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SYMPOSIUM REVIEW

THE SIXTEENTH INTERNATIONAL SYMPOSIUM "NEW CHALLENGES ON INSURANCE MARKET"

The sixteenth International Symposium with the topic "New Challenges on Insurance Market" was held from 17th to 20th May in the hotel "Izvor" in Aranđelovac. The Symposium was organised by the Serbian Actuarial Association and the Faculty of Economics University of Belgrade. The Symposium was supported by representatives of professional actuarial associations of the states that participated in the event, reinsurance and insurance companies, supervisory bodies, associations of insurers, audit companies, faculties, and scientific-research institutes. Dunav Insurance Company, the leader on Serbian insurance market, was the main sponsor of the Symposium this year. The Symposium was opened by welcome speeches of Professor Jelena Kočović, PhD, the president of the Programme Board of the Symposium, Professor Branislav Boričić, PhD, the dean of the Faculty of Economics University of Belgrade, Željko Jović, PhD, the Vice-Governor of the National Bank of Serbia, and Branko Pavlović, the president of the Serbian Actuarial Association. The latest challenges for reinsurers and insurers in the region and the European Union countries were addressed by top experts from the country and abroad.

After the period of crisis, insurers operated under conditions of a modest economic growth, unfavourable investment ambient, regulatory changes, and growing frequency and intensity of catastrophic losses. Such a turbulent macroeconomic ambient, with increased monetary and political uncertainty, marked the beginning of implementation of Solvency II in the European Union. Key novelties introduced by Solvency II were explicit recognition of greater number of risks and

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their interdependence during calculation of capital requirements; fair assessment of insurer's assets and liabilities; high standards in terms of capital adequacy and risk management in insurance; prudential regulation method instead of quantitative limits to insurers' investments, and turning from a rule-based supervision to a principle-based supervision. Effects of such concept are relevant for the countries in the region that are not the EU member states, because of reinsurance activities, presence of insurers belonging to groups of insurances whose owners are from the EU, as well as gradual integration of parts of the *Acquis Communautaire* in local legislation within the accession process. The European insurers have barely completed the first annual reporting cycle in the new regulatory framework, when the new international accounting standard for insurance contracts IFRS 17 has been published, which would mark the beginning of the new era in the field of insurers' accounting practice.

New regulatory and reporting requirements are a challenge for insurers. They can be even more challenging if they are not interconsistent. Plenary session of **Dr. Jelena Kočović**, a full professor at the Faculty of Economics University of Belgrade, was particularly dedicated to non-conformities between Solvency II and IFRS 17, which caused increase of costs for insurers and made evaluation of their performances difficult. Deviations between them have been identified in their respective areas, methods for grouping of insurance contracts, models for assessment of insurance liabilities, acquisition and discounting of future cash flows, profit recognition, treatment of loading for a risk as an element of insurer's technical reserves, and disclosure of information. In order to use their similarities as much as possible it is recommended that insurers create their own reporting systems, which would lead to maximum flexibility. Significance of cooperation between all sectors in an insurance company is emphasized, and particularly between accounting and actuarial activities. Differences between two regimes, on the other hand, present a key factor for future changes to systems and processes.

MA. Matija Šenk, a member of the Management Board of the insurance company "Adriatic Slovenica" from Slovenia, presented the first results of implementation of Solvency II in the EU group. Relatively high value of solvency ratio 228% in the end of 2016 reflected a satisfactory capital adequacy of European insurers. It was noticed that, under conditions of low interest rates, insurance companies had adjusted their investment strategies and business models, by giving priority to less liquid financial instruments, such as stocks not traded on organised market, on one hand, as well as life insurance products with lesser guarantees and unit-linked products, on the other hand. It was also emphasized that within implementation of the second pillar of Solvency II, which refers to risk management and interaction with the supervisor, despite achieved progress, there is a space for further improvements. Slovenian experience showed how important and demanding was the process of preparation of the market for implementation of this complex regulatory framework.

In the context of an investment ambient for insurers, **professor Dr. Đorđe Đukić**, from the Faculty of Economics University of Belgrade, presented possible implications of a divergent monetary policy of the central bank system of the United States of America (FED) and the European Central Bank (ECB). It was expected that FED's interest rates would increase, while ECB's rates would remain unchanged in 2018. Having in mind long-term low government bond yields that would increase pressure on European insurers to invest in riskier forms of assets. A negative effect of high volatility of foreign exchange rate of the US dollar and Euro is envisaged to their investment return. On the other hand, in countries that are not members of the EU, such as Serbia, relatively high government bond yields would have an opposite effect on investment performances of insurers.

In addition to IFRS 17, an additional challenge for insurance companies starting from 2021 would be a new international financial reporting standard dealing with impairment of financial instruments IFRS 9. **Dr. Miloš Božović**, from the Faculty of Economics University of Belgrade, presented problems in implementation of that standard in the area of classification of financial instruments and calculation of impairment, as well as any possible methods for overcoming such problems.

Dr. Dragica Janković, a member of the Executive Board of Dunav Insurance Company spoke of modern trends on Serbian insurance market, and presented the most important indicators and problems on this market. She also stressed the importance of preparation of Serbian market for introduction of regulatory framework Solvency II and IFRS 17 and emphasised that that process, in addition to insurance companies, must include all other relevant institutions so that they together could implement them more efficiently.

Dragan Filipović, the president of the Executive Board of Generali Osiguranje Srbija, presented modern global trends in insurance, with an overview of insurance development in Serbia. It was pointed out that the motor third-party liability insurance was continuously dominant in the national market, while life insurance with the premium of only 26 Euros per capita was not developed. Private health insurance was concentrated in several bigger cities in Serbia, and household insurance lacked sale channels, although growth is expected on digital platforms. In spite of importance of agriculture for the national economy, currently only 10% of fertile land is insured, and the great potential, according to the EU experience, lies in insurance of small and medium enterprises, which still has not been established here. **Boško Petrović**, the General Manager of Generali Reinsurance Srbija, and **Branko Pavlović**, a member of the Executive Board of that insurer and the President of the Serbian Actuarial Association, gave an overview of modern life and non-life insurance products in Europe that served as an introduction for participants of the Symposium to get acquainted with numerous options for implementation of blockchain technology in insurance.

Professor Dr. Željko Šain, from the Faculty of Economics University of Belgrade and **Dr. Edin Taso**, a representative of the Insurance Supervisory Agency of the Federation of Bosnia and Herzegovina, analysed new challenges on insurance market in the Federation of Bosnia and Herzegovina. They identified many obstacles for implementation of Solvency II in the Federation of Bosnia and Herzegovina, even if it became a full member of the EU. Obstacles include limited economic power, organisational and financial fragmentation of local insurers, division of the insurance market in the Federation of Bosnia and Herzegovina, inadequate information and software support in insurance and reinsurance management, and inadequate measures for organisation of a mass education of staff on Solvency II. **MA. Biljana Pantović**, the director of the Insurance Supervision Agency of Montenegro, presented modern trends and challenges on Montenegrin insurance market. Emphasis was put on forthcoming harmonisation of local legislation and bylaws with requirements of Solvency II.

In the block dedicated to catastrophic risks as a growing threat, but also as a challenge for an insurance market, **MA. Raduška Cupać**, as a representative of UNDP, proposed a schema of insurance in relation to flood risks, which included index and classical mandatory and voluntary insurance of crops and fruits, and residential structures. Results of the project for reduction of flood risks in the Federation of Bosnia and Herzegovina were shown, including hydrological and hydraulic models based on which maps of hazards and adequate insurance tariffs were made. Determination of insurance premium for catastrophic risks required complex, actuarially founded methods, and professional knowledge of multidisciplinary teams. **Dr. Jelena Doga-njić**, a representative of Europa Re, focused on probabilistic models for assessment of catastrophic risks, which rely on statistical distributions that approximate flow of losses, as well as specialised software packages. Special importance was given to the loading for security as an element of premium for insurance of catastrophic risks, and methods of its calculation were explained. Growing exposure to catastrophic risks leads to a growing importance of reinsurance. Although it is the most important instrument of risk management for insurers, reinsurance is a source of a credit risk. **Zorana Pejčić**, the President of the Executive Board of Dunav Re, presented a methodology for evaluation of ratings of reinsurance companies. Key dimensions of reinsurers' ratings were analysed, starting with capital adequacy, through organisational structure, corporate management, strategy of preservation and growth of capital, risk assumption, losses and provisions, to investments and legal framework.

Professor Dr. Valeriy Baskakov, the director of the International Actuarial Advisory Company (IAAC) from Moscow, explained a new open bonus-malus model on Russian insurance market. Since it acknowledges demographic factors that model enables a timely balance in the bonus-malus system, which presents a significant improvement compared to the classical model used in practice. When it comes to

MTPL insurance market in Serbia, new challenges for insurers came from the changes of the Law on road traffic safety from 2018, which were presented by **Dr. Andrija Vujičić**, the director of Dunav Auto. The stated legal changes made an important step towards regulation of motor inspection points as prevailing channels for sale of MTPL policies. However, it was not realistic to expect any significant reduction of insurer’s acquisition costs due to increase of costs on motor inspection points after their adjustment to new requirements prescribed by a regulatory body.

Quality of plenary sessions and the highest marks given to the Symposium by its participants once again confirmed that science and profession together make an inevitable assumption of development of an insurance market and improvement of actuarial science. Certain conclusions of the 16th International Symposium emphasised that overcoming of detected deficiencies of Solvency II, preparation for implementation of new IFRS, use of similarities and reconciliation of differences between regulatory requirements and requirements of financial reporting were the most important challenges that must be given special attention in the following period so that insurers could conform their business operations with them.

*Translated from Serbian by: **Jelena Rajković***