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# THE SIGNIFICANCE OF CAPITAL MARKET DEVELOPMENT FOR INSURANCE COMPANIES AS INSTITUTIONAL INVESTORS IN THE REPUBLIC OF SERBIA

REVIEW ARTICLE

**Abstract**

Non-bank financial institutions, as significant participants in the global financial market, lack the ability to create diversified portfolios of their assets in the capital market in Serbia. Instead, they hold funds either in deposit accounts with banks or invest in government securities. Considering the importance of capital market development for the economy, the Republic of Serbia has adopted a Capital Market Development Strategy for the period from 2021 to 2026, which aims to foster the development of the corporate bond market. Furthermore, the World Bank has approved a loan to Serbia to support the development of the capital market. This paper aims to highlight the significance of capital market development for institutional investors, particularly insurance companies on one hand, and for the entire financial sector on the other hand. The paper will address the current state of the capital market, specifically the structure of securities in which insurance companies invest, and the opportunities that capital market development could bring for investors and the overall national economy.

***Keywords:*** *capital market, investors, insurance companies, securities, bonds*
***JEL Classification:*** *G22, G34*

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# I Introduction

In developed financial markets worldwide, such as the United States, institutional investors represent the largest participants who efficiently mobilize temporarily free funds from the population and the economy. Through a well-developed financial market, these funds are allocated into financial and economic flows within the national economy through various instruments. On the other hand, a developed financial market enables the quick conversion of financial assets into cash, accelerating the flow of financial resources.[3] This further contributes to increased efficiency in economic operations and better overall economic stability. The institutional investor market in Serbia is primarily divided into three sectors: pension funds, insurance companies, and asset managers. Since insurance companies have held the largest share and the highest growth in Serbia's financial market, in recent years, the subject of this paper will be the insurance premium trends, as well as the investment structure of insurance companies in Serbia's financial market, and the analysis of the significance of capital market development for these institutional investors.

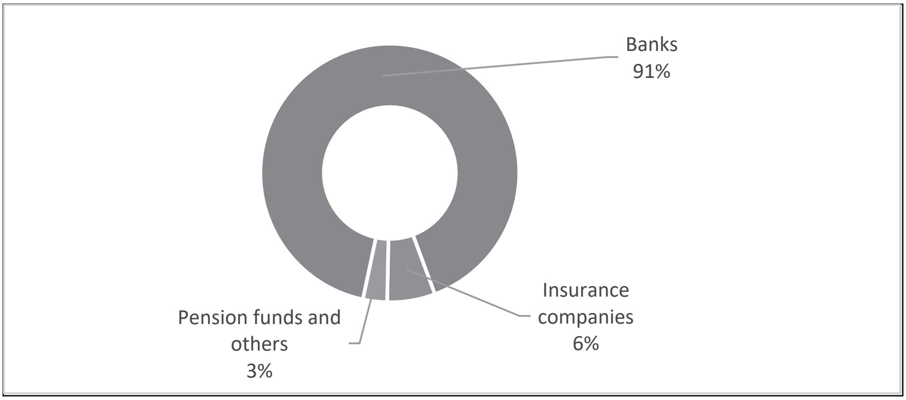
# II Capital Market in the Republic of Serbia

## 1. Current State

In 2023, the largest share of the balance sheet structure of Serbia's financial sector was held by banks with 91%, followed by insurance companies with 5.7%, while pension and investment funds account for 3.3%. Numerous theoretical and empirical studies have shown that the development of the capital market is closely related to the economic development of the national economy. However, the cause-and-effect relationship between the development of capital market development and the growth of the national economy is not one-way and depends on the structure of the country's financial system, the strength of institutional capacities, corporate governance, consumer protection, and other factors.

[3] Milo Marković, „Izazovi tržišta osiguranja u Srbiji na putu ka Solvency II", *Tokovi osiguranja*, No. 2/2024, str. 333-361.

**Figure 1. Balance Sheet Structure of the Financial Sector in 2023**




**Source**: Author, based on NBS data

Statistical data and reports indicate that the capital market, i.e. the stock and bond market of the Republic of Serbia, exists with low trading volume and an underdeveloped structure of securities available on the market. The most dominant segment of the financial market is the government bond market, where in 2023, a turnover of 187.3 billion dinars was achieved. The secondary trading of securities in euros amounted to 206.4 million euros (346.6 million euros in 2022). The total turnover of long-term government bonds, included in *the prime listing* of the Belgrade Stock Exchange (in dinars and euros), was 17.8 billion dinars in 2023. Since the financial sector in Serbia is bank-centric, the largest investors in dinar-denominated government bonds over the last 10 years have been banks, whose share in 2023 was 63%. In addition to banks, a smaller share is held by insurance companies and pension funds, which has been increasing slowly year by year.

The corporate bond market is underdeveloped, as evidenced by the fact that only 11 companies issued a total of 32 corporate bonds with a nominal value of 942 million euros between 2020 and 2024. Of these, only one corporate bond issuer (*Energoprojekt Holding a.d. Belgrade*) listed its bonds on the Belgrade Stock Exchange for secondary trading, while other companies opted for private placements. When it comes to the structure of securities in the capital market of Serbia, fixed-income securities dominate.

**Table 1. Overview of Available Capital Market Instruments in Serbia**

| Type of Asset | Securities | Type | Available |
|---|---|---|---|
| Fixed income | Government bonds | Fixed coupon | + |
| | | Indexed-linked | + |
| | | Inflation-linked | - |
| | Municipal bonds | Fixed coupon | + |
| | | Indexed-linked | - |
| | | Inflation-linked | - |
| | Corporate bonds | Fixed coupon | + |
| | | Indexed-linked | - |
| | | Inflation-linked | - |
| | Credit (Securitized) | Asset-Backed Securities (ABS) | - |
| | | Mortgage-Backed Securities (MBS) | - |
| Derivatives | Futures/Forwards | | - |
| | Swaps | CDS | - |
| | | | - |
| | | CDOs | - |
| | Options | put | - |
| | | Call | - |

**Source**: Analysis based on data from KHOV and the Belgrade Stock Exchange

The key indicator of the development of the capital market in a national economy is the volume of trading on the stock exchange. Data on market capitalization and the turnover of stocks and bonds on the exchange indicate that the capital market of the Republic of Serbia is in a developmental phase, with its main characteristic being the insufficient volume of securities trading. According to the annual report of the National Bank of Serbia (NBS), "the market capitalization of the Belgrade Stock Exchange at the end of 2023 was 425.0 billion dinars (5.2% of GDP). Market capitalization in 2023, compared to 2022, increased by 132.8 billion dinars in the open market segment and by 26.6 billion dinars in the listing segment, while in the MTP175 segment, it decreased by 144.0 billion dinars."[4] Over the observed period of 10 years (2013–2023), it can be concluded that more trading was done in stocks than in bonds on the Belgrade Stock Exchange, which indicates a lack of investor confidence in the financial market, particularly in the corporate bond market.

[4] NBS, *Annual Report on the Stability of the Financial System for 2023*, Belgrade, p. 100, https://www.nbs.rs/export/sites/NBS_site/documents/publikacije/fs/finansijska_stabilnost_23.pdf (date of access 03.09.2024).

**Table 2. Trading volume on the Belgrade Stock Exchange for the period 2020–2023**

| Year | Market Capitalization at the End of the Year (in RSD) | Market Capitalization at the End of the Year (in EUR) | Annual Trading Volume in Stocks (in RSD) | Annual Trading Volume in Stocks (in EUR) | Annual Total Trading Volume (in RSD) | Annual Total Trading Volume (in EUR) | Number of Transactions |
|---|---|---|---|---|---|---|---|
| 2020 | 523.407.000.000 | 4.451.200.000 | 5.030.000.000 | 42.790.000 | 48.752.230.000 | 414.650.000 | 18.098 |
| 2021 | 533.342.335.066 | 4.535.914.353 | 6.482.716.327 | 55.133.531 | 41.231.194.976 | 350.679.870 | 18.743 |
| 2022 | 409.576.767.229 | 3.485.794.633 | 11.421.790.229 | 97.152.861 | 38.296.960.114 | 325.934.839 | 22.760 |
| 2023 | 424.958.052.044 | 3.624.461.684 | 3.097.724.733 | 26.417.100 | 20.895.639.056 | 178.218.633 | 19.471 |

**Source**: Author, based on data from *https://www.belex.rs/trgovanje/izvestaj/godisnji*

A capital market is considered developed if the share of market capitalization in GDP exceeds 50%. However, in concluding, it is important to also rely on other capital market indicators. If we examine these indicators in developed parts of the world and the EU, it becomes evident that we are at the bottom of the ranking and that the capital market is at a lower stage of development.

**Table 3. Market Capitalization Value in Selected Countries for 2023**

| Country | Market Capitalization as a Percentage of GDP |
|---|---|
| USA | 156.5% |
| Germany | 47.9% |
| United Kingdom | 71.3% |
| Hungary | 19.9% |
| Slovakia | 1.8% |
| Slovenia | 14.5% |
| Croatia | 30% |
| Serbia | 5.2% |

**Source**: Author, based on data from https://www.ceicdata.com/en/indicator/european-union/market-capitalization--nominal-gdp

## III Perspective for the Development of the Capital Market

"The question arises: what does a "developed" capital market represent? In the absence of a clear and widely accepted definition of the capital market, we will use the definition provided by the American NASDAQ (National Association of Securities Dealers Automated Quotations), according to which the capital market traditionally refers to a place (platform) for trading long-term debt instruments, i.e. a market where capital is raised. More recently, capital markets have been used in a broader context to refer to markets for stocks, bonds, derivatives, and other instruments."[5]

The prerequisites for the development of the capital market in a national economy are reflected in the following:

- a stable macroeconomic environment;
- a relatively developed and stable financial system;
- a regulated legislative and institutional framework.

Looking at each condition individually, it can be said that Serbia, over the past years, has ensured economic growth and the development of the domestic financial system, especially the non-banking sector. Additionally, the new Capital Market Law has created a regulatory-institutional framework that aligns with EU regulations.

To encourage the growth of the capital market, the Government of Serbia adopted the Capital Market Development Strategy for the period 2021–2026, along with an accompanying action plan to stimulate the development of the corporate bond market and other significant capital market instruments. The goals of the strategy are:

1. optimization of the regulatory system to support greater participation in the capital market;
2. improvement of the quality, attractiveness, and accessibility of investment products and an increase in the number of issuers in the system;
3. attraction of domestic and international investors;
4. creation of an encouraging and efficient institutional framework;
5. strengthening institutional capacities in terms of technology and human resources;
6. promotion and financial education for market participants, including the general population.[6]

In addition, Moody's credit rating agency confirmed the credit rating of the Republic of Serbia at the "Ba2" level and maintained a stable outlook for its further increase. The World Bank approved a $30 million loan for the Republic of Serbia to support the reform and revitalization of the capital market through the implementation of the Capital Market Development Project. The main goals of the project are to support the further development of the legal, regulatory, and economic environment, and strengthen the corporate bond market as an additional method of financing enterprises (including green and other thematic bond issues).

The project is structured around the following two main components:

1. Institutional, legal, and regulatory reforms
   - Strengthening the capacity of relevant institutions: the Securities Commission, the Central Securities Registry, and the Belgrade Stock Exchange

[5] https://www.nasdaq.com/glossary/c/capital-market (date of access 03.09.2024).

[6] https://mfin.gov.rs/sr/dokumenti2-1/strategija-za-razvoj-trita-kapitala-za-period-2021-do-2026-godine-1 (date of access 01.09.2024).

- Development and improvement of the regulatory framework
- Alignment of the work of relevant institutions with international standards
- Reform of the tax system to improve the capital market
- Creation of an interactive web portal with consolidated information relevant to the capital market

2. Support for corporate bond issuance
   - Expanding the offer and base of corporate bond issuers
   - Identification of potential issuers
   - Engaging professional advisors who will work with issuers and provide support during the corporate bond issuance process
   - Special focus on green and other thematic bond issues.

## IV Insurance Companies as Institutional Investors in the Capital Market of Serbia

Insurance companies raise funds through insurance premiums, and their investment structure will depend on the sources of collected funds (life and non-life insurance). "Since the liabilities in non-life insurance are less predictable, the funds raised in this segment are primarily invested in short-term placements. The situation is quite different with life insurance premiums, whose fund placements have a long-term character."[7]

The life insurance premium in Serbia has been growing year by year, which means that insurance companies have significant potential for investments in the financial market in the form of technical reserves. To protect policyholders and other insurance beneficiaries, insurance companies are required to form and maintain an adequate level of technical reserves to cover potential claims. Additionally, insurance companies are obliged to invest these technical reserves in accordance with regulations, with the aim of increasing their value, to meet their liabilities. When investing available funds, insurance companies must aim for profits that are at least equal to the average interest rate earned in the capital market. Insurance companies can invest available funds in the following forms:

- real estate
- securities
- bank deposits

There are two principles that insurance companies follow when investing funds:

- providing a high level of protection against risk for their policyholders
- achieving the highest possible return on invested funds.

[7] Miro Sokić, "Insurance Companies as Institutional Investors in the Republic of Serbia", *Tokovi osiguranja*, No. 4/2015, pp. 49–70.

The importance of the activities of insurance companies as participants in financial markets within a national economy is reflected in the following:

- Insurance provides financial stability and reduces uncertainty by compensating those who have suffered losses. In this way, it mitigates the effect of mass bankruptcies that could have catastrophic consequences for production, employment, tax revenues, and the economy as a whole.
- Voluntary pension insurance, as one of the most important types of insurance in terms of investing these funds in financial markets, provides future pensioners with security that their pensions will be paid monthly, steadily, and for life, based on their contributions.
- With the growth of small amounts of money collected as premiums, insurance companies are able to finance large investment projects, thus positively impacting the economic growth of the country.
- Insurance ensures efficient risk management and transforms risk assessments. When investing, insurance companies thoroughly investigate the creditworthiness of borrowers, which allows other investors in the market to obtain information about the characteristics of other companies in the environment when making investment decisions.
- International trade between partners who are not sufficiently familiar with each other is often conditioned by the existence of certain types of insurance. In this way, insurance stimulates the development of international trade.
- By offering premium discounts, preventive measures for fire protection, workplace injuries, etc., insurance companies influence the prevention and reduction of losses for policyholders or the company as a whole.[8]

The investment structure of insurance companies in the Republic of Serbia is determined by legal and subordinate regulations, as well as by various types of securities on the financial market. The Insurance Law stipulates the types of assets in which insurance funds can be invested. The funds from technical reserves may be invested in assets prescribed by the law, separately for life and non-life insurance.

[8] Mladenka Balaban, „Role of insurance company as institutional investitors. Contemporary trends and prospects of economic recovery", CEMAFI International Association, Nice (France), 2014, pp. 730–744.

**Table 2. – Overview of Technical Reserves Investment Rules in the Republic of Serbia**

| Assets | Restrictions |
|---|---|
| Securities and money market instruments issued by the Republic of Serbia, EU member states or OECD countries, central banks of EU/OECD member countries, or those guaranteed by any of the aforementioned entities; | No restrictions |
| Securities issued by international financial organizations of which the Republic of Serbia is a member; | No restrictions |
| Debt securities issued/guaranteed by autonomous provinces or local government units;[9] | Up to 35% of technical reserves and up to 10% in securities of the same issuer. |
| Debt securities traded on the securities market in accordance with the law;[10] | Up to 35% of technical reserves in securities issued by a legal entity based in Serbia and up to 5% in securities of the same issuer. |
| Debt securities not traded on the securities market if the issuer is a legal entity based in the Republic of Serbia;[11] | Up to 3% of technical reserves and up to 0.5% in securities of the same issuer. |
| Stocks traded on the securities market in accordance with the law;[12] | Up to 25% of the technical reserves and up to 5% in securities of the same issuer. |
| Stocks not traded on the securities market if the issuer is a legal entity based in the Republic of Serbia;[13] | Up to 5% of the technical reserves and up to 1% in securities of the same issuer. |
| Ownership stocks in companies based in the Republic of Serbia; | Up to 5% of the technical reserves and up to 1% of the stocks of a single legal entity. |
| Investment units of investment funds; | Up to the calculated technical reserves for specific types of life insurance related to investment units of investment funds, and within investment units of a single fund – up to 50% of these technical reserves. |

[9] The issuer or guarantor of the securities must have a credit rating for long-term foreign currency debt that is at least equal to Serbia's rating according to Standard & Poor's, Fitch-IBCA, or Moody's.

[10] Technical reserve funds invested in any debt securities must have a credit rating of at least "A" from Standard & Poor's, or a corresponding rating from Fitch-IBCA or Moody's, or be listed on an official stock exchange for at least the last two years.

[11] If the technical reserve funds are invested in securities that are not listed, the insurance company must perform and document an assessment of the issuer's operations, ensuring that the company reviews this assessment at least once a year and maintains proper records of its operations. https://www.efama.org/sites/default/files/files/the-capital-flywheel_0.pdf, date of access 03. 09. 2024.

[12] Oliver Wyman, (2024), *The Capital Flywheel, European Capital Markets*, A business of Marsh McLennan.

[13] MAPFRE Economics (2023), Global savings and insurance industry investments, Madrid, Fundación MAPFRE.

| | |
|---|---|
| Real estate and other property rights on real estate, provided they are registered in land or other public records in the Republic of Serbia and bring returns if their purchase price is based on an appraisal by a certified appraiser and if they are free of encumbrances. | Up to 30% of life insurance technical reserves, and up to 20% of non-life insurance technical reserves, with investments in a single property or multiple interconnected properties forming a unit limited to 10% of life insurance technical reserves and 7% of non-life insurance technical reserves. |
| Reserves for transferable premiums, reserved claims, and other technical reserves borne by the co-insurer, reinsurer, and retrocessionaire. | Increase the book value of these reserves, based on the creditworthiness of the co-insurer, reinsurer, and retrocessionaire. |

Insurance companies can invest abroad only under exceptional circumstances and under the following conditions:

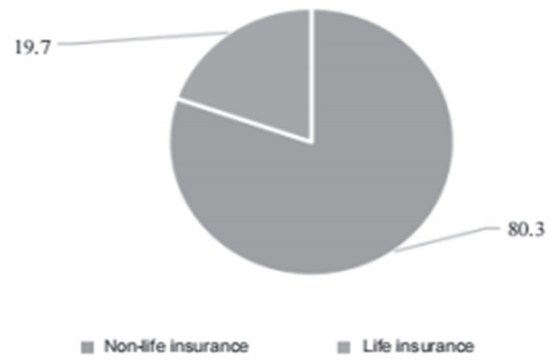
- The funds are not acquired in a country whose credit rating from S&P, Fitch, or Moody's has been downgraded in the previous year to a rating equal to or lower than the rating of the country.
- The investment is limited to 25% of the insurance company's core capital.
- Each investment must be approved in advance by the National Bank of Serbia (NBS).

In the insurance market in Serbia, there are a total of 20 insurance companies, of which 16 are engaged in insurance activities, while 4 are engaged in reinsurance. Fifteen insurance companies are foreign-owned. Over the past 10 years, despite numerous challenges, the performance indicators of the insurance sector have shown a positive trend, with the total assets, technical reserves, capital, and premiums of both life and non-life insurance more than doubled.

According to the latest report by the National Bank of Serbia (NBS)[14] on the performance of insurance companies for 2023, the total insurance premium in the Republic of Serbia has increased by 15.9%, reaching €1.3 billion. The structure of insurance premiums favors non-life insurance, with 80.3% of the total premium, while 19.7% is from life insurance premiums. The balance sheet structure of the insurance sector grew by 11.6%, reaching €3.2 billion. Although the insurance market has been growing year by year, it remains at a lower level of development, as indicated by the data that the share of total premiums in the Gross Domestic Product (GDP) in 2023 was only 1.9%, while in the European Union, it stands at 6.2%.

[14] https://www.nbs.rs/export/sites/NBS_site/documents/osiguranje/izvestaji/izv_IV_2023.pdf (date of access 03.09.2024).

**Figure 2 – Insurance Premium Structure in the Serbian Insurance Market for 2023**




Source: Author, based on NBS data
https://www.nbs.rs/export/sites/NBS_site/documents/osiguranje/izvestaji/izv_IV_2023.pdf

From the perspective of the capital market, what is very important are the technical reserves of insurance companies, which can be invested in various types of assets. In 2023, the technical reserves amounted to 2.2 billion euros, which is 11.2% higher than the previous year. The largest share of the total technical reserves is made up of the mathematical reserve, which has been growing year by year. Since there is a limited supply of securities on the capital market and there are prescribed restrictions on the investment of technical reserve funds, insurance companies are obligated to invest the technical reserve funds in assets that are considered reliable, available over a long period, and stable in real value.

Figure 3 – Structure of Non-Life Insurance Investments in 2023

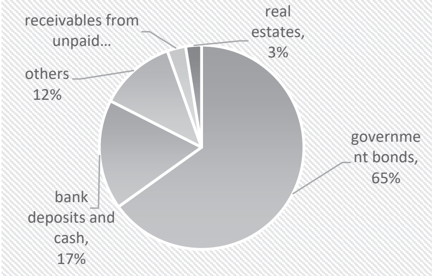
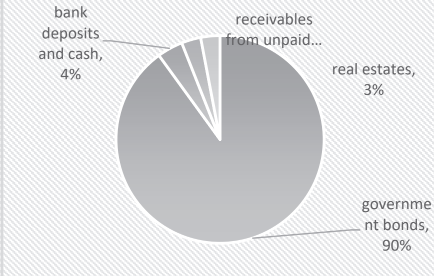



Figure 4 – Structure of Life Insurance Investments in 2023




Source: Author, based on data
https://www.nbs.rs/export/sites/NBS_site/documents/osiguranje/izvestaji/izv_IV_2023.pdf

Considering the limited availability of financial instruments and regulatory restrictions, insurance companies in the Republic of Serbia have limited opportunities to create their own portfolios, so the largest portion of technical reserves is invested in government bonds. This is also indicated by the data from the 2023 report on the insurance companies, according to which the technical reserves of non-life insurance were invested as follows: 64.7% in government bonds, 17.3% in bank deposits and cash, 12.0% in technical reserves for the account of co-insurers, reinsurers, and retrocessionaires, 2.9% in receivables from unpaid premiums, and 2.5% in real estate. The investment structure of the mathematical reserve in 2023 similarly favors government securities – 90%, with 4% in bank deposits, 3% in receivables from unpaid premiums, and 3% in real estate.

**Table 4. Investment Structure of Insurance Companies Worldwide and in Serbia (in %)**

| Type of Asset | EU | | USA | | Japan | | UK | | Serbia Life Insurance | | Serbia Non-life Insurance | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 |
| Corporate Bonds | 24,7 | 23,5 | 40,9 | 47,5 | 6,9 | 6,5 | 33,4 | 32,9 | 0,0 | 0,0 | 0,0 | 0,0 |
| Government Securities | 28,9 | 25,6 | 20,5 | 14,8 | 41,2 | 43,7 | 18,2 | 16,6 | 92,1 | 89,7 | 76,0 | 67,2 |
| Stocks | 14,9 | 18,6 | 15,0 | 13,6 | 6,1 | 5,9 | 6,7 | 5,9 | 0,0 | 0,0 | 0,0 | 0,0 |
| Lending | 4,9 | 5,1 | 10,0 | 10,5 | 7,1 | 7,4 | 10,0 | 10,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Cash and Deposits | 1,9 | 1,9 | 4,6 | 4,6 | 2,9 | 3,0 | 9,3 | 10,2 | 3,1 | 5,0 | 8,1 | 15,0 |
| Real Estate | 1,6 | 1,7 | 0,5 | 0,5 | 1,5 | 1,6 | 1,7 | 2,0 | 3,2 | 3,4 | 3,8 | 3,7 |
| Investment Funds | 20,5 | 20,5 | 2,2 | 2,4 | 20,6 | 22,3 | 12,7 | 12,6 | 0,0 | 0,0 | 0,0 | 0,0 |
| Other Investments | 2,6 | 3,1 | 8,4 | 8,5 | 32,1 | 29,5 | 0,1 | 0,1 | 1,6 | 1,9 | 12,1 | 14,1 |

**Source:** Author, based on data from https://documentacion.fundacionmapfre.org/documentacion/publico/es/media/group/1121054.do

If we analyze the investment structure of insurance companies in countries with developed financial markets (EU countries, the USA, Japan, the UK), it is clear that their portfolios are dominated by different types of assets. EU countries have a very diversified portfolio, as they almost equally invest in corporate bonds (23.5%), government bonds (25.6%), investment funds (20.5%), and stocks (18.6%), while real estate accounts for only 1.7%. The situation is quite different in the most developed financial market, the USA, where insurance companies dominate as institutional investors with 47.5% invested in corporate bonds, 14.8% in government bonds, 13.6% in stocks, while real estate only accounts for 0.5%, and 2.4% is invested in investment funds. A different investment structure can be observed in Japan, the second most developed financial market, where government bonds dominate the insurance companies' investment structure with 43.7%, investments in investment funds are 22.3%, while corporate bonds account for just 6.5% and real estate for 1.6%. In the UK, the investment structure of insurance companies is more diverse: 32.9% are invested in corporate bonds, 16.6% in government bonds, 10% in stocks, 12.6% in investment funds, 10.2% in bank deposits, and 3.2% in real estate. Finally, the investment structure of insurance companies in Serbia is primarily focused on government bonds (67.2% in non-life insurance and 90% in life insurance in 2022) and bank deposits, which further highlights the need for the development of the capital market, with a broader range of investment options, such as corporate bonds, municipal bonds, commercial papers, and similar.

**Table 5. Insurance Companies Potential as Institutional Investors in Serbia**

| Insurance (Re) insurance Companies | Assets (RSD) | Assets (EUR) | Technical Reserves (RSD) | Technical Reserves (EUR) | Organized Market (EUR) |
|---|---|---|---|---|---|
| Generali | 79.140.000.000 | 676.017.357 | 56.347.680.000 | 481.324.358 | 24.066.217 |
| Dunav | 73.001.000.000 | 623.577.749 | 51.976.712.000 | 443.987.357 | 22.199.367 |
| Wiener | 51.033.000.000 | 435.926.128 | 36.335.496.000 | 310.379.403 | 15.518.970 |
| Grave | 37.423.000.000 | 319.668.910 | 26.645.176.000 | 227.604.264 | 11.380.213 |
| DDOR | 29.663.000.000 | 253.382.649 | 21.120.056.000 | 180.408.446 | 9.020.422 |
| Dunav Re | 18.095.000.000 | 154.568.285 | 12.883.640.000 | 110.052.618 | 5.502.630 |
| Triglav | 14.293.000.000 | 122.091.434 | 10.176.616.000 | 86.929.101 | 4.346.455 |
| Uniqa Life | 12.090.000.000 | 103.273.311 | 8.608.080.000 | 73.530.597 | 3.676.529 |
| AMS | 10.218.000.000 | 87.282.604 | 7.275.216.000 | 62.145.214 | 3.107.260 |
| Wiener Re | 9.656.000.000 | 82.481.976 | 6.875.072.000 | 58.727.167 | 2.936.358 |
| Milenijum | 8.740.000.000 | 74.657.464 | 6.222.880.000 | 53.156.114 | 2.657.805 |
| Globos | 7.871.000.000 | 67.234.427 | 5.604.152.000 | 47.870.912 | 2.393.545 |
| Uniqa Non-Life | 7.716.000.000 | 65.910.411 | 5.493.792.000 | 46.928.212 | 2.346.410 |
| Generali Re | 6.033.000.000 | 51.534.151 | 4.295.496.000 | 36.692.315 | 1.834.615 |
| Sava Non-Life | 5.846.000.000 | 49.936.788 | 4.162.352.000 | 35.554.993 | 1.777.749 |
| Merkur | 5.758.000.000 | 49.185.089 | 4.099.696.000 | 35.019.783 | 1.750.989 |
| DDOR Re | 2.865.000.000 | 24.472.955 | 2.039.880.000 | 17.424.744 | 871.237 |
| Sava Life | 1.854.000.000 | 15.836.949 | 1.320.048.000 | 11.275.908 | 563.795 |
| OTP | 1.566.000.000 | 13.376.840 | 1.114.992.000 | 9.524.310 | 476.215 |
| Sogaz | 1.363.000.000 | 11.642.805 | 970.456.000 | 8.289.677 | 414.483 |
| **Total** | **384.224.000.000** | **3.282.058.290** | **273.567.488.000** | **2.336.825.503** | **116.841.275** |

**Source**: Author, based on data from www.nbs.rs

The previous table illustrates the total potential of insurance and reinsurance companies that they can invest in the capital market. As already mentioned, there are numerous regulatory restrictions that insurance managers must adhere to, some of which present challenges when investing in the domestic debt capital market (especially in corporate bonds). Most corporate bond issuers in Serbia do not have a credit rating, nor do their bonds trade on the stock exchange, which makes it difficult for insurance companies to invest in these bonds and support the development of the debt capital market. Additionally, the short-term securities market lacks commercial papers, which would allow managers of non-life insurance companies to invest funds and as a result ensure better liquidity for the overall financial market along with increased profitability. The development of the capital market would ensure better allocation of technical reserves for insurance companies, increase their profitability, and improve risk management. On the other hand, there is a positive growth trend in life insurance premiums in Serbia, which will further increase the demand for financial instruments. Therefore, the development of the capital market should be the main foundation for strengthening the role of institutional investors, who have significant potential sources for financing the economy.

## 5. Conclusion

The capital market in the Republic of Serbia is in its initial stage of development, as indicated by the modest trading volume of securities and the market capitalization indicator, which was 5.9% of GDP in 2023. Since the launch of the Capital Market Development Strategy in 2021, efforts have been made to address several issues related to the establishment of a modern capital market. These efforts focus on restoring investor confidence through an improved investor protection system, primarily by increasing transparency, establishing adequate legal regulations, fostering cooperation with regional and international exchanges, and educating potential participants in the financial market. The development of the capital market will ensure better liquidity and transparency of the financial system, as well as better allocation of available financial resources.

Insurance companies, as institutional investors, play a significant role in financial markets worldwide. They significantly create demand for various forms of financial assets. Their role in the development of the financial market depends on the level of development of the insurance market within the national economy. The primary characteristic of the investment policy of insurance companies in Serbia is that they invest primarily in government bonds and bank deposits, as these are low-risk assets with lower returns, due to the fact that the financial market does not offer more profitable alternatives. A conservative investment policy is pursued, focusing on investments in government bonds, with a significant share of cash holdings in their portfolios. Considering that Serbia's insurance market has shown a growth trend over the last decade, it is expected that with this growth, the role of these institutional investors in the development of the capital market should also increase. The potential of the insurance market has not been fully utilized, and therefore, neither has the potential of insurance companies, whose resources are significant for the development of the national economy.

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