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## **INSURANCE INDUSTRY IN THE REPUBLIC OF SERBIA - RESULTS FOR 2014**

This paper analyses the results achieved in the insurance industry as a whole, based on annual financial statements submitted to the National Bank of Serbia by insurance companies. It contains the portfolio structure, efficiency in adjustment and payment of claims, and profit or loss data. Due to the specific features of insurance business, the additional indicators are also analysed and they include ratios and technical result. Business indicators are shown per insurance lines, except for profit, i.e. loss.

Aim of this paper is analysis, overview and assessment of how successful this industry is as a whole, but also to enable comparable analysis of achieved results according to insurance lines of each insurance company individually, in relation to totally achieved results of all insurance companies in the country.

**Key words:** *premium, claims, technical result, ratios, profit, loss.*

### **1. Introduction**

Until 90s of the last century, insurance market in the Republic of Serbia was characterised by medium development. It was included into European and

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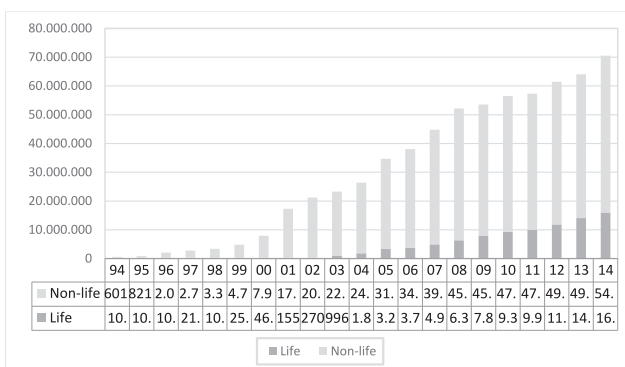
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global reinsurance market, which significantly contributed to a satisfactory level of international standards. Solid economic development, engagement in international division of labour and standard of citizens presented a favourable basis for increase and expansion of insurance industry. Legal framework directed emphasized influence of science and insurance. In that period there were five insurance companies and one reinsurance company operating in Serbia.

In the beginning of 90s, low start-up capital and very limited supervision and control of insurance industry enabled incorporation of a great number of insurance companies, which were mostly weak in financial terms and regarding human potential that in the long run led to a significant deterioration of the entire industry. A very difficult economic situation, increasing inflation and long economic sanctions contributed to it. Number of insurance companies rapidly increased in that period, in the end of 1996 there were 82 companies, out of which 79 were insurance companies and three reinsurance companies.

Gradual organisation of the insurance market began by passing the Law on Property and Personal Insurance in 1996. It was continued by passing the Insurance Law in 2004, the Law on Compulsory Traffic Insurance in 2009, and finally was completed by passing a new insurance law at the end of 2014, which became effective on 26<sup>th</sup> June 2015. This process is still on-going until admission of Serbia in the World Trade Organisation (WTO) and in the European Union (EU), when the remaining, above all European standards defined by these regulations, shall finally apply, but with delayed application terms. Based on data supplied by the Association of Serbian Insurers (hereinafter referred to as Association or ASI) and the National Bank of Serbia (hereinafter referred to as the NBS) in charts 1 and 2 you can see trends of gross insurance premium in thousand dinars and in Euros.

**Graph 1: Gross insurance premium in Serbia 1994–2014 in 000 RSD**

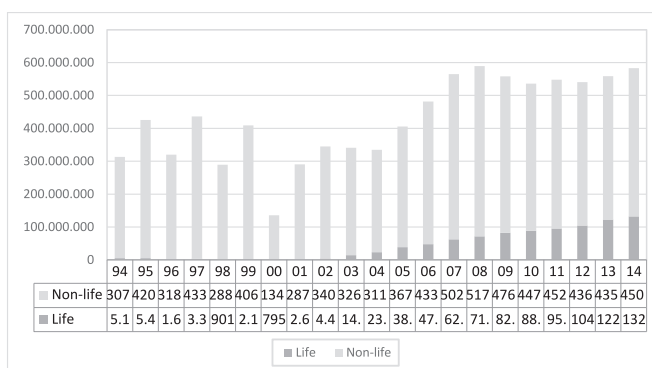


Source: ASI and NBS

Calculated in dinars, gross insurance premium records dynamic growth. In 2014 it reached 70 billion dinars (16 for life and 54 billion dinars for non-life insurance), compared to 611 million dinars in 1994 (10 for life and 601 million dinars for non-life insurance).

Due to frequent changes in exchange rates, trends of the gross premium level in Euros are noticeably different, with greater oscillations in the first years of observation.<sup>2</sup>

**Graph 2: Gross insurance premium in Serbia 1994–2014 in Euros**



Source: ASI and NBS

Premium increase in Euros was slower. In the end of 2014 premium was 582 million Euros (132 for life and 450 million for non-life insurance), compared to 312.1 million Euros in 1994 (5.1 for life and 307 million for non-life insurance).

In terms of insurance lines and gross premium level, the insurance industry gradually stabilised, with continuous increase of life assurance lines and constant dominant share of non-life insurance lines with very high share of motor insurance and other non-life insurance lines connected to motor insurance.

In spite of gradual local and global economic revival, in Serbia in 2014 gross domestic product (hereinafter referred to as GDP) dropped by 1.8 percent in relation to growth of 2.6 percent in 2013 and fall by 1 percent in 2012 (Statistical Office of the Republic of Serbia, 2015). Owing to reduction in inflation, slight increase of employment and increase in motor third-party liability insurance (hereinafter referred to as MTPL), the scope of property and

<sup>2</sup> Calculated in Euros at the mean exchange rate of the NBS at the end of each year, and until 2000 by the following formulae: 1 €=1,95583 DM.

personal insurance in recorded positive effects, but faster development is still limited mostly due to impoverished economy, slow growth of GDP and life standard of citizens.

Consumer price index grew from 1.7 percent compared to 2.2 percent in 2013 and 12.2 percent in 2012. Average income was 379.3 Euros compared to 388.6 Euros in 2013 and 364.5 Euros in 2012. According to survey on work force the number of unemployed decreased to 18.9 percent from 22.1 in 2013 and 23.9 percent in 2012 (the National Bank of Serbia, 2015).

More significant factors influencing insurance industry in 2014 include new laws regulating insurance industry:

1. In the end of 2014 the new insurance law was adopted, which came into force on 26<sup>th</sup> June 2015;<sup>3</sup>
2. The Government issued the Decree on the Minimum Sum Insured in Motor Third Party Liability Insurance, which from 13<sup>th</sup> October 2014 initiated application of limits prescribed by the Law on Compulsory Traffic Insurance from 2009;<sup>4</sup>
3. The National Bank of Serbia passed a new Decision on the Chart of Accounts and Content of Accounts in the Chart of Accounts for Insurance Companies;<sup>5</sup>
4. The National Bank of Serbia passed a new Decision on the Content and Layout of Financial Statement Forms for Insurance Companies;<sup>6</sup>
5. The National Bank of Serbia passed the Decision on the Layout and Content of Statistical Report for Insurance Companies.<sup>7</sup>

Notes:

1. The comparative annual data on insurance premium, settled claims and claim reservation, and profit and loss, are given in Euro value at the NBS mean exchange rate as at each year end (2014=120,9583; 2013=114,6421; 2012=113,7183), and for the data contained in the tables including the comments thereon, according to the exchange rate stated in each table.

2. Data on business operations of Takovo Insurance j.s.c. from Kragujevac, for period from 1<sup>st</sup> January until 31<sup>st</sup> July 2014 before commencement of bankruptcy proceeding, were provided by the Deposit Insurance Agency that is in charge of bankruptcy proceeding. Those data were added to data from other insurance companies, which ran its business operations throughout entire 2014 with the mark of sources beneath every table in which data were included.

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3 *The Official Gazette of the RS, No. 139/2014.*

4 *The Official Gazette of the RS, No. 108/2014.*

5 *The Official Gazette of the RS, No. 135/2014.*

6 *Ibidem*

7 *Ibidem*

## **2. Participants on Insurance Market**

Insurance operations were performed by 26 shareholding companies – 22 insurance companies and four reinsurance companies until 31<sup>st</sup> July 2014. Since 31<sup>st</sup> July 2014 operating licence was revoked for Takovo Insurance j.s.c. from Kragujevac and regular bankruptcy proceeding was initiated,<sup>8</sup> so in the end of the year there were 25 companies, out of which 21 insurance companies and four reinsurance companies. The part of this paper, concerning the number of insurance companies, shows status at the end of 2014, when there were three companies less than in 2013.

The non-life business was performed by nine companies, life business by six companies, while both life and non-life business was carried on by six insurance companies (composite entities).

According to the ownership structure, 19 shareholding companies are owned by foreign shareholders. Six companies are owned by local owners and in two of them the state is the majority owner.

There were 11.287 employees in insurance and reinsurance operations, compared to 11.327 employees in 2013 and 11.376 in 2012. Apart from persons employed in insurance companies, the insurance operations were performed by other participants on the market, among which 19 banks, the same as in the previous year, 95 legal entities (companies engaging in brokerage, agency and other insurance operations). In 2013 there were 87, and 84 in 2012. There were 111 persons engaged in insurance agency (natural persons entrepreneurs) compared to 112 in 2013 and 105 in 2012, and 15.287 natural persons engaged in insurance agency, or insurance brokerage compared to 14.457 in 2013 and 14.023 in 2012. Apart from companies and other participants on the market, sale of MTPL is performed by legal entities that pursuant to road traffic safety regulations perform technical inspection of motor vehicles (Law on Compulsory Traffic Insurance, 2009, Article 44).

## **3. Insurance Premium**

Increase of national and international business risks, insufficiently developed insurance market and fall of economic activities in 2014 did not significantly affect, in a negative manner, the level of total gross premium, portfolio structure and other insurance industry indicators as a whole.

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<sup>8</sup> Commercial Court in Kragujevac, decision No. 1.L.1/2014. dated 31<sup>st</sup> July 2014.

**Table 1: Gross premium in Euro according to the NBS mean exchange rate as at 31<sup>st</sup> December 2013 and 2014**

Code	Insurance line	Gross premium in EUR		% of share		Index
		2013	2014	2013	2014	14/13
01	Accident insurance	35.319.076	33.913.415	6,3	5,8	96,0
02	Voluntary health insurance	10.102.039	10.970.773	1,8	1,9	108,6
03	Motor vehicle insurance	56.086.612	50.242.927	10,0	8,6	89,6
04	Railway rolling stock insurance	820.623	1.250.770	0,1	0,2	152,4
05	Aircraft insurance	824.575	942.052	0,1	0,2	114,2
06	Vessels insurance	877.688	686.964	0,2	0,1	78,3
07	Goods-in-transit insurance	6.443.122	5.163.457	1,2	0,9	80,1
08	Property insurance against fire and other perils	37.949.540	36.123.300	6,8	6,2	95,2
09	Other property insurance	82.949.126	81.183.152	14,8	13,9	97,9
10	MTPL	170.736.989	195.696.955	30,6	33,6	114,6
11	Aircraft liability insurance	2.026.010	840.513	0,4	0,1	41,5
12	Vessels liability insurance	120.444	119.132	0,0	0,0	98,9
13	General liability insurance	10.728.912	10.664.890	1,9	1,8	99,4
14	Credit insurance	1.696.785	2.811.514	0,3	0,5	165,7
15	Warranty insurance	704.244	493.864	0,1	0,1	70,1
16	Financial losses insurance	6.114.726	5.991.660	1,1	1,0	98,0
17	Legal expenses insurance	67.637	51.472	0,0	0,0	76,1
18	Road assistance insurance	12.354.702	13.571.876	2,2	2,3	109,9
19	Other non-life insurance lines	8.199	8.639	0,0	0,0	105,4
<b>I</b>	<b>NON-LIFE INSURANCE (1–19)</b>	<b>435.931.050</b>	<b>450.727.325</b>	<b>78,0</b>	<b>77,3</b>	<b>103,4</b>
20	Life assurance	108.382.837	116.801.427	19,4	20,0	107,8
21	Annuity insurance	4.599.663	4.767.593	0,8	0,8	103,7
22.01	Supplementary accident insurance along with life assurance	8.145.263	8.328.482	1,5	1,4	102,2
22.02	Supplementary health insurance along with life assurance	608.136	842.695	0,1	0,1	138,6
22	Supplementary insurance along with life assurance	8.753.399	9.171.177	1,6	1,6	104,8
23	Voluntary retirement insurance	0	0	0,0	0,0	#DIV/0!
24	Other life assurance lines	954.265	1.578.742	0,2	0,3	165,4
<b>II</b>	<b>LIFE ASSURANCE (20–24)</b>	<b>122.690.164</b>	<b>132.318.940</b>	<b>22,0</b>	<b>22,7</b>	<b>107,8</b>
<b>III</b>	<b>TOTAL (I+II)</b>	<b>558.621.213</b>	<b>583.046.265</b>	<b>100,0</b>	<b>100,0</b>	<b>104,4</b>

Source: National Bank of Serbia and Deposit Insurance Agency for "Takovo Insurance" in liquidation.

*Gross insurance premium* amounts to 583 million EUR, compared to 558.6 in 2013 and 540.5 million EUR in 2012. It is higher by 24.4 million EUR, i.e. 4.4 percent compared to its increase by 18.1 million EUR, i.e. 3.4 percent in 2013 and decrease by 7.2 million EUR, i.e. 1.3 percent that was recorded in 2012.<sup>9</sup>

Owing to increase of MTPL insurance premium by 25 million EUR or 14.6 percent (since 1<sup>st</sup> July 2014), and despite fall of premium of motor-hull insurance, long fall of motor vehicle insurance premium was stopped. In 2014, premium was 246.4 million EUR, i.e. 42.2 percent compared to 226.8 million EUR or 40.6 percent in 2013, and 230.9 million EUR or 42.7 percent in 2012 out of total insurance premium.

Viewed per insurance lines, the highest share of total premium of all life and non-life insurance was recorded by MTPL – 33.6 percent, compared to 30.6 percent in 2013 and 31.8 percent in 2012.<sup>10</sup> Life assurance is in the second position with 20 percent compared to 19.4 percent in 2013 and 16.8 percent (2012), other property insurances with 13.9 percent compared to 14.8 percent in 2013 and 14.5 percent (2012), motor-hull insurance with 8.6 percent compared to 10 percent in 2013 and 11.3 percent (2012), property insurance against fire with 6.2 percent compared to 6.8 percent in 2013 and 7.7 percent in 2012, and accident insurance with 5.8 percent compared to 6.3 percent in 2013 and 6.4 percent (2012). All other non-life insurance lines recorded the share of 9.2 percent compared to 9.5 percent in 2013 and 9.4 percent in 2012, and all other life assurance lines accounted for 2.7 percent compared to 2.6 percent in 2013 and 2.5 percent in 2012.

*Non-life insurance premium* amounts to 450.7 million EUR compared to 435.9 in 2013 and 436.2 million EUR in 2012. It is higher by 14.8 million EUR, i.e. 3.4 percent considering the decrease recorded in the previous two years that amounted to 0.3 million EUR, i.e. 0.1 percent in 2013 and 16 million EUR, i.e. 3.5 percent in 2012. Increase of life assurance premium and drop of some non-life insurance premiums leads to gradual drop in non-life insurance premiums in total gross premium, from 82.6 percent in 2011 over 80 percent in 2012 and 78 percent in 2013 to 77.3 percent in 2014. The largest share of premium belongs to motor vehicle insurance – 54.6 percent (11.2 percent of motor-hull insurance and 43.4 percent of MTPL) compared to 52 percent (12.8 of percent motor-hull insurance i 39.2 percent of MTPL) in 2013 and 52.9 percent (13.9 percent of

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<sup>9</sup> Calculated in dinars, total gross premium increased by 10.1 percent as a result of growth of life assurance premium by 13.8 percent and non-life insurance premium by 9.1 percent, compared to 4.2 percent in 2013 (18.6 percent for life, 0.7 percent for non-life), i.e. 7.2 percent in 2012 (18.6 percent for life and 4.8 percent for non-life).

<sup>10</sup> In 2011, the share amounted to 32.6 percent, in 2010 it was 33.3 percent, and in 2009 it was 39.9 percent.

motor-hull insurance and 39 percent of MTPL) in 2012.<sup>11</sup> The second position with 18 percent compared to 19 percent in 2013 and 18 percent in 2012 is held by other property insurances with 8 percent compared to 8.7 percent in 2013 and 9.5 percent in 2012. The next is property insurance against fire and other perils with 7.5 percent compared to 8.1 percent in 2013 and 7.9 percent in 2012; personal accident insurance, which together with motor vehicle insurance amounts to 397.2 million EUR or 88.1 percent, compared to 383 million EUR or 87.8 percent in 2013, and 385.5 million EUR or 88.4 percent in 2012 out of total premium from all non-life insurance lines. Similar to the previous two years, very small amount of premium was recorded for compulsory vessels liability insurance, legal expenses insurance and other non-life insurance lines.

Compared to the previous year the growth of premium was achieved for seven insurance lines compared to ten in 2013 and thirteen insurance lines in 2012, and fall with twelve insurance lines compared to nine in 2013 and six insurance lines in 2012. Growth of over ten percent was recorded by four insurance lines, 65.7 percent for credit insurance, 52.4 percent for rolling stock insurance, 14.6 percent for MTPL and 14.2 percent for aircraft insurance, compared to three insurance lines in 2013, 114.6 percent for credit insurance, 34.4 percent for financial losses insurance and 12.4 percent for road assistance insurance and two insurance lines in 2012, 233.7 percent for financial losses insurance and 44.5 percent for aircraft liability insurance. Fall of over ten percent was recorded by six insurance lines, 58.5 percent for aircraft liability insurance, 29.9 percent for warranty insurance, 23.9 percent for legal expenses insurance, 21.7 percent for vessels insurance, 19.9 percent for goods-in transit insurance and 10.4 percent for motor-hull insurance, compared to five insurance lines in 2013, 43.4 percent for aircraft liability insurance, 37.4 percent for other non-life insurance lines, 37 percent for rolling stock insurance, 29.3 percent for aircraft insurance and 18.6 percent for legal expenses insurance and for five insurance lines in 2012, 16.8 percent for rolling stock insurance, 15.1 percent for credit insurance, 14.3 percent for vessels insurance, 13.5 percent for other non-life insurance lines and 11.2 percent for motor-hull insurance.

*Life assurance premium* amounts to 132.3 compared to 122.7 in 2013 and 104.3 million EUR in 2012. It increased by 9.6 million EUR, i.e. 7.8 percent, compared to 18.4 million EUR, i.e. 17.7 percent in 2013 and 8.8 million EUR, i.e. 9.2 percent in 2012. The largest share – 116.8 compared to 108.4 in 2013 and 90.6 million EUR in 2012 relates to life assurance, which makes 88.3 percent, as in 2013 compared to 86.9 percent in 2012 out of total life assurance premium.

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<sup>11</sup> In 2009, gross motor insurance premium amounted to 269.2 million EUR or 56.5 percent, in 2010 it was 250.5 million EUR or 56 percent, and in 2011 it was 247.4 million EUR or 54.7 percent from gross premium of all non-life insurance lines.



Supplementary insurance along with life insurance recorded 6.9 percent compared to 7.1 percent in 2013 and 7.8 percent in 2012, annuity insurance 3.6 percent compared to 3.7 percent in 2013 and 4.5 percent in 2012, and other insurance lines recorded 1.2 percent compared to 0.8 percent in 2013 and 0.7 percent in 2012.

*Total gross premium* (earned premium) in 2014 amounted to 550.9 million EUR compared to 554.2 in 2013 and 533.6 million EUR in 2012, and per capita 77 EUR, compared to 78 in 2013 and 75 EUR in 2012. Premium share in estimated GDP for 2014 amounted to 1.8 percent, as in previous two years.<sup>12</sup>

#### **4. Allocation of Gross Insurance Premium**

*Gross insurance premium* contains expense loading, which serves to cover administrative costs, and functional premium which consists of loss prevention funds used for taking measures aimed at prevention and minimisation of risks that harm persons, property and technical premium, which serves to cover claims according to concluded insurance contract and other liabilities connected to claims.

*Expense loading* in 2014 amounted to 121.1 million EUR or 20.8 percent out of gross premium, compared to 118.3 million EUR or 21.2 percent in 2013 and 114.5 million EUR, or 21.2 percent out of gross premium in 2012. In non-life insurance lines 98 million EUR or 21.7 percent was allocated compared to 97.1 million EUR or 22.3 percent in 2013 and 96 million EUR or 21.2 percent in 2012. In the last three years the highest percentage of expense loading was allocated for road assistance insurance, 41.9 percent in 2014 compared to 42.2 percent in 2013 and 42.6 percent in 2012. The second position with 33.9 percent is held by financial losses insurance compared to 37.1 percent in 2013 with the same insurance line and 35.2 percent in 2012 with credit insurance. The lowest percentage of expense loading was allocated for aircraft insurance – 4.7 percent compared to 1.8 percent in 2013 and 0.4 percent in 2012 with aircraft liability insurance. In life assurance lines 23.1 million EUR or 17.5 percent was allocated compared to 21.2 or 17.3 percent in 2013 and 18.6 million EUR or 17.8 percent in 2012. The highest percentage – 20 percent – was allocated for annuity insurance compared to 19.1 percent, which was allocated in 2013 and 2012 for supplementary accident insurance along with life assurance, and the lowest percentage – 7.3 percent – for other life assurance lines compared to 7.2 percent in 2013 and 7.5 percent in 2012 for other life assurance lines.

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<sup>12</sup> According to estimate on population number and GDP by the Statistical Office of the Republic of Serbia for 2014.

*Loss prevention funds* are deducted only from non-life insurance premium at the amount of 6.4 million EUR or at average rate of 1.4 percent compared to 6.5 or 1.5 percent in 2013 and 6.9 million EUR or 1.6 percent in 2012. The maximum – 2 percent of loss prevention funds – has been allocated for MTPL, the same as in the last two years, and minimum – 0.1 percent – for aircraft insurance and financial losses insurance, compared to the same amount in 2013 and 2012 for aircraft insurance. Loss prevention funds were not allocated only for legal expenses insurance, the same as in the last two years for aircraft insurance and legal expenses insurance. The largest share of prevention funds –87.3 percent compared to 87.5 percent in 2013 and 87.4 percent in 2012, refers to motor-hull insurance, property insurance against fire and other perils, and other property and MTPL insurance lines.

*Technical insurance premium* (gross premium reduced by expense loading and preventive loading) amounts to 455.6 million EUR or 78.1 percent, compared to 433.9 million EUR or 77.7 percent in 2013 and 419.1 million EUR or 77.5 percent in 2012.<sup>13</sup> Larger share of technical premium is 76 percent compared to 76.6 percent and 80.7 percent refers to non-life insurance, and 24 percent compared to 23.4 percent in 2013 and 19.3 percent in 2012 to life assurance. Since the bigger share of premium is used for administrative costs than for calculated expense loading, the real technical premium (gross premium reduced by administrative costs and loss prevention loading) amounts to 368.3 million EUR, compared to 331.8 in 2013 and 308.9 million EUR in 2012.

## **5. Efficiency in Adjustment and Payment of Claims**

Adjustment and payment of claims represent one of the most important indicators of insurance company operations and insurance industry as a whole. They are shown by the number of submitted claims (SC), number of cancelled and repudiated claims (hereinafter referred to as Can and Rep), number and amount of settled claims and number and amount of outstanding reported claims (ORC), and the part of this paper regarding amount of outstanding unreported claims is marked with OUC.

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<sup>13</sup> In 2009, 2010 and 2011, technical premium amounted to 73.2 percent, i.e. 74.1 percent and 77.7 percent of gross premium.

## **Insurance Industry in the Republic of Serbia in 2014**

**Table 2: Reported, settled, outstanding reported claims and average of settled and outstanding reported claims in EUR at the mean exchange rate of the NBS as at 31<sup>st</sup> December 2014**

Code	Insurance line	ORC 2013	Number of claims 2014				Average in EUR	
			SC	Can and Rep	SC	ORC	SC*	ORC
01	Accident insurance	2.158	80.642	14.458	66.041	2.301	323	735
02	Voluntary health insurance	1.062	107.479	5.855	101.025	1.661	82	96
03	Motor vehicle insurance	7.721	66.558	6.268	60.255	7.756	690	754
04	Rolling stock insurance	29	212	106	114	21	1.925	7.771
05	Aircraft insurance	3	8	5	2	4	21.693	89.802
06	Vessels insurance	28	102	31	78	21	5.753	3.588
07	Goods-in-transit insurance	65	764	94	693	42	2.137	10.348
08	Property, fire and other perils	390	13.134	3.772	9.074	678	2.293	20.701
09	Other property insurances	1.422	74.481	11.357	62.712	1.834	589	11.002
10	Motor liability insurance	12.872	54.236	6.422	49.157	11.529	1.473	5.327
11	Aircraft liability insurance	1	3	4	0	0	0	0
12	Vessels liability insurance	0	2	1	0	1	0	0
13	General liability insurance	1.136	6.779	1.594	5.272	1.049	527	2.634
14	Credit insurance	67	695	106	486	170	1.138	940
15	Warranty insurance	373	870	95	739	409	269	333
16	Financial losses insurance	35	1.486	478	994	49	551	15.265
17	Legal expenses insurance	3	0	0	0	3	0	1.634
18	Road assistance insurance	1.252	37.763	3.070	34.309	1.636	156	568
19	Other non-life insurance	0	2	0	2	0	211	0
I	NON-LIFE (1 TO 19)	28.617	445.216	53.716	390.953	29.164	545	3.741
20	Life insurance	1.633	31.788	639	31.845	937	1.076	1.874
21	Annuity insurance	2	1.410	1	1.409	2	1.491	446
22	Supplementary insurance along with life assurance	636	5.813	2.235	3.614	600	584	1.302
23	Voluntary retirement insurance	0	0	0	0	0	0	0
24	Other life assurance lines	0	862	2	860	0	745	0
II	LIFE (20 do 24)	2.271	39.873	2.877	37.728	1.539	1.037	1.649
III	TOTAL (I+II)	30.888	485.089	56.593	428.681	30.703	588	3.636

\* The number of repudiated and cancelled claims has not been included in the calculation of average settled claims.

Source: National Bank of Serbia and Deposit Insurance Agency for "Takovo Insurance" in liquidation.

In comparison with the previous year, growth of all claim categories was recorded, except for very slight fall of the number of outstanding reported claims in the end of 2014. The number of submitted claims increased by 6.3 percent compared to increase by 7.4 percent in 2013 and 3.4 percent in 2012. Cancelled and repudiated claims increased by 4.7 percent compared to increase by 2.2 percent in 2013 and in 10.8 percent in 2012, and settled claims increased by 6.5 percent compared to 7.3 percent in 2013 and 3.3 percent in 2012. In the end of 2014 slight reduction in number of outstanding reported claims by 0.6 percent was recorded, compared to the fall of 1.3 percent in 2013 and 9.1 percent in 2012.

The biggest number of claims, 485.089 compared to 456.350 in 2013 and 424.881 in 2012, i.e. 91.8 percent compared to 91.9 percent in 2013 and 93.1 percent in 2012 – referred to non-life insurance, and 8.2 percent compared to 8.1 percent in 2013 and 6.9 percent in 2012 referred to life assurance. Out of 56.593 cancelled and repudiated claims, compared to 54.059 in 2013 and 47.709 in 2012, 95 percent were non-life insurance lines, compared to 94.8 percent in 2013 and 96 percent in 2012, and 5 percent of life assurance lines compared to 5.2 percent in 2013 and 4 percent in 2012.

Out of 445.216 non-life claims, compared to 419.225 in 2013 and 395.602 in 2012, 24.1 percent compared to 19.2 in 2013 and 16.2 percent in 2012, referred to voluntary health insurance, 18.1 percent compared to 19, i.e. 20.3 percent for accident, 16.7 percent compared to 18.2, i.e. 17,8 percent for other property insurance, 14.9 percent compared to 16.8, i.e. 18.2 percent for motor-hull insurance, 12.2 percent compared to 13.7, i.e. 14.3 percent for MTPL and 8,5 percent compared to 9, i.e. 8,4 percent in 2012 for road assistance. The sum of those six insurance lines makes 94.5 percent compared to 95.9 in 2013 and 95.2 percent in 2012 out of total number of claims for all non-life insurance lines.

Out of 39.873 life assurance claims, compared to 37.125 in 2013 and 29.279 in 2012, 79.7 percent compared to 79.7 in 2013 and 77.6 percent in 2012, referred to life assurance, 14.6 percent compared to the same percentage in 2013 and 17.9 percent in 2012 for supplementary insurance along with life assurance, 3.5 percent compared to 3.7, i.e. 3.1 percent for annuity insurance and 2.2 percent compared to 1.9 percent in 2013 and 1.4 percent in 2012 for all other life assurance lines.

In 2014 there were 515.977 claims for all non-life and life insurance lines that were in the process of adjustment (487.641 in 2013 and 459.314 in 2012). The number of adjusted claims was 485.274 or 94 percent compared to 456.751 or 93.7 percent in 2013 and 428.023 claims or 93.2 percent in 2012. The number of settled claims was 428.681 or 83.1 percent compared to 402.692 or 88.2 percent in 2013 and 375.148 claims or 87.6 percent in 2012.

Out of total number of settled claims, 91.2 percent refers to non-life claims, and 8.8 percent refers to life claims, compared to 91.7, i.e. 6.3 percent in 2013 and 93.8, i.e. 6.2 percent in 2012. The number of cancelled and repudiated claims was 56.593 or 11 percent compared to 54.059 or 11.8 percent in 2013 and 52.875 claims or 12.4 percent in 2012.

Out of total number of cancelled and repudiated non-life claims, the biggest number – 26.9 percent was recorded with accident insurance, 21.1 percent for other property insurance, 12 percent for MTPL, 11.7 percent for motor-hull insurance and 10.9 percent for voluntary health insurance. For life assurance, 77.7 percent of claims referred to supplementary insurance along with life assurance, 22.2 percent for life assurance and 0.1 percent for all other life assurance lines.

*Number of outstanding reported claims* in the end of 2014 slightly decreased to 30.703, which makes 6 percent out of total number of claims in the adjustment process with 30.890 or 6.3 percent in 2013 and 31.291 claims or 6.8 percent, which was reserved in the end of 2012. Significantly bigger number, 95 percent of claims refers to non-life, compared to 92.6 percent in 2013 and 96 percent in 2012, and 5 percent refers to life assurance, which is less compared to 7.4 percent in 2013, and slightly higher than 4 percent, which was recorded in 2012. According to the number of outstanding non-life claims, the first position is held by MTPL with 39.5 percent compared to 45 percent in 2013 and 46.2 percent in 2012; the second position is held by motor-hull insurance with 26.6 percent compared to 27 percent in 2013 and 27.7 percent in 2012, and the third position is held by accident insurance with 7.9 percent compared to 7.5 percent in 2013 and 8 percent in 2012. For life assurance lines, 60.9 percent belongs to life assurance compared to 71.8 percent in 2013 and 43.7 percent in 2012, and 39 percent belongs to supplementary insurance along with life assurance compared to 28.1 percent in 2013 and 55.3 percent in 2012.

**Table 3: Settled claims in EUR at the mean exchange rate of the NBS as at 31<sup>st</sup> December 2013 and 2014**

Code	Insurance line	2013			2014		
		Amount	%	Index*	Amount	%	Index*
01	Accident insurance	22.412.438	10,3	105,8	21.323.043	10,0	95,1
02	Voluntary health insurance	7.221.065	3,3	122,8	8.329.375	3,9	115,3
03	Motor vehicle insurance	42.103.285	19,4	98,1	41.594.583	19,5	98,8
04	Rolling stock insurance	183.850	0,1	69,8	219.464	0,1	119,4
05	Aircraft insurance	344.612	0,2	2029,4	43.387	0,0	12,6

## Articles, Discussions, Analyses, Reviews

Code	Insurance line	2013			2014		
		Amount	%	Index*	Amount	%	Index*
06	Vessels insurance	462.413	0,2	149,2	448.741	0,2	97,0
07	Goods-in-transit insurance	1.785.758	0,8	67,9	1.480.791	0,7	82,9
08	Property, fire and other perils	15.818.081	7,3	99,8	20.810.428	9,8	131,6
09	Other property insurances	38.060.058	17,5	119,4	36.956.182	17,3	97,1
10	Motor liability insurance	78.956.518	36,3	99,3	72.401.208	34,0	91,7
11	Aircraft liability insurance	0	0,0	0,0	0	0,0	0,0
12	Vessels liability insurance	18.998	0,0	1543,2	17	0,0	0,1
13	General liability insurance	3.303.551	1,5	129,6	2.780.892	1,3	84,2
14	Credit insurance	512.264	0,2	36,1	553.108	0,3	108,0
15	Warranty insurance	222.902	0,1	164,2	198.986	0,1	89,3
16	Financial losses insurance	394.715	0,2	439,4	547.974	0,3	138,8
17	Legal expenses insurance	2.189	0,0	469,8	2.224	0,0	101,6
18	Road assistance insurance	5.619.751	2,6	110,5	5.358.425	2,5	95,3
19	Other non-life insurance	270	0,0	139,8	422	0,0	155,9
I	NON-LIFE (I TO 19)	217.422.718	100,0	103,6	213.049.249	100,0	98,0
20	Life insurance	28.505.924	86,1	118,3	34.280.665	87,6	120,3
21	Annuity insurance	1.933.182	5,8	152,6	2.100.898	5,4	108,7
22	Supplementary insurance along with life assurance	2.134.704	6,4	93,4	2.111.579	5,4	98,9
23	Voluntary retirement insurance	0	0,0	0,0	0	0,0	0,0
24	Other life assurance lines	549.606	1,7	157,4	640.353	1,6	116,5
II	LIFE (20 do 24)	33.123.416	100,0	118,3	39.133.495	100,0	118,1
III	TOTAL (I+II)	250.546.134	100,0	105,4	252.182.744	100,0	100,7

\* Previous year = 100.

Source: National Bank of Serbia and Deposit Insurance Agency for "Takovo Insurance" in liquidation.

Settled claims with costs amount to 252.2 million EUR compared to 250.5 million in 2013 and 237.8 million EUR in 2012.<sup>14</sup> Non-life insurance lines account for 213.1 million EUR compared to 217.4 million in 2013 and 209.8 million EUR in 2012, and life assurance lines account for 39.1 million EUR compared to 33.1 million in 2013 and 28 million EUR in 2012. The amount of total paid indemnities is higher by 0.7 percent as a result of drop of non-life claims by 2 percent and growth of life claims by 18.1 percent, compared to increase by 5.4 percent in 2013 as a result of growth of non-life claims by 3.6 percent and life claims by 18.3 percent and drop by 4 percent in 2012, as a result of drop of non-life insurance claims by 7.2 percent and increase of life assurance claims by 29 percent.

<sup>14</sup> Costs regarding claims, including claims from accepted coinsurance, include costs of investigation, assessment, settlement and payment, court expenses, expert's survey costs, subrogation entitlements and other costs.

In comparison with the previous year, the amount of settled claims was increased with seven non-life insurance lines and three life assurance lines, and was reduced with 12 non-life insurance lines and one life assurance line. Increase of over 10 percent was recorded with five non-life insurance lines, 55.9 percent for other insurance lines, 38.8 percent for financial losses insurance, 31.6 percent for property against fire and other perils, 19.4 percent for rolling stock insurance and 15.3 percent for voluntary health insurance. Drop of over 10 percent was recorded with five non-life insurance lines, 99.9 percent for vessels liability insurance, 87.4 percent for aircraft insurance, 15.8 percent for general liability, 11.1 percent for goods/in transit insurance and 10.7 percent for guarantee insurance. Regarding life insurance, increase by 20.3 percent was recorded for life assurance, 16.5 percent for other life assurance lines and 8.7 percent for annuity insurance, and decrease by 1.1 percent was recorded with supplementary insurance along with life assurance.

The biggest share, 53.5 percent of settled non-life claims compared to 55.7 percent in 2013 and 58.4 percent in 2012 is accounted for by motor vehicle insurance. Observed per insurance lines, the first is MTPL with 34 percent compared to 36.3 percent in 2013 and 37.9 percent in 2012, then follows motor-hull with 19.5 percent compared to 19.4 percent (2013) and 20.5 percent (2012), other property insurance lines with 17.3 percent compared to 17.5 percent (2013) and 15.2 percent (2012), accident insurance with 10 percent compared to 10.3 percent (2013) and 10.1 percent (2012), property against fire and other perils insurance 9.8 percent compared to 7.3 percent (2013) and 7.6 percent (2012), which in total accounts for 90.6 percent compared to 90.8 percent (2013) and 91.2 percent (2012), and regarding all other non-life insurance lines 9.4 percent compared to 9.2 percent in 2013 and 8.8 percent in 2012.

*Consequential losses from mandatory automobile insurance lines* that are paid for through the contributions to the guarantee fund within the Association of Serbian Insurers (Association or GF) and contributions to National Health Insurance Fund (hereinafter referred to as NHIF) amounted to 18.5 million EUR, 8.7 million EUR to the Association, and 9.8 million EUR to the NHIF. Share of contributions to the guarantee fund in gross premium is 4.4 percent compared to 4.8 percent (2013) and 4.1 percent (2012), and 12 percent compared to 10.6 percent (2013) and 9.1 percent (2012) at the amount of paid indemnities for all mandatory automobile insurance lines, and contributions to NHIF is 5 percent out of gross premium or 13.5 percent from paid indemnities from MTPL.

The biggest share of settled indemnity claims per life assurance business was recorded for life assurance – 87.6 percent compared to 86.1 percent, which was recorded in previous two years. Then follows annuity insurance with 5.4 percent compared to 5.8 percent in 2013 and 4.5 percent

in 2012, and supplementary insurance along with life assurance with 5.4 percent compared to 6.4 percent in 2013 and 8.1 percent in 2012. All other life assurance lines had a share of 1.6 percent compared to 1.7 percent in 2013 and 1.3 percent in 2012.

*Average settled claim* is calculated based on the number of settled claims shown in Table 2 and the amount of settled claims shown in Table 3. In 2014, average settled claim decreased to 588 EUR from 622 EUR in 2013 and 634 EUR in 2012, as a result of increase of average with life assurance lines to 1.037 EUR compared to 995 EUR in 2013 and 1.041 EUR in 2012 and decrease of average with non-life insurance lines to 545 EUR from 589 EUR in 2013 and 602 EUR in 2012. Average settled claim was reduced by 5.4 percent (life was increased by 4.2 percent, and non-life was decreased by 7.5 percent), compared to 1.9 percent (life 4.5 percent, and non-life 2.2 percent) in 2013 and 7 percent (increase of life by 8.1 percent, and decrease of non-life by 9.3 percent) in 2012.<sup>15</sup>

The biggest average of settled claims with non-life insurance was 21.693 EUR compared to 114.871 EUR in 2013 and 16.981 EUR in 2012 for aircraft insurance, then 5.753 EUR for vessels insurance compared to 18.998 EUR in 2013 for vessels liability and 5.533 EUR in 2012 for vessels insurance. The third position with 2.293 EUR is held by property against fire and other perils insurance compared to 6.084 EUR in 2013 for vessels insurance and 2.391 EUR in 2012 for property against fire and other perils insurance. The fourth position is held by goods-in transit insurance with 2.137 EUR, compared to 2.508 EUR in 2013 for property against fire and other perils insurance and 2.056 EUR in 2012 for credit insurance, and the fifth position is held by rolling stock insurance with 1.925 EUR, compared to 1.631 EUR in 2013 for credit insurance and 1.681 EUR in 2012 for goods-in transit insurance.

The lowest average of settled claims from non-life insurance at the amount of 82 EUR was recorded with voluntary health insurance compared to 96 EUR in 2013 for the same insurance line and 97 EUR in 2012 for other non-life insurance lines; there is also the amount of 156 EUR for road assistance compared to 160 EUR in 2013 for the same insurance line and 99 EUR in 2012 for voluntary health insurance, 211 EUR for other non-life insurance lines compared to 270 EUR in 2013 for the same insurance line and 161 EUR in 2012 for road assistance, as well as 269 EUR for guarantee insurance compared to 303 EUR in 2013 for the same insurance line and 316 EUR in 2012 for accident insurance.

The biggest average of settled claims from life assurance lines in all three last years was recorded by annuity insurance 1.491 EUR in 2014 compared

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15 The average does not include the number of cancelled and repudiated claims.



## **Insurance Industry in the Republic of Serbia in 2014**

to 1.402 EUR in 2013 and 1.382 EUR in 2012, and the lowest average was recorded by supplementary insurance along with life assurance at the amount of 584 EUR in 2014 compared to 634 EUR in 2013 and 664 EUR in 2012.

*Outstanding claims* consist of two categories: incurred and reported, and incurred but not reported claims, for which until the day of calculation indemnity claim was not filed. Table 2 shows the number and average amount of outstanding and reported claims, and Table 4 shows total amount of outstanding claims that comprises of incurred and reported claims and incurred but not reported claims.

**Table 4: Outstanding claims in EUR at the mean exchange rate of the NBS as at 31<sup>st</sup> December 2013 and 2014**

Code	Insurance line	2013			2014		
		Amount	%	Index*	Amount	%	Index*
01	Accident insurance	9.218.210	5,0	100,3	8.926.291	4,4	96,8
02	Voluntary health insurance	1.733.927	0,9	114,5	1.843.305	0,9	106,3
03	Motor vehicle insurance	11.873.352	6,4	95,1	11.787.285	5,8	99,3
04	Rolling stock insurance	200.668	0,1	109,0	271.953	0,1	135,5
05	Aircraft insurance	318.626	0,2	85,7	432.513	0,2	135,7
06	Vessels insurance	209.286	0,1	104,0	190.785	0,1	91,2
07	Goods-in-transit insurance	1.261.910	0,7	100,4	550.223	0,3	43,6
08	Property, fire and other perils	6.374.779	3,4	65,4	15.497.035	7,6	243,1
09	Other property insurances	9.254.175	5,0	124,5	24.222.563	11,9	261,7
10	Motor liability insurance	137.873.608	74,1	97,6	132.305.464	64,9	96,0
11	Aircraft liability insurance	1.745	0,0	4,9	0	0,0	0,0
12	Vessels liability insurance	4.736	0,0	1538,9	0	0,0	0,0
13	General liability insurance	5.077.925	2,7	104,0	4.521.120	2,2	89,0
14	Credit insurance	182.237	0,1	58,9	264.645	0,1	145,2
15	Warranty insurance	153.059	0,1	138,7	190.901	0,1	124,7
16	Financial losses insurance	318.984	0,2	1525,4	792.075	0,4	248,3
17	Legal expenses insurance	7.624	0,0	102,8	5.407	0,0	70,9
18	Road assistance insurance	1.964.601	1,1	123,8	1.997.143	1,0	101,7
19	Other non-life insurance	52	0,0	148,8	41	0,0	79,0
I	NON-LIFE (1 TO 19)	186.029.504	100,0	97,6	203.798.747	100,0	109,6
20	Life insurance	1.724.986	54,1	116,3	1.755.713	55,8	101,8
21	Annuity insurance	1.038	0,0	35,6	893	0,0	86,0
22	Supplementary insurance along with life assurance	1.464.855	45,9	95,0	1.388.181	44,1	94,8
23	Voluntary retirement insurance	0	0,0	0,0	0	0,0	0,0

Code	Insurance line	2013			2014		
		Amount	%	Index*	Amount	%	Index*
24	Other life assurance lines	0	0,0	0,0	0	0,0	0,0
II	LIFE (20 do 24)	3.190.878	100,0	105,1	3.144.786	100,0	98,6
III	TOTAL (I+II)	189.220.382	100,0	97,7	206.943.533	100,0	109,4

\* Previous year = 100.

Source: National Bank of Serbia and Deposit Insurance Agency for "Takovo Insurance" in liquidation.

Total outstanding claims amount to 206.9 million EUR compared to 189.2 million EUR in 2013 and 193.4 million EUR in 2012. Non-life insurance lines account for 203.8 million EUR or 98.5 percent compared to 186 million EUR or 98.3 percent in 2013 and 190.6 million EUR or 98.4 percent in 2012, and life assurance claims account for 3.1 million EUR or 1.5 percent compared to 3.2 million EUR or 1.7 percent in 2013 and 3 million EUR or 1.6 percent in 2012.

In comparison to the previous year, total amount of outstanding claims increased by 9.4 percent. Increase of non-life insurance claims by 9.6 percent is a result of increase of nine insurance lines, which moved from 1.7 percent for road assistance to 161.7 percent for other property insurance lines to decrease of eight insurance lines – by 0.7 percent for motor-hull insurance and 56.4 percent for goods-in transit insurance. For aircraft liability insurance and vessels liability insurance there were no outstanding claims.

The biggest share of outstanding non-life insurance claims is accounted for by MTPL – 64.9 percent compared to 74.1 percent from previous two years. In the second position are other property insurance lines with 11.9 percent compared to 5 percent (2013) and 3.9 percent (2012), and in the third position with 7.6 percent is property against fire and other perils compared to 3.4 percent (2013) and 5.1 percent (2012). The fourth position with 5.8 percent is held by motor-hull insurance compared to 6.4 percent (2013) and 6.6 percent (2012), and the fifth position with 4.4 percent is held by accident insurance compared to 5 percent (2013) and 4.8 percent (2012). All other non-life insurance lines account for 5.4 percent compared to 6.1 percent (2013) and 5.5 percent (2012).

Decrease of outstanding life assurance claims by 1.4 percent is a result of increase of life assurance by 1.8 percent and decrease of annuity insurance by 14 percent, and 5.2 percent for supplementary insurance along with life assurance. For other life assurance lines there were no outstanding claims. The largest share of outstanding claims, 55.8 percent, goes for life assurance compared to 54.1 percent (2013) and 48.9 percent (2012); then, supplementary

insurance along with life assurance with 44.1 percent compared to 45.9 percent (2013) and 50.8 percent (2012), and for all other life assurance lines 0.1 percent compared to 0.0 percent (2013) and 0.3 percent (2012).

*Outstanding and reported claims* in the end of 2014 amounted to 111.6 million EUR, which is significantly higher than 91.6 million EUR (2013) and 93.7 million EUR (2012), i.e. 53.9 percent compared to 48.4 percent, from previous two years out of total outstanding claims. Higher share, 97.7 percent compared to 97.2 percent (2013) and 97.5 percent (2012) is accounted for non-life, and significantly less – 2.3 percent compared to 2.8 percent (2013) and 2.5 percent (2012) for life assurance lines.

Observed per non-life insurance lines, the first position is held by MTPL with 56.3 percent compared to 73.4 percent (2013) and 72.5 percent (2012), the second position is held by other property insurance lines with 18.5 percent compared to 5 percent (2013) and 3.8 percent (2012), and the third position is held by fire and other perils insurance with 12.9 percent compared to 5.8 percent (2013) and 8.6 percent (2012). The fourth position is held by motor-hull insurance with 5.4 percent compared to 6.8 percent (2013) and 6.9 percent (2012), and the fifth position is held by general liability insurance with 2.5 percent compared to 3.7 percent (2013) and 3.6 percent (2012). All other non-life insurance lines account for 4.4 percent compared to 5.3 percent (2013) and 4.6 percent (2012).

For life assurance lines, the first position is held by life assurance with 69.2 percent compared to 66.2 percent (2013) and 62 percent (2012), the second position is held by supplementary insurance along with life assurance with 30.8 percent compared to 33.8 percent (2013) and 37.5 percent (2012), and all other life assurance lines account for less than 0.04 percent compared to 0.05 percent (2013) and 0.5 percent (2012).

*Average of outstanding and reported claims* is calculated based on the number of claims shown in Table 2 and the share of outstanding claims amounts shown in Table 4, which refers to this claim category. Total average is 3.636 EUR (1.649 EUR for life, and 3.741 EUR for non-life) compared to 2.966 EUR in 2013 (1.147 EUR for life, and 3.110 EUR for non-life) and 2.994 EUR (for life 1.871 EUR, and for non-life 3.041 EUR) in 2012. For non-life insurance lines, the largest average of 89.802 EUR was recorded with aircraft insurance compared to 61.382 EUR in 2013 and 67.637 EUR in 2012, for the same insurance line. The second position, with average of 20.701 EUR, is held by fire and other perils insurance compared to 17.524 EUR in 2013 for goods-in transit insurance and 17.614 EUR 2012 for liability insurance, while the third position is held by financial loss insurance with average of 15.265 EUR, compared to 13.125 EUR in 2013 for property against fire and other perils, and 15.886 EUR in 2012 for the same insurance line. The lowest average at the amount of 96 EUR was recorded

with voluntary health insurance compared to 162 EUR in 2013 for the same insurance line, and 232 EUR in 2012 for financial loss insurance. The largest average with life assurance business at the amount of 1.874 EUR was recorded with life assurance lines compared to 1.381 EUR in 2013 for supplementary insurance along with life assurance and 2.655 EUR in 2012 for life assurance, and the lowest average was recorded by annuity insurance with 446 EUR compared to 519 EUR in 2013 and 956 EUR in 2012 for this insurance line.

*Outstanding but not reported claims* amounted to 95.3 million EUR compared to 97.6 million EUR in 2013 and 99.9 million EUR in 2012, i.e. 46.1 percent compared to 51.6 percent, which was amount in previous two years out of the total amount of outstanding reported and not reported claims. The largest share, 99.4 percent, compared to the same percentage in 2013 and 99.3 percent in 2012 belongs to non-life insurance lines, and 0.6 percent, like in 2013, compared to 0.7 percent in 2012 belongs to life assurance lines.

Within non-life insurance lines the largest share, 74.9 percent compared to 74.7 percent and 75.5 percent, was recorded by MTPL insurance. The second position is held by accident insurance with 7.6 percent compared to 7.7 percent and 7.5 percent, the third position is held by motor-hull insurance with 6.3 percent compared to 6 percent and 6.3 percent, the fourth position is held by other property insurance lines with 4.3 percent compared to 5 percent and 4 percent, and the fifth position is held by general liability insurance with 1.9 percent compared to 1.9 percent in 2013 and 2 percent in 2012, and all other non-life insurance lines account for 5 percent compared to 4.7 percent, which was recorded in previous two years.

All outstanding but not reported claims from life assurance lines belong to supplementary insurance along with life assurance, as they did in 2013 compared to 96.6 percent in 2012.

According to insured risks in the biggest flood in Serbian history, which happened in May 2014, the Insurers received 3.299 indemnity claims at the amount of 38.8 million EUR, which mostly referred to property against fire and other perils insurance, other property insurance lines and motor-hull insurance. It had a negative effect on increase of number and amount of reported, settled, paid and reserved indemnity claims and realised business results because total premium for insurance of flood risk amounted to 5.4 million EUR (NBS, 2014, 17).<sup>16</sup>

*Technical provision in insurance* is made of unearned premium, outstanding claims, risk equalisation provision and mathematical reserve

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<sup>16</sup> According to official report on loss assessment by the Government of the Republic of Serbia, total claim and losses amount to 1.53 billion EUR (4.5 percent of GDP 2013). According to the NBS data, insurer's share in settled claims due to flood was 30.8 percent, share of reinsurers in the country was 2.2 percent and retrocessionaires abroad was 67 percent.

for life assurance. It is established based on business policy acts of insurance companies in accordance with the law regulating insurance and decisions by the NBS regulating the specific criteria and manner of calculating certain types of technical provision in insurance.<sup>17</sup>

**Table 5: Technical provision in EUR as at 31<sup>st</sup> December 2012, 2013 and 2014**

No.	Description	2012		2013			2014		
		Amount	%	Amount	%	Growth	Amount	%	Growth
1	Unearned premium life	1.753.860	0,2	1.951.185	0,2	11,3	2.163.465	0,2	10,9
2	Unearned premium non-life	178.288.815	23,9	181.055.049	22,3	1,6	197.094.891	21,5	8,9
3	Total unearned premium	180.042.676	24,1	183.006.234	22,6	1,6	199.258.356	21,7	8,9
4	Outstanding claims life	3.035.483	0,4	3.190.878	0,4	5,1	3.144.786	0,3	-1,4
5	Outstanding claims non-life	190.557.729	25,5	186.029.504	22,9	-2,4	190.200.623	20,7	2,2
6	Total outstanding claims	193.593.212	25,9	189.220.382	23,3	-2,3	193.345.409	21,0	2,2
7	Risk equalisation reserves for non-life insurance	27.421.400	3,7	29.863.061	3,7	8,9	34.284.906	3,7	14,8
8	Mathematical reserve	345.270.489	46,3	409.058.967	50,4	18,5	471.877.399	51,4	15,4
9	Total technical provision	746.327.777	100,0	811.148.644	100,0	8,7	898.766.071	97,8	10,8

Source: National Bank of Serbia.

Total technical provision amounts to 898.8 million EUR compared to 811.1 million EUR in 2013 and 746.3 million EUR in 2012. The largest share, 471.9 million EUR compared to 409.1 million EUR in 2013 and 345.3 million EUR in 2012, i.e. 51.4 percent compared to 50.4 percent in 2013 and 46.3 percent in 2012 belongs to mathematical reserve for life, and the part formed in 2014 amounts to 62.8 million EUR compared to 63.8 million EUR in 2013 and 52.2 million EUR in 2012. The second position is held by unearned premium with 199.3 million EUR compared to 183 million EUR in 2013 and 180 million EUR in 2012, which makes 22.4 percent compared to 22.6 percent in 2013 and 24.1 percent in 2012; the third position is held by outstanding claims at the amount of 193.3 million EUR compared to 189.2 million EUR in 2013 and 193.6 million EUR in 2012, i.e. 21 percent compared to 23.3 percent in 2013 and 25.9 percent in 2012, and the fourth position is held by risk equalisation reserves with 34.3

<sup>17</sup> Decision on specific criteria and manner of calculating unearned premiums (Official Gazette of the Republic of Serbia No. 19/2005); Decision on specific criteria and manner of calculating outstanding claims (Official Gazette of the Republic of Serbia No. 86/2007); Decision on specific criteria and manner of calculating risk equalisation reserves (Official Gazette of the Republic of Serbia No. 13/2005 i 23/2006) and Decision on specific criteria and manner of calculating mathematical reserves and profit sharing reserves (Official Gazette of the Republic of Serbia No. 7/2010, 93/2011 i 87/2012).

million EUR compared to 29.9 million EUR in 2013 and 27.4 million EUR in 2012, i.e. 3.7 percent out of all types of technical provision, which was recorded in previous two years.

In comparison with previous year, growth has been achieved in all types of technical provision by 10.8 percent, which is very favourable considering the fact that such growth is higher than increase of premium which was 4.4 percent and settled claims at the amount of 0.7 percent.

## **6. Passive Coinsurance and Reinsurance**

Total premium ceded to passive coinsurance and reinsurance amounts to 69.1 million EUR compared to 64.6 million EUR in 2013 and 65.8 million EUR in 2012, i.e. 12 percent compared to 11.6 percent in 2013 and 12.2 percent in 2012 out of total gross insurance premium. Larger share, 96.6 percent compared to 96.7 percent in 2013, belongs to non-life insurance, and 3.4 percent compared to 3.3 percent in 2013 belongs to life assurance. For coverage of non-life insurance risks 15.1 percent was allocated, compared to 14.3 percent in 2013, and for life assurance 1.8 percent compared to 1.7 percent in 2013, out of gross insurance premium. The largest share of premium from passive coinsurance and reinsurance, 38.9 percent compared to 37.2 percent in 2013, was allocated for coverage of other property insurance lines, 22 percent compared to 21.4 percent in 2013 for property against fire and other perils insurance, 10.1 percent compared to 11.4 percent in 2013 for motor-hull insurance, 7.9 percent compared to 7.2 percent in 2013 for general liability insurance and 6.1 percent compared to 7 percent in 2013 for MTPL, which in total makes 85 percent compared to 84.2 percent in 2013, and for all other non-life insurance lines 15 percent compared to 15.8 percent in 2013 out of total coinsurance and reinsurance premium. Within life assurance lines, 65.2 percent of premium from passive coinsurance and reinsurance compared to 64.4 percent in 2013 belongs to supplementary insurance along with life assurance, and 34.8 percent compared to 35.6 percent in 2013 to life assurance.

Participation of passive coinsurance and reinsurance in settled insurance claims without claim handling costs amounts to 28.4 million EUR compared to 23.4 in 2013 and 42 million EUR in 2012, i.e. 12.4 percent compared to 10.1 percent in 2013 and 17.7 percent in 2012. The same as with insurance premium, the bigger part at the amount of up to 27.6 million EUR or 97.4 percent compared to 22.8 million EUR or 97.3 percent in 2013 belongs to non-life, and 0.8 million EUR or 2.6 percent compared to 0.6 million EUR or 2.7 percent in 2013

to life assurance. The largest share of participation of passive coinsurance and reinsurance in settled claims – 42.3 percent compared to 32 percent in 2013 refers to property against fire and other perils insurance, 22.7 percent compared to 20.8 percent in 2013 for other property insurance lines, 18.8 percent compared to 25.2 percent in 2013 for motor-hull, 5.1 percent compared to 4.8 percent in 2013 for accident insurance and 4.3 percent compared to 7.2 percent in 2013 for MTPL. These five insurance lines together account for 93.2 percent compared to 94.9 percent in 2013, and all other non-life insurance lines account for 6.8 percent compared to 5.1 percent in 2013. Within life assurance lines, 64 percent of settled claims ceded to coinsurers and reinsurers compared to 77 percent in 2013 refers to supplementary insurance along with life assurance, and 26 percent compared to 23 percent in 2013 for life assurance.

### **7. Achieved Results**

Insurance companies (hereinafter referred to as companies) make financial statements as of 31<sup>st</sup> December of the current year, pursuant to the law regulating accounting, by using chart of accounts and contents of the accounts in the chart of accounts in accordance with NBS regulations.<sup>18</sup> Companies present status and changes in assets, capital and liabilities, income and expenses, and determine results from business operations according to contents of particular accounts in the chart of accounts, in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). Overview of business results starts with analysis of financial statements, notes to financial statements and other data used for analysis of company's business operations, however, some additional indicators specific only for insurance industry are analysed due to distinctiveness of insurance industry.<sup>19</sup> In the following part of this paper we will present the results of operations of all insurance companies in the country for the entire 2014 (without data on "Takovo Insurance" in liquidation) using data on ratios, technical result and profit or loss.

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18 Decision on the Chart of Accounts and Content of Accounts in the Chart of Accounts for Insurance Companies (*Official Gazette of the Republic of Serbia No. 135/2014*) and Decision on the Content and Layout of Financial Statement Forms for Insurance Companies (*Official Gazette of the Republic of Serbia No. 135/2014*). Provisions of these decisions apply to drawing of financial statements as of day of initiation of, i.e. closure of bankruptcy or liquidation proceeding and during such proceedings, as well as to drawing of annual financial statements of a company in liquidation or bankruptcy, provided that bankruptcy or liquidation estate is estimated at amount of expected realisation of assets, pursuant to regulations governing liquidation and bankruptcy.

19 Financial statements are submitted to The Serbian Business Registers Agency, pursuant to the law regulating accounting, as well as to the National Bank of Serbia, pursuant to the law regulating insurance industry.

## 7.1. Ratios and Technical Result

Ratios and technical result have a special significance for analysis of company operations and solvency due to specific characteristics of insurance industry.

**Table 6: Ratios and technical result as of 31<sup>st</sup> December 2014**

Code	Ratios			Combined ratios		Technical result in EUR and %			
	Expense loading	Administrative costs	Loss*	Expense loading	Administrative costs	With expense loading	%	With administrative costs	%
01	30,3	37,7	64,0	94,3	101,7	1.665.876	92,7	-775.004	103,8
02	27,6	39,2	82,2	109,8	121,4	-966.631	112,8	-2.167.182	134,1
03	23,0	36,1	75,9	98,8	112,0	-655.548	101,7	-7.421.205	123,5
04	21,2	36,0	23,2	44,4	59,2	687.460	30,3	496.737	37,6
05	5,8	45,6	22,7	28,4	68,3	551.049	24,0	245.698	41,4
06	24,5	34,6	58,6	83,1	93,2	94.520	82,0	20.026	95,6
07	19,8	35,6	15,0	34,8	50,7	3.376.602	19,3	2.523.971	24,3
08	19,3	37,0	83,2	102,4	120,2	-1.314.883	104,6	-7.724.680	134,5
09	21,9	37,2	64,7	86,5	101,9	10.261.867	83,6	-2.146.774	104,3
10	20,8	42,3	43,0	63,8	85,3	60.670.483	53,8	25.254.596	73,7
11	6,9	39,1	1,6	8,5	40,7	751.502	1,7	494.739	2,6
12	25,3	38,1	-2,6	22,7	35,5	88.757	-3,5	73.900	-4,2
13	19,9	37,9	23,9	43,8	61,8	5.735.663	30,0	3.880.083	38,8
14	55,5	59,8	24,6	80,1	84,3	698.216	38,1	623.312	40,8
15	25,6	34,3	45,9	71,5	80,2	140.569	63,5	93.948	72,3
16	40,9	44,8	20,9	61,8	65,6	2.377.679	30,4	2.186.052	32,2
17	32,4	36,4	0,8	33,2	37,2	34.632	1,2	32.518	1,2
18	43,0	38,2	41,1	84,1	79,3	2.175.171	70,9	2.799.480	65,4
19	33,0	37,1	4,8	37,8	41,9	5.283	7,3	4.929	7,7
I	23,1	39,4	56,0	79,1	95,4	86.378.265	73,0	18.495.145	92,6
20	17,4	30,2	97,7	115,2	127,9	-17.688.427	118,4	-32.540.611	139,9
21	20,0	30,1	126,1	146,2	156,3	-2.200.428	157,7	-2.682.383	180,5
22	19,1	31,0	25,5	44,6	56,4	5.008.255	31,2	3.947.550	36,6
23	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
24	7,3	30,1	67,3	74,6	97,5	400.378	72,6	40.134	96,4
II	17,5	30,2	93,5	111,0	123,7	-14.480.222	113,3	-31.235.310	133,9



## **Insurance Industry in the Republic of Serbia in 2014**

Code	Ratios			Combined ratios		Technical result in EUR and %			
	Expense loading	Administrative costs	Loss*	Expense loading	Administrative costs	With expense loading	%	With administrative costs	%
III	21,7	37,2	65,0	86,8	102,2	71.898.044	83,2	-12.740.165	103,7

\* Based on data from annual reports for 2014 at the mean exchange rate of the NBS as of 31st December 2014. Administrative costs individually for life and non-life insurance lines allocated per insurance lines in proportion to the level of gross insurance premium.

\*\*For codes 01, 10, 11 and 12, the contribution to GF an ASI for execution of its public duties are included in claims; for code 10 the contribution to the NHIF is included, and for code 20, 21, 22 and 24 mathematical reserve of the current year.

Source: National Bank of Serbia.

*Expense loading ratio* is 21.7 percent (17.5 percent life, 23.1 percent non-life), compared to 21.3 percent (17.3 percent life, 22.5 percent non-life) in 2013 and 21.5 percent (17.9 percent, i.e. 22.3 percent) in 2012. It moved between 7.3 percent for other life assurance lines and 20 percent for annuity insurance, and in non-life insurance from 5.8 percent for aircraft insurance up to 55.5 percent for credit insurance.

*Administrative costs ratio* was reduced to 37.2 percent (30.2 percent life, 39.4 percent non-life) with 39.8 percent (39.5 percent, i.e. 39.8 percent) in 2013 and 41.5 percent (41.1 percent, i.e. 41.6 percent) in 2012.

*Loss ratio* is 65 percent (93.5 percent life, 56 percent non-life) compared to 58.6 percent (81.5 percent life, 52 percent non-life) in 2013 and 44.6 percent (26.9 percent, i.e. 48.8 percent) in 2012.<sup>20</sup> Within life assurance it moved between 25.5 percent for supplementary insurance along with life assurance up to 126.1 percent for annuity insurance, and in non-life insurance lines from 0.8 percent for legal expenses insurance up to 83.2 percent for fire and other perils insurance.

*Combined expense loading and loss ratio* is 86.8 percent (111 percent life, 79.1 percent non-life) compared to 79.9 percent (98.9 percent, i.e. 74.5 percent) in 2013 and 66 percent (44.6 percent life, 71.2 percent non-life) in 2012. Within life assurance it moved between 44.6 percent for supplementary insurance along with life assurance and 146.2 percent for annuity insurance, and in non-life insurance lines from 8.5 percent for aircraft insurance up to 109.8 percent for voluntary health insurance.

*Combined administrative costs and loss ratio* is 102.2 percent (123.7 percent life, 95.4 percent non-life) compared to 98.3 percent (121.1 percent life, 91.9 percent non-life) in 2013 and 86.1 percent (68 percent, i.e. 90.4 percent) in

<sup>20</sup> The contribution to the Guarantee Fund within the Association is included in compulsory traffic insurance lines, and the contribution to the NHIF is included in MTPL.

2012. Within life assurance lines it moved from 56.4 percent for supplementary insurance along with life assurance up to 156.3 percent for annuity insurance, and in non-life insurance lines from 35.5 percent for vessels insurance up to 121.4 percent for voluntary health insurance.

*Administrative costs* reduced by the commission from reinsurance and retrocessions in the amount of 11,425,276 EUR, compared to 12,865,823 EUR in 2013 and 12,713,741 EUR in 2012, amount to 203,716,943 EUR, i.e. 35.5 percent, compared to 224,922,631 EUR, i.e. 40.3 percent in 2013 and 221,510,865 EUR, i.e. 41 percent in 2012 out of total gross premium. The amount of expense loading in the administration costs is increased to 58.5 percent from 52.6 percent in 2013 and 51.7 percent in 2012, which indicates positive tendencies, but still far below the necessary full coverage of administrative costs by expense loading.

*Technical result* as the indicator for price policy and sufficiency of premium tariff systems that are used for covering liabilities that may arise from the concluded insurance contracts, administrative costs and other obligations subject to regulations, is very important for the analysis of operations in insurance industry as a whole, in each and every insurance company and in each and every individual line of business.

*Technical result without reinsurance and outwards coinsurance with expense loading* amounts to 71.9 million EUR, compared to 110.4 million EUR in 2013 and 105.8 million EUR in 2012, i.e. 83.2 percent compared to 75.1 percent in 2013 and 74.5 in 2012.<sup>21</sup> Within non-life insurance, technical result is positive 86.4 million EUR, compared to 105.9 million EUR in 2013 and 109.9 million EUR in 2012, i.e. 73 percent compared to 68 percent in 2013 and 66.7 percent in 2012. Within life assurance, the result is negative 14.5 million EUR, compared to the positive one of 4.5 million EUR in 2013 and negative result of 4.1 million EUR in 2012, i.e. 113.3 percent compared to 95.5 percent in 2013 and 104.8 percent in 2012.

Technical result with expense loading, as the indicator for price policy and sufficiency of premium tariff systems, confirms that premium systems of all insurance lines, except for voluntary health insurance (112.8 percent), motor-hull insurance (101.7 percent), property against fire and other perils insurance (104.6 percent), life assurance (118.4 percent) and annuity insurance (157.7 percent) were sufficient for coverage of liabilities arising from concluded insurance contracts, administrative costs up to the amount of calculated expense loading and other liabilities pursuant to the law.

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<sup>21</sup> The National Bank of Serbia, Insurance Sector in Serbia, Report for 2014, p. 18, technical result of self-retained premium with expense loading is 63.3 percent compared to 70.4 percent in 2013 and 71.4 percent in 2012.

*Technical result with administrative costs*<sup>22</sup> is negative and amounts to 12.7 million EUR, compared to the positive one of 3.8 million EUR in 2013 and negative result of 1.1 million EUR in 2012, i.e. 103.7 percent compared to 98.8 percent in 2013 and 100.4 percent in 2012. Within non-life insurance lines a positive result of 18.5 million EUR was recorded, while within life assurance lines it was negative at the amount of 31.2 million EUR. Observed per insurance lines, tariff systems were not sufficient for coverage of liabilities under insurance contracts, administrative costs and other liabilities in accordance with the law for accident insurance (103.8 percent), voluntary health insurance (134.1 percent), motor-hull insurance (123.5 percent), property against fire and other perils insurance (134.5 percent), other property insurance lines (104.3 percent), life assurance (139.9 percent) and annuity insurance (180.5 percent).

## 7.2. Financial Result

Pursuant to the Law on Accounting and the law regulating insurance industry, the insurance company determines profit, i.e. loss in certain insurance activities and cumulative for all insurance lines. Comparative review of income and expenses for MTPL insurance is integral part of the annual report on business operations, and it is mandatory for it to contain data on structure of expenses, i.e. income from insurance premium.

**Table 7: Financial results in EUR at the mean exchange rate of the NBS as at 31<sup>st</sup> December**

Year	Description	Net profit		Net loss		Net profit - Net loss	
		Amount	No. ad	Amount	No. ad	Amount	No. ad
2012	Insurance	17.674.200	14	10.258.604	10	7.415.596	24
	Reinsurance	3.859.581	4	0	0	3.859.581	4
	Total	21.533.781	18	10.258.604	10	11.275.177	28
2013	Insurance	18.086.959	13	18.745.548	11	-658.589	24
	Reinsurance	1.357.625	3	1.076.280	1	281.345	4
	Total	19.444.584	16	19.821.828	12	-377.244	28

<sup>22</sup> Administrative costs are declared in the profit and loss account of the company separately for life assurance and non-life insurance lines. They are allocated per insurance lines proportionally to the amount of gross premium.

Year	Description	Net profit		Net loss		Net profit - Net loss	
		Amount	No. ad	Amount	No. ad	Amount	No. ad
2014	Insurance	22.804.793	12	19.825.907	9	2.978.886	21
	Reinsurance	1.174.363	3	620.520	1	553.843	4
	Total	23.979.156	15	20.446.427	10	3.532.729	25

Source: National Bank of Serbia.

All insurance and reinsurance companies achieved net profit at the amount of 3,532,729 EUR, compared to loss of 377,244 EUR in 2013 and profit of 11,275,177 EUR in 2012. Insurance profit at the amount of 2,978,886 EUR is a result from profit of life assurance lines at the amount of 10,822,589 EUR (six companies achieved profit of 13,006,482 EUR, and six companies had loss of 2,183,893 EUR) and loss from non-life insurance lines at the amount of -7,843,703 EUR (nine companies achieved profit of 10,377,593 EUR, and six companies had loss of 18,221,296 EUR). Loss from non-life insurance lines resulted from profit achieved in compulsory MTPL at the amount of 17,139,965 EUR (eight companies achieved profit of 20,685,426 EUR, and three companies had loss of 3,545,461 EUR) and loss from other non-life insurance lines at the amount of -24,983,668 EUR (five companies achieved profit of 3,086,932 EUR, and 10 companies had loss of 28,070,600 EUR).

Net reinsurance profit amounts to 553,843 EUR, as a result of profit achieved by three companies at the amount of 1,174,363 EUR and loss made by one reinsurance company at the amount of -620,520 EUR.

## 8. Conclusion

The insurance market in the Republic of Serbia in 2014 was characterised by satisfactory growth of gross insurance premium and trends of indicators regarding risk coverage, but with increased participation of compulsory motor liability insurance lines. Unlike previous year, when insurance industry recorded loss and reinsurance recorded profit, in 2014 profit from insurance and reinsurance was recorded. Taking into consideration extraordinary circumstances and economic situation in the country, results from insurance industry as a whole were significantly better compared to the previous year.

Apart from negative impact of natural disasters, above all the biggest floods in the history of the country, higher amount of administrative costs than calculated expense loading affected the level of achieved results.

Regardless of positive trends, achieved level of insurance industry development is limited by objective and subjective factors. The biggest problem is disloyal competition, which expanded its insurance activities from only motor insurance lines to other non-life insurance lines. Reduction of number of insurance companies, change in ownership structure and increase of the number of companies with majority foreign ownership still does not significantly contribute to improvement of the insurance market.

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