridors, interest rates are declining, posing new challenges for investment professionals and company

management boards alike. The reduction in investment results due to lower market interest rates requires additional attention and optimization to minimize these effects, as well as very careful portfolio management in limited market conditions and strategic investment planning aligned with corporate business strategies. In addition to developing human resource potential by investing in training and specialized staff, there is a recognized need to invest in digital platforms and application solutions that allow better insight into investment activities, result tracking, and a basis for current and strategic planning. All the above testifies to the complexity of the topic of investing insurance funds and should serve as an incentive for professionals to further dedicate themselves to this field.

OTHER PERFORMANCE INDICATORS

INDICATOR	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Premium per employee (in BAM)	137.064	129.058	134.743	129.429	104.170	108.454	116.987	119.624	126.218	119.807	134.429	143.768	140.424	148.589	142.983	156.243	170.231	197.758	228.582	247.991
Total revenue per employee (in BAM)	154.284	144.983	140.881	147.654	130.253	130.150	137.425	150.391	198.578	162.382	154.477	166.964	161.758	166.034	169.897	180.839	201.683	222.229	258.714	284.173
Profit per employee (in BAM)	14.761	9.479	-1.911	2.071	10.860	9.182	15.305	11.074	-4.570	11.097	7.515	18.814	18.831	16.838	19.987	19.348	19.583	19.915	26.705	30.223
Profit / Total revenue (%)	9,6	6,5	-1,4	1,4	8,3	7,1	11,1	7,4	-2,3	6,8	4,9	11,3	11,6	10,1	11,8	10,7	9,7	9	10,3	10,6
Solvency ratio (%)	75,0	81,2	82,7	75,9	89,2	80,1	90,4	102,7	72,8	81,5	77,5	74,9	80,1	74,2	80,5	75,8	74	64,3	64,9	63,2
General liquidity (%)	4,3	6,9	8,9	7,1	5,6	5,4	4,9	5	5	5,9	5,6	4,7	4,8	5	5,1	4,6	4,9	4,5	5,1	4,8

Table 3: Other performance indicators

Throughout the entire twenty-year period, all indicators of the stability and solvency of the insurance sector were at a satisfactory level and in accordance with legal requirements.

However, it should be kept in mind that, under the current regulatory framework, the valuation of capital adequacy, assets, and similar items is not based on a risk-based approach. Therefore, until the regulatory framework changes to introduce risk-based management and other relevant regulatory require-

ments, the Agency treats the reported indicators of the insurance sector with a certain degree of caution.

VOLUNTARY PENSION
INSURANCE IN
REPUBLIC OF SRPSKA

Voluntary pension insurance activities in Republic of Srpska commenced at the end of 2017 with the establishment of the first (and so far only) voluntary pension fund management company: The Management Company for the European Voluntary Pension Fund j.s.c. Banja Luka.

Within the voluntary pension insurance sector, one voluntary pension fund is organized: The European Voluntary Pension Fund Banja Luka. This fund

is managed by the management company. The fund is organized as an open voluntary pension fund for the purpose of collecting monetary funds through voluntary pension contribution payments by the contributors and investing those funds to increase asset value.

The number of active fund members has grown constantly, especially in 2020, when a large number of new members joined through pension plans of public enterprises and public institutions.

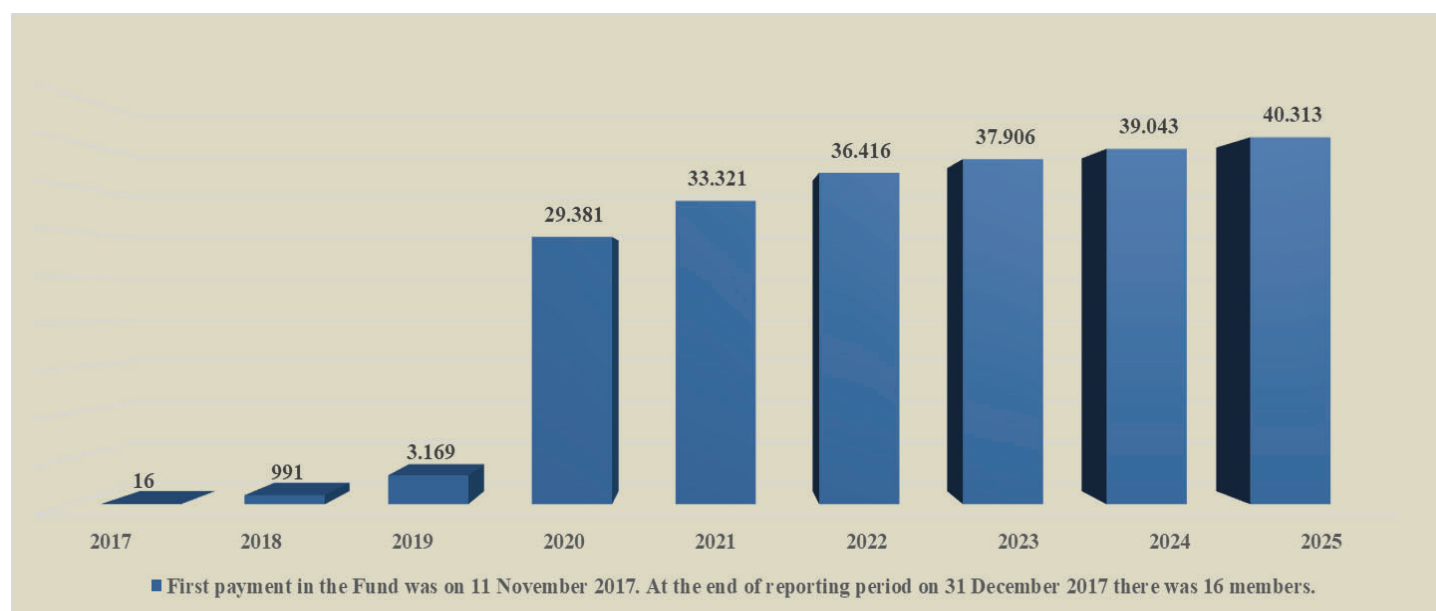


Chart 17: Number of total active members of voluntary pension fund

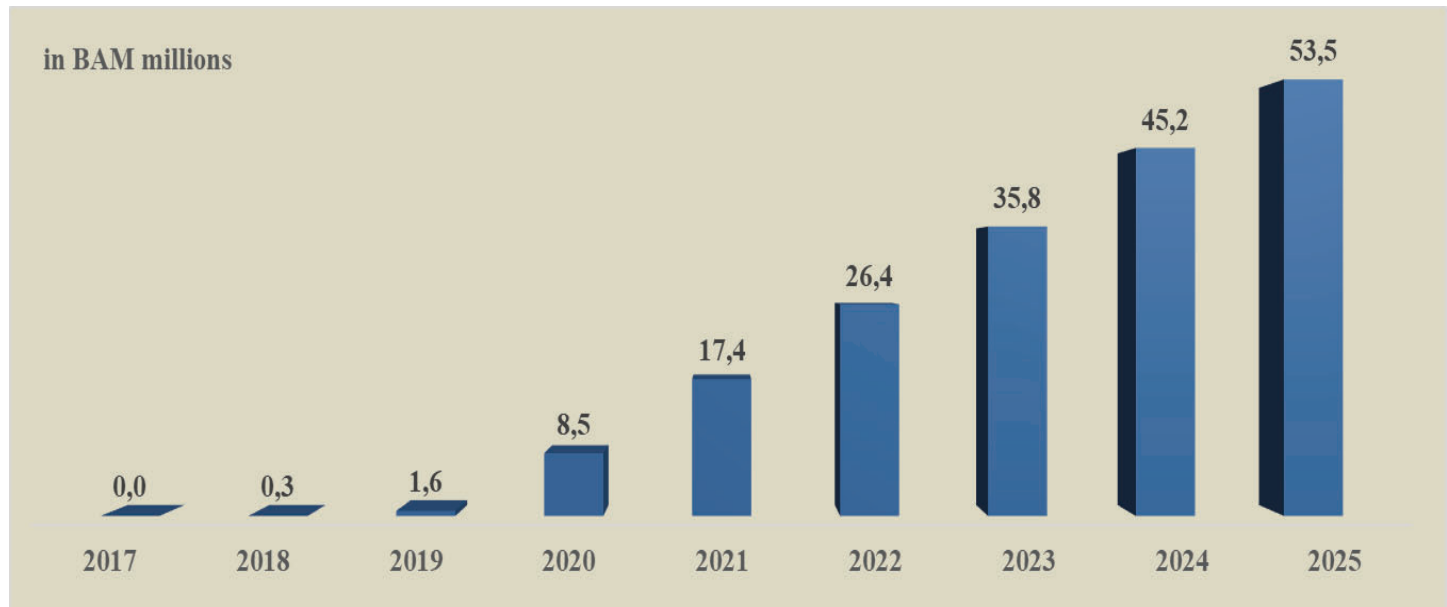


Chart 18: Net asset value of voluntary pension fund

CHALLENGES AND DEVELOPMENT TRENDS

Liberalization of the Motor Third-Party Liability (MTPL) Market

Due to its pronounced social function within a country's insurance system and the legal/financial system in general, Motor Third-Party Liability (MTPL) insurance is statutory and mandatory for almost all motor vehicle owners. Developing insurance markets share a common characteristic: they are often described as "auto-centric." This means that the share of MTPL premiums within the non-life insurance portfolio exceeds 50%. When Casco (comprehensive motor) insurance is added to this, the figure typically surpasses 70% of the non-life market. In this regard, the market of Republic of Srpska is no exception.

Beyond indicating that the local market is highly sensitive to this line of business, auto-centricity sends another message: that the insurance culture has not yet reached an enviable level.

Liberalization entails the free formation of insurance prices, without prior—and in most cases, subsequent—intervention by the regulator regarding insurance conditions and tariffs/price lists. The free pricing of all insurance lines, including mandatory ones, based on actuarial principles, is a natural progression that accompanies market evolution.

The Law on Compulsory Traffic Insurance ("Official Gazette of Republic of Srpska", No. 82/15, 78/20, and 1/24) initiated the *gradual liberalization of the MTPL market* by abolishing the obligation for insurance companies operating in Republic of Srpska to seek prior approval from the Agency for their insurance conditions. The same Law stipulates that the Agency is responsible for reporting on the fulfill-

ment of conditions for terminating the obligation of insurance companies to obtain prior Agency approval for their own premium tariffs and MTPL price lists.

Activities related to the drafting of the Law on Compulsory Traffic Insurance and the implementation of the Project: "BiH 10295: Liberalization of the MTPL Insurance Market" formed the backbone of the Agency's work in establishing the prerequisites for market liberalization. The adoption of this Law significantly aligned the legal framework of Republic of Srpska with the codified Motor Insurance Directive (2009/103/EC).

Although MTPL market liberalization is generally in the interest of policyholders, genuine benefits for the insured can only be discussed once two groups of prerequisites are cumulatively met. The first is a shift in the policyholders' *mindset*. Specifically, the average motor vehicle owner and MTPL policyholder views this insurance merely as another tax within the vehicle registration process. For the insurance market of Republic of Srpska to benefit from liberalization, it is not enough to focus solely on the capital preparation of insurance companies in terms of strengthening their provisions. It is crucial that this process is accompanied by a clear strategy centered on the policyholder. They must be empowered through risk literacy and knowledge of risk mitigation methods. Only educated consumers can make informed decisions regarding the purchase of mandatory insurance that serves their best interests. Otherwise, both the consumers and the market itself could easily fall victim to unfair competition. In the long run, new products should emerge through the bundling of multiple insurance lines, which could potentially be concluded for an indefinite period or with multi-year durations. There will also be a possibility to extend cov-

erage, in the sense of expanding indemnity to other persons who do not fall within the legally defined scope of third parties.

The second group of prerequisites for a meaningful liberalization of MTPL prices concerns the Agency's activities aimed at strengthening the capital of insurance companies and improving the calculation and coverage of technical provisions through enhanced supervision. This also includes the adequate valuation of assets and liabilities based on international accounting standards, which will, directly or indirectly, create better preconditions for the liberalization of prices/premiums in mandatory MTPL insurance. It is vital that the market is adequately prepared to withstand the "first hit" of liberalization, which, according to the experience of other countries, is inevitable. All of this is intended to prevent market instability and ensure the protection of insurance service users.

Transition to the Solvency II Regulatory Framework

Aligning insurance regulation with EU standards is one of the conditions for accession to the European Union. The gradual introduction of risk-based supervision of insurance companies and the fulfillment of other requirements that the Solvency II concept places before supervisors represent one of the greatest challenges in the development of the Agency's supervisory practices.

The implementation of the Solvency II concept is expected to lead to the following outcomes: 1) changes in the volume of capital and provisioning; 2) definition of required premiums and insurance prod-

uct content; 3) realization of investment profits; 4) risk transfer; 5) a different structure of the insurance company's governing bodies; 6) new forms of consolidation among insurance companies; 7) a modified role for the supervisory body, etc. Under Solvency II, the greatest expectations are placed on the enterprise-wide risk management system and the development of appropriate mechanisms for regular risk measurement and management. Equally significant for realizing the core idea of Solvency II is ensuring business transparency, i.e., the publication of insurance company performance reports. Finally, insurance companies must adopt a specific *compliance* program, i.e., revise their regulatory implementation systems, particularly regarding accountability for non-compliance with relevant regulations. In this regard, it is proposed to conduct a so-called "Gap Analysis" to gain insight into the current state of regulatory compliance. Subsequently, concrete objectives are set, and the implementation of an appropriate compliance program begins. From the insurer's perspective, the application of Solvency II should lead to a better understanding of their financial exposure. Accordingly, they should also align their investment policies. Ultimately, Solvency II should contribute to a reduction in capital requirements for insurance companies that operate successfully. It is certain that the consequences of Solvency II implementation will also be felt by insurance consumers. Consistent application of this concept will likely lead to limitations on certain coverages, an increase in insurance premiums, or the exclusion of coverage for specific risks.

The current regulatory framework of Republic of Srpska, prescribed by the Law on Insurance Companies, is based on the Solvency I regime regarding capital adequacy. This means that when calculating

the solvency margin, only the risk arising from insurance contracts is taken into account. In an effort to prepare the local market and insurers for Solvency II, the legislator has introduced certain provisions related to the risk management system, as well as the identification and analysis of monitoring exposure to specific risks. These provisions represent an important step in strengthening the stability of the insurance sector and in the process of alignment with EU law. It is crucial for companies to develop the practice of assessing their own risk exposure even before the formal adoption of the Solvency II regulatory framework, in order to strengthen their capacity to withstand shocks and unexpected losses.

The Agency adopts bylaws based on insurance laws; therefore, the process of aligning bylaws within the Agency's competence with the EU *acquis* is linked to the enactment of new insurance laws (or amendments to existing ones) based on current *acquis* solutions.

For this reason, every action taken by the Agency has been based on its legally prescribed competences, without prejudicing the deadlines for changing the legal framework for insurance in Republic of Srpska.

The Agency received initial support for the introduction of risk-based supervision through the *Twinning* project BAO7 IB FI 01, which offered a proposal for a model to develop risk matrices.

As part of the developmental activities, the "*Strategic Framework for Transitioning to the Solvency II Regulatory Framework*" was adopted. This framework established the Agency's priorities through three groups of activities aimed at minimizing the initial negative effects brought about by the change in the business concept. Within this scope, the following activities were conducted:

- An analysis was performed regarding the possibility of excluding insurance companies from Republic of Srpska from the application of Solvency II,
- for the purpose of understanding qualitative requirements (the so-called Pillar II), a questionnaire titled "Determining the Level of Development of Management System Functions According to Solvency II Requirements" was conducted and analyzed
- the first stress test of the insurance sector in Republic of Srpska was conducted to ensure the continuous monitoring of risk exposure, both for individual insurance companies and the sector as a whole.

With the aim of improvement and actualization, a new Strategic Framework for the Transition to the Solvency II Regulatory Framework was adopted, through which the following was achieved:

- within a consultancy support project for the insurance market in BiH, financially supported by the World Bank and the European Union, a qualitative Solvency II impact study was conducted.
- the second stress test of the insurance sector in Republic of Srpska was carried out.

The Agency has also continuously supported the training of its employees on topics related to Solvency II, as well as the challenges and implications of its application. Similar training sessions were later organized for employees of insurance companies.

The enactment of regulations governing insurance activities in Republic of Srpska, which would include at least partial Solvency II provisions, would create

the conditions to bring the development of the insurance sector in Republic of Srpska closer to that of the European Union.

Implementation of International Financial Reporting Standards, Primarily IFRS 9 and IFRS 17, Relating to the Field of Insurance

International Financial Reporting Standards (IFRS) are defined by the Law on Accounting and Auditing of Republic of Srpska and do not fall under the Agency's jurisdiction; instead, a professional association (The Association of Accountants and Auditors of Republic of Srpska) is responsible for their translation and determining their effective dates.

The Board of Directors of the Association of Accountants and Auditors issued Decision No. 280-4/22 on November 8, 2022, stating that IFRS 17 will apply to annual reporting periods beginning on or after January 1, 2027. Furthermore, regarding the commencement of IFRS 9, the International Accounting Standards Board (IASB) provided insurance companies with the option to defer the application of IFRS 9 until IFRS 17 enters into force.

Although the Agency's primary competence is the supervision and regulation of the insurance market, it has become involved in preparing the insurance sector for the application of these international standards. In this regard, the Agency has conducted numerous preparatory activities for the implementation of IFRS 9 and IFRS 17, both among its employees and with insurance companies.

Agency employees have attended numerous seminars on the implementation of IFRS 9 and IFRS 17, while the Agency also organized a dedicated advisory and educational program for its staff and insurance companies. The implementation of IFRS 9 and IFRS 17 was also the subject of the Agency's application for TAIEX—the Technical Assistance and Information Exchange instrument, which the European Commission has made available to new member states, candidate countries, and potential candidates.

To assess the preparatory activities undertaken and to understand the changes brought by IFRS 9 and IFRS 17, the Agency prepared and distributed two questionnaires to insurance companies titled: "Preparation for the Implementation of IFRS 9 and IFRS 17 among Insurance Companies in Republic of Srpska." The purpose of these questionnaires was to review the preparatory measures and monitor progress toward the implementation of IFRS 9 and IFRS 17.

Taking all the above into account, it is indisputable that the insurance sector faces full implementation of IFRS 9 and IFRS 17 in the future. This will bring significant changes to the valuation of insurance contracts (simply put: for every insurance contract, an assessment of future cash flows and discounting to present value will be performed, a risk adjustment for non-financial risk will be determined, and profit will be recognized separately).

Risk-Based Supervision

The regulation of insurance companies in EU law focuses on three key areas: risk management, internal control, and *compliance*. Indeed, practice has shown that adequate risk management is crucial for main-

taining the solvency and liquidity of insurance companies and for preventing liquidation or bankruptcy.

The essence of the Solvency II concept is the transition from standard risk management models—applied to all insurance companies regardless of differences in their portfolios—to internal models tailored to the specific risks of an individual insurer. In short, the objective of the new risk management model is to introduce comprehensive risk management and solvency measurement to protect insurance consumers. This is achieved by considering the following criteria: 1) the volume of insurance services offered by a specific insurance company; 2) the insurer's ability to assess the risks faced in its business operations; and 3) the quality of the risk management system.

From the regulator's perspective, the most significant innovation of the Solvency II regulatory framework includes, firstly, the introduction of a risk-based solvency measurement system (*Risk-Based Supervision*). This approach fosters a prudent measurement of the insurance company's portfolio risk exposure and a proportional determination of the required capital amount. The risks taken into account in this process include: credit risk, market risk, operational risk, liquidity risk, and insurance risk. Secondly, uniform rules for measuring the solvency of insurance companies are introduced, based on the valuation of assets and liabilities in accordance with market-consistent principles. Thirdly, insurers must adopt and implement an appropriate risk management program. The essence of this sophisticated approach lies in incentivizing insurance companies to develop their own risk management systems. The idea is that companies successfully implementing a risk management program would see a reduction in their solvency capital requirements. Fourthly, the

concept of required capital is determined using either the "standard formula" or an "internal model." The essence of this new approach is to determine the required capital for each insurer individually, accounting for their business performance on one hand, and their investment policy on the other. It is vital that the capital of a specific insurance company is determined adequately, ensuring it can meet its obligations even during the most adverse business years. Fifthly, insurance companies are encouraged to diversify their insurance risk. In short, the fundamental motto of the Solvency II concept is: "The higher the quality of risk management, the lower the amount of capital an insurance company is required to hold." It is essential for insurance companies to commit to the development and application of risk management systems, while the supervisory body respects the principle of connectivity between the capital structure and the risk profile of a specific insurer.

The most significant innovation is that when calculating the Minimum Capital Requirement (MCR), and even more so when calculating the Solvency Capital Requirement (SCR), all risks faced by the insurance company are taken into account. Consequently, the prescribed capital reflects insurance risk, as well as credit risk, operational risk, market risk, and liquidity risk. This ensures better protection for policyholders, as these values are assessed over shorter periods through the establishment of threshold values.

To conclude: **risk-based supervision entails a personalized approach to each insurance company based on an appreciation of the risks to which it is exposed.** Capital requirements will depend on the degree of danger of the assumed risks. If an insurance company has taken on more intensive risks, it will have to set aside more capital to cover

them. This approach “forces” the insurance company to act proactively, thereby reducing the possibility of insolvency. More importantly, from the perspective of market resilience to global challenges and negative trends, this form of supervision also compels the regulator to act proactively as soon as certain alarming practices are identified. In the near future, the Agency will have to step out of its role as a “mere verifier” and step into the shoes of a “proactive risk expert.” To achieve this, a new supervisory model is indispensable, based on changing internal processes and policies, and the development of new regulatory tools, early warning indicators, etc.

Digitalization

Insurance services are increasingly being offered and purchased through modern means of communication, which raises new legal and practical questions regarding consumer protection. Although this method of concluding contracts offers immense advantages for both the insurer and the insurance service user, the specific nature of insurance services in this type of policy purchase requires specific regulation.

The development of digital technologies has brought significant benefits to the operations of insurance companies, enabling the swift and simple remote purchase of insurance policies. Although the possibility of concluding insurance contracts without the physical presence of the contracting parties existed previously through traditional means of distance communication, modern advancements in communication technologies have created conditions for the widespread application of so-called distance contracts, which are now accessible to a broad range of

legal entities. This method of purchasing offers numerous benefits, such as greater accessibility, lower costs, time savings, and the overcoming of geographical, temporal, and other barriers. However, despite these many advantages, the need to ensure adequate consumer protection regarding transparency and the conditions for concluding and withdrawing from a contract cannot be ignored. An additional challenge, particularly regarding online purchases, is the risk of personal data breaches.

Considering the vital role consumers play, as well as the fact that as natural persons they are in a weaker bargaining position, it is essential to provide them with adequate protection. Proper consumer protection policies foster consumer confidence and strengthen a company’s reputation, thereby increasing user participation in transactions and improving business operations.

The need for detailed regulation of the protection of users of financial services concluded at a distance has been recognized at the European Union level. As with other methods of information disclosure, insurance consumers have the right to clear, precise, and easily understandable information regarding insurance conditions before concluding a contract. The policyholder is typically an average consumer who often lacks specialized knowledge of financial products; therefore, information must be presented in a way that allows them to understand what they are purchasing and how they can protect their rights. In addition to the above, the right of withdrawal, which belongs to the consumer under the current legislative framework, is particularly important. The user must be clearly informed of this right by the insurance company, which brings us back to the field of pre-contractual information disclosure—widely con-

sidered the insurer's most important obligation and the policyholder's fundamental right. In line with the right of withdrawal as a form of protection, transparent channels for complaints and claims, along with a clear notice of these rights, are equally vital for protecting user rights. Furthermore, given the significant risks associated with internet usage today, it is crucial that the user is guaranteed the secure processing of their personal data.

The need for enhanced protection regarding the conclusion of any distance contract arises primarily from the fact that the consumer does not have the opportunity to experience the product or service in person, nor to obtain the information necessary for an informed decision directly from the seller or service provider. An additional reason for the increased protection of insurance service users stems from the complexity of financial products; thus, an average consumer, unless possessing specific knowledge and accurate, comprehensive product information, faces difficulties in understanding them.

Intelligent ESG Risk Management and its Integration into Supervisory Practice

Under the influence of rapid global developments, whose common denominator is an increased awareness of risk exposure in all segments of private and professional life, world rhetoric is shifting toward the concept of sustainability. It is becoming clear that sustainability does not only mean the long-term survival of companies but the survival of the planet itself in the form we know it. The preservation and protection of the environment is one of the greatest chal-

lenges that modern generations will have to face. Climate change, natural disasters, and extreme weather conditions, combined with war and geopolitical risks, have once again exposed society to a whole set of challenges that will require a reassessment of existing economic, business, and lifestyle habits. The term "*green transition*" emerged as an expression of efforts to ensure a transition to sustainable business models in order to preserve ecosystems and the planet. Non-financial reporting plays a significant role in the green transition process. The European Commission has held the view that non-financial reports should become key information regarding a company's commitment to sustainable development, its vision, and strategy, as well as its ability to respond to environmental and social risks. The relationship between financial and non-financial reports should demonstrate a well-founded vision for companies in the 21st century.

Today's corporate reality is such that companies increasingly have the consideration of fluctuating environmental and social responsibility factors on their agendas, integrating them into their business strategies. The conception of what constitutes business success has changed; therefore, the way of doing business must change as well. ESG (*Environmental, Social, and Governance*) is a set of standards that guide corporate policies to align with sustainable development concepts in the areas of the environment, social responsibility, and corporate governance.

Although there are still companies and individuals unfamiliar with ESG today, it is only a matter of time before they must adhere to the new business paradigm. If for no other reason than profit—because the buyers of their products, the so-called Millennial and Gen Z generations, who now make

up nearly 49% of the world's population, will soon refuse to purchase goods and services if the seller is not responsible toward the planet, society, and the law. *We draw attention to the shift in mindset that has occurred among the new generations. Their attitudes and beliefs will certainly influence their tolerance for various risks, their consumer habits, and, even more so, their investment decisions.* It is estimated that by 2030, more than one-third of global assets will be linked to ESG standards.

The corporate strategy of insurance companies should include ESG risks, first through the identification of these risks, and subsequently by assessing all undertaken ESG activities. Risks are becoming more numerous, and the insured perils more pronounced; claims are increasing, which cannot pass without consequences. Today, environmental and climate risks dominate, both in terms of probability and their potential impact. To this, one must add war and geopolitical risks, which have once again become relevant. Overall, it is certain that we are entering years of uncertainty, which will emphasize the importance of insurance while simultaneously testing its capacities.

Who can know more and better explain climate risks than the insurance sector? When it comes to ESG risks, the insurance sector can take a leading role and assist other economic sectors in understanding and acting in accordance with ESG principles. Furthermore, insurers, as risk underwriters and investors, have the opportunity to significantly influence companies whose business effects impact climate change and to propose development initiatives.

Many insurers participate in global ESG initiatives and publicly emphasize their significance. They collaborate with various stakeholders and vulnerable parties to determine how they can best fulfill ESG

requirements and gain an understanding of the consequences of any potential failure. The next step for insurers is to consistently present the measures they are taking, as well as the benefits these measures provide to stakeholders. Insurance companies are in a position to encourage sustainable behavior across the entire environment through their offerings and personal example. Insurers can influence prevention on a global level by creating products and packages that motivate investment in renewable energy sources and low-emission industries, or by discouraging investment in "dirty" technologies by refusing to underwrite such risks. The task of a modern regulator is to support them in this endeavor.

Unified Insurance Distribution Regime – The Principle of the Best Interest of the User

The Insurance Distribution Directive (hereinafter: IDD) represents a legal framework for insurance through which one of the most significant reforms in this sector was implemented. The background of this much-heralded reform is, generally speaking, to increase the level of protection for insurance consumers and to strengthen confidence in the insurance market. At this moment, it is more than certain that consumer protection is a field that never stands still, is in constant development, and that in this domain, there are no achieved results that could not be further improved. When the current socio-economic context is added to this, it is easy to understand the changes brought by the revised regulation. Two key objectives were set by the European Commission during the drafting of this directive.

The revised regulatory framework applies to all distribution channels, including direct insurance sales, which was not the case under the previous directive. *Only ancillary insurance intermediaries are exempt* from the application of the IDD, provided they offer insurance distribution services as a supplement to goods or services supplied by any provider. This applies if the insurance covers the risk of breakdown, loss, theft, or damage to goods, or the non-use of a service provided by that supplier, as well as damage to or loss of baggage and other risks related to travel booked with that supplier. Furthermore, this exemption applies if the annual premium for the insurance product—excluding life or liability insurance—does not exceed 600 EUR calculated on a pro-rata annual basis, or, if the service is provided for 3 months or less, the premium does not exceed 200 EUR per person. The objective is to level the playing field for all types of insurance distributors to ensure the same level of consumer protection within the EU single insurance market, regardless of the distribution channel. These two objectives are inextricably linked. The unified distribution system is designed to provide an identical degree of protection when purchasing insurance services and to strengthen consumer confidence.

The regulatory framework applies to the distribution of both life and non-life insurance. The increase in the level of protection for insurance service users applies to all users regardless of their characteristics: it is irrelevant whether the party is a consumer or a company, or what their nationality is, provided that the insured risks are situated within the EU. An exception exists for the distribution of non-life insurance products qualified as so-called “large risks,”

where the rules on pre-contractual information, conflict of interest, transparency, and advice do not apply.

Why is insurance distribution important? Because, according to all relevant studies, the distribution of insurance products is a significant indicator of economic health. In the current environment, characterized by a polycrisis (moving from one crisis to another) on one hand, and the transition to digital platforms—which undoubtedly brings numerous challenges—on the other, the stability of the financial system is one of the most vital issues for the survival of the global economy.

The most significant provision of the IDD is contained in Article 17, formulated as: “Member States shall ensure that, when carrying out insurance distribution, insurance distributors always act honestly, fairly, and professionally in accordance with the best interests of their customers.” This inaugurated the “best interest of the customer” (consumer) principle as the guiding tenet of the new insurance distribution system. The European legislator’s idea is to introduce a legal standard that will, in every case and regardless of the distribution channel, ensure care for the best interests of the weaker party.

Ensuring business operations according to the principle of the customers’ best interest is a **process** that requires continuous adherence to the principles of honest, fair, and professional conduct.

According to the IDD regulatory framework, *“prior to the conclusion of an insurance contract, the insurance distributor shall, based on information obtained from the customer, state the demands and needs of that customer and provide the customer with objective information about the insurance product in a comprehensible form to allow that customer to make an informed decision. Any contract proposed shall be*

consistent with the customer's insurance demands and needs. Where advice is provided prior to the conclusion of any specific contract, the insurance distributor shall provide the customer with a personalized recommendation explaining why a particular product would best meet the customer's demands and needs."

It is correct to say that this directive *transforms the previous mediation system into a well-founded insurance distribution system*. By introducing the concept of adequate advice, preceded by a customer demands and needs test, and by providing information in an understandable manner, consumer protection is harmonized in the pre-contractual stage. We emphasize the obligation of every distributor providing advice prior to the conclusion of an insurance contract to adhere to the suitability test. This is necessary to protect consumers in the future from purchasing useless insurance products and to curb the mis-selling of insurance services.