INSURANCE SECTOR

OVERVIEW OF THE INSURANCE MARKET

CURRENT SITUATION

There are 20 insurance companies in Serbia, 16 of which are engaged exclusively in insurance activities, while four companies are engaged in reinsurance activities. As far as insurance companies are concerned, four of them are life insurance companies, while six companies deal exclusively in non-life insurance and six in both life and non-life insurance.

The market is still very concentrated: i) the market leader, Dunav, holds a 27.2% share by GWP criteria; ii) the three largest insurers together hold 61.1% of the market; and iii) the five leading insurance companies control 79.6% of the market.

Majority foreign-owned companies (15 out of 20) undoubtedly dominate the market, accounting for 75.8% of total assets (63.4% in non-life insurance premiums and 89.7% in life insurance premiums).

The insurance market recorded a premium of RSD 26.9 billion (EUR 229 million), an increase of 8.5%.

The following changes were observed in 2020 relative to the previous year:

- the insurance sector's revenues increased by 4.8% to RSD 300.2 billion;
- capital increased by 17.5% to RSD 72.1 billion;
- technical reserves decreased by 0.3% to RSD 197.6 billion. Compared to the previous year, the structure of investing of these assets changed to a certain extent in 2020. State securities increased in share, while technical reserves at the expense of the co-insurers, reinsurers and retro-assignors decreased in share, as well as cash and deposits.
- the total premium reached the level of RSD 26.9 billion, with a growth rate of 8.5%;
- the share of non-life insurance in total premium was still dominant, at 76.8%; the non-life insurance premium recorded a 7.9% growth, within which property insurance, casco and voluntary healh insurance recorded a growth, while there was a decline in MTPL due to corona virus pandemic.
- the share of life insurance in the total premium decreased from 22.7% to 23.2%;
- the number of insurance companies in Republic of Serbia remained 20, while the number of employees, of 11,151, increased by 4.3%.

The founding of insurance companies and their activities are regulated and managed according to the new Insurance Law from December 2014, and relevant by-laws of the National Bank of Serbia (NBS).

Other significant legal sources are the Law on Compulsory Traffic Insurance, the Law on Health Insurance, the Law on the Protection of Financial Service Consumers in Distance Contracts, and the Law on Contracts and Torts. The lateral relevant legal source is the Law on Traffic Safety.

A good part of insurance companies, as well as other participants in the insurance market, strive to adapt their services to the digital world. However, in addition to technical, cultural and other barriers, regulation is also an important limiting factor. Although a huge step has been taken in recent years towards creating a regulatory framework for digital business, there is still room for improvement. First of all, in the car liability market, where policies are still required by law to be issued on pre-defined forms printed by the Institute for the Production of Banknotes and Coins – Topčider, which practically disables business in a digital way. Also, regulations in the field of prevention of money laundering and terrorist financing is an important limiting factor in the sense that it does not recognize the exceptions that were previously proposed, which would contribute to the sale of digital life insurance on the Serbian market.

COVID-19

The COVID-19 corona virus pandemic has and will have a great impact on the economy of all countries, and thus on the Republic of Serbia. The insurance market is no exception in this regard. However, the insurance market will be affected more indirectly than directly. Namely, the expected decline in economic activity, household income and consumption will certainly affect smaller allocations for insurance services, both in terms of investment and protection. In that sense, insurance companies can expect a decrease in premium income in the coming period. The pandemic has also directly affected the insurance market as the majority of insurance contracts continue to be concluded through physical contact with insurance company vendors and insurance agents, making sales conditions more difficult.

Insurance companies, as well as other financial institutions, were not included in the Program of Economic Measures for Reducing the Negative Effects caused by the COVID-19 Infectious Disease Pandemic and Supporting the Economy of the Republic of Serbia adopted by the Government. Insurance intermediaries and agents (other than banks and leasing companies), on the other hand, were covered by the measures of the Government of the Republic of Serbia.

INSURANCE COVERAGE FOR NATURAL DISASTERS AND OTHER ACTS OF NATURE

CURRENT SITUATION

Due to its geographical complexity, Serbia is prone to natural disasters and other extreme events, which are relatively frequent (2005, 2006, 2010, 2014 and 2015 in this century alone). The number of sold insurance policies against natural disasters and other disasters did not drastically increase after the catastrophic floods in 2014, which resulted in damages exceeding EUR 1.5 billion, despite the fact that Serbia was impacted by floods in following years as well.

POSITIVE DEVELOPMENTS

None

REMAINING ISSUES

In Serbia, insurance in general, but particularly insurance coverage against natural disasters and other “acts of nature,” is regarded as an expense or a charge, not as a means of transferring risks, and for this reason its growth rate is the lowest in Europe.

FIC RECOMMENDATIONS

- We believe it would be necessary to establish a strategy for insurance against natural disasters and other acts of nature to ensure that in the event of a major adverse event, a significant share of claims would be transferred to the insurance company. Avoiding new charges on existing contracts is important, as these would result in additional expenditures for a small number of the insured who now have insurance coverage, a measure already proposed by the Ministry of Finance. (1)
  The implementation could be carried out gradually, through the introduction of mandatory:
  (i) insurance for all state-owned and public property and infrastructure;
  (ii) coverage for all property designated as collateral for financing;
  (iii) coverage against natural disasters and other “acts of nature,” including fire insurance, for all property, based on the French model.
- A natural catastrophe (Nat Cat) insurance pool mechanism with obligatory or semi-obligatory coverage should be considered. There are examples, which are far from perfect but show that these mechanisms are conducive to increasing national coverage and risk management (Romania and Turkey). Tax cuts for insurance should also be evaluated to promote Nat Cat insurance in the corporate sector. (1)

THE LAW ON PERSONAL INCOME

CURRENT SITUATION

Taxation of natural persons is regulated by the Law on Personal Income Tax. When it comes to life insurance, the Law does not contain sufficient grounds for exempting life insurance premiums from taxation.

POSITIVE DEVELOPMENTS

None.

FIC RECOMMENDATIONS

- Amendments to the Law to create conditions for the introduction of tax relief for all types of life insurance premiums, which would not only stimulate the development of the insurance sector, but also create the conditions for improving the social function of these types of insurance, which at the same time diminishes the state's obligation to care for these persons. (2)

AUTO INSURANCE MARKET

CURRENT SITUATION

Auto Insurance (AI) is by far the most important segment of the insurance market in Serbia (32.9% of the total premium in 2019 refers to AI) and the technical inspection facilities performing the compulsory annual inspection of all motor vehicles are definitely the most important distribution channels for these insurance policies. Article 44 and 45 of the Law on Compulsory Traffic Insurance prohibits the payment of any commission to these technical inspection facilities – whether directly and/or through related parties – which exceeds 5% of the gross insurance premium.

POSITIVE DEVELOPMENTS

Increased market surveillance by the National Bank of Serbia, which in 2019 led to the fact that insurance companies have largely adjusted their operations to the legal and sub-legal framework in this area.

FIC RECOMMENDATIONS

- Insurance companies should be allowed to register cars at their own premises. (2)
- Allow the issuance of compulsory insurance motor liability policies in electronic form as electronic document. (3)

INSURANCE LAW

REMAINING ISSUES

I. Article 62, paragraphs 5 and 6 of the Law, require at least one member of the supervisory board, and/or one member of the executive board to have active knowledge of the Serbian language and permanent residence in the Republic of Serbia, while other members of the executive board must have permanent residence in the Republic of Serbia, and all members of the executive board must be full-time employees at an insurance company.

Upon analyzing the aforementioned provisions of the Law, through the prism of split companies, it has been concluded that the latter will have to duplicate the aforementioned functions and thus be directly punished for complying with the law. Furthermore, Article 62(3)(1) stipulates that a member of a management body may not be a person who is a member of the management or supervisory body or a procurator in another insurance, reinsurance company or any other financial sector entity. This will result in an unequal market position, which is contrary to Article 84 of the Constitution.

II. The Law now permits representation in insurance operations at a company for representation in insurance, and mediation in insurance at a mediation company to be performed by persons who have the authorization of the NBS based on employment or engagement outside of employment.

Subject to the prior consent of the NBS, insurance representation may be performed as a supplementary activity by the following:

- a bank headquartered in the Republic of Serbia, incorporated in accordance with the law governing banks;
- a financial leasing provider headquartered in the Republic of Serbia, incorporated in accordance with the law governing financial leasing;
- a public postal operator headquartered in the Republic of Serbia, incorporated in accordance with the law governing postal services.

In addition, insurance brokerage/insurance agency activities may also be performed by persons who are not subject to the Insurance Law, provided that the amount of the annual insurance premium per insurance contract does not exceed the amount of EUR 100, that the contract period does not exceed five years, and that it does not relate to compulsory or life insurance.

The Insurance Law should be amended to ensure that utility companies registered in Serbia in accordance with the Law on Public Utility Activities, in the same way as the public postal operator, may perform insurance brokerage activities with the prior approval of the NBS. The current solution of the Law on Insurance does not allow public utility companies to carry out these activities, although there is a long tradition in Serbia of stipulating insurance contracts and paying insurance premiums through public utility companies' bills. This tradition was interrupted at the beginning of 2016, when the NBS banned the introduction of new policyholders into insurance policies through public utility companies' bills. Bearing in mind a large number of insured persons paying the insurance premium in this way and the need of the market to continue this practice of expanding insurance coverage that has a wider social significance for easier accessibility of insurance to the average user, it seems that amendments to the Law on Insurance should enable interested public utility companies to engage in these activities.

III. Equal treatment must be guaranteed to all participants in the insurance market. In that sense, amendments to the law should enable a merger between companies that conduct life and non-life insurance business separately, if the companies have the same shareholders, or if those shareholders have a controlling share in both companies.

IV. To establish a more precise and systematic structure, the insurance business should be regulated by three different laws, modelled on the laws of some European countries, in accordance with EU guidelines and directives: the Insurance Supervisory Law (ISL), the Insurance Contract Law (ICL) and the Law on Insurance Brokers and Agents. While the ISL deals primarily with the relationship between the supervisory authority and the insurance company, as well as with status issues, the ICL defines the relationship between the insured and the insurer, i.e. their mutual contractual obligations, and the Law on Insurance Brokers and Agents regulates the sale of insurance through other licensed persons or alternatively a tripartite law.

It is especially important to adopt the Insurance Contract Law because the relationships arising under insurance contracts are not fully regulated. First, a number of provisions governing insurance contracts are found in other laws and by-laws while there are various other laws which do not regulate the specific substance of the contractual relationship in insurance, but have an impact on the relationships arising from insurance contracts (e.g. the Consumer Protection Law etc.). Second, certain matters directly related to insurance contract relationships are not regulated by the LCT (or not regulated at all). In this sense, there are no provisions in the law of the Republic of Serbia which specifically regulate insurance brokerage agreements and insurance agency agreements, as well as co-insurance contracts or reinsurance contracts. Also, the LCT provisions that govern the insurance contract have certain deficiencies that have emerged through practice in the application of the Law in these 39 years. Primarily in relation to liability insurance that is regulated by only one article. Also, changed social circumstances, technological changes and modern supranational regulations (EU) necessitate the implementation of certain amendments to LCT provisions.

FIC RECOMMENDATIONS

- Adoption of a new set of insurance laws: the Insurance Supervisory Law (ISL), the Insurance Contract Law (ICL) and the Law on Insurance Brokers and Agents. (3)
- Amend Article 98, Paragraph 2 of the Law on Insurance, to enable public utility companies registered in the Republic of Serbia in accordance with the Law on Public Utility Services, to perform insurance brokerage/agency activities with the prior consent of the National Bank of Serbia. (1)

NEW LAW ON PREVENTION OF MONEY LAUNDERING AND FINANCING OF TERRORISM

CURRENT SITUATION

Law on Prevention of Money Laundering and Terrorist Financing began to apply on 1 April 2018, and has serious implications for the operations of insurance companies selling life insurance.

Article 8 of the Law does not recognize life insurance contracts (the so-called “risk insurance”) as exceptions from the obligation to conduct actions and measures of customer due diligence, as defined in the previous Law.

Article 18 stipulates that the identity of a party can be determined and verified through a qualified electronic certificate, but the technical conditions prescribed by this article for this type of identification of parties cannot be implemented in practice and no taxpayer applies it.

REMAINING ISSUES

As regards Article 8, bearing in mind the legal nature of such contracts which provide coverage for biometric risks (death and disability) only, and envisage no option of payment of surrender value, policy loan or advance or pure endowment policy, and in view of the existing modalities of payment, it is clear that the potential money laundering and terrorism financing risk as such is unfeasible and that it requires special treatment. Classification in the low-risk category and the application of simplified procedures is not a mitigating circumstance, considering that significant resources are spent on the identification of the legal entity and beneficial owner.

FIC RECOMMENDATIONS

- Adopt the initiative of insurance companies for amending Article 8 of the Law, to exclude taxpayers from the implementation of actions and measures prescribed by the Law when it comes to a contract on life insurance in the event of death (the so-called "risk insurance"). (3)
- Article 18 stipulates that the identity of a party can be determined and verified through a qualified electronic certificate, but the technical conditions prescribed by this article for this type of identification of parties cannot be implemented in practice and no taxpayer applies it. (3)