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Prof. Jelena Ž. Kočović, PhD [1]
Professor, Faculty of Economics, University of Belgrade
Marija R. Jovović, PhD [2]
Assistant, Faculty of Economics, University of Belgrade

EFFECTS OF LIBERALIZATION AND PRIVATIZATION ON SERBIAN INSURANCE MARKET DEVELOPMENT

The subject of this paper are emerging tendencies of Serbian insurance market in the past decade. Comparative survey of the value of general and specific indicators of development of the insurance market in the European Union, as well as in Croatia and Slovenia - as countries within the region - allows for the positioning of the Serbian insurance market and identifying its development problems. The beginning of the period which we have analyzed is marked by the creation of a new regulatory framework and measures taken by the insurance supervisory authority in order to stabilize the industry and create a healthy basis for its development. In the remaining part of the observation period, the given insurance market undergoes the processes of privatization and liberalization, in order to increase market competition, raise quality and enrich the range of insurance services, as well as to get a more efficient allocation of the industry resources. The research aims to identify the effects of privatization of domestic insurance companies and of foreign investments in Serbian insurance market or national economy. The authors claim that on the insurance market, the foreign capital is not necessarily more successful than domestic, thus denying the neo-liberal viewpoint according to which the sale of domestic companies is the only effective development model of the insurance market in the emerging countries. The difference between the insurance companies should not be made according to their ownership structure, but according to the quality of their business and the services they provide.

Key words: *insurance market, liberalization, privatization.*

1 e-mail: kocovic@ekof.bg.ac.rs
2 e-mail: marijajovovic@ekof.bg.ac.rs

1. Modern Tendencies of Serbian Insurance Market Development

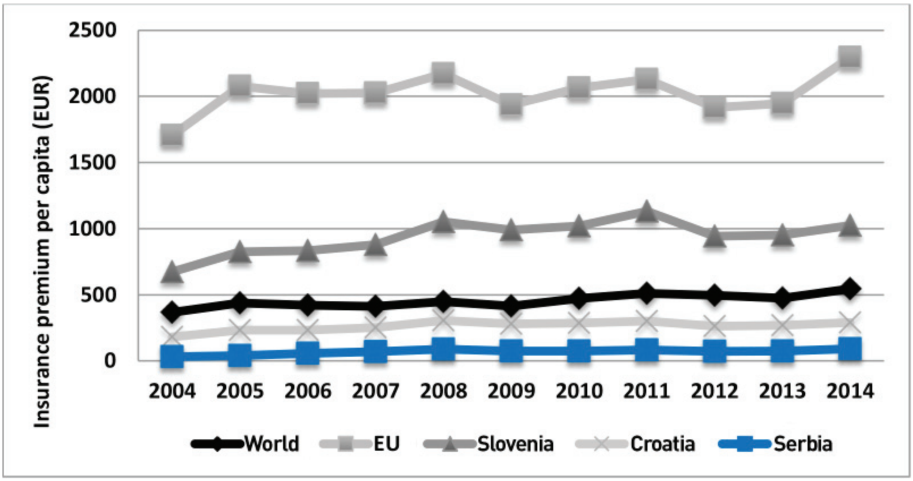
The actual level of development of a particular insurance market is viewed through the prism of the corresponding general indicators, but also detailed indicators of market volume and structure, and their tendencies over time. Reliability and quality of the results of the analysis of the level of development of Serbian insurance market is increased by comparing it with the markets of countries in the region, but also positioning it on the global scale and in relation to the group of European Union countries. It is important to note that the first part of the analysis refers to the observation period marked by the creation of a new regulatory framework and measures taken by insurance supervisory authority in order to stabilize the industry, create healthy basis for its development and restore public confidence in the institution of insurance. In the remaining part of this period, the chosen insurance markets of the Western Balkans (Serbia, Croatia and Slovenia) are included in the liberalization process in order to increase market competition, raise quality and enrich the range of insurance products and services, as well as to get a more efficient allocation of industry resources.

General indicators of development of the insurance market, but also the important indicators of economic development of the relevant country, are the level of the insurance premium *per capita* and the insurance premium percentage share in the gross domestic product. Total insurance premium per capita (i.e. the insurance density) in Serbia has nearly tripled over the past decade (from 32.8 EUR to 91.3 EUR). Nevertheless, the progress achieved on a global scale (where Serbia takes the 66th place according to the value of this indicator) and in comparison to Croatia and Slovenia, as countries from the region, is relatively small. With 1,024.9 EUR insurance premium per capita in 2014, Slovenia is ranked 29th in the world. In Croatia, in the same year, this indicator reached 289.6 EUR, which corresponds to the 48th rank position[3]. The underdevelopment of Serbian insurance market is even more evident if one takes into account that the average premium per capita indicator in the EU countries during the past decade amounted to 2,025.8 EUR.[4]

3 Swiss Re (2015) „World Insurance in 2014: back to life", *Sigma*, No. 4/2015, Zurich: Swiss Re, p.41

4 www.swissre.com/sigma

Graph 1: Insurance Premium per Capita (2004-2014)



Source: Prepared on the basis of www.swissre.com/sigma and www.oanda.com/currency/converter

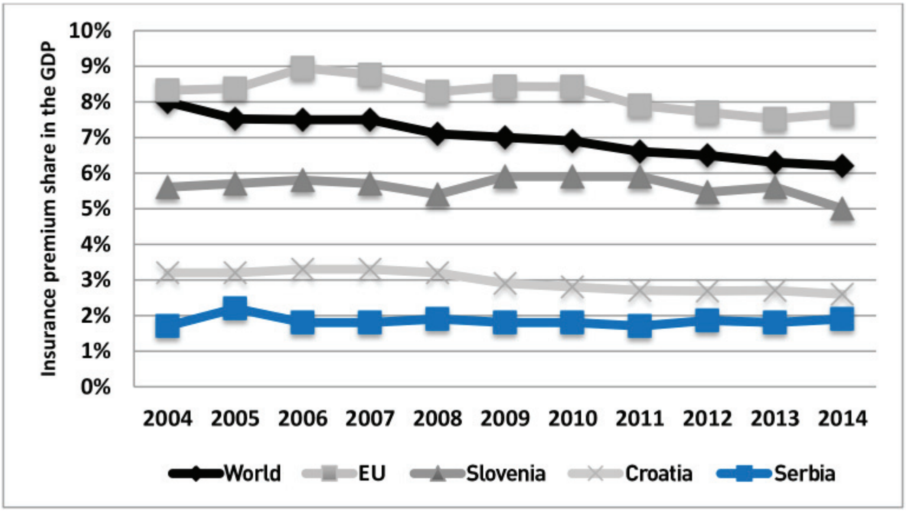
Relatively stable share of total insurance premium in the gross domestic product (so-called insurance penetration) indicates a consistent trend of two variables at a time in the observed countries, which is a logical consequence of interdependence between the economic development and development of the insurance market[5]. According to the value of this indicator of 1.9%, Serbia was ranked 63rd in the world in 2014, recording a decrease compared to the beginning of the observed period (when it was ranked 60th, according to the same indicator, which amounted to 2.2%)[6], whereas the same share for the EU countries, in the past decade, amounted to 8.2%. Given the value of the same indicator, Slovenia was in 2014 ranked 31st in the world, recording a slight deterioration compared to 2004 (29th place), while the rank of Croatia decreased from 43rd (in 2004) to 51st (in 2014).[7]

5 Kocovic, J., Rakonjac Antic, T., Jovovic, M. (2012). „Effects of privatization model of insurance market in transition economies", in M. Jaksic, B. Cerovic, A. Prascevic (eds.), *From Global Crisis to Economic Growth Which Way to Take?* Vol. I: Economics, Belgrade: Faculty of Economics, University of Belgrade, p. 488.

6 Swiss Re (2003). „World insurance in 2004: growing premiums and stronger balance sheets", *Sigma*, No. 2/2005, Zürich: Swiss Re, p. 41.

7 Swiss Re (2015) „World insurance in 2014: back to life", *Sigma*, No. 4/2015, Zürich: Swiss Re, p. 42.

Graph 2: Insurance Premium Share Percentage in Gross Domestic Product (2004-2014)



Source: Prepared on the basis of www.swissre.com/sigma

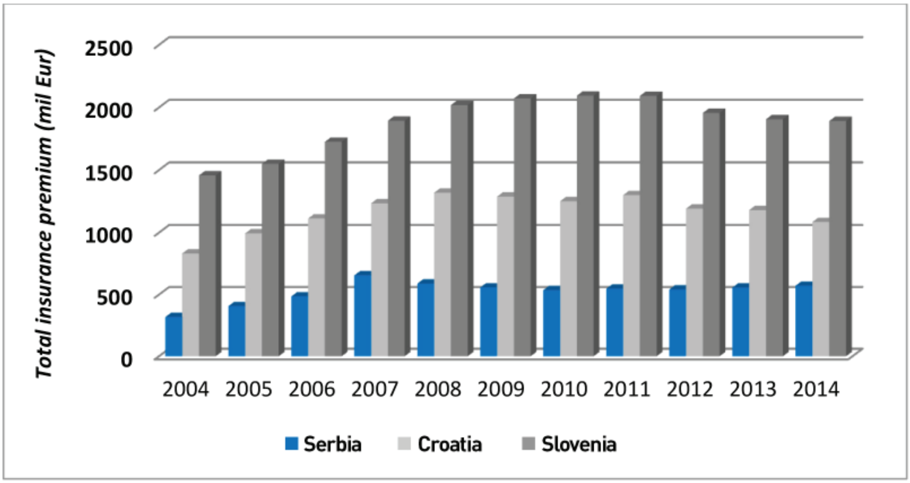
In terms of development of life insurance market, the situation in Serbia is even worse when compared to the entire insurance sector. Life premium *per capita* is extremely low, although it recorded a significant growth in the observed period, from 2.3 EUR in 2004 to approximately 19.7 EUR in 2014. The same indicator in Slovenia grew from 197.8 EUR, at the beginning, to 282.9 EUR at the end of the observed period. In Croatia in 2004, life insurance premium amounted to 53.0 euro *per capita* and grew to 88.8 EUR in 2014. It is interesting to note that the average amount paid for life insurance *per capita* in Slovenia is three times higher than the total amount paid for insurance coverage in Serbia, *per capita*. Similarly, the share of life insurance premium in gross domestic product in Serbia (to the amount of 0.4%) is twice less than in Croatia (to the amount of 0.8%) and/or more than three times less than in Slovenia (where the same indicator amounted to 1.4% in 2014).[8]

The volume of the insurance market, as an indicator of its potential to contribute to the economic and social development of the country, is measured by the absolute level of premium income and technical reserves. On the other hand, the indicator of the quality of such contribution is the average share of life insurance in the total insurance portfolio. Due to time expressed discrepancies between the inflow and outflow of funds, life insurance has a

8 *Ibid.*

character of a special-purpose savings and represents a source of long-term funds that can be invested in the capital market, thus promoting the economic development of the country.

Graph 3: Trends of Total Insurance Premium (2004-2014)



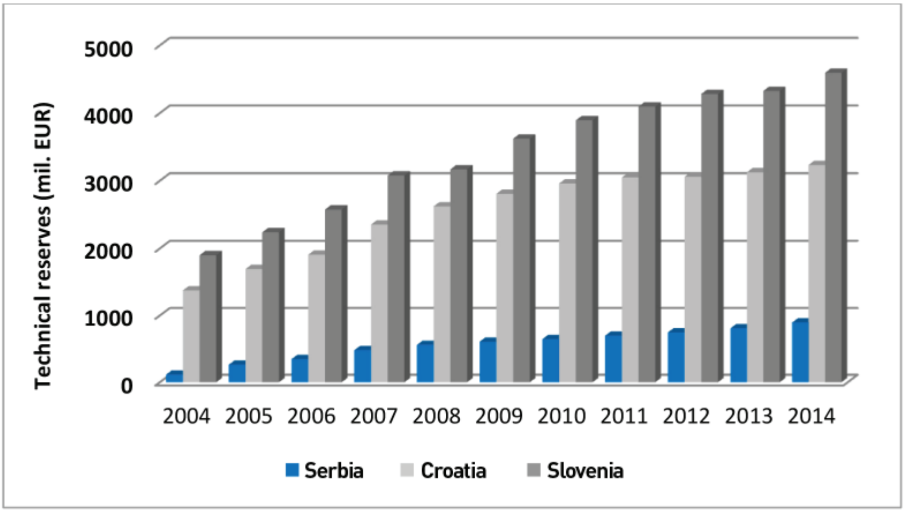
Source: Calculated by the author on the basis of data of the National bank of Serbia, Croatian Financial Services Supervisory Agency, Insurance Supervision Agency (AZN) and http://www.oanda.com/currency/converter

From Graph 3, it is possible to observe that, among the selected countries of the Western Balkans, Serbia recorded the most unfavorable results regarding the scope of the insurance portfolio, as measured by the total stated insurance premium. In 2014, Serbian insurance market realized 572 million EUR[9] of insurance premium, which is more than twice less than Croatia (1,084 million EUR)[10] and more than three times less than Slovenia (1,892 million EUR)[11]. However, the situation is slightly more favorable when we observe the pace of portfolio growth over time. Namely, the average annual real growth rate of premium income in the period 2004 -2014 amounted to 6.9% in Serbia, 3.0% in Croatia and only 2.8% in Slovenia. There is also a noticeable trend of reduction of total insurance market volume in Slovenia and Croatia since 2011, while this market in Serbia has gradually increased during the same period.

9 www.nbs.rs
10 www.hanfa.hr
11 *Insurance Supervision Agency (AZN)* (2015). *Report of the Insurance Supervision Agency for 2014*. Ljubljana: Insurance Supervision Agency (AZN), p. 20.

Compared to the premium income, the volume of technical reserves is a more direct measure of potential of the insurance sector to contribute to increasing social wealth. In each business year, the insurance companies set aside a part of their premium to be used for the payment of claims in the next and/or following years. These funds belong to the insured persons, but in the meantime, until the moment of payment of insurance indemnity or the sum insured, they can be invested into the money and/or capital market, so as to preserve and increase their value. A particularly important element of technical reserves are life insurance mathematical reserves, which can be invested in the long term.

Graph 4: Trends of Technical Reserves of Insurance Companies (2004-2014)



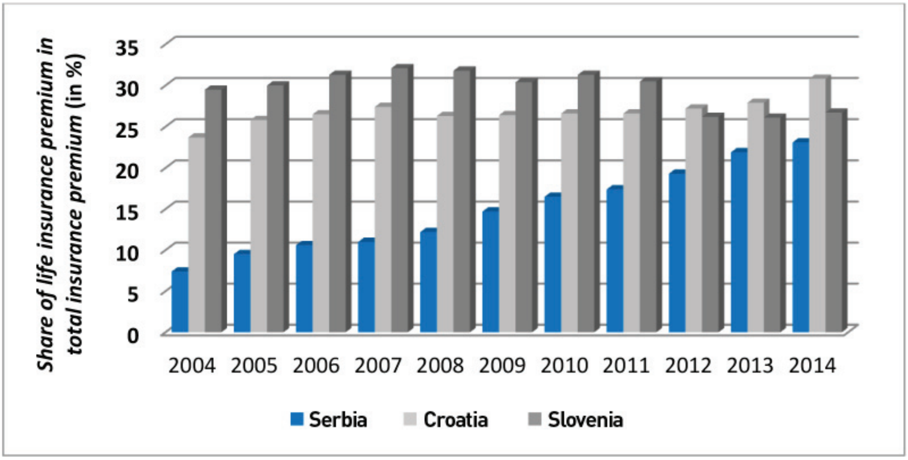
Source: Calculated by the author, on the basis of data of the National bank of Serbia, Croatian Financial Services Supervisory Agency, Insurance Supervision Agency (AZN) and http://www.oanda.com/currency/converter

The relatively low volume of technical reserves of insurance companies in Serbia in 2014 (of 895.3 million EUR)[12] compared to Croatia and Slovenia (where technical reserves in the same year amounted to 3,233.9 million EUR[13] and/or 4,595.4 million EUR[14], respectively) further corroborates the lack of development of domestic insurance market. Although the technical reserves of

12 www.nbs.rs
13 www.hanfa.hr
14 *Insurance Supervision Agency (AZN)* (2015). *Report of the Insurance Supervision Agency for 2014*. Ljubljana: Insurance Supervision Agency (AZN), p. 43.

insurers in Serbia in the observed period magnified relatively faster than premium income and/or technical reserves of insurers in Croatia and Slovenia, it should be noted that their high average annual growth rate (of 26.5%) is primarily due to the extremely low starting point. However, one should note a significant increase in the share of mathematical reserves in the total technical reserves of insurers in Serbia, from 17.3% in 2005 to 52.5% in 2014.[15]

Graph 5: Trends of Share of Life Premium in Total Insurance Premium (2004-2014)



Source: Prepared on the basis of data of the National bank of Serbia, Croatian Financial Services Supervisory Agency, Insurance Supervision Agency (AZN)

Over the past decade, the share of life insurance in the total insurance portfolio in Serbia has continuously grown, reaching 23.1% in 2014[16]. Amongst the observed countries of the Western Balkans, the share of life insurance premium in the total premium was the largest in Croatia (30.8%)[17], whereas in Slovenia it amounted to 26.7% in 2014.[18] The fact that the largest part of the total insurance premium in Serbia is accounted for by compulsory motor third party liability insurance (32.7% in 2014)[19] testifies that the structure of the insurance portfolio is still unfavorable.

15 www.nbs.rs

16 www.nbs.rs

17 www.hanfa.hr

18 *Insurance Supervision Agency (AZN)* (2015). *Report of the Insurance Supervision Agency for 2014*. Ljubljana: Insurance Supervision Agency (AZN), p. 20.

19 www.nbs.rs

2. Effects of Liberalization and Privatization on Development of Emerging Insurance Markets

The success of the insurance sector is measured by its efficacy and effects on the economic and social development of a country. Therefore, the need for careful and thoughtful policy and strategy for the national insurance market development is even more obvious in the harsh macroeconomic environment of the emerging economies. The status and trends of the economic environment are certainly an important, but not the only explanatory variable of the achieved level and further perspectives of development of the insurance sector. In this context and taking into account the reform processes which take place in the emerging countries, it is important to consider the actual and potential effects of the selected model of privatization of insurance companies, with particular emphasis on the relation between foreign and domestic capital. With a relatively low level of economic development and living standards, each inflow of capital in the insurance sector could be important for stirring its normal functioning. The state and its insurance regulatory and supervisory authorities surely have a crucial role in the proper allocation of present and future inflow of funds in such a way as to ensure, as a result, a positive contribution to industry performance and quality of life of the population.

By gathering and accumulation of small premiums paid by the insured persons, the insurance companies, as institutional investors, form large cash reserves, which represent an important element of overall national savings. The insurance funds can be invested in financial and real sector, thus contributing to general social well-being. Hence the participation of private (and/or mainly foreign capital, in case of emerging economies) in the insurance sector is an issue of strategic importance for the overall economic development.

By accepting the neoliberal model of development in most emerging countries, the government functions have been reduced to maintaining macroeconomic stability, limiting consumption, privatization and full liberalization of the domestic market for foreign capital. The emerging countries which carefully entered the privatization process and mainly retained their property, recorded a higher rate of economic growth and employment than those which sold most of their property to foreign investors.[20] Results of the empirical studies show that the mass privatization, inspired by the neoliberal philosophy, caused shocks to the emerging economies, slowing their growth and deepen-

20 Kocovic, J., Rakonjac Antic, T., Jovovic, M. (2012). „Effects of privatization model of insurance market in transition economies", in M. Jaksic, B. Cerovic, A. Prascevic (eds.), *From Global Crisis to Economic Growth Which Way to Take?* Vol. I: Economics, Belgrade: Faculty of Economics, University of Belgrade, p. 489.

ing the gap between them and the developed market economies.[21] Although it can increase the productivity of the economy and liquidity (but not necessarily the stability) of the financial markets, privatization also contributes to rising unemployment, high dependence on foreign capital and multinationals, decline in the national economic wealth and social welfare. In such conditions, the reasons of strategic development and/or maintaining economic safety and quality of life of people dictate the need for the emerging economies to increase the productivity and efficiency of their public sector and keep their shares in property of the companies within the sectors of national importance, such as insurance.[22]

In the context of privatization of the insurance sector in the emerging countries, the professional literature dedicates special attention to the intensive entry of foreign insurers into the emerging markets. Key arguments in favour of the inflow of foreign capital into insurance are: the service quality improvement, transfer of technology and managerial know-how, external additional funding resources and effects on upgrading the functions of insurance supervision.[23] By weakening monopolistic and oligopolistic market structures and increasing levels of market competition, the liberalization leads to expanded range of services of insurance companies at the affordable price.[24] Still, many authors warn that excessive liberalization of the insurance market may lead to domination of foreign insurers, the uneven development of market segments (foreign insurers may be interested in the most profitable, primarily commercial sectors and large corporate clients, neglecting the segments in which customers are the natural persons)[25] and outflow of capital abroad. Despite possible increase of market efficiency, if the foreign assets enter this sector only to be enlarged and eventually leave the country's economic system, the potential of the insurance sector to positively affect the socio-economic development will remain untapped.[26] The net effect of the insurance market liberalization is

21 King, L. (2003), "Shock Privatization: The Effects of Rapid Large-Scale Privatization on Enterprise Restructuring", *Politics & Society,* Vol. 31, No.1, p. 3.

22 Kallianiotis, J.N. (2009), "European Privatization and its Effect on Financial Markets and the Economy from a Social Welfare Perspective" *International Research Journal of Finance and Economics,* Vol. 28, p. 66.

23 Skipper J., Harrold, D. (1996), "The role of foreign insurers in transition economies and developing countries" *International Insurance Monitor,* Vol. 49 (2), p.18.

24 Škuflić, L., Galetić, F., Gregurić, B. (2011). „Liberalization and market concentration in the insurance industry: case of Croatia", *Economic Review – Journal of Economics and Business,* Vol. IX, No. 2, p. 73.

25 Skipper, J., Starr C.V., Robinson, J.M. (2000), *Liberalisation of Insurance Markets: Issues and Concerns, in Insurance and Private Pensions Compendium for Emerging Economies*, Paris: OECD, p. 15.

26 Kocovic, J., Rakonjac Antic, T., Jovovic, M. (2012). „Effects of privatization model of insurance market in transition economies", in M. Jaksic, B. Cerovic, A. Prascevic (eds.), *From Global Crisis to Economic Growth Which Way to Take?* Vol. I: Economics, Belgrade: Faculty of Economics, University of Belgrade, p. 494.

conditioned by the level of economic development of a country, the depth of domestic financial market and the quality of institutions.[27]

3. Analysis of Serbian Insurance Market Ownership Structure

The selected insurance market privatization model is manifested in the ownership structure of insurance companies and its dynamics over time. On the Serbian insurance market, foreign capital achieves a dominant share in the total number of market entrants and the relevant indicators of their business. According to the 2014 data of the National Bank of Serbia, out of the 21 companies that only transacted insurance, as many as 17 were majority foreign-owned. The largest number of foreign-owned insurance companies came from Austria (20 %), followed by Slovenia (16 %) and Spain (8 %)[28]. These companies recorded a dominant share in life insurance premium (91.5 %), non-life insurance premium (64.7%), technical reserves (81.7%), total assets (75.0%) and employment (68.8%).

From Graph 6, it can be seen that during the past decade, the Slovenian insurance market kept a relatively stable ownership structure, while the more intense process of liberalization of Croatian and Serbian insurance market resulted in a growing share of foreign capital. At the beginning of the observed period, there were only four foreign insurers on Serbian market, with a share of about 6%.[29] Meanwhile, as a result of privatization and entry of foreign companies with green field licenses, the share of foreign capital on insurance market in Serbia increased more than tenfold during the period 2004-2014, although at the beginning of the period it was at the same level as in Slovenia. The actual trends point to a significantly different insurance markets liberalization policy of the observed countries. Unlike Serbia, it is evident that Slovenia and Croatia cautiously approached the entrance of foreign capital in the previous period, with the intention to protect their national insurance market, while not closing it to foreign competitors. An example of Slovenia is frequently cited in the literature as an example of emerging country that has managed to build a strong and stable insurance sector, primarily in life insurance, at the same time avoiding the domination of foreign capital.[30]

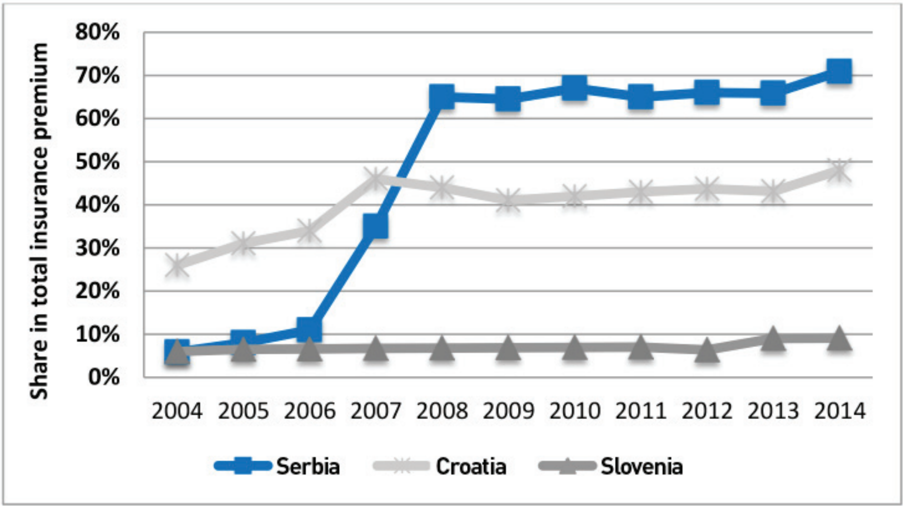
27 Broner, F.A., Ventura, J. (2010) „Rethinking the Effects of Financial Liberalization", *NBER Working Paper* No. 16640, CREI, Universitat Pompeu Fabra, p. 33.

28 National Bank of Serbia (2015). Serbian Insurance Sector – *Report for 2014.* Belgrade: National Bank of Serbia, p. 9

29 www.nbs.rs

30 Bonin, J., Wachtel, P. (2003). "Financial Sector Development in Transition Economies: Lessons from the First Decade", *Financial Markets, Institutions and Instruments,* Vol. 12, No.1, p. 46.

Graph 6: **Trends of Share of Foreign-Owned Insurers in Total Insurance Premium *(2004-2014)***



Source: Prepared on the basis of data of the National bank of Serbia, Croatian Financial Services Supervisory Agency, Insurance Supervision Agency (AZN)

Dunav Insurance, the national company and the largest participant on the Serbian insurance market, achieved a share of about 25.3 % of total premium income and about 8.5% of life insurance premium income in 2014. Dunav Insurance Company owns 18.8% of the total assets of the insurance sector.[31] It is especially important to emphasize that this is the only domestic company engaged in life insurance as well as the company with the largest portfolio, on the domestic market, as regards the strategically important lines of business, such as the insurance of aircrafts and rolling stock. If the last remaining state-owned insurance company were sold to foreign investors, the share of domestic capital on the overall insurance market would be reduced to only 7.5%. Measured by total premium income, the insurance market in Serbia is significantly smaller in comparison to Slovenia and Croatia, and therefore more sensitive to a slightest changes in the relations between its participants.

Slovenia and Croatia have different experience regarding the fate of their national insurance companies with a dominant market share; this may be relevant for Serbia. On the Slovenian insurance market, in 2014, "Zavarovalnica Triglav" achieved a share of 31.3% in the total written premium and 34.4% in the life insurance written premium.[32] The prevailing share of ownership structure

31 www.nbs.rs

32 *Insurance Supervision Agency (AZN)* (2015). *Report of the Insurance Supervision Agency for 2014*. Ljubljana: Insurance Supervision Agency (AZN), p. 25.

of "Zavarovalnica Triglav" in 2015 belonged to the Fund for Pension and Disability Insurance (34.5%) and Slovenian Sovereign Holding (28.2%), while the rest belonged to small private shareholders.[33] This insurance company managed to keep its leadership even after the market was fully opened for the EU entrants, thus proving that the quality of services mattered the most and that it was possible for a state-owned company to resist the pressure of foreign competition by raising the quality of services and performance. As a state-owned insurance company whose priority are the national interests, "Zavarovalnica Triglav" takes responsibility for the catastrophic risks that threaten the national economy of Slovenia.[34] Therefore, "Zavarovalnica Triglav" was marked as strategic in the classification of government investments by the Government of Slovenia, and the state decided to retain the majority stake.

In early 2014, the Croatian government, through a number of state institutions, owned 80.2% of the capital of "Croatia Insurance", only to sell 38.6% in the same year. Buyer increased the amount of registered capital by capital increase, whereas 30.6% of the company stake remained state-owned.[35] Shortly before privatization, the market share of "Croatia Insurance" was 28.9% in total insurance premium and 14.0% in life insurance premium. According to the Croatian Insurance Bureau, as early as 2015, a 6.2% decline was recorded in written non-life premiums, while life premiums of this company increased when compared to 2014. Consequently, although participation in the life insurance sector increased in 2015 to 17.5%, it was not sufficient to compensate for the decline in non-life premiums, due to which the total market share fell to 26.4%.[36]

Previous experience of selling the national insurance companies in Serbia, on the other hand, is not always encouraging. For example, the privatization of "Kopaonik" was realized in mid-2006, when the company's market share amounted to 2.4%. In 2014, "Triglav Kopaonik" recorded a market share of 3.8%, which is only a slight increase compared to the moment of privatization. Examples of reduced market share of national state-owned insurance companies after their transfer into foreign ownership are even more drastic. The market share of "DDOR Novi Sad" just before privatization in 2007, amounted to 28.2%, and in 2014 it was reduced to only 13.7%.[37] The issues that marked the last decade, such as inflation and variable national currency, lack of experi-

33 Triglav Group and Zavarovalnica Triglav (2016). *Audited annual report for the year ended 31 December 2015*. Ljubljana: Triglav Group and Zavarovalnica Triglav, p. 32.

34 Kočović, J. (2012). "Analysis of Insurance Markets of Western Balkan Countries during the Last Decade", in Jovanović Gavrilović et al. (ed.) (2012), *Achieved Results and Prospects of Insurance Market Development in Modern World,* Faculty of Economics, Publishing Centre, University of Belgrade, p. 27.

35 The State Audit Office (2015). *Audit Report on 2014 Annual RC State Budget Execution Report*. Zagreb*:* The State Audit Office of the Republic of Croatia, p. 15.

36 www.huo.hr

37 www.nbs.rs

ence in risk management, underdeveloped insurance statistics and accounting standards are a big puzzle for foreign insurers.[38] We should add to this a low standard of living, but also a low level of insurance culture in Serbia. Reduction and/or stagnation of the market share of individual insurers after their transfer into foreign ownership are also explained by the disorientation of foreign management, due to lack of knowledge of specific local terms and conditions, legislation and psychology of citizens of Serbia as potential insured and also due to language barriers.[39] Empirical analysis conducted on the Serbian non-life market in 2012 shows that there is no statistically significant difference in the performance of insurers in domestic and foreign ownership. This disproved the thesis of *a priori* successful performance of foreign capital on domestic insurance market. The difference between the insurance companies should not be made according to their ownership structure, but according to the quality of their business, measured by the financial strength indicators.

4. Conclusion

Globally observed, modern insurance market is characterized by the liberalization and deregulation, encouraged primarily by opening of the emerging countries for foreign capital, in an attempt to trigger the development of their insurance markets. Through more efficient allocation of capital, increased market competition, increased possibility of customer's choice and higher quality of insurance services, foreign investors are expected to trigger the development of insurance market and, consequently, the overall economic development of these countries. However, whether the potential of foreign capital to help develop the insurance market and entire national economy will actually realize depends largely on the government and dynamics of macroeconomic conditions, but also on the attitude of the regulatory and supervisory authority. There is no efficient development model without a clearly defined national strategy for insurance market development, especially in terms of the effects of privatization and foreign investment. Necessary prerequisites for successful liberalization of the insurance market in the emerging countries are simultaneous strengthening of the legislation and supervision on the one hand, and improving the macroeconomic conditions of business, on the other hand. Creating an appropriate regulatory and macroeconomic environment that encourages the development of the insurance market is a prerequisite for the efficient use of capital irrespective of its origin and/or regardless of whether it is domestic or foreign, public or private.

38 Dorfman, M.S., Ennsfellner, K.C. (1998). *The Coming of Private Insurance to a Former Planned Economy: The Case of Slovenia*. Washington DC: International Insurance Foundation, p. 12.

39 Kocovic, J., Rakonjac Antic, T., Jovovic, M. (2012). „Effects of privatization model of insurance market in transition economies", in M. Jaksic, B. Cerovic, A. Prascevic (eds.), *From Global Crisis to Economic Growth Which Way to Take?* Vol. I: Economics, Belgrade: Faculty of Economics, University of Belgrade, p. 498.

This paper presents the achieved results and actual trends of development of the Serbian insurance market during the last decade. Measured by values of the general and specific indicators, the Serbian insurance market is not only at the global, but also at the regional scale, still relatively underdeveloped, which limits the potential of the sector to contribute to economic development and improved life quality of the population. Implemented regulatory and supervisory measures for market regulation and stabilization, and for restoring public confidence in the concept of insurance were efficient, but there is room for further improvement. To what extent will this actually be explored depends on the strategy and policy of insurance market privatization in the future.

When compared to Serbia, the experience of countries with developed insurance markets represents a significant source of instruction how to prevent possible negative effects of the neoliberal model of insurance market development. Compared to Croatia and Slovenia, Serbia has relatively lowest values of insurance market development indicators, at relatively the largest and fastest-growing participation of foreign capital in total insurance premium income. The example of Slovenia shows that the liberalization of the insurance market does not mean *a priori* that the national capital is inefficient compared to foreign capital. On the contrary, advanced reform and EU legislation harmonization processes in Slovenia created the conditions for the formation of a regulated insurance market, with the equal treatment of its participants in terms of fair competition and obeying the rules of competition and/or legal regulations, the breach of which is strictly sanctioned.

The present results of Serbian insurance market privatization and liberalization are not encouraging. In a very short period, foreign capital has taken a dominant role on domestic market - threatening to almost completely take the control over it if the last remaining state-owned insurance company were sold - while the market share of individual companies that were privatized in the analyzed period reduced. It is obvious that the massive sale of national insurance companies, as a neo-liberal model of insurance market development in the emerging countries, cannot solve the existing development problems of Serbian market, but only postpone them, for short, and lead to their subsequent escalation.

There is a reason to doubt that the insurance companies with majority foreign ownership will assume the responsibility to allocate the accumulated funds, as part of the national savings, into the development of Serbian financial market, as a necessary condition for future growth and development of domestic insurance market. There are certain advantages of the foreign capital entering the insurance market, such as: the opening and liberalization of the market, more efficient and prompt claims settlement, the introduction of new technologies and products, the abolition of monopolies, improvement of performance of insurers, fair competition, regulation of the insurance market and so on. However, the main goal of foreign investors is profit, with which the growth of production and employment do not necessarily coincide. On the other hand, domestic capital is mainly directed into domestic investment projects - it promotes employment and readily identifies the national development priorities. It is therefore necessary to find an appropriate measure in the capital ownership structure of an insurance company.

Bearing in mind the positive experience of Slovenia, we need a dosed, cautious liberalization approach in the future development of Serbian insurance market. Such an approach would mean the survival of the largest state-owned market participant and continuous stimulation of the entry of foreign capital in the form of green-field investments. Owing to the transfer of know-how, foreign capital plays a particularly important role as regards the long-term types of insurance, such as life and voluntary pension, and it will facilitate their transition from extensive into intensive development phase. The aim of the proposed conservative approach is to direct the collected premium and technical reserves - as part of the national savings - into investment projects in Serbia, which would drive the development of the national economy and create the conditions for positive effects on the insurance market development.

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Translated from Serbian by: ***Bojana Papović***