

UDK: 72.017:64.016:368.01:338.266 (4-672EEZ):339.1+339.138+658.85:348(497.11)

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## **PERSPECTIVES OF LIFE INSURANCE DEVELOPMENT IN SERBIA**

PROFESSIONAL PAPER

### **Abstract**

The subject of this paper is life insurance development, its position and significance in Serbia, and types of life insurance products offered and formulated in proposals of different domestic life insurance companies, as well as new methods of sales promotion and easier communication with the policyholders.

**Key words:** *life insurance, insurance law, market, marketing, insurance sale, insurance policy, development perspectives*

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Paper received: 4.7.2016.

Paper accepted: 22.9.2016.

## 1. Introduction

Today, life insurance is a moral duty of every person. In daily life, insurance represents an economic and legal institutional category and is of vital importance, especially considering the circumstances prevailing in our society and its aspirations to create a modern state which keeps pace with international trends.

As a country striving to join the European Union, Serbia is making progress in the implementation of a considerable number of reforms, which involves the adoption of new laws and by-laws and definition of particular underdeveloped areas in insurance industry. Since difficult economic situation currently represents a grave problem, Serbia must put all its efforts and knowledge into becoming one of the countries where insurance is in the general national interest. To that extent, Serbia must harmonize its insurance regulations with the EU Directives, whereas the state plays a crucial role in steering, developing and modernizing particular insurance lines.

The importance of life insurance for both individuals and the state lies in its benefits, and that is what makes it different from other insurance lines. These specific characteristics of life insurance (combined service which protects the interests of policyholders with the focus on savings, accumulation and investment of funds), are what improves the state economy and thus requires special tax treatment.

In the types of life insurance with savings element, which are the most numerous ones, mathematical reserve is generated from an important source of long-term funds available for investments, that is, from the investment portion of the premium.<sup>2</sup>

A German theoretician, Peter Koch, argues that "insurance is in the service of protection against harmful consequences of certain events",<sup>3</sup> while for Friedhelm Nickel insurance is „a monetary service based on the warranty that the risks shall be covered and that, in certain events, the pecuniary compensation shall be paid.“<sup>4</sup>

In the previous period, as a consequence of different circumstances, life insurance in Serbia was insufficiently developed: low living standards, unfavourable economic climate, and adverse political situation. The fact that the awareness of the importance and benefits of life insurance is slowly rising among Serbian citizens is encouraging. However, life insurance market in Serbia is still in its infancy and has not reached the level of the European countries and the USA, where the share of life premium in the total premium exceeds 60%.

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2 Nebojša Žarković, *Ekonomika osiguranja*, Beograd 2008, str. 24.

3 Peter Koch, *Versicherungswirtschaft: ein einführender Überblick* (6.Auflage), Verlag Versicherungswirtschaft, Karlsruhe, 2005, pp.1; quoted according to Nebojša Žarković, *Osiguranje*, Beograd 2013, str. 14.

4 Friedhelm Nickel, Monika Fortmann, *Wörterbuch der Versicherung* (2.überarbeitete Auflage), Verlag Versicherungswirtschaft, Karlsruhe, 2000,V; quoted from Nebojša Žarković, *Osiguranje*, Beograd 2013, str. 14.

Having in mind the growth trend of life insurance, it can be assumed that the future will bring higher demand for this business activity in Serbia.

## **2. Concept and Need for Life Insurance**

Life insurance is a form of protection of the insured in the event of occurrence of an accident. This class of insurance provides the possibility of protection against death risk or incapacity for work. Life insurance is a plan for risk distribution, that is, an instrument by which a risk of early death is transferred from an individual to the underwriting community.<sup>5</sup>

Problems of modern life which, among others, relate to pension and disability insurance, loss of employment, loss of capacity for work and death have created the need for additional protection. In that sense, life insurance serves as an extension of social insurance. Political and economic stability is the precondition necessary for the expansion of life portfolio in Serbia, so that the citizens can trust the opportunity to use life insurance to invest wisely and think of their future, notably their old age when the ability to work is quite low.

Considering the fact that today life expectancy has considerably increased, whereas life insurance is profitable in the timespan between 15 and 20 years, it is recommended to take out life insurance as early as possible, so that later in life, a person can receive the benefits arising from insurance policy and take out the greater number of policies during his/her working age.

Life insurance is also used for borrowing, where life policy can be used as collateral assignment for the consumer and housing loans. Life insurance is different from property insurance and the occurrence of the insured event notably depends on a person's life span. Here, insurance covers an uncertain event. One cannot put a price tag on his/her life and thus, he/she can take out more than one life policies and consequently obtain a higher sum insured, provided that insurance premiums are paid under such agreements.

"Life insurance is the agreement by which in consideration of premium payment, the insurer is obliged to pay to the insured or to the person appointed by him, a certain sum or annuity in the event of death of a certain person (the insured or policyholder) or in the event of his/her survival."<sup>6</sup>

In Serbia, life insurance is written in accordance with the general insurance terms and conditions of Serbian companies. These conditions mostly differ in terms of business policies of insurance companies and market competition.

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<sup>5</sup> Emmett Vaughan, Therese Baughan, *Fundamentals of Risk and Insurance*, Mate, Zagreb, 1995, str. 192.

<sup>6</sup> P. Šulejić, *Pravo osiguranja*, Beograd 2005, str. 471.

### **3. Significance of Life Insurance Lines**

Significance and, consequently, the demand for life insurance business is increasing worldwide, particularly when it comes to voluntary pension insurance. Life business comprises three fifths of the total world's premium, whereas in Serbia, market share of life insurance has been low for years, amounting to only 9.9% in 2005.<sup>7</sup> The reasons for such an unfavourable position of life insurance industry in Serbia are well-known considering the past rampant inflation which has destroyed life insurance funds. Long-term devaluation of the domestic currency, as well as decrease in living standards, resulted in a mistrust of citizens, that is, potential insureds, in life insurance.

Situation is different today, considering that Dinar is more stable and that Serbia is progressing towards development and prosperity, whereas in addition to insurance denominated in foreign currency, the insurers offer insurance in Dinars with the currency clause, which increases security and gives hope that the number of potential insureds will increase. In Serbia, voluntary pension insurance is still relatively new, although its implementation has begun.

Life insurance is the most common insurance line worldwide, due to the fact that it covers the risk of death. Life insurance is attractive and when its saving role is taken into account, it is also profitable for, after a few years, all of the money can be returned, even with 100% of the profit. Life insurance also includes the payment of indemnity, provided that the insured event occurs during the insurance period.

Life insurance is a specific insurance line because it provides the possibility to combine insurance and savings, and in that sense, it also represents a financial transaction. Because of the accumulation of funds and their use for borrowing and investments, developed life insurance is important for economy and society in general. When applying for a loan, an individual may use life policy as a form of guarantee. Considering the important role of this insurance line, the state can influence the positive trend of life insurance through tax exemptions, tax reductions and education of citizens, which is the common practice in majority of the countries.

Life insurance must attract citizens' interest so that every individual can satisfy his/her preferences and needs. Accordingly, life insurance should provide a wide range of possibilities through different combinations. When taking out life insurance, the insured notably secures his/her own material protection and subsequently, the protection of his/her loved ones.<sup>8</sup>

Life insurance, as a long-term insurance which in some of its forms has a savings role as well, differs from other types of insurance and has numerous forms.

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<sup>7</sup> Swis Re, *Assekuranz Global 2006*, *Sigma*, 4, 2007, str. 37.

<sup>8</sup> Predrag Kapor, *Osnove osiguranja, teorija, praksa i regulative*, Beograd 2008, str. 13.

The Insurance Law of 2014 introduced changes in life insurance lines, so that the covered risks can be harmonized with the risks covered by insurance companies operating in the European Union. Life insurance lines are the following:

1. life insurance, which includes insurance against death risk, endowment, earlier death or survival and return of premium term life insurance,
2. Marriage and birth insurance,
3. Annuity insurance,
4. Insurance supplementary to life insurance which includes accident rider and additional health insurance with life cover,
5. Life insurance lines (life insurance, marriage and birth insurance, annuity insurance) related to unit-linked insurance funds,
6. Tontines and
7. Insurance with capitalization of payment.<sup>9</sup>

Good knowledge of both theory and practice of life insurance is fundamental for the success in this insurance business. Life insurance is significant due to its accumulation of considerable financial funds and generation of premium reserve and thus provides the possibility of investing into shares, real estate, etc. It is this possibility to make an impact on the state economy that contributes to the fact that insurance companies are considered to be the most important players on the financial market of a country. Due to the development of financial market and increased competition, it is considered that the risk management will be a part of the business operation of every insurance company which deals with life insurance.

As the market developed, the consumers have become more demanding. Unit-linked life insurance is one of them. Unit-linked life insurance enables the investors to invest excess of funds in the capital market, even though they do not have considerable capital at their disposal.<sup>10</sup> Investment funds are defined as institutions of collective investments within which money is collected and invested into various kinds of property for the purpose of generating profit and reducing investment risks.<sup>11</sup>

Insurance Companies in Serbia do not keep pace with the present times and their terms and conditions hardly even mention this insurance line. Significant characteristic of this life line lies in the fact that it represents the combination of insurance agreement and unit-linked savings plan, and it also brings a risk of investing, a so-called investment risk.

In Serbia, the culture of investing into new financial market products is still undeveloped and thus, insurers and investment funds must initiate a strong

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<sup>9</sup> Insurance Law („Official Gazette of RS “ no.139/2014), Article 8

<sup>10</sup> Nataša Petrović Tomić, „Osiguranje života vezano za investicione fondove,” *Anali Pravnog fakulteta u Beogradu*, year LXI 1/2013, str. 126.

<sup>11</sup> Law on Investment Funds, Article 2 paragraph 1 item 2 („Official Gazette of RS “ no.46/06,51/09 and 31/11)

campaign and education so as to inform the consumers of financial services offered under the unit-linked insurance plan.<sup>12</sup>

#### **4. Use of Marketing and Reaching Insureds through Advertising**

To fully meet the needs of insureds, it is necessary for insurance companies to attach a well-deserved importance to marketing activities,<sup>13</sup> and make them an important element of their business operations.

„The competition on the insurance market is such that those insurance companies, which are capable to adjust to the market, achieve better results. That is the reason why the application of modern marketing concept in insurance companies has become a necessity.”<sup>14</sup>

Only with the constant improvement and combination of different marketing strategies, an insurance company can create the basis for its growth and development and boost the sales of its insurance services.<sup>15</sup> The importance of marketing activities is supported by the fact that when marketing is disregarded, this has a great impact on business activities of insurance companies and decreases their market share and business results, including the drop in premium and profit. The power of marketing activities lies in: operation, product promotion and distribution,<sup>16</sup> through continuous improvement of the existing and introduction of new, attractive products, product promotion with the aim to develop the needs of consumers for such a product, education, keeping track of clients' needs, and product distribution through expanding and developing the sales network, so that insurance products are attractive and available to everyone, everywhere.

Good marketing orientation, closely focused on the market, can provide insurance companies with the easiest way to meet the needs of the existing and future clients, that is, insurance beneficiaries. A well-conceived strategy for advertising insurance products can play one of the key roles in introducing the product to the market and in influencing its sale.

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<sup>12</sup> Nataša Petrović Tomić, *Osiguranje života vezano za investicione fondove*, *Anali Pravnog fakulteta u Beogradu*, year LXI 1/2013, str. 147.

<sup>13</sup> Today, marketing is a key element, not only in insurance industry but also in the entire modern society. Marketing environment, distribution, personal sale and marketing ethics is of particular importance.

<sup>14</sup> J. Kočović, P. Šulejić, *Osiguranje*, Centar za izdavačku delatnost, Beograd 2002, str. 207.

<sup>15</sup> Insurance companies need to have a developed and modern marketing system. Marketing can be classified as an economic process with the function of connecting production and consumption.

<sup>16</sup> The author thinks that a complete set of marketing activities should bring a higher profit to insurance companies through the sale of policies and should provide an adequate service quality to the insureds. To remain competitive, insurance companies need to constantly adjust their products to the buyers' needs.

The fact that insurers inform public, i.e. the target groups, individuals, and present and future insureds, contributes to better sales of insurance policies. Advertising can produce effects only if the communication with the insureds is achieved, whereby personal interaction is considered to be an effective approach.

In a modern competitive environment, in order to raise the interest of the future insurance consumers, public advertisements, which address prospective insureds, must be imaginative, attractive and different. In insurance business, direct selling, which does not require the services of brokers and agents and payment of their commission, has become an integral part of a modern offer, and thus, with this kind of offer, the insurer is able to propose even lower prices and become more competitive. Weak point of direct selling is that it lacks communication with insureds; namely, the insureds are not provided with necessary advice. The most important forms of direct selling are brochures and print advertisements aimed to present strong points of both certain products and the insurer, commonly through advertisements in magazines and newspapers<sup>17</sup>, radio and TV. In this way, public presence of domestic insurers is maintained. For this purpose, insurance companies define the budget according to their marketing plan. This form of advertisement is useful if a feedback can be obtained from the insureds.<sup>18</sup> In addition, advertising can be carried out through electronic media, promotional products, transit advertising and advertising at various exhibitions and fairs.

## **5. Selling Insurance**

For selling insurance, that is, insurance services, selling method in terms of direct and personal selling is vital. The proper use of these methods enables insurance companies to achieve great success and be constantly competitive.

Considering variety of products offered in the market, failure of insurance companies to keep pace with the times and respond to these challenges with new approaches and new services may result in the drop in sales together with the general lack of interest in this type of service. That is why insurance companies must take on a great responsibility and work harder towards the development of a recognizable image and trust in their services and towards finding a proper way to reach the interested insureds and boost the sales while keeping the insureds satisfied.

By introducing new sales channels, insurance companies are opening towards new markets and create conditions for maintaining loyalty of their customers.<sup>19</sup>

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<sup>17</sup> Insurance companies advertise in dailies and monthly magazines with the highest circulation by purchasing 1/2 or 1/1 of advertising space to present their latest products.

<sup>18</sup> *Ibid.* str. 153.

<sup>19</sup> N. Žarković, Modern Insurance Distribution Channels and Their Development in Serbia, conference

Successful selling of insurance policies is one of the main objectives of insurance companies because that ensures their survival on the market. Old, well-established sales channels still exist and have a considerable share in the total insurance premium. With the development of society, computer technology and modernization at all levels, the insureds require new ways of obtaining information and thus, insurance companies should provide them with much wider choice in purchase of insurance policies and facilitate the access to other services they have to offer.

Insurance products offered on the market must be well modelled in order to meet the needs of insureds for which they are tailored. Today, amid rapid progress and advancement of society in all segments, the interest in insurance protection is evident.

## **6. Bancassurance – Sales Channel of Life Insurance Policies**

Considering noticeable glut of life insurance on the market, there is a need to search for and find new ways to reach a satisfied customer. New times dictate new conditions and thus, the development of insurance business puts new sales channels in the forefront, especially having in mind vast opportunities (in terms of computers and communication) that new technologies provide today.

The connection between insurance business and bank services has resulted in bancassurance. Bancassurance has led to business expansion, instilled higher trust of customers and in turn, presented the banks with new source of income.

Bancassurance is the cooperation between banks and insurance companies with the aim to distribute insurance products via bank offices. In order to attain targets and achieve proper results, both parties (banks and insurance companies) have to put joint efforts. In this way, insurance companies benefit from a cheaper sales channel. The use of banks' sales networks expands portfolio and income of insurers, whereas life insurance selling improves banks' services and establishes cooperation with customers.

Bancassurance has achieved a considerable success in the area of life insurance, for some of the following reasons:<sup>20</sup>

- similarity between life insurance products and banking products, which is the reason why the bank officers quickly adapt to life insurance sales activities,
- bank consultants can use their knowledge of client's finance activities to the advantage of life insurance

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proceedings *Challenges in Harmonization of the Serbian Insurance Law with the European Insurance Law*, XIII Conference of the Association for Insurance Law of Serbia, Palić, April 2012, str. 75.

20 Finaccord: Press Release-Bancassurance in Europe, January 2012, London



Numerous factors influence the development of banking sales channels in a country, such as: social, legal, economic, demographic factors etc.

In the European market, banks represent a dominant sales channel for life insurance products and pension insurance, while in Serbia, this sales channel is not sufficiently developed.<sup>21</sup>

The business activities that banks may carry on are those of insurance brokerage, defined in the Law on Banks of the Republic of Serbia. According to this Law, banks may pursue this business line only with the prior approval of the National Bank of Serbia which has a mandate to prescribe more detailed terms and conditions for issuing or revoking such approval.<sup>22</sup>

## **7. Internet as a Sales Channel**

Volatility of business environment, which resulted in the changed behaviour of insurance companies, has also intensified the use of e-business in the insurance industry. This Internet connection between insurers and potential insureds creates confidence in this kind of communication and leads to significant increase in insurance sales services. Considering advantages of the Internet, there is an increasing number of the insurance companies which use the Internet as a dominant sales channel. Certain insurance products are suitable for internet distribution, whereas life, pension and health insurance products are hard to be sold via the Internet.

The Internet<sup>23</sup> is used as a sales channel by manufacturing corporations, and as a distribution channel by service companies. Service distribution is, in fact, the provision of e-services. In their daily operations, most of insurance companies cannot transfer a whole service onto electronic environment.

Services of the insurance agents and brokers are used in the insurance business; they act as intermediaries between insurance companies and insurance beneficiaries – the insureds. Today, e-service of direct selling of insurance policies via the Internet is a part of offer of insurance companies. The advantage of this sales channel is avoidance of brokerage fee payment.

In online advertising via advertising networks, the advertisements are shown on content networks and are associated with keywords. When it comes to

21 The researches have shown that a large number of insurance companies and banks have successfully distributed insurance products to the bank's clients, whereas there is an equal number of those who are just in the process of starting their cooperation.

22 Law on Banks („Official Gazette of RS”, No.107/2005, 91/2010 and 14/2015, Article 4 )

23 The author considers that, despite great progress brought by the Internet technology, e-business is poorly developed in insurance industry. There are numerous reasons for it, from organizational structure to the opinion that e-business is not suitable for insurance sales. For example, life insurance products, due to their complexity, are not easy to be sold via the Internet.

insurance, the ads appear on the web pages containing keywords “safety”, “savings”, “risk”, “life” and the like.

In addition to advertising, direct e-mail marketing is one of the means of Internet communication.

## **8. Insurance Agents**

Insurance agents and brokers connect the insurers with the insureds, and therefore can be regarded as the persons offering insurance services. In the previous period, increasing number of Serbian insurance companies has been simultaneously accompanied with the increasing number of insurance agents and brokers<sup>24</sup>. Pursuant to the Law, insurance brokerage activities can be carried out by the persons licenced by the National Bank of Serbia.<sup>25</sup> Legal regulations stipulate pre-certification training course and certification exam after which the title of certified insurance agents or brokers is conferred, whereas the persons holding this title have the obligation to continuously pursue further professional education<sup>26</sup>, which considerably contributes to the fact that the person carrying out brokerage or agency activities possesses required competences, good knowledge of such activities, and of life market demands.

## **9. Life Insurance Demand**

A group interested in life insurance is comprised of individuals. Increased or reduced demand for life insurance depends on particular reasons.

Underdeveloped and unstable economy has a negative effect on life insurance demand since such conditions result in increased prices and devaluation of domestic currency. Unfavourable economic environment and unstable monetary fund result in drop in sales of life insurance and cause overall insecurity.

Price represents a decisive factor regarding the insured’s interest in taking out insurance. The insurance price depends on the risk exposure, insurance expenses, as well as on taxation policy applied to insurance.

In insurance industry, personal income also serves as kind of a benchmark for population’s purchasing power. In product pricing, insurance companies may use income as an important indicator. When there is a rise in unemployment, 24 N. Žarković, Past Trends, Position and Prospects of the Life Insurance Supply in Serbia, conference proceedings *Reforms and Challenges in Insurance Law*, XVII Conference of the Association for Insurance Law of Serbia, Palić, April 2016, str. 174.

25 Insurance Law („Official Gazette of RS”, No.139/2014), Article str. 105

26 Decision on Insurance Broker and Agent Certification and Further Professional Education, issued by the National Bank of Serbia, 2015

domestic currency constantly appreciates against the Euro and population's purchasing power declines. Thus, in such extreme situations, insurance companies should adjust their products to the average citizen.

Since insurance sales in general, and sales of life insurance in particular, requires general awareness of the importance of life insurance and possibility of saving through some forms of life insurance, the influence of population's education and culture is considerable. In this segment, well-informed population and creation of life insurance culture is of the utmost importance for a modern citizen who, by saving, protects himself and his loved ones.

Country development and population structure are the key factors driving the citizens' interest in life insurance. Where life expectancy is longer, the demand for this insurance line is increasing due to the awareness that at old age, life insurance makes life easier. According to particular indicators, the number of older people in our country is increasing and, to that extent, population should be permanently educated in terms of highlighting the importance of life insurance and benefits it brings at old age.

Number of urban population can have an impact on life insurance demand. This is conditioned by the development and size of cities, as well as by a larger number of urban than rural population. It is assumed that the citizens living in urban areas tend to invest more in education and thus have a higher awareness of the need to purchase life insurance policies.

## **10. Guidelines for Life Insurance Development in Serbia**

Serbian insurance market experienced great turbulence in the past period of transition and economic decline of the country. Economic growth and development of the country, as well as improvement of the standard of living, are directly connected with insurance. Without significant progress in these segments, insurance as an industry will remain only at the level of a potential. In order to break this vicious cycle, clear parameters for the implementation of certain reforms must exist. The state must clearly show its commitment to introduce changes in all segments, including insurance industry. To that extent, without decisive support of the state, the chances to develop insurance, and particularly life insurance, are very poor. Currently, buying life insurance policies is quite costly for the citizens of Serbia. Taking into account the comprehensive reforms initiated by the state and, to that extent, percentage decrease in salaries and pensions, it is clear that at this moment, the citizens do not consider taking out life insurance policies.

### **10.1. Economic Reforms**

We would like to follow suit of the developed European countries, however, the process of implementing economic reforms is by far more difficult and painful in Serbia and thus, it takes the first place. Since the accelerated development of insurance industry requires strong economy, it needs to be revived and strengthened. The importance of investment partners in Serbia should be constantly underlined. The investors from different industry branches are necessary and desirable in order to contribute to the economic development of the country. New investments are expected to revive economy and create new jobs for young professionals and thus increase the living standards and precipitate the prospects for creation of a more promising insurance market. Insurance companies encourage economy revitalization by investing the funds from life insurance, which contributes to the economic recovery of the country. The state should make use of these long-term financing sources, notably when it comes to investing in infrastructural projects.

The increase in gross domestic product and long-term savings with life insurance plans represents an important factor of economic growth. Development level of insurance market in Serbia is conditioned by the level of its economic development. Economic crisis is the key characteristic of the macroeconomic environment in which insurance companies operate.

### **10.2. State Incentives to Insurance Companies**

Insurance market is complex and its development is influenced by numerous factors. The factor influencing citizen's ability to buy insurance policies in order to protect themselves and their families is the stability of macroeconomic trends.

Insurance sector deserves attention of the state and thus should be stimulated by tax exemptions, higher financial literacy of the population, education and employment of sales agents and appropriate legal regulations in compliance with the EU standards.

### **10.3. Tax Exemptions for Life Insurance**

Considering the fact that Serbia is a country with great potentials in insurance sector, one may wonder why it has a low rating among the developing countries seeking to compete with the developed European countries. One of the incentive measures which could motivate and encourage the citizens to save more is the introduction of tax exemptions when purchasing life insurance policies.

Along with the development of the financial market, the state could derive multiple benefits from embracing life business as a long-term and serious partner. Tax exemptions as incentive measures would contribute to the rapid insurance development. The state makes its contribution by implementing the measures which create a favourable environment for the development of life insurance and thus motivates citizens for saving. Life insurance development is encouraged via tax exemptions, whereas in some countries, insurance premiums are subject to low tax rates or are not taxed at all.<sup>27</sup>

One of the ideas is that the state should allow equalization with voluntary pension funds and voluntary health insurance. To that extent, again, the state should equate the tax treatment of life business with incentives granted to voluntary pension funds. These benefits include the exemption of employers from paying taxes and contributions for their employees up to the non-taxable amount (limit of RSD 3,894.00). However, the proposed equalization does not produce the expected results because these benefits do not apply to all citizens but only to the payments of employers.

If the state was to give a chance to the implementation of “the French model of tax allowances” by foregoing a part of its tax revenues<sup>28</sup>, the insurance companies would pay that back in many ways, by investing the funds of collected premium in long-term infrastructural projects and state-owned securities. Accordingly, the state should come up with the strategy and offer long-term securities so that the insurance companies can invest the funds of their customers in a longer period. There is not a sufficient number of state-owned securities traded in the Serbian market that insurance companies find attractive.

„Insurance company and its agent must offer, as a minimum, the insurance product which meets the needs of the policyholder or the product which policyholder explicitly wants. In addition, it is equally important that for the insurance product, the insurance company offers to the policyholder the correct and adequate insurance premium.“<sup>29</sup>

Through tax advantages defined within organic laws, notably within the Tax Law, and by developing financial market through life insurance as a long-term partner, the state would gain significant funds which could be placed into priority investments. Investments into life insurance represent a long-term source of capital,

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27 I. Barać, „Osiguranje u okviru sporazuma o stabilizaciji i pridruživanju,“ *Svijet osiguranja*, no.4, Zagreb, 2001, str. 43.

28 The author is of the opinion that when it comes to this model, the question is raised as to the actual amount of revenues the state would be ready to forego if this model was implemented, considering that it involves the recovery of part of the tax.

29 Messages conveyed at the XIV Annual Conference of the Association for Insurance Law of Serbia “Serbian Insurance Law in Transition to European (EU) Insurance Law”, Arandjelovac, 19-21 April 2013, 2/13, str. 45.

notably due to great investment capacity of the funds collected from life insurance. For instance, globally, big infrastructural projects are commonly financed from life premiums. To encourage the development of life insurance industry, state should perceive insurers as institutional investors.

#### **10.4. Permanent Education and Financial Literacy as Development Factor of Life Insurance**

One of the important factors for both life insurance development and insurance in general is the education of population and financial literacy which, in order to raise interest of the prospective insureds, require the investments of both insurers and the state. These activities should be notably focused on the education of population. The citizens should be enabled to have a closer look at life insurance and helped to thoroughly understand its benefits. Namely, the citizens should be educated in terms of significance of life insurance and what the possession of life insurance policy entails, as well as what is the nature of its savings function and what are the differences and advantages of this type of savings.

Life insurance is gradually becoming a part of the culture of living.<sup>30</sup> The demand for life insurance which exists worldwide should be created on a sound basis, so that the citizens become aware of the need for a particular type of safety, notably when it comes to their own lives. Maybe the legislator should consider extending compulsory insurance lines to include life insurance segment.

Considering that the citizens of Serbia know more about banking than life insurance sector, it is clear that insurance companies have to put more efforts into bringing life insurance services closer to an average citizen. Potential insured should know that the money paid for life insurance policy actually represents a type of saving and, at the same time, the protection from unwanted risks. A frequently asked question is about the difference between life insurance and bank savings. Considering that life insurance is a type of savings, its dual function – savings and protection – makes it more appealing on the insurance market. The right to life protection that citizens acquire upon the payment of the first instalment, which is effective during the whole insurance period, is what makes life insurance savings significantly different from bank savings.

In addition to legal framework, which is an important condition for insurance market development, permanent education of citizens and knowledge building are vital preconditions.

Great economic importance is attached to life insurance which is perceived

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<sup>30</sup>To actually attain that, many countries have addressed the issue of citizens' financial education at the state level, with the help of the national strategy for financial literacy which covers the entire population in order to precipitate the demand for life insurance products.

as a “royal” insurance line and represents the safest product on the market because out of all insurance lines, only life insurance secures life-long annuity payment, calculated using the actuarial method.<sup>31</sup>

Citizens’ awareness of the importance of life insurance should be raised systematically, through levels of information and developed insurance culture. This could be an ultimate goal of the state institutions, insurance companies, and all other financial market participants. The most important goal to be set by insurance companies, in cooperation with the state institutions, relates to the insurance culture and higher level of information.

### **10.5. Insurance as School Subject**

To provide population with the necessary knowledge and raise awareness of the actual benefits and values of insurance, the education should start at an early age. Since insurance has both protective and saving function, the importance of money and its appropriate use should be highlighted. Here, the state, through its educational institutions, should play an important role. The Ministry of Education could contribute with picture books for pre-schoolers so that through games, children could be taught about the importance of money and its purpose. Children should be encouraged and taught to save from an early age, so that later in life they know how to properly invest their money.<sup>32</sup>

In primary school, insurance as a school subject should teach about insurance fundamentals, notably about the very definition of insurance, its importance and function in society.<sup>33</sup> This subject should bring insurance closer to the ordinary citizen, placing special focus on life insurance as an inseparable and component part of the future.

Through insurance taught as subject at primary schools, pupils should acquire necessary knowledge and learn about the importance of buying life insurance policies, which actually means that they invest their money in their future. They should also be taught that after the expiry of the agreed period the invested money, that is, their investment will be returned, and most importantly, that insurance serves to protect them and their family members. In that way, after a certain period of time, the state would have an army of young educated

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31 Wolfgang Rohrbach, „Challenges and Odds of Life Insurance – a „Royal” Line of Insurance”, *Insurance Law Review*, Belgrade, 2/2012.

32 A child should be taught how to save, spend and invest money. Our children are best taught by personal examples of our good and bad investments. Children should be taught financial discipline from an early age.

33 Through various drawing and writing workshops, children should be encouraged and guided to create works that show a clear message of the need for insurance in everyday life (e.g. exhibition of works).

people who understand and know the essence and significance of life insurance and benefits it brings. The awareness of population regarding the significance of buying life insurance policies and paying premiums regularly, for the whole insurance period, can be influenced only with continuing education. Only those knowledgeable about insurance understand that life insurance also means saving money and from the rich and varied offer of insurance companies such persons are able to choose the most suitable policy.

### **10.6. Customer Satisfaction and Care**

The growth and development of an insurance company is connected with the improvement of its own reputation through increased customer satisfaction. It is a common knowledge that satisfied customers are the best promoters of an insurance company. Globally, the process of customer service before taking out insurance and customer care during the insurance period takes precedence over the product to be purchased. Average policy period is 10 years. In that period, communication with the customer and attunement to his/her satisfaction is essential.<sup>34</sup>

It is recommendable to provide satisfactory and regular customer service and thus, insurance companies should be focused on providing their loyal members with advantages and benefits through particular clubs which enable continuous communication with customers and offer necessary information and the sense of belonging.

Insurance companies must constantly seek to raise the service quality level, improve and develop customer relationships, cherish loyal customers, create and maintain a satisfied customer, find cost-effective means of communication with a large number of clients, all with the aim to maintain the life portfolio.

### **10.7. Development and Support to Life Insurance Agents**

Just as in educational system, in sales network one should always be one step ahead. Considering that insurance agents have a direct contact with clients, their approach to clients and manner in which they present the need for purchasing life insurance policies is of utmost importance. Insurance companies should invest more in the permanent education of their agents, organization of trainings, exchange of opinions and experience with other insurance agents, as well as in their oral presentation skills. A good agent is one of the pillars of an insurance

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<sup>34</sup> Satisfaction of insurance consumers is the ultimate goal of marketing concept. Insurance companies must identify the ways to meet the needs and demands of their customers and accordingly develop appropriate insurance products.



company and brings substantial amount of money for long-term investments. The agent has to be a good psychologist and assure the client that today, the payment of life insurance premiums means investing in future.

## **11. Selling Insurance – Characteristics**

Sales is the most important segment in insurance business. Sales is the core function among the functions of insurance companies which keep track of the needs of potential insurance buyers and of the competition, and add value to their products.<sup>35</sup> In order to have successful sales, an insurance company has to develop a marketing plan with complex information on buyers, their wishes and needs. It also has to have a developed strategy which will facilitate the accomplishment of its goal.<sup>36</sup>

Selling insurance services is of an educational nature. The profit to be gained by purchasing an insurance policy should be described and explained to potential insureds. Considering the fact that life insurance does not belong to the category of compulsory insurance lines, its sale requires more focus and knowledge and thus, insurance agents need to have developed sales skills. In Serbia, life insurance agents are in a very specific position and have an active role in the contact with potential insureds when introducing and presenting products. Sales of life insurance services is extremely difficult in Serbia. In such market competition, the starting position of life insurance agents is much more difficult than that of agents presenting the products other than life, who can more easily convince the buyers to make a purchase. Thus, it is necessary to develop behaviour strategy.

Having in mind that there is no universal formula for client satisfaction with the insurance offer, the insurance companies develop flexible programs tailored to the wishes, capacities and aims of the potential insureds. To provide insureds with a good offer, life insurance is combined with supplementary health or accident insurance. A greater offer of life insurance lines in the market opens greater possibilities to meet the needs of potential insurance consumers.

## **12. Conclusion**

From the above it can be concluded that currently the climate in Serbia is not favourable for the development of life insurance. Namely, due to the crisis in

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<sup>35</sup> The author believes that the salesforce of insurance companies are the professionals in charge of creating and developing an accessible and high quality product.

<sup>36</sup> Also, the biggest professional challenge for the marketing staff is when developing a new product, including the determining of premiums, product promotion and keeping the existing and increasing of the number of newly insured persons.

finance and economy sector, the citizens reluctantly decide to enter into long-term life insurance contracts. Living standards and economic growth of Serbia have a direct impact on life insurance development.

Despite the fact that life insurance market in Serbia does not seem to have good prospects, it belongs to the markets with high potentials and thus, provided that the favourable conditions are created, a future growth of life insurance segment can be expected. A long-term character of life insurance requires a stable currency and favourable inflationary conditions.

There is a balanced supply of life products on the domestic market. All insurance companies operating on the Serbian market offer appropriate insurance packages to their prospective insureds, as well as similar levels of cover and return on investments. The level of success that insurance companies achieve in the Serbian market depends on the moment when they enter market competition. New relationships and new players on the Serbian insurance market result in new products and new insurance sales methods. Insurance companies should constantly raise awareness of the need for life insurance. Insurance offers should contain different types of covers tailored to include people from all walks of life.

The state and its bodies should put their efforts into raising awareness of the need for life insurance and constantly educate citizens about the meaning of life insurance for an individual.

Traditional life products cannot properly meet the emerging needs of prospective insureds and to that extent, it is necessary to be attuned to the needs and wishes of consumers and keep pace with the times we live in. Insurance companies should actively work on the modernization of their own life products and the development of new ones, so that diverse programmes offered in the Serbian market can meet the needs of each customer. Sales channels should be fully developed and used, whereas new sales methods should be sought to bring insurance companies closer to all categories of insurance service consumers. Good business relationships need to be developed and built with all participants in product distribution.

Once the citizens grasp the fact that there is a good quality and necessary source of savings on offer, the life market in Serbia will change. At present, high unemployment rate and adverse financial situation impede the leap and growth of life sales.

After the economic recovery and development in Serbia, life insurance in Serbia can be expected to grow. Having in mind that economy is a key to success, with its development and growth the citizens will channel part of their money to that kind of saving.

Serbia must have a clear vision of the development of insurance industry and, in particular, of the development of life business. Experience of foreign

insurance companies should be used when introducing new life products, particularly in terms of distribution and sale. However, the dominance of foreign capital on insurance market should not be allowed. An appropriate balance must be achieved to preserve and protect Serbian insurers.

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