UNDP Insurance and Risk Finance Facility

Insurance and Risk Financing Opportunities in Western Balkans

Scoping Study

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Glossary and Terms

Term	Definition
Area Yield Index Insurance (AYII)	A type of crop insurance that pays out if the yield of a certain area falls below a predetermined threshold.
Business Interruption Insurance	Covers losses due to unexpected disruptions to business operations.
Catastrophe Bonds	Bonds issued by insurance companies or other entities to transfer risk of catastrophic events, such as disasters driven by natural hazards, to investors.
Contingent Credit	A type of credit extended by lenders to borrowers that is contingent on certain events, such as the borrower's ability to meet specific financial or operational targets.
Environmental Impairment Liability Insurance	Covers damages resulting from environmental pollution or contamination.
Gross Written Premium (GWP)	The total amount of premiums written by an insurance company during a specific period.
Life Insurance	A type of insurance that provides financial protection to the beneficiaries of the insured individual in case of their untimely death and may also include benefits such as savings and investment options.
Loan Guarantees	A type of risk mitigation tool used to provide assurance to lenders that their loans will be repaid.
Micro-Insurance	Provides low-cost insurance coverage to low-income individuals and families, typically in developing countries and territories.
Multi-Peril Crop Insurance (MPCI)	A type of crop insurance that provides protection against multiple risks that can damage crops, such as weather-related events, pests, and diseases.
Non-Life Insurance	Also known as general insurance, provides insurance coverage for risks that are not related to human life, such as property, automobiles, health, travel, and liability.
Parametric Insurance	A type of insurance policy that pays out a predetermined amount based on the occurrence of a specific event, rather than the actual losses incurred.
Political Risk Insurance	Protects businesses against losses arising from political events or actions.
Trade Credit	Provides financing for businesses to purchase goods or services from suppliers on credit, allowing for more flexible payment terms.

Executive Summary

The aim of this scoping study is to discover the obstacles and prospects for developing insurance and risk financing in the Western Balkan region, which includes Albania, Bosnia and Herzegovina, Kosovo[1], Montenegro, North Macedonia, and Serbia. The report presents an overview of the current state of the insurance market and risk financing mechanisms in these countries and territories, identifying significant hurdles and potential areas for growth that could benefit from external intervention. Additionally, the report suggests appropriate solutions for these countries and territories and pinpoints promising opportunity areas.

The legal and policy framework surrounding insurance and risk financing in the Western Balkan countries and territories is currently limited, leaving little room for innovative and market-based activities to thrive. Furthermore, the insurance markets in these countries and territories are generally underdeveloped with low levels of insurance penetration and limited public awareness.

Although some positive developments are happening in some of these countries and territories, such as Albania's National Insurance Risk Pool initiative and North Macedonia's discussions around establishing an Agricultural Insurance Pool, common bottlenecks and limitations across the region hinder consistent and scalable growth in insurance and risk financing (refer to Section 2 for further details).

Non-life insurance markets are more prominent than life insurance market in this region, while lack of innovation in digital solutions has been non-conducive for growth in insurance distribution channels. Additionally, many financial products, such as mortgages, are offered without insurance coverage, thereby exposing both lenders and borrowers to potential risks from losses due to disasters, like earthquakes, floods, etc. Moreover, public assets and state-owned properties lack comprehensive insurance coverage, leaving the government vulnerable to greater fiscal shocks in the aftermath of significant loss events and relying on international aid. Finally, there are no significant ex-ante risk financing tools in place to help governments with post-disaster financial liquidity.

In Section 3 of the report, it is noted that most of the population in the region has limited access to insurance, mainly due to low levels of awareness about the risks and benefits of insurance, a tendency to rely on government compensation in the aftermath of losses, mistrust in insurance companies, limited affordability, and overall limited financial literacy. On the supply side, insurers often lack the risk understanding and technical capacity to offer suitable products for risks such as floods, earthquakes, and agriculture risks. The insurers also show concerns about the volatility of premium pricing due to increasing severity of risks, shrinking profit margins when providing insurance against natural perils, and tendency of moral hazards. As a result, insurance participants continue to underwrite simpler lines of business, such as motor and liability insurance, and do not indulge in more complex risk coverages needed by the countries and territories in this region. Also, the high operational costs of doing insurance business tend to hinder industry's growth, given the small scale of the markets. Governments in these countries and territories have not established clear strategies or appropriate instruments to introduce ex-ante risk financing mechanisms.

[1] All references to Kosovo shall be understood to be in the context of the Security Council Resolution 1244 (1999).

The report presents various solutions, tools, and intervention measures in Section 4 that could help tackle the challenges faced in the region, including Tax Benefits, Linking Grants to Insurance, Landing Regulation, Subsidies, Mandatory Insurance, Distribution Channels, Capacity Building and Technical Assistance, Risk Pools, Contingent Credit, Risk Financing and Insurance of Public Assets, Emergency Risk Financing, and Catastrophe Bonds and Reinsurance.

The report also outlines potential projects and opportunities for each country and territory in Section 4 that could contribute to the growth of insurance and risk financing and help resolve key obstacles. In addition, the report focuses on solutions that could be tailored on a regional basis, instead of individual countries and territories, which includes a regional Catastrophe Bond and a Regional Insurance Pool Facility.

Finally, the report delves into the integration of insurance and risk financing solutions with development financing and projects related to Sustainable Development Goals (SDGs) in the Western Balkan region (refer to Section 5).

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1. Introduction

The Western Balkans, consisting of Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia, has undergone noteworthy socioeconomic and political changes in recent decades. To sustain economic growth and global market integration, it is crucial to evaluate and bolster the resilience of diverse economic sectors in these nations. Identifying opportunities for risk transfer through insurance and risk financing is also imperative.

The insurance sector in the region seems underdeveloped relative to its potential. Table 1 offers an overview of the insurance market in the Western Balkans.

Table 1: Western Balkans' Insurance Penetration and Density

Country or Territory	Population, 2021 (million)	Gross Domestic Product, 2020 (USD billion)	Total Gross Written Premium, 2020 (USD million)	Insurance Penetration, 2020 (% of GDP)	Insurance Density (USD per capita)
Albania	2.85	15.28	135	1.4%	46.17
Bosnia and Herzegovina	3.3	18.51	394	1.5%	112.27
Kosovo	1.8	7.93	99	0.8%	52.03
Montenegro	0.63	5.5	92	1.8%	148.06
North Macedonia	2.1	12.61	117	1.1%	326.53
Serbia	6.9	51.29	864	1.8%	98.28

A robust insurance market is crucial for economic stability, reducing vulnerability to shocks, and supporting sustainable development. Insurance and risk financing provide essential financial protection against unforeseen events, lessening the economic impact on individuals, businesses, and governments. In the context of the Western Balkans, which faces frequent hazards like earthquakes and floods, a well-developed insurance and risk financing market is particularly vital. This scoping study delves into the insurance and risk financing markets in the six Western Balkan countries and territories. The methodology involves a comprehensive analysis of existing knowledge, data, and interviews with key stakeholders. The study, aiming to contribute to the dialogue on sustainable development and financial inclusion in the region, is structured as follows:

- Chapter 2 offers an overview of the current state of the insurance and risk financing market in the Western Balkans, identifying common challenges and covering aspects like life and non-life insurance markets, distribution channels, policy frameworks, and the government's role.
- Chapter 3 analyses demand and supply-side factors influencing the insurance market, including consumer attitudes, affordability, financial literacy, government strategies, and the capacities of insurance providers. It explores reasons for low insurance uptake and challenges faced by insurers in expanding in the region.
- Chapter 4 provides an overview of potential interventions to address challenges and promote growth in the insurance sector. It covers tax benefits, subsidies, mandatory insurance, capacity building, technical assistance, risk pools, contingent credit, risk financing for public assets, emergency risk financing, and catastrophe bonds and reinsurance. It highlights prioritized opportunities and potential projects specific to each country and territory, as well as regional solutions.

- Chapter 5 explores how insurance and risk financing solutions can be integrated into development financing and Sustainable Development Goal (SDG)-related projects in the region. It suggests ways to embed these mechanisms into broader development initiatives to enhance project resilience and sustainability.

The report concludes with recommendations and policy implications derived from the study's findings, offering actionable guidance for governments, insurance providers, and stakeholders. Recommendations address both country/territory-specific and regional measures to overcome challenges and unlock the market's potential. The study also outlines potential areas for future projects, contributing to ongoing efforts to strengthen the insurance and risk financing market in the Western Balkans.

2. Overview of Insurance and Risk Financing in Western Balkans

This section offers a summary of the insurance and risk financing frameworks in the six Western Balkan countries and territories. The study employs a combination of methods, including desk research, stakeholder consultations, and survey questionnaires. The analysis focuses on key areas such as Disaster Risk Reduction (DRR) strategies, Risk Financing tools, the private insurance market, and identifies strategic sectors for potential benefits from risk financing and transfer mechanisms.

Also, the section provides an overview of existing initiatives and common features in the insurance and risk financing frameworks across the six Western Balkan countries and territories. It then evaluates each country and territory individually, presenting insights into their institutional, policy, and legal frameworks related to insurance and risk financing. Notably, the depth of analysis varies among countries and territories due to discrepancies in available information and stakeholder engagement levels.

2.1 Insurance markets in the region of the Western Balkans

Life and Non-life Insurance Market

In the Western Balkans, the non-life insurance market typically experiences more rapid growth than the life insurance market, a trend common in emerging economies. This growth is driven largely by the mandatory nature of certain non-life insurance products, particularly motor insurance, due to an increasing number of vehicle owners. The demand for mandatory auto insurance policies, such as third-party liability coverage, rises as vehicle ownership expands. Approximately 50 to 60% of the entire premium for non-life insurance is commonly allocated to auto insurance premiums. For example, in 2022, this ratio was approximately 52% in Montenegro, around 60% in North Macedonia, and roughly 61% in Albania in 2021. The expansion of auto insurance has a direct impact on the overall growth of the non-life insurance segment in the Western Balkans.

In contrast, the life insurance markets in these countries and territories are less developed and exhibit slower growth rates. This slower growth is attributed to factors such as consumer awareness, demand, financial literacy, and disposable income. The subsequent chapters provide a detailed comparison between life and non-life insurance in each country and territory, highlighting the perception that life insurance products are considered less critical in these regions. This perception is consistent with trends observed in many emerging economies, where immediate financial concerns and mandatory insurance requirements take precedence over the need for life insurance.

Insurance Distribution Channels

The insurance and financial sector in the Western Balkans predominantly rely on traditional distribution channels, such as agents and brokers, for sales and customer acquisition. However, this traditional approach has hindered the adoption of modern technology and digital marketing methods, which are reshaping the global insurance business landscape. The potential collaboration between banks and insurance companies remains largely unexplored, limiting the diversification of financial services and missing opportunities for cross-selling.

Relying on agents and brokers may lead to higher operating costs, slower response times, and a lack of transparency, and the region has been slow to embrace digital channels for distribution and new client acquisition. This presents an untapped market for digital insurance products, particularly among the younger demographic. The limited adoption of technology also hampers the ability to leverage customer data for personalized offerings and targeted marketing, diminishing the effectiveness of sales efforts.

To enhance competitiveness and stimulate growth, countries and territories in the region should prioritize the integration of technology and digital marketing strategies. Exploring partnerships with alternative channels, such as banks, could diversify insurance distribution mechanisms, unlocking new opportunities, improving customer experiences, and driving efficiency in the insurance and financial services industry.

Mortgage Insurance

While the mortgage market in the region is expanding, it is noteworthy that many banks do not mandate borrowers to acquire insurance policies for protection of property against disaster risks. Consequently, both financial institutions and individual property owners face substantial risks of potential losses. To instil greater stability and resilience in the market, there is a crucial need to make catastrophe risk coverage mandatory for mortgages. By implementing such requirements, financial institutions can not only secure their investments, and homeowners can also safeguard their properties from unforeseen catastrophes. This would contribute to a more secure and stable housing market while fostering the development of the insurance industry.

Lack of Risk Financing Tools

The Western Balkan countries and territories face a significant challenge due to the absence of established risk financing tools, leaving them financially unprepared and susceptible to disasters, economic shocks, and unforeseen crises. Reliance on external aid and donor support for post-disaster recovery is prevalent, exemplified by Albania's earthquake in 2019 and Montenegro's struggles with floods and wildfires. This reliance strains limited resources and hampers long-term development and economic growth. The urgent need for the region is to prioritize the creation of robust risk financing strategies. This approach is crucial to effectively mitigate and manage potential crises, ultimately contributing to building a more resilient and secure future.

Public Assets are vulnerable to disasters

Public assets in the Western Balkans countries and territories are highly vulnerable to disasters, causing substantial damage to critical infrastructure and public facilities. Notably, Serbia faced severe floods in 2014, resulting in significant harm to roads, bridges, and schools, while North Macedonia experienced devastating floods and torrential rains in 2016, leading to widespread destruction of public assets. In both instances, post-disaster international support was crucial for reconstruction and recovery efforts.

These incidents underscore the imperative for these countries and territories to establish comprehensive disaster risk management plans and proactive financing mechanisms. Investing in preventive measures can mitigate the economic and social impacts of disasters, enhance resilience, and reduce the region's reliance on external assistance for post-disaster recovery.

2.2 Country/territory situation

The report will now focus on offering a comprehensive overview of the insurance and risk financing landscape in each individual country and territory. This will involve detailing the legislative, policy, institutional, and regulatory frameworks existing in each of these regions.

Albania

In 2013, Albania drafted the National Strategy for Disaster Risk Reduction and Civil Protection, proposing a budget allocation by the state and separate budgets for each relevant ministry, including the Ministry of Defence. However, this strategy remained unadopted. The recently approved second strategy, covering 2023-30, is under the responsibility of the Ministry of Defence and National Civil Protection Agency.

The new National Disaster Risk Reduction (DRR) strategy draft for 2023-30 suggests establishing a National Disaster Risk Financing Program for post-disaster scenarios. This program, alongside funds from ministries and municipalities, is based on the legal provision of Law 45/2019. To strengthen the country's financial preparedness comprehensively, a multi-sectoral approach is deemed necessary. This involves adopting and implementing a Disaster Risk Financing Program led by the Ministry of Finance and Economy, strongly supported by a national scheme like the Albanian Catastrophe Insurance Pool. The program aims to enhance the country's financial resilience against disasters, address post-disaster financing needs, and facilitate a green, regenerative, and inclusive recovery.

Since 2019, the Albanian Catastrophe Insurance Pool has been supporting Albania and will continue until 2026. Its focus includes managing the government's contingent liabilities related to disasters, providing access to financial services after disasters for families, farmers, businesses, and the poor. This encompasses earthquake insurance for families, access to finance for farmers and SMEs, development of the insurance market, and the introduction of financial instruments to strengthen the financial and private sector's resilience against disasters and climate change.

Increasing the resilience of the financial and private sector against disasters

A microinsurance product with a focus on earthquake coverage was developed as part of the World Bank Insurance Program for Southeast Europe and the Southeast Europe Catastrophe Risk Insurance Facility, with support from the Swiss State Secretariat for Economic Affairs. To raise awareness about earthquake risks and encourage homeowners to secure insurance for their properties, one insurance company reportedly offered complimentary earthquake microinsurance coverage to the first 300 clients in September 2017. The insurance policies were structured to provide immediate payouts of up to ALL300,000 (approximately USD 3,000) in the event of complete damage to their residences caused by an earthquake.

Table 2: Gross Written Premium (GWP) dynamics in Albania (Source: FSA of Albania).

GWP (USD)	**2017**	**2018**	**2019**	**2020**	**2021**
Life Insurance	11,304,454	10,720,367	11,412,499	10,938,502	13,425,869
Non-Life Insurance	139,948,230	147,625,294	153,357,287	144,873,438	167,185,004
TOTAL	152,019,564	158,852,193	165,376,299	155,899,390	180,866,820
GWP Change in % YoY		2017/18	2018/19	2019/20	2020/21
	Total	4.50%	4.10%	-5.70%	16.00%

	Non-life	5.50%	3.90%	-5.50%	15.40%
	Life	-5.20%	6.50%	-4.20%	22.70%

Table 3: Leading Life and Non-Life Insurance companies in Albania in 2020 (Source: FSA of Albania)

Non-life insurance Companies	Market Share	Life insurance Companies	Market Share
Sigal Uniqa Group Austria	23.3%	Sigal Uniqa Group Austria	46.8%
Intersig Sh.a	10.3%	Intersig Life Sh.a	12.1%
INSIG Sh.a.	8.2%	INSIG Life Sh.a.	10.1%
Eurosig Sh.a.	7.8%		
Union Insurance Company Sh.a.	7.3%		

The Albanian Financial Supervisory Authority (AFSA) and the government have jointly initiated a plan to mandate affordable insurance coverage against disasters, specifically flooding and earthquakes, for every business and household. In 2017, insurance against fire and natural perils amounted to approximately ALL1.4 billion (around USD 9.8 million). The country, frequently experiencing disasters like flash floods, faces vulnerabilities in both businesses and households, prompting the need for protective measures.

Following the destructive earthquake in November 2019, which caused substantial damage and loss of life, the Albanian government recognized the necessity for a more comprehensive approach to earthquake risk management. AFSA, in collaboration with the World Bank, drafted the bill for "Compulsory insurance for households against earthquakes," currently under discussion. Despite the seismic events in 2019, there has not been significant growth in disaster insurance. Consequently, in 2020, with World Bank support, the Albanian government launched the Albania Catastrophe Risk Insurance Project. This project aims to enhance the affordability and accessibility of catastrophe risk insurance, with a focus on earthquake risk. Key components of the project include:

- ***Establishing a mandatory earthquake insurance system:*** Developing the legal and regulatory framework for mandatory earthquake insurance, along with necessary institutional arrangements and market infrastructure.
- ***Developing a risk financing strategy:*** Creating a comprehensive strategy that integrates public and private financing sources, including insurance, reinsurance, and capital market instruments, to effectively manage the financial impact of earthquakes.
- ***Enhancing risk understanding and awareness:*** Improving the understanding of earthquake risk among homeowners, businesses, and the public sector through risk assessment, modeling, and awareness campaigns.
- ***Strengthening the capacity of the insurance industry:*** Building the capacity of local insurance companies, intermediaries, and regulators to offer and supervise earthquake insurance products effectively.

Albania, categorized as a bank-based economy, relies significantly on second-tier banks as a crucial lending channel. Banks also play a vital role in promoting property insurance, often a prerequisite for the majority, if not all, mortgages they approve.

Table 4: Insurance Penetration and Density in Albania (Source: FSA of Albania)

		2017	2018	2019	2020	2021
Insurance penetration *- Gross Written Premium to GDP (in %)*	*Life*	*0.08*	*0.07*	*0.07*	*0.07*	*0.08*
	Non-Life	*0.97*	*0.96*	*0.97*	*0.94*	*0.94*
	Total	***1.04***	***1.03***	***1.04***	***1.01***	***1.02***
Insurance density *Gross Written Premium per capita - (US$)*	*Life*	*3.23*	*3.23*	*3.23*	*3.23*	*4.31*
	Non-Life	*42*	*46.3*	*50.61*	*47.38*	*55.9*
	Total	***45.23***	***50.6***	***53.8***	***50.6***	***60.3***

Table 5: Distribution Channels of Insurance in Albania (Source: FSA of Albania)

Distribution channels, 2021	Non- Life: % of Total Intermediated Premiums	Life % of Total Intermediated Premiums
Brokerage Entities	*98%*	*83%*
Banks	*2%*	*17%*

Innovations

Recently introduced some of the innovative insurance products, such as Telehealth, have emerged in the market, providing health insurance with a medical advisory service accessible through mobile phone applications. Additionally, digital selling has witnessed growth in recent years. Key stakeholders from the Albanian Financial Supervisory Authority (AFSA) and local insurers participated in the inaugural Inclusive Insurance Innovation Lab (2017-18) alongside countries like Ghana, Kenya, and Mongolia, under the IAIS-supported Access to Insurance Initiative (A2ii). This participation offered Albania the opportunity to learn and assess potential innovation areas in the local insurance market.

Despite certain macroeconomic factors impeding the development of the catastrophe insurance market in Albania, technology has been identified as a potential mitigating factor. While technology cannot be expected to entirely solve the challenges, insurance companies have increasingly invested in technology to improve efficiency and reduce costs. Notably, recent innovations enable customers to make direct purchases from insurers' official websites, providing flexibility and convenience. Additionally, the Albanian government's initiation of a mass digitalization reform is expected to impact various industries, including insurance.

Capacity Building

In Albania, the insurance market is currently limited in size and scope. The introduction of new insurance products is contingent upon market demand, and insurers may consider expanding their offerings when interest or preferences emerge. However, given the financial constraints of households and businesses in Albania, coupled with modest levels of financial literacy, the demand for innovative and complex insurance products is presently low or non-existent.

Despite this, an increase in awareness regarding climate risks could lead to a rise in demand. In such a scenario, firms might express interest in adding climate-related insurance products to their portfolios, especially if supported with funding and expertise from relevant international financial institutions. With assistance from foreign institutions in areas such as capacity building and experience sharing, insurers in Albania may be more motivated to diversify their product range. Crucial sectors and industries vital to Albania, which could be susceptible to external risks like climate-related perils and catastrophes, include the energy sector, agriculture, hospitality, and tourism.

Institutional, Legal and Policy Frameworks

The following outlines the essential institutional, legal, and policy frameworks in Albania pertaining to insurance and risk financing.

Institutional Landscape

The insurance and risk financing sector in Albania is regulated by the Financial Supervisory Authority (FSA), which oversees licensing, solvency, and consumer protection. However, the Bank of Albania plays a monitoring role in the insurance and risk financing sector by ensuring financial stability of the insurance sector and within the broader financial system.

The Ministry of Finance and Economy is responsible for developing and implementing policies related to the insurance and risk financing sector, as well as the overall financial system. The Albanian Association of Insurers (AAI) represents the interests of insurance companies and promotes industry best practices for insurance and risk financing.

Policy Frameworks

Albania has outlined four key strategies to address diverse aspects of insurance and risk financing:

- ***Strategy on Insurance Sector Development 2018-22:*** Aims to establish a sustainable, inclusive, and competitive insurance and risk financing market.
- ***Financial Education Strategy 2020-25:*** Aims to improve financial literacy, including knowledge about insurance products and risk financing mechanisms.
- ***National Disaster Risk Reduction (DRR) Strategy 2023-30:*** Centers on disaster risk management (DRM) with measures to strengthen risk financing mechanisms. It includes a strategic project titled "Strengthen financial preparedness of the country through adopting a National Disaster Risk Financing Program.
- ***National Strategy for Socio-Economic Development 2021-30:*** Aims to enhance financial services, insurance coverage, and risk financing to support economic growth and poverty reduction.

Legal Framework

The legal framework governing insurance and risk financing activities in Albania is defined by several laws. The Insurance Law (2014) serves as the foundation, encompassing the regulation of insurers and ensuring consumer protection. The Law on Compulsory Motor Third-Party Liability Insurance (2009) mandates that all motor vehicles must carry third-party liability insurance. Similarly, the Law on Compulsory Insurance in Construction (2011) obliges contractors to acquire liability insurance for their construction activities. Lastly, the Law on Civil Protection (45/2019) establishes the legal structure for disaster risk management and risk financing in Albania.

Bosnia and Herzegovina

As per the Insurance Agency of Bosnia and Herzegovina (AZOBIH), the overall insurance market in the country reached $481.54 million (BAM 881 million) by the end of 2021, reflecting a 7.7% year-on-year increase. In the Federation of Bosnia and Herzegovina, insurers contributed $336.07 million, marking a 7.5% YoY increase, while Republika Srpska-based insurers generated $145.61 million, showing an 8.1% YoY growth.

Total claims paid by insurers rose by 15% YoY to $218.28 million, with $57.78 million allocated for life insurance claims and $160.50 million for non-life claims. Non-life insurance premiums increased by 7.6% YoY to $378.83 million (BAM 692.8 million) in 2022. Motor insurance lines, particularly Motor Third Party Liability (MTPL) and Motor own Damage (MoD), along with property insurance, contributed significantly to gross written premiums (GWP), with MTPL reaching $233.44 million, MoD at $49.13 million, and property insurance at $38.52 million. The life insurance segment also experienced growth, with premiums increasing by 7.7% YoY to $102.98 million (BAM 188.2 million).

However, the catastrophe insurance market in Bosnia and Herzegovina is underdeveloped, with such insurance policies considered voluntary. Stress tests conducted by Guy Carpenter in 2016 estimated potential damages in a once-in-200-years catastrophic event scenario, with earthquake damages at around $220 million and flood damages at around $260 million. The suggested total capacity for the entire insurance market against natural perils was approximately $270 million, and the estimated reinsurance cost ranged between $8.5 to $12.5 million. The average premium growth rate from 2016 to 2021 was 5%, and in 2021, the market loss ratio stood at around 89%.

After disaster events, the government's national-level actions focused on property restoration, particularly after flooding. Limited risk capacity in the local insurance market has prompted discussions about the necessity for collective risk capacity creation or the formation of an insurance pool to safeguard critical public infrastructure and other significant assets.

Table 6: Non-Life insurance Gross Written Premium (GWP) in BiH in 2020 (Source: Insurance Agency of Bosnia and Herzegovina)

Rank	**Company**	**GWP in BAM (million)**	**GWP in US$ (million)**	**Market Share**
1	Euroherc Osiguranje dd Sarajevo	112.7	67.8	16.5%
2	Uniqa Osiguranje dd Sarajevo	107.4	64.8	15.7%
3	Triglav Osiguranje ad Banja Luka	103.8	62.5	15.2%
4	Krajina Osiguranje dd Banja Luka	91.2	54.9	13.4%
5	Wiener Osiguranje VIG dd Sarajevo	86.5	52.2	12.7%

Table 7: Life insurance Gross Written Premium (GWP) in BiH in 2020 (Source: Insurance Agency of BiH)

Rank	**Company**	**GWP in BAM (million)**	**GWP in US$ (million)**	**Market Share**
1	Wiener Osiguranje VIG zivotno osiguranje dd Sarajevo	27.3	16.5	42.7%
2	Uniqa zivotno osiguranje dd Sarajevo	13.8	8.3	21.5%
3	Sarajevo Osiguranje životno osiguranje dd Sarajevo	12.3	7.4	19.2%

Table 8: Non-Life insurance market's Combined Ratio (Source: Insurance Agency of Bosnia and Herzegovina)

	2017	2018	2019	2020	2021
Non-Life (%)	98.3	95.2	97.6	93.9	97.6

Bosnia and Herzegovina has economic sectors of strategic importance that are both vital to the country and susceptible to climate and other risks. These sectors include Agriculture, Industrial Production, Water Management, Electric Company, Healthcare, Tourism, and Biodiversity.

The distribution of insurance in Bosnia and Herzegovina is facilitated through internal and external networks, such as agents, brokers, and banks. However, when it comes to mortgage insurance requirements, borrowers often choose policies with minimal coverage, excluding critical risks like floods and earthquakes. This tendency arises from the challenge of insuring properties in areas prone to landslides or flooding due to their proximity to water protection zones, making them largely uninsurable.

Bosnia and Herzegovina's unique political structure, comprising two entities—the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS)—along with the self-governing Brčko District, has resulted in a fragmented insurance and risk financing landscape. The country has diverse regulatory bodies, policy frameworks, and legal systems for each entity. The FBiH and RS each have their regulatory bodies, responsible for licensing, setting standards, and supervising insurance companies operating within their respective territories.

Institutional, Legal and Policy Frameworks

Below are the key institutional, legal, and policy frameworks in Bosnia and Herzegovina relevant to insurance and risk financing.

Institutional framework

The regulatory landscape for insurance in Bosnia and Herzegovina is structured as follows:

- The Insurance Agency of Bosnia and Herzegovina (IA BH) oversees the insurance sector at the national level.
- The Federation of Bosnia and Herzegovina (FBiH) has its entity-level regulator, the Insurance Supervision Agency of FBiH.
- The Republika Srpska (RS) also has its entity-level regulator, the Insurance Agency of Republika Srpska.

Additionally, the Association of Insurance Companies in FBiH and the Association of Insurance Companies in RS represent the interests of insurance companies and advocate for industry best practices within their respective entities.

Policy Framework

Entity-level strategies aim to enhance the regulatory environment, increase insurance penetration, and promote risk financing. Both the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS) have their own entity-level strategies. The National Strategy for Disaster Risk Reduction focuses on addressing risk financing mechanisms, disaster risk management, and climate change adaptation. Furthermore, there are initiatives to align Bosnia and Herzegovina's insurance and risk financing market with EU standards and best practices as part of the country's EU integration process.

Legal Framework

Bosnia and Herzegovina has three laws governing insurance and risk financing activities:

- ***Bosnia and Herzegovina Insurance Law of 2005:*** This law establishes the legal framework for insurance and risk financing activities at the national level.
- Entity-Level Legislations:
    - ***Federation of Bosnia and Herzegovina Insurance Law of 2006:*** This entity-level law governs insurance and risk financing activities within the Federation of Bosnia and Herzegovina, covering aspects such as supervision and consumer protection.
    - ***Republika Srpska Insurance Law of 2005:*** This entity-level law applies to Republika Srpska and regulates insurance and risk financing activities, including supervision and consumer protection.
- ***Compulsory Motor Third-Party Liability Insurance Laws:*** These laws mandate third-party liability insurance for motor vehicles, ensuring coverage for potential liabilities arising from vehicular incidents.

Kosovo

In the last decades, Kosovo's insurance market has been steadily growing and is overseen by the Central Bank of the Republic of Kosovo. While the life insurance segment constitutes a smaller portion of the market, featuring products such as term life, endowment, and whole life insurance, the majority is dominated by non-life insurance, covering areas like motor, property, liability, and health insurance. This growth in non-life insurance is attributed to the increasing ownership of automobiles, real estate development, and business expansion.

Despite this overall growth, the catastrophe insurance market in Kosovo is still in its early stages. The Central Bank, with the involvement of the government, aims to lay a robust foundation for this market in the future. Currently, there is hesitancy to implement mandatory insurance, and insurers in Kosovo define their policy categories, with tariff rules subject to review by the Central Bank. A World Bank pilot study revealed limited interest in agricultural insurance, even with substantial subsidies. The absence of agricultural insurance and related financial mechanisms, such as community warehouse receipting systems or invoice discounting, poses challenges to accessing finance in Kosovo's agricultural sector. Addressing this issue involves making agricultural insurance more accessible to farmers, reassessing direct payments and grants, and aligning them with the evolving landscape of Kosovo's agricultural sector.

Table 9: Non-Life Insurance Gross Written Premium (GWP) in Kosovo in 2020 (Source: Xprimm.com)

Rank	Company	Non-Life GWP (in US$ million)	Market Share (%)
1	SIGAL UNIQA Group Austria	12.3	13.1
2	SIGMA Interalbanian Vienna Insurance Group	11.66	13.4
3	SAVA RE – ILLYRIA	11	13.0
4	Eurosig Insurance	11.1	11.9
5	Scardian	10.27	10.9

Institutional, Legal and Policy Frameworks

The essential institutional, legal, and policy frameworks in Kosovo pertinent to insurance and risk financing are detailed below.

Institutional Landscape

Several key institutions play vital roles in insurance and risk financing in Kosovo:

- ***Central Bank of Kosovo (CBK):*** This institution is responsible for regulating, licensing, and supervising the insurance sector.
- ***Ministry of Finance:*** The Ministry of Finance is involved in developing and implementing policies related to the insurance sector, aiming to ensure the stability of the financial system.
- ***Kosovo Insurance Association (KIA):*** Representing the interests of insurance companies, the KIA works to promote industry best practices for insurance and risk financing.
- ***Kosovo Agency for Emergency Management (KAEM):*** This agency is tasked with managing disaster risk reduction efforts and overseeing risk financing related to disasters.

Policy Frameworks

- ***Insurance Sector Development Strategy in Kosovo:*** The Strategy for the Development of the Insurance Sector in Kosovo, articulated in 2020, is designed to improve the regulatory framework, elevate the level of insurance penetration, and advocate for risk financing.
- ***Disaster Risk Reduction Strategy:*** The National Strategy for Disaster Risk Reduction, established in 2016, is centered on enhancing risk financing mechanisms, bolstering disaster risk management, and facilitating adaptation to climate change.
- ***EU Alignment Efforts:*** In line with the Stabilisation and Association Agreement, Kosovo is actively engaged in aligning its insurance and risk financing market with the standards and best practices set by the European Union, as part of the initiatives spearheaded by the European Commission in 2021.

Legal Framework

The regulatory landscape for insurance and risk financing activities in Kosovo is shaped by the following key laws:

- ***Insurance Law of 2015:*** This legislation serves as the fundamental framework for insurance and risk financing activities. It encompasses provisions related to supervision and consumer protection within the insurance sector.
- ***Compulsory Motor Third-Party Liability Insurance Law of 2015:*** Enacted in 2015, this law compels the acquisition of third-party liability insurance for motor vehicles, emphasizing the importance of insurance coverage in the context of motorized transport.
- ***Emergency Management Law of 2019:*** The Emergency Management Law, established in 2019, sets the groundwork for the management of disaster risk and the implementation of risk financing strategies in Kosovo.

Montenegro

In the fiscal year 2022, Montenegro's insurance market demonstrated robust growth, recording a 9.58% year-on-year increase, and reaching a Gross Written Premium (GWP) of $117.34 million. The non-life sector dominated the GWP, contributing $93.86 million, which constitutes 80.26% of the total GWP, while the life sector contributed the remaining 20%, equivalent to $23.08 million. Premium volumes in the market saw a notable 10% increase in 2022.

Montenegro's earthquake risk insurance premium is estimated at approximately $1 million, while flood risk insurance premium is notably lower, around $100,000. Storm risk is typically covered under property insurance against fire. All non-life insurers in Montenegro's insurance market offer catastrophic risk insurance encompassing earthquake, flood, and storm. Reinsurance for the risk exceeding self-retention is procured internationally, as no local reinsurance companies are registered in Montenegro. Traditional sales channels like agents and brokers are widely utilized for insurance distribution, with the banking channel gradually expanding but not yet active for insurance sales.

Compulsory Motor Third-Party Liability Insurance (CMTPL) is obligatory for all motor vehicle owners in Montenegro, contributing significantly to the non-life insurance market with a GWP of $47.97 in 2020. Key sectors vulnerable to climate-related perils in Montenegro include health, agriculture, tourism, and water resources.

Table 10: Non-life insurers Gross Written Premium (GWP) in Montenegro in 2022

(Source: Insurance Supervision Agency of Montenegro)

Company	GWP (US$)	Market Share (%)
Lovćen osiguranje AD	33.34	41.4
Sava osiguranje AD	16.10	20.0
Grawe neživotno osiguranje AD	6.65	8.3
Uniqa neživotno osiguranje AD	13.07	16.2
Generali osiguranje Montenegro AD	11.29	14.0

Table 11: Life insurers Gross Written Premium (GWP) in Montenegro in 2022

(Source: Insurance Supervision Agency of Montenegro)

Company	GWP, 2020 in million (US$)	GWP (Market Share - %)
Lovćen-životna osiguranja AD	4.52	22.8
Wiener Städtische životno osiguranje AD	7.02	35.5
Uniqa životno osiguranje AD	1.67	8.4
Grawe osiguranje AD	6.57	33.2

Table 12: Non-Life Insurance Combined Ratios Montenegro

(Source: Insurance Supervision Agency of Montenegro)

Year	Combined Ratio (%)
2016	89.3
2017	96.3
2018	93.4
2019	95.4
2020	96.6

Institutional, Legal and Policy Frameworks

Outlined below are the critical institutional, legal, and policy frameworks in Montenegro pertaining to insurance and risk financing:

Institutional Landscape

The regulatory landscape for insurance and risk financing in Montenegro involves key entities with distinct responsibilities:

- ***Insurance Supervision Agency (ISA):*** The ISA plays a crucial role in overseeing the insurance and risk financing sector in Montenegro. It is tasked with regulating and supervising various aspects, including licensing and solvency, ensuring the adherence of insurance companies to regulatory standards.
- ***Ministry of Finance and Social Welfare:*** This ministry is entrusted with the development and implementation of policies concerning the insurance and risk financing sector. It carries the additional responsibility of ensuring financial system stability and fostering the growth of the insurance industry within Montenegro.
- ***Insurance Association of Montenegro (IAM):*** Representing the interests of insurance companies, IAM serves as an advocate for industry best practices in Montenegro. By promoting standards that benefit insurers and customers alike, IAM contributes to the development of a robust insurance and risk financing environment.
- ***Directorate for Emergency Management:*** Operating under the Ministry of Interior, this directorate holds the responsibility for managing disaster risk reduction and overseeing risk financing related to disasters. It focuses on preventing and mitigating the impact of disasters on Montenegro's population, economy, and environment.

Policy Frameworks

Montenegro has established key policies and initiatives in the realm of insurance and risk financing:

- ***Strategy for the Development of the Insurance Sector:*** This policy focuses on enhancing the regulatory framework, elevating insurance penetration, and fostering risk financing within Montenegro.
- ***National Strategy for Disaster Risk Reduction:*** Addressing risk financing mechanisms, disaster risk management, and climate change adaptation, this strategy aims to fortify Montenegro's resilience against potential disasters.
- ***EU Integration Efforts:*** As Montenegro progresses in its accession process to the European Union, concerted efforts are underway to align the insurance and risk financing market with EU standards and best practices.

Legal Framework

Montenegro has implemented significant policies and initiatives in the insurance and risk financing sector:

- ***Strategy for Insurance Sector Development:*** This policy aims to improve regulations, increase insurance penetration, and promote risk financing in Montenegro.
- ***National Strategy for Disaster Risk Reduction:*** Focusing on risk financing mechanisms, disaster management, and climate adaptation, this strategy enhances Montenegro's resilience to potential disasters.
- ***EU Integration Initiatives:*** In the process of joining the EU, Montenegro is actively working to align its insurance and risk financing market with EU standards and best practices.

North Macedonia

In North Macedonia, there are 11 private insurance companies offering property and casualty insurance, including disaster coverage for events like earthquakes, floods, hail, and frost. However, terms and conditions of contracts can vary among insurers. For instance, the criteria for earthquake coverage, such as the minimum magnitude required for claims, may differ. Additionally, practices for damage assessment and claims management vary between companies.

Recent disasters, including the 2016 flash flooding in Skopje (resulting in $50 million in economic losses), the Skopje earthquake in the same year (causing around $10 million in losses), and the 2015 flood in North Macedonia (resulting in $40 million in losses), have inflicted substantial economic damage.

Traditional agent-based channels remain the primary distribution method for insurance products, but banks have increasingly participated by associating credit products with insurance, such as linking mortgages with life insurance and consumer loans with property insurance. North Macedonia has observed a general growth trend in Gross Written Premium (GWP) for climate-related risk insurance.

Table 13: Dynamics of GWP per peril type in North Macedonia

(Source: Insurance Supervisory Agency of North Macedonia)

GWP (in US$)	**2017**	**2018**	**2019**	**2020**	**2021**
Fire	272,212	375,261	341,705	293,411	288,534
Earthquake	100,827	118,886	97,861	74,567	120,843
Flood	69,650	64,194	74,260	65,873	96,366
Hail and Frost	194,959	262,383	344,547	359,657	458,151
Total catastrophic risks	**637,648**	**820,724**	**858,373**	**793,508**	**963,894**
Total Non-Life	**7,546,224**	**8,257,576**	**8,752,625**	**8,325,404**	**9,627,926**
Percentage of catastrophic risks in total nonlife premium (%)	**8.45**	**9.94**	**9.81**	**9.53**	**10.01**

The non-life insurance segment holds the majority share, comprising approximately 83% of North Macedonia's insurance sector, with the life insurance sector representing around 17%. The following is a list of insurance companies in the country, categorized based on their specialization in life or non-life insurance.

Table 14: Non-life Insurance Companies Market Share in North Macedonia, 2021

(Source: Insurance Supervisory Agency of North Macedonia)

S.no	**Company**	**GWP in (Denars billion)**	**GWP (US$ million)**	**Market Share (%)**
1	Triglav	1.33	22.65	13.84
2	Eurolink	1.12	19.11	11.68
3	Uniqa	1.02	17.39	10.63
4	Halk	0.99	16.86	10.30
5	Sava	0.94	16.01	9.78
6	Makedonija	0.91	15.49	9.47
7	Winner	0.84	14.42	8.81
8	Euroins	0.81	13.73	8.39
9	Croatia non-life	0.67	11.39	6.96
10	Insurance policy	0.66	11.19	6.84
11	Grawe non-life	0.32	5.41	3.30
TOTAL		**9.63**	**163.67**	**100**

Table 15: Life Insurance Companies Market Share in North Macedonia in 2021

(Source: Insurance Supervisory Agency of North Macedonia)

S.no	Company	GWP (Denars billion)	GWP (US$ million)	Market Share (%)
1	Croatia life	0.69	11.70	34.38
2	Grawe	0.52	8.81	25.90
3	Winner life	0.35	5.92	17.39
4	Uniqa life	0.25	4.21	12.36
5	Triglav life	0.20	3.40	9.96
TOTAL		**2.00**	34.03	**100**

The performance of the insurance sector in North Macedonia is concerning, as reflected in the loss ratios of both life and non-life insurance companies over the past two years. The combined ratios are approaching or surpassing 100%, signalling challenges in achieving profitability. The following presents the loss ratios categorized between life and non-life insurance companies.

Table 16: Profitability ratios of life and non-life Insurance Companies in North Macedonia in 2020 and 2021

(Source: Insurance Supervisory Agency of North Macedonia)

	2021			2020		
	Loss ratio (%)	Cost ratio (%)	Combined ratio (%)	Loss ratio (%)	Cost ratio (%)	Combined ratio (%)
Non-life	53.33	52.15	105.48	47.82	51.41	99.23
Life	79.44	29.4	108.86	76.99	28.98	105.96
Total	59.13	47.10	106.23	53.77	46.83	100.60

Insurance companies in North Macedonia are primarily owned by foreign financial institutions, a strategic economic choice. Expanding operations from neighbouring countries and territories to North Macedonia incurs minimal additional costs, making it a sound financial decision.

Table 17: Shareholders of Insurance Companies in North Macedonia

(Source: Insurance Supervisory Agency of North Macedonia)

Type of shareholders	Share (%)
1. Foreign shareholders	**75.67**
1.1. Natural persons	0.52
1.2. Non-financial legal entities	0.00
1.3. Financial institutions	75.16
2. National shareholders	**24.30**
2.1. Natural persons	4.26
2.2. Non-financial legal entities	0.54
2.3. Financial institutions	19.49
3. State	**0.03**
Total	**100.00**

Internal and external agents serve as the predominant distribution channels for insurance in North Macedonia, constituting 84% of all intermediation activities.

Table 18: Insurance Distribution Channels in North Macedonia

(Source: Insurance Supervisory Agency of North Macedonia)

Direct sales	43%
Insurance brokerage companies	33%
Insurance representation companies	8%
Banks	4%
Agents	12%
Total	**100%**

Catastrophic risk losses in North Macedonia are more pronounced in critical sectors such as agriculture, industrial production, and health. The insurance industry in the country has experienced substantial transformations since gaining independence, marked by the implementation of frameworks, initiatives, and compulsory insurance laws aimed at fostering its development.

Institutional, Legal and Policy Frameworks

The following outlines the essential institutional, legal, and policy frameworks in North Macedonia pertaining to insurance and risk financing:

Institutional Landscape

- ***Insurance Supervision Agency (ISA):*** Responsible for overseeing and regulating the insurance and risk financing sector, including licensing and solvency, ensuring compliance among insurance companies in North Macedonia.
- ***Ministry of Finance:*** Charged with formulating and executing policies related to the insurance and risk financing sector, with a focus on maintaining financial system stability and facilitating the growth of the insurance industry.
- ***Insurance Association of North Macedonia (IANM):*** Represents the interests of insurance companies operating in the country, actively promoting industry best practices to benefit both insurers and their clientele.
- ***Emergency Management Agency:*** Situated within the Ministry of Interior, it manages disaster risk reduction efforts and supervises risk financing concerning disasters, working to prevent and mitigate the impact of disasters on North Macedonia's people, economy, and environment.

Policy Framework

The insurance and risk management landscape in North Macedonia is guided by key strategic frameworks:

- ***Insurance Sector Development Strategy (2015):*** Geared towards fortifying the insurance market, ensuring financial stability, and augmenting the sector's role in economic growth. It emphasizes measures to boost insurance penetration, advance the disaster insurance market, and enhance consumer protection.
- ***National Strategy for Development of the Insurance Market (2019-23):*** Concentrates on cultivating a competitive and stable insurance market, with a particular focus on the advancement of catastrophe insurance products.
- ***National Disaster Risk Management Program (2014):*** Aims to bolster the nation's resilience to disasters through improvements in risk reduction, preparedness, and response capacities. This

program also includes initiatives for developing risk financing mechanisms, notably catastrophe insurance.

Legal Framework

North Macedonia's insurance and risk financing activities are governed by key legislations:

- ***Insurance Law (2002, amended in 2005, 2008, 2011, and 2016):*** Outlines licensing, supervision, and consumer protection requirements for insurance, encompassing provisions for disaster insurance.
- ***Law on Protection and Rescue (2004):*** Establishes the disaster risk management framework, covering risk assessment, prevention, and financing mechanisms.
- **Mandatory Insurance Laws:**
    - ***Law on Compulsory Traffic Insurance (2009, amended in 2016):*** Mandates third-party liability insurance for motor vehicles.
    - ***Law on Compulsory Insurance in Construction (2010):*** Requires insurance coverage for construction-related liability.

Strategically important sectors in North Macedonia, including Agriculture, Industrial Production, and Health, are identified as particularly susceptible to catastrophic risks.

Serbia

Serbia has 20 private (re)insurance companies, with 15 primarily owned by foreign entities and five by domestic ones. Of these, 16 function as insurers, with 12 focusing on non-life insurance and the remaining four on reinsurance. The non-life insurance sector in Serbia is notably larger than the life insurance market.

Table 19: Top Non-Life Insurers in Serbia (Source: National Bank of Serbia)

	2020		2021	
Insurance Company	**Gross Written Premium (US$ million)**	**Market Share (%)**	**Gross Written Premium (US$ million)**	**Market Share (%)**
Dunav	265	31.9	279	30.4
Generali	148	17.8	163	17.7
DDOR	110	13.2	117	12.8
Wiener	75	9.0	77	8.4
Triglav	64	7.6	73	8.0

Table 20: Top Life Insurers in Serbia (Source: National Bank of Serbia)

	2020		2021	
Insurance Company	**Gross Written Premium (US$ million)**	**Market Share (%)**	**Gross Written Premium (US$ million)**	**Market Share (%)**
Generali	71	27.4	70	25.9
Wiener	56	21.7	57	21.3
Grawe	39	14.8	41	15.1
Dunav	30	11.4	35	12.9
DDOR	20	7.8	22	8.0

In terms of distribution channels, traditional methods dominate in Serbia, with insurance undertakings accounting for 61%, followed by brokers (13%), technical inspections (10%), insurance agency undertakings (6%), and banks (5%). The insurance industry reported a positive net result of RSD 11.1 billion ($100 million) after tax in 2021. However, the net combined ratio for non-life insurers increased from 79.3% in 2020 to 85.3% in 2021, attributed to slower growth in net premium earned compared to net claims and underwritten expenses. Similarly, life insurers experienced an increase in the combined ratio from 86.1% in 2020 to 89.8% in 2021, driven by faster growth in net claims and changes in technical provisions relative to earned net premium.

Table 21: Growth trend in non-life insurance premium (Source: National Bank of Serbia)

	2017	2018	2019	2020	2021
Total non-life insurance premium (US$ million)	654	759	782	812	917

Institutional, Legal and Policy Frameworks

Key Institutional, Legal and Policy Frameworks in Serbia relevant to Insurance and Risk Financing are outlined below.

Institutional Landscape

The insurance sector in Serbia is governed by key institutions, with the National Bank of Serbia (NBS) overseeing and regulating the sector. The Ministry of Finance is entrusted with policy development and financial stability. The Association of Serbian Insurers (ASI) plays a crucial role in representing the interests of insurance companies and advocating for best practices. Additionally, the Sector for Emergency Management is responsible for handling disaster risk reduction and overseeing risk financing concerning disasters.

Policy Frameworks

The development of the insurance sector in Serbia is guided by key policy frameworks, such as the Strategy for the Development of the Insurance Sector in Serbia 2020-25. This strategy focuses on enhancing regulation, boosting insurance penetration, and advocating for risk financing. Additionally, the National Strategy for Disaster Risk Reduction 2011-15 addresses various aspects, including risk financing mechanisms, disaster risk management, and adaptation to climate change. Furthermore, the Financial Education Strategy 2019-24 aims to promote financial literacy, including knowledge about insurance products and risk financing.

Legal Framework

The legal framework governing insurance and risk financing activities in Serbia is anchored in the Insurance Law (2014), which delineates the basis for supervision and consumer protection. Additionally, the Law on Compulsory Traffic Insurance (2009) mandates third-party liability insurance for motor vehicles, while the Law on Disaster Risk Reduction and Emergency Management (2018) establishes the framework for managing disaster risk and risk financing in Serbia.

Serbia is actively working to align its insurance and risk financing market with EU standards and best practices, a commitment integral to its EU accession process. The EU-Serbia Stabilization and Association Agreement, operational since 2013, serves as the framework for harmonizing Serbian legislation with EU standards. This harmonization includes the adoption of various EU directives related to insurance and risk financing, such as Solvency II, which introduces a contemporary and risk-based solvency regime for insurance and reinsurance companies.

3. Issues, Gap and Barriers for Insurance and Risk Financing

The report now explores the primary impediments in the region that hinder the implementation of insurance and risk financing solutions, emphasizing the significance of identifying mechanisms to overcome these difficulties. These challenges can be categorized into three main groups: demand-side, supply-side, and public policy. Demand-related challenges pertain to the reluctance of individuals or businesses to purchase insurance, whereas supply-related challenges concern the capacity of insurers to offer suitable products and services. Challenges associated with institutions, government policies, legislation, and regulation fall within the public sector category. This section aims to provide a comprehensive understanding of these challenges and analyze the factors influencing the insurance markets in the Western Balkan countries and territories.

3.1 Demand-side challenges

Challenge	Description
Trust in Insurance Companies	The insurance industry in the Western Balkans suffers from a general lack of trust and confidence among consumers, which can be attributed to a lack of transparency and reliability in insurance products. Trust is a crucial element in determining insurance penetration in the region, and many consumers harbour scepticism towards insurance products and services.
Knowledge, Financial Literacy and Understanding of Insurance Products	Insurance products and their advantages may not be comprehended entirely by individuals and businesses in the Western Balkans, resulting in their inability to obtain and use them effectively. Insufficient financial literacy and education might be one of the key reasons. In the region, many people may have limited experience with financial services and products, leading to a lack of understanding of the benefits and risks associated with different types of insurance coverage. This problem is particularly severe in rural areas, where financial education and awareness programs are essential to improve insurance penetration. Therefore, there is a need for enhanced financial education and awareness initiatives in the Western Balkans to promote the use of insurance products.
Affordability and Financial Priorities	The Western Balkans region has a relatively low GDP per capita, which impacts the affordability of insurance products. Due to limited financial resources, individuals and businesses in the region may prioritize other expenses over insurance coverage, especially for risks that are considered low-probability events. One contributing factor to the affordability challenge in the Western Balkans is limited economic growth and income inequality. The lack of affordability is a significant obstacle to insurance penetration in the region. Therefore, there is a need for increased social protection and financial inclusion initiatives to promote financial stability and resilience among individuals and communities in the Western Balkans.
Underestimation of Risk	Insufficient knowledge and comprehension of catastrophe risks can significantly contribute to low insurance penetration in the Western Balkans. Individuals and businesses in the region might not realize the potential consequences of catastrophes on their well-being, which can lead to a lack of priority for insurance coverage of such risks.
Reliance on Governmental Support	Individuals and businesses in the region may choose to depend on the government to provide aid and help in the aftermath of catastrophes instead of acquiring insurance coverage.

3.2 Supply-side challenges

Challenge	Description
Limited Risk Assessment and Data Availability	Developing the insurance and risk financing market in the Western Balkans is hindered by crucial barriers, including limited risk assessment and data availability. Insurance companies and other risk financing institutions may struggle to price and underwrite insurance coverage without reliable and accurate data on catastrophe risks. A lack of investment in risk modeling and data collection infrastructure is a factor that contributes to this issue in the Western Balkans. These barriers impede insurance penetration in the region and must be addressed to improve the situation.
Fraud and Moral Hazard	Insurers in the Western Balkans may be reluctant to provide coverage for perils such as flooding or for certain lines of businesses like agriculture, etc. due to increasing risk volatility and concerns over fraud and moral hazard. Addressing moral hazard is crucial to promoting effective risk reduction and mitigation measures, especially in sectors like agriculture insurance, etc. For instance, subsidies and other forms of government support may encourage farmers to take more risks or be less careful in their farming practices, as they know that they will be compensated for any losses they incur. This can increase vulnerability to catastrophes and make it challenging to implement effective risk reduction and mitigation measures.
High Operating Costs	A survey conducted by the International Association of Insurance Supervisors (IAIS) in 2018 in 14 countries and territories, including Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia, has identified high operating costs for insurers in the Western Balkans due to the small size of the market and intensive regulatory compliance requirements. Insurers in the region may find it challenging to achieve scale, which can result in high operating costs. Moreover, insurers may have to comply with strict solvency requirements and reporting obligations, which can further increase their costs. As a result, insurers in the Western Balkans may face difficulties in offering affordable and accessible insurance products to their customers.
Distribution Channels	In the Western Balkans, there are few distribution channels available and innovation in insurance delivery is limited. Traditional distribution channels, such as agents and brokers, continue to dominate the insurance market in the region, but they are often disorganized and fragmented, which makes it challenging for insurers to reach potential customers in a cost-effective manner. According to a 2018 survey by IAIS, on an average, 83% of insurance policies in most countries and territories in the region were sold through agents and brokers, while only 4% were sold online, and 5% were sold through banks. The average commission rate for agents and brokers across the region was approximately 15%, with rates ranging from 10% to 20% in some countries and territories, such as Albania and Montenegro, and up to 30% in others, like Bosnia and Herzegovina. Additionally, the World Bank's Global Findex Database 2017 shows that there is limited use of online financial services in the Western Balkans, with only a small percentage of adults in each country and territory using the internet or mobile phones to make payments or purchases: Albania (11%), Bosnia and Herzegovina (12%), Kosovo (5%), Montenegro (8%), North Macedonia (4%), and Serbia (9%).
High Volatility and Profitability	Insurers in the region may have reservations about providing coverage for catastrophe or agricultural risks because of concerns regarding profitability and

	volatility, especially when effective risk reduction and mitigation measures are not in place. They may be hesitant to offer coverage due to limited profitability, especially when adequate risk reduction and mitigation measures are not in place. Similarly, insurers may be reluctant to provide coverage for catastrophe risks due to profitability and volatility concerns, as well as limited availability of data and risk assessment tools. Access to accurate data and risk assessment tools may encourage insurers to provide coverage for such risks by enabling them to assess and price insurance coverage more accurately.

3.3 Public policy and institutional challenges

Challenge	Description
Lack of Insurance and Risk Financing of Infrastructure and Public Assets	The absence of insurance scheme for protecting public assets against disasters is one of the major shortcomings in the countries and territories in Western Balkans. Public buildings, infrastructure, and cultural heritage sites are mostly underinsured or completely uninsured, leaving them vulnerable to disasters, accidents, or other unexpected incidents. The limited resources available to governments in the region to pay for insurance premiums further exacerbate this problem. As a result, the financial burden of losses often falls on tax revenue, making it more difficult for governments to fund new infrastructure and development activities. Enhancing insurance coverage for public assets in the Western Balkans is crucial to secure the long-term sustainability and resilience of these nations.
Risk Pools and Public-Private Partnership (PPP)	The cooperation between public and private sectors for risk financing and risk sharing is limited or completely absent. The lack of a comprehensive system for public-private partnerships to share risks and losses leads to gaps and hinders the ability of both the government and insurers to effectively manage risks.
Solvency Capital and Regulation	The insurance industry in the Western Balkans countries and territories is facing various obstacles concerning regulatory frameworks and solvency capital, including the enforcement of Solvency II framework. Due to their limited access to capital markets and inadequate financial management practices, insurance companies often encounter challenges to meet solvency capital requirements. Furthermore, the region is still in the process of adopting and implementing Solvency II, which aims to enhance financial stability and consumer protection through a comprehensive regulatory framework for insurance.
Underdeveloped Capital Markets / Bank-based economy	The growth of the insurance sector in the Western Balkans is restricted by challenges related to the underdevelopment of capital markets and the prevalence of bank-led economies. The dominance of banks in these economies makes it challenging for insurance companies to access capital and investment opportunities required to expand their businesses. Furthermore, the underdevelopment of capital markets restricts long-term financing and investment opportunities for insurers, limiting their ability to generate returns and satisfy the needs of policyholders. To unlock the growth potential of the insurance sector in the Western Balkans, it is necessary to improve capital market development and diversify financial sectors.
Ex-Post Measures and Random Support	In the Western Balkans region, governments primarily depend on ex post measures like disaster relief and emergency funding to manage risks, instead of focusing on

	ex ante solutions such as insurance. This strategy encourages a reactive financial support system that discourages the insurance industry's development and expansion in the region. Furthermore, the provision of ad hoc financial assistance by governments on a case-by-case basis discourages individuals from buying insurance.

3.4 Public policy and institutional challenges by countries and territories

The below part covers specific challenges associated with each country individually.

Albania	Albania faces several challenges in the regulation of its insurance industry. First, there is no dedicated insurance regulator, and instead, the Financial Supervisory Authority (FSA) and Bank of Albania share responsibility for regulating the sector. This arrangement may create conflicts of interest and a lack of specialized knowledge, leading to inadequate supervision and enforcement. Additionally, the general court system handles insurance disputes, which may not possess the necessary expertise to effectively resolve insurance-related issues. Furthermore, there is no comprehensive legal framework in place that specifically addresses microinsurance products and their providers. Albania has not fully adopted the risk-based capital requirements set out in the EU's Solvency II framework, which results in insufficient capitalization among insurers and compromising the financial stability of the insurance market. Finally, the regulation of insurance intermediaries, such as agents and brokers, is still limited in terms of licensing, conduct of business, and professional standards, thus potentially affecting consumer trust and protection. In addition, there is also a lack of comprehensive qualification and training requirements for insurance intermediaries under the existing legislation.
Bosnia and Herzegovina	The insurance and risk financing sector in Bosnia and Herzegovina (BiH) faces several challenges, including a fragmented regulatory framework, issues with coordination between government agencies, limitations on international reinsurers, and solvency and capital adequacy concerns. The fragmented regulatory framework is a key challenge, as there are two entities in the country, each with its own insurance regulations and supervisory bodies. This creates challenges for insurers operating as due to both entities there is an increased compliance burden. Moreover, discrepancies between the two regulatory frameworks create uncertainty, limits competition and potentially hinders investment in the sector. Another challenge is the lack of coordination between different government agencies responsible for managing and financing risks. For instance, during the 2014 floods, the flood response was relatively slow and ineffective due to the lack of coordination between the different levels of government and aid organizations. This lack of coordination led to delays in response efforts and hindered the effectiveness of disaster management. Regulations requiring reinsurers to establish a local representative office or appoint a local agent to conduct business in the country also pose a limitation on international reinsurers, hindering risk sharing and growth of the market.

	Furthermore, limited oversight in solvency and capital adequacy has resulted in poor performance from a solvency perspective and interventions. In 2015, for example, five companies accounting for 40 percent of the nonlife market had solvency margins that were close to requiring supervisory measures.
Kosovo	The insurance market in Kosovo faces several challenges, including political instability and lack of recognition by some countries. These factors can lead to economic fluctuations and limit the entry of international insurers and reinsurers into the market. Additionally, the Insurance Supervisory Authority of Kosovo (ISAK) has limited resources and capacity to enforce regulations and ensure compliance. The presence of a significant informal sector in Kosovo's economy also poses unique challenges for the insurance industry, such as hindering accurate risk assessment and limiting the reach of insurance services.
Montenegro	To enhance the insurance market's stability and transparency, it is essential to strengthen Montenegro's regulatory framework. In 2019, the European Insurance and Occupational Pensions Authority (EIOPA) evaluated Montenegro's insurance supervisory regime and identified areas that require improvement, such as enhancing supervisory practices and risk-based supervision. Implementing reforms can help improve the regulatory and supervisory efficacy, leading to a more stable and transparent insurance market. However, the Insurance Supervision Agency of Montenegro has limited supervisory capacity, lacking the necessary resources, expertise, and capacity to effectively oversee the insurance sector and ensuring compliance with regulations. As a result, there may be inadequate supervision and monitoring, ultimately undermining the stability and development of the insurance industry in Montenegro.
North Macedonia	The Insurance Supervisory Authority (ISA) has limited supervision and enforcement powers. For instance, it cannot impose fines or revoke licenses on insurers that violate regulatory requirements. Instead, the ISA must rely on the courts to enforce its decisions, which can be a protracted and unpredictable process. In North Macedonia, the government has often provided ad hoc payments and reimbursements to farmers and individuals affected by disasters, such as floods and droughts. While this kind of assistance may be necessary to help people cope with the immediate consequences of disasters, it can also create moral hazard and weaken individuals' motivation to purchase insurance.
Serbia	Serbia's Insurance Regulation: The National Bank of Serbia (NBS) regulates Serbia's insurance sector, but its lack of independence as a dedicated insurance regulator may stifle innovation and hinder consumer protection. An independent insurance regulator could promote market efficiency, competition, and fair practices while protecting consumers. Limited Regulatory Capacity: The regulatory capacity for insurance in Serbia has shown insufficient resources and technical expertise to effectively oversee the insurance sector. Consumer Protection: Serbia's insurance industry shows inadequate elements of consumer protection. In 2018, the NBS conducted a survey that showed the absence of a strong complaint mechanism in the insurance sector, making it difficult for consumers to seek redress. As a result, only about 3% of consumers reported issues with insurance products to either the insurer or the regulator.

4. Recommendations: Insurance & Risk Financing Tools and Mechanisms

This section aims to provide a comprehensive summary of risk financing mechanisms, intervention measures, and insurance schemes that can support the growth of the insurance sector in the countries and territories in Western Balkans while addressing key challenges. The utilization of risk financing instruments and mechanisms in the Western Balkans by both public and private sectors is currently limited. An overview of appropriate tools, intervention measures, and other feasible mechanisms is presented, which then, based on the analysis, identifies key challenges and opportunities for each Western Balkan country and territory to pursue further project work, with reference to the relevant tools introduced earlier. Subsequently, appropriate mechanisms are introduced that could be employed in a cross-country context, while discussing how risk financing and insurance can be integrated and incorporated into Sustainable Development Goal (SDG) financing projects.

4.1 Risk Financing and Insurance: Tools, Intervention Measures and Mechanisms

Presented below are intervention measures, mechanisms, and insurance and risk financing tools that governments in the Western Balkans can use to promote growth and develop insurance and risk financing ecosystem systematically and strategically. While each measure is introduced separately, combining some of them can result in more effective outcomes.

i. **Tax Benefits:** A tax-deduction mechanism can be introduced to offset premium costs and other insurance expenses, such as broking fees, against tax liabilities. This measure can reduce the cost of insurance and serve as a motivating factor.

ii. **Linking Grants to Insurance:** When grants are provided for Agriculture and Rural Development or renewable energy, insurance against natural perils or relevant perils can be made a prerequisite for obtaining such a grant. Alternatively, a portion of the grant can be used to finance the premium.

iii. **Lending Regulation in Disaster-Prone Areas:** Banks selling mortgages or other financial products linked to an underlying asset used as collateral, such as machinery in agriculture, are exposed to disaster risks. Implementing regulations that increase the cost of capital in flood-prone areas unless insured can encourage banks to require borrowers to purchase adequate flood coverage.

iv. **Subsidies:** Subsidies have proven to stimulate the purchase of agricultural insurance in many regions of the world. However, subsidies alone have not substantially increased adoption rates of agricultural insurance in the Western Balkans. To improve penetration levels, subsidies should be combined with additional mechanisms and used appropriately, as they are financed by taxpayers.

v. **Mandatory Insurance:** Making insurance as mandatory can increase penetration levels and reduce the financial implications of floods and other hazards, as demonstrated in Turkiye and Romania.

vi. **Distribution Channels and Costs:** Insurance broking fees and distribution costs can be expensive, leading to higher premium rates. Introducing upper bounds on distribution costs and relaxing the regulations associated with insurance distribution licenses can make insurance premiums more affordable and extend the distribution channel to new players. For example, banks could bundle insurance products with financial services products or machinery companies could embed a crop insurance policy when selling tractors.

vii. **Capacity Building and Technical Assistance:** A donor-funded facility can be arranged to build intellectual capacity among key stakeholders, including insurers, institutional entities, and insures.

viii. **Risk Pools and Governmental Disaster Funds:** These vehicles are quasi-governmental and involve collaboration with the private sector to mitigate risk and make insurance more inclusive and cost-effective for insureds. Risk pools can be financed by the government, reinsured by external private entities, and overseen by elected board members. Donors and NGOs can finance risk pools in the early stages of operation. The pool can offer standardized products after conducting a feasibility study to identify the most suitable products. The pool can also purchase reinsurance and/or Catastrophe Bonds that co-participate in the pools' risks for a pre-defined fee.

ix. **Risk Financing and Insurance for Public Assets:** This involves identifying, assessing, and mitigating risks associated with public assets, including government buildings, infrastructure, and cultural heritage sites. To protect these assets effectively, it is recommended that strategies for financing potential losses be developed, such as through insurance policies, which will ensure their continued use and operation. By implementing a robust risk financing and insurance plan for public assets, governments and stakeholders can manage and mitigate risks, minimize financial losses, and maintain public confidence in the safety and reliability of public infrastructure.

x. **Emergency Risk Financing:** This can introduce hedging instruments that help deal with uncertainty resulting from disasters or other covered events, such as pandemics, by providing liquidity to fund emergencies in the context of humanitarian aid, general economic reconstruction and development, emergency support, etc. Emergency Financing requires rapid access to capital and financial liquidity, while Reconstruction Financing requires precise assessment and financial planning. In the latter scenario, there is more tolerance for the slower pace of obtaining capital.

xi. **Catastrophe Bonds and Reinsurance:** These are risk transfer mechanisms that governments can use to manage and mitigate the financial impact of catastrophic events. Reinsurance involves transferring some or all the risk associated with an insurance policy to a third-party reinsurer, while catastrophe bonds are securities that transfer the risk of a catastrophic event to investors. Both mechanisms can provide governments with access to additional capital in the event of a disaster or other catastrophic event, allowing them to fund recovery efforts and rebuild critical infrastructure. For more details, please refer to Section 4.3.

4.2 Recommended Solutions and Stakeholders

The following sections analyze each country and territory in the Western Balkans region individually and suggest ways to enhance their insurance and risk financing practices. These recommendations will cover the tools mentioned earlier, as well as measures tailored to the specific challenges and characteristics of each country and territory.

Country/territory	Challenges and Gaps	Recommendations and Opportunities	Stakeholders
Albania			
	Agricultural Insurance	Although agriculture has become increasingly significant, there is a notable absence of insurance coverage to protect against considerable risks associated with this economic activity, and there are no practical insurance alternatives accessible to address other risks encountered by individuals involved in agriculture. The critical factors to be considered in its implementation are: - Tax Benefits - Linking Grants to Insurance - Landing Regulation in Disaster-Prone Areas - Subsidies - Mandatory Insurance - Distribution Channels and Costs: - Capacity Building and Technical Assistance - Risk Pools and Governmental Disaster Funds - Catastrophe Bonds and Reinsurance **Opportunity:** Conducting additional research (such as a feasibility study followed by a designated pilot program) and creating a plan for establishing a functional agricultural insurance market in Albania.	- Ministry of Agriculture - Albanian Farmers' Association - Bank of Albania - Albanian Association of Insurers (AAI) - Ministry of Finance and Economy
	Earthquake Insurance	Albania is striving to establish an earthquake risk pool within its borders, although it may take some time to achieve adequate penetration levels. Since there is a lack of financial literacy and awareness of insurance products and benefits among the population, it is crucial to enhance capacity and offer technical support. The relevant components to consider are: - Tax Benefits - Subsidies	- Financial Supervisory Authority (FSA) - Bank of Albania - Ministry of Finance and Economy - National Civil Protection Agency

		- Capacity Building and Technical Assistance **Opportunity:** To facilitate the successful implementation of the earthquake risk pool in Albania, it is important to provide technical capacity building and improve education among the population regarding earthquake insurance.	
Bosnia and Herzegovina			
	Barriers to Reinsurers	A significant barrier for reinsurers to operate in BiH is the requirement of a local presence. **Opportunity:** Review legislation changes that would allow international reinsurers to conduct business directly with insurers in BiH.	- Insurance Agency of Bosnia and Herzegovina (IA BH) - The Insurance Supervision Agency of FBiH (FSA FBiH, 2021) - The Insurance Agency of RS (IARS, 2021) - Ministry of Finance and Economy
	Disaster Risk Pool	UNDP has been actively involved in promoting mandatory insurance and risk pools against disasters in BiH and has developed a blueprint outlining insurance policies and tariffs. The next step could involve examining the structure of the risk pool in detail, including distribution, ways to enforce its mandatory nature, and reinsurance, among other things. - Distribution Channels and Costs: - Capacity Building and Technical Assistance - Catastrophe Bonds and Reinsurance **Opportunity:** Further research is needed to examine the specifics of reinsurance, legal structure of the risk pool, and other related details to ensure the mandatory Insurance Pool against disasters is successful and effective.	- Insurance Agency of Bosnia and Herzegovina (IA BH) - The Insurance Supervision Agency of FBiH (FSA FBiH, 2021) - The Insurance Agency of RS (IARS, 2021) - Ministry of Finance and Economy - National Agency of Civil Protection
Kosovo	**Life Insurance Market Development**	The Life Insurance market in Kosovo is still in its nascent stages and considerably smaller in comparison to the Non-Life insurance market in the region. The Non-Life insurance sector has been present since 1999, while the Life insurance market was only introduced in 2008. Relevant interventions may include:	- Central Bank of Kosovo - Ministry of Finance - Kosovo Insurance Association (KIA)

		- Tax Benefits - Linking Grants to Insurance - Landing Regulation in Disaster-Prone Areas - Mandatory Insurance - Distribution Channels and Costs: - Capacity Building and Technical Assistance - Risk Pools and Governmental Disaster Funds - Catastrophe Bonds and Reinsurance **Opportunity:** A possibility exists to perform research on the Life Insurance industry in Kosovo and develop a plan to introduce novel insurance products and expand their market reach.	
	Capacity building in the Informal Economy Sector	The substantial presence of informal economy in Kosovo creates difficulties for the insurance market by impeding precise risk evaluation and restricting access to insurance services. **Opportunity:** Enhance the capacity of the informal sector by offering training and education on the advantages and significance of insurance. Additionally, partner with local organizations to design customized insurance products that cater to the specific requirements of informal economy workers.	- Central Bank of Kosovo - Kosovo Insurance Association (KIA) - Ministry of Agriculture, Forestry and Rural Development
Montenegro			
	Agriculture Insurance	Montenegro's government has been providing premium subsidies for agricultural insurance since 2012, but limited demand due to factors such as affordability, financial illiteracy, and lack of trust in insurers has hindered its success. This lack of demand also affects insurers' motivation to offer these products. Despite these challenges, the existence of premium subsidies provides an opportunity to develop appropriate agricultural insurance products. This can be achieved by supporting insurers in designing suitable products and building capacity among farmers through training programs. Another way to achieve this is to build capacity among farmers and provide training. Relevant interventions may include: - Subsidies	- Ministry of Agriculture, Forestry and Water Management - Ministry of Finance and Social Welfare - Insurance Supervision Agency

<table>
<tr><td></td><td></td><td>- Distribution Channels and Costs
- Capacity Building and Technical Assistance
Opportunity: A project aimed at enhancing agricultural insurance products and building the capacity of farmers.</td><td></td></tr>
<tr><td>North Macedonia</td><td>Agricultural Risk Pool</td><td>The North Macedonian government is currently working on setting up a framework for developing an Agricultural Risk Pool. However, the farmer community lacks financial literacy and understanding of insurance products, making it crucial to provide technical assistance and build capacity among them.

Relevant interventions:
- Tax Benefits
- Subsidies
- Capacity Building and Technical Assistance
Opportunity: Provide technical assistance and improve education on earthquake insurance to enhance the capacity of the population and facilitate the successful implementation of the Earthquake Pool in the country.</td><td>- Insurance Supervision Agency

- National Bank of the Republic of North Macedonia

- Ministry of Agriculture, Forestry and Water Economy</td></tr>
<tr><td></td><td>Disaster Fund</td><td>A disaster fund is crucial for North Macedonia due to its vulnerability to events such as earthquakes and floods. Such a fund is needed to ensure quick and effective responses to these crises, which can save lives and minimize damage. However, the private insurance market is facing several challenges and gaps that prevent it from offering the necessary capabilities. (Please refer to the section on challenges, barriers, and gaps for further details). Relevant interventions may include:
- Tax Benefits
- Linking Grants to Insurance
- Landing Regulation in Disaster-Prone Areas
- Subsidies
- Mandatory Insurance
- Distribution Channels and Costs:
- Capacity Building and Technical Assistance
- Risk Pools and Governmental Disaster Funds
- Catastrophe Bonds and Reinsurance</td><td>- Insurance Supervision Agency

- National Bank of the Republic of North Macedonia

- Crisis Management Center</td></tr>
</table>

		Opportunity: Explore the feasibility of establishing a Disaster Fund in North Macedonia through a comprehensive study that considers the challenges and opportunities of the private insurance market in addressing disasters.	
Serbia	**Regulation**	Serbia's insurance market is currently not regulated by a specialized insurance regulator but by the Bank of Serbia, which may lead to conflicts of interest, insufficient and resource-dedicated regulatory expertise, and inadequate technical supervision. To promote industry growth, ensure consumer protection, and maintain financial stability, it is important to establish a specialized regulatory body for the insurance sector to address its unique challenges. **Opportunity:** Analyze the policy dialogue and legislative implications to identify knowledge gaps and required reforms needed to establish an independent and dedicated Insurance Supervisory entity in Serbia.	- National Bank of Serbia (NBS) - Ministry of Finance - Association of Serbian Insurers (ASI)
	State Level Risk Financing	Given the limited availability of disaster policies and the country's vulnerability to external shocks such as earthquakes, it would be beneficial to investigate the feasibility of a national risk financing solution that safeguards important public assets and establishes emergency funds. Relevant interventions may include: - Capacity Building and Technical Assistance - Risk Pools and Governmental Disaster Funds - Catastrophe Bonds and Reinsurance **Opportunity:** An assessment would be useful to understand the feasibility of implementing risk financing solutions in Serbia, specifically aimed at protecting state-level assets and ensuring adequate emergency funds are available.	- National Bank of Serbia (NBS) - Ministry of Finance - Association of Serbian Insurers (ASI)

4.3 Cross-country and Regional Solutions

Regional Risk Pooling Facility

A collaborative approach to disaster risk management is a Regional Risk Pooling Facility, where countries and territories combine their risks and resources to share the financial burden of catastrophes. In the countries and territories in Western Balkans, which are susceptible to various natural perils such as earthquakes, floods, and landslides, a regional risk pooling facility would provide a more comprehensive insurance coverage against these perils. By pooling their resources, the countries and territories can jointly manage risks, promote effective risk management, and reduce financial vulnerability. The facility typically uses parametric or index-based triggers to determine payouts, which are transparent and efficient, avoiding lengthy loss assessment processes. The regional risk pooling facility interacts with local insurance markets by providing stable reinsurance capacity and promoting innovation in insurance products and services tailored to the region's specific needs. The facility also raises awareness about the importance of disaster risk insurance and promotes a culture of risk management. Several challenges are associated with the establishment of a regional risk pooling facility, including securing political commitment and cooperation, developing a robust risk assessment and pricing framework, and accessing technical expertise and resources. The experiences of similar facilities, such as CCRIF and SEADRIF, provide valuable lessons for the Western Balkans.

Regional Catastrophe Bonds

The Western Balkan countries and territories are exposed to disasters such as earthquakes, floods, and landslides, which can result in severe economic and social impacts. To address these shared risks, a regional catastrophe bond (Cat bond) solution can be implemented, enabling the countries and territories to enhance their resilience and access adequate financial resources for effective response to catastrophes. The successful implementation of a similar solution in Latin America, where the Pacific Alliance countries - Colombia, Chile, Mexico, and Peru - issued a multi-country cat bond in 2018 with the World Bank's assistance, provides a valuable example for the Western Balkans. By pooling their resources and jointly addressing a common peril, the Pacific Alliance countries secured better terms, more extensive coverage, and reduced costs compared to issuing individual cat bonds.

A regional cat bond in the Western Balkans could address various common disaster risks, such as earthquakes, floods, and landslides. The region is vulnerable to seismic activity, with some countries and territories situated in seismically active zones, like Albania, Montenegro, and North Macedonia. A multi-country/territory Cat bond could offer coverage against earthquake-related losses, helping these nations to finance their recovery efforts more efficiently. The region has also experienced severe flooding in recent years, causing extensive damage to infrastructure, agriculture, and private property in Bosnia and Herzegovina, Serbia, and North Macedonia. A regional Cat bond can also provide financial protection against flood-related losses, allowing governments to direct resources towards recovery and reconstruction efforts. Landslides are also a significant risk in countries and territories like Montenegro and Kosovo due to the region's mountainous terrain and susceptibility to heavy rainfall. A regional Cat bond could cover losses resulting from landslides, ensuring that governments have access to funding for post-disaster relief and mitigation measures.

A regional Cat bond solution for the Western Balkans has the potential to attract international capital markets, enabling governments to access a wider range of investors, including institutional investors such as pension funds, hedge funds, and insurance companies. This infusion of foreign capital can stimulate economic growth and support the development of domestic capital markets. Investors in regional Cat bonds benefit from their unique features, as they offer exposure to an asset class that is usually uncorrelated with traditional financial markets, providing valuable diversification benefits. Additionally, cat bonds provide a competitive risk-return profile, making them attractive investment options for investors seeking higher yields than conventional fixed-income securities.

One crucial aspect of Cat bond structuring is trigger selection. For a regional Cat bond solution in the Western Balkans, a parametric trigger is likely the most appropriate option. Parametric triggers are based on predefined, objective criteria, such as the magnitude of an earthquake or the water level in a river. If these criteria are met or exceeded, the Cat bond is triggered, and the payout is made. Parametric triggers offer several benefits for a regional cat bond in the Western Balkans, including speed, transparency, and flexibility.

The primary objective of a regional Cat bond issuance in the Western Balkans is to provide participating countries and territories with a cost-effective mechanism to transfer their specific disaster risks. The proceeds of the Cat bond issuance would be utilized to finance disaster recovery and reconstruction efforts in the event of a catastrophe. This ensures that governments have immediate access to liquidity after a disaster, reducing the need for unplanned budget reallocations or additional borrowing. In addition to providing financial resources for disaster response and recovery, the proceeds of a regional Cat bond can be utilized to invest in risk reduction and mitigation measures. The Western Balkan countries and territories can enhance their resilience to disasters by allocating resources to early warning systems, infrastructure improvements, and disaster preparedness programs, thereby reducing their long-term vulnerability.

5. Sustainable Development Goals (SDG) Financing

This section identifies key development financing project categories that are relevant and important to the Western Balkan countries and territories. It then maps and ranks specific risk financing and insurance tools based on their suitability for each project category, with concrete examples provided for each country to illustrate how appropriate insurance and risk financing tools could support such projects. The section begins by outlining the characteristics of each project category and highlighting the Sustainable Development Goals (SDGs) typically addressed by these projects. It then presents a ranking matrix with justification for the ranking, followed by possible implementations offered as concrete examples.

The project categories include:

- ***Renewable energy infrastructure:*** These projects focus on developing and expanding clean energy sources and align with SDG 7 (Affordable and Clean Energy) and SDG 13 (Climate Action).

- ***Flood protection and disaster risk reduction:*** These projects aim to increase resilience to disasters and reduce adverse impacts of floods on communities, infrastructure, and ecosystems. They align with SDG 11 (Sustainable Cities and Communities), SDG 13 (Climate Action), and SDG 15 (Life on Land).

- ***Agriculture and food security:*** These projects aim to enhance agricultural productivity, increase food availability, and improve the livelihoods of rural communities. They contribute to SDG 1 (No Poverty), SDG 2 (Zero Hunger), and SDG 8 (Decent Work and Economic Growth).

- ***Urban development and housing:*** These projects aim to improve urban infrastructure, provide affordable and sustainable housing, and enhance the overall quality of life in cities. They align with SDG 9 (Industry, Innovation, and Infrastructure), SDG 11 (Sustainable Cities and Communities), and SDG 12 (Responsible Consumption and Production).

- ***Tourism and cultural heritage preservation:*** These projects aim to promote responsible tourism, preserve historical and cultural sites, and foster economic growth in the tourism sector. They contribute to SDG 8 (Decent Work and Economic Growth), SDG 11 (Sustainable Cities and Communities), and SDG 12 (Responsible Consumption and Production).

- ***Infrastructure and transportation:*** These projects aim to improve the region's connectivity, mobility, and economic development by investing in roads, bridges, railways, ports, and other related infrastructure. They typically contribute to SDG 9 (Industry, Innovation, and Infrastructure), SDG 11 (Sustainable Cities and Communities), SDG 8 (Decent Work and Economic Growth), and SDG 13 (Climate Action).

The Insurance and Risk Financing tools are evaluated based on their suitability for each project category, with rankings ranging from 1 (most suitable) to 5 (least suitable). In addition, certain tools such as microinsurance, environmental impairment liability insurance, loan guarantees, political risk insurance, business interruption insurance, and trade credit are briefly described.

- ***Microinsurance*** provides low-cost insurance coverage to low-income individuals and families in developing countries.

- ***Environmental impairment liability insurance*** covers damages resulting from environmental pollution or contamination.
- ***Loan guarantees*** provide assurance to lenders that their loans will be repaid.
- ***Political risk insurance*** protects businesses against losses arising from political events or actions.
- ***Business interruption insurance*** covers losses due to unexpected disruptions to business operations.
- ***Trade credit*** provides financing for businesses to purchase goods or services from suppliers on credit, allowing for more flexible payment terms.

Table 22: Table 20: Ranking of Insurance and Risk Financing Tools to Development Financing Project Categories

(Source: Authors)

Development Financing Project Categories **Insurance and Risk Financing Tools**	**Renewable energy infrastructure**	**Flood protection and disaster risk reduction**	**Agriculture and food security**	**Urban development and housing**	**Tourism and cultural heritage preservation**	**Infrastructure and transportation**
Macro Hedge (Catastrophe bonds, Sovereign risk pools)	1	1	2	3	4	3
Microinsurance	5	5	4	5	5	5
Environmental impairment liability insurance	3	4	5	1	2	5
Loan guarantees	1	5	5	4	5	1
Agricultural insurance	5	5	1	5	5	5
Political risk insurance	4	5	5	5	1	4
Business interruption insurance	5	4	5	2	3	5
Trade credit insurance	4	5	5	5	5	2
Parametric insurance	2	2	3	5	5	5
Public-Private Partnership (PPP) risk-sharing arrangements	5	3	5	5	5	5

The ranking is accompanied by explanations and recommended risk financing solutions tailored to different project types. Renewable energy infrastructure projects are deemed most suitable for Macro Hedge and Loan Guarantees. Flood protection and disaster risk reduction projects necessitate comprehensive coverage, making Macro Hedge the optimal risk financing solution. Agriculture and food security projects are best served by agricultural insurance, while urban development and housing projects benefit from environmental impairment liability insurance. Political risk insurance is recommended for tourism and cultural heritage preservation projects, and infrastructure and transportation projects find suitability in loan guarantees and trade credit insurance.

The report provides examples illustrating how insurance and risk financing tools could contribute to ongoing development financing initiatives in specific countries and territories of the Western Balkans. For instance, Catastrophe bonds could raise capital for the Integrated Sustainable Development of the Southern Coastal Region in Albania project, safeguarding the coastal region from disasters. Similarly, environmental impairment liability insurance could be applied to cover potential environmental damage or pollution costs related to the construction or operation of the Skopje Wastewater Collection and Treatment Project.

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