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MOTOR THIRD-PARTY LIABILITY INSURANCE AND ITS IMPORTANCE IN THE INSURANCE MARKET OF SERBIA

***Abstract*:**

This paper examines the most significant segment of non-life insurance—motor third-party liability insurance. Following the introductory section, the focus is placed on its key features: purpose, objectives, regulatory framework, and open issues. Since many cars and other motor vehicles, driven by the needs of both the economy and individuals, continuously operate across different countries, it was necessary to analyze the international perspectives of this type of insurance, with particular emphasis on the Green Card system in Europe. Furthermore, the paper discusses the operations of motor liability insurers under extraordinary circumstances, such as those that arose during the COVID-19 pandemic. Special attention is also devoted to the motor liability insurance market in Serbia, taking into account insurance premiums and claims as the most relevant indicators.

Keywords: *motor third-party liability insurance / insurance in Serbia / international insurance / Green Card system / insurance during the COVID-19 pandemic*

INTRODUCTION

Motor third-party liability insurance emerged between the two World Wars, when the rapid development of road transport led to an increasing number of damages caused to third parties by motor vehicles, whose numbers were rising year after year. A motor vehicle is defined as a land-based, engine-powered means of transport (for carrying passengers, goods, towing, or as a working vehicle) whose movement is not dependent on tracks. In the context of insurance, this definition additionally includes a towed vehicle, i.e., a trailer.[1]

Initially, motor third-party liability insurance was voluntary, but it soon became compulsory by law. In the territory of today's Serbia, it was introduced as mandatory as early as 1930. This type of insurance provides protection against the financial consequences of liability incurred by the owner or user of a motor vehicle for damages caused to third

1 Hansell, D. S. (1999). Introduction to Insurance (2nd ed.). London: LLP, p. 75.

parties (death, bodily injury, or impairment of health), as well as for the damage to or destruction of their property resulting from the use of the vehicle. Liability for damage to items accepted for carriage is excluded.[2]

KEY FEATURES OF MOTOR THIRD-PARTY LIABILITY INSURANCE

Motor third-party liability insurance serves the broader social good and has therefore been introduced as compulsory insurance in almost all countries. The only exceptions are a few African and Asian states, as well as certain U.S. federal states.[3] According to the legislative provisions of some countries, the insurer's liability is unlimited (actual damages are compensated), while in others it is capped, but at a high monetary amount. A significant feature of modern motor liability insurance is its harmonization across countries, particularly within the European Union, due to the constant increase in cross-border traffic.

In Serbia, the minimum sums insured are set at the dinar equivalent of EUR 1,000,000 for personal injury per accident event, regardless of the number of injured persons, and EUR 200,000 for property damage per accident event, also regardless of the number of affected persons.[4]

Because motor third-party liability insurance is compulsory, the owner of a motor vehicle subject to registration must, at the time of registration, renewal, or issuance of temporary plates, provide proof to the competent state authority that a valid contract has been concluded with an insurance company. For vehicles not subject to mandatory registration, the owner must not only obtain insurance at the time of receiving the permit to operate the vehicle but also renew it regularly each year as long as the vehicle is in use.

It is important to emphasize that third parties are always protected by motor liability insurance, regardless of who is operating the vehicle covered by the policy. Moreover, in the event of a change of vehicle ownership during the contract period, all rights and obligations under the contract are transferred to the new owner, continuing until the expiration of the insurance coverage, which is typically concluded for a one-year term.

Motor liability insurance also incorporates significant psychological deterrents against the occurrence of insured events, through the use of premium discounts and surcharges. Vehicle owners who have not incurred claims during the previous insurance period are granted premium discounts, while those who have caused damages face increased premiums. In this way, insurance companies influence the personal side of risk in line with the technical requirements of insurance.[5]

Several decades ago, insurance companies in Serbia calculated premiums based on regional risk exposure, i.e., the geographic area in which the vehicle was primarily operated. Owners of vehicles in regions with denser traffic—and correspondingly higher accident

2 Cerović, M. (2012). Osiguranje motornih vozila: tendencije razvoja. Novi Sad: Univerzitet Privredna akademija – Pravni fakultet, p. 108.

3 Vojinović, Ž. (2025). Osiguranje (2nd ed.). Subotica: Ekonomski fakultet, p. 404.

4 Zakon o obaveznom osiguranju u saobraćaju. Službeni glasnik Republike Srbije, 51/2009, 78/2011, 101/2011, 93/2012, 7/2013, članovi 7 i 22.

5 Farny, D. (2011). Versicherungsbetriebslehre (5th revised ed.). Karlsruhe: Verlag Versicherungswirtschaft, p. 55.

rates relative to the number of vehicles—paid higher premiums. We believe this principle was justified and that its abolition was unwarranted. For years, Serbia has had “black spots” where the highest number of traffic accidents occur. Despite the heightened risk, vehicle owners from these municipalities currently pay the same premium as other drivers in the country, which we consider inconsistent with the basic principles of insurance.

A noteworthy novelty in the implementation of motor liability insurance in Serbia was a legal provision requiring insurance companies to allocate 1.2% of premiums for preventive measures, depositing these funds into a special account used to finance the introduction, maintenance, and improvement of remote traffic monitoring systems. Although the Law on Compulsory Traffic Insurance stipulated that this provision would apply only during the first five years of its validity, it would have been prudent to reassess such a solution and continue allocating part of the premiums for preventive measures even after this period. Nevertheless, upon the expiration of the statutory deadline, these contributions were discontinued despite professional recommendations to maintain them.

An illustrative example can be seen in the United Kingdom, where speed cameras have demonstrated clear effectiveness. Within just one year, the average speed on roads decreased by 4 km/h, the number of traffic offenders fell by 31%, the number of casualties was reduced by 42%, two million offenders were recorded, and EUR 200 million in fines were collected.[6]

INTERNATIONAL PERSPECTIVES ON MOTOR THIRD-PARTY LIABILITY INSURANCE

Despite differences in regulatory frameworks, scope, and coverage amounts, motor third-party liability insurance possesses pronounced international features. Almost everywhere in the world, there are associations of insurers representing companies engaged in motor liability insurance within a given country. These associations, through their offices for international (Green Card or other) certificates, guarantee compensation under motor liability insurance in two respects: (1) for damages caused by drivers of vehicles with foreign license plates while in the territory of the country where the association is based, and (2) for damages caused by drivers of vehicles with domestic license plates while abroad.

The well-known Green Card system has been established in Europe (including some non-European, mainly Mediterranean, countries). Its origins date back to 1949, when an international meeting of motor insurers was held in London, leading to the creation of the Council of Bureaux of the Green Card system. Similar systems have been established on other continents as well: the Orange Card system in the Middle East and North Africa, the Brown Card in West Africa, the Yellow Card in East Africa, the Pink Card in Central Africa, the Blue Card in Southeast Asia, and the White Card in some Asian countries.[7]

Serbia is a member of the Green Card system. Therefore, a person who concludes motor third-party liability insurance in Serbia enjoys full protection throughout the entire European area, and beyond, without paying additional premiums. If an insured motorist causes damage within the Green Card system territory, compensation will be paid by the

6 Lajal, S. (2010). Rat vozača i kamera. Svet osiguranja i finansija, 2, p. 39.

7 Council of Bureaux. (2025, July 17). About COB. Retrieved from: https://www.cobx.org/article/4132/about-cob

responsible insurance company. If it fails to do so, the insurers' association will fulfill the obligation. In cases where an uninsured vehicle causes damage abroad, compensation will be paid from the Guarantee Fund.[8]

For a driver entering Serbia with a vehicle registered in a state that is a signatory to the Green Card agreement, the license plate serves as a substitute for an international motor liability insurance certificate. If the vehicle originates from a country outside the agreement, the driver must hold a valid certificate recognized in the European Union. Should the driver lack such a certificate, a border motor liability insurance policy must be purchased upon entry into Serbia, issued by a domestic insurance company.[9] During the 1990s, Serbia was temporarily excluded from the Green Card system due to international sanctions. Consequently, owners and users of foreign vehicles crossing into Serbia were required to purchase border insurance policies, and the same applied to Serbian nationals traveling abroad.

If damage is caused by the use of a motor vehicle with foreign license plates for which a valid international insurance certificate (or other proof of liability insurance) exists, the injured party submits the claim for compensation to a domestic insurance company authorized by the national insurers' association to handle Green Card matters, or directly to the association itself. The compensation provider will then recover the amount from the foreign insurer that issued the certificate of insurance.

MOTOR THIRD-PARTY LIABILITY INSURANCE IN EXTRAORDINARY CIRCUMSTANCES – THE CASE OF THE COVID-19 PANDEMIC

The pandemic caused by the COVID-19 virus at the end of 2019 took the world by surprise, including state authorities whose responses followed with delay. Never before, and never on such a scale, had events such as the closing of national borders, stay-at-home orders, restrictions on social contact, and the suspension of economic and social life been recorded. The crisis provided the insurance industry with an opportunity to demonstrate how, even under extraordinary circumstances, it continues to support numerous clients. This was especially important given that no other sector provides such a broad sense of security to the economy and society as a whole. The general assessment is that insurers in Serbia, as in other countries, regularly fulfilled their obligations despite the circumstances.[10]

Due to the so-called "lockdown" and restrictions on movement, motor liability insurers paid fewer claims as a result of the reduced use of vehicles. This effect was only partially offset by the opposite trend, as some people, seeking to avoid public transport because of protective masks and the risk of infection, switched to driving their own cars, thus generating higher mileage than before.

For example, in Germany, data based on mobile phone movement revealed that population mobility dropped by 20% in March 2020 and by as much as 40% in April compared to the same months of the previous year. These developments directly affected

8 Zakon o obaveznom osiguranju u saobraćaju. Službeni glasnik Republike Srbije, 51/2009, 78/2011, 101/2011, 93/2012, 7/2013, član 34.

9 Žarković, N. (2024). Pojmovnik osiguranja (3rd ed.). Novi Sad: Institut za rodnu i nacionalnu ravnopravnost, zaštitu prava radnika i zaštitu životne sredine, p. 64.

10 Žarković, N. (2021). Životna osiguranja u uslovima pandemija kovida 19. Tokovi osiguranja, 37(4), p. 32.

the frequency of motor liability claims. In 2020, the number of reported claims in Germany decreased by around 15% compared to the previous year.[11]

These so-called "COVID windfalls" did not go unnoticed by policyholders in Western countries and by the public at large. Insurers began refunding premiums for inactive vehicles or reducing premiums upon renewal. There was even discussion of further steps—such as lowering the tariffs in price lists. Experts rightly warned that this would lead to significant losses once traffic returned to normal.[12]

The second-largest motor insurer in the United States, Geico, introduced a 15% COVID discount for renewals. However, one policyholder from Chicago, convinced that the discount was too low and should have been at least twice as much, filed a lawsuit, also arguing that the discount should apply not only to new policies but also to existing ones.[13] In Serbia, such practices did not occur. Policies were issued in the traditional manner, and no premium discounts were granted to policyholders.

Insurers who refused to refund premiums risked losing a large share of their clients. In Germany, it was calculated that vehicle owners could save an average of 10%—and up to as much as 47% in extreme cases—by switching insurers. Additional pressure on premiums arose particularly for insurers offering "pay-as-you-drive" motor liability policies, based on telematics and satellite monitoring. One insurer, for instance, offered discounts of up to 45% for drivers under the age of 21 in 2021, while average savings reached as much as 30%. As one consequence of the pandemic, policyholders became more price-sensitive, giving momentum to the expansion of pay-as-you-drive policies. It is estimated that their number in Germany will increase from 400,000 today to approximately 2 million by 2028. Even with such a fivefold increase, telematics and satellite monitoring will still account for only a relatively small share of the total number of motor liability policies.[14]

Cost reduction is a topic of constant debate in the economy—and in the insurance industry since its earliest days. The intensifying competition in motor insurance continually fuels this debate. The pressures of operating in a pandemic environment heightened insurers' concerns about cost management. One of the solutions adopted by some motor liability insurers was outsourcing claims handling to external service providers, who may or may not be ownership-linked to the insurer. The purpose of this strategy is to focus on core operations, take advantage of cost efficiencies, enhance flexibility, and respond more quickly to market changes.

Only those insurers who, in the coming years, fully exploit the possibilities of outsourcing certain activities—an approach significantly influenced by the lessons of the COVID crisis—will be able to gain cost advantages, acquire essential knowledge and expertise, and achieve another crucial goal: increased customer satisfaction. Unsurprisingly, these advantages have so far been utilized mainly by large insurers, but smaller companies will inevitably need to follow.

Research has convincingly demonstrated the scale of savings achievable through outsourcing. These range from single-digit percentages in sales and marketing to as much

11 Schmidt-Kasparek, U. (2021). Stotterstart aus dem roten Tief. Versicherungswirtschaft, February, p. 45.

12 Morawetz, M. (2020). Gute Ausgangslage. Versicherungswirtschaft, July, p. 68.

13 VW-Redaktion. (2025, July 5). Klage gegen Versicherer Geico, weil er die Kfz-Beiträge nicht rückerstattet. Retrieved from: https://versicherungswirtschaft-heute.de/unternehmen-und-management/2020-07-28/klage-gegen-versicherer-geico-weil-er-die-kfz-beitraege-nicht-rueckerstattet/

14 Schmidt-Kasparek, U. (2020). Crashkurs in die Gewinnzone. Versicherungswirtschaft, August, p. 19.

as 45% under optimal conditions in accounting and customer service centers. Such savings are attainable both in the short and long term. For example, outsourcing certain IT-related customer service functions can generate total savings of up to 40%, with short-term gains already reaching 30%. Conversely, in areas such as human resources and customer service centers, where total savings can reach 30%, it may take several years before significant reductions are realized.[15]

The major changes in claims management that were accelerated during the pandemic were not temporary solutions but have since become the norm. Returning to pre-COVID operational models was neither feasible nor desirable, as no one wanted to abandon the improvements achieved in motor liability claims handling and in other types of non-life insurance.

Another method of cost reduction is the application of modern technologies, which entails fundamental changes in ongoing operations toward the oft-mentioned digitalization process—an effort given particular momentum by the pandemic, especially through remote work. In this context, greater automation is being sought. Yet even in developed Western European countries, progress has been limited: in Germany, as of 2024, over 70% of motor liability insurance policies were still sold through agents and intermediaries.[16]

It is clear that the COVID-19 pandemic significantly influenced the implementation of motor third-party liability insurance. The positive changes that emerged during this period have continued to evolve to this day, albeit at varying speeds.

BASIC INDICATORS OF MOTOR THIRD-PARTY LIABILITY INSURANCE IN SERBIA

Movements in the insurance market can be monitored using various indicators. However, the two most important ones are undoubtedly insurance premiums and claims. For this reason, the following section focuses specifically on these indicators. We have chosen to analyze the most recent five-year period, between 2020 and 2024.

Table 1. Trends in the number of motor liability insurance policies and premiums in Serbia, 2020–2024

	2020.	2021.	2022.	2023.	2024.
Number of Policies	2.635.374	2.721.345	2.810.204	2.920.758	3.059.385
Premiums (million RSD)	35.534,7	36.378,1	38.378,2	45.585,9	50.044,5
Share in Non-Life Insurance Premiums (%)	42,4	39,4	36,5	36,5	34,6

Source: National Bank of Serbia, *Overview of the Number of Insurance Contracts, Policyholders, and Premiums by Types and Tariffs for Different Years.*

15 Kinder, C., & Prnjak, A. (2020). Das Personal vom Standort X. Versicherungswirtschaft, May, p. 31.

16 Eichholz, R. (2025). Vollgas – aber wohin? Versicherungswirtschaft, March, p. 57.

As shown in Table 1, during the observed five-year period the number of policies continuously increased, accompanied by a corresponding rise in calculated premiums. The average insurance premium in the first three years of the analysis was around RSD 13,500 per policy. During 2023 and 2024, however, the compulsory motor third-party liability premium increased on three occasions, raising the average amount per policy to RSD 15,608 in 2023 and RSD 16,358 in 2024.[17]

It can certainly be considered a positive development that the share of motor liability insurance premiums within total non-life insurance premiums has shown a nearly constant decline during the observed period. A decreasing share of compulsory insurance generally indicates that an insurance market is moving in a healthy direction, as it reflects the growing significance of voluntary insurance products. The development of voluntary insurance provides a more accurate reflection of the overall progress of the market. Of course, the decline in this share is only one of the expected indicators; to draw a fully substantiated conclusion regarding the growth and development of the overall insurance market, a broader set of indicators would need to be taken into account.

One of the unavoidable questions concerning insurance premiums relates to the method of their determination. It would be advisable, in our view, to move away from the current system of premium regulation—set by the National Bank of Serbia as the competent authority—and adopt a free-market approach, already implemented in many countries. This would mean that each insurance company would have the right to independently determine the level of premiums, based primarily on actuarial principles. The key issue in this respect is to ensure that insurers remain consistently capable of settling claims and maintaining the necessary reserves.

Table 2. Trends in Motor Liability Insurance Claims in Serbia, 2020–2024

	2020.	2021.	2022.	2023.	2024.
Number of Claims	66.444	76.728	80.072	84.677	95.146
Claims Amount (million RSD)	11.437,3	13.357,5	15.543,2	16.990,0	20.555,1
Share in Non-Life Insurance Claims (%)	31,8	36,8	33,7	29,9	31,8

Source: National Bank of Serbia, *Overview of the Number of Insurance Contracts, Policyholders, and Premiums by Types and Tariffs for Different Years*.

When it comes to claims, both their frequency and total value have shown a steady year-on-year increase, which is consistent with the findings presented in Table 1 regarding the continuous growth in the number of insurance policies sold. Since claims are the result of the materialization of various risks—many of which are largely beyond human control—the fluctuations in the share of motor liability claims within total non-life insurance claims are entirely understandable.

17 Axco. (2024). Non-life Insurance Market Reports Serbia. London: Axco Insurance Information Services, p. 4.

Furthermore, when comparing the shares of motor liability insurance in total non-life premiums with their shares in total non-life claims, it becomes evident that the proportion of claims is consistently lower than the proportion of premiums. This finding suggests that, under current circumstances, motor third-party liability insurance in Serbia represents a highly profitable line of business. Nevertheless, such a conclusion should be considered preliminary, as a comprehensive assessment would require the inclusion of a broader set of performance indicators, which exceeds the scope of this study.

Looking ahead, motor liability insurers in Serbia, in cooperation with the National Bank of Serbia, face the challenge of resolving several outstanding issues concerning the implementation of this type of insurance. Among the most pressing are the revision of outdated premium tariffs, the modernization of the system of discounts and surcharges, and closer alignment with global developmental trends in the insurance industry.

CONCLUSION

The modern insurance market is developing at an increasingly rapid pace, both internationally and in Serbia. Motor third-party liability insurance represents the largest segment of non-life insurance in terms of the number of contracts concluded, premium volume, and total claims. Insurance companies are therefore engaged in one of their most competitive market battles in this field. This type of coverage is particularly attractive due to its compulsory nature and the nearly complete collection of premiums. It is essential that insurance companies work professionally and efficiently to create conditions for the further development of motor liability insurance, based on established principles of the insurance profession, particularly in its technical and actuarial aspects.

Future developments in motor liability insurance, both in Serbia and globally, will inevitably have to take into account major transformations, including: the growing use of alternative fuels, the automation of motor vehicles, satellite-based monitoring, environmental protection, the fulfillment of sustainability requirements, progress in road safety, and the calculation of premiums increasingly influenced by new factors such as the degree and manner of vehicle usage.

Since motor vehicles have long been a necessity and the insurance industry operates with centuries of accumulated experience, it can be stated with a high degree of certainty that motor third-party liability insurance will continue to evolve successfully, meeting the future needs of both the economy and society as a whole. The challenge for insurers will be to refine their assessment of the risks that will continue to emerge throughout the operation of motor traffic and to offer policyholders affordable and comprehensive insurance coverage.

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OSIGURANJE OD AUTO-ODGOVORNOSTI I NJEGOV ZNAČAJ NA TRŽIŠTU OSIGURANJA SRBIJE

Sažetak:

U ovome radu istražen je najznačajniji deo neživotnih osiguranja, osiguranje od auto-odgovornosti. Nakon uvodnog dela, u žiži su se našla njegova ključna obeležja – zadatak, svrha, način uređenja, otvorena pitanja. Budući da mnogi automobili i druga motorna vozila, polazeći od potreba privrede i građanstva, neprekidno saobraćaju po različitim zemljama, bilo je neophodno analizirati i međunarodna stanovišta istražene vrste osiguranja, gde u Evropi posebno mesto pripada sistemu zelene karte. K tome još, u delu rada obrađuje se poslovanje osiguravača od auto-odgovornosti u vanrednim okolnostima kakve su nastupile tokom trajanja pandemije virusa korone. Posebna pažnja data je takođe tržištu osiguranja od auto-odgovornosti u Srbiji, gde su uzeti u obzir premija osiguranja i štete kao najmerodavniji pokazatelji.

Ključne reči: *osiguranje od auto-odgovornosti / osiguranje u Srbiji / međunarodno osiguranje / zelena karta / osiguranje tokom pandemije korone.*

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