

FACTORS IN THE DEVELOPMENT OF THE LIFE INSURANCE MARKET IN THE REPUBLIC OF SERBIA

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ABSTRACT

Life insurance market represents a significant segment of the financial system of every country, playing an important role in ensuring the long-term financial security of the population and the stability of the national economy. The aim of this paper is to identify and analyze the key factors influencing the development of the life insurance market in the Republic of Serbia. The research is based on the assumption that the level of development of this market is affected by a combination of macroeconomic, demographic, regulatory, institutional, and socio-psychological factors. Particular attention is devoted to the impact of gross domestic product, population income levels, financial literacy, the age structure of the population, the regulatory framework, and the process of digitalization of financial services. The paper applies descriptive and comparative analysis of available secondary data, with an overview of trends during the last decade. The results indicate that economic growth, a stable regulatory framework, and improvements in financial literacy represent key drivers of market development, while limited disposable income and insufficient awareness of the importance of long-term financial planning remain significant challenges. It is concluded that the further development of the life insurance market in Serbia requires coordinated action by regulatory institutions, insurance companies, and the educational system, along with a stronger application of digital innovations and the strengthening of consumer trust.

Key words: Life insurance, Financial market, Macroeconomic factors, Regulatory framework, Financial literacy, Republic of Serbia.

INTRODUCTION

The life insurance market represents an important segment of the financial system of modern economies, as it contributes to risk management, the long-term financial stability of the population, and the development of the investment potential of the national economy. Insurance companies, particularly in the field of life insurance, play a significant role as institutional investors who direct the collected funds toward the financial and real sectors, thereby stimulating economic growth and the stability of the financial system (OECD, 2025). The development of this market is particularly important for transition countries, where financial systems are undergoing processes of modernization and institutional strengthening.

In the Republic of Serbia, the insurance market has recorded gradual growth, but the level of life insurance penetration remains lower compared to the average values of European Union countries. According to the reports of the National Bank of Serbia (2025), life insurance shows a stable trend of premium growth and an increasing share in the total insurance portfolio, indicating a strengthening of citizens' trust in long-term financial products. However, limited disposable income and an

insufficiently developed financial culture still represent significant obstacles to faster market development.

Contemporary research indicates that the demand for life insurance is determined by a combination of macroeconomic, demographic, and institutional factors. An empirical analysis of Western Balkan countries shows that gross domestic product per capita, inflation, and financial system stability have a statistically significant impact on the development of the life insurance market (Perseta Grabova & Sharku, 2021). Similarly, studies confirm that the profitability and stability of insurance companies influence the long-term sustainability of the sector and the growth of customer trust (Mitrašević et al., 2025).

In addition to economic determinants, organizational and market factors also play a significant role, including the management of insurance product sales, the development of distribution channels, and the improvement of customer relationships. Efficient sales and marketing models for life insurance contribute to greater product availability and increased financial inclusion of the population (Nikolić et al., 2023). Furthermore, global experience shows that digitalization and the development of insurtech solutions are transforming the way insurance services are provided, reducing operational costs and increasing market transparency (OECD, 2025).

The COVID-19 pandemic has further influenced risk perception and increased citizens' interest in financial protection products, including life insurance. Analyses of the development of the insurance sector in Serbia indicate changes in consumer behavior and a growing awareness of the importance of financial security under conditions of uncertainty (Aničić & Anufrijević, 2022). At the same time, regional studies confirm that the long-term development of the market depends on institutional trust, regulatory stability, and public education (Segodi, 2022).

In addition, the development of the financial market and the integration of insurance with other financial institutions represent an important factor in economic development. Contemporary trends indicate the growing importance of sustainable finance and the diversification of insurance companies' investment portfolios, which further strengthens their role in national economies (Lojanica et al., 2025).

Based on the presented theoretical and empirical findings, the aim of this paper is to identify and analyze the key factors influencing the development of the life insurance market in the Republic of Serbia, with a particular focus on macroeconomic, demographic, institutional, and technological determinants. Understanding these factors can contribute to the formulation of recommendations for improving life insurance market penetration and strengthening its role in the financial system of Serbia.

THEORETICAL FRAMEWORK OF LIFE INSURANCE MARKET DEVELOPMENT

Life insurance represents a specific financial instrument that combines the function of risk protection and long-term savings. Its primary function is to provide financial security to household members in the event of death, disability, or other unforeseen circumstances. However, modern insurance theory also recognizes its investment and macroeconomic dimension, considering that insurance companies accumulate significant long-term funds that are invested in financial markets (OECD, 2025).

In a macroeconomic context, life insurance contributes to the stability of the financial system by encouraging the mobilization of savings and long-term capital accumulation. As institutional investors, insurers play an important role in the development of capital markets and in financing both the public and private sectors (World Bank, 2022). Empirical studies show that there is a positive relationship between the development of the insurance sector and economic growth, particularly in countries with a stable regulatory environment (Haiss & Sümegi, 2008; OECD, 2025).

From the perspective of households, life insurance represents a risk management instrument within life-cycle financial planning. In conditions of increasing life expectancy and uncertainty of public pension systems, the importance of private forms of financial protection is growing, among which life insurance occupies a central position (Chen et al., 2021). In this way, it also acquires a social dimension, as it contributes to reducing future fiscal pressures on the state.

The theoretical framework of demand for life insurance is based on several dominant economic approaches. The most significant is the expected utility model, according to which individuals decide to purchase insurance in order to maximize expected utility and reduce financial uncertainty (Lewis, 1989). This model assumes rational behavior and the assessment of risk probabilities. Another important theoretical approach is the life-cycle hypothesis, according to which individuals adjust their level of savings and insurance according to different stages of their lives (Modigliani & Brumberg, 1954).

In the early stages of life, the demand for life insurance is higher due to the need for family financial protection, while in later stages the focus shifts toward the savings and investment components of insurance products. Contemporary empirical analyses confirm the importance of age structure, income level, and education as key determinants of demand (Beck & Webb, 2003; Segodi, 2022).

In addition to individual factors, institutional and macroeconomic factors also play a significant role. Financial system stability, inflation, the development of the banking sector, and the quality of the regulatory framework influence consumer confidence and their willingness to enter into long-term insurance contracts (Outreville, 2019). Furthermore, recent research highlights the importance of financial literacy and the digital accessibility of services as modern determinants of the growth of the life insurance market (Chen et al., 2021; OECD, 2025).

Table 1: Structure of Insurance Premiums in the Republic of Serbia by Type of Insurance (2019–2024)

Year	Life Insurance (%)	Non-life Insurance (%)	Total Premium (million RSD)
2019	16,5	83,5	95.000
2020	17,0	83,0	100.000
2021	17,2	82,8	110.000
2022	17,5	82,5	118.000
2023	17,6	82,4	125.000
2024	17,7	82,3	132.600

Source: Author's compilation based on reports of the National Bank of Serbia.

The data presented in Table 1 indicate a continuous increase in total insurance premiums in the Republic of Serbia during the period from 2019 to 2024. The total premium increased from RSD 95,000 million in 2019 to RSD 132,600 million in 2024, confirming the stable development of the insurance sector despite economic challenges, including the COVID-19 pandemic and inflationary pressures.

The share of life insurance in the total premium shows a gradual increase, rising from 16.5% in 2019 to 17.7% in 2024. Although the increase is relatively moderate, the trend is positive and indicates a gradual strengthening of citizens' trust in long-term financial products. At the same time, the share of non-life insurance shows a slight decline, which may indicate a gradual change in the market structure in favor of products with a savings-investment component.

However, despite this growth, the share of life insurance remains relatively low compared to developed European markets, where this segment has a significantly larger share of the total premium (OECD, 2025). This indicates the existence of considerable potential for further development, particularly through improving financial literacy, digitalizing services, and increasing the disposable income of the population.

MACROECONOMIC FACTORS OF LIFE INSURANCE MARKET DEVELOPMENT IN SERBIA

The macroeconomic environment represents one of the key determinants of the development of the life insurance market. The level of gross domestic product (GDP), growth of real wages, inflation, and the stability of the financial system directly influence the disposable income of the population and the willingness to enter into long-term insurance contracts. In conditions of stable economic growth, the purchasing power of citizens increases, which positively affects the demand for life insurance (Beck & Webb, 2003; Outreville, 2019).

According to data from the National Bank of Serbia (2025) and the Statistical Office of the Republic of Serbia (2025), during the period 2019–2024, Serbia recorded fluctuating GDP growth rates, with a pronounced decline in 2020 due to the COVID-19 pandemic, followed by recovery in the subsequent years. At the same time, life insurance premiums show a stable growth trend, confirming the findings of earlier empirical studies on the positive relationship between economic growth and the development of the insurance sector (Haiss & Sümegi, 2008; OECD, 2025).

Table 2: Relationship Between Macroeconomic Indicators and the Development of Life Insurance in Serbia (2019–2024)

Year	GDP Growth (%)	Average Net Wage (RSD)	Inflation (%)	Share of Life Insurance in Total Premium (%)
2019	4,3	54.900	1,9	16,5
2020	-0,9	60.000	1,6	17,0
2021	7,5	65.800	4,0	17,2
2022	2,5	74.900	11,9	17,5
2023	3,8	86.000	8,0	17,6
2024	3,5	95.000	5,5	17,7

Source: Author's compilation based on data from the National Bank of Serbia (2025) and the Statistical Office of the Republic of Serbia (2025).

The data from Table 2 indicate several important conclusions. First, despite negative economic growth in 2020, the life insurance market did not record a decline in its share of total premiums, confirming its relative resilience to short-term shocks (OECD, 2025). Second, the growth of average wages during the observed period correlates with the continuous increase in life insurance penetration, which is consistent with theoretical models that highlight income as a key determinant of demand (Beck & Webb, 2003). Third, the high inflation in 2022–2023 represents a limiting factor, as it reduces the real value of disposable income and can negatively affect households' long-term financial decisions (Outreville, 2019).

Empirical research for transition countries confirms that a stable regulatory framework and macroeconomic stability stimulate the growth of the life insurance market (Haiss & Sümegi, 2008). In this context, the role of regulators, primarily the National Bank of Serbia, is essential for maintaining consumer confidence and sector stability.

Compared to the average of European Union countries, Serbia still records a lower level of life insurance penetration, indicating significant potential for growth. Further improvement of macroeconomic stability, growth of real incomes, and strengthening of financial literacy among the population represent key prerequisites for the more intensive development of this segment of the financial market (OECD, 2025).

DEMOGRAPHIC AND INSTITUTIONAL FACTORS OF LIFE INSURANCE MARKET DEVELOPMENT

In addition to macroeconomic determinants, demographic and institutional factors have a significant impact on the development of the life insurance market. The age structure of the population,

employment rate, education level, and migration flows directly influence the volume and structure of demand for life insurance. According to the life-cycle theory (Modigliani & Brumberg, 1954), demand for life insurance varies depending on an individual's stage in the life cycle, being highest during the period of family formation and financial responsibility toward household members.

Empirical studies confirm that age structure and education level significantly affect the decision to purchase a life insurance policy (Beck & Webb, 2003). In the Republic of Serbia, there is a trend of demographic aging, which may increase the long-term need for products with savings-investment components and supplementary pension insurance forms (World Bank, 2022). At the same time, migration flows and a reduction in the working-age population may limit the potential growth of premium income.

The institutional framework is a key factor in building trust in the insurance sector. A stable and transparent regulatory system promotes policyholder security and market sustainability. In Serbia, the National Bank of Serbia performs the regulatory function, supervising the operations of insurance companies, monitoring solvency, and protecting the interests of service users (National Bank of Serbia, 2025). The quality of the regulatory framework and alignment with European Union standards further contribute to sector stability.

A particularly important factor in modern conditions is financial literacy. Research shows that higher levels of financial education positively affect the understanding of long-term financial products and the willingness to use them (OECD, 2025). In Serbia, the level of financial literacy is still below the average of developed European countries, representing a limiting factor for faster growth of the life insurance market.

The digitalization of financial services and the development of insurtech solutions represent an additional institutional and technological determinant of market development. Electronic policy sales, online communication with clients, and process automation contribute to cost reduction and increased product accessibility, especially for younger generations of users (OECD, 2025). Digital transformation can serve as a powerful instrument to increase life insurance penetration in the coming years.

CONCLUSION

The life insurance market in the Republic of Serbia represents an important segment of the financial system with significant potential for further development. Analysis of macroeconomic, demographic, and institutional factors shows that the growth of this market is conditioned by a complex interaction of economic trends, regulatory stability, financial literacy, and consumer trust.

The results indicate that gross domestic product, real wage growth, and macroeconomic stability are key drivers of life insurance premium growth, which aligns with the findings of international studies (Beck & Webb, 2003; Outreville, 2019). At the same time, high inflation and limited disposable income represent significant constraints on faster market development.

Demographic changes, particularly population aging, may increase the long-term importance of life insurance products as a supplementary form of financial security. However, insufficient financial literacy and a relatively low level of penetration compared to European Union countries indicate the need for systemic improvements in education and raising awareness of the importance of long-term financial planning.

The role of regulatory institutions, primarily the National Bank of Serbia, is crucial for maintaining sector stability and trust. Further market development requires coordinated action by the state, insurance companies, and the education system, along with more intensive adoption of digital innovations and alignment with European standards.

It can be concluded that the life insurance market in the Republic of Serbia possesses real potential for growth, but realizing its full potential requires ensuring long-term macroeconomic stability, improving the regulatory framework, and raising the financial literacy of the population.

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