

INSURANCE

CURRENT SITUATION

Life and Non-Life Insurance

Insurance companies and their activities are governed and regulated by the Insurance Law, adopted in 2004 and later amended, as well as related by-laws issued by the National Bank of Serbia (NBS). The NBS is the competent authority for granting and revoking licenses of insurance companies and performing the supervisory oversight of the insurance sector. Ministry of Finance is the competent authority for drafting Insurance Law amendments.

The Insurance Law regulates:

- Licensing of insurance companies – mandatory requirements concerning capital, organization, internal acts, policies and business plan;
- General terms of organization of an insurance company – requirements concerning act on foundation and articles of association, mandatory bodies (general meeting of shareholders, management and supervisory board and general manager), “fit and proper” requirements for their nomination;
- Actuary and internal audit issues;
- Reinsurance;
- Insurance agent and insurance broker activities and related licenses;
- Supervision of insurance activities by the NBS.

According to the present regulation in the Insurance Law, an insurance company is not permitted to engage in life and non-life insurance simultaneously. Also, insurance companies may engage in insurance or reinsurance activities only. An adjustment period for separation of activities – until December 31st 2009 – is envisaged for existing insurance companies. New companies must declare their field of activity at the time of incorporation.

Insurance Market Overview

As of the second quarter 2009, there were 25 insurance companies operating in Serbia: 21 of them performing only insurance, 3 of them performing only reinsurance and one performing both activities. New foreign insurers have

been entering the market both through acquisitions and as greenfield operations.

In 2009, based on second quarter data compared to the same period in 2008, the insurance market showed total decrease of -0.73% equivalent to RSD 29.8 billion or EUR 363 million.

Structure of the market is also showing signs of changes. The contribution to total written premiums of life insurance is 12.16%; this figure is encouraging but still low compared to most European countries.

Regarding non-life lines of insurance, automobile insurance was still the leading insurance product in 2009. Automobile insurance has been a growing market segment, both in terms of own damage (casco) with 13.89% and third-party liability (mandatory) insurance with 30,43%. Long waited new Law on Mandatory Insurances has been adopted.

Concentration of the market is still present as the three largest insurers in Serbia still account for a combined market share of more than 69%.

Significantly contributing in total premiums written in Serbia, insurance companies with majority foreign ownership account for overwhelming majority of the life insurance market in terms of written premium.

On the regulatory side, 2009 was the year which brought additional effort to regulate MTPL market both by NBS and MoF. NBS is further developing system for protection of consumer (insureds’) rights.

POSITIVE DEVELOPMENTS

- The privatization of socially-owned insurance companies is developing with one state owned company on the market;
- First greenfield investments were made in the sector;
- The passing of the law on compulsory insurance in transportation.

REMAINING ISSUES

- In line with clear signals, from the MoF, separation of life and non-life is most probably to be abolished as an obligation. Without regulation that would allow companies that have legally separated the business lines to perform certain functions on shared basis those companies would be in an unfair position on the market having in mind the amount of costs both that had occurred and that are regularly occurring due to separated business operations;
- Present legal solutions regarding health insurance enacted by the Government in 2008 and 2009 in effect closed the market for commercial insurers to develop and place their own insurance products, by imposing social standards of health insurance unacceptable for all but state health fund that is placed as direct competition to insurance industry;
- NBS drafted a bylaw regarding mathematical reserve calculation that would increase reserves for life insurance companies without firm reason, by forcing companies to discount their future obligations with interest rates that are administratively limited at 3% instead of those that have been agreed upon in contract;
- Development and growth of the life insurance market would be more difficult without certain tax benefits for potential life-insurance buyers (companies and individuals) that could be provided by positive legal solutions, as is the case in many EU countries;
- Two-step reinsurance is still present in the insurance market. Although intended as a positive measure to the local insurance market, in practice it often leads to “bottleneck” for placements of some insurance and creates possibilities for unfair competition. This situation is becoming more present and obvious with the entry of more international insurance companies. Furthermore, contrary to the previous Insurance Act, brokers are not allowed to deal with re-insurance which presents deficiencies in servicing and protecting interests of the insured;
- NBS is heavily regulating the market with supervision of insurance terms and conditions together with tariffs, unlike in most EU countries where technical reserves are the focus of supervision, with terms, conditions and tariffs remaining fully in competence of companies;
- Existing insurance models present on the local market are mostly based on named perils insurances and tariffs, unlike in most EU countries. Increased demand for tailor-made and new insurance products (often initiated by foreign investors) is forcing Serbian insurers to broaden their offer; this will lead to a so-called underwriting model and ultimately to development of the insurance market;
- According to Insurance Law, insurance companies are limited for investments in with cap of 20% of the net equity and after approval by NBS. This provision is limiting possibilities for extended portfolio investments and creates unfair position as institutional investor in comparison to other financial institutions and companies in Serbia which is unlike in EU countries.

FIC RECOMMENDATIONS

- All changes of Insurance Law should be in line with recommendation of the Insurance Association i.e. to allow to companies with separated life/non-life businesses to perform certain functions on shared bases (management, shared fixed costs and sales) in order to be competitive in cost-efficiency and composite market approach;
- Reform of legal framework in health insurance that would sharply divide market and social health insurance and would allow fair competition to insurance industry to state health fund;
- Abandoning of the proposed solution for administratively arranged discount rates;

- The abandoning of the two-step reinsurance principle by creating a more competitive environment and stimulating co-insurance procedures for insurers;
- Consider possibilities for legally provided tax benefits which would stimulate potential buyers of life and health insurance, thus creating an environment for significant growth in terms of total premiums written as well as for transfer of liabilities from state institutions to commercial insurers;
- Focus supervision to technical reserves, allowing full competence to insurance companies to regulate terms and conditions;
- Transition from tariff to underwriting models to stimulate new processes and practices both within insurance companies and the regulator;
- Reform insurance law that would allow investment in accordance with asset management strategy of the company and other bylaws without capital limit and special permission by NBS.