The Participants on The Serbian Insurance Market

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Abstract

The insurance sector significantly influences the economic development of any country and it is an important factor of financial sector stability. The Serbian insurance sector is underdeveloped and according to the level of the development, it is positioned under the average value of EU countries. This is corroborated by the indicators of insurance market development – the relation between the total premium and the GDP and the total premium per capita.

Based on the 2004 Law on Insurance and the Law on the Amendments to the Law on the National Bank of Serbia, the supervision of insurance activities has been entrusted to the National Bank of Serbia.

In 2004, the National Bank of Serbia defined and revealed its strategic goal in the insurance area - creating and observing a safe and stable insurance sector and ensuring public trust in the insurance sector, and protecting insured and third persons.

According to its legal authority, the National Bank of Serbia delivers acts required by law, supervises insurance sector activities, issues and revokes licenses for businesses of insurances, reinsurances, brokerage and insurance agencies and businesses directly connected with insurance activities, gives consent to acts, issues and revokes consent for appointment of members – the Director and Supervisory Board, issues and revokes consent for acquisition of qualifying holdings in insurance companies, processes statistical and other information, maintains registers of data according to the Law, considers complaints on the work of insurance companies applied by insured and the third parties, including the businesses of mediation activities.

KEYWORDS: insurance market development, supervision over insurance activities, insurance company

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Introduction

After taking over the surveillance of the insurance sector, the existing situation was regarded, inter alia, as the following: an absence of good practice in business activities, inadequate management, a lack of safety of investments of insurance funds in the purpose of settling the undertaken obligations toward policyholders and third parties, no regular reporting, an ineffectiveness of business books (and thus the unreliability of the shown data), the overflow of insurance funds in related enterprises, irregular payment of liabilities to policyholders and third parties, double policy issuing, setting incorrect goals of insurance company business goals instead of protecting policyholders and clients, a lack of public confidence in the insurance sector, a high level of irregularity in business, a significant number of legal entities which run businesses in the insurance sector without licenses, an insufficiency or inadequacy of company activity, and an absence of effective auditing and actuary work. A certain number of insurance companies were unable to meet their obligations towards their clients and policyholders, although when they were met, it was funded from the current flows, meaning that the premiums were paid for new policies, instead of safe investments, and they served for the settling of liabilities in the policies issued prior. In this way, there was a pyramidal system of insurance which contributed to a complete loss of public confidence in this sector.

To accomplish the set goal in the mentioned conditions, the National Bank of Serbia directed its activities in several directions at the same time:

— Sector stabilization
— Increasing public confidence in the insurance sector
— Creating a basis for sector development
— Creating and developing the function of supervision and
— Continuous training of employees.

Insurance market participants in Serbia

In the following table, there is an overview of participants in the insurance market per year and the analysis of the present condition.

*Table 1: Participants on the Serbian insurance market*

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>IC life</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>6</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>IC non-life</td>
<td>7</td>
<td>6</td>
<td>8</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>IC life + non-life</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>IC reinsurance</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>IC reinsurance +</td>
<td>1</td>
<td></td>
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<td></td>
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<tr>
<td>insurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– total</td>
<td>19</td>
<td>17</td>
<td>20</td>
<td>24</td>
<td>26</td>
<td>26</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>Majority foreign</td>
<td>5</td>
<td>8</td>
<td>13</td>
<td>17</td>
<td>19</td>
<td>19</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>ownership</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
While taking over the surveillance function over the insurance companies, the National Bank of Serbia found the insurance market to be at an extremely low level of development.

The number of insurance companies in 2005 was reduced by 50% (from 40 to 19), while four companies started the process of voluntary liquidation, one affiliation was performed, and from December 31, 2005 there were 19 insurance companies on the market, of which 16 dealt only with insurance businesses, 2 companies with the reinsurance business and one company dealt with the insurance and reinsurance business. From the companies dealing with insurance businesses, only one company dealt with life insurance, 7 companies with non-life insurance, and 8 companies with life and non-life insurance companies (NBS, (2006). Insurance Sector in Serbia, 2005 Report, Belgrade).

Insurance companies were obliged to carry out, until December 31, 2007, the separating of insurance and reinsurance, as well as the separating of life and non-life insurances. As a result of the mentioned and as a result of other status changes of insurance companies, such as mergers and acquisitions, it is realistic to expect some changes in their number.

According to the ownership structure of 19 insurance companies in 2005, 5 had a majority foreign ownership, and 14 domestic, of which 2 companies were in social and state ownership, and 12 companies in private ownership.

In this period, it is characteristic that companies in a majority foreign ownership recorded a small participation on the market of only 12%, making up 71% of the life insurance market. The two largest companies participated with 70% in non-life insurances.

The stabilization of the insurance market and creating an adequate environment will create the conditions to attract serious strategic partners who will bring to the market new quality and knowhow. This is supported by the experience of the countries from the region in which new participants contributed an increase of competitiveness for the existing companies.

In 2005, the number of other participants on the insurance market - brokers and agents - was reduced also by about 50% (from 149 to 75), but at the same time, 90% of the existing lost their work licenses, and in the meanwhile 59 of the legal entities and entrepreneurs were licensed to operate, and thus on the sales network, besides insurance companies, 40 legal entities participated, 35 individuals-entrepreneurs, one tourist agency, and 2,578 individuals who are licensed for advocacy or brokerage in the insurance. The mentioned activities significantly improved the quality of the sales network which is to be improved by licensing the banks to sell insurance policies.

<table>
<thead>
<tr>
<th>Domestic insurance companies</th>
<th>4</th>
<th>9</th>
<th>7</th>
<th>7</th>
<th>7</th>
<th>7</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>5</td>
<td>11</td>
<td>15</td>
<td>16</td>
<td>19</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Legal entities</td>
<td>40</td>
<td>44</td>
<td>59</td>
<td>65</td>
<td>69</td>
<td>77</td>
<td>79</td>
</tr>
<tr>
<td>Individuals - Entrepreneurs</td>
<td>35</td>
<td>87</td>
<td>123</td>
<td>122</td>
<td>122</td>
<td>117</td>
<td>109</td>
</tr>
<tr>
<td>Individuals - Agents - Brokers in insurance</td>
<td>2,578</td>
<td>3,982</td>
<td>5,002</td>
<td>8,190</td>
<td>10,124</td>
<td>11,418</td>
<td>13,363</td>
</tr>
<tr>
<td>Travel agencies</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

There were no important changes in 2006 on the Serbian insurance market, but with the stabilization of the insurance market, conditions for attracting serious strategic partners were created, which would, on one hand, influence its development by introducing new products, and on the other, improve the quality of the insurance companies’ business activities by way of a new method of capital management and careful risk management. (NBS (2007). Insurance Sector in Serbia, 2006 Report, Belgrade)

In 2007, the number of insurance companies increased from 17 in 2006 to 20 in 2007, of which 17 were dealing only with insurance, 2 only with reinsurance, and one company was dealing with both. From the companies engaged only in insurance businesses, 4 dealt only with life insurance, 8 only with non-life insurance and 6 were engaged in life and non-life insurances. At the beginning of 2008, one more license was given to an insurance company with a majority foreign ownership for performing non-life insurance activities. (NBS (2007). Insurance Sector in Serbia, 2006 Report, Belgrade.)

According to the ownership structure, of 20 insurance companies in 2007, 13 had a majority foreign ownership, 7 domestic, of which one was in social state ownership and 6 companies were privately owned.

Based on all indicators, it can be concluded that the stabilization of the insurance market was a strategic goal of the National bank of Serbia, and it was accomplished after 3 to 5 years by creating business conditions which attracted as strategic partners companies in a majority foreign ownership. By privatizing one of the two biggest participants on the market, the insurance companies in foreign ownership increased their, formerly recorded, dominant share in life insurance premiums (from 68.7% in 2004 to 92.6% in 2007), and they also took over a dominant participation in non-life insurance premiums – 59.1%, total assets at 58.6% and the number of employees at 70%.

In the sales network in 2007, along with insurance companies, 5 banks licensed for insurance activities participated, as well as 59 legal entities, 123 individuals-entrepreneurs, one travel agency, and 5,002 individuals licensed for brokerage and advocacy. Thus, the participation of banks in selling insurance policies should contribute to sales network quality improvement. Accordingly, insurance companies started to introduce products intended for selling in banks, or in other words, products adjusted to the needs of bank services users.

In 2008, the number of insurance companies in Serbia increased from 20 in 2007 to 24, of which 20 dealt only with insurance, 3 with reinsurance and one with both insurance and reinsurance. From the companies engaged with insurance, 6 dealt with life insurance, 9 companies with non-life insurance, and 6 companies with life and non-life insurance. Observed through the ownership structure of 24 companies in 2008, 17 had a majority foreign ownership, 7 domestic, of which one was in social and state ownership and 6 were privately owned. (NBS, (2009). Insurance Sector in Serbia, 2008 Report, Belgrade)

Via the successful process of privatization in the former period as well with entry on the market of foreign companies with green field licensing, insurance companies in foreign ownership increased their prior recorded dominant share in non-life insurance premiums, from 59.1% in 2007 to 61% in 2008, and total assets from 58.6% to 61.2%, retaining the participation in life insurance premiums at the same level from 92.6% and a 70% employee participation.

In 2008, in the sales network, along with insurance companies, 11 banks participated which were licensed for insurance advocacy, as well as 65 legal entities, 122 individuals-entrepreneurs, one travel agency and 8,190 individuals licensed for brokerage and advocacy in insurance.
In 2009 in Serbia, 26 insurance companies operated from which, related to the previous year, two were newly established - one for life insurance and one for reinsurance.

In the sales network, the number of banks engaged in insurance, as well as legal entities, brokers and agents increased, so than there were 15 banks licensed for insurance, 69 legal entities, 122 individuals/entrepreneurs, one travel agency, while 10,124 private individuals received a certificate for advocacy and brokerage.

In 2010, there were 26 insurance companies and their number remained unchanged related to the previous year (NBS, 2011, Insurance Sector in Serbia, 2010 Report, Belgrade).

In the sales network, we have an increase in the number of banks by 1, legal entities by 12, entrepreneurs by 15 and brokers and agents by 1,294.

In 2011, there were 28 insurance companies, 2 more than in the previous year and they also worked with non-life insurance (NBS, 2012, Insurance Sector in Serbia, 2011 Report, Belgrade).

In the sales network, there was an increase in the number of banks by 3, legal entities by 2, brokers and agents by 1,945, and a reduction in the number of entrepreneurs by 8.

In 2012, some 28 insurance companies were in business and their number remained unchanged related to the previous year. There were 24 companies engaged with insurance and 4 companies with reinsurance. Of the companies dealing with insurance, 7 companies dealt with life insurance, 11 with non-life insurance, and 6 with life and non-life insurance. According to the ownership structure of 28 companies, 21 had a majority foreign ownership, while 8 companies were domestically owned (NBS, 2013, Insurance Sector in Serbia, 2012 Report, Belgrade).

In the sales network, the number of banks remained the same, the number of legal entities increased by 5, brokers and agents by 760, and the number of entrepreneurs was reduced by 4, which means that there were 19 banks licensed for insurance, 84 legal entities (insurance brokerage companies and insurance agencies), 105 brokers (individuals/entrepreneurs), while 14,123 individuals were licensed to deal with insurance matters.

**Conclusion**

Based on the given data, we can conclude that the number of participants on the insurance market in Serbia for the period 2005-2012 has increased from year to year. The number of insurance companies increased from 19 to 28, which is a 47% increase. Furthermore, it is typical that there is an increase of the number of insurance companies which have a foreign ownership majority. A good indicator is the increase of the number of banks dealing with insurance, something which will undoubtedly influence the quality of services in insurance. Furthermore, the number of legal entities increased from 40 to 84, which is an increase by 1,105. Also, the number of entrepreneurs increased from 35 to 105, which is a 2005 growth. The number of brokers and agents increased from 2,578 to 14,123 - a 448% growth.

The key areas with which companies should deal with at this moment are the following: corporative management, which is an adequately established system of internal control, improvement of risk management, improvement of the techniques of valuing investments, transparency strengthening, strengthening of good business practice and fair treatment of clients, as well as the training of potential policyholders. This could contribute
to the strengthening of policyholder trust and creating conditions for the development of this segment of the financial system.

What should especially be emphasized is the importance of training and preparation for implementing a new methodological framework for risk management, *Solvency II*. Namely, adequate risk management is of a crucial importance for a successful insurance business. In fact, this is the essence of the *Solvency II* directive, according to which insurers are expected to observe and quantify the risks to which they are exposed in their business, and a more efficient management of the risks and it introduces more sophisticated solvency requests in the aim of providing sufficient capital for risks. The applying of the directive, according to the draft of the new Law on Insurance, is planned after entry into the EU.

**References**


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